THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

February 13, 1948

Price declines that have replaced inflation problems as headline news have set off a new round of guessing as to how far they will decline, how long, and what will be the consequences. Several reasons are given for the break in grain prices. Some traders attribute the initial shock to the devaluation of the French franc, which presumably also hit stock market values. The devaluation gave France a paper advantage in export markets, and even though she hasn't much to export the effect of the move was psychologically a deflationary one.

There are other direct factors in the grain situation that probably have a more direct bearing on prices. First of all, while there is still some substantial buying to be done by the Government for European relief, the worst hump is passed, and it could be said that there was only one way prices could go, once the worst of the price crisis was gone, and that was down. High grain prices and unfavorable feeding price ratios have discouraged some grain feeding, thus easing demand a little.

Farm stocks of wheat on January 1 were reported as 795 million bushels. Such an abnormally high total was a reflection of holding for price peaks, and to take advantage of tax changes in 1948. Movement of this wheat to market eased the supply situation. The movement was accelerated by the price declines. Moreover, improved crop conditions generally were a bearish factor in prices. Reports from the winter wheat area of the U.S. suggest a crop of over a billion bushels as against the 750 million previously indicated. Good growing conditions have improved Australian and Argentine prospects. On top of such news came the reports that winter crops in many of the important areas of Europe were 10 to 25 per cent above last year.

The extension of price declines to livestock was apparently a "sympathetic" movement in which many farmer shippers were convinced that general declines were to be expected and that they had better market their stock quickly. But there is also evidence that some farmers had also held back stock, especially hogs, for the income tax reasons mentioned above. January weights of hogs were high relative to recent trends and in terms of feed costs.

On the basis of supply and demand conditions as they appear today there is little reason to expect livestock prices to suffer much of a further drop, and there is good reason to expect cattle prices to tighten gradually up until August. Some wavering in hog prices may be expected this spring, but they may be expected to rise gradually after that. This assumes no significant change in the current (or recent?) level of consumer demand for meat.

Whether the current declines are the first stages of an economic recession, it is too early to tell. Basic factors appear to indicate a continued high level of economic activity. There are still many shortages, the labor supply is tight, a high level of incomes and consumer expenditures prevails, and there are still many unsatisfied demands for goods. Industrial and business expansion is scheduled at a high rate. In spite of all these elements it must be remembered that in many lines supply has caught up with demand, that high prices have priced many people out of the market for some things, and that even some capital expansion originally scheduled for this year has been shelved because of the high prices. Whether the price declines will generate a slump probably depends more than anything else on the psychology it may induce.

If people become convinced of an indefinite price decline as the prospect and curtail their spending, and if business judgment turns cautious and cuts back operations, unemployment and declining national income will follow, and we will face a period of shaking-down readjustments.

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