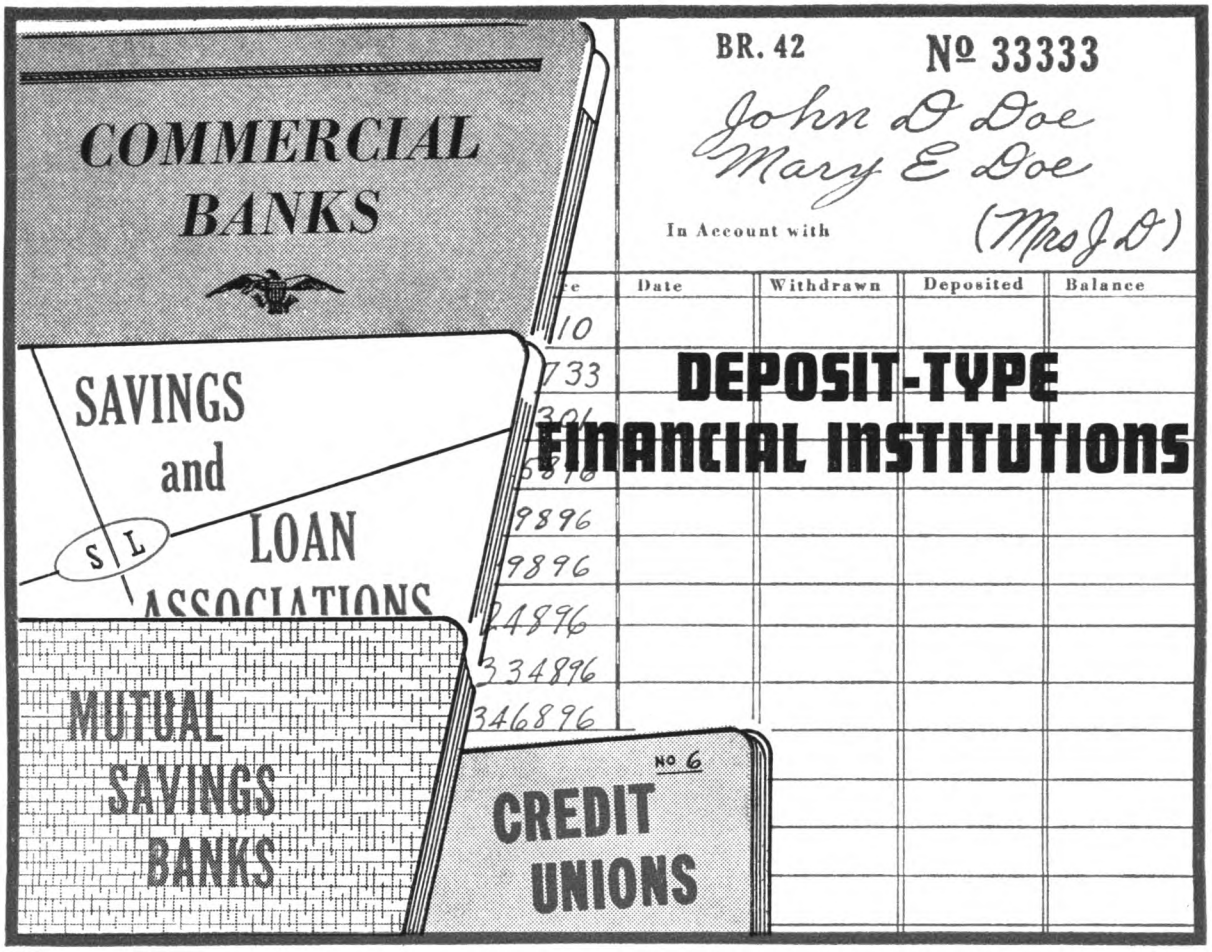
MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

June 1961

IN THIS ISSUE



Deposit-Type Financial Institutions

In a money economy, financial institutions provide services which are both relied upon heavily and used continuously. The *modus operandi* of financial institutions is essentially that of any kind of intermediary or middleman. All financial institutions obtain funds, in one way or another, and in turn make such funds available, again in one form or another, to individuals and institutions that have many and varied ultimate uses for the funds.

In the pages that follow, we are interested in a particular group of financial institutions, namely, deposit-type financial institutions. Deposit-type financial institutions, which include commercial banks, savings and loan associations, mutual savings banks, and credit unions, obtain funds from lenders, investors, and depositors; in turn, they advance such funds in various forms to all kinds of users, including businesses, individuals, and governmental units.

Since funds which are available to be advanced are limited, and because financial institutions, like any other business, are interested in gaining a return, a price (interest) must be exacted for the use of such funds. Deposit-type financial institutions, with the exception of commercial banks, deal completely in funds which in a broad, aggregate sense have been saved in a previous period of time. On the other hand, commercial banks deal only in part with savings.

An indication of the important role played by deposit-type financial institutions is found in the number of dollars that such institutions supplied through credit and equity markets to the economy in 1960 for a variety of ultimate uses. According to the flow-of-funds data published by the Federal Reserve System, deposit-type financial institutions advanced $18.5 billion, net, or slightly more than 47 percent, of the total of $39.2 billion in funds supplied by all sectors of the economy in 1960. Of the total amount supplied by deposit-type institutions, commercial banks advanced $9.2 billion — about one-half of the funds supplied by all such institutions— while savings and loan associations, which advanced $7.1 billion, ran a fairly close second. Mutual savings banks and credit unions each supplied smaller amounts of funds to the economy, $1.5 billion and $0.7 billion, respectively.

It is clear from these data, as well as from other supporting information, that deposit-type financial institutions carry out a major function in feeding the flow of dollars which is the lifeline of business and financial activity. Let us take a closer look at the four deposit-type institutions listed above. In addition to defining and describing these institutions, we shall attempt to highlight some of the facts and figures associated with their current activity, as well as those which measure their development in the postwar period.

Definition and Description

Commercial Banks. Taken as a whole, commercial banks bulk largest among deposit-type financial institutions, whether we use number of facilities, dollar magnitudes, or variety of function as the basis for comparison. At the end of 1960, there were 13,472 commercial banks in the United States, with 10,483 additional branch offices. Total assets for all commercial banks were $257.6 billion, or more than double the total assets of the other three deposit-type financial institutions combined. In individual size, commercial banks ranged from a relatively large number

of banks with assets under $10 million, each, to a comparatively few banks with total assets of well over $1 billion, each.

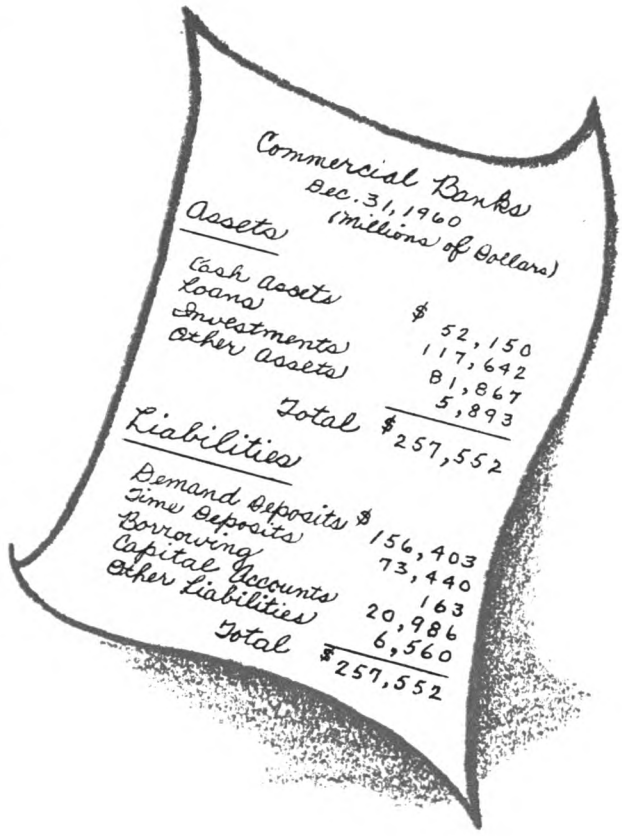
Chief among the variety of services offered by commercial banks is the provision of credit through commercial and industrial loans, personal loans, home mortgage loans, and agricultural loans, among other types of loans. In addition, commercial banks hold demand and time deposits and provide cashier's checks, trust facilities, and safe deposit boxes. Such a variety of services has prompted the graphic descriptions "department stores of finance" and "financial supermarkets."

