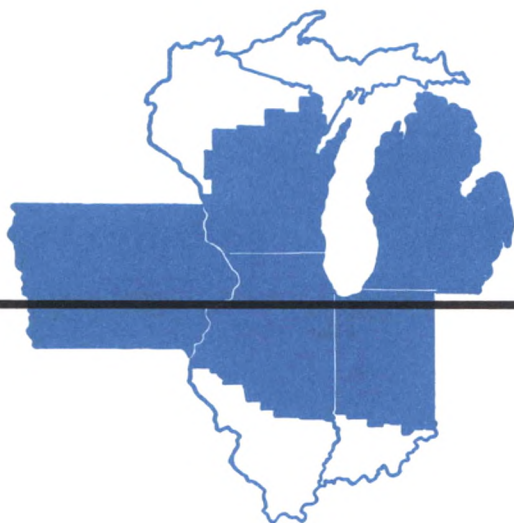


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1961 December



Contents

Bank loans and liquid assets	5
Personal income trends	9
Farm income at high level	14
The Trend of Business	2-5

THE Trend OF BUSINESS

Employment in the recovery

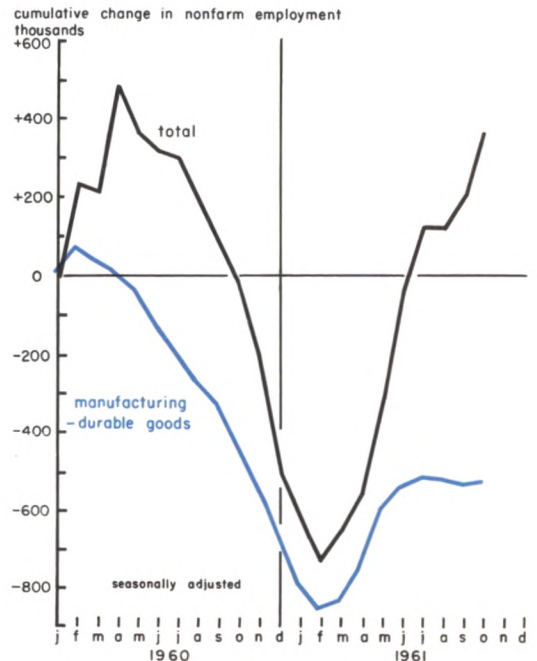
Between February and October nonfarm wage and salary employment, seasonally adjusted, rose by more than 2 per cent, to 54.6 million. During this period employment in durable goods manufacturing increased over 300,000 to 9.1 million. While the durable goods manufacturing sector accounts for only about 17 per cent of total wage and salary employment, it contributed over 30 per cent of the recent gain in employed.

Greater than proportional changes in employment in durable goods manufacturing have occurred in all postwar recessions and expansions. From the high in mid-1960 to the low last February, durable goods manufacturing accounted for over 70 per cent of the decline in total wage and salary employment. Since Illinois, Indiana, Iowa, Michigan and Wisconsin, with 15 per cent of the nation's population, have about 25 per cent of all employment in hard goods factories, the impact of recessions and revivals is greater in this region than in many others.

As employment rose during 1961, labor market conditions improved in many localities. As late as last April, 101 of 150 major labor markets in the nation were classified by the Bureau of Employment Security as having a "substantial labor surplus." By October, the eighth month of rising activity, this number had declined to 68.

Since the steel, auto and machinery industries led the upswing in production, Seventh Federal Reserve District labor markets have shown marked improvement. Nineteen of 23 major labor markets in the District reported a "substantial labor surplus" in April. By

Employment in manufacturing leveled off in the fall months after rising rapidly in the spring



October this number had dwindled to 6, including Detroit, Battle Creek, Muskegon and Saginaw, Michigan, and South Bend and Terre Haute, Indiana. Employment has increased in most of these areas but not enough to reduce unemployment below 6 per cent. Some additional improvement is expected in the remainder of 1961 by local employment service officials.

Local labor markets have improved much more rapidly during the current recovery than in the 1958 upswing. The number of areas with a "substantial labor surplus" reached a peak of 89 in July 1958 but did not fall below 68 (the number reported for this October) until May 1959, a full year after the low point of the recession.

Few tight labor markets

In October only three centers—Washington, D. C.; Madison, Wisconsin; and Richmond, Virginia—were rated as having "relatively low unemployment." And no centers were reported to have general "labor shortages."

At the peak of economic activity in the 1957 prosperity there were two areas of "labor shortage," Hartford and Stamford-Norwalk, Connecticut; 44 centers were considered to have "relatively low unemployment." There were no areas of general "labor shortage" during the 1959-60 expansion and only 28 were described as having "relatively low unemployment." Moreover, this number was reached in November 1959, long before the recession began in 1960.

If general activity continues to improve in the months ahead, unemployment in additional centers doubtless will fall below the 3 per cent level. However, it does not appear that "labor shortages" will develop on a broad scale in the near future. The two manufacturing centers which reported "labor

Information on unemployment in local areas is provided by the Bureau of Employment Security, the Federal agency responsible for administering the unemployment compensation programs. The Bureau classifies 150 major labor markets according to local employment conditions.

Group	Description	Approximate unemployment (per cent)
A	Over-all labor shortages	Under 1.5
B	Low unemployment	1.5 to 3.0
C	Moderate unemployment	3.0 to 6.0
D	Relatively substantial unemployment	6.0 to 9.0
E		9.0 to 12.0
F		Over 12.0

Classifications are made monthly on the basis of reports prepared by state agencies, which use unemployment compensation claims and other information as a basis for their estimates. In addition to current unemployment, the classifications take into account the outlook for local employment as indicated by usual seasonal patterns, employers' hiring intentions and other expected developments.

shortages" in 1957 were in the "moderate unemployment" group in October. Total manufacturing employment, although up sharply from the low point, is still well below its 1960 high which in turn was 500,000 short of the 1957 peak and 1 million below the Korean war high of 1953.

