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FEDERAL RESERVE BANK of CLEVELAND

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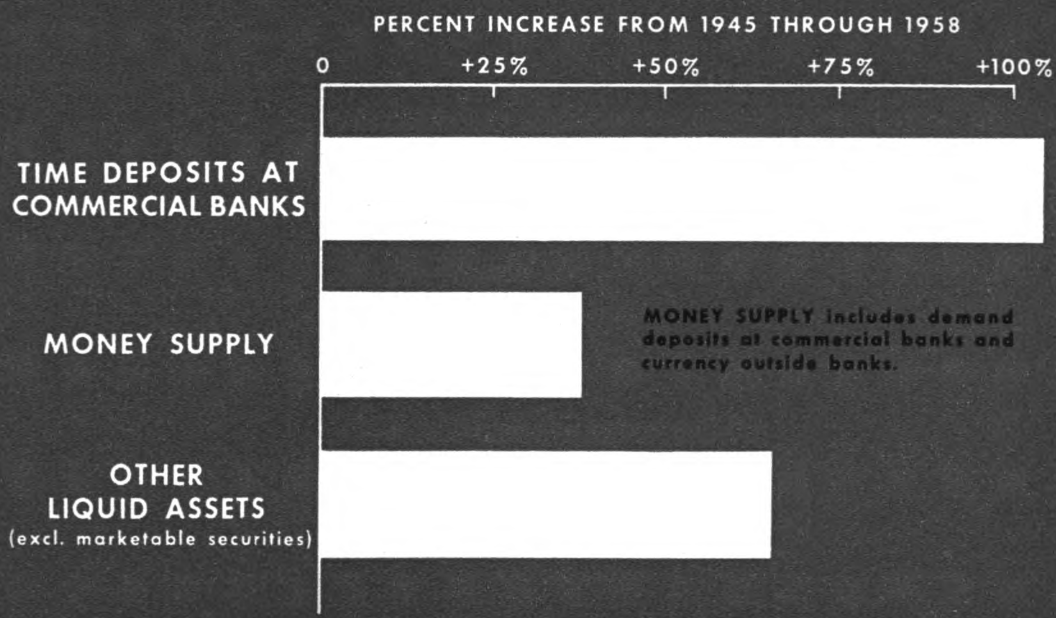
IN THIS ISSUE



Time deposits at the nation's commercial banks have doubled in the postwar period, while the money supply has increased by one-third and other liquid assets have increased by two-thirds.




OTHER LIQUID ASSETS includes U.S. savings bonds, share accounts in savings and loan associations, time deposits in mutual savings banks, postal savings accounts, and shares in credit unions.

# Growth of Time Deposits

TIME DEPOSITS at the nation's commercial banks have doubled in the postwar period. A combination of enlarged incomes and scarce goods contributed to a 17 percent rise in time deposits between the year-end 1945 and the year-end 1947. As goods became available, the accumulation of time deposits slackened. Since 1950, however, time-deposit growth has maintained a pace unprecedented in peacetime. In the past two years alone, commercial bank holdings of time deposits increased about 22 percent.

The significance of the accelerated rate of time-deposit accumulation has many facets, which are nearly as broad and complex as the economy itself. The scope of the analysis which follows has been limited to three broad aspects of time-deposit growth: (1) its bearing on the improvement in the economy's financial underpinning; (2) its effect on bank liabilities; and (3) the structure of time deposits at Fourth District member banks.

## Time Deposits — A Financial Underpinning

Time deposits are principally savings of individuals in a highly liquid form. Therefore, a larger volume of time deposits should enhance the ability of the economy to resist recession, whether such deposits are subsequently drawn down to meet emergencies or are retained as a reservoir of consumer confidence. Of course, an increase in prices may have already absorbed the real value of the gain in time deposits. An increase in individual debt may have offset the effect of increased holdings of time deposits on consumer capacity to purchase. In any event, if the gain in time deposits has resulted from shifts from other forms of holding liquid assets, the economy's financial underpinning has not improved.

It is evident from the accompanying chart that the rate of time deposit growth outstripped the expansion of "other liquid assets"[1] in postwar years, especially in 1957 and 1958. Nevertheless, the steady climb in holdings of "other liquid assets," which increased by nearly two-thirds in the postwar period, indicates that the growth of time deposits has not precluded gains in savings in other forms. Indeed, time deposits at mutual savings banks more than doubled in the postwar period, while share accounts at savings and loan associations have increased more than sixfold. Thus, some other forms of liquid savings have held their own, or more than held their own, in comparison with the rate of growth of time deposits. Only U. S. savings bonds and postal savings have experienced a decline in the dollar amounts of savings. In these cases, however, fixed rates of return during most of the postwar period have brought about a competitive handicap.

