

A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1958 November



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THE Trend OF BUSINESS

Once again the statisticians responsible for gauging the tempo of activity in various segments of the economy are reporting new record highs for some indicators. Personal income, construction contract awards and electric power generation all topped previous highs in recent months. Employment, although materially below the year-ago level, has shown improvement recently in the Midwest as well as in the nation.

A September employment report of the the Labor Department took special note of the improvement in three centers in this area: Peoria, Kenosha and Cedar Rapids. Rehiring was reported in construction machinery, electrical equipment, meat packing and automobiles. Other cities doubtless will show substantial improvement when the next bimonthly review is made.

Other evidence of an improving job situation is offered by the number of new claims for unemployment compensation. In Indiana, Iowa and Michigan these claims were well below last year in September, after showing a large excess over last year in earlier months. Wisconsin and Illinois still showed larger numbers of new claims than a year ago, but the increases were much smaller than they had been.

Construction awards strong

Few areas of activity can be projected in advance with as much confidence as construction, at least for short periods. This is because any sizable construction project

takes time to complete and is preceded by a contract award which provides an indication of future activity.

In January-May of 1958, construction contract awards in the U. S., according to F. W. Dodge, averaged 5 per cent below the same period in 1957 and 2 per cent below 1956. For the Midwest the comparable figures showed declines of 15 and 14 per cent.

The June-August period brought a dramatic reversal of the downward trend in construction contract awards. For the U. S., these months were 21 per cent higher than the comparable period in each of the two previous years. For the Midwest, awards were 4 per cent above 1957 and 11 per cent higher than they had been in 1956.

The strongest sectors of construction have been public works (including highways) and public utilities. The weakest have been manufacturing and commercial building. Housing has continued to lag 1957 in the Midwest, although it has been a substantial element of strength in the national picture.

Autos in the limelight

Industrial production had been moving up by 2 points or more per month from April through August. The August-to-September gain appeared to be 1 point, on the basis of information available in mid-October. Retail sales, which had advanced sharply between March and August, declined in September according to the preliminary estimate. In large part, however, this apparent slowdown

in both industrial production and retail sales could be traced to the exceptionally low level of activity in the auto industry. Both auto assemblies and new car sales were off sharply from year-earlier levels.

The motor vehicle industry is emerging from the deepest model-changeover cutback since the years before World War II when this sort of seasonal pattern was normal. Only about 15 per cent of estimated total passenger cars produced in 1958 were turned out in the third quarter. This is about the same proportion as in these months for the average of the years 1936-40. In the 1953-57 period, third-quarter output accounted for an average of 22 per cent of the annual total.

The 630,000 cars assembled in July, August and September was the lowest three-month total since early 1946 when reconversion from World War II was still in progress. For September alone, the number dropped to 130,000 because of extended model

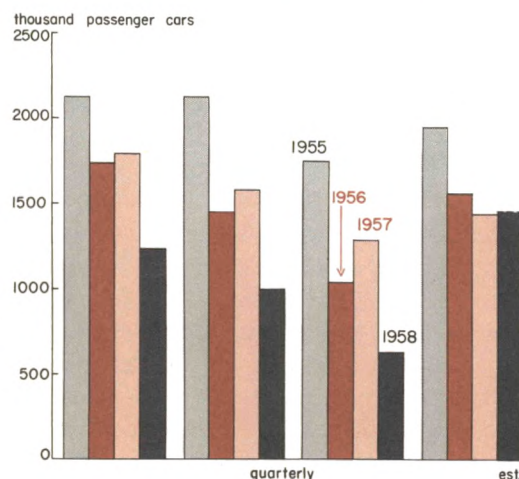
changeovers and strikes. This was less than half the September 1957 output. Aside from the severe reduction in auto assemblies, the continued advance in industrial production in September was similar to other recent months.

Dealer deliveries of new cars to customers dropped to 250,000 in September, 44 per cent below last year. This decline was traceable, in part, to the limited selection of 1958 models remaining in dealers' hands. Without the dragging effect of autos, retail sales would have been above the year-ago level throughout 1958.

The importance of the decline in auto sales in the over-all year-to-year position of retail trade is evident when sales of the different kinds of retail establishments are compared.

| | Per cent change from 1957 | | |
|------------|---------------------------|-----------|-------|
| | Automotive | All other | Total |
| Jan.-Mar. | —12.8 | +3.0 | —0.2 |
| Apr.-June | —14.3 | +2.9 | —0.4 |
| July-Sept. | —17.8 | +2.2 | —1.6 |

Fourth-quarter auto production to approximate last year's level



SOURCE: Ward's Automotive Reports.

This comparison, may tend to overemphasize the importance of autos in consumer purchases. First, retail sales include trucks and cars sold to business firms and governmental units as well as dealer sales of used cars at wholesale. Second, retail sales in the aggregate are equal to only about two-thirds of total consumption expenditures made by individuals.

It is commonly asserted that future business trends will depend heavily upon "public acceptance of the 1959 models." While this is important for the economy as a whole and vital for the automotive centers of the Midwest, the automobile factor can easily be exaggerated. Many observers thought that auto buying would be a basic determinant of over-all trends in 1956. Nevertheless, that year saw a 15 per cent decline in consumer

expenditures on cars and parts but a sharp rise in total consumer spending and in general activity.