Increases in employment, aside from cyclical upswings, have been centered in government, trade and service in recent

years. Significantly, the most favorably situated labor markets today are areas in which these types of employment are particularly important.

Employment has improved in most Midwest centers since last spring

	April 1961	October 1961
Illinois		
Chicago	D	C
Quad Cities	C	C
Peoria	D	C
Rockford	D	C
Indiana		
Fort Wayne	D	C
Gary-Hammond	D	C
Indianapolis	D	C
South Bend	F	D
Terre Haute	D	D
Iowa		
Cedar Rapids	C	C
Des Moines	C	C
Michigan		
Battle Creek	E	D
Detroit	F	E
Flint	F	C
Grand Rapids	D	C
Kalamazoo	D	C
Lansing	D	C
Muskegon	E	D
Saginaw	E	D
Wisconsin		
Kenosha	D	C
Madison	C	B
Milwaukee	D	C
Racine	D	C

Areas of persistent unemployment

During the current year the Bureau of Employment Security has compiled a list of centers of "substantial and persistent unemployment" that qualify for special consideration in placement of Federal procurement contracts and assistance under the Area Re-development Act recently passed by Congress. These areas must have more than 6 per cent unemployment currently and an annual average unemployment rate substantially above the national average in recent years.

There were 20 such areas in October. Only one of these, Detroit, is in the Seventh Federal Reserve District. Fifteen were in Massachusetts, Pennsylvania, West Virginia and Puerto Rico.

In Massachusetts, unemployment principally reflects the long-term decline in the textile and shoemaking industries. Persistent unemployment in Pennsylvania and West Virginia stems largely from the coal and railroad industries. New factories have been built in Puerto Rico in recent years, but unemployment remains widespread because of the extremely rapid increase in the island's labor force.

Most areas having chronic unemployment today were once among the more prosperous centers of the nation, and their situations may change for the better in years to come. Meanwhile, they account for disproportionately large shares of the nation's "hard core" unemployment—workers who have been unemployed for six months or more.

The labor force

Each month the Bureau of the Census publishes estimates of the nation's labor force. Estimates are based upon interviews with 35,000 households selected to repre-

sent a cross section of the population. The number employed includes those with jobs in the survey week even though they may not have been at work because of illness, vacations, strikes or for other reasons. The unemployed are those who did not have jobs but reported that they were "looking for work."

Estimates of the labor force and unemployment are elusive because "looking for work" is not a precise concept. About 20 million persons voluntarily enter and withdraw from the labor force one or more times each year and their "between job" status is at times not clear. For the most part these are housewives, students, retired persons and others who do not have major responsibility for supporting themselves or others. In addition, some unemployed family breadwinners are unwilling to accept new jobs which do not meet their standards of pay and working conditions.

In October 1961 the estimated labor force totaled 74.3 million, including wage and salary workers, the self-employed, farmers

and people in the armed forces. Of this number, over 3.9 million, or 5 per cent, were unemployed. A year earlier the total labor force was estimated at 73.6 million, of whom 3.6 million were unemployed. The rise in unemployment during this period was attributable to the larger increase in the labor force (750,000) than in employment (400,000). Of those looking for work in October, 56 per cent had been unemployed for at least a month; eighteen per cent, or 720,000, had been without jobs for 27 weeks or more.

Although total unemployment has fallen substantially from the high of 5.7 million in February to 3.9 million in October, the seasonally adjusted unemployment figure has remained essentially unchanged at almost 7 per cent of the labor force. This reflects the fact that February is typically the highest month for unemployment, while October is typically the lowest. The seasonally adjusted unemployment rate in manufacturing, however, dropped markedly during this period, from 9 to 7 per cent.

Bank loans and liquid assets

The demand for bank loans has been rising gradually in recent months and may strengthen further if the upward trend of economic activity continues. In the 1954-57 business expansion, total loans of the nation's commercial banks rose about 26 billion dollars; in the shorter 1958-60 upsurge loans increased 17 billion.¹

The demand for loans in the current period of rising activity, of course, will depend on

many factors. Probably most important are the rates at which production and sales rise and how long the upswing continues. A large part of business needs for funds will be sup-

¹Throughout this article, reference points are June dates. While these are not the peaks and troughs of the business cycles, they are close to the highs and lows of cyclical loan movements and permit meaningful comparisons of loan data that are not adjusted for seasonal variation.

plied from internal sources, including depreciation and retained earnings. Current savings made available through the capital markets will provide another source of funds.

Are banks in a position to accommodate any substantial increase in demand for loans? Almost any amount of bank credit can be provided so long as the Federal Reserve System supplies reserves to support the additional deposits. But the amount of reserves supplied is determined by the over-all condition of the economy—not by the demand for bank loans as such.

Banks may increase loans by liquidating other assets. During periods of slack loan demand and ready availability of reserves, banks increase their investment in securities. When loan demand rises faster than deposits, some securities can be sold or redeemed for cash as they mature in order to accommodate the needs of borrowers.

Short-term U. S. Government obligations possess a high degree of liquidity and normally constitute an important part of banks' securities portfolios. Any asset, of course, has some degree of liquidity. In general, the more liquid assets yield less income than those that are less liquid. Loans, usually considered to be less liquid than many other types of assets, typically carry higher interest rates than securities. So long as banks have *more liquid assets* than the minimum they consider essential in relation to anticipated needs, the excess is a potential source of loanable funds.