Increased interest rates paid on time deposits and "other liquid assets," especially in recent years, have probably made asset-holding in the form of money—currency and demand deposits—less attractive than it otherwise would have been. As shown on the chart, the money supply rose less than two-fifths during the postwar period. The money supply, however, is more responsive to business conditions and Federal Reserve policy than are time deposits and "other liquid assets," and it represents assets of business as well as individuals.

Estimates prepared by the Securities and Exchange Commission indicate, nevertheless, that holdings of currency and demand deposits *by individuals* have increased during the postwar period. The continued increase in money holdings by individuals suggests that

(1) Includes U. S. savings bonds, share accounts in savings and loan associations, time deposits in mutual savings banks, postal savings accounts, and shares in credit unions.

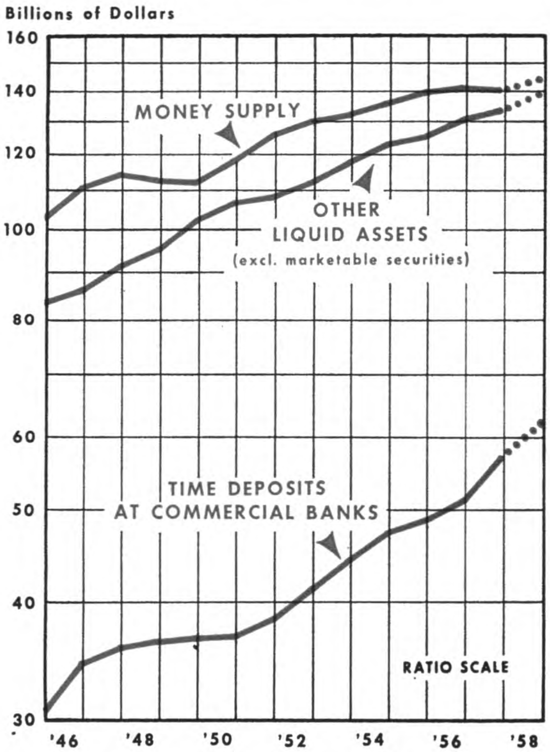
Marketable security holdings are excluded because they carry a risk that principal may not be fully recovered, unless they are bonds held to maturity. When the need for funds arises, therefore, security holdings may be, in effect, illiquid and destabilizing rather than liquid and stabilizing.

The money supply — demand deposits and currency — is treated separately.

the addition of $86 billion to holdings of time deposits and "other liquid assets" during the postwar years tended to represent a net gain in the nation's financial underpinning rather than merely a shift from one form of holding to another.

When considered in the broad setting of the economy, however, the dollar amount added to holdings of liquid assets (other than money holdings) becomes less impressive than at first appearance. For example, when account is taken of the decrease in the value of the dollar over the thirteen-year interval (as measured by the rise in the Index of Consumer Prices), the equivalent of the $86-billion addition to such holdings when expressed in constant dollars is $32 billion.

### GROWTH OF TIME DEPOSITS AND OTHER ASSETS




MONEY SUPPLY includes demand deposits at commercial banks and currency outside banks.

OTHER LIQUID ASSETS are described in the footnote on the opposite page.

Furthermore, in the immediate postwar period, individuals were debt-free by current standards; holdings of liquid assets, including time deposits, were nearly five times total consumer and real estate credit on one- to four-family residences. By 1958, such holdings were little more than one-fifth larger than debt obligations. Similarly, holdings of liquid assets have not kept pace with the increased rate of spending associated with higher living standards. Asset holdings were about 25 percent larger than personal consumption expenditures in 1945, but were less than seven-tenths of the annual rate of personal consumption expenditures in the second quarter of 1958.

Thus the unusually liquid position of individuals in 1945 has deteriorated (as was to be expected) under the circumstances of rising expenditures and debt obligations in the ensuing thirteen years. By prewar standards, however, the economy's financial underpinning has improved. The ratio of liquid assets to debt obligations is now near prewar, 1941, levels, and the ratio of liquid assets to current expenditures has improved from about 50 percent in 1941 to about 70 percent in mid-1958.

## Commercial Bank Liabilities

By 1958, time deposits had come to comprise more than one third of total deposits of commercial banks in contrast to little more than one quarter of total deposits in 1945. The relatively larger growth of time deposits has influenced the distribution of bank loans and bank earnings.