In the five-year period 1953-57, expenditures on autos ran between 5.6 and 7.1 per cent of total outlays on consumption goods. Leaving out the abnormal year 1955, the range was between 5.6 and 6.0 per cent. In 1958, this ratio will be about 5 per cent.

There appears to be little doubt that an appreciable rise in auto spending from the depressed levels of 1958 will occur in the year ahead. While the difference between a 5 million car year and a 7 million car year would be important, especially to Midwest centers, the impact would be no greater than changes which could originate in any of several sectors of the economy.

What about household durables?

Household durables including appliances, radio-TV, furniture, floor coverings and the like have been somewhat more important than autos as a proportion of consumer buying during the postwar period. As with autos,

purchase of these items commonly involves the use of credit to supplement the buyer's current income.

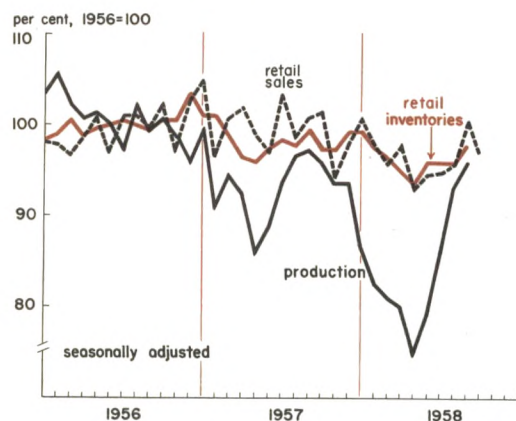
Retail sales of household durables did not dip sharply in 1958. Also dealer inventories were fairly well maintained. However, production was cut back as inventories of manufacturers and wholesalers were reduced. The downtrend in production was reversed last spring without any appreciable change in final demand as inventories reached levels where a further reduction would have retarded sales.

As with autos, consumer spending on the household durables group will comprise an important key to the outlook. In 1958, 6 per cent of consumers' expenditures went for these goods. The 1957 proportion was only slightly higher. This compares with a ten-year average of 6.5 per cent. It may also be significant that sales of these items have varied less, year-to-year, than has been the case for autos.

New records?

If the current broad improvement continues, as is generally expected, additional economic indicators will be moving into new high ground in the months ahead. The topping of earlier records is, of course, an essential by-product of economic growth. Based on past experience, the nation may be expected to boost its total output of goods and services, in physical terms, on the order of 3 to 4 per cent a year. In past years, growth has not been at a steady pace and, presumably, there will be future periods, similar to the current year, when output will total somewhat less than in the preceding year. However, to the extent that the desired objective of a fairly steady economic growth is achieved, the topping of previous records would become commonplace.

Production of household durables recovers from first-half slump



Consumer prices—in perspective

During the third quarter of this year, the persistent rise in the consumer price index was halted, at least temporarily. The index in September was slightly below the July level but still 8 per cent above the spring 1956 figure.

Price movements over the past year and a quarter have been somewhat perplexing. The current leveling in consumer prices has occurred just at the time business activity is gaining momentum. On the other hand, the steady rise in retail prices that started in the spring of 1956 continued unabated during the recent economic downturn. Both production and employment reached a peak in July 1957 and recorded substantial declines in the succeeding nine months. Yet, the consumer price index over that period increased 2 per cent, with the first pause in the rise coming a full year after the slowdown in business activity had begun.

Diverse movements

Over the course of the year through July 1958, the various components of the index have followed somewhat different paths. The biggest push to prices came from food products, which make up almost a third of the index. The freezing temperatures that swept across a large section of the Southeast early this year caused substantial crop damage, with the result that fruit and vegetable prices rose sharply in winter and spring. Livestock marketings also dropped below the year-earlier volume as farmers adjusted output in response to a variety of factors. Meat prices in 1958 have been well above the year-ago figures.

The price of consumer services over the same period also rose. These purchases — made up of such diverse items as rent, electricity, public transportation, medical care and haircuts — increased $3\frac{1}{2}$ per cent in the twelve months ending in July. The public transportation component of the index was up 6 per cent, medical care 4 per cent and rent 2 per cent. In comparison, commodities, other than food, rose less than 1 per cent.

Such differences in the movements of individual prices should, of course, be expected. The rapidity with which prices of goods and services respond to changes in supply and demand varies considerably from item to item. Some prices react quickly and fluctuate widely. The prices of used cars, for example, are sensitive to shifting economic forces, and sharp changes are relatively common. Some other types of commodities and professional services normally respond more slowly. In industries in which prices are regulated by public bodies and in which costs are largely related to past investments in long-lived capital equipment, the rate-setting process tends to retard price adjustments and extend the period over which they take place.

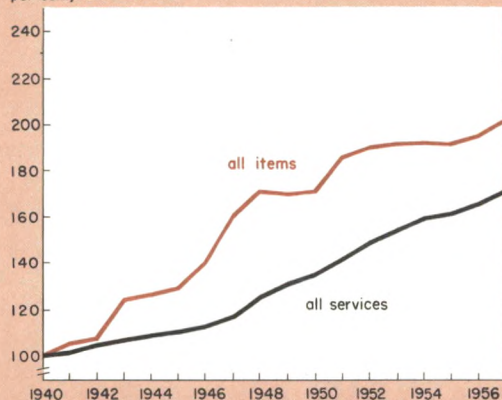
In order to put recent price movements into their proper perspective, it is therefore necessary to look at the ways individual prices or groups of prices have reacted not only to “current” forces but also to developments over at least the past several years.

