MONTHLY

Business Review

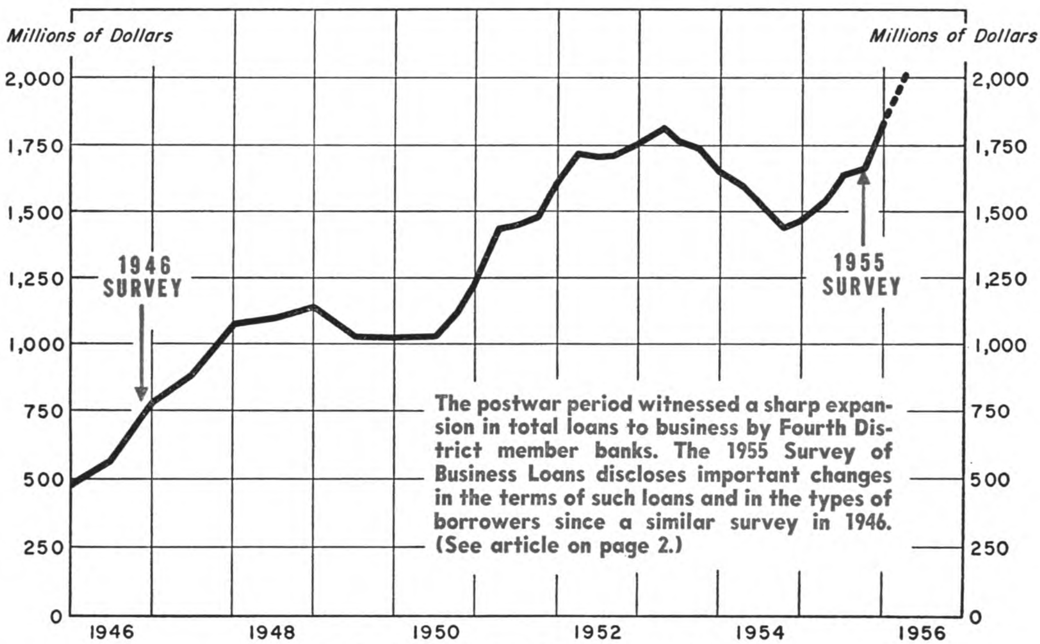
FEDERAL RESERVE BANK of CLEVELAND

May 1956

IN THIS ISSUE

COMMERCIAL AND INDUSTRIAL LOANS, 1946-56

Fourth District Member Banks



The postwar period witnessed a sharp expansion in total loans to business by Fourth District member banks. The 1955 Survey of Business Loans discloses important changes in the terms of such loans and in the types of borrowers since a similar survey in 1946. (See article on page 2.)

Amounts Outstanding as of Call Report Dates

(Amount for April 10, 1956 is preliminary)

Loans To Business By Member Banks

Since 1946 there has been a major growth in the volume of commercial and industrial loans at member banks in the Fourth Federal Reserve District, as well as in the nation. As of early April 1956, business loans outstanding at member banks of the District had reached an all-time high of over $2 billion. (See cover chart.) That represents an increase of about 40 percent since the latter part of 1954.

The sharp upsurge of commercial and industrial loans over the past 18 months highlights the key role of bank credit in financing the needs of American business, particularly during periods of inventory accumulation and large capital expansion programs. The volume and rate of growth of such loans are not only a gauge of business activity, but are an essential element in an economy characterized by growth.

Because commercial and industrial loans constitute a significant factor in the financing of business, the Federal Reserve System, in cooperation with member banks, conducted a nation-wide survey as of October 5, 1955, to provide information on the characteristics of business loans and the terms on which such credit is extended. The last survey of a similar nature had been conducted by the System as of November 20, 1946.

In the 1955 survey, the estimates of loans at 623 District member banks were based on data reported by a sample of 175 banks, holding about 92 percent of total commercial and industrial loans at all District member banks.

This article, which is planned to be the first of several which present significant findings of the Survey, deals with changes in business loans since 1946 by type of business, by size of bank, and by maturity of loan. Additional articles are expected to include the interest rate structure on business loans, the size of borrowers, with special reference to small business, and the location of borrowers.

