THE PRICE SITUATION, JUNE, 1927

FARM PRICES

The general level of farm prices advanced one point between April 15 and May 15, to 126, or 13 points below the index of a year ago. This slight increase was due largely to higher prices of cotton, grains, potatoes and apples which more than offset the lower prices of eggs, butter and meat animals, particularly hogs. Since May 15, prices of cotton and grains continue to advance while livestock and livestock product prices have remained weak. With crop conditions generally backward, the level of farm prices during the next two months promises to be somewhat higher than in May.

The slight increase in the average of farm prices in May, with the level of nonagricultural prices practically unchanged, produced a further increase in the relative exchange value of farm products. Since last November, this ratio has advanced from 80 to 84 in May, and may continue to advance further during the next two months unless nonagricultural prices should also advance as much as farm prices. In recent weeks textile, building material, metal as well as farm product prices have strengthened, and suggest that temporarily the end of the decline in the general price level in progress during the past two years may be near.

Should the general commodity price index in the immediate future show another temporary short-time advance, then we will have had fluctuations in the general price level during the past six years comparable with those during the ten years before the war. Prices then advanced and declined three times during the ten-year period, a rise and fall occurring in approximately three and one-half years. Since 1921 we appear to have had two comparable movements of about the same magnitude lasting somewhat more than three years.

GENERAL BUSINESS ACTIVITY

Business activity as a whole, as measured by bank deposits, appears to continue unusually high. In all except some of the agricultural regions of the south and northwest bank deposits during May were well above those of last year.

In productive activity moderate seasonal slackening was again evident during May. Pig iron production declined somewhat more than usual, steel production declined very little, and steel consumption was well maintained. In the automobile industry, there was a slackening of production toward the end of May, output being below that of last year. Coal production increased, the output of anthracite being above last year's output, while that of bituminous about 10 per cent below. The cotton textile industry continued its high rate of mill activity, with low stocks and large forward orders.
Primary distribution of goods as shown by car loadings, as well as retail distribution, was not maintained at the high levels of April. Car loadings during May fell slightly below those of a year ago, and it is now estimated that for the entire year of 1927 they will total about one per cent less than in 1926. Department store sales (New York area) during May were about three per cent below those of a year ago, and mail order house sales, while in April exceeded sales of April, 1926, were in May only equal to those of a year ago. The slackening in retail trade may be a reflection of the lower volume of factory employment and payrolls, which has so far this year been below that of the same period of 1926.

Credit made available for commercial and speculative purposes at the end of May exceeded that of a year ago, with commercial loans only moderately greater, but loans on stocks and bonds about ten per cent greater. This is reflected in the continued rise in the stock market to new high levels during May in spite of slightly firmer interest rates, which did not decline during May of this year as they did a year ago. Money is still, however, relatively cheap, and together with evidences that the decline in the general commodity price level of the past two years may presently terminate, suggest that only a seasonal slackening in general business is to be expected during the summer months.

WHEAT

Prospects for a reduced wheat acreage in Canada, late harvests in many countries, a shorter winter wheat crop in the United States, and the continuation of heavy European buying have caused wheat prices to rise in the past months. The average farm price of wheat as of the middle of May was $1.23, as compared with $1.17 in April and $1.42 in May last year. Market prices for all classes and grades rose from $1.39 at the end of the first week in May to $1.51 for the week ending June 3. No. 2 hard winter at Kansas City rose from $1.36 to $1.49 and No. 2 soft winter at St. Louis from $1.37 to $1.51, while No. 1 hard spring at Minneapolis increased from $1.49 to $1.61, and No. 2 amber durum from $1.59 to $1.61. The higher points reached at the beginning of the month are well maintained. New wheat may cause a slight seasonal reduction in the winter wheat market prices when it begins to arrive in large quantities, but cash spring wheat prices are likely to be maintained near present levels through the next four weeks.

While there is still much uncertainty as to the prices that may be received for the new wheat crop of the United States, at the present time the prospects for marketing the crop appear to be at least as good as they were last year. Last year the price of No. 2 hard winter wheat at Kansas City on July 1 was $1.30. The price dropped from an average of $1.64 the week ending June 11 to $1.30 on July 1. This great change was due not only to the shift from old to new wheat but also a shift from a short crop to a large surplus basis. The change this year should be more gradual. With the prospect of a reduction of about 90 million bushels in the new winter wheat crop, the increase in carryover will probably not be large enough to make the available supply in the United States as large as last year. Conditions in European countries outside of Russia promise a somewhat larger crop than last year. In France, one of the largest producers,
May 1 conditions indicate a possible increase of about 25 million bushels of wheat over last year, and the Belgian crop is forecast to be two million bushels larger. European stocks of old wheat, however, have been reduced to a minimum, and delayed harvests will cause Europe to continue to buy rather heavily through July, making a good demand for the early harvest of new wheat in Southwestern United States and the remaining stocks of old wheat in all exporting countries. The Russian crop remains a very uncertain factor in the situation.

The outlook for the market for spring wheat will depend mainly upon two factors,—first, whether or not the production of spring wheat equals or exceeds domestic requirements of that class of wheat, and, second the outturn of the Canadian crop. At the present time the indicated reduction in the area of Canadian wheat is favorable to better prices, but a good growing and harvesting season still might result in supplies of hard spring wheat in the United States and Canada equal to those of last year. The outlook for marketing durum remains favorable on account of reduced acreage in North Africa and prospects for poor yields in Southern Italy and Tunis.

CORN

The price of corn continued to advance during May due to unfavorable planting weather. The farm price of corn on May 15 was 73 cents or 7.4 cents higher than on April 15 and 5.9 cents higher than in May a year ago at Chicago. From May 15 to June 8 the price of No. 3 yellow corn in Chicago advanced from 35 cents to $1.00. The advance in price during the latter part of May caused some increase in receipts at the primary markets especially in the western part of the corn belt.

The planting of corn has been unusually late over the entire corn belt due to a wet spring and cloudy weather. In eastern Iowa and Missouri and in southern Illinois, Indiana and Ohio, and northern Kentucky, where about 30 per cent of the corn crop is produced, planting has been especially late with only about 25 to 50 per cent of the crop planted by June 1. However, with favorable weather for corn in this area for the remainder of the growing season it is still possible to mature a crop of corn. In the northern part of the corn belt planting is now nearly completed and the western part of the corn belt reported 90 to 100 per cent of the corn planted on June 1.

The acreage devoted to corn in 1927 depends upon the conditions for planting during the first half of June. The relatively high price of corn which has prevailed during the past two weeks will encourage farmers to make an extra effort to plant their intended acreage to corn. The yield of corn and the quality of the crop will be determined by weather conditions during the next three months. The trend of corn prices during the summer will be determined largely by weather conditions for the new crop and the visible supply at the primary markets.

COTTON

Prices received by producers on May 15 averaged 13.9 cents compared with 12.3 on April 15 and 16.0 a year ago. At the ten designated spot
Markets prices continued to advance during the latter part of May and early part of June, averaging 15.38 cents for May and 15.80 cents on June 8. The cotton market is now influenced largely by reports of weather conditions.

This season has been characterized by a heavy movement of cotton into consumptive channels, particularly during recent months, as a consequence of the low price of raw cotton, general prosperity in the United States and improved economic conditions abroad. The amount of American cotton "gone out of sight," or takings by spinners in all countries reached 16.0 million bales by the first of June, compared with 13.5 million bales during the same period last year according to "The Commercial and Financial Chronicle". Consumption in the United States from August 1 up to April 30 was 5,338,000 bales as compared with 4,959,000 bales the same time the previous year. This high rate of mill activity, however, may result in accumulation of stocks of manufactured products, the effect of which would be reflected on the price of the raw material, but as yet there is no evidence of accumulation of finished goods in the United States. Statistics on stocks of finished goods are incomplete, but reports to the Association of Cotton Textile Merchants of New York from mills and commission dealers representing a large part of the industry show a reduction in stocks of finished goods on April 30 of 35 per cent from the same time a year ago. Sales during April were 106 per cent of production, while for April a year ago the ratio of sales to production was 80 per cent.

In Germany and Central Europe stocks of cotton products in the hands of the trade the middle of May were filling up to a more normal level and incoming orders on hand were somewhat lower than at the end of March. The high level of activity reached in the German and Central European cotton industry during March was well maintained in April and early May, and the outlook continues favorable. Spinners were booked up for five or six months ahead, and weavers four to five months, so that activity should be well maintained for some time to come, even though recession from the recent high rate of production may take place. The outlook for the cotton industry in Belgium, France and Italy is uncertain, both as to domestic and export demand. The demand, both for cloth and yarn, has been noted at Manchester by the introduction of the new minimum rates of the Cotton Yarn Association, making negotiations difficult, but the tone of the market remains good.

