

# MONTHLY *Business Review*

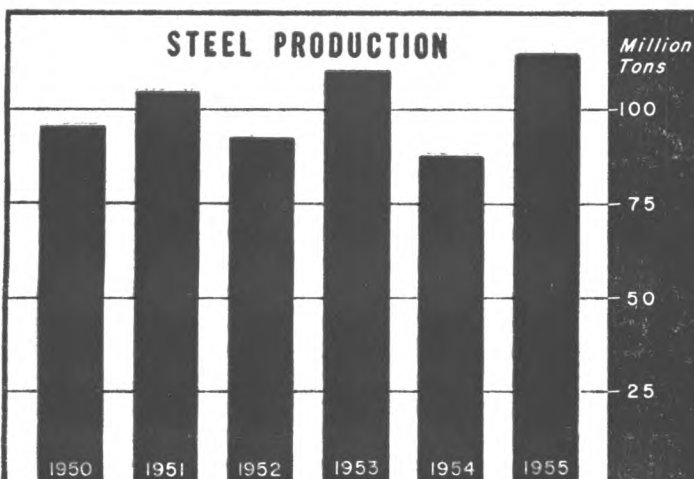
FEDERAL RESERVE BANK of CLEVELAND

*December 1955*

## IN THIS ISSUE

Industrial Summary—1955 . . . . .	2
1955—Continuation of the Market Squeeze on Agriculture . . . . .	8

### STEEL PRODUCTION



Million  
Tons

*The rise in steel production during 1955 has brought the year's total to a new record, about 30% above last year's reduced figure and about 4% above the previous record year of 1953.*



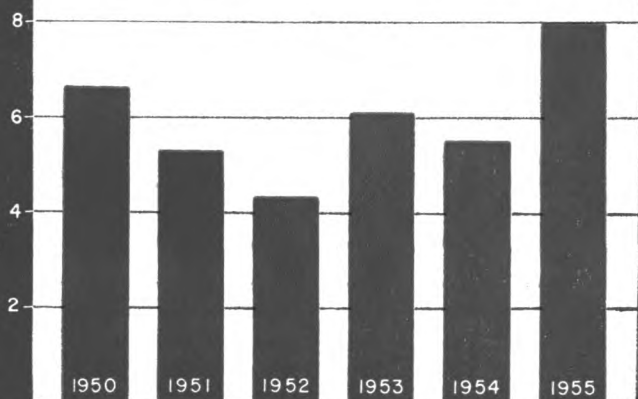
*Much of the pressure of demand upon the steel industry has come from the auto industry; an 8 million passenger-car year easily outstrips all previous records.*



1955 totals partially estimated.

### AUTOMOBILE PRODUCTION

Million  
Cars



# Industrial Summary—1955

**I**F THE DESCRIPTION of business activity in 1955 had to be limited to one word, the most fitting would be "tremendous." Almost every major business or economic indicator, with the exception of farm income, set a new record high for the year, and by a substantial margin.

The accompanying table shows, in capsule form, the sharp improvement registered by the nation's economy in the past 12 months. But even these figures for the year, or monthly averages, as the case may be, fail to show the magnitude of the gains by the year end, as compared with the first part of the year.

Gross National Product, for example, will total close to \$387 billion for 1955, but when the fourth quarter figure is finally tabulated, it will likely be in excess of \$396 billion, at a seasonally adjusted annual rate. Similarly, industrial production, as measured by the

Federal Reserve index, will be close to the 143 level in December or some 5 points above the estimated annual average.

Through the first six months of 1955, advances in production activity were broadly based and nearly every industry participated in the upsurge. In the second half of the year, however, the further rise in output was achieved almost exclusively by continued expansion of production by the durable goods industries. Chief among these were ferrous and nonferrous metals, metal fabricating, transportation equipment, and machinery. Production of nondurable goods held fairly steady at high levels during the second half of the year.

At the recent record levels of production, the nation's industrial machine has been showing signs of strain. The shortage of various steel products—particularly structurals, plate, sheet, strip, and bars—has hampered a variety of industries and forced a few actually to curtail production. Virtually every kind of nonferrous metal, with the exception of tin, has at times appeared to be in short supply. Other materials, whose supply has been less than current demand in various degrees, include glass, cement, and paperboard. In addition, the shortage of freight cars seemed to be getting worse as the fourth quarter progressed, instead of better as was expected at the end of the major crop moving season. The bituminous coal industry has been most seriously affected by this development, with some mines being closed down, or worked only part time, because of inability to obtain sufficient cars to move the fuel to customers.

The employment situation likewise has reflected the upward surge of production and high activity in the trade and service industries. Total employment was at record levels and unemployment hardly more than 3 percent

## THE SCOREBOARD

	1955*	1954	Percent- age Change
Gross National Product (billions).....	\$387	\$360.5	+ 7%
Industrial Production (1947- 49=100) monthly average	138	125	+10
Construction Activity (billions).....	\$42	\$37.6	+12
Personal Income (billions).	\$303	\$287.6	+ 5
Employment (millions, monthly average).....	63.2	61.2	+ 3
Unemployment (millions, monthly average).....	2.6	3.2	—19
Wholesale Price (1947-49=100) monthly average....	110.8	110.3	+ 0.5

Partially estimated by Federal Reserve Bank of Cleveland.

of the civilian labor force (about the practical minimum in a peacetime economy) in the early part of the fourth quarter. Shortages of skilled labor of various kinds were growing more serious and forcing many companies to work their employees overtime to obtain desired output.

Thus, with production in many industries being pushed to capacity, or to the maximum permitted by the supply of raw materials, with a shortage of transportation equipment hampering the free flow of goods, and with a labor force nearly fully employed, it appears at year end that not much further expansion in output can be achieved until new production facilities are activated.

The continued rise of durable goods production in the second half of 1955 had a particularly strong impact upon the Fourth Federal Reserve District, whose economy is dominated by heavy industry.

## Steel

Steel mills of the District, which have about 40 percent of the nation's total steel ingot capacity, pushed production steadily upward through the first half of the year to nearly 100 percent of capacity by mid-June. Production was then interrupted by preparation for a labor dispute which lasted less than 24 hours as final negotiations for a new wage contract were concluded.

Steel production in the District, despite the heavy pressure for deliveries, did not return to near-capacity levels until late September. Mill operators were hampered by the hot weather, by the damage caused by the temporary shutdown, and by the need to make repairs that had been postponed earlier in the drive to produce all possible tonnage. By October, four of the five major steel producing areas in the District were operating at 100 percent or more of theoretical capacity.

Nevertheless, output was unequal to demand of consuming industries, and order backlogs continued to mount. By December 1, it appeared that orders already booked, and inquiries for future tonnage, would assure near-

capacity operation through the first half of 1956.

For the nation as a whole, steel production this year will approximate 116 million tons, barring any work interruptions in December. This would top 1954 by 31 percent and beat the 1953 record by 4 percent.

The unexpectedly large demand for steel that persisted through the normally dull summer months caused District producers — as well as steel companies located elsewhere in the nation—to reappraise the long-term demand for steel. Within less than a year, excess capacity, which had been thought sufficient to meet expected growth in the rest of the decade, had been converted to a state of serious shortage.

Thus, as a result of long-term studies of the potential demand for steel, the industry has already begun its third large postwar expansion program. To date, 12 major steel companies of the District have publicly announced new expansion programs that will take from one to three years to complete. Insofar as it is possible to segregate the portions of the programs that apply to the Fourth Federal Reserve District, it appears that upwards of \$811 million will be invested in the District over the next three years to expand steel production.

The new investment will increase steel ingot capacity in the District by about 2,800,000 tons, to bring the District total to roughly 53,250,000 tons. In addition, large increases in steel finishing and supporting facilities will be made. The emphasis appears to be toward increasing capacity for the hot and cold rolling of sheet and strip. Substantial increases will also be made for the production of galvanized steel, tinplate, pipe, wire products, electrical steels, and alloys — chiefly stainless products. Steel producers of the District, however, have made no announcement that would indicate an intention to expand the output of steel plate or heavy structural products, both of which are currently in very short supply.

Such ambitious expansion plans may encounter delays in 1956, due in part to the

**shortage of steel.** Steel companies, themselves, are having trouble obtaining the necessary structural steel for new buildings or for remodeling old plants. Equipment makers use large quantities of heavy structural steel and steel plate and so are having difficulty in obtaining adequate quantities of these from the mills. Also, since most new rolling and processing equipment must be integrated with existing facilities, a great deal of engineering work is involved with each separate project; at this point, a shortage of engineers serves to slow down the planning and design of equipment. In addition, delays are being incurred in promised deliveries of the complicated electrical systems and very large electric motors that are integral parts of rolling and handling equipment. An extended strike against one of the chief electrical manufacturers has aggravated this situation considerably.

*Iron Ore.* Lake ore carriers worked the latter part of the shipping season at near capacity trying to bring enough ore down the lakes to supply steel mills and to build up adequate stockpiles of ore for the winter months. At mid-November, 250 boats were listed as still active in the ore trade, as compared with only 69 active boats a year ago.

About 87½ million tons of ore moved down the lakes during 1955, making the year's total the fourth best on record.

