

November 1967

Federal Funds During Tight Money

1967 The Harvest: Scrutiny of the Bounty

Business Review

Federal Reserve Bank of Philadelphia



Federal Funds During Tight Money

. . . Federal funds behavior during the 1966 credit restraint indicates it may not be just a fair weather performer.

The 1967 Harvest: Scrutiny of the Bounty

. . . Favorable growing conditions in 1967 produce a harvest of plenty for Third District farmers.

Banks are alert to a possible return of the tight reserve positions of 1966. They may find a ray of hope in this report, based on new figures, on . . .

FEDERAL FUNDS DURING TIGHT MONEY

by Mark H. Willes

More banks are active in the federal funds market than ever before.¹ In addition to the large city banks which have traditionally been in the market, many country banks, even the smallest ones, have come to use it on a regular basis as a source of needed reserves and as an investment outlet.

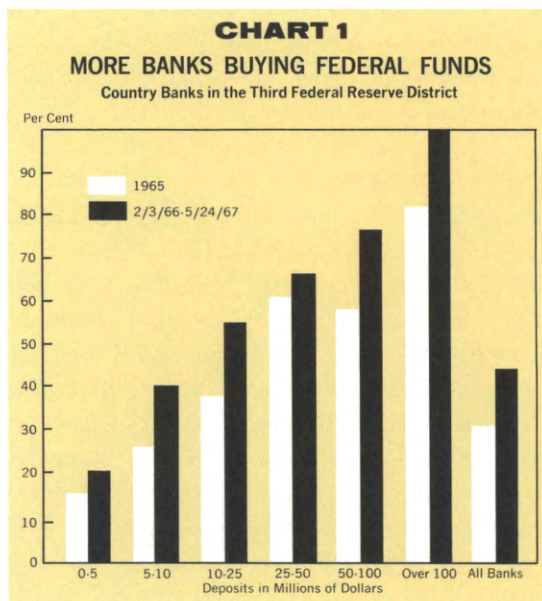
Earlier issues of this Review have reported on the increasing involvement of Third District country banks in this market.² Since February, 1966 these banks have supplied daily figures covering their federal funds transactions. From these data it is clear that country banks in the district now participate in this market to an unprecedented degree. Moreover, contrary to some early fears, the evidence indicates that this increased activity has not made the participating banks more vulnerable to tightening monetary conditions. In spite of the severely restrictive conditions in 1966, apparently banks in the Third District were able to make short-run reserve adjustments in the federal funds market.

Market participation

The federal funds market was once the province of a relatively few large city banks and Government securities dealers. Those days are gone. Many country banks are now active in the market, and the number is increasing. In 1964 just over

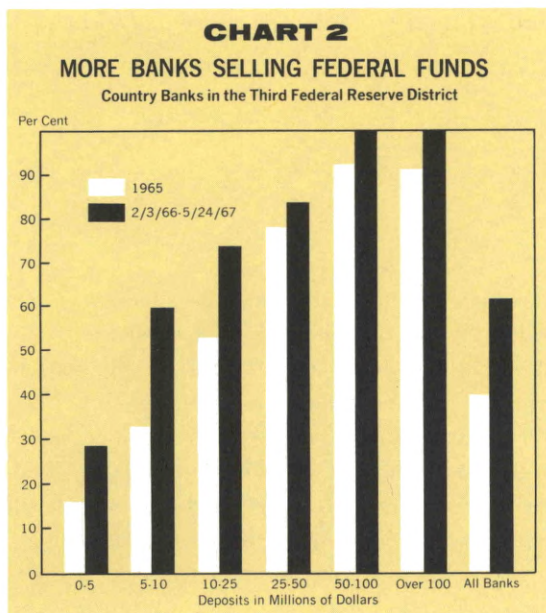
one-third of the country member banks in the Third District bought or sold federal funds. In 1965 slightly less than half did. In the sixteen months between February 1966 and May 1967 almost two-thirds of the country member banks in the district bought or sold federal funds at least once. And once a bank entered the market, it usually was a frequent participant thereafter.

Entry has not been limited to large country banks. Charts 1 and 2 show that while a greater proportion of the larger banks are active in the market than the smaller ones, still a significant proportion of the latter participate on both the buy and the sell side. In fact, most of the new



¹ Federal funds are deposits at the Federal Reserve or at correspondent banks which are lent (sold) or borrowed (purchased) overnight or for a few days. For a more complete discussion see the references cited in footnote 2.

² Federal Reserve Bank of Philadelphia, Business Review, March 1965, April 1966, and August 1966.



entrants into the market in the district since early 1966 have come from the ranks of the smaller banks. Almost 85 per cent of those banks which purchased federal funds for the first time during this period had deposits of less than \$25 million and over 90 per cent of those which sold federal funds for the first time were from these smaller size categories.

Transactions sizes

Many factors have prompted country banks to enter the federal funds market. Some of them have been discussed in the articles referred to earlier. One of the most significant developments that has made possible active participation by these country banks has been the sharp reduction in the size of transactions that the market will accommodate. One million dollars used to be the minimum trading unit. Now transactions as small as \$50,000 are common, and occasionally even smaller ones have been recorded. With the trading unit this small, a bank of almost any size can buy or sell

federal funds.

