

FEDERAL  
RESERVE BANK OF PHILADELPHIA

OCTOBER

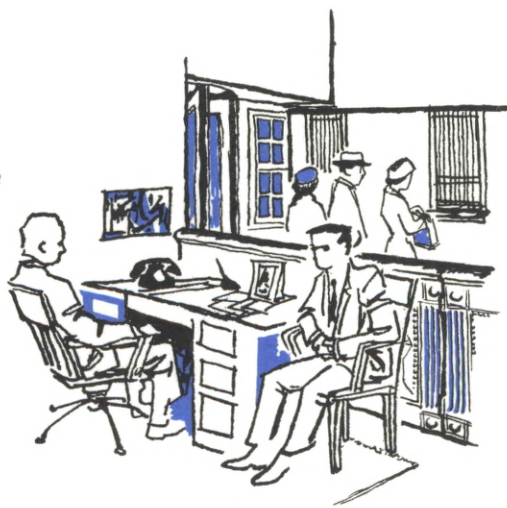
1958

how liquid are the banks?

third district farmers have a better year

**business review**

*After nearly a year of recession, we have encountered a new upswing in the demand for credit. At the same time money has been getting tighter. How readily banks can meet the needs of customers in the coming months depends partly on the answer to the question —*



## HOW LIQUID ARE THE BANKS?

Hundreds of years ago some obscure goldsmith, whose name history has denied us, made a remarkable discovery. He found that he did not always have to keep on hand the entire amount of gold his customers deposited with him for safe-keeping. He could lend some out to other customers who wanted to borrow gold and were willing to pay for the convenience.

So came the dawn of modern, commercial banking. And ever since, the goldsmith's banker-descendants have wrestled with the problem of how much to lend out and how much to keep on hand.

The banker today divides the funds at his disposal between high-earning assets and other assets, typically called liquid assets. Earning assets cannot be conveniently turned into cash at all times. Liquid assets earn little or no income but can be quickly converted into cash with little risk of loss.

The banker must strike a balance between current income and liquidity. One financial writer put it to an audience of bankers this way: If you have nothing but liquid assets, you will not eat; if you have nothing but earning assets, you will not sleep.<sup>1</sup>

How a bank divides its funds for income and liquidity is clearly important to depositors and stockholders. It is also important to borrowers. Individuals, businesses, and governments create the assets banks hold. Their access to bank credit depends on the kind of assets they provide. In return for bank credit, some—such as the Federal Government—offer highly liquid assets; others—for instance certain businesses—offer high-earning assets. The way banks wish to divide their funds between earning and liquid assets greatly influences the way bank credit is distributed.

<sup>1</sup> Let us hasten to add, however, that earning assets often provide some liquidity, while liquid assets frequently provide some earnings. The balance a banker achieves is part of his larger problem of managing all his assets.

The Federal Reserve is also concerned with the kinds of assets bankers want to hold. When banks have only small quantities of liquid assets, bankers are likely to be anxious to increase their holdings and may be reluctant to make long-term loans. If, at the same time, the economy is recovering from a recession and there is still a good deal of unemployment, their demand for liquid assets may slow down the revival of private expenditures and hamper economic recovery.

When banks have large amounts of liquid assets, bankers are likely to feel that they can sacrifice some liquidity for higher earnings. They may sell short-term Government securities and, with the new funds, make long-term loans. If, at the same time, the economy is booming and resources are fully employed, this shift of funds from purchasers of Government securities through banks to borrowers is likely to increase expenditures, particularly for capital goods, and promote inflation.

A policy to maintain "prosperity without inflation" must take account of bank liquidity.

### LIQUIDITY IN TRANSITION

Bank liquidity is important, then, to bank customers, bank stockholders, and the Federal Reserve. But if you ask an individual banker about liquidity, chances are he won't say anything for a moment or two. He'll probably sit back in his chair and briefly recall, in his mind's eye, the tiny long-ago sights and sounds of anger, remorse, frustration, and despair that attended the Great Bull Market Crash of 1929 and the Bank Holiday of 1933. To many a modern-day banker, this dark corner in American history still symbolizes the terrifying importance of having liquidity.

But a lot of water has gone over the dam since 1933. Economic conditions have changed a good

deal; we have some new and helpful insights into the way the economy functions; we think differently about the age-old concept of liquidity; we have developed some new practices and policies for maintaining bank liquidity. These changes have gone a long way to reduce the chances for another 1929-1933.

### Commercial loans and marketable securities

It wasn't many years ago that bankers and economists considered the short-term commercial loan to carry inventories as the ideal bank asset; it was supposed to return in cash as inventories were sold within the span of several months; it was "self-liquidating."

Since making a loan creates new bank money (a checking deposit) and repaying a loan destroys it, economists reasoned, the money supply would pulsate with the ebb and flow of economic activity; there would never be too much nor too little money but only enough to accommodate the legitimate needs of trade and lubricate man's "natural instinct to truck and barter."

There was, however, a hole in the hypothesis. In hard times, bankers usually pulled in their horns. They were anxious to have borrowers repay their loans, and they were understandably cautious about extending new credit. But as the money supply contracted, prices typically fell. Borrowers had difficulty selling their inventories and repaying their loans. The entire economy spiraled into a whirlpool of liquidation and crises.

