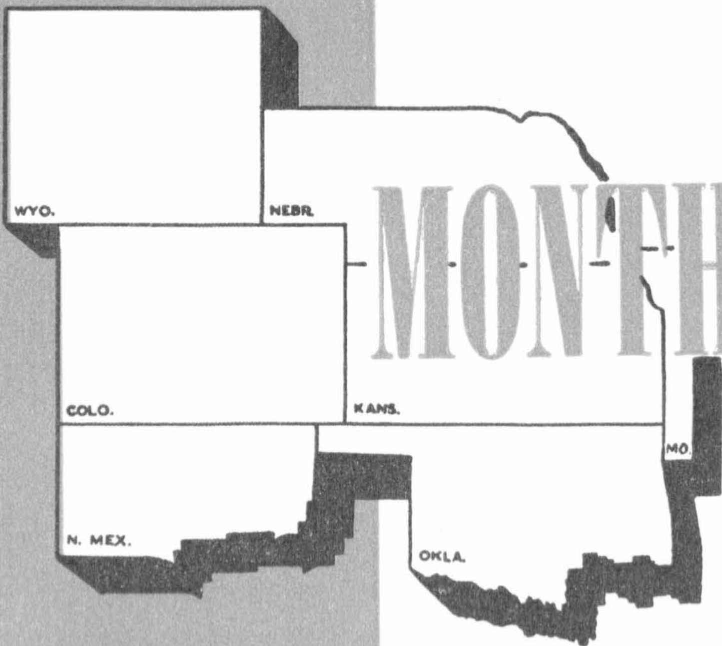
June 1954



MONTHLY REVIEW

In This Issue

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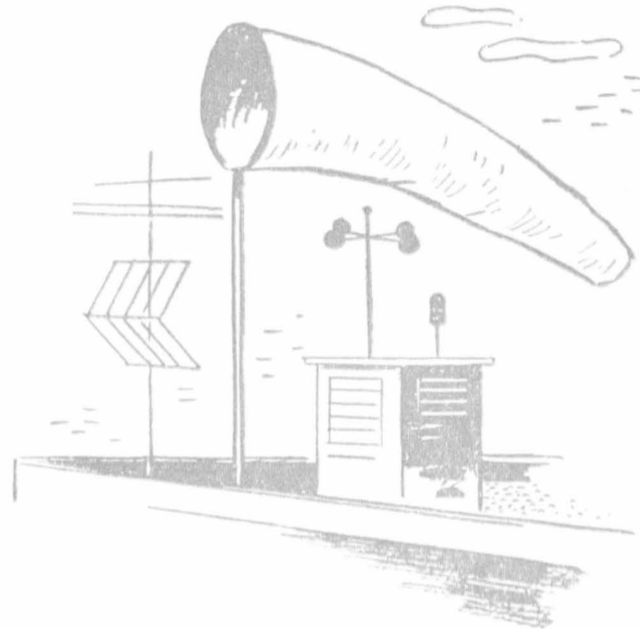
Midyear Review of Economic Conditions



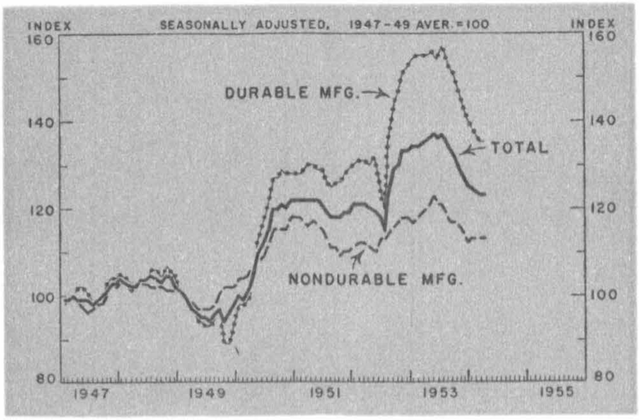
As THE ECONOMY moved into the second quarter of 1954, it appeared that the contraction in business activity, which began in mid-1953, had paused, at least for a time. Whether this pointed to a leveling off in economic affairs, or resulted only from the operation of seasonal factors, was a subject of widespread speculation. Up to this time at least, most of the decline was associated with the liquidation of inventories, cuts in defense expenditures, and smaller reductions in consumer durable purchases.

The performance of several indicators of economic conditions provides a quantitative demonstration of the slackening that has occurred. By March, industrial production had fallen 10 per cent below the postwar peak achieved in mid-1953. The decline in the output of durable manufactures was particularly marked. Steel operations fell to slightly more than two thirds of capacity in March and showed no indication of improvement in April or early May. Steel production, at 1.6 million tons per week, was approximately 30 per cent less than the peak output achieved in March of last year. The backlog of unfilled orders on manufacturers' books continued to decline through March and, at the end of the month, was 29 per cent less than at the end of March 1953.

These reductions in output and unfilled orders were mirrored in employment. In the manufacturing and mining industries, where the decline has been concentrated, employment in April was 9 per cent less than it was last August. Throughout the economy, unemployment almost tripled from October to February, increasing from 1.3 to 3.7 million. This represented approximately 5.8 per cent of the civilian labor force. Subsequent estimates of unemployment indicate that from February to April the employment situation did not worsen, but improved slightly. At this time of year, however, a seasonal reduction usually occurs in unemployment.