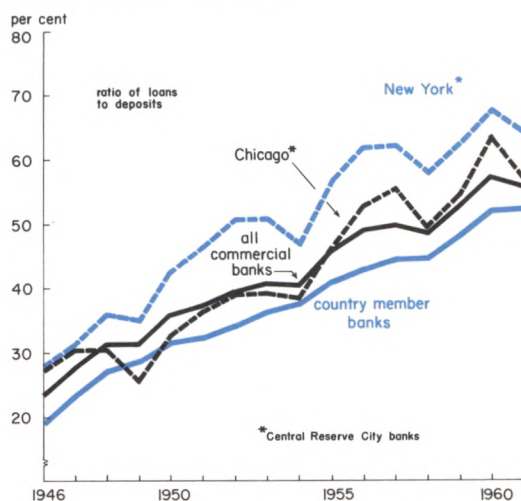
Loan-deposit ratios

Although loans normally do not show a rapid rise until some months after the beginning of a business upturn, many of the nation's banks had expected a stronger demand for loans than has developed and therefore are prepared to add substantially

to their outstanding loans. Yet some observers have noted the already high ratio of loans to deposits and have concluded that the point may soon be reached where banks will be unwilling to hold a larger share of their earning assets in the form of loans.

There has been, of course, a persistent tendency during the postwar period for loans to grow faster than deposits. Loans were equal to less than a fourth of total deposits of commercial banks in mid-1946 but rose to 50 per cent in 1957 and, after a brief decline in the 1958 recession, moved up further to 57 per cent in mid-1960. Another small decline occurred during late 1960 and the first half of 1961, but this ratio remains high in relation to postwar experience. However, it is still considerably below the 65-75 per cent range that prevailed throughout most of the Twenties, and the quality of loans is probably somewhat

Loan-deposit ratios have shown an upward trend in the postwar period



better than in that earlier period of "peace and prosperity."

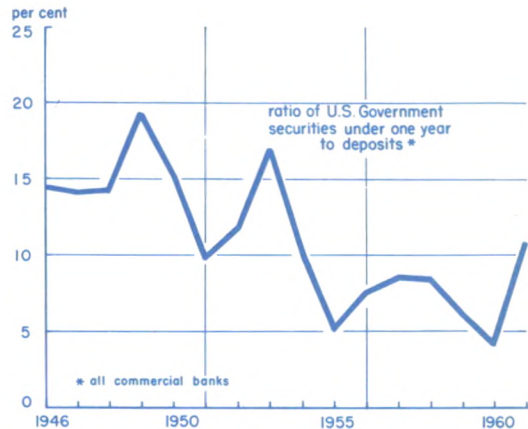
The loan-deposit ratio, however, is not a sufficient yardstick by which to gauge a bank's ability and willingness to increase further its loan volume. Other elements that affect bank liquidity include the composition of securities holdings, the nature of loans already on the books, the changes in management's judgment of liquidity needs and the bank's ability to borrow cash to cover temporary or unexpected deposit drains. There is no single measure that reveals liquidity of banks in this sense. Nevertheless, available data indicate that there may be considerable capacity for loan expansion on the basis of existing bank resources and that this is probably greater for large banks, despite their higher loan-deposit ratios, than for small ones.

Short-term Treasuries

Securities investments in general are normally considered to be more liquid than loans in general, but some securities are not readily marketable or, at least in certain circumstances, may be liquidated only with a capital loss. The one class of asset usually looked upon as being completely liquid is U. S. Government securities maturing within one year. There is a broad market for such obligations and, because of their short maturity, wide swings in market yields involve only minor price changes. Among earning assets of most banks, these securities are the nearest thing to money. The amount held, relative to deposits, can therefore be used as an indicator of at least the minimum degree of liquidity.

Although banks' holdings of short-term Treasury issues have fluctuated markedly, the trend during the postwar period has been downward (see chart). The liquidation of

Banks have increased their short-term Treasury securities since mid-1960



Note: Data are on call basis through 1950, maturity basis beginning 1951.

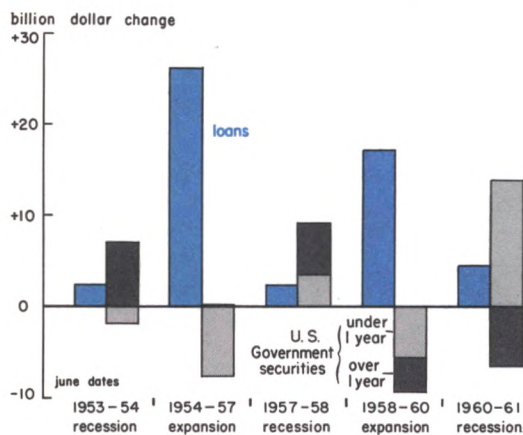
short securities in periods of rising loan demand has been an important source of loan funds. Short-term Governments dropped below 5 per cent of deposits in mid-1960 when the loan-deposit ratio reached a peak. During the ensuing 12 months, however, these securities rose to 11 per cent of deposits—the highest since 1954. They continued to climb further through the third quarter of this year, as the Treasury issued additional amounts to cover its current cash needs. The build-up of such holdings may be viewed as the temporary investment of loanable funds which are made available primarily as a result of action by monetary authorities to ease credit and help stimulate business recovery and growth until the demand for loans materializes.

