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Federal Reserve Bank of Chicago --

May 26, 1972

RECEIPTS TO DAIRY FARMERS have been boosted by higher prices and increased production. Prices received by farmers for all milk sold to plants, although declining seasonally, averaged \$6.08 per hundredweight during the first quarter, up nearly 3 percent from the same period in 1971. Total milk production during the period rose 2 percent from the year-earlier level—about half of this gain reflecting the extra day in February. Combined, these two factors boosted first-quarter cash receipts from dairying by about 5 percent.

Year-to-year price gains for milk during the remainder of 1972 are likely to be smaller. Most of the price advances during the first quarter undoubtedly reflected the higher price supports in effect during the 1971-72 marketing year which ended March 31. For the current marketing year, which began April 1, the support level for manufacturing milk remains unchanged at \$4.93 per hundredweight. Prices are supported by government purchases of manufactured dairy products—butter, cheese, and nonfat dry milk.

Further anticipated gains in milk production should also limit year-to-year increases in milk prices in the months ahead. Although favorable slaughter cow prices will encourage some farmers to cull their dairy herds closely, a plentiful supply of herd replacements will encourage others to expand herd size. As a result, cow numbers may decline only 1 percent this year—a rate comparable to the previous two years but considerably less than the 4 percent average annual declines recorded in the last half of the Sixties. The small decline in cow numbers will be more than offset by increased output per cow. Comparatively low feed prices will undoubtedly result in heavier feeding and boost output per cow by about 2 percent—the same as in 1971. The milk-feed price ratio—pounds of concentrate ration equal in value to one pound of milk—averaged 10 percent above the year-earlier level during the first quarter.

Larger production and somewhat higher prices are expected to boost cash receipts from marketings of milk and cream to a new high of around \$7 billion this year, compared to last year's \$6.8 billion. District states will likely account for more than one-fourth of the gain. Higher costs, however, may offset most of the increased receipts. In 1971, net farm income on a hypothetical 40-cow dairy farm in southeastern Wisconsin declined slightly from the year-earlier level, even though cash receipts rose nearly 3 percent. Nevertheless, net farm income was more than one-fourth above the average annual levels during the last half of the Sixties.

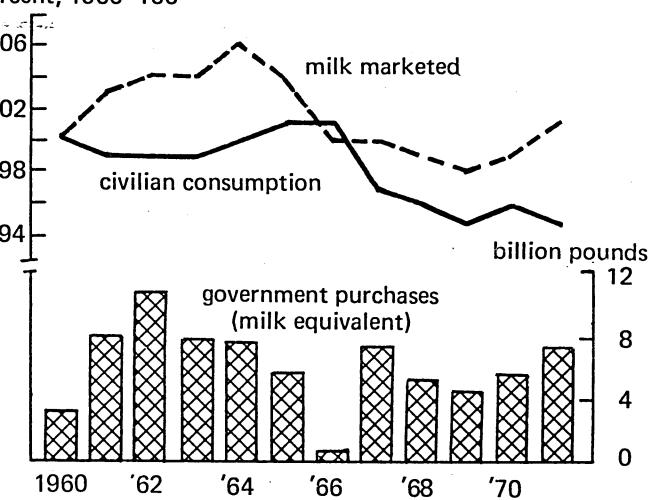
Government support purchases are likely to be large again this year in the face of rising production and further lags in consumption. Last year, practically all of the increase in milk marketed by farmers was absorbed by government support purchases of 7.3 billion pounds of dairy products (milk equivalent)—up more than one-fourth from the previous year and equal to more than 6 percent of the milk marketed by farmers. For



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Increased Production and Declining Consumption
Lead to Higher Government Purchases

Percent, 1960=100



the first quarter of this year, government purchases fell sharply from the year-earlier level, but the decline mostly reflects unusually heavy purchases of butter in March of last year. Butter supports were lowered in April last year, causing processors to sell large quantities to the government in March before the lower price went into effect. Purchases in April of this year were up sharply, and continued gains from year-ago levels are expected during the remainder of this year.

Lagging consumption has plagued the dairy industry for several years—especially since 1969, when production turned upward after several years of declines. Per capita domestic civilian consumption (excluding USDA donations) fell to 533 pounds (milk equivalent) last year—down nearly 2 percent from the previous year and more than 14 percent below the 1961 level. Historically, several factors have contributed to these declines, including steadily rising dairy product prices and changing dietary habits emphasizing lower-fat foods. Currently, the declining proportion of the total population accounted for by children—the big milk drinkers—is becoming an additional important factor. Since these factors are not expected to be reversed, it appears that any improvement in the outlook for utilization and consumption of milk must await the development of new products better suited to changing tastes.

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