In contrast to these reductions in output and employment, prices have remained relatively stable, as shown in the accompanying chart. Wholesale prices, as measured by the Department of Labor, have changed little during the past year. They reached a peak in early 1951 and declined approximately 6 per cent from then until the end of 1952. At current levels, they are still one tenth above their level at the outbreak of the Korean war. Similarly, the Consumer Price Index has

Index of Industrial Production

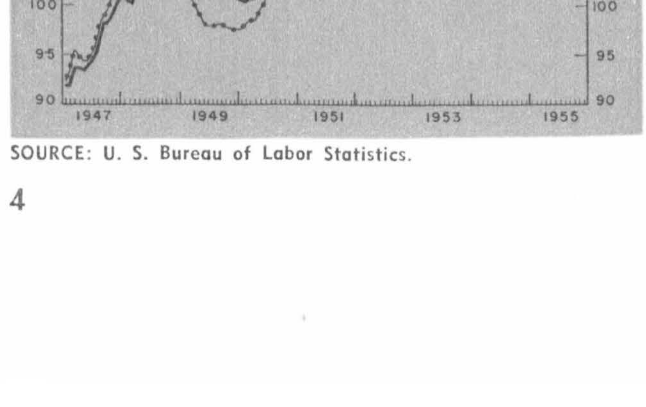


SOURCE: Board of Governors of the Federal Reserve System.

shown only a small increase during the past year. Although consumer prices continued to increase slowly after primary market prices turned down in 1951, at present levels they are still only one-eighth higher than they were in June 1950.

Closer inspection of several sectors of the economy reveals more clearly its functioning in recent months. In the remaining sections of this article, the demand situation is investigated as to the manner in which it is influenced by government purchases, changes in inventories, plant and equipment expenditures, residential building, and consumer durable spending. The other large elements of

Consumer and Wholesale Prices



SOURCE: U. S. Bureau of Labor Statistics.

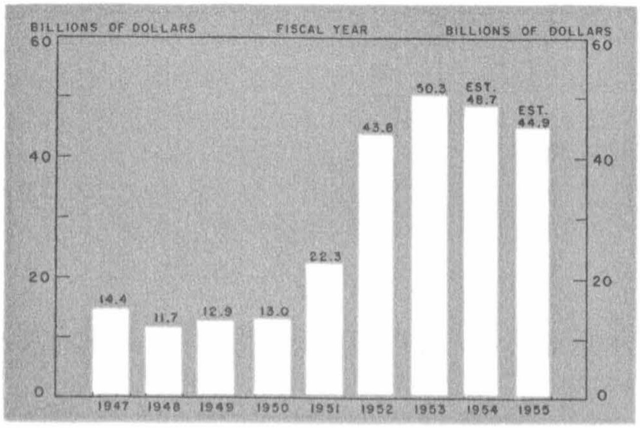
total demand, consumer expenditures for nondurable goods and services, have displayed a lesser degree of sensitivity to changes in the level of business activity in the past than have the categories selected for scrutiny.

Government Spending

National security outlays, which currently comprise more than four fifths of federal expenditures for goods and services, declined almost one eighth from their peak rate in the second quarter of 1953 to the first quarter of this year. The President's Budget Message for the fiscal year 1955, beginning July 1, calls for an 8 per cent decline in national security expenditures from the estimated level of spending for this purpose in fiscal 1954, as shown in the accompanying chart. Much of the projected cutback is in expenditures for the Army and Navy and for the stockpiling of strategic and critical materials. Expenditures for the Air Force are expected to increase as progress is made in achieving the goal of a 137-wing Air Force by 1957. Major procurement for the armed forces, especially of combat vehicles and ammunition, is to be reduced approximately 15 per cent in fiscal year 1955. Between June of this year and June 1955, total military personnel is expected to fall from 3.3 to 3.0 million.

These reductions in spending have been accompanied by decreases in federal revenues which have shifted purchasing power from the government to the private sector of the economy. Effective the first of the year, individuals were benefited by a 10 per cent cut in personal income taxes, which was partially offset by increases in the social security tax rate, and corporations experienced the expiration of excess profits taxation at the same time. In addition, the excise tax reductions which became effective April 1 are expected

National Security Expenditures[1]



[1]Military services, foreign military assistance, development and control of atomic energy, and allocation of critical and strategic materials.

SOURCE: U. S. Treasury Department and Bureau of the Budget.

to reduce federal revenues by another 1 billion dollars in the coming fiscal year. As a consequence of this last tax cut and the reduction in revenue resulting from the decline in personal income and corporate profits taxes since the Budget was prepared, the cash balance anticipated earlier for fiscal year 1955 will be more difficult to achieve.

In contrast to the decreases occurring in federal spending, state and local government expenditures have increased in recent months and are expected to continue at a high rate because of the continuing need for improvements in educational and highway facilities. Each year since 1946, spending by state and local governmental bodies has increased approximately 2 billion dollars. State and local spending in the first quarter of this year is estimated at an annual rate more than 2 billion dollars greater than in the first quarter of 1953.

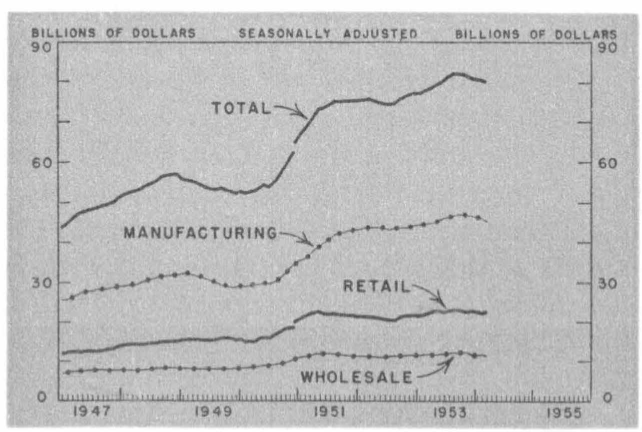
Business Inventories

The last wave of inventory accumulation, which began in mid-1952, came to an end last September after a 10 per cent rise in total business inventories. As is usual in inventory movements, durable goods stocks rose more sharply than soft goods inventories. During that period, manufacturers' durables increased 17 per cent, wholesalers' stocks of hard goods rose 13 per cent, and retailers increased their holdings of durable items by one fourth.

