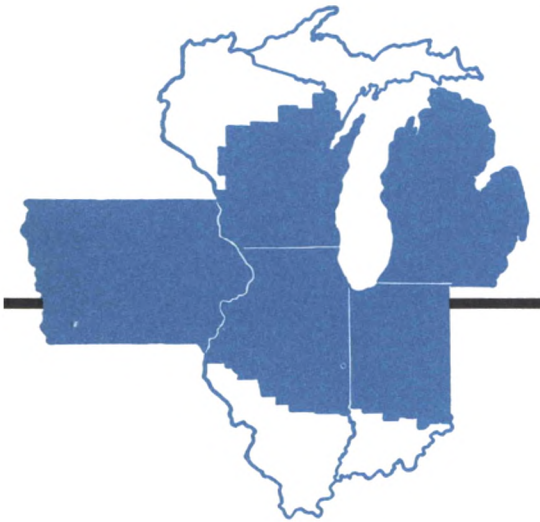
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1964 December

Contents

BUSINESS CONDITIONS is published monthly by the Federal Reserve Bank of Chicago. George W. Cloos was primarily responsible for the article "The Trend of Business," Dorothy M. Nichols for "For Want of a Coin . . ." and Charlotte H. Scott for "Turnover of Savings Deposits Declines."

Subscriptions to **Business Conditions** are available to the public without charge. For information concerning bulk mailings, address inquiries to the Federal Reserve Bank of Chicago, Box 834, Chicago, Illinois 60690.

Economic Fact Book: An Economic Fact Book of the Seventh Federal Reserve District has recently been published. In this 48-page booklet have been assembled considerable data describing some of the major economic features of the Seventh District states. Copies may be obtained by writing to the Research Department of this Bank.

Economic Growth and Monetary Stability: A booklet containing speeches on this subject given at Basle, Switzerland, on November 9, 1964 under auspices of the Per Jacobsson Foundation is available free on request to: The Per Jacobsson Foundation, International Monetary Fund Building, Washington, D. C., 20431.

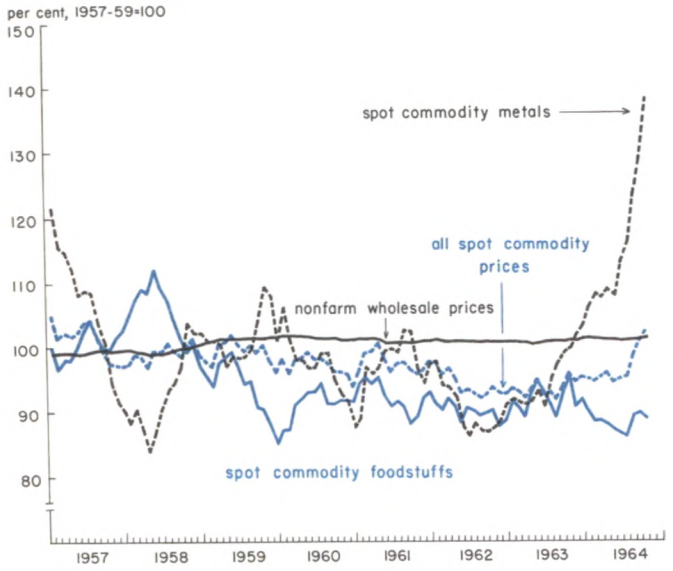
THE Trend OF BUSINESS

As 1964 draws to a close it appears likely that the momentum of the business expansion will carry output, employment and income to new high ground in the early months of next year. At present, therefore, attention centers on the degree to which margins of unused resources of manpower, facilities and raw materials have been narrowed.

The holiday season is also the time for forecasts of economic activity in the year ahead. These projections commonly call for a slowing in the rate of economic advance, or even a leveling or decline, in the second half of 1965. Paradoxically, the reasoning behind such expectations is based to a large extent on excessive demands being placed upon certain types of productive capacity at present.

There is widespread concern that current inventory building, particularly of steel products, will give way to inventory liquidation some time in the spring or summer of 1965. In addition, it is argued that recent evidence of upward pressure upon some prices will help to set the stage for a business decline.

Nonferrous metals lead rise in sensitive prices while most wholesale prices show little change



Upward price pressures are stronger now than at any time in the past six years. At the end of October the Department of Labor's spot commodity price index (industrial and agricultural raw materials that trade on organized markets) was 7 per cent above the level of a year earlier, mainly because of sizable increases for most nonferrous metals and steel scrap. Higher prices were announced in October and November for a variety of commodities including metal products, electrical apparatus, chemicals and paper. There is some indication that since last summer the average of all industrial wholesale prices has been tilted upward for the first time since 1958.

Prices for most commodities have not changed appreciably,

and in some lines declines have predominated. Do recent developments foreshadow a price upsurge similar to that experienced in the 1946-47, 1950-53 or 1955-57 periods? The evidence is inconclusive, but there are excellent reasons to believe this is not the case.

Increase in Chicago area want ads suggest further employment growth

Focus on steel

In the spring of 1962 and again in 1963 measures of business activity were first stimulated and then retarded by accumulations of steel inventories followed by liquidations. Each time the cause was apprehension that labor-management negotiations in the industry would result in a deadlock leading to work stoppage and each time agreements were reached without a strike. These successful negotiations raised hopes, now proved groundless, that the next labor contract talks could be conducted without widespread stockpiling by customers. Some steel users had begun to take steps to build inventories in early September. Under their contract the steel workers can serve notice in January that negotiations are to be reopened and a strike could be called on May 1.

