Farm Products and Real Estate

analysis of factors that may modify downward trend in prices temporarily deferred by current emergency

David Weeks

Current farm real estate values contain an inflationary element.

The present level of farm land prices, still relatively high compared to the average of the pre-World War II period—1935–39—is considerably above most concepts of normal value. The inflationary effects of World War II and of the current international situation are undoubtedly temporary—for the most part.

An appraisal of the general economic position of California agriculture is aided by an examination of critical factors constituting three groups: *1*, those describing the trends of inflation and deflation; *2*, those indicating the economic hazards of the situation; and *3*, certain modifying elements which aid in the look ahead.

California average farm land values in 1947 reached a level 102% above pre-World War II average values and in the same year turned downward following reverses in the trends of orchard and vineyard incomes.

In March 1950 California's values had receded nearly 20% from the 1947 peak, but were still 63% above the 1935–39 average.

During 1950 the downward trend was interrupted by an inflationary upturn in response to the new demands for agricultural commodities accompanying mobilization, foreign aid, and increasing purchasing power. By November 1950 this rise of nearly 6% in less than a year had brought values back to a point 74% above the pre-World War II average.

Heavy investments in irrigation and land development in California during and immediately following World War I had the effect of elevating California farm land values relative to pre-World War I levels to which they have never returned. This element, although present, will not be so strong in the current and immediately succeeding years.

California farm real estate values did not reflect all of the minor variations characteristic of commodity prices during World War II nor was farm real estate inflation so great as agricultural commodity price inflation. California agricultural commodity prices rose more sharply and to a higher level above prewar than did farm land values. Costs of materials, wages, taxes and interest undoubtedly absorbed much of the inflationary rise in agricultural commodity prices.

Upturn in Farm Prices

Gaps in statistics prevent a complete description of the recent upturn in California agricultural prices. However,

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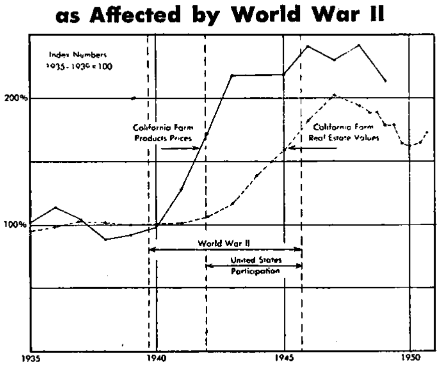
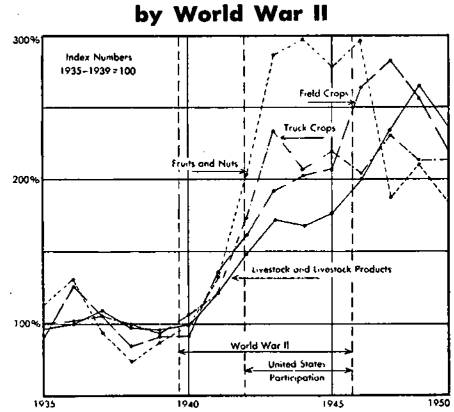
Prices of California Farm Products and California Farm Real Estate Values as Affected by World War II

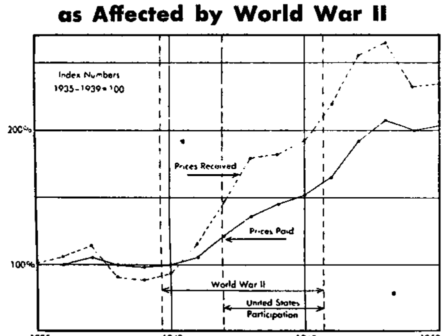


Prices of California Farm Products Grouped by Class as Affected by World War II

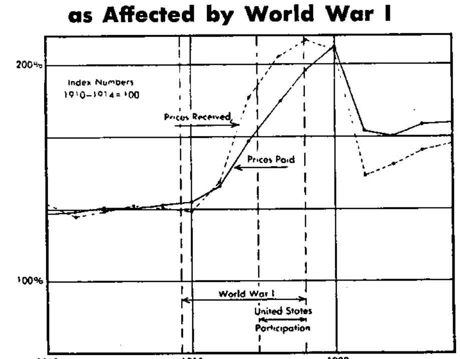


The general agricultural price index for California *left* reflects all farm product prices including the heavy representation of fruits, nuts and truck crops. The prices of these intensive crops shown separately *right* indicate movements which are quite different from those of field crops and livestock products which dominate agricultural prices in the United States as a whole. Agricultural commodity prices rose under the effects of the war more sharply and higher than farm real estate values.

Prices Received by United States Farmers Compared with Prices Paid by Them as Affected by World War II



Prices Received by United States Farmers Compared with Prices Paid by Them as Affected by World War I



A potential hazard of a reduced net farm income in the years to come is foreshadowed in the declining margin between prices received and prices paid by farmers in the United States during 1949 *left* and in the deflation which followed World War I *right*.

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available information on deciduous fruits and field crops indicates a 1950 average price for field crops 11% above that of 1949 and for deciduous fruits a rise of 79% in the same year.

Prices of citrus fruits, on the other hand, representing three fourths of the total value of California fruit crops, generally had not at the end of January 1951 reversed their downward trend. Temperature conditions had complicated the situation in 1949.

