



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

December 21, 1977

MILK PRODUCTION CONTINUES TO EXPAND

MILK PRODUCTION, WHICH INCREASED BY NEARLY 5 BILLION POUNDS FROM 1975 TO 1976, is expected to increase again in 1977. The likely total is about 123 billion pounds. The current expansion may well be the longest continuous one on record.

Most of the increase in milk output can be attributed to the favorable milk-feed price relationships and the resulting higher profits for dairy farmers. The improved milk-feed relationships resulted in heavier concentrate feeding and an increase of 3 percent in output per cow. The reduction in feed prices was largely responsible for the improved milk-feed price relationships. Milk prices have also remained strong because of the decision to increase milk price supports to 82.3 percent of parity on April 1, 1977.

Milk production for 1978 could show another gain of 1.5 to 2 percent. The rising output per cow will continue to more than offset a decline in cow numbers.

Blend prices in Illinois' markets in 1977 will average close to those of last year. Milk prices for 1978 are likely to be significantly higher than those for 1977 due to the higher support price.

Wholesale butter and cheese prices have strengthened in recent weeks, but these prices will remain close to current levels for the remainder of 1977. In January, the wholesale prices of butter could increase by another 2 cents, or so, if there is a change in the processing or make allowance under the price-support program. However, the manufacturing prices are likely to remain close to the present support level of \$9 per hundredweight until April 1, 1978. Milk prices, except perhaps in the fall of the year, are likely to remain at the support level.

Under the provisions of the Food and Agriculture Act of 1977, the price of milk is to be supported at not less than 80 percent of parity through March, 1979. Also, the Secretary is to make an adjustment in support prices on a semiannual basis through March 31, 1981, to reflect any estimated change in the parity index. This means that on April 1, 1978, the support price is likely to be raised another 25 to 30 cents per hundredweight, reflecting the increase in the parity index. By the fall of 1978, milk prices could increase by still another 8 to 10 cents per hundredweight in order to maintain minimum provisions under the price-support law.

The sales of dairy products were sluggish for the first nine months of 1977, but have shown some strength recently, particularly in cheese. The per-capita consumption of dairy products probably will be higher in 1978 than in 1977. However, the increase in the demand for dairy products is likely to increase by about 1 percent, but milk production will increase by 1.5 to 2 percent. This means that the surplus situation is likely to worsen during 1978.

The USDA's purchases of dairy products under the price-support program have been heavy this year. The equivalent of 6 billion pounds of milk was removed during the first 10 months of 1977, compared with only a quarter billion pounds a year earlier. This year's removal has been the highest since 1971. The government purchase program is likely to cost nearly \$900 million in 1977, the largest expenditure on record. Purchases by the CCC are likely to continue heavy at least through next year's flush production season, since the increased milk output will continue to outstrip demand. Government purchase will probably be even higher in 1978 than they were in 1977.

James W. Gruebele

James W. Gruebele, Extension Specialist, Dairy Marketing

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

Official Business
Penalty for private use, \$300

FIRST CLASS

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

