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THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

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The recent drop in farm prices might be said to have knocked about three billion dollars off total national cash farm income on an annual basis, assuming the drop of 10 per cent held throughout the year. This national decline was exceeded materially in some localities, depending on the types of commodities grown. For example, the Indiana farm price index published by Purdue University shows a decline of 15 per cent from January to February.

USDA in a report on the dairy situation says that strong demand for fluid milk and a smaller output in 1948 will probably keep milk and dairy product prices higher than a year ago, at least through the middle of the year.

Dairy producers and marketing interests will find much of interest in the proposed new method for pricing fluid whole milk in the Boston area. The method, as previously reported here, discards old devices for pricing milk and substitutes measures of costs for feed and labor, and indicators of domestic demand. If adopted for the Boston area and it works well, you can look for the method to be adopted in modified forms in other areas.

Adding to what we said last week about livestock inventories on farms January 1, further figuring shows that meat and poultry production this year on a pounds-per-capita basis will be the lowest in 10 years. Domestic supplies per person will be about 20 per cent below the wartime peak, but still above the 1935-39 average. The tight situation will be felt most in the last three months of this year.

The declining livestock population and the improved by-product feed supplies have combined to put supplies per grain-consuming animal unit at an all-time high, 204 pounds per unit, compared with 199 pounds last year and 175 pounds prewar. Feed grain supplies are, of course, another story. However, the sharp break in grain prices has apparently brought a change in farmers' plans as to chicken production. USDA says that February 1 indications were for a reduction this year of 20 per cent below last year in baby chicks purchased, but latest figures indicate a decline of only 10 per cent.

Secretary Anderson has expressed the fear that wheat prices may be forced below support levels by July and therefore is calling for the repeal of the recently passed law requiring a minimum carry-over of 150 million bushels. Wheat is not the only price worry the Secretary has. The prospect that Government will be forced to buy millions of bushels of potatoes before the end of this calendar year to support prices induced him to urge Congress to hurry up and do something about the extension of price support legislation beyond 1948 so that farmers will know where they stand, price-wise. He recommended that any mandatory support levels incorporated in future farm policy legislation be made more flexible and permit lower levels than the present minimum at 90 per cent of parity.

Bitter controversy is developing in farm quarters in Congress over a series of bills that would radically overhaul the soil conservation program. Main issue is the proposal, backed by American Farm Bureau, that would abolish the regional offices of Soil Conservation service and "integrate" the whole program with State Extension services. USDA is opposed to the "overhauling." Proponents of the change think state responsibility would get more effective results and avoid what they regard as needless duplication, while opponents point out that the existing set-up is in many ways overworked, and that the proposed break-up will weaken the program and set it back.

The struggle to control foot-and-mouth disease in Mexico has on the whole been a failure, and latest move is a bill to set up a research laboratory in this country to prepare to meet outbreaks in this country which many close students of the situation believe is inevitable.

FARM BUSINESS CONDITIONS

JANUARY 1948, WITH COMPARISONS

| I T E M S | | 1948 | 1947 | | 1940 |
|--|--------------------------------|-------------------|------------------|-------------------|-----------------|
| | | JAN. | DEC. | JAN. | JAN. |
| PRICES: | | | | | |
| Received by farmers | (1935-39=100)..... | 286 | 281 | 243 | 93 |
| Paid by farmers | (1935-39=100)..... | 196 | 191 | 168 | 98 |
| Parity price ratio | (1910-14=100)..... | 122 | 123 | 121 | 77 |
| Wholesale, all commodities | (1935-39=100)..... | 205 | 200 | 174 | 98 |
| Paid by consumers - "cost of living" | (1935-39=100)..... | 169 | 167 | 153 | 100 |
| Wheat, No. 2 hard winter, Chicago | (dol. per bu.)..... | 3.11 ^c | 3.09 | 2.21 ^c | 1.04 |
| Corn, No. 3 yellow, Chicago | (dol. per bu.)..... | 2.71 | 2.61 | 1.33 | .59 |
| Oats, No. 3 white, Chicago | (dol. per bu.)..... | 1.40 | 1.27 | .84 | .42 |
| Soybeans, No. 2 yellow, Chicago | (dol. per bu.)..... | 4.21 | 3.93 | 3.21 | 1.16 |
| Hogs, all purchases, Chicago | (dol. per cwt.) | 26.71 | 26.31 | 22.45 | 5.32 |
| Beef steers, good grade, Chicago | (dol. per cwt.)..... | 30.36 | 29.62 | 23.93 | 9.44 |
| Milk, wholesale, U. S. | (dol. per cwt.)..... | 5.06 | 5.08 | 4.77 | 1.97 |
| Butterfat, local markets, U. S. | (dol. per lb.) | .88 | .88 | .75 | .30 |
| Chickens, local markets, U. S. | (dol. per lb.) | .26 | .25 | .26 | .12 |
| Eggs, local markets, U. S. | (dol. per doz.) | .49 | .59 | .41 | .18 |
| Milk cows, U. S. | (dol. per head)..... | 170 | 163 | 144 | 60 |
| Farm labor, U. S. | (dol. per month without board) | 113 | -- | 106 | 35 |
| Factory labor, U. S. | (dol. earned per week)... | 52.27 | 52.51 | 47.10 | 25.51 |
| PRODUCTION: | | | | | |
| Industrial, physical volume | (1935-39=100) | 192 | 192 | 188 | 122 |
| Farm marketings, physical volume | (1935-39=100) | 140 | 151 | 144 | 108 |
| INCOME PAYMENTS: | | | | | |
| Total personal income, U. S. ¹ | (Annual rate, bil. of dol.) | 210 ^a | 204 ^b | 190 ^a | 76 ^a |
| Cash farm income, U. S. *** | (Annual rate, bil. of dol.) | 33 | 31 | 28 | 10 |
| EMPLOYMENT: | | | | | |
| Farm | (millions) | 8.1 | 9.4 | 8.3 | 8.6 |
| Non-agricultural | (millions) | 50.1 | 51.0 | 48.9 | 34.5 |
| FINANCIAL: | | | | | |
| Demand deposits, weekly reporting member banks* | (bil. of dol.) | 48.8 | 48.7 | 46.6 | -- |
| Loans, weekly reporting member banks, all leading cities: ² | (bil. of dol.) | 23.4 | 23.3 | 19.6 | -- |
| Total* | (bil. of dol.) | 14.7 | 14.7 | 11.6 | -- |
| Commercial, industrial, and agricultural* | (bil. of dol.) | 257 | 257 | 260 | 42 |
| U. S. Government total gross direct debt | (bil. of dol.) | | | | |
| ^a December. ^b November. ^c Estimated. | | | | | |
| [*] Last Wednesday of the month. ^{**} End of month. ^{***} Based on estimated monthly income. | | | | | |
| ¹ 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." | | | | | |

^aDecember.

^bNovember.

^cEstimated.

*Last Wednesday of the month.

**End of month.

***Based on estimated monthly income.

¹Replaces the former series on "Total Income Payments." Comparable data for earlier periods available on request.

²Revised series, data not comparable to former series on "Weekly Reporting Member Banks in 101 cities."

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