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WHAT ABOUT BUTTER PRICES?

Prepared by D. C. Dvoracek

In this brief article an attempt is made to set out some of the main causes for recent price rises and declines in dairy products. Because of lack of space, discussion will be limited to butter as the most important and typical single dairy product.

The average monthly wholesale price per pound of 92 score butter at New York for February, 1935 was 36.2 cents. This was the highest price since October, 1930 when the price was 40 cents. Starting with the July, 1934 price of 24.5 cents, prices rose steadily until February, then declined to 24 cents in July, 1935. The price changes from month to month during this period were abnormal. The usual tendency is for butter prices to rise from September to December and then decline more or less steadily to midsummer. The monthly prices for the first four months of 1935 were January 34.2 cents, February 36.2 cents, March 31.7 cents, and April 34.5 cents, or an average of 34.2 cents for the four months. The decline in price during the next four months was likewise unusual, the prices for these months being May 27.3 cents, June 24.3 cents, July 24.0 cents, and August 25.0 cents. Since July, butter prices have risen to 27.0 cents for October. The farmer is interested in knowing why prices rose so rapidly last fall and winter, and why they declined so sharply this summer.

The prolonged rise in butter prices since July, 1934 was largely due to a decline in production. Butter production during 1934 and the early part of 1935 was reduced by severe drought conditions which not only reduced the amount of feed available but made necessary the government cattle-buying program. The number of milk cows on farms on January, 1930 was 23 million head. The number had increased to 26 million head on January 1, 1934, an increase of 13 per cent in four years. January 1, 1935 found 25 million head on farms, a decrease of 4 per cent in one year. A large proportion of this decrease was due to government cattle-buying program which was inaugurated in the summer of 1934 because of the unusual drought. The exact number of dairy cattle so bought is not available. The government program for the control of tuberculosis and Bang's disease resulted in the condemnation of cattle but perhaps did not increase the total number disposed of but rather insured the elimination of diseased cattle in the culling process.

Production per cow, as well as the number of milk cows, was reduced. The average annual milk production per cow for the United States decreased from 4,309 pounds in 1932 to 4,178 pounds in 1933 and 4,030 pounds in 1934, a decrease of 279 pounds, or 6.5 per cent in two years. This decrease reflects directly the effect of the drought of 1933 and 1934 on the supply of feed available for milk production.

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The reduction in milk cows on farms, and the reduction of milk production per cow are reflected in a decrease in butter production during 1934. Production during the year was 1,658,155,000 pounds, the lowest since 1930 when 1,595,231,000 pounds were produced. The 1934 production was 104,533,000 pounds, or 6 per cent less, than the 1,762,688,000 pounds produced in 1933. This reduction in production continued thru April, 1935, each month showing a smaller production of butter than the corresponding month a year earlier. With pasture conditions more favorable in the spring of 1935 than in 1934, production showed a slight improvement for May over a year earlier (.06 per cent). June production, however, was 7.56 per cent larger and July 6.47 per cent larger than the same months in 1934. The August production showed a decrease of 2.39 per cent from August of 1934. During the months when production was declining, prices were rising and when production increased prices declined.

Reduction in butter production during 1934 was reflected in smaller cold storage holdings. The peak of cold storage holdings of creamery butter in 1934 was 125,047,000 pounds in October as compared with 174,713,000 pounds in October, 1933, a decrease of 49,666,000 pounds, or 28.4 per cent. Refrigerators were more nearly empty at the low point of holdings in April, 1935 with 5,341,000 pounds in storage than they were at any time since May, 1928 when 5,109,000 pounds were held over. Butter was moved out of storage to take advantage of a favorable price. Since May, cold storage holdings for each month have been in excess of those for the same months in 1934. The peak for 1935 was reached in September with 156,791,000 pounds, declining to 148,666,000 pounds in October.

