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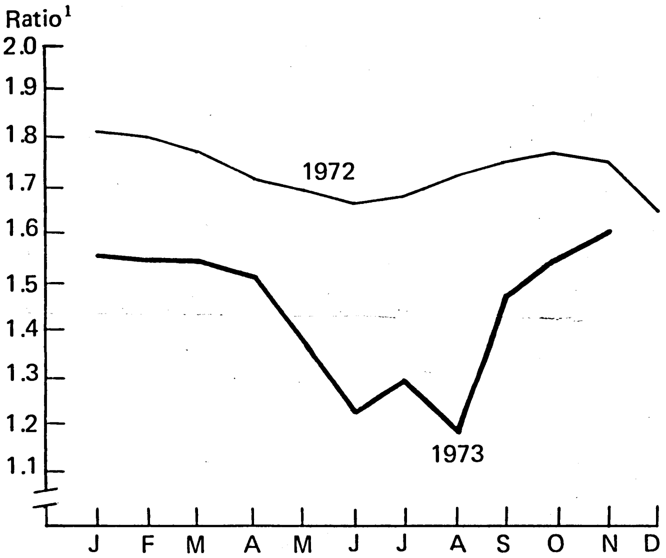
MILK PRODUCTION in 1973 is expected to fall 3 percent under the 120 billion pounds produced in 1972. The reduction reflects an accelerated decline in cow numbers and an unusual drop in output per cow during 1973, as high beef prices and a severe cost/price squeeze pushed up culling rates and herd liquidations. As a result, in October, the nation's dairy herds numbered 3 percent less than a year earlier, far exceeding the 1 percent annual decline experienced in recent years.

The anticipated decline in milk output per cow this year will be the first such decline since the early Forties. Output per cow usually increases about 3 percent per year. Lower quality feeds and ration modifications designed to cut back the use of much higher-priced concentrates were the main factors responsible for the decline in output per cow.

Feed costs, up sharply this year, have cut profit margins to the lowest level since the mid-Sixties. The cost of commercially-mixed dairy feeds is currently up more than 50 percent from a year ago, and corn prices have risen more than 80 percent. Commercially-mixed dairy feeds and corn make up the bulk of the concentrated ration fed to the nation's milk cows. The milk/feed price ratio, a rough measure of profitability, slipped to the lowest level in the past decade during the summer months.

Declining Milk/Feed Price Ratio
Signals Reduced Milk Production in 1973



[1] Pounds of concentrated ration equal in value to one pound of milk.

Milk prices to farmers have risen more than $2 per hundredweight since July, averaging $8.55 per hundredweight in November. This increase is nearly four times the seasonal price rise experienced last year and reflects a tightening supply/demand situation. Farmers received an average of $8.80 per hundredweight for fluid milk and $7.55 for manufacturing milk. The price support level was raised from $5.21 (75 percent of parity) in August to $5.61 per hundredweight (80 percent of parity) to comply with legislation that increased the support level for manufacturing milk to a higher minimum parity.

Farm prices of milk for all of 1973 are expected to average around $7 per hundredweight, up nearly $1 from last year. The higher prices will boost gross income for dairy farmers about 10 percent in 1973, to approximately $8 billion, even though total milk marketings will be down. However, as indicated by the decrease in the milk/feed price ratio, net income will likely remain below the 1972 level.

Sales of dairy products were up nearly 3 percent during the first eight months of 1973, but slowed in September as sharply higher farm prices were transmitted to the retail level. American and hard cheese sales were up about 7 percent in the first three quarters of 1973, while skim milk and lowfat milk sales were 9 percent ahead of last year. Whole milk sales continued their downward trend.

Increased sales in the face of declining production had reduced stocks of the nation's dairy products as of October 1 by over 28 percent. Import quotas for a number of dairy products were relaxed on several occasions during the year in attempts to rebuild stocks and combat the rapid retail price rise. Dairy product imports expressed in terms of milk equivalent were up 18 percent during the first nine months of 1973.

U. S. Department of Agriculture purchases of dairy products have been curtailed in view of the tightening supply/demand situation. The Agriculture Department has not purchased any butter since July, and government purchases of cheese and nonfat dry milk are down more than 60 percent from the same 1972 period. Government expenditures on dairy support and related programs dropped from $433 million in fiscal 1972 to $144 million in fiscal 1973.

The 1974 dairy outlook appears brighter for milk producers. Milk prices are likely to remain strong for several months, staying well above year-earlier levels. Higher milk prices along with stabilized feed costs should hold the milk/feed price ratio at a higher, more profitable level than prevailed through most of 1973. Moreover, beef prices have dropped sharply from their summer high, and this will likely stem the acceleration of the downward trend in cow numbers. Milk output per cow should be up in 1974 due to improved feed rations and greater productivity of the culled herds. Higher retail dairy product prices will probably continue to reduce dairy product consumption levels into 1974 and reinforce a trend of decreasing annual per capita consumption.

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