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UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

TRENDS IN DAIRY PRODUCTION, CONSUMPTION AND PRICES

Statement presented by H. C. Kriesel at the 31st Annual Agricultural Outlook Conference, Washington, D. C.
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The year 1954 may bring the dairy industry many experiences similar to those in 1953. Consumer demand for milk products, we think, will be about as strong in 1954 as it has been this year. Milk production may be about equal to the prospective level for 1953-- 118-119 billion pounds. However, the carryover of manufactured dairy products into 1954, including Government price-support holdings, will be a record high. The total supply of milk and dairy products in 1954 will be equivalent to 127 or 128 billion pounds of whole milk, compared to 124 billions this calendar year. In 1953, commercial and farm uses of milk products took the equivalent of 115 billion pounds of whole milk. Even if no milk products were sold out of Government stocks, supplies for 1954 would substantially exceed demand at prices approaching this year's level.

Now, what can be said about the important matter of dairy prices for 1954? With demand and supply prospects as we see them at the present time, we conclude that, perhaps more than in other recent years, the price will depend heavily upon the level at which dairy supports will be set for the marketing year which begins April 1, 1954. Under existing law, it is mandatory that the Secretary of Agriculture announce a support price for milk and for butterfat at between 75 and 90 percent of parity. In the current marketing year the objective has been to support these products at 90 percent of the parities which prevailed at the time the announcement was made early last spring. Assuming the parity index does not rise from the present level, the maximum support next year would be 1.4 percent below the support level in effect for the current marketing year. The parity index has declined this amount since the announcement of price support for this year.

Milk production behaved in a very unusual manner in the past 15 months. Prior to that time it had fluctuated relatively little for several years. In 1952 the annual rate of milk flow reached a record low of 110 billion pounds in July. It rose slightly from July through November, then jumped to 123 billion pounds, annual rate, in December and stayed there through the winter. This surge in output was a manifestation of both larger cow numbers and higher rates of production per cow. Cow numbers turned upward rather abruptly in the second half of 1952, after having declined 16 percent for the United States as a whole from 1945 to the beginning of 1952. The latest data on cow numbers--as of June 1953--show a gain of 2.6 percent over a year earlier. The increase in milk cow numbers was mainly the result of the decline in the price of beef cattle and in carcass values of milk stock, though the downturn in cash receipts from other enterprises may have induced farmers to milk more cows. The high rate of production per cow was associated in one way or another with unusually favorable weather conditions. In the first place, the 1952 hay crop in most areas was put up under more favorable circumstances and was of higher quality than in other recent years. The mild winter was directly favorable to heavy milk production and in some of the Southern areas more pasture feed was available than normally. In addition, the rate of concentrate feeding has continued relatively heavy and the quality of cows on the average no doubt shows improvement year after year.

The rate of milk flow declined to 115-116 billion pounds this past summer, partly because of severe drought in some sections of the Nation. There probably will be some pick-up from this level in coming months but it is not likely to reach the record high of last winter. In view of the prospective price relationships and numbers of cows and feed supplies, it is likely that total milk production in 1954 will be in the neighborhood of the 118-119 billion pounds produced in 1953.

The unusual fluctuation in milk production in the past 15 months has resulted in very sharp changes in the way milk has been utilized. Production of butter, for example, increased to an annual rate of more than 1.5 billion pounds in the first quarter of 1953, compared with 1.2 billions in September 1952 and was back to about 1.2 billions by mid-October of this year. Likewise, production of American cheese has shown wide fluctuations but, like butter, has continued sharply above a year earlier until recent weeks. Production of nonfat dry milk has been in excess of a billion pounds, annual rate, since December 1952 and has been from 20 to 70 percent above that of a year earlier. These three products have been purchased by the Department to implement the price-support program. Production of most other manufactured dairy products has been smaller than a year earlier. Barring unusual weather, the flow of milk will vary considerably less this coming year, and there should be considerably less variation in the patterns of milk utilization. The major change, if price supports were left unaltered, would be a moderate increase in total fluid milk consumption to take care of the increase in population, and some decline in use of milk in butter and possibly cheese. The increase in population in the next 12 months with a constant per capita rate of consumption will take the equivalent of 50 million pounds of butter or 100 million pounds of cheese. If price supports are lowered substantially, there would tend to be some shift in the pattern of milk use, with a larger proportion in fluid milk and ice cream and less in production of butter, American cheese and nonfat dry milk.

