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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
Paul E. Miller, Director Agricultural Extension

NO. 305

UNIVERSITY FARM, ST. PAUL

JUNE 28, 1948

THE COST OF LIVING

WARREN C. WAITE

University Farm Radio Programs

HI-LIGHTS IN HOMEMAKING
10:45 a.m.

UNIVERSITY FARM HOUR—12:30 p.m.

Station KUOM—770 on the dial

The level of farm prices is as important to the farmer as the cost of living is to the city man. The farmer is concerned with agricultural prices because they are a principal factor in determining his income and because they seem to be something about which he is able to do little or nothing. His expenses change slowly as compared to the prices of the things he sells. Consequently, when selling prices fall his net income declines. The great fear of the farmer at the present time is that agricultural prices will decline.

In a similar way the city man is affected by changes in the cost of living. His wage or salary is relatively fixed or it changes only slowly. As a result, when the prices of goods which he buys rise his money income will buy him less, and when they fall his income will buy him more. These prices seem to be beyond his control, and his principal concern at present is that the cost of living will rise to higher levels.

One of the methods of measuring changes in the cost of living is to price the same bill of goods at two different periods of time and compare the total costs. An important index of this type is prepared by the Bureau of Labor Statistics of the United States Department of Labor. It is called the Consumers' Price Index. This index measures the average changes in the retail prices of selected goods, rents, and services purchased by families of wage earners and moderate income workers in the large cities. The quantities of goods which are priced are the average purchases made by these types of families as determined by a survey made by the Bureau of Labor Statistics. The average family income of the group whose purchases made up this bill of goods was \$1524 in 1935-39. There have been some small changes made in the goods priced because of changes in the quality or character of the goods since the base period, but these differences are relatively minor.

The index shows that the cost of living has increased about two-thirds since before the war. In April of this year the index was 169; in 1935-39 it was 100. This means

that the same quantity of goods which cost \$100 in 1935-39 now costs \$169. The annual cost for the bill of the goods purchased by the average family represented in the index has increased from \$1524 in 1935-39 to \$2576 in April, 1948. The indexes are shown by years in table 1. Examination of the indexes show that the cost of living rose rapidly after the United States entered the war

in 1941 and that price controls were effective in holding the level during the period 1943-45. At the time of the removal of price controls in June, 1946, the index was 133.

After the removal of controls the index rose by 20 points within six months, which was the most rapid rise ever experienced in a similar period of time. In early 1947 it appeared that the rise had reached a peak, and the index did not change greatly for several months. Then the sharing of food, particularly wheat, with Europe and the shortage of some products, such as corn, resulted in another increase which has continued until the present time. There was, however, a break in some agricultural prices early this year.

Food is the most important single item in the budget of the city family in the medium and low income brackets. For the ordinary wage earner, money spent for food constitutes fully one-third of the total living expense. Because this expense for food is a necessary one and cannot be put off or avoided, the city family is acutely aware of food price changes. Food prices have increased more than any other groups in the Consumers' Price Index. The indexes for these groups are shown in table 2 for the three periods: before the war, the time when price controls were removed, and the present time.

Table 1. Consumers' Price Index of the Bureau of Labor Statistics

Year	Index	Year	Index
Av. 1935-39	100	1944	126
1940	100	1945	128
1941	105	1946	139
1942	116	1947	159
1943	124	1948 (April)	169

Table 2. Group Indexes of the Consumers' Price Index Group

	Food	Clothing	Rent	Fuel, light, electricity,	House furnishings	Miscellaneous
Average 1935-39	100	100	100	100	100	100
June 1946	146	157	108	110	156	128
April 1948	208	196	116	131	195	148

Clothing and house furnishings have increased in price almost as much as food, but the purchase of these items can be postponed or sometimes eliminated and makes up a much smaller proportion of the total living expense. The food items included in the Consumers' Price Index cost \$516 at the 1935-39 average prices. These same items cost \$1073 at the April 1948 prices. Thus more than half of the increase in the total cost of goods for the average family represented by the index is made up of an increase in their cost of food. It is not surprising, therefore, that city consumers complain about the high costs of food and question the desirability of supporting farm prices when their food prices are so high.

