

# Monthly Review

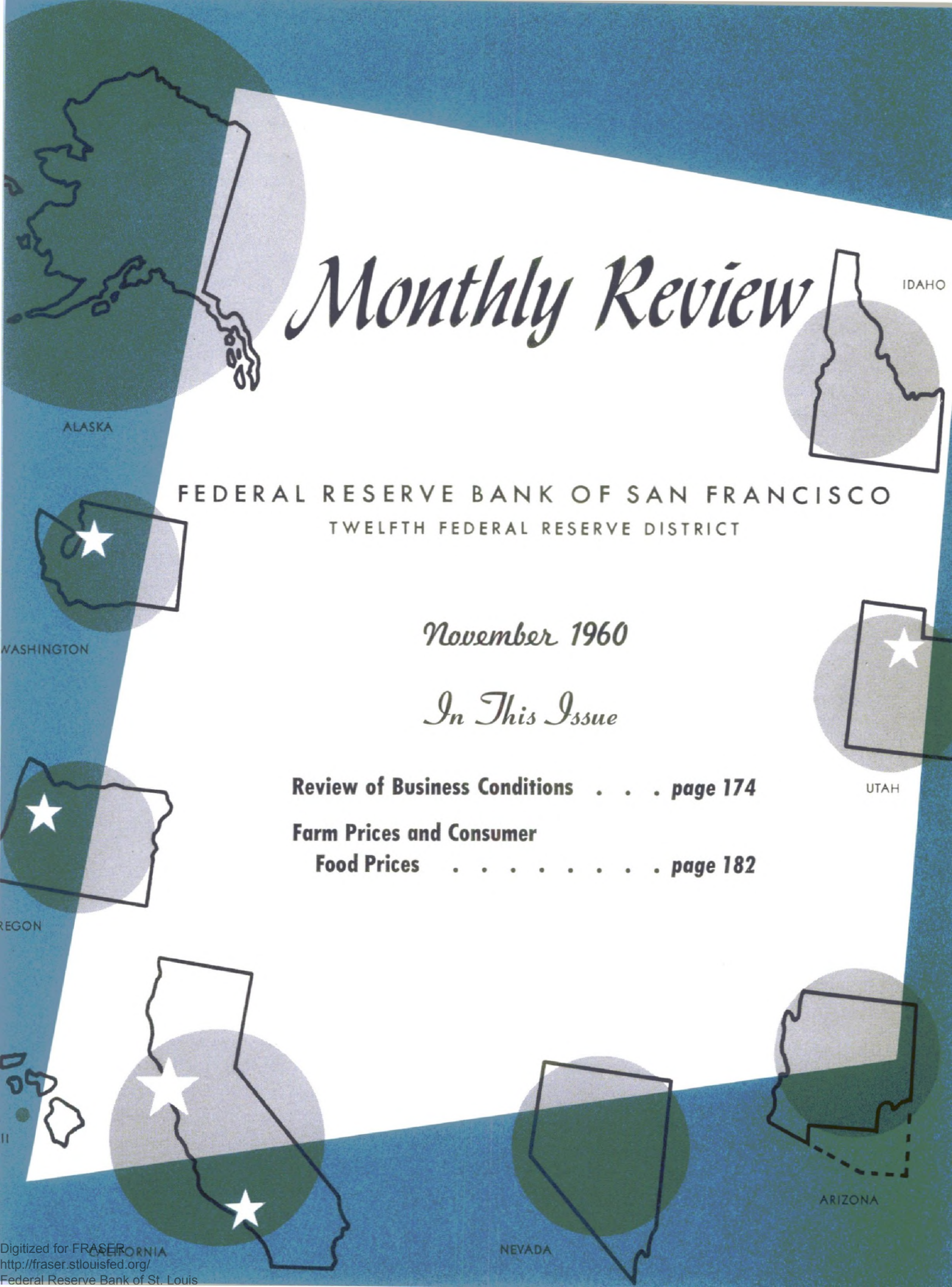
FEDERAL RESERVE BANK OF SAN FRANCISCO  
TWELFTH FEDERAL RESERVE DISTRICT

November 1960

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ALASKA

IDAHO

WASHINGTON

UTAH

OREGON

ARIZONA

NEVADA

# Review of Business Conditions

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**T**HE nation's rate of output of goods and services declined \$2 billion on an annual basis in the third quarter of this year from the second quarter level of \$505 billion, according to preliminary figures. The largest single factor accounting for the decrease in the seasonally adjusted annual rate of gross national product was a decline of \$5.3 billion in the rate of inventory accumulation which more than offset slight rises in net exports and government spending. Business inventories remained unchanged on balance during the third quarter, compared with an expansion of \$5.3 billion in the second quarter and an average rate of growth of \$8.3 billion during the first half of this year.

Excluding the net change in the rate of inventory accumulation, final demand rose at an annual rate of \$3.3 billion during the third quarter, compared with increases of \$8.2 and \$9.8 billion during the first and second quarters. Disposable personal income continued to rise during the third quarter, but consumer spending declined slightly for the first time in almost three years. Consumption of services increased, but declines in purchases of durables and nondurables were large enough to lower the annual rate of total consumer spending by \$500 million to \$328.5 billion.

Private investment, aside from business inventories, showed a mixed picture during the third quarter. Residential construction declined \$300 million (on a seasonally adjusted annual rate basis), while other construction rose \$100 million. Business spending for producers' durable equipment rose \$500 million. On balance, fixed investment showed a modest rise of \$300 million, partly offsetting the decline of \$5.3 billion in inventory spending.

Government spending rose \$1.9 billion in the third quarter, with state and local governments accounting for \$1.1 billion of the gain. Net exports of goods and services also rose \$1.5 billion above the second quarter level.

## **Slight improvement in employment nationally**

In the nation, employment rose and unemployment fell on a seasonally adjusted basis between August and September. Most of the employment increase, 186,000 out of 216,000 workers, occurred in the agricultural sector. Part of the apparently greater than seasonal upsurge in farm employment was due to the fact that the labor survey week was relatively late this year and closer to the peak in harvesting activity. Meanwhile, the seasonally adjusted increase in the rate of unemployment in August and the decline in September were exaggerated by the earlier-than-usual model changeover in automobiles this year. Unemployment as a percentage of the total labor force was 5.9 percent in August and 5.7 percent in September. The September figure is still the highest for any month this year except August and compares with a rate of 5.6 percent in September 1959 during the steel strike. Reflecting the altered schedule in new automobile assembling, most of the drop in unemployment from August to September was in the intermediate-term group (out of work 5 to 14 weeks) while the number of long-term (15 weeks or longer) and short-term unemployed (5 weeks or less) remained virtually unchanged.

