

1954

January

# Business Conditions

*A review by the* **Federal Reserve Bank of Chicago**

page

contents

4

## **The farm outlook—1954**

and for several additional years is influenced greatly by the expanded production capacity resulting from the demands of war and reconstruction

6

**Burdensome supplies**, reduced export demand, and weakening domestic demand may cause further decline in farm income.

9

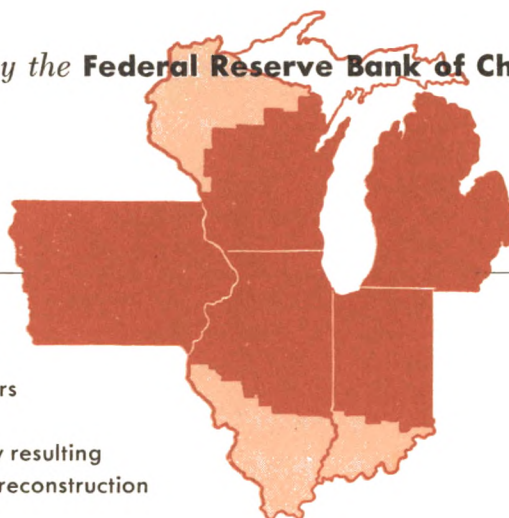
**Farm financial situation** remains strong, although debt has increased and land values are declining. Outlays for new buildings and machinery may decline further this year.

13

**Surplus stocks** of wheat and corn are accumulating, production of hogs and milk are increasing and beef supplies will continue near the record 1953 level.

2

## **The Trend of Business**



# THE Trend OF BUSINESS

A gradual downward drift in over-all activity continued to characterize the trend of business through the fall months. Industrial production eased off further in October and November and in the latter month was 4 per cent below the late spring peak, according to the recently revised Federal Reserve Board Index. Manufacturers' new orders have held steady since August but at a level well below that of last fall and substantially below current sales volume. Unemployment, although still low in total numbers, rose by 260,000 from mid-October to mid-November — double the 1952 increase. Moreover, unemployment insurance claims have grown rapidly in recent weeks and by early December were half again as large as a year earlier.

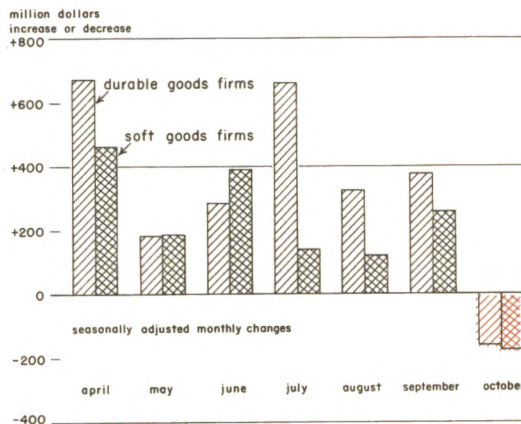
Regardless of such evidences of slackening activity, the economy is still operating at close to a record rate. Personal income has edged downward from the midsummer peak, but remains moderately above year-ago levels. Corporate profits before taxes during 1953 were the largest ever, and profits after taxes substantially exceeded those of the previous year. Business investment in new productive facilities has continued well above year-ago levels, and retail sales have held even with the high 1952 fall volume. Although slightly below the second-quarter peak, the national output of goods and services has continued above that of any earlier period.

Furthermore, there are a number of strong supporting factors in the current business picture which will tend to limit the extent of the downturn now in evidence. Perhaps the most striking of these is the confidence of business in the future as reflected in the large volume of capital expansion plans. According to a recent SEC survey of intentions, business outlays for new plant and equipment during the first

quarter of 1954 are expected to be moderately higher than a year earlier and only 3 per cent below the 1953 third-quarter peak. Moreover, private construction contracts awarded during September, October, and November were 30 per cent greater than in the same period of 1952, foreshadowing continued heavy expenditures, especially for nonresidential building.

**Output curtailments** in recent months have been fairly widespread among industry groups. Declines have been most general in the durable goods lines, but activity in a number of soft goods industries has also fallen off appreciably. October production was 9 per cent below the spring peak in textiles and apparel, 16 per cent in leather goods, and 13 per cent in rubber products. Steel mill operations have fallen below 90 per cent of capacity since mid-November and during the holiday weeks averaged about 70 per cent. This compares with a 95 per cent rate in October and 99-102 per cent in the early months of the year. Output of

## Business inventories declined in October after large gains earlier





nonferrous metals has also dropped substantially in response to lower demand, while farm machinery and truck manufacturers have been hard hit as a result of declining farm income.

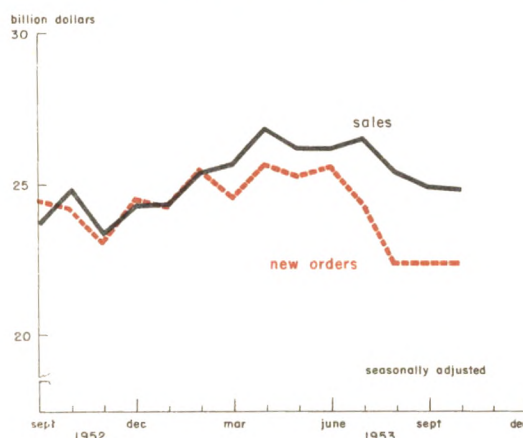
Most consumer durable goods producers have curtailed operations, reflecting very high production earlier in the year, good but lower-than-anticipated sales volume, and consequent piling up of finished goods inventories. Seasonally adjusted, furniture output declined 11 per cent from May through October, while production of major household appliances dropped off 25 per cent in the same period. Radio and television output, which had recovered from a spring slump during the summer, declined moderately in October and further in November. Reflecting model changeovers and heavy stocks in dealers' hands, automobile output in November and December was more than one-fourth under the October volume.

**Business inventories** declined on a seasonally adjusted basis in October, reflecting cuts in output and maintenance of a high volume of sales. The drop amounted to 350 million dollars and is in sharp contrast with gains averaging 675 million in the six preceding months. Declines during October were most pronounced in textiles and apparel at the manufacturing level, and in consumer durable goods at retail. To the extent that the adjustment is succeeding in bringing stocks into better balance with sales for individual firms which felt somewhat overextended, it represents a necessary and probably healthy development. If continued, however, liquidation of inventories could prove a potent downward force on business activity in the months ahead.