Apprehension over a possible steel strike has been aroused, in part, by the unexpected strikes at General Motors and Ford over local plant issues.

Steel output reached an annual rate of 137 million tons in November with current estimates of the rate of steel "chew up" not exceeding 115-120 million tons. A large portion of current production clearly is being added to stockpiles. The industry apparently could still boost steel ingot output appreciably; unofficial estimates place present annual capacity at 165 million tons or more. Finishing capacity to produce the types and qualities of steel required by customers, especially sheet and plates, however, is being taxed to the limit. In addition, transportation facilities are said to be hampering expansion of output. Steel scrap prices have risen from $25 to about $40 per ton in the past year. Finally, steel producers in the Chicago area have encountered shortages of suitable labor, both skilled and unskilled, that have caused them to send recruiters as far as Pennsylvania and northern Minnesota.

If labor-management negotiation teams make substantial progress toward agreement in the weeks ahead, prospects for continued economic stability will be improved. If not, inventory building will continue and the ultimate reaction—strike or no strike—will be adverse.

Inventory building

Preliminary reports indicate very little inventory building by manufacturing and trade

firms in the third quarter. Subsequent revisions in the data may or may not change this picture appreciably. Nevertheless, there can be little doubt that inventory building accelerated in the fourth quarter, not only for steel but other commodities as well.

With the dollar value of business inventories less than 1.5 times monthly sales, inventory-sales ratios were at a very low level at the end of September. The overall stock-sales ratio was at a record low for any September in the series that dates back to 1955. If an imminent business recession was feared, low inventories would be comforting. At present, however, larger stocks would provide a desirable cushion against a general advance in prices.

Measuring capacity

Until recently it was assumed that the price level could be kept in check if unused capacity of manpower and facilities remained at or above certain levels. Widely accepted, although highly arbitrary, values for these "limits" were 4 per cent of unemployment as a percentage of the labor force and 10 per cent of manufacturing capacity.

Unemployment rates and unused manufacturing capacity present difficult problems of measurement, both conceptually and statistically. Attempts at measurement, nevertheless, are made by both public and private bodies. In October, the seasonally adjusted national unemployment rate remained at 5.2 per cent and unused manufacturing capacity was believed to amount to about 12 per cent.

Despite these margins of unused capacity, overall, in manpower and facilities, average prices are being nudged upward. For many specific products and for particular types of workers, margins of unused capacity are virtually nonexistent as, for example, the situation in steel. Many other cases can be cited. The aluminum industry has ample finishing capacity but a tight supply of primary metal. For machine tools, order backlogs have increased rapidly because of shortages of skilled metal workers. The last time similar conditions existed in the machine tool industry was 1957.

The adequacy of the basic labor supply varies substantially by regions and by industry as well as by types of skill. In each of the five states of the Seventh Federal Reserve District, estimated unemployment rates are far below the national average. In this region only one center—South Bend—of a total of 23 major labor market areas reports a "substantial labor surplus" with unemployment in excess of 6 per cent. In contrast, 31 of 150 centers nationally have a labor-surplus.

In spite of shortages and rising prices in some sectors, the fact remains that the nation is not taxing its resources to the extent noted in earlier periods of general price inflation. Unfilled order backlogs of manufacturers of durable goods rose in each of the first nine months of 1964. At the end of September backlogs amounted to 2.7 times shipments for the month compared with a ratio of 2.6 a year earlier. Nevertheless, unfilled orders remained well below the average for most years prior to 1962.

A recent survey by McGraw-Hill indicates that business firms plan to spend about 5 per cent more for new plant and equipment in 1965 than in the current year, with relatively much larger gains for chemicals, autos and paper. Last year a similar survey showed plans to increase such expenditures about 4 per cent from 1963 to 1964; the actual gain apparently will amount to about 13 per cent. Capital outlays, quite probably, will rise more than 5 per cent in 1965 as firms undertake projects not now planned, but it is noteworthy that larger increases are not contem-

plated at present. Significantly, business firms reporting to McGraw-Hill do not expect substantial price changes next year, either for the products they sell or those they purchase. Prices for both classes of goods, however, are expected to increase—3 per cent for goods purchased and 1 per cent for goods sold.

Evaluations of the inflationary potential must consider also lines such as motor vehicles which have contributed heavily to the recent business expansion, but which are not generally expected to show substantial further gains in 1965. The picture in construction also suggests caution as to the strength of general business next year. In the third quarter, construction contracts reported by F. W. Dodge were only slightly above last year for the nation and were somewhat lower for the Midwest.

