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Federal Reserve Bank of Chicago - -

March 29, 1968

# Agricultural Letter



Number 954

**HIGHER DAIRY PRICE SUPPORTS** were recently announced by the Secretary of Agriculture. Beginning April 1, the support price for manufacturing milk was boosted from \$4 to \$4.38 per hundredweight—the maximum permitted under present legislation.

The move to the higher price support level was surprising in view of developments of the past year. Consumption declined, government stocks increased, and further inroads into the market were made by substitute and imitation dairy products.

Consumption of all types of dairy products except cheese was lower than the year before. Domestic sales of dairy products dropped nearly 5 percent (milk equivalent) from a year before. And although Commodity Credit Corporation donations helped bolster consumption, the total fell about 2 percent. Per-capita consumption by civilians declined about 3 percent.

While the demand for dairy products may have been affected by the slower rise in consumer income and the continued shift away from the use of animal fats, most of the decline in consumption can probably be attributed to higher prices for dairy products. Department of Agriculture estimates indicate a 10-percent increase in prices of milk and cream is usually associated with around a 3-percent decline in the amount consumed.

Retail prices for dairy products averaged about 4.4 percent higher than the previous high in 1966. Most of the increase came in the first seven months. During the last five months, prices averaged only about 1 percent higher.

These prices largely reflected the move to higher support levels in 1966. Price support levels for manufacturing milk were raised in April from \$3.24 per hundredweight to \$3.50 and in June to \$4. That level was maintained until the recent announcement.

Largely because of the drop in commercial sales, it was necessary for the Commodity Credit Corporation to remove large amounts of dairy products from normal market channels to keep prices above the support level. About 7.4 billion pounds (on a milk-equivalent basis)—about 6.5 percent of production—was removed from the market. Less than 1 percent was removed in 1966.

As a result of the recent boost in the support level, milk prices are almost certain to average higher in 1968 than in 1967. Consumption of dairy products, therefore, is expected to decline further this year, reflecting both the cutback in demand and the continuing shift to dairy substitutes.

Milk production, which has been less than last year, may be stimulated by the higher prices. As a result, it will again be necessary for the Commodity Credit Corporation to remove a substantial quantity of dairy products from the market.

**Net income per farm** dropped sharply last year from the record high reached in 1966. The Department of Agriculture recently estimated realized net income per farm at \$4,573—nearly 9 percent less than in 1966. The decline largely reflects lower commodity prices and reduced government payments.

## Income Per Farm Drops from Year-earlier Record

	Realized income			
	Gross		Net	
	1967 (dollars)	Change 1966-67 (percent)	1967 (dollars)	Change 1966-67 (percent)
Illinois	21,440	-3	5,892	-21
Indiana	14,465	-4	4,114	-21
Iowa	24,012	-3	5,822	-21
Michigan	11,221	+3	3,396	-9
Wisconsin	13,533	+3	4,664	-6
United States	15,415	+1	4,573	-9

Disposable income of people living on farms last year—including income from farm and nonfarm sources—was estimated at \$1,692 per capita. That, with increased income from nonfarm sources nearly offsetting the decline from farming, was only about \$25 less than the record set in 1966.

Incomes were down more in the Seventh District states than in the nation as a whole. The greatest declines were in the Corn Belt states—Illinois, Indiana, and Iowa. Income per farm in these states dropped more than a fifth. The primary cause of the drop was lower prices for corn, soybeans, and hogs. Government payments to farmers in these states were also curtailed because of reduced participation in the wheat and feed-grains programs.

The same forces were at work in Michigan and Wisconsin, but because of the importance of dairying in those states, the declines in income were less. Income per farm declined 9 percent in Michigan and 6 percent in Wisconsin.