A long view

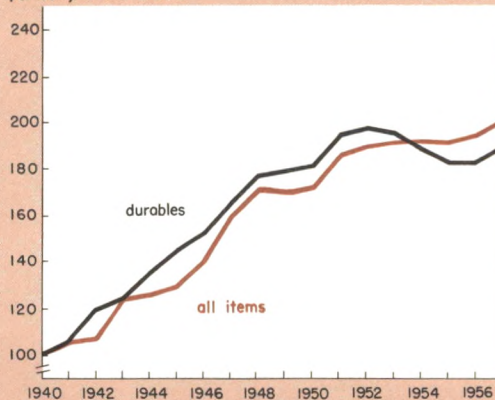
The price history of the past two decades has, for the most part, been dominated by

Prices of consumer services have risen less since prewar than other prices; durables have fluctuated around over-all index

per cent, 1938-40=100



per cent, 1938-40=100



war-borne inflation. During World War II, the defense effort absorbed such a large proportion of our economy's output that many consumer and business demands, and nondefense government needs as well, went unsatisfied. National security outlays absorbed up to two-fifths of the total U. S. output during several of the war years.

Despite wartime controls, the consumer price index rose substantially. By 1945, the index had increased 28 per cent above the 1938-40 average level.

After the years of war scarcity during which both individuals and business firms accumulated sizable liquid balances, the heightened demand, particularly for consumer and producer durables, together with the abandonment of price and wage controls, resulted in an acceleration of the rise in consumer prices. By 1948, the index was 70 per cent above the prewar figure.

The next surge in prices came as a result of the Korean fighting. Although the econ-

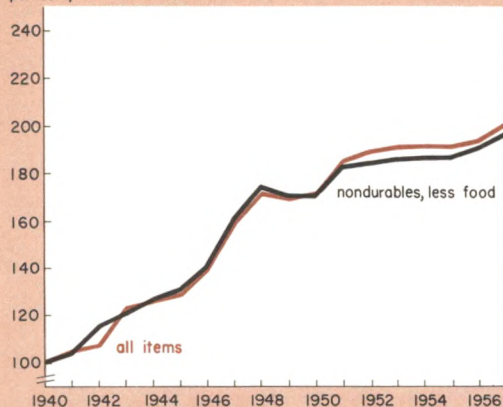
omy had already recovered from the 1949 recession, the start of hostilities brought about a surge in both public and private spending. Within a year the consumer price index rose 9 per cent and by the summer of 1952 was 12 per cent above the June 1950 level.

Then followed a period of relative price stability. The index remained virtually unchanged during 1953, 1954, 1955 and the first quarter of 1956. This span of more than three years included the final six months of the Korean-stimulated business boom, the 1953-54 recession and the first year or more of the succeeding economic recovery. Nevertheless, the consumer price index varied no more than 1 per cent from its level at the beginning of the period.

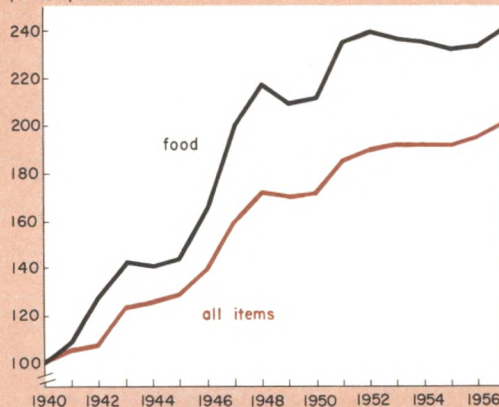
Beginning in the spring of 1956, consumer prices again turned upward. Under the pressure of rising demands for goods and services by consumers, business and government, prices at retail advanced and continued to rise for a year after aggregate demand

Nondurable prices over the past two decades have followed total consumer price index; foods show sizable price variations

per cent, 1938-40 = 100



per cent, 1938-40 = 100



reached a peak in the autumn of 1957.

These two most recent periods — one of general price stability and one characterized by a persistent rise in the consumer price index — appear to be in marked contrast, but much of the difference disappears when we examine the various ways that the prices of particular items have behaved.

Services catch up

One of the facts that stands out most vividly from an examination of price movements over the past several years is the persistent rise in the price of virtually every consumer service item included in the index. Both during the period of price stability through the spring of 1956 and during the recent two-and-a-half years of generally rising consumer prices, services have registered regular increases. In the six years through mid-1958, service prices had risen 20 per cent, compared with an 8 per cent increase in the total index.

Leading the list of rises in the prices of consumer services are hospital rates and TV repairs, with average annual increases of 7 per cent. Transit fares and motion picture admissions were each up 6 per cent per year, with auto repairs, registration fees and insurance, haircuts and beauty shop service, physician and dental fees and residential rents all showing average yearly boosts of 3 per cent or more.

