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Agricultural Letter

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MILK PRODUCTION rose to the highest level in 11 years during 1976, reflecting increased milk prices and slightly lower feed costs. The milk/feed price ratio—a rough measure of profitability—averaged 1.57 during 1976, up significantly from the previous year and the highest level in four years. Nevertheless, the average price paid to farmers for milk dropped below year-earlier levels during November for the first time in almost one and a half years as milk supplies began to accumulate in late 1976. Furthermore, prices may remain below year-earlier levels throughout much of the first half of 1977 unless government support prices are increased. By the same token retail dairy prices should hold steady throughout the first half of 1977.

Milk production totaled 120.3 billion pounds in 1976, up 4.2 percent, after holding virtually steady for the previous three years. The rise is particularly noteworthy in view of the adverse weather conditions experienced throughout a large portion of the country where dairy farmers are located. For example, 58 counties in Wisconsin are currently defined as drought disaster areas. Consequently, dairy farmers increased concentrate feeding—up 4 percent above a year ago on October 1—as pasture and hay supplies were curtailed. Perhaps most surprising was the 12,000 head increase in milk cow numbers from September to October, the first month-to-month increase since December 1974. Profits were apparently sufficient to preclude heavy culling of the dairy herds, which might be expected under the drought circumstances. These actions may partly reflect the impact of a disaster relief program that will reimburse livestock farmers for up to 80 percent of hay transportation costs.

Milk prices received by farmers averaged almost 11 percent higher in 1976. However, after posting substantial gains throughout most of the year, milk prices slipped slightly below the year-earlier level in November and then last month dropped 50 cents per hundredweight under the December 1975 price. Manufacturing grade milk prices in December—adjusted to the average annual fat test—were only slightly above the current \$8.26 milk support price.

Per capita consumption of milk in all dairy products during 1976 will probably closely parallel the 1975 level of 546 pounds (milk equivalent) despite a substantial drop in donations to the school program. While the slight growth in population absorbed a portion of the rise in milk production, a good part of the increase is reflected by increased inventories of milk products. For example, milk manufacturers' stocks at the end of November were from 50 percent to over 300 percent above the low year-earlier levels, depending on the product.

The trend toward increased consumption of cheese resumed in 1976 after experiencing a slight dip in 1975. Year-to-year sales of American cheese were

up 13 percent in the first half of 1976 and rose another 8 percent in the third quarter. Per capita consumption of cheese is estimated at about 15.5 pounds, up about 7 percent from 1975. Price competition from margarine reduced total butter sales only slightly, but per capita consumption will fall about $\frac{1}{2}$ pound or 10 percent in 1976. Frozen dairy products, canned milk, and nonfat dry milk sales all declined.

Retail dairy prices were running about 5.5 percent above year-earlier levels during November, compared to only a 0.7 percent rise for all foods. The largest price increases have been registered by butter and cheese, while fluid milk and ice cream prices are only nominally above year-ago levels.

Government support purchases of dairy products increased dramatically in November after dropping far under year-earlier levels in the first 10 months of 1976. The Commodity Credit Corporation (CCC) contracted for 0.9 billion pounds milk equivalent in November, triple the previous 1976 purchases. However, even with the November purchases, CCC stocks remain relatively small since products are being rapidly absorbed in domestic donation channels. Nevertheless, CCC purchases could be unseasonably high in the near future because of the large accumulation of commercial stocks that has already occurred. Purchases of butter, cheese, and dry milk under the provision of the price support program could increase sharply if commercial sales do not increase significantly. CCC purchases during 1977 could conceivably be the highest of recent years. Furthermore, world dairy supplies are still in heavy surplus, and increased milk production is anticipated in 1977.

