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Federal Reserve Bank of Chicago - -

March 1, 1963

DAIRY SURPLUS purchases by the Government have increased dramatically during the past two years, occurring after what seemed to be a steady downtrend in dairy surpluses during the last half of the Fifties. In 1960 just over 4 per cent of total milk production was purchased by the Government, about half the previous high in 1953. Yet in 1962 a record 10 per cent of the milk supply was diverted from normal market channels by the Government.

Government Dairy Purchases Rise Sharply

Year	CCC Net Removals				Total milk removals*	Per cent of output	Cost of CCC removals (millions)
	Total milk output	Butter	Cheese	Nonfat dry milk powder			
1949	116,103	114	26	326	2,882	2.5	\$114
1950	116,602	129	109	358	3,614	3.1	135
1951	114,681	-	1	67	-213	-0.2	(10)**
1952	114,673	16	3	62	388	0.3	18
1953	120,221	359	308	597	10,364	8.6	449
1954	122,094	320	276	649	8,886	7.3	348
1955	122,945	162	150	536	5,685	4.6	218
1956	124,860	165	188	725	6,939	5.6	270
1957	124,628	174	242	825	7,955	6.4	312
1958	123,220	184	80	886	6,608	5.4	255
1959	121,981	124	57	830	5,396	4.4	203
1960	122,803	145	-	853	5,153	4.2	198
1961	125,456	330	100	1,086	9,995	8.0	402
1962	125,900	403	203	1,300	12,766	10.1	493

*Milk equivalent of cheese is based on a product yield of 10 pounds per hundredweight; milk equivalent of butter and nonfat dry milk powder is based on a value weight of product yields. **Net return to the Government from product sales.

The purchases last year included record amounts of both butter and nonfat dry milk powder though purchases of cheese were well below the 1953 peak. Purchases of dry milk powder have climbed almost steadily since the end of the Korean War.

Costs of these Government purchases have also risen. The direct cost to the Government of diverting butter, cheese and milk powder from commercial channels totaled nearly \$500 million in 1962. This is over 2½ times the cost in 1960 when no cheese was removed from the market and butter purchases were only one-third the level of 1962.

In part, the explanation can be found in dairy price support levels. During the first part of 1960 the manufactured milk price support was \$3.07 per 100 pounds but by the spring of 1961 these supports had been raised in two steps to \$3.40, an 11 per cent increase. Undoubtedly higher prices provided substantial incentive for some farmers to expand their production. However, the increase in price support came after market prices for some dairy products had risen during 1960 and supports were boosted about in line with the higher market prices. Thus at the beginning of 1961 the higher market prices themselves were stimulating production. Only later in the year did the support prices provide an important incentive to increase milk production.

However, it should be emphasized that dairy support prices are directly related to farm prices of only half the milk produced in the United States. Farm prices of the other half—which are under milk market orders—are substantially above the level of manufactured milk prices largely because of Government regulations setting the price of fluid milk at high levels.

Manufacturing Milk Production up Sharply in Areas Under Federal Order Regulation*

Year	Total milk deliveries	Manufacturing milk	
		Class 1 milk	Manufacturing milk
1955 ...	28,948	18,037	10,912
1956 ...	31,104	19,341	11,763
1957 ...	32,816	20,702	12,114
1958 ...	33,426	20,991	12,435
1959 ...	34,243	21,681	12,562
1960 ...	36,356	22,865	13,491
1961 ...	38,577	22,583	15,994

*Includes only 61 markets under Federal order regulation from 1955 through 1961. Excludes markets for which order regulations became effective after 1955. These numbered 27 in 1961.

With this incentive to increase production, the major growth in milk production has come largely in those areas covered by milk market orders and, therefore, areas where the average price of milk received by farmers is substantially higher than the support price for manufactured milk. Moreover, this increase in production has been due to high average prices in milk market orders, not to price supports. Since milk production in these areas has increased at a faster rate than the rise in fluid consumption, substantial quantities of milk have been diverted to manufacturing uses in the order areas. And, as the local markets for manufactured dairy products have been supplied increasingly from these areas, the Midwest producers of milk for manufacturing have found their products going more and more to the Government.

Research Department

CONFERENCES ON AGRICULTURAL CREDIT have been announced for four states in the Seventh District. The dates are as follows:

- Agricultural Clinic, Purdue University, March 13-14
- Agricultural Finance Conference, Kellogg Center, Michigan State University, April 17
- Agricultural Credit Conference, Iowa State University, March 12-13
- Agricultural Credit Conference, University of Illinois, April 3-4

Further information may be obtained from the respective universities or state banking associations.

FARM BUSINESS CONDITIONS

January 1963, with comparisons

I T E M S	1963	1962	
	January	December	January
PRICES:			
Received by farmers (1947 - 49 = 100)	90	89	89
Paid by farmers (1947 - 49 = 100)	124	124	122
Parity price ratio (1910 - 14 = 100)	78	78	80
Wholesale, all commodities (1947 - 49 = 100)	120	119	120
Paid by consumers (1947 - 49 = 100)	130	130	128
Wheat, No. 2 red winter, Chicago (dol. per bu.)	2.13	2.13	2.06
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.20	1.16	1.09
Oats, No. 2 white, Chicago (dol. per bu.)	0.77	0.77	0.73
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.64	2.53	2.48
Hogs, barrows and gilts, Chicago (dol. per cwt.)	17.24	16.45	17.24
Beef steers, choice grade, Chicago (dol. per cwt.)	27.27	28.91	26.39
Milk, wholesale, U.S. (dol. per cwt.)	4.20	4.29	4.39
Butterfat, local markets, U.S. (dol. per lb.)	0.59	0.59	0.61
Chickens, local markets, U.S. (dol. per lb.)	0.14	0.14	0.15
Eggs, local markets, U.S. (dol. per doz.)	0.36	0.36	0.35
Milk cows, U.S. (dol. per head)	216	219	224
Farm labor, U.S. (dol. per week without board)	48.00	--	47.75
Factory labor, U.S. (dol. earned per week)	97.44	98.42	94.88
PRODUCTION:			
Industrial, physical volume (1947 - 49 = 100)	180	180	172
Farm marketings, physical volume (1947 - 49 = 100)	151	147	144
INCOME PAYMENTS:			
Total personal income, U.S. (annual rate, bil. of dol.) ...	452	450	429
Cash farm income, U.S. ¹ (annual rate, bil. of dol.)	--	35	38
EMPLOYMENT:			
Farm (millions)	4.2	4.1	4.4
Nonagricultural (millions)	61.7	63.5	60.6
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average = 100)	112	113	106
Nonagricultural banks (1955 monthly average = 100)	106	111	106
Time deposits:			
Agricultural banks (1955 monthly average = 100)	176	173	151
Nonagricultural banks (1955 monthly average = 100)	188	184	156
¹ Based on estimated monthly income.			

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago