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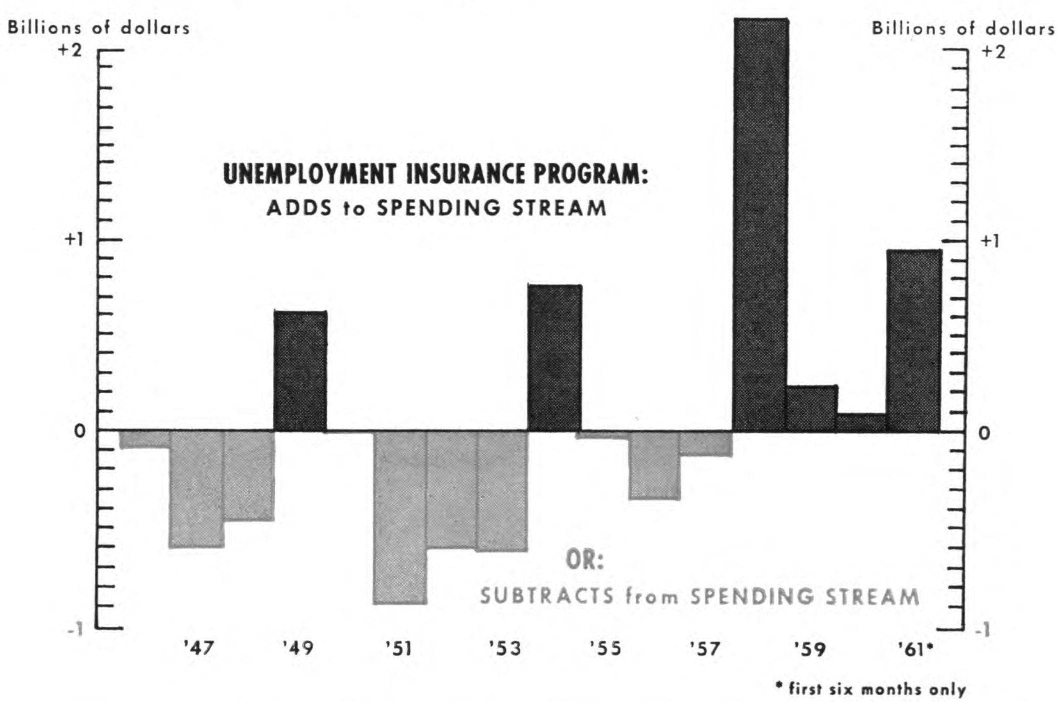
During the postwar period, the unemployment insurance program has added to the nation's income stream in recession years. On the other hand, the program has withdrawn funds in non-recession years, with the exception of 1959, when unemployment and unemployment insurance payments were at relatively higher levels than in other non-recession years.



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Unemployment Insurance As An Economic Stabilizer

UNEMPLOYMENT insurance is rightly considered to be part of a national social security system. Because of its function as a supplier of income to individuals who are unemployed, and thus deprived of their customary income, unemployment insurance is usually identified closely with programs such as public assistance. Unemployment insurance is, however, really quite different from these other social security programs both in its organization and, more importantly, in its impact on the economy at large.

As a case in point, unemployment insurance, in reality, consists of not one program but fifty-four separate programs. Each state as well as the District of Columbia has its own program; in addition there is an independent program for railroad employees, and two separate Federal Government programs —one for civilian employees and one for ex-servicemen. Central direction for all of these programs is imparted by federal legislation administered by the Department of Labor, but there is considerable diversity among the various states with respect to coverage, eligibility, benefit levels, and duration of benefits.(1) Despite this diversity, however, the several unemployment insurance programs should be, and usually are, treated as one program from the standpoint of their combined effect on the economy.

An important difference between unemployment insurance and the other social security programs is that the operations of the unemployment insurance programs are much more closely related to or influenced by fluctuations in economic activity. Unemployment insurance (or UI, as referred to hereinafter) is widely recognized as one of the "built-in" or "automatic" stabilizers in the arsenal of counter-recessionary weapons. The list of automatic stabilizers also includes the variation in corporate and personal income tax revenues, as such revenues rise and fall in response to changes over the cycle of economic activity. Similarly, the list includes the variation in benefits paid and taxes collected under the retirement benefit portions of the social security programs. These characteristics are considered to be automatic or built-in responses because they begin to operate without waiting for the discretionary judgments and actions which are required in the case of other measures to cope with economic fluctuations, such as the speeding up or slowing down of public works spending, or changes in tax rates.

