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THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

RECEIVED
AUG 23 1947
FEDERAL RESERVE BANK OF CHICAGO

August 28, 1947

If occasionally this Letter emphasizes general economic conditions rather than direct farm matters, it is because nothing is quite as important in determining farm commodity prices and farm income as the demand for farm products set by the level of general economic activity in the nation. Measured in terms of dollars, business activity throughout the economy during the first half of 1947 continued to hold at near record levels, according to figures released this week by the Federal Reserve Board and the Department of Commerce. But the figures conceal the fact that there is more shadow than substance in such a showing, for the dollar figures are misleading because of the price inflation that continues. Actually there are weaknesses developing in some lines when physical activity is examined, and some of these weaknesses are danger signs.

Looking first, however, at the dollar figures as such, the Department of Commerce reports that income payments to individuals were at all-time high points in many states in 1946, nine per cent above 1945 for the nation, with Iowa leading the procession at 27 per cent above 1945. The overwhelming predominance of agriculture in that state illustrates clearly the importance of general "prosperity" to agricultural income.

The dollar incomes of individuals increased further during the first half of 1947 at a rate of about 12 per cent above 1946, but after allowance is made for the rising prices (increased cost of living) the "real" income for the first half of 1947 was actually at a rate seven per cent below the first half of 1946. Thus a continuing price squeeze on consumers is actually reducing their real buying power (in terms of real goods and services).

This is one of the danger signs, and it is reflected in Department of Commerce figures on employment for July just released. They show a decline from June in employment in non-agricultural establishments of 277,000 persons, or three-fourths of one per cent, after allowing for usual seasonal fluctuations. The biggest drop was in manufacturing. While iron and steel shortages in locomotive works and the automobile industry were major factors, declining demand and lower orders were important also, particularly in the machine tool, non-ferrous metals, radio, rubber, and furniture industries.

Further evidence of the price squeeze on consumers is shown in studies by the Federal Reserve Board which show that for 1946 money incomes of "spending units" (mostly families) of less than \$3,000 a year accounted for 36 per cent of all income in 1946 compared with 44 per cent in 1945, but they saved only four per cent of the nation's smaller 1946 net savings compared with 24 per cent of the larger total national net savings in 1945. The importance of this change is underscored by the fact that those with incomes under \$3,000 constitute two-thirds of the total spending units.

Exports of industrial goods and farm products have been a tremendous factor in sustaining a high level of economic activity in this country. The Department of Commerce reports that the dollar volume of all exports declined 13 per cent in July from the June figure. With the tightening world credit and "dollar exchange" situation this could be "only the beginning," unless the Marshall Plan soon is formulated into specific financial aid in terms of magnitudes larger than most of us like to contemplate.

The outlook for dairy products as seen by USDA suggests continued strong demand for the remainder of 1947 but at levels below the last half of 1946. Exports are expected to run less than half of last year. Fluid milk consumption continues to decline, and although cow numbers at midyear were two per cent below last year, production of milk in July was two per cent above last year.

Walter B. Garver
Agricultural Economist

FARM BUSINESS CONDITIONS
JULY 1947, WITH COMPARISONS

I T E M S	1947		1946	1940	
	JULY	JUNE	JULY	JULY	
PRICES:					
Received by farmers	(1935-39=100)	258	253	228	91
Paid by farmers	(1935-39=100)	180	180	155	98
Parity price ratio	(1910-14=100)	119	117	123	75
Wholesale, all commodities	(1935-39=100)	186	182	153	96
Paid by consumers-- "cost of living"	(1935-39=100)	157 ^a	156 ^b	133 ^a	101 ^a
Wheat, No.2 hard winter, Chicago	(dol.per bu.)	2.36	2.45	2.01	.75
Corn, No.3 yellow, Chicago	(dol.per bu.)	2.17	2.10	2.17	.65
Oats, No.3 white, Chicago	(dol.per bu.) .....	.95	1.02	.82	.32
Soybeans, No.2 yellow, Chicago	(dol.per bu.)	3.34	3.15 ^c	-	.82
Hogs, all purchases, Chicago	(dol.per cwt.)	22.11	22.06	17.94	5.92
Beef steers, good grade, Chicago	(dol.per cwt.)	27.64	25.72	19.86	10.29
Milk, wholesale, U. S.	(dol.per cwt.)	3.75	3.64	3.83	1.68
Butterfat, local markets, U. S.	(dol.per lb.) .....	.68	.63	.71	.26
Chickens, local markets, U. S.	(dol.per lb.) .....	.28	.28	.29	.14
Eggs, local markets, U. S.	(dol.per doz.) .....	.46	.42	.37	.16
Milk cows, U. S.	(dol.per head)	150	149	136	61
Farm labor, U. S.	(dol.per month without board)	114	-	106	37
Factory labor, U. S.	(dol.earned per week)	48.91 ^a	48.46 ^b	43.31 ^a	25.79 ^a
PRODUCTION:					
Industrial, physical volume	(1935-39=100)	183 ^a	185 ^b	170 ^a	123 ^a
Farm marketings, physical volume	(1935-39=100)	106 ^a	86 ^b	111 ^a	94 ^a
INCOME PAYMENTS:					
Total personal income, U. S. ¹	(Annual rate, bil.of dol.)	193 ^a	192 ^b	173 ^a	77 ^a
Cash farm income ***	(Annual rate, bil.of dol.)	28 ^a	27 ^b	21 ^a	8 ^a
EMPLOYMENT:					
Farm	(millions)	11.5	11.4	11.6	12.0
Non-agricultural	(millions)	50.0	49.7	47.9	35.2
FINANCIAL:					
Demand deposits, weekly reporting member banks * ..	(bil.of dol.)	47.1	47.0	45.7	-
Loans, weekly reporting member banks, all leading cities: ²					
Total *	(bil.of dol.)	20.5	20.2	17.2	-
Commercial, industrial, and agricultural *	(bil.of dol.)	12.0	11.8	8.9	-
U.S. Government total gross direct debt **	(bil.of dol.)	260	258	268	44
^a June. ^b May. ^c Last trading day of the month, bid price. * Last Wednesday of the month. **End of the month. ***Based on estimated monthly income. ¹ This replaces the former series on "Total income payments." Comparable data for earlier periods available on request. ² Revised series, data not comparable to former series on "Weekly reporting member banks in 101 cities."					

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