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DAIRY SITUATION AND OUTLOOK

Increased supplies of dairy products relative to demand this spring and summer have lowered dairy prices at the wholesale and farm level more than the usual seasonal decline. Commercial dairy stocks have jumped. With prices dropping to support purchase levels, CCC is again buying dairy products under the price support program. Seasonally rising milk production and lower fluid milk sales have pushed more milk into manufactured dairy products.

Milk Production

Milk production is under a year ago, although the rate of decline is less. Down 6 percent last September and 3 percent beginning January 1974, output in May was only about 2 percent under a year earlier. Milk output per cow gained some in May, the first increase of any significance in over a year. Declines in milk cow numbers have slackened since the beginning of the year. The number of herd replacements on hand was large beginning 1974. Falling prices of slaughter cows have probably discouraged herd culling on dairy farms.

The drop in milk production will probably lessen further in coming months. Milk prices will likely be increasing seasonally this fall and winter. Coupled with some probable moderation in feed prices, milk-feed price relationships could improve later this year, helping boost milk output per cow. The declines in milk cow numbers may continue to slow. Late in 1974, we may see milk production rise above a year earlier.

Prices

Wholesale prices of most dairy products tumbled sharply in the second quarter. Butter, American cheese, and nonfat dry milk prices dropped to CCC's support purchase prices. Following these wholesale price drops, farm prices

of manufacturing milk declined substantially from March to June and minimum Class I prices started falling in June.

Farmers averaged \$7.88 per 100 pounds for all milk in June, down \$1.06 from the March high. This compares with a 30 cent normal seasonal decline during this period. However, June prices were about 23 percent above a year ago. Dairy prices at both the farm and wholesale level will likely increase seasonally this fall and winter, although probably not back up to the levels of early 1974.

Lower wholesale prices for dairy products are now being reflected to some extent at the retail level. Consequently, the June retail dairy price index may be down from May, the first monthly drop in almost 2 years. Retail dairy prices may increase seasonally later on this year, but the gains are likely to be much less than occurred last year.

More Milk Used in Manufactured Products

More milk has moved into manufacturing uses this year because of lower fluid milk sales. Gains in cheese production have slowed materially, but by June butter output had moved above year-earlier levels for the first time since late 1971. Nonfat dry milk production has also come back from the lows earlier in 1974.

Fluid milk sales in January-May dropped 5 percent from year-earlier levels, with whole milk products down 9 percent. However, gains in sales of lowfat and skim milk slowed appreciably during the same period.

Total commercial disappearance of milk in all dairy products was down about 1 percent in January-May, and sales may stay below a year ago in coming months. Lower retail prices should help sales, but real purchasing power continues down, unemployment may average higher, and inflation persists.

Commercial Stocks

Commercial stocks of dairy products continued to rise, reaching 7.2 billion pounds milk equivalent on June 1, up from 4.1 billion pounds a year ago. Government stocks have been small. Although CCC is now buying dairy products, they are expected to be utilized in the school lunch program.

USDA is buying processed American

cheese under the price support program in addition to natural cheese. This will help remove from the market some of the barrel cheese currently in excess supply. CCC bought dairy products equivalent to about 0.5 billion pounds of milk in May and June, up from 0.4 billion a year earlier.

Dairy Imports

U. S. imports of dairy products totaled 1.7 billion pounds milk equivalent in January-May this year, more than doubling the volume of 0.7 billion pounds a year ago. The increases were concentrated in the early months and imports have since slackened off. Of the 150 million pounds temporary increase in nonfat dry milk import quotas authorized through June 30, about 114 million pounds came in. Secretary Butz has advised President Nixon that any further increase in the nonfat dry milk import quota is not presently needed. All of the temporary increase in import quotas have now expired.

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