THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

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A very realistic understanding of the agricultural economy is shown by Secretary Brannan in his annual report to Congress. He expresses doubt that farm price supports alone can be counted on to keep farming profitable in a bad depression. Price supports under such conditions, he says, would require production controls to which he is opposed as a remedy for the farm surplus problem. Without a high level of business activity agriculture must "carry its own excessive man power and some unemployed urban labor too. Meantime productivity continues to increase." Thus, he said, agriculture has an unsolved problem of abundance, of surpluses of both man power and commodities. The specific farm programs are designed to prevent disastrous price declines of previous depressions but, he said, the farm price program by itself cannot accomplish that. Farm income and prices and even production depend upon consumer buying power and thus on employment not only at home but throughout the world. He indicated that in a bad depression farm price supports could not hold farm prices on anything like a profitable level. Production efforts can be shifted from one commodity to another, he said, but there is no way to control the upward trend of production. He also pointed out that good business stimulates increased production more than poor business discourages it.

The BAE says that from the middle of August to the end of January wholesale prices have dropped six per cent; farm products, 12 per cent; and food, 15 per cent. Retail prices generally were down two per cent while food was off six per cent. The report also says "that while prices of livestock and meat and some dairy products would move up materially this spring if consumer buying, which has leveled off, should again turn upward, the major advance would be made by prices of nonagricultural products. Record crops in 1948, favorable prospects for crop output in 1949, and an improved world food situation generally are likely to prevent any important gains in prices of farm products and foods this spring."

As a result of the February commodity price breaks Secretary Brannan recently ordered an investigation of commodity markets. This week USDA reported from a preliminary investigation that trading on futures markets was very active in early February, and that much of it was evidently speculative. But the report also said the investigation has not gone far enough to determine if price manipulation or other unwarranted buying and selling had brought on the break. The House Agricultural Committee has also appointed a special committee to investigate the break to see if speculators "planned and brought it about."

The Department of Commerce has relaxed export restrictions on all fats and oils and oil-bearing seeds. IEFC has dropped its international allocation of fats and oils. A reversal of the price trend in soybeans may result. Foreign countries are reported anxious to purchase sizable quantities of soybeans, especially seed, as soon as ECA appropriations provide the dollars. USDA foresees a record breaking output of fats and oils in this country during the current season, with the output of soybean, cotton seed, peanut, and corn oil up 10 to 15 per cent from last year, and a substantial increase in lard. The U.S. will make large exports of soybeans and peanuts, and will be a net exporter of flaxseed for the first time in several decades.

The present support level for eggs has been extended through May by USDA. More buying is expected to be required than last year, and the program may be extended to shell and frozen eggs if necessary. It is expected that a lot of eggs will hit markets when

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the weather opens up the roads.

Last week the House Agricultural Committee began hearings on a bill to require the Secretary of Agriculture to support milk prices at 90 per cent of parity. There is considerable controversy over the interpretation of the provisions in the Agricultural Act of 1948 as to whether or not the support is mandatory. The House committee has delayed any action on the bill until it receives a report from USDA to be made to it next week on its purchase program of butterfat and non-fat dried milk solids to bolster prices. It would seem that the main point of the controversy is whether the law makes it mandatory for the Secretary to support prices of milk for manufactured products as distinguished from whole milk for fluid use. USDA is being urged to calculate and support a separate parity for the price of manufactured milk. The Department announced last week that in addition to the butter and dried milk supports it will buy evaporated milk for export.

There are some indications that when the ECA appropriations come up for hearings and for debates, vigorous efforts will be made by farm block senators to get inserted some strong provisions to make it mandatory that ECA funds for purchase of farm products be used to buy U.S. commodities. Provisions of this type were included in the law passed last year, but because of the shortages of some commodities there were also provisions designed to prevent a drain of short commodities from this country. It is these latter items that now would be pushed.

USDA says in a special release that the recent blizzards in four western states cost the lives of 178,000 head of livestock up to February 1 (81,000 cattle and calves and 97,000 sheep and lambs). This would be about two per cent of the cattle and calves on hand January 1 in these states and five per cent of the sheep and lambs. But it is in a way only the beginning of the loss story. Further death losses can be expected and the weight losses and shrinkage on livestock surviving are probably even more important. Also, a very high mortality rate can be expected from this spring's calf and lamb crops.

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