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Federal Reserve Bank of Chicago - -

May 31, 1963

THE WHEAT OUTLOOK is even more uncertain than usual. A substantial number of acres of the winter wheat crop is being abandoned—some because of drought; some because of damage from severe winter weather. The spring wheat crop is presently getting a good start but will be exposed to the vagaries of weather and insects for some time before being harvested. Foreign demand will be affected by production elsewhere in the world as well as by trade arrangements worked out between various exporting and importing countries.

In addition, the Government's proposed strict controls on acreage and marketing of the 1964 crop (rejected recently in a referendum of the nation's wheat growers) may have some effect on prices and marketing of the 1963 crop as farmers and the "trade" adjust inventories. The extent of this, of course, will depend on any action Congress or the Administration may take on alternative wheat programs.

If no legislative or administrative action is taken, the production and marketing of wheat will return largely to a "free market" basis in 1964. But wheat would still be affected significantly by Government programs on other crops that can be grown in the same areas—feed grains, cotton, soybeans, etc.—and by international agreements and United States export programs. In general, however, wheat prices would probably decline, reflecting the high level of support prices and excessive supply of wheat since 1951.

Production would probably be increased in areas where wheat is a major crop and the returns from alternative crops relatively low. On the other hand, in areas having relatively attractive alternatives, wheat acreage might decrease.

Over-all, the USDA has estimated that around 65 million acres of wheat might be harvested in 1964 in the absence of production controls. Some of the additional land, of course, would be less productive than that now planted to wheat, causing the national yield per acre to decline somewhat. Moreover, because of the expected lower prices for wheat, farmers would likely farm their wheat acreage less intensively. Even so, production could be expected to rise above present levels, and any increase of supply would intensify the downward pressure on market prices already ensured by the present over-supply—in the absence of controls or other cushioning action. The effects on farm incomes would vary greatly but total income from wheat probably would decline significantly.

FARM COSTS continued the long-run upward trend with a slight increase in the first quarter of 1963. The rate established in the initial quarter is expected to persist throughout the balance of the year. Generally higher prices and purchase of a larger volume of items used in production are expected to increase expenses about \$500 million above the 1962 level.

Agricultural Letter

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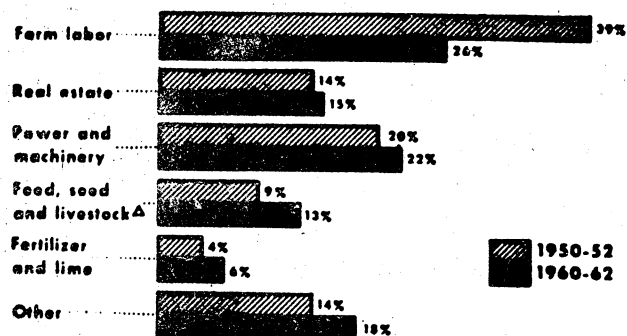
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CURRENT SERIAL RECORDS

Farmers have attempted to offset these higher costs by adopting newer and more effective production methods and by taking advantage of the changes in relative prices among the various production items.

The effectiveness of this widespread adoption of new technology is reflected in the steady increase in production of farm products during the last decade. Production increased by more than one-fifth during this period.

MAJOR INPUT GROUPS As Percentages of Total Inputs*



* Based on 1947-49 price weights Δ excludes value of interfarm transfers

The rapid change in production methods is illustrated by the substantial shifts in the relative importance of various farm inputs since the early Fifties. The most prominent shift has been substitution of such capital inputs as mechanical equipment, power, fertilizer and lime, and other nonfarm produced items for labor. Since the early Fifties, the amount of farm labor has dropped almost one-third, while the amount of farm machinery used rose about one-sixth and fertilizer and lime almost doubled.

Farmers' efforts to hold down production costs have met with some success, as indicated by the fact that costs per unit of production have risen less than prices of inputs on many farms.

Roby L. Sloan
Agricultural Economist

FARM BUSINESS CONDITIONS

April 1963, with comparisons

I T E M S	1963		1962
	April	March	April
PRICES:			
Received by farmers (1957-59=100)	100	99	100
Paid by farmers (1957-59=100)	106	106	105
Parity price ratio (1910-14=100)	78	77	79
Wholesale, all commodities (1957-59=100)	100	100	100
Paid by consumers (1957-59=100)	106	106	105
Wheat, No. 2 red winter, Chicago (dol. per bu.)	2.16	2.11	2.13
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.21	1.22	1.14
Oats, No. 2 white, Chicago (dol. per bu.)	0.75	0.76	0.72
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.61	2.65	2.56
Hogs, barrows and gilts, Chicago (dol. per cwt.)	23.77	23.63	27.45
Beef steers, choice grade, Chicago (dol. per cwt.)	13.90	14.10	16.04
Milk, wholesale, U. S. (dol. per cwt.)	3.87	4.05	3.90
Butterfat, local markets, U. S. (dol. per lb.)	0.59	0.59	0.58
Chickens, local markets, U. S. (dol. per lb.)	0.15	0.15	0.14
Eggs, local markets, U. S. (dol. per doz.)	0.32	0.36	0.32
Milk cows, U. S. (dol. per head)	215	214	222
Farm labor, U. S. (dol. per week without board)	47.25	--	47.50
Factory labor, U. S. (dol. earned per week)	97.76	98.09	96.56
PRODUCTION:			
Industrial, physical volume (1957-59=100)	122	121	118
Farm marketings, physical volume (1947-49=100)	105	107	99
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	456	453	438
Cash farm income, U. S. ¹ (annual rate, bil. of dol.)	--	37	34
EMPLOYMENT:			
Farm (millions)	4.7	4.3	5.0
Nonagricultural (millions)	63.4	62.8	61.9
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average=100)	109	108	106
Nonagricultural banks (1955 monthly average=100)	103	105	103
Time deposits:			
Agricultural banks (1955 monthly average=100)	182	180	159
Nonagricultural banks (1955 monthly average=100)	196	193	167
¹ Based on estimated monthly income.			

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.