UI Also Stabilizes Individuals' Incomes

Unemployment insurance can actually be thought of as a stabilizer in two respects. First, UI affects the economy as a whole, on the one hand, through the payments made to the unemployed, which add to incomes, and, on the other hand, through the subtraction from the income stream represented by the taxes(2) paid to support the program. In this analysis of UI, it is the impact on the economy of the net difference between payments and taxes that is considered to be an automatic stabilizer. The second respect in which UI can be thought of as a stabilizer is in a welfare sense. In this case, UI acts as a con-

(1) For a comprehensive discussion of state unemployment insurance laws, see *Comparison of State Unemployment Insurance Laws as of January 1, 1960*, BES No. U-141, U. S. Department of Labor, Bureau of Employment Security.

(2) In view of the compulsory nature of these payments, it seems realistic to use the term "taxes" in place of the official designation "contribution."

tinuously operating mechanism to furnish an income to those individuals who have lost jobs and incomes because of involuntary unemployment; this also can be called the social security function, in the sense that UI helps to provide security for individuals.

In its capacity as a social stabilizer, UI has several limitations. First of all, benefits are limited to those covered by the UI programs —currently about 80 percent of those in civilian wage and salary employment. Second, UI is intended to provide only relatively short-term help — the maximum duration of benefits is 26 weeks in most states. Also, in most states, the maximum benefit levels represent less than half of the earnings they are intended to replace, and, for many claimants, benefits are in practice often less than the maximum because these claimants cannot fulfill the requirements which state laws impose as to earnings and length of time spent in covered employment.

These current characteristics of UI are due in part to the form that the program took at its inception and in part to the twenty-five years of change in both the program and the economic environment in which the program operates. One of the more important changes, for example, has been a decline in the ratio of unemployment benefits to the wages they are intended to replace, or what is often termed the adequacy of benefits. The decline has occurred over the years because maximum benefit amounts, which are fixed in terms of dollars and are changeable only by legislation, have not been increased proportionately with rising wage levels.

In 1959, to illustrate this point, average weekly benefits under state UI programs represented 36 percent of average weekly earnings of recipients in covered employment.(3) Although it is true that the ratio has increased since the most recent low point of 32 percent in 1955, thus paralleling the rise in the national unemployment rate, the 1959 ratio should also be compared with an average of about 41 percent in the years 1938, 1939, and 1940, the first three years in which UI was in operation, and with the 50-percent ratio that was apparently intended when UI legislation was adopted in the mid-1930's.

These ratios, it should be added, understate to an unknown degree the offsetting effects of UI benefits because earnings are subject to income tax and UI benefits are not. Despite the increasing spread between gross income and take-home pay, however, it is unlikely that this factor was sufficient to make up a significant part of the decline in the offset ratio, i.e., to bring the 36 percent in 1959 up to, say, the 41-percent level in terms of net, after-tax earnings. A development which has tended to reduce the adequacy of benefits has been the steady increase in the proportion of employees' compensation represented by fringe benefits, most of which cease when the individual loses his job; UI benefits provide little or no offset to this loss. In some industries, it should be added, fringe benefits include Supplemental Unemployment Benefits, which provide additional income for laid-off workers. However, this particular fringe benefit, which is so far quite limited in its extent, owes its existence to the inadequacies of UI benefits, particularly for those in high-wage industries.

The ratios of benefits to earnings cited above may be open to the criticism that they are too aggregative, in the sense that such figures, since they are averages, conceal important differences among benefit recipients. For that reason, as well as to accumulate additional information, several state employment security agencies conducted studies of the experience of individual beneficiaries during periods of unemployment. Such studies were made in six widely separated geographic areas for various periods between late 1954 and early 1958. With respect to the adequacy of benefits, the conclusions, in the words of the report summarizing the studies, were as follows: "The surveys clearly indicate that

(3) These and the immediately following data were obtained from the *Handbook of Unemployment Insurance Financial Data* BES No. U-73, U. S. Department of Labor, Bureau of Employment Security, Washington, revised April, 1960.

during their current spell of unemployment, beneficiaries did not receive benefits which compensated for as much as fifty percent of their actual wage loss."[4] (Wages were defined here as net wages, i.e., after withholding of Federal income tax.)

UI Small in Relation to Total Income

When attention is turned to the role of UI in the economy as a whole, it is apparent that, on the basis of their contribution to national income in any one year, UI benefits have not been large. For example, in 1958, when a record $4.2 billion in UI benefits (under all programs) was paid out, the total represented only:

- 1.2% of total personal income;
- 1.3% of disposable personal income;
- 2.5% of total payrolls in UI-covered employment; and
- 16.0% of all transfer payments.