There is no reason, of course, for expecting that the prewar relationship among prices of various items will eventually be reestablished. Shifts in consumer preferences and changes in production and distribution techniques are continually resulting in structural realignments in prices — realignments that direct labor and capital into the production of those goods and services demanded by consumers, business and government. The influence of increased competition to local transit lines from private autos and the

—continued on page 10

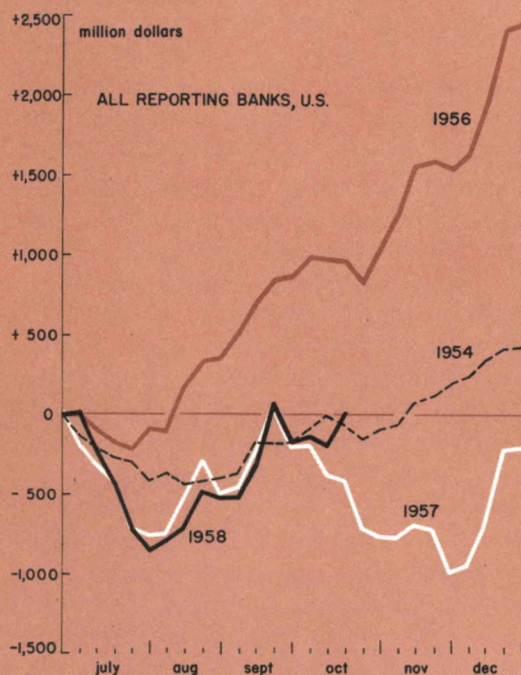
Business loans move "sidewise"

Business use of bank credit has shown only a mild response to the pickup in economic activity in recent months. In mid-October, commercial and industrial loans of the nation's leading banks were up roughly 850 million dollars from their end-of-July low. This compares with a rise of something less than 400 million in the same period of 1954, when the country was beginning to emerge from an earlier recession.

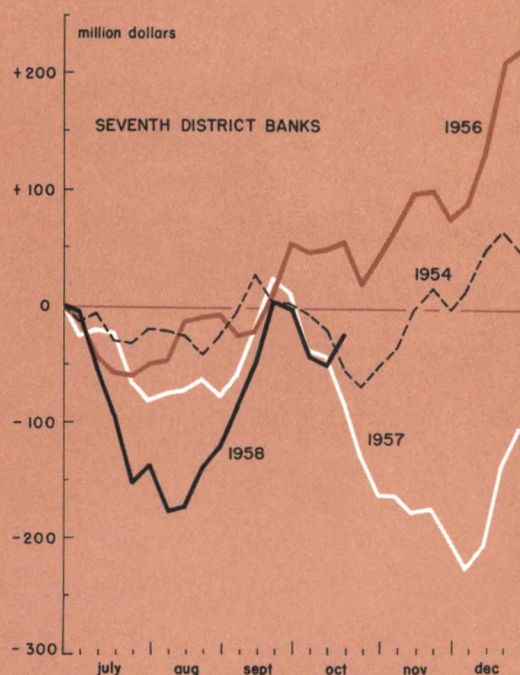
After reaching an all-time peak of 32.2

billion dollars in mid-September 1957, business loans fell contraseasonally last fall and continued to decline in the first half of 1958 as cyclical and seasonal contraction coincided. The charts on these pages represent cumulative changes in these loans since mid-year compared with other recent second halves. Following the sharpest July contraction on record, credit demand strengthened in August and September, in part reflecting corporate borrowing to meet quarterly tax

Business loan trends vary with the pace of business activity



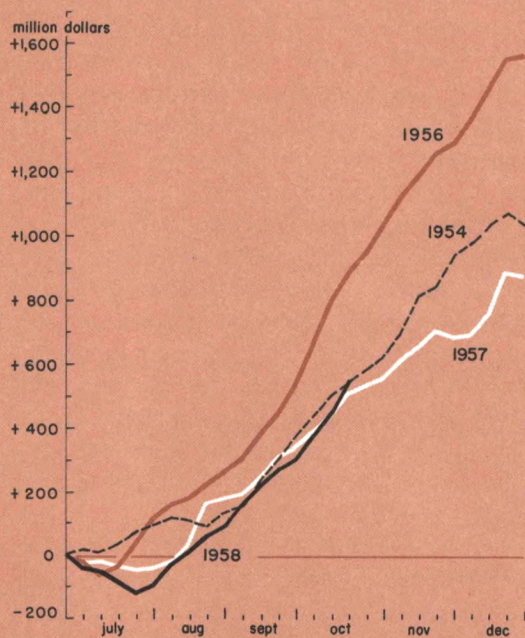
Midwest banks show larger declines, sharper recovery



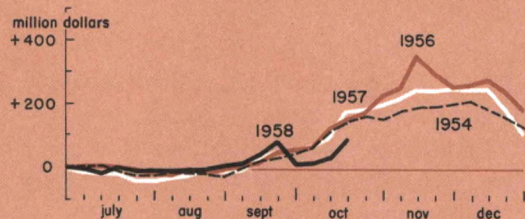
Strength of loan demand varies by industry groups (all reporting banks, U.S.)