The number of wage and salary workers in nonagricultural industries rose to nearly 53.5 million in September. The gain of 436,000 from August was not as large as the seasonal norm for that month.

The average length of the factory work-week fell again in September to 39.3 hours, down from 39.7 in August and 40.0 a year ago. There were seven revisions in the Bureau of Employment Security's September classification of areas according to relative adequacy of labor supply. These changes from the previous classification in July were all in the direction of higher unemployment and

looser labor market conditions. Employer hiring schedules, as reported to local public employment offices, suggest that little net change in total nonfarm employment is in prospect through late autumn in most sections of the country.

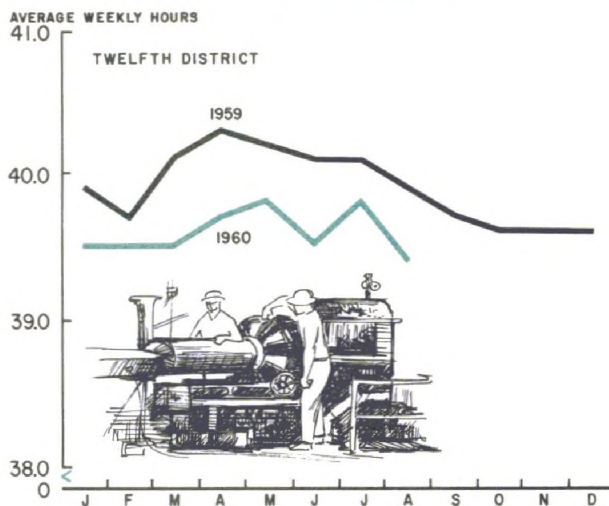
### District rate of unemployment rises again, and nonfarm employment falls

Civilian employment in the three Pacific Coast States fell by 38,000 to 7,723,000 workers on a seasonally adjusted basis between August and September. The employment decrease in Oregon and Washington was accompanied by a proportionately greater decline in the size of the labor force, lowering seasonally adjusted rates of unemployment in those two states to 7.3 and 8.7 percent, respectively. In California, however, the labor force increased 0.2 percent, contributing to the rise in unemployment as a percentage of the labor force from 5.7 percent in August to 6.4 percent in September.

Preliminary seasonally adjusted figures indicate that nonfarm employment fell by 0.1 percent to 6,252,000 workers between August and September in the three Pacific Coast States. All Pacific Coast industries registered declines except manufacturing and transportation, which showed respective increases of 0.1 and 0.3 percent. The slight reversal in manufacturing was due largely to an earlier than usual resumption of automobile assembling in California and to the less than seasonal decline in lumber and wood products employment in Oregon. The steady decline in aircraft employment shows some indication of tapering off. It fell 0.2 percent in September, compared with 0.4 percent in August and 0.9 percent in July.

The average length of the factory workweek in the Twelfth District decreased from 39.6 hours in July to 39.4 in August. This measure of labor market activity has been below corresponding 1959 levels in each month of 1960.

### District manufacturing employees worked shorter hours this year\*



\*Based on average weekly hours of manufacturing production workers in the Twelfth District; data are seasonally adjusted. Source: State Employment Agencies; seasonal adjustments by the Federal Reserve Bank of San Francisco.

In September, the Bureau of Employment Security, which classifies areas bimonthly according to relative adequacy of labor supply, revised its classification of the San Diego labor market area from a category of moderate labor surplus (3 to 6 percent unemployed) to one of substantial labor surplus (6 to 9 percent unemployed). Production declines in the aircraft industry have been occurring for some time and were primarily responsible for the downward classification. All other major labor market areas in the Twelfth District are designated as having a moderate labor surplus, except for Sacramento and Honolulu, where no significant labor surplus or shortage is reported (1.5 to 3 percent unemployed).

### Factory and mine output declines further

After alternating between 109 and 110 percent of the 1957 average for most of this year, the index of industrial production in the nation declined to 108 in August and to 107 in September, off 4 points from the high reached in January. Declines in output of materials and business equipment, partly due

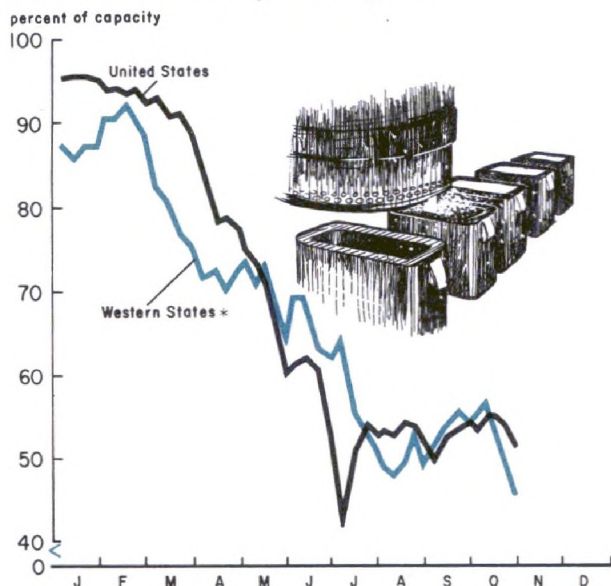
to the rail strikes, were mainly responsible for the September decrease. Output of consumer goods was little changed from the August rate, remaining slightly below the levels prevailing earlier this year.

Although steel mill operating rates picked up slightly in early October to 55 percent of capacity, subsequent reductions appear to have eliminated the possibility that this month will show the normal seasonal gain in iron and steel output. Data on new orders have already served to write off November as the long-awaited month for a sharp upturn in steel operations. Evidence available to date suggests that the mills will do well to exceed the moderate activity levels achieved in October.

