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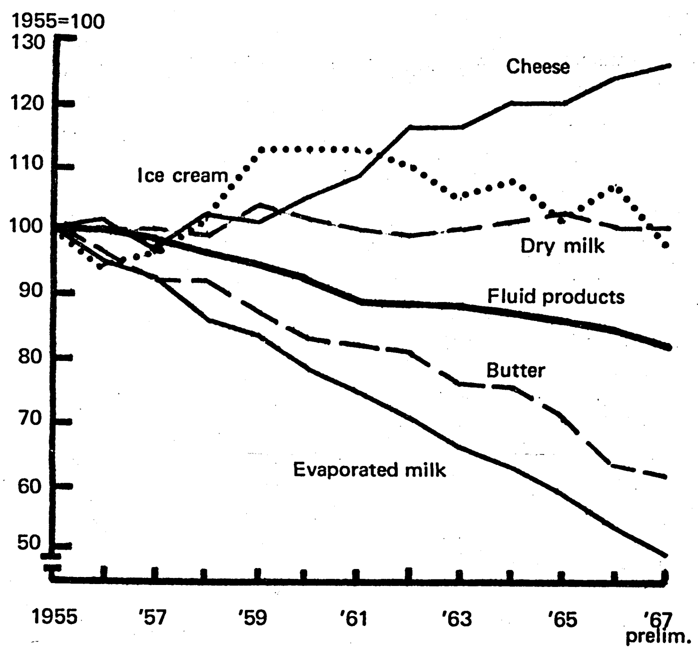
THE DAIRY INDUSTRY moves to center stage this month. Seasonally large supplies and lagging demand provide dairymen with the principal ingredients for their annual promotional activities.

Many factors influence the demand for dairy products—including prices, growth in population, shifts in consumption patterns, the availability of new substitutes, and to a less extent the general rise in per-capita income, particularly of low-income groups. Of dairy products, only cheese has shown a significant increase in per-capita consumption since the mid-1950s. Consumption of cheese had increased about a fourth last year from the level of the mid-1950s. But consumption of butter, evaporated milk, and fluid products declined sharply over that period, dropping the per-capita consumption of dairy products nearly a fifth. Part of the decline was offset by population increases—from 165 million for the nation in 1955 to over 200 million in 1967. Total consumption, nevertheless, fell below 114 million pounds (milk equivalent basis) in 1967—2 percent less than the previous year and the lowest level since the early 1950s.

Consumption of Most Milk Products Declines



The same trends will probably be extended at least through the rest of this year. During the first quarter, commercial disappearance of milk in dairy products declined about 2 percent from the same quarter a year ago. A number of factors will influence the sales pattern for the rest of the year, but especially higher retail prices. Effective April 1, support prices for farm milk were boosted 28 cents per hundredweight from the $4 level that had prevailed since mid-1966. Milk prices at retail have since been raised in line with the support price increase. The increase will tend to reduce milk consumption. The Department of Agriculture estimates that a 10-percent increase in prices of milk and cream is usually associated with a 3-percent decline in the amount consumed.

Competition from substitute and synthetic dairy products is also likely to increase. It is estimated that nondairy coffee whiteners have taken about a third of the market for light cream. Moreover, substitutes for fluid milk account for a purportedly significant portion of milk sales in some areas, especially the Southwest. Partly as a result of the growing importance of these and other products, consumption of dairy products is apt to drop again this year in total as well as on a per-capita basis.

Government purchases of dairy products, partly because of the drop in consumption, has continued to be necessary for the maintenance of prices at the support level. Dairy products removed from the market by the Commodity Credit Corporation in the first quarter amounted to around 1.8 billion pounds—about 6 percent of the production on a milk equivalent basis—compared with about 2.2 billion pounds in the same quarter last year. The slight decline in removals reflected lower milk production and reduced dairy imports during the first part of 1968.

In the first four months of this year, milk production averaged around 2 percent less than the same period a year before. This was despite sharply higher milk prices and relatively low feed cost. In April, for example, the price of milk was about 6 percent higher than in April 1967, although the cost of feed for a dairy cow was about 5 percent lower. As a result, the relationship between milk prices and feed costs was about a tenth better than last year and the best ever for the month of April.

Nevertheless, of the ten leading dairy states, only Texas showed an increase (2 percent) in milk production in the first four months of 1968. Milk production was less than last year in every state in the Seventh District. In Wisconsin, the nation's leading dairy state, milk output was just under the level for a year ago. Declines were larger elsewhere in the district, ranging up to 10 percent in Indiana.

Production in the second quarter is expected to continue below the year-ago level. The rate of decline may be less, however, because of the expected increase in output per cow. If the number of dairy cows decline no faster than now, the expected increases in output per cow will boost total production above year-ago levels for the fall and winter. But even so, milk production for the year is apt to fall short of the 119 billion pounds produced last year, making 1968 the fourth consecutive year of decline.

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