A key characteristic of commercial banks, as compared with other deposit-type institutions, is the ability to create money in the form of demand deposits. The commercial banking system generates the major source of the means of payment—the money supply —in the economy. Demand deposit accounts provide both complete liquidity and complete payments service for the holders of such accounts. Hence, commercial banks are able to provide services through demand deposits which must be weighed by individuals and businesses against the net returns they can obtain from other liquidity media (including, for example, Treasury bills, time deposits, commercial paper, and share accounts at savings and loan associations). The decisions thus made by businesses and individuals are basic to the allocation of funds between demand deposits and other, less liquid, interest-earning media.

As shown in an accompanying balance sheet, demand and time deposits, taken together, represent the major source of funds of commercial banks. Other lesser sources of funds include capital accounts and borrowings. Demand deposits constitute an interest-free source of funds for commercial banks. The volume of demand deposits held by commercial banks is subject to a number of influences, including monetary policy actions, bank lending and investment activity, and liquidity decisions of deposit holders.

In contrast, time deposits constitute funds for which banks pay a price. Time deposits are technically not quite as liquid as demand deposits in that a bank may require a 30-day notice of withdrawal before relinquishing such funds. However, banks usually waive the legal right and pay upon demand. As the balance sheet shows, time deposits amount to approximately one-half the dollar volume of demand deposits. Time deposits include both savings deposits and time certificates of deposit. The combination of such deposits thus really represents a broad grouping in that it includes, among others, savings with a purpose, temporarily-excess funds, and funds held as a long-term but liquid investment. In general, time deposits do not usually show the volatility — that is, the sharp seasonal or cyclical variation in magnitude—of demand deposits.

As also shown in the balance sheet, commercial banks use the funds from different sources mainly to advance credit to individuals, business firms, and governments. Loans currently represent nearly one-half of the total assets of commercial banks. In the loan portfolio, commercial and industrial loans account for the largest single share, or about 36 percent of total loans; real estate loans



make up about 25 percent of total loans; while loans to individuals and agricultural and other loans comprise 22 percent and 17 percent, respectively, of total loans.

Investments constitute the second largest asset outlet among the uses of funds by commercial banks, representing about one-third of the uses of all funds. Commercial banks' investments include holdings of U. S. Government securities, as well as holdings of state and local government obligations, and serve as the major means of extending credit to governmental units. The portion of these credit instruments that is short-term and liquid is held chiefly as secondary reserves because, while they earn an interest return for commercial banks, they usually can be liquidated quickly to meet unexpected deposit withdrawals.

Cash and reserve balances, or primary reserves, represent about one-fifth of the total assets (or uses of funds) of commercial banks. Primary reserves defined in this way are thus nonearning assets held as cash on hand or as deposits in other banks. A reserve of cash, in addition to being counted toward meeting reserve requirements, is regarded by a bank as an insurance of liquidity, i.e., it helps provide the wherewithal to meet deposit withdrawal demands. Member banks of the Federal Reserve System maintain most of their reserves as deposit balances in the Federal Reserve Banks, while nonmembers hold the bulk of their primary reserves as deposits in correspondent banks.

In every phase of its operations, a commercial bank is closely supervised and regulated. Banking supervision begins with the granting of a charter by either a national or state authority and extends through regulations governing voluntary or involuntary liquidation. During the intervening life span of a bank, supervisory authorities such as the Comptroller of the Currency, the Federal Reserve System, the Federal Deposit Insurance Corporation, and state banking departments maintain supervision by requiring reports and by making periodic examinations. Supervision by the Federal Reserve System involves, in part, regulation of the reserves of banks in such a way as to help prevent excessive fluctuations in the volume of credit supplied to the economy by the banking system.

On the other hand, the major objective of FDIC supervision is to protect deposit accounts by providing insurance up to $10,000 for each account in the member banks of the Federal Reserve System (as well as in qualifying nonmember banks). In addition to providing deposit insurance, the FDIC has the power to prohibit payment of interest by banks on demand deposits and to limit the rate of interest paid on time and savings deposits of insured banks which are not members of the Federal Reserve System. The rate of interest paid on time and savings deposits of member banks is regulated by the Federal Reserve System.

The Federal Reserve System also provides secondary credit for commercial banks, if needed. Under existing arrangements, member banks may borrow reserves from the Federal Reserve banks in order to offset temporary deficiencies in required reserves.

Savings and Loan Associations. In contrast to the manifold services offered by commercial banks, other deposit-type financial institutions, such as savings and loan associations, have been described as "specialty shops" of finance—because of their relative singularity of service. The lending and investment powers of savings and loan associations are relatively restricted, as compared with the multiple lending and investment powers of commercial banks.

A typical savings and loan association would be likely to define its central function as the acquisition of savings share accounts from the public and the investment of funds so obtained in the form of loans, for the most part in home mortgage loans. Paralleling in part the expansion in residential housing, savings and loan associations have a striking record of dollar growth in the postwar period. In fact, the savings and loan industry has evolved into the largest single source of funds to the mortgage market.

At the end of 1960, there were approximately 6,276 savings and loan associations in

the United States, with 1,300 additional branches, or less than one-half the number of main offices of commercial banks and about one-eighth the number of branches. Savings and loan associations are found in each of the states, with few communities having more than 10,000 population being without an association.

The first savings and loan association was started in 1831 in Philadelphia, nearly a half-century after the first commercial bank was chartered by a state government. In the early years, savings and loan associations were literally cooperative clubs for homebuilding, operating primarily with the part-time services of members. The title used commonly until the early 1930's was that of "building and loan association"; in the 1930's a general change was made to that of "savings and loan association." The evolution of titles reflects in part a change in emphasis on function.

Similar to other deposit-type institutions (with the exception of commercial banks) savings deposits constitute the major source of funds for savings and loan associations. Since savings and loan associations can not accept or create demand deposits, they do not contribute directly to the nation's money supply. "Deposits" in savings and loan associations are technically shares, in most cases. Hence, a deposit is not technically the liability that it is at commercial banks; it is an owner's equity or share of ownership. Shareholders, or depositors, thus receive dividends rather than interest payments.

As shown in an accompanying balance sheet, the bulk of the funds available to savings and loan associations is channeled into mortgages, although some funds are invested in U. S. Government securities. In the case of federal-chartered savings and loan associations, and for most state-chartered institutions, investment in real estate loans is limited to amortized first-mortgage loans on homes and small apartments in the immediate and surrounding communities, generally within a 50-mile radius. Moreover, federal savings and loan associations may not lend more than 80 percent of the appraised value of the mortgaged property, except on FHA-insured loans and veterans' guaranteed loans. The legal loan limit at state-chartered institutions varies from 70 to 80 percent for non-insured loans.

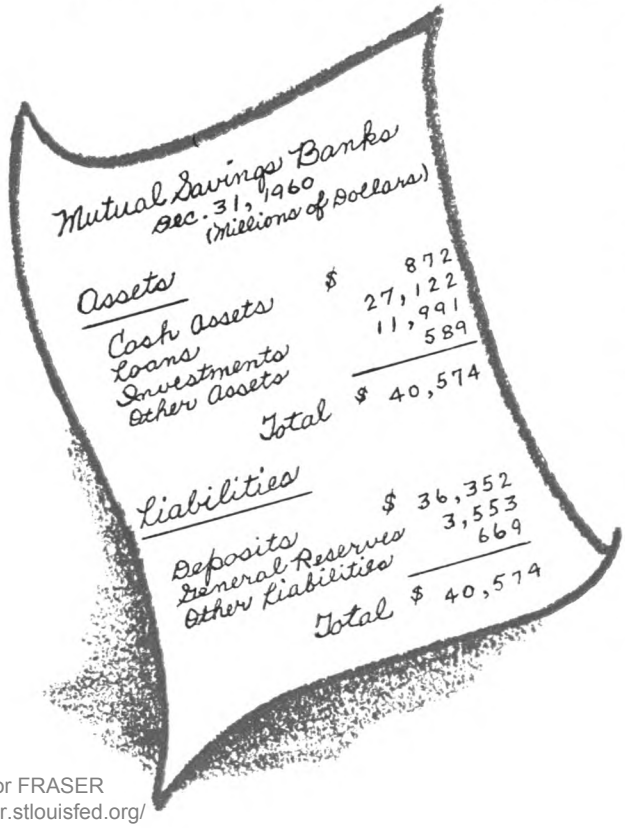
A secondary credit system for savings and loan associations is provided by the Federal Home Loan Bank System—to some extent a counterpart of the Federal Reserve System. About three-fourths of the savings and loan associations are affiliated with the FHLB. The Federal Savings and Loan Insurance Corporation (FSLIC), a government corporation and a counterpart of the FDIC, insures share accounts of the savings and loan associations up to $10,000. Approximately three-fifths of the associations, representing more than 90 percent of the assets of all associations, are members of the FSLIC.