### District steel production soft

Twelfth District weekly operating rates in September rose about 6 points over the average prevailing in August as steel mills began work on a large order for gas line pipe; however, there has been no improvement in District operating rates since September. District mills were running at about the same percentage of capacity in October as were mills in

### Declining demand for steel has resulted in lower operating rates



\*Western States consist of Twelfth District States and Colorado. Source: American Iron and Steel Institute.

the nation as a whole. However, a scheduled reduction in output late in the month hit total Pacific Coast rates somewhat harder than those in the rest of the country.

### Mine and smelter operators cut copper prices

Reflecting the slowing in industrial production, the demand for copper has been quiet. Possible interruptions in supply owing to strikes and political difficulties in Chile and the Congo did not prove to be as serious as anticipated with the result that world production has failed to adjust downward to demand. The resultant oversupply of copper has exerted a downward pressure on prices. Following the recent drop in copper prices on the London Exchange and cuts in the domestic scrap copper buying price, American mine operators and custom smelters reduced their selling price by 3 cents in mid-October. Otherwise, American copper would have been overpriced relative to foreign production. Prior to the price reduction, United States mine producers had maintained the 33 cent price for nearly eleven months, while the smelter quotation had prevailed since last March. Following the increase in shipments in September over August, domestic stocks of refined copper fell, but foreign stocks continued to rise.

### Mortgage market steady in September; homebuilding fails to respond to ease

In general, the tone of both the national and District mortgage markets in September was one of continued ease. Further ease was evident in a Federal Housing Administration report which indicated that the average rates on conventional first mortgages were less than they were three months ago. The average rate on loans on new houses declined from 6.25 percent on July 1 to 6.20 percent on October 1, while the rate on loans on existing houses decreased from 6.30 percent to 6.25

percent during the same period. The FHA report also indicated that, as of October 1, almost all of its Insuring Office Directors stated that in their opinion adequate funds were available for financing insured mortgages on single-family homes.

Despite this and other signs of increased availability of funds in the mortgage market, the level of homebuilding has not yet responded. The increase in housing starts in August led to speculation that this marked the beginning of an upswing in homebuilding. However, residential construction expenditures declined in September and the level of housing starts turned down sharply. The number of privately financed housing starts in September was at a seasonally adjusted annual rate of 1,077,000, 17 percent below August and 29 percent below September of last year. In addition, FHA applications and VA appraisal requests, which had risen in August, fell once again in September. FHA applications declined from 22,900 in August to 20,100 in September, whereas VA appraisal requests fell from 12,400 to 11,600.

### **District public construction contracts up during September**

The latest available data from *Engineering News-Record* indicate that public construction contracts in the Far West rose in September 10 percent above the previous month. Since contracts of this kind typically decline during September, this increase is encouraging, although most of it is reflected in government buildings, both residential and other. Highway contracts declined slightly during the month but were still well above the total for September last year.

### **Lumber output curtailed, but prices still slip**

Douglas fir output declined during September, reflecting largely the effects of a program of voluntary production curtailment. However, despite this cutback in production,

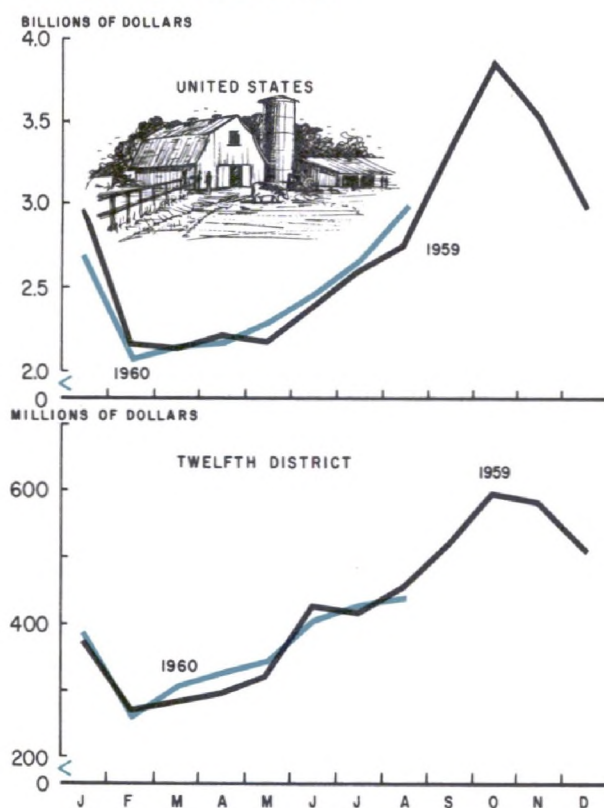
the fir lumber picture has not improved materially. Inventories still remain at relatively high levels, and lumber prices continued to decline during the last two weeks of September. In the western pine region, output has also been curtailed; production during the third quarter of this year is estimated to be 15 percent below the corresponding period last year. However, prices continued to slip as third quarter shipments fell by an even greater amount. These shipments are estimated to be down 18 percent from the third quarter last year. In turn, this has pushed inventories up close to a record level. Coupled with the fact that there has been no appreciable improvement in new orders, this means that more production cutbacks may be expected. Sanded plywood prices remained firm during September at \$68 for the ¼ inch size. Plywood sheathing, however, began to show some signs of price weakness in spite of an 18 percent cutback in production. As a result, some sheathing producers announced further reductions in output that will amount to a 30-40 percent overall curtailment.

### **Farm income eases**

Contrary to the situation nationally, cash receipts of District farmers in August were below a year earlier as crop receipts in the District dropped 6 percent but rose 13 percent nationally. The District did not share in the sharp rise in wheat production which helped to bolster receipts in the country as a whole. Nor will the District share appreciably in the increased returns expected from hog marketings later in the year. However, the District farm income situation is not devoid of elements of strength. The price quotations for major crops in mid-October were generally higher than those quoted at local markets a year earlier.

Information received from major banks in the District suggests that farm mortgage lending by these institutions continued to decline at least through September. The extension of

## Farmers' cash receipts rise more in nation than in District



Source: United States Department of Agriculture.

other forms of farm credit, however, was reported to be up substantially. Rising production costs, larger cattle inventories, and increased cattle feeding activity were cited as the principal reasons for the increase in non-mortgage lending. The consensus was that delinquencies and carryovers would be greater in the District than last year, although banks apparently were somewhat more selective in extending credit to farmers than in 1959. In addition, borrowing rates and collateral requirements were generally higher.