Roby L. Sloan  
Agricultural Economist

# FARM BUSINESS CONDITIONS

## ANNUAL SUMMARY

Items	Calendar Years					
	1940	1950	1955	1960	1966	1967
<b>PRICES:</b>						
Prices received by farmers ..... (1957-59=100) .....	42	107	96	98	110	104
Paid by farmers ..... (1957-59=100) .....	42	88	94	102	114	117
Parity price ratio ..... (1910-14=100) .....	81	101	84	80	80	74
Wholesale, all commodities ..... (1957-59=100) .....	43	87	93	101	106	106
Paid by consumers ..... (1957-59=100) .....	49	84	93	103	113	116
Wheat, No. 2 red winter, Chicago .... (dol. per bu.) .....	0.95	2.22	2.12	1.99	1.76	1.59
Corn, No. 2 yellow, Chicago .... (dol. per bu.) .....	0.63	1.50	1.41	1.16	1.37	1.30
Oats, No. 2 white, Chicago .... (dol. per bu.) .....	0.39	0.85	0.73	0.73	0.77	.76
Soybeans, No. 1 yellow, Chicago .... (dol. per bu.) .....	0.95	2.74	2.50	2.17	3.12	2.80
Hogs, barrows and gilts, Chicago .... (dol. per cwt.) .....	5.80	18.39	15.16	16.05	23.66	19.88
Beef steers, choice grade, Chicago .. (dol. per cwt.) .....	11.86	29.68	23.16	26.24	26.29	26.04
Milk, wholesale, U. S. .... (dol. per cwt.) .....	1.82	3.95	4.04	4.21	4.82	5.03
Butterfat, local market, U. S. .... (dol. per lb.) .....	0.28	0.62	0.58	0.60	0.66	0.66
Chickens, local markets, U. S. .... (dol. per lb.) .....	0.14	0.25	0.24	0.16	0.15	0.13
Eggs, local markets, U. S. .... (dol. per doz.) .....	0.18	0.37	0.40	0.36	0.39	0.31
Milk cows, U. S. .... (dol. per head) .....	61	198	146	223	245	260
Farm labor, U. S., without board <sup>2</sup> .... (dol. per wk.) .....	27.50	31.00	38.00	45.75	55.75	59.94
Factory labor, U. S. .... (dol. earned per wk.) ....	24.96	58.32	75.70	89.72	112.17	114.90
<b>PRODUCTION:</b>						
Industrial ..... (1957-59=100) .....	44	75	97	109	156	158
Farm marketings <sup>3</sup> ..... (1957-59=100) .....	64	83	96	107	121	124
<b>INCOME:</b>						
Total personal ..... (bil. of dol.) .....	79	229	310	401	580	626
Farm:						
Cash receipts from marketings .... (bil. of dol.) .....	8.4	28.5	29.9	34.0	43.2	42.5
Farm operators' net, total ..... (bil. of dol.) .....	4.6	14.0	11.8	12.0	16.2	14.9
Farm operators' net, per farm .... (dol.) .....	720	2,479	2,529	3,044	4,988	4,705
Farmer's income, per capita, from all sources ..... (dollars) .....	250	884	960	1,255	1,717	1,692
<b>EMPLOYMENT:</b>						
Farm ..... (mil.) .....	9.5	7.5	6.7	5.7	4.0	3.9
Nonagricultural ..... (mil.) .....	37.9	52.5	56.2	61.0	68.9	70.5
<b>FINANCIAL (District Member Banks):</b>						
Demand deposits:						
Agricultural banks ..... (1957-59 mo. avg.=100)	--	--	96	97	122	122
Nonagricultural banks ..... (1957-59 mo. avg.=100)	--	--	98	101	117	120
Time deposits:						
Agricultural banks ..... (1957-59 mo. avg.=100)	--	--	84	112	230	261
Nonagricultural banks ..... (1957-59 mo. avg.=100)	--	--	85	110	246	281

<sup>1</sup>Preliminary estimates.

<sup>2</sup>Estimates based on monthly wage rates for years prior to 1948.

<sup>3</sup>Revised series.

<sup>4</sup>Revised series.