The milk support price in effect during the first quarter of 1977 was left unchanged at \$8.26 per hundredweight. However, since the average price received by farmers for milk during December was equivalent to only about 77 percent of parity, adjustments will likely be forthcoming at the start of the second quarter. (The Secretary of Agriculture reviews support prices on a quarterly basis and may make adjustments.) Moreover, a bill was recently introduced in the House of Representatives to raise the milk support price to 90 percent of parity—\$10.98 per hundredweight or an increase of \$1.17 based on December parity prices. Nevertheless, a rise in the support price will be subject to federal budget constraints as well as the implications of higher milk production and higher retail prices.

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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	179	+ 3.5	- 4
Crops	1967=100	December	191	+ 2.1	+ 2
Livestock	1967=100	December	169	+ 4.3	- 8
Paid by farmers	1967=100	December	195	+ 1.0	+ 6
Production items	1967=100	December	196	+ 1.0	+ 5
Wholesale price index (all commodities)	1967=100	December	187	+ 0.8	+ 5
Foods	1967=100	December	181	+ 2.8	- 3
Processed foods and feeds	1967=100	December	179	+ 2.4	- 1
Agricultural chemicals	1967=100	December	183	- 0.5	- 7
Agricultural machinery and equipment	1967=100	December	191	+ 1.0	+ 9
Consumer price index (all items)	1967=100	November	174	+ 0.3	+ 5
Food at home	1967=100	November	179	- 0.4	- 1
CASH PRICES					
Corn	dol. per bu.	December	2.24	+10.9	- 5
Soybeans	dol. per bu.	December	6.56	+ 7.4	+ 53
Wheat	dol. per bu.	December	2.39	- 2.8	- 30
Sorghum	dol. per cwt.	December	3.51	- 6.4	- 12
Oats	dol. per bu.	December	1.51	+ 4.1	+ 6
Steers and heifers	dol. per cwt.	December	35.90	+ 3.5	- 7
Hogs	dol. per cwt.	December	36.30	+16.7	- 24
Milk, all sold to plants	dol. per cwt.	December	9.81	- 1.3	- 5
Broilers	cents per lb.	December	19.3	0	- 20
Eggs	cents per doz.	December	69.5	+ 6.4	+ 8
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	96	- 5.9	- 1
Net realized farm income	bil. dol.	3rd Quarter	24	-20.8	- 17
Nonagricultural personal income	bil. dol.	November	1,388	+ 1.1	+ 10
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	December	161	- 0.2	+ 12
Time deposits	1972-73=100	December	188	+ 0.7	+ 18
Demand deposits	1972-73=100	December	127	- 0.9	+ 4
Total loans at agricultural banks ¹	1972-73=100	December	181	+ 1.0	+ 18
Production credit associations					
loans outstanding:					
United States	mil. dol.	November	11,981	- 1.6	+ 15
Seventh District states	mil. dol.	November	2,240	+ 1.0	+ 21
loans made:					
United States	mil. dol.	November	1,488	+22.9	+ 24
Seventh District states	mil. dol.	November	271	+24.0	+ 32
Federal land banks					
loans outstanding:					
United States	mil. dol.	November	18,220	+ 1.0	+ 16
Seventh District states	mil. dol.	November	3,490	+ 1.0	+ 21
new money loaned:					
United States	mil. dol.	November	278	+12.6	+ 35
Seventh District states	mil. dol.	November	50	-10.7	+ 31
Interest rates					
Feeder cattle loans ²	percent	3rd Quarter	8.78	+ 0.1	0
Farm real estate loans ²	percent	3rd Quarter	8.96	+ 0.4	0
Three-month Treasury bills	percent	12/23-12/29	4.33	+ 1.4	- 16
Federal funds rate	percent	12/23-12/29	4.66	+ 0.6	- 10
Government bonds (long-term)	percent	12/27-12/31	7.26	- 0.7	- 10
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	October	2,251	+25.3	+ 8
Agricultural imports	mil. dol.	October	811	-11.2	- 2
FARM MACHINERY SALES					
Farm tractors	units	November	7,148	-62.6	- 25
Combines	units	November	1,231	-82.2	+ 9
Balers	units	November	476	-66.9	- 5

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.