

MONTHLY

REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

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On the farm income trail

Weather, prices, programs, and costs again obscure the farm income situation. While this is always the case in the erratic course of agriculture, the peculiar combination of these elements in 1964 make the current path of average farm incomes all the more difficult to ascertain. Ideal weather conditions in the western district states have led to bumper wheat crops while there have been drought-reduced feed grain outputs in the eastern areas. A new wheat program provides for both lower cash prices and higher direct payments by the government. Lower price levels for most commodities and higher farm costs for many production items are certain to dampen incomes. But, until all facts are in and sorted, any estimation of the net income of the average farmer in the district for this year must remain in the province of crystal ball gazing.

And, the clarity of the image within the crystal ball will take a long time to emerge. For instance, per-farm income estimates for 1963 have just recently been released by the U. S. Department of Agriculture. While 1963 data are current only in the sense of recent availability, they provide the only comprehensive set of figures from which a judgment can be made about the income of the average farm.

A brief look at what happened in 1963 will give some insight into the course of average farm income. Such a review will not only be useful in terms of this year, but it will also serve as an annoying reminder that a farmer's income is earned under unstable conditions.

Gross per farm incomes advance

In the 1963 gross per-farm income category, all Ninth district states experienced gains over 1962.

The gains, however, varied considerably among the states. North Dakota recorded the highest figure—\$15,078 per farm, an \$1,800 increase in average gross from 1962. In comparison, Montana gross per-farm income of \$14,805 represented a gain of less than \$100. Increases in Minnesota and South Dakota fell between these extremes with the former achieving a gain of nearly \$500 over 1962, a total of \$11,406 per farm; the latter, a \$250 gain or \$13,655 per farm. In the nation the advance was \$575 to a 1963 total of \$11,682 per farm.

The year-to-year changes in per-farm gross incomes have been fairly erratic during the past five years. As may be observed from Chart 1, none of the district states experienced the fairly steady rate of growth which has characterized the national average growth since 1959. While the trend in Minnesota and South Dakota was somewhat less erratic than the other district states, at the end of the 5-year period, both lagged the national rate of increase by a wide margin. North Dakota sharply reversed a 2-year period of falling gross incomes primarily on the strength of excellent crop output; the same reversal in Montana, however, has succeeded in bringing per-farm gross income to a level only slightly better than that of 1959.

Net incomes fail to respond

Advances in gross incomes were not followed by similar gains in per-farm net incomes. Farmers in two district states recorded lower net incomes in 1963 than in 1962, and in one of these, net incomes have never achieved 1959 levels. In Montana net per-farm incomes fell about \$500 from 1962 to 1963, and the 1963 total of \$4,292 per farm was \$1,302 below the 1959 per-farm level. The net in-