The reduction of 4 per cent in the number of milk cows, with a decrease in the annual milk production per cow of 6.5 per cent in two years due to a shortage of feed, resulted in 6 per cent decline in the supply of creamery butter in 1934 and 28.5 per cent lower peak in cold storage holdings for the year of 1934. All these reductions meant a relatively low supply of butter available for consumption and resulted in a prolonged rise in butter prices which ended with a sharp decline in May, 1935.

The high prices of butter in the first part of 1935 were attractive not only to the domestic producers, but also to the foreign dairyman who found the margin between London or Copenhagen price and New York price sufficient to permit import over the 14 cent tariff duty imposed by the United States on butter. The margin in cents between the New York price of 92 score butter and the best New Zealand butter on the London market for September, 1934 was 9.2 cents. This margin widened to 15.3 cents in December, 16.0 cents in January, 17.0 cents in February, 15.5 cents in March, and 18.2 cents in April. The margin being greater than the tariff duty of 14 cents made it profitable to export butter to the United States and obviously encouraged such exports.

Imports of butter into the United States for the year July 1, 1934 to June 30, 1935, inclusive, totaled 22,393,000 pounds as compared with 763,000 pounds imported during the corresponding period a year earlier. This was the largest annual importation since 1923-24 when 29,466,000 pounds were imported over a tariff wall of 8 cents, and 54,344,000 pounds imported in 1920-21 when the tariff duty was 6 cents per pound. This volume of butter imported replaced only 21 per cent of the decrease of 104,533,000 pounds of butter due to drought conditions. It represented less than one-fourth (23 per cent) of the increase in oleomargarine production during the first eight months of 1935. For the first seven months of this year, 23,257,000 pounds of butter were imported. Of this amount, 17,383,000 pounds were imported during the first four months when the margin between domestic and foreign price was the widest. The heaviest importation for a single month came in April when 8,860,000 pounds were imported with the margin of 18.2 cents. Relatively heavy imports continued thru May and June (2,665,000 pounds and 1,437,000 pounds respectively) in spite of the drop of the margin to 10.3 cents for May and 5.3 cents

for June but have declined materially since. A drop in the domestic price or a rise in the foreign price will tend to stop importation. An increase in the import duty may also stop imports but may react unfavorably on our exports.

The increase in imports in the early months of 1935 led some to say that the tariff was no longer effective. It is true that it was not effective in prohibiting imports. It was, however, effective in producing a price differential equal to the full amount of the tariff. Much of the time, our markets are considerably nearer the level of the world market than the amount of the tariff, indicating that it is only partially effective in raising prices most of the time. The impression of many was that imports represented a much larger proportion of the supply than they actually did. They replaced only about a fifth of the reduction in supply, the rest of the reduction being taken care of by decreased consumption. If the tariff had been raised as suggested by some, some temporary additional rise in butter prices probably would have occurred but at the expense of butter consumption. The use of butter substitutes would have been encouraged still more and it is not unlikely that butter prices would have fallen to lower levels later on because of this. It is apparent that there are decided limits to further gains in butter prices from higher tariff protection in periods of normal supply.

Periods of high butter prices tend to stimulate the use of substitutes. Thus the output of oleomargarine for the first eight months of 1935 was 248,100,000 pounds compared with 150,900,000 pounds for the corresponding months of 1934, an increase of 97,500,000 pounds, or 64.6 per cent. This casts doubt upon the desirability of forcing butter to high levels for temporary periods of shortage. Some appear to believe the remedy to be one of abolishing the use of substitutes. This would be difficult to accomplish in view of the use of domestic fats and oils in the manufacture of oleomargarine. Moreover, because of the difference in price, butter can not be expected to replace oleomargarine pound for pound. It appears that the best prospects of maintaining satisfactory butter prices lie in keeping production within bounds and in a recovery of business activity with resultant recovery in employment and in consumer buying power.

