

# MONTHLY REVIEW

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### *Farm Price Stability in 1952*

Since the beginning of World War II, stability has become a key word in our economic doctrine. Over most of the last decade, the maintenance of a stable price level has been one of our major objectives. The concern with the stability of farm prices stems chiefly from two considerations. Rapid rises in farm product prices increase the cost of living, which, in turn, creates pressure on wage rates and makes inflation more difficult to control. Rapid declines in farm product prices, on the other hand, create serious hardships for farmers who are operating at a high cost level.

Despite large-scale efforts on the part of the Government, the record of achievement toward the goal of farm price stability has not been impressive. Except for 1951 and for 1943, 1944, and 1945, when the entire economy was in a strait jacket of wartime controls, farm prices have shown less stability in each year of the last decade than in any of the three years immediately preceding World War II. During World War II most agricultural planning for the postwar period was based upon the assumption that demand for farm products would decline drastically and that the main postwar problem in agriculture would be to cushion a sharp decline in farm prices. When price controls were relaxed, however, farm prices began to rise rapidly and the main problem during 1946 and 1947 was to slow down the spiral in the cost of living that stemmed from that rise.

By 1948 the emphasis had shifted from the inflationary effects of farm price increases to methods of stopping a decline in prices. In 1948, from July to December, average prices received by farmers for all commodities fell 10 percent. During the 1948-49 crop year, Government outlays for the support of farm prices amounted to slightly more than 2.5 billion dollars. In spite of large outlays for price supports, farm prices continued to decline in 1949. During that year average prices received by farmers fell another 12 percent.

Many observers believed that the long expected "postwar adjustment" in agriculture had come and that farm prices would stabilize at much lower levels than had prevailed in the years immediately following the war. This view was accepted so generally that much attention was devoted to a revamping of Government price-support programs. In April 1949 the much-discussed "Brannan Plan" was formally presented. This proposal to use Government subsidies to underwrite the demand for farm products is indicative of the widely held conviction that farm prices were in the process of stabilizing at much lower levels.

By the early part of 1950 the effects of the 1949 "inventory recession" had about worn off and nearly all indicators of business activity began to move upward. As employment and personal income payments rose, farm prices also strengthened and by the time war started in Korea, prices received by farmers were up 6 percent from the low reached in December 1949. The war in Korea brought about a very familiar reaction in farm prices. All prices went up, of course, but prices of farm products went up very rapidly and by February 1951 they were 27 percent higher than in June 1950.

Again, as in 1946 and 1947, the main concern about farm prices was how to keep them from going up rather than how to cushion a decline. The Brannan Plan and other proposed revisions of the various price supporting schemes became dead issues. Farm products were included in the general price freeze that went into effect in February.

As the nation settled down to a long-range rearmament program that overshadowed the fighting in Korea, at least so far as its impact on the economy was concerned, farm prices began to decline slowly and by September 1951 they were 7 percent below the record high reached in February. This slow decline was brought to a halt by a deterioration in crop prospects during the summer. As harvest time neared, it became apparent that the output of such important crops as corn and cotton would be much less than had been expected earlier. By December 1951, farm prices had increased 5 percent from the September low.

#### **Current Uncertainty About Farm Prices**

For agriculture as a whole, 1951 was a year of unusually stable prices. Some commodities, such as cotton, showed violent and erratic price movements, but the general level of farm prices was more constant than at any time since 1945. A rough approximation of this stability may be had by comparing the range of monthly price indexes with the annual average index. This range was less in 1951 than in any year during the last two decades, with the exception of 1944 and 1945.

In spite of the stability achieved last year, many farmers are apprehensive about the effect that another year of high production would have on farm prices. Cotton farmers, for example, have been pressing for higher support prices in order to take some of the price risk out of the production of the 16-million-bale crop that has been called for by the

Department of Agriculture. Their main argument has been that present support levels offer inadequate protection in view of the high costs that will be incurred in producing the 1952 crop.

