

Dairy Forecast

Where It Was In 1986, Where It Is Headed In 1987

Editor's Note: The following report examines what can be expected with milk production and prices in 1987 based on the trend established in 1986 and the early 80s. Jim Miller, USDA dairy division, originally prepared this report. Dr. Jack J. Kirkland, Penn State dairy marketing specialist, revised and updated the story.

The 1986 Situation

Price support purchases fell to low levels this fall. Farm and wholesale prices increased substantially during the latter half of 1986. Both situations resulted from the removal of substantial milk production capacity by the Whole Herd Buyout Program (Dairy Termination Program) in the form of cows, heifers and calves; growth in commercial use of milk; only small increases in production by dairy farmers not in the buyout program; and low levels of commercial stocks.

Milk production during October and November declined about 4 percent from 1985, a sharp contrast to large increases in early 1986. Cow numbers were down sharply due to the buyout program.

Data suggests that dairy farmers not in the buyout program increased cow numbers slightly last spring and have maintained that number since then. Total cow numbers for 1986 will average more than 1 percent below 1985.

Favorable milk-feed ratios have stimulated increased concentrate feeding and higher levels of milk per cow. Although output per cow in October and November increased less than 1 percent than in 1985, this increase was large relative to previous years that were not affected by the diversion program. For the year, milk per cow will be more than 2 percent above 1985 and about 6 percent above 1983. Milk production will total almost 1 percent above 1985 levels 143.7 billion pounds because of early 1986 levels.

Ave. Wholesale Pa. Milk Price (\$/cwt.)						
1986	1985	1984	1983	1982	1981	1980
12.61	13.06	13.90	13.96	14.01	14.23	13.61
Effective Ave. Pa. Wholesale Milk Price (\$/cwt.)						
12.12	12.80	13.30	13.46	14.01	14.23	13.61
Ave. Pa. Corn Prices (\$/bu.)						
2.29	2.76	3.55	3.44	2.65	3.38	3.23

After mid-1986, lower production, growing commercial use, and low commercial stocks triggered wholesale price increases. Butter and cheese prices increased significantly last summer and nonfat dry milk prices edged upward in the fall. Wholesale butter and cheese prices are on the verge of seasonal decreases that could be substantial.

Farmers received an average of \$13.40 per hundredweight of milk in November, up 80-cents from November of 1985. The M-W price reached \$11.91 in November, up 93-cents from the May seasonal low and 72-cents over November 1985. Due to decreases earlier in 1986, the 1986 average milk price will be about 30-cents per hundredweight below 1985 and about 55-cents lower when adjusted for assessments.

Farm milk prices will probably drop sharply this winter because of the seasonal return to surplus conditions and the lowering of the support price on Jan. 1.

Commercial Disappearance, Million Pounds		
Jan. to Nov. 1985	Jan. to Nov. 1986	% Change
119,796	123,639	+3.2

Lower milk production and strong fluid milk sales reduced supplies for manufacturing during the period from July through October. Production of butter, nonfat dry milk, and American cheese (the major users of surplus milk supplies) fell sharply. Major manufactured products will use about 83 billion pounds of milk in 1986, about the same as in 1985.

Federal Order Average Prices (\$/cwt)							
	1986	1985	1984	1983	1982	1981	1980
F.O. 2 Blend	12.09	12.32	13.00	13.23	13.26	13.39	12.64
Effective	11.60	12.04	12.40	12.73	13.26	13.39	12.64
F.O. 4 Blend	12.66	12.90	13.67	13.85	13.80	13.95	13.20
Effective	12.17	12.62	13.07	13.35	13.80	13.95	13.20
F.O. 36 Blend	12.22	13.02	13.23	13.36	13.42	13.55	12.89
Effective	11.73	12.74	12.65	12.86	13.43	13.56	12.89

Commercial use of dairy products was less than 2 percent above 1985 during the period from July through October, following a gain of almost 4 percent during the second quarter of 1986.

Sales of cheese, fluid milk, and most other products had similar gains in the two periods. However, commercial disappearance of butter rose sharply from 1985 levels during the spring and dropped slightly during the period from July through October, a pattern probably more closely tied to changes in commercial stocks than to final sales. Sales during these periods indicate that growth in commercial use has probably eased from late 1985 and early 1986, but remains strong.

	PA	N.E.*	U.S.
No Cows	730,000	2,168,000	10,400,000
Net Change	-0.7%	-1.5%	-4.1%
Production Per Cow- Lbs.			
	14,000	13,414	13,640
	+1.9%	+1.4%	+2.0%

*N.E. refers to the Northeastern region of the United States

Commercial stocks totaled 4.8 billion pounds (milk equivalent) on Nov. 1, about the same as in November 1985, but low for 1986's market conditions.

The tighter supply-demand situation in the fall of 1986 almost eliminated CCC removals. During October and November 1986, small cheese purchases were partially offset by some butter sold back to the industry. Purchases will probably resume before the end of 1986, but the 1986 annual total will stay below 11 billion pounds (milk equivalent).

Because of wholesale price increases, retail dairy prices in October 1986 were higher than both a year earlier and last spring. However, retail dairy prices continued to decline relative to prices of other foods. For all of 1986, retail dairy prices will average very close to 1985 figures.