**Manufacturers' new orders** were unchanged in August, September, and October on a seasonally adjusted basis but at a level one-eighth below the springtime peak. Moreover, sales have exceeded new orders by a considerable margin in each month since February, with the result that order backlogs have dropped nearly one-fifth behind year-ago totals.

In part, the decline may represent the working down of military hard goods contracts. More conservative forward buying practices on the part of purchasing agents, now that most

## Manufacturers' new orders have been well below sales in recent months



goods are in plentiful supply, is also a contributing factor. For example, the Purchasing Agents Association of Chicago reports that the proportion of its members ordering 60 days or less in advance of their needs has increased from 65 per cent in June to 86 per cent in November. Nevertheless, the drop in order backlogs, if not soon halted, may well have further repercussions upon operating schedules, particularly in those durable goods lines which typically work from a cushion of unfilled orders.

**Private housing starts** have picked up moderately in recent months, after dropping 20 per cent from February to August. At seasonally adjusted annual rates, starts have advanced from 960,000 units in the latter month to 1,070,000 units in November, a rate about equal to the totals for 1951 and 1952. Meanwhile, the Chicago area continues to be one of the strongest major housing markets in the country. Private starts since midyear have run one-fifth ahead of 1952, as compared with a 7 per cent decline nationally in this period.

Residential building activity currently is receiving some stimulus from the general easing in the availability of mortgage money which has taken place in recent months. Marked declines in interest rates available on competing investments, combined with maintenance of a heavy inflow of savings to financial institutions, are chiefly responsible for this change.

# The farm outlook-1954

Agriculture at the beginning of 1954 is back to an economic setting similar in many respects to that of 1949. The Korea-induced inflation-deflation circle has been joined—prices of agricultural commodities have receded to their pre-Korea level. Exports, swollen by war and reconstruction demands, have dropped off sharply; large stocks of commodities have been accumulated as market prices dropped below support levels; and the key factor in the short-term outlook once again is the domestic demand situation and its balance—or lack of balance—with supply.

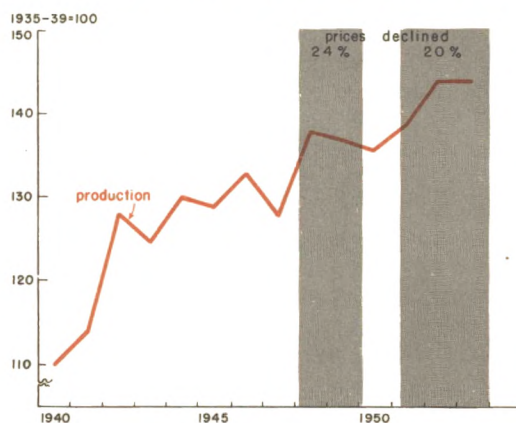
**Transition—a slow process.** For the past 13 years agricultural output has been almost continuously in transition—confronted on the one hand with the gargantuan demands of war and worldwide reconstruction and adjusting, on the other hand to the restoration of production abroad and to the less pressing requirements of peacetime conditions. These adjustments have been fraught with critical difficulties because of the inherent nature of the agricultural industry and of the demand for its major products.

Necessarily spread over a large area and subject to a variety of continuously changing influences, agriculture long has been organized on the basis of small units operated by individual farm families, financed largely from their own resources, and using only nominal amounts of hired labor. Output changes, therefore, depend upon the decisions of many individuals and are affected little by the hiring or laying off of workers. Furthermore, the biological nature of the industry permits production changes to be made only at certain seasons and time intervals.

Once capacity is expanded it is not easily contracted. The industry may be said to have largely a “one-way stretch.” Production in past years usually has been maintained even in periods of sharp price declines.

The demand for agricultural commodities, relatively stable under “normal” conditions, expands and contracts sharply under the impact

**Production of farm products responds to increased demand, but persists when demand shrinks**



of international uncertainties. The much-publicized declines of farm product prices and farm income in 1948-49 and 1951-53 are indicative of the persistence and severity of the backwashes of war-induced expansion in agriculture. The effects will continue to be felt in 1954 and for several years thereafter. The longer-term impact will be especially important with respect to (1) the volume of output, (2) the cost structure in agriculture, (3) the volume of new capital investment in the industry, and (4) the trend of land values.

Within the framework of these long-range influences, short-run forces will cause numerous minor swings in farm conditions. The most important of these are likely to be changes in levels of employment and income in nonagricultural segments of the domestic economy and shifting international developments.

As 1953 slips into history and the doorway to 1954 swings slowly open, a further easing of world tension appears likely. However, should this be an illusion and misfortune engulf the world again, agricultural prices could be expected to respond to short supplies with the same vigor that characterized the inflationary



upsurges of the years 1941-48 and 1950-51.

**Korea deflated.** Demands induced by the outbreak of hostilities in Korea in mid-1950 drove prices of U. S. farm products up more than 25 per cent in eight months. Following the sharp speculative upsurge, prices reverted to an uncertain downward course for a year and a half. Then, as the abundant 1952 harvest began to exert pressure on available storage space, any remaining uncertainty as to the adequacy of supplies evaporated. Prices declined steadily, and under the added weight of the near-record 1953 output, the full amount of the Korean rise was erased.

**Income decline continued.** The post-Korea price changes had their effect on farmers' income. After reaching a record high of 33 billion dollars in 1951, farmers' total sales eased off a bit in 1952 as the effects of lower prices were largely offset by a step-up in the volume of marketings. In 1953 the adjustment accelerated. Prices averaged 11 per cent below the preceding year; the volume of products marketed increased about 6 per cent; cash receipts from farm marketings were off 5 per cent.