This feeling of uncertainty in the minds of farmers has already received some official recognition. The President, in his Economic Report to the Congress, recommended that the sliding scale provisions of existing price-support legislation be repealed. The reasons for this recommendation, as set forth in the January report of the Council of Economic Advisers, are as follows: "The Secretary of Agriculture has asked farmers for maximum production of several of the basic commodities. . . . Yet under existing legislation, if farmers succeed in increasing production sufficiently to build up reserves to safe or desirable levels, they could be penalized by having their support prices reduced from 90 percent to as low as 75 percent of effective parity. This possibility may act as a deterrent to maximum production of basic commodities by raising concern in the minds of many farmers lest the Government, after enlisting them in an all-out production drive, might leave them worse off as a result of their patriotism and hard work."

#### VARIATIONS IN INDEX OF PRICES RECEIVED BY FARMERS

Year	Percent of Annual Average		Range
	High Month	Low Month	
1932	109.2	90.8	18.4
1933	117.1	78.6	38.5
1934	112.2	85.6	26.6
1935	104.6	95.4	9.2
1936	107.0	92.1	14.9
1937	107.4	86.9	20.5
1938	106.2	95.9	10.3
1939	104.2	94.7	9.5
1940	103.0	95.0	8.0
1941	115.4	86.2	29.2
1942	110.8	93.7	17.1
1943	103.1	94.3	8.8
1944	103.1	97.4	5.7
1945	103.4	98.1	5.3
1946	114.5	90.6	23.9
1947	109.5	93.1	16.4
1948	107.4	93.3	14.1
1949	106.4	93.6	12.8
1950	111.7	91.8	19.9
1951	103.6	96.4	7.2

The reasons for the current uneasiness about farm prices cannot, of course, be listed completely, but there are at least three important factors that may be having an effect. The first is that there is no recent history of price stability except in 1951. During the postwar period there has either been the problem of preventing farm price increases from adding to the inflationary pressures or of cushioning a price decline to protect farm income. Price stability such as characterized 1951, in other words, is so contrary to the usual experience that many people do not expect to see it repeated in 1952.

A second reason for uncertainty about farm prices in 1952 is that no one can be sure just what brought about the

stability in 1951. Did the direct price controls instituted in February and the changes in monetary and fiscal policy during the first part of the year merely bring the rise in farm prices to a temporary halt? After all, farm prices usually do move in the same direction as disposable personal income, and from the first quarter of 1951 to the third quarter disposable personal income increased from an annual rate of 217 billion dollars to 225 billion. The fourth quarter witnessed a further growth to 228 billion dollars annually. Farm prices in turn rebounded from their September low and at the year's end were at about the same level as at the beginning. Another question is, Did the deterioration in crop prospects merely cause a temporary halt in the decline in farm prices that began in February? Farm prices have weakened appreciably since the beginning of 1952 and future prices on many commodities are now at the lowest levels since last September.

Still another possible reason for farmers' concern about the stability of prices is the violent price movements that occurred last year for important commodities. Cotton is the outstanding example. From an early spring high of about 45 cents, the price of cotton fell to 34 cents in September and was up to about 43 cents by the end of the year. Part of the sharp decline, of course, was attributable to the overestimation of the 1951 crop in the United States. As late as October, the supply in 1951-52 was estimated at 19.2 million bales, or about 14 percent larger than the 1950-51 supply. At that time the carry-over was expected to range from 2.7 to 3.2 million bales, one of the smallest in the last two decades. In view of the strong export demand and the small carry-over expected at the end of the season, the price reaction to the probable 14-percent increase in supply seemed unusually sharp. The cotton market, in other words, reacted much more violently to the prospective increase in supply than seemed justifiable, based on a sober analysis of prospective changes in the supply and demand factors.

#### Forecasts of Farm Price Movements

One way to gain some perspective about the forces that may affect the stability of farm prices in 1952 is to examine the facts and assumptions on which some of the current forecasts are based. Each fall the Bureau of Agricultural Economics makes a forecast on the level of farm prices and incomes for the coming year. In its outlook statement on farm prices and income for 1952, the Bureau states that, "Prices in 1952 are not expected to average significantly higher than in 1951, as a whole." If growing conditions are normal, the total volume of farm marketings is expected to be about 5 percent larger than in 1951, which would result in a 5-percent increase in cash receipts from marketings. Essentially, the Bureau is saying that demand for farm products, as a whole, in 1952 will expand enough to absorb a 5-percent increase in output at about the same price level as prevailed in 1951. The assumed 5-percent increase in production is closely in line with the production goals already announced.

