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MILK PRODUCTION continues on the upswing as strength in the commercial market bolsters prices. In July milk production rose 4.8 percent above the year-earlier level, marking the tenth consecutive month of year-to-year gains. It nows appears that milk output for all of 1976 may rise 3 billion pounds above the 1975 level of 115.5 billion. The combination of increased production and sharply higher milk prices will likely render 1976 the most profitable year for dairy farmers since the early seventies. Although conditions for the early part of next year look reasonably promising, the possibility of a less exuberant consumer demand and recent deteriorations in feed and forage crops raise some concern.

The upswing in milk production is a reflection of the incentives to dairy farmers from the highest milk-feed price ratios in three years. On the one hand, milk output per cow during the first seven months of this year has averaged nearly 5 percent above year-earlier levels as the comparatively favorable feed prices have encouraged increased grain feeding. Moreover, higher milk-feed price ratios coupled with a good supply of dairy replacement heifers continues to hold the decline in milk cow numbers well below the long-term trend. For example, dairy cow numbers in July were down less than 1 percent from a year ago, slightly exceeding the rate of decline of last year but only one-half the annual rate of decline experienced over the past five years.

Milk prices received by farmers have held at high levels despite the increased production. Although trending lower during the first half, milk prices averaged 17 percent above year-earlier levels. Prices have risen seasonally since June, reaching \$9.67 per hundredweight in August, up about \$1 from the same period last year. Although the year-to-year gains may narrow, prices are expected to remain in an uptrend during the remainder of 1976 as milk production declines seasonally. The combination of higher prices and increased production suggests cash receipts to dairy farmers may reach \$11.5 billion this year, up from \$9.9 billion in 1975.

The higher milk prices in the face of increased supplies reflects the strength in the commercial market—from both increased sales and inventory rebuilding—that has triggered an expansion in the production of manufactured dairy products. During the January-June period the production of all manufactured dairy products—measured on a milk equivalent basis—was up about 4 percent from the same period a year ago. American cheese production was up one-fifth from last year's low level but only about 1 percent over the output for the first half of 1974. Production of cottage cheese was up 3 percent from a year earlier and

about 5 percent above 1974. In contrast, butter production was down 8 percent from a year ago—reflecting declining sales—but still 3 percent greater than in the first half of 1974. Nonfat dry milk production remained well below the levels of the past two years.

Government purchases of dairy products have fallen to negligible levels this year as the strength of the commercial market has held prices above support levels. During the January-June period government purchases of dairy products fell to less than 0.1 billion pounds—milk equivalent—down from 2.3 billion during the first half of 1975. The curtailed purchases left midyear government stocks of nonfat dry milk at a high but reduced level, while holdings of cheese and butter were eliminated.

The dairy outlook is clouded by the uncertainties related to the sustained strength in commercial sales as well as lingering concerns over the dry weather impacts on feed and roughage supplies. Continued dry weather over the past month has heightened the prospects that this fall's feed grain harvest will be somewhat below earlier expectations. Moreover, reduced supplies of pasture and roughage will add substantially to the feed costs of many dairy farmers. These developments support prospects for significant narrowing in the year-to-year rate of increase in milk production for the remainder of 1976. If the recent strength in the commercial market holds, a slower rate of gain in production would likely hold milk prices well above year-ago levels through the early part of 1977.

On the other hand, there is concern that some of the recent strength in dairy sales might waver in the months ahead. Retail meat prices are expected to trend lower the rest of this year, while dairy product prices rise seasonally. Such a situation, in light of the 10 percent larger commercial stocks of dairy products, could eliminate incentives for further expansion in the production of manufactured dairy products and limit the anticipated seasonal rise in milk prices during the latter part of this year. Moreover, if milk production continues to expand, and if consumer demand eases, milk prices might approach support levels in the first half of next year.

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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	August	187	- 4.1	- 4
Crops	1967=100	August	201	- 6.5	- 5
Livestock	1967=100	August	175	- 2.2	- 3
Paid by farmers	1967=100	August	195	- 0.5	+ 6
Production items	1967=100	August	198	- 0.5	+ 6
Wholesale price index (all commodities)	1967=100	August	184	- 0.3	+ 4
Foods	1967=100	August	178	- 2.4	- 3
Processed foods and feeds	1967=100	August	177	- 3.2	- 5
Agricultural chemicals	1967=100	August	186	+ 0.5	- 10
Agricultural machinery and equipment	1967=100	August	183	+ 0.4	+ 9
Consumer price index (all items)	1967=100	July	171	+ 0.6	+ 5
Food at home	1967=100	July	181	+ 0.7	+ 1
CASH PRICES					
Corn	dol. per bu.	August	2.64	- 6.4	- 11
Soybeans	dol. per bu.	August	6.07	- 9.8	+ 5
Wheat	dol. per bu.	August	2.97	- 10.8	- 24
Sorghum	dol. per cwt.	August	4.03	- 11.0	- 14
Oats	dol. per bu.	August	1.48	- 9.8	+ 3
Steers and heifers	dol. per cwt.	August	35.30	- 1.4	- 3
Hogs	dol. per cwt.	August	42.60	- 10.7	- 24
Milk, all sold to plants	dol. per cwt.	August	9.67	+ 2.8	+ 12
Broilers	cents per lb.	August	24.3	- 4.3	- 16
Eggs	cents per doz.	August	60.6	+ 9.2	+ 19
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	102	+ 11.7	+ 11
Net realized farm income	bil. dol.	2nd Quarter	30	+ 44.0	+ 27
Nonagricultural personal income	bil. dol.	June	1,325	+ 0.1	+ 9
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	August	154	+ 0.6	+ 12
Time deposits	1972-73=100	August	179	+ 1.4	+ 18
Demand deposits	1972-73=100	August	121	- 0.9	+ 4
Total loans at agricultural banks ¹	1972-73=100	August	171	+ 0.8	+ 19
Production credit associations					
loans outstanding:					
United States	mil. dol.	July	12,191	+ 1.5	+ 13
Seventh District states	mil. dol.	July	2,156	+ 1.5	+ 17
loans made:					
United States	mil. dol.	July	1,177	- 18.2	+ 4
Seventh District states	mil. dol.	July	218	- 22.5	+ 8
Federal land banks					
loans outstanding:					
United States	mil. dol.	July	17,623	+ 1.3	+ 16
Seventh District states	mil. dol.	July	3,332	+ 1.5	+ 21
new money loaned:					
United States	mil. dol.	July	298	- 8.0	+ 10
Seventh District states	mil. dol.	July	64	- 11.5	+ 38
Interest rates					
Feeder cattle loans ²	percent	2nd Quarter	8.77	0	0
Farm real estate loans ²	percent	2nd Quarter	8.95	0	0
Three-month Treasury bills	percent	8/26-9/1	5.09	- 0.8	- 20
Federal funds rate	percent	8/26-9/1	5.28	0	- 13
Government bonds (long-term)	percent	8/23-8/27	7.83	- 0.6	- 7
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	June	1,824	- 1.3	+ 31
Agricultural imports	mil. dol.	June	1,020	+ 20.4	+ 23
FARM MACHINERY SALES					
Farm tractors	units	June	11,696	- 15.6	- 23
Combines	units	June	3,316	+ 76.4	- 13
Balers	units	June	4,580	+131.3	- 26

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.