Year	Cash receipts from marketings	Production costs <sup>1</sup> (billion dollars)	Operators' net cash income
1950	28.6	19.7	8.9
1951	33.1	22.3	10.8
1952	32.6	23.0	9.6
1953 <sup>2</sup>	31.0	22.4	8.6
1954 <sup>3</sup>	29.5	22.0	7.5

<sup>1</sup>Including depreciation on buildings and equipment

<sup>2</sup>Preliminary

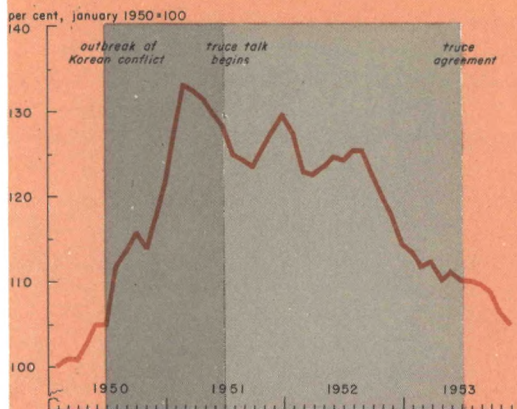
<sup>3</sup>Tentative indication

The cost side of the picture has shown much less flexibility. Prices paid by farmers increased only about 12 per cent in the period of rapid rise for farm products. But the advance has been largely maintained.

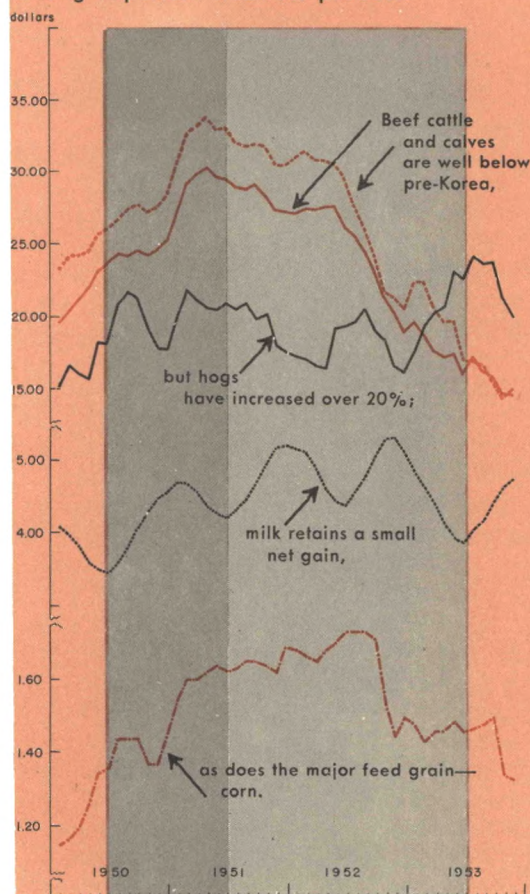
Farm operators' net cash income—the residual after production costs are deducted from cash receipts—fell last year some 10 per cent below the 1952 figure.

In the year ahead it is expected that prices received by farmers will average about 5 per cent lower than in 1953. This would be only slightly below the level of prices prevailing at the turn of the year. Prices paid by farmers

## The Korea-induced inflation of farm prices is now washed out



although the price pattern varies among important Midwest products





are expected to average only about 2 per cent lower. Both the volume of marketings and the quantity of items used in production will probably show only moderate declines. Hence cash receipts and production costs should largely reflect price changes. If these conditions materialize, farmers' net cash income would show a further decline.

### Burdensome supplies

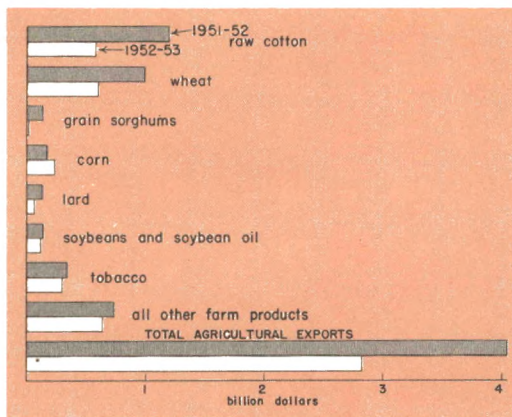
Large supplies of agricultural commodities were on hand at the beginning of the year, and, assuming usual weather, production in 1954 will continue at a near-record level. The volume of commodities owned by the Commodity Credit Corporation or under price support loan about doubled in the past year and was estimated to approximate 5 billion dollars on January 1. The increase during 1953 is not all net gain in supply since private stocks tend to be drawn down when prices fall to or below support levels, but it is indicative nevertheless of the burdensome supply situation.

The current superabundance of agricultural commodities is a reflection of the enlarged capacity induced by the exceptional demands of recent war and reconstruction periods and the subsequent easing of these demands. It will be a persistent factor in the outlook for Midwest agriculture. In the absence of a resurgence of export demand, supplies are likely to continue burdensome for several years.

**Slow growth in requirements.** Growth of population—possibly as much as 30 per cent by 1975—may gradually relieve the situation, unless technological progress and new capital investment should result in expansion of output capacity at about as rapid a rate as population increases.

A continued rise in real income and a further shift of consumption to meat, milk, poultry, and eggs would also ease the pressure of supply on domestic markets. This type of adjustment will be given a boost by acreage allotments on wheat and cotton which will tend to divert land to feed crops and livestock production. However, restrictions on production of corn may have the effect of maintaining livestock production costs at high levels and

### Export declines experienced by nearly all commodities, cotton and wheat especially hard hit



thereby retard the desired dietary shift.

Efforts to solve the problem of excess capacity in agriculture by restricting the use of resources for the production of certain commodities but leaving them free for other crops can, at best, be only partly successful. Once the capacity to turn out farm products has been expanded beyond current requirements, the resulting difficulties are severe and are likely to continue for some time. The adjustment problem is complicated when prices are maintained at levels which encourage continued high-level output and which fail to indicate to farmers the particular production adjustments that are most needed. The farm policy strategy of the moment appears to be that of living with the unbalanced situation as comfortably as possible while waiting for demand to catch up with total supply.

### Export demand down sharply

The demand for agricultural products comes from two sources: domestic and foreign. Of these two, the domestic demand is much the larger. Even in 1951, when exports were exceptionally high, our domestic demand was at least 8 times as large as the foreign demand. For a number of important commodities, however, exports account for one-half to one-fourth of our output and, in total, for the



products produced on 40 million acres.

In the twelve-month period ending last June, U. S. agricultural exports totaled 2.8 billion dollars, 30 per cent less than the record of 4.1 billion reached the previous year. Three principal factors underlie the decline: (1) changes in world supply and demand for agricultural commodities, (2) high U. S. farm price supports, and (3) a continuing shortage of dollars available to a number of countries.