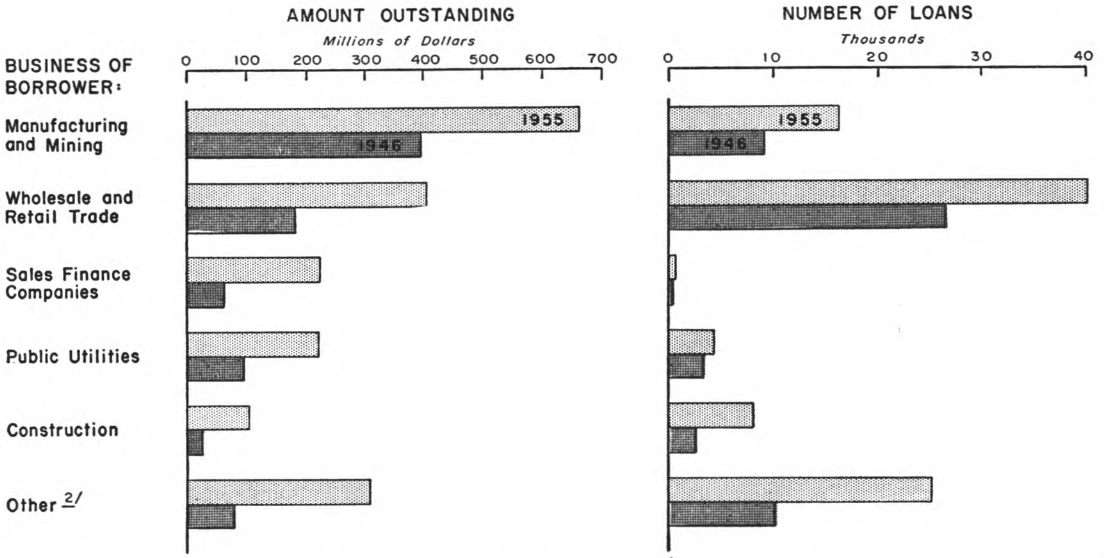
Business Loans, 1946 and 1955

During the past ten years, rapid growth in the amount of commercial and industrial loans has been an outstanding characteristic of banking. From 1946 through early 1956, the volume of such loans at District member banks nearly tripled, as illustrated in the cover chart. The rise was not constant, however, but reflected instead the fluctuating pace of general business during the period. Thus, the general upward trend of business loans was interrupted in the recessions of 1948-49 and 1953-54. During the latter period, the downturn in business loans in the Fourth District started earlier, went farther, and continued longer than in the country generally. Since that time, there has been a rapid revival, however, and commercial and industrial loans have reached an all-time peak at District member banks.

Loans for business purposes at District member banks amount to about one-third of total loans. As of the 1955 survey, District member banks had business credit outstanding of $1,927 million, which included an estimated 95 thousand individual loans. This compares with the 1946 survey figures of $841 million and 52 thousand individual loans. Thus, the dollar amount of business loans was nearly 2-1/3 times as large as in 1946, while the number of loans increased by 82 percent. During this period, the average size of loan increased from $16,134 to $20,328, a gain of 26 percent—compared to an increase in wholesale prices of 22 percent in the same period.

COMMERCIAL AND INDUSTRIAL LOANS BY BUSINESS OF BORROWER, 1946 AND 1955[1]

Fourth District Member Banks



Manufacturing and mining firms account for the largest dollar amount of business loans, but wholesale and retail trade account for the largest number of loans.

1 Survey dates: November 20, 1946 and October 5, 1955.
2 Includes real estate firms, service firms, and all other nonfinancial business.

Business of Borrower

A breakdown of business loans at District member banks according to the business of the borrower is given in an accompanying chart for 1946 and 1955. The relative growth in amount and number of loans to various types of borrowers during this period reflects a fundamental change in the allocation of credit and resources in the economy.

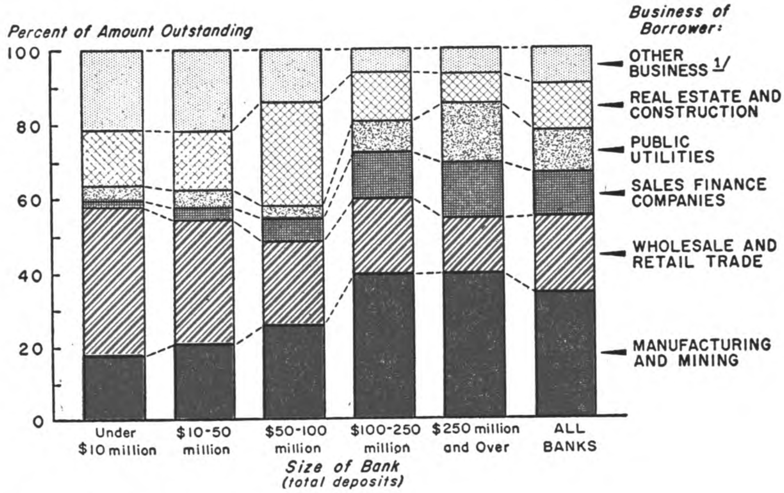
Between 1946 and 1955, the amount and number of loans outstanding to every major business category showed an increase. The dollar amount of loans to manufacturing and mining and to wholesale trade declined in relative importance, however, while loans to retail trade, sales finance companies, construction companies, and service firms gained as a share of the District total. The only major category of borrowers to show little change in relative position during the period was public utilities. (See appendix table for details.)

Although loans to *manufacturing and mining* increased by two-thirds between the 1946 and 1954 surveys, the gain was not as large as that of other types of borrowers. Thus, this group dropped from 48 to 34 percent of total business loans during the period—but it still constitutes the largest category of business borrowers in the District. Because of the dominance of heavy industry in the District, loans to *metal and metal-product firms* again accounted for nearly half of the loans within the manufacturing and mining group. Types of manufacturing and mining which showed large relative gains in borrowings were the *petroleum, coal, chemical, and rubber group* and the *textile, apparel, and leather group. Food, liquor, and tobacco firms,* however, showed virtually no change in bank borrowing—partly as a result of the fact that the

DISTRIBUTION OF COMMERCIAL AND INDUSTRIAL LOANS BY BUSINESS OF BORROWER

Fourth District Member Banks, October 5, 1955

At larger banks, a substantial proportion of loans is made to manufacturing and mining, sales finance companies, and public utilities. At smaller banks, a relatively great share goes to wholesale and retail trade, service firms, and other business.



