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# Agricultural Letter

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**RETAIL FOOD PRICES** declined slightly since the beginning of the year. The January index of retail prices for food consumed at home stood 5.5 percent above the year-earlier level but was down 0.1 percent from the ending 1975 level, according to the U.S. Department of Labor. Subsequent declines in both livestock prices and wholesale food prices, coupled with higher margins to cover processing and distribution costs for food, indicate the downtrend will likely extend well into spring. An anticipated recovery in livestock prices, however, may trigger significant upward pressures on food prices by midyear.

Rather divergent trends have been evident in recent months among individual components of the retail food price index. Retail prices of red meats declined 4 percent during the three months ending in January but remained 15 percent above year-ago levels. Other food prices trending downward included poultry, sugar, and fats and oils. In contrast, significant uptrends have been recently evident in prices of fish, eggs, and dairy products—all of which exceeded year-ago levels by 6 to 10 percent in January.

The two major indices that reflect wholesale food prices have both registered significant declines since late last summer. The index for finished consumer foods declined 4 percent since last October and in February was only 2.7 percent above the year-ago level. Similarly, the wholesale price index of processed foods and feeds declined 5.3 percent during the four months ending in February and was 3.4 percent below the year-earlier level.

The recent declines in wholesale food prices have occurred over a wide array of products, many of which are now below year-ago levels. Wholesale prices of processed fruits and vegetables were 2.5 percent below a year ago in February. Wholesale prices of vegetable oils and sugar and confectionary products were 29 percent and 42 percent, respectively, short of the year-earlier level. Cereal and bakery prices—although edging upward during the past two months—were 4.6 percent below a year ago.

Increased cattle slaughter has also pushed wholesale meat prices to the lowest levels in several months, a major factor supporting prospects for further slight declines in retail prices in the near term. Wholesale beef prices have declined by about one-third since mid-1975 and are currently about equal to the low levels of a year ago. Wholesale pork prices are off by one-fourth from their October highs and presently are at the lowest levels since last spring.

The comparatively large declines in wholesale food prices have resulted in a large rise in the farm-to-retail price spread, a rough measure of the costs associated with processing and distributing food beyond the farm gate. In January the farm-to-retail price spread for a typical market basket of food was 8.6 percent above the recent low in September. In the November to January period the spread averaged 7 percent above the comparable year-earlier level.

A large part of the increased farm-to-retail spread reflects the increased costs of labor and transportation associated with the processing and distribution of food. In January, for example, the index of rail freight charges for food products was 14 percent above the rapidly rising level of a year ago. Similarly, hourly earnings of employees in food manufacturing and distribution firms averaged 10 percent above the year-earlier level during the fourth quarter of 1975. Charges for fuel, power, and light were up by a similar amount during the fourth quarter. But perhaps more importantly in terms of future retail food price trends, the increased spreads have no doubt contributed to higher profits among food retailers. And with higher profits, retailers have likely engaged in price competition, passing more of the declines in wholesale prices through to consumers.

While prospects point toward softness in retail food prices through mid-spring, significant upward pressures may again be evident by summer. Although meat production will hold above year-ago levels in the months ahead, seasonal declines will likely become more evident as the greening of spring pastures is expected to sharply curtail the high slaughter rates for cows and nonfed steers and heifers. Such a decline would likely lead to a recovery in prices for the livestock sector. The relentless upward pressures on costs associated with processing and distributing food also will add to the upward momentum in retail food prices. A long-range forecast at this juncture, however, would suggest the rise in grocery store food prices for all of 1976 will fall well short of the 8.3 percent advance posted in 1975.