The defense program, of course, is the central feature in this forecast. The first assumption is that there will be no additional war scares or any return to peace, but that the rate of defense spending will rise as scheduled—from an annual rate of 44 billion dollars at the end of 1951 to 65 billion at the end of 1952. Because of expected increases in

productivity per worker, and an estimated increase of slightly more than one million in the number of workers employed, it is assumed that the total value of goods and services produced, or the gross national product, will rise about 20 billion dollars.

Even after allowance for higher tax rates, disposable personal income is assumed to increase 12 to 15 billion dollars. It is also taken for granted that substantially all the expected increase in consumer incomes will be spent, which means, of course, that the rate of saving will be lower than it was in the last quarter of 1951.

A reduction in business inventories and an expected decrease in investment in construction and equipment for non-defense purposes sufficient to cause a total reduction of 8 to 12 billion dollars in private investment is assumed. Since the assumed increases and decreases in expenditures add to slightly more than the expected increase in output, it seems likely that prices will rise slightly in 1952. This is the general economic framework within which the farm price forecasts were developed by the Bureau of Agricultural Economics. To go from these assumptions about domestic demand to a forecast of farm prices requires two additional steps. Some forecasts of foreign demand must be made and the effects of changes in both categories of demand on farm prices must be estimated.

Throughout fiscal 1952 the volume of agricultural exports is expected to be 5 to 10 percent larger than in the preceding year, with average export prices a little lower. Foreign demand for farm products, in other words, is expected to be about the same in 1952 as it was in 1951.

Translating the assumed changes in domestic demand into a farm price forecast is the really difficult step. If farm output increases 5 percent, will the assumed changes in domestic demand hold prices steady, permit them to fall, or push them to higher levels? How well this question can be answered depends largely upon the accuracy of our knowledge about the relationships between the supply and demand factors and the prices of farm products that will prevail in 1952.

### Price-Making Forces

At this point it may be helpful to consider some of the factors that affect the level of farm prices and some approaches that are used to determine the relationships between these factors and prices. For a particular commodity the main factors are the supply of the commodity itself, the supply of competing commodities, the amount of the marketing margin, and the amount of disposable income in the hands of consumers. For agriculture as a whole the strength of consumer demand, which is usually stated in terms of disposable income, is by far the most important. Total agricultural output does not vary greatly from year to year, but disposable income fluctuates widely. Because of the relationship between the level of consumer incomes and farm prices, disposable income of domestic consumers has proven to be the best over-all indicator of domestic demand for farm products.

One of the most widely used approaches to the problem of estimating the relationship between the supply and demand factors and prices is to study past relationships with the view of establishing some sort of normal relationship.

Under this approach the relationships for a 15- or 20-year period are usually analyzed by statistical methods to derive a typical relationship. Since most problems of price forecasting involve only year-to-year changes, the results of these analyses are usually expressed as the percentage change in prices that is likely to accompany a given percentage change in the price-making forces. In a recent study of factors affecting year-to-year changes in farm prices, for example, the Bureau of Agricultural Economics found that in the period 1922-41 a one-percent increase in disposable income was usually accompanied by a 1.23-percent increase in the farm price of livestock products.

In this connection it may be helpful to remember that most of our usable information about the relationship between demand, supply, and price of farm products was obtained during the two decades immediately preceding World War II. Statistical analyses of the relationship during this period yielded results that were internally consistent and that conformed with conventional theoretical analyses. Attempts to apply these analyses to the postwar period have met with little success. It seems reasonable to conclude that the earlier relationships either are not appropriate for the postwar period or that there are so many disturbing influences that the workings of what might be called normal supply and demand are obscured.

Perhaps the most striking characteristic of postwar markets for farm products is that they seem abnormally sensitive to even slight changes in the supply and demand factors. A change in the supply outlook that would have caused a mild price reaction in the prewar period, for example, now often touches off an extremely violent one. Another way of stating it is that the buyers and sellers who make a market for a particular farm product appear to have very little confidence in the level of prices that they themselves have set.

