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## Dairy Situation and Outlook

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# Economics Newsletter

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## DAIRY SITUATION AND OUTLOOK

Milk output may total about 114½ billion pounds this year, around 1 percent below 1973. The decline in milk cow numbers has slowed during 1974 partly because of lower slaughter cow prices and not many choices or alternatives for dairymen. Output per cow should average higher this year, following the unusual drop in 1973 for the first time in almost 30 years. Farm and retail prices are likely to continue near present levels, with much uncertainty related to feed supplies and prices.

### Milk Production

September's milk production was up almost 3 percent from a year ago--the sharpest year-to-year increase in almost a decade. Reduced herd culling, increased availability of corn silage, and generally favorable fall pastures in several important dairy states contributed to the increase.

However, this kind of gain seems temporary. High feed costs in coming months will likely cause dairy farmers to cut back on grain and concentrate feeding, thus limiting output per cow during the current barn feeding season. In fact, lower milk production appears in prospect this winter, although low slaughter cow prices may prevent sharp increases in dairy herd culling. Production later next year will depend in part on 1975 crop developments and subsequent feed prices, on milk prices, and on the market for cull dairy cows. Although milk production could be increasing in the second half of next year, total 1975 output may slightly trail this year's level.

### Farm Prices

Farm milk prices are now rising seasonally, following sharper than normal declines this spring and summer. In October, farmers averaged \$8.21 per 100 pounds for milk, up 64 cents from July, but about 11 cents under last October's price. Manufacturing milk

prices were about 26 cents over the \$6.57 support level in October. Farm milk prices are likely to be rising seasonally during the rest of 1974 and into 1975.

Gains in cash receipts from dairying slowed appreciably in the third quarter, while feed and other production costs continued to gain by about a fifth from a year ago. For all of 1974, dairy cash receipts should total close to \$9.5 billion, up from \$8.1 billion last year.

### Outlook for 1975

Prices during the first quarter of 1975 may strengthen further. Early 1975 prices will depend on dairy stock levels and the timing and amount of milk production declines from year-earlier levels. After the first quarter of 1975, prices could be affected by the level of dairy price supports set for the 1975/76 marketing year. Under current legislation, milk prices for the 1975/76 marketing year must be supported between 75 and 90 percent of parity. The provision of the 1973 legislation requiring a minimum 80 percent of parity will expire at the end of the current marketing year.

### Retail Prices

September retail dairy prices took a slight upturn after dropping this summer for the first month-to-month declines in almost 2 years. Fluid milk extended its summer price decline into Septem-

ber. Retail fluid prices edged downward slightly from August and were down about 3 cents per half-gallon from the May high. Manufactured product prices rose slightly in September, although only the prices of ice cream and evaporated milk exceeded the levels of last May. The retail price of processed American cheese was down about 9 cents per pound from May. Butter prices at retail showed by far the strongest movement. The September price rose about 3 percent from August after declining steadily since last October. Retail prices will continue to rise seasonally, but the gains are not likely to match those of last fall and winter.

More milk has moved into manufacturing uses this year because of lower fluid milk sales. Larger third quarter milk marketings funneled more milk into butter and nonfat dry milk production--with butter output up a fourth from a year earlier and nonfat dry milk running about 40 percent more.

#### Commercial Use

Commercial disappearance of milk in all dairy products was down slightly in January-September. However, brisk butter sales and some recovery in fluid milk usage pulled third quarter disappearance slightly above year-earlier

levels. Commercial use may remain close to year-earlier levels in coming months. Demand for dairy products could be weakened by strong inflationary pressures, declining real consumer purchasing power, and higher unemployment rates. However, dairy prices probably will be rising more slowly than last winter and more slowly than food prices generally. Gains in butter sales and further strength expected in fluid milk sales help brighten the sales picture. But sales of nonfat dry milk continue to lag.

#### USDA Purchases

Although now declining seasonally, commercial dairy product stocks were equivalent to 7.2 billion pounds of milk on October 1, up 60 percent from a year ago, and a record high for the date. Government stocks of butter and American cheese are at relatively low levels. However, CCC nonfat dry milk stocks reached about 135 million pounds by the end of October; a year ago, CCC had no stocks.

USDA has purchased no butter and only moderate quantities of American cheese under the price support program since early August, but nonfat dry milk removals continue at sizable levels.

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