Stocks of Lake Superior iron ore at U. S. furnaces and lower lakes docks appear adequate to sustain the steel industry at capacity operations until the shipping season opens again in the spring. The margin of safety is not as great as it has been in some recent years, but the Lake Superior region's relative importance as an iron ore shipper has declined as imports from Labrador and Venezuela increased sharply.

## **Autos**

The record-smashing production performance of the automobile industry in 1955 in turning out an estimated 8 million passenger cars (an increase of 45 percent over 1954, and 20 percent above the previous 1950 record) had

a heavy impact upon District industrial activity.

Auto manufacturers are the steel industry's best customers, and this year they proved to be even better but more demanding customers. Through the first 9 months, the auto industry absorbed slightly more than 23 percent of all steel shipments; with 2 million cars scheduled in the fourth quarter, the auto industry probably is taking at least that proportion in the final quarter of the year. In 1954, the auto industry absorbed only 19.5 percent of total steel shipments.

Auto requirements for certain kinds of steel are indicated by the fact that car producers consumed 53 percent of the total supply of cold-rolled sheets available in the first three quarters of the year, as well as 42 percent of the supply of hot-rolled strip.

A large part of the nation's automotive steel requirements is produced in the Fourth Federal Reserve District. The District's importance as a source of automotive steel, parts, and skilled labor became more evident this year as car builders pushed ahead with expansion programs. During the past twelve months, very large parts plants of various descriptions have been proposed, put under construction, or purchased in Toledo, Sandusky, Cleveland, Cincinnati, Mansfield, Columbus, and Twinsburg, Ohio.

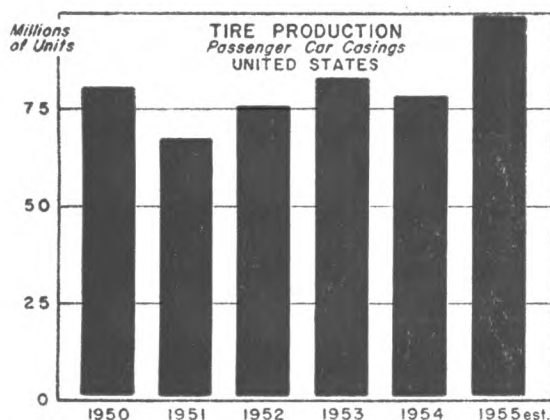
Automotive demand has also stimulated a major expansion of plate glass making facilities in the Toledo area, in order to increase the output of the complicated curved safety glass demanded by current styles.

Other industries which have spurred under the stimulus of automotive demand include rubber, paint, gray iron foundries, aluminum, zinc die casting, and electrical equipment.

## **Rubber**

Booming auto production kept tire manufacturers on an overtime basis through much of 1955. Cumulative production through the first three-quarters of the year was up nearly 31 percent from the same 1954 period, while

**Tire manufacturers have worked overtime to turn out the largest volume on record.**



shipments rose nearly 22 percent. As to be expected, shipments of tires to car manufacturers rose sharply—up 45 percent from 1954. Replacement demand was also strong, with an 8 percent increase.

Tire producers continued their rapid shift to the tubeless tire, which is now standard equipment on all new cars, and strove to make the new tire predominant in the large replacement market. Although separate statistics are not available for tubeless tire shipments as compared with the old style casing, a clue can be found in the shipment figures for tire tubes. In the first 9 months of 1955, tire tube shipments (all kinds) dropped 42 percent from the comparable 1954 period. Within a few years, manufacturers expect to be able to discontinue nearly all tube production.

The scarcity and high cost of natural rubber has stimulated a further shift to synthetic rubber. Nearly 60 percent of all new rubber consumed was synthetic as compared with a 51 percent proportion in 1954.

## Machinery

The District's complex machinery industry generally surged forward in 1955 under the dual impact of high level consumer spending for all sorts of home appliances and the sharp turnabout of business expenditures for new plant and equipment.

The largest increases in both production and employment took place among producers of major household appliances, with output up by more than 20 percent from last year. Production of appliances probably exceeded the previous record year of 1950 by a small margin.

Producers of general industrial machinery, both electrical and nonelectrical, reported an order inflow well in excess of sales, and order backlogs increased steadily. The largest pileup of orders has probably occurred in heavy steel mill equipment.

New orders for machine tools also improved substantially. Orders placed through the first 10 months exceeded the total for the entire 12 months of 1954 by 22 percent, and the backlog on October 1 amounted to more than 6 months production as compared with only 3 months a year earlier. In view of the anticipated level of capital equipment expenditures in 1956, and the growing shortage of skilled machinists, machine tool builders confidently anticipate a further increase in orders. The marked progress of the machine tool industry during the past decade in designing rugged, versatile and extremely fast-working tools was amply demonstrated at the national machine tool show held in Chicago this fall.

