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UNITED STATES DEPARTMENT OF AGRICULTURE  
Economic Research Service

OUTLOOK FOR DAIRY PRODUCTS IN 1964  
AND BEYOND

Statement by A. G. Mathis and Robert H. Miller  
Economic and Statistical Analysis Division  
at the 41st Annual Agricultural Outlook Conference  
Washington, D. C., 2:00 P. M., Wednesday, November 20, 1963

In a compact package, here is the 1964 dairy outlook: Production will equal 1963 levels, commercial demand probably will increase less than the population, and excess dairy products will continue to move to the Commodity Credit Corporation. Prices to farmers and to consumers for dairy products will average about the same as a year earlier. Cash receipts from farmers' sales of dairy products are likely to increase slightly over 1963 in line with larger marketings. Offsetting near-record cash receipts to dairymen will be rising production costs.

This outlook is based on continuation of the present dairy support program with supports at 75 percent of parity. The actual support levels for the marketing year which begins April 1, 1964, will be announced before that date. However at Outlook time this year, as last year, proposals for new dairy legislation are being considered by Congress. Milk production, marketings, consumption, prices, and farmers' returns from dairying in 1964 and later will be affected by the kind of dairy program that arises from these proposals.

Now, what are some specific elements of the 1964 and long-term dairy outlook? Milk production the first 10 months of 1963 was about 1 percent below a year earlier. Reduction of milk cows on farms in 1963--down close to 3 percent--is a continuation of the downtrend since the 1944 peak in the nation's milk herds. Gains in production per cow this year and those anticipated early in 1964 may not be enough to offset the smaller number of milk cows. An additional factor limiting production is below average roughage supplies in several important dairy areas.

The consumption picture is improved this year, particularly for commercial sales. Civilian consumption of milk from all sources in 1963 is increasing by about  $1\frac{1}{2}$  billion pounds above the 116.4 billion in 1962. The major reason for this record high consumption is increased sales of fluid milk, American cheese, and ice cream. Donations of government-owned dairy products are up just slightly this year. Indications are that sales of fluid milk products are increasing 2 percent. Per capita consumption of milk in all forms in 1963, an expected 635 pounds, is about the same as in 1962.

In 1963 consumption per capita of cheese is again increasing substantially. Ice cream and frozen desserts are up slightly and nonfat milk consumption has regained a part of last year's loss. Most other changes in consumption of dairy products, including butter, are following long-time trends.

Milk solids-not-fat consumption per capita for 1963 is likely to show a gain, the first since 1956, due chiefly to the improvement in nonfat dry milk consumption. However, the gap between production and consumption of milk solids-not-fat has narrowed only slightly from the 3 billion pounds for 1962. Milkfat consumption for 1963 will likely decline slightly below the 23.8 pounds per capita in 1962; the production-consumption gap that narrowed to 275 million pounds in 1963 from 360 million in 1962 is expected to narrow slightly in 1964.

The smaller gap between production and consumption in 1963 plus a higher rate of buildup for commercial stocks of dairy products than in 1962, is causing CCC purchases of dairy products to fall about  $2\frac{1}{2}$  billion pounds of milk equivalent. In terms of milk solids, CCC purchases of milkfat in 1963 are about  $6\frac{1}{2}$  percent of production and those of milk solids-not-fat, about  $9\frac{1}{2}$  percent.

At the end of October uncommitted CCC stocks were below year-earlier levels. There was 266 million pounds of butter, including butter equivalent of butteroil, 25 million pounds of cheese, and 393 million pounds of nonfat dry milk. Record CCC export sales and heavy overseas donations of butter and nonfat dry milk, as well as reduced purchases, are factors in this more than seasonal decline in stocks. CCC-owned stocks may decline again in 1964.

The price of all wholesale milk for January-October was \$4.05 per 100 pounds compared with \$4.07 last year. This would give an average price of \$4.09 per 100 pounds for 1963. Prices paid by dealers for milk used in bottling (Class I) during January-October 1963 averaged \$5.27 per 100 pounds compared with \$5.33 a year earlier. For all of 1963, prices to farmers for manufacturing milk will average about \$3.21 per 100 pounds, the same as in 1962. These prices were lower in the first quarter this year but have been higher since. Assuming continuation of the present support level in the marketing year beginning April 1, 1964, the average price of manufacturing grade milk, as well as the price received for all milk sold by farmers, will continue close to 1963 levels.

