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JUNE IS NATIONAL DAIRY MONTH and dairy farmers have good reason to celebrate. On April 1, the U. S. Government support price for manufacturing grade milk was raised to $4.66 per hundredweight. This is an 8 percent increase over the level that prevailed since 1968.

For Chicago area producers, the new support rate is the second price increase within six months. Just last November, local farmers' cooperatives negotiated a 5 percent raise for fluid milk supplied to dealers and processors.

Cash receipts to dairy farmers in 1970 will likely top the record $6.2 billion level reached in 1969. Prices received by farmers averaged 5 percent above a year ago through the first quarter and production was slightly higher. Improved prices may even be sufficient to halt a five-year decline in production. Evidence pointing this way already exists: although total milk production in 1969 was lower than in 1968, milk output has run ahead of year-ago levels since last August. Mainly in response to higher prices, domestic milk production is expected to exceed year-ago levels throughout 1970.

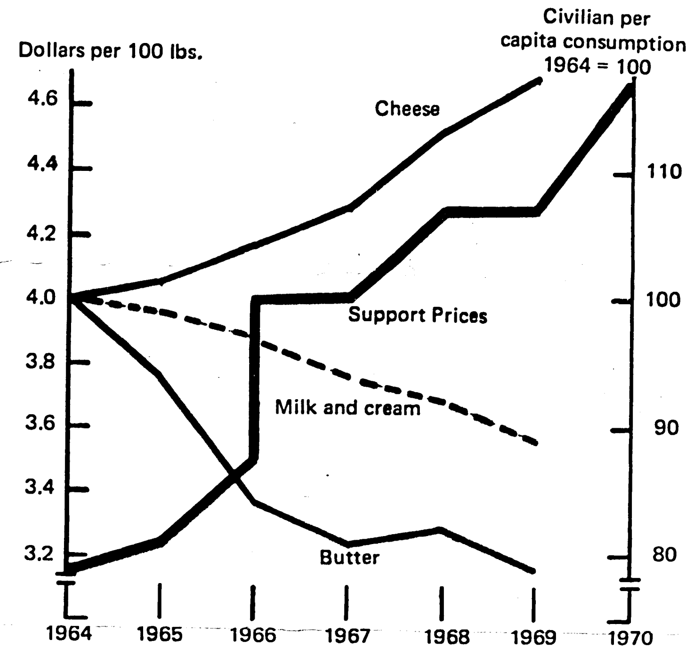
Milk output is also likely to increase this year because the rate at which farmers are leaving dairying has slowed. This is reflected by a leveling-off in the long downward trend in dairy cow numbers. Cow numbers are declining at an annual rate of less than 3 percent—half the rate of earlier years. Dairy cattle slaughter is down, too, despite sharply higher prices for cow beef. In addition, a general slowing in the national economy will result in fewer off-farm employment opportunities.

Increased government purchases probably will be necessary to maintain the higher support price levels. Total government purchases declined last year, but this was mainly a reflection of lower output and reduced imports.

Unlike last year, imports probably will swell the supply of dairy products in 1970. Imports jumped 77 percent in the first quarter, compared to the unusually low levels of a year ago when shipments were curtailed by the East and Gulf Coast dock strikes. Some foreign dairy items are restricted by quotas, but still, total imports for the year likely will be above the one percent of domestic production level of 1969.

Consumer demand for milk and dairy products was on a downward trend throughout the Sixties. Demand is likely to be curtailed further by the increased support prices. The Department of Agriculture estimates that a 10 percent increase in milk prices usually results in about a 3 percent decline in consumption. Retail dairy prices have been rising, although at a slower rate than for many other foods: up 5 percent from year-earlier prices in the first quarter of 1970, compared to a 7 percent increase for all food items. The higher support rate, which did not become effective until April 1, will lessen the usual second quarter seasonal decline in milk prices so that the margin of retail prices over year-ago levels may widen still further during the summer.

Demand for Most Dairy Products Wanes as Support Prices are Raised



An illustration of the difficulties encountered when support price levels become increasingly independent of the market forces of supply and demand is provided by the experience of the six European Common Market countries (EEC). Surplus supplies of dairy products in these countries have more than doubled in the past five years in response to high support prices. The latest attempt by the EEC to alleviate these burdensome surpluses is a program to subsidize the slaughter of approximately 300,000 dairy cows, and to convert another 130,000 cows from milk production to raising calves for beef. These programs appear destined for failure since only about 2 percent of the total EEC dairy herd will be taken out of production. Meanwhile output-per-cow will continue to increase, and non-participating farmers are free to expand their herds.

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