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August 20, 1954

Agricultural Letter

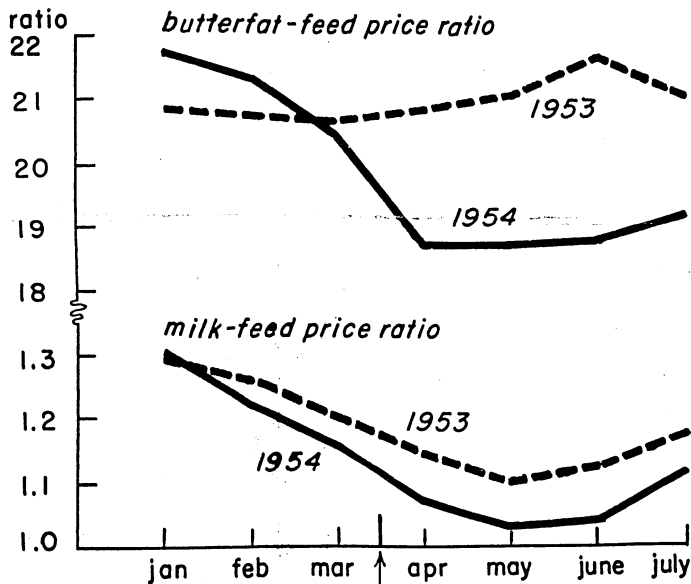


Number 262

ADJUSTMENT is proceeding in the dairy industry. Progress is being made toward a balanced supply and demand situation. The lowering of support prices from 90 to 75 per cent of parity last April 1, drouth in some areas and favorable hog prices all have contributed to the changes taking place.

Relatively high prices stimulate the production of any commodity. This was true for dairy products before supports were reduced. Total milk production in the first quarter of 1954 was about 5 per cent above the year-ago levels while butter and cheese production were up 12 and 20 per cent, respectively. In the meantime, relatively high prices of dairy products tended to curb consumption. In the face of mounting inventories of butter, cheese and nonfat dry milk solids, support levels were cut on April 1 from 90 to 75 per cent of parity. One month after the cut prices received by farmers for manufacturing milk had fallen 13 per cent below the year-ago levels, and prices for fluid milk were off 6 per cent.

The milk-feed and the butterfat-feed ratios declined as dairy prices dropped. The much sharper reduction in the butterfat-feed ratio was felt most keenly, of course, in the butter-producing areas, largely in the Midwest. With less favorable price ratios for dairy products, drouth conditions in some areas and alternative opportunities more profitable, milk production by July was cut to the year-ago level. No doubt a major share of the decreased production was due to the drouth; however, milk cow numbers have leveled off after being on the increase since early 1952.



supports on dairy products reduced from 90% to 75% of parity, april 1, 1954

REDUCTION IN COW NUMBERS has occurred primarily in the central states while increases continued in specialized dairy areas. Per cent changes in cow numbers from June 1953 to June 1954 indicate that the District states conform to this pattern:

Illinois	-3	Iowa	-2	Wisconsin	+3
Indiana	-1	Michigan	+3		

It is to be noted that the reduction in cow numbers occurred primarily in areas where beef cattle and hogs are close competitors with the dairy cow for farmers' feed and labor while increases continued in states specially adapted to the production of dairy products.

Retail prices of dairy products were lower in the second quarter of 1954 than during the first quarter. With lower retail price tags on many dairy products, consumption has been stimulated. Indicated per capita consumption of butter this year is 5 per cent over 1953, cheese consumption is up 4 per cent and fluid milk and cream consumption is up 1 per cent.

THE OUTLOOK for the remainder of the year suggests that retail prices of dairy products will remain at present levels except for seasonal increases in fluid milk prices in some markets. Consumption should hold near current rates. Milk production for the remainder of the year will probably show a smaller increase over last year than it did during the first six months. It is anticipated therefore that the CCC will continue to accumulate stocks but at a slower pace than in the previous year.

The trend toward increased consumption and reduced production must continue if the dairy situation is to be brought into balance. While the adjustment made to date is encouraging, there are several developments which could alter the picture. In the central states favorable hog prices encouraged some of the shift from dairy; if profit margins are reduced, further reduction in dairy cattle numbers may not take place. At present a high proportion of dry cows in dairy herds indicates a potential for increased milk production. With possible lower prices for beef, culling of low producers will not be encouraged. There is also a possibility that if rigid acreage controls are adhered to in 1955, diverted acres planted to forage may be marketed through dairy cattle.

Congress has recently turned down a concerted effort on the part of certain dairy interests to boost support levels and has directed the Secretary of Agriculture to intensify efforts to dispose of surplus stocks. To date the major outlet for butter and cheese has been through the school lunch program and donations. Nonfat dry milk solids have been sold at nominal prices for use in animal and poultry feeds. Recent legislation authorizes donations of dairy products to the Veterans Administration and the Army, permits support of fluid milk prices, authorizes the use of 50 million dollars a year to increase milk consumption by school children and permits the Secretary to dispose of surplus stocks by any method he determines to be necessary.

Research Department