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Milk production

The year-to-year gains in milk production that began more than a year ago have continued through the early fall. As a result, USDA analysts expect milk production to set a new record in 1988. At the same time commercial use of milk is projected to show a slight increase from last year. The combination of greater output and little change in utilization, however, will contribute to a substantial increase in removals of manufactured dairy products from the market by the Commodity Credit Corporation. For next year, current projections point to production near this year's level, but renewed strength in commercial use.

Milk production in the twenty-one major producing states has held above year-earlier levels for fifteen consecutive months. However, the gains narrowed sharply through mid year before widening again in the last several months. Milk output in the twenty-one states, which typically account for 85 percent of the nation's production, totalled more than 10.1 billion pounds in October, up almost 2 percent from last year. The most recent year-to-year gain is smaller than the 2.6 percent increase averaged during the first quarter of 1988 after adjusting for the extra production day in February, but well above the spread in June when milk production was virtually unchanged from the year-ago level. For the first 10 months of 1988, milk output in the twenty-one major producing states has risen 2 percent from the level of the comparable period last year to almost 103.5 billion pounds.

Milk production in the five states of the Seventh Federal Reserve District exhibited a similar trend of narrowing gains early in the year and actually dropped below year-ago levels during May and June. Year-to-year gains resumed during the summer months and continued into October. Milk production in the District states, at more than 3.2 billion pounds in October, was about 1.4 percent higher than a year ago. Due to strong first quarter increases, however, milk production in the District states for the 10 month period was up almost 2 percent from 1987. Most of that gain was accounted for by greater output in Wisconsin, the nation's leading dairy state, where producers boosted milk production 2.2 percent above the first ten months of 1987. Milk production in the other District states during the ten month period ranged from unchanged from a year ago in Indiana and Michigan to up almost

4.5 percent in Iowa. Output from Illinois dairy farmers registered a 1.5 percent year-to-year gain during the period.

The increase in milk output so far this year is attributable to greater productivity per cow, which has more than offset a smaller average number of milk cows on dairy farms this year. The dairy herd in the twenty-one major producing states stood at just under 8.6 million head in October, almost 1 percent less than the year-ago level. Through the first ten months of 1988 the number of milk cows has also average 1 percent less than the comparable period last year.

Output per cow in the twenty-one major producing states has remained above year-earlier levels throughout 1988. After registering an almost 5 percent year-to-year gain in January, increases in output per cow in the major producing states steadily dropped to a 1 percent gain in June. Since mid year, however, productivity gains have been increasing again, and in October output per cow was up 2.7 percent from last year.

The productivity gains registered in the second half occurred despite a sharp increase in feed costs associated with the drought. Feed grain and protein meal prices jumped as the full effect of the drought became evident. As a result, the milk feed price ratio, an indicator of the profitability of milk production, fell to its lowest levels since the 1970s during the summer months. However, strengthening milk prices this fall and expectations of continued gains appear to be influencing dairy farmers production plans as well.

Commercial use of milk in 1988 is expected to remain near or above last year's record level. Weakness in sales during the first half of the year will limit any gain. When measured on a milkfat basis, commercial disappearance during the first quarter was 2 percent below a year earlier while second quarter disappearance was down slightly. The drop was due to the effect of particularly weak sales of cream based products (with a high milkfat content) on this traditional measure of commercial use, which masked mostly strong increases in products based on whole milk or skim milk. Commercial use during the third quarter on a milk equivalent, milkfat basis was up more than 2 percent from a year ago, and is expected to register strong gains during the fourth quarter. For all of 1988, com-

mercial use of milk is expected to approach 136 billion pounds.

With continued gains in production and relatively weak sales of cream based products, net removals of manufactured dairy products from the commercial market by the Commodity Credit Corporation are projected to total from 8 to 9 billion pounds. That would represent a sizable increase from the 6.7 billion pounds of CCC net removals in 1988 and a reversal of the sharp downtrend of the last several years. The expected increase this year is due to increased butter purchases, which may be up by two-thirds from last year, offsetting declines in removals of cheese and nonfat dry milk.

