WHAT'S AHEAD FOR DAIRY FARMERS?

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Predicting what is ahead for dairy farmers is risky business. Certainly the year 1973 was one of the most frustrating ever experienced. Someone has said that politics, economics, and milk have been mixing vigorously and the result has been more problems than solutions.

If you base your knowledge of the dairy business on what you see on television or what you read in the urban press, you get the impression dairy farmers are rolling in money and that they are the only "special interest" group trying to bring influence to bear in Washington. Recently, Consumer Reports called the milk business one of the "scandals of the American economy." A headline in the April 8 issue of "Time" magazine said, "Milkmen skimming off more cream."

No mention is made in the urban press of the fact that 85 percent of all dairy farmers have gone out of business since 1950. There's seldom reference made to the fact that we experienced a milk production drop of over 3 percent this past year, the first decline in 3 years. It's true we're finally seeing higher milk prices, and gross dairy incomes were up 12 percent last year. However, due to skyrocketing feed costs (soybean meal prices that hit $450 per ton last summer) along with other higher production costs, prices paid by dairy farmers went up 20 percent. This resulted in a drop in milk production per cow for the first time in 30 years. The decline in production is continuing this year--March production was down 3 percent from last year bringing output for the first three months to 27.9 billion pounds, down 2.9 percent from a year earlier.

It appears to me that dairying's future depends largely on three major factors:

1. Milk production costs.
2. Government's policy on imports.

You dairymen know that the major costs of milk production are feed and labor. While it is foolish to try to predict what feed prices will be the rest of this year, we can expect some moderation. Prices have leveled off quite a bit from the peaks of last summer. Last week we paid $140 per ton for 44 percent soybean oil meal--and just 2 months ago it was still $200 per ton.

This should improve the milk - feed price ratio which has been extremely unfavorable to dairymen for several months. In March it was down to 1.48, lowest since 1965.
You all know the situation on dairy farm labor. The inability to find and keep good help continues to be one of the major reasons why dairymen quit. The number of dairy farmers advertising in our "Help Wanted" column keeps growing. Most of these are in herds of 100 or more. While that still is small compared to Florida standards, it means that unless those dairymen find help soon, they, too, will have to sell out. Nationally, we lost 9 percent of our dairymen last year, that's 44,000 herds. In Wisconsin, 3186 herds were sold--that's 9 per day. Only 800 went out the previous year in Wisconsin.

With today's technical dairy operations, just any old help won't do. Dairymen can operate no longer with what is unacceptable to other industries. The problem is twofold. There are fewer people who know how to milk cows, and those who know how have been able to find alternative employment opportunities that are more attractive. This means it will cost more in the form of more bonuses and incentive payments for dairy farm labor.

Obviously, dairymen can't pay more for labor unless they receive a higher price for milk at the farm. That leads into the second point...will government permit higher prices or will the import button be used to keep dairy prices down?

Based on what has been happening, I believe it is safe to say that reliance on dairy import quotas may be a thing of the past. Dairy imports this past year were equivalent to 3.9 billion pounds of milk, more than double the 1972 total, and the most on record.

Without going into detail on the Flanigan Report or the Atlantic Council plan, both call for greatly expanded feed grain exports in exchange for a tremendous increase in dairy imports. Some estimate that by 1980, more than 10 percent of our manufactured dairy products will be imported. While administration officials deny this will happen, continuing Presidential proclamations for increased imports of dairy products give every indication it already is happening.

I'm sure you all remember that on January 2, President Nixon authorized import of 100 million pounds of cheddar cheese, in addition to the regular annual quota. Regardless of what some people have been saying, including many within the industry, the current drop in the price of cheese is evidence that allowing these extra cheese imports was a serious mistake. Since January of this year our domestic cheese production has increased 19 percent and cheese stocks in storage have shot up 40 percent. In February cheese production in this country was up 28 percent from a year earlier, the highest for the month on record. In addition to the imports, consumers have been shifting back to meat since meat prices have leveled off from their high levels a year ago that caused consumers to switch to cheese.

On March 4, the President authorized 150 million pounds of nonfat dry milk imports for the period ending June 30, 1974. Imports normally are limited to 1.8 million pounds of nonfat dry milk. Four days later the Secretary announced that the price of manufacturing milk would be supported at $6.57 per hundred (80 percent of parity), the lowest level required by law. To me it makes no economic sense to set prices at their lowest legal level at the same time we call for emergency imports of dairy products.
It's understandable why dairy farmers lack confidence in what the administration plans to do with respect to imports. It appears that subsidized dairy imports are going to be used in an effort to keep a lid on dairy prices here at home, regardless of how much it costs dairy farmers to produce milk. Some say that if we cannot compete with foreign dairy farmers, we have no reason to impose quotas. Our contention is that if the countervailing duty law were imposed which was passed 30 years ago, we could compete with dairy farmers throughout the world.

It seems inconsistent that we should develop a program of dependence on other countries for a food as vital as dairy products at the same time that we find it desirable to develop a program of independence for fuel production.

