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Federal Reserve Bank of Chicago - -

May 12, 1961

DAIRY SURPLUSES are here again, reflecting the effects of both rising milk production and higher support prices for dairy products. Cheese purchases under the Government price support program during April totaled 1.2 million pounds, the largest since October 1959. During the 12 months ending March 31 the Government bought only 228,000 pounds, with no purchases from August through February.

Butter purchases in April were 32.7 million pounds, more than twice the year-earlier purchases. The amount of nonfat dry milk acquired during April was 40.5 million pounds, substantially below the year-earlier figure of 113 million pounds, but processor sales to the Government in March, for delivery during the next six months, totaled 344.8 million pounds.

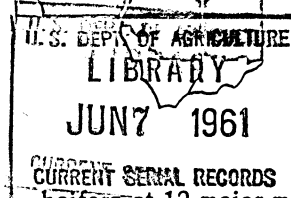
During 1960, milk production resumed an upward trend; in 1961 it is expected to be well above the 122.9 billion pounds produced last year and may equal the record 124.9 billion pounds produced in 1956. Even before the Secretary of Agriculture increased dairy support prices in March, the abundance of relatively cheap feed and continuation of the steady uptrend of output per cow was bringing an increase in production. With the additional incentive of support prices on manufactured milk at \$3.40 per hundred pounds compared with \$3.06 a year ago, and similar increases for butterfat, cheddar cheese and dry milk, milk production may increase at an accelerated rate.

While prices received by farmers for milk in 1961 will average higher than in 1960, the increase is likely to be somewhat smaller than the increase in price supports. Manufacturing milk prices during the last part of 1960 were held above support levels by a strong demand for milk used in the manufacture of cheddar cheese.

LIVESTOCK PRICES have held relatively stable this year in contrast to an advance early last year. Lower prices have been recorded for cattle and lambs but somewhat higher prices for hogs. For the remainder of this year, prices of cattle and hogs may show unusual stability, with cattle prices averaging close to last year and hog prices averaging somewhat above last year though dropping below year earlier in the fall.

Prices of Choice cattle at Chicago have dropped nearly \$4 per hundredweight in the past four months. Some observers have noted that prices of Choice cattle have been substantially below year earlier while total commercial slaughter of cattle and total red meat supplies have been only slightly higher than last year. The explanation, they have noted, lies in the current business recession and the consequent depressing effect on consumer demand as well as greater competition from broilers and turkeys. One other important factor also may be mentioned—marketings of prime and Choice steers and

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~~heifers at 12 major markets~~ during April were 24 per cent larger than year earlier while marketings of the lower grades were slightly smaller than in April 1960. Prime and Choice grades accounted for 48 per cent of the total.

WET, COLD WEATHER during April and early May has held field operations well behind normal in the Corn Belt. This may be encouraging farmers to sign up for the 1961 feed grain program in order to ease some of the pressure for completing plowing and planting in a timely fashion. The USDA reports that through May 7 more than 11 million acres of corn land and 1.2 million acres of sorghum land had been signed up for retirement this year. Farms signed up thus far include nearly one-third of the corn acreage planted the past two years and the acreage retired thus far represents about 13 per cent of the U. S. average planted acreage.

Iowa is the leading state with nearly 55 per cent of the 12.4 million acres normally planted to corn signed up in the program. Nearly 2.3 million acres or 19 per cent of the state total will be idled under the program. This represents more than one-third of the base acreage on the farms signing up in the program which suggests many producers are putting the maximum acreage into the program.

Weather has been cold and dry in the western states. From the first of April to the first of May, range conditions deteriorated in the West instead of a normal seasonal improvement, and South Dakota range feed is reported to be at the lowest May 1 level since 1937. While some needed moisture was received at the beginning of May, subsoil moisture is deficient in many areas and generous additional moisture is needed over the Northern Plains (the Dakotas, Montana and Wyoming). Portions of west and central Texas are becoming dry, and in the intermountain region poor pasture conditions extend from southern Idaho through Utah and Nevada into southern California and Arizona. Irrigation water is also expected to be below normal following last winter's small snow pack in the mountains.

If drought continues in these areas or extends to other areas there would likely be a slowing in the expansion of cattle numbers in breeding herds and a consequent increase in marketings of lower-grade animals.

Research Department