

# MONTHLY *Business Review*

FEDERAL RESERVE BANK of CLEVELAND

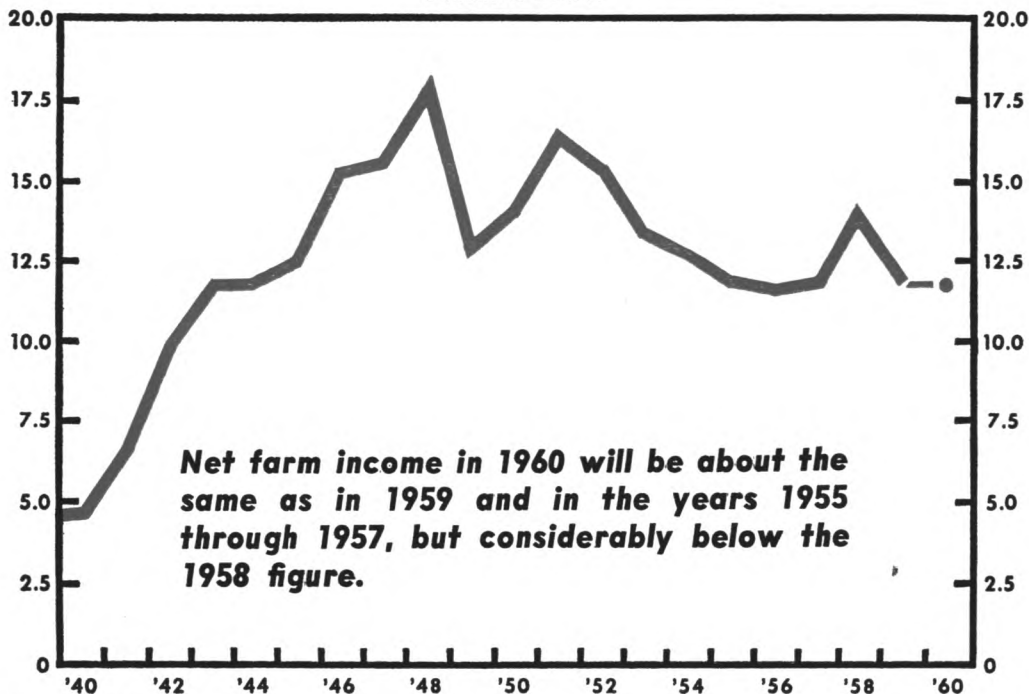
*November, 1960*

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## NET FARM INCOME

Billions of dollars



Source: U.S. Department of Agriculture. Data include inventory change.



## Farm Income In 1960

**A**FTER MOVING irregularly downward from the post-war high of 1948, net farm income in recent years has tended to level out at a figure just under \$12 billion. Net farm income this year will apparently be about the same as in 1959 when it totaled \$11.8 billion. The 1959 total was virtually the same as in each of the previous four years, except for 1958, when income rose sharply as a result of a significant rise early that year in the prices of meat animals and fresh mar-

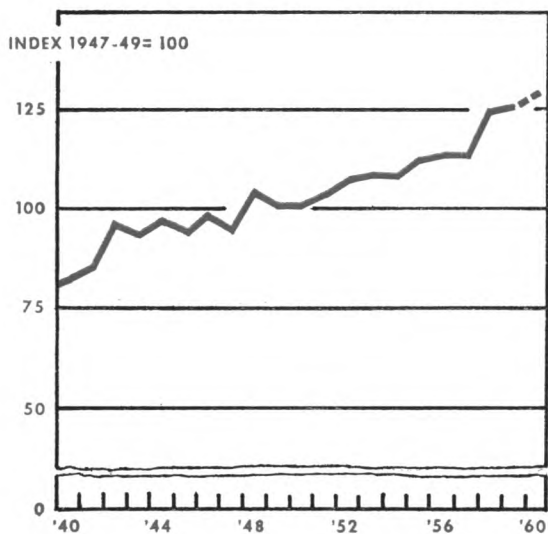
ket fruits and vegetables. (Reduced marketings of meat animals to enlarge breeding herds and severe damage to winter vegetable crops were the main factors responsible for the 1958 upswing in prices.)

The present level of net farm income, while down about one-third from the high of 1948, is practically identical with that of the war-time years of 1943 and 1944. Present farm output, however, is more than a third larger than it was then. A further expansion in output this year and a 5 percent advance in prices of farm products early in the year have been the significant factors sustaining farm income in 1960.