In the 1920's, with the growing importance of stock exchanges and with a rapid industrial expansion, bankers began to think of certain non-commercial loans and some investments as being highly liquid. A bond that is easily sold, they argued, is just as liquid as a commercial loan. But in the depression that followed, the collapse

## THE BANKER CALLS IT LIQUIDITY

Like "blue chip" and "red ink," liquidity is a metaphor. It sets a standard—the easy flow of a liquid—against which the flow of an asset into cash is compared. In so doing, it describes a quality possessed by all assets to some degree and by some assets to a great degree.

An asset is liquid to the extent it can be turned into cash without loss or delay. Between a completely liquid asset (like cash) and a highly frozen asset (like a bank building), there are numerous classes of assets (Government bonds, commercial loans, loans to brokers, etc.) with varying degrees of liquidity.

The liquidity of an asset depends primarily on its marketability, maturity, and quality. If there is a well established market for a particular asset, it can be sold quickly. If the quality of an asset is high, the risk of loss at maturity will be correspondingly low. If the maturity of an asset is brief, its market value cannot fluctuate widely prior to maturity. Bankers think of an asset that has all these complementary characteristics of liquidity as a close substitute for cash.

The liquidity of a bank is something else again. It depends not only on the amounts of liquid assets the bank holds, but also on the demands for funds the bank must meet. A banker, in appraising his liquidity, must relate the supply of liquidity in his assets to the demands for liquidity by depositors and borrowers.

If the banker thinks there is a good chance that large amounts of deposits will suddenly be lost, he will hold large amounts of liquid assets. Time deposits are usually not drawn down as suddenly as demand deposits, but some demand deposits are more stable than others. Large deposits held by other banks, Government departments, or corporations are often drawn

down quickly and without warning. Small deposits held by individuals do not normally fluctuate as widely or abruptly.

A banker must also try to anticipate the level of economic activity in the community he serves. This, in large measure, will determine the demand for loans he will be called upon to satisfy.

Bank liquidity is easier to define than determine. We cannot really compare the liquidities of different assets since they are based on different degrees of marketability and quality and different maturities. We can no more add together the amounts of liquidity in a Government security and a commercial loan than we can apples and oranges. As a result, we cannot arrive at a figure or construct an index depicting the over-all level of bank liquidity. Sometimes, because bank holdings of both liquid and earning assets are changing in the same direction, we cannot easily tell whether bank liquidity is moving up or down.

But bankers make judgments everyday about their liquidity. They use certain ratios, like "loans to deposits" and "liquid assets to total assets" to obtain a rough idea of where they stand. It is their idea as to their own liquidity that will, of course, heavily influence their loan and investment policies.

The Federal Reserve must make judgments as to how bank liquidity will affect bank policy. The Federal Reserve is the ultimate source of liquidity for the entire banking system. By selling and buying in the Government securities market, through its policies at its discount windows, and by adjusting legal reserve requirements it can either increase or decrease the excess reserves of banks. In combatting inflation and recession, the Federal Reserve is concerned with bank liquidity and the kinds of assets bankers are anxious to purchase.

of markets for goods and securities grimly reduced the value of many assets bankers had believed liquid, and transferred them to the deep freeze; it destroyed the value of others completely. Many banks faced not only illiquidity but insolvency.

### New demands for credit

Since the depression, changing credit demands by the Federal Government, industry, and consumers have had a major impact on the kinds of assets banks hold and, therefore, their liquidity. Today "banks depend for liquidity," the American Bankers Association tells us, "mainly on their secondary reserves of short-dated, marketable Governments." These include Treasury bills, certificates, notes, and bonds "maturing within a year or so."<sup>2</sup>

Bankers can turn these Government obligations into cash within relatively short periods by simply allowing them to "run-off." Moreover, Governments are the highest quality securities available. They are backed by the constitutional powers of the Federal Government to tax and regulate money. They have a broad and immediate market; bankers can, therefore, easily sell them, at most times, to other investors.

Widespread use of the short-term Government as the chief repository of bank liquidity would have been impossible in the 1920's when Secretary Mellon was busily retiring the national debt. A depression, a hot war, and a cold war, however, diverted an increasing volume of bank credit to the Federal Government and channeled increasing quantities of Government securities back to banks.

It looked for a while, in fact, as though Governments would become the one and only asset held by banks. But after World War II, banks were

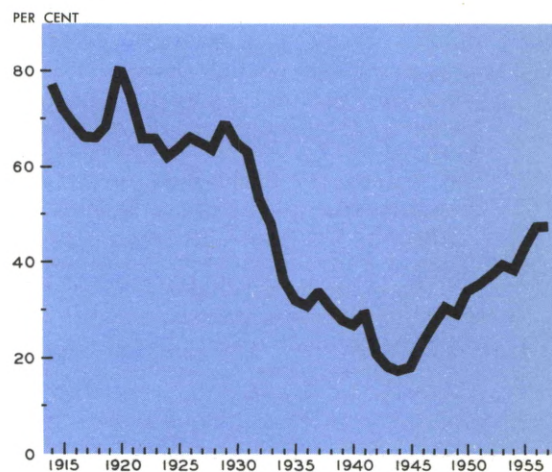
able to reduce holdings of Governments and loans increased. "We are back in the banking business," exclaimed one banker, "thank Heaven!"

The banking business of the 1950's, however, was not the banking business of the early 1900's. Borrowers wanted different kinds of loans. Consumers wanted credit to buy durable goods. Industry wanted long-term credit for investment.

Bankers generally feel that the new kinds of loans they have extended possess substantial liquidity. Since consumer loans are usually paid back in installments and term loans are typically amortized, bankers reason that these assets regardless of their maturities are similar to short-term commercial loans in that they also supply a regular inflow of funds.