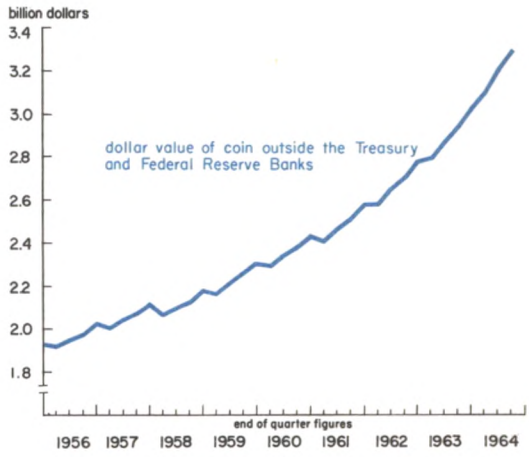
With the business outlook consisting of a more or less normal mixture of strengths and weaknesses and with no obviously unbalanced situation having yet developed, the prospects, overall, would appear to fit best in the "favorable" category.

For want of a coin . . .

Did you notice how it pleased the clerk when you gave her exact change in payment for your purchase? In this busy pre-holiday period, when the need for coins to facilitate retail transactions is at its peak, the short supply of nickels, dimes and other coins is a cause of considerable frustration and delay to banks, businesses and shoppers. The shortage continues despite record production of new coins and a rapid increase in the total amount of coin "in circulation."

Until about two years ago the processes by which the public's need for coins was satisfied were taken more or less for granted. Merchants who accumulated more coin than they needed for current operations deposited it with their banks and could count on quick replenishment by their banks when supplies were depleted. Member commercial banks (and through them nonmember banks), in turn, shipped excess coin to their Federal Reserve Banks and could anticipate prompt delivery of coin ordered from the Reserve Banks. The ready mobility of existing coin through the Federal Reserve facilities made

Coin "in circulation" growing rapidly

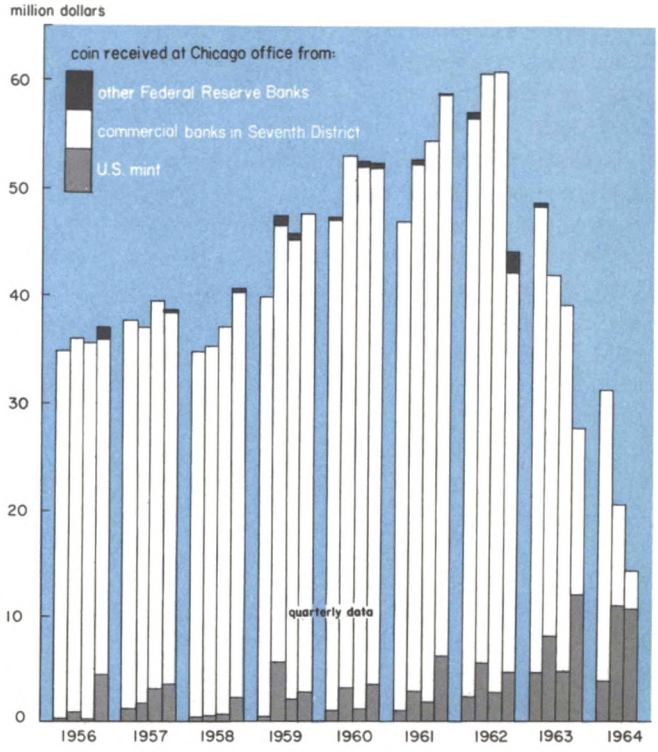


it possible for the public to obtain coins in the amounts and denominations needed without holding individual inventories in anticipation of future needs.

During the past two years, however, the Reserve Banks have been unable to fill all member bank orders for coin, mainly because their own major source of supply—the return flow from the public through the commercial banks—has largely dried up. The resulting necessity to ration coins, quite naturally, has had the effect of further curtailing the flow-back.

Why are coins in short supply? All coins are manufactured in U. S. Government mints and distributed by the Treasury through the Federal Reserve Banks. Year-to-year growth is provided through new production while short-run changes in demand normally are reflected in variations in the amounts held in the Treasury and Reserve Banks. As the accompanying chart shows, the growth in the dollar amount of coin in circulation has accelerated in the last few years. The total outstanding since 1961 has risen 25 per cent and has increased from 10 per cent to 12 per cent as a proportion of all currency in circulation. All coin except that held in the Treasury and the Federal Reserve Banks is by definition "in circulation." There is no way to measure the extent to which coins are effectively removed from day-to-day use by diversion into private collections or by hoarding for speculative or other purposes. In addition to the immobilization of some portion of the total coin supply through these means, more widespread use of vending machines, parking meters and the like has increased the need for coins and possibly also reduced their turnover.