Twelfth District farm income prospects for 1961 received a boost with the announcement on October 18 that acreage limitations on domestic beet production had been removed for the 1961 crop. District farmers generally account for about half of the domestic production of sugar beets. If half of the expected rise in domestic production of 200,000 tons occurs in District States, this would increase

cash receipts from marketings of sugar beets by about \$10 million. However, it is difficult to judge how District farmers will respond to the elimination of acreage controls. The District acreage allotment for sugar beet production was increased by some 30,000 acres between 1959 and 1960 to 407,889 acres. The acreage planted to sugar beets in 1960, however, was only 1,100 acres larger than in 1959.

## Twelfth District retail sales pick up in October

In August, retail sales at Group I retail stores<sup>1</sup> were down 3 percent from the year-ago month. Cumulative sales of these stores for the first eight months of 1960 were running just under 1 percent below the year-ago level. While total sales in August were up from July, they were still below the June peak of this year. Hard goods stores had a slight increase as sales of automobiles and furniture and appliances rose from the July lows. Sales of soft goods stores, on the other hand, were down from the July level. Twelfth District auto registrations during August were down 5 percent from the July level and 10 percent below the year-ago number, bringing the cumulative change for the year to less than 1 percent above the 1959 level. Preliminary figures for California for September indicate a slight rise above August of this year and over the year-ago month. Department store sales, after seasonal adjustment, remained at the August level during September but were 2 percent below September of last year. Preliminary department store data for October indicate a rebound to the peak levels previously achieved this year. Some bunching of special sales during the month contributed to this impressive performance.

## District municipal bond market quiet

New issues of municipal bonds are usually sparse in October following the seasonally

<sup>1</sup>Stores of firms operating 1-10 stores at the time of the 1954 Census.

active month of September, and this year has been no exception to that pattern. The bond market in general is engaged in distributing a rather large overhang of inventories. Several large issues originating outside the District have been withdrawn from market during the past three weeks. In the District, the California Toll Bridge Authority twice withdrew a \$7 million issue from market in October. The first bid for the revenue bonds was rejected, and the second date scheduled was cancelled in advance to enable the Authority to revamp the terms of the offering to make it more attractive to investors.

### **Bank reserve positions have continued to ease**

In view of the slowing which has occurred in business activity, monetary policy has continued to move in the direction of greater ease. Free reserves of all member banks averaged \$410 million in September, an increase of \$160 million from the August level. A further increase of about \$110 million occurred in October, raising free reserves to the highest level since mid-1958.

Additional reserves will be supplied to member banks in late November and early December as a result of changes in member bank reserve requirements announced by the Board of Governors in late October. Effective November 24, all member banks will be permitted to count all of their vault cash in meeting their reserve requirements. Since late August and early September, when the last previous change in reserve requirements occurred, country banks had been permitted to consider as reserves any vault cash in excess of 2½ percent of their net demand deposits, while the corresponding figure for central reserve and reserve city banks was 1 percent. In addition, the reserve requirement against demand deposits for country banks will be raised from 11 percent to 12 percent, effective November 24, while that for central reserve city banks will be reduced from 17½

percent to 16½ percent, effective December 1. The net effect of these changes will be to make available to member banks about \$1.3 billion in additional reserves during the holiday season when cash and credit needs are rising. These changes represent further implementation of a law enacted in 1959 relating to vault cash and reserve requirements.

### **Banks invest in securities as loans decline**

Total bank credit<sup>1</sup> outstanding at weekly reporting member banks in the United States increased \$626 million in the five-week period ended October 26, continuing the trend which has prevailed since mid-year. An increase of \$1,726 million in bank holdings of securities more than offset a decline of \$1,100 million in loans. The loan decline during this period was accounted for, in part, by repayments of loans incurred to pay quarterly taxes on September 15. Business borrowing for tax purposes had been larger than in 1959 due to the absence this year of tax anticipation securities maturing in September. While business loans declined \$133 million from September 21 to October 26, the reduction was only about one-fifth of the loan expansion which occurred in mid-September. Prior to the September tax date, brokers and dealers had also borrowed more than usual to finance large inventories of Government securities which accumulated as business firms sold securities to meet their tax payments. Subsequently, security loans dropped sharply and did not turn up again until the week of October 26 when dealers sought bank credit in connection with financing purchases of tax anticipation and other bills issued that week. Repayments by sales finance companies accounted for over half the total loan decline in the five-week period ended October 26. They repaid bank debt incurred at the time of September tax payments when they typi-

<sup>1</sup>Exclusive of loans to domestic commercial banks and after deduction of valuation reserves.

FEDERAL RESERVE BANK OF SAN FRANCISCO

**CHANGES IN SELECTED BALANCE SHEET ITEMS OF  
WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES**

(dollar amounts in millions)

	Twelfth District				United States			
	From Sept. 21, 1960 to Oct. 26, 1960		From Oct. 28, 1959 to Oct. 26, 1960		From Sept. 21, 1960 to Oct. 26, 1960		From Oct. 28, 1959 to Oct. 26, 1960	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
<b>ASSETS:</b>								
Total loans and Investments	— 13	— 0.06	+ 623	+ 2.83	+ 55	+ 0.05	+ 4,015	+ 3.85
Loans and investments adjusted <sup>1</sup>	+ 9	+ 0.04	+ 452	+ 2.06	+ 626	+ 0.59	+ 4,048	+ 3.91
Loans adjusted <sup>1</sup>	— 223	— 1.48	+ 617	+ 4.34	— 1,100	— 1.59	+ 2,867	+ 4.39
Commercial and industrial loans	— 63	— 1.21	+ 326	+ 6.75	— 133	— 0.42	+ 1,919	+ 6.50
Real estate loans	— 33	— 0.63	— 97	— 1.84	— 30	— 0.24	+ 2	+ 0.02
Agricultural loans	— 2	— 0.30	+ 86	+ 14.70	+ 26	+ 2.50	+ 132	+ 14.10
Loans for purchasing and carrying securities	— 58	— 27.36	+ 23	+ 17.56	— 392	— 10.75	— 210	— 6.06
Loans to nonbank financial institutions	— 44	— 5.33	+ 105	+ 15.51	— 622	— 10.43	+ 72	+ 1.37
Loans to domestic commercial banks	— 22	— 7.33	+ 171	+ 159.81	— 571	— 38.50	— 33	— 3.49
Loans to foreign banks	— 20	— 10.05	— 7	— 3.76	— 3	— 0.43	+ 17	+ 2.53
Other loans	— 3	— 0.10	+ 214	+ 7.76	+ 78	+ 0.51	+ 1,028	+ 7.23
U. S. Government securities	+ 184	+ 3.40	— 73	— 1.29	+ 1,574	+ 5.62	+ 1,372	+ 4.87
Other securities	+ 48	+ 2.50	— 92	— 4.46	+ 152	+ 1.58	— 191	— 1.92
<b>LIABILITIES:</b>								
Demand deposits adjusted	+ 141	+ 1.29	— 165	— 1.47	+ 1,169	+ 1.98	— 907	— 1.48
Time deposits	+ 71	+ 0.64	+ 239	+ 2.19	+ 341	+ 1.02	+ 1,907	+ 5.95
Savings accounts	+ 116	+ 1.25	+ 66 <sup>r</sup>	+ 0.71 <sup>r</sup>	n.a.	n.a.	n.a.	n.a.

