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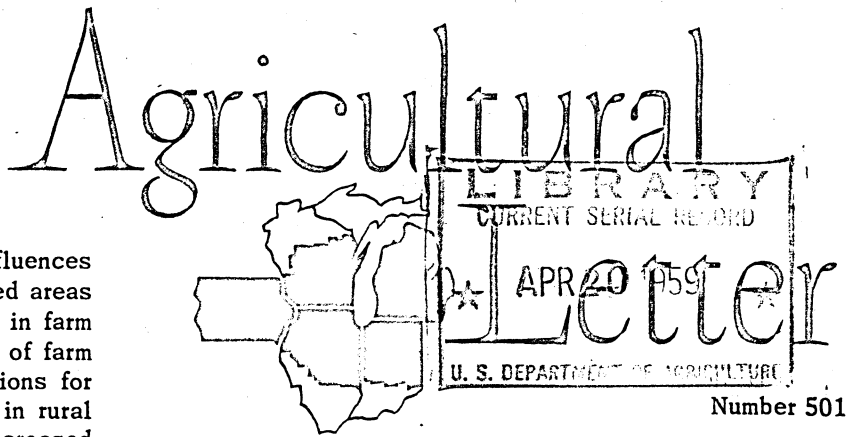
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Federal Reserve Bank of Chicago - -

March 27, 1959



CHANGES IN FARM INCOME have wide influences both on the economy of rural areas and on related areas of the nation's economy. One effect of the rise in farm income the past year has been the rise in sales of farm machinery and equipment and favorable expectations for sales increases this year. Greater retail sales in rural areas have been another. Not only have farmers increased expenditures on both capital equipment and household goods out of current income, but they have also felt able to add further to their debt.

In spite of greater commitments of farmers, however, there is usually some lag between the higher inflow of cash income and corresponding increases in expenditures for farm and home. This is due partly to the desire to put money away for a rainy day and partly to the rather stable nature of expenditure patterns. Hence, the flow of cash into farm communities increases at a more rapid rate than expenditures, and bank deposits in rural communities increase accordingly.

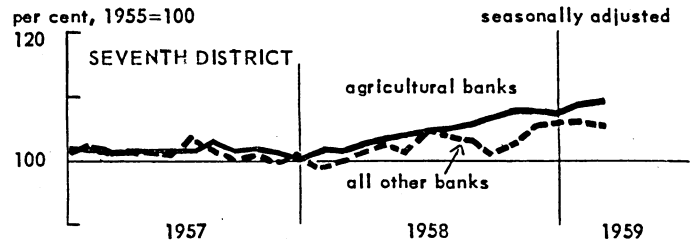
During 1958, realized net farm income in the five states of the Seventh District increased more than one-fifth over 1957. Accompanying this was a 7 per cent rise from February 1958 to February 1959 in demand deposits in agricultural banks¹ which are members of the Federal Reserve System in the Seventh District. This compares with a gain of 5 per cent in demand deposits at all other member banks.

For District states, Iowa led with an increase of nearly 39 per cent in realized net income from 1957. Deposits at agricultural banks in Iowa also registered the biggest gain, up 10 per cent in February over a year earlier. In Illinois, the increases were 17 and 6 per cent.

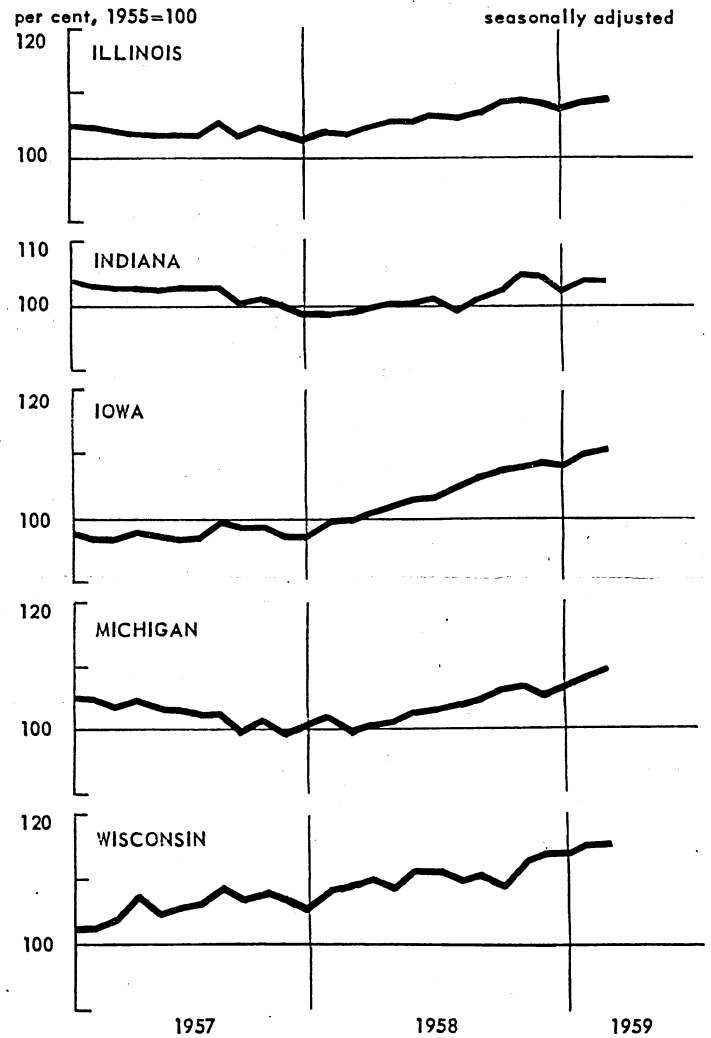
On the other hand, Indiana had a gain of 27 per cent in income associated with a 5 per cent rise in demand deposits at agricultural banks, while Wisconsin and Michigan had income increases of 15 and 3 per cent associated with demand deposit gains of 6 and 9 per cent, respectively. The higher ratio of deposit to income changes in Michigan and Wisconsin relative to states in the Corn Belt can be in part explained by the higher prices paid for feeder cattle which caused larger cash drains in the Corn Belt. Also, only parts of the states of Illinois, Indiana, Michigan and Wisconsin are included in the Seventh District. Therefore, to the extent that areas within a state may perform differently, data for an entire state may not be strictly comparable with that portion included in the Seventh District. But, it is clear that the upward movement in demand deposits at agricultural banks during 1958 does mainly reflect the improvement in farm income during the year.

¹Banks located in towns of 5,000 population or less in counties where agricultural activity is the major source of income.

DEMAND DEPOSITS AT MEMBER BANKS



AGRICULTURAL BANKS



LAST MONTH PLOTTED: FEBRUARY 1959

Research Department