Although inventory liquidation has proceeded with some vigor, especially since the first of the year, the level of stocks has not yet been greatly reduced. For example, from September to March the decline of manufacturing inventories was only 3 per cent on a seasonally adjusted basis. Since stocks are still higher than they were early in 1953, and sales have decreased slightly, the ratio of stocks to sales continues to be higher than it was a year ago and during 1952.

The recent inventory correction has played a large part in altering business conditions during the last nine months. From the accumulation of stocks at an annual rate in excess of 6 billion dollars in the second quarter of 1953 to liquidation at an estimated annual rate of 5 billion dollars in the first quarter of this year, inventory change has accounted for a net decrease in the total demand for goods at an annual rate of around 11 billion

Business Inventories



SOURCE: U. S. Department of Commerce.

dollars. However, a cessation in the reduction of inventories, or even a slowing up in the rate of inventory liquidation from present levels, during the second half of this year would have the effect of increasing the demand for goods.

Plant and Equipment Expenditures

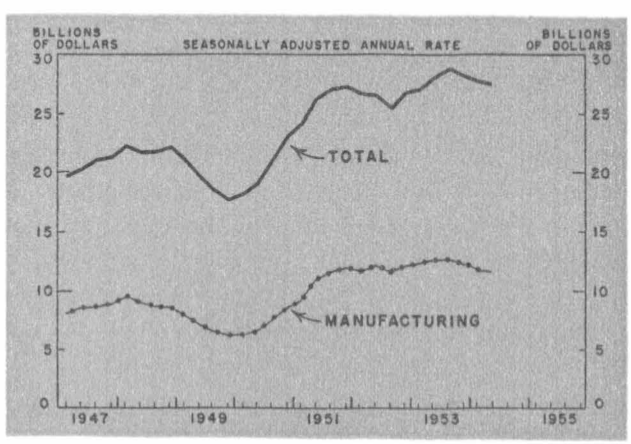
While decreases have been occurring in the demand for goods and services arising from government and from inventory restocking, plant and equipment expenditures have been displaying considerable strength. Outlays for new plant and equipment in the first quarter of this year were estimated at a level slightly in excess of those in the first quarter of 1953. Nevertheless, projected expenditures during the current quarter are estimated to be 5 per cent below the peak rate achieved in the third quarter of last year, as the accompanying chart discloses.

In the regular annual survey of business intentions to spend for new plant and equipment, conducted in February and early March by the Securities and Exchange Commission and the Department of Commerce, a decrease of 4 per cent was suggested in total outlays during 1954 in comparison with the previous year. Intentions of manufacturers to spend for new plant facilities were off 7 per cent from last year's level. Substantial decreases in plant outlays for the current year were indicated by primary metal producers and railroads; automobile manufacturers and oil companies expected to increase their outlays. Considerable interest has been attached to the results of this survey because of the success it achieved in calling the downward turn of plant and equipment spending early in 1949. Although the 4 per cent decrease indicated for the entire year is not of large magnitude, it foreshadows a more substantial drop in the latter part of 1954. For if the survey proves to be accurate, spending in the second half would necessarily subside to 8 per cent less than the peak third quarter rate in 1953 because of the high level of expenditures in the early part of the year.

Construction expenditures for the first four months of the year, estimated by the Departments of Commerce and Labor and based largely upon contract award information, further substantiate the high rate of activity experienced recently in this segment of the economy. Private nonresidential construction expenditures for the first third of the year exceeded those during the similar period in 1953 by 10 per cent. Industrial building expenditures fell off about one eighth, but this was compensated for by a 7 per cent increase in utility construction. Commercial building, the boom element in construction, early this year was about two-fifths greater than in early 1953. However, during the comparable period in early 1953, some restrictions on building of this type were still in effect.

The 1948-49 recession frequently has been referred to as an inventory recession. While the recessionary tendencies at that time did not extend to many types of business activity

New Plant and Equipment Expenditures



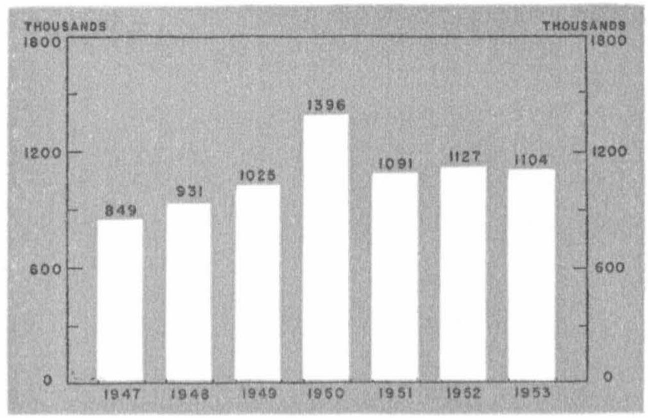
SOURCE: Securities and Exchange Commission and Department of Commerce.

—for example, the market for automobiles and housing—plant and equipment expenditures did turn down, as the chart reveals. During 1949, total plant outlays fell 13 per cent below their 1948 level and manufacturing expenditures for plant and equipment fell 22 per cent. This past cyclical vulnerability of plant and equipment spending is of concern today, especially in light of the large expansion in industrial capacity in recent years. From the beginning of 1950 to the end of last year, steel ingot capacity increased one fourth, aluminum capacity more than doubled, the daily crude oil input capacity of petroleum refineries rose by one fifth, and electric-generating capacity grew almost one half. The impending expiration of defense-inspired plant expansion is evidenced by the status of plant additions carrying certification for rapid tax amortization. Of 29 billion dollars in Certificates of Necessity issued since the start of the Korean war, 20 billion dollars represented work completed at the beginning of the year and the larger part of the remaining third is expected to be completed during 1954.

