



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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MILK PRICES AND INCOMES INCREASE

MILK PRICES IN 1975 are higher than they were in 1974. The Minnesota-Wisconsin price, which is used as a basis for pricing milk in Federal Order markets, rose from \$6.41 in December of 1974 to \$8.84 in November of 1975.

Farm milk prices may show sharper-than-normal seasonal declines in early 1976. Higher retail prices for fluid milk, butter, and cheese will probably result in lower levels of consumption. Consumer resistance could be as strong as it was in early 1974. For all of 1976, milk prices and incomes will be higher than they were for 1975. Recent increases in the price-support level will limit any price declines.

There are two basic reasons for the sharp price increases. One is that dairy sales were almost 1 percent above a year earlier for the first nine months of 1975. The second reason is that milk production was lower than a year earlier. Fluid-milk sales were 2.5-percent larger than a year earlier. Butter sales were up by 8.7 percent. Ice cream sales were up by over 8 percent. Fluid-milk sales recovered from rather a low level in 1974. Butter sales improved because oleo margarine prices and butter prices were relatively close, especially in early 1975.

Although increasing recently, American cheese sales during the January-September period of 1975 were substantially below those of a year earlier, and were only slightly ahead of 1973 levels. Consumers may have been substituting beef for cheese.

Because of higher retail prices, the sales of dairy products will decline in 1976, especially during the first quarter. Butter consumption will decline because of the widened difference between retail butter and margarine prices. With continued increases in milk prices and over-order payments in Federal Order markets, fluid-milk sales in 1976 are likely to decrease.

Milk production for all of 1975 will approximate 115 billion pounds, compared to 115.4 billion in each of the last two years. Because of poor milk/feed price ratios, production per cow did not increase as much as usual. Farmers cut back on the feeding of concentrates.

The decline in the number of milk cows has been the slowest in two decades. Large numbers of replacement heifers, low cull-cow prices, and limited alternatives for dairymen have all contributed to this situation.

Milk production is likely to be larger in early 1976. Gains in the output per cow will probably offset a decline in numbers. Milk production later in the year will depend on the prices for milk, cull cows, and feed; also, on developments in the general economy. It is likely, however, that milk production in 1976 will total about 116 billion pounds.

Imports in 1975 for the first nine months totaled less than a billion pounds (milk-equivalent), the lowest level since 1969 and far below the figure of 2.3 billion pounds in 1974. There is concern among producers that over-quota imports may again be authorized because of the sharp increases in milk prices.

I believe such special imports will not be authorized because milk prices are likely to decline in early 1976, because of higher milk production and a lower volume in the sales of dairy products due to consumer resistance.

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