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DAIRY PROFITS have dropped sharply since midyear and this could cause further cutbacks in milk production. Although current milk prices are near year-ago levels, feed costs have accelerated rapidly and have cut profits or increased losses to dairy farmers. Milk output per cow appeared to be resuming the more normal upward trend from the unusually low rates experienced during 1973, but current depressed conditions suggest that farmers may limit output per animal.

Milk production, in terms of both output per cow and total production, has risen above year-earlier monthly levels since July with total production surpassing year-ago rates by more than 2 percent during September and October. However, the milk/feed price ratio (pounds of concentrate equal in value to 1 pound of milk) remains extremely low, an indication that dairy farmers may continue to keep the grain and concentrate components of the total feed ration at relatively low levels in future months. As of October 1, dairy rations contained about 3 percent less grains and concentrates than a year earlier. Although more silage may be available in many areas due to the early frost, silage quality may be below normal. Consequently, output per cow may slip back to or below year-ago rates with the onset of the winter months. Reduced output coupled with the normal downward trend in the number of dairy cows will likely hold 1974 milk output about 1 percent below last year's 115.6 billion pound total.

Milk prices received by farmers, although continuing their seasonal rise, fell below the year-ago levels in October for the first time in 1974. The year-to-year decline was attributable to manufacturing grade prices, with fluid grade prices holding at approximately their October 1973 level. The demand for manufacturing milk remains firm, a reflection of the increased rate of butter and cheese consumption, but larger-than-normal inventory levels of these products suggest that future manufacturing milk price increases will not match the rapid rise experienced in late 1973. Nevertheless, farm milk prices will probably average around $8.30 per 100 pounds during 1974, up $1.16 from the 1973 average price received by farmers.

Cash receipts from milk and cream marketings may total over $9.3 billion in 1974, up substantially from the past year's $8.3 billion record. During the first half of the year, gross income rose 27 percent, about equal to the rise in feed costs; but the situation was sharply reversed during the third quarter. Gross income was up only 9 percent, less than one-half the rise in total feed costs. The milk/feed price ratio reflects the renewed cost/price squeeze affecting dairy farmers since midyear. The ratio averaged 1.47 during the first half of 1974, almost identical to the 1973 annual average, but then dropped sharply, averaging 1.19 in the four months since June.

Retail prices of dairy products averaged 16 percent higher than a year ago during September. Fluid milk, cheese, ice cream, and evaporated milk account for the bulk of the increase. Butter prices have been relatively stable, up only about 3 percent. On the other hand, margarine prices jumped over 40 percent, and currently many brands of butter are priced competitively with margarine.

Dairy sales during the January-September period were off slightly from the comparable year-earlier period, with most of the decline coming from reduced whole milk sales. Skim milk sales were up 6 percent, while cheese and butter sales were up 7 and 6 percent, respectively. The increase in butter sales reverses a long-established downward trend in butter consumption and reflects the more competitive price relationship with margarine.

Per capita milk consumption likely will be off about 2.5 percent in 1974, the largest drop since 1967. Most of the drop can be traced to decreased USDA donations of dairy products to welfare recipients and school lunch programs. The losses stemming from the reduction in government gifts—estimated to be around 1.4 billion pounds during 1974, a 60 percent drop from 1973—may be somewhat offset by increased commercial sales derived from an expanded food stamp program.

Stocks of manufactured dairy products have reached record seasonal levels in recent months. However, nearly all the increase is in the form of commercial stocks. The one major exception is government stocks of nonfat dry milk, which have increased significantly. Total stocks of dairy products were up 34 percent (milk equivalent) over a year earlier at the end of September. Commercial stocks are likely to continue well above year-earlier levels throughout the remainder of 1974.

Lower production of milk during the winter months will probably give commercial firms an opportunity to draw down their stocks of manufactured dairy products. Although monthly milk output may once again decline below earlier levels, the current large inventory of commercial stocks will likely preclude any sharp turnaround in manufactured milk prices. Milk prices received by farmers are likely to continue to increase seasonally but remain below year-ago levels over the winter months. There appears to be little likelihood that dairy farmers will experience much relief from the present severe cost/price squeeze until well into the upcoming year.

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