There is an important substantive difference between commercial banks and savings and loan associations regarding the settlement of account withdrawal claims. According to specified requirements, a commercial bank must honor claims on both demand deposits and time deposits within 30 days

without delay, whereas the period of repayment permitted a savings and loan association under existing law is potentially much longer. If an insured savings and loan association becomes insolvent or is in default, the FSLIC settles each insured account by payment of cash or by making available to the holder of the account a transferred account in another insured institution. (The FDIC settles accounts in commercial banks in much the same manner.)

Mutual Savings Banks. Mutual savings banks are the oldest savings-type institution in the United States; two such institutions were started as early as 1816. A mutual savings bank is, as the name implies, a "mutual" undertaking. The central purpose of mutual savings banks is essentially to encourage thrift among people of lesser means and to channel funds so obtained into earning assets, which have been for the most part mortgages.

At the end of 1960, there were in operation 514 mutual savings banks with a total of 486 branches; in numbers, mutual savings banks had the fewest facilities of the various deposit-type institutions. The mutual savings banks range in size from small institutions with deposits of $1 million to a number of large banks with deposits between $500 million and $1.5 billion. The relative importance of this type of deposit institution varies greatly by area, since such institutions are heavily concentrated in the northeastern part of the United States.



In contrast to other deposit-type institutions, which operate under a dual chartering system, i.e., either federal or state, all mutual savings banks are state-chartered and state-supervised. Mutual savings banks do not accept demand deposits, although they do provide a number of services similar to those of commercial banks, including travelers' checks, cashier's checks, safe deposit facilities, and payment of funds to utilities for their customers.

As shown in the accompanying balance sheet, savings deposits are the major source of funds for mutual savings banks. Earnings on such deposits are distributed quarterly or semiannually to savers in the form of dividends. As is the general practice of savings and loan associations, requests from depositors for withdrawals usually are paid in full on demand.

The lending and investment powers of mutual savings banks are somewhat broader than those of savings and loan associations, but are relatively less than those of commercial banks. Although mutual savings banks are more or less restricted in their loan activities, they are usually permitted to extend first mortgage loans on improved real estate, to purchase mortgage paper from other lenders, to lend to depositors against their savings accounts, and to make a number of other types of loans.

As also shown in the balance sheet, the principal use of funds for mutual savings banks is lending in the form of mortgages. This is akin to the practice of savings and loan associations, although not to the same degree as the latter. Holdings of U. S. Government obligations, which account for about 20 percent of savings banks' assets, represent a second outlet or use of funds. Most states permit mutual savings banks to invest only in an approved list of securities prepared either by the state legislature or by the state

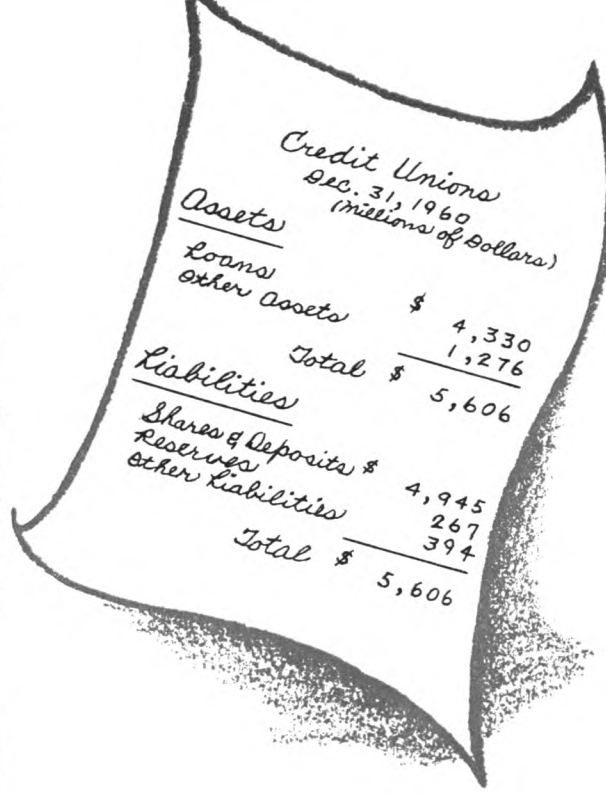
agency supervising the banks. In most instances, permission is granted to purchase securities such as U. S. Government obligations, selected municipal bonds, and some "blue-chip" preferred and common stocks.

As in the case of other deposit-type institutions, deposits of most mutual savings banks are covered by some type of deposit insurance. The majority of such banks belong to the Federal Deposit Insurance Corporation, while a large number of mutual savings banks in Massachusetts, Connecticut, and New Hampshire obtain similar—and in some respects more extensive—deposit insurance through special state agencies. On the other hand, for secondary credit purposes, at least three mutual savings banks have joined the Federal Reserve System, while a number of others are members of the Federal Home Loan Bank System.

Credit Unions. Credit unions are essentially cooperative, self-help, thrift and loan societies composed of individuals generally bound together by some common tie. The central twofold purpose of credit unions is clear cut: (1) to encourage and promote regular savings among the members, and (2) to provide loans to the members at low rates of interest. Members of a credit union purchase shares that represent ownership, and which are essentially savings accounts; each member may then borrow from the association — a privilege not extended to nonmembers. Income from loans, as well as from relatively limited investments, provides the funds from which members are paid dividends according to the proportion of individual ownership.

Members own, control, and operate credit unions under a federal or state charter. Despite a spectacular rate of growth during the postwar period, the position of credit unions in the aggregate in terms of pertinent dollar magnitudes is still relatively small, irrespective of which balance sheet item is used. In addition, because of a large number of small individual credit unions, the average dollar size of credit unions is small in comparison with the other deposit-type institutions.

There were approximately 20,200 credit unions in operation at the end of 1960; credit



unions have proliferated throughout all 50 states and the District of Columbia, with about one out of every 17 persons belonging to such an organization. Credit unions have been established by a wide variety of organizations. The largest number are found within manufacturing companies which have nearly 30 percent of the total number of credit unions in existence. In addition, labor unions have 5 percent of the total number, while church congregations and neighborhood organizations account for 9 percent and 10 percent, respectively.

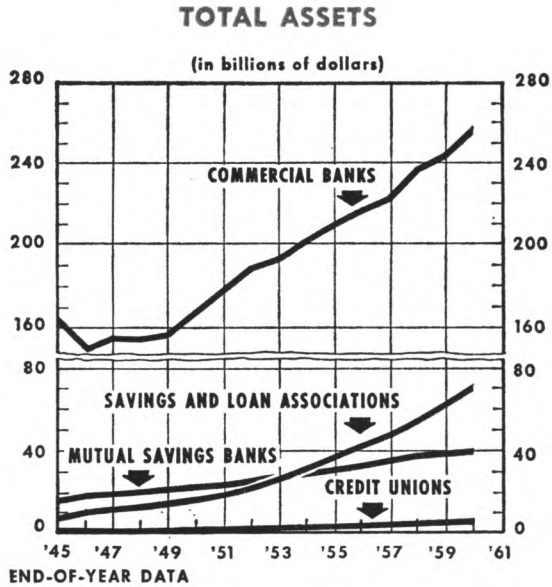
The largest income-producing use of funds for credit unions is in providing loans, as is shown in the accompanying balance sheet. For the most part these are consumer loans, although in those instances where it is so permitted, many state-chartered credit unions are entering the real estate loan market. Because lending and investment powers are relatively restricted, credit unions have few other outlets for their funds. Federal credit unions are permitted to invest only in time deposits of commercial and mutual savings

banks, accounts of insured savings and loan associations, U. S. Government securities, and to make loans only to members or to other credit unions.

