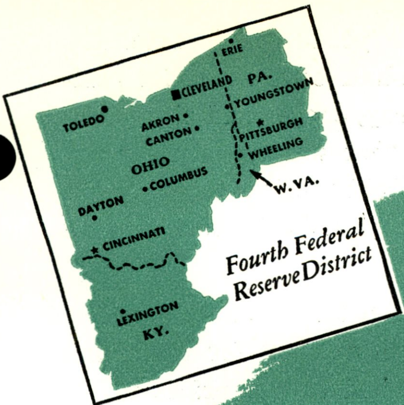
FOR PRESS RELEASE AFTER 9:15 A. M. SATURDAY, JULY 15, 1950



Business Trends

Prepared by the Research Department of the
FEDERAL RESERVE BANK OF CLEVELAND
Serving the Fourth Federal Reserve District

RECENT PRICE DEVELOPMENTS

Wholesale prices increased 1.2 percent in the first two weeks of the Korean war. This was for the period ended July 4 and marked some acceleration in the creeping advance which had been underway all of this year. Since January the gain for the entire period has amounted to nearly 5 percent. These comparisons are based upon the Bureau of Labor Statistics weekly wholesale price index which is an abbreviated version of the comprehensive monthly index covering about 900 commodities and services.

Wholesale prices are now nearly 4 percent higher than a year ago. During the coming weeks comparisons with the year-ago periods may show even larger year-to-year margins, particularly because prices continued to drop in 1949 until December. Despite the recent gains, it is worth noting that wholesale prices are still 6 percent below the all-time peak registered in August 1948.

Most of the rise in the general price level has been due to the unusual strength of agricultural and food prices. Since January, farm products have risen 10 percent, with about one third of this gain taking place in the week ended July 4. Wholesale food prices are up nearly 7 percent. In contrast to these gains, all commodities other than farm products and foods rose only 2 percent in the first 6 months of the year.

Within the food group, gains in meat prices have been almost spectacular, since they have advanced more than 20 percent since the first of the year. Hog prices were about $16.00 a hundred pounds at the beginning of the year, but on July 7 were nearly $24.00 a hundred pounds. This was a gain of 50 percent. During this same interval, steer prices weakened in the spring under the impact of the seasonal rise in hog marketing, and have now returned to about the level prevailing at the first of the year.

The rise in wholesale meat prices is not due to any shortage of meats. In fact, combined production of dressed pork, beef, veal, lamb and mutton by the packing houses has been running about 3 percent above 1949. Pork production has been considerably higher than this average gain for all meats. Since there have also been larger marketings of poultry, consumers have not had to bid up meat prices because of a shortage of this item. Eggs, too, have been so abundant that the Commodity Credit Corporation has been buying them and taking them off the market in unprecedented quantities in order to maintain prices in accordance with the Congressional mandate.

Broadcast by Fred O. Kiel, Industrial Economist, Federal Reserve Bank of Cleveland, over WGAR, Cleveland, with Jim Martin, Morning News Editor, WGAR, Saturday, July 15, at 9:15 a.m.

The answer to the riddle of rising meat prices in the face of plentiful supplies is to be found in the high level of employment that has prevailed this spring and early summer coupled with steadily rising personal incomes. Housewives, with higher family incomes, have apparently been inclined to increase their purchases of meat and to keep right on buying it even though their collective action has been to force prices higher and higher.

Meat is a perishable product and a fear of a general war could not induce any significant hoarding. The answer apparently is that consumers remember the meat rationing days of World War II and are determined to eat as much meat as possible now, come what may. If the foregoing analysis is correct, then any collective action by consumers to resist present price levels by reducing purchases could bring about a swift reversal of the present trend.

Building materials are the only other important group of commodities that have experienced a more than average rise in wholesale prices. The gain this year has been nearly 6 percent and prices now are almost back to the peak levels that prevailed in the fall of 1948. Unprecedented building activity is responsible for the intense demand for materials, and lumber price increases have been particularly sharp. More recently, the cost of various metal building supplies has moved up.

The impact of the war news upon the sensitive primary commodity prices in the "spot" or cash wholesale markets has been rather small. From June 23, or just before hostilities began, to July 7, the Bureau of Labor Statistics daily index for 28 commodities in the primary market rose almost 4 percent. In addition some further rises took place this week.

Significantly, perhaps, two important war materials actually dropped in price in this two-week period. Flaxseed declined 6 percent and lead dropped one-half cent a pound to 11 cents. The latter is now only one-half cent above its postwar low point. Steel scrap, copper and zinc prices did not change. Fears that war would interrupt supply lines for tin probably were a factor in the 5 percent rise of that product to 80.5 cents a pound.

Concern over future natural rubber supplies together with very high demand for truck and passenger car tires pushed rubber prices up 28 percent to a new postwar high of 36 cents a pound. Supplies of natural rubber, however, are fairly good and production of synthetic rubber is moving up. The announcement this week of the reactivation of three standby synthetic rubber producing plants with an annual capacity of 88,000 tons should reassure individuals as to the sufficiency of rubber supplies. Tire production facilities are more than adequate to meet consumer demand. Many consumers will undoubtedly regret their recent hasty tire purchases, since it is a well known fact that rubber tires deteriorate considerably in quality if they are improperly stored for any length of time.

In general, agricultural prices were stimulated by the war news. Lard prices rose 9 percent in the two weeks in sympathy with the advance of hogs. Demand for corn, which is used principally as an animal feed, rose 6 cents to $1.57 a bushel, the highest since October 1948. Wool prices also increased 5 percent to a new postwar peak.

Sugar advanced 15 cents per hundred pounds to $5.95 as consumers and industrial users increased their demands. Sugar supplies are ample and sales are controlled by the Department of Agriculture to stabilize prices. If there were any danger of a shortage, it could be eliminated very quickly as considerable quantities are available from Puerto Rico and Cuba. Hearings are now being conducted by the Department to determine the size of next year's sugar import quotas. Undoubtedly these will be raised if a shortage should threaten.

Additional copies of "Business Trends" are available upon request.