Residential Building

Another 1.1 million new nonfarm dwelling units were started during 1953. This was about as large as the number begun during 1951 and 1952, as shown in the chart, and somewhat below the record volume achieved in 1950. Housing starts from January through April were down 6 per cent in comparison with the same period in 1953, but almost all of the decrease was in public housing. Last year, more than half of the public housing starts were made during the first quarter; consequently, continued reductions in the initiation of public housing projects will have a lesser impact on year-to-year comparisons. Private residential building so far this year

New Nonfarm Dwelling Units Started



SOURCE: U. S. Bureau of Labor Statistics.

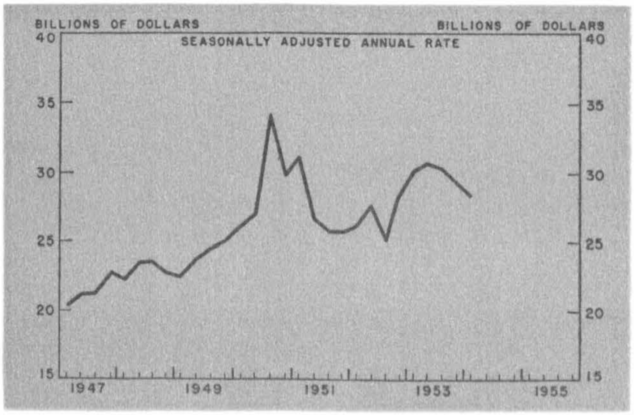
compares well with early 1953 at a seasonally adjusted annual rate in excess of 1.1 million units.

Homebuilders generally appear optimistic about the outlook for new house sales this year. This general tone of opinion, found in a February survey of homebuilders in Denver and Kansas City by the Federal Reserve Bank of Kansas City, was reflected throughout the Nation in a survey conducted annually by *Fortune* magazine involving 306 builders in 40 cities. The industry's optimism appears to be based on the expectation that mortgage funds will continue to be readily available throughout 1954 and on congressional action liberalizing the financial requirements for the purchase of housing. This legislation, which has been passed by the House, would reduce minimum down-payment requirements for FHA-insured loans from 20 to 12 per cent on a house valued at $12,000 and from 35 to 19 per cent on a house selling at $25,000.

Consumer Durable Purchases

Consumer expenditures for durable goods fell 9 per cent from the second quarter of 1953 to the first quarter of this year. Nevertheless, the rate of durable goods sales dur-

Consumer Expenditures for Durable Goods



SOURCE: U. S. Department of Commerce and Council of Economic Advisors.

ing the first quarter was at a higher level than at any previous time, with the exception of 1953 and the scare-buying waves of late 1950 and early 1951. The decline in sales of hard goods, which became clearly evident in the closing months of 1953, took place despite the fact that personal income has continued at relatively high levels. Moreover, sales continued to decline at a seasonally adjusted annual rate in the first quarter of 1954, despite the reduction in personal income taxes effective the first of the year. Some explanation of this phenomenon is afforded by changes in the distribution of personal income since output and employment began to fall in mid-1953. While proprietors' income of farmers and businessmen has remained relatively stable and personal income from dividends, interest, and rent payments has actually increased at seasonally adjusted rates, wages, salaries, and other labor income declined from July to March by more than 4 percent. Declining employment and labor income may be causing wage and salary recipients to become more apprehensive about the purchases of durable items, some of which are postponable. Accompanying the decline in durable sales, the growth of consumer credit was retarded and, since the first of the year, the volume of consumer credit outstanding has declined. At the same time, consumers have been saving a somewhat larger portion of disposable personal income (income after taxes) than they did in 1952 and early 1953.

Developments in the automobile market, as well as playing a primary role in consumer durable purchases, are indicative of conditions in a broader range of durable goods markets. Registrations of new cars in 1953 totaled 5.7 million, second only to 1950. Sales during the first three months of 1954 ran 9 per cent behind the first quarter of last year. Production of new passenger cars through the middle of May showed a decline of 9 per cent in comparison with the same period a year earlier. Since several hundred thousand new automobiles moved into dealers' stocks last year, and also because inventories are still at a relatively high level, it is probable that production will show a greater decline than sales in 1954. Estimates of the magnitude of the market for automobiles this year vary, but perhaps the figure most frequently mentioned in trade circles is 5.25 million, which corresponds closely to the production and sales experience during the first quarter. Few appraisals of the market exceed 5.5 million new passenger cars this year. If the volume of new car sales falls within this range and new car inventories are not permitted to rise, then production will decline from current rates in the latter half of the year when the industry customarily reduces output for model change-overs and the liquidation of stocks.

Similarly, sales and output of many other types of durable goods fell off in the latter part of 1953. For example, purchases of radio and television sets fell short of expectations and heavy inventories led to sharp cutbacks in the rate of production in the final quarter of 1953. Since the first of the year, sales have improved and inventories were reduced by holding first quarter production down about one third from a year earlier.

Reduced purchases of consumer durable goods early in 1954 were about in line with the curtailment of plans to buy such goods indicated in the Survey of Consumer Finances, conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan. Based on interviews in January and February, the proportion of consumer spending units with plans to purchase new automobiles declined from 9 per cent in early 1953 to 7.8 per cent early this year. Displaying a similar reduction, intentions to purchase furniture and major household appliances were expressed by only 26.8 per cent of the spending units early this year as contrasted with 31.9 per cent a year earlier.