Credit unions are subject to both external and internal supervision. Specific terms such as maximum loan maturities, limits on the amounts of loans, and rates on loans often are set by federal or state law, with regulations among the states differing somewhat. There is no insurance of share accounts, nor is there a source of secondary credit, as in the cases of the other deposit-type institutions. However, a majority of credit unions provide life insurance to borrowers to pay off the loans of persons who die or become disabled.

Growth of Deposit-Type Institutions

Throughout the postwar period, deposit-type financial institutions, along with other financial institutions, have had to adapt, adjust, and innovate in order to meet the demands and requirements imposed by an expanding economy. As a result, the deposit-type institutions have grown in terms of both dollar magnitudes and services rendered. An interesting by-product has been the increased "democratization of credit," as both the ability and willingness of such institutions to grow has made possible a steady expansion in the amounts and kinds of credit extended to wider segments of the economy.



One representative measure of the growth of each of the deposit-type financial institutions is the increase in total assets. As shown in the chart, total assets of deposit-type institutions, taken together, nearly doubled from 1945 through 1960. At the same time, however, there was substantial variation in both the amounts and the rates of growth of the four kinds of deposit-type institutions. From 1945 through 1960, commercial banks posted the largest gain in the volume of assets. Their collective gain of $97.2 billion accounted for about one-half of the growth in the combined assets of the deposit-type institutions. Savings and loan associations were not very far behind the commercial banks with a gain of $62.7 billion; mutual savings banks and credit unions with gains of $23.6 billion and $5.6 billion, respectively, accounted for a substantially smaller amount of the growth in combined assets.

On the other hand, using the amount of percentage growth in total assets of each type of institution from 1945 through 1960 as a basis for comparison, the picture changes markedly. Commercial banks, with a growth in assets amounting to 61 percent for the period, trailed the other kinds of institutions; savings and loan associations showed a growth in assets of 716 percent, mutual savings banks showed an increase of 138 percent, and credit unions achieved a spectacular growth of 1,189 percent. The fact that commercial banks started the period with a much larger base, however, must be taken into account in evaluating the respective percentages of growth.

The data show that the share held by commercial banks of the combined total assets of all deposit-type institutions has fallen steadily during the postwar period; in fact, the share has declined in each year since 1945. In contrast, the over-all increase in the share accounted for by savings and loan associa-

SELECTED ASSETS AND DEPOSITS

	1950				1960			
	Commercial Banks	Savings & Loan Assns.	Mutual Savings Banks	Credit Unions	Commercial Banks	Savings & Loan Assns.	Mutual Savings Banks	Credit Unions
Selected Items:								
Mortgage Loans	13,541	13,714	8,039	*	28,713	60,084	26,927	*
Business Loans	21,927	—	—	—	43,125	—	—	—
Consumer Loans	7,374	*	*	590	20,135	*	*	3,906
U. S. Government Securities	62,027	1,489	10,877	—	61,003	4,560	6,239	*
Total Loans	52,249	13,931	8,166	680	117,642	61,100	27,122	4,330
Total Assets	168,932	16,846	22,385	1,005	257,552	71,401	40,574	5,606
Total Deposits	155,265	13,992	20,025	850	229,843	62,116	36,353	4,945
Asset and Deposit Relationships:								
Liquid Assets as Percent of Total Assets	38.0	14.5	52.1	n.a.	25.0	10.1	17.5	n.a.
Total Loans as Percent of Total Deposits	33.6	99.6	40.8	80.0	51.2	98.4	74.6	87.6

* Less than $500 million
n.a. Not available

tions has virtually equaled the decline in that of commercial banks. Mutual savings banks have not continued to hold their share recently, as revealed in the fact that the proportion of combined total assets held by these institutions has fallen in each of the past four years. Credit unions, while steadily increasing their share of the combined assets, still hold a relatively small portion of the total.

A number of the features in the growth of deposit-type financial institutions are shown in the accompanying table, which presents selected assets and deposit items. One such feature is that holdings of U. S. Government securities were reduced only at commercial banks and mutual savings banks from 1950 through 1960. At the same time, all other balance sheet items for each of the institution types registered moderate to substantial increases. The various rates of increase were not consistent among the institutions, however. Of particular note was the large increase in both the volume and the proportion of mortgage loans held by savings and loan associations and the comparatively smaller

rises in the volume and the proportion of such credit held by commercial banks and mutual savings banks.

The table is perhaps more important in that it reveals a number of the basic lending and investing differences among the various deposit-type financial institutions. It is evident that commercial banks, in addition to providing more diversified credit services, lend to sectors of the economy such as business firms that are not reached by the other deposit-type institutions. Because of the relatively more restricted lending powers of savings and loan associations, mutual savings banks, and credit unions, as discussed earlier, the loans of these institutions in each case are of one predominant type, i.e., mortgage loans or consumer loans. In addition, regulations regarding investments account for the relative importance (or lack of importance) of U. S. Government securities among the total assets of the various deposit-type institutions.

Changes in asset and deposit relationships that have occurred since 1950 are also included in the table. For example, a decline in the holdings of U. S. Government securities is reflected in a shortfall in the relationship of liquid assets to total assets for three of the deposit-type institutions. This relationship, which is the proportion of the total of cash and U. S. Government securities against total assets, is important in part as a measure of the ability of institutions to meet unexpected demands for deposit withdrawals.(1) The relationship is also important in that it provides an indication of the portfolio preferences of the particular institution. Thus, even though a decline in investments was in each case more than offset by increases in loan portfolios, the respective institutions quite clearly became less liquid.

In 1950, mutual savings banks, with liquid assets amounting to 52.1 percent of total assets, were the most liquid; by 1960 the percentage had fallen to 17.5 percent. Using the same relationship, savings and loan associations were the least liquid in both years of record, with 14.5 percent and 10.1 percent, respectively. Although the corresponding figure for commercial banks declined from 38.0 percent to 25.0 percent, it was still the highest for any of the deposit-type institutions at the end of 1960.

As would be expected from the shifts in loan and investment portfolios, all of the deposit-type institutions, with the exception of the savings and loan associations, increased the ratios of total loans to total deposits between 1950 and 1960. Since the *loan-deposit ratio* is often used as a measure of the ability of financial institutions to increase loans, it is noteworthy that savings and loan associations, which are usually virtually loaned-up, were the only deposit-type institution to reduce the ratio between 1950 and 1960. However, as the table shows, the decline was fractional. Although the loan-deposit ratio of commercial banks climbed substantially during the decade, a rise of about 34 percent in the ratio of mutual savings banks was nearly twice as great, again reflecting changes in portfolio preferences.

(1) Although it is not the usual practice, long-term U. S. Government securities are here considered as liquid assets. This has been done because of an inability to make a statistical separation of long-term securities from the total holdings of U. S. Government securities of all deposit-type institutions.

Errata, May 1961 Issue. In the article "Changes in National Product Related to Selected Business Series" which appeared in the May 1961 issue of this review, two errors occurred in the printed version of Equations 1 and 2, in respect to the coefficients of the "bank debits" variable. The errors affect also a small part of the table of estimates. None of the general conclusions of the article are affected. A detailed statement of correction is available on request to the Research Department, Federal Reserve Bank of Cleveland.

Farmland Prices Edge Higher

THE market value of farmland in the nation continued to rise in the past year. The percentage increase on a year-to-year basis, however, was much less than it had been in previous years. During the year ended March 1, 1961, farmland prices showed some weakness between March and July 1960, then steadied during the following four months, and finally strengthened in the remainder of the period; the over-all result was that farmland prices moved up one percent for the period under review taken as a whole. The late-in-the-period resurgence in market values, reflecting a number of influences including some recovery in farm income, has been revealed by the annual March 1 survey of the farm real estate market, which is conducted by the Department of Agriculture.

As shown in an accompanying chart, the increase in the market price of farmland in the last year of record completed seven successive years of advances. The average gain in market values during the seven-year period amounted to about 4.6 percent a year, compounded annually. The latest upswing in farmland prices is a continuation of a long-term upward trend that has prevailed with but two interruptions since 1941.[1] Over the twenty-year period beginning in 1941, market values increased 246 percent, or 6.4 percent a year, compounded annually.