Right now there is a surplus of manufactured dairy products in Western Europe, particularly the European Community. If weather conditions are favorable, this surplus will continue for the foreseeable future. It's easy to understand why. For their production year beginning this April, the support levels are $7.34 per hundred for milk; 96.3 cents per pound for butter; and 43.2 cents per pound for nonfat dry milk. Originally they intended to lower the support price for butter, but producer groups pushed for higher support levels to compensate for higher costs, and they won. It is estimated that production in the EC during 1974 will increase nearly 4 percent over 1973.

The problem for us is that they continue to heavily subsidize butter going into export. Throughout last year the price in Lebanon for EC butter was about 45 cents a pound compared to the EC support price of 96.3 cents per pound; they also shrunk their butter mountain considerably by selling 441 million pounds of butter to Russia for 19 cents a pound.

As of February 1, 1974, butter stocks in the EC amounted to 638 million pounds. They now have 28 million dairy cows in those 9 countries compared to our 11.2 million. Milk consumption in Europe is dropping, so more milk to going into manufactured products, mainly butter. Naturally, they are looking to an increased market in the United States and so far, they have figured out right.

This brings me to the third factor, what does all this have to do with sales of dairy products? After many years of substantial declines, per capita consumption of milk and dairy products began to hold its own in 1971. In 1972, it actually increased by 3 pounds per capita to 561 pounds. Sales continued to increase through mid-1973 until retail prices turned sharply higher last fall. Since then, we've moved into a new ballgame. Except for some isolated areas, including the Southeast, there has been an aggressive advertising and promotion campaign, it's pretty hard to find any current encouraging sales data. In 57 Federal Order Markets, there was a steady drop in the last 5 months of 1973 and it has continued in 1974. For February, the latest figures we have, fluid milk sales were off 6.5 percent from a year earlier.

Even though milk still is a good buy, it faces stiffer competition. You're probably all familiar with "Dairene," called the "modern milk" in the Southeast. The label and advertisements claim the same amount of protein as whole milk, more vitamin A than whole milk, no cholesterol, a lot of iron, and fewer calories.
Several weeks ago it was selling for just 69 cents a half gallon in the same market where milk was selling for 80 cents a gallon. Even though it has been found that the product does not contain what the advertisements claim, this is the type of competition milk will be facing in the months ahead. Whenever milk prices increase, interest develops in imitations and substitutes.

Milk faces stiffer competition from other beverages. Soft drink consumption has jumped 100 percent in the past 12 years, while milk drinking has declined 25 percent in the past 20 years. Americans today drink more than 100 quarts of soft drinks annually (equivalent to 400 8-ounce bottles of pop per person). That approaches the 130 quarts of milk consumed per capita. We also drink 130 quarts of coffee per year (same as milk); 78 quarts of beer; and 30 quarts of various fruits and citrus juices.

There's a limit to the amount of liquid the human body can consume. When you look at the way these competitive beverages are merchandised, you realize the job we have ahead of us in order to compete. Even though production and consumption are nearly in balance today, we must constantly support effective dairy promotion efforts. This means a substantial amount of advertising. Without it, we can expect a significant downturn in dairy sales during 1974.

In this connection, we should raise the minimum standards of milk. Milk would taste better and it would be more nutritious if we raised minimum standards on whole milk to 3.5 percent butterfat and 8.5 percent solids. This would insure that the consumer would get a good-quality product, and, based on consumer tests that have been made, we could sell more of it.

Despite some dark clouds on the dairy horizon, I believe the established dairyman can do quite well financially this year and in the foreseeable future. For those who continue in business, supplies will be tight and milk prices are likely to remain strong. There are just 300,000 dairy farmers left, and a lot of folks will decide not to milk cows 365 days a year and be more than $200,000 in debt just to be employed in dairying. No one is forced to milk cows. With opportunities open to them, more people are making other choices.

There are things not being done by all dairy farmers that would help them earn better returns for their efforts. Every dairyman should be on some form of testing program, for example. Here in Florida, just 16.5 percent of the herds are on test. In some states over half the herds are on test.

There is no reason why a high percentage of all cows and heifers aren't bred to bulls with a high Predicted Difference for milk. Furthermore, a dairyman won't make a profit, regardless of the price of milk, unless he has a sound herd health program and keeps good financial records. While you may choose not to do all these things, remember that many of those you compete with are doing them.

Finally, become involved in your dairy and farm organizations. We need more unity of effort among dairy and farm organizations. See that able men are elected to your boards of directors. Get to know your congressmen on a first name basis. Give support to those who understand your problems. Fight to prevent the dumping of subsidized dairy products on your fellow dairymen. The dairy industry needs strong leadership at every level, and this takes involvement by all dairy farmers.
If our national leadership does not awaken to the vital and essential character of the dairy industry in our national welfare, this country could face a milk famine which would make the current energy crisis pale in comparison.

Hopefully, there is enough strength among us to prevail when decisions are made concerning national dairy policy. I still believe we can have a strong, viable dairy industry. America needs it!