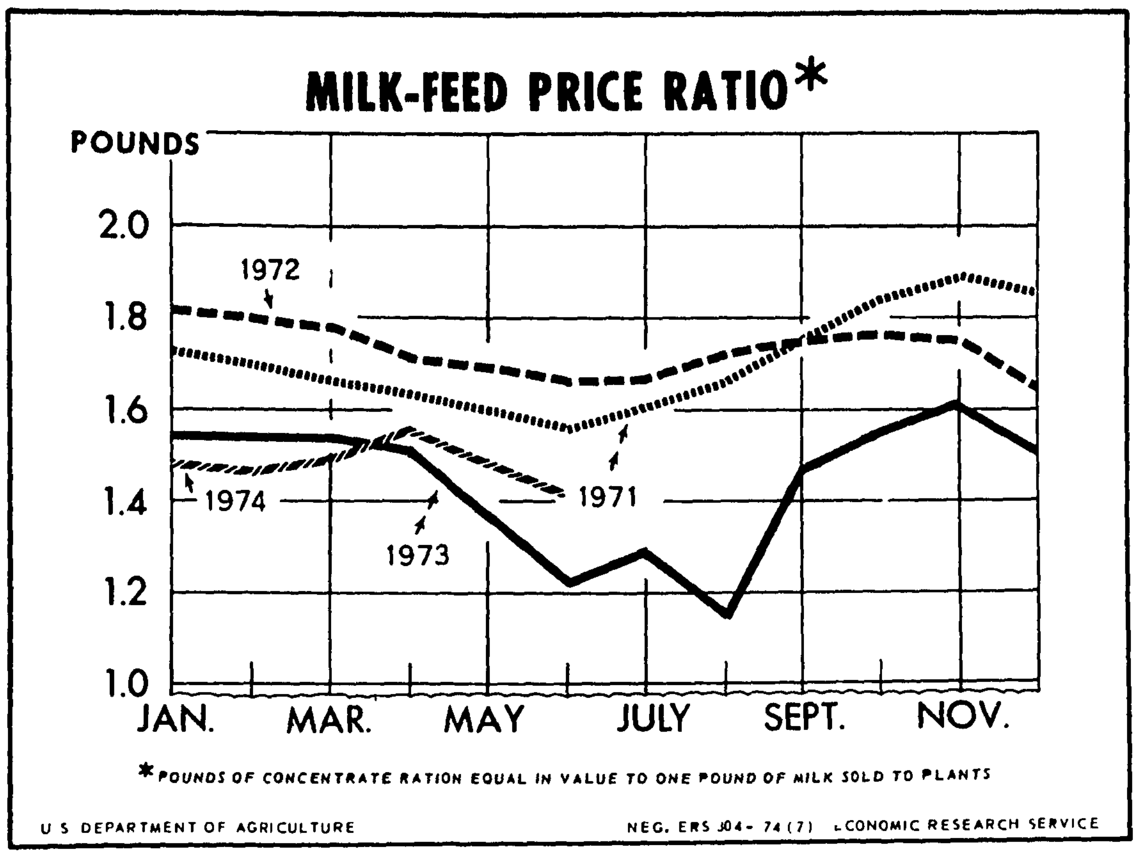

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up in only 5 of the 34 States reporting monthly production.

January-May milk output came to 48.8 billion pounds, about 2½ percent below a year earlier. The average number of milk cows for the period was down 2.7 percent from a year ago, while output per cow rose only slightly.

Looking Ahead to the Rest of 1974

The sharp seasonal declines in farm milk prices have clouded the milk production outlook. Will these price drops discourage farmers to the point of speeding their exodus from dairying during the remainder of 1974?

Here are some factors to consider:

(1) Seasonal declines in farm milk prices have been sharper than normal. All-milk farm prices dropped $1.06 per 100 pounds from March to June and manufacturing milk prices declined $1.61, about to support levels. The support program will prevent any further drop in manufacturing milk prices.

(2) Milk prices will likely be increasing seasonally this fall and winter, although probably not back up to the levels of earlier this year.

(3) Depending on the outcome of the 1974 crops, feed prices may moderate later this year, and this would help boost milk-feed price relationships. However, the feed price drop may not be as great as earlier anticipated and other costs will likely continue to rise.

(4) There was a large supply of replacement stock on dairy farms beginning this year.

(5) Slaughter cow prices have declined and will probably continue well below year-earlier levels during the second half. Consequently, culling rates in dairy herds are not expected to increase materially. Alternative farm enterprises do not look very attractive at this time with lower beef and hog prices.

(6) The general economy continues soft with the unemployment rate likely to average higher this year. This means off-farm employment opportunities are not very favorable for dairy farmers and for dairy labor, tending to keep them milking.

(7) Pastures and hay crops are reported in good condition this year.

(8) USDA has started to buy process American cheese under the price support program which should help remove excess cheese supplies from the commercial market. Also, no further increases in nonfat dry milk imports will be allowed at this time. However, USDA did turn down a request for a hearing to put a floor under Class I prices in Federal order markets.

(9) Preliminary reports indicate Class I prices negotiated by dairy farmer cooperatives have been declining less than Federal order minimum Class I prices. There is uncertainty however, over how much of the over-order payments can be maintained.

On balance, milk production will likely remain below year-earlier levels in coming months, although the rate of decline may continue to slow. Milk output per cow should strengthen further in the second half, particularly late in the year if feed prices do moderate. With large numbers of herd replacements available and with beef cattle prices remaining below a year ago, the rate of decline in milk cow numbers may ease some more in coming months.

It still looks like we may see milk output rise above a year earlier late this year. However, it will not prevent total 1974 milk output from being down to 1 to 1½ percent from 1973's 115.6 billion pound output

Protein Feed Prices Favorable

This year's protein picture of larger supplies and lower prices is in sharp contrast to last year when supplies were tight and prices were skyrocketing Soybean meal at Decatur was around $100 per ton in early July, down from about $200 last winter and over $400 a year ago Recently, soybean meal has been

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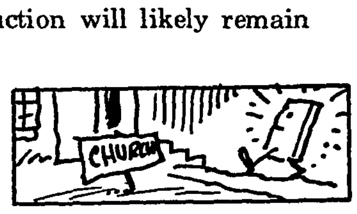

In Central America, gold is believed to have a soul.