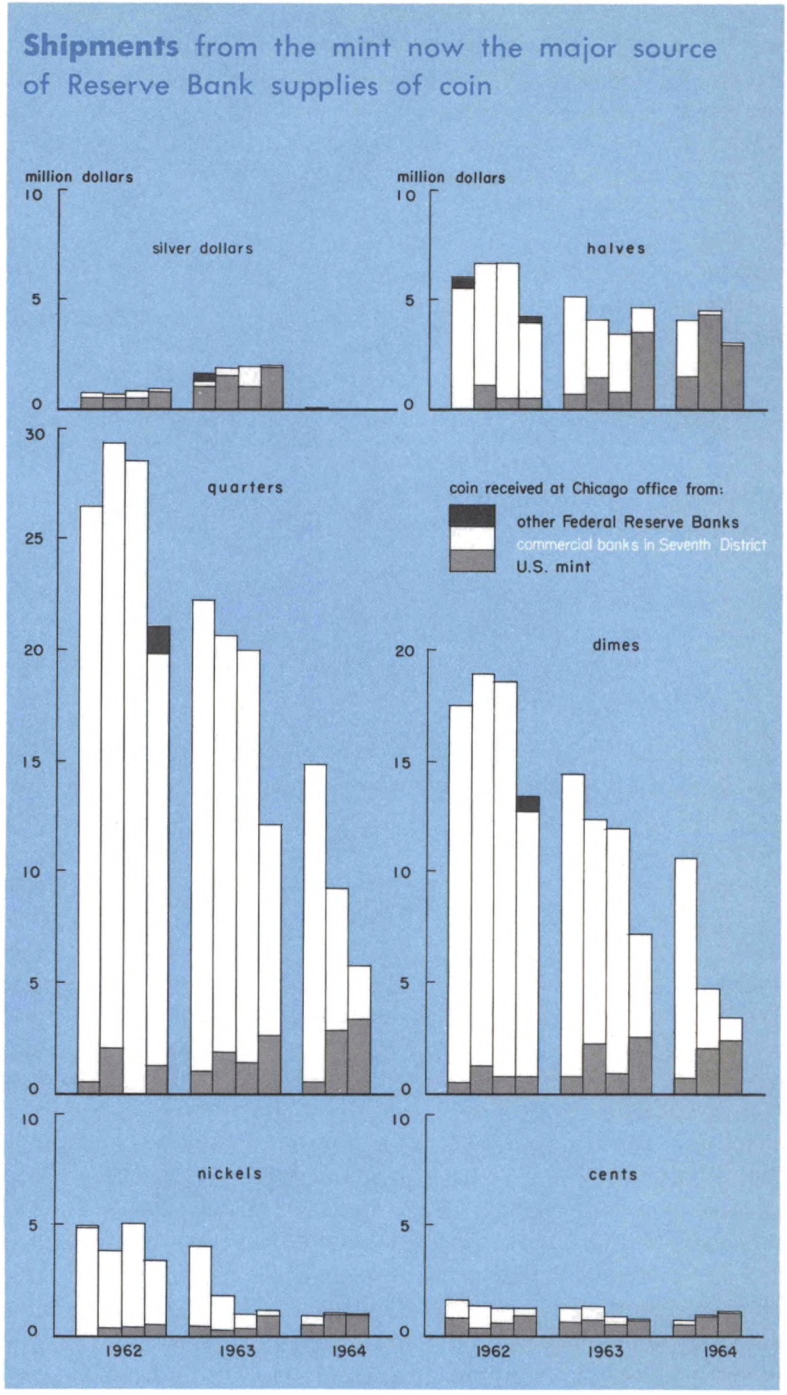
Return-flow to Reserve Bank has shrunk to a trickle



Production of coins has increased greatly. The number of coins minted was 4.3 billion in fiscal 1964 compared with 3.1 billion in 1961. Receipts from the mint of new coin at the Reserve Bank in Chicago have risen sharply over the past two years. Except for the decline since late 1962 in flow-back of coins from circulation, there probably would have been no need to ration coin shipments to member banks during the past two years.

The greatest declines in coin receipts at this Bank have been in quarters and dimes. This reflects the fact that these coins account for the bulk of the dollar volume of all coins outstanding. In relative terms, however, reduction in the flow-back from commercial banks has been at least as sharp for other denominations. By the third quarter of this year, the mint was the major source of receipts in all denominations as the return flow from the banks had slowed to a trickle. Receipts from the mint have risen for all denominations except silver dollars.

Despite stepped-up production of new coin and plans for expanding capacity of minting facilities, newly minted coins are not yet flowing into circulation in sufficient quantities to satisfy all transaction needs, in addition to the demands of collectors and speculators. Undoubtedly, many coins are being accumulated in antici-



pation of a further rise in the price of silver that would make them more valuable as metal than as money. However, nearly all of the newly minted half-dollars, which carry the profile of the late President Kennedy, apparently have "disappeared" as mementos and thus have not increased the availability of half-dollars for transaction purposes. Nearly one-third of the dollar amount of all coins received by this Bank from the mint in 1964 were Kennedy halves.

Boosting supply is the most obvious and often the only action to resolve shortage situations. The Treasury's present plans call for the production of 8 billion coins in fiscal 1965—nearly double last year's record production. Once the public is convinced that supplies are likely to be adequate to meet all demands, existing private stocks of coins will probably return to circulation and the current "shortage" would quickly be converted into a "surplus." Whether the larger production of coin in the months ahead will be adequate to cause this development remains to be seen.

Turnover of savings deposits declines

The rapid climb in commercial bank savings deposits in recent years has rekindled interest in the patterns of use of these funds. Attractive interest rates offered for savings deposits and the wider adoption of the practice of computing interest from date of deposit to date of withdrawal apparently have caused many holders of bank accounts to shift a part of their funds from demand or checking deposits to savings deposits. Does this mean that savings deposits now more than in earlier years are being used as a substitute for checking accounts or currency? Have savings deposits become increasingly sensitive to changes in interest rates and are they shifted among banks or between banks and other financial institutions in response to differences in interest rates? Either development would result in greater "activity" in savings accounts.

Bank managers must be concerned with the rate of activity of savings deposits because of its implications for bank operating costs and policies relating to the allocation of bank funds, especially between short- and long-term loans and investments.

