

Dairy income outlook

1980 milk production seen higher, price increases less

WASHINGTON, D.C. — The milk production increases that characterized the latter half of 1979 likely will continue at least through mid-1980.

Thus larger milk output, relatively large commercial stocks of dairy products, and a possible weakening in demand due to the economic slowdown will moderate year-to-year price increases during the first half of 1980 and hold wholesale dairy product prices near the support purchase levels.

Consequently, Commodity Credit Corporation purchases under the price support program in 1980 will increase substantially over this year's small removals, U.S. Department of

Agriculture economists said.

Although year-to-year increases in farm milk prices probably will not match the strong price gains of 1979, milk-feed price relationships should remain relatively favorable.

This is expected to result in heavy concentrate feeding and further increases in output per cow that more than offset small declines in cow numbers.

Milk output in 1980 may be about one percent larger than this year's expected 123.5 billion pounds.

October 1979 milk production increased 2.5 percent over last year, as a 3.3 percent increase in output per cow outweighed a

cow number decline of about 0.7 percent.

The major producing states of Wisconsin, California, and New York accounted for three-fourths of the total increase.

Production increases and relatively large commercial stocks have moderated year-to-year increases in farm milk prices

During November, farmers received an average \$12.80 per hundredweight, about a tenth higher than a year ago. Manufacturing grade milk prices were about a penny below the support level when adjusted for fat test.

Farm milk prices for 1979 may average about 14 percent higher than the 1978 average of \$10.58 per hundredweight. For all of 1980, farm milk prices will probably average 9 to 11 percent higher, with the largest gains occurring in the second half of the year.

With larger marketings and higher prices, 1979 cash receipts from dairying will exceed \$14½ billion, up from the record \$12.7 billion posted in 1978. As both gross receipts and costs rose at similar rates, net income for dairymen likely approximated the favorable situation of 1978.

The slowing of milk price increases in early 1980, along with continued increases in production costs, means the net income outlook, though still favorable, may not be as favorable as in the first half of 1979.

The combination of increased milk production and relatively large commercial stocks has resulted in generally steady to slightly lower wholesale dairy product prices since early October.

Wholesale prices of butter,

block and barrel cheese, and non-fat dry milk are at or near their respective support purchase prices and CCC purchases in October-November were substantial for this time of year.

Milk supplies available for manufacturing purposes will remain heavy in the coming months. This likely will hold wholesale prices near support prices during the first half of 1980 — except during February and March, when they may rise in anticipation of higher CCC purchase prices on April 1.

During October, retail dairy product prices averaged about 12 percent over a year ago, and for the year may average about 11.5 percent higher than in 1978.

For 1980, dairy product prices are projected to rise by 8 to 10 percent.

A bill was enacted on November 28 which requires that the support price of milk be set no less than 80 percent of parity through September 30, 1981. It also requires that the support price be adjusted in the middle of the marketing year (on April 1) to reflect changes in the Index of Prices Paid by Farmers (the parity index.)

Larger milk production and a shift in the utilization of milk supplies available for manufacturing this fall resulted in year-to-year increases in butter production, while gains in American cheese output eased.

The larger supplies of milk available for manufacturing likely will mean increases in both cheese and butter production in early 1980.

With American cheese having lost its wholesale price advantage due to the

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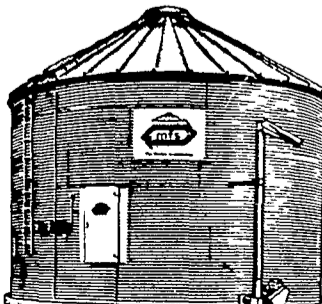
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