

MONTHLY *Business Review*

FEDERAL RESERVE BANK of CLEVELAND

December 1962

IN THIS ISSUE

Economic Indicators in Toledo	2
1962: A Year of Stability in Agriculture..	5
Annual Index to Monthly Business Review (1962).....	10
Around The Fourth District.....	11

TOLEDO, OHIO

Bank Debits

Business Loans

Construction

Electric Power

Employment

Retail Sales

Unemployment



Economic Indicators In Toledo

THE time series shown in the attached charts are presented as an aid to the understanding of current economic developments in the Toledo area. These series have been selected from a larger group available for the area because each is believed to be representative of a different sector or aspect of the Toledo area economy.

Manufacturing activity is thus represented by the electricity consumption of factories in the Toledo area. (It should be noted that this series, as an indicator, is being made public here for the first time.) Construction activity is represented by two types of contracts, while department store sales are used to indicate changes in retail trade. Labor market conditions are shown by both the employment and the insured unemployment series. Business loans and bank debits are representative of various aspects of banking and general business activity in the area.

No implication is intended that the eight series shown here are the only time series which could be used to represent current activity in the Toledo area; as indicated above, these series were selected from a larger group. Nor does the order in which the charts are presented indicate that one series is preferred over another. Similarly, no attempt will be made to arrive at a summary evaluation of current conditions in Toledo.

The four-year time period used, 1959-62, was selected because it includes both the 1960-61 recession and the recovery from that recession. While it would have been possible to include earlier years and business cycles for most of the time series used here, their usefulness over longer time periods is open to question because of differences in patterns of growth (or decline), for which no adjust-

ment has been made in the data. The time series depicted here are intended to indicate *short-term* changes in economic activity. For this purpose, each has been expressed as a percent relative to facilitate comparison, and each has been seasonally adjusted.

Following is a short description of each of the time series used:

Bank Debits, which are charges against demand deposits in commercial banks, represent payments made by check, and account for the largest part of money transfers made. These data are reported monthly to the Federal Reserve Bank of Cleveland by all commercial banks in Toledo. Since it has been found that month-to-month changes in bank debits are significantly affected by the variation in the number of working days, the series has been converted to a daily average basis before seasonal adjustment.⁽¹⁾

Business Loans are loans made to commercial and industrial borrowers by the three banks in Toledo which report these data weekly to the Federal Reserve Bank of Cleveland. The weekly totals of loans outstanding have been converted into monthly averages for this purpose. Breakdowns of these totals by industry group and duration of loan are also reported by the banks. The series is widely used, nationally, as an indicator of business demand for bank credit.

Nonfarm Payroll Employment is an estimate of the number of persons on the payrolls of nonfarm establishments in the payroll period, which is usually one week, ending nearest the 15th of the month. The estimates are made by the Division of Research and Statistics of the Ohio Bureau of Unemploy-

(1) For a more complete description of the uses and limitations of bank debits as an indicator see the September 1962, issue of this *Review*.

ECONOMIC INDICATORS IN TOLEDO

Seasonally Adjusted Percent Relatives

BANK DEBITS



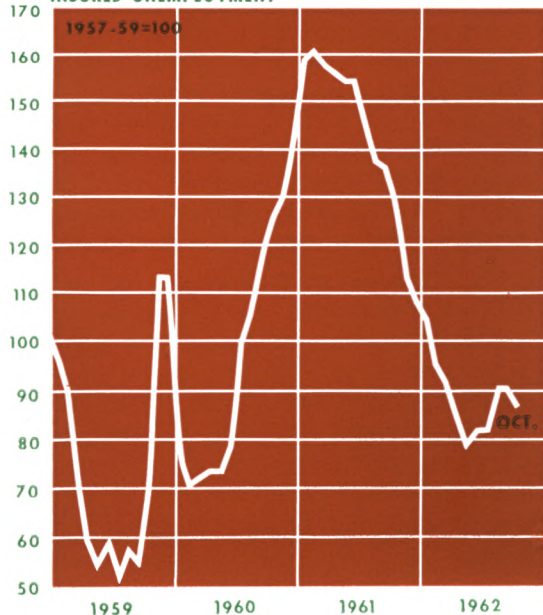
BUSINESS LOANS (weekly reporting member banks)