Because of the effects of price ceilings and the dislocations in the economy during World War II and the current rearmament period, another approach to agricultural price analysis has gained in usage. This approach is based largely upon intuition and an intimate knowledge of the market for the particular commodity under consideration.

With either approach there is a problem of selecting a base period, or base year, on which to project the expected year-to-year changes. Based on the vast current knowledge about the relationship between changes in supply and demand factors and changes in prices, most of the current forecasts of continued stability of farm prices in 1952 seem reasonable if it is also assumed that 1951 is a good year on which to base the projection. Stated in another way, Can the farm price situation in 1951 be regarded as normal or typical in the sense that it was what could reasonably be expected with the volume of farm output and the level of consumer income that prevailed? If the situation in 1951 represents a short-run stabilization of farm prices at an artificially high level, then the assumed increase in demand in 1952 would merely serve to cushion a decline in farm prices rather than hold prices steady. If, on the other hand, the price stability in 1951 was attributable mainly to the dampening effect of inflation controls, then any increase in demand in 1952 would result in continued upward pressure on farm prices.

### The Unstated Assumption

Although it is not often stated explicitly, most of the forecasts regarding farm prices do seem to assume that the farm price situation in 1951 was typical of what could have been expected with the 1951 level of farm output and consumer income. This may well be the key assumption. If it proves to be correct, there are sound reasons for expecting continued stability of farm prices in 1952 at about the current levels.

During the postwar period, year-to-year increases in the disposable income of consumers have not always strengthened the demand for farm products to the extent that is expected from 1951 to 1952. From 1949 to 1950, for example, disposable personal income increased by nearly 10 percent and farm production fell 1.4 percent, but average prices received by farmers increased only 2.8 percent. The 10-percent gain in disposable income, in other words, was accompanied by only a small rise in farm prices even though farm production declined. Although these comparisons between such large aggregates should be interpreted with caution, they do indicate that the effect on farm prices of a given increase in consumer income may depend to a large extent upon the base from which the increase is measured.

### FARM PRICES, PRODUCTION, AND DISPOSABLE INCOME

Year	Prices Received by Farmers (1910-14 = 100)	Production for Human Use (1935-39 = 100)	Disposable Personal Income (Billions of Dollars)
1945	206	129	151
1946	234	134	159
1947	275	129	170
1948	285	141	188
1949	249	140	186
1950	256	138	204
1951	302	139	223

Although price supports have not received much attention in most farm price forecasts for 1952, they are an important passive factor in the demand for some farm products. Even if they are used extensively in 1952, however, they could not prevent a general decline in prices. Wheat, rice, and corn are the only commodities of major importance now selling at near support prices. Cotton prices could decline drastically before reaching the support level. There is no effective support program for livestock and livestock products, which account for about half of farmers' cash receipts. If the main concern with farm price policy in 1952 is to prevent declines that would create hardships for many farmers, the present price-support program will have only limited effectiveness.

The vigorous application of the present authority for imposing price ceilings, on the other hand, probably would prevent a rapid increase in prices. Apparently the best that farmers can hope for is a continuation of prices at about the 1951 levels. Because of an increase in costs, which seems to be almost a certainty for 1952, only the more efficient farmers may expect to maintain or increase their net income. Farmers and country bankers, however, should not overlook the possibility that the well-advertised price-cost squeeze may be much more severe than is indicated by current forecasts.