In the year ended June 30, 1961, holdings of Treasury obligations in the less-than-one-year maturity range reported by banks in the Treasury's survey of ownership (these

banks account for almost all of the year-to-year changes in Government securities holdings of all commercial banks) rose almost 14 billion dollars to 21 billion, the highest level since early 1954. Issues with maturities of more than a year, however, declined by about 7 billion dollars. In part, this shift merely reflected the passage of time, as a large amount of securities moved from the over-one-year to the less-than-one-year maturity category. In addition, the banks purchased a substantial amount of short-term issues in the market with funds obtained from deposit inflows and maturing securities investments. In earlier recessions these funds were channeled mainly into intermediate- and long-term issues (see chart).

Several factors contributed to the unprecedented peacetime growth in bank holdings of short-term Governments since mid-1960.

In previous business upswings banks have liquidated short-term Governments to meet loan demands



Note: Loans are for all commercial banks. Government securities are marketable issues held by banks reporting in the Treasury's survey of ownership.

A major influence was the memory of the painful 1958-59 experience when many longer-term issues, acquired during the preceding business slump, were liquidated at severe losses owing to a sharp rise in interest rates. The relative mildness of the latest recession and expectations of early recovery added to banks' unwillingness to lengthen their investment portfolios.

There were other reasons why "going short" was more feasible in 1960-61 than in earlier periods. The Treasury offered large amounts of short-term securities to meet cash needs and refund maturing issues. (Several advance refunding operations were undertaken to lengthen the average maturity of the Federal debt, but bank participation in these was relatively small.) A second factor was that short-term yields remained well above the low levels reached in 1958, partly as a result of actions taken by the Treasury and the Federal Reserve to stem the outflow of short-term funds to foreign financial centers where interest rates were rising. Yields on 3-month Treasury bills did not drop under 2 per cent in the 1960-61 recession, while in the 1958 downturn they fell well below 1 per cent. Consequently, there was less incentive for banks to move into longer maturities in order to bolster portfolio yields.

Variation among banks

As would be expected, large banks in major cities accumulated the bulk of short-term securities during the 1960-61 recession and early post-recession months. These institutions are bankers for the nation's large commercial and industrial businesses whose credit needs vary sharply with the business cycle; they are mainly responsible for the over-all cyclical pattern apparent in loans and liquid assets of all commercial banks. This pattern is not necessarily representative

of the vast majority of smaller banks where loan volume has grown at a much more constant pace and has increased relative to deposits year after year since World War II.

Changes that occurred in the ratios of loans and short Governments to deposits in the 1958-60 period of business advance and in the 1960-61 recession for various groups of Seventh District banks are illustrated in the chart on page 13. Since figures are not available for these bank groups on holdings of Treasuries maturing within one year, maturities up to five years are used in the comparison. These securities possess a fairly high degree of liquidity. In the charts all member banks in the Seventh District are grouped according to location: in the major

city, other metropolitan centers or agricultural areas within each District state. Chicago's largest banks (those with deposits over 100 million dollars) are shown separately.

The relative improvement in bank liquidity (at least to the extent measured by these ratios) during the period from mid-1960 to mid-1961 was most marked for two of the major city groups—large Chicago banks and Des Moines banks. These were the only groups which reported a decline in the volume of loans outstanding in that year; at the same time, Government securities maturing within five years rose 40 and 20 per cent, respectively.

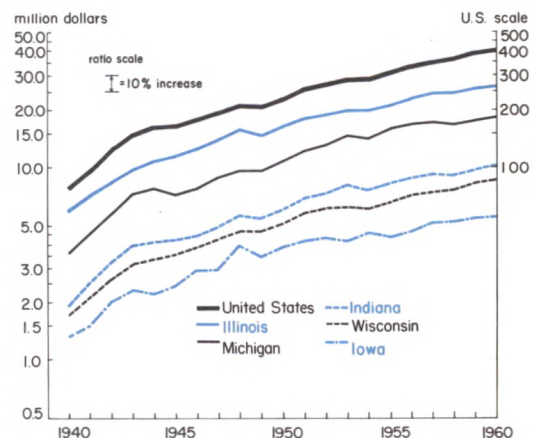
Banks in most other areas of the District continued to expand loans faster than they
—continued on page 11

Personal income trends

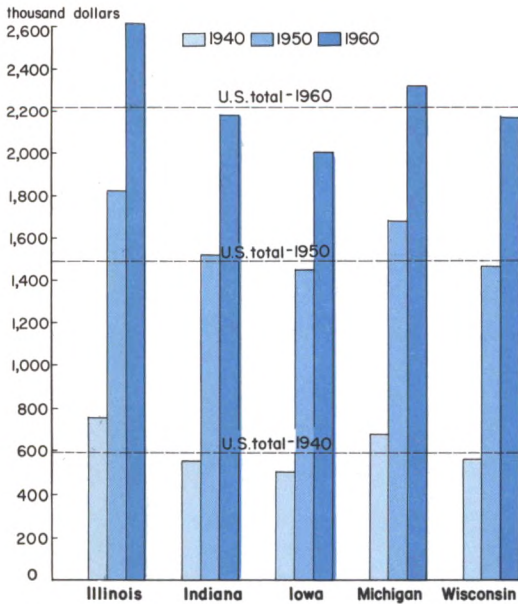
With the exception of 1949, personal income in the United States has increased each year since 1940 and by 1960 was about five times higher than 20 years ago. In the District states yearly fluctuations in personal income have occurred more frequently, reflecting changes in output of the durable goods industries, which are relatively more important in the District than in the nation and, in the case of Iowa, changes in farm income.

Between 1940 and 1960, personal income in Indiana rose 437 per cent, the largest gain in the District and well above the national increase of 407 per cent. Michigan was second with a gain of 405 per cent, followed by Wisconsin with 394 per cent, Illinois, 343 per cent and Iowa, 335 per cent.