Activity of savings deposits is commonly measured in terms of "turnover." For example, if withdrawals from an account during a year are equal to the average balance in the account, it has a turnover of one (see box on page 10). Turnover may change either because withdrawals rise or fall while the average balance remains stable—as withdrawals are offset by new deposits—or because the average balance changes while withdrawals remain at the same level. Some information is available on the turnover of savings deposits during the Twenties and Thirties and during recent years for commercial banks in

Measuring savings deposit turnover

Monthly turnover rates were calculated by dividing withdrawals for each month by the average of balances at the end of the current and preceding month. Annual turnover rates were computed by dividing withdrawals during the year by the average of end-of-month balances within the year.

Throughout this article savings deposits refer to individuals' combined holdings of "passbook" savings accounts and time certificates of deposit (CDs). Turnover rates for the two components of savings deposits are shown below.

Savings deposits represent more than 85 per cent of total time deposits of individuals and businesses at banks in the District's urban areas. Consequently, the turnover of savings deposits and that of total time and savings deposits have tended to resemble one another closely. The increased ownership of time deposits by corporations since 1961, however, has made the turnover of the aggregate more stable and higher than in earlier years.

Time deposits' annual rate of turnover

	Personal deposits			Corporate deposits	Total time deposits
	Passbook	Time CDs	Total		
1959	.519	.534	.520	1.164	.548
1960	.501	.437	.498	.548	.522
1961	.500	.934	.517	1.491	.588
1962	.529	.384	.521	.788	.554
1963	.480	.410	.475	.839	.521

urban areas in the Seventh Federal Reserve District.

Turnover of savings deposits at the District's urban area banks has varied with shifts in the level of general business activity. During the 1957-58 recession turnover slowed. During the 1960-61 recession turnover remained stable at a somewhat lower level than in late 1959.

Interest rates on savings deposits tend to remain unchanged during business recessions while rates of return on Government securities and many other financial assets decline. Such a development tends to reduce withdrawals from savings to acquire other assets. At the same time, individuals experiencing, or expecting, a decrease in income may curtail

Distribution of savings deposit turnover rates by size of bank, 1963

Total deposits* (million dollars)	Number of banks	Total	Annual rate of turnover: Under .30	.30-.40	.40-.50	.50-.60	.60 and over
			(per cent of banks)				
Under 10	86	100	5	14	21	15	45
10-20	115	100	3	23	29	30	17
20-50	135	100	5	20	37	27	11
50-100	63	100	3	32	43	11	11
100 or more	46	100	4	33	22	20	22
All banks	**445**	**100**	**4**	**23**	**31**	**22**	**20**

*Including demand deposits

their use of savings deposits to finance purchases—especially of durable goods. Savings, consequently, have been used less intensively in recessions, similar to demand deposit use.

The 1962 peak in savings deposit turnover in Iowa, Michigan and Wisconsin arose largely from transfers of funds within individual banks from passbook savings accounts to time certificates of deposit. In these states, in contrast with Illinois and Indiana, many banks early in 1962 began to offer again a variety of rates on time accounts. Transfers within a bank presumably were related more to the changes in the interest rate schedules than to changes in income of the account holders.

Turnover of savings deposits at Seventh District banks was lower in 1963 than in any other recent year for which information is available—that is, since 1956. This was the situation generally in each of the five District states and for most of the metropolitan

Savings deposits: account size and turnover

Urban area	Average size of account January 31, 1957	Turnover 1956	Turnover 1963
Illinois			
Bloomington	906	.45	.38
Champaign-Urbana	581	.77	.51
Chicago	1,195	.49	.41
Danville	873	.62	.40
Decatur	536	.82	.54
Peoria	817	.52	.62
Quad Cities	982	.55	.38
Rockford	986	.56	.44
Springfield	900	.47	.33
Indiana			
Anderson	n.a.	n.a.	.49
Fort Wayne	939	.44	.38
Gary-Hammond	n.a.	n.a.	.48
Indianapolis	957	.49	.42
Lafayette	668	.41	.44
Muncie	867	.49	.51
South Bend	950	.52	.45
Terre Haute	1,088	.33	.34
Iowa			
Burlington	937	.39	.41
Cedar Rapids	870	.56	.55
Clinton	783	.48	.33
Council Bluffs	n.a.	n.a.	.42
Des Moines	632	.58	.58
Dubuque	1,079	.38	.36
Marshalltown	n.a.	n.a.	.44
Mason City	542	.67	.31