Chart 1—Gross income per farm as a per cent of 1959

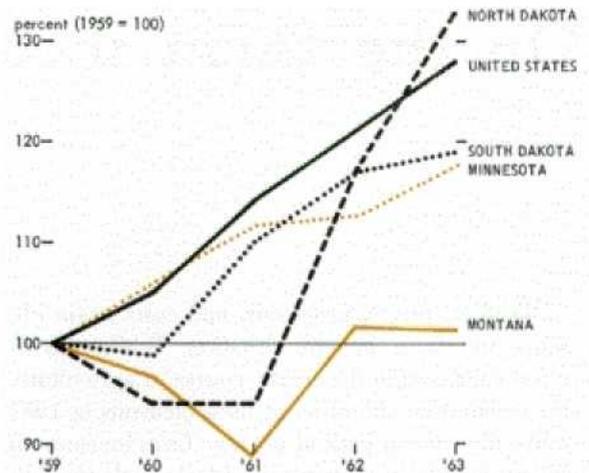


Chart 2—Realized net income per farm as a per cent of 1959

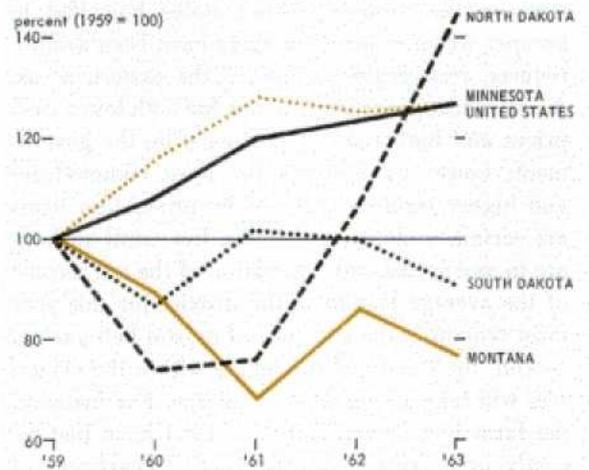
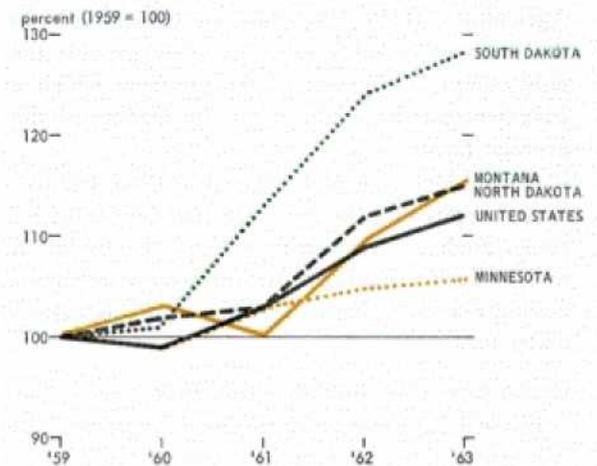


Chart 3—Farm expenses as a per cent of 1959



come per farm in South Dakota amounted to \$3,709, a \$650 decline from 1962. Minnesota net farm income rose a mere \$50 from 1962 to a 1963 total \$3,228 per farm. North Dakota net income gains far surpassed the other states—a \$1,500 increase from the 1962 level brought the total to \$5,537 per farm.

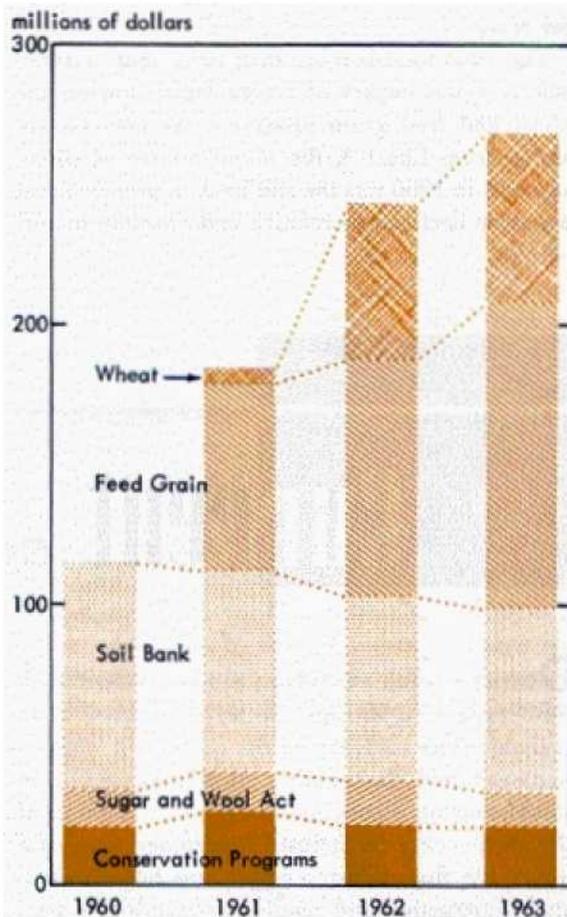
The 5-year review of percentage changes in per farm net income (Chart 2) points up the divergent pattern found among district states. In North Dakota net farm income in 1963 was 45 per cent higher than in 1959. The Minnesota per cent change was roughly that of the national average, although virtually no increase has been registered since 1961. Net per farm incomes in Montana and South Dakota have been the same or below those of 1959, with the 1963 totals dipping 27 per cent and 9 per cent, respectively, below 1959 levels.

Farm expenses continue to climb

The pressures on net income result, of course, from the steady rise in farm expenses. The total farm expense bill for the district states amounted to \$2,612 million in 1963 with individual state totals amounting to \$1,218 million in Minnesota, \$549 million in South Dakota, \$491 million in North Dakota, and \$324 million in Montana. As may be observed from Chart 3, farm expenses rose considerably from 1959 levels in each district state. The largest relative increase occurred in South Dakota where 1963 farm expenses were 28 per cent greater than those of 1959. Expenses in Minnesota rose by 6 per cent from the 1959 level.