### THE LOAN-DEPOSIT RATIO: A MIRROR OF CHANGE

*The fluctuations of this rough indicator of bank liquidity reflect the changing importance of different assets that member banks have held over the years. The ratio was high when the short-term commercial loan was the chief bank asset. It fell sharply when government security holdings mounted during the Depression and World War II. It has been climbing with the expansion of consumer, term and other loans in the post-war period.*



<sup>2</sup> American Bankers Association, "The Problems of Commercial Bank Liquidity, 1957."

This is one reason why bankers are less concerned than they otherwise might be by the way in which their loan-deposit ratio has risen since the end of World War II. Moreover, despite the increase of recent years, this ratio is nowhere near as high as it was before the depression. Also, since the beginning of World War II, time deposits and small deposit accounts in the hands of individuals—not generally subject to abrupt withdrawals—have been increasing. The growth of these deposits tends to reduce the amount of liquid assets banks have to hold.

### **Role of the Federal Government and the Federal Reserve**

Perhaps the biggest improvement in bank liquidity since the 1930's, however, has stemmed from new insights and a changing outlook. We have a better understanding of how the banking system and the economy function and have revised our view of Government's role in the economy.

We know now that if the Federal Government spends when most people are cutting back, reduces taxes, and in other ways puts purchasing power into the hands of consumers and investors, it can mitigate an economic crisis and modify the needs of depositors to draw down their deposits. Also, we have seen the FDIC, by insuring deposits, quiet the fears of depositors which, in the past, moved them *en masse* to demand their funds. In these ways the peak-load demands upon bank liquidity have been reduced.

We have also improved the ability of banks to meet demands in troubled times. The Federal Reserve, by buying Government securities in the open market, making loans to member banks, and reducing reserve requirements, can supply the banking system with new funds. (The Federal Reserve can work the other side of the street also. It can restrict the expansion of bank funds in

inflationary times.) The Federal Reserve is the well-spring of liquidity.

These changes have improved the over-all liquidity position of the banking system and, by so doing, helped the banker. But they have by no means completely eliminated his problem. Some industries, because of a newly developed technology, may suddenly decline; banks and communities depending on such industries may suddenly lose deposits. Some regions of the country may unexpectedly begin to develop faster than other regions; banks in the slower developing communities may lose deposits to banks in the faster growing regions. Likewise, the demand for loans in some communities, some regions, or following a recession throughout the country, may rise dramatically. Unforeseen developments like these can put individual banks under a great deal of pressure for indefinite periods without in any way jeopardizing the liquidity of the entire banking system.

### **BANK LIQUIDITY IN RECENT YEARS**

This long look at bank liquidity reveals how the concept and practices have changed with the changing times; and it calls attention to what we consider today in deciding how liquid the banks are. Now, let's take a closer look at recent developments.

#### **In prosperity: 1955-1957**

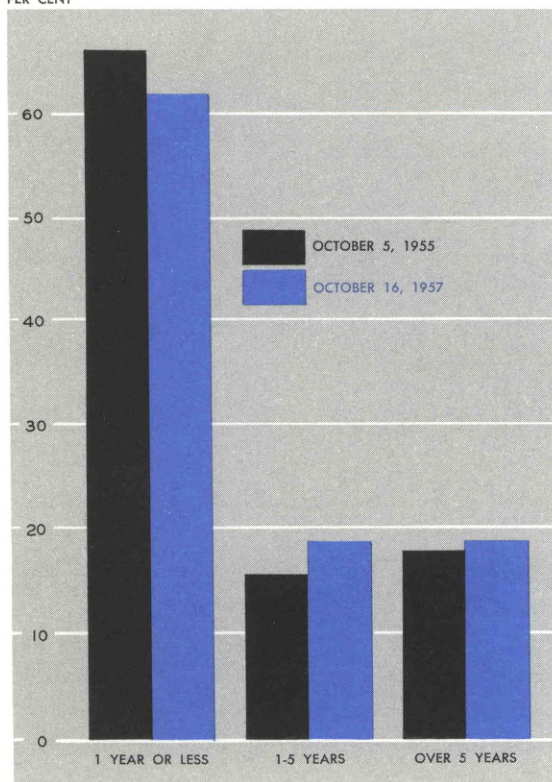
In 1953 and through part of 1954 the economy stumbled through a mild recession. But by the summer of 1955, business and consumer spending had been rising for about a year and so had bank loans. As a vigorous demand for loan funds continued to press against a limited supply of bank reserves, credit became tight. It remained tight until the latter part of 1957 when business slowed down and Federal Reserve policy changed.

Banks financed a very rapid loan expansion during the tight money period partly by selling Government securities. At the same time mutual savings banks, insurance companies, and business corporations also were obtaining funds for investment by reducing their holdings of Government securities. A part of the reduction came about through a decline in the national debt. But most of it can be accounted for in increased holdings of Governments by Federal agencies and trust funds, state and local governments, individuals and other miscellaneous investors.

### LOAN MATURITIES LENGTHENED AS THE BOOM MATURED

*Member bank intermediate and long-term business loans outstanding became more important and short-term loans less important between 1955 and 1957.*

PER CENT



Looking only at the expansion of bank loan portfolios and the decrease in bank holdings of Government securities, we might conclude that bank liquidity declined. Moreover, the business loan surveys taken by the Federal Reserve in October 1955 and October 1957 indicate that, between these dates roughly corresponding to the tight-money period, longer-term loans became more important and short-term loans less important.