Although the new order intake for machine tools has run well above 1954 levels, tool shipments have lagged far behind. Builders have been unable to rebuild depleted skilled labor forces as rapidly as they would like, and instead have had to resort to heavy overtime schedules. Shipments in October exceeded the year-ago month for the first time this year.

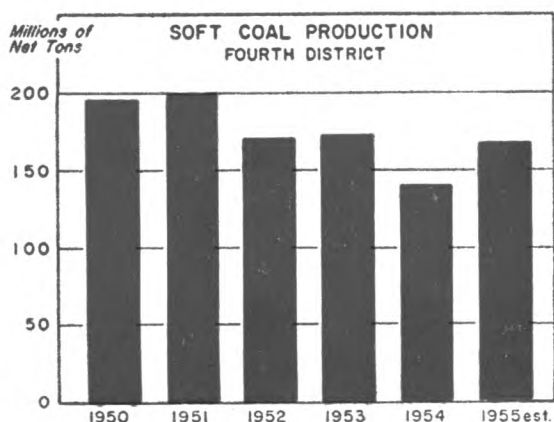
## Coal

The three-year decline in bituminous coal production appears to have ended this year. District coal production during the first 10 months of 1955 rose 21 percent from the comparable 1954 period. This was closely in line with a year-to-year gain of 20 percent nationally.

Several events have brightened the long term future for coal, especially in this District. The first was the initial generator put into



**Coal production turns up this year in response to strong industrial and utility demands.**



operation to supply electrical energy for the Atomic Energy Plant in Pike County. Ultimately the power plants supplying this project will consume upwards of 7 million tons of coal per year.

The second event was the beginning of the long-planned coal pipeline from the strip-mining area of southeastern Ohio to an electric generating plant in northeastern Ohio. The coal will be moved in the form of a slurry, partially dried, and then fed to the power plant. Substantial savings in freight are anticipated.

A third development was exploration for two plant sites for aluminum production plants, on the part of different aluminum companies. These would be the first plants to use electric power produced from coal-fired steam plants. One tentative site is in western Pennsylvania near Pittsburgh, and the other is along the Ohio River near Wheeling. If these plants materialize, a large new market for coal will have been opened up.

## Construction

Construction activity in the Fourth District roughly paralleled that of the nation during the first ten months of 1955. As measured by construction contract awards, District activity was about one-fifth above 1954 levels and, if allowance is made for the large contracts for

the Portsmouth atomic energy plant awarded in 1953, this year's construction volume would be at a new peak.

Contracts for residential buildings were awarded in record volume during the first ten months of the year, showing an increase of about one-quarter from the previous record dollar volume of 1954. The new record was also clearly established in terms of the aggregate floor area of dwellings in contract awards, as well as in the number of units covered by contract awards; both of the latter stood about 18 percent above old 1954 highs at the end of the first ten months.

Some easing of the rapid pace of homebuilding activity became evident in this District, and across the country, in September and October when the volume of residential contracts fell below the unusually high year-ago totals. By any other comparison, however, the current level of residential awards is exceptionally high, running a third or more above September and October totals for all years prior to 1954.

Paced by awards for commercial and manufacturing buildings, District activity in the nonresidential building category rose 17 percent above year-ago levels during the first ten months of 1955. Commercial building awards were at a new high, running 27 percent over the previous peak dollar volume of 1954. Contracts awarded for new or expanded manufacturing buildings were over a third above 1954's dollar total, but were less than half of the 1953 volume which included the bulk of the awards for the Pike County A.E.C. plant. School building awards also reached a new peak about 3 percent above the old 1954 high.

Material shortages — particularly cement — plagued builders throughout most of the year. Rising material prices and wage increases in the building trades pushed construction costs up from 3 to 5 percent during the year.

## Employment and Unemployment

From the low point of the 1954 recession, total manufacturing employment in the District has advanced nearly 10 percent, but



toward year end it was still somewhat below the peak of 1953. The largest gain scored by any industry was a rise of about 20 percent in employment by producers of motor vehicles and parts. Steel companies, in northeastern Ohio, were complaining this fall of a shortage of skilled and experienced workers. The stone, clay and glass industries, aided by a very high demand for building materials as well as automotive glass, expanded employment substantially from the year-ago level. This was one of the few industries to top the 1953 peak of employment.

The industrial unemployment generated in the Fourth District by the 1954 recession was effectively wiped out during 1955. By early autumn, unemployment in Ohio had dropped to a point only slightly above the lows of 1953. Claims for unemployment compensation were still falling more than seasonally through October, although the rate of decline slowed markedly after mid-year. The appearance of isolated shortages of certain types of skilled labor in several District manufacturing centers indicated that unemployment was approaching minimum levels. However, unskilled labor remained in ample supply even in the booming

steel and metal-working centers of northeastern Ohio.