Time deposits are less active than demand deposits. Thus, larger holdings of time deposits enable banks to carry more long-term loans. For example, real estate loans held by national banks are, with some exceptions, limited by statute to 60 percent of their time deposits or 100 percent of unimpaired capital and surplus. In 1945, real estate loans comprised about 18 percent of total loans at commercial banks. Gains in time deposits represented one of the important factors that enabled banks to participate in the expansion of real estate

TABLE 1

## TIME DEPOSITS, BY TYPE OF ACCOUNT

**Fourth District Member Banks**

| TYPE OF ACCOUNT | June 30, 1938 | June 30, 1945 | June 23, 1958 |
|---|---|---|---|
| Savings Deposits | 86.8% | 95.8% | 87.8% |
| Christmas Savings | 0.8 | 0.7 | 1.2 |
| Certificates of Deposit | 6.0 | 1.9 | 4.9 |
| Open Accounts(1) | 6.4 | 1.6 | 6.1 |
| Total Time Deposits(1) | 100.0% | 100.0% | 100.0% |

(1) Excludes accounts of reporting banks' own trust departments. Includes deposits accumulated for payment of consumer loans.

credit in the postwar years; by 1958, about one fourth of their loans were in real estate loans.

Moreover, special surveys of business loans conducted by the Federal Reserve System in 1946, 1955, and 1957 indicate a trend toward longer maturities on business loans held by banks. Relative expansion of both longer-term business loans and real estate loans generally results in a higher average rate of return on loans, thus improving bank earning power.

A larger relative volume of time deposits than demand deposits also improves bank earning potentials, despite interest paid on time deposits, by requiring a smaller reserve deposit at Federal Reserve banks. Member banks, depending upon their location, are required to maintain reserve deposits at Federal Reserve banks equal to from 11 percent to 18 percent of their demand deposit liabilities, but all member banks are required to hold only a 5 percent reserve against time deposits.

### Structure of Time Deposits — Fourth District Member Banks

As the name implies, time deposits are withdrawable at a definite future date or upon advance notice to the bank. In practice, time limitations upon withdrawal vary among the several types of time deposits at commercial banks, from immediate withdrawal to six months or more. Thus all time deposits do not have the same degree of liquidity. Some information on this point can be gained by reviewing statistics made available on the reports of condition of Fourth District member banks in mid-year 1957 and mid-year 1958.

As shown by Table 1, savings deposits have long been the largest component of time deposits. Regular *savings deposits,* as evidenced by a passbook, may be held only by individuals and nonprofit or eleemosynary organizations. Banks are permitted to require a

TABLE 2

## TIME DEPOSITS, BY TYPE OF OWNER

**1957-1958**

**Fourth District Member Banks**

| TYPE OF OWNER | June 6, 1957 | June 23, 1958 | Percent Change |
|---|---|---|---|
| | (Millions of dollars) | | |
| INDIVIDUALS: | $4,014 | $4,296 | + 7% |
| Savings Deposits | 3,595 | 3,864 | + 8 |
| Christmas Savings | 50 | 51 | + 2 |
| Time Certificates | 148 | 154 | + 4 |
| Time Deposits, Open Accounts | 27 | 15 | —44 |
| Accumulated for Payment of Consumer Loans | 194 | 212 | + 9 |
| BUSINESSES: | 63 | 103 | +64 |
| Corporations and Institutions | 58 | 95 | +64 |
| Nonfarm, Noncorporate | 5 | 8 | +60 |
| OTHER(1) | 87 | 94 | + 8 |
| Total Time Deposits | $4,164 | $4,493 | + 8% |

(1) Accounts of reporting banks' own trust departments and foreign holders.

thirty-day notice of intended withdrawal of savings deposits; as a matter of practice, they seldom do so. *Time certificates of deposit* are evidenced by instruments redeemable only after a specified date or thirty days after written notice has been given. Certificates may run for six months or longer and often earn a higher interest rate than savings accounts. *Time deposits open-account* are subject to written contracts that limit withdrawal to a specified date or to thirty days after written notice. "Open accounts" in Table 1 include *deposits accumulated for payment of consumer loans.* In 1958, such deposits accounted for over 75 percent of open accounts at Fourth District member banks.

The composition of time deposits by type of account in June 1958 was almost the same as it was twenty years ago. Savings deposits represented about 88 percent of the total, while about 1 percent of time deposit money was in Christmas savings accounts, and 11 percent in certificates of deposit and open accounts. During the war-time interval, as judged by the condition report for mid-1945, there was a marked difference in the percentage distribution by type of deposit. Certificates of deposit and open accounts showed a marked decline from the prewar share, while savings deposits had doubled. Interest rates paid on time accounts during the war years were probably too low to compensate for holding savings in these less convenient forms.