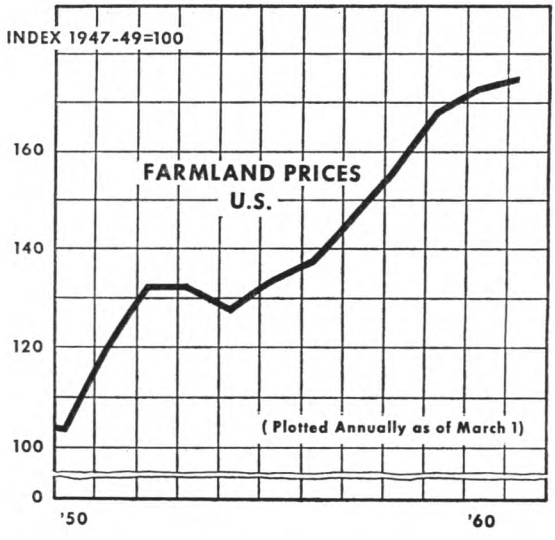
Factors which have been especially important in influencing land price trends in recent years are discussed below, including some which operate as downward pressures and others which continue to exert an upward push on farm land values.

Foremost among a number of forces which tend to retard an advance in farmland values is a relatively low net income derived from farm land in relation to the prevailing market price of such land. According to historical experience, as shown on an accompanying chart, the relationship between farm income and farmland prices during recent years would, in the absence of other influences, have tended to bring about a decline in farmland prices. Thus, at current price and income levels, for example, the ratio of the market price of farmland to annual net income[2] is about 10 to 1; that is, the average

(1) The two interruptions in the upward march of land values during the past two decades occurred in 1950 and 1954. In each case, the break in the average price of farmland was preceded by a significant decline in the price of farm products as well as a concomitant decline in net farm income.

(2) In arriving at the "net" farm income figures, certain expense items, such as for labor, management, interest on mortgage debt, etc., have not been subtracted. This is in accordance with usual farm accounting procedure.

Average prices of farmland rose this past year for the seventh consecutive year, but the percentage increase was the smallest for the entire period.



market price is about ten times as great as the average annual net income per acre. The relationship of market values to net income is thus approaching that which prevailed in the early 1930's.

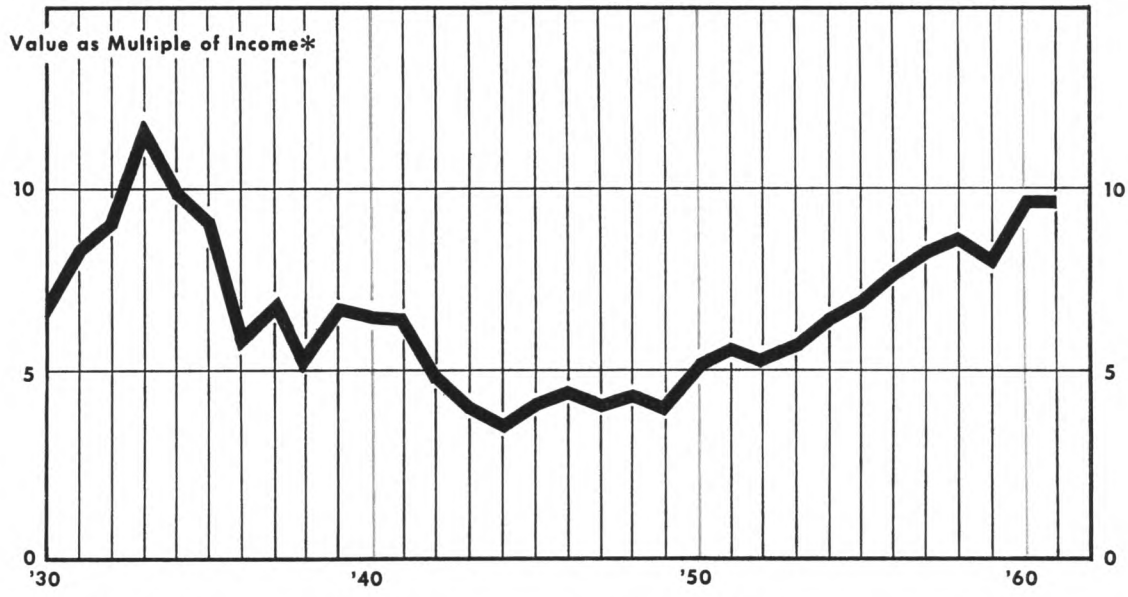
Although the market price of farm acreage was unusually low in the early 1930's, net income dropped to a level low enough to cause the ratio of value to income to increase to nearly 10 to 1. As farm income rose in the latter half of the 1930's, the ratio of value to income returned to about 6½ to 1, or the annual average of the past 30 years. Further increases in income without a corresponding rise in market values caused the ratio to drop to less than 5 to 1 during the war and early postwar years. Thereafter, however, the ratio turned up, rising sharply as land values advanced even though net income fell back from the comparatively high levels reached in 1951 and 1952.

The persistent advance in the price of farmland since 1954, despite lower prices of farm commodities and lower income, indicates that there are offsetting upward pressures also at work. These forces are related to the advancing technology in agriculture and to certain developments in the nonfarm sector of the economy.

Demand Fostered by Farm Enlargement

The upward movement of the general price level at the same time that prices of all farm products remained generally below 1954 levels encouraged a rapid adoption of the new technological developments in crop and livestock production. Many of these new developments are most efficiently used when applied on a larger scale than is generally possible on the smaller commercial farms. As a consequence, many farmers have felt the need for more land, and have thus bid aggressively for the limited number of farms offered for sale. On the other hand, the number of farms offered

FARMLAND VALUE RELATED TO ANNUAL NET INCOME



* Farmland prices on March 1 of indicated year, expressed as multiple of net income for previous calendar year.

At last annual report, farmland prices in relation to net income stood higher than in any year since 1933.

for sale has been restricted by some of the same factors that have contributed to the demand.

The farm enlargement process has accounted for a continuously increasing proportion of the farm transfers since 1950. As is noted in an accompanying table, in 1954 purchases for farm enlargement represented 29 percent of the farm transfers in the nation. By 1960, purchases for farm enlargement had increased to 45 percent of all the transfers in the nation.

Purchases For Farm Enlargement
(Year ended March 1)

Year	Percent of Total Purchases
1950	22%
1951	24
1952	26
1953	28
1954	29
1955	32
1956	33
1957	38
1958	40
1959	42
1960	45

Source: U.S. Department of Agriculture

The trend toward increased farm enlargement since 1954 has been particularly significant in the Corn Belt and in the major wheat producing states, where transfers for the purpose of enlarging farms accounted for 53 percent and 69 percent, respectively, of all farm transfers in 1960. Availability of large-scale equipment fostered the trend in the Corn Belt. In the wheat areas, the cutback in acreage as a result of the national acreage-allotment and price support programs proved to be a strong incentive for farmers to acquire additional land to maintain an acreage allotment that would permit efficient use of available labor and equipment.

Land Contracts

A factor which has enabled increasing numbers of prospective owners to bid effectively for farmland in recent years is the growing use of land contracts. This low-equity means of financing is reported to have accounted for 38 percent of all of the credit-financed transfers in the year ended March 1, 1960. The down payment on transfers financed by land contract is reported to have averaged 27 percent of the purchase price, as compared with about 45 percent of the purchase price for credit-financed transfers handled by commercial lenders.