1 Includes commodity dealers, service firms, and all other nonfinancial business.

1955 survey occurred 1½ months earlier in the fall than the 1946 survey. The fall season usually witnesses a sharp seasonal expansion in loans to such firms.

The second major category of borrowers to drop in relative importance between 1946 and 1955 was *wholesale trade,* both with respect to the amount and the number of loans. The amount of such loans expanded by less than 70 percent, compared with a rise of nearly 130 percent in total business loans. On the other hand, the amount of loans to *retail trade* was nearly 2¾ times as large in 1955 as in 1946, and in terms of dollar volume outstanding was second in importance only to metal and metal-product firms. In terms of number of loans, retail trade accounts by far for the largest share of any type of business —35 percent of the District total.

The postwar boom in housing and other consumer durables was reflected in the large relative rise in borrowings of *sales finance companies, construction firms, and real estate firms,* all of which gained as a share of total business loans in the District. In addition, there was a marked growth in the borrowings of firms dealing in various *services.* Such firms have grown rapidly in the postwar period, as consumers have tended to spend a larger share of disposable income for services.

Loans by Size of Bank

A distribution of commercial and industrial loans by type of borrower for various size-groups of banks is given in an accompanying chart. (This refers to dollar volume of loans.) The type of business lending varied markedly with the size of bank, according to the results of the 1955 survey. At banks with deposits of $100 million and over, a large proportion of loans was made to manufacturing and mining, sales finance companies, and public utility concerns. As bank size decreased, the share of loans to the above types of businesses also declined. At the other extreme, banks with deposits of $10 million or under showed a relatively large share of loans to wholesale and retail trade and to service firms. In the medium-size bank group ($10 - $100 million deposits) a relatively larger portion of loans was made to real estate and construction firms than at the larger or smaller banks. The middle group of banks was also an important supplier of credit to wholesale and retail trade.

To be more specific, loans to manufacturing and mining concerns amounted to almost 40 percent of total business loans at banks with deposits of $100 million and over, as contrasted with less than a fifth of total business loans at banks with deposits of under $10 million. On the other hand, loans to wholesale and retail trade constituted 40 percent of total business loans at small banks, whereas this proportion diminished to less than half that amount at the largest banks. (See appendix table for details.)

The tendency for the size of the lending bank to be closely related to the size of the borrower is clearly demonstrated in the case of sales finance companies. Such firms, whose average loan size is the highest of any class of borrowers, accounted for 15 percent of business loans of the largest banks shown on the accompanying chart, but for less than 2 percent at the smallest banks. The same point held almost equally for public utilities.

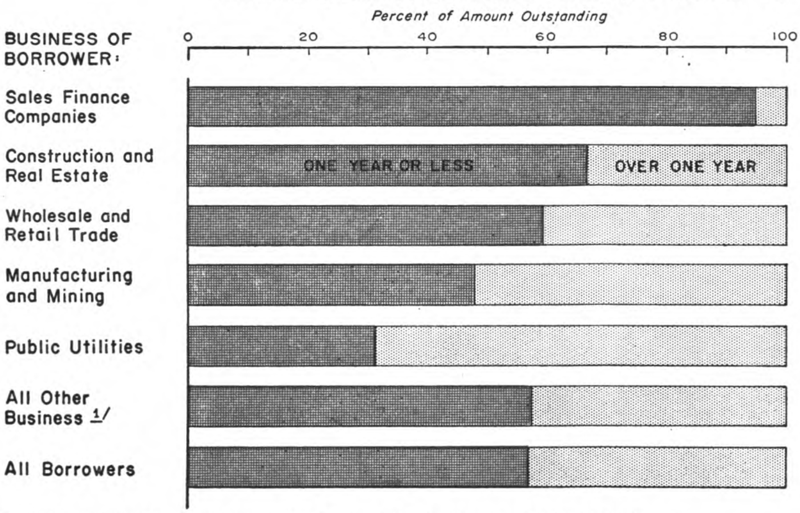
As a final indication of average loan-size, banks with deposits of $100 million and over accounted for over 70 percent of the amount of loans to all borrowers but for only one-fourth of the number of loans. Banks with deposits of $10-$100 million, on the other hand, accounted for only about one-fifth of the amount of loans, but nearly half of the number of loans. Finally, banks with under $10 million of deposits, although accounting for only 6 percent of the dollar amount, held one-fourth of the number of business loans. (See appendix table.)

Maturity

Prior to the 1930's, maturities of bank loans to business were predominantly less than one year. It was common practice to limit loans to working capital needs that could be paid out of current income. During the 1930's, maturities in excess of one year attained more general acceptance and the proportion of such loans in commercial bank portfolios increased. The 1946 survey revealed no substantial change from the prewar period in the proportion of business loans that were ''term'' loans, i.e., had maturities in excess of one year. Similar data were obtained in the 1955 survey to discover the rela-

DISTRIBUTION OF COMMERCIAL AND INDUSTRIAL LOANS, BY MATURITY

Fourth District Member Banks, October 5, 1955



Loans to sales finance companies are virtually all short-term. On the other hand, more than half of the loans to public utilities and manufacturing and mining show a maturity of over one year.

