



WEEKLY OUTLOOK

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DAIRY PRODUCTS CONTINUE TO BE IN SURPLUS

MILK PRODUCTION IN 1981 TOTALED 132.6 BILLION POUNDS, an increase of about 3.2 percent over the record production of 1980. During the first quarter of 1982, production increased by 1.8 percent from the first quarter of 1981 to a total of 33 billion pounds. Currently, both cow numbers and milk production per cow are continuing to increase.

The January 1 cattle inventory report indicated that dairy farmers had expanded their herds for the second consecutive year in 1981. (Prior to 1980, dairy cow numbers had declined each year since 1954.) The number of heifers being held for herd replacement was estimated at 4.53 million head, up 4.3 percent from January 1, 1981. Milk production per cow averaged 12,147 pounds in 1981, increasing by 258 pounds or 2.2 percent from 1981. So far in 1982, increased production per cow has been less than 1 percent.

Milk consumption also expanded in 1981, but at a slower rate than production. An estimated 120.3 billion pounds of milk were consumed, up 1 percent from 1980. Trends in consumption have varied according to the type of product. Butter consumption has declined about 3 percent over the past three years, totaling 877.8 million pounds in 1981. Cheese consumption, on the other hand, continues to increase at a fairly rapid pace. It totaled 3.95 billion pounds in 1981, increasing 6 percent from cheese consumption three years ago and 62 percent from that of 10 years ago. Nonfat dry milk consumption totaled 455.6 million pounds in 1981, declining 31 percent over the last three years. The consumption of canned milk and frozen dairy products has been extremely stable over the past five years.

Because production continued to exceed consumption, the stocks of dairy products increased again in 1981. On February 1, 1982, these stocks totaled almost 18.4 billion pounds (milk equivalent), up 33 percent from February 1, 1981, and up 200 percent from February 1, 1980. Two-thirds of the inventory of dairy products was being held by the government, compared with 58 percent last year and only 38 percent two years ago. During 1981, the USDA removed 12.86 billion

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pounds (milk equivalent) of dairy products from the market, 46 percent more than in 1980 and 6 times as much as in 1980. Government removals accounted for nearly 10 percent of total production.

The surplus in dairy production has somewhat weakened milk prices at the farm level. In December, 1981, farmers received a national average price of \$14 per hundredweight, down 10 cents from the previous December. Thus for the first time since August, 1977, the average monthly price dropped below that of the previous year. Prices so far in 1982 have also been below year-ago levels.

Because of the increasing surplus of dairy products and the mounting costs of the dairy program, some changes have been made in the dairy price support programs of the USDA. The major change involves more administrative flexibility in setting minimum levels of price support. For the first time since 1949, support prices are not tied directly to parity.

The changes in the dairy support program will eventually lead to some reduction in the surplus of dairy products. For the current year, however, production will be large, and USDA purchases may exceed the level of 1981.

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