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June 10, 1977

**MILK PRODUCTION** continues above year-earlier levels, a trend expected for most of the remainder of 1977. According to the U.S. Department of Agriculture, the nation's milk output in May was up 1.7 percent from a year ago, marking the 19th consecutive month of year-to-year gains. Commercial disappearance of milk, however, has faltered, necessitating sharply expanded government support purchases. The mounting surplus of milk held prices below year-earlier levels during the first part of 1977, but the April rise in support prices assured dairy farmers higher prices during the rest of this year.


Although year-to-year gains have narrowed in recent months, the USDA expects that milk production for all of 1977 may rise 2 to 3 percent above the high 120 billion pounds of last year. Through May of this year, milk production was up about 2.8 percent (daily average basis) from a year earlier. Among District states, Wisconsin dairy farmers registered a 5 percent increase in milk production during the January-May period, while those in Iowa and Michigan achieved gains of about 3 percent. In Indiana milk production rose 2 percent, while production in Illinois was unchanged from a year ago.

All of the increase in milk production has gone into manufactured dairy products since fluid milk sales have been stable during the early part of this year. Butter production has paced the expansion in manufactured dairy products, rising 12 percent above the somewhat weak year-earlier level during the January-April period. Although year-to-year gains are slowing, American cheese output during the January-April span was up 8 percent from last year's record-setting pace. Combined, butter and cheese account for about three-fourths of the milk utilized in manufactured dairy products.

**Commercial disappearance** of milk in all forms was down nearly 4 percent during the first quarter of this year, interrupting the uptrend that had prevailed since early 1975. The slowing presumably reflected the effects of the harsh winter—which weakened demand for some dairy products and disrupted normal marketing channels—as well as this year's abundant pipe line stocks as opposed to the rebuilding that occurred during the same period a year ago. A 15 percent decline in butter sales paced the decline, while sales of American cheese and ice cream both fell 3 percent.

U.S. Department of Agriculture projections indicate dairy sales will pick up during the remainder of this year, perhaps holding the overall performance for 1977 close to the strong showing last year. Although retail dairy product prices will be rising moderately this summer, price increases in competitive products

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may be even larger. Sharply higher prices for coffee and soft drinks are expected to contribute to a slight boost in fluid milk sales. Higher retail beef prices and rather substantial gains in consumer incomes are expected to offset the first-quarter downturn and boost cheese sales for all of this year. Anticipated increases in margarine prices will likely support butter sales, although not enough to offset the large first-quarter decline.

**Government support purchases** have escalated rapidly in recent months, a trend that will continue in light of prospects for surplus milk production and exceptionally large commercial stocks. During the first four months of this year, the USDA purchased 2.7 billion pounds (milk equivalent) of dairy products, substantially in excess of the annual totals of the past three years. Current prospects indicate total government purchases for all of 1977 could approach the 10-year high of 7.3 billion pounds recorded in 1971.

**Milk prices** trended downward at below year-ago levels during the first quarter, reflecting the gains in production and lagging sales. However, the April increase in support prices—which raised the support price of manufacturing-grade milk from \$8.26 to \$9 per hundredweight—halted the seasonal downtrend and virtually assured dairy farmers that milk prices for the remainder of this year will average above the corresponding 1976 level. Preliminary estimates indicate prices received by farmers for all milk sold to plants held at \$9.40 per hundredweight in May, virtually unchanged from the March level—in contrast to the normal seasonal decline—and up from \$9.23 a year ago. Since manufacturing-grade milk prices were still substantially below support levels in May, the general trend in milk prices will be upward through the summer months.

Although down slightly in the first quarter, cash receipts to dairy farmers for all of this year will likely surpass the 1976 record, reflecting prospects for higher milk prices and increased production. In 1976 dairy receipts totaled \$11.4 billion, up 15 percent from the previous year and 67 percent above the 1970-72 annual average. Somewhat higher production costs, however, may hold net returns to dairy farmers slightly below the generally high level of last year.

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## AGRICULTURAL ECONOMIC DEVELOPMENTS