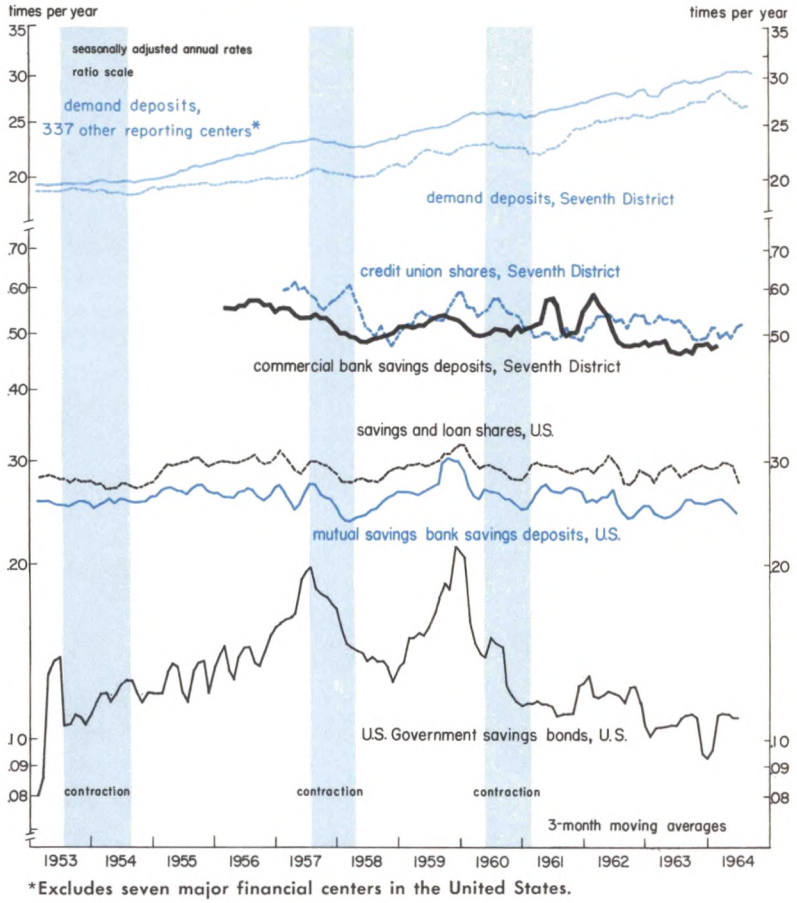
n.a. not available.

Urban area	Average size of account January 31, 1957	Turnover 1956	Turnover 1963
Iowa			
Muscatine	1,098	.40	.30
Ottumwa	718	.47	.34
Sioux City	915	.40	.31
Waterloo	418	.67	.46
Michigan			
Adrian	890	.63	.53
Ann Arbor	n.a.	n.a.	.45
Battle Creek	876	.56	.45
Bay City	975	.54	.46
Detroit	1,027	.69	.58
Flint	951	.61	.57
Grand Rapids	1,022	.64	.69
Jackson	680	.59	.48
Kalamazoo	595	.68	.92
Lansing	891	.58	.73
Muskegan	850	.55	.49
Port Huron	946	.57	.40
Saginaw	809	.57	.42
Wisconsin			
Appleton	n.a.	n.a.	.39
Green Bay	1,021	.49	.43
Kenosha	1,058	.52	.42
Madison	669	.64	.43
Manitowoc	772	.63	.44
Milwaukee	917	.63	.46
Oshkosh	821	.51	.34
Racine	805	.57	.49
Sheboygan	822	.49	.37

areas (see table on page 11).

Savings deposit turnover thus has declined in the expansion since the 1960-61 recession. This is in contrast with rising turnover following the 1957-58 recession. Turnover of demand deposits rose during both periods of rising business activity.

Rates of turnover of savings deposits and other assets compared



*Excludes seven major financial centers in the United States.

Other assets

Although the annual rate of turnover of savings deposits in the District's urban areas, on balance, remained steady for some time at around 0.50 — or about once in two years—the rate of demand deposit turnover for these centers has steadily risen. Excluding the five major cities — Chicago, Detroit, Milwaukee, Indianapolis and Des Moines—the rise has been from 21.9 times per year in 1959 to 26.5 in 1963 and 26.8 in mid-1964. Any funds that have been transferred from demand to savings accounts have evidently represented for the greater part "idle" balances.

It is of interest to note also that savings deposits at commercial banks turn over at about the same rate as credit union shares. The turnover rates of other "near-moneys"—mutual savings bank deposits, savings and loan shares and U. S. savings bonds—are lower. This suggests that both savings deposits and credit union shares have a somewhat larger "active" component than other near-moneys. Furthermore, it appears that the turnover rates of all these near-moneys, except savings bonds, have remained at the same low levels for many years.

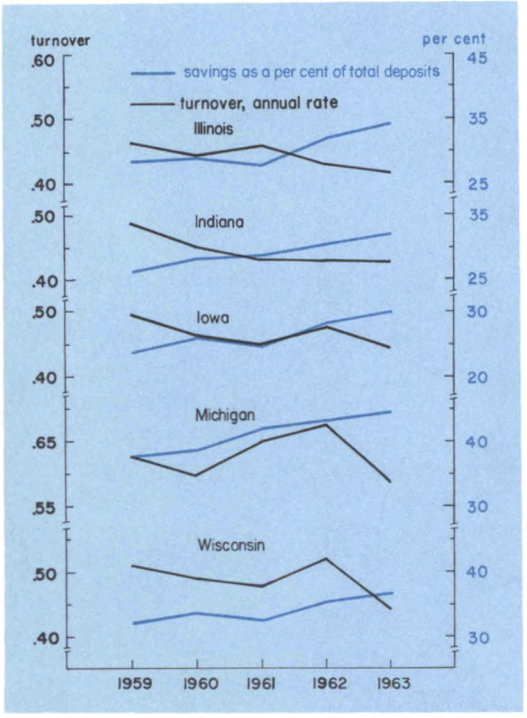
Above-average turnover in Michigan

The turnover of savings deposits at com-

mercial banks in Michigan's urban areas during the 1959-63 period was consistently higher than in the other four District states. In part this is because school districts in Michigan have traditionally used savings accounts to hold funds and these deposits usually do not remain unused for long periods.

