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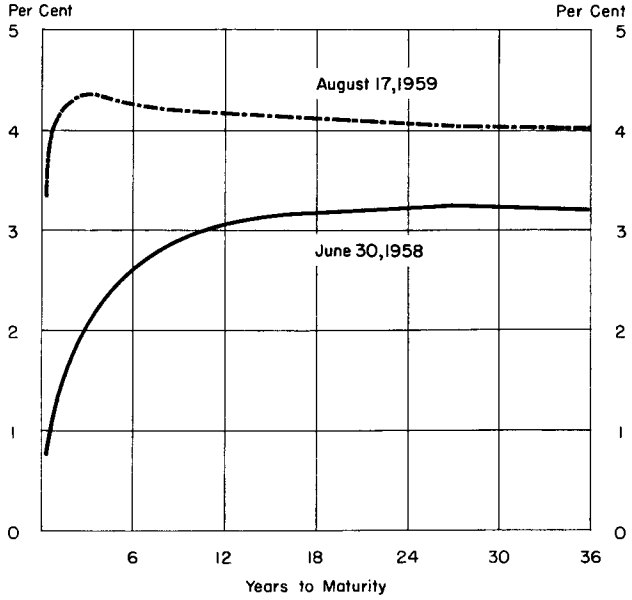
Changing Yield Curve

DURING THE PAST YEAR of rapidly expanding economic activity, interest rates have risen dramatically, reversing their equally striking decline of the recession period. Most interest rates in early August were at or near their postwar peaks, in sharp contrast to the recession lows of mid-1958. The rise in interest rates, as is usually the case, has not been even over the maturity range. Yields on shorter term securities have risen much more abruptly than those on long-term issues, and as a result the shape of the yield curve (that is, relative rates of return on securities which are virtually identical except for maturities) has changed significantly (see Chart 1).

The rise in interest rates has reflected primarily a huge increase in the demand for credit which has been only partially matched by a rise in supply of lendable funds. Despite somewhat more restrictive lending terms, the volumes of outstanding mortgage credit, consumer credit, and short-term business loans have been growing much more rapidly this spring and summer than in the corresponding period a year ago. Furthermore, the United States Treasury has been a substantial net borrower of funds over the past year.

Chart 1

YIELDS OF U. S. GOVERNMENT SECURITIES



The expanding demands for credit were met in part by a rise in the supply of available funds. According to preliminary data, personal saving in the nation amounted to slightly over $24 billion during the twelve months ended June 30, up 8 per cent from the previous twelve months. In addition, the money supply of the country rose $4.3 billion from June 1958 to June 1959. By comparison, the money supply rose $1.3 billion, $0.5 billion, and $1.7 billion in the three previous twelve-month periods.

Another source of funds accommodating the vigorous increase in the demand for credit has been a more intensive use of the existing money supply. Idle funds have been tapped, and accumulating balances have been spent more quickly. Turnover of demand deposits—except interbank and U. S. Government balances—in reporting banks outside the major financial centers was at the rate of 24.9 times per year during May and June. Earlier this year demand deposits were being used at the rate of 24.1 times per year, and in the last half of 1958 turnover was at 23.2 times per year. In May and June of 1958 these deposits turned over at the annual rate of 22.8 times, and in the like months of 1955, 1956, and 1957 they churned at an average annual rate of 21.8 times.

The rise in interest rates has not been even for securities with varying maturity ranges (see Chart 1). In general, there has been a substantially greater increase in yields on short-term securities than on long-term obligations. The sharpest jump in the

Government sector was in securities of about one-year maturity. The following table compares the changes in interest rates on U. S. Government securities from June 30, 1958 to August 19, 1959 for selected maturity ranges.

Average Yields on U. S. Government Securities

	June 30, 1958	Aug. 19, 1959	Increase in Percentage Points
3-month bills	.75	3.51	2.76
9-12 month issues	1.10	4.32	3.22
3-to-5 year issues	2.42	4.30	1.88
7-to-9 year bonds	2.76	4.29	1.53
Bonds 10 years or more	3.25	4.05	.80

Other interest rates have also risen markedly over the past year, with the greatest increases generally in short-term extensions of credit. For instance, the following table of interest rates on selected kinds of business credit instruments follows a pattern similar to the one on Government securities.

Interest Rates on Selected Types of Business Credit

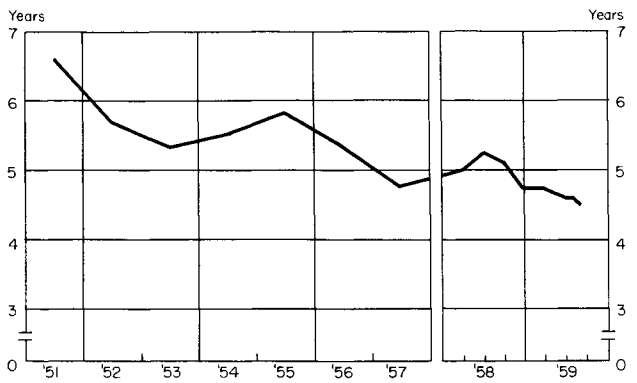
	June 30, 1958	Aug. 19, 1959	Increase in Percentage Points
Bankers' Acceptances (90 days)	1.13	3.63	2.50
Commercial Paper (4-to-6 month)	1.50	4.00	2.50
Prime Bank Loans to Business (largely under 1 year)	3.50	4.50	1.00
Highest grade long-term corporate bonds	3.62	4.42	.80
Medium grade long-term corporate bonds	4.54	5.08	.54

The greater rise in interest rates on short-term securities is usual during the recovery phase of the business cycle and probably reflects changes in both the expectations of borrowers and lenders and other factors influencing the behavior of the demand for and supply of funds in different sectors of the market. Over the past year there has been a vast expansion in the total demand for funds, most of which has been focused on the relatively short-term area.

