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## Dairy Situation and Outlook

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# Economics Newsletter

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## DAIRY SITUATION AND OUTLOOK

### Milk Cow Numbers Continues Decline.

Milk production in May fell below year-earlier levels for the first time in a year. The decline in milk cow numbers from a year ago continues at less than 1 percent, the lowest year-to-year drop in about 20 years. However, milk output per cow was about the same as a year ago, reflecting reduced grain feeding and poor forage conditions in early May.

Milk Production. Production later this year will depend on prices for feed, milk and cull cows as well as the general economic situation. While up from early 1975, slaughter cow prices remain relatively low and are likely to decline in coming months. Coupled with large numbers of dairy replacements and quite limited economic alternatives for dairy farmers, this means that the drop in the number of cows in the Nation's dairy herd likely will remain relatively small throughout 1975.

Feed crops got off to their best start in 4 years with both corn and soybeans planted well within the usual time frame. Good growing and harvesting conditions could lead to further easing in feed prices and the resumption of more normal feeding rates. Under these conditions, we would expect more typical gains in output per cow and strong gains in milk production later this year. On the other hand, serious weather problems could lead to continued high feed prices and forestall an increase in milk production during the second half.

For all of 1975, milk output likely will show some increase from 1974's 115.4 billion pounds--perhaps in the

vicinity of 116 billion pounds. Under the most favorable conditions, production could go even higher. If feed prices move considerably lower this fall and winter gains in milk production may extend into next year.

Farm Prices. The drop in farm milk prices was less than normal this spring, reaching \$7.94 per hundred pounds in June, about 27 cents above a year earlier. This was the first gain from a year earlier since September 1974. Manufacturing milk prices have shown no seasonal decline since the start of 1975. Farm milk prices likely will rise seasonally during the rest of 1975 and remain above year-earlier levels.

Wholesale Prices. Wholesale prices of American cheese rose about 3 cents in late May, reflecting strengthening cheese sales, moderating stocks, and continued production declines. Butter prices rose slightly in June, but the nonfat dry milk market remains dominated by heavy supplies and weak demand.

Retail Prices. Retail dairy prices have declined since the beginning of the year and the May levels were below a year earlier for the first time in a dozen years. Prices of dairy products at retail likely will show moderate seasonal increases during the rest of the year. However, the 1975 rise in retail dairy prices could well be less than the 4-1/2-percent average annual rise of the early 1970's and well below 1974's 19-percent rise.

American cheese production is recovering from the sharp drops that occurred during early 1975. The gains in

nonfat dry milk output have slackened and butter production dipped below a year ago in May and June. The current price advantage indicates that American cheese production will attract relatively more of the market supply of milk in coming month.

After being down in the first quarter, dairy sales strengthened this spring to bring the January-May total near a year earlier. Fluid milk sales have shown considerable recovery thus far this year. Butter sales have been well above 1974 levels, although the increases have slowed with the recent declines in retail margarine prices. Cheese sales have recovered after being below a year ago in the first quarter but nonfat dry milk sales remain weak.

Cash Receipts. Cash receipts from dairying were down about 5 percent from a year ago during the first half of 1975 due to lower farm milk prices. Gross dairy income likely will rise in the second half, but for all of 1975 the increase will be about 2 percent from 1974's \$9.4 billion. Production costs continue rising and dairymen will face high costs for most inputs through 1975.

Commercial Stocks. Strengthening dairy

product sales and heavy government purchases under the support program have pulled commercial dairy stocks down to more normal levels. Commercial stocks on June 1 totaled 5.1 billion pounds (milk equivalent), down more than a fourth from year-earlier levels and up just slightly from the May 1 seasonal low. Cheese stocks in commercial hands were down to workable seasonal levels relative to sales and butter stocks were near normal levels, but nonfat dry milk holdings continued heavy. Government stocks in milk-equivalent terms have increased with the seasonally heavy purchases and summer closing of schools, but June 1 stocks were still the second smallest for that date since 1966. USDA holdings of butter and American cheese were moderate, but nonfat dry milk in Commodity Credit Corporation hands built up rapidly with uncommitted inventories reaching 435 million pounds by June 23.

CCC Purchases. USDA purchases show signs of slowing after running fairly heavy early this year. With wholesale cheese and butter prices strengthening, sales of these products to CCC likely will moderate. However, nonfat dry milk purchases could well remain sizable in coming months.

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