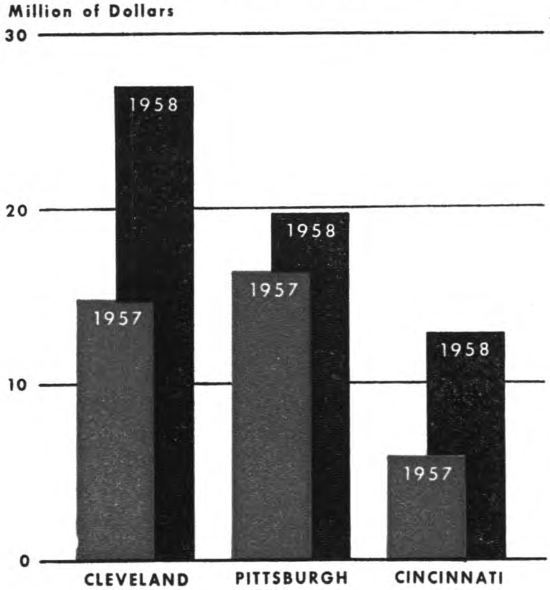
Ownership of savings deposits is limited by regulation to individuals and nonprofit organizations; such individuals' savings deposits comprise the largest part of total time deposits. As shown in Table 2, some individual savings are also held as time-certificate and open-account deposits. Of the time deposit total, about 95 percent represents individual accounts, but 5 percent within this 95 percent represents deposits accumulated to pay consumer loans.

Deposits of individuals increased about 7 percent between mid-year 1957 and mid-year 1958. Most of the increase was in regular savings accounts, while open accounts of individuals experienced the only decrease.

Business firms owned about 2 percent of total time deposits at Fourth District member banks, as of June 1957. Despite a 64 percent increase in accounts held by business firms, their share of total time deposits was only fractionally greater in June 1958 than in the year-ago month. Responsiveness of business firms to rates in other markets, such as Treasury bills, probably accounts for their greater variability. As a result, they contribute more to short-run fluctuations in time deposits than their relative size might indicate. In the volatile 1957-1958 period, however, Treasury bill rates dropped sharply, while time deposit rates increased; yet business deposits accounted for only 15 percent of the increase in time deposits.

**TIME DEPOSITS OF BUSINESS FIRMS**

***Member Banks in Major Cities***




Member banks in the District's three largest cities, Cleveland, Cincinnati, and Pittsburgh, accounted for nearly 45 percent of total time deposits in the District in mid-1958. Cleveland banks held 23 percent of the total, while Pittsburgh and Cincinnati banks held 16 percent and 5 percent, respectively.

The 8 percent increase in time deposits at Fourth District member banks between June

1957 and June 1958 was not representative of the major cities. In Cincinnati, where the employed labor force and industrial production declined the least, time deposits rose nearly 20 percent. (This may reflect in part a cautious attitude on the part of those who, while still employed, were apprehensive about the general business decline.) In contrast, Cleveland, which experienced large declines in both employment and industrial activity, posted an increase in time deposits of less than 5 percent. Pittsburgh, a city also hard hit by the recession, registered almost a 15 percent increase in time deposits, about one third of which was due to the absorption of non-city banks by Pittsburgh banks. Even when adjusted for bank structure changes, however, time deposits at Pittsburgh rose 10 percent, or more than the District average.

Apparently, business recessions that are short-run are accompanied by growth rather than decline in time deposits. In some areas, new precautionary savings increase, but a principal factor appears to be a decline in withdrawals. When activity in time deposit accounts declines, a reduced withdrawal rate results in increased deposit balances.

An added impetus to time deposit growth may have resulted from the revision of Regulation Q at the beginning of 1957, which increased the legal maximum for interest rates on time deposits. The largest relative increase in time deposits among the Districts' major cities during the year ended in June 1958 occurred at Cincinnati, where interest rates on savings accounts were raised from 1 percent to 3 percent in August 1957.[2] On the other hand, banks in both Cleveland and Pittsburgh raised the rate in savings accounts to 2½ percent in July 1957, but the relative increase in time deposits at Pittsburgh banks was twice as large as the gain at Cleveland banks.

Time deposits owned by business firms increased in all three leading cities. The accompanying chart displays the wide divergence in rates of growth. Businesses in Cincinnati more than doubled their time deposits during the year ended June 1958. In Cleveland, where the increase in total time deposits was slight, business accounts jumped from $15 million to $27 million. On the other hand, Pittsburgh banks experienced only a 20 percent increase in business accounts, well below the District average.