This has important implications for bank operating policies. On the buying side it means that banks of all sizes have access to the federal funds market when they are faced with a shortage of funds. Consequently, the very small as well as the large banks now have the option of buying federal funds rather than having to liquidate securities, let loans run off, or borrow from the Federal Reserve. These latter alternatives—because of relative costs, customer relations, etc.—are frequently less agreeable ways to make reserve adjustments.

On the selling side, a bank can now convert reserve excesses of almost any size into income-earning assets. Small banks as well as large can manage their reserve positions more closely, reducing idle balances and adding to profits.

Accommodating banks

The reduction in the size of transactions that the market will accommodate is the result of large city and country banks seeking to broaden their own sources of funds and competing for correspondent balances. These large accommodating banks act as dealers, buying and selling federal funds against their own account in order to meet the needs of smaller correspondents. They adjust their own positions in the national market.

Interviews with several city and country dealer banks in the Third District indicate that for an aggressive bank, past willingness to act as a dealer in federal funds resulted in substantial and continuous inflows of funds.³ Since smaller banks tend to have excess reserves and therefore generally enter the federal funds market as sellers, the large banks that have cultivated a federal funds

³ *Not all of these were new funds. Some were shifts out of idle correspondent balances previously held at the same bank. They may still be considered a source of funds, however. If the bank had not bought them as federal funds, there is a good chance they would have been transferred to a bank that did.*

relationship with a number of smaller banks have generally assured themselves of a large and steady inflow of funds. This has worked to the advantage of both the large and small banks. It has helped the large ones meet the heavy demands for funds with which they have frequently been faced. For the small banks, it has meant an increase in earning assets and income.

With so many country banks now in the market, the potential for large accommodating banks as a group to continue to add significantly to their sources of funds through the purchase of federal funds from smaller banks is reduced, although it is still not negligible. Aside from this factor, however, the dealer function will remain important for individual accommodating banks. Now that country banks are aware of the money they can make by selling their excess balances in the federal funds market, accommodating banks must continue to serve as dealers or risk losing correspondent balances to banks that will offer this service. Interviews with a number of district banks indicate that whether or not a larger correspondent bank is willing to act as a dealer is an important consideration for them in deciding where to hold their correspondent balances. Many banks indicated that they would shift part or all of their correspondent balances to another bank if their present correspondent stopped accommodating them as a federal funds dealer. Since the accommodating banks are well aware of this, it seems likely that competition for correspondent balances among the larger city and country banks will insure that the federal funds market continues to be a readily accessible and convenient place for smaller country banks to buy and sell funds.

Reserve period patterns

An idea of how convenient it is for country banks to operate in the federal funds market can be obtained from Charts 3 and 4. These charts show

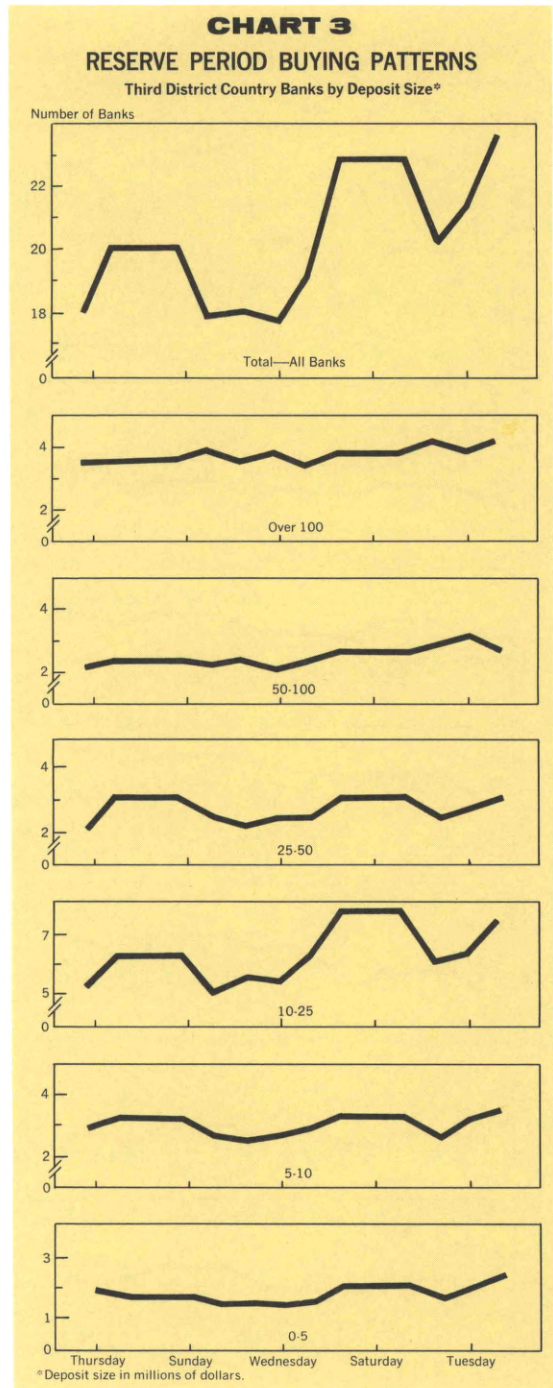
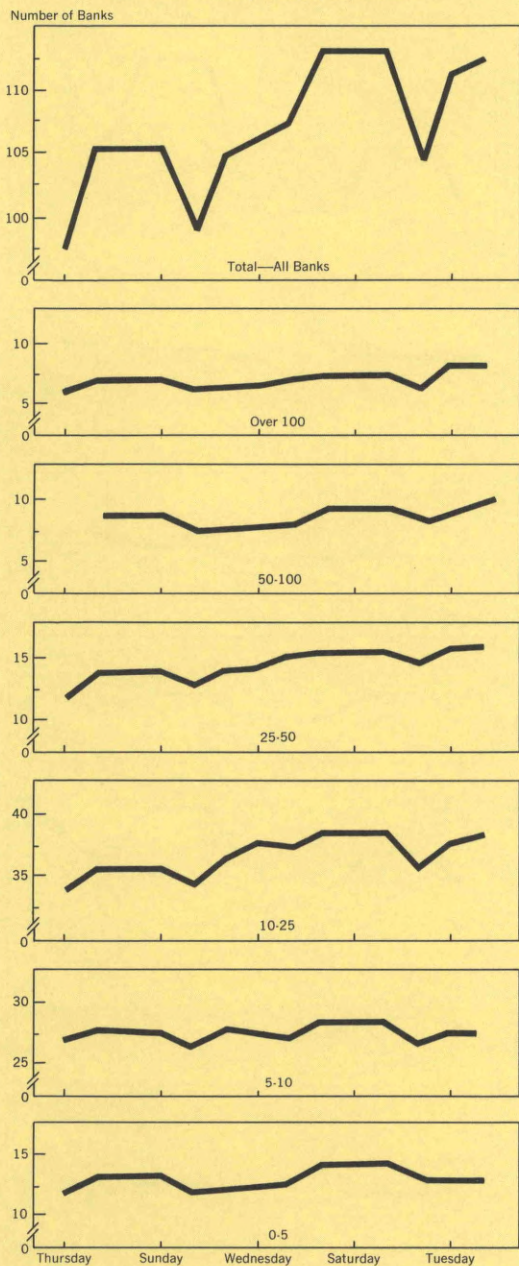