All of the gain in the total volume of farm products this year is accounted for by the record outturn of crops. Reductions in the output of eggs and pork caused the total volume of livestock and products to fall short of year-earlier levels.

Most crops registered good progress through a somewhat cooler than normal summer, after a slow and uncertain start early in the growing season due to excessive rainfall. The cool, humid weather prevailing over much of the nation during the critical development period for wheat and oats was largely responsible for the record and near-record yields of those two crops. Warm, dry weather during the late summer and early fall together with a virtually frost-free September permitted a high percentage of all crops to reach ma-

### FARM OUTPUT



The output of the nation's farms advanced to a new high in 1960.

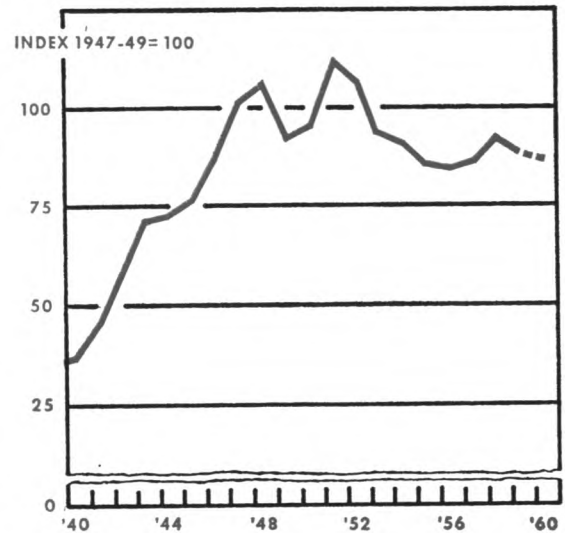
turity. Weather conditions generally through the early fall harvest season were conducive to rapid progress in harvesting and storage of crops. Although considerable corn and other late maturing crops remained to be harvested, as of press time, and may conceivably be damaged by adverse weather, crop losses so far this year have been of limited proportions.

### Growth in Farm Output

This year's expansion in farm output of slightly more than 2 percent lifted the total outturn of the nation's farms to a level that is 29 percent above the average of the early post-war years of 1947 to 1949, as shown in an accompanying chart. The present level, which is a new high, represents a gain of 57 percent since 1940. Such a growth in farm output over the last twenty years exceeded the growth in population and was nearly twice as great as the percentage increase which had occurred over the interval of the previous thirty years.

All of the major product groups, as indicated in the accompanying table, registered significant gains over the twenty-year period, but the growth in volume of oil crops and

### PRICES RECEIVED BY FARMERS



On balance, prices received by farmers declined between 1959 and 1960. (This was due chiefly to lower average prices for meat animals, as prices of other livestock products and crops averaged close to year-earlier levels—not shown on chart.)

poultry products was spectacularly large. The output of poultry products more than doubled and that of oil crops more than trebled in the period. Other product groups for which the gains exceeded that posted for all farm products were feed grains and food grains.

Of the seven product groups contributing to the growth in volume of farm products this year, food grains showed the sharpest increase, being up a fifth from last year. The margin of gain over a year ago for the remaining six groups of products ranged from about 8 percent for tobacco to 1 percent for dairy products.

### Prices Slightly Lower

After a fairly sharp recovery in the first three months of the year, prices received by farmers leveled off and have remained only slightly below year-earlier levels. For the year, prices received will apparently average within 1 to 2 percent of the 1959 level. Lower