The increase in expenses have been general: over a long period of time most of the component categories of expense have retained the same relationship to the total. Farm operating expense, for example, which includes purchases of feed, seed, gas and oil, amounted to \$1,159 million in the district in 1954, accounting for 61 per cent of total expenditures. In 1963, total operating expenses rose to \$1,654 million and accounted for 63 per cent of total expenses. Taxes on farm property and interest payments on farm mortgages experienced similar

Chart 4—Direct government payments for farm programs



relative increases over the 10-year period and accounted for 8 per cent and 3 per cent, respectively, of 1963 farm expenses, both up one percentage point from ten years earlier.

Direct government payments take on added importance

In 1963 district farm income was supplemented by \$268 million through farm participation in various government programs. That sum represented payments made under conservation programs, wool and sugar acts, soil bank, wheat, and feed grain programs. Minnesota farmers received

the largest share, 38 per cent, of the district total. This was followed by North Dakota, 30 per cent; South Dakota, 22 per cent; and Montana, 10 per cent.

The 1963 total is more than twice that of 1960, reflecting the impact of recent legislation on the wheat and feed grain programs. As may be observed from Chart 4, the major source of direct payment in 1960 was the soil bank, a program that has since declined in relative and absolute impor-

tance. Payments under the conservation and wool and sugar acts have remained fairly constant over the past four years.

Among the district states, the changes in programs have led to a much greater increase in payments in Minnesota where the 1963 total is more than three times that of 1960. Payments in 1963 in North Dakota and South Dakota were double those of 1960, and Montana experienced a 70 per cent increase.



Current conditions . . .

District economic trends point to continued moderate expansion during the third quarter. Data available since midyear on the number of workers employed and the number of hours worked in manufacturing plants, and on the consumption of electrical energy for industrial purposes, support a conclusion that industry output has been increasing. Construction and retail sales trends also tend to underpin the tendency toward expansion.

But even though the data indicate expansion, economic trends in the district since the first of the year have not quite paralleled that of the U.S. Non-agricultural employment, to be sure, has gained, but not as fast as in the U.S. Insured unemployment has declined substantially, but not relatively as much as in the nation. District personal income has improved, but here too it lags behind national increases.

Perhaps the major reason for the district's more moderate economic expansion rate can be found in agriculture's performance. As outlined elsewhere

in this issue of *Monthly Review*, 1964 crop production, except for wheat, has been sharply curtailed because of drouth. Corn production is estimated to be down 23 per cent from 1963 levels. Oats and barley production are 8 to 10 per cent below last year and soybean production may be off 2 per cent despite a 23 per cent increase in acreage. This decline in crop production, together with a decline in many farm product prices (particularly cattle prices) has reduced the farm purchasing power so vital to the district's over-all economy. In fact, the reduced 1964 crop output, with its accompanying impact on farm incomes, may continue for some months to generate regional economic growth that is only moderate when compared with national trends. One bright spot: wheat output in the district's western areas is up about 14 per cent from last year's level—a level exceeded only in 1951 and 1958.

A favorable factor in the nonagricultural outlook for the region is a substantial rise in new

orders received by manufacturers. New orders received by manufacturers of durable goods have risen significantly during the third quarter. This, of course, is partly a reflection of the expanding national economy.

Third quarter district developments in banking reflect no noticeable changes. Loan demand has been moderate. Deposits have shown little change. Loan-to-deposit ratios have moved irregularly but moderately upwards since July 1, reflecting perhaps some slight reduction in liquidity. In recent months some increase in net purchases of federal funds and borrowings at the Federal Reserve bank by commercial banks also indicate a drift towards slightly less liquidity than existed earlier in 1964. In spite of this, however, excess bank reserves have been relatively stable.

The following selected topics describe particular aspects of the district's current economic scene:

District economy expands

Continuing the forward drive which characterized the second quarter, the economy has advanced even further since midyear; and the latest available information continues to point to additional gains.

