

CCC Butter Inventories At 5-Year High

By Blair Smith
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BUTTERFAT

"The natural fat of milk." This definition of butterfat by Webster sounds innocuous enough, but oh what a dilemma this "natural" substance presents to the dairy industry! It wasn't too long ago that non-fat dry milk powder was in chronic surplus, now it is butter that the Commodity Credit Corporation (CCC) is having trouble getting rid of. Cheese and powder stocks are virtually non-existent, but uncommitted CCC inventories of butter are at a five-year high. And growing.

Changes In Consumption

The primary reason butterfat is in surplus is because consumers want less of it in most of the milk and dairy products they buy, at the prices they must pay for the higher fat items. Of course, it is not just price but a growing concern about the overall levels of all fat, of saturated fat, and of cholesterol in our diet that persuades us to reduce our consumption of butterfat. Sales of American and Italian cheeses have provided the major undergirding for the butterfat market, but recent data suggest a slow-down in the growth in per capita sales of such products. In fact, preliminary estimates for 1988 actually show a decline in cheese consumption on a per capita basis.

CCC Purchase Prices Change Again

The increase in the support price beginning on April 1, and the subsequent return to earlier levels on July 1 (from \$10.60 to \$11.10 to \$10.60) resulted in essentially no net change in cheese purchase prices. Powder prices, however, are up about 8.6 percent


from 72.75 to 79.00 cents per pound), and butter prices are down about 8.7 percent (from \$1.32 to \$1.205 per pound). The purpose of these changes, presumably, is to lower prices of butter relative to powder so that less butterfat is produced and/or more butterfat is consumed in the commercial market.

Will It Work?

It seems unlikely much less butterfat will be produced in the near-term future. The conversion from high- to low-fat dairy breeds is about over, and butterfat premiums are still much more important determinants of milk prices than solids-not-fat or protein premiums throughout the United States as a whole. Changing the production ratio of the solids-not-fat to butterfat components of milk is a slow and uncertain process, and it will take years before the results of such efforts are likely to show up in the farm milk tank.

The overall direction of the effect of lower butterfat prices relative to powder prices will be to encourage the consumption of higher butterfat and discourage the consumption of higher solids-not-fat products — a reversal of the trends actually under way in the market. Swimming against the tide always makes change more difficult.

So, will the price change work? To some extent, yes. Less butter will be offered to the CCC. Butter purchases, stocks, and uncommitted inventories should all fall as a result of lower purchase prices. The short-term goal of reducing CCC costs will be aided. The longer-term industry problem of what to do with the declining demand for butterfat will remain unresolved. This problem clearly begs of a longer-term solution than some minor adjustments in relative prices.



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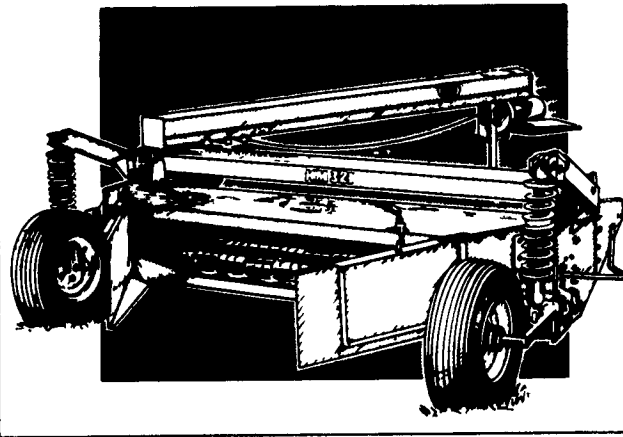
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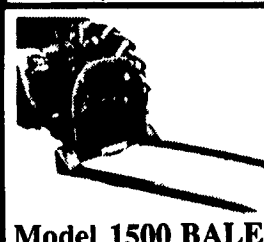
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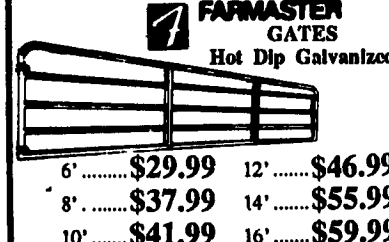
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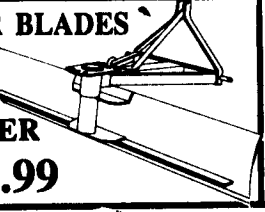


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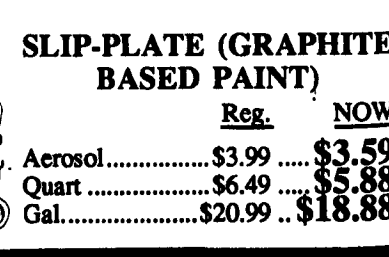
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