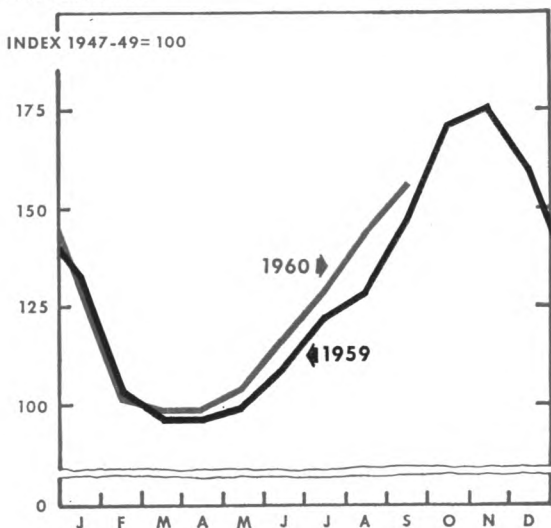
### Farm Output

	Index 1960* (1947-49=100)	Percent change from	
		1959	1940
Total Farm Output	128	+ 2%	+ 57%
All Livestock Products	129	- 1	+ 48
Meat Animals	131	- 2	+ 48
Dairy Products	112	+ 1	+ 22
Poultry and Eggs	149	- 1	+113
All Crops	121	+ 3	+ 42
Feed Grains	139	- 1	+ 66
Hay and Forage	119	+ 5	+ 15
Food Grains	111	+20	+ 67
Vegetables	104	+ 2	+ 19
Sugar Crops	134	-0-	+ 24
Cotton	103	- 1	+ 16
Tobacco	94	+ 8	+ 33
Oil Crops	172	+ 7	+207

\* Based on crop prospects as of October 1

## VOLUME of FARM MARKETINGS

All commodities



The adverse effect of lower average prices has been more than offset by the increase in marketings this year.

average prices for meat animals, chiefly cattle, accounted for most of the decline from 1959 as prices of crops have averaged very close to year-earlier levels.

While prices received by farmers this year will apparently be off slightly from last year and below the recent 10-year average, the level indicated for this year is above the average of the previous twenty years, a period including the war years and the early post-war period.

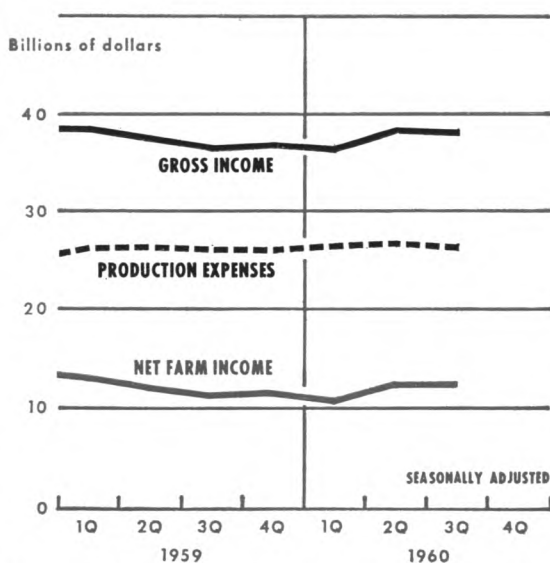
The very large takings of the price support program have unquestionably been a factor in imparting a degree of stability to prices of farm products over the recent five-year period. The dollar value of price support holdings in August, amounting to \$8.8 billion, although up only slightly from the year-ago month, was nearly a fourth larger than in the comparable month of 1955. In view of the record outturn of farm products and the recent trend of farm marketings, the dollar value of holdings subject to price support agreements may reach a new high by year-end.

## Increase in Marketings

The volume of farm marketings moved above year-earlier levels in March, as shown in the accompanying chart, and continued to register gains over the previous year through August, the latest month for which such data were available at press time. The recent increase in marketings is from a high level as the volume of marketings for the year as a whole in 1959 was 3 percent larger than the previous high established in 1958.

The increase in marketings of farm products through August more than offset the effect of lower average prices so as to yield cash receipts from the sale of farm products that were moderately above a year earlier. Although marketings may not maintain the present margins over year-earlier levels, it seems probable that the volume of marketings will be at or above the year-ago position through the remainder of the year, as producers market a record outturn of crops and a near-record production of livestock and products.

## FARM INCOME and EXPENSES



Net farm income has risen sharply since the first quarter, reflecting the upturn in gross farm income and the relatively stable level of production expenses.

## Farm Income and Expenses

The gain in cash receipts resulting from a significant increase in the volume of farm marketings and a first-quarter upturn in prices was reflected in a rise in gross farm income in the second quarter as shown in the accompanying chart. Gross farm income in terms of annual rates (seasonally adjusted) was estimated at \$38.3 billion in the second quarter, or about 5 percent more than in the first quarter. Production expenses, meanwhile, advanced to \$26.5 billion, a gain of less than 1 percent from the first-quarter

level. Net farm income, as a consequence, rose 15 percent to an annual rate of \$12.1 billion after adjustment for gain in inventories. Further gains over year-earlier levels were posted in the third quarter as will be noted from the chart.

On the basis of the second and third quarter gains, it seems probable that gross farm income as well as net farm income this year will be virtually the same as in 1959.

