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~~Editor~~  
Federal Reserve Bank of Chicago - -

December 2, 1955

"WE EXPECT the cost-price squeeze to continue in 1956." This statement by a prominent USDA economist reflects the general tone of discussions at the 33rd Annual Agricultural Outlook Conference held this week in Washington.

But the decline in farm income from 1955 to 1956 probably "will be less than that from 1954 to 1955." In the current year, prices of farm products will average about 5 per cent below 1954 and realized net farm income is off about 10 per cent.

One question raised by several Conference participants was "how long can farm prices and incomes trend downward even though national income continues to climb." The question highlights the divergent trends in these measures since 1952 and emphasizes the continuing imbalance between output of agricultural commodities and the amounts that will move into domestic consumption and export at stable prices.

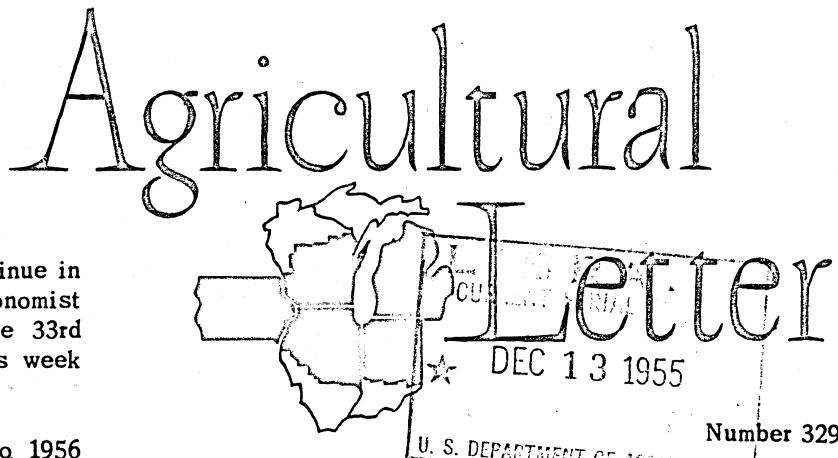
Agricultural prices are not expected to show any sustained spark until current large surpluses are worked down and output and consumption are more nearly in balance.

When that happy state of affairs will be realized is not clearly foreseen. There are those who say "the current imbalance can't persist." And there are those who say "agricultural output may tend to outpace demand for the next decade or more."

The rate of growth in demand is projected with some degree of confidence--around 2 per cent a year. But the trend in farm output is much less certain. The cost-price squeeze and the movement of workers out of agriculture tend to slow the rate of growth in farm output. But will these and other factors succeed in deferring further increases in output until demand has caught up, and how long will it take? There can be no firm answer, only hunches.

As to 1956, domestic demand for agricultural commodities is expected to remain strong. Exports are projected at about the 1954-55 level. "Prices of major crops and the incomes of farmers producing them" are expected to average lower than in 1955. Livestock producers, however, "may get about the same incomes" as in 1955 if the expansion in hog production comes to a halt some time next year.

"NATIONAL OUTPUT of all goods and services increased about 33 billion dollars, or 9 per cent, between the third quarter of 1954 and the third quarter of this year." While further gains are expected in 1956, the rate of increase is expected to slow. Some sectors of the economy are already operating at capacity levels, and



the rate of increase in the past year was nearly three times the rate of growth usually considered "normal."

Larger consumer expenditures for goods and services accounted for over half of the total gain during the past twelve months. Prospects are for some further increase in the year ahead. While expenditures for durable goods, such as autos, may not increase further, outlays for food, clothing and services probably will continue to rise. Last year expenditures for nondurables and services increased by more than 10 billion dollars.

Investment outlays increased by about 15 billion dollars, or one-third, between the third quarter of 1954 and the third quarter of 1955. A substantial part of the increase reflected changes in business inventories of goods and materials. A year ago inventories were being reduced while in the third quarter of this year they were being increased.

In addition, total construction outlays advanced by 12 per cent during the past year and investment in new machinery was boosted by a similar proportion. In the year ahead virtually all of the increase in investment outlays is expected to be due to a further increase in expenditures for new plant and equipment.

Government expenditures were not an important factor in the boost in the nation's output during the past year. Declines in Federal Government expenditures were offset by increases in state and local government expenditures. In the year ahead Federal Government outlays are expected to remain near current levels, but expenditures for schools, highways and public buildings will further increase outlays by states and local governments.

Thus, total demand from consumers, business and government, is expected to increase further in the year ahead. Some price increases are indicated for products of those industries for which demand is pressing on supply. For agriculture, however, with supplies pressing heavily on available outlets, the price pressures probably will be downward for most commodities most of the year.

The outlook for 1956, therefore, may be characterized as "more of the same" for both agriculture and business, but "not so much change" as in 1955.