**Increased supply.** Since 1945, war-ravaged European countries have gradually increased their agricultural output. Land has been returned to production and, in addition, many areas recorded unusually high yields per acre in the 1952-53 crop season. Cotton, wheat, rice, corn, and fats and oils are among the commodities for which record or near-record world crops were realized last year.

Increased production has had the short-run effect also of increasing supplies by bringing about a release of inventories in some areas. As it became apparent that the Korean conflict was to remain localized, a number of countries let their stockpiles of agricultural commodities, accumulated following the outbreak of hostilities, run down to more normal levels.

**Prices out of line.** As the competition for export markets increased, world prices of agricultural commodities took a sharp nosedive. In the U. S., prices were being buoyed up by domestic support programs. Thus, although U. S. farm prices declined, the drop was less than in other exporting countries. Foreign buyers turned to the cheaper sources of supply.

Cotton and wheat exports, in particular, were hard hit. Between fiscal years 1951-52 and 1952-53 the declines were as follows:

	Cotton	Wheat
Value of exports . . .	-52%	-40%
Volume of exports . .	-47%	-32%

In an effort to offset the adverse effects of high domestic price supports on exports, the Commodity Credit Corporation recently announced a plan to sell wheat and flour for export at prices below U. S. market prices. This has the effect of extending to all wheat exports subsidy payments similar to those that had obtained since 1949 for wheat sold under

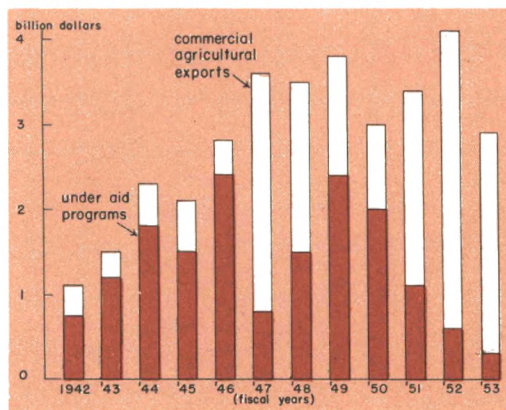
the provisions of the International Wheat Agreement. As yet, it is too early to tell how effective this scheme will be in maintaining U. S. wheat exports.

**Dollar shortage.** A large part of U. S. farm exports since 1941 have been financed by U. S. economic assistance programs. Since 1948, however, the emphasis of aid programs has shifted from relief and economic recovery to the hard goods of defense. As a result, aid-financed exports of agricultural commodities have been decreasing in importance.

As world supplies of agricultural commodities eased, many nations which were short of dollars took the opportunity to shift from the U. S. to other areas for their farm products and allocated their limited supply of U. S. currency largely to the purchase of industrial goods. In an effort to reduce the effects of dollar shortages on agricultural exports, the Foreign Operations Administration recently began to sell farm surplus commodities for export in exchange for the local currency of the purchasing country. Since, in the interest of protecting established trade, the sales are required to be in addition to a country's usual purchases from "free world" suppliers and at world market prices this program probably can provide only nominal support to the export demand for U. S. farm commodities.

The dollar situation has eased somewhat

### Farm exports financed by U. S. foreign aid continue to decline





since the spring of 1952. Gold and dollar reserves have increased in a number of countries. This is a favorable factor in the outlook for agricultural exports.

**Export drop halted?** Most experts agree that U. S. exports will not sink further in 1954. Neither do they anticipate much of an increase in the volume of shipments abroad.

For individual commodities, the outlook is somewhat mixed. Of the major export crops, wheat is the only one expected to experience further substantial declines. Total sales of other grains are expected to remain steady although there may be some shift in foreign purchases among feed grains.

Cotton exports, which were cut in half in 1952-53, may show some gain in 1953-54. Exports of fats and oils may also show a gain, largely in cottonseed oil and soybean oil.

This outlook for agricultural exports presumes a continued high level of economic activity in the United States. A business slump in this country, and the resulting falling off in U. S. imports, would restrict foreigners' dollar earnings and their capacity to buy U. S. goods and services.

### **Domestic demand weakens**

Consumer expenditures for food in the U. S. have accounted for a relatively stable share of personal income after taxes. In six out of the last seven years, the share has been 27 per cent. With rising personal income, the domestic demand for food has expanded in recent years. Yet consumer food prices eased after mid-1952 and prices received by farmers have been declining since early 1951.

This price behavior is explained by: (1) a sharp reduction in foreign demand for U. S. farm products and an increase in the domestic supply; and (2) an increase of about 5 per cent in food marketing charges. Together, these factors more than offset the expanded domestic consumer demand resulting from the 10 per cent rise between 1951 and 1953 in personal income after taxes.

In mid-1953 a new source of weakness appeared in the demand picture. Personal income in the U. S. began to ease off as the nation's economy passed a peak in over-all

levels of production, employment, and income. If activity slows appreciably in 1954, farm products, along with most other commodities and services, will be confronted with declines in domestic demand—and this is by far the largest chunk of the total market.

For each per cent decline in disposable personal income, about a 2 per cent decline in farm product prices may be expected. This relationship is subject to modification, of course, by price supports, changes in expectations on the part of those who carry inventories of agricultural commodities, and other factors. Nevertheless, it is a useful rule of thumb for evaluating the probable impact of a decline in disposable personal income on prices of farm products.

In addition to the effects of changes in the total of personal income after taxes, the domestic market for farm products will be affected by its distribution among various income groups. The expenditure for food in recent years of the equivalent of 27 per cent of disposable personal income, compared with 23 per cent prewar, no doubt reflects in part the effects of high level employment. Since most of the flexibility in the demand for food probably exists in the moderate to low income levels, any shrinkage of income among these groups could be expected to have a much greater effect on food expenditures than a decline at higher income levels. With superabundant supplies of agricultural commodities indicated to continue and no prospect that export demand will recover to the exceptionally high levels of several recent years, the proportion of consumer income spent for food may tend to decline. Any significant slowing of the

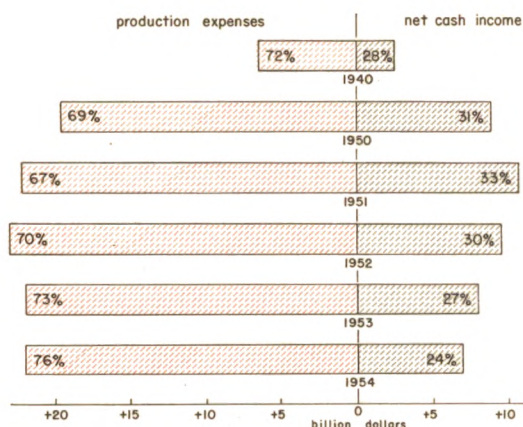
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## Production expenses take larger share of farmers' cash receipts



pace of economic activity would almost certainly bring such a result.

