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THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO  
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The Hoover Commission, studying Governmental reorganization, has had a task force surveying the USDA. Last week the recommendations of this group became public. The Department was the object of considerable comment on what is said to be its present disorganized structure, which the observers attributed to the piecemeal growth of the Department. Aiming at elimination of duplication and overlapping of functions within the Department and between other Governmental agencies outside the Department, and at clarification of where the farmer stands with a large number of USDA agencies, the report recommends the following: (1) that conservation payments be made to farmers only for those practices which bring about proper land use, with no subsidies concealed in the payments, and that when the conservation program is completed, payments end; (2) the consolidation of agricultural lending activities into one organization to handle production and marketing credit, such organization to include the Federal land bank system, the bank for cooperatives, and the Production Credit Corporation, with all real estate loans to be handled through the land bank system including those now handled by the Federal Farm Mortgage Corporation and the Farmer's Home Administration; (3) that agencies dealing with land resources in USDA and the Interior Department be consolidated in one USDA division, with water development activities to be put into a new department of conservation, but with mineral resource activities on the public domain settled outside USDA; and (4) that one central regulatory agency be set up to handle all regulatory functions dealing with food products and with all drug regulation transferred to the public health agency. After such reorganization the USDA would have, instead of a large number of bureaus and agencies as now, eight major divisions: the Office of the Secretary, a Division of Administrative Services, a research service, an extension service, a conservation division, a commodity adjustment service, a regulatory agency, and an agricultural credit division.

A rise of 1.7 per cent in land values for the U.S. from March 1 to November 1, 1948, is reported by USDA. The November figure puts land values at four per cent above the previous high point reached in 1920. The rise for the March to November period was less than one per cent in Seventh Federal Reserve District states. Estimates in the report show that the net return to capital (based on USDA estimates of farm equities) was eight per cent in 1948 compared with five per cent in 1940. This is after deducting from net farm income an allowance of \$1,350 wages to each farm operator and working member of the farm family, the same wage rate as paid to hired farm labor. The report further points out in explaining the high level of land values that this rate of return on capital is better than can be realized in most other lines of investment in view of the earnings retention policy of most corporations.

Prices received by farmers declined one per cent from mid-November to December 15 as compared with declines of two per cent in November and four per cent in October. Most of the drop was in livestock and livestock product prices—hogs, cattle, and eggs. The level of prices paid by farmers was unchanged, putting the farm product price level at nine per cent above parity.

A recent report of BLS on consumer prices ("cost of living") shows that from the August-September peak (all-time high) to December 15, consumer prices at retail have dropped 1.8 per cent, due almost entirely to lower food prices, which have declined 5.4 per cent from mid-July. This may be compared with a drop of nearly 12 per cent in farm

(over)

product prices. Retail meat prices declined 12 per cent from August to December. It should be remembered that there is almost always a time lag between farm price declines and their reflection in lower retail food prices.

The December Pig Crop Report, issued since our last Letter, shows U.S. farmers intentions to produce a spring pig crop of 56.5 million pigs, or 10 per cent above the 1948 spring crop. The USDA goal was for an increase of 17 per cent or 60 million head, and hog-corn price relationships recently have been high enough to suggest a spring crop 25 per cent above last year. But producers have insured their position by putting corn under Government loan rather than take the price risks on expanded hog output. It is reported to us that some producers are suspicious that hogs may be at a support level of around \$17.00 when the 1949 spring crop goes to market. Unlikely as this seems now, unless 1949 is to see a bigger dip in employment, incomes, and consumer demand than present indications appear to warrant, it is nevertheless a factor inducing producers to go slow on hog expansion.

A 1949 potato price support program at 60 per cent of parity became official last week when Secretary Brannan announced the one-third reduction from the 1948 support level. He said at the same time that 90 per cent of parity would be the support level for all other supported commodities except turkeys at 60 per cent if turkey prices should fall to that level.

Loans and purchase agreements in support of dry edible beans which were to be available only through the end of 1948 have been extended by CCC through February 28. The extension was made because of the inability of processing facilities to condition the large crop for eligibility by the end of December.

USDA announced officially last week that wool prices will be supported at slightly over 42 cents to producers during calendar 1949. Some changes in the 1949 program have been made from the 1948 levels, but they have to do with types and grades of shorn and pulled wool and are made in order to stimulate the preparation of wool for the market in more readily saleable condition.

CCC announces that losses it absorbed on supporting prices of commodities sold and shipped as a part of the relief to foreign countries totaled 58 million dollars on 1948 activities. The losses by commodities were: 24.2 million dollars on eggs; 13.8 million for potatoes; 8.8 million on prunes; 6.8 million on raisins; 1.7 million on citrus juices; and 0.9 million for honey.