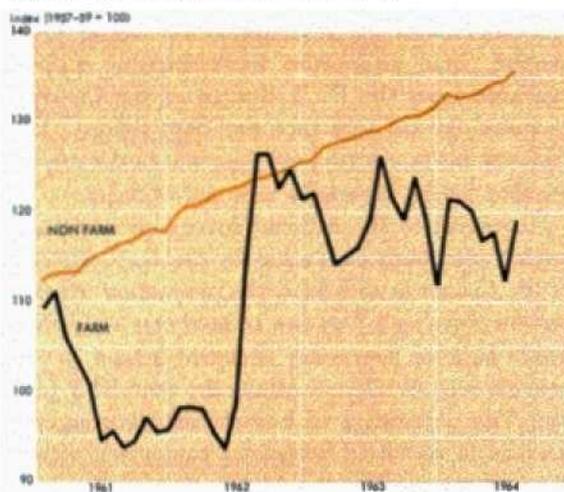
Personal income, the most comprehensive measure of the district's economic performance, in July was up 1.3 per cent from June and 3.8 per cent from a year ago. Comparable increases for the nation were 0.3 per cent and 5.8 per cent. The marked rise in district income from June to July is traceable to large farm receipts, even though net farm income remains comparatively low. In July it was nearly 6 per cent below the level of a year earlier.

The rise in district personal income in the past 12 months is traceable to the expansion in the urban economy. As is reflected by the increase in employment, many cities and towns have experi-

enced an expansion in economic activity. Nonfarm employment in Minnesota, Montana, North Dakota, and Upper Michigan this summer was reported at all-time highs. In the district as a whole, the number of persons on payrolls in July was up 1.2 per cent; and in August, 1.5 per cent from the totals in the corresponding months of 1963.

As measured by the number of workers in manufacturing plants, by the average number of weekly hours worked, and by the consumption of electrical energy in plants, industrial production in the district advanced in July and August. In fact, employment has been higher than a year earlier in nearly all industry groups except in the canning industry where drouth conditions which reduced vegetable crops also reduced canning operations. In Minnesota, for example, employment in this industry during July was down over 7 per cent from July 1963. Average number of hours worked this year has been maintained at well over 40 per week, and in some months they exceeded 41 hours. The adjusted index of industrial use of electric power, which is compiled by industry groups, indicates that, as in former months, the largest advance occurred in the manufacture of durable

Ninth district personal income, 1961 to date



products. The index for durable goods in July was up 12 per cent from a year earlier; nondurables, only 1 per cent. The increase from July to August was 2 per cent in both categories.

One favorable factor in the near-term outlook in manufacturing over the nation is the substantial rise in new orders received by manufacturers. In the Twin Cities new orders received by manufacturers of durable goods rose significantly in July, August, and in the first half of September from the level of former months. At Duluth a blast furnace, which has been idle for three years at the U. S. Steel company plant, resumed production in September. According to company officials, a larger output of iron is needed to meet the rising demand for steel in the nation.

In the nation, according to the August survey conducted by the U. S. Department of Commerce and the Securities and Exchange Commission, plans for plant and equipment spending for 1964 are now projected to increase 12.7 per cent above the 1963 total. In the district, leading indicators also suggest that nonresidential construction activity may continue at a high level, but there is little basis for expecting an upward movement. The amount of contracts awarded in June and July for commercial and industrial building was up slightly from earlier months as well as from a year ago.

Retail sales in the district strengthened during the first half of the year despite the lag in farm income. June sales (the latest monthly figures available from the U. S. Bureau of the Census) exceeded for the first time the 1963 volume. The rise was due to a significant increase in the sale of durable goods, especially new automobiles.

According to the national survey on consumer buying intentions conducted by the U. S. Bureau of the Census in mid-July, the proportion of consumers planning to buy new or used cars and either newly built or previously occupied houses in the next six months was essentially the same as a year ago. The percentage of households reporting intentions to purchase household equipment within the next six months was higher than in the July

1963 survey. Thus, the outlook is favorable for a continued high volume of sales of consumer durables and of houses.

Credit scores rebound

Total credit at Ninth district member banks rebounded strongly in August after suffering a moderate setback in the previous month. August credit expansion, amounting to \$39 million, was twice as large as the average rise for comparable periods over the last four years. Combining July and August figures, however, the net credit increase was \$9 million, an amount not significantly different from the average \$12 million advance for the 2-month period.