### Production costs to remain high

The decline in farm operators' net cash income which began in 1951 is the result of what is popularly termed a "cost-price squeeze." The reverse situation might be termed "price-cost windfall." Both grow out of the fact that farm product prices, being relatively volatile, typically rise more than nonfarm prices in periods of inflation and decline more in periods of reduced demand. Thus, the "windfall" — "squeeze" phenomenon is not new to agriculture.

Although the advance in farm product prices in the early stage of the Korean conflict was more than double the advance in prices paid by farmers, prices of agricultural commodities have now receded to their pre-Korean level while the advance in prices paid by farmers has been largely maintained.

From mid-1950 to March 1951, prices received by farmers increased about 25 per cent, then declined to the pre-Korea level. Prices paid by farmers increased about 12 per cent during the price upsurge and since then have shown little net change. A convenient measure of relative changes in these two sets of prices is provided by the parity ratio. Pre-Korea this stood at 97. It rose to 113 at its peak, then

declined to 90 in November 1953.

This pattern of price movements is characteristic of such periods. Agricultural commodities, largely traded on organized exchanges, respond quickly to supply-demand changes. Prices of manufactured products, on the other hand, reflect relatively rigid industrial wage rates and other costs. Short-run demand changes show up largely as changes in output and to a lesser extent as price changes. Thus, the structure of farm production costs can be expected to change rather slowly with the higher level of costs inherited from the Korea-induced inflation being a continuing factor in the agricultural picture.

The moderate decline in farm production costs last year was due largely to a decline in prices of products which farmers buy from other farmers, especially feeder cattle. Since only about one-fifth of farm production expenditures are of this nature, changes in farm product prices can inject only a limited degree of flexibility into farm production costs.

Over the years, the amount of "purchased resources" used in farm production has increased substantially with the result that production expenditures have accounted for a growing portion of farmers' gross cash receipts. Since these production expenditures tend to be relatively stable, any change in gross cash income results in a large change in net cash income. Thus, changes in the parity ratio are now accompanied by larger changes in farmers' net cash income than in previous years. In 1953 the ratio averaged 93. This year it is expected to average around 90.

### Farm financial situation

Farm outlays for machinery, equipment, and service buildings amounted to 5 to 6 billion dollars a year in 1948-52, almost one-eighth of total private fixed investment in the U. S. economy. However, the rate of farm investment dropped in 1953, and the lower net income in prospect for 1954 probably implies a further decline.

**Large postwar purchases.** Over the period 1910-41, fixed capital outlays on farms averaged about 20 per cent of operators' net cash



income before depreciation allowances. In World War II, because of limited availability of new equipment and the large rise in farm income, the ratio dropped sharply but in the postwar period it has averaged about 24 per cent.

In recent years of high cash farm income and attractive nonfarm employment opportunities, the substitution of capital for labor has proceeded at a rapid pace in agriculture. The number of workers on farms has declined by more than 20 per cent since 1940, while the livestock, machinery, and equipment used in agriculture (valued at 1940) prices) increased over 10 billion dollars or nearly 75 per cent. In addition to substituting for labor, this greater use of capital is instrumental in increasing output capacity. The capital has been provided largely from farm income; only a small amount is represented by debt.

Farm capital expenditures have reflected changes in prices and farm income as well as "needs" in past years.

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Machinery and equipment</u>
		(billion dollars)	
1940	.6	.4	.4
1945	.7	.4	.7
1950	2.3	1.5	1.7
1951	2.3	1.7	2.0
1952	2.2	1.5	1.8

SOURCE: Bureau of Agricultural Economics, USDA.

Thus, reduced farm income is likely to result in a smaller volume of capital outlays and, conceivably, could extend over several years. This would be expected to retard the rate of expansion in output capacity and to slow or even reverse the rapid gains made in recent years in the productivity of farm labor. But it is not expected to lead to an absolute curtailment of farm output.

A number of factors will operate to maintain a relatively high rate of farm capital outlays. The large stock of such equipment now on farms will require substantial annual outlays merely for replacement. (Outlays in 1953 probably were only slightly greater than depreciation.) Obsolescence will probably continue to wield a strong influence, and, as in the past, machinery which will further "lighten" farm work will have a strong appeal to farmers.

As a result of the rapid build-up in capital equipment on farms in recent years, the stage may be set for large year-to-year fluctuations in farmers' capital outlays in the future. The total volume of outlays, however, is likely to account for a larger proportion of farmers' net cash income than in prewar years.

### **Asset values decline**

Declining farm prices and income are having both a direct and a psychological effect on the farm financial situation. The sharp drop in cattle prices, as well as a small reduction in the number of cattle on farms, has led to a lower value of the livestock inventory. This largely accounts for a 5 per cent reduction during the past year in the value of farm assets other than real estate.

The prospect of a further reduction in income has led farmers to be less aggressive bidders for land and to reduce outlays for machinery and buildings. They give evidence of attempting to improve their liquidity by maintaining cash reserves and holding down their use of credit.

**Short-term debt declines.** Farmers' short-term farm debt (non-real estate debt exclusive of CCC loans) dropped about 6 per cent last year. Lower prices for cattle accounted for an important share of the decline in the Midwest and throughout important grazing areas. A contributing factor was the cutback in purchases of farm equipment. Many farmers being well equipped with machinery, home appliances, and buildings, can postpone expenditures of this type when their current income is reduced.

A minor factor in the reduction of short-term debt was the conversion of some of it into longer-term real estate debt. This type of refinancing usually increases sharply when agriculture is experiencing serious financial difficulty. The increase in 1953 was nominal; a further nominal rise will probably occur in 1954.