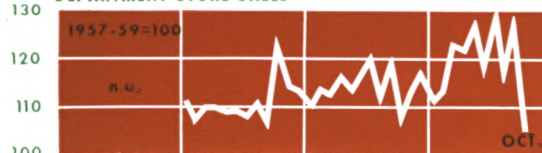
NONFARM PAYROLL EMPLOYMENT



INSURED UNEMPLOYMENT



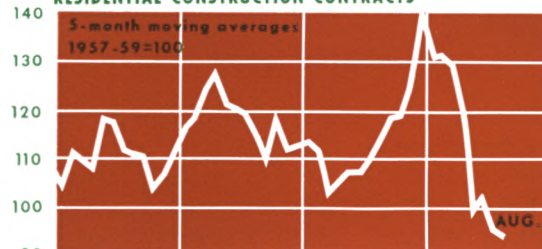
DEPARTMENT STORE SALES



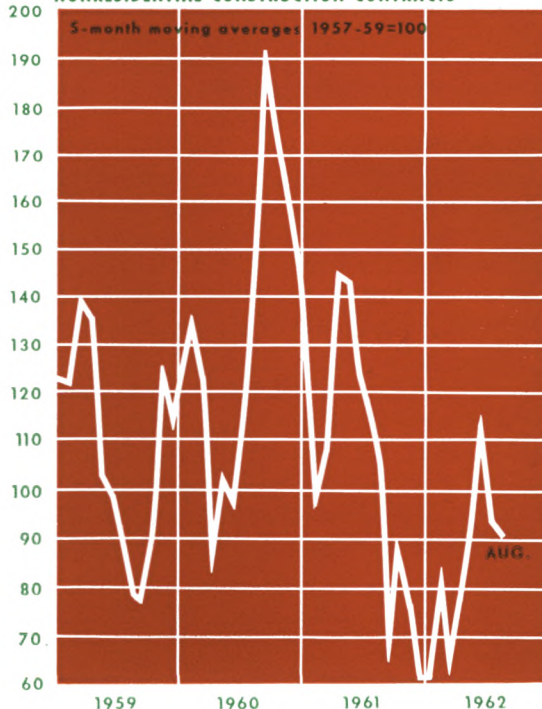
ELECTRICITY CONSUMPTION IN MANUFACTURING



RESIDENTIAL CONSTRUCTION CONTRACTS



NONRESIDENTIAL CONSTRUCTION CONTRACTS



n.a. Not available.

Sources of data: F.R.B. of Cleveland; Ohio Bureau of Unemployment Compensation; U.S. Dept. of Labor; Toledo Edison Co.; F.W. Dodge Corp.

ment Compensation in cooperation with the U. S. Department of Labor. The estimates are developed from reports submitted by a sample of employers in the area; the reports also furnish the information from which estimates of production workers' hours and earnings are developed. The estimate does not include the self-employed, unpaid family workers, and domestics, but does include those who may have been on two payrolls during the survey period, either because they held two jobs or changed jobs during that time.⁽²⁾

Insured Unemployment is a count of the number of continued claims filed for unemployment compensation under the regular state, Federal employee, and ex-servicemen's unemployment insurance programs for the week ending nearest the 15th of the month. The period of reference is thus the same as for nonfarm employment, but the two series are not comparable in other respects. The insured unemployment total understates total unemployment by the number of unemployed not covered by unemployment insurance, by the number of those who are ruled ineligible, and by the number of persons who have exhausted their benefit rights or who do not file claims for one reason or another. For the nation as a whole, unemployment insurance covers about eighty percent of all nonfarm wage and salary employees and about two-thirds of the labor force. Despite the limitations in coverage, the insured unemployment data furnish a reasonably accurate indication of changes in unemployment, particularly in an industrialized area such as Toledo, where the percentage of the labor force covered is probably higher than the national average.⁽³⁾

Department Store Sales are sales of full-line department stores reporting to the Federal Reserve Bank of Cleveland. The data are taken from the monthly release on sales by major metropolitan area. Department store sales accounted for about 11 percent of total retail sales in Toledo in 1958, the latest year

for which such comparisons are possible.

Electricity Consumption in Manufacturing is a series not previously made public. It consists of sales to the largest manufacturing customers of Toledo Edison plus electricity produced by factories generating their own electricity, as reported monthly to the Federal Reserve Bank of Cleveland. No attempt has been made to "blow up" the sample of utility sales to an estimated total or to adjust the total for variation in the number of working days in the month. The sample is in any case very large, and it is not likely that month-to-month changes in the sample total would diverge significantly from the pattern of change in the true total. Variation in the number of working days may, however, have some effect on the series. In interpreting this series, it should be borne in mind that, in the nation as a whole, electricity consumption in manufacturing has been increasing faster than factory output.