When the cost of goods which the city consumer purchases increases, he must either secure a similar or greater increase in income or he will be unable to purchase as much in the way of commodities as he did before. This, of course, is a very undesirable situation, and he tries to correct it by pressing for an increase in wages. Wages have generally increased since the rise in the cost of living began. Some have increased more, others less than the rise in living costs. There is a great difference in the increases of different groups according to the U. S. Department of Commerce estimates of the annual average earnings for full time employees by industries. Increases in the earnings between 1939 and 1946 have been calculated from these data and are shown in table 3, where the earnings of selected industries are shown as a percentage of 1939 earnings. Not included in the table are those who are living on fixed incomes from annuities or investments.

These data indicate a somewhat larger increase in dollar earnings than the rise in the Consumers' Price Index for a number of the group and for the average of the group as a whole at this period. The table applies to 1946 and includes the first half of the year before price controls were removed. Taxes made a larger deduction from the incomes in 1946 than in 1939. Many workers feel, however, that their cost of living has gone up more than the index shows. For example, the index of rents has increased only moderately, but in order to secure housing it is often necessary to build a new house or buy an old one at greatly inflated prices. The major point that the table emphasizes, however, is the very unequal increase in dollar incomes that has occurred among different groups in the economy.

Table 3. Annual Earnings for Full Time Employees in 1946 as a Percentage of 1939

Industry	Per cent	Industry	Per cent
Farms	312	Autos and auto equipment	159
Bituminous coal	220	Public education	153
Textile mill products	212	Telephone and telegraph	151
Contract construction	203	State and local government	143
All manufacturing	184		
Wholesale and retail trade	175		
Printing and publishing	167		
Railroads	162		

Those groups whose money incomes have increased the least naturally strive for more increase. Other groups will also endeavor to increase their income wherever possible but will not be under the same economic pressure to do so. Where groups are organized into labor unions they may demand wage increases and frequently strike in an endeavor to enforce these demands. It is significant that a number of our recent labor troubles have been among the groups which are lowest in those included in the table. When the group is unorganized, little can be done by it to secure an increase. For example, in many places persons in local government or retired persons on fixed incomes may be able to do nothing except decrease their expenditures.

Changes in wages and prices do not add to or subtract from real income, but merely alter the distribution of income. Increases in real income can occur generally only as more goods and services are produced. In an economic system such as our own, prices must continue to rise until they become so high that people are forced out of the market, either because they cannot or will not buy at these prices, and the goods flow to those willing and able to pay. The unfortunate situation is that this often results in groups becoming relatively worse off than they were before, and these are likely to be the groups that have already suffered a disadvantage relative to the rest of the community. The changes in the relative position of groups as compared with their relationships in 1939 have already become so large, that further differences would be undesirable.

The Financial Position of Minnesota Farmers

REX W. COX

Viewed as a composite business, Minnesota agriculture reached 1948 with assets of 4,941 million dollars, the largest in history. The war years brought large increases in the market valuations of farm real estate and other physical assets. In addition, there were extensive gains in the ownership of bank deposits and war savings bonds. These were followed by still further increases in these items in 1946 and 1947. As a result of the higher valuations of the assets and the decline in farm mortgage debt, the equities of proprietors in the farming business, including both landlords and tenants, were at an all-time high on January 1, 1948.

The large increases in the value of physical assets of agriculture during the past eight years has been due primarily to changes in price rather than to changes in the physical quantities. For example, acreage in farms increased only 1.3 per cent from 1940 to 1945, but the value per acre rose 34 per cent during that five-year period and 83 per cent by the end of 1947. The inventory of crops, expressed in terms of 1940 dollars, showed a downward trend from 1940 to 1948, indicating that the increases in their recorded inventory values were due entirely to price advances. The livestock physical inventory increased from 1940 to 1944, but subsequently declined. The much higher prices per head accounted for the marked increase in inventory values of recent years. The physical inventory of machinery and

**Assets, Liabilities, and Proprietorship of Minnesota Agriculture,
January 1, 1940 and 1948**

	1940	1948
	Million dollars	
Assets		
Real estate	1443.0	2438.8
Other physical*	590.8	1636.2
Financial**	194.6	866.0
Total	2228.4	4941.0
Liabilities		
Real estate mortgages	376.0	244.5
Nonreal estate debt	87.8	86.2
Total	463.8	330.7
Proprietorship	1764.6	4610.3

* Includes crops, livestock, machinery and motor vehicles.

** Includes currency, bank deposits, savings bonds, and investments in co-operatives.

motor vehicles increased during the period, although mechanization was delayed somewhat by shortages.