In the past 12 months retail prices for dairy products have declined only slightly, while prices received by farmers for milk and butterfat dropped 13 percent. As a result, the gross spread between the farm and retail price widened considerably. This reflects higher returns to labor and to other services connected with marketing agencies. Despite the larger consumer incomes in 1953 and the slight drop in retail prices, consumption of most dairy products changed little from 1952 to 1953. The major exception was nonfat dry milk, the item in largest surplus position. For this product, a long upward trend came to a halt in 1953, with a decline from 4.6 pounds per person in 1952 to around 4.0 pounds in 1953. In part, this decline probably reflects a greater availability of skim milk in deficit seasons this year for making the various skim milk drinks and cottage cheese. However, per capita consumption of milk solids-not-fat per person, in all forms also showed a little reduction this year, after rising steadily from 46.0 pounds in 1948 to 47.3 pounds in 1952. Commercial sales of butter in 1953 are showing no increase over 1952, despite lower retail prices and strong consumer demand. But with the quantities of butter disposed of out of Government price-support operations civilian consumption per person, on the average, for the year as a whole probably will be about the same this year as last. In 1952 we used 8.6 pounds of butter per person, compared with 10 to 12 pounds from 1943 to 1950 and nearly 17 pounds in the late 1930's. Per capita consumption of milk fat in all forms apparently dropped to a new low in 1953 of about 27.0 pounds. The figure was 27.3 pounds for 1952, 28-29 pounds in 1948 through 1951, and 30-32 pounds in practically every year before 1948.

As many of you know, a revised series on fluid milk and cream consumption has been released since the last Outlook Conference. This shows we are consuming now about 352 pounds of milk per year as fluid milk and cream, compared with a wartime peak of 399 pounds in 1945 and with the 1935-39 average of 330 pounds.

Consumption of the individual dairy products probably will change little from 1953 to 1954, unless price supports are reduced substantially. In that case, consumption would increase somewhat. With the supplies of feed concentrates now on hand, prices for feed grains are not likely to change appreciably for a number of months. Prices for dairy products are not likely to be above average in relation to feed prices during the coming year. Dairy-product prices have fallen less than prices for beef cattle but in the coming year both milk and butterfat prices are likely to continue below average in relation to beef cattle as well as hogs. Cash receipts for milk and its products may fall below 4 billion dollars in 1954 for the first time since 1950. Receipts in 1953 will be about 4.2 billion dollars. The record was 4.6 billion dollars in 1952. Dairy costs may decline a little next year and net income from the dairy enterprise probably will be little different in 1954 from that of 1953.

During the calendar year 1953, the Department of Agriculture purchases of dairy products will be equivalent to nearly 10 billion pounds of whole milk. These purchases, however, have been drawn from two marketing years. In the marketing year ended March 31, 1953, most purchases were made in the January-March period. Purchases totaled 143 million pounds of butter, 75 million pounds of cheese and 210 million pounds of nonfat dry milk. These purchases were drawn largely from stocks carried over from 1952 milk production and in total were equivalent to about 3 percent of the output of milk in the 12 months ended March 31, 1953. In the current marketing year, through October 23, purchases have been 217 million pounds of butter, 206 million pounds of cheese and 371 million pounds of nonfat dry milk. These quantities are equivalent to around 5 percent of probably milk output this marketing year. However, with the drop in current output of these items, sales of price-support stocks to private firms already have started. Such sales are likely to continue for the next few months. Unsold supplies as of October 23 consisted of 256 million pounds of butter, 258 million pounds of cheese and 413 million pounds of nonfat dry milk. Wholesale markets for dairy products have strengthened substantially in recent weeks with the seasonal drop in milk output and prices of a number of items have advanced somewhat.

This represents the highlights of the 1954 Outlook issue of The Dairy Situation for October 1953, a processed publication by the Bureau of Agricultural Economics.