The bulk of the current August credit expansion came as the result of a \$37 million increase in investments, \$9 million more than the average increase for the period. However, as in the case of total credit, the 2-month net increase in investments, amounting to \$23 million, was substantially the same as the average July-August advance in prior years. The inner composition of bank investment portfolios, on the other hand, underwent significant changes. Holdings of government securities decreased relative to holdings of state and local investments. In the last two months, governments declined \$6 million while state and local securities rose \$29 million. On the average, during comparable periods in the past, these two categories increased by \$25 and \$2 million, respectively. The current trend, a continuation of one which has prevailed throughout the year, suggests that banks are taking on higher yielding (on an after-tax basis) albeit riskier securities in order to maintain desired profit margins in the face of increasing interest commitments on time deposits.

Outstanding loans rose by only \$2 million in August. When combined with the contraction sustained in July, total loans show a net decline of \$14 million for the 2-month period. Nevertheless, this net contraction is slightly milder than the average \$15 million drop of prior years.

Deposit inflow during August totaled \$114

million which nearly offset the \$122 million deposit outflow in July for a net deposit loss of \$8 million for the two months. In comparable periods in the last four years, net deposit inflow totaled

\$54 million. Time and savings deposits continued to gain relative to demand deposits. During July and August the former increased \$47 million, the latter fell \$55 million.

Moisture switch boosts wheat crop; diminishes feed grains

Crop production in the Ninth district during the past summer was notable for its extremes. Usual weather patterns were generally reversed: the more arid western parts of the district received adequate and timely rainfall while the corn belt section suffered from a damaging drouth. These conditions in large part accounted for a bumper crop of wheat on the one hand, and for reduced feed grain output on the other. The September crop report of the U. S. Department of Agriculture indicates that the district's wheat crop would reach nearly 303 million bushels, a 14 per cent increase over 1963; district corn production, 376 million bushels, a 28 per cent reduction from 1963.

Food grain production outpaces last year

The success of this year's food grain crop is attributable both to the favorable effects of weather on yields and to expanded crop acreages. Among district states the largest relative increase in total wheat production occurred in South Dakota where this year's estimated output of 38 million bushels exceeds that of 1963 by 29 per cent. Winter wheat production in that state is up 45 per cent; spring wheat 22 per cent; and durum 12 per cent. A 151 million bushel crop in North Dakota reflects a 21 per cent over-all increase in wheat production over last year; respective increases of 19 per cent and

24 per cent are indicated for spring wheat and durum.

Moderate expansions in estimated wheat output show up for Minnesota and Montana, up 5 per cent and 1 per cent respectively. In each of these states, even though durum output is significantly higher than a year earlier, reductions occurred in the production of spring wheat in Montana and winter

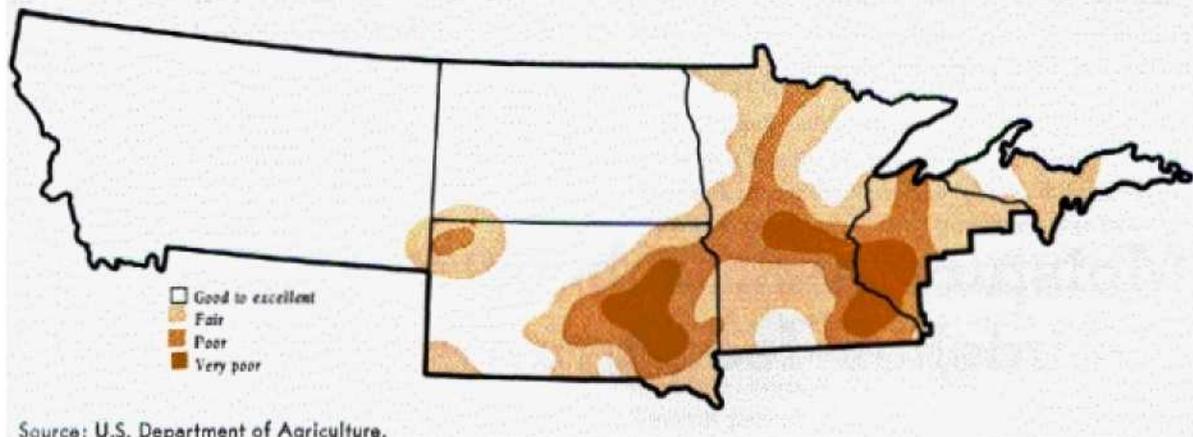
DISTRICT FOOD GRAIN PRODUCTION*

	Acres (thousands)	Bushels** (millions)
Spring Wheat		
1958-62 average	8,964	166
1963	7,986	157
1964	8,445	175
Winter Wheat		
1958-62 average	2,508	58
1963	2,420	59
1964	2,379	67
Durum		
1958-62 average	1,524	33
1963	1,925	49
1964	2,255	61
Rye		
1958-62	632	13
1963	657	13
1964	767	16

*Includes only four full states.

