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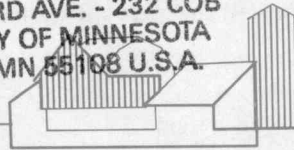
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Milk prices register contraseasonal decline

Milk prices received by dairy farmers for all of 1990 will about match the average annual high set nearly a decade ago. But the past two years of strengthening milk prices came to an abrupt end this fall. Contraseasonal declines since August have pulled milk prices below year-earlier levels and foreshadow considerably lower prices for the year ahead. The recently enacted Farm Bill will hold the support price of manufacturing-grade milk in 1991 at the current level of \$10.10 a hundredweight. But the Budget Reconciliation Act of 1990 mandates new assessments on dairy farmers for the next five years.

The contraseasonal decline in prices reflects this year's recovery in milk production and the rebuilding in stocks of key dairy products previously in short supply. During the first three quarters of this year, U.S. milk production was up 2.7 percent from the pace set both last year and in 1988. The latest USDA projections suggest that milk production for all of this year will reach 148.3 billion pounds, up from 144.3 last year and 145.2 billion pounds in 1988. For 1991, milk production, is expected to rise 1 to 2 percent.

The production gains reflect increased milk per cow and a leveling-off of the historical decline in milk cow numbers. During the first nine months of this year, milk output per cow was up 2.6 percent from last year and up 3.5 percent from the pace of two years ago. Milk cow numbers, after averaging 1.3 percent lower in 1989, have averaged nominally above year-earlier levels so far in 1990.

Western and southern states continue to register the largest gains in milk production. Milk production among states of the Seventh Federal Reserve District during the first three quarters was up 2.0 percent from a year earlier but down slightly from two years ago. Production is up this year in all five District states, ranging from less than 1 percent in Iowa to a little over 2 percent in Illinois and Wisconsin.

Despite increases in commercial use of milk, the production gains have led to a buildup in stocks of manufactured dairy products among processors and users and triggered the contraseasonal decline in prices. The demand for milk used in manufactured dairy products was weakened earlier this year by the

combination of lower support prices for butter and by an export-related downturn in commercial disappearance of nonfat dry milk. While cheese demand remained strong through the summer, accumulating stocks caused nonfat dry milk prices to fall sharply to support levels. Similar developments have been evident more recently in the cheese market. As proportionately more milk moved into cheese production, cheese prices fell sharply this fall. Trade reports note that cheese prices in November were also down to support levels.

With returns to both cheese and butter/powder processors down, and prospects for continued gains in milk production, it appears that milk prices will be under considerable pressure for several more months. In October, milk prices at the farm level averaged \$13.60 a hundredweight, marking a contraseasonal decline of 5 percent from two months earlier and a decline of 8 percent from the rapidly rising level of a year ago. The mid-points of the price ranges forecast by the USDA in early November pointed to quarterly average milk prices of \$12.70 for the fourth quarter, \$11.70 for the first quarter and \$10.80 a hundredweight for the second quarter of next year. For all of next year, the USDA projected an average of about \$11.50 a hundredweight, down from the expected average of \$13.80 for this year.

In addition to lower market prices, dairy farmers will find their milk checks trimmed somewhat further next year by a new assessment that arose from the recent five-year budget deficit compromise. For 1991, the assessment will be 5 cents per hundredweight. For the years 1992-95, the assessment will rise to 11.25 cents per hundredweight. The assessments will be refundable for those dairy farmers who can prove their milk production has not expanded. However, to counterbalance any refunds that may be made, the assessments in future years may have to be set at a higher level.

Gary L. Benjamin

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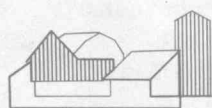
Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
	July	12,556	-1.1	4	3
Crops*	July	5,317	-3.9	3	-6
Livestock	July	7,191	2.5	9	16
Government payments	July	48	-68.2	-82	-86
Real estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	17.1	2.2**	5	13
Farm Credit System	June 30	29.6	-1.1**	-3	-10
Life insurance companies	June 30	10.1	3.0**	6	6
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	31.9	8.7**	4	6
Farm Credit System	June 30	10.5	8.7**	6	4
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	October 1	11.94	0.0**	-2	2
Real estate loans	October 1	11.07	-0.2**	-2	0
Commodity Credit Corporation	November	7.62	-3.2	-6	-6
Agricultural exports (\$ millions)					
	September	2,723	-5.9	-10	-14
Corn (mil. bu.)	September	106	-30.8	-7	-29
Soybeans (mil. bu.)	September	28	-1.4	56	4
Wheat (mil. bu.)	September	109	14.4	-32	-16
Farm machinery sales^p (units)					
Tractors, over 40 HP	October	6,469	66.0	3	7
40 to 100 HP	October	3,285	29.6	6	-2
100 HP or more	October	3,184	133.8	1	18
Combines	October	1,381	18.8	-19	39

*Includes net CCC loans.

**Prior period is three months earlier.

^pPreliminary



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