The fourfold increase in the financial or dollar assets during the eight years beginning January 1, 1940, is in considerable part a consequence of inflation. For example, because the prices paid by farmers for goods used in production and living have risen 118 per cent, the 866 million dollars represented by currency, bank deposits, and savings bonds had a purchasing power at the beginning of 1948 equal to that of 397 million dollars eight years earlier.

One of the principal features of the financial picture of Minnesota agriculture at the present time is the relatively low indebtedness. The downward trend of real estate mortgage debt since 1940 is in great contrast to that prevailing during and following World War I. If the top of the boom can be passed without a decided increase in outstanding obligations, the relatively low indebtedness will be a factor of strength in the years to come.

Although the financial position of farmers as a group is excellent at the present time, a declining price level can easily change the overall picture and in particular the position of certain individual farmers. The rise in the value of real estate and other physical assets has required a much larger investment by those who have purchased farms, livestock, and equipment at the higher price levels. Thus, those who have had to go into debt heavily in order to start farming recently, have not had the advantage of several years of favorable income.

Those farmers who have been fortunate in building up liquid reserves in the form of bank deposits and government bonds should aim to conserve these assets. Restraint in expenditures during the present period of highly inflated prices and the continued maintenance of the reserves will moderate the effect of a transition to a lower price level.

Consumption of Fats and Oils in Food Products

REX W. COX

Civilian consumption of food fats declined steadily during the war and the current rate is still much below the prewar level. The per capita consumption averaged 43.9

Table 1. Civilian Per Capita Consumptions of Food Fats, 1937-47*

Year	Total	Butter	Margarine	Lard	Shortening	Other edible oils**
(av.)			(pounds)			
1937-41	49.1	16.6	2.2	12.4	10.7	7.2
1942	47.5	15.7	2.2	13.1	8.9	7.6
1943	44.1	11.7	3.2	13.1	9.8	6.3
1944	43.5	12.0	3.1	12.6	9.2	6.6
1945	41.6	10.8	3.3	11.5	10.0	6.0
1946	41.8	10.2	3.4	11.8	10.1	6.3
1947	43.9	11.2	4.0	12.5	9.3	6.9

* Based on data in The Fats and Oils Situation, Nos. 123 and 124; and The National Food Situation, No. 42, Bureau of Agricultural Economics, U.S.D.A.

** Includes fats and oils used in cooking and salad oils, salad dressings, mayonnaise, and minor products.

pounds in 1947, compared with 49.1 pounds in 1937-41. The reduced level of consumption at the present time is mainly the result of the continued low output of butter. The consumption of butter averaged only 11.2 pounds per person last year, one pound more than in 1946 but 5.4 pounds less than prewar averages. Although the consumption of margarine reached a peak of 4.0 pounds per person, or about double the prewar rate, the increase was not sufficient to balance the reduced butter consumption.

The combined per capita consumption of lard and shortenings has remained about the same for several years and compares favorably with prewar consumption. Lard consumption in 1947 was .7 pounds higher than in 1946, while shortenings declined almost .7 pounds. The use of edible oils in salad and cooking oils, salad dressings, and mayonnaise is only slightly under the 1937-41 level.

Present estimates of domestic production of butter, lard, and vegetable oils indicate a slight decrease in the consumption of food fats in 1948. Prospects are that supplies of butter and lard will be less than last year, but the output of such vegetable oils as cottonseed and soybean may be larger, depending on the yield of the respective oil-bearing products during the current season.

The two most important oils which enter into the manufacture of food products are cottonseed and soybean oils. The manufacture of food products, particularly shortenings and margarine, provides the main outlets for these oils. Only small amounts are used in the manufacture of non-food products. In 1947, cottonseed oil contributed 27 per cent and soybean oil 54 per cent to the total weight of fats and oils used in shortenings. Cottonseed oil also accounted for 52 per cent and soybean oil 39 per cent of the fats and oils used in margarine.

Table 2. Use of Specified Oils in the Manufacture of Various Food Products, 1947

Oil	Total utilization	Shortenings	Margarine	Other food products*
	Per cent			
All oils	100.0	100.0	100.0	100.0
Cottonseed	33.0	26.5	52.3	9.0
Soybean	49.2	53.7	39.1	46.8
Peanut	3.6	3.9	2.6	5.3
Coconut	5.2	5.3	3.5	14.2
Corn .....	.7	.2	.9	5.1
Others	8.3	10.4	1.6	19.6

* Mainly cooking and salad oils and salad dressings.