CHART 4
RESERVE PERIOD SELLING PATTERNS
 Third District Country Banks by Deposit Size*



*Deposit size in millions of dollars.

the average number of country member banks in the district that typically bought and sold federal funds on a given day within a two-week reserve computation period.⁴ The patterns on both the buy and sell side are almost identical. Activity is generally higher on weekends than on other days of the week; and it also tends to be a little higher during the second week.

A transaction on Friday carries over the weekend. It is therefore easier—less paper work, fewer telephone calls, and so on—to have one transaction on a weekend than to make three separate transactions for the same amount during the week. Yet both are equivalent in terms of the effect on reserves.

In addition, as the end of the reserve period nears, banks are more sure of their reserve needs. Market activity therefore tends to increase as more and more banks try to complete their reserve adjustments.

While these two patterns are evident in Charts 3 and 4, perhaps the most striking feature of these charts is that the second pattern—the rise in activity the second week—is not more pronounced, particularly for smaller banks.

It has been widely believed that in order for country banks—especially the smaller ones—to participate in the federal funds market, they must “save up” reserve excesses or deficiencies. Only after they have accumulated them over the first part of the reserve period are they in a position to enter the market. Consequently, it has been thought that most country banks concentrate their activity in the last few days of the period.

This is clearly not the case in the Third District. As the charts indicate, activity by banks of all sizes is spaced rather evenly throughout the period. And these patterns are not the result of dif-

⁴ The patterns would generally be the same if the average amount of federal funds bought and sold were plotted rather than the average number of banks.

ferent banks being in the market at different times. Taking the reserve period ending May 10, 1967 as an example, Table 1 shows that almost 80 per cent of the banks in the market during those two weeks bought or sold federal funds eight days or more. The great majority of banks of all sizes in the market were in the market more than half of the days in the period.

Table 1
FREQUENCY OF PARTICIPATION

Deposit Size (Millions of Dollars)	Proportion of Banks in Market		
	1-3 Days	4-7 Days	8-14 Days
\$0 - \$5	4.2%	16.7%	79.2%
5 - 10	11.9	6.8	81.4
10 - 25	8.1	13.5	78.4
25 - 50	3.3	23.3	73.3
50 - 100	6.2	6.2	87.5
Over 100	15.4	0.0	84.6
Total—all banks	8.3	12.0	79.6

This continuous participation by country banks of all sizes throughout the reserve period is due to the willingness of accommodating banks to deal in trades as small as \$50,000. With transactions of this size permissible, there is little need to save up reserve excesses or deficits.

Does it pay?

Even though the federal funds market is sufficiently well developed that banks of less than \$5 million in deposits can buy or sell on a daily basis just as banks 100 times their size, some may wonder if it is worth it—if all of this activity by small banks is just a lot of motion or if it represents real progress in terms of bank profits.

Presumably, by having access to the market, net purchasers of federal funds are able to invest funds that otherwise would have to be kept in a non-earning form as a liquidity cushion. In addition, they may be able to supplement their usual

sources of funds and increase still further their volume of earning assets. Both activities should result in higher profits, although no information is available to show their quantitative importance.

