



# ILLINOIS FARM AND FOOD OUTLOOK

## COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

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### MILK PRODUCTION DECLINES SLIGHTLY, DEMAND IS STRONG

THE SEVERE WINTER OF 1977-78 HAS APPARENTLY HAD AN ADVERSE EFFECT on the nation's milk production. Until March of 1978, monthly milk production had shown gains over year-earlier levels for 29 consecutive months. In both March and April, milk production was about 0.5-percent below the same months in 1977.

Although milk production per cow has continued to increase, the number of milk cows has declined by more than 1 percent during the past year. This rate of decline is about double that of early in 1977. Heavier-than-expected culling rates are attributed to the severe winter weather and the recent increase in prices for slaughter cows.

Milk production for the first 4 months of 1978 was almost identical to the same period last year. However, the commercial use of milk and dairy products has remained strong during the first quarter. The use of all dairy products was up almost 4 percent from the first quarter of 1977. Leading the increase in sales was cheese--up 13 percent; butter--up 5 percent; and lowfat milk--up 5 percent. Substantial declines were registered for nonfat dry milk and ice milk.

For the first 4 months of 1978, the average price of milk received by farmers was \$10.17 per hundredweight. This is 66 cents more than last year.

During the summer of 1978, milk output is expected to recover as milk production per cow increases and the rate of culling decreases. Total production for the year, however, is not expected to exceed last year's output. Uncertainty about production levels centers around the cost of feed and the price of slaughter cows. Next fall, higher feed and cow prices may cause production to decline below year-earlier levels.

Farm milk prices are likely to begin a moderate seasonal increase, starting in the late summer. This expected increase reflects the strong demand for dairy products and the increase on April 1 in the support price for manufacturing-grade milk.

The Food and Agricultural Act of 1977 requires that the support price for manufacturing-grade milk be adjusted semiannually to reflect changes in the parity index. In accordance with this mandate, the support price for manufacturing-grade

milk was increased from \$9 to \$9.43 per hundredweight on April 1. To support milk prices at that level, the support prices for dairy products were also increased-- butter by 6 cents per pound, nonfat dry milk by 3 cents, and cheese by 5-1/4 cents per pound.

The USDA's purchases of dairy products under the support program are likely to be well below last year's 6.1 billion pounds (milk-equivalent). However, those purchases will still be large compared to the low levels of 1973-1976. The total cost might be near \$500 million.

Retail dairy prices may increase during the remainder of 1978--again, reflecting the higher support price, strong demand, and a stable supply. During March of 1978, the average retail price of all dairy products was about 5 percent higher than a year earlier.

Although production costs are expected to increase during 1978, higher milk prices should result in net incomes for producers that will equal or exceed the rather favorable levels of the past 2 years.

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