*(Note: All charts are based on data from the U. S. Department of Agriculture.)*

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## NOTES ON FEDERAL RESERVE PUBLICATIONS

Among the articles recently published in the monthly business reviews of other Federal Reserve banks are:

“The St. Lawrence Stairway to the Sea”, Federal Reserve Bank of Philadelphia, September 1960.

“The Discount Mechanism and Monetary Policy”, Federal Reserve Bank of St. Louis, September 1960.

“The Current Housing Situation in Perspective”, Federal Reserve Bank of San Francisco, September 1960.

“Recent Adjustments in Petroleum Refining”, Federal Reserve Bank of Kansas City, October 1960.

“Debt Policy and Monetary Control in Britain”, Federal Reserve Bank of New York, October 1960.

*(Copies may be obtained without charge by writing to the Federal Reserve Bank named in each case.)*

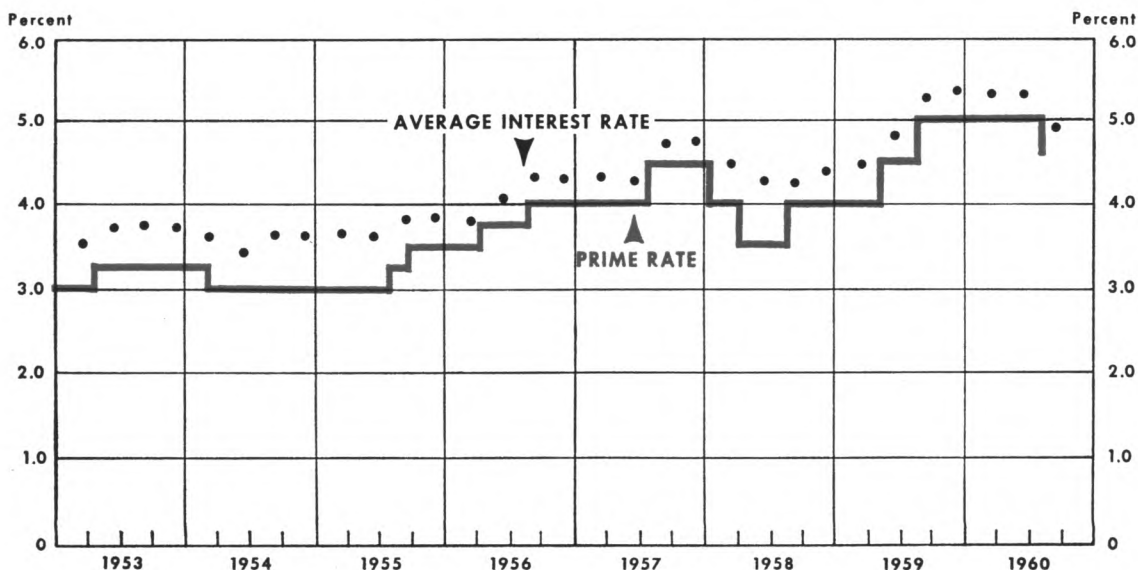
## Interest Rates At Fourth District Banks

ON AUGUST 22 of this year, commercial banks in New York City, followed by banks throughout the country, lowered the prime rate from 5 percent to 4½ percent. The level of the prime rate before the reduction had been the highest since 1931. The prime rate is the minimum interest rate which banks charge for financially sound, top-quality companies in well-established industries, and it is used as a base from which

other borrowing costs are scaled upward. The prime rate is also an indicator of short-term borrowing costs in general, since it tends to respond to money and credit conditions outside of the banking system.

Since the prime rate is used as a base for determining other bank lending rates, a change in the minimum rate would tend to be reflected in borrowing costs for short-term business loans in general. Such a pattern of

**AVERAGE INTEREST RATE CHARGED ON SHORT-TERM BUSINESS LOANS  
Large Fourth District Banks**



interest rate movements was found in the latest survey of a group of large member banks in the Fourth Federal Reserve District.<sup>(1)</sup> The average interest rate on short-term business loans at the nine District banks had been 5.33 percent in the first half of June this year but declined to 4.98 percent in the first half of September.