One factor which appears to be important in influencing savings deposit turnover in the areas outside of Michigan is account size. As is evident in the table on page 11, in the six areas (excluding Detroit and Grand Rapids) where the average size of savings accounts in January 1957 was more than $1,000, the 1956 turnover rates were between 0.33 and 0.52; in five areas where the average size of accounts was lower—less than $600—the range of the turnover rates was from 0.67 to 0.82. Information for more recent years is not available.

Turnover of savings deposits is lower now while savings are higher as a share of total deposits



The average size of savings accounts at banks has undoubtedly increased since 1956, reflecting rising personal incomes. This is indicated by the information from several sources, including the Survey Research Center of the University of Michigan. According to the Center's studies, the proportion of spending units in the United States with $2,000 or more in savings accounts (including accounts at banks, credit unions and savings and loan associations) has risen from 8 per cent in 1947-49 to 21 per cent in 1963. On the other hand, the proportion of spending units with checking accounts of $2,000 or more has declined slightly, and on the interview date in 1963, only 4 per cent of spending units had checking accounts of $2,000 or more. Growth in account size appears to be one of the main reasons for the decline in savings deposit turnover.

Effect on bank expenses

A comparison of average size of account with size of bank for the District's urban area banks at the end of 1956 indicates that the two are related. Hence, in the table on page 10, the association of high turnover with small banks can be explained partly on the ground that the average size of savings accounts tends to be small at the smaller banks. The proportion of banks with turnover rates of 0.50 and over decreases with increasing bank size except for the largest groups—banks with total deposits of 100 million dollars or more. Three-fifths of the large Seventh District banks with high turnover rates are located in Michigan.

In a given bank, a high turnover rate often means a considerable amount of bookkeeping in the processing of deposit inflows and withdrawals and higher operating expenses. The average costs of handling deposits and withdrawals have been estimated for five large banks in 1960 as follows: $0.42 for each deposit and $0.45 for each withdrawal.[1]

The higher turnover rates at the smaller banks imply that savings deposit operations may be relatively more costly at these banks. This could be one reason why smaller banks have generally been less aggressive in raising the rates they pay on such funds.

About 20 per cent of the banks in the District's urban areas have an annual turnover of savings deposits of 0.60 or more. Over three-fourths of the banks had turnover rates between 0.30 and 0.60.

[1]Allan R. Drebin, "Savings Accounts and Commercial Bank Earnings," Bureau of Business Research, Graduate School of Business Administration, the University of Michigan, Ann Arbor, 1963.

Perspective on farm income in the Seventh District

More than one-fifth of all farm products sold by United States farmers is produced in the five states of the Seventh Federal Reserve District—22 per cent during 1963.[1] The story, as in previous years, is largely one of livestock. Of the 8 billion dollars of farmers' sales in these states—Illinois, Indiana, Iowa, Michigan and Wisconsin—somewhat more than 5 billion was livestock or livestock products such as milk and eggs, and somewhat less than 3 billion was crops.

For the nation as a whole, farmers' sales of livestock also exceed their sales of crops but by a much smaller margin than in the District. Only in Illinois, among the District states, are sales of crops approximately equal to sales of livestock.

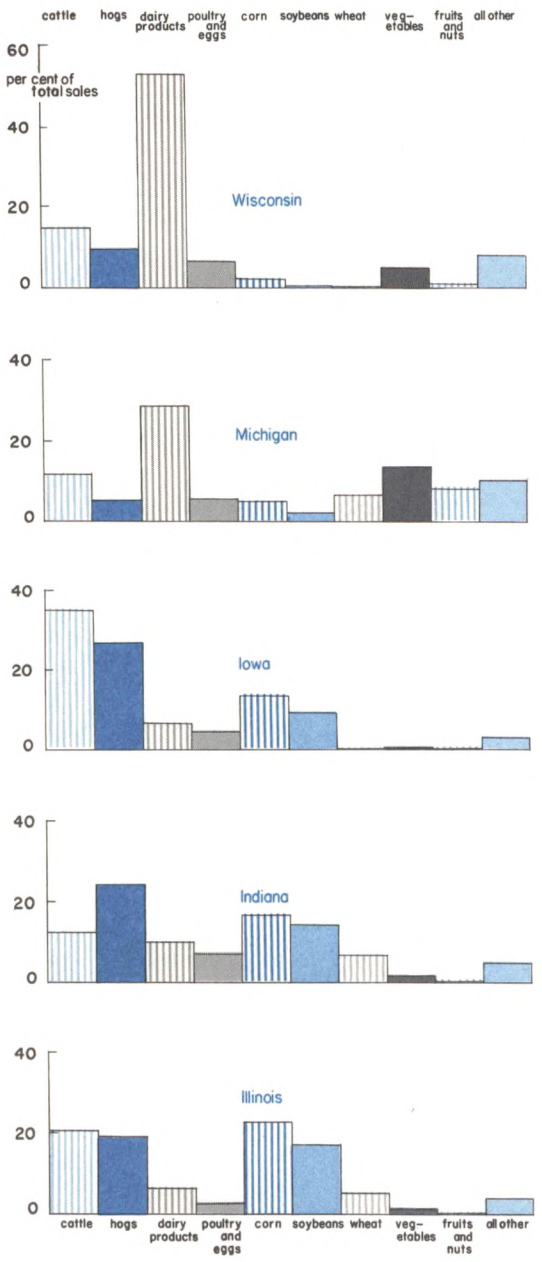
[1]The data in this article are taken largely from U. S. Department of Agriculture, *Farm Income, State Estimates, 1949-1963,* August 1964.