Seasonal borrowers

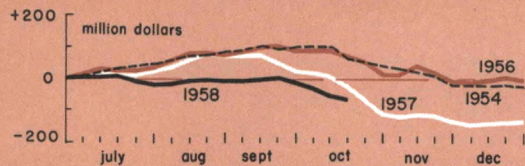
Dealers and processors of farm products
will use the most credit this fall



Trade firms need financing to build fall and Christmas stocks

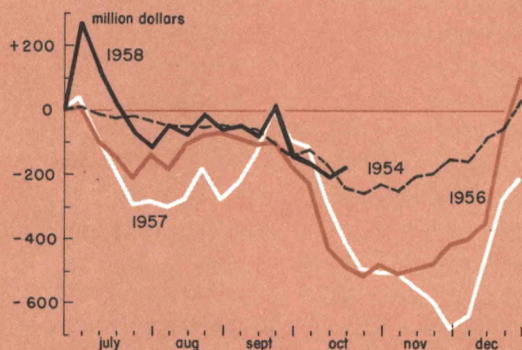


Textile and apparel manufacturers
have been using less credit lately

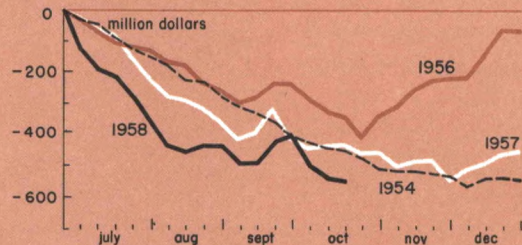


Nonseasonal borrowers

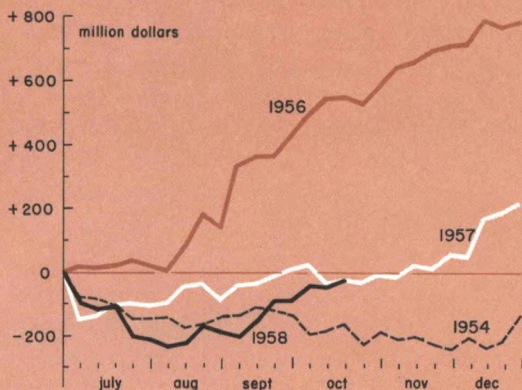
Sales finance company borrowing
reflects sales of consumer durables



Metals and metal products paydowns
continue to deflate totals



Public utilities and oil companies
used proceeds of capital issues to repay bank debt earlier, now borrowing again



bills. The past month shows a "sidewise" trend.

Now is the time of year when seasonal borrowers — commodity dealers, processors of agricultural and other farm products, and trade establishments — draw heavily on bank accommodation to tide them over their peak period of activity. These businesses normally use between 1 and 1½ billion dollars of bank credit during the second half of the calendar year. Nevertheless, the relative strength of their needs from autumn to autumn varies with general business conditions. From June through December 1956, loans to these groups climbed 1.7 billion dollars while last year they rose only 800 million. As the charts show, the seasonal businesses can be counted upon to absorb a large net volume of credit before year end, and record harvests may well increase the financing requirements of farm product dealers and processors.

For other kinds of businesses, financing needs are more closely related to cyclical influences. The major nonseasonal borrowers are mining and hard goods manufacturing industries, sales finance companies and public utilities. Heavy borrowing by these firms in

the latter half of 1955 and 1956 sharply augmented the credit demands of seasonal borrowers. By contrast, their repayment of bank debt in the fall of 1957 more than offset the relatively modest volume of seasonal accommodation then taking place.

Among the more volatile borrowers are sales finance companies and metals manufacturing concerns. Although net paydowns by the latter group have continued at a more rapid pace than in any other recent year, finance companies did not cut down their borrowing as much as usual in the first half of October. The volume of bank loans to these firms, as well as to utilities and oil companies, depends not only upon their total needs but also on their use of alternative sources of financing. This, in turn, reflects the cost of borrowing from banks as compared with rates in the commercial paper and capital markets.

Credit needs have not risen at a pace in line with production activity, both because of continuing inventory and receivable liquidation and because funds raised throughout the recession period in the capital market have helped to cover current requirements.

Prices *continued from page 7*

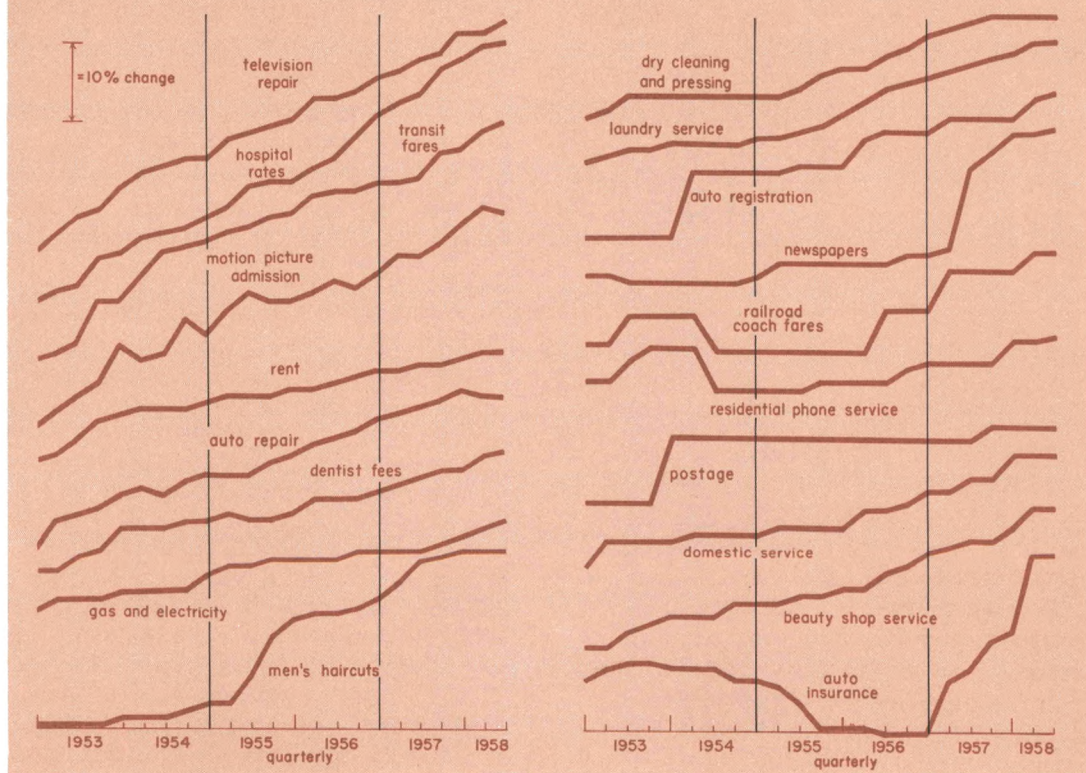
strides made toward more efficient methods for generating electricity are prime examples of these factors at work. Certainly, over a two decade interval, many such influences would tend to alter relative prices. Yet, in some cases — rent being an important illustration — the divergence from prewar relationships may still reflect the distortions caused by the varying speed with which individual prices adjust to changed economic conditions.

