

World Agricultural Supply and Demand Estimates

United States Department of Agriculture
Economic Research Service
Foreign Agricultural Service

Approved by the World Agricultural Outlook Board

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Milk Production To Decline

Milk production in 1983/84 is expected to decline 1-3 percent from year-earlier levels. The lower output primarily results from a production decline by those signing up to reduce milk production under the dairy diversion program.

Under this program, 37,888 dairy producers signed contracts with the U.S. Department of Agriculture to reduce milk marketings from their base during the 15-month life of the program, January 1984-March 1985.

Milk production in 1982/83 totaled 139 billion pounds, up 3 percent from a year earlier. This increase came from a 2.2-percent gain in output per cow and a 0.9-percent larger cow herd. In the first quarter, however--the first month in the contract period and during the signup--milk output was about unchanged from a year earlier. Cow numbers declined 82,000 from December 1983 and were slightly below the year-earlier level. January output per cow was about unchanged from the previous year.

Cow numbers are expected to decline further in 1983/84, resulting in a yearly average of around 2 percent below the 1982/83 level. Much of this will come from participants in the milk reduction program, but some nonparticipants also are likely to reduce numbers. With a lower support price for milk of \$12.60 a cwt and the 50-cents-a-cwt deduction, producers' effective price is down from a year ago. Also, feed costs are up from a year ago and further increases are anticipated in the coming months, reducing dairy producers' returns and likely contributing to lower cow numbers.

With some of the participants making reductions through lower milk output per cow, year-over-year gains for the national average will be held down. Thus, only a small gain in output per cow is expected for 1983/84, compared with last year's increase of more than 2 percent.

Commercial Use of Dairy Products Increasing

Commercial use of dairy products was weak for most of 1982/83. However, some recovery has taken place in recent months. In October-December 1983, commercial use was up more than 3 percent from the year-earlier level. Gains are not likely to be as strong as in the first quarter, but use is expected to continue above the year-earlier level. For all of 1983/84, a gain of 1-3 percent is anticipated. The gain in commercial use will get a boost from

several factors, including the lower support price for milk which will help hold down retail prices, the improving economy, and the national dairy product promotion program which will become effective later this year.

CCC Net Removals To Decline

Lower milk production and improving commercial use would result in lower CCC net removals under the milk price support program. Net removals totaled 16.6 billion pounds (milk equivalent) in 1982/83, up 20 percent from the previous year. For 1983/84, removals are expected to total about 11.4 billion pounds, down almost one-third from 1982/83. Even with these lower purchases, CCC uncommitted inventories of dairy products would remain large.

Milk Prices Lower

The price received by farmers for milk is likely to decline in 1983/84. In 1982/83, the all-milk price was down slightly from the year-earlier level. With the lower support price for milk in 1983/84 and continued excessive production, prices are likely to drop again. The all-milk price could decline 1-3 percent in 1983/84 but the effective price could be down 3-6 percent, after accounting for the producer deductions that will be in effect for the entire year.

Approving this World Agricultural Supply and Demand Estimates report were members of the Interagency Commodity Estimates Committee for Dairy: James Nix, WAOB, Chairman; Jack Mills, FAS; Charles Shaw, ASCS; Robert R. Miller, AMS; Clifford Carman, ERS; plus William Paddock, FAS; Steve Levine, AMS; James Donald, Sally Michael and Jane Vaughan, WAOB.

Commodity	1981/82 1/	1982/83 1/	1983/84 Proj. 1/	
			Jan. 24 2/	Feb.

	- - - Billion pounds - -			
MILK				
Supply				
Beginning commercial				
stocks 4/	5.3	4.6	5.4	5.4
Production	135.0	139.0	131.0	136.0
Farm use	2.3	2.4	2.4	2.4
Marketings	132.7	136.6	128.6	133.6
Imports 4/	2.4	2.7	2.5	2.5
Total commercial supply 4/	140.4	143.9	136.5	141.5
Use				
Commercial use 4/	122.0	121.9	123.3	124.7
Ending commercial stocks 4/	4.6	5.4	5.4	5.4
CCC net removals 4/	13.8	16.6	7.8	11.4
	- - - Dollars per cwt. - - -			
Prices received by farmers 5/				
Manufacturing grade	12.66	12.66	12.55-	12.25-
			12.85	12.55
All milk	13.62	13.57	13.45-	13.15
			13.75	13.45
	- - - Million pounds - - -			
Year end CCC uncommitted inventories				
Butter	403	391	226	308
Cheese	825	903	503	739
Nonfat dry milk	1,177	1,346	1,126	1,007

1/ Marketing year beginning October 1. 2/ Intermediate assessment under the new dairy law. 3/ Milk equivalent, fat-solids basis. 4/ For milk of average fat test and does not reflect the deduction from producers authorized in legislation.