It is thus readily apparent that in 1958, which was a year of recession and relatively heavy unemployment, UI benefits were a small proportion of personal income and other, less comprehensive measures of income, with the exception of transfer payments. Moreover, these proportions were even smaller in non-recession years.

Additional evidence of the relatively minor contribution of unemployment benefits to total income is suggested by the data pertaining to individual states. For example, both Ohio and Pennsylvania, as heavily industrialized states, were much more severely affected by the 1957-58 recession than most other states; unemployment was consequently greater, in proportion, than in most other states. Even in these two states, however, UI benefits were relatively unimportant in relation to personal income, as is shown in the following table.

UI benefits[5] as a percent of:	Ohio	Pennsylvania
Total personal income	1.4%	1.9%
Wage and salary income	2.0	2.8
Transfer payments	19.2	22.2

(5) State and federal programs only.

While it is true that UI benefits have not in any one year accounted for a substantial proportion of personal income or its major components, the effectiveness of UI as an *economic* stabilizer is perhaps better measured by the extent to which it offsets declines in income during periods of recession, and correspondingly withdraws purchasing power during periods of rising economic activity. Such an approach may be considered to measure the "dynamic" aspect of UI, as distinguished from the "static" aspect involved in the previous comparisons. In evaluating the stabilizing effect of UI operations, consideration is given first to the postwar period as a whole.

UI Benefits Have Added to Incomes in Postwar Period

UI operations are influenced by and have an impact on the economy, as mentioned earlier, through the variations in benefits paid and taxes collected. By finding the difference between the dollar totals of benefits paid and unemployment taxes collected, it is possible to arrive at an approximate measure of the dollar impact of UI operations on the economy, i.e., whether such operations add to or subtract from the income stream. A surplus of benefit payments over taxes collected during a specified period of time means a net addition to purchasing power during the period; conversely, a larger total of taxes collected than benefits paid indicates a subtraction from the income stream. A surplus of benefit payments over taxes results in a decline in the reserves of the UI program, which are subsequently rebuilt during a

(4) U. S. Department of Labor, Bureau of Employment Security, *Adequacy of Benefits Under Unemployment Insurance*, BES No. U-79 (R), Washington, October, 1958, p. 20.

period when taxes exceed benefits. (The other, and much less important, source of income for the UI trust funds is the interest earned on the federal government obligations in which the reserves are invested.)

For the period from January 1946 through June 1961 (the most recent date for which such data are available) the operations of the state and railroad UI programs, combined, added nearly $1 billion more to the spending stream in benefits than was subtracted in taxes. Most of this net addition, however, took place in recent years. UI operations for the years 1946-57, taken as a whole, indicate a subtraction from purchasing power of about $2.5 billion, whereas in the 1958-61 period UI operations added nearly $3.5 billion to the income stream.

To keep these figures in proper perspective, it needs to be remembered that the totals, while significant in relation to the UI program, were small in relation to the changes actually experienced in national income. In the 1946-57 period the net effect of UI operations was clearly insignificant in relation to the gain of nearly $190 billion in national income. UI operations were, however, relatively more important in the 1958-61 period when national income increased by a little more than $50 billion.

The different record of UI operations in the 1958-61 period as compared with the earlier postwar period was, in turn, due largely to the higher level of unemployment in those years, and to the fact that the 1960-61 recession followed so closely on the 1957-58 business downturn. Thus, while years of relatively low unemployment and high business activity predominated in the 1946-57 period, a somewhat dissimilar situation characterized the 1958-61 period. The unemployment rate, i.e., the proportion of those looking for work to the total of those persons working and looking for work, averaged 4.2 percent from 1946 through 1957; in the 1958-61 period (through June 1961) the rate averaged 6.2 percent.

Another factor which operated to produce an excess of benefit payments over tax collections in the more recent period, although admittedly it was much less important than the higher level of unemployment, were the revisions of UI legislation in several states to permit lower tax rates on employers than those previously in effect. At the time these changes were implemented, reserves available for the payment of UI benefits were still rising, despite the fact that the country had experienced two recessions in the postwar period, and drains on reserves of the magnitude of those which took place in 1958 were not foreseen.

In summarizing the record of UI operations in the postwar period, it may be suggested that, although the over-all dollar impact of UI was small in relation to changes in national income, UI operations tended to function in a desirable direction. In the period 1946-58, when purchasing power was expanding rapidly and utilization of manpower and other resources was generally at high levels, UI operations on balance withdrew purchasing power. In the period since 1958, when inflationary pressures were substantially reduced, UI operations added to the income stream. The excess of spending over receipts in the latter period has resulted in large reductions in UI reserves, in fact in some states to dangerously low levels. This problem of reserve adequacy, though important, is a separate subject, however, and is not discussed here.