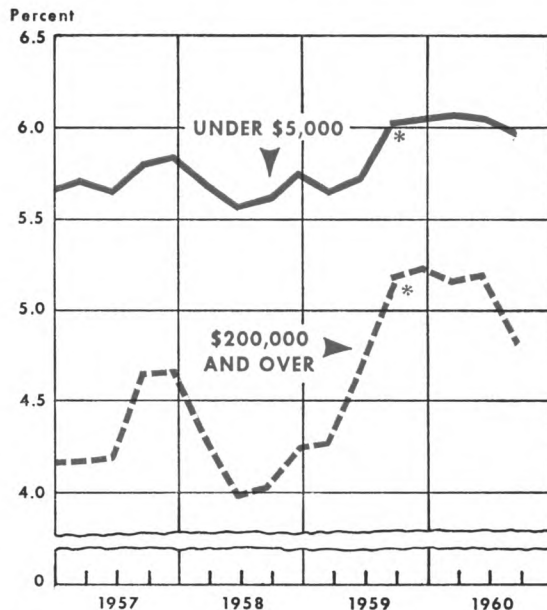
There have been only four downward adjustments in the prime rate in the last decade, including the most recent one, indicating that this rate is characteristically "sticky", i.e., it does not fluctuate frequently. How has the average interest rate on short-term business loans in the Fourth District responded in such circumstances?

The data from the quarterly surveys show that the average interest rate at the large District banks has been much more volatile than the prime rate, declining at least sixteen times since 1950, as measured by soundings of rates for half-month periods at the quarterly intervals covered by the surveys. Even if the fractional changes (those of less than one-tenth of one percent) are ignored, the average rate has declined fully as often as the prime rate. The size of the changes in the average rate, however, has never been as large as that in the prime rate, since the latter moves in steps of at least  $\frac{1}{4}$  percent. The change in the reported rates in the District has been usually about one-half as large.

The most recent decline in the average rate (after an adjustment to maintain a standard composition of loan sizes) was larger than usual, amounting to nearly three-fourths of the change in the prime rate. This may have been because the banks of the District were anxious to bring their borrowing charges more into line with money rates other than bank short-term lending charges, or because rates had been at a record high level and had farther to fall.

(1) Nine large member banks report four times each year on the volume of new business loans, as well as the interest rates carried by such loans. The surveys obtain data only on loans that are extended in the first fifteen days of the last month of each quarter. (The most recent reporting period, therefore, was that of September 1-15.) From this information, an average interest rate on short-term business loans, i.e., loans maturing in one year or less, can be determined.

## AVERAGE INTEREST RATES BY SIZE OF LOAN Large Fourth District Banks



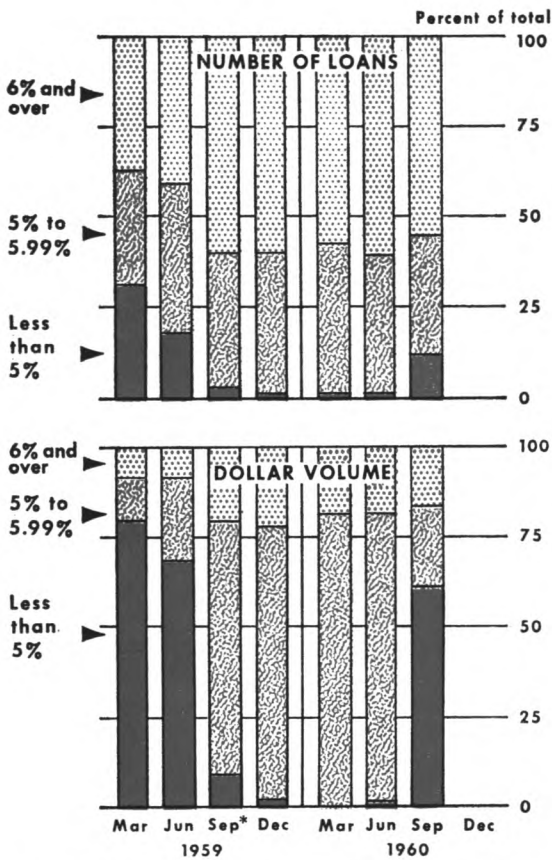
\* Change in series.

The sharpest decline in interest rates between June and September of this year occurred on the largest loans, those that were \$200,000 or more in amount. Here the average rate fell by four-tenths of one percent, compared with a decline of three-tenths of one percent for all reported loans. In contrast, rates on loans under \$5,000 slipped less than one-tenth of one percent. The average rate for the loans under \$5,000 was 5.98 percent, whereas the rate for the largest loans was 4.81 percent.