Over the next 5 years, the rise in population will bring an increase in total demand. But whether total demand will rise as much, more, or less than population depends on several cross-currents affecting per capita demand.

The demand for milk is a composite of demands for its many products and there have been significant shifts in the postwar period. The trends away from some dairy items have more than offset the favorable effects of rising consumer incomes, higher proportion of the population in the younger age groups, and relatively lower retail prices for dairy products. These favorable factors might have increased per capita demand for dairy products were it not for lower-priced competing vegetable fats and a conscious effort on the part of many consumers to limit intake of certain fats.

A further drop in prices of vegetable oils relative to milkfat prices and vigorous promotion of dairy substitutes, as in the past decade, may induce still further shifts in tastes and preferences of consumers away from some dairy products.

The net effect of these influences during the next 5 years is likely to be a further--but perhaps only slight--decline in per capita demand for dairy products, measured on a milkfat basis. On the other hand, some slight increase in per capita demand, measured on a solids-not-fat basis, is likely. Per capita consumption of milk solids-not-fat has been maintained in the past decade. These significant shifts in demand present a challenge for responsive adjustments in dairy production and price structures. However, the rise in total demand for solids-not-fat has had little opportunity so far to affect prices of dairy products; the supply continues to exceed market demand at equivalent of support prices by a wide margin.

Prospects are that milk supplies through 1968 will continue large despite a slight downtrend in production in 1963. The prevailing level of milk production reflects a sensitive balance among the following: (1) Rapidly increasing milk production per cow; (2) decreasing numbers of milk cows and farms with milk cows; (3) increasing size of herds on remaining farms.

The factors that brought about the increase in productivity of milk cows can be grouped under two headings: (1) Improvements in the inherent productive capacity of dairy herds; and (2) better care and more liberal feeding to utilize increased capacity. Output per cow can be expected to expand, even if there are sizable changes from current levels of milk prices.

A main unknown in projecting major changes in milk production is the number of farms with milk cows, since this affects total cow numbers. For a number of years there has been a net relative transfer of resources out of dairying. The rate of such transfer has depended considerably upon the relationship between beef prices and milk prices.

A brief letup in the transfer out of dairying could lead to a substantial rise in milk output within a comparatively short time. All too clearly remembered is the rise of 3.9 billion pounds in milk production from 1959 to 1962 when the average decrease in milk cow numbers on farms slowed to 1.5 percent. The 1944-59 average annual decrease was 2 percent.

The number of beef cattle has climbed rapidly in the last few years, but beef producers have encountered recurring price difficulties. Even with a rather optimistic long-run outlook for beef demand and reasonably normal weather conditions in the next 5 years, beef prices are not likely to reach the high levels of 1958-59. You may recall that heavy culling of milk cows those years brought a reversal of the 1952-56 enlargement of milk flow. Add the prospects of large roughage supplies as well as projected increases in feed concentrates to the outlook for production, and there can be no reason for projecting any significant downtrend in milk production in the next 5 years.

The Federal Government is an active factor in the dairy industry. At 1963-64 marketing year support prices for dairy products, milk marketed by farmers in the next 5 years would continue in excess of the amount required in the commercial market. Government purchases of dairy products for price support reached a record  $10\frac{3}{4}$  billion pounds (milk equivalent) in 1962 and will be around 8 billion in 1963. Purchases would be lower by 1968 mainly because the commercial market is projected to increase slightly more than marketings. It is anticipated that high levels of domestic use of CCC purchases would continue and foreign outlets would be developed to provide a regular turnover of Government stocks.

The United States will continue to be a desirable market for world exporters, but the foreign market is much less attractive to U. S. producers than domestic markets. The 1962 level of U. S. exports and shipments (exclusive of Government programs), was about 1 percent of the milk used in manufactured dairy products. For exports to be a substantially greater percentage than this, the U. S. industry will have to subsidize exports of all dairy products in much the same manner as do most foreign dairy exporting countries.