UI Operations Offset Business Cycle

A perhaps more conclusive demonstration of the effectiveness of UI as a stabilizer than the record during the two sub-periods of the postwar period discussed above, is provided by an examination of UI operations in the four postwar recessions. For this purpose UI operations are analyzed on an annual basis. As can be seen in the cover chart, UI operations added to the income stream in all the recession years — 1948, 1954, 1958, and 1960.

Until 1959, UI also ran surpluses, i.e., subtracted from the income stream, in nonrecession years.

In terms of year-to-year changes, the swings in the impact of UI operations were also fairly significant in relation to the changes in economic activity in the first three postwar recessions, but not in the latest and mildest of the postwar recessions, that of 1960-61.

	Change in Gross National Product	Net change in UI operations (+ = addition to incomes between two years)
	(in billions of dollars)	
1948-1949	− 1.4	+ 1.1
1953-1954	− 2.3	+ 1.4
1957-1958	+ 1.8	+ 2.3
1959-1960	+21.7	− 0.1

To some extent the differences between the pattern of change in GNP and in UI operations in successive cycles is due to differences in the timing of the business cycle which are concealed by a comparison of changes between calendar years. On the basis of these comparisons, nevertheless, it appears that in the 1960-61 period, the impact of UI was sharply reduced from what it had been in earlier postwar recessions.

UI operations were less stimulative in 1960 than in 1959 (see cover chart); benefits increased little from the already high level of 1959, whereas taxes paid by employers rose considerably more. The high level of benefits in 1959 in turn reflected the carryover of considerable unemployment from the 1957-58 recession and the secondary effects, i.e., on employment in related industries, of the 1959 steel strike. On the other side, the substantial increase in taxes was due partly to the increase which usually occurs following a recession, and partly to special efforts which were made by some states to rebuild their reserves following the 1957-58 recession. Unfortunately, the downturn of 1960 came too soon to allow the rebuilding of reserves to take place in a year of rising business activity, such as had occurred following the earlier postwar cycles.

Federal Programs

The discussion of the impact of UI operations thus far has been confined to the state and railroad UI programs, because of the impossibility of determining the impact of the federal UI programs in the same manner as the state and railroad programs. Although data on benefit payments under federal UI programs are shown separately so that their contribution to income can be measured, the measurement of withdrawals from purchasing power cannot be made because the costs of the programs are paid from general government revenues, and not by separately identified employer taxes.

Furthermore, the federal programs, which now cover two groups — federal government civilian employees and ex-servicemen — do not operate with trust funds, as do the state and railroad programs. The elastic element which is indicated in the privately-financed programs by the increase or decrease in the trust funds has its counterpart in the swings of the federal administrative and cash budgets between surplus and deficit. (The operations of the state and railroad programs are included in the federal government cash budget but not in the administrative budget.)

Nevertheless, as judged by swings in the volume of benefit payments, the federal UI programs do push the federal government's budget toward deficit in a business downturn (when benefit payments increase) and toward surplus as the economy improves (and benefit payments decline). The federal programs have operated generally in a counter-cyclical fashion since 1953; benefit payments increased markedly in each of the recession years 1954, 1958, and 1960. This counter-cyclical behavior is mainly the result of the fact that the largest part of federal UI benefits has gone to ex-servicemen under the special programs set up for recently discharged ex-servicemen. The level of unemployment among this group is apparently determined primarily by the general employment-unemployment picture.

As might be expected, however, benefit payments to civilians previously employed by the Federal Government have not corresponded so closely to business cycle changes, on a year-to-year basis, during the relatively brief history of that program. (Benefits under that program were first paid in January, 1955.) Benefit payments increased sharply in 1958, but moved up only slightly in 1960.

UI Operations in Ohio and Pennsylvania

The relatively more severe impact of the 1957-58 recession on Ohio and Pennsylvania has already been mentioned. That differential effect, combined with the apparently relatively greater incidence of long-term or structural unemployment in both states, particularly in Pennsylvania, has resulted in both states' UI programs being in deficit for most of the years since 1953. Benefits under the Ohio program have exceeded taxes in each year since 1953; in Pennsylvania a modest surplus of taxes over benefits was attained in 1956, but that surplus was the only one since 1951. UI operations in Ohio and Pennsylvania in recent years have been countercyclical in the sense that the deficits resulting from UI operations generally were larger in recession than in non-recession years, although in Pennsylvania that was not the case in 1959-60.