Residential Construction Contracts are compiled by the F. W. Dodge Corporation from several sources, including building permits. Construction contracts are, in effect, new orders to the building industry, since contracts are customarily placed before work is started. Actual construction work usually extends over a period of several months, the length of time varying with the type of construction, the availability of materials and labor, and the weather. For the purpose of this presentation it has been necessary to adjust further the seasonally adjusted data because of the large amount of irregular fluctuation in the series. For this purpose, a 5-month moving average has been used.

For *Nonresidential Construction Contracts* the same comments apply. The amount of irregular variation is obviously greater than in the case of residential contracts, even after smoothing by a 5-month moving average. It was not thought desirable, however, to use a moving average with a longer term than five months because of the need to keep the series comparable to the residential contract series.

(2) For a fuller description of the series and an evaluation of its strengths and weaknesses, see *Measuring Employment and Unemployment*, the report of the President's Committee to Appraise Employment and Unemployment Statistics.

(3) See footnote 2.

1962: A Year Of Stability In Agriculture

NET farm income in 1962 will remain at the improved level of a year ago. This is so despite the fact that continued high output of the nation's farms and slightly higher prices received by farmers along with larger government payments have combined to push gross farm income to a record-high level this year. A further rise in farm production expenses has offset the enlarged gross so that net farm income this year is expected to be the same as it was in 1961.

As the following table shows, total farm output this year is expected to equal 107 percent of the 1957-59 base period, the same as the record-high level of a year ago.⁽¹⁾ Thus, aggregate output has remained approximately the same for three consecutive years. However, total farm output this year is much higher than it was in 1950 and in 1940; the production indexes in those years stood at 86 and 70 respectively.

Farm Output and Prices Received
1957-59=100

	1950	1960	1961	1962
Farm Output				
Total	86	106	107	107
All Livestock	88	102	107	107
All Crops	89	108	106	106
Prices Received*				
Total	107	98	99	101
All Livestock	108	98	97	98
All Crops	104	99	101	104

* 1962 figures are averages for first 11 months.

Farm Cash Receipts Rise

The continued large volume of farm production coupled with higher average prices received has resulted in an increase in farm cash receipts; sales of both livestock and crops this year are expected to register gains from 1961.

⁽¹⁾ All data used herein, unless otherwise specified, are from publications of the U. S. Department of Agriculture.

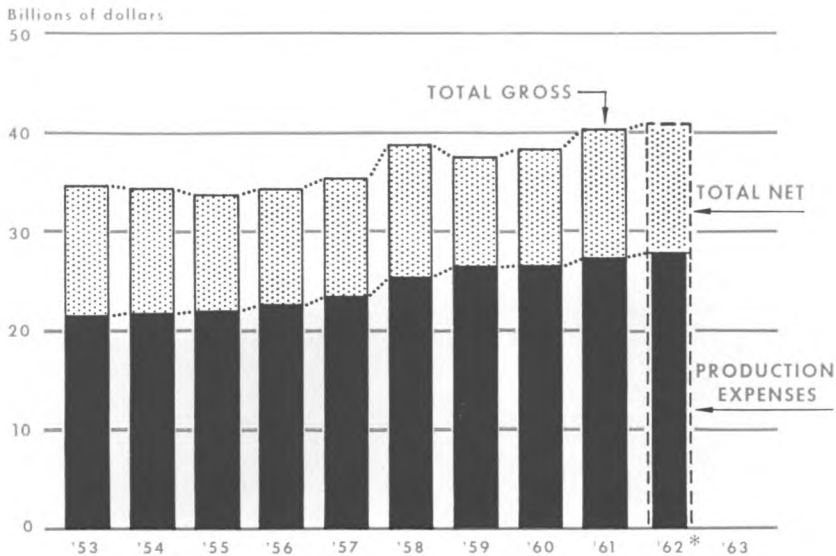
Output of livestock and livestock products in 1962 is no larger than a year ago, as a cut-back in production of poultry and eggs has offset largely the slightly larger outturns of meat animals and dairy products. The gain in farm receipts from sales of livestock is due solely to higher income from meat animals. Farm prices received for meat animals through November of this year averaged 4 percent higher than 1961. In addition, output of meat animals in 1962 is up 1 percent from last year, so that cash receipts have registered a substantial gain. The higher meat animal receipts primarily reflect increased income realized by the nation's cattlemen. In contrast, dairy farmers are experiencing a decline in gross income this year as lower prices have more than offset a further gain in milk production. In the poultry sector, little change is expected in cash receipts of turkey and broiler producers this year. A drop in egg prices will reduce farm receipts for that commodity.

