

Oversupply, low demand dampen dairy outlook

LANCASTER — Supplies of milk and dairy products are being maintained at well above year-ago levels, while commercial use of dairy products is still weak. As a result, CCC purchases are extremely large, commercial stocks are ample, and farm milk prices remain under pressure.

Although the heat wave is hurting output in several states, milk production will continue above year-ago levels for the rest of the year, leaving production up 2.5 to 3.5 percent from 1979.

Farm milk prices will strengthen seasonally and may reach support. However, little or no increase above support is expected. Thus, the farm all-milk price will average 9 to 10 percent higher than the \$12 per hundredweight of 1979, compared with a 13 percent increase last year.

Commercial use of milk and dairy products in April-May decreased a sharp five percent from a year ago.

Sales of butter dropped substantially, while commercial disappearance of American cheese was down over 1.5 percent.

An increase in unemployment, a reduction in consumer purchasing power, and relatively low meat and poultry prices contributed to the decline in dairy product sales. Given the current outlook for a weak general economy, relatively large supplies of alternative protein sources, and higher retail dairy product prices, commercial use likely will not match the record 1979 total of 120.4 billion pounds.

Milk production on a daily average basis for the first half of 1980 was 3.2 percent above 1979, a result of increased milk cow numbers and more milk per cow. The increased numbers continued to reflect a favorable milk-feed price relationship and relatively low utility cow prices.

Increased output per cow resulted from heavier feeding of concentrates, also a function of favorable milk-feed price relationships.

Milk production in June was up four percent from a year ago. Output was up for 25 of the 33 reporting States, including each of the five major producing States.

Milk production gains will continue for the rest of 1980 and possibly into 1981. With the expectation of relatively favorable milk-feed price relationships, causing milk cow numbers and output per cow to remain above a year ago, milk production will range two to four percent above a year ago in the third quarter and one to three percent higher in the fourth.

However, a continuation of hot, dry weather in southwestern and several other states would reduce milk production. Already, there has been some impact on production in these states due to heat stress and declining forage conditions. But, to date, there has been little impact on overall U.S. production, since the major dairy states have not been significantly affected.

Prices paid to farmers for milk have declined seasonally since January, reflecting the normal decline

in fat content. However, the June all milk price at \$12.50 per 100 pounds was up 8.7 percent from 1979.

Manufacturing grade milk prices averaged \$11.70 per hundredweight during June, 44 cents below support when adjusted for fat content, an improvement, however, from shortfalls in April and May of 58 cents and 55 cents, respectively.

For the first half of 1980 cash receipts for milk were up 12.5 percent from a year

ago with larger marketings and higher prices contributing to the gain. For all of 1980, cash receipts will likely exceed \$16.5 billion, compared with \$14.7 billion in 1979. The index of prices paid by all farmers for production items increased 10.4 percent during first-half 1980 from a year ago.

By mid-July, wholesale prices of American cheese, butter, and nonfat dry milk still had not reached the equivalent of Commodity

Credit Corporation purchase prices effective April 1.

The June wholesale dairy product price index reported by the Bureau of Labor Statistics was up 10.3 percent from last year.

For second-half 1980, wholesale price increases from year-ago levels should abate, as wholesale dairy product prices will likely not advance until commercial stocks are reduced or demand picks up. However, wholesale prices will likely

rise later this year after higher CCC purchase prices go into effect October 1.

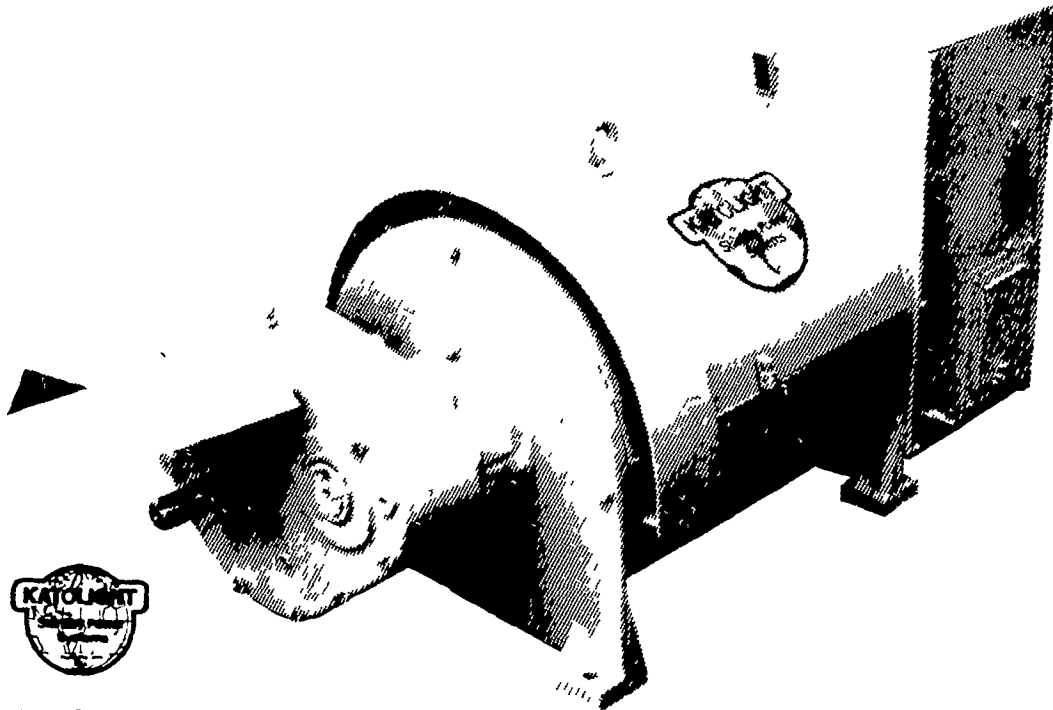
The BLS retail dairy product index during May was 11 percent higher than a year ago, as both higher farm value and larger marketing spreads contributed to higher dairy-product prices. For all of 1980, retail dairy product prices will average between 9 and 11 percent above 1979.

Heavy raw milk supplies during April-May resulted in

and eight percent, year-to-year gain in the quantity of milk used in manufacturing. American cheese output was up nearly eight percent from last year, while production of other cheese types was up slightly. Butter manufacture increased by nearly a fifth

Commercial stocks of dairy products on June 1 remained at high levels, although the amount above year-ago has lessened in recent months.

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35LR1	35,000	105,000	55	120/240	150	1	3	580	600
45LR1	45,000	135,000	70	120/240	175	1	3	670	730
55LR1	55,000	165,000	86	120/240	225	1	3	730	750
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