A steady decline has taken place in recent years in the UI reserves of both Ohio and Pennsylvania, particularly in the case of the latter. In Pennsylvania, the low level of reserves has necessitated emergency borrowing from the federal government to maintain benefit payments, and, as a longer-run measure, the enactment of legislation providing for sharply increased employer tax rates. As a result of this and previously-enacted legislation, state UI operations in Pennsylvania resulted in a much smaller addition to incomes in 1960 than in 1959, following the national pattern. In contrast, in Ohio, where reserves are considerably more adequate, UI operations acted to increase purchasing power in 1960.

NOTES ON FEDERAL RESERVE PUBLICATIONS

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

"Recent Developments in Bank Liquidity", Federal Reserve Bank of New York, November 1961.

"What's Behind the Discount Rumpus in Retailing?", Federal Reserve Bank of Philadelphia, November 1961.

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

Farm Abundance Continues

The abundance that has characterized the nation's agricultural activity over the years has continued in 1961. One indication is the fact that farm marketings have been of record proportions this year. (Since total farm output this year will be the same as in 1960, marketings will probably continue at advanced levels through the early part of next year.) Another indication of farm abundance in 1961 is that net farm income is expected to be up about $1 billion from 1960, due to larger marketings, higher support prices for some major crops, and larger government payments.[1] And this is so, despite the fact that prices of farm products for 1961 as a whole may on average be no higher than in 1960. In the pages that follow we discuss some of the details of the developments which have helped to perpetuate farm abundance in 1961.

Crop Volume Down Less Than Acreage

Crop output in 1961, while on a par with the second highest level in history, is expected to be down 3 percent from last year, reflecting mainly a reduction in the outturn of grains. The latter reduction, in turn, has resulted from (1) a 16-percent curtailment of plantings by participants in the Feed Grain Program and (2) a decline in the output of food grains caused by a drought that cut spring wheat production by more than one-third. The volume of hay and forage crops in 1961 is also expected to be down from that of 1960. On the other hand, production of most of the other major crops has been equal to, or well in excess of, that of the previous year.

(1) All data and forecasts used herein are from publications of the U. S. Department of Agriculture.

Although aggregate crop volume this year is down 3 percent from the all-time high of 1960, the area of cropland used declined even more, dropping 5 percent to the smallest area utilized in nearly 50 years (see table below). Not since 1912 have fewer acres of cropland been used. As indicated by the output and acreage figures, an increase in farm productivity in 1961 partially offset the reduction in acreage. In fact, the composite rate of production in 1961 for the 28 leading crops is reported to have surpassed all previous records. In the cases of sugar beets and soybeans, however, marked increases in acreages were responsible for the significant increases indicated in the output of sugar crops and oil crops.

Output of Major Crops
1947-49=100

	1961	Percent change from 1960
Feed Grains	127	−11%
Food Grains	100	− 9
Hay and Forage Crops	113	− 5
Cotton	102	− 2
Tobacco	99	− 3
Vegetables	112	− 5
Sugar Crops	147	−13
Oil Crops	201	−18
All Crops	117	− 3
Cropland Used	89	− 5
Crop Production Per Acre	131	+ 2

Looking at 1961 as a whole, crop progress was retarded somewhat by a late and uneven start in the spring, and relatively cool weather during the early part of the growing season. Beginning in August, however, favorable weather brought a sharp rise in crop prospects. Nearly all crops registered gains during that month, and the expected outturns of corn, sorghum grains, and soybeans advanced by more than ten percent. Although some further improvement in crops occurred in September, the favorable weather that prevailed generally through October and early November was of more significance in permitting complete maturity and harvest of an annual volume of crops that has been exceeded only once — in 1960.

Livestock Volume at New High

The abundant outturn of crops in 1961 was complemented by a 4-percent rise in the output of livestock and products. As the table shows, all major livestock groups registered gains in output, reflecting both a moderate increase in units of breeding stock and a significant increase in production per unit. The gains registered by the three livestock groups combined to push the total output of livestock and products to an all-time high.

Poultry products registered the greatest gain over year-earlier levels. With broiler production up at least 12 percent from the 1.8 billion birds of 1960 and the number of turkeys raised up 26 percent, the total volume of poultry products easily surpassed that of the previous year. At the same time, the volume of poultry products established an all-time high, despite virtually no increase in the volume of eggs produced.

The 4-percent expansion indicated above for meat animal output includes a 3-percent increase in the expected output of beef to a record 15 billion pounds, and a 10-percent increase in the slaughter of lamb and mutton. Although not of major magnitude in the total output of meat animals, sheep and lamb slaughter this year is expected to be the largest in any year since 1948. These gains in output, however, have been partially offset by a decline of about 1 percent in the expected volume of pork production.

