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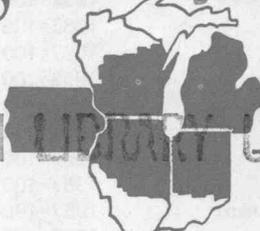
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MILK PRICES rose to record levels during the last months of 1975, and by December prices received by farmers averaged more than \$10 per 100 pounds for the first time in history. Rising milk prices coupled with lower feed prices pushed the milk/feed price ratio—a rough measure of profitability—to 1.79 in December, up sharply from the 1.20 of a year earlier and the highest level in nearly four years.

Milk production climbed above year-earlier levels in the last few months of 1975, thereby offsetting the year-to-year production declines experienced during the summer and early fall. Preliminary estimates for all of 1975 indicate milk production will closely approximate the level of the past two years, 115.4 billion pounds. Further year-to-year increases in milk production are expected in the months ahead, in part reflecting higher milk prices and lower feed costs. While milk prices most likely will be influenced by the normal seasonal downtrend this spring, the milk/feed price ratio will probably remain substantially above the depressed year-earlier levels.

Milk cow numbers were down about 0.6 percent in 1975, less than one-half the rate of decline experienced in the past few years. The marked slowing reflected low prices for cull cows and reduced off-farm employment alternatives for dairymen. These conditions will probably remain basically unchanged in the first part of 1976, which, coupled with a fairly large supply of replacement heifers, suggests that the drop in cow numbers is not likely to accelerate in the near term.

Per capita consumption of milk in all dairy products rose slightly in 1975. Preliminary estimates indicate that fluid whole milk consumption in 1975 continued the long-term decline, while lowfat milk utilization continued to rise. In the area of manufactured products butter consumption rose slightly, while cheese consumption held at the 1974 level. Last year was the first year in more than a decade when cheese consumption did not increase, although consumption was up rather sharply in 1974. Ice cream consumption also was up in 1975, while canned milk and nonfat dry milk consumption declined.

Commercial dairy stocks were well below year-ago levels, reflecting strong sales and some decline in manufactured product output. Butter stocks were at nearly the lowest level on record as of November 1, with less than one-third as much butter on hand as a year earlier. Cheese stocks were down about one-fourth and total stocks of dairy products—measured on a milk equivalent basis—were down one-third from year-earlier levels at the start of November.

Dairy product prices rose in the fall after stabilizing in the summer of 1975. Wholesale Grade A butter prices at Chicago peaked at \$1.09 per pound in

December, up nearly 40 cents from June. However, as the holiday buying season came to a close, butter prices fell precipitously and are now approaching 80 cents per pound, only slightly above the current support price. Cheese prices remained steady in recent months, while nonfat dry milk prices edged upward. Ice cream prices have been on the upswing since September after weakening in the first half of 1975. At the retail level the index of dairy product prices was up about 7 percent from a year earlier in November.

Government support purchases of dairy products expanded in 1975 but remained well below the levels recorded during the early seventies. Net removals totaled 2 billion pounds milk equivalent during the January-November period, up 67 percent from the same year-earlier period. With the exception of nonfat dry milk most purchases were made in the first half of 1975 and later resold when prices rose. Continued large purchases of nonfat dry milk boosted government-held stocks to three times the level of a year ago and equivalent to over 60 percent of the 1975 annual consumption of nonfat dry milk.

A bill that passed both houses of Congress in mid-December would raise the milk support price level to 85 percent of parity and would provide for quarterly adjustments over the next two years. The present support price of \$7.71 per hundredweight would be raised to about \$8.20. The bill is currently awaiting Presidential action. Although the proposed support price is well below present seasonal highs, it is significantly greater than the \$7 price for manufacturing grade milk received last spring. The crucial question is whether the higher support prices will significantly distort the pricing signals between consumers and dairy farmers. Even proponents of the bill suggest that higher support prices will boost U.S. milk production. If the higher prices accelerate the long-term trend of decreasing per capita milk consumption, a surplus of dairy products could result. This surplus would then be purchased and stored by the government. Estimates of government purchases stemming from the bill range as high as \$530 million, and the USDA has estimated that the bill might raise consumer costs for dairy products as much as \$1.4 billion over its life.