Unfortunately, employment conditions in the large Ohio manufacturing centers are not representative of the District as a whole. In the smaller labor market areas of southeastern Ohio and eastern Kentucky, and even in some of the cities of western Pennsylvania, substantial pockets of unemployment still exist. An accompanying map shows the location of the 30 District counties which comprise the areas of substantial labor surplus recognized by the U. S. Bureau of Employment Security.<sup>1</sup>

Erie, Pennsylvania, is the only major manufacturing city still experiencing a formidable unemployment problem. Its difficulties have been closely related to a series of upheavals in its dominant nonelectrical machinery industry. A significant decline in toy manufacturing also has created unemployment.

Wheeling and Pittsburgh, both of which have demonstrated a tendency toward longer-term employment problems, have moved out of the substantial labor surplus category, primarily on the strength of large employment gains in their primary metals industries.

The remaining areas in which unemployment still presents serious problems lie almost entirely in the extensive bituminous coal mining belt stretching from eastern Kentucky through southeastern Ohio and into the mining areas ringing Pittsburgh. Relocation of manufacturing plants, production cutbacks and population changes have been important factors bearing upon the employment problems in some of the depressed counties, but most of them are in trouble because of a long-term decline in mining employment. In 1955, although bituminous coal production turned upward after three years of substantial declines, the number of miners employed failed to increase because of the steady mechanization of mining operations and a substantial lengthening of last year's short work week.

<sup>1</sup> The Bureau issues bi-monthly classifications for 149 major labor market areas and identifies smaller areas with significant unemployment problems. Pittsburgh, Pennsylvania, was still classified as a substantial labor surplus area in the Bureau's September labor market survey. However, at latest report, unemployment in the Pittsburgh area had dropped to about 5 percent of the labor force and the immediate outlook seemed favorable.

# 1955—Continuation of the Market Squeeze on Agriculture

THE YEAR 1955 in agriculture has been viewed with mixed emotions, both by farmers and by others. Economics, politics and the productive genius of American farmers have combined to cast agriculture in a controversial and highly confusing role. The status of agriculture has been variously described all the way from depression-in-the-midst-of-prosperity to one of being in excellent financial condition.

Numerous inconsistencies have dotted the farm scene in 1955. Most indicators of nonfarm prosperity have shattered all records; that includes the disposable income of consumers, which is the foremost indicator of demand for farm products. But for many indicators on the farm front it would be necessary to reach back a decade or more for comparable lows.

Agricultural commodity prices continued their prolonged decline into 1955 under the burden of heavy surplus; at the same time, farm output for the year has been boosted to record heights. Net income has dropped for the fourth consecutive year, but the value of land from which the income is derived has risen to record heights. Exports of food to other parts of a hungry world have shown a respectable rise, but the American government has had to pick up a substantial share of the bill. Prices of raw materials at the farm have virtually plummeted in recent years, but the bag of groceries exchanged for a ten dollar bill has shown little change.

Last but not least—although farmers generally are reported to be hard pressed to meet their obligations, there can be found a hard core of prosperous and highly efficient farmers who are moving ahead at a respectable profit.

From such a mixture of crossevents, inconsistencies and diverse trends, it is difficult to follow the string marking the course of agri-

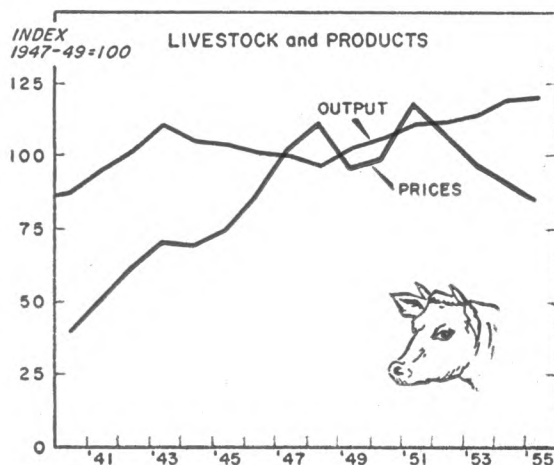
culture for the year. Along the route, a cost-price squeeze can be clearly detected and some elements of distress are evident—but wherever the course may be leading, disaster was not in view by the close of 1955.

## Prices Still Slide

The general level of farm prices continued downward for the fourth consecutive year in 1955. While the sharp break of 1953 has been arrested, the further dip through 1954 and 1955 has been sufficient to bring the level below the 1949 recession year and to the lowest point since 1946.