The U. S. Treasury has been a heavy borrower of funds, the bulk of which has been in securities maturing within the next few years. From June 30, 1958 to July 31, 1959, the volume of very short-term Treasury bills outstanding rose $14.6 billion. In addition, over the same period the outstanding amount of Treasury certificates (obligations of 1 year or under) rose about $900 million, and the outstanding amount of Treasury notes (obligations of 5 years or less) increased about $6.9 billion. On the other hand, the volume of longer term marketable bonds, savings bonds, and other Treasury issues declined about $10 billion.

Chart 2

AVERAGE MATURITY OF MARKETABLE FEDERAL DEBT



Latest Data Plotted: August 1959—Preliminary

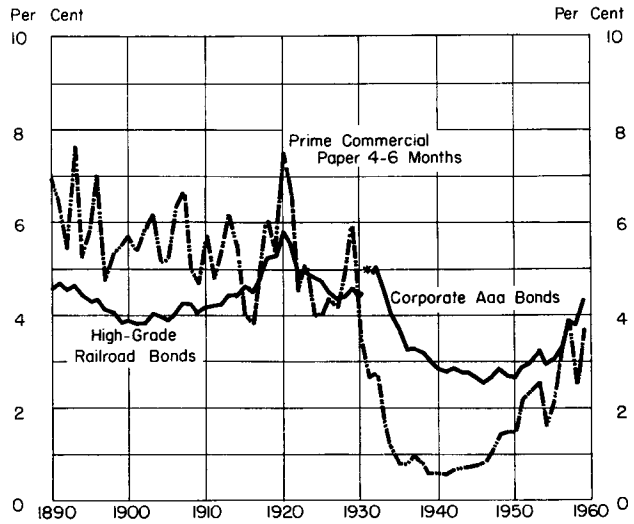
As a result of the heavy reliance on short-term issues for new financing plus the passage of time, the average maturity of the marketable Federal debt declined from 5¼ years on June 30, 1958 to an estimated 4⅓ years in August 1959 (see Chart 2). The sharp increase in the volume of short-term Government securities outstanding has added considerably to the liquidity of the economy. This may have been a factor in the rapid increase in the turnover of the money supply, since an increase in the volume of close substitutes for money may release money, previously held in reserve, for financing expenditures.

In addition to the Treasury's heavy demand for short-term funds were business demands for short-term money. The bulk of the increased business investment this spring and summer over the corresponding period a year ago has represented a shift from inventory contraction to inventory accumulation. Typically, these stocks of goods are financed primarily by short-term funds. Likewise, consumer credit, the bulk of which is for three years or less, has been rising sharply in recent months as against a contraction in the like months last year. The demand for long-term funds has risen also, especially to finance real estate. On balance, however, growth in demand for short-term credit has apparently outpaced the increase in demand for capital funds.

The increased supply of new funds has apparently been more evenly distributed over the maturity range than the demand has been. Personal saving has risen and much of it is earmarked for long-term investment either through direct lending or by investing in institutions that normally extend long-term credit. Conversely, the large additions to the money supply and utilization of idle corporate balances have been used primarily to meet short-term demands for funds.

Chart 3

LONG- AND SHORT-TERM INTEREST RATES



Latest Data Plotted: 1959, based on first 7 months

Expectations have probably played a role in the changing yield pattern also. With interest rates rising to levels considered to be relatively high by many, those individuals and institutions with funds to lend tend (other things being equal) to extend maturities on loans and investments somewhat, in order to obtain the relatively favorable return over a longer period of time, especially if they feel that interest rates are not likely to rise significantly higher. On the other hand, with relatively high interest costs, borrowers will tend to seek short-term funds, hoping to refinance at a lower rate in the future. The sharper increase in yields on short-term issues than on long-term obligations may be the market response to the changing preferences of lenders and borrowers resulting from higher levels of interest rates and expectations concerning future levels.

Whatever the basic reason for the changing pattern of yields, the current structure of interest rates, just as the one existing a year ago, balances the supply of and demand for funds in each maturity range. Then, too, the current pattern of yields when viewed in terms of long historical perspective is not unique or even unusual. In fact, during more than half of the last 70 years short-term yields were higher relative to long-term interest rates than they are today (see Chart 3). It has only been in the period of relatively low interest rates of the depression of the 1930's, the World War II years, and the immediate postwar period that lenders and borrowers have been confronted with a yield curve which was low for short-term issues, rose rapidly at first with longer maturities, but then progressively rose less sharply until at the long end of the market the yield curve was almost flat.

History, as well as common sense, would indicate that there is no one possible or "best" yield curve. If interest rates are to perform their function of allocating funds among competing demands, relative positions of short- and long-term interest rates are bound to change in response to the demands for and supplies of funds in the various maturity ranges and with variations in the attitudes and outlooks of lenders and borrowers.

District Banking Developments

Deposits at district weekly reporting member banks declined $82 million (3 per cent) during July. The decrease, which was in part seasonal, centered primarily in demand balances, but time accounts drifted somewhat lower also. The decline in deposits resulted from a net outflow of funds since these banks expanded their total credit outstanding by $34 million (over 1 per cent) in the month. Security holdings rose $11 million and loans increased $23 million. Banks met the drain of funds by drawing down their cash balances and increasing their borrowings.

