THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

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Continuing what was reported here last week about the trend in prices, BLS announced just before Thanksgiving that consumer prices dropped slightly in October, the first decline since March. Preliminary indications for November consumers prices show a level a little over one per cent below September. The decline is due entirely to a drop of four per cent in food prices. The level for prices other than food continued its upward trend, but was less than one per cent above September.

Prices received by farmers dropped two per cent in November from the October level making the total cumulative decline from July 15 to the middle of November 10 per cent. Crop prices, which have shown the greatest decline this year, give some evidence of having completed the readjustment to the supply situation. Meat animals, excepting hogs, were down only slightly for November. Hogs were off 12 per cent. Prices paid by farmers were down almost one per cent for the month, due entirely to declines in the cost of living components in the index--there were no declines in production costs.

In spite of the fact that consumer incomes are still tending to increase slightly, the downward trend in dairy prices which began in July was accelerated from September to October says USDA in its report on the dairy situation. The drop for this period was the sharpest on record and in contrast to a usual seasonal rise for the September to October period. One of the important elements in the decline has been the drop in butter prices, in connection with which USDA reports that for the first time in history the output of margarine was greater than creamery butter production for the four months November 1947-February 1948 (the seasonally low months for butter production). The report on the dairy product price situation expresses the hope that the lower retail prices for dairy products will stimulate increased consumption and thus partially correct the soft prices. Incidentally, USDA has just asked for bids on over 600,000 cases of evaporated milk for immediate delivery for export.

Last week we mentioned the support in FAO for revival of an international wheat agreement. Since then formal U.S. action along this line has come from two sources: President Truman pledged the delegates in attendance at the FAO meeting that he would send a new agreement to Congress if one could be negotiated, and that he looked to the agreement as a general pattern which might be followed in restoring stability to other commodities and to the world food economy generally. Senator Aiken (Rep. Vt.), member of the Senate Agricultural Committee, proposed the agreement to FAO delegates and suggested a study of possibilities of working out similar agreements on other commodities. He said he thought the key to increased world food production lies in assuring producers that they will not be penalized for expanding production and that such commodity agreements would give such assurance.

An agreement between the United States and Canada has just been reached under which the Canadian Government will set up price-support and export-permit programs for the 1948 crop of Canadian potatoes. Under the agreement the U.S. will drop the quotas and fees on the importation of 1948 potatoes from Canada, while Canada agrees to stop exports of table stock potatoes to this country and to confine its exports to certified seed stock, with these supplies to be channeled into seed outlets in this country.

More on the CCC-private trade controversy over who is to buy grain for foreign aid. President Truman asked that CCC be continued as buyer, and the latest rumor is that CCC will buy all grains, including flour, oats, barley, and sorghums, as well as corn and wheat. It is understood CCC will honor contracts outstanding, with future authorizations to specify CCC as the buying source. An official announcement along

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these lines has been expected from USDA for two or three weeks, although so far it has been apparently held up. However, D.A. FitzGerald of the ECA announced on November 28 that hereafter CCC will handle all grain for export under that agency's programs.

Effective competition from other forms of transportation, especially from trucks, is crowding the Class I railroads of the nation for tonnage again. Before the war the trend was running against the railroads. From 1928 to 1938 the railroads share of all commodity tonnage dropped from 47 to 35 per cent, and of all agricultural commodity tonnage from 39 to 30 per cent. In hauling animals the drop was even more marked, from 73 to 41 per cent. The war emergency temporarily restored a larger proportion of total tonnage to the railroads. In 1943 they handled 42 per cent of the total tonnage, 32 per cent of agricultural commodities, and 44 per cent of animals. But for 1948 the railroad share is expected to be 37 per cent, 28 per cent, and 42 per cent, respectively, and the trends and figures seem to suggest that in another two or three years the railroads will be handling the smallest proportion of total tonnages hauled in their modern history. In the light of these trends it is perhaps not surprising that so much interest in transportation circles is centering around the extension of regulation by the Interstate Commerce Commission over the truck hauling of farm products and the issues raised by rulings of the Commission recently affecting this part of the transportation picture.

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P.S. For bankers interested in the possibility of adding a farm representative to their staffs, we have the names of two promising young men who are well qualified for this kind of work and who are particularly interested in getting into banking through this type of work. If you are interested, we will be glad to furnish more information about them.