The influences tending to reduce short-term debt were offset to some extent by the continued large cash outlays required by agricultural production and by the reduced flow of cash farm income. In most states east of the



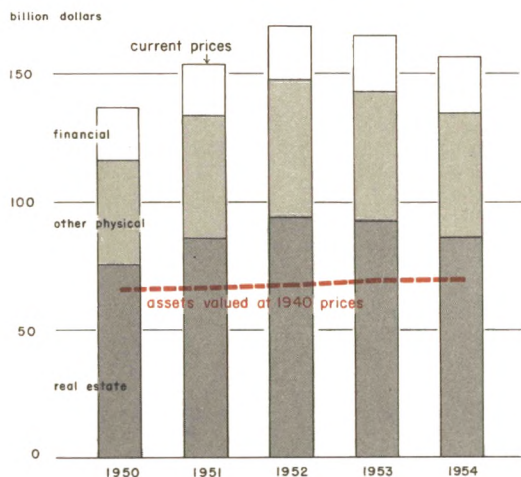
Mississippi, this factor was sufficiently important so that there was an increase in short-term farm loans held by banks last year.

Those farmers who have income in excess of their immediate requirements appear to be holding it in the form of cash and deposits or converting it into high-grade securities. Hence farmers' financial assets—deposits, savings bonds, etc.—have increased.

**Real estate debt continues climb.** Farm real estate debt increased about 10 per cent in the past year even though land values declined and a relatively small number of farms were sold. The rise was a continuation of a trend that has been under way since 1946. Mortgage debt was at a very low level at the close of World War II, has increased over 60 per cent in subsequent years, and can be expected to rise further in 1954. The absolute level of such debt still is low relative to land values and farm mortgage lenders generally report that interest and principal payments on their loans are made promptly.

In the aggregate, the farm financial structure remains sound. Total farm debt, equal to less than 10 per cent of the current value of farm assets, although rising, is far below the 18 per cent which prevailed prewar.

### Total value of farm assets responds to price changes; quantity has shown a slow, steady rise



**Interest rates rise.** Interest rates on farm loans advanced last year. The farm mortgage rate averaged perhaps one-eighth of 1 per cent higher than in 1952, and the short-term rate was up about three-eighths of 1 per cent. However, because the supply of loanable funds has been increased and the demand for agricultural loans is lagging, interest rates are not expected to rise further this year.

**Land values declining.** Land values hit their peak in 1952 and settled slowly through last year. On January 1, 1954, the value of farm real estate was some 7 per cent lower than a year earlier. However, because of the decline in liquid financial assets of farm purchasers, sales of farm land now involve somewhat larger amounts of credit than was formerly the case. Only about 30 per cent of current farm sales are cash transactions, compared with about 50 per cent in 1951.

Land values have responded to the Korea-induced changes in farm income in varying degrees. In the Midwest, Illinois and Indiana values advanced very sharply. The subsequent downtrend of values also has shown considerable variation. Iowa has had the largest relative decline of any District state. Michigan land values have resisted the downward pressure thus far. Per cent change in farm land values:

	March 1950 to Korea peak	Korea peak to July 1953
Illinois . . . . .	+32.4	-4.2
Indiana . . . . .	+33.0	-1.5
Iowa . . . . .	+25.0	-6.7
Michigan . . . . .	+26.0	0
Wisconsin . . . . .	+17.8	-4.2
U. S. . . . .	+26.5	-3.9

Farm land values usually respond to changes in farm income after a time lag of one to two years. The upsurge following Korea, however, was prompt and fast. In many states the per cent rise in land values exceeded the rise in farm product prices. The current downtrend in land values is expected to continue through 1954 and may not be brought to a halt until the over-all supply-demand situation for farm

products is in better balance. No sharp break in land values is indicated, however, in the absence of a serious contraction in the domestic demand for farm products.

### Financial management

In view of the recent decline in farm prices and incomes and the prospect of some further easing, many farmers are making a critical review of their farm practices. Country bankers too are giving their agricultural lending programs renewed study. Management plans differ, of course, for each farm, as do loan programs among banks. Nevertheless, the current economic situation suggests a few general observations.

**Cutting costs.** As farm profit margins narrow, efficient production becomes more urgent. Under modern conditions, efficient agricultural production requires a substantial amount of working capital for fertilizer, petroleum products, quality seed, feed, and the like.

Under present and prospective economic conditions, most farmers will find it profitable to continue to purchase items which maintain or increase their volume of output. If ready cash is not available for this purpose, they will probably find it profitable to borrow. Where the short-term debt load is burdensome, part of it may be refinanced into longer-term mortgage debt.

Farmers who find themselves short of working capital will be inclined to reduce expenditures in 1954. By careful planning it will be feasible to cut some operating expenses without suffering proportionate reductions in income. Farm management specialists point out, however, that all too often expenditures are cut for those items which directly affect the volume of output, and hence gross cash receipts.

**Buy a farm?** As indicated above, the downward trend in farm real estate values is likely to continue through 1954. This will mean a slow market with very little activity in many areas and no clear indication of the value of individual farms.

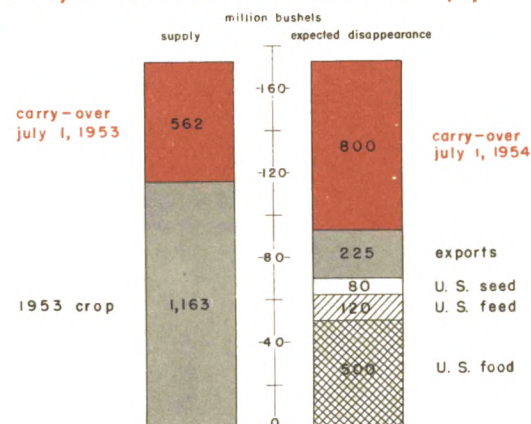
Tenants who have satisfactory leases on reasonably good farms probably should continue on that basis for the present, unless they have an exceptional opportunity to purchase a farm

and are ready financially to assume the risks of farm ownership. When farm prices and land values show evidence of weakness, it is especially important to carefully analyze the debt-paying capacity of farms and to have adequate long-term financing. The often repeated observation that it is the poor grades of land that experience the most widespread difficulties in periods of low or declining farm product prices merits special attention.

**Investment priorities.** Even in periods of uncertainty, however, many types of investment should receive high priority. It is common knowledge that many farms are too small to be operated efficiently and to produce a satisfactory income for the farm operator. Similarly, many farms need substantial additional investment in soil improvements if they are to produce profitable crop yields. In areas where livestock make large contributions to farm income, it is especially important that farms be stocked with good quality animals. A recent study in Michigan indicates, for example, that upgrading dairy herds from "average" to "good" cows can nearly double farm income.