Prices are probably the indicator most closely followed by farmers in judging their current economic position. While prices are only a part of the total picture, they are among the items over which the farmer has the least

***Production of livestock and products reaches a new peak; prices have declined for the fourth consecutive year to the lowest since 1945.***



Source of data: U. S. Department of Agriculture; 1955 partly estimated.



control. And it is undoubtedly the tobogganning price level which accounts for most of the farmers' uneasiness in the present economic setting.

*Hogs and soybeans* have shared the stage as the principal actors in the farmers' price dilemma in 1955. With hogs, it is a continuation of a soft price trend which first developed as a contra-seasonal movement in the early spring of 1954. Interrupted by several feeble movements toward normal seasonal recoveries and by one near-normal recovery in mid-1955, the trend has continued downward. By November, hog prices on the Chicago market had dropped to the lowest level in over a decade.

A somewhat different situation prevails for soybeans, insofar as prices of the latter have dropped from a very favorable level of a year ago. While the rate of decline has been quite severe for a single year, the price position of soybeans relative to other recent years does not appear quite so unfavorable. Likewise, quotations in the closing months of 1955 were not so far below those of 1954 as was the case during the preceding months. Nevertheless, the season average price for soybeans may prove to be the lowest since the 1949 recession year.

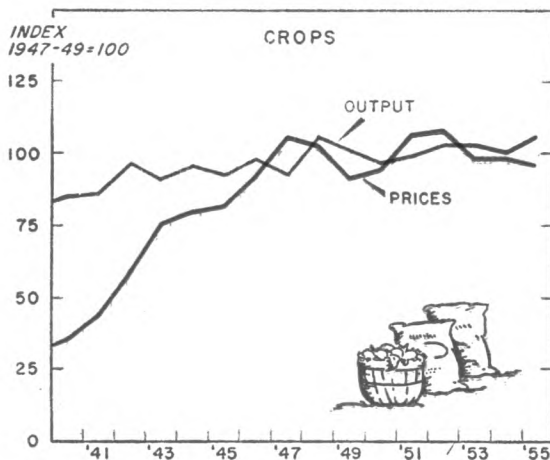
*Corn and oats* supplies have also met with a weak market, particularly since mid-1955 when the magnitude of new crops became apparent. Corn prices brushed the \$1 per bushel level on local Fourth District markets, for the first time in many years. Last year and in most of 1953, corn prices ranged between \$1.35 and \$1.55 per bushel.

Oats have sold for about 50 cents per bushel on local markets this fall, having dropped from 75 cents per bushel earlier in the spring.

*Cattle prices* in 1955 have continued to show the remarkable stability which has characterized the market for several years. What change there has been, however, has been in the direction of weakness, under the pressure of a heavy slaughter rate.

While the foregoing five products for which prices are lower than a year ago account for a substantial share of Fourth District farm income, there are other major products of local

**Crop output matches the 1948 record; prices have eased slightly to the lowest since 1950.**



Source of data: U. S. Department of Agriculture; 1955 partly estimated.

farms which have shown more price strength during 1955.

Prices on *milk, poultry and eggs*, while below 1953 levels, have improved considerably over those of 1954 during all or part of the current year. As indicated by the comparison with 1953, however, the improved price position this year has been from a level considered as far from favorable.

*Wheat* prices in 1955 averaged about the same as a year ago, although comparisons through the year reveal more weeks in which quotations were below last year than when they were above.

*Burley tobacco* prices from this year's crop will not be firmly established until the auction season progresses. Sales did not begin until late November.

### Demand Has Been Strong

Available measures of consumption show a market for farm products in 1955 which was greater in magnitude than ever before. But it has not been adequate to clear the super-saturated markets. Disposable income received by American food consumers reached new peaks and these consumers spent freely for

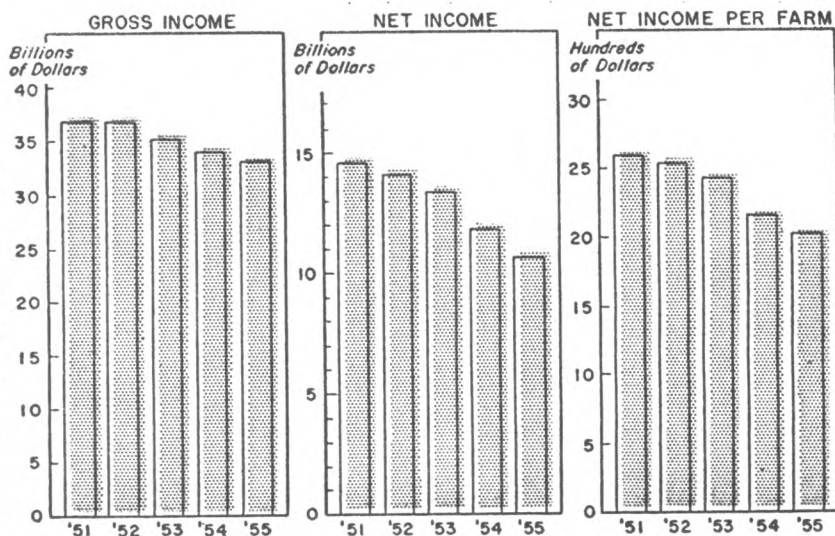
products of the farm. While the domestic market is the primary outlet for farm products, the impact of foreign sales is significant for many farm products; exports have risen for the second year. These two facets of demand in 1955 would have meant great prosperity to American agriculture, if carryover stocks had been at more desirable levels and if farm output had been at 1950 or 1951 levels. As it turned out, surplus inventories, combined with a record level of output, eliminated all semblance of buoyancy from the pricing mechanism.