Heavy borrowing at the Federal Reserve also tended to decrease bank liquidity. The reserves member banks are able to obtain by borrowing from Federal Reserve Banks are "reserves with a string attached." The borrowings must be repaid.

When we looked more closely at the maturities of Governments that banks continued to hold, however, we found some interesting changes. Commercial bank holdings of marketable Government securities fell about \$9 billion between early 1955 and mid-1957. But their holdings of longer-term issues (maturing in one year or more) decreased about \$15 billion while their holdings of short-term obligations (maturing within one year) increased about \$6 billion.

Our calculations show that about three-fourths of these changes in bank holdings of marketable Governments simply reflected the changing importance of short- and longer-term securities in the total marketable debt. With the economy booming and prices and interest rates rising, the Treasury found it difficult to interest investors in long-term issues. As time passed, long-term securities moved into the short-term classification. The proportion of the debt maturing within one year increased from approximately one-third in early 1955 to one-half in mid-1957.

What, then, was happening to bank liquidity? There is no simple answer to this question. True, the loan-deposit ratio increased steadily in 1955,

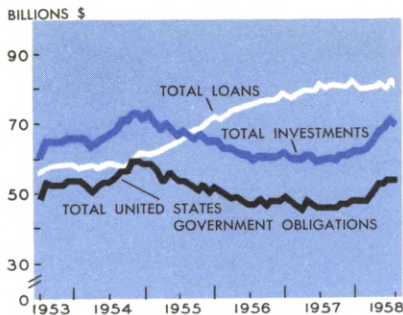
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## HOW LIQUID ARE THE BANKS?

Here is a "chart exhibit" of some recent financial developments that helps answer this question.

### PRINCIPAL ASSETS

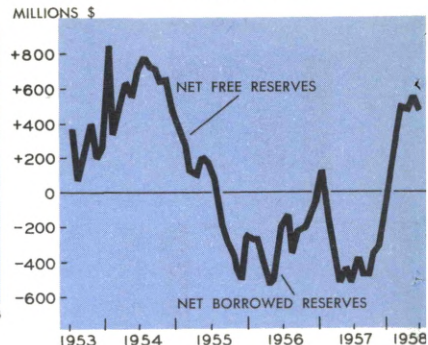
Member Banks



Bank loans swung sharply upward on the wave of economic recovery in 1954 and continued to rise during the boom years of 1955 and 1956. Banks sold Government securities and other investments throughout this period to get funds with which to make loans. When business dropped off in 1957, loan demand slackened and banks used their surplus funds to purchase large

### NET FREE AND BORROWED RESERVES

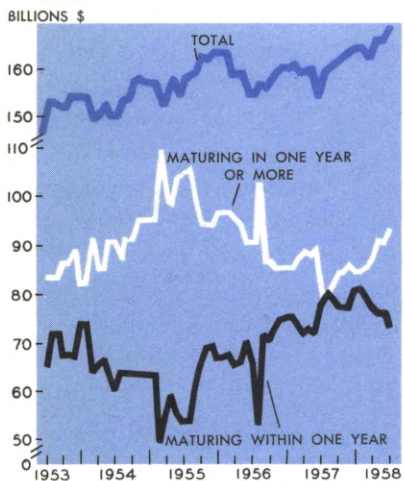
Member Banks



amounts of Government, municipal, and corporate securities.

The upsurge in loan demand, coupled with a limited supply of bank reserves, tightened credit in 1955. Member banks had net borrowed reserves—their borrowings from the Federal Reserve exceeded their excess reserves—throughout most of the boom. However, in the

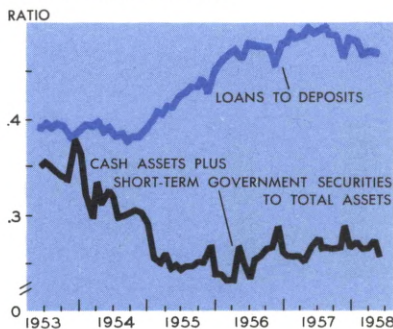
### MARKETABLE GOVERNMENT DEBT



In the recession of 1957-1958, as in the previous recession, banks added substantially to their holdings of longer-term Government securities.

In the boom years, a large part of the shift in bank holdings of Government securities reflected the shortening maturity

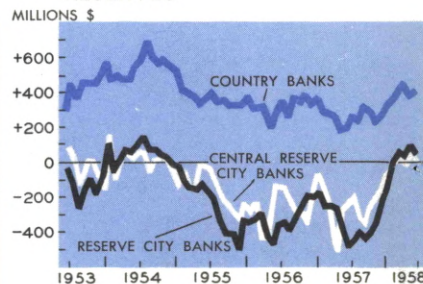
### LIQUIDITY RATIOS — COMMERCIAL BANKS



of the public debt. In the recession that followed, the maturity of the debt lengthened, but banks, on their own account, were quite active in purchasing long-term Governments.

What then, was happening to bank liquidity? There is no simple answer to this question. Banks picked up some liquidity in the boom by expanding their holdings of short-term Governments. Their liquid asset ratio (cash plus short-term Govern-

### NET FREE AND BORROWED RESERVES



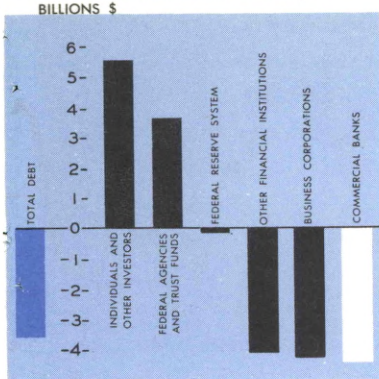
ments to assets) rose gently in 1956 and 1957. Banks lost some liquidity by expanding loans. Their loan-deposit ratio increased sharply.