Summary

Federal expenditures for national security purposes have declined substantially during the past year and the Budget for the coming fiscal year indicates some further decreases ahead. Probable increases in state and local governmental expenditures appear inadequate to offset anticipated decreases in federal spending. The impact of a declining demand by government for goods and services seems to depend in part on whether or not individuals and corporations increase their rate of spending in line with the tax reductions which they have received. Since last September, the liquidation of inventories has been an important contributing factor to the decline in the total demand for goods, but even a lowered rate of inventory liquidation in the months ahead would increase the demand for goods arising from changes in inventories as compared with the immediate past. Plant and equipment expenditures have held up well in the face of declining output and employment, although a decrease of moderate magnitude is suggested by the SEC-Commerce survey of business intentions to spend for this purpose. Likewise, private residential building has continued unabated during the recent contraction. Consumers durable purchases have fallen since the middle of last year and intentions to buy durable items, as reported in the Survey of Consumer Finances, suggest a lower level of spending than was programmed by consumers early in 1953.

Any attempted appraisal of economic conditions is always fraught with uncertainties. For example, a sudden spasm in international tensions could lead to a revision of defense expenditures and call for an immediate reappraisal of business inventory positions. In the current situation, long-run confidence in economic expansion appears to be a factor in sustaining the construction of new commercial and industrial facilities. Even if accurate magnitudes of change could be assigned to the various categories of aggregate demand in the months ahead, no simple netting of these plus and minus quantities would necessarily produce an appropriate measure of their total impact. Moreover, structural shifts within the economy are required in the process of growth and are constantly occurring. The peculiarities of each successive period tend to render parallels drawn from previous economic fluctuations of dubious value.

Problems Facing the Dairy Industry

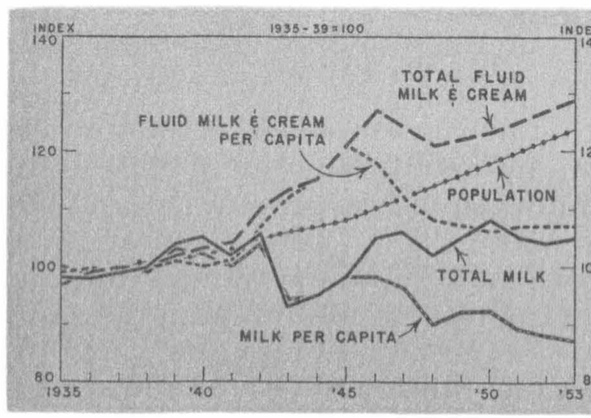
DAIRY PRODUCT PRICES have declined recently. During the past several months, stocks of Government-owned dairy products have increased sharply. Consequently, the dairy industry is faced with the problem of mounting surpluses and declining prices. It appears that declining prices should lead automatically to decreased production and that supply and demand should more nearly balance. Although this adjustment may come about eventually, it is not expected to be smooth or automatic. Even though dairy product prices are lower than previously, they are still supported at a level higher than the free market price would be. At the same time, milk cow numbers are the highest since 1947. With production per cow increasing, total production probably will continue at relatively high levels for some time to come. Although dairy production in the Tenth Federal Reserve District is overshadowed by meat animal and cash grain production, it is important to many farmers. In addition, all consumers in this District are affected by happenings in the dairy industry. Some of the problems and factors affecting the dairy industry are explored in the following material.

Consumption Trends

Figure 1 illustrates recent trends in the consumption of dairy products in relation to population growth. It is apparent from the chart that population has grown more rapidly than total milk consumption and that per capita consumption of all milk has declined. However, per capita consumption of fluid milk and cream has increased over the 1935-39 base by about 7 per cent, and total consumption of fluid milk and cream has increased significantly during this period. The large per capita consumption in 1945 probably was caused by war conditions and should be treated as an abnormal development.

Table 1 shows that the increased consumption of fluid milk and cream has been associated with a larger proportion of total milk production being consumed as fluid milk. The

Figure 1. Population and Consumption of Dairy Products, U.S.



SOURCE: Calculated from reports of the U. S. Department of Agriculture.

per cent of total milk production being used for butter declined from approximately 35 to 25 per cent during the 11-year period. Other uses have been more stable when measured in this way. The percentage used to manufacture cheese has increased slightly. This also has been true for ice cream, but the proportion used for processed milk — evaporated, condensed, and dry whole milk — has declined slightly. Since milk production increased dur-

Table 1. Per Cent of Total Milk Production Used for Various Purposes

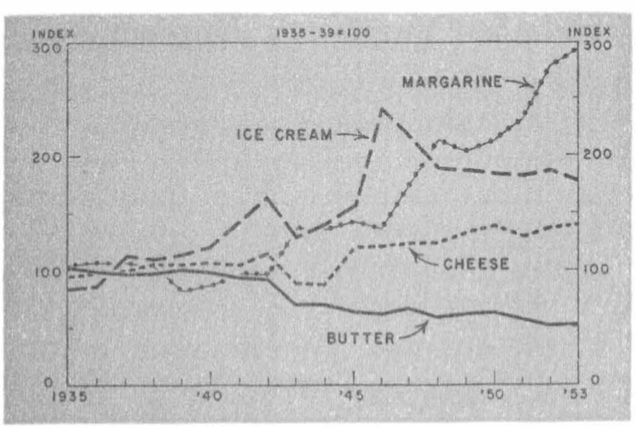
Year	Fluid Milk & Cream	Total Butter	Total Cheese	Processed Milk & Cream*	Ice Cream	Fed to Calves	Other
1942	39.9	35.3	9.3	7.2	4.5	2.7	1.1
1943	42.4	34.3	8.3	7.1	3.8	2.8	1.3
1944	43.4	30.9	8.6	8.0	4.0	2.8	2.3
1945	44.4	28.2	9.2	8.9	4.3	2.7	2.3
1946	46.6	25.2	9.2	7.3	6.9	2.7	2.1
1947	45.5	27.7	10.0	7.7	6.3	2.7	0.1
1948	46.4	26.4	9.7	8.3	5.9	2.7	0.6
1949	45.3	28.8	10.2	6.5	5.8	2.7	0.7
1950	45.8	28.1	10.1	6.8	5.8	2.8	0.6
1951	47.5	25.2	10.0	7.0	5.9	3.0	1.4
1952	48.1	24.7	10.3	6.5	6.2	2.9	1.3