With surpluses continuing to mount in the face of an unprecedented level of demand, it is disturbing to contemplate the effects on the farm economy of any business recession which might precipitate a loss of consumer income.

Federal price supports as a demand factor have continued active in 1955. Although the rate of accumulation has slowed appreciably, the Commodity Credit Corporation investment in loans and inventory of price-supported produce had risen to a record-breaking 7,440 million dollars in February of this year. Losses for the fiscal year ended on June 30 exceeded the record of the previous year by 90 percent. Investment and losses are continuing at an advanced level into fiscal 1956.

Poultry, eggs, hogs, cattle and other commodities accounting for over half the farm income are not subject to price supports and consequently are not represented in the investment. A limited pork purchase program inaugurated in November will not affect the CCC investment.

*Realized income from farming has continued its downward trend, whether measured by gross returns, net returns, or net returns per farm.*



Source of data: U. S. Department of Agriculture; 1955 data partly estimated.

### Income Slides as Output Rises

Gross returns to farm operators from farming in 1955 were about 3 percent below a year ago. Net returns dipped about 10 percent. Production costs moved up slightly, despite lower prices on goods of farm origin.

In seeming defiance of a popular economic axiom, farm output has been trending steadily upward, having risen 12 percent since 1950, but income has been moving downward. Declining prices per unit have more than offset the increase in numbers of units on a national basis. A record level of output in 1955 will be accompanied by the lowest gross income since 1950 and the smallest net income since 1942.

Such a combination of results is not true universally on a per-farm basis. Increased output, when accompanied by efficiencies of larger scale, have brought a greater gross and a larger net return to many individual operators. The economies, however, have proven to be a rather short-run proposition for some operators. Greater output when extended over a greater number of farms has resulted in lower prices, nullifying at least a part of the gains to the

individual, and calling for still greater efforts to trim costs. Small operators caught in the backwash of this progressive movement are severely pinched by the current cost-price structure.

Several concepts of income may be used in measuring agriculture's economic well-being. Income to operators, measured either in total or on a per-farm basis, is the most conventional. In 1955 each of these measurements showed a decline if income from farming is to be considered as the most valid measure.<sup>(1)</sup> (See chart.)

No estimates of farm income in states of the Fourth District are available for the full year of 1955. The accompanying table would indicate that gross receipts for the year may run below a year ago by about the same margins as the national totals. During the first eight

**Cash Farm Income in Fourth District States**  
(First eight months of each year)

	1955 (thousands)	1954 (thousands)	Percent Change
Ohio.....	\$ 647,391	\$ 676,724	-4.3%
Pennsylvania.....	492,142	493,151	-0.2
Kentucky.....	269,767	292,136	-7.7
West Virginia.....	71,111	73,534	-3.3
Total.....	\$1,480,411	\$1,535,545	-3.6%

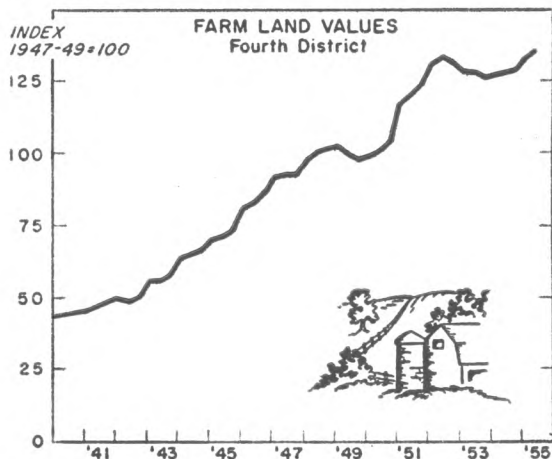
months, the decline from 1954 to 1955 was greater in Ohio than that of 1953 to 1954; however, the comparable rates of decline were smaller than the previous year in the other states of the District.