	PA	N.E.	U.S.	
Production-Billion Lbs.	10,293	29,081	141,700	
	+1.2%	-0.2%	-2.3%	
ORDER 36 ORDER 2 ORDER 4 TOTAL N.E.				
Milk Marketing-Million Lbs.	3,823	10,990	6,475	27,789
	+1.5%	-5.9%	+0.9%	-2.7%
Class 1 Sales-Million Lbs.	2,000	4,676	3,065	13,033
	+0.5%	-0.1%	+2.0%	+0.8%

The 1987 Outlook

The buyout program will continue to be the most important factor affecting the dairy industry during the first half of 1987. Production and CCC removals will be well below a year earlier. Basic economic forces will be increasingly apparent as the year progresses. It is unclear whether production increases by dairy farmers not in the buyout program will be greater than the increase in commercial use of milk during 1987.

What happens could indicate the extent of surplus production through 1990.

In 1987, milk per cow probably will increase 2 percent or more because of record-high milk-feed price ratios and heavier concentrate feeding. However, the incentive for dairy farmers not in the buyout program to expand cow numbers has diminished since the early 1980s.

Effective returns over concentrate costs probably will increase somewhat from 1985, but will remain below those of the early 1980s. In addition, threatened future reductions in the support price and increased sales of dairy farms may weaken cow numbers.

During the first half of 1987, milk production will probably be 2 to 4 percent lower than the same period in 1986. Total 1987 milk production is expected to fall from 1 to 3 percent.

Next spring's farm milk prices will likely be below those of 1986. The size of the second-half price rise in uncertain, although a moderate increase — probably similar to the one in 1986 — is expected. Such an increase would leave the 1987 average price slightly below the 1986 level. The effective price (adjusted for deductions) would be about the same as in 1986.

Prices will probably peak this winter and then will remain steady or decline slightly until early summer of 1987. Depending on the size of the second-half seasonal increase, 1987 retail prices could average 1 to 3 percent above 1986 levels.

	ORDER 36	ORDER 2	ORDER 4
Class 1 Price-	\$13.35	\$13.87	\$14.46
	+1.1%	+1.8%	+2.3%
Class 2 Price-	\$11.25	\$11.28	\$11.36
	-0.3%	+0.3%	+0.6%
Blend Price-	\$12.37	\$12.23	\$12.87
	+0.6%	+1.3%	+2.0%

Manufactured product output will be down in 1987 due to lower milk marketings.

In 1987, declining real retail prices, economic growth, and heavy promotion (the driving forces in the 1983 to 86 gains) will probably increase commercial use from 1 to 3 percent, following 1986's 3 percent increase.

Rebuilding commercial stocks in early 1987 will absorb some of this winter's surplus dairy production.

Net CCC purchases in 1987 will fall substantially and will probably be in the range of 4 to 7 Billion pounds. Government dairy stocks might be low by late 1987.

	1983	1984	1985	1986*	1987**
PROD	139.7	135.4	143.7	144.9	142.0
FARM USE	2.4	2.9	2.5	2.3	2.3
MKTGS	137.3	132.5	141.2	142.6	139.7
BEG COM STOCKS	4.6	5.2	4.9	4.6	5.1
IMPORTS	2.6	2.7	2.8	2.8	2.8
TOTAL	144.5	140.4	148.9	150.0	147.6
COMM DISAP	122.5	126.9	131.1	134.6	137.0
END COM STOCKS	5.2	4.9	4.6	4.2	5.2
CCC PUR	16.8	8.6	13.2	11.2	5.4
TOTAL	144.5	140.4	148.9	150.0	147.6
FARM PRICE					
ALL MILK	13.57	13.45	12.73	12.25	12.30
F.O. 36 BLEND	13.36	13.23	13.01	12.30	12.37
AVG ANN ASSESSMT	.48	.60	.28	.49	.38
EFFECTIVE PRICE	12.88	12.63	12.73	11.81	11.98

KEY
 PROD = Production
 MKTGS = Marketings
 BEG COM STOCKS = Beginning Commercial Stocks
 COMM DISAP = Commercial Disappearance
 END COM STOCKS = Ending Commercial Stocks
 CCC PUR = CCC Purchases
 AVG ANN ASSESSMT = Average Annual Assessment

*PROJECTED **FORECAST

Bucks-Montgomery Crops Day Scheduled

CREAMERY — The Bucks-Montgomery Crops Day is slated for Thursday Feb. 12 at the Meyers Restaurant, Quakertown.

Registration begins at 9 a.m. Phil Durst, Penn State extension agronomy project associate, is scheduled to talk about the use of starter fertilizer and nutrient management for the farm.

Dick Bailey, Bucks County extension agent will discuss the new Pennsylvania pesticide law.

John Yocum, senior research associate with the Penn State agronomy department, will explain soybean cultural practices,

new herbicides and 1986 weed problems.

In the afternoon session Bailey will explain the use of boom sprayers and Durst will tell how to reduce nitrogen use.

Elwood Hatley, Penn State extension agronomist, will present a program on alternative crops and intensive cereal crop management.

Reservation for lunch or exhibitor space are needed by Feb. 10. Checks should be made payable to the Bucks County Extension Service, Neshaminy Manor Center, Doylestown, PA 18901.