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## AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
<b>INDEX OF PRICES</b>					
Received by farmers	1967=100	February	187	+ 0.5	+ 11
Crops	1967=100	February	190	+ 1.1	- 1
Livestock	1967=100	February	185	0	+ 23
Paid by farmers	1967=100	February	193	0	+ 7
Production items	1967=100	February	194	+ 0.5	+ 8
Wholesale price index (all commodities)	1967=100	January	179	+ 0.4	+ 4
Foods	1967=100	January	184	- 1.0	+ 4
Processed foods and feeds	1967=100	January	179	- 0.9	- 4
Agricultural chemicals	1967=100	January	200	+ 0.9	+ 5
Agricultural machinery and equipment	1967=100	January	177	+ 1.0	+ 8
Consumer price index (all items)	1967=100	January	167	+ 0.2	+ 7
Food at home	1967=100	January	181	- 0.1	+ 5
<b>CASH PRICES</b>					
Corn	dol. per bu.	February	2.48	+ 1.6	- 13
Soybeans	dol. per bu.	February	4.50	+ 0.9	- 21
Wheat	dol. per bu.	February	3.66	+ 6.7	- 7
Sorghum	dol. per cwt.	February	4.09	+ 0.7	- 3
Oats	dol. per bu.	February	1.46	+ 1.4	- 8
Steers and heifers	dol. per cwt.	February	36.80	- 1.1	+ 24
Hogs	dol. per cwt.	February	47.90	+ 0.8	+ 25
Milk, all sold to plants	dol. per cwt.	February	10.00	- 2.0	+ 21
Broilers	cents per lb.	February	25.2	+ 3.7	+ 2
Eggs	cents per doz.	February	59.8	- 3.9	+ 10
<b>INCOME (seasonally adjusted annual rate)</b>					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	95	+ 3.3	+ 4
Net realized farm income	bil. dol.	3rd Quarter	26	+ 4.9	+ 1
Nonagricultural personal income	bil. dol.	December	1,264	+ 0.6	+ 9
<b>FARM FINANCE</b>					
Total deposits at agricultural banks <sup>1</sup>	1972-73=100	February	145	+ 0.3	+ 12
Time deposits	1972-73=100	February	164	+ 1.6	+ 20
Demand deposits	1972-73=100	February	120	- 2.1	- 1
Total loans at agricultural banks <sup>1</sup>	1972-73=100	February	155	+ 0.2	+ 15
<b>Production credit associations</b>					
loans outstanding:					
United States	mil. dol.	December	10,742	+ 2.8	+ 13
Seventh District states	mil. dol.	December	1,914	+ 3.3	+ 19
loans made:					
United States	mil. dol.	December	2,021	+69.1	+ 21
Seventh District states	mil. dol.	December	357	+73.0	+ 26
<b>Federal land banks</b>					
loans outstanding:					
United States	mil. dol.	December	16,014	+ 1.1	+ 19
Seventh District states	mil. dol.	December	2,922	+ 1.2	+ 21
new money loaned:					
United States	mil. dol.	December	312	+51.6	+ 12
Seventh District states	mil. dol.	December	55	+43.6	+ 14
<b>Interest rates</b>					
Feeder cattle loans <sup>2</sup>	percent	4th Quarter	8.81	+ 0.2	- 2
Farm real estate loans <sup>2</sup>	percent	4th Quarter	8.97	+ 0.4	- 1
Three-month Treasury bills	percent	2/26-3/3	5.11	+ 5.1	- 33
Federal funds rate	percent	2/26-3/3	4.95	+ 3.1	- 45
Government bonds (long-term)	percent	2/26-3/3	8.03	+ 0.5	+ 6
<b>AGRICULTURAL TRADE</b>					
Agricultural exports	mil. dol.	December	1,960	-10.0	- 8
Agricultural imports	mil. dol.	December	768	- 4.6	- 20
<b>FARM MACHINERY SALES</b>					
Farm tractors	units	December	13,672	+44.0	+ 28
Combines	units	December	2,249	+99.0	+ 18
Balers	units	December	961	+92.2	+114

<sup>1</sup> Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

<sup>2</sup> Average of rates reported by district agricultural banks.