<sup>r</sup> Changes based on revised data.

n.a. Not available.

<sup>1</sup> Exclusive of loans to domestic commercial banks and after deduction of valuation reserves; individual loan items are shown gross.  
Source: Board of Governors of the Federal Reserve System and Federal Reserve Bank of San Francisco.

cally turn to banks for accommodation as corporations holding their paper let it run off and, in addition, reduced total outstanding bank debt below any previous period this year. Funds secured by several sales finance companies in the capital markets permitted the sizable reduction in bank debt. Reflecting the easier reserve position, loans to banks were also lower during most of this five-week period. Both demand deposits adjusted and time deposits rose during this period.

Weekly reporting member banks in the Twelfth District displayed somewhat the same pattern as in the nation as a whole, with credit developments reflecting the contraseasonal lull in District business activity. Total bank credit increased \$9 million from September 21 through October 26. Loans (ex-

cluding loans to domestic banks) dropped \$223 million but were offset by a rise of \$232 million in security holdings. Reductions in business loans in this five-week period were greater than the gains made in mid-September which were, in part, tax borrowings. Loans to metal and metal products manufacturers declined \$35 million as this industry group continued the repayments of bank debts which began in June. Although the volume of bank credit outstanding is somewhat above that of a year ago, the changes in credit to this industry group since August have followed closely the pattern in 1959. As the canning season neared completion, loans to food processors moved up at a slower rate than in August and early September in conformity to the trend in previous years. Bor-



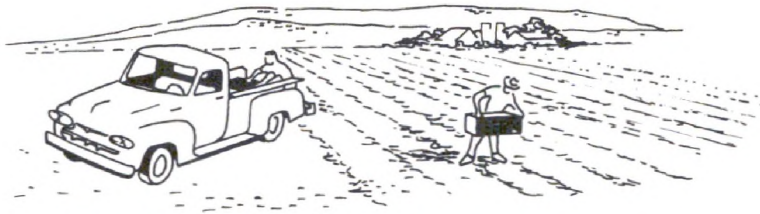
rowing by the liquor industry, however, increased. Loans to commodity dealers, which had been reduced somewhat below the normal level in early September, rose seasonally. On the other hand, loans to retail trade declined, contrary to the usual seasonal rise at this time of year. The peak of harvesting operations is past, and agricultural loans showed a small decline. The downward movement in real estate loans which has characterized 1960 accelerated. Despite increased automobile sales associated with the introduction of new models, consumer loans failed to increase in October.

Continuing the trend since mid-year, weekly reporting member banks in the District made net additions to their holdings of United States Government securities in the five-week period ended October 26. Increased holdings of Treasury bills accounted for almost all of the \$184 million increase. Banks also made net additions to their holdings of other securities.

Demand deposits adjusted at weekly reporting member banks on October 26 were up \$141 million from the September 21st level. District banks continued to gain time deposits as an increase in deposits of individuals, partnerships, and corporations more than offset a decrease in deposits of states and political subdivisions. Savings deposits

at weekly reporting member banks rose \$116 million during this five-week period, with such deposits above the year-ago level. As a result of lower loan volume and increased deposits, the loan-deposit ratio of weekly reporting member banks at the end of October dropped to 62.8 percent, below the peak of 65.3 percent in June this year but still above the 60.9 percent level of October 1959.

Following the cut in the prime rate on business loans to 4½ percent in the latter part of August and reflecting the easier reserve position of banks and the decline in loan demand, District banks charged lower average rates of interest on business loans in September. This was the first quarterly decline in rates since September 1958. The average unweighted interest rate on short-term business loans (those maturing within one year or less) was 5.40 percent in September, compared with 5.62 percent in June, according to a quarterly survey made by this bank based on a sample of leading commercial banks in five major District cities. One-fourth of the total volume of short-term loans made during the first part of September was at the prime rate of 4½ percent, whereas in June only 1 percent carried rates below 5 percent. Rates paid on business loans of over one-year maturity also declined from an average of 5.71 percent in June to 5.45 percent in September.



## Farm Prices and Consumer Food Prices



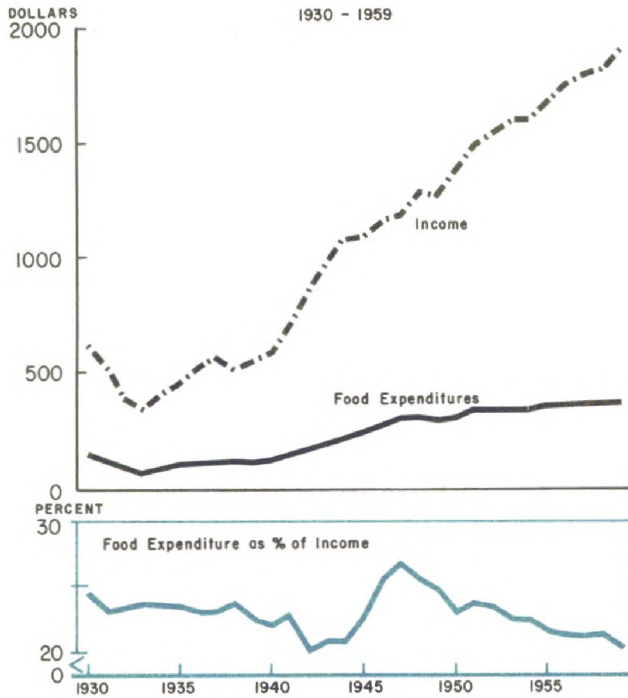
SINCE everyone has to eat, the cost of food is inevitably of wide interest and importance. But although “pigs is pigs,” what is food changes significantly over time. It has always been taken for granted that some foods which are basically plentiful in supply and consequently cheap tend to be partly displaced by more varied and exotic preparations as consumers’ incomes rise. It has been clear that the cost of preparing food before it gets to the consumer has also been rising. Any food begins as a raw material on the farm, and how much processing it will undergo before reaching the consumer depends partly on the products but apparently also depends on the consumer. It was not long ago that carrots typically came in bunches, celery with leaves, and nearly all nonfresh vegetables in cans. Now carrots are trimmed and wrapped in cellophane, potatoes washed and sold in plastic bags, and, while prepared foods are not yet preateen, they are precut, prefrozen, precooked, and premium priced. Still, the bulk of consumer spending on food probably continues to go for meat, dairy products, and other foodstuffs in relatively unchanged form.