*Evaporated, condensed, dry whole milk.
SOURCE: U. S. Department of Agriculture.

ing this period, a constant percentage trend would indicate an increasing absolute amount of milk being used. The percentage fed to calves, although relatively minor, has remained remarkably stable during the period under consideration. The percentage for other uses has fluctuated considerably but is relatively unimportant—never amounting to more than 2.3 per cent.

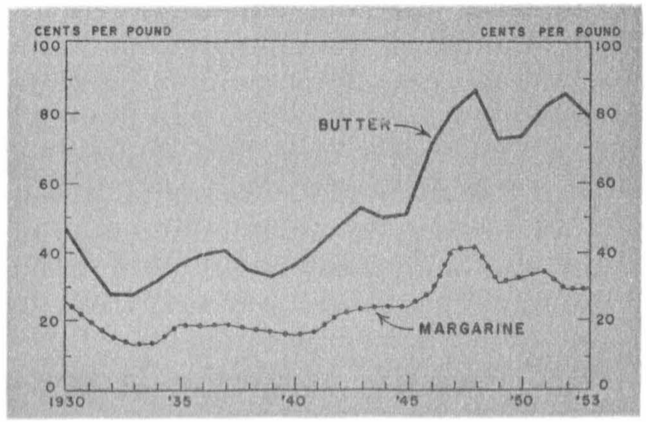
The consumption pattern underlying these trends is portrayed in Figure 2. The striking

Figure 2. Per Capita Consumption of Selected Products, U. S.



SOURCE: Calculated from reports of the U. S. Department of Agriculture.

Figure 3. Retail Price Per Pound of Butter and Margarine in Leading U. S. Cities



SOURCE: U. S. Department of Agriculture.

contrast between the trends in per capita consumption of butter and margarine is depicted in this chart. Margarine consumption in 1953 stood at an index of 293 with 1935-39 equal to 100. During the same period, the index of butter consumption plummeted downward, reaching 52 in 1953. This decrease in per capita consumption of butter has been sufficient to reduce the percentage of total milk production being made into butter, even though the Government has supported the price by purchasing butter. Per capita ice cream and cheese consumption, however, has increased considerably.

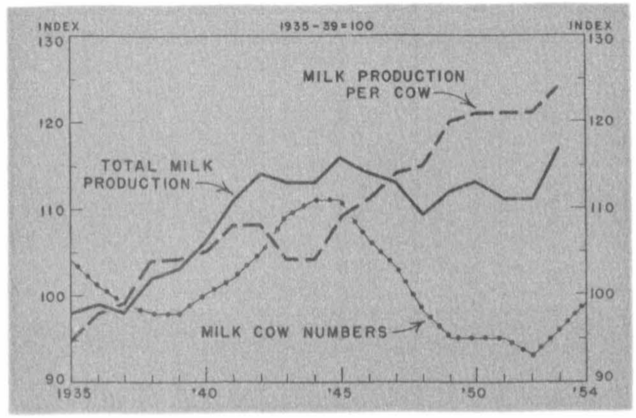
These data clearly indicate that the decline in consumption of dairy products has been caused primarily by the decline in butter consumption. This has occurred despite the fact that studies have shown that most people prefer butter to margarine and that the consumption of butter usually increases far more with increases in income than does the consumption of margarine. Figure 3 may indicate part of the reason for the decline in butter consumption. In 1930, the average price of margarine was about 25 cents per pound. At that time, the price of butter was about 46 cents per pound. By 1953, the spread had widened considerably. The average price of butter in 1953 was approximately 80 cents per pound, while margarine was about 29 cents per pound. This provided considerable incentive for consumers to change from butter to margarine. Figure 2 shows that they did change. Per capita margarine consumption was 8.6 pounds in 1953, whereas in 1940 it was 4.2 pounds. Per capita consumption of butter was 16.7 pounds in 1940, but it had fallen to 8.7 pounds per person by 1953. In addition to the price relationship being favorable to margarine consumption in recent years, margarine consumption prior to 1950 was restricted by law or by high taxes in many states. Also, it should be noted that consumers have curtailed total consumption of spreads in recent years. The U. S. Department of Agriculture estimates that the present surplus of dairy products would not exist if per capita consumption could have been maintained even at 1950 levels. As stated previously, this decline is due primarily to the drop in butter consumption.

Production Trends

Milk production in the United States tended to increase from 1935 to the beginning of World War II (Figure 4). It was maintained at high levels during the war but declined from 1945 until 1948. Milk production increased in 1949 and 1950, declined again in 1951, remained stable during 1952, then increased sharply in 1953. Until 1948, milk production tended to fluctuate with milk cow numbers. However, increased production per cow since that time has caused total milk production to increase, even though cow numbers were less on January 1, 1953, than on January 1, 1948.

The increased production per cow since 1944 can be attributed to a number of factors.

Figure 4. Trends in Dairy Production



SOURCE: Calculated from reports of the U. S. Department of Agriculture.

Rigorous culling has been practiced during recent years and replacements probably have been of better quality because of various dairy herd improvement practices such as artificial insemination. The feeding of higher concentrate rations undoubtedly has had a considerable influence on milk production per cow. Much of the increase in production for 1953 can be attributed to heavier feeding of concentrates and a rather mild winter. Milk cow numbers increased during 1952 and 1953, and high-level milk production seems assured for 1954.

