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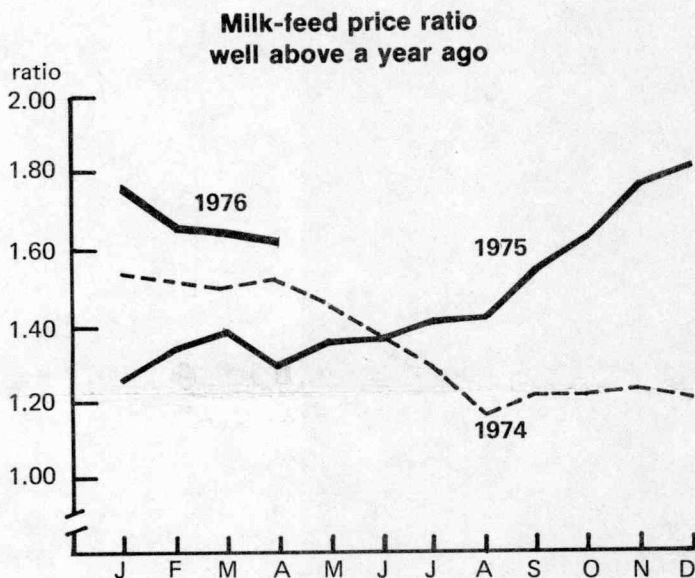
Agricultural Letter



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MILK PRICES have held well above year-earlier levels, although declining seasonally since late last year. During the first five months of this year milk prices received by farmers averaged \$9.68 per hundredweight, well above the \$8.21 average during the same period a year ago but down somewhat from the December 1975 level of \$10.30. The high prices have contributed to increases in milk production, a continued slow rate of decline in dairy cow numbers, and a sizable boost in cash receipts for dairy farmers.

Milk production through April of this year was more than 3 percent above the year-earlier pace. The expansion resulted from a significant rise in output per cow which was only partially offset by the decline in cow numbers. Preliminary estimates indicate dairy cow numbers in April were only 1 percent below a year earlier, slightly above the unusually small decline in cow numbers last year but still only about one-half the more typical rate of decline. In contrast, milk per cow rose 4 percent as the high milk-feed price ratio—pounds of concentrate ration equal in value to one pound of milk—continued to encourage heavier grain feeding.



The combination of higher milk prices and expanded production has materially boosted cash receipts to dairy farmers. Recent U.S. Department of Agriculture estimates indicate cash receipts from dairying exceeded the low year-earlier level by nearly one-fourth during the January-March 1976 period. With milk production and prices both expected to remain above year-earlier levels, plus tentative prospects for lower feed prices this fall, dairy farmers are likely to experience much higher profit levels this year.

Despite high retail prices commercial markets have absorbed the increased milk supplies, permitting USDA support purchases to fall to negligible levels during the first quarter. In April the index of all retail dairy product prices stood 8.5 percent above a year earlier. Nevertheless, higher incomes and relatively high meat prices held consumer demand for dairy products at a high level. During the first quarter commercial disappearance of milk in all products rose 3 percent above the year-earlier mark. The increase reflected strong cheese sales and some rebuilding of the low pipeline supplies of other dairy products. Fluid milk sales were up only slightly, while butter sales were down from the high year-earlier level.

Government purchases of manufactured dairy products remained at negligible levels early this year as strong consumer demand held wholesale prices above support levels. During the January-April period USDA support purchases of dairy products were equivalent to only 36 million pounds of milk, comparable to late 1975 levels but down sharply from the more than 1.5 billion pounds purchased during the same period a year ago. Nonfat dry milk accounted for most of the reduced level of purchases, adding to the already heavy government stocks of this product.

The outlook for dairy farmers is somewhat clouded by the uncertainties surrounding consumer demand. Total milk supplies are expected to remain above year-earlier levels in the months ahead as dairy farmers continue to expand output per cow. The U.S. Department of Agriculture recently indicated milk production for all of 1976 might rise 2 billion pounds above last year's level of 115.5 billion. Whether consumer demand continues to absorb the expanded supplies, however, is a big uncertainty. In the months ahead fluid milk sales could dip below the rather high levels of a year earlier. Cheese sales will likely remain strong but will experience increased competition from larger supplies and lower prices of meat later this year. Sales of butter and other dairy products could also taper off from recent high levels in response to lower prices for competitive products. Overall, total milk consumption is not expected to rise above the comparatively high mark recorded in 1975. This suggests the bulk of the 1976 rise in milk production will have to be absorbed in stocks, which may hold milk prices closer to support levels.

Gary L. Benjamin
Agricultural Economist