| Subject   | Unit           | Latest period | Value  | Percent change from |          |
|---|----------------|---------------|--------|---------------------|----------|
|   |                |               |        | Prior period        | Year ago |
| <b>INDEX OF PRICES</b>                            |                |               |        |                     |          |
| Received by farmers                               | 1967=100       | May           | 195    | + 2.1               | + 2      |
| Crops   | 1967=100       | May           | 217    | + 1.9               | + 10     |
| Livestock   | 1967=100       | May           | 177    | + 2.9               | - 4      |
| Paid by farmers                                   | 1967=100       | May           | 204    | 0                   | + 7      |
| Production items                                  | 1967=100       | May           | 205    | + 0.5               | + 6      |
| Wholesale price index (all commodities)           | 1967=100       | May           | 195    | + 0.5               | + 7      |
| Foods   | 1967=100       | May           | 192    | + 2.1               | + 5      |
| Processed foods and feeds                         | 1967=100       | May           | 192    | + 1.9               | + 7      |
| Agricultural chemicals                            | 1967=100       | May           | 198    | - 0.2               | - 1      |
| Agricultural machinery and equipment              | 1967=100       | May           | 195    | + 0.1               | + 8      |
| Consumer price index (all items)                  | 1967=100       | April         | 180    | + 0.8               | + 7      |
| Food at home                                      | 1967=100       | April         | 189    | + 1.3               | + 6      |
| <b>CASH PRICES</b>                                |                |               |        |                     |          |
| Corn  | dol. per bu.   | May           | 2.21   | - 4.3               | - 15     |
| Soybeans  | dol. per bu.   | May           | 9.40   | + 3.9               | + 93     |
| Wheat   | dol. per bu.   | May           | 2.29   | - 3.4               | - 33     |
| Sorghum   | dol. per cwt.  | May           | 3.25   | - 5.5               | - 21     |
| Oats  | dol. per bu.   | May           | 1.57   | - 4.3               | + 7      |
| Steers and heifers                                | dol. per cwt.  | May           | 39.00  | + 4.6               | - 1      |
| Hogs  | dol. per cwt.  | May           | 40.70  | +13.1               | - 14     |
| Milk, all sold to plants                          | dol. per cwt.  | May           | 9.40   | - 0.3               | + 2      |
| Broilers  | cents per lb.  | May           | 24.3   | 0                   | - 1      |
| Eggs  | cents per doz. | May           | 49.1   | -11.2               | - 10     |
| <b>INCOME (seasonally adjusted annual rate)</b>   |                |               |        |                     |          |
| Cash receipts from farm marketings                | bil. dol.      | 1st Quarter   | 95.9   | + 5.0               | + 4      |
| Net realized farm income                          | bil. dol.      | 1st Quarter   | 22.5   | +10.8               | 0        |
| Nonagricultural personal income                   | bil. dol.      | April         | 1,459  | + 0.8               | + 11     |
| <b>FARM FINANCE</b>                               |                |               |        |                     |          |
| Total deposits at agricultural banks <sup>1</sup> | 1972-73=100    | May           | 168    | + 0.5               | + 12     |
| Time deposits                                     | 1972-73=100    | May           | 203    | + 1.6               | + 18     |
| Demand deposits                                   | 1972-73=100    | May           | 126    | - 1.9               | + 5      |
| Total loans at agricultural banks <sup>1</sup>    | 1972-73=100    | May           | 197    | + 1.7               | + 16     |
| <b>Production credit associations</b>             |                |               |        |                     |          |
| loans outstanding:                                |                |               |        |                     |          |
| United States                                     | mil. dol.      | April         | 12,929 | + 2.8               | + 13     |
| Seventh District states                           | mil. dol.      | April         | 2,424  | + 1.8               | + 20     |
| loans made:                                       |                |               |        |                     |          |
| United States                                     | mil. dol.      | April         | 1,874  | -14.7               | + 9      |
| Seventh District states                           | mil. dol.      | April         | 403    | -22.4               | + 16     |
| <b>Federal land banks</b>                         |                |               |        |                     |          |
| loans outstanding:                                |                |               |        |                     |          |
| United States                                     | mil. dol.      | April         | 19,625 | + 1.5               | + 16     |
| Seventh District states                           | mil. dol.      | April         | 3,898  | + 2.1               | + 23     |
| new money loaned:                                 |                |               |        |                     |          |
| United States                                     | mil. dol.      | April         | 404    | -26.8               | + 16     |
| Seventh District states                           | mil. dol.      | April         | 105    | -47.4               | + 26     |
| <b>Interest rates</b>                             |                |               |        |                     |          |
| Feeder cattle loans <sup>2</sup>                  | percent        | 1st Quarter   | 8.71   | - 0.3               | - 1      |
| Farm real estate loans <sup>2</sup>               | percent        | 1st Quarter   | 8.92   | - 0.2               | 0        |
| Three-month Treasury bills                        | percent        | 5/26-6/1      | 5.02   | + 8.0               | - 9      |
| Federal funds rate                                | percent        | 5/26-6/1      | 5.36   | + 4.1               | - 3      |
| Government bonds (long-term)                      | percent        | 5/30-6/3      | 7.68   | - 0.5               | - 6      |
| <b>AGRICULTURAL TRADE</b>                         |                |               |        |                     |          |
| Agricultural exports                              | mil. dol.      | March         | 2,293  | +12.1               | + 22     |
| Agricultural imports                              | mil. dol.      | March         | 1,300  | +15.4               | + 35     |
| <b>FARM MACHINERY SALES</b>                       |                |               |        |                     |          |
| Farm tractors                                     | units          | April         | 19,947 | +18.0               | + 4      |
| Combines  | units          | April         | 1,812  | +66.7               | 0        |
| Balers  | units          | April         | 937    | -16.4               | - 1      |

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

<sup>2</sup> Average of rates reported by district agricultural banks.