In the recession, the loan-deposit ratio dropped, and this signifies some improvement in bank liquidity; but the liquid asset ratio also stopped rising.

The impact of these diverse movements was not evenly distributed throughout the banking system. The smaller country banks had ample free reserves at all times. The larger central



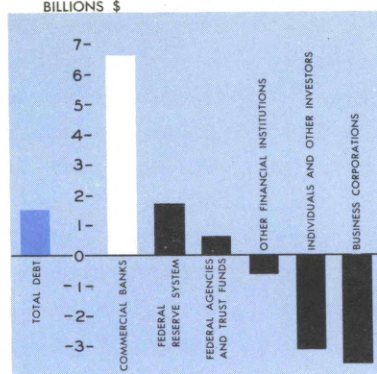
## CHANGE IN OWNERSHIP OF GOVERNMENT DEBT (AUGUST 1955–NOVEMBER 1957)



latter part of 1957, with a decline in loan demand and a switch in Federal Reserve policy from tightness to ease, the banking system accumulated net free reserves.

While money was tight, business corporations and other financial institutions as well as commercial banks reduced their

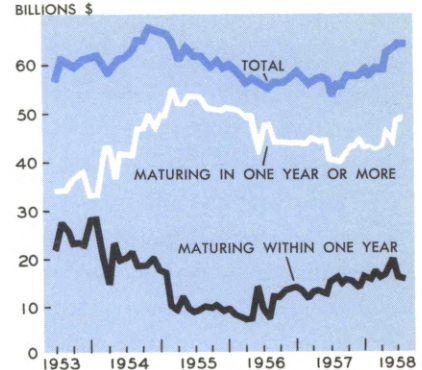
## CHANGE IN OWNERSHIP OF GOVERNMENT DEBT (NOVEMBER 1957–JUNE 1958)



holdings of United States Government securities.

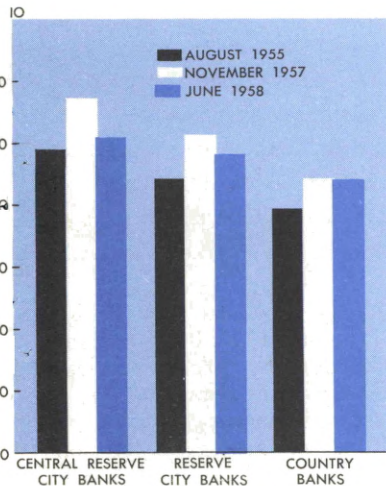
When business declined and credit eased, banks purchased large amounts of Governments from business corporations and others. By so doing, they helped satisfy the increased demands for cash in other parts of the economy.

## BANK HOLDINGS OF MARKETABLE GOVERNMENT SECURITIES



In the recession of 1953-1954, commercial banks reduced their holdings of short-term Governments (maturing within a year) and increased their holdings of intermediate and long-term securities. But through 1956 and 1957, they increased their holdings of the highly liquid short-term Governments.

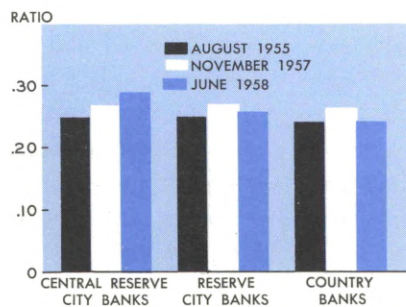
## LOAN-DEPOSIT RATIOS



reserve and reserve city banks, more closely tied to the industrial expansion, had net borrowed reserves throughout the boom. They accumulated only small amounts of free reserves in 1958.

Loan-deposit ratios show all classes of banks losing liquidity

## LIQUID ASSET RATIOS



while credit was tight. The larger central reserve and reserve city banks probably lost the most. But the liquid asset ratios show that all banks were, at the same time, also gaining some liquidity.

After credit eased in the recession, only central reserve city banks seemed to clearly improve their liquidity positions. Their loan-deposit ratio dropped rapidly and their liquid asset ratio rose. Other banks gained little if any liquidity.

Banks are not so liquid today as they were in mid-1954. The loan-deposit ratio for all commercial banks is substantially higher and the liquid asset ratio is substantially lower now than they were then. This raises the question as to whether bankers will want or be able to expand loans as rapidly in the coming months as during the inflationary-pregnant recovery of 1954-1955.

1956, and 1957. This points to a *decrease* in bank liquidity. But in the latter two years, the ratio of cash plus short-term Governments to assets—we'll call it the liquid asset ratio—was also rising.<sup>3</sup> This signifies an *increase* in bank liquidity.

The answer to the question is further complicated by the fact that the impact of these diverse movements was not evenly distributed throughout the banking system. Country banks experienced very little pressure on their liquidity. They had ample free reserves at all times. Their loans maintained a steady upward movement; their deposits rose gradually; through the period in which credit was tight their ratio of loans to deposits showed an increase. But their liquid asset ratio increased also—and substantially.

On the other hand, the larger central reserve and reserve city banks, at the heart of the business expansion, experienced greater pressures on their liquidity. They were frequently in debt to the Federal Reserve. Their loans expanded sharply; their deposits changed very little; their ratio of loans to deposits increased rapidly. But their liquid asset ratio also increased, though somewhat less than for country banks.