Output of Major Livestock Products
1947-49=100

	1961	Percent change from 1960
Poultry and eggs	163	+ 8%
Meat animals	130	+ 4
Dairy products	112	+ 2
All livestock	131	+ 4
Animal units of breeding stock	98	+ 1
Livestock production per breeding unit	134	+ 3

A moderate gain in the output of dairy products this year reflects an upturn in milk production that began in 1960 and is expected to continue into 1962. An anticipated increase this year of about 2 billion pounds will boost total output to nearly 125 billion pounds, or about on a par with the record high of 1956. The current recovery in output of dairy products stems mostly from a leveling off in the long-term downward trend in number of milk cows. The 1-percent decline indicated for this year compares with 5 percent in 1958 and 4 percent in 1959, when beef cattle prices were advancing and herd owners were culling herds closely. Beef cattle prices have been below 1959 levels the past two years and two increases have been made in the level at which milk and butterfat prices are supported. These factors apparently have slowed the decline in cow numbers, thereby contributing to an expansion in the output of milk because of the upward trend in rate of production per cow.

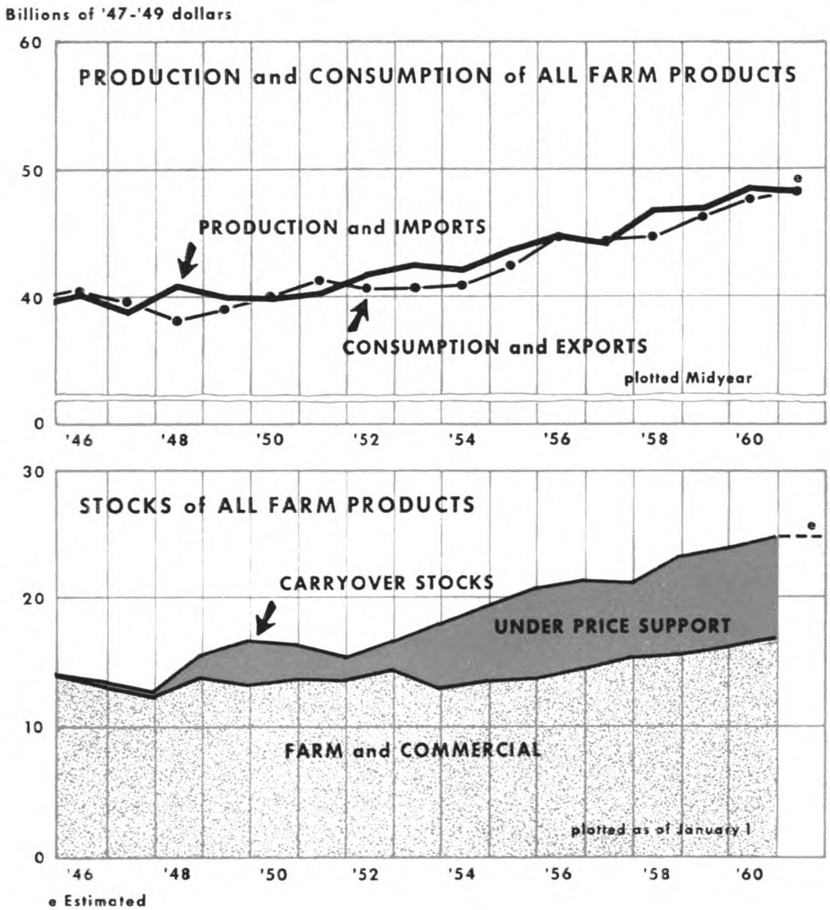
The upturn in milk production this year has been accompanied by an increase in offerings to the Commodity Credit Corporation for price support. Government purchases this year are expected to account for about 6 percent of all milkfat produced and 9 percent of the solid-not-fat, compared with 3 percent and 8 percent, respectively, in 1960.

Total Output Equal to 1960

Putting together the foregoing facts and figures, it is found that the record volume of livestock and products offset the decline in crop volume, with the result that total farm output in 1961 is expected to be equal to the record level of last year. The most recent estimates place total farm output for 1961 at 127 percent of the 1947-49 average, the same as in 1960. The upward trend in rates of production of crops was a significant factor in partially offsetting the effect of a 5-percent reduction in the area of cropland used. Likewise, a further significant increase in the rate of production per unit of livestock added to the total outturn.

Consumption May Exceed Output

On the basis of preliminary indications, it is expected that, this year, consumption plus exports of all farm products will about equal production plus imports, representing the first time since 1957, as shown in the chart,



Domestic consumption plus exports of farm products will apparently balance production plus imports in 1961 for the first time since 1957.