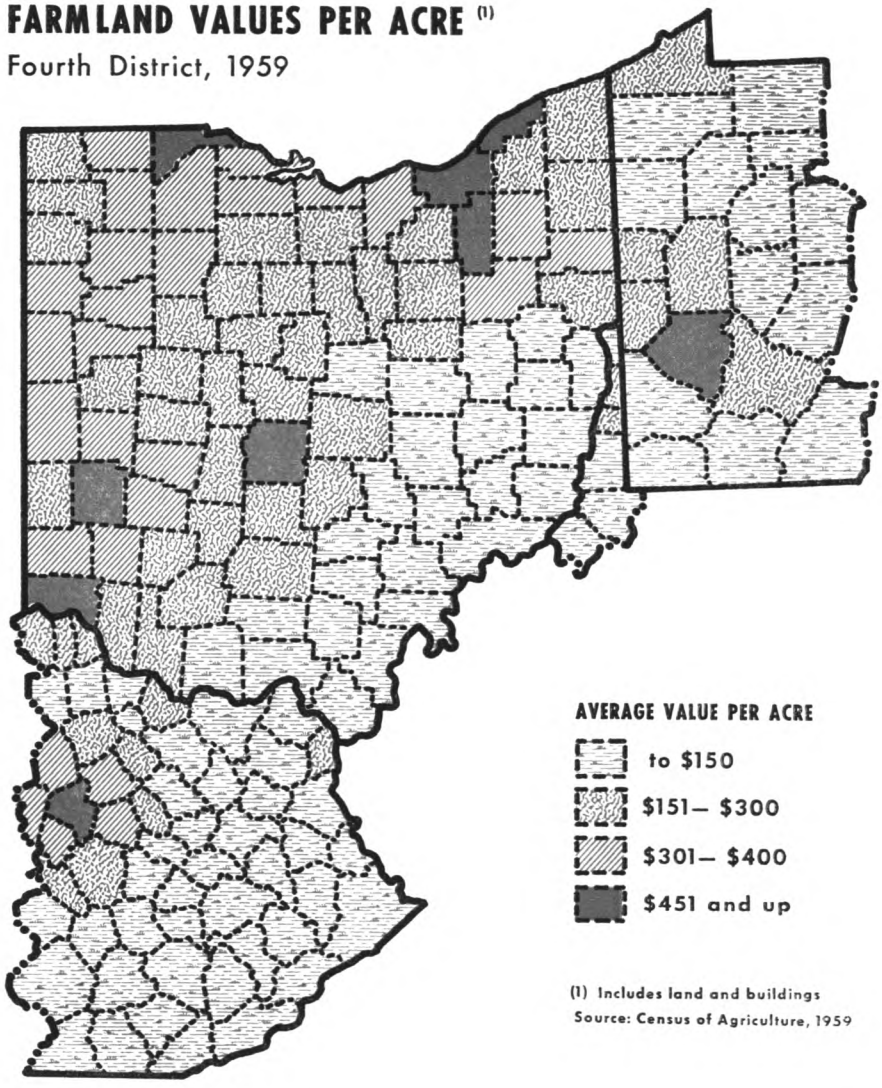
The popularity of the land contract as a means of financing farm transfers is indicated by the steady rise in the proportion of all sales of farmland financed by land contracts. The pertinent figures are shown in the following table. As can be seen from the data, the proportion of all purchases financed by land contracts rose from 15 percent in 1950 to 28 percent in the year ended March 1, 1961.

Purchases Financed By Land Contracts
(Year ended March 1)

Year	Percent of Total Purchases
1950	15%
1951	15
1952	16
1953	17
1954	18
1955	19
1956	18
1957	21
1958	21
1959	20
1960	25
1961	28

Source: U.S. Department of Agriculture

The rapid rise in the use of land contracts to finance the transfer of farm ownership stems from at least two principal factors, one of which appeals to a purchaser and the other to a seller. The low down-payment feature of the land contract is attractive to a purchaser who lacks the funds necessary to make the customary down payment required by most commercial lenders. On the other



hand, a seller frequently finds to his advantage the use of the capital gains provision under Federal income tax laws which applies when the down payment is 30 percent or less of the purchase price.

Nonfarm Developments

Among the nonfarm developments that have exerted an upward influence on the market price for farm land are included the comparatively high level of business activity which has fostered a rapid expansion of industrial capacity, the upward movement of the general price level, and the increasing need for space to provide for a growing population. The dispersal of industrial plants to rural-urban areas surrounding the larger cities and towns tends to enhance the market value of adjacent farmland, because of its current and prospective use to accommodate the homes, schools, shopping centers, highways, and other services required by the employees of these plants. The transfer of

(Continued on Page 20)

Employment Trends in A Heavy-Industry District

THE recession of 1960-61, which now appears to have bottomed out in February or March, will probably be classified generally as one of the mildest of the postwar economic declines in terms of both duration and severity. Within the Fourth Federal Reserve District, however, the impact of the recession of 1960-61 was in some respects more severe than that of 1957-58. This turn of events resulted in large part from the fact that the business decline was concentrated in a number of industries, notably steel, which bulk large in the industrial complex of the District. The relatively greater severity of the recent recession in the Fourth District, as compared with both the national experience in 1960-61 and the experience in the District in the 1957-58 recession period, is illustrated by developments regarding employment and unemployment.

Labor Surplus Areas

During no previous period was a map of the Fourth District more crowded with "areas of substantial labor surplus", i.e., areas with unemployment of 6 percent or more, than in the early months of 1961.

As shown in the accompanying map, most of the geographical territory of the District currently carries a "substantial surplus" label. The individual areas so classified include 66 of the 88 counties in Ohio. (The 66 counties contain nine-tenths of the state's manufacturing employment.) In addition, all six counties in the portion of West Virginia lying within the District, as well as 15 of the 19 District counties in Pennsylvania and 23 of the 56 District counties in Kentucky, are classified as substantial labor surplus areas.

According to the list of area classifications which was released by the U. S. Department of Labor for April 1961[1] and used in preparing this article, only one of 14 major labor market areas in the District — Columbus, Ohio — had an unemployment rate of less than 6 percent. On the other hand, the same classification showed that the number of smaller areas in the District regarded as areas with a substantial labor surplus had reached 39, an all-time high.

With 13 of the 14 major areas affected, the Fourth District thus carries a relatively heavier load of areas with excessive unemployment than does the rest of the U. S., where only 88 out of 136 regularly surveyed major areas were classified as substantial labor surplus areas in April. Within the District are included about 8 percent of the nation's population, nearly 8 percent of the total of nonfarm wage and salary workers, and nearly 10 percent of all persons employed in manufacturing. However, in April of this year the District accounted for 12 percent of the total number of major areas with substantial labor surpluses and nearly 20 percent of the 199 smaller areas so designated. At the close of the previous recession of 1957-58, 12 percent of all major areas but only 15 percent of the smaller areas with a substantial labor surplus were located in the Fourth District.

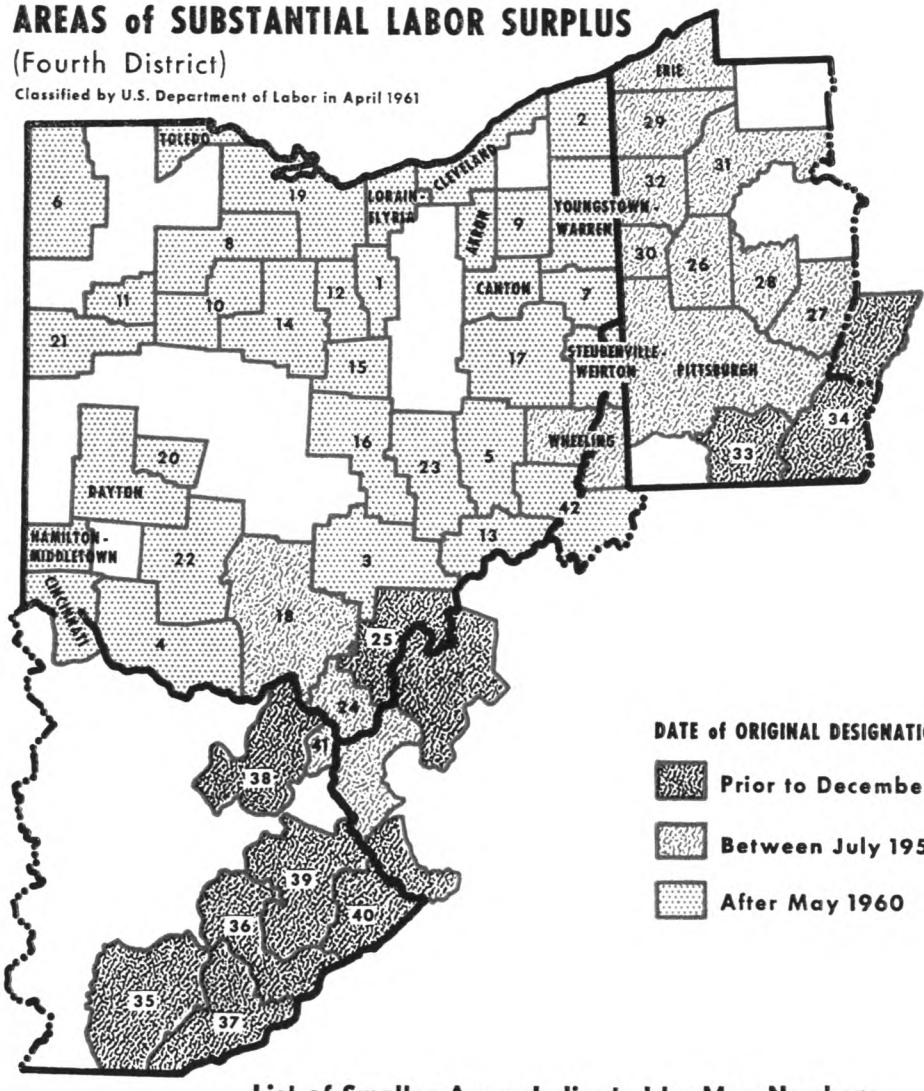
As the map indicates further, a number of the 52 areas in the District which are currently classified as having substantial labor