Some interesting information on the effect on profits of trading in federal funds is available for net sellers, however. The results given in Table 2 are startling.⁵ One bank with deposits between \$5 million and \$10 million received over 50 per cent of its net current operating income from the sale of federal funds. One with deposits between \$25 million and \$50 million received almost 75 per cent. These banks are extreme, but even without them the picture is impressive. The average proportion of net current operating income due to the sale of federal funds for the district country member banks in 1966 was over 8 per cent, with the percentage a little higher for the smaller banks and a little lower for the larger ones. Since the marginal cost of trading in federal funds is small, and for many banks practical alternative invest-

⁵ A large sample (165) of country member banks in the district was studied to see what proportion of net current operating income during 1966 was due to their operations in the federal funds market. The interest cost of any federal funds purchased was deducted from the interest income from federal funds sold and the difference was calculated as a percentage of net current operating income.

Table 2
**NET INCOME FROM THE SALE OF
FEDERAL FUNDS AS A PROPORTION
OF NET CURRENT OPERATING INCOME**

Deposit Size (Millions of Dollars)	Proportion of Net Current Operating Income		
	Low Per Cent	High Per Cent	Average Per Cent
\$0 - \$5	.2	27.4	8.6
5 - 10	.1	51.4	9.5
10 - 25	.2	24.3	7.8
25 - 50	.1	74.8	7.7
50 - 100	.1	20.1	6.7
Over 100	1.8	17.4	5.0
Total—all banks	.1	74.8	8.1

ments for those funds were not available, a large proportion of the amounts represented by these figures were clear additions to profits.⁶ The benefits of operating in the federal funds market are definitely not restricted to large banks.

A fair weather friend?

Many observers of the federal funds market have cautioned that for banks seeking to buy funds, it might be a fair weather friend—funds can be obtained easily when credit conditions are easy, but they might be difficult or impossible to get during periods of credit restraint. As credit conditions tighten, it is suggested, surplus banks have smaller amounts of excess reserves. The supply of funds will therefore decline at the same time that banks with reserve deficits have increasing needs for funds.

Statements like this have led some to fear that in periods of severe credit restraint, the federal funds market will dry up, forcing many banks to dump securities, sharply curtail loans, or seek accommodation at the discount window. Strains on financial markets could be great, with concomitant stresses in the real sectors of the economy.

Not everyone, of course, goes this far. They argue that in the foreseeable future, at any given time, enough banks will have excess reserves because of short-run deposit fluctuations or because of the premium they place on maintaining a cushion of very liquid assets, that there will always be a substantial supply of funds coming on the market. Their worry is that during periods of credit restraint, the large banks, because of their dominant and strategic positions in the market, will be in a better position to buy these funds than

⁶ As noted in the next section, some banks shifted out of Treasury bills into federal funds in 1966 because of the rate differential. For these banks, all of the income attributed to the sale of federal funds does not represent a net addition to income. Part of it simply represents a change in its source.

the smaller banks and that the latter might be squeezed out.

This worry seems well founded when it is recalled that small banks must buy federal funds from their large correspondents since the latter are the ones willing to deal in small units. If large banks, because of their own needs, refused to sell to their smaller correspondents, the smaller banks would be shut out of the market.

With these thoughts in mind it is informative to see what happened to country member banks in the Third District during 1966, a year of severe credit restraint.

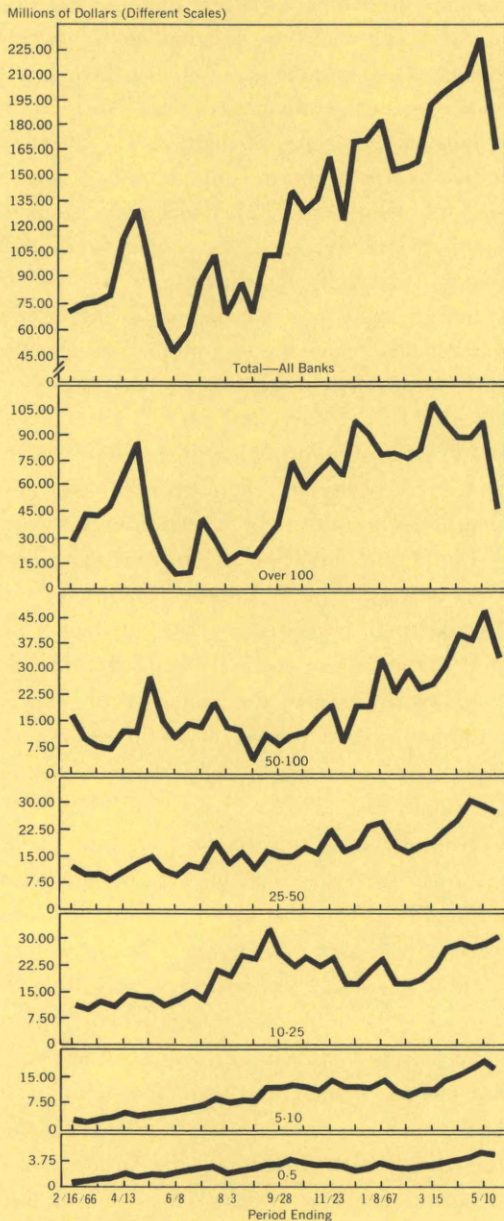
Chart 5 shows the average amount of federal funds sold by District country member banks of various sizes for each reserve period from February 1966 to May 1967.⁷ Smaller banks (under \$50 million) increased the amount of funds they sold fairly consistently throughout the period. The largest country banks (\$50 million and over) were a little stingy with their reserves during the early part of the period, particularly around June 1966. Even then, however, they supplied a much larger amount of funds to the market than was purchased by district country banks, and they increased this amount significantly and regularly from that point on. This would seem to call into question the notion that the market will dry up during periods of credit restraint. Large as well as small country banks continued to channel funds into the market even when credit was the most severely restrained.⁸

One reason for this was that throughout the period, banks which had never been in the market

⁷ Charts 5 and 6 show gross federal funds purchases and sales with no allowance made for the two-way trading of accommodating banks. When such an allowance is made, the patterns are virtually identical to those shown here.