Residential rents — the largest segment

of the services component — were held down by tight controls during World War II and the immediate postwar years. Rents in 1948 were only 16 per cent higher than in the 1938-40 period, compared with a 70 per cent rise in the over-all consumer price index.

Rents have risen considerably since the relaxation of controls, but still not enough to restore their prewar relationship with other prices. Between 1948 and 1957, rents rose by 29 per cent, over two-thirds more than the increase in the total index. Yet, in comparison with prewar prices, rents have

Prices of most consumer services show persistent increases over the past several years



increased less than three-fifths, while the composite index has doubled.

The substantial increase in the supply of housing over the past decade has slowed somewhat the rise in residential rents. Despite continued increases in construction and maintenance costs, the rise in rents in each of the past three years was under 2 per cent, less than half of the average annual gain in the period from 1952 to 1954.

Public transportation is another service area which lagged behind other prices over most of the past two decades, although in re-

cent years it has either equaled or surpassed the gains in the over-all index. Through 1945, local transit fares showed virtually no change. Faced with a declining number of passengers and increased operating costs, transit fares are now more than double since the end of World War II.

Intercity transportation prices — represented in the consumer price index by railroad coach fares — increased more than local fares during the war period but at a much slower pace since then. The wartime gain totaled 18 per cent, the postwar rise

52 per cent—for an increase since 1938-40 one-fifth less than the total index.

The “services” which show the smallest price increase since the prewar years have been electricity and natural gas. These items are similar insofar as their prices are publicly regulated and labor makes up only about one-fifth of total production costs.

During the postwar period, substantial efficiencies have been achieved in electric power generation and transmission. The tendency

for loads to be spread somewhat more evenly over the day and the year has also permitted more efficient utilization of equipment. With increased use of natural gas, moreover, the cost per unit of its transmission has declined.

Rate-setting procedures almost assure a lag in the price movements of services such as these. In publicly regulated industries, rates are based upon the costs involved in supplying the service — costs that in large part rep-

The consumer price index—a potpourri

A price index is not a simple concoction, but typically represents a blending in carefully measured portions of a large number of ingredients. The consumer price index, computed by the U. S. Bureau of Labor Statistics is no exception. It includes about 300 goods and services, each chosen to “represent” the prices of a number of similar commodities or services. The items range from frozen peas to tonsillectomies, and from movie tickets to kitchen sinks.

The selection of the items included in the index is based on a study of the spending patterns of families of wage earners and salaried clerical employees in 46 cities during 1950 and 1951. The price of each item is assigned a specific “weight” reflecting the proportion of expenditures devoted to it or similar items by the families surveyed. New surveys are made periodically, and the items included in the index and the weights assigned to them are adjusted in accordance with shifts in the buying habits of urban families. During the intervals between these surveys, the items included in the index and the weights assigned to each are unchanged. Thus, the index measures the relative change in the cost of a fixed quantity of a specified list of goods and services.

Changes in consumption patterns are taking place continually, of course, in response to shifts in income, tastes and even relative prices themselves. The bigger the shifts, the more they tend to weaken the index as a measure of prices paid by urban families. Moreover, the items in the index and their relative importance may differ substantially from the expenditure pattern of other than urban wage earners and salaried clerical employees — farm families, single workers, retired persons and families at both extremes of the income scale. Hence, the consumer price index does not always accumulate changes in consumer expenditures.

Yet, the index is a highly useful measure of price movements in consumer products and services. It is widely accepted as a reliable indicator of price trends of the major groups of items regularly purchased by consumers. As such, the index is frequently used in contracts in which payments are related to price movements. Long-term leases and wage contracts are prime examples. It is estimated that the wages of over 4 million workers in the United States are in some way tied to changes in the consumer price index during intervals between contract negotiations.

resent depreciation charges on the long-lived capital equipment. In most instances, these depreciation deductions reflect the cost of facilities bought five, ten and even twenty-five years ago. Therefore, if capital equipment prices were to rise steadily for a number of years, current costs would include charges on plant and machinery bought well below current prices.

