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U.S. DEPARTMENT OF AGRICULTURE

THE FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

March 12, 1947

Rising prices in commodity markets were reflected in a rise of 2.6 per cent in the BLS wholesale price index for the week ending March 1, and a rise of 3.1 per cent in wholesale food prices. This puts wholesale food prices 55 per cent above a year ago. But USDA economists sounded a healthy warning note last week in forecasting a downturn in business activity in the last half of this year and a drop in prices, especially food prices. Basis of the forecast is the declining purchasing power of salary and wage earners as prices advance and consumers are "priced out" of the market.

The USDA crop report Monday shows total national milk production for February was three per cent above February of last year. Milk production per cow in the U.S. was up six per cent, and in Illinois, Indiana, Iowa, and Michigan, production per cow was five per cent to eight per cent above February of last year. National output per cow was 13 per cent above the 1936-45 average. Generally smaller numbers of cows milked than last February account for the smaller rate of increase in total production.

In spite of temporary strength in butter prices, USDA was asked recently to hurry up and announce "adequate" support prices for milk and dairy products in order to remove fear allegedly current in producers' minds of a drastic price drop during the forthcoming flush production season.

February egg production was four per cent below last year, according to the crop report. The same decline was shown for Illinois, Iowa, and Michigan, but production in Indiana was two per cent above last year and was up slightly (one-half per cent) in Wisconsin. Government egg specialists say prices of eggs may remain firm during first half of year as consumer demand stays high and meat prices stay up, but a weaker demand and lower prices are expected for the last half of the year.

Some beef and turkey, but no pork, are to be shipped to Great Britain during the year to help in maintaining British meat rations. The turkeys are not to be a "luxury" item, but will probably come out of Government stocks acquired under the turkey price-support buying. A factor in the bread-grain crisis is the small supply of rye available in the rye-consuming areas of Europe. But this is one grain that even the U.S. can't do anything about--domestic supplies are smallest in 75 years.

Wool has been much in headlines this week. Imports last year hit a rate of nearly a billion pounds, while Government stocks of domestic wool were climbing to well over 450 million pounds. Foreign wool has been coming in over the tariff but underselling domestic wool held at the support price by Government buying. At present, Government is prohibited by law to sell at less than parity, but recently USDA top officials asked the House Committee on Agriculture for legislation permitting sales at lower prices to compete with foreign wools, and also for a system of import controls to shut out foreign supplies which otherwise would continue to be pegged to sell just below the domestic market price level. Another official told the Committee that sales of the stockpile below parity in competition with foreign wools would probably cost the Government 50 million dollars in losses, or about 9½ cents a pound on the 467 million pounds owned. Meanwhile, some concern is expressed in wool quarters that unless wool price supports are extended to the 1947 clip, producers will net at least 10 per cent less than prices at the support level. The wool purchase program is scheduled to expire April 15 unless it is extended by Congress.

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