Dairy producers have responded to consumption trends and technological changes to a considerable extent. Table 2 indicates that farmers have turned from the sale of cream

Table 2. Sales of Whole Milk as a Percentage of Milk Production on Farms

State	1941	1952
Colorado	30	46
Kansas	18	36
Missouri	31	63
Nebraska	9	18
New Mexico	19	41
Oklahoma	13	42
Wyoming	24	43
Tenth District States	20	44
United States	45	67

SOURCE: U. S. Department of Agriculture.

to the sale of whole milk. Some 67 per cent of the milk produced in the United States in 1952 was sold as whole milk, compared with 45 per cent in 1941. In Tenth District states, the trend also has been toward a larger proportion being sold as whole milk. Since many farmers in the District are a considerable distance from large consuming centers and the resources are not as well adapted to the production of milk as they are in other areas, the percentage being sold as whole milk is smaller in the District than it is for the Nation. Consequently, many farmers still produce primarily for their own consumption and sell the surplus as cream.

Changing price ratios between whole milk and butterfat have encouraged producers to move in this direction. The availability of milking machines also has permitted a larger number of cows to be milked per unit of labor. This has encouraged some farmers to produce in volume and market their milk whole. Even so, technological changes have not been as rapid in milk production as in many other commodities, and many farmers have reduced the number of cows milked while increasing the size of other agricultural enterprises. At present, price relationships and technological conditions are such that most farmers find it advisable to have a sizeable dairy herd and specialize in dairy production or to produce only enough for home use.

Much of the attractiveness of dairy production to many farmers is due to the stability of returns. During the 1945 to 1952 period when agricultural product prices were high, milk cow numbers declined. However, during the past two years when farm product prices have been declining, dairy production has been favored and milk cow numbers have increased—probably largely because of the stability of returns from dairying. Of particular significance in this respect is the behavior of beef cattle prices. Much of the increase in milk cow numbers during the past two years probably is due to the decline in beef cattle prices. As beef cattle prices declined, many farmers started milking some of the cows formerly kept for beef. At the same time, lower beef cattle prices slowed the rate of culling, since the carcass of the dairy cow became less valuable.

The relative stability and rate of return of various livestock enterprises are illustrated in Table 3. The coefficient of variation is used as a measure of instability of returns. In interpreting the coefficient of variation, it should be kept in mind that the coefficient varies directly with the amount of variation. That is, the higher the coefficient, the greater the variation. The coefficients are to be compared with each other rather than used individually. The variation of dairy returns over the 1917-48 period was much less than for feeder cattle or for hogs. Returns per $100 of feed and labor also were smaller for dairy than for the other livestock enterprises. This table apparently describes quite accurately many farmers' opinions about the dairy enterprise. That is, the return for labor used in this way is not high, but it is a much more stable return than that from certain other livestock enterprises. This may partly explain the apparent paradox that lower prices reduce production very little, if any, from previous levels. Farmers may turn to dairy production because it assures a rela-

Table 3. Level and Variability of Returns From Various Livestock Systems, 1917-48

Livestock Systems	Average Returns Per $100 Feed and Labor Cost	Coefficient of Variation of Returns
Dairy cows	$141	13.2
Feeder cattle	158	34.4
Hogs	145	29.3

SOURCE: Circular 905, U. S. Department of Agriculture; Research Bulletin 390, Agricultural Experiment Station, Iowa State College.

tively stable return rather than a high rate of return. For dairy production to be restricted greatly, one or both of two conditions may have to exist. One is that dairy product prices fall considerably in relation to other agricultural product prices. The other is that dairy production lose its reputation as a stable income producer. The latter is not likely in view of the large amount of labor required in the production process and the type of market outlets which dairy products have.

Government Purchases of Dairy Products

Because of the increased production of dairy products during late 1952 and 1953 associated with a decline in consumption, it has become necessary for the Government to purchase large quantities of dairy products to support the market. Under the Agricultural Act of 1949, the Secretary of Agriculture is required to support prices for milk and butterfat at not less than 75 per cent nor more than 90 per cent of parity. These supports are announced in advance for the marketing year which ends on March 31. Dairy supports were at 90 per cent of parity for the 1953 marketing year and will be at 75 per cent of parity for the 1954 marketing year.

Table 4. Government Purchases of Dairy Products, 1933-41 and 1949-53

Year	Butter	Cheese	Evaporated Milk	Nonfat Dry Milk Solids	Whole Milk Equiv., All Purchases
	Thousand lbs.				*Million lbs.*
1933	43,234	—	—	—	869
1934	24,624	17,936	400	—	675
1935	7,055	192	47,027	15,840	244
1936	2,951	932	6,160	3,594	82
1937	3,049	138	19,636	23,188	104
1938	141,979	3,463	19,470	31,260	2,916
1939	25,398	—	3,209	5,035	515
1940	10,604	4,354	65,903	7,317	397
1941	11,454	—	4,350	—	238
1949	114,273	25,526	—	325,493	2,541
1950	127,905	108,944	—	351,641	3,666
1951	221	828	—	53,457	13
1952	16,065	2,789	—	51,494	348
1953*	358,909	291,043	—	587,656	9,981

*Preliminary.

SOURCE: U. S. Department of Agriculture.