Turnover of demand deposits—except interbank and U. S. Government accounts—has risen markedly in the district over the past year just as it has in the rest of the nation. In May, June, and July this year turnover was at the rate of 24.9 times per year at banks in the 22 reporting centers of the district. By contrast, turnover was at the rate of 23.3 times in the like period last year. Highest rate of activity for a district city in the past three months was at Memphis banks where turnover reached the annual rate of 28.6 times. The sharpest increase in deposit utilization over the past year was at Helena, Arkansas, where turnover was 44 per cent higher in May, June, and July this year than in the corresponding months last year.

Labor Force Changes and Economic Growth

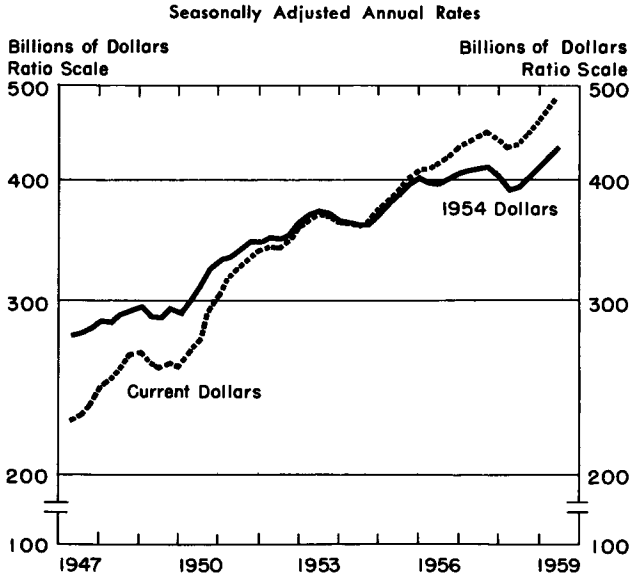
IT IS SOMETIMES ASSERTED that this country's rate of economic growth since World War II has not been as great as it should have, or could have, been. The growth of gross national product might have been accelerated, it is said, by drawing unemployed resources into use. An argument to the contrary, however, is that this country has not had the great pool of unemployed human resources which would have permitted a much greater output. In fact, the slow rate of growth in numbers of people able and willing to join the labor force may have been a major limiting influence on GNP growth throughout the postwar period and especially during the boom which began in 1955.

Some of the postwar years can be viewed as a partial test of the proposition that total real output can be increased by sharply expanding total demand in monetary terms. The period 1954-1957 is especially suggestive. Gross national product, or total expenditures, in dollar terms rose steeply until mid-1957.

Chart I

GROSS NATIONAL PRODUCT

Seasonally Adjusted Annual Rates



Latest Data Plotted: Second Quarter 1959.
Source: United States Department of Commerce.

Nevertheless, total output in physical terms showed relatively little growth after the end of 1955. Why did not the increase in monetary demand call forth a like increase in total output? It seems reasonable to believe that a principal limiting factor, given the available production techniques and the existing stock of capital equipment, was the supply of human resources.

Economic growth is an extremely complex and perplexing subject. But it is possible to isolate in a common sense fashion some of the factors that determine how much a nation's economy can produce and the rate at which that output may grow. Among the most important, certainly, are how many people are at work; how long and hard they work; and how well they are organized, trained, and equipped. In considering growth of production in a particular country over a reasonably short period of time one can focus upon changes in numbers and kinds of people at work, setting aside questions of rates of saving and investment and of technological change which are also of crucial importance.

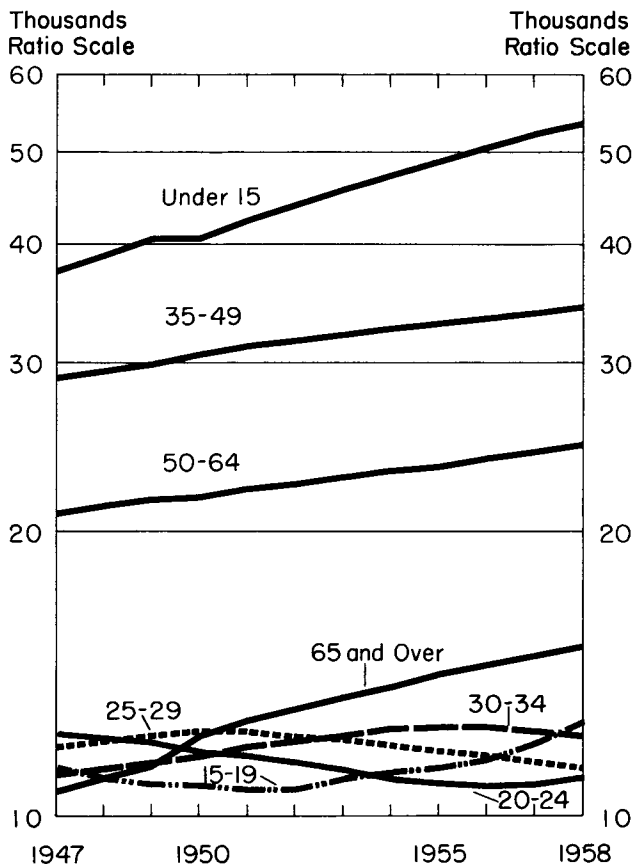
Changes in population and labor force and in the ways people choose to use their time have had some perhaps unappreciated effects upon national output. The low birthrates of the 1930's and the high birthrates of the 1940's and 1950's, for instance, have both tended to reduce gross national product in the postwar years by restricting the number of young people available for employment. This note will discuss these and other limitations upon labor force growth in the recent past and their implications for production growth.

The supply of young workers has been small.