Sales of crops are also expected to gross more in 1962 than last year. A gain in cotton output along with higher prices received has been responsible for a substantial increase in cotton receipts. Returns from the sale of soybeans and vegetables are also expected to be up from a year ago. In contrast to these advances, declines in output of wheat and corn are responsible for pulling cash receipts for those two crops below 1961 levels.

Larger Government Payments— Drop in Surplus

Another factor in the increased gross income of farmers this year is the larger amounts of government payments. Such payments in 1962 are expected to reach a record high of \$1.8 billion, up \$400 million from a

FARM INCOME AND EXPENSE



Gross income of the nation's farmers has moved up steadily, but higher costs of production have kept net farm income fairly stable.

* Estimated by the Federal Reserve Bank of Cleveland.

year ago. Payments under the 1962 Feed Grain and Wheat Programs are responsible for the rise. Farmers will receive \$1.2 billion for participation in these two programs in 1962 compared with \$800 million last year. While payment provisions of these programs have pushed total government payments to a record-high level, the programs have been effective in cutting back output of corn and wheat so as to bring about a substantial drop in the surpluses of these two grains.

The sharpest decline has occurred in surplus stocks of corn. At the start of the current corn marketing year on October 1, carry-over stocks of corn, amounting to 1.6 billion bushels, were 20 percent less than the record holdings of a year earlier. Thus, the ten-year build-up of surplus corn supplies has been reversed.⁽²⁾ The reduction in corn stocks is due to a smaller corn crop in 1961, resulting

from acreage diversions under the Feed Grain Program, as well as to a record utilization of corn for livestock feed and exports. Participation in the Feed Grain Program this year has fostered a further 1-percent drop in corn production. With utilization again expected to increase, prospects point to further shrinkage in surplus corn stocks to 1.2 billion bushels by October 1, 1963. At that level, stocks would represent less than one-third of the total annual use of corn in recent years.

Stocks of wheat have also been reduced somewhat in 1962. A small spring wheat crop in 1961, due to drought conditions in the Northern Plains States, along with record export shipments of wheat reduced the carry-over of wheat to 1.3 billion bushels on July 1 of this year, down 5 percent from a year earlier. The wheat crop this year was 11 percent smaller than in 1961 due to farmer participation in the Wheat Program. This reduction in output should more than offset a

(2) See "Accumulation of Feed Grain Surplus Halted," this Review, September 1962.

decline in exports, and should result in a further decline in surplus wheat stocks, to 1.2 billion bushels by June 30, 1963. However, carryover stocks of that amount would still be equivalent to the total annual use of wheat in recent years.

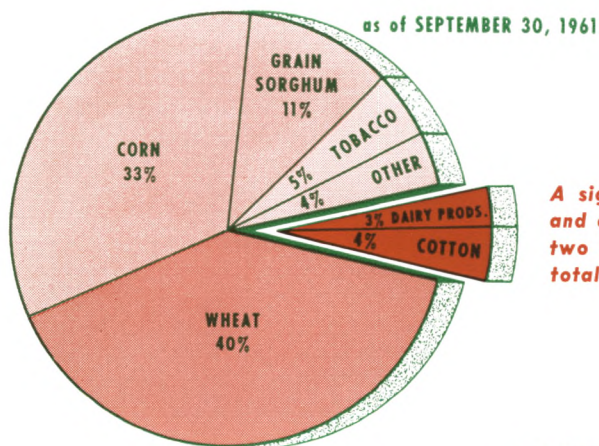
Cotton and Dairy Surpluses Rise

The declines in carryover supplies of wheat and corn have been responsible for reducing somewhat the over-all investment of the Commodity Credit Corporation. On September 30, 1962, loans and inventory of the CCC

were valued at \$6.9 billion, down \$212 million, or 3 percent, from a year earlier. Holdings of corn and wheat on September 30, 1962, totaled \$4.1 billion, down \$1.2 billion, or 22 percent, from a year earlier. This large decline in value of grains held by the CCC, however, was nearly offset by sharp increases in holdings of cotton and dairy products.

