from the Federal Reserve Bank of Chicago
October 2, 1953

Agricultural Letter

Number 216

FINANCING OF PRICE SUPPORT LOANS by private lenders will be encouraged by a recent broadening of the program. The changes do not alter the current rate of interest charged to producers, which remains at 4 per cent. However, lending agencies, mainly country banks, which finance and also service CCC price support loans, will receive an interest rate of 2-1/2 per cent per annum for the use of their funds while invested and, in addition, they will receive a fee of one-half per cent per year for services.

Certificates of interest will be offered for the first time in connection with CCC grain and other commodity loans, an extension of a practice already in effect on cotton loans. These certificates will be freely negotiable, will bear interest at the rate of 2-1/2 per cent, and will be redeemed prior to maturity by CCC at any time upon demand.

These changes are intended to achieve maximum investment of private funds in CCC crop loans, thus relieving the U.S. Treasury as much as possible of a financial burden which would involve additional public borrowing.

LOANS AND INVENTORIES of all farm products under the Government's price support program totaled about 3-1/2 billion dollars at June 30, an increase of 2 billion from a year earlier. Approximately two-thirds of the 3-1/2 billion investment is in products owned outright by CCC. The remaining one-third represents price support loans, most of which are held by CCC although some 300 million dollars in loans are held by private lenders.

The net realized loss sustained by CCC last year was 61 million dollars. Since price support programs began 20 years ago, CCC has officially reported a loss of about 1-1/2 billion. However, the loss would have been much larger if wars had not intervened. Most of the loss last year occurred on corn and wheat (20 million and 19 million, respectively).

GOVERNMENT EMERGENCY LOANS to maintain cattle breeding herds have lagged. The program made available 150 million dollars for loans to cattlemen hurt by the drouth and declining cattle prices. However, up to the middle of September only 6 million had been loaned, and there were applications for 6 million more. Evidently the credit needs of cattlemen have been largely met from private sources.

MARKETING MARGINS FOR BEEF will be the object of a study to be undertaken soon by the Bureau of Agricultural Economics. Congress and the USDA have been under increasing pressure to find out who, if anyone, is making money out of the beef situation.

Of course, the extent of the decline in consumer prices depends on the behavior of marketing costs and the relative importance of marketing services in the value of the final product bought by consumers. If marketing costs rise, as they undoubtedly have in the past year, the price decline at the farm cannot be fully reflected at the retail level. And if the value of the raw material produced at the farm is only a small proportion of the value of the product sold at the retail store, then a large decline in farm product prices may have only a small effect on consumer prices.

Looking at it from the retail end, marketing margins typically are not affected much by fluctuations in retail prices. Not only does the farmer bear the brunt of retail price fluctuations, but also their effect on him is magnified by marketing cost rigidities.

TOTAL FARM OUTPUT this year may be nearly as large as in record 1952. Output of all crops is now indicated to be only a little smaller than last year and the third largest in history. (The record for crops was set in 1948.) On the other hand, the production of livestock and livestock products this year will probably be even larger than in 1952.

PRICES RECEIVED BY FARMERS dropped about 1 per cent from mid-August to mid-September, according to the USDA. Chiefly responsible for the decline were lower prices for truck crops, cattle, and lambs. However, higher prices for milk, wheat, fruit, tobacco, and eggs partly offset the over-all decline.

The parity ratio for August was revised downward from 93 to 92, the lowest figure in more than 12 years. The ratio remained at 92 in September because last month's decline in prices received by farmers was offset by a decline in prices paid.

The index of prices received by farmers began to skid sharply in August 1952. It fell 11 per cent in the following six months and has dropped an additional 7 per cent since February.

THE COMMENTATOR, employee publication of the Fed, reports the following story. A gentle Quaker heard a strange noise in his house at night. He found a burglar busily at work. In plain sight of the intruder he walked quietly to the door with his gun and said: "Friend, I would do thee no harm for the world and all that is in it, but thou standest where I am about to shoot." The burglar didn't linger.

L. John Kutish -- Agricultural Economist