North Dakota Farm Price Index Drops 20 Points in Past Year

By Perry V. Hemphill[1]

This report will summarize the farm prices of North Dakota farm products for the year ending November 15, 1955. (The December 15, 1955 North Dakota farm prices were not available at the time this was written.)

The North Dakota all-commodity farm price index dropped 20 points, or about eight percent, for the year ending November 15, 1955. This is a continuation of the downward trend which has prevailed almost continuously since February, 1951, but this downward trend really started in February, 1948.

The farm price index for grains was also down eight percent for the period ending November 15, 1955. The farm price index for meat animals was down 46 points or 16 percent, the farm price index for dairy products was up three points or one percent, and the farm price index for poultry and eggs was up 23 points or 15 percent for the same period.

The all wheat farm price on November 15, 1955, was 14 cents lower than a year earlier. The price of durum and of spring wheat which make up this all wheat farm price have not followed the same price pattern, however. The farm price for durum was down 85 cents for the year while that of spring wheat was down only seven cents. The farm price trend of other North Dakota grains for the year ending November 15, 1955, were corn and oats down 17 cents, barley down 13 cents, rye down 29 cents, flaxseed down 24 cents. The farm price trend for corn has been down for four years, the trend for oats has been down for five years, and the trend for barley has been down for four and one-half years. The present farm price of all three of these grains are near their 1949 levels. The farm price trend for rye has been down for three years and the trend for flaxseed has been downward for five years. Both these grains are below their 1949 price levels.

The farm price of potatoes moved from a low of 70 cents early in the period to a high of $1.80 in March, 1955, then back to a low of 60 cents but on November 15, the farm price was 90 cents. During the period the farm price of alfalfa seed moved from $32.50 down to $15.80, a drop of more than 50 percent. The farm price for sweetclover dropped from $13.50 to $8.20 or a 29 percent decline.

All livestock farm prices were down for the year ending November 15, 1955 with beef cattle down nine percent, calves and lambs, down three percent, and hogs down 35 percent. The farm price for hogs on November 15, was the lowest since February, 1942. During

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the period the farm price for milk cows resumed a downward trend, reaching the lowest price since May of 1947. Wholesale milk was down 10 cents, retail milk was unchanged, and butter was up one cent. Butter has been within a two cent price spread for the last 19 months.

The farm price for chickens was up more than two cents for the year, turkey prices on the farm were up two cents, and eggs were up more than five cents, for the period ending November 15, 1955.

Based upon the U.S.D.A. outlook material, Harry G. Anderson[2] reports the following 1956 price situation for North Dakota:

North Dakota will experience a price situation similar to that forecast for the country as a whole. A slight increase in wholesale prices which have been remarkably stable in recent years, is expected. Consumers' prices are expected to increase slightly.

Farm prices, are expected to drop nearly five percent in 1956. Individual commodity prices will vary. Prices paid by farmers are not expected to change much in 1956. The parity ratio, which measures the relationship between prices received and prices paid by farmers is expected to average 80 to 81 compared with 85 in 1955. Reduced farm prices and high costs are expected to reduce net farm income between 5 and 10 percent in 1956.

Wheat prices are expected to fluctuate around the support level. High protein wheat is likely to command premiums again, depending on the quality of the winter wheat crop.

Although meat supplies will be large in 1956, the strong demand for beef and the leveling off of cattle numbers should maintain cattle prices at about the average prevailing during the latter part of 1955. Large hog supplies will keep hog prices low through the winter months. A moderate price rise is expected in the early months of 1956. The main strength, however, will be later on, in spring to midsummer. This is predicted on the expectation that hog production will begin to slow down next spring.

Prices for dairy products are not likely to be much different from the last half of 1955. Sales of fluid milk will rise, but so will production. Manufacturing quality milk prices will keep to the government price support level. Egg prices will be the same or higher the first half of 1956, but during the last half of 1956 will be lower than in 1955. Broiler and turkey production will increase, tending to soften prices in 1956.

