

Support prices explained

USDA issues dairy outlook

Editor's Note: The following report is based on USDA's Dairy Situation Summary for March and May of this year. It was prepared by James Miller and Charles Shaw of the Commodity Economics Division.

WASHINGTON, D.C. — The American milk cow squeezed out an average of 10,354 pounds of milk last year in an utterly exhausting effort to quench America's thirst for dairy products.

Few agricultural commodities can match milk in versatility of product forms or importance to the American diet — both taste-wise and nutritionally. Last year, each American consumed an average of 546 pounds of milk in fluid or processed form.

Yet, moving that milk from the dairy farm to the consumer in the product form that he demands is no easy task. A system of production, processing, marketing, and pricing has evolved that is so complex and delicately balanced that it may leave many consumers scratching their heads in confusion.

Most of this maze lies in that part of the system between the farmer and the consumer. The producer must accept returns based on market factors beyond his control, while the consumer must pay the price marked on the container or forego the product.

To some degree, the effect of the system is seesawing. As the farmer receives a stronger financial return, the consumer pays more for the product. And, as the consumers benefit from lower prices, the farmer must accept lower returns.

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Take 1975 as a good example. During the first half of the year, retail prices held steady as the farmer's production costs rose with inflation. Thus dairy farmers fared poorly for a period. Then, in the second half of the year, prices at stores strengthened sharply to give the farmer a healthy return as the consumer paid more.

During that first half of 1975, production costs climbed 12 percent above 1974 levels during the comparable period, while prices dipped five percent in comparison. It takes little economic knowledge to imagine the farmer's discomfort.

The seesaw dipped the other way in the second half of the year, as prices jumped to 15 percent above those in the last half of 1974, while production costs rose a modest five percent. All in all, it proved to be a moderately successful year for farmers after the sluggish start. Total cash receipts for farmers rose 4.6 percent above 1974 levels.

The ups and downs of the year also balanced out for the consumer, who paid an average of about three percent more for dairy products in 1975 — well below the record 19-percent price jump in 1974.

While the overall price increases for the year were modest, much of the increase came in the last three months, when retail prices rose six percent. The increases varied considerably between product forms. Milk prices edged up four cents per half gallon in the last four months, but the increase came after declines earlier in the year. As a result, the price was up only a tenth of a cent for all of 1975.

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Among processed products, American cheese prices boomed by 26 cents a pound last year, compared with an 8-cent increase in 1974. Butter prices soared 38 cents a pound in 1975, while its competitor, margarine, declined by 15 cents a pound. In 1974, butter prices rose eight cents a pound, while margarine increased six cents a pound over 1973 levels.

Consumers who cast a jaundiced eye at the dairy industry should, however, consider the relative performance of dairy items with other commodities:

- Average prices for all foods jumped 8½ percent last year, versus the three percent for dairy products.

- The Consumer Price Index shows that since 1967, all food prices advanced 75 percent, whereas dairy products went up 57 percent.

As in the case with most agricultural industries, much of the dairy industry occupies that middle area between production and consumption, providing a pivot for the price situation.

The crux of the system is to move a highly perishable product in the proper mix of variable forms from the farm to the consumer.

Because of the seasonal supply fluctuations, the industry learned long ago that some system was needed to stabilize prices, if a steady supply was to be attained. Wildly unstable prices would drive out many producers, and discourage production to the degree that, in the long run, the consumer would suffer.

So, with authority from congressional legislation, USDA has become involved in dairy price stabilization for several decades.

The USDA's prime tool in stabilizing prices is the price [Continued on Page 74]

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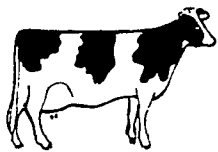
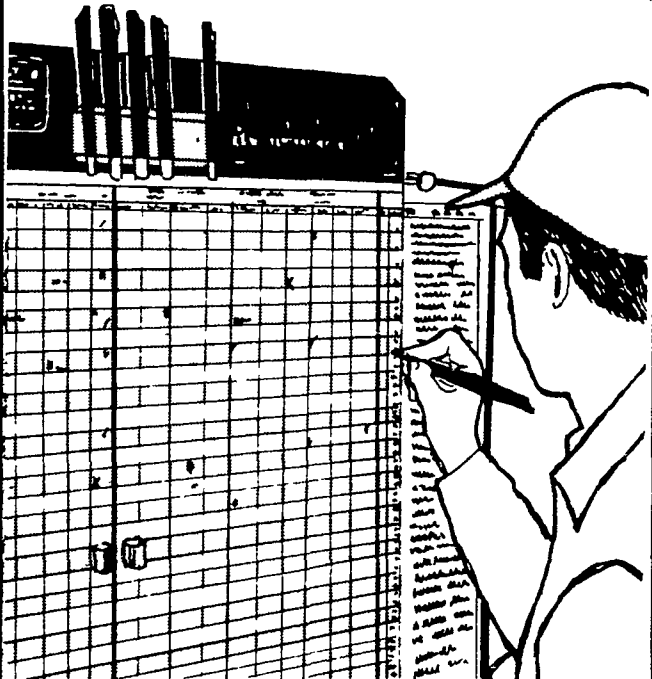
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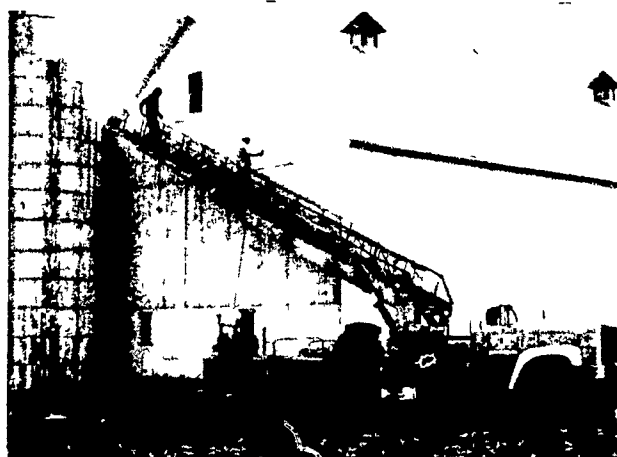
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