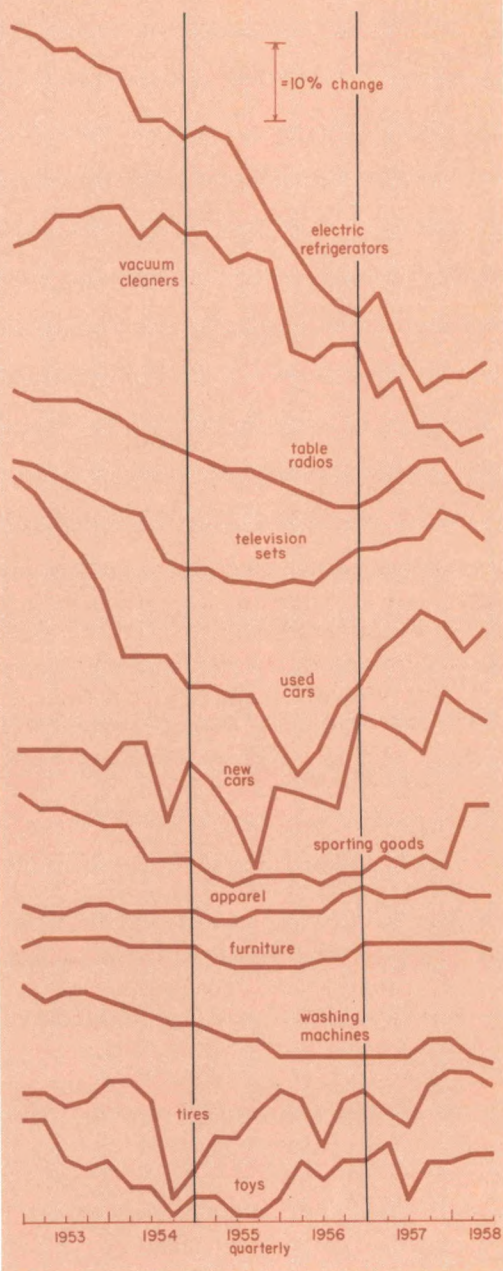
At the end of the war, public utilities were still mainly using and amortizing facilities purchased at prewar prices. Improved efficiency of the units that had been added and higher utilization of facilities, however, had resulted in year-to-year reductions in gas and electricity rates so that by 1947 the price to consumers was 7 per cent below the 1938-40 average.

As old equipment has been replaced and capacity increased in an attempt to catch up with demand during the postwar period, the higher cost of the new facilities has been gradually transformed into increased rates, augmented, of course, by increases in other costs. Natural gas and electricity rates have now increased 8 per cent above the prewar level, compared with a 100 per cent rise in the total consumer price index. And the outlook is for further price boosts in these services. Even if the cost of new equipment were to remain stable, rates of many public utilities would probably continue to increase as depreciation charges reflect more fully the recently installed facilities and, possibly, changes in accounting for rate-setting purposes.

Volatile sector—durables

Whereas service prices have moved up steadily, prices in other areas have shown significant fluctuations—in some cases in response to shifts in demand, and at times in response to changes in supply conditions.

Consumer durable prices reflect technological and cyclical influences



Consumer durable goods in recent years have charted a bumpy price road. During the war years, of course, the output of consumer long-lived items was restricted to a mere trickle. This created an immense pent-up demand that by 1948 had contributed to pushing prices of durable products to a point 75 per cent above the prewar figure.

The 1949 recession produced the initial postwar downturn in prices of consumer durables. About mid-1949, durable prices declined below the year-ago level and continued to drop until the start of the Korean scare buying in the last half of 1950. In the two years ending in June 1952, durable prices increased 12 per cent.

By the end of 1952, prices of consumer durables were on the way down again. In the more than three years of over-all price stability from 1953 through early 1956, durable prices dropped by 5 per cent. Some reduction in factory prices, together with a paring of dealers' margins, resulted in a 23 per cent drop in the retail price of refrigerators; 14 per cent for TV sets; and declines of 14, 12 and 10 per cent respectively in the prices of vacuum cleaners, radios and washing machines. After the 1954 recession, used car prices were one-third below the end-of-1952 level, a much larger decline than the 5 per cent decrease in new automobile prices. Although prices of consumer durables relative to the prewar levels had been higher than the over-all index throughout the postwar period to 1953, the decline in the 1953-55 interval reversed the relationship.

Since the spring of 1956, most consumer durable prices have moved up cyclically. New auto prices have risen 9 per cent, TV sets 5 per cent and furniture 2 per cent. Used car prices, typically more volatile than those of new cars, had by midyear increased 19 per cent. Even those durables that continued to

decline in price have dropped at a much slower pace than in the earlier period.