⁸ Figures for the 46 reporting banks in the national federal funds series show this was a country-wide phenomenon and was not restricted to the Third District.

CHART 5
AMOUNT FEDERAL FUNDS SOLD
 Reserve Period Averages
 Third District Country Banks by Deposit Size*
 2/3/66-5/24/67



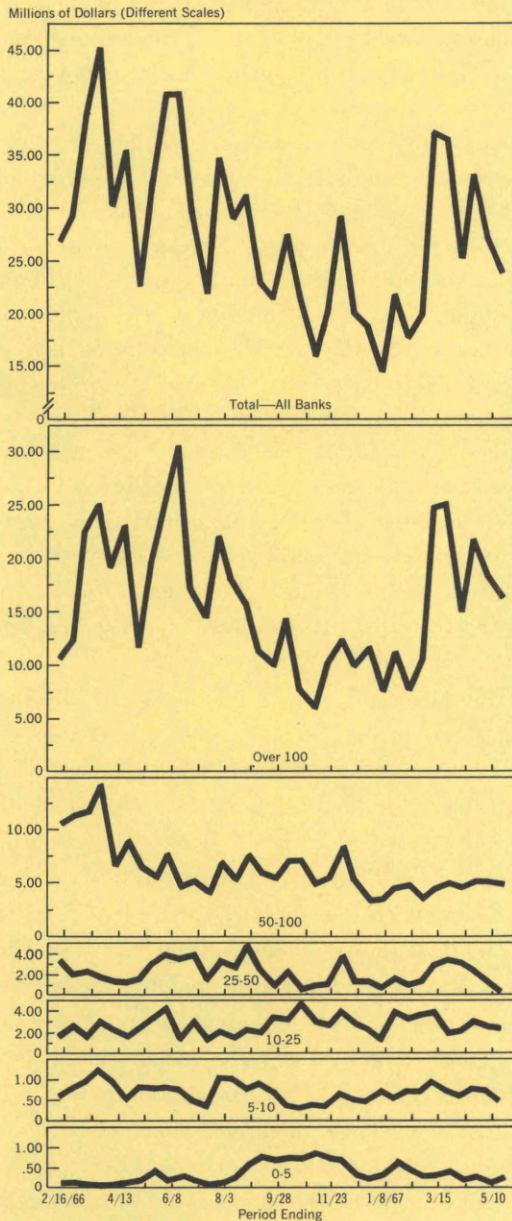
before entered as sellers as interest rates climbed and knowledge of the market spread. This was a continuation of past trends. If this were the only reason for the continuous supply of funds, there would be cause for concern. As the number of banks still outside the market dwindles, this pool of untapped funds will shrink. A time could come when it is insignificant.

A second factor, however, contributed to the continuous supply of funds over the period of restrictive monetary conditions. Many country bankers have come to view federal funds as a direct substitute for investments in Treasury bills and other liquid assets. Interviews have confirmed the fact that if the rate is sufficiently attractive, they will shift out of bills and similar investments and into federal funds. Last year the rate was attractive (see Chart 7) and many banks acknowledged that they did sell federal funds rather than invest in other short-term securities. This sensitivity to interest rate differentials suggests that an increase in the demand for federal funds, by raising the rate, might well call forth the needed supply of funds.

The data also indicate that banks of all sizes had access to the available funds. Chart 6 shows the average amount of federal funds purchased for each reserve period during the same sixteen-month period covered in Chart 5. Banks with deposits under \$50 million do not show any pronounced cyclical pattern—no sign of being squeezed out of the market. Banks of \$50 million and above do show a definite decrease in federal funds purchased over the period of credit restraint with no letup until January 1967. This is not because they were squeezed out of the market, however.

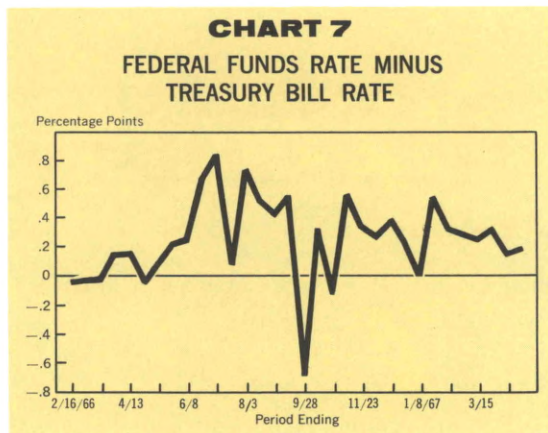
Interviews have confirmed that most large country banks in the district approached the “credit crunch” of the summer of 1966 with considerable misgivings. They saw trouble ahead, and

CHART 6
AMOUNT FEDERAL FUNDS BOUGHT
 Reserve Period Averages
 Third District Country Banks by Deposit Size*
 2/3/66-5/24/67



they did not want to be caught short. To them, borrowed reserves were not a good foundation upon which to build credit when they were unsure how long they would be able to borrow the reserves they needed. In addition, they did not like to pay the high rate then existing in the federal funds market. Consequently, some of them liquidated investments while others increased the rates they paid on certificates of deposit. The effect of both actions was to increase the amount of funds flowing into their banks and reduce their needs to purchase federal funds. Those which liquidated securities (primarily Treasury bills and other short-term instruments) not only obtained a more permanent source of funds, but they frequently did so at a smaller cost than if they had purchased federal funds. As seen in Chart 7, the federal funds rate was usually higher than the bill rate. It therefore cost less to sell bills or let them run off than it would have to hold them and purchase federal funds instead. These two factors, therefore, plus a seasonal decline in the need for funds by a few banks and increased borrowing from the Federal Reserve account for the reduction in federal funds purchased by the large country banks.