Truck crops actually registered a decrease in average price in 1950 of 9% for the year.

Dairy products also had not been sensitive to the new price situation and continued to decline throughout 1950. The decline in the latter half of the year was not so sharp. For the year milk fat had declined 3% and wholesale milk 7.8%.

Prices of turkeys and chickens had declined 25% and 7.5%, respectively, and eggs had declined 19%.

Notwithstanding this general tendency for livestock product prices to lag behind other agricultural prices the 1950 average prices of meat animals and wool were 13% and 20%, respectively, above those for 1949.

On the whole, California agricultural prices in 1950 were changing their direction from a downward to an upward movement.

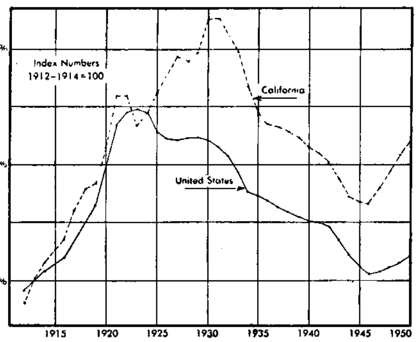
Economic Hazards

There are three major hazards of the agricultural situation developing out of World War II inflation and deflation—temporarily deferred by the current international situation.

The first is the probability of price recession when the inflationary forces now at work are removed. Many informed persons believe that California farm land values and agricultural prices after a temporary rise will decline and stabilize at a level somewhat above the prewar average. One reason for this belief—with some statistical support—is that historically the 1935–39 average prices are somewhat below various estimates of normal. Another reason is that increasing intervention by the government in the control of prices may provide some means of preventing the losses that would accompany a violent recession. It seems improbable that the government could maintain indefinitely an artificially high price level. Also, the extensive destruction of wealth by wars is certain to exact its toll.

The second major hazard of the agricultural situation is the probability, when prices turn downward again, of a narrowing margin between farm costs and returns.

Relative Changes in Farm Mortgage Debt in California and the United States



The downward trend of the farm mortgage debt during World War II reflects a greater debt-paying ability of farmers than that of the earlier war period, but also to some extent debt liquidation through foreclosure. The upturn in farm mortgage debt since 1946 may be watched as a possible danger signal in the agricultural situation in California and the United States.

During the periods of rising prices of both world wars the margin between cost and income prices was favorable to the producers. In such times this margin becomes greater contributing to inflation until the peak is reached.

There is evidence in statistics of prices up to 1949 that unfavorable ratios of farmers costs to farmers incomes were in the making for the post-World War II period.

Price statistics available at the end of 1950 indicate that the tendency has been temporarily interrupted by the international emergency. It may be expected to be resumed when the emergency ceases to exist unless corrective measures, more effective than those available in the past, can protect that vital margin between the farmer's costs and his returns.

The third hazard of the agricultural situation is a rising mortgage debt. The current upward trend in the farm mortgage debt may be a danger signal to purchasers on credit of farm land and costly outlays for farm development and equipment.

Farm mortgage indebtedness in California declined during World War II, but increased from 1946 onward. Between January 1, 1946 and January 1, 1950 it rose 6%. If this trend continues it could result in an unstable situation.

Modifying Elements

Certain basic trends in the economy tend to modify the long-term outlook.

One of these modifying factors concerns changes in agricultural production methods. Technological changes in agricultural methods which increase production are a negative factor in the demand for farm land.

During the inflationary period of World War II average crop production per acre in the United States increased until—by 1948—crop production per acre was 37% above the prewar average. This increase was induced by high prices and abnormally favorable weather conditions but it indicates the flexibility inherent in the American agricultural system. This flexibility represents the most important alternative—technological changes in production—among the various means of meeting the situation created by a limited crop-land acreage and an expanding population.

Improvements in the American diet, another important modifying factor, are having a positive effect upon the demand for farm land.

During the period 1945–49 food energy in the American diet derived from livestock and livestock products was 41% of the total energy value of the diet, but still below the 1948 standards for an adequate diet at moderate cost of the National Research Council. Similarly the trend toward more adequate diets resulted in an increase in the percentage of the total energy in the human diet represented by fruits and vegetables. A shift to livestock and livestock product consumption requires relatively a much larger additional acreage in cropland or its equivalent in pasture.

Population growth is a third modifying factor affecting the demand of farm land. Within the past year or two all current projections of future population of the United States have been revised upward. Phenomenal changes are taking place in the rate of population increase.

During 1960–70 more than 30 million persons born in the United States in the 1940 and 1950 decade will reach maturity. This group, which is already beginning to demand more food, is 50% greater than the corresponding group which is reaching maturity during the current decade. Whether or not these changes are permanent they will greatly affect the economy of the United States during the next 25 years.

California's population growth from 6,907,387 to 10,586,223—an increase of more than 53%—between 1940 and 1950 will have a positive effect upon the demand for farm land.

These positive factors in the demand for land—improvements in the diet and population growth—temper to some extent fears of a collapse of farm real estate values and agricultural commodity prices. Other devices may be available to cushion the decline which already has been threatened and which has been temporarily deferred.

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