(1) Classifications released for May removed one major area and added one smaller area to the list of substantial labor surplus areas in the District. In addition, three major areas were reclassified from the group with 12.0 percent or more unemployment to the group with unemployment between 9.0 percent and 11.9 percent.

AREAS of SUBSTANTIAL LABOR SURPLUS

(Fourth District)

Classified by U.S. Department of Labor in April 1961



DATE of ORIGINAL DESIGNATION as SURPLUS AREA

- Prior to December 1955
- Between July 1957 and May 1960
- After May 1960

List of Smaller Areas Indicated by Map Numbers

OHIO

1. Ashland
2. Ashtabula-Conneaut
3. Athens-Logan-Nelsonville
4. Batavia-Georgetown-West Union
5. Cambridge
6. Defiance
7. East Liverpool-Salem
8. Findlay-Tiffin-Fostoria
9. Kent-Ravenna
10. Kenton
11. Lima
12. Mansfield
13. Marietta
14. Marion
15. Mount Vernon
16. Newark
17. New Philadelphia-Dover
18. Portsmouth-Chillicothe
19. Sandusky-Fremont
20. Springfield
21. St. Marys
22. Washington-Wilmington
23. Zanesville
24. Lawrence County (part of Huntington-Ashland area)
25. Gallipolis (part of Point Pleasant-Gallipolis area)

PENNSYLVANIA

26. Butler
27. Indiana
28. Kittanning-Ford City
29. Meadville
30. New Castle
31. Oil City-Franklin-Titusville
32. Sharon-Farrell
33. Uniontown-Connellsville
34. Somerset County (part of Johnstown area)

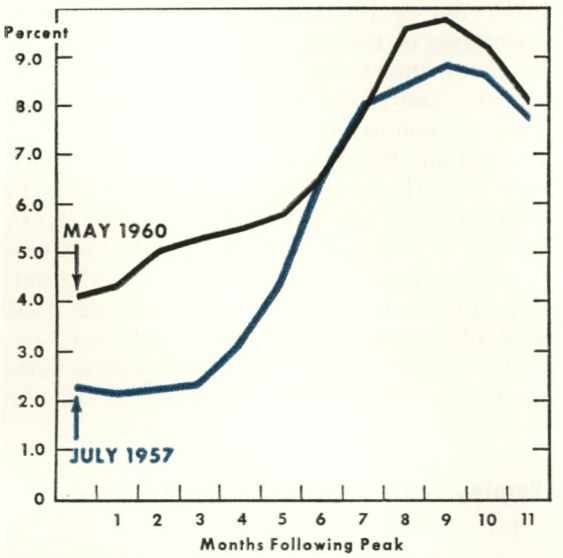
KENTUCKY

35. Corbin
36. Hazard
37. Middlesboro-Harlan
38. Morehead-Grayson
39. Paintsville-Prestonsburg
40. Pikeville (part of Pikeville-Williamson area)
41. Boyd County (part of Huntington-Ashland area)

WEST VIRGINIA

42. New Martinsville

INSURED UNEMPLOYMENT RATES IN TWO RECESSIONS
Fourth District*



* Based on data for 14 major areas.

The insured unemployment rate in the Fourth District during the business decline of 1960-61 peaked in February 1961 at 9.8 percent, or 0.9 basis points above the highest rate during the 1957-58 recession. Due to the higher take-off point in 1960, the increase spanned only 5.7 percentage points, as compared with 6.6 percentage points in 1957-58.

surpluses acquired the designation long before the onset of the business decline in 1960. For example, three of the major areas—Erie, Pittsburgh, and Wheeling—have borne the "surplus" label continuously since early in 1958. Among the smaller areas, the five located in the southeastern part of Kentucky, as well as the Uniontown-Connellsville area in Pennsylvania, have been on the list since 1953-54, reflecting the long-standing problems of the coal industry.

Between July 1960 and April 1961, nine major and 21 smaller areas were added to the previous total of four major and 18 smaller areas in the Fourth District designated as substantial surplus areas.(2) The most recent classification showed that five of the major areas had unemployment rates falling between 6.0 percent and 8.9 percent, four had unemployment rates between 9.0 percent and 11.9 percent, and four had rates of 12 percent or more.(3) In the smaller areas, information released by local employment service offices indicates that unemployment levels which were already high tended to be pushed still higher during the recession. For instance, in the Uniontown-Connellsville area, an unemployment rate of 26 percent was reported for March 1961 as compared with 17 percent one year earlier.

Rates of Unemployment

A counterpart to the monthly nationwide estimate of total unemployment is not available for the Fourth District, either as a total or as a percentage of the civilian labor force. It is possible, however, to compare unemployment in the Fourth District with national levels by using the "rate of insured unemployment". This rate represents the number of continued claims filed for state unemployment compensation as a percentage of the number of workers covered by state unemployment insurance systems.(4)

The rate of insured unemployment (not seasonally adjusted) in the Fourth District, as shown in the accompanying table, more than doubled between May 1960 and February 1961, or from the beginning of the business downturn to the possible trough. Despite the fact that unemployment rates in Kentucky, Pennsylvania, and West Virginia were in excess of the national average before the onset of the recession, the rate for the Fourth District, taken as a whole, had been held below the national average by the weight of

(2) Two major areas — Huntington-Ashland, West Virginia, and Johnstown, Pennsylvania — which are only in part located in the Fourth District are not included in these totals since the major population centers of the two areas are located outside of the District.

(3) The nation's 101 substantial surplus areas in April 1961 included 70 with unemployment rates in the 6.0 percent to 8.9 percent group, 18 in the 9.0 to 11.9 percent group, and 13 in the 12-percent-or-over group.

(4) "Insured unemployment" covers fewer persons than does the monthly estimate of total unemployment prepared from Bureau of Census data. The rate of insured unemployment is usually lower than the rate of total unemployment except near the trough of a recession. Insured unemployment is more sensitive to changes in the economy than is total unemployment. However, because of its exclusion of unemployed workers who have exhausted their benefit rights, it tends to understate unemployment during periods when the number of exhaustions is high.

Rate of Insured Unemployment

(for week ending nearest the 15th of each month)

	May 1960	Feb. 1961	Mar. 1961	Apr. 1961
Fourth District (14 major areas)	4.1%	9.8%	9.2%	8.1%
Kentucky	6.5	11.5	11.6	11.6
Ohio	3.9	9.5	9.0	7.8
Pennsylvania	5.6	10.9	10.1	9.3
West Virginia	6.9	13.0	12.0	11.0
U.S.	4.3	8.4	7.9	7.0

Not adjusted for seasonal variation

a lower rate in Ohio. However, as the Ohio rate rose toward an all-time high of 9.5 percent in February 1961, the rate for the entire District came to exceed the national average, as it had also done at the bottom of the previous business cycle.

The nature of the distribution of industrial employment between manufacturing and nonmanufacturing industries provides a key to the greater fluctuation of unemployment levels in the District over the business cycle, as compared with the national pattern.