Personal income rise continues in the United States and the District states



Per capita personal income



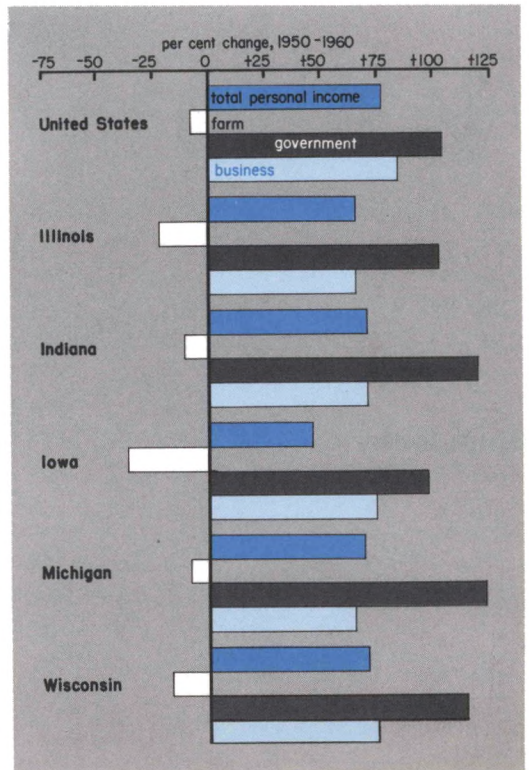
Iowa, Indiana and Wisconsin, with the smallest per capita incomes in the District in 1940, reported the largest percentage increases by 1960. The gains in each of these states during this period exceeded 290 per cent, significantly above the national increase of about 270 per cent. Illinois and Michigan, which had the largest per capita income in the District in 1940, experienced smaller relative gains—246 per cent and 242 per cent, respectively.

Personal income is derived from three broad sources—farming, government and nonfarm business enterprise, including manufacturing, construction, finance, wholesale and retail trade. Between 1950 and 1960 income from farming declined in the District states and in the nation, while income from government and nonfarm sources rose. Illinois and Iowa,

large producers of feed grain and livestock, experienced the greatest relative drop in farm income.

Income from the Federal, state and local governments in the form of wages and transfer payments for pensions, unemployment, relief and other purposes more than doubled in the District states and the nation. Indiana and Michigan reported the largest relative gains, approximately 120 per cent in each state, largely reflecting increased payments for unemployment and relief associated with the reduced employment levels in the automobile and appliance industries in recent years.

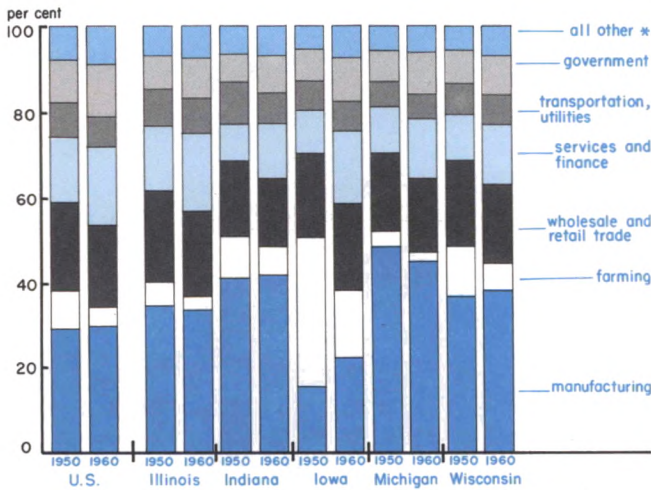
Major sources of personal income



None of the District states matched the nationwide increase of nearly 80 per cent in income from the business sector. The highly industrialized states of Illinois and Michigan had increases of 65 and 64 per

cent. This, of course, reflects in part the comparatively slow growth of heavy manufacturing industries since 1957 as well as the semi-depressed conditions in 1960.

Personal income from current production



*Principally construction and mining

Income from current production in the form of wages and salaries and other labor and proprietors' income provides a broad yardstick for measuring shifts in the industrial structure of the nation and the District states. Between 1950 and 1960, manufacturing declined in relative importance as a source of income in Illinois and Michigan but rose in Iowa and Wisconsin. In Indiana and the nation manufacturing provided about the same proportion of income in both years. In most states farming, transportation, utilities and wholesale and retail trade have declined in relative importance, while income from services, finance and the government sector has risen.

Bank loans—continued from page 9

acquired deposits during this period. This was especially true for banks in agricultural areas. For most bank groups the ratio of bank holdings of short- and intermediate-term Treasuries to deposits *declined* from 1960 to 1961 after having shown a substantial *rise* from 1958 to 1960. Nevertheless, the average maturity of Governments held by these banks within the under-five-year category was considerably shorter in 1961

than a year earlier, and their liquidity was thereby increased.

Between 1958 and 1960, several large issues of low-coupon Treasury bonds moved into the less-than-five-year maturity range. However, inasmuch as interest rates were rising during this period, the prices of these securities generally remained well below par. As interest rates declined in the second half of 1960 and the early part of 1961 in re-

sponse to a slower pace of business activity, bond prices rose sharply. Many banks took this opportunity to reduce their holdings of bonds in the under-five-year category as well as some of the high-coupon Treasury notes issued in late 1959 and purchased Treasury bills and other shorter-term securities. These maturity shifts within the short- and intermediate-term Government holdings have enhanced the over-all liquidity of Government securities portfolios and placed many banks in a much better position than in 1958 to accommodate rising loan demand.