1 Includes commodity dealers, service firms, and all other nonfinancial business.

tive importance of term loans in current bank lending practices.

An accompanying chart shows a distribution of commercial and industrial loans, by maturity, for the major types of business as of 1955. Short-term loans (maturities of one year or less) constituted 57 percent, and long-term loans 43 percent, of total commercial and industrial loans in the District. This indicates that there was little change since the 1946 survey as regards loan maturities, when short-term and long-term loans constituted 60 percent and 40 percent of the total, respectively. (Also see appendix table.)

Some change in relative maturities did appear by industry groups, however. For manufacturing and mining as a whole, as well as for wholesale and retail trade, there was an increase between 1946 and 1955 in the proportion of loans having maturities of over one year. On the other hand, sales finance companies as well as public utilities had a greater proportion of loans in short-term form in 1955 than in 1946.

In 1955, short-term loans extended to textiles - apparel - leather firms, to commodity dealers, to sales finance companies, and to construction firms accounted altogether for over 75 percent of the total business loans of these groups. Metals and metal products, food-liquor-tobacco, trade, real estate, and service firms, had between 50 and 75 percent of their total loans with short-term maturities. The predominant users of the term loans were public utility firms and firms in the petroleum, coal, and chemical fields.

Finally, it may be noted that, similar to the results of the 1946 survey, the large banks were more active than small banks in the field of term loans. Generally, the proportion of business loans carrying maturities of over one year increased directly with the size of the lending bank.

Commercial and Industrial Loans by Business of Borrower, 1946 and 1955

Fourth District Member Banks

BUSINESS OF BORROWER	AMOUNT OF LOANS			NUMBER OF LOANS			PERCENT OF DISTRICT TOTAL			
	Millions of dollars		Percent change 1946 to 1955	In thousands		Percent change 1946 to 1955	Amount		Number	
	Nov. 20 1946	Oct. 5 1955		Nov. 20 1946	Oct. 5 1955		1946	1955	1946	1955
Manufacturing and mining total	$399.4	$ 660.7	+ 65.4%	9.1	16.2	+ 78.0%	47.5%	34.2%	17.4%	17.2%
Food, liquor, and tobacco	79.5	79.8	+ .3	1.2	3.3	+175.0	9.5	4.1	2.3	3.5
Textiles, apparel, and leather	10.1	26.9	+166.3	.3	.6	+100.0	1.2	1.4	0.6	0.6
Metal and metal products	189.5	310.6	+ 63.9	3.2	5.4	+ 68.8	22.5	16.1	6.1	5.8
Petroleum, coal, chemicals, and rubber	66.7	122.2	+ 83.2	1.7	2.3	+ 35.3	7.9	6.3	3.3	2.4
All other manufacturing and mining	53.6	121.2	+126.1	2.7	4.6	+ 70.4	6.4	6.3	5.1	4.9
Trade—total	180.1	406.1	+125.5	26.5	40.2	+ 51.7	21.4	21.1	50.9	42.4
Wholesale[1]	79.3	132.7	+ 67.3	5.4	7.1	+ 31.5	9.4	6.9	10.4	7.5
Retail	100.8	273.4	+171.2	21.1	33.1	+ 56.9	12.0	14.2	40.5	34.9
Other—total	261.1	860.3	+229.5	16.5	38.4	+ 32.7	31.1	44.7	31.7	40.4
Sales finance companies	60.3	223.4	+270.4	.4	.7	+ 75.0	7.2	11.6	0.8	0.8
Transportation, communication, and other public utilities	96.2	222.7	+131.5	3.2	4.4	+ 37.5	11.4	11.6	6.1	4.6
Construction	25.0	103.4	+313.6	2.6	8.1	+211.5	3.0	5.4	5.0	8.6
Service firms	28.6	105.5	+268.9	5.3	14.2	+167.9	3.4	5.5	10.2	14.9
All other nonfinancial[2]	51.0	205.3	+302.5	5.0	11.0	+120.0	6.1	10.6	9.6	11.5
All borrowers	$840.6	$1,927.1	+129.2%	52.1	94.8	+ 82.0%	100.0%	100.0%	100.0%	100.0%

[1] Includes commodity dealers.

[2] Includes real estate firms.