From 1955 through most of 1957 the banking system lost liquidity in one respect; over much of the period it was regaining liquidity in another. Banks may not have been so liquid at the end of 1957 as they had been at the beginning of 1955. But neither did they lose so much liquidity as we might have expected. This was largely associated with the shortening maturity of the public debt.

### **In recession: 1957-1958**

In the last half of 1957 the economic boom began to sputter and the economy drifted down into a third postwar business recession. The demand for

<sup>3</sup> We've defined short-term Governments as those maturing within one year. A different definition could, conceivably, lead to different results.

loans dropped off. Federal Reserve policy changed to one of ease and after December 1957, free reserves increased rapidly. Banks found for the first time in a couple of years that they had plenty of funds. They quickly put the excess funds at their disposal into investments. Most of it went into United States Government securities.

Federal agencies and trust funds and the Federal Reserve also increased their holdings of Government securities. Part—a very small part—of the increased holdings of Governments by banks and these others came about through an increase in the national debt. But most of it can be accounted for in decreased holdings of business corporations, individuals, and other investors. During the recession, the banking system, including the Federal Reserve and other purchasers of Governments, helped satisfy the increased demands for cash in other parts of the economy.

If we looked, once again, only at investments and loans, we might conclude that bank liquidity had increased. But the investments banks were purchasing after mid-1957 suggest something else. In their quest for earnings, banks were concentrating about one-fourth of their new investments in corporate, municipal, and other securities. But perhaps even more importantly, almost all of their investments in marketable Government securities were going into intermediate and long-term obligations.

The Treasury was now able and quite anxious to extend the maturity of the debt. Once again part of the shift in bank holdings of Governments reflected this—our calculations show about one-half. After the recession began, banks were, by themselves, actively shifting into long-term Governments.

With total deposits still climbing, increased holdings of relatively illiquid assets tended to

impair bank liquidity. While the loan-deposit ratio had begun a gradual descent, the liquid asset ratio had stopped rising.

Once again the impact of these changes was not evenly distributed among all classes of banks. All had free reserves, but country banks, as might be expected, still had the most. In contrast to what happened earlier, however, country banks seemed, for other reasons, to be losing some liquidity. These smaller banks increased their deposits steadily, but partially isolated from the recession as well as the boom, their loans kept pace. Their loan-deposit ratio did not change significantly after credit eased. But they reduced their holdings of short-term Governments and by mid-1958, their liquid asset ratio had fallen back to where it had been almost three years before.

Reserve city banks improved their liquidity positions very little. Their loans did not increase significantly, their deposits did, and their loan-deposit ratio fell. But even though their holdings of short-term Governments increased by a small amount, their liquid asset ratio fell also.

Central reserve city banks in contrast, seemed to have clearly restored some of the liquidity they had lost in the earlier period. Their loans increased slowly, but their deposits increased rapidly and their loan-deposit ratio fell sharply. These banks increased their holdings of short-term Governments substantially; and this raised their liquid asset ratio.

It would probably not be far wrong to say that liquidity was being restored, during this period of easy money, by those banks—central reserve city banks in particular—whose liquidity had been most seriously impaired during the previous period of prosperity and tight money. But it would be well to remember that most of the improvement in liquidity throughout the banking system stemmed from deposits increasing faster

than loans and not from increased holdings of liquid assets.

## PROSPECTS FOR THE FUTURE

Many observers feel that the recession is now over and that the economic pulse of the nation will beat faster from here on in. How, then, will the liquidity position of banks affect their ability to lend?

During the boom of 1955-1957, all classes of banks, as we saw, picked up some liquidity by purchasing short-term Governments and lost a good deal by expanding loans. In the recession that followed, central reserve city banks clearly gained a little liquidity, but this was the exception. Most banks did not perceptibly improve their liquidity positions. And whatever gains there were, largely stemming as they did from increases in deposits, may prove to be somewhat illusory.

A sudden increase in loan demand could erase these recessionary gains very quickly. If the loan-deposit ratio rises as rapidly now as it did during the business revival of 1955, it will exceed its pre-recession peak before the end of the year.

Moreover, bankers seem wary of their new deposits. They recall that during the period of tight money, when the Treasury bill rate increased to 3 per cent and above, many banks lost large amounts of deposits. Corporate treasurers, anxious to earn a high return on their idle funds, drew down demand deposits and invested in Treasury bills. Bankers believe that when the bill rate nose-dived during the easy-money period, a large portion of these corporate funds were put into time deposits on which interest rates did not fall very much.

With Treasury bill rates now rising again toward levels above the time deposit rates, many

bankers reason that one day soon they will be abruptly confronted with a rapid loss of these funds. This may induce them to go slow in increasing loans.

Bankers may go slow in another way for another reason. With interest rates rising, they would normally prefer not to get their available funds tied up in long-term illiquid loans. Borrowers, on the other hand, would no doubt prefer a long-term loan at the interest rate prevailing today rather than a series of short-term loans at successively higher rates of interest. To the extent that bankers are able to resist the pressure of borrowers, the new credit that they do extend may take the form of short-term, highly liquid loans.

All this raises a question whether bankers will want or be able to expand loans as rapidly in the coming months as during the inflationary-pregnant recovery of 1954-1955. For one thing, the Federal Reserve has moved more rapidly this time. Free reserves, a rough indicator of tightness in the money market, have declined faster. Interest rates have risen more sharply.

As they look into the future and check their liquidity positions, bankers may well be cautious. Their loan-deposit ratio is now about one-fifth higher and their liquid asset ratio about one-fifth lower than in mid-1954. In short, while banks are not exactly bone-dry today, neither do their cups runneth over.