Milk prices, after declining seasonally during the first half of the year, have risen steadily during the summer and fall months. However, milk prices held below year-earlier levels until October when they registered a gain of about 1 percent. For the first 10 months of the year milk prices have averaged almost 4 percent below a year ago. Continued year-to-year gains in the final months of 1988 are expected to trim the decline in the average milk price to about 3 percent for the year. However, the effective decline in milk prices is somewhat less when an adjustment is made for the assessments on milk marketings in 1987 to fund the dairy termination program.

USDA analysts expect milk production in 1989 to be about the same as this year. However, milk output is likely to register larger gains as the year progresses. Moreover, a sharp drop in feed costs as grain and feed production climb from drought-reduced levels and a second quarter increase in the support price as a result of drought relief legislation could boost milk output above a year ago. Commercial disappearance of milk is projected to follow the trend of the last several years, rising 1 to 3 percent from this year's level. Greater utilization will reduce the need for CCC purchases of manufactured dairy products to support milk prices and result in a substantial drop in net removals. USDA forecasts point to net removals in the range of 5 to 7 billion pounds milk equivalent in 1989.

Agricultural prices

The index of prices received by farmers, following a sharp jump at the onset of the drought this spring, has edged lower during the fall months. After peaking at 144 percent of the 1977 base in August, the index stood at 142 in November. For the eleven month period, prices received by farmers have averaged more than 8 percent higher than the comparable period of a year ago. The index of prices paid by farmers has been rising this year as well. At 174 percent of the 1977 base in October, the quarterly index of prices

paid was up more than 1 percent from three months earlier and almost 5.5 percent above the year-earlier level.

Rising crop prices during the first half of the year accounted for most of the increase in the overall index of prices received. However, crop prices peaked during the summer months and, for the most part, have been trending down since then. Feed grain prices in November were down 11 percent from the July peak, but remained 50 percent higher than a year earlier. Through November, prices for feed grains have averaged 44 percent higher than the low level of a year ago. Prices received for oil crops exhibited a similar trend. After peaking in July, the index of oil crop prices has dropped almost 10 percent, and has averaged more than a third higher than last year through November.

In contrast to feed grains and oil bearing crops, prices for food grains have continued to rise. At 155 percent of the 1977 base in November, the index of food grain prices was at a high for the year and 37 percent above the 1987 level. For the first eleven months of 1988, food grain prices have averaged a third higher than the same months last year.

After weakening during the first half of November, corn and soybean prices began to move higher, regaining much of the drop. By mid December, corn prices in central Illinois averaged near \$2.60 per bushel, about equal to early November prices and well above the \$1.77 per bushel average of mid December 1987. Similarly, soybean prices dropped sharply in mid November, but have regained most of the decline. At about \$7.60 per bushel in central Illinois at mid December, soybean prices are almost \$2 per bushel higher than a year earlier. Wheat prices weakened slightly in mid November as well, before recovering and stabilizing at about \$4.25 per bushel in St. Louis. In mid December 1987, wheat prices in St. Louis averaged about \$3.20 per bushel.

Livestock and livestock product prices, after remaining quite stable during the first seven months of the year, jumped in August. Since then the index of livestock and livestock product prices has again remained fairly stable, holding at 151 percent of the 1977 base in November. At that level, livestock prices are about 5.6 percent above November 1987. For the first eleven months of this year, the index has averaged 2 percent higher than the same period in 1987.

Meat animal prices, although trending down over the course of the year, have been above year-earlier levels during most of 1988. After registering year-to-year gains through May, the index of meat animal prices dipped below 1987 levels during the summer, but

moved higher again in recent months. At 163 percent of the 1977 base in November, the index of meat animal prices is almost 4 percent higher than a year earlier, and the index has averaged almost 3 percent higher than the first eleven months of 1987. Choice steer prices at Omaha have held above year-earlier levels in 1988, except for a short drop in August. In early December, choice steer prices stood at about \$71 per head compared to \$65 at the same time last year. For the year, choice steer prices at Omaha have averaged almost 5 percent higher than in 1987. Weaker hog prices compared to a year ago, however, have offset most of the gains in cattle prices, limiting the increase in the overall index. In early December, prices for barrows and gilts at the seven major markets averaged less than \$37 per hundredweight, about 10 percent lower than last year. Through the year, prices for barrows and gilts have averaged 17 percent less than the comparable period in 1987.