Commercial and Industrial Loans by Business of Borrower and Size of Bank

Fourth District Member Banks, Oct. 5, 1955

BUSINESS OF BORROWER	Bank Size (total deposits in millions of dollars) Less than 2	2 – 10	10 – 20	20 – 50	50 – 100	100 – 250	250 – 500	500 & above
	(Amount Outstanding—thousands of dollars)							
Manufacturing and mining—total	1,196	20,430	22,417	25,401	48,417	102,910	109,868	330,030
Food, liquor, and tobacco	343	2,049	3,830	3,801	6,470	7,292	18,708	37,302
Textiles, apparel, and leather	10	733	742	6,641	1,892	7,400	7,830	1,641
Metal and metal products	381	6,070	8,695	7,720	25,657	57,957	54,893	149,181
Petroleum, coal, chemicals, and rubber	83	3,607	1,961	2,877	3,693	11,202	3,464	95,294
All other manufacturing and mining	379	7,971	7,189	4,362	10,705	19,059	24,973	46,612
Trade—total	2,736	45,458	43,009	34,537	44,392	54,355	76,652	89,738
Wholesale	174	5,157	8,289	9,406	11,680	21,977	29,680	31,093
Retail	2,562	40,301	34,720	25,131	32,712	32,378	46,972	58,645
Other—total	2,062	48,698	53,202	52,229	99,060	106,045	126,585	387,640
Commodity dealers	53	767	1,070	370	1,693	2,537	7,550	1,139
Sales finance companies	—0—	2,282	3,248	3,618	11,811	32,459	27,626	142,363
Transportation, communication, and other public utilities	320	4,567	6,660	4,670	6,666	22,692	41,203	135,881
Construction	474	10,901	8,788	10,591	23,090	13,691	11,729	24,193
Real estate	50	6,506	8,920	8,458	32,356	20,518	12,632	46,146
Service firms	827	19,242	16,559	14,825	17,055	11,195	9,473	16,350
All other nonfinancial	338	4,433	7,957	9,697	6,389	2,953	16,372	21,568
All Borrowers	5,994	114,586	118,628	112,167	191,869	263,310	313,105	807,408

BUSINESS OF BORROWER	Bank Size (total deposits in millions of dollars) Less than 2	2 – 10	10 – 20	20 – 50	50 – 100	100 – 250	250 – 500	500 & above
	(Percentage of total dollar amount in each bank size group)							
Manufacturing and mining—total	20.0	17.8	18.9	22.6	25.2	39.1	35.1	40.9
Food, liquor, and tobacco	5.0	1.7	3.2	3.3	3.4	2.7	6.0	4.6
Textiles, apparel, and leather	.....	0.6	0.6	5.9	1.0	2.8	2.5	0.2
Metal and metal products	6.7	5.3	7.3	6.9	13.4	22.0	17.5	18.5
Petroleum, coal, chemicals, and rubber	1.7	3.1	1.7	2.6	1.9	4.3	1.1	11.8
All other manufacturing and mining	6.6	7.1	6.1	3.9	5.5	7.3	8.0	5.8
Trade—total	45.6	39.7	36.3	30.8	23.1	20.7	24.5	11.2
Wholesale	2.9	4.5	7.0	8.4	6.1	8.4	9.5	3.9
Retail	42.7	35.2	29.3	22.4	17.0	12.3	15.0	7.3
Other—total	34.4	42.5	44.8	46.6	51.7	40.2	40.4	47.9
Commodity dealers	0.9	0.6	0.8	0.4	0.9	0.9	2.5	0.1
Sales finance companies	.....	2.0	2.8	3.2	6.2	12.3	8.8	17.6
Transportation, communication, and other public utilities	5.3	4.1	5.6	4.2	3.5	8.6	13.2	16.8
Construction	7.9	9.5	7.4	9.4	12.0	5.2	3.7	3.0
Real estate	0.9	5.7	7.5	7.6	16.9	7.8	4.0	5.7
Service firms	13.8	16.8	14.0	13.2	8.9	4.3	3.0	2.0
All other nonfinancial	5.6	3.8	6.7	8.6	3.3	1.1	5.2	2.7
All Borrowers	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Commercial and Industrial Loans by Size of Bank

Fourth District Member Banks, Oct. 5, 1955

Bank Size (Total deposits in millions of dollars)	Number of Banks	Amount of Loans (in millions of dollars)	Number of Loans (in thousands)	Average Size of Loan (in thousands of dollars)
$500 and over	4	$ 807.4	10.8	$74.8
$250 – 500	5	313.1	7.7	40.7
$100 – 250	8	263.3	6.2	42.5
$50 – 100	17	191.9	12.4	15.5
$20 – 50	32	112.2	12.2	9.2
$10 – 20	89	118.6	21.2	5.6
$2 – 10	356	114.6	22.3	5.1
Less than $2	112	6.0	2.0	3.1
All Banks	623	$1,927.1	94.8	$20.3

Commercial and Industrial Loans by Maturity and Business of Borrower

Fourth District Member Banks

Business of Borrower	% of Dollar Amount of Loans with Maturity of 1 year or less	
	1946	1955
Manufacturing and mining—total	55.2%	47.9%
Food, liquor, and tobacco	56.2	55.8
Textiles, apparel, and leather	85.2	75.1
Metal and metal products	57.2	50.9
Petroleum, coal, chemicals, and rubber	40.4	19.1
All other manufacturing and mining	59.9	58.1
Trade—total	77.4	60.3
Wholesale[1]	80.9	66.4
Retail	74.7	57.3
Other—total	56.6	56.7
Sales finance companies	90.3	94.7
Transportation, communication, and other public utilities	16.3	31.2
Construction	95.5	77.1
Service firms	69.7	51.6
All other nonfinancial[2]	65.9	59.1
All Borrowers	60.4	57.0

[1] Includes commodity dealers.

[2] Includes real estate firms.

Fewer and Larger Farms

Results of New Census of Agriculture for the Fourth District

NUMBERS of farms showed a substantial decline between 1950 and 1954 in the Fourth Federal Reserve District, according to the findings of the recently published 1954 Census of Agriculture. With the reduced number as a contributing factor, an observable shift in distribution has also occurred; a larger proportion now falls in the higher income brackets.[1]

Between 1950 and 1954, about 40,000 Fourth District farms either ceased to exist as separate entities or failed in 1954 to meet the Census definition of what constitutes a farm. About 35 percent of the loss was in numbers of commercial farms; the remainder occurred chiefly in part-time and residential units.