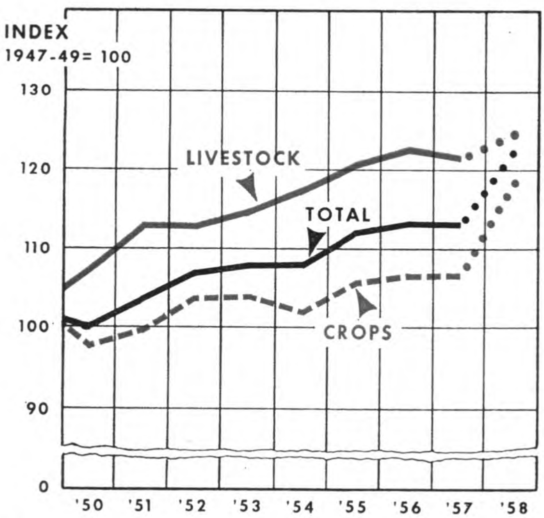
(2) Cincinnati banks lowered interest rates on savings deposits to 2½ percent on August 1, 1958.

# A Year of Agricultural Abundance

THE CURRENT YEAR marks an achievement in agricultural production that few would have considered possible early in the year. A growing season that began with unprecedented crop losses in the southern growing areas and the smallest planted acreage in nearly two generations is now being concluded by an outturn of crops that far surpasses that of any previous year. Moreover, the output of livestock products registered further gains despite a concerted effort to expand the inventory of breeding stock.

The outcome of this year's agricultural production has already been reflected in improved farm income, despite the downward pressure on farm prices. It is an important element in the current outlook for farm prices and, because of its influence toward lower food costs, it is an element to be considered in appraising the prospects for the Consumer Price Index.

**FARM OUTPUT**




***The total output of the nation's farms pushed to a new high this year, as record yields offset a further reduction in the area of cropland used.***

In terms of total output, the product of the nation's farms in 1958 will surpass the record level attained in each of the past two years by nearly 9 percent. As shown in an accompanying chart, there was an 11 percent expansion in the volume of crops produced, based on estimates of the U. S. Department of Agriculture. As is also noted on the chart, the estimated volume of livestock and products realized registered only a moderate gain.

## Farm Output Expands

The abundance of agricultural products realized this year is noteworthy from two basic standpoints. In terms of land resources used, the unparalleled volume of crops, now largely realized, is yielded by the smallest harvested acreage in forty years. Furthermore, in terms of manpower, the unprecedented outturn was produced with about 6 percent fewer workers than were employed in agriculture in 1957.

The increase in yield per acre over the previous high was phenomenal for several of the major crops, as shown in an accompanying tabulation.

**Yields Per Acre of Selected Crops**
**United States — 1958**

| | Yield per Acre | % change from previous high* |
|---|---|---|
| Sorghum grain, bu.... | 38.3 | +33% |
| Wheat, bu........... | 27.0 | +24 |
| Oats, bu............. | 44.5 | +16 |
| Cotton, lbs........... | 472 | +13 |
| Corn, bu............. | 51.7 | +11 |
| Soybeans, bu......... | 24.6 | + 7 |

* Previous high for oats and cotton established in 1955; all others in 1957.

Source: U. S. Department of Agriculture estimates of crop production.

The marked gain in yields over previous highs for several of the major crops and a better than 12 percent increase in the level of production per acre for all crops reflect the influence of a number of factors this past year. The culmination of the drought in the Great Plains States had a distinct effect on the outturn of wheat and sorghum grains, for example. The tendency for plantings of crops under acreage restrictions to be concentrated on the more productive land areas presumably had a favorable influence on yields of those crops.[1] Also, the generally favorable growing conditions that prevailed over the nation, following the unseasonably cool weather that severely damaged southern citrus fruit and vegetable crops early this year, fostered high yields per acre. Finally, the unusually favorable fall harvest period aided in maximizing production per acre.

A marked expansion this year in the acreages of wheat and soybeans, up 23 percent and 13 percent, respectively, was coincident with record yields and helps explain why food grains and oilseed crops registered the sharpest year-to-year gains in output of all of the major groups of crops. (See table.) The total output of food grains (wheat, rye, and rice) is indicated to be 48 percent larger than last year and the volume of oilseed crops is estimated to be up nearly a fourth.

The sharp expansion in the total volume of crops achieved this year can be attributed to increases in production of all of the major groups of crops, except hay-and-forage and sugar crops. A reduction in acreage in the case of the former and a decline in average yields per acre in the case of the latter caused production of those two types of crops to fall short of year-earlier levels.

