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Federal Reserve Bank of Chicago -

February 17, 1956

1956 SUPPORT PRICES and acreage allotments on some important Midwest crops have recently been announced by the Department of Agriculture. These announcements are made each year at this time so that farmers can weigh their effect when making plans for the next year's farm operations. This year, however, there is the real possibility that farm legislation may be enacted which would change the support levels for some or all of these crops.

The corn acreage allotment is designed to provide a "normal supply" of corn in the coming marketing year. Because of the large carry-over of corn, allotments are expected to average 15 per cent smaller than in 1955. In addition to the smaller allotment, corn will be supported at an average price of \$1.40 per bushel, down 18 cents from the 1955 support price of \$1.58. Substantially smaller corn supports and allotments raise the question of how many farmers will comply with allotments and hence be eligible for price support loans. If participation in the program is large, livestock feeding operations may be held in check. On the other hand, if participation is low, farmers would probably expand their feeding operations..

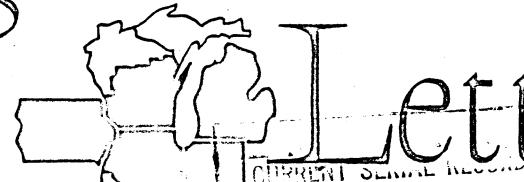
Other 1956 crop support prices that have been announced recently by the USDA and the 1955 support price are as follows:

| | <u>1955</u> | <u>1956</u> |
|-------------------------|-------------|-------------|
| Oats, bu..... | \$.61 | \$.59 |
| Barley, bu..... | .94 | .93 |
| Grain sorghums, cwt.... | 1.78 | 1.80 |
| Rye, bu..... | 1.18 | 1.16 |
| Soybeans, bu..... | 2.04 | 2.15 |
| Flaxseed, bu..... | 2.91 | 3.09 |
| Cottonseed, ton..... | 46.00 | 48.00 |

Higher supports are indicated for the oilseeds despite larger production. Strong domestic and export demand resulted in a reduction of stocks last year, and they are expected to decline further by the end of the current marketing year, next October 1. On the other hand, price supports of feed grains have been lowered, except for grain sorghums, as stocks continue to mount.

DAIRYING in 1955 was one of the few major farm enterprises that showed some improvement over last year. Despite a slightly larger production than in 1954, prices averaged about the same and even higher in some milksheds. Total cash receipts from the sale of dairy products, therefore, exceeded the 4.1 billion dollars of 1954. Moreover, feed costs averaged about 10 per cent lower. As a result, net returns from the dairy enterprise improved substantially relative to other major livestock enterprises such as cattle and hogs.

Agricultural Letter



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U. S. DEPARTMENT OF AGRICULTURE

Price stability of milk during the past two years, despite greater production, was due to price support purchases and to a relatively greater utilization of milk in fluid forms (that carry a higher price) than for manufacturing purposes. The improved utilization is due to the school lunch program, increased purchases by the military, a stepped-up advertising program and an increase in population and income.

For a group of important markets, sales of whole milk in 1955 were over 4 per cent larger than in 1954. This rate of gain is about double the average annual increase of preceding years. In addition, consumption of butter exceeded 1954 by about 8 per cent. Such gains are important to the industry as together these two products account for three-fourths of all milk consumed.

Milk production has exceeded the corresponding year-earlier period in recent months. During January it flowed at a rate that was 5 per cent above January 1954.

The substantial increase is due to a favorable milk-feed price ratio and the relative profitability of the dairy enterprise compared with hogs and cattle. Many farmers milking cows are again finding that their milk checks provide a dependable source of income and a particularly valuable one during the past fall and winter when receipts from other sources didn't come up to expectations. For these reasons milk production in 1956 is expected to exceed 1955 by a substantial margin, and dairy prices could once again be under downward pressures unless consumption continues to make rather spectacular gains. And recent acceleration of support purchases indicates that production has outdistanced consumption. In January, butter purchases were more than double those of 1955. Purchases of cheese were up 17 per cent, and those of nonfat dry milk solids by 75 per cent.

The Agriculture Department announced early this week that current dairy price support levels will be continued through the marketing year which begins April 1, 1956. However, proposals to raise the minimum support level from 75 to 80 per cent of parity and a stepped-up school lunch program are both before Congress and could influence dairy product prices in the year ahead.