FEDERAL RESERVE BOARD X-3794

STATEMENT FOR THE PRESS

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The following is the Review of the Month as contained in the forthcoming issue of the Federal Reserve Bulletin.

AGRICULTURAL OUTLOOK. During the months of July and August the general harvesting of crops begins, Government forecasts of the volume of crop production become available, and plans are made for marketing and financing the crops. Harvesting of winter wheat is already under way, its movement to the world markets will soon begin, and during the next few months as other crops are harvested the banks will be engaged in providing the credit incident to an orderly marketing movement. The use of credit ordinarily reaches a seasonal peak at crop-moving time when the credit machinery is carrying the load of both domestic marketing and export financing. The present strength and liquidity of the banks and the added facilities for agricultural financing assure a supply of credit adequate to meet this year's seasonal requirements.

In view of their bearing upon prospective returns to the farmer and therefore upon the general business situation, especial interest attaches to the recent forecasts of crop production and prevailing farm prices, shown in the table. These afford the best basis now available for making an estimate of the present agricultural outlook compared with that of a year ago.

	Unit.	PRODUCTION		Price at the farm.	
		1922 final estimates	1923, July forecast	July 1, 1922.	July 1, 1923.
Corn........	Bushel	2,890,712,000	2,877,437,000	$0.622	$0.865
Wheat, total.	do	862,091,000	820,628,000	1.026	.951
Winter..	do	586,204,000	585,889,000	....	....
Spring..	do	275,887,000	234,739,000	....	....
Cotton......	Bale	9,762,000	11,412,000	* .204	* .262

* Price per pound.

The July 1 forecast of winter wheat indicates a crop of about the same size as last year, while the spring wheat forecast, which at this time of the year is much less definite, shows an expected reduction of about 40,000,000 bushels. A slight reduction in the corn crop and a large increase in the cotton crop are also forecast. While farm prices on July 1 can not be taken as indicative of the prices the farmer will receive for this year's crops, they constitute a basis for comparison of current conditions with those prevailing a year ago. Corn and cotton prices are much higher than at this time last year, while the price of wheat is lower. The aggregate value of this year's wheat crop at July 1 farm prices would be in round numbers $800,000,000, compared with $900,000,000 for last year's crop at prices prevailing in July, 1922. The aggregate value of the cotton crop on the same basis, on the other hand, was $1,500,000,000 this year, compared with $1,000,000,000 last year, an increase of 50 per cent over last year.

The agricultural outlook is conditioned by the world supply of leading farm products and the buying power of consumers, both domestic and foreign, during the coming year. Competition fixes substantially the same price in all countries for those agricultural staples which are sold in world markets, and this continues to be true even under the existing disorganized currency conditions. The return to the American farmer, is, therefore, the outcome of world supply and world demand, of which the domestic production and demand constitute only a part. While foreign demand is more important in the marketing of some agricultural products than of others, in the aggregate the domestic market consumes much the larger proportion of our agricultural products. The domestic demand for farm products during the past year has increased as a result of the larger buying power of industrial workers arising from fuller employment and wage advances. During the first five months of 1923 the sale of groceries at wholesale exceeded that of the same period of the previous year by 14 per cent and the sale of meat by 20 per cent, the domestic consumption of pork being unusually large. These large food purchases, however, were made at relatively low prices, though these were not due to any limitation in the buying power of domestic consumers, but to the conditions of the world supply and the limited buying power of foreign consumers. In fact, it is hardly likely that the total food consumption in the United States would have been much reduced even if prices had been higher. With the present relatively large earnings of workers the effect of a rise in food prices on the family budget would have been to increase the expenditure for food rather than to reduce consumption. For the ultimate consumer in the United States the chief result of relatively low food prices, therefore, has been to increase the margin available for the purchase of other commodities and for savings. For the farmer this has meant that the selling price of his products has been out of line with the prices of the things he buys. In this respect there has been a better adjustment during the past year, taken as a whole, though latterly agricultural prices have shared in the decline in the general level of whole-sale prices, the fall in the prices of wheat and hogs attracting particular attention. Price movements in the sensitive, highly organized produce markets at this season of the year are apt to reflect the attitude of the speculative dealer and are not invariably indicative of the prices that will be realized by the American farmer during his crop marketing period. With reference to the present situation this is particularly true in view of the many uncertain factors which must be taken into account in estimating at this time the market outlook for agricultural products.