## Land Values

Values of farm real estate advanced to record levels in 1955, suggesting one of the perplexing aspects of the year's developments. Traditionally land values are thought to fol-

(1) If income to farmers from nonfarm sources, such as part-time employment in a factory, is to be considered, then a somewhat different picture emerges. By this measure also, income has declined but the drop has been less severe.

**Per acre values of farm real estate have pushed to new highs.**



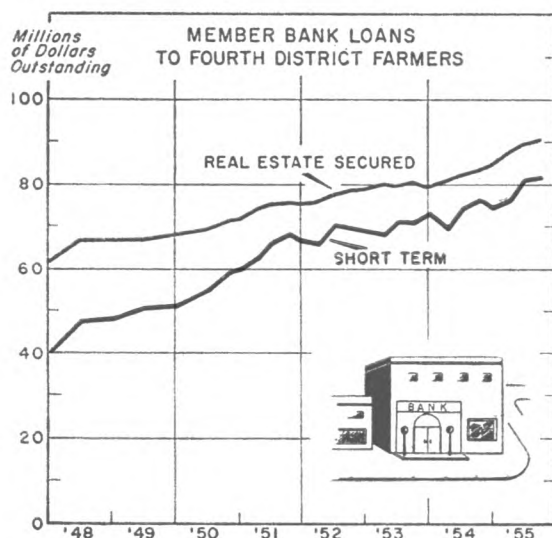
Source of data: U. S. Department of Agriculture.

low the trends of income derived from the land or of prices on farm products. The contradictory movement in 1955 has called for more searching explanations of the real estate market.

Currently, it is thought that the trend toward larger-size units to permit more efficient use of machinery has been a contributing factor. To add additional acreages of land from an adjoining farm may call for a premium price; location value is added to the normal price, particularly when farmers on other sides of the parcel for sale are also interested in the purchase. This is especially true where the unit for sale is of a size small enough to make a desirable addition.

Additional factors cited as responsible for the rise in land values in 1955 are the favorable crop development, more liberal lending policies of some major lenders, a favorable outlook for the general economy and the continuing trend toward industrialization and "suburbanization." It is also the current belief that land values tend to follow crop prices more closely than livestock prices, in areas other than the western ranges; crop prices, during the first part of this year, at least, exhibited relatively greater strength under the assurance of a price support program.

**Bank credit in use by farmers has continued to rise.**



Last date plotted: 3rd quarter 1955.

Not to be overlooked as a contributor to the rising trend of land values into 1955 is the fact that profits on many types of farm operations improved in 1954. Commercial hog-dairy, hog-beef fattening and cash grain enterprises in the corn belt are examples.

### Use of Credit Rises

Outstanding credit in use by farmers was substantially greater in 1955 than in 1954, both nationally and in the Fourth Federal Reserve District.

In early October, member bank loans in the Fourth District, as shown in the chart, were greater than a year ago by 9 percent and 6 percent for real estate loans and for non-real-estate loans, respectively. A moderate gain during the third quarter brought both types of outstandings to a new postwar peak. At the same time, for the United States, member bank loans to farmers were higher than a year ago by about 12 percent in both the real estate and non-real-estate categories of loans. This gain from a year ago in farm loans generally, however, has not been as great as that indicated for nonfarm loans.

Increased use of credit for feeder cattle has

been one of the major factors explaining the increase in non-real-estate lines in the Fourth District. Also, borrowed funds are probably serving to supplement diminished operating capital in those instances where net income is lower.

Bank farm loans in total are in a generally satisfactory condition in the Fourth District. Unpaid principal on loans classified as delinquent probably amounts to only about one percent of total outstandings. Numbers of loans classed as delinquent are probably not much greater than one percent in relation to total number of loans outstanding. While collections were perhaps a shade slower in 1955 than during the year before, the difference was not enough to create a delinquency problem.

Interest rates on new loans to farmers at banks in the Fourth Federal Reserve District held generally steady at last year's level. The limited increase over recent years in the farmer's cost of using borrowed funds, as compared with increases in other cost items, show credit to be one of the farmer's "better buys" in 1955.

### The Outlook

What lies ahead for the farmer? Will 1956 bring an end to the general slide in prices and income? A consensus of farm economists of the U. S. Department of Agriculture and several land grant colleges would indicate that the outlook may once again be for "more of the same." A lower gross income, lower net income, increased output, still more decline in prices received and a further increase in prices paid may be expected. The hope is held out, however, that movements adverse to the farmer will be limited to a smaller rate of change than in the current year.

A continuation of the present strong domestic demand for food is expected in 1956 by the U. S. Department of Agriculture. Further increases in consumer income, based on a high level of economic activity and employment, are cited in support of the expectations that food expenditures will at least equal and perhaps exceed that of 1955.