One of the most striking aspects of the postwar period is that the number of young people joining the labor force has been small. The so-called "hollow generation," the children born in the depression, came of age after World War II, as can be seen from Chart II. The number of people 15 to 19 years of age declined until 1951, and the number between 20 and 24 years of age declined until 1956. Thus, it is evident that the annual crop of young people from which the nation's employers and the Armed Forces

Chart II

POPULATION IN SELECTED AGE GROUPS



Source: United States Bureau of the Census.

have to pick has been small as compared to some earlier periods of our history. It is also clear from the sharply rising numbers of children under 15 that soon this country will have much larger numbers of people reaching employable age each year.

Not only has the number of young people been small, the proportion entering the labor force has declined since the war also. In 1948 nearly 55 per cent of young men 14-19 years of age were in the labor force. By 1958 the proportion had fallen to less than 45 per cent. The proportion of 14-19 year-old girls in the labor force declined by somewhat less, falling from about 33 per cent in 1948 to 29 per cent in 1958.

Probably the principal reason for the decline in the proportion of young people joining the labor force has been that they have been staying in school longer. For example, between 1950 and 1958 the proportion of 16-17 years-olds in school rose from 71 per cent to 81 per cent, and the percentage of 18-19 year-olds in school rose from 29 to 38. There has also been a marked rise in the proportion of 20-24 year-olds in school as more and more people have gone on to college and to graduate schools.

Labor force and school enrollment data probably understate the effect of lengthening education upon growth of output during the postwar period. A student with a part-time job is counted as being in the labor force as well as in school. In 1957, however, two-thirds of the 14-17 year-old students in the labor force worked fewer than 15 hours per week; of those 18 to 24 years of age only two-fifths worked 35 hours or more.

Two other changes, which tend to reduce the number of young women in the labor force in the postwar years, have been a lowering in the average age at which people marry and the increase in the birth rate. In 1940 nearly half of all 20-24 year-old women were single. By 1958 less than 30 per cent were unmarried. Although the proportion of married women working has increased, the increase in marriages surely has kept the number of women in the labor force smaller than it would otherwise have been. Similarly, the high birthrates of recent years have kept many women at home caring for children.

Older workers have accounted for much of the labor force growth.

Nevertheless, the labor force has grown. Where has the growth come from? If we look at the year-to-year changes in the civilian labor force from 1950 through 1958, several interesting things become evident. First, from 1950 through 1954 the number of 20-24 year-old men in the labor force actually declined by nearly 1.6 million. Much of this decline was, of course, caused by a buildup of about 2 million men in the Armed Forces for the Korean War. Since 1954, the Armed Forces have, in effect, released about one million men to the civilian economy.

Secondly, in 1955-56, an unusually large increase of more than three million in the labor force in the two years combined was apparently stimulated by the boom. But of the three million, 1.7 million, or more than half, were people 45 years old or older, and of these nearly 1.2 million were women. In 1957 and 1958 labor force growth was somewhat slower and more than half of the total increase was accounted for by women 45 or older.

Thus, the proportion of older workers, especially women, in the American labor force increased substantially in the 1950's. Part of this change reflected a general increase in the proportion of older people in the population. Under such conditions, average

output per worker could hardly be expected to grow as rapidly as it would if new entrants to the labor force were predominantly young people. The occupations open to older women tend to be largely in trade or services where the dollar value of output per worker is in general lower than in manufacturing or construction, for instance.

Shifts among occupations tend to increase total output.

A greater total output might have resulted from a different distribution of people among occupations and industries. The long-term movement of people from agriculture to other industries, for instance, has accounted for a significant increase in gross national product over the past fifty years or more. Such shifts are continually going on as production methods and demands for goods and services change.

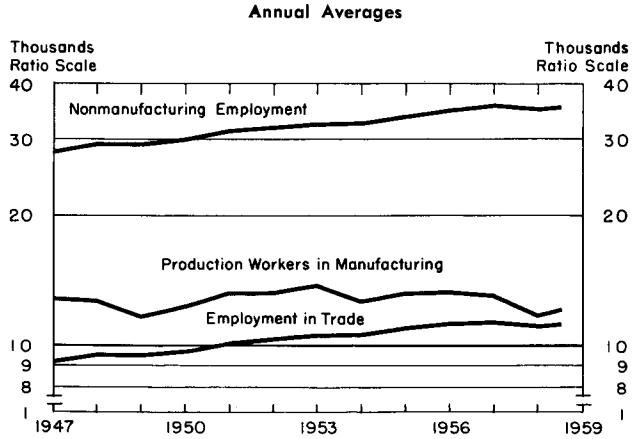
In the 1950's manufacturing, like agriculture and mining before it, became a net supplier of labor for other industries, as can be seen from Chart III. Changes in technology and a larger investment in equipment per worker have vastly increased output per worker in all three of these industries.

Much of the corps of unemployed cited as evidence of an unsatisfactory rate of growth is made up of people left stranded by technological and market changes to which they have been unable to adjust. Perhaps a direct salvaging operation in these often tragic cases might be of value by fitting people for new occupations and otherwise aiding them to move. Unfortunately, the small proportion of young people in the postwar labor force has accentuated the problems raised by shifts of employment among industries, since young people are generally more mobile than older workers. Many of the rest of the unemployed have been people on the move between jobs, a number that might well be expected to increase with a rise in the rates of economic growth.

Chart III

NONAGRICULTURAL EMPLOYMENT

Annual Averages



Latest Data Plotted: Average for first 6 months 1959.
Source: United States Bureau of Labor Statistics.

Individual choices influence labor force growth.