Other liquid assets

But it is not sufficient to focus only on Government securities portfolios in evaluating the ability of the commercial banks to accommodate a possible rise in demand for loans. There are degrees of liquidity in all kinds of assets and, as over-all liquidity improves, banks may be willing to hold a larger proportion of their assets in the form of loans. Such liquidity is partly a matter of loan maturities and the rate of loan turnover. The increasing prevalence of consumer instalment lending and the trend toward amortization of term loans to business have tended to provide a more regular current cash inflow in the form of loan repayments. (For a more complete discussion of "liquidity in business loans" see *Business Conditions*, March 1961.)

In addition, "loans" include some items that are almost as liquid as short-term Treasury securities although they carry somewhat higher yields. Bankers acceptances can be quickly turned into cash with little risk of price declines and commercial paper, customarily issued with short maturities, is also relatively liquid. Banks, in addition, hold substantial amounts of securities issued by Government agencies such as the Federal

Land Banks and the Federal National Mortgage Association. These issues, though not guaranteed by the Treasury, have received widespread investor acceptance and are traded in stable markets.

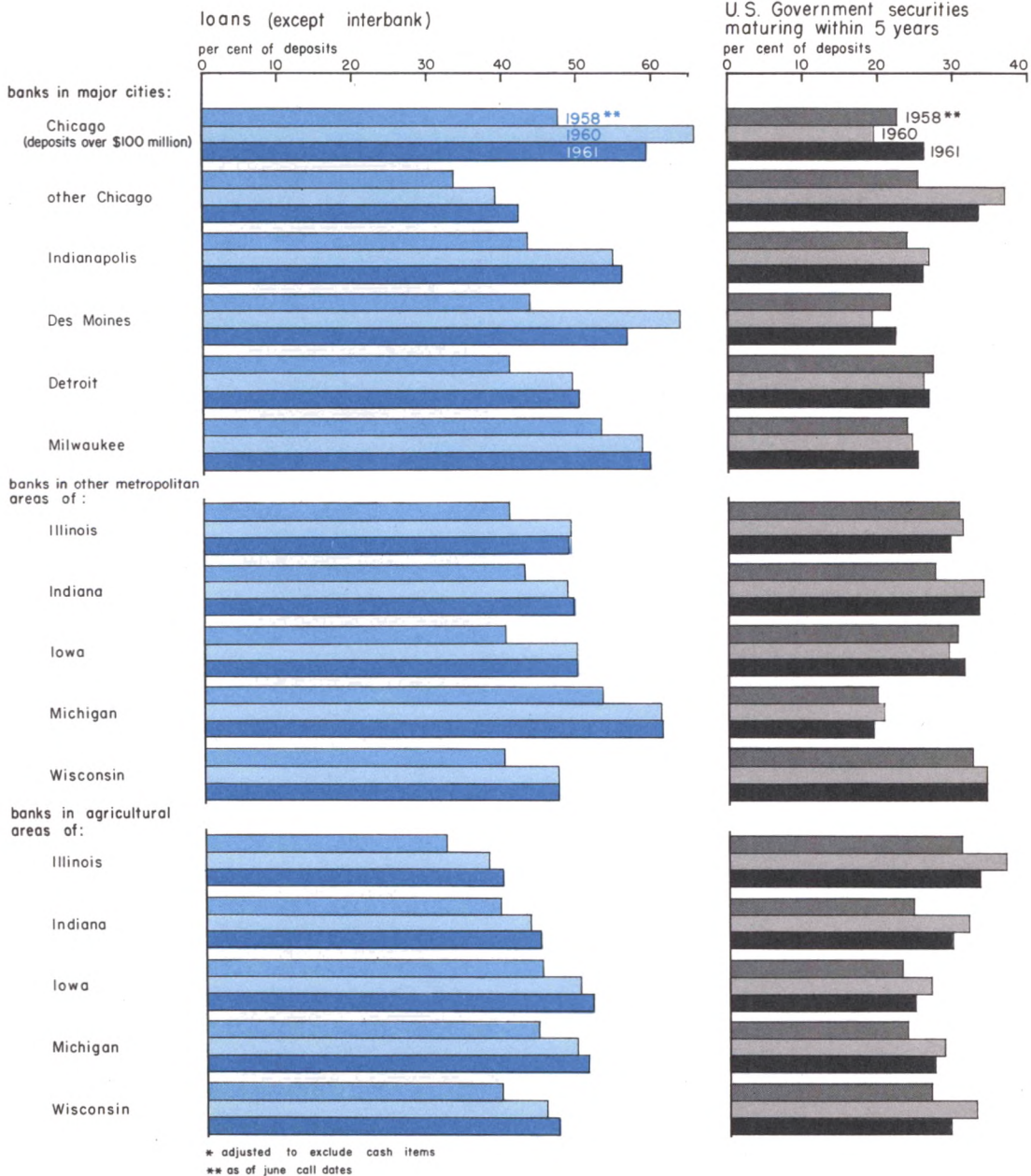
The Federal funds market, a mechanism through which mainly large banks lend excess reserves to other banks or lend funds to Government securities dealers on an overnight basis, also has become an increasingly important source of liquidity for individual banks. Loans in this market are very liquid and frequently are at rates above Treasury bill yields. The Federal funds market also is a potential source of borrowing. But when the supply of Federal funds declines as competing demands for them strengthen, potential liquidity from this source is correspondingly reduced. Moreover, outstanding indebtedness in this market represents an immediate claim on cash and thus reduces a bank's current liquid position.

The ability to borrow is an additional source of liquidity for commercial banks as a group, only when the funds come from the Federal Reserve Banks. Borrowings have been at very low levels for several months; these normally rise as private loan demands strengthen.