Where such additional investments are needed to bring small or inferior farms to production levels that will yield an adequate return, there usually is little to be gained from waiting even though prices are declining mod-

### 1953 wheat crop exceeds expected domestic and foreign demand; carry-over stocks to increase sharply





erately. Thus, a general guide to farm finance in '54 might be: (1) give high priority to expenditures that permit continuance or adoption of practices that will maintain or expand output and (2) channel investment funds into facilities which will increase the productivity of land, livestock, or labor. As usual, of course, capital must be used by capable farm managers if it is to yield satisfactory results.

### Too much wheat

Stocks of the world's major bread grain are accumulating. The U.S. supply for the marketing year beginning July 1, 1953, totaled 1,730 million bushels, 8 per cent above the previous record established in 1942-43.

Wheat consumption in the U.S. during the 1953-54 marketing year is estimated at about 700 million bushels: 500 million for food and 200 million for seed and feed. In addition, it is expected that we will export 200 to 250 million. This would leave a carry-over in excess of 800 million on July 1 of this year.

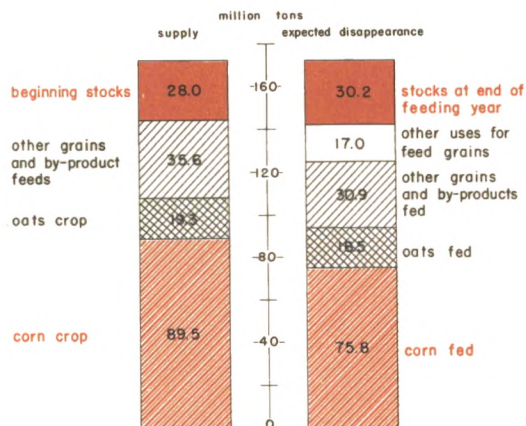
**Smaller '54 crop.** The wheat crop in 1954 is expected to be smaller than in recent years because of acreage allotments. If the acreage seeded approximates the national allotment of 62 million acres, and if yields equal the 1943-52 average, production this year would total about 950 million bushels. As of last December, the acreage and condition of the 1954 winter wheat crop indicated a harvest about 15 per cent smaller than in the previous year.

The national average price support to growers for the 1954 crop will be not less than \$2.20 a bushel. With the smaller crop in prospect and most of the carry-over in CCC stocks, the market price should not fall as far below the support level as it did last year even though the carry-over will be larger. Farmers' income from wheat in 1954 probably will be well below their 1953 receipts.

### Abundance of corn

Feed grains and other concentrates are available in more than adequate supply. The corn carry-over last October 1 totaled about 800 million bushels, and with the 3,180 million bushel crop, this provides a market supply of about 4,000 million bushels. This supply is

## Supply of feed grains and other concentrates more than adequate for the 1953-54 feeding year



only slightly smaller than the record established in 1949-50, and the corn carry-over on October 1 of this year is expected to be larger than it was a year earlier. Stocks of each of the other feed grains are below average, but corn is by far the most important of the lot.

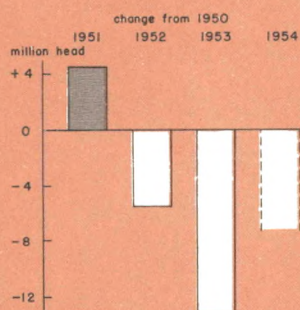
The total supply of feed grains and other concentrates is estimated at 172 million tons, 3 million larger than in the 1952-53 marketing season and 10 million above the 1946-50 average. With fewer cattle on feed and hog production at a relatively low level, the volume of concentrates used is likely to be less than last year.

Feed supplies are likely to continue above average well into 1955 because of the large carry-over in prospect for this fall. Even if 1954 production should fall as much as 10 per cent below the 1946-50 average, the large stocks of grain carried over from previous harvests would provide at least an average supply of feed concentrates. Most of the carry-over, however, would be in CCC stocks or loans and would become available for feeding only if prices rise above support levels. The 1954 corn crop will be supported at 90 per cent of the parity price of corn—around \$1.60 a bushel.

Corn acreage allotments, considered likely for this year, would result in some reduction

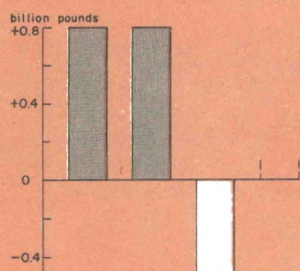


## Farmers are increasing their production of hogs this year after



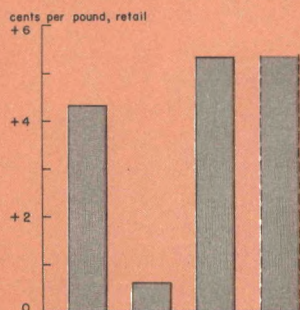
cutting back the number raised to about 84 million in 1953, but output will still be well below the 1950 level.

### Production of pork has fluctuated



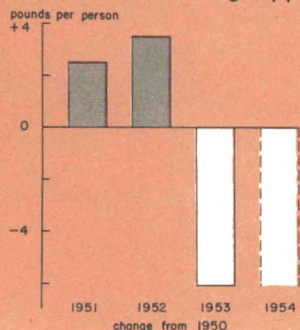
somewhat less than the number of hogs raised, but the 10.2 billion pounds in 1953 was the smallest since 1948.

### Per capita consumption declined to



62 pounds as production was cut back and prices rose. Little change is indicated next year.

### Pork prices, reflecting supply and



demand changes, are expected to continue strong through most of 1954.

in planting in the Midwest but this probably would not reduce total production of feed grains. Wheat and cotton acreage allotments are already established and, if proclaimed for corn, there probably will be some 30 million acres diverted from these three crops: wheat, cotton, and corn.

Most of the 30 million diverted acres would be used to grow feed grains and soybeans. With anything like usual weather, the supply of feed grains should continue more than adequate in the 1954-55 crop year.