The gain in volume of livestock and products registered this year took the form of a substantial rise in the quantity of poultry and eggs produced and a moderate increase in the output of meat animals. An increase in the rate of production per breeding unit was wholly responsible for the gain in output as the units of breeding stock on farms dropped below a year earlier in common with the area of cropland used. The production of dairy products, however, remained unchanged from that of the previous year.

(1) The acreage of some crops such as wheat was larger in 1958.

**Farm Production**
**1947-49 = 100**

| | 1958 | % change from 1957 |
|---|---|---|
| Farm Output | 123 | + 9% |
| All Crops* | 118 | +11 |
| Food grains | 117 | +48 |
| Oilseeds | 183 | +25 |
| Feed grains | 134 | +11 |
| Cotton | 83 | + 8 |
| Tobacco | 87 | + 5 |
| Vegetables | 100 | + 4 |
| Hay and forage | 112 | — 3 |
| Sugar crops | 123 | — 2 |
| All Livestock and Products | 124 | + 3 |
| Poultry and eggs | 144 | + 5 |
| Meat animals | 123 | + 3 |
| Dairy products | 111 | —0— |
| Cropland used | 94 | — 1 |
| Crop production per acre | 126 | +13 |
| Units of breeding livestock | 101 | — 1 |
| Production per breeding unit | 123 | + 3 |

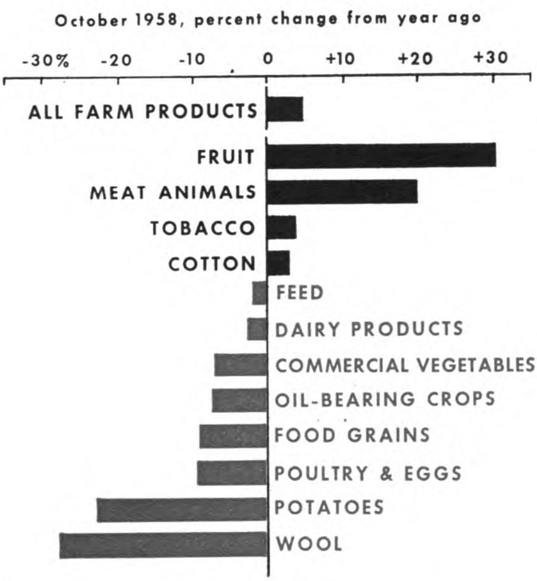
*Includes some crops not in separate groups shown.
Source: Department of Agriculture.

## Rise and Fall of Farm Prices

The prices received by farmers advanced sharply early this year, reaching a five-year high in April. This upsurge in the general level of prices to farmers occurred chiefly as a consequence of reduced marketings of meat animals and contraction in the market supplies of fresh vegetables and citrus fruits. Marketings of meat animals were curtailed early this year as producers retained young stock in an effort to rebuild breeding herds. The market supplies of fresh vegetables and fruits were sharply curtailed early in the year owing to the damage to crops caused by subfreezing temperatures in the winter-garden and citrus areas of the South, mentioned earlier.

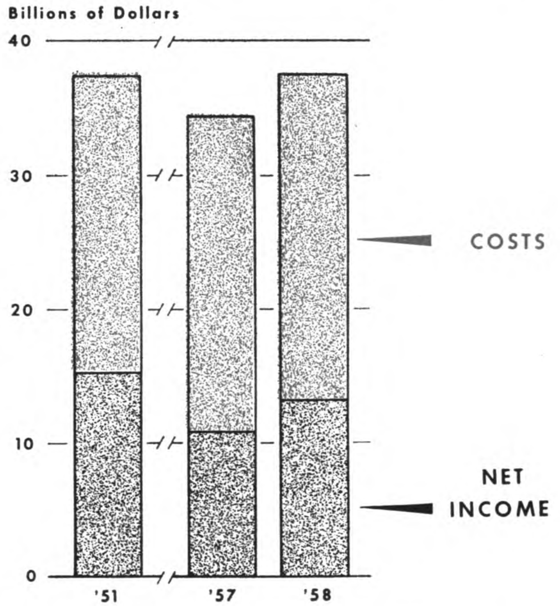
After a period of relative stability in the spring, prices received by farmers turned downward through the summer months in response to heavier marketings. Nevertheless, prices received through the first ten months of the year averaged 6 percent above the same period of 1957. Moreover, in mid-October, at the peak of the fall harvest, prices of farm products generally were about 5 percent higher than a year earlier, as indicated in the chart below showing the percent change in prices received from October 1957 to October 1958. Much higher prices than last year for fruit and meat animals, and moderately higher prices for tobacco and cotton, more than compensated for the year-to-year price declines that occurred for the other major groups of farm commodities.