In several respects, the liquidity of commercial banks appears to have improved in recent years despite rising loan-deposit ratios. It is probable that this gain has been more pronounced for large banks than for small ones.

While banks will undoubtedly draw upon their liquid assets to help meet any rise in loan demand that may develop in the months immediately ahead, in the longer run, as in the past, loan expansion will be made possible largely as a result of additions to the total amount of bank reserves, as determined by the economy's monetary needs.

Ratios of loans and U. S. Government securities "under five years" to deposits* at Seventh District member banks



Farm income at high level

Farm income in 1961 may reach the highest level since 1953. Gross income is now expected to be about 4 per cent above the 38.1 billion dollars received in 1960 and net income about 8 per cent higher than the 11.7 billion last year. The rise has resulted from increased Government payments to farmers under the feed grain and wheat programs, higher price supports and a larger volume of marketings of farm commodities.

1961 in review

In the Seventh Federal Reserve District diverse trends were apparent during the year—hog producers, dairy farmers and cash grain farmers received higher incomes while incomes of some cattle feeders and poultry producers declined. Prices of choice slaughter steers reached a low of \$22.38 per hundred pounds at Chicago in July, more than \$3 below the year-earlier level and more than \$5 under the January price. Many farmers realized little or no net return from top quality slaughter cattle sold during the spring and summer. But prices improved in the fall and most cattle feeders were again operating profitably.

Hog production has responded rather slowly to the relatively favorable hog prices during the past 18 months. As a result, hog prices have remained at profitable levels, helping to boost incomes of many Corn Belt farmers during 1961. The slow upswing in hog production can be attributed in part to the Government feed grain program. More than half of the Corn Belt farmers participated in the program by reducing their acreage of corn a minimum of 20 per cent,

and many of these scaled down their livestock production accordingly.

The 1961 feed grain program raised support prices, required farmers to reduce corn and grain sorghum acreages to qualify for price supports and provided payments similar to those of the soil bank program for land withdrawn from production of feed grains. In the case of corn, support prices were increased from \$1.06 to \$1.20 per bushel. The payments for reducing acreage of these crops were made largely in the second and third quarters and totaled about 700 million dollars.

Farmers reduced the acres planted to corn and grain sorghum 18 and 29 per cent, respectively. However, exceptionally favorable weather over almost all of the major crop-producing areas, relatively large applications of fertilizer and close attention to other factors affecting crops brought a sharp increase

Government price supports increased on major Seventh District commodities

	Crop year	
	1960	1961
Manufactured milk (100 lbs.)	\$3.22 ^a	\$3.40 ^b
Corn (bushels)	1.06	1.20 ^c
Oats (bushels)	.50	.62 ^c
Soybeans (bushels)	1.85	2.30

^aEffective 9/17/60 to 3/12/61; \$3.06 until 9/16/60

^bEffective 3/13/61 to 3/31/62

^cFor compliers under feed grain program.

in yield per acre from last year's record levels. As a result, the over-all production of corn for grain was reduced only 9 per cent and of grain sorghum, 21 per cent.

Production of soybeans reached a new record, 25 per cent above year ago, as farmers, responding to high market prices last spring and to the increase in the Government support price for the 1961 crop, planted 15 per cent more acres.

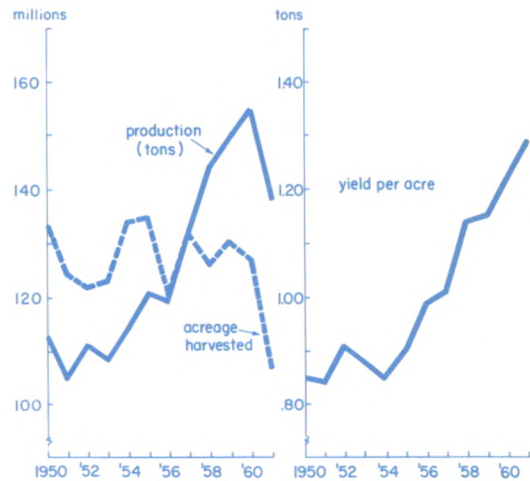
Dairy farmers continued to expand production of milk in 1961 in response to the relatively low cost of feed and the higher support prices on dry milk, butter and cheese. Since commercial demand for these products has not increased, the Government is expected to purchase under its price support program about 6 per cent of all the milk fat and 9 per cent of the nonfat solids produced this year. Government purchases of these items in 1960 were 3 and 8 per cent, respectively.

Prices for broilers and turkeys during 1961 were the lowest in over 20 years. Production of broilers has been about 12 per cent higher than last year and the number of turkeys raised was increased about one-fourth. In part, the higher production of turkeys may represent efforts by individual farmers to establish evidence of large output in anticipation of future production quotas which might be applied under Federal marketing orders authorized by the Agricultural Act of 1961.

1962 in prospect

At the recent Annual Agricultural Outlook Conference, experts from the Department of Agriculture estimated net farm income in 1962 will be about the same as 1961. A rise in cash receipts from livestock, dairy products, poultry and eggs together with increased Government payments under

Feed grain program reduced production in 1961 but yield continues upward trend



Note: Commodities included are corn, grain sorghum, oats and barley.

the wheat program would bring a small rise in gross income, but this would be offset by somewhat higher production costs.

Increased cattle and calf slaughter is expected to boost the total supply of beef about 3 per cent. With population and personal income rising, the average farm price for all cattle and calves next year may be about the same as in 1961 but prices of fed cattle next summer probably will be above the low level of mid-1961. The number of cattle and calves on farms and ranches is expected to increase further, by about the same amount as in the past two years.