While large banks did buy a declining amount of federal funds during the period of restrictive credit conditions, most of them did purchase *some* federal funds, and many smaller ones did too. Almost without exception, the buying banks have stated that they were able to obtain the funds they needed without undue trouble. The large city and country banks in the district were willing to accommodate the needs of their smaller correspondents because the latter had previously been such good suppliers of funds to them. And these large banks in turn were similarly accommodated in the national market. It is true that the larger banks often encouraged the smaller ones to look for alternative sources of funds so that they would



not be caught short should the market dry up. But the fact remains that when the chips were down, the funds were there and banks—small as well as large—that were willing to pay the price, were able to get them.

It appears, therefore, that the federal funds market is a robust one. Rate and other factors apparently induce market participants to behave in such a way that even during periods of restrictive credit conditions funds continue to be available as some banks shift additional funds into the market while others reduce their demands. Correspondent relations help banks of all sizes to have access to these funds.⁹ It may be that 1966 was not a real test of the market, although it probably was a good one. But if it were not, that experience would seem to indicate that when the test does come, the market has a good chance of passing.

⁹ *The extent to which this statement is true for small banks in other districts is not known. There do not seem to be compelling reasons, however, why the market in other districts cannot develop as it has here if it has not done so already.*

THE 1967 HARVEST: SCRUTINY OF THE BOUNTY

by **Evan B. Alderfer**

“Rainfall this summer was the best in five years, and the corn crop is the best in ten years,” said one of the County Farm Agents we visited in mid-October. That statement, with some qualifications here and there, summarizes our fall roundup of agribusiness in the 60 counties that are the Philadelphia Federal Reserve District.

Within the region, mostly in the Delaware and Susquehanna watersheds are more than 66,000 farms that usually gross their owners about \$850 million annually in sales of crops and livestock products. A shortage of rain in any one season is bad enough, and two in a row is worse. But five!

The cow is the major source of the regional farm income. Dairy products head the list, accounting for one-third. Next comes the chicken. Poultry and poultry products account for one-fourth of the income. Other livestock and livestock products (beef cattle, swine, sheep, etc.) account for one-eighth of the farm income. The three groups together, all animals and animal products, yield about 70 per cent of the regional farm income. Crops account for the rest.

To feed all the income-producing animals takes a lot of corn, and small grain, and hay, and silage—more, in fact, than the region grows. It is a feed-deficit area, and most of the short-fall is imported from nearby states in the Cornbelt and the South. When drought strikes Third District farmers they must buy more than the customary import of feed, and many are forced to borrow—and that adds interest charges to all the other expenses. This year’s bountiful harvest, however,

should enable the farmers to reduce or to pay off their loans.

Green fields and big yields

With the resumption of normal rainfall this season, the crop that outdid all others was corn. By the time the total harvest is in, the Pennsylvania corn crop is expected to reach 84 million bushels—well over twice the small 1966 crop and about one-and-a-half times the 1961-1965 average. No other major crop went over the top to that extent. Reports from most sections of the District were expressed in more superlatives than we have heard in years. The bumper crop is reflected in both bulging corn bins and overflowing silos. Corn is a double-barrel bonanza.

The total hay crop also went over the top, though the bounty was more modest than that of corn. In a number of areas, however, the quality of the hay suffered because it “got rained on” during July and August cuttings. In some sections rain interfered with the first cutting; in others, the second cutting. Timeliness of rainfall is just as important as adequacy. Nevertheless, despite drying troubles, farmers generally had an excellent hay and pasture season.

The potato harvest, with minor exceptions, also promises to be very good. In Pennsylvania, this year’s crop is expected to surpass last year’s by almost 50 per cent, and the 1961-1965 average by 25 per cent. New Jersey yields are also expected to be better than average, but New Jersey farmers apparently had more excess moisture difficulties

than the Pennsylvania growers.

The Pennsylvania tobacco crop, almost all of which is grown in Lancaster County, was harvested on schedule and barned for drying. The total yield, according to latest estimates, will surpass last year's by a small percentage. Quality is good, having suffered a minimum of damage from insects, disease, and hail. How much cash the crop will yield the growers turns upon their higgling with the cigar-manufacturing buyers later in the year or next year.

Vegetables

Weather conditions were generally favorable for vegetable growers throughout the District, perhaps more so in Pennsylvania than New Jersey. Estimated production of sweet corn, tomatoes, and snap beans in Pennsylvania is much higher and well above the average of recent years.

Production estimates by the New Jersey Crop Reporting Service of 23 different market vegetables show only slight increases *in toto* over 1966. Among the best performers were sweet corn, tomatoes, and peppers. Frequent rain and cool temperatures reduced output of early-season crops, but these shortages were more than compensated by abundant yields garnered later in the summer.