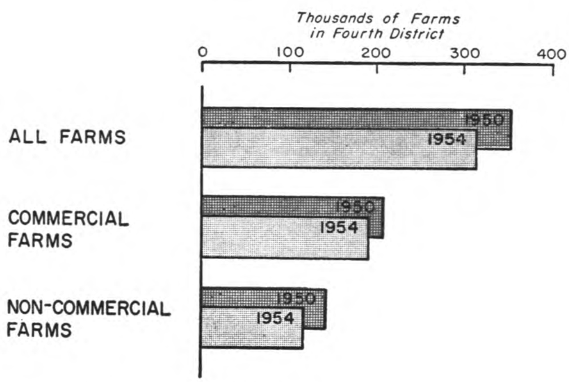
Of 313,000 farms in existence in 1954, about 38 percent were noncommercial—that is they served for the most part to supplement nonfarm income. This group of farms, accounting for less than 8 percent of the District's cash farm income, is excluded from the charts on page 10. In the table, however, they are placed in perspective as they relate to the total number of units defined as farms by the Bureau of the Census.[2]

(1) Price inflation did not contribute to this change; in fact, prices received by farmers moved slightly lower between the two Census periods.
(2) A farm is defined as a place of 3 or more acres if value of annual production is at least $150; places of under 3 acres are classed as farms if actual sales are $150 or more.

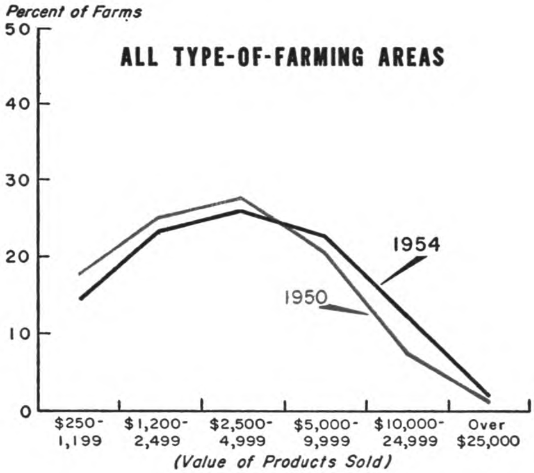
Significance of the Change

The continued existence of the "family farm," which is firmly embedded in the tradition and sentiment of this country, is not necessarily threatened by the development here portrayed. If a "family farm" is defined as a unit of such size as to employ the farmer and his family along with some additional seasonal help, it is clear that the reduced labor requirements inherent in the technological

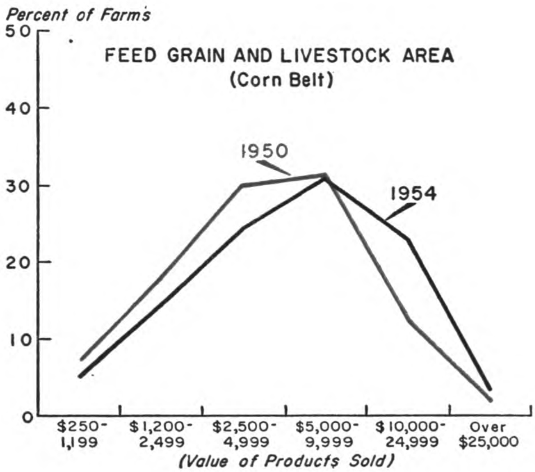
There were 40,000 fewer farms in the Fourth District in 1954 than in 1950; the decline was greatest among small non-commercial farms.

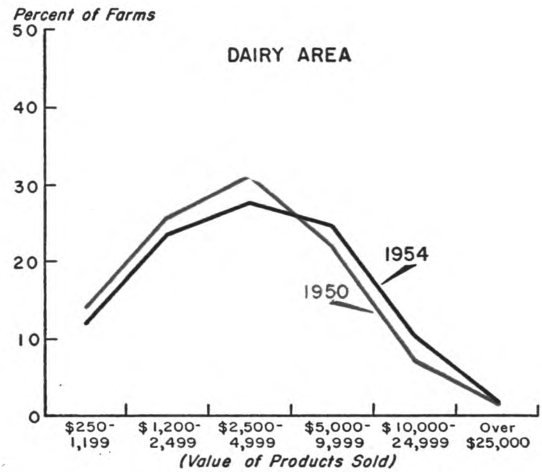


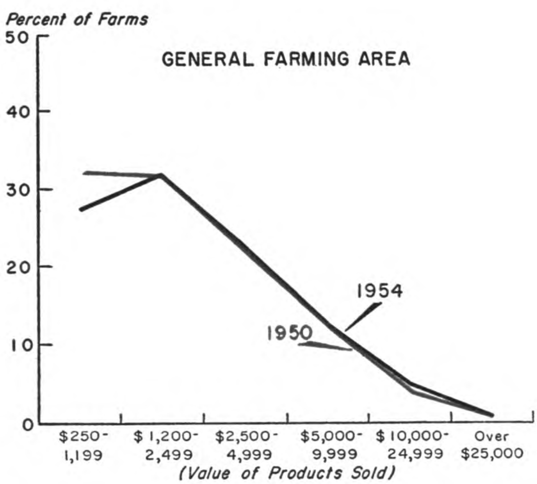
Source of data: Bureau of the Census.