With production and use expected to be virtually in balance, no change in carryover stocks from year-earlier levels is anticipated as of January 1, 1962.

that production and consumption were virtually in balance.[2] The only other time in recent years that a similar situation prevailed was in 1950. Consumption has exceeded production in only five of the past fifteen years; in all other years consumption of all farm products has fallen short of annual production, thereby fostering a gradual build-up in available stocks.

The total annual consumption of all farm products represents the combined total of domestic consumption plus exports to foreign countries, as shown in the accompanying chart. Domestic production and stocks plus imports from foreign countries provide the supply of agricultural products from which domestic and foreign requirements are met. When the total of consumption and exports is less than that of production plus imports, as has been true frequently during the postwar years, a build-up in carryover stocks occurs, as shown in the lower panel of the chart. Conversely, if consumption and exports exceed production plus imports, carryover stocks decline, as occurred in 1946, 1947, 1951, and 1957. On the basis of preliminary information, total carryover stocks as of January 1, 1962, are expected to be the same as on the year-earlier date.

Surplus Limited to Few Commodities

An abundance of agricultural commodities is common to American agriculture, as evidenced in the fact that available supply exceeded consumption twenty-five times in the 37-year period from 1924 through 1960. The period from 1943 through 1947 represents the longest span of time, for which figures are available, that consumption exceeded supply. The excess of production plus imports over consumption plus exports in the postwar period has been relatively small in each year, ranging from 2 to 3 percent, with the exception of 1948, when the excess was nearly 7 percent. While aggregate measures of production and consumption indicate the extent to which production has exceeded use, such measures conceal the fact that substantial surpluses have accumulated for only a relatively few commodities. A review of the investment of the Commodity Credit Corporation in price-supported commodities suggests the size of the surplus of some of the principal commodities.

The value of commodities held by the Commodity Credit Corporation in inventory and under loan agreements totaled $7.2 billion on September 30, 1961. Of that amount, over $6.0 billion, or more than four-fifths of the total, was accounted for by three commodities—wheat, corn, and sorghum grains. In terms of annual production, such holdings were equivalent to 112 percent of annual production for wheat, 66 percent for sorghum grains, and 47 percent for corn. Holdings of no other commodity in surplus approached those levels.

Reduced plantings in conjunction with the Feed Grain Program brought reductions of 9 percent and 21 percent, respectively, in the outturns of corn and sorghum grains this year. Moreover, the quantity of wheat harvested was off about 10 percent from the previous year due to the adverse effect of drought on the spring wheat crop.

These reductions in the output of feed grains and food grains, while helpful in shrinking surplus stocks, were not sufficient to pull down stocks of these commodities to levels that are considered to be reasonable reserves in relation to annual use.

Exports Top Previous Record

Exports of agricultural products have taken a relatively large share of the annual output of a number of farm products. This has been so particularly during the past five years when foreign shipments have been above the average of the entire postwar period, as shown in the chart. In the year ended June 30, 1961, the latest period for

(2) The total figures in the chart were taken from *Measuring The Supply and Utilization of Farm Commodities*, Agricultural Handbook No. 91, U. S. Department of Agriculture, 1957 and 1960. Figures for 1961 have been estimated by the Federal Reserve Bank of Cleveland.

which data are available, agricultural exports reached a new high in both value and volume. The value of agricultural exports at $4.9 billion was 9 percent above the previous fiscal year and 4 percent above the record of 1957; export volume topped the record level of 1960 by 7 percent.

During the year ended June 30, 1961, as measured in relation to total annual sales, shipments to foreign countries were equal to about one-half of the annual sales of rice, wheat, and cotton, one-third of those of tobacco and barley, one-fourth of that of soybeans, and one-sixth of corn and sorghum grains. Looking at it another way, total exports of agricultural products now take the equivalent of the output of one acre out of every six in cultivation.

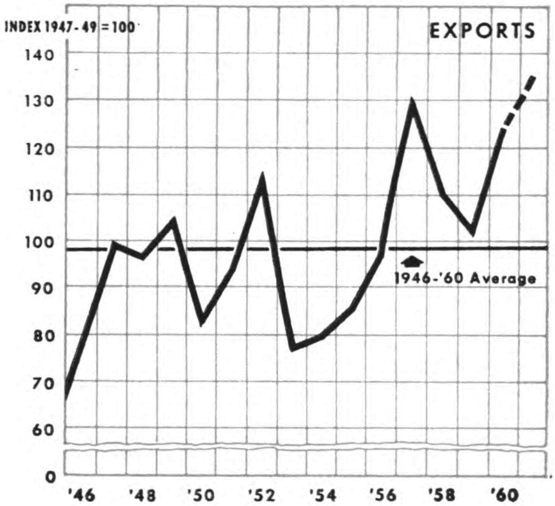
In the year ended June 30, wheat and cotton accounted for most of the gain in total export shipments from the previous year. In fact, the 660 million bushels of wheat and flour in wheat equivalent which were exported represented an all-time high. Cotton exports of 7 million bales were the second highest in more than a quarter-century. Some of the other commodities which registered new highs in foreign shipments were soybeans, corn, hides and skins, and poultry meat.