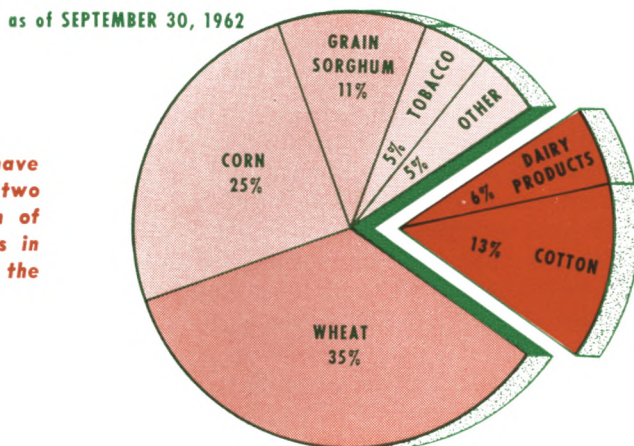
The increase in cotton investment stems from a reversal in the utilization-production relationship that had existed for the past five years. Until this year, the carryover of cotton had been declining steadily from a peak of

INVESTMENT OF THE COMMODITY CREDIT CORPORATION



A significant reduction in CCC holdings of wheat and corn has occurred in 1962. Nevertheless, these two commodities still account for 60 percent of total CCC investment.

Surplus holdings of cotton and dairy products have increased sharply this year, so that these two commodities now account for nearly one-fifth of total CCC investment. The larger investments in cotton and dairy products have nearly offset the reductions in investments in corn and wheat.



14.5 million bales on hand on August 1, 1956. By August 1, 1961, cotton carryover had been reduced to 7.2 million bales, or about 50 percent of the 1956 high. On August 1 of this year, however, carryover stocks had increased to 7.8 million bales, as the 1961 cotton crop exceeded disappearance during the crop year. The same situation is in prospect for the coming year as carryover is expected to reach 9.0 million bales by August 1, 1963.

With production exceeding utilization, investment holdings of cotton by the CCC have moved up sharply. As of September 30, 1962, such holdings totaled \$911 million, as compared with \$282 million a year earlier. This sharp rise in cotton investment coupled with the declines in wheat and corn holdings has resulted in cotton being a much more important commodity in total CCC investment. As is shown in the chart on page 7, on September 30 of this year cotton accounted for 13 percent of the total CCC investment, up from only 4 percent of the total a year earlier.

The CCC inventory value of dairy products has also moved up sharply this year. This increase reflects a rise in milk production to a record-high level at a time when total purchases of dairy products from commercial sources in the nation has turned down. Declines in per capita purchases of dairy products by consumers have more than offset the growth in population during the past two years. Total domestic consumption of dairy products has increased only as a consequence of heavier government donations through welfare and school lunch programs.

The CCC is acquiring dairy products at a record pace this year. Purchases in 1962 are expected to total 11.3 billion pounds, in milk equivalent, which is equal to 9 percent of all milk produced this year, and which is also 9 percent more than the previous record amount purchased by the CCC in 1953. These large acquisitions are reflected in the sharp rise in CCC holdings of dairy products. On September 30, 1962, investment in dairy products totaled \$420 million, or more than twice the \$203-million investment held a year earlier.

This sharp increase in holdings, however, does not portray the full significance of the dairy surplus problem. Due to the perishability of these dairy products, they must be moved out of inventory in a relatively short period of time. Thus, the probability that CCC purchases this year will equal 9 percent of all milk produced points clearly to the surplus problem of the dairy industry.

Higher Costs Offset Larger Gross

As mentioned earlier, the larger gross income that farmers are receiving has been offset by a further increase in farm production expenses. Farm costs this year are expected to total \$27.7 billion, or \$600 million more than in 1961. Such expenses have moved up steadily in recent years, as can be seen in the chart on page 6. Total farm costs in 1961 (the latest year for which complete data are available) were \$4.5 billion more than the average for the year 1955 through 1957, as shown in the accompanying table.

Farm Production Expenses (millions of dollars)

	1961	Change from 1955-57
Feed Purchases	\$ 5,139	\$ +1,145
Livestock Purchases	2,735	+ 1,030
Miscellaneous Operating Expenses	2,839	+ 587
Taxes on Farm Property	1,638	+ 430
Depreciation	4,077	+ 300
Hired Labor	3,048	+ 297
Fertilizer and Lime	1,502	+ 243
Interest on Farm Mortgage Debt	680	+ 234
Repairs and Operation of Capital Items	3,823	+ 219
Rent to Nonfarm Landlords	1,107	+ 42
Seed	521	— 27
Total Farm Production Expenses	\$27,109	\$ +4,500

The largest increases in farm costs have occurred in purchases of feed and livestock. These two items have accounted for 45 percent of the gain in total farm costs since 1955-57. Purchases of feed in 1961 amounted to \$5.1 billion, up \$1.1 billion, or 29 percent, from the 1955-57 average. The higher outlays

for feed by farmers are the result of increased use, since feed prices have been below 1955-57 levels. Farmers are purchasing substantially more feed because (1) they have a record number of animal units of livestock on hand, and (2) livestock-feed price ratios in recent years have favored heavier concentrate feeding per animal unit.

