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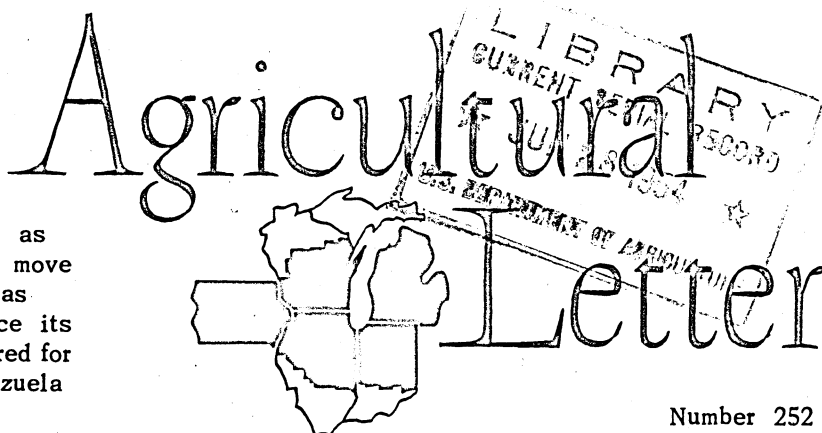
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Federal Reserve Bank of Chicago ---

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DAIRY PRODUCTS remain in the spotlight as the industry presses vigorously on all fronts to move record supplies into consumption. The USDA has negotiated its first cut-price sale of butter since its announcement that surplus stocks would be offered for export at world prices. The sale was to Venezuela at about 20 cents under the domestic price.

Support purchases continue in large volume as the nation's dairy cows convert grass to milk at a record rate. Milk production in April was 4 per cent above a year earlier and is expected to continue at a high level at least through the pasture season.

Farmers have been encouraged to cull their herds heavily since low-producing cows contribute to the excess supply of milk but are not money makers for their owners. Dairy herds were culled at a relatively low 21 per cent rate in 1952 and 1953. Studies by the Bureau of Dairy Industry indicate that cows that produce no more than 5,000 pounds of milk a year just about pay their way and seldom make more than a very small profit. "This has been true year after year, regardless of production costs and milk prices." In 1952, for example, 5,000-pound cows returned only about 5 dollars net to their owners whereas cows producing 9,200 pounds of milk, the average for all cows in herd improvement programs, returned a net of 69 dollars.

CHANGES IN MILK PRODUCTION since prewar have been very substantial. The per cent change from the 1938-40 average to 1953 for District states and the U.S. follows:

Illinois	+2
Indiana	+19
Iowa	-8
Michigan	+18
Wisconsin	+31
U.S.	+13

The largest gains in milk production were in the eastern region with the South Atlantic states chalking up a 32 per cent rise and the North Atlantic a 24 per cent gain in output.

Production in the first four months of 1954 compared with the corresponding year-ago period also showed significant increases for District states and the U.S.: Illinois, +6; Indiana, +6; Iowa, +2; Michigan, +4; Wisconsin, +9; U.S., +5.

The increases in milk production have, of course, had some relationship to changes in population. Population in the U.S. in 1953 was 21 per cent larger than the 1938-40 average. Florida's population increased 78 per cent, and milk production in that state showed a 92 per cent rise. This close relationship did not hold for all states or even all geographic areas since much of the milk supply, especially that manufactured into butter, cheese and similar products is shipped long distances. Population increases in District states

ranged from 33 per cent in Michigan to only 3 per cent for Iowa.

SALES OF MILK for fluid consumption reflect changes in population as well as other factors affecting demand. For 30 large city markets average daily sales in 1953 were 3 per cent above the previous year. In the first quarter of 1954, sales in a similar group of cities averaged 3 per cent larger than in the same period in 1953. March sales showed an even larger gain over the year-ago period.

Skim milk items also reflected a continued uptrend in consumption and were 3.6 per cent larger in the first quarter of this year than in the January-to-March period of 1953. This uptrend in milk sales did not carry over into fluid cream. Sales of this product were a little below the year-ago level.

The number of farmers providing milk for this group of cities is slightly larger than last year, and the average producer delivered 6 per cent more milk in March than a year earlier. Total daily receipts of milk were running 7.4 per cent larger than in March last year.

The current heavy supply of dairy products and the large accumulation of surplus stocks in Government hands is stimulating farmers, dairy product manufacturers and distributors and Government agencies to take vigorous action to reduce production costs and expand markets.

The number of cows bred artificially has now risen to about 5 million, over 20 per cent of all milk cows on farms. This permits the benefits of outstanding sires to be spread much more widely.

Better roughages are being produced, and the shift to grass and legume silage continues. The productivity of pastures is being stepped up through increased use of fertilizers, rotational grazing and selection of better pasture crops.

Research has brought forth a new method for making cheddar cheese which requires less than half the time of present processes.

Methods of producing high-quality milk with less than half the usual amounts of labor and investment in buildings have been developed. These are but a few of the many activities under way from which it is hoped that producers and consumers alike will benefit as a result of lowering the cost of providing abundant supplies of a wider variety of nutritious and tasty foods.

Research Department