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Federal Reserve Bank of Chicago --

June 21, 1957

Agricultural Letter

THE DAIRY INDUSTRY moves into the spotlight in June. Seasonally large supplies and low prices provide the industry with the principal ingredients for launching its annual promotional activity. In recent years, this sales effort has taken on additional importance as production has persistently exceeded consumption.

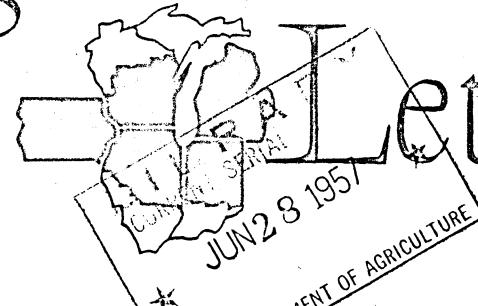
Milk production	Price support purchases	Government purchases as a per cent of annual output
(million pounds)		
1950	116,602	3,666
1951	114,681	13
1952	114,671	348
1953	120,221	9,981
1954	122,094	9,141
1955	123,128	4,747
1956	125,698	5,173

* Less than one-half of one per cent.

The "surplus gap" as measured by Government purchases has not changed substantially since 1955, and this year purchases of about 4 per cent of output on a milk-equivalent basis are again in prospect. Thus, a basic imbalance in the industry continues even though CCC stocks of dairy products have largely been erased.

Per capita consumption of dairy products has increased only slightly since the low reached in 1953, and most of the gain represents distribution of dairy products through noncommercial outlets—school lunch, institutions and donations to the needy. While the growth in population alone expands the market by about 2 billion pounds each year, total milk production has been increasing nearly as fast. Moreover, a higher portion of the output has been sold as whole milk, and relatively less milk is being used on farms or sold as farm-separated cream. These production and marketing trends are expected to persist for some time to come. Thus, if the "surplus gap" is to be closed at present prices, additional market outlets must be found.

MILK PRODUCTION in the first five months of this year was about 1 per cent above the corresponding period a year ago. For the entire year, the gain in milk output may be close to 2 billion pounds even though there are fewer milk cows on farms than last year. Excellent pasture and the continued high rate of concentrate feeding in most major producing areas assure a new record output per cow. In the past decade production per cow has risen to over 6,000 pounds or 20 per cent. The gain has more than offset the downward trend in dairy cow numbers, and total output has risen by about 10 per cent since 1947.



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Prices received by farmers for milk in early 1957 averaged somewhat above year-ago levels and are expected to continue near year-earlier for the remainder of 1957. A higher portion of the milk supply used in fluid form and a continuation of price supports at last year's level largely account for the higher prices.

With milk production above year ago and prices the same or higher, cash receipts from the sale of dairy products are likely to show an increase for the third consecutive year. In many Midwest markets, however, lower milk prices will restrict any income gain. In April, for example, blend prices received by farmers in several Midwest markets were below year ago.

	Blend prices received by farmers April 1957	Per cent change from year ago
Chicago	\$3.45	-3
Detroit	3.92	-4
Milwaukee	3.58	-3
South Bend-LaPorte	3.73	-2
Quad-Cities	3.48	-1
Cedar Rapids-Iowa City	3.47	+5
Omaha-Lincoln-Council Bluffs ..	3.93	0
U. S. average price received by farmers for milk	3.99	+4

DAIRY FARMERS are making rapid strides in reducing costs per unit of output. Among the more spectacular recent developments has been the adoption of bulk milk handling techniques. Benefits accrue in the form of lower costs of handling, hauling, reduced spillage and higher quality product.

Conversion to bulk handling began about 1950 in most Midwest areas, but the rapidity of its adoption has varied substantially. For example, in Fort Wayne, Muskegon and Sioux City no milk was received in bulk from producers in early 1957 but in Cedar Rapids and Milwaukee 93 and 76 per cent, respectively, of the milk was received in bulk deliveries. For other selected Midwest markets the proportion of the milk received from bulk producers is as follows: Chicago 43%, Detroit 9%, Dubuque 24%, Quad-Cities 28% and South Bend-LaPorte 47%.