A report of the House Small Business Committee says that TVA operations have not contributed to a reduction in the cost of producing fertilizers. The report cites war-time experience in which private industry delivered phosphorus pentoxide at 75 cents per unit (under OPA pricing) at the same time that TVA was billing to the Government at over \$1.00 per unit. The report also states that there is evidence substantiating the charge that TVA, after meeting test and demonstration allotments and filling Government requirements, distributed the residual only to cooperatives and other "favored" outlets.

A hopeful note on foot-and-mouth disease was sounded last week by a special committee of the Senate Appropriation Committee when it reported the expectation that the next 10 months will see plans worked out that will result in eradication of the disease. But the committee warned that an epidemic could break through the barrier into this country at any time and urged continued cooperation to "police" the disease in Mexico. Recent reports, however, have been encouraging, with some infected areas having been cleaned up and the quarantine lifted.

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FARM BUSINESS CONDITIONS  
DECEMBER 1948, WITH COMPARISONS<sup>1</sup>

I T E M S	1948		1947	1940
	DEC.	NOV.	DEC.	DEC.
<b>PRICES:</b>				
Received by farmers ..... (1935-39=100) .....	250	253	281	97
Paid by farmers ..... (1935-39=100) .....	193	193	191	98
Parity price ratio ..... (1910-14=100) .....	109	110	123	80
Wholesale, all commodities ..... (1935-39=100) .....	202	203	200	98
Paid by consumers - "cost of living"..... (1935-39=100) .....	171 <sup>f</sup>	172	167	101
Wheat, No.2 hard winter, Chicago ..... (dol.per bu.) .....	2.38	2.33	3.09	.90
Corn, No.3 yellow, Chicago ..... (dol.per bu.) .....	1.42	1.38	2.61	.62
Oats, No.3 white, Chicago ..... (dol.per bu.) .....	.87	.88	1.27	.38
Soybeans, No.2 yellow, Chicago ..... (dol.per bu.) .....	2.62	2.58	3.93	.95
Hogs, all purchases, Chicago ..... (dol.per cwt.).....	21.01	22.68	26.31	6.27
Beef steers, good grade, Chicago ..... (dol.per cwt.).....	27.82	30.68	29.62	11.86
Milk, wholesale, U. S. .... (dol.per cwt.).....	4.81	4.83	5.08	2.07
Butterfat, local markets, U. S. .... (dol.per lb.) .....	.66	.64	.88	.35
Chickens, local markets, U. S. .... (dol.per lb.) .....	.31	.29	.25	.13
Eggs, local markets, U. S. .... (dol.per doz.).....	.53	.58	.59	.27
Milk cows, U. S. .... (dol.per head).....	194	192	163	63
Farm labor, U. S. <sup>1</sup> ..... (dol.per week without board or room)	29.75 <sup>a</sup>	29.25 <sup>b</sup>	29.00 <sup>c</sup>	--
Factory labor, U. S. .... (dol.earned per week).....	54.49 <sup>d</sup>	54.50 <sup>e</sup>	51.29 <sup>d</sup>	26.93 <sup>d</sup>
<b>PRODUCTION:</b>				
Industrial, physical volume ..... (1935-39=100) .....	194 <sup>d</sup>	195 <sup>e</sup>	192 <sup>d</sup>	136 <sup>d</sup>
Farm marketings, physical volume ..... (1935-39=100) .....	158	180	151	121
<b>INCOME PAYMENTS:</b>				
Total personal income, U. S. .... (Annual rate, bil.of dol.)	217 <sup>d</sup>	216 <sup>e</sup>	201 <sup>d</sup>	82 <sup>d</sup>
Cash farm income, U. S. *** ..... (Annual rate, bil.of dol.)	29	29	32	9
<b>EMPLOYMENT:</b>				
Farm <sup>1</sup> ..... (millions) .....	7.1	9.0	7.5	--
Non-agricultural ..... (millions) .....	51.7	51.9	51.0	37.3
<b>FINANCIAL:</b>				
Demand deposits, weekly reporting member banks* ..... (bil.of dol.) .....	47.8	47.3	48.7	--
Loans, weekly reporting member banks, all leading cities: <sup>2</sup>				
Total* ..... (bil.of dol.) .....	25.6	25.2	23.3	--
Commercial, industrial, and agricultural* ..... (bil.of dol.) .....	15.6	15.5	14.7	--
U. S. Government total gross direct debt** ..... (bil.of dol.) .....	253	253	257	45
<sup>a</sup> January 1, 1949. <sup>b</sup> October 1. <sup>c</sup> January 1, 1948. <sup>d</sup> November. <sup>e</sup> October. <sup>f</sup> Estimated. *Last Wednesday of the month.   **End of month.   ***Based on estimated monthly income. <sup>1</sup> Revised series, not comparable to data published prior to December 1948. <sup>2</sup> Revised series, data not comparable to former series on "Weekly Reporting Member Banks in 101 Cities."				

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