Our rate of economic growth in the postwar years clearly might have been greater had there been more young people, or had they stayed for a shorter period in high school or college, or had fewer babies. To this list might be added the possibility of lengthening the workweek or cutting down on vacations, but these choices were not made. Instead, there was a substantial increase in voluntary leisure time as paid vacations became almost universal. The extension of Social Security coverage and of private pension plans similarly tended to reduce labor force participation of people over 60 years of age. The point is that to some extent our rate of growth has been of our own choosing, reflecting a multitude of individual decisions regarding the use of one's time.

To have obtained much of an increase in the available labor force in the postwar years, therefore, would have required drawing in more married women and students, retired people, or others who were not seeking work. In the Russian economy such choices are matters of public policy with organized efforts to free women from child care for other work and, recently, a reported campaign to divert students into industrial employment. However, it might be considered a sign of the wealth of this country that child care is primarily a family matter. Any housewife with several children can certainly testify that she is not an idle resource. To reduce the average time spent in school also would seem to thwart some of the most deeply held aspirations of American families. It would, furthermore, appear to be an unbusinesslike sacrifice of the potential benefits of education for the sake of an increase in current income.

In a sense, this country has been making a large investment in human resources during the postwar years by raising children and educating them. Part of the cost of this investment has been a slower rate of growth in gross national product than otherwise might have been attained. The return on the investment will be collected in the 1960's when these young people will enter the labor force in large numbers, equipped for the scientific, managerial, professional, and other skilled occupations which are now growing the fastest.

Prices and Economic Activity

OF THE RECENT DEVELOPMENTS in the United States economy, one of the most publicized has been the stability of average prices in the face of rapidly expanding economic activity. The wholesale price index for all commodities, which stood at 119.2 per cent of the 1947-1949 average at the end of July, has remained virtually unchanged since March 1958. Average consumer prices also changed very little, with the index rising from 123.3 per cent of the 1947-1949 average in March of last year to 124.5 per cent in June 1959. Most of the increase that did take place in average consumer prices occurred in the second quarter of this year, when the index rose by 0.8 points or at an annual rate of about 2.5 per cent.

An important reason why the recent stability in average wholesale and consumer prices has drawn so much attention may be found in the rather widespread contention that rising prices are always associated with rising economic activity and vice versa. This generalization has not been supported by the postwar experience, however. Chart 1, for example, shows that during the different postwar periods of economic expansion and contraction average price indices have behaved in a rather "independent" fashion. This irregularity in the movement of average prices becomes less confusing when we realize that the indices expressing these movements are hardly indicative of changes in the level of economic activity. The wholesale price index, for example, combines the price movements of a large number of commodities. Such prices are determined by the interaction of supply of and demand for these individual commodities, and the result of this interaction—price—is not primarily dependent upon the level of general economic activity. Moreover, the importance of the wholesale price index is weakened by the great weight given to prices of agricultural commodities which nowadays, in many instances, are subject to Federal price support programs. Since the construction of the wholesale price index the importance of agricultural commodities in total economic activity has steadily declined, so that at the present time the wholesale price index may be unduly influenced by agricultural prices.

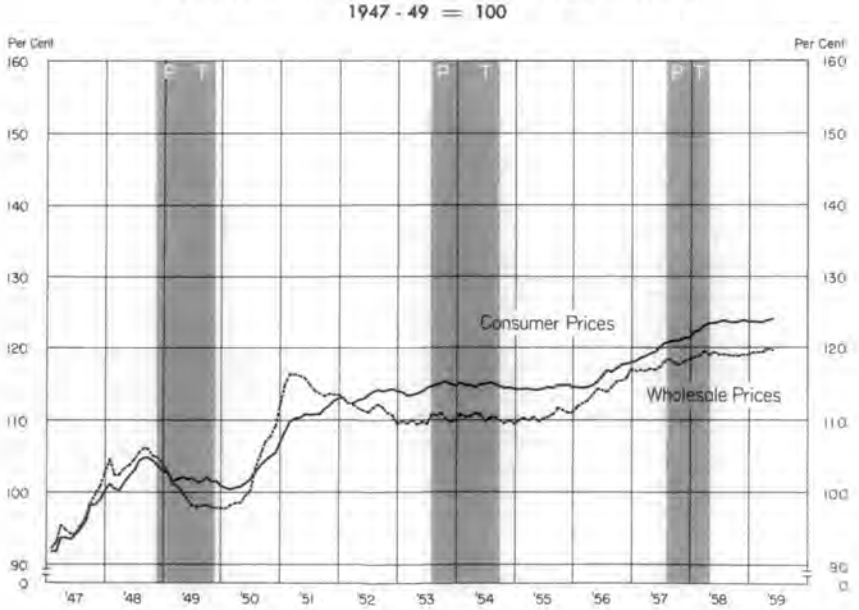
Wide divergences exist in wholesale price groups.