## Hog production heading up

About 85 million pigs were raised last year, 8 per cent less than in 1952 and 18 per cent less than 1951. Hog prices advanced sharply and averaged about \$4.35 higher in 1953 than in the preceding year. Last year's fall pig crop, which will be marketed this spring, was 9 per cent smaller than the 1952 fall crop. Consequently, it is expected that hog prices will continue strong well into the summer or early fall.

In the past year, farmers have raised fewer pigs than would have been expected from the hog-corn price ratios. Apparently, producers have lacked confidence in the future of hog prices, and many have preferred the certainty of income from Government price support loans on corn rather than the uncertainty of returns from feeding their corn to hogs. The same price uncertainty showed itself in the marketing of hogs last fall when they were shipped unusually early and at lighter weights than normal.

However, following the high hog prices of last year, production appears to have started a new expansion. Late fall farrowings exceeded expectations, and the spring pig crop this year is expected to be about 5 per cent larger than a year ago. This increased production will begin to appear at markets probably in August. Consequently, the seasonal decline in hog prices this fall may be larger than the usual 20 per cent from the summer high.

## Milk flow increased

After holding relatively steady for several years, the annual rate of milk production ex-



panded rapidly in late 1952, and has continued at a high level. The greater production is due to a larger number of cows milked, favorable weather—except for drouth in some areas last summer—and liberal feeding. It is not unrelated to the decline in beef prices. The interest in dairy production tends to lag in periods of high beef prices and to pick up as beef prices decline. The net result was an increase of 3 per cent in 1953 milk production.

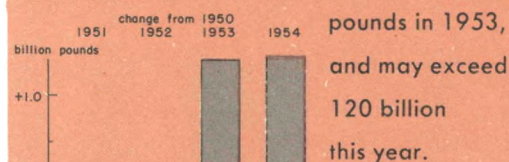
Most of this addition to the milk supply was utilized in the manufacture of butter, cheese, and dried milk. In turn, these products entered the Government's price support stockpile in large volume. CCC stocks on October 31 exceeded one billion pounds.

It is expected that total milk output in 1954 will slightly exceed that of last year. In addition, the carry-over of manufactured dairy products into 1954 will be equal to about 7 per cent of the year's total milk output. This is twice the average carry-over, but since it is held largely by the CCC, it is not likely to enter commercial markets unless prices rise to or above support levels.

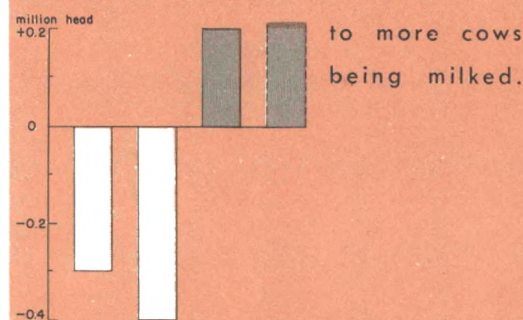
The large production of manufactured dairy products in prospect for this year will substantially exceed the market demand at the 1953 level of prices. Consequently, prices for milk for manufactured dairy products, as well as the domestic consumption and stocks of such products at the end of the year, will depend largely on the level and nature of price support provided for them. The present program of purchasing manufactured dairy products at prices which are estimated to yield farmers about 90 per cent of parity for their milk is due to expire at the end of March. A new support program must be announced by April 1.

The weakness in dairy product prices in recent years traces largely to the reduced demand for butterfat. Consumption of butter has declined sharply. Vegetable oils are making inroads also into ice cream and other product markets which have been served largely by butterfat. This trend is likely to continue and to force considerable adjustment in areas which produce milk largely for manufacture into butter and nonfat dry milk solids.

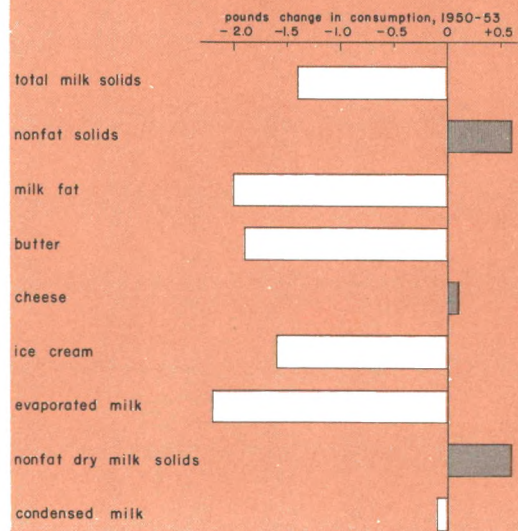
**Milk production** has been rising since mid-'52, exceeded 118 billion



The increase in output is due largely



Per capita consumption has shown diverse changes, the major one being a 2 pound decline for butter (while margarine increased 2.2 pounds).





## Beef stabilized

The uptrend in number of cattle on farms which began in 1949 came to an abrupt halt last year. After increasing by 15 million head, or 22 per cent, in four years, the number declined slightly during 1953. The small reduction was the result of the heaviest slaughter on record.

In response to the step-up in the supply offered for slaughter, cattle prices receded from their all-time high in 1951, broke sharply in the fall of 1952, and continued a downward trend in 1953. Last fall, the average of prices for all grades of cattle was 45 per cent lower than two years earlier.

**Fewer steers, more cows and calves.** Not all types of cattle shared equally in the 32 per cent increase in slaughter last year. The increase was somewhat greater for steers, heifers, and calves than for cows. This has several implications. Because there are fewer steers on farms than there were a year ago and because some 6 per cent fewer were placed on feed in the Corn Belt last fall, it is expected that the supply of high-quality fed cattle offered for slaughter this spring will be smaller than in the spring of 1953. Hence, if the decline in consumer demand for beef is not substantial, the price of fed steers can be expected to be higher when the seasonal peak in marketings occurs in the spring than it was in the period of heavy marketings last spring. Choice slaughter steers averaged \$22.36 at Chicago last May.

On the other hand, the number of cows on farms is larger than a year ago. Consequently, it can be expected that the slaughter of cows, calves, and grass cattle in general will be larger this year than last. Prices of these grades of cattle may decline further when slaughter is seasonally heavy next fall.

Total cattle and calf slaughter this year will probably exceed last year's 37 million, but by a small margin. Since the animals will average lighter in weight, the total supply of beef should be about the same as in 1953. Consequently, it can be expected that average prices for all grades of beef cattle this year will remain near 1953 levels.

## Cattle and calves on farms

