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Federal Reserve Bank of Chicago - -

July 6, 1962

Agricultural Letter

MILK PRICES received by farmers in the United States averaged \$3.70 per 100 pounds in June for all wholesale milk—17 cents below a year earlier. The price has dropped 44 cents from March to June this year, somewhat more than a normal seasonal decline reflecting the lowering of dairy price supports on April 1.

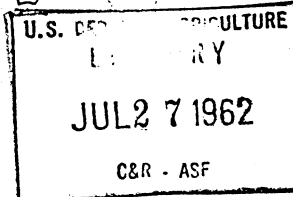
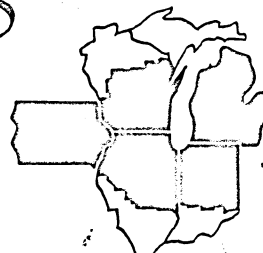
Dairy price supports in the year beginning April 1, 1962, were set by the Secretary of Agriculture at \$3.11 per 100 pounds for manufacturing milk and 57.2 cents per pound for butter fat. In the preceding year price supports had been at \$3.40 and 60.4 cents, respectively.

The price of milk for fluid consumption has declined relatively less than prices of other dairy products. Most of the fluid milk sales are under Federal milk market orders which regulate minimum prices distributors must pay for the milk going into fluid uses. Nevertheless, lower prices for other dairy products tend to reduce the average price farmers receive for milk sold in Federal order markets, although the decline is more gradual than for milk used in manufactured dairy products. Milk sold for fluid uses in May fell 16 cents per 100 pounds from the year-earlier level while manufacturing milk declined 23 cents. However, the impact of changes in support levels of milk sold under market orders may not yet fully reflect the lower supports since prices to farmers set in these milk markets are based on product prices in preceding months.

With milk prices for the rest of 1962 expected to remain lower than the corresponding period of last year, farmers will have less incentive to increase production further. As a result, the U. S. Department of Agriculture has scaled down its estimate of total production slightly, but at 127 billion pounds it would still represent an increase of 2 billion pounds above 1961 volume.

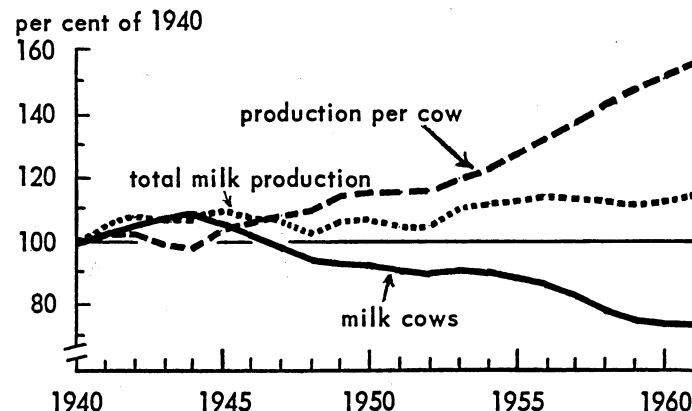
Total milk production, of course, reflects both the number of dairy cows and milk production per cow. When milk prices decline relative to feed prices—as in recent months—farmers tend to feed less grain thereby reducing production somewhat. If milk prices also decline relative to beef prices, farmers tend to send more of the aged or low producing cows to market, also helping to curb production.

These tendencies are clouded by changes in technology. Farmers have developed means of producing a larger quantity of milk with fewer cows. The number of milk cows on farms has declined steadily since 1944, with the exception of the single year, 1953. On the other hand, milk production per cow has increased every year since 1934, with the exception of three years during World War II, 1942-44. In 1961 milk production per cow reached 7,211 pounds—12 per cent above the average level during the 1950's. Among the factors responsible for this persistent progress are improvements in animals, disease control, feeding and management.



Number 660

Rising Output Per Cow Offsets
Declining Cow Numbers



While the number of farmers with milk cows has declined rapidly, modern dairy farmers have increased the size of their business in order to obtain the benefits of the changes in technology. In the states in the Seventh Federal Reserve District, the number of farms with 19 or fewer dairy cows declined by 89 per cent between 1954 and 1959 while the number of farms with 30 or more cows increased by 53 per cent. The total number of farms with milk cows declined 59 per cent.

TURKEY GROWERS rejected the proposed national marketing order in a referendum held in June. Only 43 per cent of the farmers voting favored the proposal and these farmers produce about 50 per cent of the nation's turkeys. To be put into effect, the order had to receive approval of two-thirds of the votes cast (by volume of production or by number of farmers). Except for Wisconsin, none of the key turkey producing states approved the proposed controls.

CORRECTION: In Agricultural Letter Number 659 of June 29, the third paragraph should read a *one* per cent increase in the fall pig crop. The number of sows farrowing is up 2 per cent.

Research Department