One of the features in the postwar behavior of wholesale prices has been the divergence since 1951 between changes in prices of crude materials on the one hand, and of intermediate materials and finished goods on the other. Before 1952, prices of all three major price groups followed a similar pattern, with most pronounced fluctuations in the crude materials sector. The volatility in the latter price group is not surprising. Abolition of price controls on farm prod-

Chart 1

CONSUMER AND WHOLESALE PRICE INDICES

1947 - 49 = 100

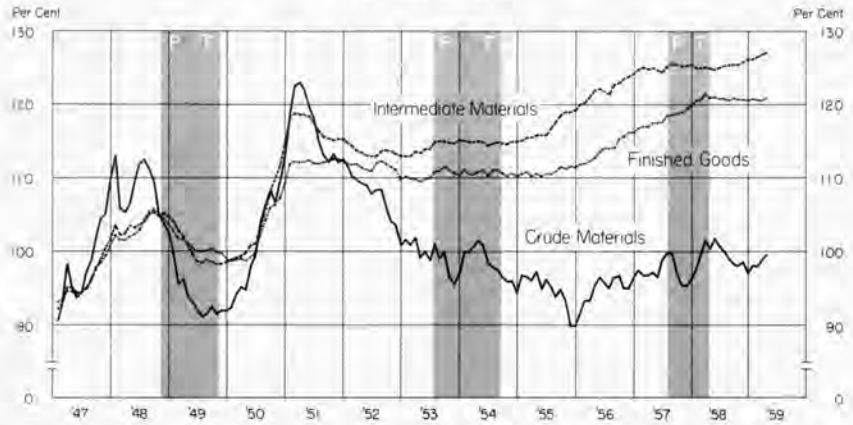


Source: Bureau of Labor Statistics Latest Data Plotted: May P = Peak, T = Trough

Chart 2

WHOLESALE PRICE INDEX, MAJOR GROUPS

1947 - 49 = 100



Source: Bureau of Labor Statistics Latest Data Plotted: May P = Peak, T = Trough

ucts in 1947, both on livestock and grains, and reduced agricultural output in the war-damaged countries were prime factors behind the upswing in prices of farm commodities. Prices of industrial raw materials also rose sharply during the early postwar years, reflecting a heavy demand caused by the reconversion to peacetime production undertaken by American industry and the extensive reconstruction programs initiated in the war-damaged nations. Moreover, the supply of industrial raw materials during this period was generally limited. Many countries which before the second World War had been important exporters of these products had been temporarily eliminated from world markets as a result of wartime destruction. Others, which originally had been self-sufficient in particular raw materials, were now forced to rely heavily upon outside sources. Products such as petroleum and its derivatives, metals, wool, and manmade fibers experienced especially sharp price increases.

The 1948-1949 recession was the only one of the three postwar recessions in which average wholesale prices showed a decline. Among farm products, grains and livestock, especially hogs, experienced the sharpest drop in prices, largely as a result of the marked increase in supply of these commodities both at home and abroad and the subsequent decline in the importance of the European market for American producers. Average prices of industrial raw materials declined considerably less, although nonferrous-metal prices were hard hit.

The sharp upturn in average prices following the outbreak of the Korean War reflected the sudden increase in demand for industrial raw materials and intermediate products. Inventory accumulation, especially of strategic materials many of which were imported, proceeded at a rapid rate. The difficulty of increasing the supply of such commodities as rubber, wool, and certain basic metals in the short run accounted for much of the price increase. Prices of farm commodities showed a considerably smaller rise during the Korean War years.

Although the 1952-1955 period was characterized by a marked degree of stability in average prices, specific commodities experienced rather wide price fluctuations. Prices of farm commodities, especially of livestock and grains, declined almost continuously, while average industrial prices rose. Most pronounced were increases in prices of metals and metal products and construction materials, reflecting increased activity in the construction and producer goods industries.

The 1953-1954 recession had a relatively small impact upon prices. Price declines occurring during the contraction were virtually confined to the raw materials sector. Among nonfood materials, those used in manufacturing showed the most pronounced drop. On the other hand, continued growth in construction activity during the recession supported prices of building materials. Average prices of farm products dropped markedly during 1954 and 1955, mainly as a result of a drop in livestock prices. Because of severe droughts in these years ranchers had to reduce their herds, which sent livestock prices tumbling.

The stability in the general wholesale price index came to a halt with the beginning of the 1955-1957 expansionary period. Under influence of rapidly rising investment outlays, especially for producers' plant and equipment and business inventories, and of a considerable increase in demand for consumer durables, many industrial raw material prices started to climb around mid-1955. Most pronounced increases were registered in both ferrous and nonferrous metals, and to a smaller extent in petroleum and petroleum products, paper, and some industrial chemicals. On the other hand, prices of rubber and manmade fibers either declined or stabilized. Important, however, was the recovery and gradual increase in prices of farm products. Rebuilding of the depleted cattle herds caused meat prices to recover after 1955, and subsequent increases in farm price supports resulted in an over-all rise in the price level of farm commodities.

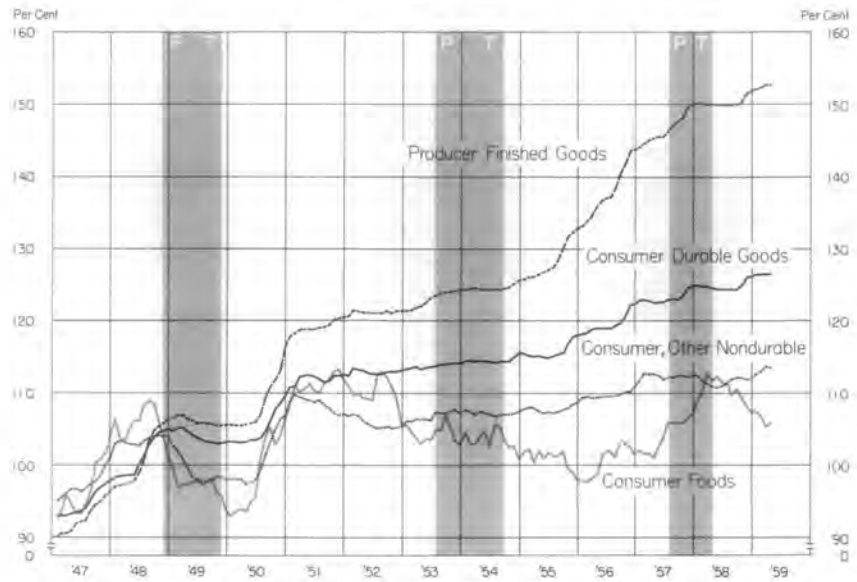
The rise in farm product prices came to a halt in the spring of 1958. A new decline was triggered by a drop in prices of livestock and poultry, and accentuated by a continued lowering of grain prices. Average wholesale prices of industrial raw materials, however, showed little tendency to decline, and as a matter of fact resumed their upward trend around the middle of 1958. Most of this increase was concentrated in metals, lumber and wood products, rubber, and, towards the end of 1958, hides and skins.