Fruits

This was a good year for apples, and bad for peaches and cherries. The peach crop was a near disaster. In February an unseasonably warm spell developed buds in Adams County orchards. Later, a cold snap froze out a large part of the peaches and all of the cherries. The Pennsylvania peach crop was about 65 per cent below 1961-1965 average, and peach orchards in lower Delaware produced similarly disappointing yields.

Apples fared much better than peaches, despite

the fact that rainy weather during blossom-time hindered bees in their pollination. Though the set was a bit light, the fruit sized up nicely as harvest-time approached. The harvest in Pennsylvania is estimated to exceed last year's, though less than the preceding five-year average by about 20 per cent. The berry crops in New Jersey were reduced by wet weather, but a good cranberry crop is expected.

Over half the country's mushrooms are grown in Pennsylvania and over half the Commonwealth's crop comes from the Kennett Square region, where the edible fungus yielded \$17 million to its growers during the past fiscal year ended June 30, 1967. The industry's major problem continues to be mushroom imports from Taiwan.

Dairy farming

"Dairy farmers in this District had an excellent year, the fluid milk surplus is down and milk prices are higher." From another county the report is "doing very well." From still another, "milk prices are up, but so are costs." These comments suggest that dairy farmers throughout the District enjoyed varying degrees of improvement over former years. In Pennsylvania, the cow population has been declining; herds are fewer and larger; milk production per cow is increasing; and, thanks to favorable weather this year, feed is abundant. Moreover, the culling of herds in recent years is paying off.

Cattle feeding

The agribusiness of fattening beef cattle for market has not been so attractive as dairying for the greater part of this year because of low prices. Ever since last winter, feeders have been looking for better markets but the expected price increases did not come until late this summer. There may well be an expansion of cattle feeding because

prices have begun to move in the right direction for feeders; feed is plentiful, and farmers can easily jump in and out of cattle fattening in this area where dairying and general farming are so prevalent.

Poultry farming

In no branch of farming have the replies to our inquiries been so uniformly out of character with the main theme of this report as in poultry farming. Respondents from all sections of the District bespoke the plight of the poultry people—falling prices of poultry products.

It is not that demand for eggs and poultry is falling. On the contrary, per capita consumption of poultry meat is rising blithely but so is production. The production cycle is short, so rising demand is easily and quickly accommodated; but periodic over-production puts the skids under prices. Last December, broiler prices in Delmarva sank momentarily below 10 cents, ruinously below the 15-cent level of a year earlier.

In no part of the District is broiler production so predominant as in Sussex County, Delaware, in the Delmarva peninsula. There, the farmers had a good season for growing corn and soybeans—essentials in the diet of broilers. There, chickens have long ago ceased being rasorial—habitually scratching around barnyards in search of food. There, broilers are fed the lowest-cost combination diet determined by computerized linear programming. They grow from chickhood to broilerhood in carefully insulated, well-ventilated, highly automated apartments. Big hatcheries supply the chicks, big feed manufacturers prepare the feed, and big processing plants receive truckloads of live broilers in crates and deliver dressed products ready for the pan on the kitchen stove.

Hatcheries, feed manufacturers, and processing plants are steadily becoming fewer in number and

larger in size. Everything is becoming more mechanized, and profits are reckoned in fractions of a cent. Among the growers of the area are part-time farmers—men who in addition to holding a full-time job also operate a 20,000-bird broiler house. Wives can easily take care of the automated houses while husbands are on the job.

Continuing trends

The scarcity and high cost of labor is a perennial lament of farmers. The problem is especially acute in a highly industrialized region such as ours where farmers must compete in a labor market that offers a variety of attractive urban employment opportunities.

The scarcity and costliness of labor put continued pressure on the farmer to mechanize. Surprising numbers of the District's dairy farms, for example, are already equipped with barn milkers, pipelines, and storage tanks. Potato harvesting machines are no longer a novelty, and apple-harvesting machines are now making their appearance in Adams County orchards.

The purchase of farm machinery requires funds, resulting in a constantly increasing demand for agricultural credit for which farmers shop around. Whether they get the funds from local banks, Production Credit, or other sources depends upon the terms offered but the volume grows.

Mechanization, in turn, puts pressure on the farmer for the acquisition of more land in order to get fuller use of equipment and lower unit costs of production. As a consequence, farms tend to become larger in size and fewer in number. This is, of course, a national as well as a local trend.

Another trend is the constant loss of farm land for non-agricultural purposes such as residential, commercial, and industrial construction; highways, schools, hospitals, and other public uses. Such loss of farm land seems to be a never-ending

