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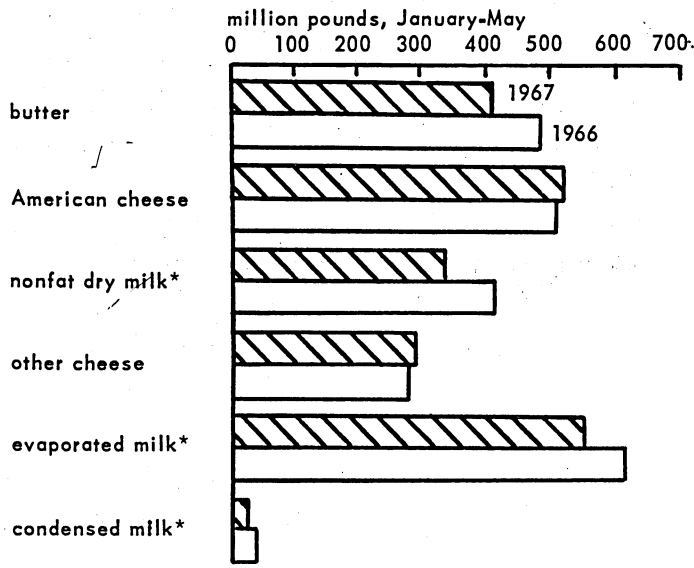
Federal Reserve Bank of Chicago - -

July 14, 1967

DAIRY FARMERS' INCOMES have risen sharply from last year's level. January through April cash receipts from dairy marketings averaged nearly 9 percent above those in the comparable period of 1966. The rise can be attributed largely to higher prices.

The farm price for milk during the first six months of this year averaged about 10 percent above a year ago primarily because of the upward adjustment in the price support level. Price supports on manufacturing milk were raised from \$3.24 per hundredweight to \$3.50 in April and to \$4 in June of last year. The \$4 rate has been maintained since that date.

**Consumption of Many Dairy Products Falls**



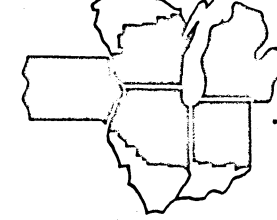
\*January-April.

Consumption of dairy products has dropped well under the year-ago level, largely as a result of the higher prices. U. S. Department of Agriculture estimates indicate that a 10 percent increase in prices of milk and cream is usually associated with around a 3 percent decline in the quantity consumed. This was roughly the experience during the first part of this year. Increased prices were also probably responsible for reduced consumption of butter, evaporated milk and nonfat dry milk. Demand for dairy products was also affected by the slower rise in consumer incomes, the availability of relatively low-priced substitutes (such as margarine and filled milk) and the continued trend away from consumption of animal fats. Overall, milk consumption of all dairy products (on a milk-equivalent basis) during the first five months of 1967 fell 5 percent from the comparable year-earlier level.

Milk production in the nation during the first five months of the year exceeded the year-earlier output by only a small margin. Colder weather in the major milk producing states retarded development of pastures but this was offset by an increased feeding of grains and concentrates.

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# Agricultural



# Letter

Number 917

Although production gains from the relatively low 1966 level have been quite small, large Government purchases of dairy products have been necessary (mainly because of the drop in consumption) in order to maintain prices above the price support level. In January through May, about 4.2 billion pounds (on a milk equivalent basis) or about 8 percent of production was diverted from normal market channels by the Commodity Credit Corporation. This compares to purchases of only 200 million pounds during the same period of 1966.

Increased imports also probably contributed to the larger Commodity Credit Corporation purchases during the first part of this year. Imports of dairy products expanded rapidly during 1966 and continued to rise sharply during the first part of 1967. During the January through April period dairy imports were equivalent to 1.4 billion pounds of milk, about double the amount of the year-earlier period. Imports not subject to quotas, such as butter fat mixtures and colby cheese, accounted for most of the increase.

These imports will be greatly curtailed during the remainder of the year, however. On June 30, the President proclaimed quotas on those items not heretofore covered. As a result of these new quotas, 1967 imports of dairy products are expected to be held at about the previous year's level of about 2.8 billion pounds (milk equivalent). Starting in 1968 dairy imports will be limited to around 1 billion pounds per year.

The curtailment of these imports probably will not have much impact on prices received for dairy products over the next few months unless domestic demand for these products rises sharply during the remainder of the year. However, the lower imports probably will result in smaller purchases by the Commodity Credit Corporation.

Much of the increase in the nonquota imports during the first part of this year presumably was in anticipation of the restrictions expected to be placed on these products. This, coupled with reduced consumption of dairy products, resulted in sizable increases in stocks. Storage stocks of manufactured dairy products were estimated at 7.8 billion pounds (milk equivalent) on June 1, up about 3 billion from the same date a year ago. Government stocks were about 2.4 billion pounds—up from a negligible amount last year—and commercial stocks were up 10 percent and the highest in several years.

Roby L. Sloan  
Agricultural Economist

FARM BUSINESS CONDITIONS

April 1967 with Comparisons

I T E M S	1967		1966
	April	March	April
<b>PRICES:</b>			
Received by farmers (1957-59=100) . . . . .	101	103	110
Paid by farmers (1957-59=100) . . . . .	116	116	114
Parity price ratio (1910-14=100) . . . . .	72	74	80
Wholesale, all commodities (1957-59=100) . . . . .	106	105	106
Paid by consumers (1957-59=100) . . . . .	115	115	113
Wheat, No. 2 red winter, Chicago (dol. per bu.) . . . . .	1.73	1.80	1.64
Corn, No. 2 yellow, Chicago (dol. per bu.) . . . . .	1.38	1.41	1.31
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.76	.78	.75
Soybeans, No. 1 yellow, Chicago (dol. per bu.) . . . . .	2.88	2.91	2.98
Hogs, barrows and gilts, Chicago (dol. per cwt.) . . . . .	17.81	18.66	22.43
Beef steers, choice grade, Chicago (dol. per cwt.) . . . . .	24.66	24.67	27.98
Milk, wholesale, U. S. (dol. per cwt.) . . . . .	4.77	4.95	4.45
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.66	.66	.62
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.13	.14	.15
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.30	.35	.38
Milk cows, U. S. (dol. per head) . . . . .	257	256	242
Farm labor, U. S. (dol. per week without board) . . . . .	58.75	--	55.25
Factory labor, U. S. (dol. earned per week) . . . . .	112.56	112.44	111.24
<b>PRODUCTION:</b>			
Industrial, physical volume (1957-59=100) . . . . .	156	156	153
Farm marketings, physical volume (1957-59=100) . . . . .	93	97	87
<b>INCOME PAYMENTS:</b>			
Total personal income, U. S. (annual rate, bil. of dol.)	614.1	612.7	570.5
Cash farm income, U. S. <sup>1</sup> (annual rate, bil. of dol.) . .	45.8	47.4	45.2
<b>EMPLOYMENT:</b>			
Farm (millions) . . . . .	3.7	3.4	4.2
Nonagricultural (millions) . . . . .	69.7	69.1	68.9
<b>FINANCIAL (District member banks):</b>			
Demand deposits:			
Agricultural banks (1957-59=100) . . . . .	121.0	119.6	122.0
Nonagricultural banks (1957-59=100) . . . . .	252.6	249.3	224.7
Time deposits:			
Agricultural banks (1957-59=100) . . . . .	118.9	114.5	120.6
Nonagricultural banks (1957-59=100) . . . . .	273.6	272.3	242.9
<sup>1</sup> Based on estimated monthly income.			

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