



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

28/9

DC BRANCH

F 313

exp. 2

Federal Reserve Bank of Chicago - -

August 4, 1972

Agricultural Letter

Number 1181

FARM PRICES in mid-July reached the highest level on record according to the U. S. Department of Agriculture. Cattle and hogs, both major commodities in the Seventh District, led the price advance. Hog prices rose to more than \$27 per hundredweight—well above the \$19 per hundredweight received a year ago and equal to the February 1970 record. Beef cattle prices established new highs, with most of the advance occurring in the latter half of June. Prices of beef steers and heifers averaged around \$37 per hundredweight, compared to a little over \$30 last July. Calves averaged \$45 per hundredweight—\$10 per hundredweight higher than a year ago.

Milk and soybeans, two other major commodities in the Seventh District, posted increases in July also. Milk prices rose 10 cents per hundredweight from the seasonal low in June according to preliminary estimates, and were about 2 percent above a year ago. Soybean prices averaged \$3.34 through mid-July—up 2 cents per bushel from June, and 5 percent above a year ago. Prices of some farm products, primarily fruit, were lower in July. In sum, average prices received by farmers averaged 13 percent above a year ago.

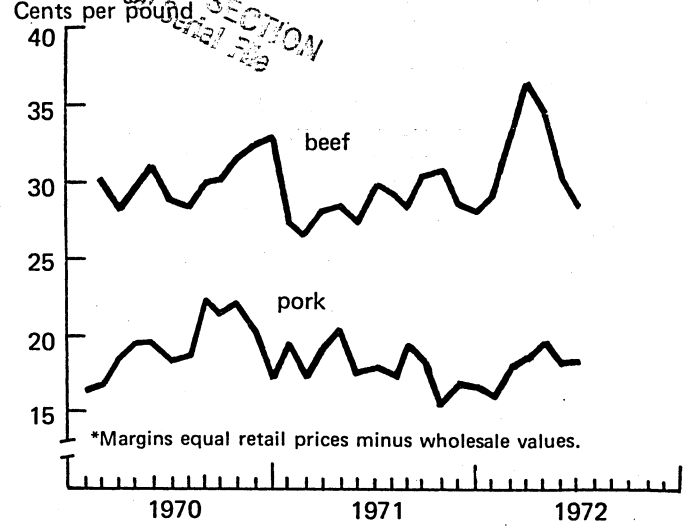
Prices paid by farmers for production items, as well as family living items, increased at a much slower rate—up 6 percent from last July. Higher prices for farm-produced items, such as feed and feeder animals, were the main factor behind the rise. Price increases of many manufactured farm inputs have been below those of other recent years, perhaps reflecting the impact of Phase II price controls.

With prices received for most farm commodities increasing much more rapidly than prices paid by farmers, net farm income through July continued to advance—probably at an annual rate of more than \$18 billion. This is the highest level ever recorded and more than 14 percent above last year's final tally of \$15.7 billion.

Retail meat prices have been under strong upward pressure from rising farm prices since March. The latest increase in livestock prices most likely resulted in a further increase at the retail counter. In June, the latest month for which data are available, retail beef prices averaged more than \$1.13 per pound—about 2 cents per pound more than during May. But the farm value of a pound of beef at retail jumped 4.5 cents. (About 2.3 pounds of live animal is equivalent to 1 pound of choice retail cuts.) Carcass or wholesale value rose 4 cents per pound.

With farm and carcass prices rising more rapidly than retail prices, the retailer's margin (retail price minus carcass value) has narrowed. In June, the retail margin was just over 28 cents per pound—down more than 8 cents per pound from the high reached in March. Retailers' margins on pork have declined, too, from a high of nearly 20 cents per pound in April to 18.5 cents in June.

U.S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL LIBRARY
RECEIVED
1972
PROCUREMENT SECTION
Alphabetical Order File



A lag of a month or more between changes in farm prices and corresponding changes in retail prices is usual. In May, retail beef prices averaged slightly lower even though farm and carcass values both increased. In addition, retailers sometimes "smooth out" the fluctuations in farm prices by accepting smaller margins when farm prices are rising rapidly, and then recouping their margins when farm prices decline. Last March, for example, farm and wholesale values for beef dropped more than 3 cents per pound, but retail prices showed no change and the retailer's margin went up by more than 3 cents per pound.

Recent declines in hog and cattle prices attributed to "consumer resistance" to high meat prices may well indicate that retailers have begun to rebuild their margins from the depressed June level by edging up their selling prices while bidding less for wholesale meat. Since July 1, wholesale prices for choice steer beef have declined more than \$2 per hundredweight. Wholesale prices for several pork cuts have also trended lower. The reduced wholesale prices are currently being reflected in declining farm prices. Choice steers at Omaha during this week averaged around \$36.50 per hundredweight, more than \$2 below early July prices. Hog prices have fluctuated but are also down from their July peak of over \$30 per hundredweight.

Dennis B. Sharpe
Agricultural Economist