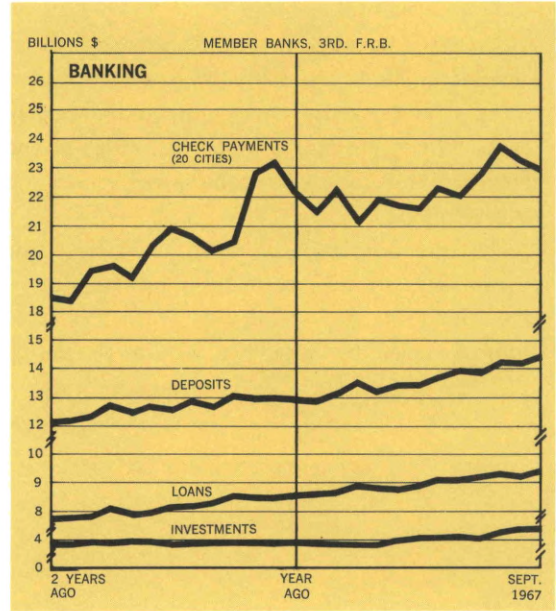
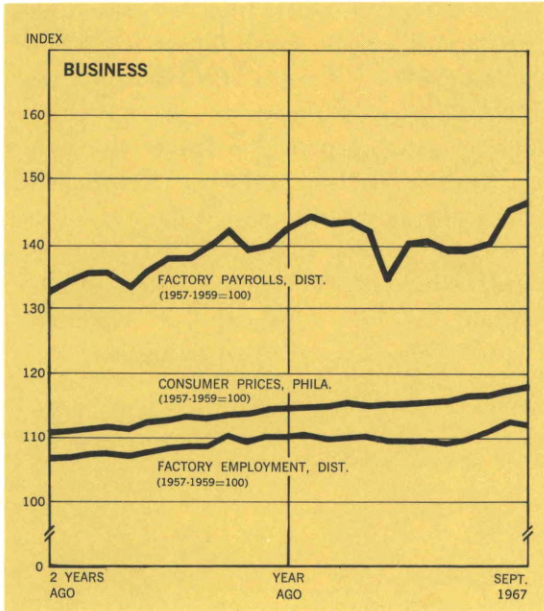
drain on a natural resource.

Part-time farming is on the increase. Sandwiching an eight-hour job between dawn and twilight farming is getting to be more and more common. Why? Perhaps the need for additional income. Rural dollars have the same shrinkage as urban dollars.

The foregoing trends are not peculiar to the current season; they have been in evidence for some time. But they are all part of the 1967 agricultural scene, freshened by a normal rainfall.

“Normal,” however, differs from one place to another. Normal annual rainfall for farms in Philadelphia County is 42 inches; for farms in Tioga County, 34 inches. For each area there is also a normal monthly pattern throughout the year. Each area also has its normal temperature pattern—the number of frost-free days in the year, which varies from less than 100 days in some parts of Pennsylvania to over 200 days in others. It’s the departure from normal that exerts great influence on farm income from one year to another.

FOR THE RECORD . . .



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Sept. 1967 from		9 mos. 1967 from year ago	Sept. 1967 from		9 mos. 1967 from year ago
	mo. ago	year ago		mo. ago	year ago	
MANUFACTURING						
Production			+ 2	- 2	+ 1	
Electric power consumed	- 1	0	+ 2	.....	.....	.....
Man-hours, total*	0	- 1	- 2	.....	.....	.....
Employment, total	0	+ 2	+ 1	.....	.....	.....
Wage income*	+ 1	+ 3	+ 2	.....	.....	.....
CONSTRUCTION**	+ 4	+ 5	+ 6	- 8	+14	0
COAL PRODUCTION	- 7	- 9	- 2	- 2	0	+ 5
BANKING						
(All member banks)						
Deposits	+ 2	+12	+ 8	+ 2	+10	+ 7
Loans	+ 2	+10	+ 9	+ 1	+ 6	+ 6
Investments	0	+14	+ 6	+ 1	+16	+10
U.S. Govt. securities	0	+ 8	- 2	+ 1	+13	+ 5
Other	+ 1	+21	+16	+ 1	+19	+15
Check payments***	- 2†	+ 2†	+ 6†	- 4	+11	+12
PRICES						
Wholesale .....	.....	.....	.....	0	- 1	0
Consumer	0‡	+ 3‡	+ 3‡	0	+ 3	+ 3

*Production workers only
 **Value of contracts
 ***Adjusted for seasonal variation

†15 SMSA's
 ‡Philadelphia

LOCAL CHANGES	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Per cent change Sept. 1967 from		Per cent change Sept. 1967 from		Per cent change Sept. 1967 from		Per cent change Sept. 1967 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Standard Metropolitan Statistical Areas*								
Wilmington	+ 3	0	+ 9	+ 4	- 4	-17	+ 7	+10
Atlantic City .....	.....	.....	.....	.....	+ 1	+ 2	- 2	- 1
Trenton	0	- 5	+ 5	- 3	-12	+ 7	0	+16
Altoona	+ 1	- 1	0	- 2	+ 5	+ 7	+ 1	+ 6
Harrisburg	0	0	+ 2	+ 9	+ 2	+ 2	+ 2	+ 8
Johnstown	- 2	- 6	- 5	-12	+ 2	+ 6	0	+ 8
Lancaster	- 2	0	- 2	- 2	+ 5	+ 2	+ 1	+ 6
Lehigh Valley	- 2	- 2	- 3	- 2	0	+ 2	0	+ 9
Philadelphia	0	- 1	0	+ 1	- 1	+ 6	+ 3	+14
Reading	+ 1	- 2	+ 3	0	+ 3	+ 9	0	+10
Scranton	0	- 1	+ 2	+ 6	+ 3	+13	0	+11
Wilkes-Barre	- 2	- 3	- 1	+ 2	- 2	+ 6	0	+11
York	+ 1	+ 3	+ 1	+ 9	+ 1	+ 8	+ 1	+ 8

*Not restricted to corporate limits of cities but covers areas of one or more counties.
 **All commercial banks. Adjusted for seasonal variation.
 ***Member banks only. Last Wednesday of the month.