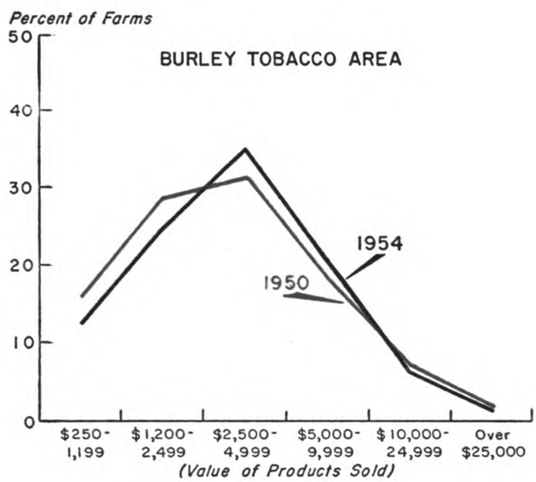


Between 1950 and 1954 the proportion of commercial farms falling in the lower income classes declined, while the proportion in higher income brackets advanced; this pattern was generally true for each of the type-of-farming areas.









Source of data: Bureau of the Census.

progress of agriculture should result in the family farm's showing an increase in size of business simply to keep pace with the general development of agriculture. A 100-acre, four-horse family farm in 1940 has perhaps been enlarged to 250 acres with a huge investment in machinery — but it can still be a family farm.

A classification of farms for comparison by size groups (with size being measured by volume of sales) is illuminating in two major respects. First is the indication of improved internal efficiencies occurring among individual farms. Second is an emphasis of the fact that agriculture is not a homogeneous unit which can be well typified by an arithmetic average—a point especially significant when thinking in terms of Federal farm policy.

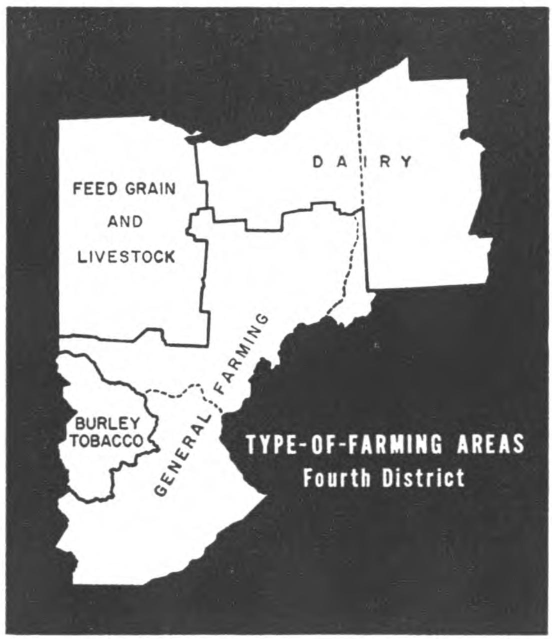
Of the many reasons why a farm may or may not make a profit, commodity prices constitute only one factor. Reducing costs per unit of output is as effective as a price rise in boosting profits. Reducing costs in turn requires, in the case of small farms, an increase in scale of operations. The accompanying charts provide some indication of the increase in scale which has occurred in the Fourth Federal Reserve District between 1950 and 1954.

What has happened to the farms that ceased to exist between 1950 and 1954? For the most part they have either been retired from agricultural use or combined into larger, more economical units. The families who operated these farms are presumably making a relatively better living from larger scale farming or else have moved on to nonfarm employment, which in most cases provides a financial reward much greater than a small farm can provide.

Has an increased concentration of farms in the very large scale bracket become a threat to agriculture's status as a "way of life" in the Fourth District? Probably not. The figures reveal that only 19 of every 1,000 commercial farms in the District had sales of over $25,000 in 1954. When noncommercial farms are added into the total, the proportion of large farms drops to 12 per 1,000. The group of farms in such a sales bracket would account for something over 8 percent of the total sales of farm products. While a distribution of farms at intervals over $25,000 is unavailable, it is significant that annual *net* returns to labor, capital and management from $25,000 sales would probably be in the vicinity of $10,000.

Distribution Varies by Area

Looking at the entire Fourth District, a little less than 23 percent of the farms had sales of $5,000 or more in 1954. (See table.) By a conservative estimate, this group of farms with sales of $5,000 or more accounted for over two-thirds of the District's total sales of farm products. Commercial farms with sales from $250 to $5,000 added up to 39 percent of the number and about one-fourth of the sales. The large block of noncommercial units, numbering 380 of every 1,000 farms and consisting primarily of rural residences and part-time farms, contributed less than 8 percent to the District's farm marketings.



