

## OUTLOOK AND IMPACT FOR DAIRYING IN FLORIDA

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### INTRODUCTION

You appear headed for your year of highest milk production, and perhaps your highest milk prices. Your short-term net profits appear likely to be close to last year, and your whole-life earnings to be up.

In the national rankings by states, you rate first in milk prices per hundredweight among the contiguous states, and third in the nation. You are eleventh in cash receipts from farm milk marketings, although among the very lowest in producer numbers. Nobody comes close to you in average milk production per producer.

### REVIEW

In 1977 total milk output rose more than 2 percent to 123 billion pounds, the most produced in the U.S. since 1965. This compares with about 200 billion pounds in the Soviet Union. With farm milk prices held up by the higher support price, milk-feed price relationships were favorable through most of 1977 and resulted in large gains in output per cow. Declines in milk cow numbers stayed relatively small, partially because of the large number of replacement heifers. Meanwhile, commercial use of milk and dairy products held at the 1976 level. This combination of a large increase in milk production, stagnant commercial use, and large industry stocks at the start of 1977 resulted in USDA purchases under the price support program jumping to the equivalent of 6.1 billion pounds of milk, the largest since 1971 and considerably more than the combined total of the 3 previous years.

The April 1 adjustment required by the Food and Agriculture Act of 1977 raised the support price about 43 cents. This will keep 1978 farm milk prices above a year earlier. However, there is little chance of manufacturing grade milk prices moving significantly above the support price until at least late summer.

Following a sharp rise in 1976, cash receipts from dairying were up only 3 percent last year to almost \$11.8 billion. Larger marketings caused most of the 1977 rise.

In Florida, although outnumbered on the order of 40 to one by the beef cattle producers, you are nip and tuck with them for the lead in cash receipts by farmers from marketings of livestock and livestock products. You left them far behind in 1976, but they may have been gaining on you.

National gains in milk production slowed substantially during the past fall and winter. Feed prices, bad weather and lower cow numbers took their tolls. Even so, production for April was above a year ago.

Per capita consumption in 1977 totaled 552 pounds, milk equivalent, up slightly from 1976, and a drop of 23 percent in 23 years. Larger government donations outweighed a small decline in per person commercial use.

Possible comfort may be taken from the fact that the 552 pounds last year equalled 1973; therefore, signalling full recovery in per capita consumption probably will be about the same, as USDA donations will remain substantial and sales are expected to increase at about the same rate as the population.

### ECONOMIC OUTLOOK

Human Nutrition Policy - Human nutrition policy probably is the most fundamental business problem of the dairy industry. Each person, family and government unit has its policy in this respect. They are implicit or explicit, enunciated or active, shadowy or substantial, aspirational or implemented. Each has far more facets than a policy for, say, broiler nutrition. Supply, availability, effective substitutes, prices, mores, clinical dietetics, personal preferences, purchasing power differences, scientific knowledge, and techniques of persuasion are at least most of the interactors. The emphasis changes. Some efforts and effects are sequential, and concurrent.

Anachronisms highly charged with contending emotions abound. Population management is one. Resources used, or governmentally encouraged to be used, to produce allegedly neutral or deleterious goods and services is another. The most emotionally charged seems to be observable coexistence of mountainous commercial surpluses of grain and livestock products while people are malnourished or starving.

In the long run, these controversies between neo-malthusians and the livestock industries are likely to be settled in the court and market arenas of the world, with help from time to time by the military forces. Hopefully, the essential decisions will be made by people well informed in nutrition sciences as well as by those with leadership and technical knowledge in the law, economics and military arts and sciences.

General Economic Outlook - The precipitate devaluation of the dollar, by nearly 20 percent in recent months, is the most important part of the economic news so far as its effect on our outlook is concerned.

Concerning the total economy, Citiban, in its March, 1978, "Monthly Economic Letter," has this to say: <sup>1</sup>"Many would attribute the (recent) slide (of the U.S. economy) to the frailties of advancing old age, citing the fact that the recovery celebrates its third birthday this month. Judging by the length of other post-World War II business cycles, this makes the ongoing expansion a senior citizen. But this is stretching anthropomorphic license. It is true that a recovery goes through a maturation process that causes shifts in the relationships between sectors. For instance, consumer spending on durable goods is usually robust early in the expansion while business spending on plant and equipment posts hefty gains later on. But there is not a set lifeline.

It must be remembered that economics is a social, not a natural science. In other words, while for the most part people can only talk about the weather, they can do something about the economy, particularly through the actions of monetary and fiscal policy. And the intentions currently are to keep the recovery alive. The monetary base, the money aggregate

<sup>1</sup>"Now playing: The Frostbite Saga," Monthly Economic Letter, March, 1978, p. 3, Citibank, Economics Department, 399 Park Avenue, New York, NY 10022.

over which the fed has most direct control, rose at a stunning near-15% annual rate in January--the strongest monthly showing in annual rate in more than two and a half years. And the administration's ambitious plans for the future were made known in the Council of Economic Advisers' Report...

