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Dairy Supply and Outlook

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DAIRY SITUATION AND OUTLOOK

Milk Cow Numbers Up

Milk cow numbers increased from July through December 1974, the first such rise since 1953. Dairy farmers have substantially reduced herd culling in response to low slaughter cow prices and coupled with the lack of off-farm employment alternatives likely has kept more dairy farmers from liquidating their herds and staying in production.

Milk Production

Milk production held just above year-earlier levels in January. Farmers have cut back grain and concentrate feeding, thus limiting gains in output per cow. However, low slaughter cow prices held the drop from a year ago in milk cow numbers to less than 1 percent.

Milk output may remain near year-earlier levels in coming months--perhaps through the first half of 1975. Production later this year will depend to a large degree on feed prices, on milk prices, on the cattle market, and on the general economic picture. If feed prices do moderate, some increase in milk production may occur later on this year.

Milk production on U.S. farms held about steady at 115.4 billion pounds in 1974, following a 4 percent drop the previous year. After dropping in 1973, milk production per cow rose again last year by about 1½ percent, still below the long-term upward trend. Declines from a year earlier in milk cow numbers slackened during 1974, bringing the drop to about 1½ percent for the whole year.

Price Support Increased

USDA raised the support level for manufacturing milk to \$7.24 per 100 pounds effective January 4, 1975, up 10 percent from the previous \$6.57 level. The new support is 80 percent of the December parity equivalent price and 89 percent of the parity equivalent price as of the beginning of the marketing year (April 1, 1974). The new support price will remain in effect through the next marketing year which ends with March 1976. Support purchase prices for butter, American cheese, and nonfat dry milk were upped accordingly. In a companion action, USDA amended the pricing provisions of all Federal orders to bring minimum Class I prices for February and March into line with the higher price support levels.

Farm Prices

Farm milk prices rose slightly in January, but at \$8.29 per 100 pounds averaged almost 7 percent under January 1974 prices. Manufacturing milk prices in January picked up with the boosts in price supports, following declines in December. Farm milk prices early this year may average slightly above fourth quarter 1974 levels, but will remain well below year-earlier record highs.

Cash Receipts

Cash receipts from dairying dropped below a year earlier in the fourth quarter. Meanwhile, production costs continued to climb by a fifth and many dairy farmers reported being caught in a severe cost-price squeeze. In 1974, farm cash receipts from milk and cream marketings totaled some \$9.4 billion,

up 16 percent from 1973's \$8.1 billion. Gross dairy income could show similar gains during 1975.

Retail Prices

After dropping last summer, retail dairy prices have shown only moderate seasonal rises. Prices at retail in December 1974 were about 7 percent above a year earlier, about half the growth in all food prices. However, for all of 1974, retail dairy prices averaged 19 percent higher. We can expect to see some further rise in retail dairy prices, but certainly it will be more moderate than in early 1974.

Commercial Disappearance

Commercial disappearance of milk in all dairy products increased slightly in 1974. Butter sales closed out last year on a strong note, but cheese showed some weakness. Nonfat dry milk sales declined sharply as users cut back its use, reduced their inventories, and looked to substitutes. Fluid milk sales in major urban markets pulled a little above year-earlier levels by late 1974, following declines of 5 to 6 percent early in the year. Dairy sales may hold close to year-earlier levels in coming months. Retail dairy prices likely will rise more slowly than food prices generally. However, demand for dairy products could be weakened by declining consumer purchasing power,

high unemployment rates, and inflationary pressures.

CCC Purchases

USDA removals of dairy products under the price support program have been running above year-earlier levels since last May. Butter and cheese purchases picked up in January with the higher support levels, while nonfat dry milk removals continue sizable.

Commercial dairy product stocks entering 1975 totaled 5.6 billion pounds milk equivalent, up over a sixth from a year ago. American cheese stocks accounted for most of the rise, with nonfat dry milk holdings also up substantially. Government stocks of butter and cheese remain relatively small, but nonfat dry milk stocks have increased substantially.

Imports

Dairy imports have slackened to more normal levels after mid-1974. Imports for 1974 totaled around 2.9 billion pounds milk equivalent, down from 3.9 billion pounds in 1973, but well above the average levels of recent years. Exports of most dairy products remain small, but sizable quantities of CCC-owned nonfat dry milk are being planned for export under foreign aid programs.

Leonard Benning, Extension Economist-Marketing

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