## PRICES RECEIVED BY FARMERS




***Prices of farm products generally were above year-ago levels in October; prices of fruit and meat animals were much higher than a year ago, while prices of wool, potatoes and several other major farm products were considerably lower.***

## GROSS FARM INCOME — U. S.




***Gross farm income in 1958 will exceed the peak rate of 1951, but net income will fall short of that year because of higher costs.***

1958 estimated on basis of first three quarters.

### Farm Income Higher

Gross farm income, on the basis of the first three quarters, is estimated by the Department of Agriculture at $37.6 billion in 1958. That amount, if realized, will exceed the peak rate of 1951, as shown in the chart above. Net income, however, will fall short of the level reached that year because of higher costs.

The gross farm income now in prospect for 1958 will apparently surpass that of 1957 by about 10 per cent and net income may exceed the low of last year by more than a fifth. The marked improvement in gross farm income this year reflects the influence of much higher prices for livestock, heavier marketings from record crops of the current year, delayed marketings from last year's late harvests, and some increase in payments to those who deposited cropland in the Soil Bank. Net income was enhanced by reason of the fact that production expenses did not rise as rapidly as the cash receipts derived from farm marketings.

## Fourth District Production and Income

Farm production in the Fourth Federal Reserve District paralleled the national trend, with the percentage increase in the case of some crops exceeding that which occurred nationally. Farm income in the District also rose, but the rate of rise was more moderate than the national gain.

Production of the principal crops in the District, as indicated in the following tabulation, was well above last year except for burley tobacco. The quantity of that crop was slightly below the previous year's total, due mainly to a decline in the average yield per acre; the crop, however, is reported to be of high quality. Excessive rainfall early in the growing season was largely responsible for the reduction in yield per acre of burley tobacco.

### Production of Major Crops

Fourth District(1)

| | 1958 Million Units | % change from 1957 |
|---|---|---|
| Wheat, bu. | 48.8 | +32% |
| Oats, bu. | 67.3 | +27 |
| Soybeans, bu. | 39.2 | +19 |
| Corn, bu. | 239.1 | +16 |
| Hay, tons | 5.9 | + 4 |
| Tobacco (burley) lbs. | 147.5 | — 2 |

(1) Based on November 1 crop estimates, U.S.D.A.

The increase from the previous year in the volume of corn, oats and hay exceeded that which occurred nationally. Wheat was the only crop of which the percentage expansion in output in 1958 fell short of that which occurred in the nation. The estimated production of wheat in the Fourth District was a third larger than last year, whereas the outturn for the nation was more than 50 percent greater than in 1957.

The tonnage of hay harvested in the District, although greater than last year, is reported to be of lower quality. Excessive rainfall in many areas of the District during the normal harvest period resulted in serious losses and much of the hay that was finally harvested was of inferior quality.

The cash receipts from farm marketings through September of this year indicated a moderate rise in farm income in the District. The increase, however, was considerably less than that indicated for the nation, as shown in a tabulation of estimated cash receipts.

### Estimated Receipts from Marketings

Fourth District

January-September

| | 1958 Million Dollars | Percent change from 1957 |
|---|---|---|
| Kentucky | $ 256 | — 4% |
| Ohio | 651 | + 2 |
| Pennsylvania | 519 | + 6 |
| West Virginia | 77 | + 5 |
| Fourth District* | 855 | + 4 |
| United States | 19,500 | +11 |

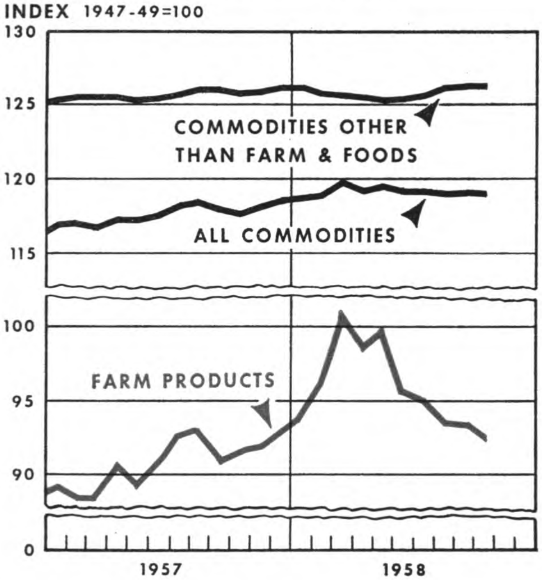
*All of Ohio plus parts of Kentucky, Pennsylvania and West Virginia.
Source: U. S. Department of Agriculture.