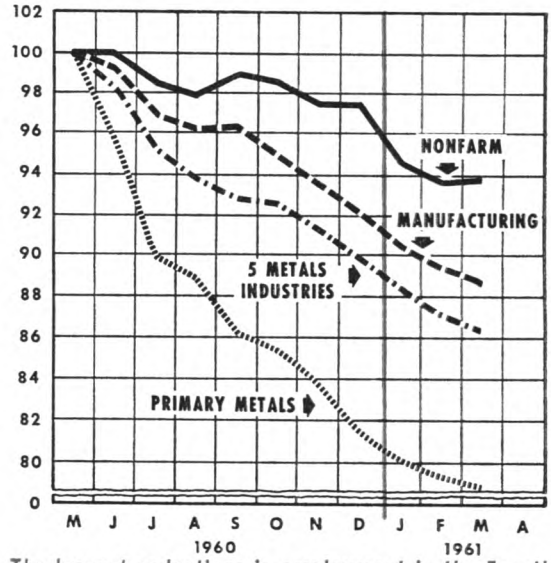
Manufacturing industries bore the brunt of the business decline and the resultant reductions in employment during the recent recession. Seven-tenths of the increase in insured unemployment in the nation between January 1960 and January 1961 was attributable to the manufacturing industries. The durable goods industries alone accounted for one-half of the entire increase. Of every ten nonfarm wage and salary workers in the District during the first half of 1960, four were employed in manufacturing, with a heavy concentration in durable goods; in contrast, only three such workers out of ten were similarly employed throughout the nation.

Within the manufacturing sector, the metals industries suffered the heaviest layoffs in the Fourth District, as they did in the entire country. For example, the national rate of unemployment in the primary metals industry quadrupled between January 1960 and January 1961, while the rate for the transportation equipment industry grew 2½ times as large at the end of the interval. Of every ten people working in manufacturing industries in the District, six were employed in the primary and fabricated metals, machinery, and transportation equipment industries, as compared with four out of ten in the nation. Since the employment status of every fourth nonfarm employee in the Fourth District, as compared with every eighth worker in the nation, was tied to the economic fortune of the metals and metal products industries, it is not surprising that unemployment figures reflected the sharp decline in activity in these industries more clearly in the Fourth District than in the nation as a whole.

Employment Changes in Major Areas

Employment levels in the Fourth District declined during the recession as the number

CHANGES IN EMPLOYMENT
Fourth District
(as percent of May 1960 employment)



The largest reductions in employment in the Fourth District during the recession of 1960-61 occurred in manufacturing, particularly in the primary metals and four other metals industries.

Percent Change in Employment, May 1960 to March 1961

(10 major areas in the Fourth District)

	Nonfarm	Manufacturing		Nonmanufacturing	
	Total	Total	Durable Goods	Total	Finance, Services, Government
Akron	— 7.0%	— 9.6%	—12.8%	—4.3%	0
Canton	—10.4	—17.8	—19.8	—3.0	+ .4%
Cincinnati	— 4.9	— 7.6	— 9.6	—3.2	— .4
Cleveland	— 6.8	—12.9	—14.8	—2.6	+ .3
Columbus	— 2.8	— 6.2	— 7.0	—1.6	+3.1
Dayton	— 4.5	— 6.4	— 7.1	—3.1	—1.1
Erie	— 6.1	— 9.6	—10.7	—3.0	0
Pittsburgh	— 8.1	—13.1	—14.6	—5.1	— .4
Toledo	— 8.1	—12.0	—14.1	—5.8	— .2
Youngstown-Warren	—10.8	—15.7	—16.7	—6.3	— .8

Not adjusted for seasonal variation

of unemployed workers mounted. Nonfarm wage and salary employment in the District in March 1961 amounted to 6.2 percent less than at the beginning of the downtrend in business activity in May 1960. The comparable nationwide reduction was 2.8 percent. Thus, like the increase in the rate of unemployment, the shrinkage in employment in the Fourth District was greater than the average for the nation as a whole over the 10-month span. Manufacturing employment declined by 11.2 percent in the Fourth District but by only 5.5 percent in the nation. Nonmanufacturing employment in the Fourth District decreased by 2.8 percent as compared with 1.6 percent in the nation as a whole.

Declines in employment totals between May 1960 and March 1961 were reported by all of the ten major metropolitan areas in the Fourth District for which monthly estimates of employment are available, as shown in the accompanying table. The relative size of the reductions shows a close relationship to the industrial composition of a particular area, i.e., to the weight of manufacturing in total employment and to the respective shares of employment in nondurable and durable goods industries. Three out of the four areas showing the largest decline in total nonfarm jobs —Youngstown, Canton, and Pittsburgh—are those with the highest proportion of employment in the primary metals industry. On the other hand, Columbus, which of the ten areas has the smallest percentage of employment in manufacturing,[5] reported the lowest over-all reduction in employment. In addition, Columbus was the only major area in the District not classified as having a "substantial labor surplus" during the recession.

Nonmanufacturing industries in the ten areas encountered much smaller declines in employment than did manufacturing industries during the recent recession period. It is noteworthy that ten months of recession did not seriously interrupt the continued long-run advance in employment of three major components of the nonmanufacturing group. Employment in the finance - insurance - real estate, services, and government (including public schools) groups increased or remained unchanged in one-half of the areas and showed insignificant declines in the remainder, notwithstanding the relative severity of the reduction in manufacturing employment in the same areas during the recession.

(5) In May 1960, manufacturing employment as a proportion of nonfarm (wage and salary) employment amounted to 29 percent in Columbus as compared, for example, with 48 percent in Youngstown and 51 percent in Canton.

The Outlook

A number of improvements in the national economy point to either February or March as the probable turning point of the past recession. Evidence of actual or impending recalls or enlargements of work forces support the view that the bottom of the recession has been passed.

It is still too early to determine how quickly production and employment in the Fourth District will recover to pre-recession levels. Past experience indicates that employment levels generally lag in the early stages of business recovery, because in some industries or individual plants an increase in hours worked usually occurs prior to an increase in personnel. Furthermore, data covering the three most recent recessions in the postwar period show that the peak number of substantial surplus areas in the nation increased significantly from one recession to the next, and that the level to which the total number of surplus areas settled back during the recovery portion of the cycle likewise was higher after each recession. Whether or not such an apparent updrift constitutes a trend which will continue cannot be known at this time.

Recently enacted federal legislation to aid in the redevelopment of "depressed areas" embodies a recognition that a portion of the country suffers from a type of unemployment which fails to respond completely to a cyclical upturn in business, and which may require specific remedies. Three of the major areas in the Fourth District — Erie, Pittsburgh and Wheeling — along with 18 smaller areas (6 each in Kentucky and Pennsylvania, 4 in Ohio, and 2 lying partly in both West Virginia and Ohio) have been designated officially as "areas of persistent and substantial labor surplus," which is one of the prerequisites of eligibility for benefits under the new legislation.

FARMLAND PRICES

(Continued from Page 14)

farmland to commercial, industrial, residential and other nonfarm uses, while greatest near the larger cities and towns, is reported to involve annually about one million acres throughout the nation.

Farm Values Near Cities

The market values of farm land in the counties having one or more large cities tend to be considerably higher than in the counties that are predominantly rural. This relationship is quite clearly illustrated on the accompanying map of the Fourth Federal Reserve District. It can be seen that the nine counties with the highest average value per acre of farmland in 1959 were also the counties having at least one of the major cities in the District within its boundary or adjacent to it. While part of the difference in market value presumably reflects the potential site value for nonfarm use, part of it also arises from the higher agricultural values associated with the more intensive types of farming such as market gardening, greenhouse crops, and horticultural specialties commonly found near heavily urbanized areas.

Trend of Values in Fourth District

The recent survey revealed evidence of mixed trends in the market value of farmland within the Fourth Federal Reserve District during the past year. Market values are shown to have advanced to new highs in Pennsylvania and Kentucky where, on March 1 of this year, values were 185 and 156 percent, respectively, of the 1947-49 average. Values in Ohio and West Virginia are indicated to have slipped from the high of a year earlier, and amounted in March of this year to 177 and 140 percent, respectively, of the 1947-49 average. The changes within District states ranged from an increase of about 2% in Pennsylvania to a decline of about 3% in West Virginia.