Stability in average wholesale prices was restored in the spring of this year, when wholesale prices of nonfood commodities began to level off. Sharply increased output of some industrial raw materials such as petroleum, rubber, copper, and lead has contributed to price declines which have offset further price rises in other raw materials such as hides and skins, and lumber and wood products. The continued decline in prices of farm products and processed foods actually contributed to a slight decline in the over-all wholesale price index in June of this year, the latest month for which data are available.

Chart 3

WHOLESALE PRICE INDEX, FINISHED GOODS

1947 - 49 = 100



Source: Bureau of Labor Statistics Latest Data Plotted: May P = Peak, T = Trough

Price movements among finished goods vary widely.

Some interesting insights into price behavior in different economic sectors are afforded by Chart 3. The producer-finished-goods index, for instance, has shown an almost continuous rise since 1950, interrupted by only two periods of price stability. The index is almost solely made up of prices of machinery (64%) and of motor vehicles (26%), among which prices of construction machinery and equipment have shown the most pronounced increases.

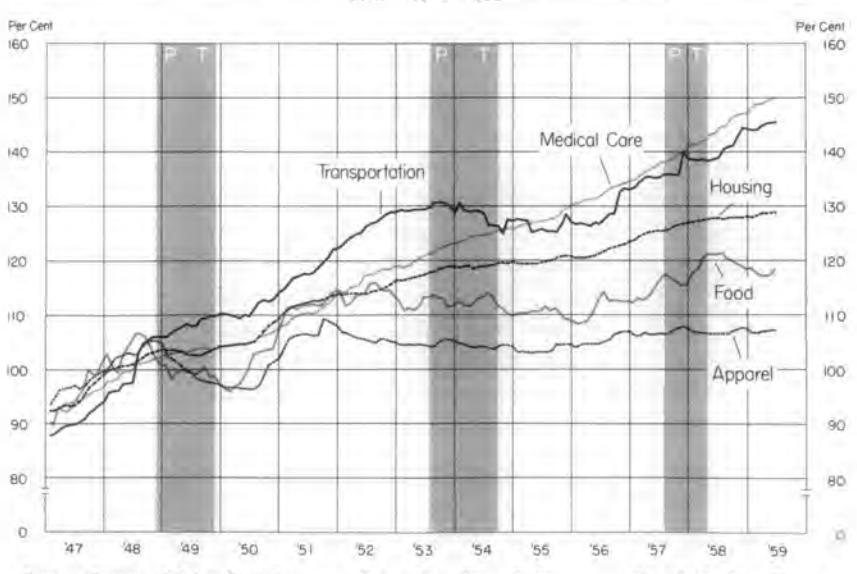
Consumer durable goods prices have shown a distinct pattern, generally climbing in the fall and subsequently leveling off in the winter months. This yearly rise may be attributed to the heavy representation of automobile prices in the index (42%), which have tended to show a sudden jump with the introduction of new-model cars in the fall. Prices of other consumer durables, including radios, television sets, and household appliances, have shown little change during the last decade.

Consumer nonfood nondurables, consisting of textile products and other apparel, fuel, power and light-

Chart 4

CONSUMER PRICE INDEX, MAJOR GROUPS

1947 - 49 = 100



Source: Bureau of Labor Statistics Latest Data Plotted: May P = Peak, T = Trough

ing materials, beverages, and other assorted commodities, have shown relatively small price increases. The stability in this index (Chart 3), has partly been the result of the long-run decline in the price level of textiles, especially those made of manmade fibers and cotton. As of May of this year, the latter were about 10 to 20 per cent below the 1947-1949 average, while prices of wool products were only 1 per cent higher.

Wholesale prices of consumer foods have shown the widest fluctuations, closely following price movements of farm products. As was mentioned before, the most recent decline, which started in the beginning of 1958, has been mainly the result of sharp increases in supply, especially of meats and poultry.

Consumer prices of services show a sharply rising trend.

Chart 4, showing a breakdown of the postwar movements in consumer prices, is largely self-explanatory. The most outstanding increase has taken place in the cost of services, especially in those of medical care and transportation. Prices of the latter two items, which combined make up about 17 per cent of the total consumer price index, were in May at 150 and 145 per cent respectively of the 1947-1949 average. On the other hand, average prices of all consumer items, as shown in Chart 1, were at 124 per cent during that month.

Costs of housing have also increased at a greater rate than average consumer prices. Prices of food and apparel, however, have risen at less than the average rate.

Farm Assets Increase

THE VALUE OF FARM ASSETS of the nation rose for the fifth consecutive year in 1958 reaching a new all-time high of $203 billion on January 1, 1959 (see chart). During the year, value of assets rose $17 billion, the second largest increase for any year since the beginning of comparable balance sheet estimates in 1940. The record increase for any one year, $19 billion, occurred in 1950 with the outbreak of the Korean conflict. Farm assets have risen almost 30 per cent since the current upswing began in 1954 and have almost quadrupled the $53 billion level of 1940.