Prices Held Year-Earlier Levels

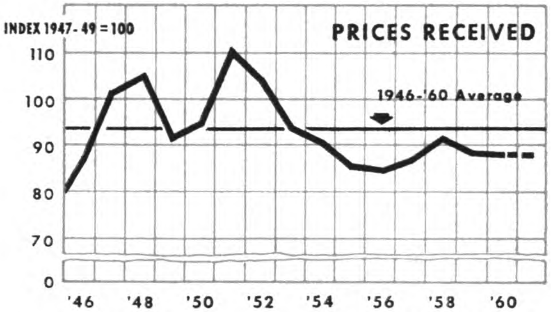
Prices received for 1961 as a whole are expected to average about the same as in 1960, despite the unprecedented level of foreign shipments and relatively strong domestic markets for farm products. Somewhat higher average prices for crops, due chiefly to higher support prices, were offset largely by lower average prices for livestock and livestock products, which in turn reflected expanded marketings. Broiler and turkey marketings, for example, expanded sharply with prices subsequently skidding to unprecedented lows.

Prices of all farm products averaged higher than year-earlier levels early in 1961. Prices then dipped, and by June were both below a year earlier and at the low for 1961. Follow-

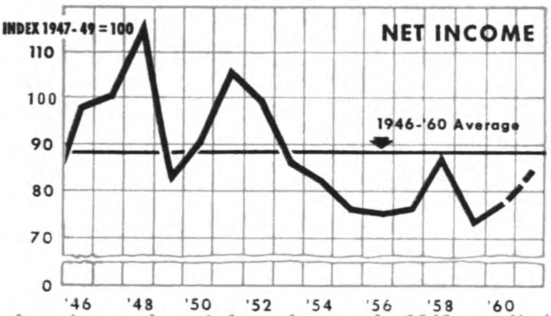
SELECTED INDICATORS OF AGRICULTURAL ACTIVITY



Exports of agricultural products advanced to a new high in 1961, representing the fifth consecutive year in which such exports have exceeded the average of the postwar period.



Prices received by farmers for the year as a whole will apparently average about the same as in 1960.



An advance in net farm income in 1961 resulted from record marketings, higher support prices for major crops, and increased government payments.

ing the midyear low, prices received advanced, and by November were only slightly below a year earlier. As indicated in the accompanying chart, however, average prices for the entire year have been substantially below the average of the 1946-60 period.

Farm Income Advances

Net farm income in 1961 apparently will be up about $1 billion, or 9 percent, from 1960. Cash receipts from the sale of agricultural products are expected to register a gain of 2 percent as marketings have advanced to a new high and prices have averaged about the same as in 1960. Contributing importantly to this year's gain in cash receipts are higher returns from hogs and dairy products which more than offset the lower level of receipts from poultry products. The lower cash receipts indicated from the sale of food and feed grains will be more than recovered in gains in the receipts from marketings of cotton, tobacco, soybeans, and fruits and nuts.

The gain anticipated in cash receipts is being supplemented by an increase in government payments disbursed to participants in the 1961 Feed Grain Program, as well as by preliminary payments on the 1962 wheat crop in conjunction with the wheat stabilization program.

The combination of the gain in cash receipts plus the increase in government payments is estimated to have yielded a realized gross income equivalent to an annual rate of $39.3 billion in the first three quarters of 1961. Production expenses in the same period are estimated to have been at an annual rate of $26.8 billion.

The result has been that net farm income, which includes a net gain in inventories of $.4 billion, increased to $12.9 billion, annual rate, in the first three quarters of 1961. At this level, net farm income was up nearly $1.0 billion from the year-earlier period. With no marked swings indicated in prices of farm products through November, it seems probable that net farm income for 1961 will not vary sharply from the levels posted for the first three quarters. Such a level of net farm income for all of 1961 would represent a substantial rise from 1960, as well as from the postwar low of 1959, as shown in the chart. However, it would still be below the average of the postwar period. The relatively low level of prices and income during recent years, when exports have ranged well above the average for the postwar period, suggests that further improvement in farm income rests ultimately with meeting the challenge of a surfeit of a few of the major farm products.

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FOURTH FEDERAL RESERVE DISTRICT