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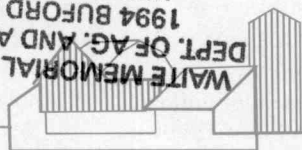
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Lower prices trim dairy farmer earnings

The past two years of strong earnings for dairy farmers ended last fall as gains in milk production led to a build-up in stocks of manufactured dairy products and a sharp, contra-seasonal decline in farm-level milk prices. Milk prices received by farmers in 1990 averaged about \$13.75 a hundredweight, up from \$12.25 two years earlier and equal to the record high set in 1981. But the downturn last fall pulled milk prices to a 12-year low. For all of this year, USDA analysts are expecting milk prices to average 15 to 20 percent lower than in 1990.

Final estimates from the U.S. Department of Agriculture show that U.S. milk production for all of 1990 reached 148.3 billion pounds, up nearly 3 percent from the previous year but only a little over 2 percent above the previous high in 1988. About one-fourth of the production came from dairy farms in the five states of the Seventh Federal Reserve. At 39.1 billion pounds, milk production in District states last year was up 2 percent from the year before. Production in Wisconsin rose 1.7 percent last year. But at 24.4 billion pounds, Wisconsin's production last year was still nearly 2.5 percent below the level of two year's ago.

Commercial disappearance of milk in all forms also rose about 3 percent last year. But the bulk of the rise occurred in the first half of the year. The combination of sustained increases in production, flat sales of fluid milk

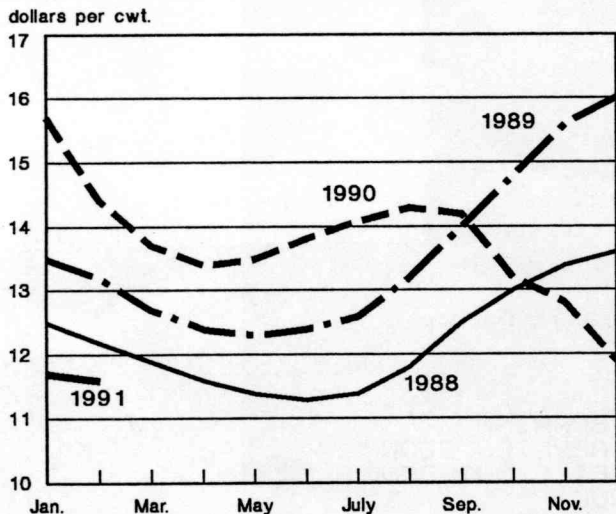
products, and moderating gains in overall disappearance led to a sizable build-up in stocks of manufactured dairy products and a collapse in farm-level milk prices. As of year-end, commercial stocks of manufactured dairy products (milkfat basis) were up more than a fourth from the year before. The gains in both cheese and nonfat dry milk stocks were particularly large.

USDA analysts believe that excess production will depress milk prices through much of this year. Milk production in the 21 major states in January and February was up 2.5 percent from the year-earlier pace. However, the gains in production are expected to moderate during the year as dairy farmers cull their herds more heavily in response to lower earnings and high prices for cows in slaughter markets. Milk cow numbers, which edged above year-ago levels in 1990, were estimated to be down marginally in February. In addition, the low milk-feed price ratio may result in a lower-than-normal rise in milk output per cow this year. With the gains expected to moderate sharply in the second-half, the USDA is suggesting that the rise in milk production for all of 1991 will be a little over 1 percent.

If the gains in production narrow as expected, and if commercial disappearance strengthens from the sluggish pace of last summer and fall, milk prices would likely rise seasonally during the second half of 1991. Nevertheless, the mid-point of the USDA's latest milk price projection for calendar 1991 is \$11.40 per hundredweight. Such a level would be the lowest annual average for any year since 1978. Moreover, the price and production forecasts imply that cash receipts from farm sales of milk could decline to a decade low of less than \$17 billion in 1991, down from \$20.3 billion last year.

The lower milk prices of recent months have already triggered Congressional debate for modifying the five-year dairy price support provisions signed into legislation just last fall. Those provisions established a minimum support price for manufacturing grade milk through 1995 at \$10.10 per hundredweight, the support level that has prevailed since January 1990. If CCC support purchases in any year are expected to fall below the equivalent of 3.5 billion pounds of milk, the support price must be increased at least 25 cents. If CCC purchases are expected to be more than 5 billion pounds, the support price must be reduced by 25 to 50 cents, but not below the minimum level of \$10.10 per hundredweight. To

Milk prices received by farmers



trim government outlays for the dairy support program, the legislation passed last fall also imposes an assessment of 5 cents per hundredweight on all milk marketed by dairy farmers in 1991. In 1992, the assessment will

rise to 11.25 cents per hundredweight. However, producers who do not increase milk marketings will be eligible for a refund on those assessments.

Gary L. Benjamin

Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	November	19,156	-4.1	8	22
Crops*	November	9,468	-14.9	9	18
Livestock	November	8,063	-2.6	0	12
Government payments	November	1,625	N.A.	52	217
Real estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	17.3	1.1**	5	13
Farm Credit System	September 30	29.4	-0.5**	-3	-11
Life insurance companies	September 30	10.6	5.3**	11	14
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	33.2	4.1**	5	8
Farm Credit System	September 30	11.0	4.1**	7	12
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	January 1	11.82	-1.0**	-2	-1
Real estate loans	January 1	10.95	-1.2**	-2	-3
Commodity Credit Corporation	March	6.37	-5.6	-22	-30
Agricultural exports (\$ millions)					
Corn (mil. bu.)	December	3,164	-9.6	-11	-13
Soybeans (mil. bu.)	January	145	2.4	-39	-17
Wheat (mil. bu.)	December	56	-11.0	-15	-19
	December	61	-24.6	-29	-43
Farm machinery sales^P (units)					
Tractors, over 40 HP	February	3,619	-10.3	-14	-4
40 to 100 HP	February	1,976	3.7	-14	-8
100 HP or more	February	1,643	19.3	-15	1
Combines	February	425	-34.0	-11	117

*Includes net CCC loans.

**Prior period is three months earlier.

^PPreliminary



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