Crops, of course, are more important than is indicated by the data on farm income. Most of the crops grown on Midwest farms are fed to livestock produced on the same farms. The full value of the corn and other feed crops is

Sales of farm commodities—1963

	Rank in nation				
	Iowa	Illinois	Indiana	Wisconsin	Michigan
Total sales	2	4	8	11	19
All livestock	1	3	10	6	17
All crops	5	3	8	34	18
Cattle	1	6	14	12	24
Hogs	1	2	3	9	15
Dairy products	8	9	11	1	6
Corn	2	1	3	13	10
Soybeans	2	1	3	25	14
Turkeys	3	18	9	6	17

Farmers' sales
by kind of commodity



much greater, therefore, than the market sales of such crops.

The District is not a homogeneous area; each state has its own predominant types of agriculture that farmers have found through the years to be most profitable. These are determined largely by nature—that is, soil and climate—but are modified by availability of markets and in many instances the specific skills, likes and dislikes of individual farmers.

Several commodities are combined in some of the sales figures presented in the accompanying charts. Dairy products, for example, include wholesale milk—which dominates the figure in each of the District states—and such other products as farmers' sales of milk at retail and butterfat. The "poultry and egg" sales are similarly dominated in each state by sales of eggs although turkeys, broilers and "other chickens" are important in some areas.

Sales of many different vegetable crops are relatively important in Michigan. Dry beans are of greatest importance by far, accounting for 6 per cent of total sales of farm commodities in that state, but potatoes, onions, tomatoes and cucumbers each account for about 1 to 2 per cent of all sales. In Wisconsin the most important vegetables are potatoes, green peas and sweet corn in that order. Tomatoes are the most important vegetable crop in Indiana while sweet corn leads in Illinois.

Fruits are important in Michigan, with apples accounting for about 3 per cent of total sales. Cherries, grapes, strawberries and peaches are of lesser importance, ranging from 0.6 per cent to 1.2 per cent of total farmers' sales in that state in 1963. Apples are also the most important fruit in each of the other District states except Wisconsin where cranberries have a small lead.

Farmers' sales of crops and livestock represent neither their *gross* nor their *net*

farm income. On a per farm basis, sales ranged from around $7,000 in Michigan to $15,000 in Iowa and Illinois. In addition, farmers received Government payments and realized some value from commodities produced and consumed on the farm as well as from living in the farm dwelling. This "other income" ranged from an average of about $1,300 per farm in Wisconsin to $1,700 in Iowa and when combined with receipts from sales of commodities provided average gross income per farm of about $8,500 in Michigan and $17,000 in Illinois.

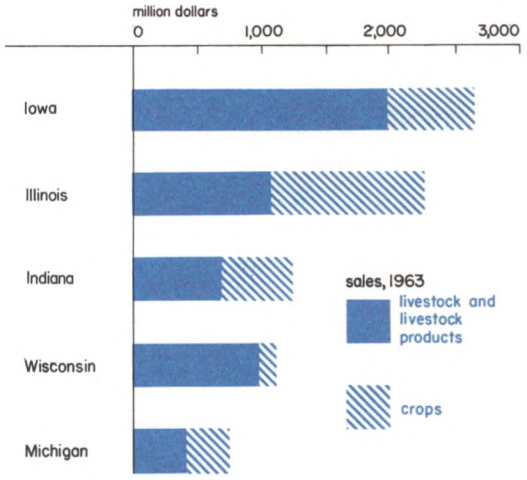
After deduction of farm production expenses, the resulting realized net income per farm ranged from an average of about $2,500 in Michigan to $4,860 in Illinois. Even this figure is not a measure of the total personal income per farm since it excludes any income realized from sources other than farming. While information on the amount of such income is not available for individual states, it is estimated to account for about one-third of the total net income of persons living on farms in the United States. The relative amount of income of the farm population from nonfarm sources tends to be greater in the areas of low farm income.

Inasmuch as sales of livestock and livestock products are of such importance in the District states, prices for these commodities strongly influence the level of farm income. As a result of the depressed livestock prices during most of 1964, net farm income in the District probably has been down somewhat more than in the nation as a whole. The prospect of both improved livestock and grain prices during the coming year, however, indicates higher income levels in 1965.

Income per farm, 1963

	Realized gross farm income	Production expenses	Realized net farm income
Iowa	$16,794	$12,221	$4,573
Illinois	16,869	12,008	4,861
Indiana	11,597	7,907	3,690
Wisconsin	9,874	6,899	2,975
Michigan	8,541	6,062	2,479
United States	11,682	8,178	3,504

Livestock, a major source of farm income in District states, 1963



Business Conditions

a review by the
Federal Reserve Bank of Chicago

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