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from the Federal Reserve Bank of Chicago

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Agricultural Letter

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FARM AND BUSINESS PROSPECTS FOR 1954

move into the limelight as 1953 heads down the home stretch. At the 31st Annual Agricultural Outlook Conference held in Washington, D.C., this week, experts from the USDA and other Government departments trotted out the results of their continuing studies of the many factors bearing on the situation. Also participating in the Conference were farm and home economists from the state agricultural colleges and representatives of a variety of private and public firms.

GOOD BUSINESS in the year ahead is the predominant view of the forecasters, but not quite so good as in 1953. While the direction of any change in broad measures of business activity is expected to be downward, the amount of decline is indicated to be small.

This is in contrast with the year just passed, in which the annual rate of expenditures by consumers, business, and government rose 26 billion dollars from third quarter 1952 to third quarter 1953, a gain of 7-1/2 per cent. The increase in spending reflected a greater volume of goods and services produced as prices, over-all, remained quite stable. The increase in spending rates over the past year came largely from consumers (16 billion), but business (6 billion) and government (4 billion) also participated.

In the year ahead, spending by the Federal Government is indicated to decline moderately but to be offset at least in part by an expansion in spending by state and local governments. Developments, of course, will depend largely on the international situation.

Business spending for new plant and equipment is indicated to be only moderately less than in the current year as competitive selling emphasizes the need for cost-cutting improvements. Business inventories, which increased appreciably in the current year, are expected to show little change in 1954.

Some reduction in number of employed workers along with some shortening of the work week may shrink consumer income, but tax reductions scheduled to become effective January 1 are expected to offset the major part of such a decline with the result that consumers' spendable income in 1954 will remain close to the 1953 level.

If these expectations are realized, total demand in the economy will show a small reduction in the year ahead. An important factor will be consumers' decisions relative to the spending of their income. If they continue to spend freely, the demand for consumer goods would hold up fairly well, with the possible exception of some of the durable items.

FARM INCOME, in this setting, would show some further decline partly because of reduced marketings of farm products. The USDA concludes, however, that there would be "no marked change in the domestic demand" for agricultural products and

that foreign takings, although sharply reduced in the current year, would probably continue at about present levels.

Prices received by farmers in 1954 are indicated to hold near current levels, and with cost rates to farmers stabilizing the cost-price squeeze in agriculture would not tighten much in 1954.

USDA Farm Income Estimates (billion dollars)

	<u>1952</u>	<u>1953</u>
Cash receipts	32.3	31.2
Realized net income from agriculture	13.5	12.5

In 1954 cash receipts from farm marketings, according to USDA estimates, are likely to be moderately less than this year, but production costs may show some decline as farmers adjust operations to reduced acreages of some commodities, with the result that farm operators' realized net income "may be fairly close to the 1953 level."

Farmers are expected to spend less freely for machinery, building materials, and some other items in the year ahead. A recent survey by Michigan State College indicates that about one-half of the farmers are planning to spend less for new machinery in 1954 than they spent in the past year. Less than one in ten reported plans for increased machinery expenditures in the year ahead. Intentions to spend for buildings show a much smaller cutback from the current year's volume.

The Michigan farm management specialists recommend that farmers maintain or increase expenditures for fertilizer, good seed, cow testing, and other items which have a direct and immediate effect on output or efficiency, that farmers with limited resources rely more heavily on hired custom work in preference to purchasing certain specialized types of equipment, and that farm insurance programs receive a prompt and careful review. On many farms, insurance coverage is quite outmoded, and the high replacement cost for buildings could seriously cripple farm businesses if losses occurred. Casualty and life insurance programs are also reported to need adjustment.

Thus, the farm outlook for 1954 is for a large degree of stability at about present levels.

Ernest T. Baughman -- Assistant Vice President