# THIRD DISTRICT FARMERS HAVE A BETTER YEAR



“When farmers have a good year, that’s bad; when they have a bad year, that’s good.” This seems to be the average person’s conception of how farming works. In the tri-state area of Pennsylvania, New Jersey, and Delaware, 1958 shapes up somewhat along these lines. Productionwise, the past growing season ranks among the best. Marketwise, the current year leaves something to be desired.

But the growing season was not entirely favorable, as some farmers can tell you in recalling the frustrating job of curing hay or harvesting grain between frequent and sometimes heavy rains. Neither were farm markets altogether disappointing. They had a brighter side, particularly markets for livestock, eggs, and milk, all of which were remarkably stable through the summer and early fall.

County agricultural agents have given us a reasonably bright picture of over-all prospects

for this crop year. And their expectations are being borne out by the cash income received by farmers over the greater part of 1958.

## **Field crops are a source of encouragement**

Feed grains like wheat, oats, and rye appear to have done quite well this year. In some cases harvesting operations were delayed by wet weather but quality and yield ran average or better in most places. Hay also was a good crop, although many farmers experienced considerable difficulty in curing the early cutting. Pastures have never been better. Corn for grain and silage looks like an outstanding crop this year. Some say it is the best in their memory. Early potatoes in Delaware yielded almost one-third more than a year ago. Late potato yields in Pennsylvania and New Jersey also look good but in both states the crop will be relatively light on a smaller planted acreage.

### **Tobacco yields are high**

In Pennsylvania's Lancaster County this year's tobacco harvest promises to be of record, or near record proportions. Latest estimates indicate a crop of about 50 million pounds, compared with the 41 million produced last year. The harvest started early and was nearly completed by late September. Tobacco is of unusually high quality and should command a good price.

### **Vegetable growers raised large crops but prices were low**

Mid-season vegetables yielded considerably more this year than last. But heavy supplies in the fresh market depressed prices and, in many cases, processors' contract prices also were low. Quality seems to have been a problem with some early vegetables because of plant diseases induced by wet weather. Early tomatoes, snap beans, and limas were among the crops so affected. But conditions were spotty, with New Jersey farmers reporting most of the trouble from rust, mildew, and similar wet-weather maladies. Asparagus was another large crop of high quality in some places, low in others. Canhouse tomatoes, grown later, were a near-bumper crop. Many farmers labeled sweet corn the best ever. Melon production in Delaware was exceptionally high but in heavily supplied markets, prices sagged badly.

### **Cranberries look promising in New Jersey**

Latest estimates indicate that this year's cranberry crop in New Jersey will be larger than a year ago and well above average. A late frost in the spring was a problem with growers and wet weather that caused some rot was another. Bloom and set of the fruit were on the light side but the berries appear much larger than usual. The fruit has colored slowly because of so much cloudy weather early in the season and harvest time may come late this year. Other small fruits, like blue-

berries, also yielded heavily although mildew occasioned some losses after packing.

### **Orchard fruits will be a good crop**

The peach crop harvested in late summer was high in both yield and quality. Because the fruit reached maturity over a longer period, marketing was less of a problem than in some other years. Early fall varieties of apples and the later ones, too, look like an excellent crop with size and color generally up to standard or above. Because processing prices are low this year, it is possible that a larger proportion of the apple crop will be marketed as packaged fruit.

### **Poultrymen, except broiler growers, are better off**

Egg production has been fairly heavy all year. Even so, demand has stabilized and most poultrymen have received reasonably good prices. Those who cover part of their feed requirements with home-grown grains are in a much stronger position than last year when yields were scanty at best. But in the broiler business it's another story. Heavy production this spring and summer has so depressed markets that prices received for poultry meat have taken much of the profit out of the enterprise. Over-production of broilers this year has not been peculiar to the Delmarva area. It seems to have been a thorn in the side of poultrymen in just about all the more important growing areas.

### **Our dairymen are in a stronger position**

With pastures remaining in excellent shape since the early spring and corn for silage and grain promising to be bumper crops, the winter feed needs of dairymen and livestock farmers can easily be met. This is exactly the reverse of the situation prevailing at this time last year, when so much of the milk check was diverted to the

purchase of feed. Milk production has remained high all season and market demand continues to show considerable stability. Surplus production in excess of market quotas has been less of a problem than in some other years.

### **Farm production costs are still rising**

Labor, a most important cost item on our farms, is somewhat more expensive this year than last. However, more workers could be employed for productive jobs than in 1957, when so much help was needed to move irrigation pipes from one field to another. Rising wage rates for both day labor and regular farm hands and a continuing trend toward larger enterprises are prompting increased outlays for labor-saving machinery. This equipment has become an increasingly large item in many farm budgets in the past year or so. The one big saving in production costs in 1958 has been on the livestock feed bill. Not only are purchased feeds likely to be cheaper, but supplies of the home-grown variety are so much greater than in drought-stricken 1957.

