

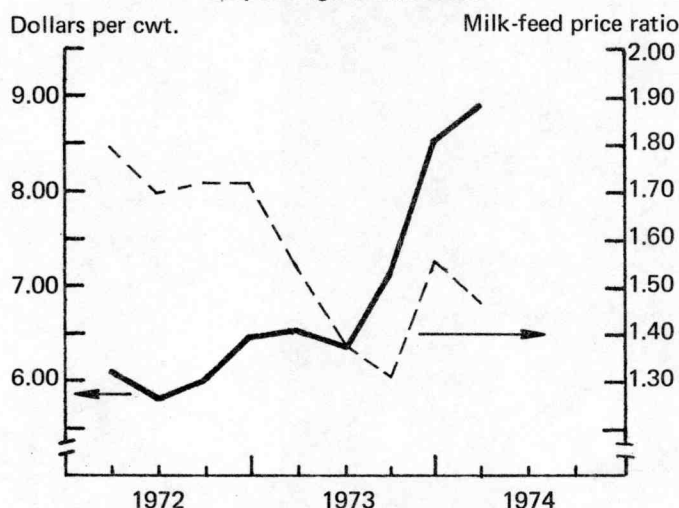
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MILK PRICES are sharply above a year ago, but dairying profits remain at depressed levels due to high feed prices. Milk prices received by farmers averaged \$8.92 per hundredweight during the first quarter of this year, more than one-third above the year-earlier level. But high feed prices held the milk-feed price ratio—pounds of concentrate ration equal in value to 1 pound of milk—to a first-quarter average of 1.47, up from the unusually low levels of last summer but down from 1.54 a year ago, and 1.79 two years ago.

Low profit margins apparently have accelerated, at least temporarily, the rate of culling and herd liquidations. Federally-inspected cow slaughter—which includes both beef and dairy cows—was up 13 percent from a year ago during the first two months of 1974. This compares to a 5 percent year-to-year increase in cow slaughter for all of 1973 and an 11 percent rise in the fourth quarter of last year.

**Milk-Feed Price Ratio Remains Low
Despite Higher Milk Prices**



Herd cullings and liquidations have exceeded the flow of replacement heifers into the dairy herd. As a result, the nation's inventory of dairy cows numbered 11.2 million in February, down an unusually large 3 percent from the year-earlier level. For all of this year, however, the change in the inventory will more closely approximate the normal 1 to 2 percent annual decline, reflecting the probable improvement in the milk-feed price ratio and this year's comparatively high inventory of replacement heifers. As of January 1, there were nearly 35 replacement heifers for every 100 cows in the dairy herd, the highest level in several years.

Milk production fell 3 percent short of the year-earlier pace during the first two months of this year. The year-to-year decline, however, is expected to narrow in the months ahead, and by the latter part of this year above-year-ago levels of production are expected. The turnaround will reflect both a smaller decline in the nation's dairy herd and a return to the traditional long-term uptrend in output per cow. Milk per cow, which declined in 1973 for the first time

in 30 years, had recovered to the year-earlier level in February. Overall, the U.S. Department of Agriculture projects total 1974 milk production will fall 1 percent short of last year's reduced level. The 115.6 billion pounds of milk produced last year was the smallest in 21 years and 3.6 percent short of the 1972 mark.

Last year's reduction in milk production resulted in a comparatively large cutback in milk utilized in the manufacturing of dairy products—a residual equivalent to well over one-half of total U. S. milk production that is not absorbed in the fluid market. Among manufactured dairy products, an increase in utilization of milk for cheese production—which absorbs over one-fifth of the total milk supply—resulted in particularly large cutbacks in production of butter and nonfat dry milk. The reduction in total supplies of butter and dry milk, however, was partially offset by temporary quota relaxations that permitted a huge inflow of imports. Imports of nonfat dry milk, for example, rose to 267 million pounds last year, up from the traditional 2 million pounds and equivalent to 21 percent of total supplies. So far this year, sizable quota relaxations have been announced for both cheddar cheese and nonfat dry milk.

Consumption of milk in all dairy products will likely decline this year, reflecting higher dairy product prices, reduced supplies, and a softening in consumer demand. Last year, large increases in milk consumption in the first half more than offset second-half declines when dairy product prices were rising rapidly. Civilian consumption of milk in all forms rose slightly to 116 million pounds in 1973, with sharply higher net imports and drawdowns in stocks offsetting the decline in milk production. Per capita consumption of dairy products, which fell fractionally from a high 1972 level last year, will probably decline by more than the typical 1 percent in 1974.

Retail prices of dairy products are destined to remain high throughout the year. Pressures will be evident in both high farm level prices of milk and higher farm-to-retail spreads. In 1973, the index of the farm-to-retail price spread for dairy products averaged about 4.5 percent higher than a year earlier. In the fourth quarter, however, the margin was 11 percent above the year-earlier level, with particularly large gains for fresh milk. In January, the farm-to-retail price spread for fresh milk sold in stores was 17 percent higher than the corresponding 1973 level.

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