"With this amount of fuel propelling the recovery, the slowdown is not likely to continue. So the spring and summer months, which will bring higher temperatures, should also witness pickup in economic growth."

Unemployment - "This remains a festering problem. For the nation as a whole, the rate of unemployment is about 7 percent, down a little from the 8.5 percent rate of 1975, but still double the rates of the 1950's. But these overall figures do not reveal what the crux of the unemployment problem is. This is the uneven distribution of unemployment, the skewed manner in which the problem is borne by the working populations.

If we take the core of the work force--white male workers between the ages of 25 and 55--unemployment seems a very small problem. Only about 3.7 percent of this group is without work, and a large part of that group, perhaps half, is workless because it has voluntarily left one job to search for another. In fact, the rate of unemployment among the prime group is slowly dropping, for employers seek out, and try to hold on to, this most skilled and reliable portion of the labor force. (White males in the 25 to 55 age group provide about 40 percent of all labor hours in the economy.)<sup>2</sup>

But the situation changes dramatically when we look at the remainder of the work force. Unemployment among women is about double the rate among white male workers, largely because women are the main suppliers of part-time labor and are often the first to be dismissed when business is slow. Among all adult blacks unemployment is 11 percent. Among teenagers as a group, unemployment is higher yet, averaging about 17 percent, meaning that 40 percent of black youngsters who are looking for work cannot find it. In some central city ghettos this rate reaches 85 percent.

These terrific differentials lie at the heart of our problem in coping with unemployment. Any strategy that relies on pumping up aggregate demand leads first to an expansion of job opportunities for the central white male labor force. Quickly this force exhausts its unemployed slack. Wages then begin to rise in this strongly unionized group, and the "spread effect" of their high wages brings wage increases to other sections of the work force. Inflationary pressure thus exerts itself before we have made any real inroads into the unemployment pools for the less favored sections of the work force."

Court Actions - Two Federal Court actions are of particular importance to Florida dairy farmers.

1) U.S. vs. National Broiler Marketing Association, Inc. - Everyone is awaiting the decision of the United States Supreme Court on this case. The issue is whether a corporate contractor owning broilers grown for it by independent contractees who supply labor and real estate and are paid

<sup>2</sup>Robert L. Heilbroner and Lester C. Thurow, "A Random Walk Through Wall Street," The Economic Problem Newsletter, Vol. IX, No. 2, p. 3, Spring 1978. Prentice-Hall, Englewood Cliffs, NJ.

by contractor for the growing can be considered a farmer for purposes of shelter from anti-trust laws under the Capper-Volstead Act.

The District Court for the Northern District of Georgia dismissed and Government appealed to the United States Court of Appeals, Fifth Circuit. The Court of Appeals reversed on April 22, 1977. The NBMA appealed to the U.S. Supreme Court, it accepted the case, and heard the testimony. U.S. agriculture, related industries and lawyers are awaiting the Supreme Court decision which they expect momentarily.

One paragraph of the opinion of the Court of Appeals is of great interest:

"We cannot conceive that the ordinary, popular sense of the word 'farmers' would fit broiler integrator companies. The husbandry of the broiler flocks is carried out neither by these firms nor by their employees, but by the contract growers. The farms where the husbandry is done are owned not by NBMA members or their employees, but by these growers. Whatever else farming may mean, an irreducible minimum must be either husbandry of animals or crops or farm ownership. Given the absence of both of these elements here, none of the factors suggested by NBMA as indicative of farming nor all of the factors together would seem a sufficient shoe horn to squeeze these companies into farmers' boots. Asked to examine the broiler business and to identify the 'farmers', Justice Frankfurter's common rule of men, we think, would point to the contract growers--the persons who own and operate the farms--as the 'farmers'." <sup>3</sup>

2) U.S. vs. Dairymen, Inc. - This case was, and could still be if appealed, a real landmark in the law of farmer marketing cooperatives. The principal charge was that Dairymen, Inc. attempted to monopolize trade and commerce in the production and sale of raw Grade A milk in the Southeastern United States, in violation of Section 2 of the Sherman Act by means of anticompetitive and predatory practices and unlawful agreements. The U.S. District Court sustained DI on all but one count. We will be glad to send anyone a photocopy of the decision. <sup>4</sup>

#### Dairy Farming

SRAES - The Southern Region Agricultural Experiment Stations jointly published "The Emerging Structure of the Southern Dairy Industry" in February. Its summary says: <sup>5</sup>

"Changes in the Southern dairy industry can be largely summarized in three words; fewer but larger. From 1950 to 1970, there has been a 90 percent reduction in the number of farms reporting dairy cows. Milk cow numbers in the 12 Southern States decreased from 5.2 million to 2 million in 1975. Total milk production has remained relatively stable in face of

<sup>3</sup>U.S. vs. National Broiler Marketing Association, Civil Action No. 18, 173 Northern District of Georgia, April 22, 1977.

