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October 10, 1975

Agricultural Letter

Waite Memorial Book Collection
Division of Agricultural Economics

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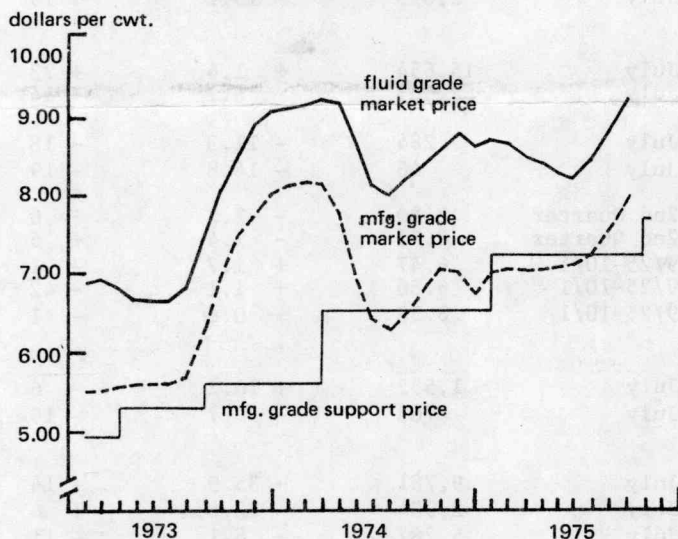
DAIRY PROFITS are improving following a prolonged cost/price squeeze at the farm level. Higher milk prices and lower feed cost are responsible. Furthermore, the demand for dairy products has been stable in 1975, a situation that is likely to continue during the remainder of the year.

Milk production in the first eight months of 1975 totaled just over 79 billion pounds, down 0.4 percent from the same year-earlier period. The decrease mostly reflects a decline in cow numbers. Total milk output during 1975 may closely approximate the 115.4 billion pounds produced in each of the past two years.

Milk prices received by farmers showed a strong seasonal rise this summer, a sharp contrast to the experience of 1974. Higher prices more than offset slightly lower production since June and boosted gross income to dairy farmers approximately 5 percent over a year ago in the June-August period. Gross income from dairying may total \$9.5 billion in 1975, up about 2 percent from 1974.

Retail prices of dairy products have been fairly steady in recent months. As of August the index of retail dairy prices was up 2.4 percent from August of 1974. In comparison, the index on all food prices was up 9.4 percent. Anticipated increases in prices of dairy products in the last four months of this year could raise the average annual index 4 to 5 percent. Nevertheless, this will be only about one-fourth to one-third the rate of increase recorded in 1974.

Manufacturing grade milk support price is raised again



Whole milk retail prices have been on the downswing since the first of the year. August whole milk prices were the lowest since January of 1974. On the other hand, butter and cheese prices have remain-

ed strong. During August butter prices averaged 62 percent higher than margarine, more than double the price premium in effect last January.

Fluid milk, butter, and ice cream sales rose during the first seven months of 1975. The long-term decline in whole milk consumption continued but an 11 percent rise in lowfat and skim milk sales boosted total fluid milk sales 3 percent. Most of the gain in butter sales came early in the year when butter prices were more competitive with margarine. Declines in American cheese and nonfat dry milk (NFD) sales held total sales to the same year-earlier level.

Dairy product stocks, despite a counterseasonal drop during July, were at the second highest level for August 1 since 1967. Relatively strong sales coupled with a decline in milk production dropped commercial stocks of dairy products 30 percent below the year-earlier level. Commercial stocks of butter on August 1 were the lowest for that date on record and down 66 percent from a year earlier. Cheese stocks declined counterseasonally but remain at fairly high levels. NFD) stocks were down more than 50 percent at manufacturers, but total stocks—including government stocks—were double the August 1, 1974 level.

The U.S. Department of Agriculture recently announced that the support price for manufacturing milk was being increased from \$7.24 to \$7.71 per hundredweight effective October 2. Wholesale prices of the three manufactured products affected—butter, cheddar cheese, and NFD) —as well as the farm price of manufacturing milk are currently above the support level. Consequently, the change will have no effect on retail prices in the short term.