Terry Francl
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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	December	187	+ 1.1	+ 5
Crops	1967=100	December	188	0	-11
Livestock	1967=100	December	187	+ 1.6	+22
Paid by farmers	1967=100	December	189	+ 0.5	+ 6
Production items	1967=100	December	192	0	+ 4
Wholesale price index (all commodities)	1967=100	November	178	- 0.4	+ 4
Foods	1967=100	November	186	- 1.0	+ 5
Processed foods and feeds	1967=100	November	183	- 1.9	- 4
Agricultural chemicals	1967=100	November	198	- 1.1	+ 9
Agricultural machinery and equipment	1967=100	November	174	+ 1.7	+ 9
Consumer price index (all items)	1967=100	November	166	+ 0.6	+ 7
Food at home	1967=100	November	180	+ 0.4	+ 7
CASH PRICES					
Corn	dol. per bu.	December	2.37	+ 1.7	-28
Soybeans	dol. per bu.	December	4.28	- 3.8	-39
Wheat	dol. per bu.	December	3.41	- 4.7	-27
Sorghum	dol. per cwt.	December	4.00	- 1.2	-25
Oats	dol. per bu.	December	1.42	+ 1.4	-16
Steers and heifers	dol. per cwt.	December	39.10	+ 4.3	+26
Hogs	dol. per cwt.	December	47.50	- 3.1	+24
Milk, all sold to plants	dol. per cwt.	December	10.20	+ 2.1	+24
Broilers	cents per lb.	December	24.0	-11.7	+10
Eggs	cents per doz.	December	64.1	+11.1	+ 9
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Qtr.	98	+11.4	+ 7
Net realized farm income	bil. dol.	3rd Qtr.	28	+37.6	+11
Nonagricultural personal income	bil. dol.	October	1,239	+ 1.0	+ 8
FARM FINANCE					
Total deposits at agricultural banks¹	1972-73=100	December	144	- 1.0	+13
Time deposits	1972-73=100	December	159	+ 0.6	+18
Demand deposits	1972-73=100	December	122	- 4.2	+ 4
Total loans at agricultural banks¹	1972-73=100	December	154	+ 1.4	+16
Production credit associations					
loans outstanding:					
United States	mil. dol.	October	10,571	- 1.6	+13
Seventh District states	mil. dol.	October	1,853	- 0.3	+20
loans made:					
United States	mil. dol.	October	1,235	+16.1	+ 9
Seventh District states	mil. dol.	October	222	+ 7.7	+19
Federal land banks					
loans outstanding:					
United States	mil. dol.	October	15,712	+ 1.2	+20
Seventh District states	mil. dol.	October	2,863	+ 1.1	+30
new money loaned:					
United States	mil. dol.	October	264	+ 6.4	- 0
Seventh District states	mil. dol.	October	40	-18.4	-56
Interest rates					
Feeder cattle loans ²	percent	3rd Qtr.	8.79	- 0.1	- 1
Farm real estate loans ²	percent	3rd Qtr.	8.80	- 1.1	- 1
Three-month Treasury bills	percent	12/25-12/31	5.18	- 2.8	-26
Federal funds rate	percent	12/25-12/31	5.18	0	-30
Government bonds (long-term)	percent	12/25-12/31	8.03	- 1.2	+27
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	October	2,082	+29.3	+22
Agricultural imports	mil. dol.	October	829	-12.3	+12
FARM MACHINERY SALES					
Farm tractors	units	October	20,376	+30.6	+15
Combines	units	October	6,592	+ 7.8	-10
Balers	units	October	1,925	-24.5	- 7

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.