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THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

U. S. DEPARTMENT OF AGRICULTURE

December 1, 1950

Rising farm production costs was one of the major topics discussed at the annual winter meeting of the American Society of Farm Managers and Rural Appraisers in Chicago this week. Professor Hardin from Purdue University pointed out that modern farming is increasingly hazardous due to the higher level of cash production expenses. Records on New York farms over a 40-year period reveal that while receipts increased nine times, expenses increased 14 times. A debt-free farmer in 1907 might have covered operating expenses for 9.7 years by capital liquidation, but in 1947 only 2.5 years' expenses would liquidate his capital. Similar data for a group of Indiana farms indicate that it would take 31 years of production expenses to equal farm capital in 1913-15, nine years in 1945. If expenses were paid with 200-pound hogs, 49 would have been required in the pre-World War I period and 160 in 1945.

Ability to control costs is an increasingly important characteristic of good farm managers and good credit risks. The farmer's control over costs lies largely in his capacity to attain high output per man and per dollar invested in machinery and equipment. Production per dollar of cost varies greatly among farmers.

Price increased from prewar levels have been relatively large for such items as hired labor, building materials, feed, and farm machinery, but much less for fertilizers and petroleum products. This does not necessarily indicate that the lower priced items are the best buys. The important factor is the increase in return that results from additional expenditures for each cost item. Farmers, of course, should not overlook possibilities of substituting relatively low cost items for those of higher cost. In general, Professor Hardin concluded, farm enterprises which can be mechanized will probably be more profitable over the next decade than high-labor requirement enterprises. This should be particularly true for crops.

The International Livestock Show has been in full swing this week. Champion animals were selected and their producers deservedly honored. Livestock men at the show were generally optimistic and displayed even more than usual confidence in the outlook for livestock producers. The grand champion steer sold for $12.00 a pound, fifty cents above the price of the 1949 champion.

Alcohol from grain continues to be a topic of intense discussion, with growing indications that this source of supply must be used more extensively to meet over-all industrial requirements. Imports from France and production from molasses and petroleum may fail to meet needs for expanded synthetic rubber production. Maine farmers would like to have 30 million bushels of surplus potatoes converted to alcohol, but the cost is high, even with free potatoes.

Farmer independence of government was stressed in speeches at the annual meeting of the National Milk Producers Federation at Minneapolis this month, following the general tone of discussions at other recent farm organization meetings. A resolution was adopted, however, asking for immediate announcement by the USDA of a price support program for manufactured dairy products for the coming year.

The Farm Outlook for 1951 is analyzed in more detail in the November issue of Business Conditions than is possible in the space of this Letter. Additional copies of this issue are available—single copies on request, bulk orders at the usual subscription price of three cents a copy.

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