The second largest increase in farm expenses has occurred in purchases of livestock. Higher outlays for livestock reflect both higher prices as well as larger quantities purchased. Prices of feeder cattle are up from the 1955-57 period, and farmers had a record number of cattle on feed in 1961. Another factor in the larger livestock purchases has been the increased outlays for turkey poults and chicks. Production of turkeys and broilers has expanded sharply since 1955.

Of the various rises in farm costs, miscellaneous operating expenses rank third in importance, being up nearly \$600 million from 1955-57. Among the items included in this category are interest payments on short-

term debt, pesticides, electricity, livestock marketing charges, milk hauling costs, veterinary services and medicines, and insurance premiums. Another farm expense which has moved up substantially is taxes on farm property, totaling \$1.6 billion in 1961, or 36 percent more than in 1955-57. Payments to hired farm workers amounted to 11 percent more in 1961 as compared with the 1955-57 average. Farm wage rates moved up nearly 25 percent from 1955 to 1961, but this was in part offset by the fact that farmers are using less hired labor.

Interest payments on farm mortgage debt have moved up sharply, although they still account for a very small portion of total farm costs. Such payments last year totaled \$680 million, up 52 percent from the 1955-57 period. Higher interest payments result from the growth in farm mortgage debt outstanding. At the beginning of 1962, total debt on farm real estate amounted to \$14.2 billion, or 71 percent more than the \$8.3 billion outstanding on January 1, 1955.

ANNUAL INDEX to MONTHLY BUSINESS REVIEW (1962)

FINANCE

Focus on Financial Policy in 1961 ..	January
Banking Box Score in 1961	January
Financing Manufacturing Corporations, 1950-1960	February
Floating Debt—An Instrument of Financial Policy	April
A Look at Sales Taxation	May
Banking Patterns in a Year of Recovery	May
Banking Structure in the Fourth District	June
State Intergovernmental Payments and Receipts	August
Business Borrowing Patterns at Banks	August
Using Bank Debits in Local Areas	September
Structure and Distribution of Bank Deposits, 1948-61	October
Corporate Pension Funds and Capital Markets	November

INDUSTRY AND TRADE

Recovery in a Heavy-Industry District	February
Unemployment Insurance as an Economic Stabilizer— A Further Look	March
Exports from the Fourth District	June
Trade in U.S. Steel Products: From Plus to Minus	July
Revised Monthly Data on Department Store Trade	July
A Glimpse Ahead for Autos	October
Employment Changes in the Fourth District	November
Economic Indicators in Toledo	December

AGRICULTURE

A Century of Advance in Farm Production	March
U.S. Agricultural Trade and the Common Market	April
Higher Farmland Prices	July
Accumulation of Feed Grain Surplus Halted	September
1962: A Year of Stability in Agriculture	December

Around the Fourth District—

Sales of Fourth District department stores in October, adjusted for seasonal variation and trading days, declined 8 index points from September and were at the lowest level in 1962. Preliminary reports for November indicate some recovery, however. Only the household appliance department and the radio-phonograph-TV department ran counter to the September-to-October downturn. The largest percentage declines in the seasonally adjusted index of sales by department occurred in the various clothing departments.

* * *

Total earning assets at Fourth District reporting banks increased \$38 million in the week ended December 5, with most of the gain occurring in the volume of bank loans outstanding. The rise in total loans, which amounted to nearly \$33 million, was centered in loans to sales finance companies, securities dealers, and commercial and industrial firms.

* * *

Prior to the crippling snowstorm which struck Cleveland early in December, business activity in the metropolitan area was still drifting along with no important change in momentum. Auto sales were very brisk in October and November, and steel output had been rising moderately but persistently for several months. However, similar increases have not occurred in other Cleveland business indicators.

* * *

During November, the volume of bank debits at 35 Fourth District centers increased by 10.5 percent from October, on a daily average, seasonally adjusted basis.



FOURTH FEDERAL RESERVE DISTRICT