Minnesota Farm Prices For May, 1948

Prepared by W. C. WAITE and K. E. OGREN

The index number of Minnesota farm prices for May, 1948 is 288.9. This index expresses the average of the increases and decreases in farm product prices in May, 1948, over the average of May, 1935-39, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, May, 1948, with Comparisons*

	May 15, 1948	Apr. 15, 1948	May 15, 1947		May 15, 1948	Apr. 15, 1948	May 15, 1947
Wheat	\$2.33	\$2.39	\$2.43	Hogs	\$19.00	\$20.00	\$22.10‡
Corn	2.06	2.09	1.45	Cattle	22.60	20.50	18.20‡
Oats	1.05	1.16	.84	Calves	24.70	23.00	21.90‡
Barley	2.06	2.19	1.69	Lambs-Sheep ..	21.24	19.33	19.15‡
Rye	2.19	2.26	2.89	Chickens .....	.200	.185	.215
Flax	5.85	5.85	6.00	Eggs .....	.375	.396	.377
Potatoes	1.60	1.60	1.30	Butterfat .....	.92	.91	.65
Hay	13.50	15.50	14.00	Milk	3.95	4.05‡	2.90‡
				Wool† .....	.44	.43	.43‡

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

‡ Revised.

The prices of Minnesota farm products rose 1 per cent from April to May. Prices paid by farmers also increased 1 per cent during the same period. The purchasing power of Minnesota farm products was 7 per cent over mid-May of 1947, while the U. S. average was 3 per cent below a year ago. To a large extent, this difference was the result of much higher dairy product prices in May, 1948.

Prices of nearly all grains and hay declined from April to May, with an overall drop in crop prices of 3.5 per cent. Livestock prices increased 4 per cent in spite of another drop in hog prices. The large price increases recorded by cattle, veal calves, lambs, and sheep brought the prices of all these commodities to record highs.

Indexes and Ratios for Minnesota Agriculture*

	May 15, 1948	May 15, 1947	May 15, 1946	Average May, 1935-39
U. S. farm price index	271.6	255.6	198.3	100
Minnesota farm price index	288.9	247.2	189.6	100
Minn. crop price index	314.6	274.2	207.1	100
Minn. livestock price index	285.6	272.8	181.2	100
Minn. livestock product price index	283.5	219.2	190.5	100
U. S. purchasing power of farm products	136.5	140.2	129.7	100
Minn. purchasing power of farm products	145.2	135.6	124.0	100
Minn. farmers' share of consumers' food dollar	60.6†	60.9	63.9	46.3
U. S. hog-corn ratio	9.1	14.4	10.6	10.7
Minnesota hog-corn ratio	9.2	16.1	11.8	14.6
Minnesota beef-corn ratio	11.0	12.2	10.9	12.7
Minnesota egg-grain ratio	10.2	11.8	13.0	14.6
Minnesota butterfat-farm-grain ratio	25.3	22.9	30.0	29.7

* Explanation of the computation of these data may be had upon request.

† Figure for March, 1948.

Government Payments to Farmers 1934-1947

K. E. OGREN

Government payments to U. S. farmers in 1947 were 314 million dollars, which consisted of conservation payments of 277 million dollars and Sugar Act payments of 37 million dollars. Government payments in 1947 were 60 per cent below the 772 million paid in 1946, due largely to the expiration of the production-payment programs for dairy products, beef cattle, sheep, and lambs.

Minnesota farmers received payments of 8.9 million dollars in 1947, which were only 17 per cent as large as the 1946 payments of 51.9 millions. Dairy production payments to Minnesota farmers in 1946 amounted to 32.5 million dollars.

The data in Table 1 indicate that last year's payments were somewhat below those of the low-income period of 1934-37 but that they were a much smaller proportion of the farmers' income because of the unusually high income in 1947. Payments in 1947 constituted only 1 per cent of the total cash farm income, compared with an average of over 5 per cent for the period 1934-46. In 1939 almost 10 per cent of the cash farm income was in the form of government payments.

Large government payments were made between 1942 and 1946 when farm income was also at a high level. Much of this total, however, consisted of subsidy payments which were designed to increase production of essential agricultural products without raising price ceilings.

Table 1. Government Payments to U. S. Farmers, 1934-1947

Year	Average payments (1,000,000 dollars)	Proportion of total cash farm income (per cent)
1934-37	418	5.3
1938-41	660	7.0
1942-45	736	3.7
1946	772	3.1
1947	314	1.0

UNIVERSITY OF MINNESOTA
Department of Agriculture
Agricultural Extension
University Farm, St. Paul 1, Minn.

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