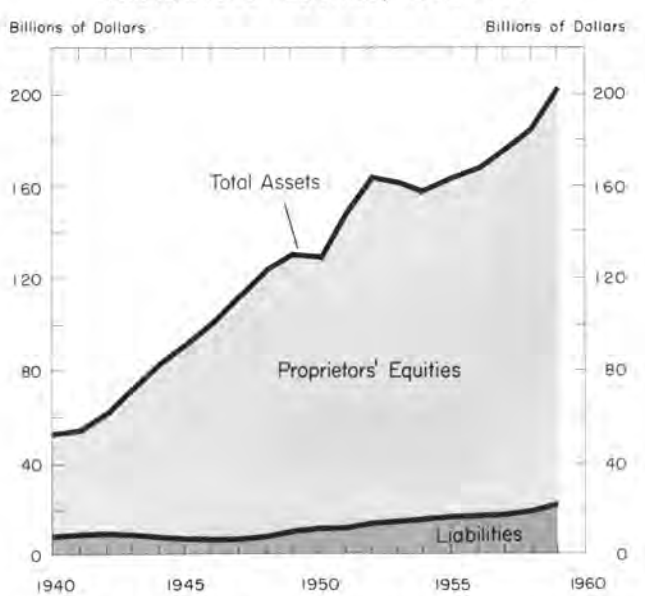
All types of farm assets shared in the 1958 increase. Livestock and crops, including crops stored off farms, increased 29 and 23 per cent respectively, the largest percentage increases for major asset groups. Nevertheless, about half of the gain in value of farm assets, or $9 billion, was accounted for by a rise in the value of farm real estate. Farm real estate has increased in value each year since 1954, rising 32 per cent in the five-year period ending January 1, 1959.

Financial assets of farmers also rose, reflecting the increase in gross and net farm income. Deposits and currency held by farmers gained 5 per cent, United States savings bonds were up 2 per cent, and investments in cooperatives increased 6 per cent.

Farm debt also rose.

While farm proprietors' net worth and debts both moved upward in 1958, debts increased more percentagewise. Net worth rose from $166 billion to $180 billion for the year, an increase of 8 per cent.

TOTAL ASSETS, LIABILITIES AND PROPRIETORS' EQUITIES, 1940-1954



Sources: *The Balance Sheet of Agriculture*, 1958, and the *Federal Reserve Bulletin*, July 1959.

Farm debts rose about $3 billion, or 15 per cent. The increase in farm debt reflected a 7 per cent increase in farm mortgage debt, about the same percentage increase as in other recent years, and a sharp increase in other loans to farmers. Non-real-estate loans by other reporting institutions (including commercial banks, Production Credit Associations, and the Farmers' Home Administration) were up $0.8 billion or 15 per cent. This increase was equivalent to the cumulative rise of such loans during the previous five years combined. Commodity Credit Corporation loans to farmers doubled during the year reflecting the movement under the price support program of a substantial portion of the 1958 crops of wheat, grain sorghum, soybeans, and cotton.

Increased farm expenditures, including a substantial restocking of livestock in the western states, and the general availability of funds were possible factors in the increase of non-real-estate farm debt to institutions other than the Commodity Credit Corporation.

Although the rise in farm debt in 1958 was greater than the increase in equities, the ratio of debt to equities is still below that prior to World War II. Debts on January 1, 1959 were only about one-eighth the size of proprietors' equities compared to one-fourth in 1940. Furthermore, Commodity Credit Corporation loans, which are nonrecourse loans secured only by commodities pledged, accounted for 10 per cent of total debt in 1959, whereas such loans were less than 5 per cent of total debt in 1940.

The accelerated rate of increase in farm asset values in 1958 probably reflects both higher net farm income and the rapid recovery of the general economy from the recession which reached bottom during the spring months. The rapid upturn which began in the spring and continued throughout the year may have strengthened the belief that farm real estate is a good hedge against inflation. States with the largest increases in land values generally had increases of 20 per cent or more in net farm income. In six of the eight states with the largest increases in land value income was up 29 per cent, or more. Higher income expectations provided farm operators the incentive to purchase additional acres for farm enlargement purposes. Almost two-fifths of all farm land sales in the 1957-58 season involved the addition of land to existing tracts. Increased farm machinery purchases as well as other capital expenditures can also be attributed in part to increased income.

Price increases account for major portion of asset gain.

A large per cent of the increase in value of physical assets of farmers represents price increases rather than increased quantities. Valued at 1940 prices total physical assets of agriculture rose only 1.9 per cent during the year ending January 1, 1959. The greatest increase (19.5 per cent) occurred in the value of crops stored on and off the farm, a large part of which was offset by non-real-estate debt to the Commodity Credit Corporation. Farm real estate values, taking into account changes in acreage of improved land and number and condition of farm structures, rose only 0.3 per cent. Value of livestock on farms at 1940 prices rose 3.7 per cent. The increase resulted mainly from increased numbers of cattle, hogs, and poultry on farms (see table).

Livestock and Poultry on Farms
January 1, 1958 and 1959
(1,000 head)

	1958	1959	Percent Change
Cattle	93,350	96,851	+ 3.8
Cows—2 years old and over—for milk	22,233	21,606	— 2.8
Hogs	50,980	57,201	+12.2
All Sheep	31,337	32,644	+ 4.2
Chickens	370,884	383,257	+ 3.3
Turkeys	5,542	5,861	+ 5.8

Source: United States Department of Agriculture.