<sup>4</sup>U.S. vs. Dairymen, Inc. Civil Action No. 7634 U.S.D.C., Western District of Kentucky, April, 1978.

<sup>5</sup>Lowell E. Wilson et al., "The Emerging Structure of the Southern Dairy Industry," Southern Cooperative Series, Bulletin 224, p. 74-76, Alabama Agricultural Experiment Station, Auburn University, Auburn, AL 36830.

of the decreases in the number of dairy farms and dairy cows due to herd improvement through improved management, culling, and breeding. Milk production increased from about 3,600 pounds per cow to approximately 9,000 pounds during the 1950-75 period. Another significant change has been the percentage of total milk produced that moves through commercial channels. Milk marketing increased from 50 percent of production in 1950 to over 94 percent in 1975. Most of the milk marketed (92%) was eligible for fluid use. The remaining commercial dairy farms across the south are relatively large Grade A units with improving efficiency in production per cow.

A significant change in milk marketing in the southern region in the past decade has been the movement toward federally regulated markets. In 1962, approximately 40 percent of all milk sold to plants and dealers by dairy farmers was subject to federal order regulations, but by 1975 this had increased to 67 percent. Volume of milk regulated by state milk control agencies declined.

Dairy cooperatives are playing a significant role in milk marketing in the region. Initially, dairy cooperative development progressed more slowly in the south than in the northeast and midwest, however, the growth patterns have been somewhat similar.

The early cooperatives were formed to produce butter and cheese. Fluid milk processing cooperatives developed during the 1940's with a peak in numbers reached in the early 1960's. Local bargaining associations were formed and became rather prominent in the 1940's and 1950's. In the 1960's many of the local bargaining associations in the south joined together to form federated bargaining associations. These organizations became successful in bargaining for prices in excess of federal order minimum prices.

The federates approach became rather burdensome resulting in the federated groups exploring other cooperative structures. Many of the local bargaining associations and fluid milk processing cooperatives merged to form regional milk marketing cooperatives. Two of the primary cooperatives in the south are Associated Milk Producers, Inc. (AMPI) and Dairymen, Inc. (DI). As a result of mergers and consolidations, the number of dairy cooperatives marketed 55 percent of the total volume of milk sold to plants and dealers, but by 1973 the percentage increased to about 77 percent.

Although most of the milk marketed in the region is eligible for fluid use, the manufactured milk industry utilizes approximately one-third of the volume marketed. Trends in the manufactured milk industry in the south have paralleled those in other regions. Plants have decreased in numbers and increased in average output per plant. Except in isolated cases, the manufacturing milk industry in the south is dependent on surplus Grade A milk. Little manufacturing grade milk is produced in the region.

Changing consumer tastes and purchase patterns coupled with technological advances affecting processing, refrigeration, and distribution were major factors influencing changes in the fluid milk market. In most markets, home delivery is a small percentage of milk sales and producer-

distribution have all but disappeared. Between 1954 and 1972 the number of fluid milk plants decreased by 54 percent with the exit of small plants accounting for most of the decline. It is significant from a structural point of view that 28 percent of the fluid processing plants operated by national and regional firms processed about one-half of the total volume of fluid milk in the south.

Along with the changes in plant numbers, distribution areas have widened. Perhaps, in the southern region, relaxed institutional barriers to milk movements gave greater impetus to the trend toward wider distribution areas than did nonreusable containers, improved refrigeration, and transportation facilities.

One of the more noticeable trends in fluid milk marketing during the past decade has been the increase in vertical integration by both ownership and processing facilities by retail chains and contractual arrangements with existing processors to supply private label milk. With these market changes the smaller dairy firms are finding survival more difficult, particularly the single unit operation."

U.S. Omnibus - All American farmers will be vitally affected by the new four-year farm bill, especially those producing wheat, feed grain and cotton. It will bolster price supports on major farm commodities, continued authorization of a food stamp program, and sharply stepped-up research in agriculture and nutrition.

