

Dairy  
Economic Outlook for 1976

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U.S. milk production for the January-September period in 1975 was 88,177 million pounds, down 0.4 percent from the same period in 1974 and 0.7 percent below 1973. If production follows the pattern of 1974, and there are indications this can be expected, milk production during the last quarter of the year may exceed the October-December production of 1974. This will produce a total milk supply in 1975 only slightly below that of 1974.

The average production per cow nationwide for the first nine months of 1975 was eight pounds above that of 1974 and 143 pounds above production for 1973. This increase in production per cow is expected to continue as the milk-feed ratio is expected to be more favorable through the remainder of 1975 and into 1976.

The September milk-feed price ratio nationwide at 1.50 was 6 percent above the previous month (August) and 23 percent above September 1974. The average price of milk sold to processors in September was above that of the previous year in all regions. The average value of grain and other concentrate fed milk cows was below that of August in all but the Western regions. The feeding of grain and concentrates averaged 13.0 pounds per day per cow in late September compared with 12.0 pounds per day in late June and 11.7 pounds last year. This is an 11 percent increase in grain and concentrate feeding per cow over 1974.

The September milk-feed price ratio at 1.40 for the Western region

was the lowest of all major milk regions of the country, with higher milk prices in all the regions except the North Central and lower feed prices in all areas except the South Atlantic.

Milk cow numbers nationwide declined from 11,204,000 on January 1, 1975 to 11,132,000 in September 1975. These numbers are compared with 11,208,000 in September 1974 and 11,316,000 in September 1974, indicating a continued culling of the nation's dairy herds.

It appears the same national trends, in cow numbers, hold true for the three Northwest states. The dairy cow numbers have declined from 327,000 in September 1973, 319,000 in 1974, and 315,000 in September 1975. However, production per cow has not increased, therefore, total milk production has declined from previous years. The three state production has declined from 1,308 million pounds in July-September 1973 to 1,285 million the third quarter 1974 and to 1,274 million in July-September 1975. Oregon and Idaho had declining cow numbers and production from 1974 to 1975 while Washington numbers held steady and production increased.

The rate of daily grain and concentrate feeding as reported by producers supplying data to S.R.S. on October 1, 1975 and the average milk production per cow during September varied significantly among the three Northwest states. Oregon producers were feeding an average of 9.8 pounds of grain and concentrate per milk cow per day and received an average production of only 880 pounds of milk per cow for the month; Idaho producers fed 11.9 pounds and received 905 pounds; while Washington dairymen fed 13.1 pounds for an average production of 1,040 pounds of milk during September 1975.

### Milk Utilization and Storage Stocks

Production data available at the time of this writing was for the January through August period of 1975. The production of all types of dairy products except American cheese, sherbet, and mellorine type frozen desserts were above a year ago. Production relationships were as follows: Butter, up five percent; non-fat dry milk, up six percent; American cheese, down 14 percent; ice cream, up eight percent; ice milk, even; sherbet, down four percent; mellorine-type frozen dessert, down 14 percent; creamed cottage cheese, up three percent; and lowfat cottage cheese, up two percent.

Data on cold storage stocks of all warehouses as reported by U.S.D.A., for August 31, 1975, indicated a 35 percent reduction in butter stocks from a year previous, 52 percent evaporated and condensed milk, 18 percent decline in American cheese stocks and 17 percent less Swiss cheese. All cheese stocks were 18 percent below August 1974. It would appear stocks of processed dairy products would not be burdensome on the market during the remainder of 1975 and into 1976.

Storage stocks of butter have been moving well this past summer. A major factor in this movement has been the increased prices of vegetable oils especially those used in making margarine. The current retail price of better quality margarine is within a few cents of butter and many consumers have returned to butter as the table spread. It appears this situation may continue for the next year barring a major change in the vegetable oil seed market. The demand for vegetable oil is high worldwide with an adequate supply in prospect especially from soybeans.

### Milk Prices and Costs

The recent increase in base prices may not have been as large as

producers wanted or expected but should be helpful for the efficient operators showing positive margins. Considering the general economic situation nationwide and worldwide, a major price increase at the farm level with resultant increases at retail would reduce the consumption of fluid milk. Thus, total returns from the milk may be greater with the minor increase granted than with a greater increase because a higher proportion of the milk will be used for fluid consumption.

The feed grain situation is still in a state of flux. Large crops of feed grains should keep a downward pressure on feed prices throughout the 1975-76 marketing year. However, the export demand which cannot be predicted with certainty, will be a major factor in grain prices. Coupled with increased domestic feed use above that of 1974-75, through increased cattle feeding, increases in hog numbers and expansion in poultry, demand for grains should keep prices near current levels, or slightly lower through 1976.