FOREIGN DEMAND

In the sale of his products the American farmer is confronted with world conditions, and the price which these products will bring in the international markets depends chiefly upon the extent of European demand and the supply available from other food exporting countries besides the United States. From present estimates it appears probable that a larger proportion of European consumption requirements than in recent years will be met by European crops and that consequently European imports of food products this year are likely to be smaller. Agricultural production in leading food exporting countries, largely stimulated by conditions prevailing during the war, is still considerably above the prewar level, and the exported product of the American farmer has to meet in the European market the competition of this enlarged world production. The ability of Europe to pay for imports is still much less than before the war, though there has been some increase in its buying power during the past year arising out of industrial revival. A large share of the reduced buying power of these foreign countries during 1923 has been used in the purchase of food; the imports of food into Great Britain, for example, during the first five months of this year were 50 per cent greater than during the same period of last year and constituted a larger percent of her total imports. On the Continent, particularly in those countries where ability to make foreign purchases has been limited by their depreciated currencies, there has been a shift from the more expensive imported foods, such as wheat, to the cheaper domestic foods, particularly potatoes and rye. Food exports from the United States, which were greatly enlarged during the war and the years immediately following, have during the past year continued well above the pre-war level. Cotton exports on the other hand, have been much lower. The quantity of European purchases in the American market in view of Europe's limited buying power depends both on the prices prevailing in this country and on the level of exchange rates, with the result that Europe has bought larger quantities of such commodities as pork and lard and of the cheaper grains.

Changes in the volume and character of European purchases of American farm products have been accompanied by an important change in the seasonal distribution of these purchases and in the size of the stocks carried in Europe. In recent years European buyers of American cotton and wheat have distributed their purchases more evenly throughout the year. Under the practice that prevailed before the war the bulk of cotton exports took place during the five months following the harvesting season.* Since the war, however, exports have been more closely related to the immediate consumption requirements, and stocks carried in Europe are relatively smaller. A similar change in practice has affected the seasonal distribution of wheat exports. Stocks now carried in Europe are materially below the amounts carried in the years preceding the war. The change in practice began during the war, when supplies were short, and this hand-to-mouth policy has con-

* See article on cotton financing, FEDERAL RESERVE BULLETIN, May, 1923, p. 566.

tinued to the present time. Moreover, the holder of stocks in Europe is exposed to unusual hazards arising from wide fluctuations in prices and exchange rates. Also the cost of storage and handling at the docks has increased, and this has tended to reduce stocks carried in warehouses and to increase the direct movement from the ship to the mill. The reduction of these European stocks has increased the amounts of agricultural staples that had to be carried in the United States and lengthened the period for marketing the exportable surplus. This change of practice has affected particularly the size of the American carry over of wheat and must be recognized both by farmers and bankers as a factor in the marketing and financing of the American crop.

ORDERLY MARKETING.

Since the harvesting of the American crops takes place during the summer and autumn months, while their consumption is distributed over an entire year, the marketing must be adjusted to the flow of products from other exporting areas and to the requirements of the consumer. In this respect there is a distinction between the marketing of such crops as cotton and tobacco, in which world supply is primarily dependent upon American production, and the marketing of wheat, which is produced in all parts of the world and marketed throughout the year.

The function of credit in the marketing of farm products is to finance the flow of products from the producer to the consumer in an orderly manner over the entire period of consumption. Products not immediately consumed are necessarily carried and financed at some point in the distributing process, and consequently require the use of storage and credit facilities. Credit can not create a market where none exists, but it can assist in adjusting the movement of products into the market at any given moment to the actual state of the demand, and thereby insure to the producer in so far as conditions will at all permit of it a more settled price situation than he would face if his products were dumped upon the market as soon as harvested. It is worth noting that this is also the chief end aimed at by producers in organizing themselves into cooperative marketing associations. But these associations also work within the limits of consumptive demand, and their chief service to their members is to provide more adequate financing and better marketing arrangements.

In a letter to the Federal Reserve agents the Federal Reserve Board recently called attention to the added facilities for agricultural financing made possible through legislation enacted during the last Congress and through the board's regulations putting into effect the amendments to the Federal reserve act. Facilities available to farmers for securing credit to carry their crops in the process of orderly marketing were considerably enlarged by the agricultural credits act of 1923. This act, in addition to creating new machinery for granting longer term credits to farmers, contained a number of amendments to the Federal reserve act. With the view to increasing the services that the reserve banks can render farmers in financing their current short-term operations, the act extended the maximum maturity of agricultural paper eligible for discount with the reserve banks from six to nine months. It also extended the maturity of bankers' acceptances eligible for discount or purchase by the Federal reserve bank from three to six months, provided these acceptances are drawn for agricultural purposes and are secured by warehouse receipts for agricultural products. Other changes affecting the length of period for which agricultural paper is eligible for discount were provisions that certain classes of paper of cooperative marketing associations were to be construed as agricultural paper rather than as commercial paper, thereby making them eligible for discount for nine months instead of 90 days, and that certain agricultural drafts without definite maturity (sight and demand drafts) might be discounted by the reserve banks. The act also admitted to discount paper of cooperative marketing associations, the proceeds of which are to be lent to members to finance their agricultural operations, and factors' paper issued for the purpose of making advances to producers of staple agricultural products. A nontechnical summary of the facilities for agricultural credit provided by the Federal Reserve act as amended is published elsewhere in the BULLETIN.

In surveying the agricultural situation, it is still too early to estimate even with approximate accuracy the proceeds to the farmer from the approaching harvest. Neither the volume of production nor the prices through the period of marketing can now be definitely known. It is evident, however, that with the improved credit facilities and the strong position of the banks the credit available is adequate to provide for the needs of orderly marketing.