U.S. Dairy Demand - Robinson and Babb of Purdue University have estimated that total U.S. consumption of selected dairy foods will change to the following pattern during 1977-1981:<sup>6</sup>

<u>Item</u>	<u>Percentage Change</u>	<u>Item</u>	<u>Percentage Change</u>
Fluid whole milk	-14.7	Total frozen dessert products	- 4.0
Fluid low fat milk	+50.4	Cottage cheese	+15.8
Total fluid milk	+ 7.0	American Cheddar cheese	+29.6
Fresh cream	-12.3	Total natural cheese	+39.9
Ice cream	- 0.9	Nonfat dry milk powder	+21.1
Ice milk	- 8.7	Butter	- 5.5

These forecasts are quoted with approval as to their general thrust, with one important caveat. They appear to assume that the dairy product mix available to consumers will remain essentially as it is during the period. That probably will prove true. Nevertheless, the possibility of substantial increases in filled products seems good. The legal barriers to intra and inter-state commerce in a wide selection of filled dairy foods seem to be weakening as consumers' sensitivity and articulation increase about the situation. Once these products are legally permitted, they will succeed or fail on their market merits. Evidently, they are perceived to have great potential in such circumstances, otherwise there would be little reason for the industrial opposition to them.

<sup>6</sup>T.H. Robinson and E.M. Babb, "Forecast of U.S. Dairy Product Consumption, 1977-1981," March, 1978 Station Bulletin No. 186, p. 1, Department of Agricultural Economics, Agricultural Experiment Station, Purdue Univ., W. Lafayette, IN, 47907.

U.S. Feed - The national feed grain program, if effective, will tend to stabilize dairy feed prices at levels somewhat above the purely competitive market levels which would have prevailed for at least a crop or two without it. The reserve stocks will prevent runaway feed prices through at least the early months of any world feed disaster which may occur in the next four years. It also will prevent feed prices from falling to disastrously low levels for grain growers.

Milk/Feed Ratio - Milk-feed price relationships this year probably will be conducive to high or increased feeding of grain and other concentrates and to substantial increase in output per cow. Higher prices for beef cows probably will encourage culling. That will be partially offset by the large number of replacement heifers available to farmers.

Effects of weather and inflation are so imponderable that a best guess may be a modest to 2 percent increase in national milk production for the year compared to 1977.

The probable combination of higher milk prices and feed prices may signal dairy farmers to pull out all production stops. If so the resulting production could take U.S. milk production to 123-125 billion pounds in 1978. That would prove very difficult for the public and private sectors to manage without embarrassment of plenty.

U.S. Labor - The rising cost of hired labor and the desire to ease somewhat the inflexible nature of dairying has led U.S. dairy farmers to capital-intensive technology and heavy concentrate feeding as substitutes for labor. USDA estimates that in 1976 it took only about half as much labor to produce slightly more milk than in 1967.

Other Costs - There is no reason to expect most other dairy production costs to decline. They may be expected to rise. Interest rates may be an exception. They undoubtedly will rise, but they are capable of being reduced. The erratic supply of liabilities from the U.S. treasury and demand for them by the Federal Reserve Board causes too much of their fluctuation. The remainder comes from non-federal government and all private sector business.

U.S. Dairy - The U.S. support price for manufacturing milk testing 3.67 percent butterfat was increased effective April 1, 1978 from \$9.00 to \$9.43 per hundredweight. The equivalent support price for 3.5 percent milk was \$9.21. Accordingly, it is reasonable to expect that prices to Florida dairy farmers will work higher by as much as 43 cents per hundredweight if the Florida dairy cooperatives are effective in their marketing strategies. In any case, the new price structure virtually assures the highest cash prices, and some of the higher purchasing power prices, on record in most of all fluid milk markets of the United States during this half year.

#### Florida

Cow Numbers - Cow number in Florida have been remarkably constant in recent years. That can be expected to continue unless enough milk is needed in the low production months to justify adding cows.

Milk Marketings - Florida producers marketed less milk and had a lower percentage share of the U.S. market in 1977 than in 1976. In absolute terms, their 1977 production was 1,963 million pounds, second only to 2,023 million in 1976. That was a reduction of 3 percent in state production. Florida's U.S. market share dropped from 1.68 percent in 1976 to 1.60 percent in 1977.

Inter-State Shipments - Florida marketers compensated for their reduced aggregate Florida herd production by purchasing a net of 60 million pounds of milk from sellers in other states.

The 60 million pounds of net inshipments of fluid milk were almost exactly equal to the reduction in Florida herd production between 1976 and 1977. They represented 3 percent of the milk apparently used in Florida in 1977.

During the first quarter of 1978, fluid inshipments in tankers were about 25 million pounds, compared with about 15 million in 1977. Similar figures for inshipments of packaged milk are about 3.5 million pounds in 1978 compared with 299,000 in 1977. Outshipments in tankers were only about 44,000 pounds in the first quarter of 1978, and 800,000 the same period in 1977. Packaged outshipments the first quarter of 1978 were 4.3 million pounds, and 5.1 million in 1977. Net shipments in the first quarter of 1978 were 24.3 million pounds, compared with 8.9 million in 1977.

#### SUMMARY

Probable price and cost relationships suggest profits this year comparable to last.

Whole life earnings of dairy farmers continue to rise.