The total supply of pork in 1962 is anticipated to be 3 to 4 per cent larger than in 1961 as farmers are responding to relatively favorable hog prices by gradually increasing production. This fall the pig crop will probably be about 2 per cent above last year and

the spring pig crop next year may be 3 to 5 per cent above farrowings in the spring of 1961. Thus, hog prices in 1962 may average only slightly lower than this year's level.

Feed grain supplies in the 1961-62 feeding year will be about 6 million tons below the preceding year, reflecting the cutback in acreage under the feed grain program. Total utilization, including exports, is expected to exceed production for the first time in 10 years.

Feed grain prices are slightly higher this fall than a year ago and probably will remain above year-earlier levels during the 1961-62 feeding year, reflecting higher price supports for 1961 crops, a reduction in feed grain production and a slight increase in number of livestock. However, these forces tending toward higher feed grain prices will be moderated somewhat by the large volume of corn and grain sorghum to be sold by the Commodity Credit Corporation under authority of the 1961 feed grain program.

Milk output is expected to show a further substantial increase next year. Continuation of the favorable relationship between the price of milk and the cost of feed will encourage a heavy rate of feeding and possibly reduced culling of dairy herds. Also, the expectation of stable prices for beef cattle will provide no additional encouragement for dairy farmers to shift into beef production. While the price of milk after March 31 will depend heavily on the level of support prices to be announced by the Secretary of Agriculture, a larger output will probably be reflected in a significant rise in gross receipts of dairy farmers.

Since the increase in milk production is not likely to be matched by a corresponding rise in commercial demand, purchases of dry milk and butter by the Commodity Credit Corporation under the support price pro-

gram probably will rise further.

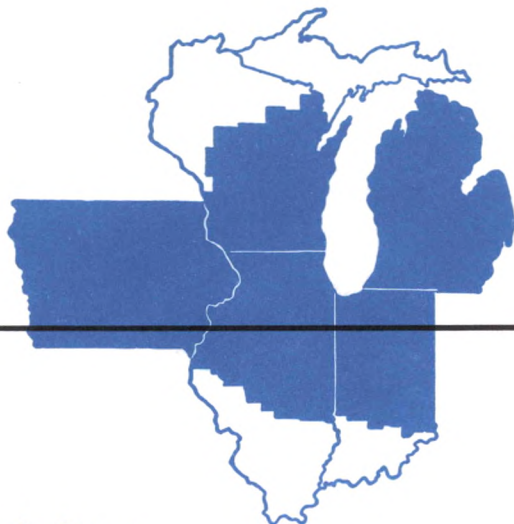
The net worth of agriculture is estimated to have risen 2 per cent in 1961 to 184 billion dollars, and Department of Agriculture analysts expect some further increase in 1962. Farm debt on January 1, 1962, is expected to be about 7 per cent above the year-ago level of 25.4 billion. The ratio of debt to the value of farm assets will approximate 13 per cent, slightly higher than at the beginning of 1961.

Prices of farm real estate appear to be rising again after stabilizing temporarily in 1960 (prices actually declined in some Corn Belt states during 1960). This reflects both the rapid business recovery and the higher level of net farm income. Even with the improvement in farm income the net return on farm real estate was estimated to be about 3.3 per cent of market value in 1960 and is not expected to increase significantly either this year or next. Despite these low returns, many farmers continue to seek additional land for farm enlargement so as to increase efficiency. This appears to be the major factor supporting a strong demand for farm land. On the other hand, the persistent and substantial rise in farm real estate values has deterred present owners from offering land for sale, with sales of farm land at the lowest level in nearly 30 years.

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Business Conditions

*a review by the
Federal Reserve Bank of Chicago*



Index for the year 1961

Agriculture

- Farm income at high level, December, 14-16.
- Trends on farms in District states, January, 4-7.

Banking and monetary policy

- Bank loans and liquid assets, December, 5-9, 11-13.
- District dimensions, March, 4-8.
- Interest rates in a free market, September, 11-16.
- Liquidity of business loans, March, 8-12.

Business finance

- Financing the business upsurge, October, 5-11.
- Small business investment companies, a progress report, May, 11-16.

Consumer credit and savings

- Consumer spending — will it give depth and breadth to the recovery? August, 4-7.
- Mortgage rates decline further, May, 5.

Consumer credit (con't.)

- Shift from saving to spending? August, 8-10.
- Twentieth anniversary of savings bonds, May, 6-10.

Economic conditions, general

- Depressed areas — some lessons from the past, June, 5-12.
- Higher education — rapid growth, financial headaches, February, 11-16.
- Personal income trends, December, 9-11.
- Population growth in the Fifties — five midwestern states, March, 12-16.
- Private pension plans continue rapid growth, September, 6-11.
- Spotlight on prices, November, 2-14.
- The stock market in 1961, August, 10-16.
- The trend of business, January, 2-4; February, 2-5; March, 2-3; April, 2-4; May, 2-4; June, 2-5; July, 2-4; August, 2-4; September, 2-5; October, 2-5; November, 14-16; December, 2-5.

Industry and trade

Area shifts in manufacturing, July, 11-16.

Downtown office space in Chicago—supply up, rising further, April 4-7.

Electric power consumption — a measure of industrial activity in the Indianapolis area, January, 7-12.

Mobile homes, a maturing industry, February, 6-10.

The port of Chicago — future prospects, July, 5-11.

International economic conditions

Economic integration in Europe — its significance for U. S. exports, April, 7-16.

The reverse yield gap, January, 12-16.

Public finance

“Fannie Mae” and credit policy, June, 12-16.

Recent trends in state tax legislation; fiscal pressures easing? October, 11-16.