The outlook for the dairyman during 1936 will be more favorable than a year ago. Feed costs are lower due to more liberal supplies, and probably will continue low thru 1936. The number of milk cows on farms January 1, 1936 promises to be 600,000 smaller than a year ago with small prospect of any material increase during the next two years. The heavier than average cold storage holdings of butter on September 1 will be counteracted by heavier withdrawals from storage due to decreased butter production since late summer. The threat of butter imports is negligible due to the fact that foreign prices are very nearly equal to domestic price and promise to remain more nearly so. Butter prices are low in relation to prices of meat animals with a resulting tendency to shift from dairy production to meat production where such shift can be made readily. The consumer's buying power is increasing with increased employment, thus increasing the demand for butter. Because of liberal supplies of feeds, dairy production can be expected to increase somewhat, and to the extent such increase takes place will tend to counteract the factors favoring rising butter prices.

In conclusion, it may be said that the rise in butter prices from July, 1934 to April, 1935 was due largely to a reduction in butter production. The decline in prices of butter since April, 1935 is explained by an increase in butter production, increased imports of butter, and greater uses of butter substitutes. If the present rate of production is maintained permanently, higher prices can be expected only if the purchasing power of consumers increases.

MINNESOTA FARM PRICES FOR OCTOBER 1935  
Prepared by W. C. Waite and W. B. Garver

The index number of Minnesota farm prices for the month of October 1935 was 72.8. When the average of farm prices of the three Octobers 1924-25-26 is represented by 100, the indexes for October of each year from 1924 to date are as follows:

October 1924 -	93.0	October 1930 -	81.9
" 1925 -	103.6	" 1931 -	51.6
" 1926 -	103.5	" 1932 -	37.9
" 1927 -	98.1	" 1933 -	52.0
" 1928 -	95.0	" 1934 -	71.2*
" 1929 -	107.2	" 1935 -	72.8*

\*Preliminary

The price index of 72.8 for the past month is the net result of increases and decreases in the prices of farm products in October 1935 over the average of October 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index,  
October 15, 1935, with Comparisons\*

	Oct. 15, 1935	Sept. 15, 1935	Oct. 15, 1934	Av. Oct. 1924-25- 26	% Oct. 15, 1935 is of Sept. 15, 1935	% Oct. 15, 1935 is of Oct. 15, 1934	% Oct. 15, 1935 is of Oct. 15, 1924-25-26
Wheat	\$1.05	\$.98	\$1.02	\$1.28	106	103	82
Corn	.56	.66	.70	.78	84	80	72
Oats	.22	.21	.48	.38	105	46	58
Barley	.38	.37	.85	.61	103	45	62
Rye	.39	.32	.39	1.01	122	100	39
Flax	1.56	1.39	1.70	2.15	112	92	72
Potatoes	.24	.34	.35	.71	71	69	34
Hogs	9.90	10.60	5.10	10.68	93	194	93
Cattle	6.50	7.10	4.05	5.97	92	160	109
Calves	8.07	8.20	5.30	9.36	98	151	85
Lambs-sheep	7.86	7.56	5.29	11.03	104	148	71
Chickens	.14	.143	.094	.166	98	149	84
Eggs	.25	.24	.20	.35	103	123	70
Butterfat	.27	.26	.26	.44	104	104	61
Hay	5.38	5.48	14.20	11.90	98	38	45
Milk	1.56	1.52	1.60	2.26	103	98	69

\*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture\*

	Oct. 1935	Sept. 1935	Oct. 1934	Av. Oct. 1924-26
U.S. farm price index	79.0	78.1	72.5	100.0
Minnesota farm price index	72.8	73.6	71.2	100.0
U.S. purchasing power of farm products	97.7	95.0	87.5	100.0
Minnesota purchasing power of farm products	90.0	89.5	85.9	100.0
U.S. hog-corn ratio	13.3	13.2	6.8	12.8
Minnesota hog-corn ratio	17.7	16.1	7.3	14.6
Minnesota egg-grain ratio	19.9	19.1	13.5	21.7
Minnesota butterfat-farm-grain ratio	34.1	31.9	17.3	38.3

\*Explanations of the computation of these data are given in Farm Business Notes No. 144.