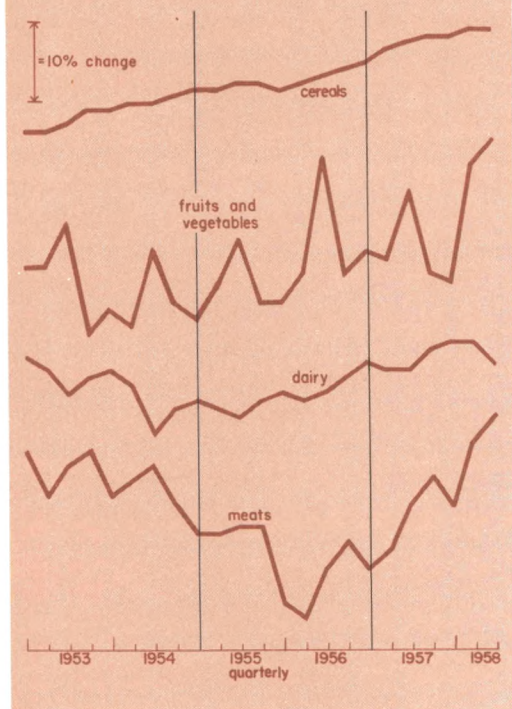
Apparel, generally classified as a nondurable despite its comparatively long life, has also fluctuated in price in response to changes in the economic climate. Apparel prices declined slightly during the 1954 business downturn but started to recover in late 1955. By the end of last year, apparel prices had increased 4 per cent from their 1955 lows. The 1957-58 reversal in business activity seems to have brought about some fall-off in apparel prices earlier this year.

Volatile sector—food

Whereas the prices of consumer durables and apparel have been influenced predominantly by fluctuations in demand conditions, changes in supply are mainly responsible for fluctuations in food prices. Ordinarily, domestic demand for food changes only slowly. The major factors behind any such shifts — population, changes in per capita income and consumer tastes — operate very sluggishly. As a result, food prices are not affected significantly by mild or short-run fluctuations in business activity, except those related to war scares or similar developments. Food prices, however, are sensitive to changes in supply.

The effects of changes in output on the prices of foods were clearly evident during the past year. The sizable reduction in the output of winter fruit and vegetable crops resulted in retail prices of these commodities last March that were 12 per cent above the same month in 1957. Weather conditions and cyclical movements in cattle and hog production combined to hold marketing during the spring of the year 8 per cent below the year-ago level. As a consequence, meat prices averaged 14 per cent more than in the spring of 1957. From mid-1957 to mid-

Food prices vary mainly with supply conditions



1958, boosts in food prices were responsible for half of the total gain in the consumer price index over the period.

Tortoises and hares

The relationships among prices of individual commodities and services in a dynamic economy are continually changing. In fact, it is through the shifts in relative prices that resources are directed from one use into another, to provide those goods and services most desired by the public.

Price relationships, however, may become distorted in periods of rapid economic change. Such distortions result from the vary-

ing speed with which individual prices respond to broad changes in the economic environment. Some prices, especially those of certain service items, are still adjusting to the war-borne inflation that was mainly responsible for the doubling in consumer prices over the past two decades. Thus, they may be expected to increase further, though possibly more slowly.

But, increases in the prices of consumer services were combined with over-all price stability for a substantial part of the past several years. Prices of most commodities showed considerable flexibility, moving up and down with current shifts in supply and demand. Prices of food, to which consumers devote a third of their expenditures, have fluctuated substantially as current production of individual agricultural commodities has varied. And, as we have seen in the past several months, changes in food prices can play an important role in the behavior of the over-all consumer price index. Consumer durables and apparel also registered decreases as well as increases within recent years, reflecting shifts in demand and costs. The evidence of price flexibility in these important segments of the economy indicates that it may be possible to realize stability of prices over-all, although prices in one sector or another may be recording increases.

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Stronger rise in land values

Farm land values have turned upward this summer and fall in the Seventh District after giving evidence of stabilizing last winter and spring. Before that, values had shown a sharp rise since 1954.

The average value per acre of land in "good" farms, as reported by country banks, now ranges from a high of nearly \$500 in the cash grain area of central Illinois to less than \$100 in the northern part of the lower peninsula of Michigan.

The value of land cannot be measured with precision; always there is a large measure of judgment. Typically, there are only a few transactions in any area at any given time. Furthermore, the reasons for apparent changes in value of land often are more or less obscure. However, the factors responsible for the 1954-57 rise in land values appear still to be operative—purchases to enlarge farms, demand for non-agricultural uses, "inflation hedge" buying and expanded Government expenditures for agricultural support programs.

The lull in the price rise at the end of last year and in the first half of 1958 can be ascribed largely to the declines in business activity and employment, the decline in values of alternative investments such as common stocks and, in some areas, to adverse crop prospects.

The renewed surge of land val-

ues currently reflects the push generated by record crops, high livestock prices and the sharp rise in farm income, as well as the general business recovery. Total net farm income showed an increase of 13 per cent over year-earlier levels the first three quarters of this year. This rise comes after three years of almost stable farm income.

A majority of bankers in Iowa and northern Illinois expect the upward trend in prices of farm real estate to continue. In these District areas, good crops and high cash receipts from livestock marketings have boosted farm incomes the most. In other areas of the Seventh District which have not benefited as much from higher farm incomes this year, most bankers report land values continue relatively stable. But even in these areas a sizable proportion of bankers expect the trend to be up. Whether farm income will remain high enough to provide a reasonable return on new investments made in farm land at current prices holds the key to the longer term trend in land values.

Average value of "good" farm land
October 1958
(dollars per acre)

