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Federal Reserve Bank of Chicago - -

March 14, 1958

DAIRY PRICE SUPPORTS are a key issue currently. Under existing law, the Secretary of Agriculture is required to provide support for milk and butterfat prices "at a level between 75 and 90 per cent of parity that will assure an adequate supply." During the past year, support has been provided at 83 per cent of parity for manufacturing milk and at 80 per cent for butterfat. The USDA has scheduled a reduction of supports to 75 per cent of parity on April 1, 1958. Congress is considering a change in the law so as to retain dairy price props at the current levels.

Support is provided by a standing offer of the Commodity Credit Corporation to purchase butter, cheddar cheese and nonfat dry milk at previously announced prices. During the 1949-56 marketing years, the equivalent of 36 billion pounds of milk, about 4 per cent of production during that period, was purchased for price support. These purchases amounted to \$1,728 million. Sales proceeds of \$328 million resulted in a net Government expenditure for dairy price support operations of \$1,400 million for the eight-year period. Milk product purchases in the 1957 marketing year were equivalent to 4.7 per cent of total milk production.

Milk production continues to climb, slowly but persistently. Production in 1957 was about 1 per cent above 1956, setting a record for the fifth consecutive year, and a slightly larger gain is likely in 1958. Although farmers have reduced the number of milk cows to a thirty-year low, output per cow has increased 20 per cent in the past ten years.

Per capita use of milk products in 1957 dipped about 2 per cent below the 1956 level. Fluid milk and cream consumption showed little change, but evaporated milk and butter continued to decline. Butter per capita usage was just one-half of the prewar 1935-39 average of 17 pounds.

Lower support prices are expected to reduce the cost of the support program by providing some stimulus to consumption and some braking effect on the rate of output expansion.

The USDA estimates that if supports are reduced as planned, farm prices for manufacturing milk would decline 22¢ per hundredweight, or 7 per cent. Retail butter and cheese prices would decline on the order of 3 to 4 per cent.

Prices in many fluid milk markets are established under market orders, some of which would be affected little or not at all by reductions of supports on manufactured milk products. Therefore, the average farm price of all milk would probably be about 4 per cent lower after April 1 than a year earlier.

Dairy farm incomes will be affected, of course, by any price change. But the effects of any reduction in

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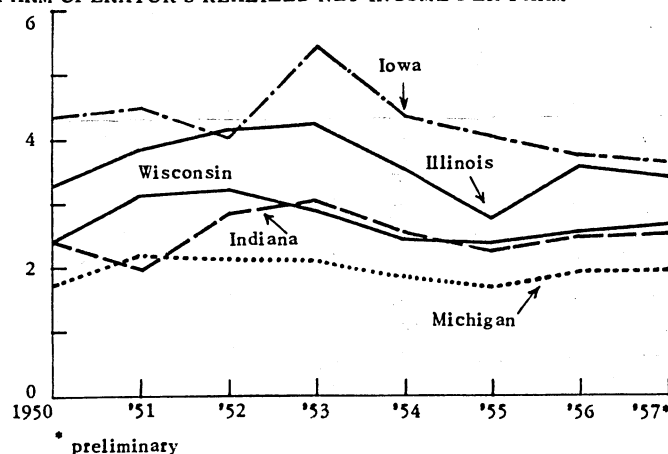
milk prices will be offset in part by the higher prices for cows and calves sold for slaughter, lower feed costs and increased volume of milk.

Dairy ration costs, in Wisconsin, are currently about 16 per cent below a year ago, resulting in a more favorable milk-feed price ratio. Ample supplies of feed grains will encourage liberal feeding and tend to increase production.

The average price of milk cows on January 1, 1958, was \$176, compared with \$147 a year earlier, and a post-Korean low of \$134 per head in 1955. Continued favorable prices for calves and cull cows are in prospect for 1958 and beyond, reflecting the rise in beef prices. This is in contrast to the situation from 1952 to 1955, when receipts from sales of cows and calves declined.

REALIZED NET INCOME of farm operators for District states in 1957 showed comparatively small changes from 1956. Indicated per cent changes on a per farm basis ranged from +6 per cent in Wisconsin to -4 per cent in Illinois. Production expenses moved upward in all states.

FARM OPERATOR'S REALIZED NET INCOME PER FARM



Accumulation of inventory on farms was substantial as a result of delayed marketings, although this factor varied considerably among District states. Iowa inventories carried over into 1958 were particularly heavy, reflecting a larger corn crop and heavier movements of feeder cattle than elsewhere.

Research Department