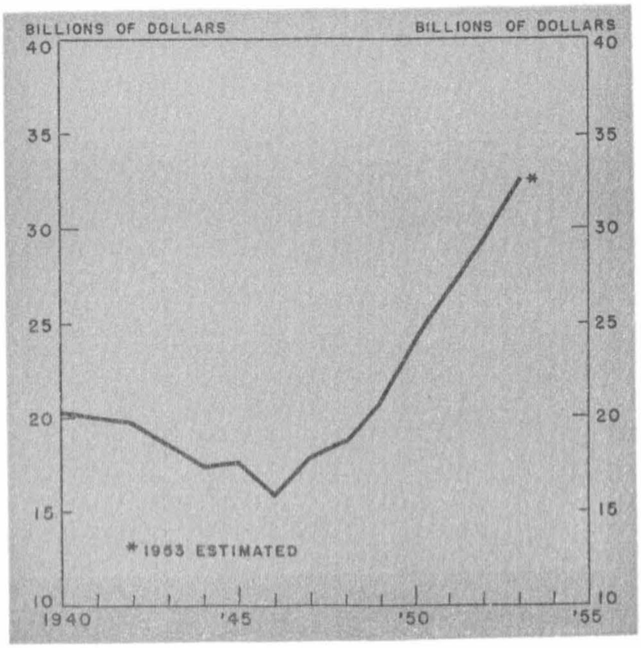
As a result of these price-supporting operations, the Government has acquired large quantities of dairy products. Table 4 gives the results of these operations. In view of the expected large production for 1954, it is likely that Government purchases will continue to be substantial, even though the support level has been reduced.

Significance

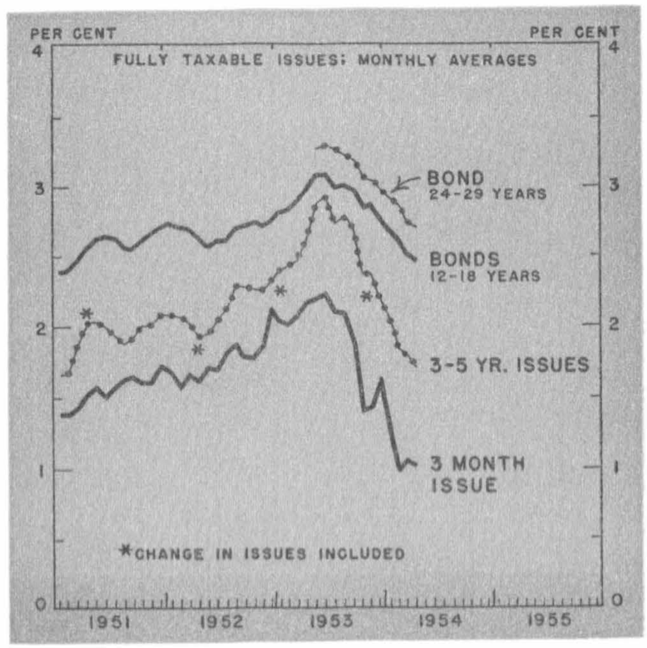
Dairy product prices have moved downward in the past several months because of increasing supplies and declining per capita consumption. With further increases in the supply of milk expected for the immediate future and with little change expected in consumer demand, prices probably will continue to weaken during the coming year. In addition, the support level on dairy products has been lowered. At the time the reduction from 90 to 75 per cent of parity was announced, prices were below the 90 per cent support level, reflecting large supplies in relation to demand.

It is extremely difficult to forecast adequately what the demand for dairy products will be in the more distant future. This will depend upon consumer incomes, population growth, and consumption trends. It appears that adequate resources are available to meet any demand which may be made for additional dairy products.

STATE AND LOCAL GOVERNMENT DEBT, 1940-1953



YIELDS ON UNITED STATES TREASURY SECURITIES



BANKING IN THE TENTH DISTRICT

District and States	Loans: Reserve City Member Banks		Loans: Country Member Banks		Deposits: Reserve City Member Banks		Deposits: Country Member Banks	
	Apr. 1954 Percentage Change From							
	Mar. 1954	Apr. 1953	Mar. 1954	Apr. 1953	Mar. 1954	Apr. 1953	Mar. 1954	Apr. 1953
Tenth F. R. Dist.	0	−3	−1	+12	+1	−1	+1	+10
Colorado	+1	+4	+1	+6	+1	+4	+1	+5
Kansas	0	+3	−3	−1	+1	+5	0	0
Missouri*	−2	−6	−1	+56	+1	−4	0	+57
Nebraska	0	−14	−1	+35	+3	−19	+1	+32
New Mexico*	**	**	+2	+8	**	**	+4	+4
Oklahoma*	0	−2	−1	+7	0	+5	0	+4
Wyoming	**	**	0	+5	**	**	+2	+5

* Tenth District portion only. ** No reserve city banks in this state.

PRICE INDEXES, UNITED STATES

Index		Apr. 1954	Mar. 1954	Apr. 1953
Consumer Price Index	(1947-49=100)	114.6	114.8	113.7
Wholesale Price Index	(1947-49=100)	111.1	110.5r	109.4
Prices Rec'd by Farmers	(1910-14=100)	257	256	259
Prices Paid by Farmers	(1910-14=100)	283	283	280

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Building Permits	
	Percentage change — 1954 from 1953					
	Apr.	Year to date	Apr.	Year to date	Apr.	Year to date
Tenth F.R.Dist.	+1	+2	+4	−4	+37	+12
Denver	−3	0	+5	−4	+46	−1
Wichita	+4	+2	−3	−10	+113	+19
Kansas City	−4	−1	0†	−5†	−6‡	−11‡
Omaha	+10	+10	+10	+3	+21	+36
Okla. City	+11	+8	+16	−2	+98	+80
Tulsa	+1	+3	+9	−3	+118	+6

*City only. †Kansas City, Mo., only. ‡Kansas City, Mo., and Kans.

FEDERAL RESERVE BANK OF KANSAS CITY • INCORPORATED MAY 18, 1914