When the cost to the retail buyer of food in all of its various forms changes, what happens to the price the farmer obtains? This question is the focus of this study.

During the past 30 years, people in the United States have spent on the average about one-fourth of their take-home pay for food. In less advanced countries, an even greater proportion of economic effort is required to feed the population. In this country, only on housing, including utility services and furnishings, do consumers spend a somewhat higher proportion of their income. The United States Bureau of Labor Statistics in calculating the Consumer Price Index gives a weight of 32.7 percent to housing and 28.7 percent to food. These weights are derived from past surveys of spending patterns by city wage-earner and clerical-worker families. Following World War II, the proportion of their income which consumers spent on food rose to a peak but then declined to a record low of 21 percent in 1958 and 1959 (Chart 1). This reduction is a result of a decline in the quantity of food consumed per person and a fall in food prices relative to the prices of other items purchased by consumers.

CHART 1

**Postwar food expenditures per capita have not risen as rapidly as income**



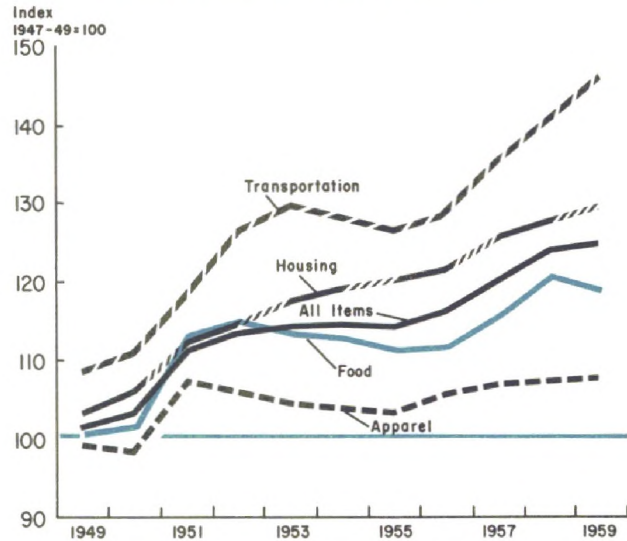
Source: United States Department of Agriculture.

**The price-conscious consumer**

The Consumer Price Index measures changes in prices of food and of other goods and services which consumers buy. Movements in this index now receive considerable attention and publicity, although general interest in it is comparatively recent. Attention of consumers and of economic policy makers was drawn to the index in the period of price control during and after World War II. Use of the index as the basis for some union wage rate adjustments has also focused attention on it. Consumers seem to be less concerned, however, with long-term changes in prices than with short-term changes, and with the latter usually only under special circumstances. For example, when food prices began to rise in early 1956, there was not much reaction from consumers as their incomes were rising. However, when unemployment began to increase in mid-1957, consumers

CHART 2

**Consumer food prices have risen less than total consumer price index**



Source: United States Department of Labor.

and the press became increasingly sensitive to price increases. During such periods, attention is often directed to food prices because expenditures for food are required for day-to-day living. Moreover, the price of food is one of the more volatile components of the Consumer Price Index, and sometimes, as in the latter part of 1957 and early part of 1958, it combines with an upward trend in other consumer prices to push up the total index (Chart 2).

When food prices rise at these inopportune times, there is general concern that perhaps farm prices are "too" high. Farm prices are only one factor in consumer food prices, however. In general, it is true that the price that the farmer receives for his products depends ultimately on the prices consumers pay for food at the retail level. This relationship is modified in the case of some products by the effect of Federal price support programs and various cooperative marketing and production agreements. In addition, changes in retail food prices are modified before reaching back to the farm level by variations in the processing and marketing costs of farm food

products. The functions performed by processors and marketers are many and varied. Payments for these services are quite large, accounting for considerably more of the consumer's food bill than the cost of the food products at the farm level. In 1960, the value of domestically produced farm food products at the farm level was estimated at \$20 billion, while the processing, transportation, and marketing bill for these products, including restaurants, vending machines, etc., totaled an additional \$40 billion.<sup>1</sup> A change in food prices at the consumer level will be accompanied by a change in prices at the farm level as accentuated or minimized by changes in processing and marketing costs.

### **Prices received by farmers for food products**

While there is some correspondence between changes in prices at the farm level and at the retail level, the conventional Index of Prices Received by Farmers is not a satisfactory measure for comparing changes in the farm price of food products and the Consumer Food Price Index (consumer index or CFPI for short). For one thing, the Index of Prices Received by Farmers includes non-food items, such as cotton and tobacco. In order to obtain a measure of farm food prices more consistent with the Consumer Food Price Index, a special index of farm prices was computed. In this index, various types of domestically produced farm food products were given the same relative weights as the food products derived from these farm commodities are assigned in the "Food consumed at home" category of the CFPI. These weights were further refined by adjusting each group of food products by the proportion of the retail value which went to farm producers during 1947-49 (see Table 1). Hence, the adjusted Index of Prices Received by Farmers (farm index for short) includes food

items such as food grains but excludes such products as feed grains and takes into account both the importance of the particular type of food product in the consumer index and the proportion of the retail cost of the particular type of product which is accounted for by the farm price. Despite these adjustments, the two price indexes are not strictly comparable. For example, imported food products and food costs in restaurants are included in the consumer index but not in the farm price index. Nevertheless, the adjusted farm price index is a more appropriate measure in examining the relationship between changes in prices at the farm level and at the retail level than the conventional farm price index.