PERCENT DISTRIBUTION OF FARMS

By Volume of Sales and Type-of-Farming Areas, 1954

(Fourth District)

Type-of-Farming Area	Value of Products Sold (Commercial Farms)							
	$250-$1,199	$1,200-$2,499	$2,500-$4,999	$5,000-$9,999	$10,000-$24,999	Over $25,000	Non-Commercial Farms*	Total
I. Feed Grains and Livestock (Corn Belt):								
Western Ohio	4.1%	11.7%	20.2%	25.6%	18.8%	2.7%	16.9%	100.0%
II. Dairy:								
Northeastern Ohio	5.5	13.8	16.7	16.4	7.0	1.3	39.3	100.0
Western Pennsylvania	8.0	13.3	15.6	12.3	5.1	0.7	45.0	100.0
III. General Farming:								
Southeastern Ohio	10.1	17.2	16.0	10.6	4.4	0.8	40.9	100.0
West Virginia Panhandle	10.4	14.2	8.9	3.5	1.0	0.1	61.9	100.0
Eastern Kentucky	16.3	13.2	5.2	1.3	0.4	0.1	63.5	100.0
IV. Burley Tobacco:								
Central Kentucky (Blue Grass)	10.0	20.0	28.1	16.5	5.1	0.9	19.4	100.0
All Areas	8.9%	14.4%	16.1%	14.0%	7.6%	1.2%	37.8%	100.0%

Residential farms (sales less than $250), part-time farms, and institutional farms.
Source: 1954 Census of Agriculture.

A more detailed picture of the four type-of-farming areas within the District is given by the charts and the table. Substantial variations among areas are revealed. The *Feed Grain and Livestock Area,* for example, shows 47.1 percent of the farms with sales of $5,000 or more; 83.1 percent of the farms were commercial farms. Within the *Dairy Area,* in northeastern Ohio 24.7 percent of the farms had sales of $5,000 or more, while in western Pennsylvania this group amounted to 18.1 percent; farms rated as commercial units were 60.7 percent and 55.0 percent, respectively of the total number of farms. Within the *General Farming Area,* in southeastern Ohio only 15.8 percent of the farms had sales of $5,000 or over; in eastern Kentucky and the West Virginia panhandle, less than 5 percent of the farms had sales of this magnitude. In both the West Virginia and eastern Kentucky areas there were fewer commercial farms than there were noncommercial farms.

The *Burley Tobacco Area* of Kentucky resembles the Dairy Area in terms of farms with sales of $5,000 or over, and resembles the Feed Grain and Livestock Area in terms of a high concentration of commercial farms. The Burley Area is unique in the District, however, in having a greater concentration than any other area of commercial farms with sales below $5,000.

When the number of *commercial* farms in each area is classed according to volume of sales, considerable variation is evident among the areas in the nature of the distribution, as well as in the change of distribution since 1950. (See charts.) Within the class intervals provided by the Bureau of the Census, the greatest concentration of farms in the Dairy and Burley Tobacco Areas appears in the $2,500 to $5,000 size. In the Feed Grain and Livestock Area, the greatest concentration appears in the $5,000 to $10,000 size; in the General Farming Area the concentration is from $1,200 to $2,500.

Between 1950 and 1954 a decline occurred in each of the areas in the proportion of farms falling below the point of greatest concentration. At the same time the proportion of farms above the concentration point tended to rise, although the Burley Tobacco Area provided some small exception in the two largest size groups. This tendency toward fewer low-income farms and a larger number of high-income farms is shown graphically by a shifting to the right in the distribution in 1954 as contrasted with 1950.

Conditions Favor Continued Trend

Factors which have contributed to the fewer-but-larger trend in farms have remained since the 1954 Census was taken and are anticipated to continue through 1956. The two most important are: (1) the need among small farms for a larger land base to permit a fuller and more efficient use of machinery and labor, and (2) plentiful opportunity for off-farm employment. As an illustration of these two factors at work, the addition of a subsistence farm to a medium sized commercial farm may make a profitable unit for one farmer. The subsistence farmer, taking even an unskilled labor job in a factory, is virtually guaranteed a better wage than has been possible on the small farm.

A question is frequently raised as to how far the decline in farm numbers can and should continue. There is a strong indication of the answer to such a question in the observation that 60 percent of the Fourth District farms (56 percent nationally) sold less than $2,500 worth of produce in 1954. Over half of this return was probably needed to cover production costs, leaving a very meager sum for family maintenance. The extent to which this vast number of farms continue on this status would seem to depend heavily upon the desires of the individuals, many of whom look upon the farm as a place to live and look to other places for their major income. Over the long term, the trend seems certain toward fewer farms. Certainly future declines in numbers could be very drastic without danger of reducing food supplies. Fewer but larger farms are, in fact, potentially capable of greater output for sale than would be the case with a large number of small farms.

NOTES

The fifteenth anniversary of the Series E Savings Bond is being observed this month, May of 1956.

* * *

For an analysis of the money supply during the recent minor cycle of business, see "Money on Good Behavior," featured in the 1955 Annual Report of the Federal Reserve Bank of Philadelphia. Copies are available at that bank.

"Monetary and Fiscal Policies — What They Can and Cannot Do" is the title of an address made on April 5, 1956 by C. Canby Balderston, Vice Chairman, Board of Governors of the Federal Reserve System. Copies are available at the Board of Governors of the Federal Reserve System, Washington 25, D. C.

Additional copies of the MONTHLY BUSINESS REVIEW may be obtained from the Research Department, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio. Permission is granted to reproduce any material in this publication.

FOURTH FEDERAL RESERVE DISTRICT