The index of dairy product prices, after showing considerable weakness earlier in the year, began strengthening during the summer. By November, the index had climbed to 136 percent of its 1977 base and was more than 2 percent higher than the previous year. However, the year-to-year gains in recent months were far short of offsetting the declines registered through September, and the index of dairy product prices has averaged 3.5 percent lower than last year through November.

After holding below a year ago through May, poultry product prices jumped sharply during the summer and have remained well above the year-ago level for the last several months. At 151 in November, the index of poultry product prices was up about 3.5 percent from last year. The recent gains have more than offset the year-to-year declines recorded early in 1988, resulting in poultry product prices averaging 3.7 percent higher than the first eleven months of 1987. Although down about 17 percent from the peak this summer, broiler prices in November remained a third higher than a year earlier. Compared to the first eleven months of 1987, broiler prices have averaged almost 19 percent higher. Egg prices have registered substantial year-to-

year gains since the summer as well. After dropping almost 7 percent from the September high, egg prices in November continued to exceed last year's level by almost 11 percent. The recent gains, however, were insufficient to offset the year-to-year declines registered during the first half of the year, holding egg prices 1.5 percent below the average of the first eleven months of 1987.

Prices paid by farmers have continued to edge higher throughout 1988. At 174 percent of the 1977 base in October, the quarterly index of prices paid by farmers for commodities and services, interest, taxes, and wages was up just over 1 percent from the July level, and almost 5.5 percent higher than a year ago. After increasing almost a third during the previous quarter, feed prices dropped almost 3.5 percent between August and October. Fuel and energy prices registered a decline during the period as well, dropping 2.4 percent. Prices paid by farmers for most other production items, however, registered quarterly increases. The sharpest rise was recorded in prices paid for feeder livestock, up almost 9 percent from the July level. Compared to a year ago, feed prices remain 35 percent higher, while prices paid for fertilizer and machinery are up 7 to 11 percent. Although prices paid for most other production items have recorded year-to-year gains, fuel and energy prices are down about 3.6 percent from last year.

Peter J. Heffernan

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Selected Agricultural Economic Indicators

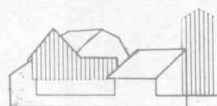
	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	July	11,914	2.8	8	24
Crops*	July	5,254	-2.6	43	47
Livestock	July	6,419	5.9	0	5
Government payments	July	240	71.4	-76	n.a.
Real estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	14.0	3.3 [†]	10	24
Farm Credit System	June 30	28.7	-1.5 [†]	-8	-25
Life insurance companies	June 30	9.58	-0.8 [†]	-7	-15
Farmers Home Administration	December 31	10.1	0.1 [†]	-3	-3
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	28.7	7.7 [†]	0	-12
Farm Credit System	June 30	9.5	6.8 [†]	-5	-24
Farmers Home Administration	December 31	16.0	-1.1 [†]	-2	-4
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	October 1	11.67	3.8 [†]	3	3
Real estate loans	October 1	11.04	3.9 [†]	3	3
Commodity Credit Corporation	December	8.25	1.5	20	44
Agricultural exports (\$ millions)	September	3,180	10.5	36	66
Corn (mil. bu.)	September	155	0.8	14	91
Soybeans (mil. bu.)	September	27	-25.0	-53	-11
Wheat (mil. bu.)	September	130	14.4	5	25
Farm machinery sales^D (units)					
Tractors, over 40 HP	November	3,677	-39.4	7	21
40 to 139 HP	November	2,585	-34.1	7	15
140 HP or more	November	1,092	-48.9	6	39
Combines	November	609	-38.5	-37	2

N.A. Not applicable.

*Includes net CCC loans.

[†]Prior period is three months earlier.

^D Preliminary



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