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## • Report on Fats and Oils

### Decreasing Butter Production Should Soon Affect Domestic Consumption

THE UNITED STATES food fats and oils industry has experienced many unusual events in recent months. Carryover stocks of all edible fats and oils for the season beginning Oct. 1, 1965, were the lowest since 1960. Market analysis and consequently inventory management has become extremely difficult since then because of some unexpected developments. The most important developments have been the disappointing rate of export sales of edible vegetable oils (soybean oil and cottonseed oils); the record rate of domestic disappearance of fats and oils; and an unexpectedly sharp reduction in the rate of creamery butter production. The poor exports are rather easily explained by the delay in the issuance of new P. L. 480 agreements with both India and Pakistan as well as by the current relatively high price of US oils which has made European origin oils much cheaper and consequently diminished our free dollar sales to a minimum. The rate of domestic disappearance is a new record by such a wide margin that it is not so easily explainable. About 95% of the annual food fats and oils consumed in the USA consists of butter, lard, soybean, cottonseed and corn oils. The balance consists of edible beef fats, peanut, safflower seed, olive and sesame oils. Table I reveals the total domestic disappearance of the 5 major sources of fats and oils for the past 10 years as well as the rate of domestic disappearance for the first quarter of each season. The increase this season is so marked that there were probably many important factors involved. By far the most important factor is that there was widespread resistance to the high prices of last season and inventories of both raw materials and finished products were allowed to decrease to a minimum. This caused a movement to rebuild stocks in November and December but many

TABLE I (000,000 Omitted)

| Year beginning Oct. 1 | 1st Quarter (Oct-Dec) domestic disappearance | Percentage increase or decrease from previous year | Season (Oct-Sept) total domestic disappearance | Percentage increase or decrease from previous year |
|-----------------------|--|--|--|--|
| 1965                  | 2615   | +9.6   |  |  |
| 1964                  | 2386   | +2.0   | 9,024  | +2.2   |
| 1963                  | 2329   | -1.7   | 8,829  | +2.9   |
| 1962                  | 2369   | +7.6   | 8,581  | +1.2   |
| 1961                  | 2202   | +4.2   | 8,478  | +2.2   |
| 1960                  | 2113   | +1.9   | 8,295  | +1.5   |
| 1959                  | 2074   | +2.2   | 8,150  | +1.9   |
| 1958                  | 2030   | +2.2   | 8,002  | +3.8   |
| 1957                  | 1986   |  | 7,708  | +4.3   |
| 1956                  | 1986   | -0.2   | 7,388  | -0.7   |
| 1955                  | 1990   | -0.5   | 7,438  | -1.4   |

analysts feel that there were other factors involved. Most analysts also feel that the current rate of domestic disappearance will not hold up as supplies at food processing plants, in warehouses and on store shelves have been replenished. The first quarter increase is so large that an increase in the per-capita consumption is also suggested. Per-capita consumption of food fats and oils dropped to 46.6 lb per person last season compared to 48.4 lb the previous year. The inflationary status of the overall economy right now could favor such an increase, not to mention the more sophisticated tastes which usually result from higher personal incomes.

The exports and domestic disappearance of soybean and cottonseed oils have been amply discussed in trade circles but the recent decline in butter production in the USA has been largely neglected. Even more important is that the hopes for improvement in the slack in butter production is very poor at the moment. Production for the four months Oct.-Jan. is almost 100 million lb or about 22% below the rate of last season. This rate of production would not even make 1.1 billion lb of butter in Oct.-Sept. Considering the factors now known an optimistic projection for production in the Oct.-Sept. period would not even make 1.2 billion lb. A figure in the area of 1.15 billion lb appears most likely and would compare with the 1,423,000,000 lb produced in 1964/65. Although US output of butter has trended downward from its peak of 2.375 billion lb in 1933 the actual production for the past 13 years has held in a rather narrow range between 1.3 and 1.5 billion lb. About half of the annual USA milk production moves into fluid consumption with the balance moving into finished products. Butter is still the most important of the by-products but cheese production has been gaining rapidly with an increase of about 30% since the early 1950's. Butter is usually the most adversely affected product in a period of low milk production as the profitability ratio is much more favorable for cheese makers, frozen deserts, etc. During 1965 total milk production was off only about 1% while butter production was off more than 7%. The decrease in milk production is not improving as January production is estimated at 5% less than January 1965. The reduction of the number of cows 2 years and older kept for milk has been the primary