The outlook for the remainder of 1975 is promising for U.S. dairy farmers. The milk/feed price ratio—a rough measure of profitability—reached 1.50 in September, the highest level in almost a year and a half. Current expectations are that farm milk prices will rise seasonally in the last few months of 1975. With feed prices stabilizing, possibly declining, it appears that the milk/feed price ratio may move even higher in coming months. Also, higher support prices indicate a brighter long-term outlook for dairy farmers.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	September	193	+ 3.2	+ 7
Crops	1967=100	September	202	+ 0.5	- 8
Livestock	1967=100	September	188	+ 5.0	+ 21
Paid by farmers	1967=100	September	189	+ 1.1	+ 8
Production items	1967=100	September	194	+ 1.0	+ 7
Wholesale price index (all commodities)	1967=100	September	178	+ 0.6	+ 6
Foods	1967=100	September	187	+ 1.4	+ 11
Processed foods and feeds	1967=100	September	186	- 0.1	+ 5
Agricultural chemicals	1967=100	September	182	+ 0.1	+ 13
Agricultural machinery and equipment	1967=100	September	163	+ 0.5	+ 11
Consumer price index (all items)	1967=100	August	163	+ 0.3	+ 8
Food at home	1967=100	August	179	- 0.5	+ 10
CASH PRICES					
Corn	dol. per bu.	September	2.76	- 0.6	- 16
Soybeans	dol. per bu.	September	5.32	- 8.3	- 27
Wheat	dol. per bu.	September	4.11	+ 5.7	- 5
Sorghum	dol. per cwt.	September	4.56	- 2.8	- 14
Oats	dol. per bu.	September	1.45	+ 0.7	- 8
Steers and heifers	dol. per cwt.	September	38.70	+ 4.3	+ 9
Hogs	dol. per cwt.	September	58.50	+ 4.5	+ 7
Milk, all sold to plants	dol. per cwt.	September	8.96	+ 4.7	+ 11
Broilers	cents per lb.	September	29.8	+ 3.5	+ 31
Eggs	cents per doz.	September	55.8	+ 10.5	+ 2
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	88	+ 1.1	- 2
Net realized farm income	bil. dol.	2nd Quarter	20	+ 2.6	- 12
Nonagricultural personal income	bil. dol.	August	1,214	+ 9.6	+ 16
FARM FINANCE					
Total deposits at agricultural banks¹	1972-73=100	September	140	+ 1.4	+ 13
Time deposits	1972-73=100	September	155	+ 1.3	+ 17
Demand deposits	1972-73=100	September	119	+ 4.4	+ 4
Total loans at agricultural banks¹	1972-73=100	September	146	+ 1.4	+ 12
Production credit associations					
loans outstanding:					
United States	mil. dol.	July	10,888	+ 0.9	+ 17
Seventh District states	mil. dol.	July	1,834	+ 0.4	+ 24
loans made:					
United States	mil. dol.	July	1,140	- 0.6	+ 8
Seventh District states	mil. dol.	July	2,023	- 15.1	+ 19
Federal land banks					
loans outstanding:					
United States	mil. dol.	July	15,654	+ 1.4	+ 23
Seventh District states	mil. dol.	July	2,563	- 6.1	+ 14
new money loaned:					
United States	mil. dol.	July	284	- 11.3	- 18
Seventh District states	mil. dol.	July	46	- 14.8	- 19
Interest rates					
Feeder cattle loans ²	percent	2nd Quarter	8.80	- 2.2	+ 6
Farm real estate loans ²	percent	2nd Quarter	8.92	- 1.4	+ 6
Three-month Treasury bills	percent	9/25-10/1	6.47	+ 1.7	- 1
Federal funds rate	percent	9/25-10/1	6.36	+ 1.1	- 42
Government bonds (long-term)	percent	9/25-10/1	8.58	+ 0.6	- 1
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	July	1,532	+ 10.2	- 6
Agricultural imports	mil. dol.	July	763	- 7.7	- 15
FARM MACHINERY SALES					
Farm tractors	units	July	9,781	- 35.9	- 14
Combines	units	July	2,984	- 22.0	+ 4
Balers	units	July	5,787	- 6.1	- 11

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

² Average of rates reported by district agricultural banks.