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## Dairy Situation and Outlook

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# Economics Newsletter

Economics Department

• South Dakota State University

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## DAIRY SITUATION AND OUTLOOK

### U. S. PRODUCTION DOWN

Nationally, milk production in 1973 totaled about 116½ billion pounds in 1973, some 3 percent below 1972's 120.3 billion pounds, and the first drop in 3 years. The rate of decline was accelerated last year from around 1 percent in January and February to a 4.7 percent drop in October and 3 percent in December. High feed prices together with strong slaughter cow prices have been the primary causes for reduced production. Reduced milk production last year has been generally widespread across the country.

Lower milk out put per cow, the first decline in almost 30 years, accounted for a large part of last year's drop in milk production. High prices limited the use of protein supplement and prevented increases in grain feeding rates. In South Dakota, however, milk production per cow during 1973 increased 383 pounds or almost 4.3 percent.

### DECLINE IN COW NUMBERS

The decline in U.S. milk cow numbers accelerated in 1973, reaching 3 percent in October, the sharpest drop since early 1970. Entering 1973, cow numbers were falling at a 1 percent annual rate. Expensive feeds accompanied by strong slaughter cow prices have caused heavy herd culling and more dairy farmers going out of business.

Milk production may show a further but smaller decline in 1974, with most of the drop in the first half. Out put could be well below a year ago through the winter season as feed and slaughter cow prices are likely to remain strong. Dairy herd culling will probably continue heavy this winter and spring. Milk-feed price relationships should progressively improve later this year with moderating feed prices and higher milk prices. Milk output per cow may resume its upward climb in 1974, but the increase probably will only partly offset the expected

drop in milk cow numbers.

### FEED-PRICE PINCH

With feed prices increasing more than milk prices, the milk-feed price ratio (pounds of feed equal in value to 1 pound of milk) dropped to 1.18 by August, the lowest since 1955. But higher milk prices and somewhat lower feed prices have improved milk-feed price relationships since the summer low. The November ratio at 1.60 was still below the year-earlier level of 1.75.

The milk-feed ratio was significantly lower in the West North Central States during the months of June, July and August. On the other hand, milk prices did not begin to increase significantly until August. This lag between increased feed cost and increased milk checks, a period of two months, resulted in some producers leaving the dairy enterprise.

### FARM MILK PRICES UP

Farm milk prices took a sharp jump from July to November last year, reflecting the tight supply-demand situation for dairy products. In November, farmers received an average \$8.55 per 100 pounds for their milk, up 31 percent from a year earlier. Manufacturing prices were about \$1.80 over the \$5.61 support level. Bottling milk prices were being pushed up by the higher Minnesota-Wisconsin manufacturing milk price (the basic price used in calculating Class I prices in Federal order markets.) The Minnesota-Wisconsin price rose 58 cents from September to \$7.49 in October, and increased to \$7.64 in November. These increases will be reflected in December and January Class I prices.

For 1973, farm milk prices averaged about a dollar over 1972's \$6.07 per 100 pounds average. First half 1974 should continue showing strong gains over year-earlier levels.

Despite a drop in milk marketings,

higher prices are pushing cash receipts from dairying to around \$8.1 billion in 1973, up from \$7.2 billion in 1972. Gross dairy incomes average some 12 percent higher for 1973. Meanwhile, prices paid by farmers for production items are increasing about 20 percent. Increased prices will probably boost gross dairy income another 10-12 percent this year.

For all of 1973, retail dairy prices averaged around 9 percent above the previous year, the sharpest rise since 1948. But this rise is still less than the increase in prices consumers were paying for all food products. During the first half of 1974, retail dairy prices will probably stay well above a year ago.

#### EFFECTS ON DEMAND

Higher retail prices are apparently taking their toll of dairy sales. After rising 2½ percent in January-August, commercial disappearance of milk in all dairy products dropped some 3 percent from a year earlier in September and October. Butter use

showed the sharpest decline, but fluid milk sales were also falling. With retail butter prices rising to over a \$1.00 per pound, consumer sales resistance developed. Sales of cheese, frozen desserts, lowfat fluid milk, and nonfat dry milk should be up this year.

For all of 1973, dairy sales will likely be up some what from 1972 because of strong gains earlier in the year. However, the expected fourth quarter sales drop may persist into 1974, reflecting prospects for higher retail prices, more moderate gains in disposable incomes, a rising rate of unemployment, and a continued slowing of the economy.

Per capita civilian milk consumption in 1973 may show a small gain from 1972's 561 pounds, which was the first time since 1955 that per capita use had increased. Larger imports of dairy products and drawing on stocks are partly offsetting this year's reduced domestic production. Per capita use may turn downward this year with lower commercial disappearance in prospect and less dairy products available for domestic assistance programs.

Leonard Benning, Extension Economist - Marketing

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