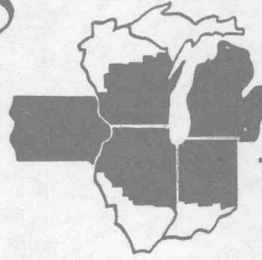


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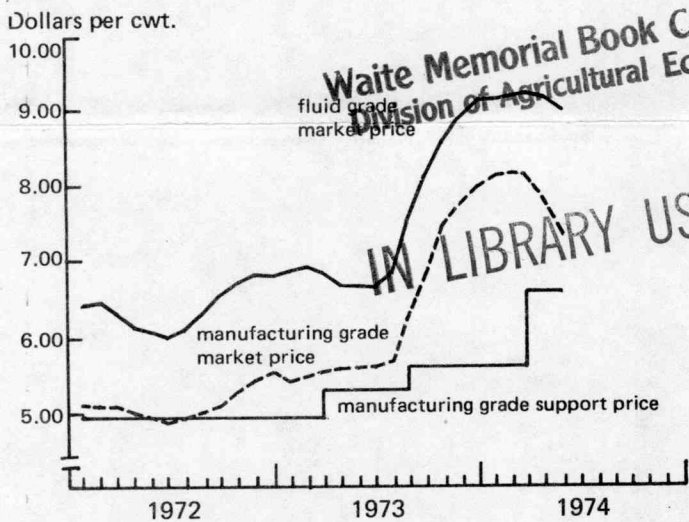
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MILK PRODUCTION continues to lag year-earlier levels due to a slow recovery from the unusual drop in output per cow during 1973 and a continuing decline in milk cow numbers. Although output per cow returned to record levels within the past two months, milk production through May was 2.6 percent below the year-previous level. The nation's dairy herd also declined about 2.5 percent in the last year.

Lower cattle prices should reduce the culling and herd liquidations that accelerated month by month throughout much of 1973 and early 1974. On the other hand, incentives to expand milk production have been blunted by persistently high feed costs. The milk/feed price ratio, a rough measure of profitability, averaged 1.50 during the first five months of 1974, the same as the comparatively low level of a year earlier. Previous expectations that feed costs would be decidedly lower in 1974 are in question since heavy rains have delayed spring crop plantings in many areas.

Milk prices have been slipping toward seasonal lows during the last couple of months. While a decline during this period is not unusual, the drop has been much more dramatic than in recent years. Manufacturing grade milk prices that averaged \$8.14 per 100 pounds in February stood at \$7.29 in May. Industry observers suggest that manufacturing grade milk prices may drop to near the current support price of \$6.57 per hundredweight this month.

Market and Support Milk Prices



Commercial disappearance of milk during the first three months of 1974 was 3.5 percent greater than during the first quarter of 1973. Butter and cheese production accounted for most of the increased use, up 9 and 17 percent, respectively. Butter sales have

remained strong despite a 9 percent increase in retail prices. The price differential between butter and margarine has declined about 20 percent in the last year. Cheese sales in 1974 continued the upward momentum begun in 1973 when cheese served as a protein substitute for higher-priced meats.

Imports of manufactured milk products jumped sharply during the first quarter and were largely responsible for the 2 percent increase in stocks of manufactured products—on a milk equivalent basis. Cheese imports totaled nearly 150 million pounds during the first quarter, up 350 percent from last year. Imports of nonfat dry milk also recorded large increases. While import levels of some manufactured products, such as nonfat dry milk, remained high during April and May, domestic production was also on the upswing, reflecting the normal seasonal increase in milk supplies. Wholesale cheese prices plunged from over 90 cents per pound in March to less than 70 cents per pound by the end of May as a result of the increase in manufactured dairy product supplies. Butter prices also dropped sharply.

Government purchases of manufactured products during the first quarter, with the exception of nonfat dry milk, were only a fraction of the year-earlier first-quarter levels. The government stepped up purchases of butter and nonfat dry milk in April and May as prices fell. Moreover, the USDA recently announced that it would also accept processed American cheese under the dairy support program.

The dairy outlook for the second half of 1973 is mixed. Increasing supplies of manufactured products have put downward pressure on wholesale prices of most items. At the same time, larger marketing margins, reflecting both the effects of increased processing and handling costs and the desire to recoup some of the profits foregone under price controls in 1973, have resulted in only minimum downward adjustments at the retail level. While cash receipts to dairy farmers were up 28 percent through April, increased feed costs have largely offset gains. Although the milk feed/price ratio may improve later in the year, 1974 milk production will likely fall by more than the 1 percent previously anticipated.

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