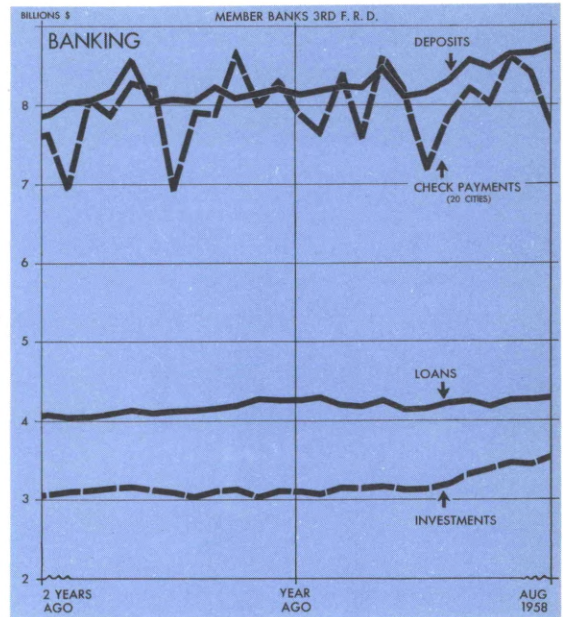
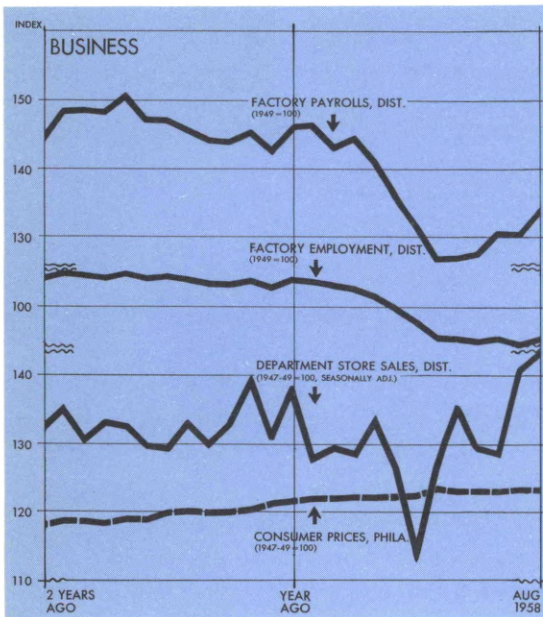
### **Farm cash income is running above 1957 levels**

Cash receipts from crop and livestock marketings in Pennsylvania, New Jersey, and Delaware were

4 per cent larger in the first seven months of this year than last. Lower market prices for crops, however, resulted in a drop of 6 per cent in income from this source, owing to heavy supplies of fresh market vegetables offered throughout the past season. Cash income from livestock and livestock products was up 8 per cent from the 1957 period. Higher prices for meat animals, dairy products, and eggs were the important factor in the year-to-year increase in this segment of the cash income total.

Looking ahead to the remaining months of this year, it appears probable that these trends will continue. Much will depend on prices received for livestock and livestock products, which so far this year have accounted for three-quarters of the cash income of local farmers. At this point, profits look best for dairymen and those poultrymen raising chickens for eggs. Broiler prospects, in view of the heavy supply, appear bleak. Good returns seem probable from the large peach harvest of high-quality fruit recently marketed. But apple prospects are less favorable from the marketing standpoint, because of bumper crops in several competing areas. All in all, it has been one of the better years for Third District farmers, particularly those with a good measure of diversification.

# FOR THE RECORD...



## SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Aug. 1958 from		8 mos. 1958 from year ago	Aug. 1958 from		8 mos. 1958 from year ago
	mo. ago	year ago		mo. ago	year ago	
<b>OUTPUT</b>						
Manufacturing production	+2	-10	-12	+9	-6	-10
Construction contracts	+20	+23	-4	-4	+23	+5
Coal mining	+42	-19	-25	+57	-16	-22
<b>EMPLOYMENT AND INCOME</b>						
Factory employment (Total)	+1	-8	-7	+2	-9	-9
Factory wage income	+3	-8	-10	....	....	....
<b>TRADE*</b>						
Department store sales	+2	+4	-2	+5	+2	-2
Department store stocks	+2	-1	....	0	-3	....
<b>BANKING</b> (All member banks)						
Deposits	0	+7	+4	0	+7	+5
Loans	0	+1	+1	0	0	+2
Investments	+2	+14	+8	+3	+20	+12
U.S. Govt. securities	+2	+11	+5	+3	+21	+11
Other	+1	+22	+17	+2	+20	+16
Check payments	-8†	-2†	+1†	-10	-2	+4
<b>PRICES</b>						
Wholesale	....	....	....	0	+1	+2
Consumer	0‡	+1‡	+2‡	0	+2	+3

\*Adjusted for seasonal variation.

†20 Cities

‡Philadelphia

## LOCAL CHANGES

	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Per cent change	
	Per cent change Aug. 1958 from		Per cent change Aug. 1958 from		Per cent change Aug. 1958 from		Per cent change Aug. 1958 from		Per cent change Aug. 1958 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley	+1	-11	-1	-18	....	....	....	....	+2	+21
Harrisburg	+2	-12	+2	-17	....	....	....	....	-4	-4
Lancaster	+1	-4	0	-3	+7	+18	+4	+8	-3	-2
Philadelphia	0	-7	+3	-4	+10	+3	+10	-2	-7	-4
Reading	+2	-5	+7	-4	+6	+5	+8	-1	-6	-8
Scranton	+1	-10	+1	-9	+20	+6	+9	+2	-6	-10
Trenton	0	-15	-2	-13	+18	+9	+14	+9	-21	+18
Wilkes-Barre	+1	-6	+2	-8	+17	+1	+3	-4	-11	-5
Wilmington	0	-10	+1	-8	+14	+11	+10	+8	-19	+16
York	+5	-3	+7	0	+18	+8	+7	+11	-10	+1

\*Not restricted to corporate limits of cities but covers areas of one or more counties.