In Japan, the Cotton Spinners Association has reached an agreement to curtail production by 15 per cent for a period of six months beginning May 1.

It may be observed that this season to date prices have followed in general the same movement as those of 1911-12, and more closely the average movement of prices in years of large crops followed by smaller crops (See October, 1926 Price Situation). The large crop of 1911 of 15.7 million bales was followed by a smaller crop of 13.9 million bales, but farm prices, which advanced from the low level of 8.6 cents in December, 1911 to 11.1 in June, remained approximately at that level until December, 1912 when it averaged 12. cents. Floods occurred in both this and the 1911-12 season.
The average price received by producers on May 15 was 30.1 cents compared with 30.4 cents on April 15 and 32.0 cents last year. Prices of domestic raw wool at Boston also showed further declines during May, and the market toward the latter part of May was characterized by slow demand.

Consumption of clothing and combing wool, grease basis, for April declined as usual from March, but was somewhat higher than April of the two previous years. Total consumption as reported of all wool from January 1 to April 30 was 491 million pounds (grease equivalent) against 166 million for the same period last year, all of the increase being in domestic wool. Total stocks held by reporting dealers and manufacturers on March 31, 1927, were 13 per cent less than on December 31, 1926.

Prices at the third series of the London Sales recovered from the decline at the opening, with closing rates for most grades about a par with those at the close of the previous sale. The decline at the opening of the third series was attributed to the bad selection and heavy withdrawals of wool held in reserve, reports of easier markets in Australia, and slackness of inquiries during the interval between the two sales. One factor causing the later recovery was the decision to curtail the sales and close before the date originally scheduled. The amount of wool available was thus reduced to such an extent that a keener demand resulted and prices became strong.

The most important factors affecting the domestic price of wool, such as indexes of business conditions and the general price level, are discussed elsewhere in "The Price Situation".

**CATTLE**

Although cattle receipts at seven leading markets during May were about 3 per cent larger than last year and above the 5-year average for May, and the indicated Federal inspected slaughter probably the largest on record for May, prices on all kinds were at the highest levels for the month since 1920. With supplies of good and choice beef steers at Chicago the largest for the month in at least six years and twice as large as in May, 1926, top and average prices on these grades were the highest for the month since 1920. The average price of the better grade beef steers showed little change in May over April, but common steers made a seasonal advance. Compared to May last year all grades were materially higher and the general average of all grades was over $1.50 higher.

In view of the weakness in the hog market this continued strength in the cattle market in spite of liberal supplies is unusual, and the reasons for it are not clearly in evidence.

The marked advance in corn prices during May began to show its effect in the cattle market toward the end of the month and the first week in June. Receipts of corn finished cattle tended to increase and the demand for cattle suitable for summer feeding to decline. Abundant pasture, however, maintained the keen demand for stocker cattle at all markets.
LAMBS

The farm price of lambs on May 15 at $11.92 per hundred pounds was 5 cents lower than on April 15 and 14 cents higher than a year ago. At Chicago prices of both fed and spring lambs declined steadily during May from the high level reached the latter part of April. These decreases were around $1.50 per hundred on all kinds. While supplies of fed lambs were comparatively small, and made up largely of shorn lambs from commercial feed lots, this shortage was more than offset by liberal supplies of spring lambs from many areas, but especially from California and Arizona and of grass sheep and yearlings from Texas. Receipts at seven leading markets were more than 10 per cent larger than in May, 1926, and about the five-year average for the month. The indicated inspected slaughter, however, was about the largest on record for the month.

Supplies of spring lambs in June will probably be moderate, especially during the first half of the month, due to the slow development of the early lambs in Idaho, but may be unusually heavy toward the end of June and the first half of July. Consumer demand for lamb continues strong and lamb prices are expected to continue at a comparatively high level.

HOGS

Hog prices declined continuously during May with weekly average costs at Chicago nearly $1.00 lower the last week than the first. The average cost of packer and shipper droves in May this year was $9.59 compared to $10.69 in April and $13.55 in May, 1926. At the end of May hog prices were at the lowest point since December, 1924. Further decline of the first week in June brought top prices practically to 9 cents and the lowest since July, 1924, when prices began their recovery from the low point of the cycle.

