

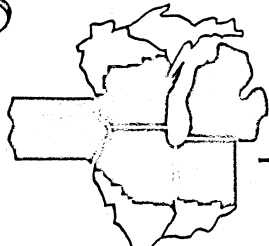
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Federal Reserve Bank of Chicago --

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Agricultural Letter

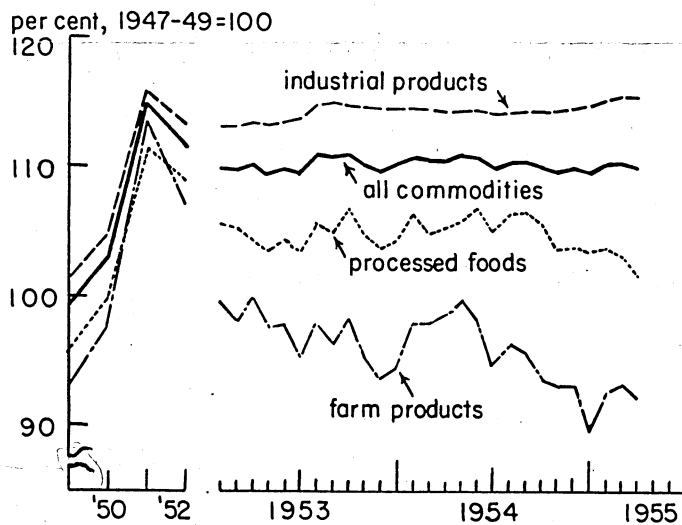
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FARM PRICES in April lagged their year-earlier level by 4 per cent and were about on a par with their pre-Korea war level. Farm prices rose 30 per cent from late 1949 to their Korean peaks in March 1951, and then declined about 20 per cent to mid-1954. Since then they have been relatively stable.

The gyrations in farm prices is in contrast to the movement of industrial product prices. Commodities other than farm and food rose 17 per cent to their Korean high, and then declined only a modest 3 per cent.



Since the Korea-induced price rise, the wholesale price index of all commodities has remained very stable through both the downward adjustment in business activity in 1953-54 and the succeeding recovery which began last fall. Prices of farm and food products declined by 8 and 4 per cent, respectively, in this interval, while industrial product prices inched up nearly 3 per cent.

Despite continued stability in the over-all price level, the business upturn has been accompanied by a firmer tone in many markets. Price increases have been chalked up for rubber, lumber, nonferrous metals, steel scrap, metal products and gas. With continued increases in wage rates and employment, personal income probably will move above the current record annual rate of 294 billion dollars. And as demand strengthens, the price index of industrial products may work somewhat higher in the months ahead.

FARM COMMODITY PRICES, however, have shown no response to the upswing in business activity. Price quotations on commodities for future delivery indicate that many traders expect prices to decline further during the next few months. Contract prices of some important farm commodities for delivery in midsummer and early fall have shown a persistent downward trend since late January.

	Delivery month of contract	Recent price of contract	Per cent changes in contract price since late January
Corn, bu.	July	\$ 1.46	- 8
Oats, bu.	July	.67	- 6
Barley, bu. . . .	July	1.04	- 9
Wheat, bu. . . .	July	1.94	- 8
Rye, bu.	July	1.00	-22
Soybeans, bu. . .	July	2.41	-13
Cotton, bale . .	July	33.15	- 4
Eggs, doz. . . .	September	.42	+ 4

This lower price trend for the major crops reflects stocks in excess of requirements for the remainder of the crop year, lower price support levels announced for the 1955 harvests (except cotton) and expectations of large 1955 harvests. The advance in egg prices reflects a substantial cutback in laying flock replacements and an expectation that egg prices will rise seasonally through the summer.

Hog prices have recovered over a dollar from their March low of \$15.40 per hundredweight and are expected to increase seasonally during the next month or so. However, market analysts expect that the larger supply will cause prices to continue below last year's levels through the summer and fall.

Fat cattle prices would normally show some seasonal strength in the next few months. However, prices of top-quality slaughter steers have declined 2 dollars in recent weeks, and with 12 per cent more cattle on feed than a year ago, some market analysts see little indication of a seasonal price rise for beef this summer.

A large volume of feeding is indicated through the summer months as shipments of feeder cattle into the Corn Belt states during the January-March period were 11 per cent larger than in the first quarter of 1954. However, in recent weeks in-shipments have dropped below those of a year ago.

Crop prices will be sensitive to reports on crop conditions through the critical phase of their growing season. Dust storms in the Southwest have given a boost to the wheat market even though an excessive supply is on hand. Nevertheless, no general rise in farm product prices seems likely until stocks are worked down to lower levels or a surge in demand, such as accompanies war, changes expectations.

Research Department