TABLE II

| Jan. 1-year | Milk cows (thousands) | Percentage decrease | Milk production (billion lb) | Percentage increase |
|-------------|-----------------------|---------------------|------------------------------|---------------------|
| 1966        | 16,607                | 5.6                 |                              |                     |
| 1965        | 17,592                | 2.7                 | 125.5                        | -0.9                |
| 1964        | 18,088                | 3.2                 | 126.6                        | +1.4                |
| 1963        | 18,679                | 2.6                 | 124.8                        | -1.0                |
| 1962        | 19,167                | 0.9                 | 126.0                        | +0.5                |
| 1961        | 19,361                | 1.0                 | 125.4                        | +2.0                |
| 1960        | 19,527                | 3.0                 | 123.0                        | +0.8                |
| 1959        | 20,132                | 5.3                 | 122.0                        | -1.0                |
| 1958        | 21,265                | 4.8                 | 123.2                        | -1.1                |
| 1957        | 22,325                | 2.6                 | 124.6                        | -0.2                |
| 1956        | 22,912                | 2.4                 | 124.9                        | +1.6                |

cause of decreasing milk production. The number of milk cows on farms January 1st was the lowest since 1900. Fewer small farms are keeping milk cows as they require more work and yield less profit than cattle and hogs. Slaughter cow prices have been very high in recent months which has encouraged the increased rate of herd disposal. In turn, the greater profitability available has encouraged replacement with hogs and cattle rather than milking herds. The increasing yield of milk per cow has been able to more than offset the decline in cow numbers since World War II but there are signs that production per cow will soon level out. The increases in yield were due to fewer small farmers, more efficient technology, improved feeding practices and herd management. Despite the annual decreases in cow numbers the actual milk produced since 1951 has increased more than 9%. Population, in the USA, however, has increased 27%. Up until August 1965 monthly milk production continued to run ahead of 1964 but for the past 6 months production has fallen behind with the gap widening. Thus with milk production continuing to run behind last year without any signs of a reversal in trend the chances for any nearby resurgence in butter production are very small. Table II reveals the number of cows and heifers 2 years old and over kept for milk as well as the annual milk production.

The most significant factor is that the percentage reduction in cow numbers this January 1st was more than for any other year. Thus the competition for the reduced milk supplies is likely to continue. Cheese manufacturers are currently outbidding butter producers as wholesale cheese prices are the highest since the Korean War while butter prices continue to hover just above support levels. Therefore, butter production should continue to lag more than cheese production unless wholesale butter prices and consequently retail prices are able to rise. If such a rise in butter prices did occur there would probably be more substitution by margarine and prices in the latter could probably also do better. The recent decline in butter production has prompted the possibility of renewed trading in butter futures contracts. The first trade since the 1959/60 season took place on February 1st at the New York Mercantile Exchange. The first price paid was 62.05 cents per lb for the March contract. The Board of Directors of the Chicago Mercantile Exchange were scheduled to meet on February 15th to make final

TABLE III  
(Myn. lb)

| Oct.-Dec.              | 1965  | 1964  |
|------------------------|-------|-------|
| Production             | 247.3 | 311.8 |
| Stocks Oct. 1          | 159.7 | 180.9 |
| Total supplies         | 407.0 | 492.7 |
| Exports                | 6.0   | 82.0  |
| Stocks Jan. 1          | 50.4  | 66.5  |
| Domestic disappearance | 350.6 | 344.2 |

TABLE IV  
(Myn. lb)

| Jan.-Sept.             | 1966 | 1965  |
|------------------------|------|-------|
| Production             | 903  | 1,111 |
| Stocks Jan. 1          | 50   | 66    |
| Total stocks           | 953  | 1,177 |
| Exports                | 9    | 70    |
| Stocks Oct. 1          | 97   | 160   |
| Domestic disappearance | 847  | 947   |

plans towards authorizing trading in butter futures. They hope to be able to resume trading before the end of February. A few of the more important regulations for butter futures trading on the Chicago Mercantile Exchange are as follows:

- Trading unit on future call.* All transactions to be cleared through the Clearing House shall be in units of 30,000 lb of one creamery's make, or not more than three lots of different creameries make; no individual lot to consist of less than 100 boxes. Butter must be uniform in color, salt and weight. All boxes in each lot must be uniform and must comply with the requirements of consolidated freight classification.
- Price fluctuations on futures call.* Minimum price fluctuation on the future call shall be 5/100 cents per lb which is the equivalent of \$15 per minimum fluctuation.
- Variations in quantity of a trading unit not in excess of 6% shall be permitted at time of delivery but payment shall be made on the basis of the exact quantity delivered.

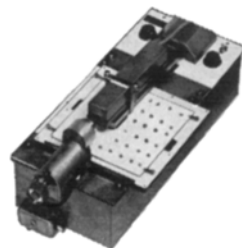
With declining butter production and the possible interest in renewed futures trading, it may be helpful to reappraise the current supply and demand situation for butter in the USA. Table III reveals the supply and disappearance of butter during the first quarter of this season compared to last season.

It can be seen that the reduced production did not affect domestic consumption during the first quarter. This was because of a sharp reduction in exports as well as a larger seasonal decrease in cold storage stocks. Assuming that exports continue small and the seasonal increase in storage stocks is less than normal we could assume that the supply and demand balance for the next 9 months would appear somewhat similar to that shown in Table IV.

Although domestic disappearance did not suffer in the first quarter of this season, the above table suggests that even with much smaller exports and only a 47 million lb seasonal increase in cold storage stocks compared to 94 million lb last year, the current reduction in butter production should soon begin to effect domestic consumption.

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