Receipts at seven leading markets were 15 per cent larger in May this year than last, and the indicated inspected slaughter was over 1/2 million head larger than in May, 1926. Storage stocks of pork on June 1 were materially larger than on June 1, 1926, and increased considerably during May.

The heavy marketings of hogs in May apparently were due to the continuous fall in prices and to the big advance in corn prices. Since the middle of April the whole hog situation has changed radically. A corn-hog ratio still highly favorable to feeding by the first of June has shifted to one decidedly unfavorable. Producers with available market hogs hastened to ship and by the first of June this had some appearance of fright-end liquidation of last fall pigs. This liquidation of fall pigs will probably continue through June. During July a heavy movement of half-fat, grassy sows may be expected if the corn situation, both as to price and prospects for the new crop continues unchanged.

The heavy slaughter in May and June should improve the market situation during the summer, especially if the lower range of product prices results in a consumption equivalent to current production with little increase in storage stocks. The indicated supplies of hogs for the three months, July to September, will be considerably below last year, with a
large proportion of low quality hogs. Under such conditions a sharp seasonal advance on good butcher hogs would seem fairly certain.

**BUTTER**

The butter price situation during May was even more than ordinarily dominated by the conditions affecting current production. Neither the abnormally low movement out of storage nor the slight movement of new stock into storage during the month is of particular significance in the present situation even though the net effect is that stocks at the end of May are only about half as heavy as a year ago. The seasonal decline in price has narrowed the margin between domestic and foreign prices to a point well below the tariff and importation has stopped.

Pasture conditions, which now dominate the supply situation, are unusually favorable. On June 1 the condition for the entire United States was 88.3 per cent against 77.0 per cent last year and 86.6 per cent as the 10 year average. In the principal butter-producing states the comparatively favorable condition was even more marked. Minnesota conditions reported this year, last year and the average were respectively 90, 64 and 84; Wisconsin, 91, 86 and 86; and Ohio 94, 77 and 88.

Receipts on the four markets from January 1 to April 30 were slightly less than a year ago. During May, however, net receipts amounted to 61 million pounds representing an increase of more than 17 per cent over May receipts of last year, and exceed the May receipts of any of the preceding ten years.

The possibility suggested a month ago of prices dropping even below those of last summer is brought nearer by their rapid decline since the middle of April. The April price of 54 cents on 92 score in New York was the highest April average since 1920 and 11 cents higher than in April last year. For May, the average of 43.5 for 92 score was only three cents above that of May, 1926. On 98 score butter the drop was from 48.6 in April to 39.1 in May which was only one cent higher than a year ago.

**EGGS**

A further decline in egg prices greater than usual for this time of year occurred during May as a result of continued heavy receipts and heavy into storage movement. On May 15 the average farm price at 19.8 cents per dozen was 5.4 cents lower than a year ago and was one half cent lower than on April 15. During the past 3 years there has been an average increase of about one half cent between April and May. When adjusted for the usual seasonal changes, egg prices at the farm on May 15 were as low as on May 15, 1924, and considerably lower than for the same month of 1925 and 1926, as shown by the following percentages of the pre-war average prices.
Egg prices at the farm usually reach their low-seasonal point either in April or June.

Production over current needs has been piling up in the coolers until on June 4 storage holdings in the four leading markets exceeded that of last year by 966,000 cases or 36 per cent. Stocks of frozen eggs are also heavier than last year, being on June 1 at least twice as heavy as a year ago. Imports of frozen and dried eggs from China for the first four months were also materially in excess over those of a year ago, although the prospects for the remainder of the year are for smaller imports because of reduced production of egg products in China.

The last week in May and the first week in June witnessed a falling-off in egg receipts at the four leading markets. At present prices of eggs and poultry feeds, many specialized egg producers are finding it exceedingly difficult to break even and some readjustments are likely to take place among the more inefficient producers. The unseasonably cool weather during the past month in many egg producing areas has been conducive to heavy egg production and small losses from deterioration. In view of the fact that hens have been laying so heavily throughout the spring months due to favorable weather and other conditions, it seems reasonable to assume that an appreciable reduction in production will take place as soon as the hot weather sets in. It is to be observed that prices to producers reached their seasonally low points in June in years such as the present when the May farm price continued to fall below the April price.