The change in interest rates by size of loan is also revealed in the number of loans issued at various rate levels. In the first half of June, fewer than 1 percent of the number of loans in the \$5,000-or-less category had rates of less than 5 percent; by September, the share had increased only to 2 percent. (The rates on most of the small loans were over 6



## DISTRIBUTION OF SHORT-TERM BUSINESS LOANS BY INTEREST RATE CHARGED



\* Change in series.

percent.) On the other hand, the share of large loans of \$200,000 or more having rates of less than 5 percent increased from 2 percent to 62 percent of the total. The number of loans of intermediate size, i.e., loans from \$5,000 to \$200,000, increased proportionately in the lower interest group. A similar pattern in the number of loans is repeated when loans are arranged by dollar volume, with the volume of the largest loans made at less than 5 percent increasing sharply.

The change in interest rates following the prime rate adjustment occurred very quickly,

at least so far as large banks of the Fourth District were concerned. The decline in the prime rate was announced on August 22, or nine days before the beginning of the survey period. Thus the changes in borrowing costs outlined above took place within a period of 24 days, i.e., from August 22 through September 15. Borrowers had apparently been anticipating the cut in the prime rate and were prepared to take advantage of lower interest charges as soon as the change was made by banks of the District.

It should be borne in mind that a quick shift in interest rates of the type here under discussion is generally possible because of the relatively short maturity of the reported business loans, with terms written for as low as thirty days. Such loans are frequently renewed after their original maturity date, thus giving the business borrower an opportunity to extend indebtedness at a lower interest rate.

The *dollar volume* of new loans at the reporting banks tends to decline seasonally from June to September, with the declines since 1955 ranging from 25 percent to 8 percent. This year, the volume of short-term business loans fell only 3 percent. Such a less-than-usual decline may have been due to additional borrowing being stimulated by lower interest rates. The decline in the *number* of loans was also relatively small, amounting to 4 percent. (This does not, however, match the record of the same period in 1958, when such loans declined only 1 percent.)

The average interest rate determined in this Fourth District study was a shade above the average rate for the rest of the nation. The District rate was 4.98 percent; the average rate for 19 cities in the nation was 4.97 percent. In regard to interest cost by size of loan, the borrowing cost on small loans appeared to be slightly higher in the Fourth District as compared with all the Districts combined. The relative decline in the number and dollar amount of short-term business loans, however, was smaller from June to September in the District than in the nation as a whole.

## Around the Fourth District—

### BANK DEBITS IN SEPTEMBER

(11 Medium-size Cities, Fourth District)

		September 1960 % change from year ago	3 months ended Sept. '60 % change from year ago
Warren	Ohio	+14%	+ 6%
Covington-Newport	Ky.	+ 6	+ 4
Springfield	Ohio	+ 4	+ 4
Lima	Ohio	+ 4	+ 2
Wheeling	W. Va.	+ 4	- 3
New Castle	Pa.	-0-	-0-
Lexington	Ky.	- 2	- 1
Middletown	Ohio	- 6	- 9
Zanesville	Ohio	- 7	- 5
Mansfield	Ohio	- 8	- 1
Hamilton	Ohio	- 9	- 3

\* \* \*

The year-to-year increase in total Fourth District *department store sales* since January 1 narrowed from 3 percent at the end of August to 2 percent at the end of September.

\* \* \*

*Savings deposits* of individuals at commercial banks of the Fourth District reached a new record in September, the fifth new high in five consecutive months. Volume at the end of September was about 3 percent above the year-ago level. Expansion during September was reported in eleven of the twelve reporting centers, with savings deposits at Pittsburgh banks showing the largest gain, in dollars, for the second consecutive month.

\* \* \*

Despite the current slowdown in the *steel* industry, volume produced in the Cleveland-Lorain district during the first nine months of 1960 was only 8 percent short of the 1955 record. Comparisons with other recent years are mostly on the plus side.

\* \* \*

Preliminary estimates show that *farmers' market receipts* through the first eight months of this year are up slightly from a year ago in Ohio, Pennsylvania, and Kentucky, but down a little in West Virginia.

\* \* \*

While most barometers of business activity in the Greater Cleveland area were turning down in the third quarter, *building permits* moved up to the highest point of the year to date and in some respects reached record levels.

*(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)*

**Additional copies of the MONTHLY BUSINESS REVIEW may be obtained from the Research Department, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio.**



FOURTH FEDERAL RESERVE DISTRICT