Supplies of feed grains and protein supplements will be larger in total and per animal units and prices lower, possibly 10 to 20 percent compared with last year. This could well induce heavier feeding. Farm land values are not expected to change a great deal either way. Family living costs will tend slightly upward. The items that will be higher are those the average family buys conservatively.

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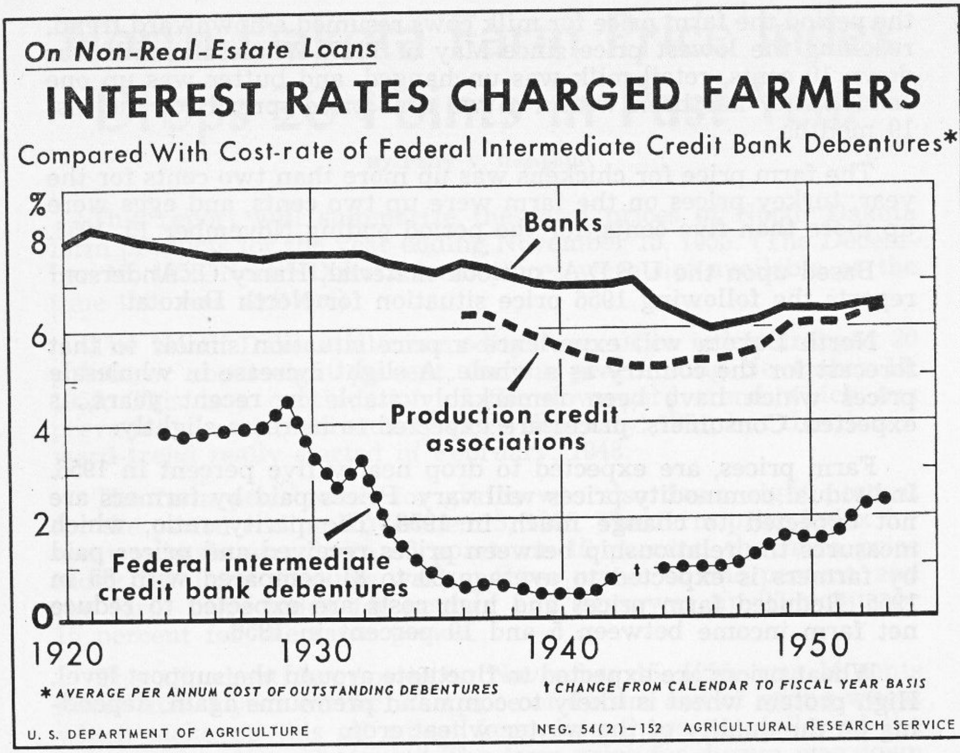

This graph shows average annual rates charged farmers for non-real estate loans by commercial banks and production credit associations. Shown also is the annual cost (expressed as a rate) of funds borrowed by Federal intermediate credit banks in the open market. This rate is a principal factor in determining the rate charged production credit associations.

As the cost of funds borrowed by the credit banks fluctuates with changes in the money markets, interest rates charged farmers by production credit associations are influenced by open-market rates. The average lending rate of production credit associations declined during the late thirties and early forties in response to the low rate at which debentures of Federal intermediate credit banks were sold and as an increased volume of business enabled the associations to reduce their charges. After this the rate rose as the debenture rate moved upward and as the maximun spread permitted between the rate charged borrowers by production credit associations and the rate they paid to credit banks was increased.

Bank rates declined from 1943 to 1946 because during World War II the volume of high-rate installment loans for purchase of farm machinery, automobiles, and motor trucks fell off considerably with limited supplies of these goods and increased farm income. Until recently, bank rates on non-real estate loans to farmers were far above rates charged by prodution credit associations. Bank rates were based on local costs and local demand-supply situations, while prodution credit associations were established to obtain credit for farmers as cheaply as possible. As government capital has been repaid and as the cost of funds obtained from Federal intermediate credit banks has increased, production credit associations have had to raise their rates. At the same time, bank rates have been held down because of competition among lenders.