In comparing the consumer index with the adjusted farm price index, it should be kept in mind that the consumer index reflects not only the cost of the food itself but also processing, transporting, and marketing costs. The adjusted farm price index, on the other hand, is a composite price measure of unprocessed food products without any trimmings.

In examining the relationship between farm and food prices, it is helpful to establish a "rule of thumb" to serve as a basis for comparison. The base period for both of the indexes is 1947-49, which means that the average consumer and farm prices for food during that period are represented by index numbers of 100 in each case. Moreover, during that period, consumer expenditures for food were slightly more than twice as large as the farm value of that food. Under these circumstances, a "market basket" of food that cost the consumer \$20, for example, would have yielded the farmer roughly \$10. If the retail price declined to \$19.50 and all processing and marketing costs remained the same, then the farmer would have received roughly \$9.50 as his share. The drop of 50 cents represents a decline of only 2.5 per-

TABLE 1  
**METHOD OF COMPUTING SPECIAL INDEX OF PRICES RECEIVED  
 BY FARMERS FOR FOOD PRODUCTS**

Commodity Group	Column 1 Weight in Index	Column 2 Farmers' Share of Retail Value (percent)	Column 3 C. F. P. I. Adjusted by Farmers' Share (Col. 1 x Col. 2)	Column 4 Adjustment to Make Weights Total 100 (Col. 3 x 2.5727)	Column 5 U. S. D. A. Farm Price Series to Which Weights Applied (1947-49 = 100)	Column 6 Special Index of Prices Received by Farmers for Food Products (Col. 4 x Col. 5)
<b>Consumer Food Price Index</b>						
<b>Cereal and bakery products</b>	<b>10.33</b>	<b>20</b>	<b>2.07</b>	<b>5.33</b>	<b>Food grains</b>	<b>Sum</b>
<b>Meats</b>	<b>19.77</b>	<b>67</b>	<b>13.25</b>	<b>34.09</b>	<b>Meat animals</b>	<b>of</b>
<b>Poultry and eggs</b>	<b>8.93</b>	<b>69</b>	<b>6.16</b>	<b>15.85</b>	<b>Poultry and eggs</b>	<b>components</b>
<b>Dairy products</b>	<b>14.02</b>	<b>54</b>	<b>7.57</b>	<b>19.48</b>	<b>Dairy products</b>	<b>is</b>
<b>Fruit</b>	<b>7.35</b>	<b>39</b>	<b>2.87</b>	<b>7.38</b>	<b>Fresh fruit</b>	<b>value</b>
<b>Vegetables</b>	<b>7.90</b>	<b>43</b>	<b>3.40</b>	<b>8.75</b>	<b>Fresh vegetables</b>	<b>of</b>
<b>Fats and oils</b>	<b>2.97</b>	<b>38</b>	<b>1.13</b>	<b>2.91</b>	<b>Oil-bearing crops</b>	<b>index</b>
<b>Miscellaneous<sup>1</sup></b>	<b>13.45</b>	<b>18</b>	<b>2.42</b>	<b>6.23</b>	<b>All farm products</b>	
<b>Total</b>	<b>84.72<sup>2</sup></b>		<b>38.87</b>	<b>100.02</b>		

<sup>1</sup> Includes condiments and sauces, nonalcoholic beverages, partially prepared foods, and other foods at home.

<sup>2</sup> Total weight of "food at home" components in the Consumer Food Price Index.

Sources: United States Department of Labor and United States Department of Agriculture.

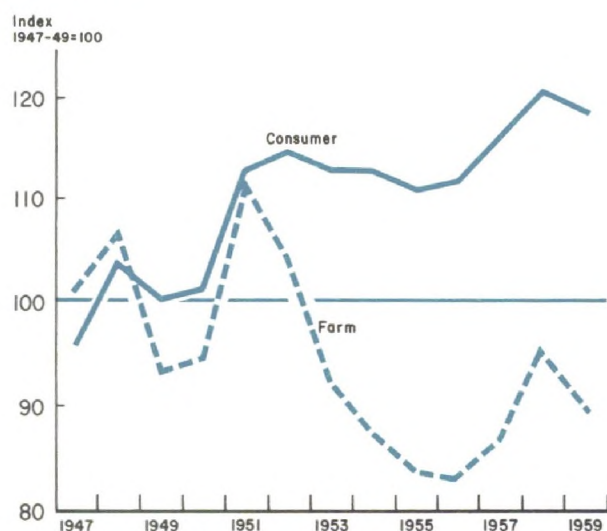
cent at the retail level in contrast to one of 5 percent at the farm level. In terms of index numbers, a change of 1 point in the consumer index, therefore, would be accompanied by a change of 2 points in the adjusted farm price index, if this "rule of thumb" is applied and if processing and marketing costs remained unchanged.

The actual relationship has been different in periods of rising and falling prices. During periods of rising prices in the decade of 1950-59, the farm price index rose somewhat less than twice as many index points as the index of food prices at the retail level. Not all of the increase in consumer prices, therefore, was reflected in the farm level. Processing and marketing costs, including profit margins also increased. On the other hand, during periods of falling prices, the farm price index dropped 11 points, compared with a decline of 4 points in consumer food prices, from May 1958 to December 1959 and to an even greater extent during the preceding period of

falling farm prices, April 1951-December 1955. These declines in food prices at the consumer level were much less than might be

CHART 3

**Consumer food prices less flexible  
 than prices received by farmers for food  
 products**



Sources: Consumer food price index, United States Department of Labor; special index of prices received by farmers for food products computed by the Federal Reserve Bank of San Francisco by method shown in Table 1.

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expected from the amount of the decline in farm prices, since processors' and distributors' costs continued to rise.

Production of the raw material "food" has benefited from the ingenuity and hard work of the American farmer and the tools provided him by the manufacturing and chemical industries as well as by Government and private scientific studies. Rising personal incomes have resulted in more services being

performed by the marketing system for the consumer as tastes have shifted toward more processing of the raw material before its sale. The improvement in productivity in providing these services has not been sufficient to prevent the cost of food to the consumer from rising. In the longer run, then, the final cost of food at the retail level is determined largely by improvements in both farm and processing productivity.

BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>

(Indexes: 1947-1949=100. Dollar amounts in millions of dollars)

Year and Month	Condition items of all member banks <sup>2</sup>				Bank debits index 31 cities <sup>4, 5</sup>	Bank rates on short-term business loans <sup>5</sup>	Total nonagricultural employment	Total mfg employment	Car-loadings (number) <sup>5</sup>	Dep't store sales (value) <sup>5</sup>	Retail food prices <sup>7, 8</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>3</sup>	Total time deposits							
1929	2,239	495	1,234	1,790	42	....	...	...	102	30	64
1933	1,486	720	951	1,609	18	....	...	...	52	18	42
1939	1,967	1,450	1,983	2,267	30	....	60	57	77	31	47
1950	...	...	...	...	...	...	103	105	98	107	100
1951	7,866	6,463	9,937	6,777	132	3.66	112	121	100	112	113
1952	8,839	6,619	10,520	7,502	140	3.95	118	130	100	120	115
1953	9,220	6,639	10,515	7,997	150	4.14	121	137	100	122	113
1954	9,418	7,942	11,196	8,699	153r	4.09	120	134	96	122	113
1955	11,124	7,239	11,864	9,120	173r	4.10	127	143	104	132	112
1956	12,613	6,452	12,169	9,424	190r	4.50	134	152	104	141	114
1957	13,178	6,619	11,870	10,679	204r	4.97	138	156	96	140	118
1958	13,812	8,003	12,729	12,077	209	4.88	138	154	89	143	123
1959	16,537	6,673	13,375	12,452	237	5.36	143	163	93	157	123
1959	...	...	...	...	...	...	...	...	...	...	...
October	16,010	6,702	12,963	12,316	243r	....	144	161	71	158	123
November	16,252	6,651	13,133	12,138	243r	....	145	164	91	155	123
December	16,537	6,673	13,375	12,452	240r	5.71	145	165	98	158	123
1960	...	...	...	...	...	...	...	...	...	...	...
January	16,354	6,304	12,971	12,111	248r	....	146	167	99	157	124
February	16,388	5,976	12,493	12,017	243r	....	147	167	92	159	123
March	16,660	5,707	12,553	11,986	242r	5.72	147	167	95	157	123
April	16,933	5,999	12,810	12,042	254r	....	148	166	95	159	126
May	17,104	5,813	12,290	12,142	255r	....	148	164	95	153	125
June	17,131	5,738	12,298	12,277	255r	5.73	148	163	85	153	125
July	16,895	5,967	12,608	12,253	260r	....	148	163	81	159	126
August	17,142	6,303	12,579	12,454	249	....	151r	166r	85	155	125
September	16,923	6,339	12,575	12,547	253	....	151	165	83	155	126
October	16,960p	6,625p	12,854p	12,629p	263	....	...	...	...	...	...

Year and month	Industrial production (physical volume) <sup>5</sup>							Waterborne Foreign Trade Index <sup>9, 10</sup>					
	Lumber	Petroleum <sup>7</sup>		Cement	Steel <sup>7</sup>	Copper <sup>7</sup>	Electric power	Exports			Imports		
		Crude	Refined					Total	Dry Cargo	Tanker	Total	Dry Cargo	Tanker
1929	95	87	78	55	...	103	29	190	150	247	124	128	7
1933	40	52	50	27	...	17	26	110	...	...	72	...	...
1939	71	67	63	56	24	80	40	163	107	243	95	97	57
1950	114	98	103	112	125	115	120	91	80	108	142	145	103
1951	113	106	112	128	146	116	136	186	194	175	163	140	733
1952	115	107	116	124	139	115	145	172	200	129	206	142	1,836
1953	116	109	122	131	158	113	162	141	138	146	314	163	4,239
1954	115	106	119	133	128	103	172	133	141	123	268	166	2,912
1955	122	106	124	145	154	120	192	165	178	149	313	187	3,614
1956	120	105	129	156	163	131	209	201	261	117	459	219	7,180
1957	106	101	132	149	172	130	224	231	308	123	582	216	10,109
1958	107	94	124	158	142	116	229	176	212	123	552	218	9,096
1959	116	92	130	174	138	99	253	186	221	135	682	283	11,083
1959	...	...	...	...	...	...	...	...	...	...	...	...	...
September	113	92	132	166r	13	36	255r	171	217	107	678	269	11,344
October	115	91	132	170r	15	40	250r	231	289	150	702	261	12,206
November	117	91	133	165r	148	43	257	148	202	71	807	290	14,284
December	129	91	131	163r	212	40	260r	209	266	128	858	302	15,333
1960	...	...	...	...	...	...	...	...	...	...	...	...	...
January	127	90	130	156	197	67	265	229	296	134	958	277	18,687
February	127	90	127	173	206	116	263	230	271	172	720	259	12,719
March	120	91	131	165	183	134	271	287	316	246	607	296	8,707
April	113	91	137	182	162	141	265	240	287	172	811	286	14,484
May	112	91	136	167	164	144	271	251	330	139	771	289	13,341
June	101	91	132	170	158	142	270	243	288	180	...	...	...
July	104	91	138	149	134	123r	270	...	...	...	...	...	...
August	104	90	138	164	121p	121	...	...	...	...	...	...	...
September	...	...	...	143	127p	...	...	...	...	...	...	...	...

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, California Redwood Association and U.S. Bureau of the Census; petroleum, cement, and copper, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census.

<sup>2</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month. <sup>3</sup> Demand deposits, excluding interbank and U.S. Government deposits, less cash items in process of collection. Monthly data partly estimated. <sup>4</sup> Debits to total deposits except interbank prior to 1942. Debits to demand deposits except U.S. Government and interbank deposits from 1942. <sup>5</sup> Daily average. <sup>6</sup> Average rates on loans made in five major cities, weighted by loan size category.

<sup>7</sup> Not adjusted for seasonal variation. <sup>8</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>9</sup> Commercial cargo only, in physical volume, for the Pacific Coast customs districts plus Alaska and Hawaii; starting with July 1950, "special category" exports are excluded because of security reasons. <sup>10</sup> Alaska and Hawaii are included in indexes beginning in 1950.

p—Preliminary. r—Revised.