The failure of farm income in the Fourth District to register as much gain as occurred nationally probably reflects the influence of lower average prices for dairy products and some of the major crops which tended to counterbalance the gains in cash receipts realized from higher average prices for meat animals.

## Farm Prices and General Prices

Turning now to the effect of the record farm output on wholesale prices, it is apparent that the downward trend of farm prices at wholesale in recent months has had a stabilizing influence on the general level of wholesale prices. Early this year, when the whole-

## WHOLESALE PRICES




*Wholesale prices of all commodities have displayed marked stability in recent months as prices of farm products declined under the weight of increased marketings and prices of other products strengthened in response to improved business activity.*

sale prices of farm commodities advanced sharply, the all-commodity price index, as shown in the accompanying chart, rose even though prices of commodities other than farm and food generally were weakening. Since mid-summer, however, the downward trend of wholesale prices of farm products has offset some advance in the general level of prices of commodities other than farm and food to impart a considerable degree of stability to the "all-commodities" index of wholesale prices.

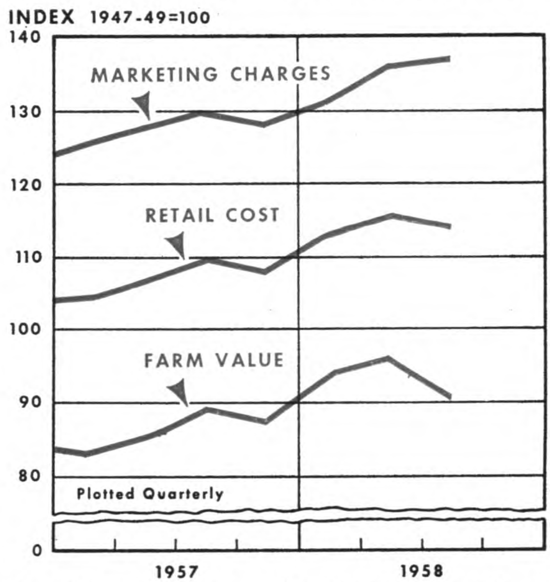
Record supplies of food grains, feed grains, and oilseeds, together with the prospect of an expansion in the output of livestock and products, suggest that the wholesale prices of farm products will be under pressure for some months to come. The movement of commodities under price support agreements was at peak levels this fall and while that will presumably have a stabilizing influence on prices of eligible farm commodities, levels of support for most items are lower than for last year. Moreover, the indicated expansion in livestock products, particularly of pork, implies that market receipts are due for substantial expansion within the coming year.

### Food Costs Ease

The retail cost of a fixed "market basket" of food, which represents the average quantities of farm-food products purchased per wage-earner or clerical-worker family during the course of a year, rose to a record high in the second quarter of 1958, according to data assembled by the Department of Agriculture. The retail cost of the farm-food market basket is shown in an adjoining chart in conjunction with the farm value and marketing charges, i.e., farm-retail spread.

After reaching a high in the second quarter, the retail cost of a "market basket" of food turned down in the third quarter, reflecting a decline in farm values which more than off-

## COST OF MARKET BASKET OF FOOD




*The retail cost of a fixed "market basket" of food eased from a record high in the second quarter as huge supplies of farm products trimmed farm values sufficiently to offset some further rise in marketing charges.*

set a further rise in the farm-retail spread or marketing charges as designated in the chart.

Charges for marketing farm food products are reported by the Department of Agriculture to have continued to rise through midsummer of 1958. In fact, unit charges in the third quarter averaged 5 percent higher than in the same period last year. Costs of many items associated with the marketing of food such as containers, packaging materials, transportation, equipment, and construction advanced during the year. Average hourly earnings of employees in food marketing establishments are also reported to have risen 4 percent during the twelve months ended in August.

While the general upward trend in marketing charges was a factor in pushing the retail cost of the market basket to a new high in the second quarter of 1958, the rapid rise in farm values was the dominant influence at that moment. Sharp advances in the prices of fresh vegetables, citrus fruits, potatoes, and meat animals in response to reduced marketings for reasons previously discussed caused farm values to rise rapidly during the early part of 1958. After reaching a high in the second quarter, farm values turned down sharply in the third quarter as marketings from the record outturn of crops reaching maturity in mid-summer began moving to market. The changes associated with abundance were already under way.

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## ANNUAL INDEX to MONTHLY BUSINESS REVIEW (1958)