BROWN R. RAWLINGS

## Sixth District Statistics

### CONDITION OF 27 MEMBER BANKS IN LEADING CITIES (In Thousands of Dollars)

Item	Feb. 27 1952	Jan. 30 1952	Feb. 28 1951	Percent Change Feb. 27, 1952, from	
				Jan. 30 1952	Feb. 28 1951
<b>Loans and investments—</b>					
Total	2,753,793	2,730,178	2,558,791	+1	+8
Loans—Net	1,074,957	1,072,824	1,142,210	+0	-6
Loans—Gross	1,094,721	1,092,617	1,158,010	+0	-5
Commercial, industrial, and agricultural loans	635,480	639,169	696,711	-1	-9
Loans to brokers and dealers in securities	10,132	9,883	13,273	+3	-24
Other loans for pur- chasing and carrying securities	33,148	33,455	35,038	-1	-5
Real estate loans	87,510	87,777	93,296	-0	-6
Loans to banks	7,829	2,920	4,606	*	+70
Other loans	320,622	319,413	315,086	+0	+2
Investments—Total	1,678,836	1,657,354	1,416,581	+1	+19
Bills, certificates, and notes	804,031	795,712	568,588	+1	+41
U. S. bonds	640,497	632,994	632,471	+1	+1
Other securities	234,308	228,648	215,522	+2	+9
Reserve with F. R. Banks	514,221	518,292	487,458	-1	+5
Cash in vault	48,206	45,949	42,029	+5	+15
Balances with domestic banks	218,233	228,166	189,331	+4	+15
Demand deposits adjusted	2,066,741	2,066,674	1,924,422	+0	+7
Time deposits	536,315	534,683	512,592	+0	+5
U. S. Gov't deposits	78,371	54,773	72,573	+43	+8
Deposits of domestic banks	616,055	627,045	536,134	-2	+15
Borrowings	20,500	25,250	22,250	-19	-8

\*More than 100 percent

### DEBITS TO INDIVIDUAL BANK ACCOUNTS (In Thousands of Dollars)

Place	Jan. 1952	Dec. 1951	Jan. 1951	Percent Change Jan. 1952 from	
				Dec. 1951	Jan. 1951
<b>ALABAMA</b>					
Anniston	30,352	29,403	29,186	+3	+4
Birmingham	461,622	463,310	446,343	-0	+3
Dothan	20,445	19,497	19,637	+5	+4
Gadsden	23,993	23,470	25,448	+2	-6
Mobile	163,909	172,375	160,421	-5	+2
Montgomery	99,222	94,347	99,013	+5	+0
Tuscaloosa*	32,779	32,570	35,563	+1	-8
<b>FLORIDA</b>					
Jacksonville	401,988	380,593	397,148	+6	+1
Miami	355,186	338,463	354,070	+5	+0
Greater Miami*	572,213	525,721	541,055	+9	+6
Orlando	83,927	78,516	80,945	+7	+4
Pensacola	48,775	47,483	41,500	+3	+18
St. Petersburg	94,649	85,218	92,032	+11	+3
Tampa	181,953	184,841	184,518	-2	-1
<b>GEORGIA</b>					
Albany	40,001	39,048	35,131	+2	+14
Atlanta	1,136,241	1,187,215	1,148,783	-4	-1
Augusta	90,117	88,738	80,217	+2	+12
Brunswick	13,249	13,756	12,280	-4	+8
Columbus	83,518	83,232	76,784	+0	+9
Eiberton	4,550	5,175	4,394	-12	+4
Gainesville*	26,007	22,572	22,453	+15	+16
Griffin*	13,231	14,607	13,773	-9	-4
Macon	89,017	89,059	77,856	-0	+14
Newnan	15,932	14,145	14,942	+13	+7
Rome*	27,398	29,412	30,064	-7	-9
Savannah	122,432	125,421	115,609	-2	+6
Valdosta	14,894	15,494	14,135	-4	+5
<b>LOUISIANA</b>					
Alexandria*	47,492	45,281	45,401	+5	+5
Baton Rouge	125,311	114,617	131,848	+9	-5
Lake Charles	52,485	49,981	49,728	+5	+6
New Orleans	933,238	933,001	867,509	+0	+8
<b>MISSISSIPPI</b>					
Hattiesburg	22,202	20,200	21,450	+10	+3
Jackson	213,828	167,253	206,949	+28	+3
Meridian	33,605	33,916	35,249	-1	-5
Vicksburg	32,384	37,141	25,793	-13	+26
<b>TENNESSEE</b>					
Chattanooga	217,807	195,764	212,026	+11	+3
Knoxville	150,544	155,294	162,191	-3	-7
Nashville	407,814	424,365	396,405	-4	+3
<b>SIXTH DISTRICT**</b>	<b>5,765,190</b>	<b>5,710,331</b>	<b>5,619,540</b>	<b>+1</b>	<b>+3</b>

\*Not included in Sixth District totals.

\*\*32 Cities.