The supply of high protein feed ingredients, especially soybeans, is greater than in the past several years and competition from the Brazilian crop has a dampening effect on upward price movements. High protein feed prices will likely continue below year ago levels.

The hay supply for the winter feeding period is considerably above that of the fall of 1974 with resultant lower roughage prices. This situation persists throughout the Pacific Northwest and should reduce dairy-men's costs.

#### Congressional Activities

Market orders, especially Federal Milk Market Orders, have come under heavy pressure this past summer. The Congress is very food-price conscious currently and will be so through the election next November. The outcome of the current investigation could develop such that legislation weakening

or even abolishing Federal Milk Market Orders is passed by Congress.

The investigation centers around the effects marketing orders have on prices at the consumer level. Congressmen from urban areas are seeking the support of their constituents in the coming elections and with inflation a major concern, anything that could be construed to increase prices is under attack. Urban consumers are particularly concerned with food prices because of the frequency of purchase. Price increases are particularly noticeable on items purchased frequently and milk especially falls into this category. Unlike most other consumer items, food is paid for with cash rather than credit.

Market orders have a stabilizing effect on the market of the particular commodity concerned. With supply and prices regulated under the orders, consumers are assured of an adequate supply and producers are assured of a market. The removal of market orders with the producers and consumers alike at the mercy of uncontrolled supply and demand could (and has in uncontrolled commodities) result in widely fluctuating prices. Low prices would curtail production as producers may be forced to leave the industry. This is particularly undesirable in the dairy industry due to the time and capital needed to start a dairy herd. Consumers could find a greatly reduced supply of dairy products over a long period of time if many dairymen were forced out of business. Prices of milk and dairy products at retail could be substantially higher over long periods of time if market orders were abolished.

Dairymen need to be particularly aware of these investigations as Federal Milk Market Orders are receiving the greatest attention. Milk has been the commodity most successfully marketed under market orders and the

orders are more widespread than for other agricultural products.

Agricultural cooperatives are also under investigation in Washington. Again, Congressmen from urban areas are involved. They consider that cooperatives control major supplies of agricultural products and are in a position to affect supply and set prices. Some unfortunate circumstances have occurred in the past several years to weaken the stance of cooperatives in the eyes of the public. The dairy industry is particularly vulnerable here also.

The future of the dairy industry will be seriously affected by the actions in Congress this next year. The outlook over the next two to five years and beyond will hinge on these deliberations. Dairymen need to take these prospects into consideration in their planning this coming year and pay particular attention to these political activities.

#### Two Year Outlook

Considering the current milk-feed price ratio, it appears reasonable to expect dairymen to increase their feeding levels. With increased concentrate feeding, milk output per cow could increase.

Prospects for an improvement in slaughter cow prices in 1976-77 will likely induce dairymen to increase the culling of their milk cow herds. However, an adequate supply of replacement heifers has been retained during the current low beef price period to maintain herd size. A brighter profit picture will encourage dairymen to maintain or even increase cow numbers.

Continued improvement in the national economic picture will help the demand for milk and dairy products. Beef prices are expected to rise in late 1976 and 1977 as cattle numbers and beef supplies are stabilized and even reduced. The quality of other meats supplied is expected to increase

as hog and poultry numbers expand. On balance, the competition among high quality protein foods - meat, dairy products and eggs - will be such that dairy products will offer an excellent value to consumers. Demand for dairy products should continue at current levels or modestly over the 1976-77 period.

It appears the cost-price squeeze experienced by dairymen the past two years may be alleviated over the next several years, barring major crop failures either in the U.S.A. or abroad. The grain market now reflects world demand and supply not just the domestic situation. Even with the political manipulations currently underway, export markets will be a major factor in U.S. food and feed grain prices. Dairymen need to keep abreast of world crop conditions and be flexible in their feeding patterns.

#### Outlook Three Years and Beyond

Prospects are that feed supplies can be increased and prices stabilized somewhat near current levels. Dairymen must not plan for cheap feed grains with prices at levels prior to 1973. World markets will continue to play an important role in feed costs. Culling the herds to improve the feed conversion rate will be an important part of herd management and profit making.

Dairy product prices can be expected to rise modestly as the general economic situation improves. Prospects are for a slow improvement, but not for a booming expansion as some politically motivated factions would have us believe.

Continued relatively stable production of milk in line with population growth can maintain the dairy industry as the most stable sector of agriculture. Unforeseen changes in world demand or production could substantially change the situation, however.