**1964 data are preliminary.

Ninth district feed crop prospects, September 1, 1964



Source: U.S. Department of Agriculture.

wheat in Minnesota. For all district states, estimated spring wheat output is up 11 per cent; winter wheat, 13 per cent; and durum, 24 per cent.

Total estimated district rye production is up 27 per cent, mainly on the strength of a 31 per cent increase in North Dakota and a 30 per cent increase in South Dakota.

Feed grain output down

Extremely dry conditions during July and August sharply reduced feed grain output in Minnesota and South Dakota. As shown on the map, the areas most severely affected by the drought were those in the eastern and central parts of Minnesota and in eastern South Dakota. The impact of the drought is reflected in the corn yield estimates of September 1. For example, this year's yield per acre in Minnesota was set at 56 bushels as compared to 63 bushels in 1963. In South Dakota, where nearly all of the corn producing area was affected, the per-acre yield this year is expected to fall 19 bushels from 1962's average to a total of 29 bushels per acre. These yield reductions, combined with an average acreage decline of 3 per cent in Minnesota and 4 per cent in South Dakota, led to respective output drops in these states of 21 per cent and 42 per cent from 1963 totals. Declines in

corn output are also expected in North Dakota and Montana. In all, the over-all district decline is expected to be 27 per cent below the 1963 crop.

District production of oats and barley is expected to be 8 to 10 per cent below last year. Barley acreages were cut in all states with the largest

DISTRICT FEED GRAIN PRODUCTION*

	Acres (thousands)	Bushels** (millions)
Corn		
1958-62 average	8,446	402
1963	8,538	518
1964	8,290	376
Oats		
1958-62 average	8,166	336
1963	8,013	340
1964	7,922	315
Barley		
1958-62 average	6,321	168
1963	5,822	180
1964	5,046	161

*Includes only four full states.

**1964 data are preliminary.

being 20 per cent cutbacks in both Minnesota and Montana. Per-acre yields of barley were below those of 1963 in Minnesota and South Dakota due to the drought, while those in Montana and North

Dakota exceeded the 1963 figures. District barley production, at 161 million bushels, is down about 10 per cent from last year. Oat production, which is down 7 per cent in total, follows much the same pattern as barley. Total oat acreages were down 1 per cent from last year, and reduced yields in all states except North Dakota further diminishes estimated output.

Hay production and pasture conditions also reflect the weather conditions. In dry Minnesota the hay crop was off 18 per cent from last year; South Dakota, 11 per cent. Conversely, in moist Montana the hay crop about equaled that of 1963, and North Dakota exceeded 1963 output by 3 per cent. The September pasture condition report indicates severe deterioration relative to a year earlier in Minnesota and South Dakota, while Montana and North Dakota report pasture conditions as good or better than a year earlier.

Oil seed production down slightly

A 23 per cent increase in district soybean acres is not expected to offset drouth reduced yields. This will result in a predicted 2 per cent decline in over-all district production. In Minnesota, where nearly 90 per cent of district beans are produced, the September crop report estimates per-acre yields at 19.5 bushels, a drop from 24.5 bushels in 1963. However, a 20 per cent increase in bean acres in Minnesota partially offsets the yield reduction, and

the total output is expected to be 56 million bushels, just 4 per cent under the 1963 total. Soybean acres in South Dakota were expanded by 68 per cent this year and total output is expected to exceed that of 1963 by 15 per cent. North Dakota's bean output is expected to be 12 per cent higher than last year.

DISTRICT OIL SEED PRODUCTION*

	Acres (thousands)	Bushels** (millions)
Soybeans		
1958-62 average	2,756	51
1963	2,731	65
1964	3,350	63
Flax		
1958-62 average	2,934	26
1963	3,081	30
1964	2,785	26

*Includes only four full states.

**1964 data are preliminary.

Reduced flaxseed acres and generally lower yields bring this year's estimated district output to 12 per cent below last year. In North Dakota, the district's major flax producer, a lower number of crop acres was offset by higher yields: total output of 16.5 million bushels is about the same as last year. The flax crop in Minnesota and South Dakota is set at 30 per cent and 22 per cent, respectively, below last year.



50th Anniversary