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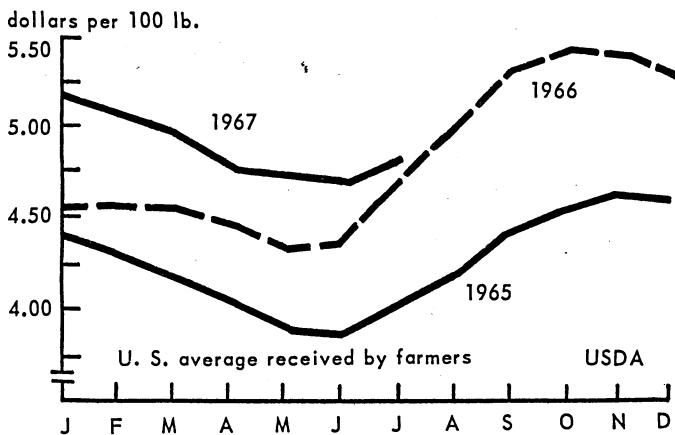
October 6, 1967

SURPLUS DAIRY STOCKS are again building up. Purchases by the commodity credit corporation have increased sharply during the first eight months of 1967 and have amounted to about 6.7 billion pounds (on a milk equivalent basis) or, about 8 percent of production. The commodity credit corporation purchases dairy products in order to maintain prices above the price support levels. Purchases during the same period a year ago amounted to only about 200 million pounds.

The surplus has been caused mainly by a sharp drop in consumption of dairy products, although increased imports and a decline in commercial stocks from the relatively high year-earlier level have also contributed. Consumption of all types of dairy products, with the exception of cheese, has been at a lower level than last year. Overall civilian and military purchases during the first seven months dropped more than 5 percent below those in the comparable year-earlier period.

The decline in consumption can be attributed largely to higher milk prices. Price supports for manufacturing milk were raised from \$3.24 per hundredweight to \$3.50 in April and to \$4 in June of last year. The \$4 level has been maintained since that date. Reflecting this, prices received by farmers for milk through the first eight months of the year have averaged nearly 10 percent above the year-ago level. Retail prices for milk during January through June averaged about 6 percent higher, and prices of processed dairy products were up even more. In addition, the demand for dairy products has been affected by a somewhat smaller rise in consumer incomes than last year, the availability of relatively low priced substitutes and the continued downward trend in consumption of animal fats. In spite of higher farm prices for milk, production has nevertheless lagged behind year-ago levels.

Milk Prices Approach Year-Earlier Level



Milk production continued to run slightly below year-earlier levels during August, bringing the total for the first eight months to just under that of last year. Milk output for the entire year is now expected to total around 120 billion pounds, according to the U. S. Department of Agriculture. This would be slightly less than the 1966 total output and the smallest since 1952.



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Farmers have continued to reduce the number of dairy cows and to achieve greater output per cow. Through the first seven months, the production per cow was more than 4 percent above the 1966 level. This undoubtedly reflects the effects of stepped-up grain feeding in response to improved milk prices relative to feed prices and of favorable pasture conditions.

Number of Dairy Cows Declines Further

	1966 (thousand head)	1967	Change (percent)
Illinois	390	362	-7
Indiana	300	279	-7
Iowa	658	632	-4
Michigan	543	516	-5
Wisconsin	1,990	1,950	-2
United States	14,124	13,578	-4

The milk-feed price ratio was very favorable thus far this year, averaging about 3 percent higher than a year ago. Moreover, pasture conditions have been good throughout most of the nation.

The number of milk cows on farms at midyear was estimated at 13.6 million, down around 4 percent from a year ago. This was somewhat larger than the average annual decline of about 3.4 percent during the past decade but well below the 6 percent decline of last year. The number of dairy cows also declined rapidly in the Seventh District states.

The slower decline in dairy cattle thus far this year reflects the response of farmers to the higher milk prices and lower beef cattle prices; but these developments are not expected to halt the decline. Costs of producing milk (except feed costs) are rising, and prices received by farmers during the remainder of the year are expected to average below the high levels of a year ago. Moreover, the more rapid expansion in economic activity expected during the months ahead may attract workers out of agriculture and cause more dairy farmers to sell their herds and to seek off-farm employment.

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FARM BUSINESS CONDITIONS

July 1967 with Comparisons

I T E M S	1967		1966
	July	June	July
PRICES:			
Received by farmers (1957-59=100)	106	105	110
Paid by farmers (1957-59=100)	118	117	114
Parity price ratio (1910-14=100)	80	74	80
Wholesale, all commodities (1957-59=100)	107	106	106
Paid by consumers (1957-59=100)	117	116	113
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.50	1.58	1.90
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.31	1.38	1.43
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.75	.77	.77
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.83	2.90	3.59
Hogs, barrows and gilts, Chicago (dol. per cwt.)	22.90	22.46	25.11
Beef steers, choice grade, Chicago (dol. per cwt.)	26.40	25.88	25.41
Milk, wholesale, U. S. (dol. per cwt.)	4.80	4.68	4.71
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.66	.65	.67
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.14	.13	.16
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.30	.27	.36
Milk cows, U. S. (dol. per head)	262	259	245
Farm labor, U. S. (dol. per week without board)	65.00	--	59.25
Factory labor, U. S. (dol. earned per week)	113.24	113.81	111.11
PRODUCTION:			
Industrial, physical volume (1957-59=100)	157	155	157
Farm marketings, physical volume (1957-59=100)	116	110	111
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	626.7	622.6	584.7
Cash farm income, U. S. ¹ (annual rate, bil. of dol.)	44.6	47.8	44.6
EMPLOYMENT:			
Farm (millions)	4.5	4.4	5.0
Nonagricultural (millions)	71.7	71.0	71.4
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	119.6	119.3	119.5
Nonagricultural banks (1957-59=100)	120.8	118.1	116.9
Time deposits:			
Agricultural banks (1957-59=100)	263.7	260.9	232.5
Nonagricultural banks (1957-59=100)	284.9	281.0	249.5
¹ Based on estimated monthly income.			

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