Volume 3, Issue 2
Issued 2/19/69

monthly statistical report

NINTH DISTRICT CONDITIONS

federal reserve bank of minneapolis

TIME DEPOSIT INFLOW SLOWS AT NINTH DISTRICT MEMBER BANKS

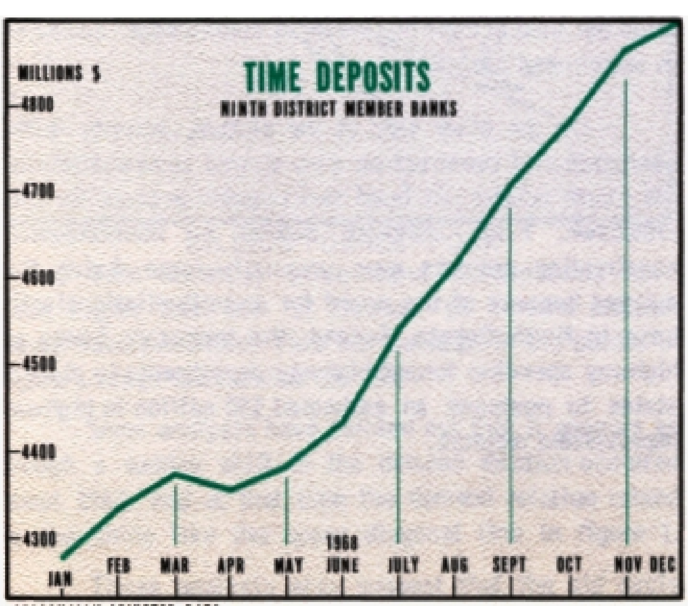
Time deposit inflow at Ninth district member banks slowed perceptibly during December following a relatively sustained period of vigorous growth which began in mid-1968. The slower December advance – 7 percent (seasonally adjusted, annual rate) compared to an 18 percent increase in November – was attributable in part to a slackening in the growth rate of negotiable certificates of deposit (CD's) issued primarily by large city banks.

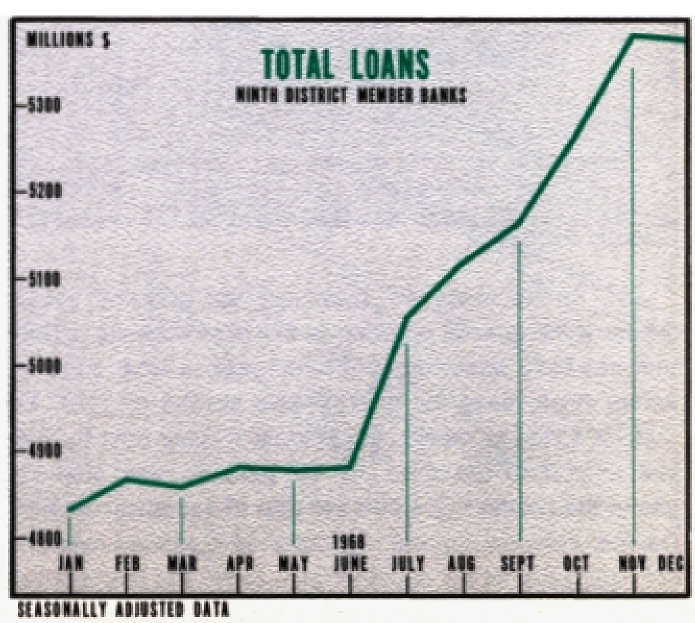
In the five-month period from July to November, CD's – issued in denominations of $100,000 or more – increased by $160 million (more than 50 percent of the amount outstanding at the end of June) as city banks strove to obtain funds to meet a strong demand for credit. During December, the rate of growth in CD's slowed sharply as city banks found it increasingly difficult to compete for funds. The deceleration in the rate of CD expansion was due to sharply increasing interest rates on U.S. Treasury securities and other relatively liquid investment outlets. These rates quickly rose above the highest rates member banks are permitted to pay for time deposits.

The most recent reports from district banks suggest a further slowing of time deposit inflow during January City banks report that they have lost more than 15 percent of their large outstanding CD's in the four-week period since Christmas. This is a reflection of a continuation in the interest rate levels which led to the slowing during December.

The slowdown in time deposit inflow during December was accompanied by a moderating growth in loans and investments. The increase in total credit at all district member banks was on the order of 8 percent (annual rate) during December, down from a 12 percent advance in November.

Virtually all of the increase in credit represented net additions to holdings of U.S. Treasury securities reflecting, in part, purchases of the new Tax Anticipation Bills issued early in December. Holdings of other securities – primarily municipal and Federal agency securities – remained essentially unchanged for the second consecutive month after having expanded vigorously

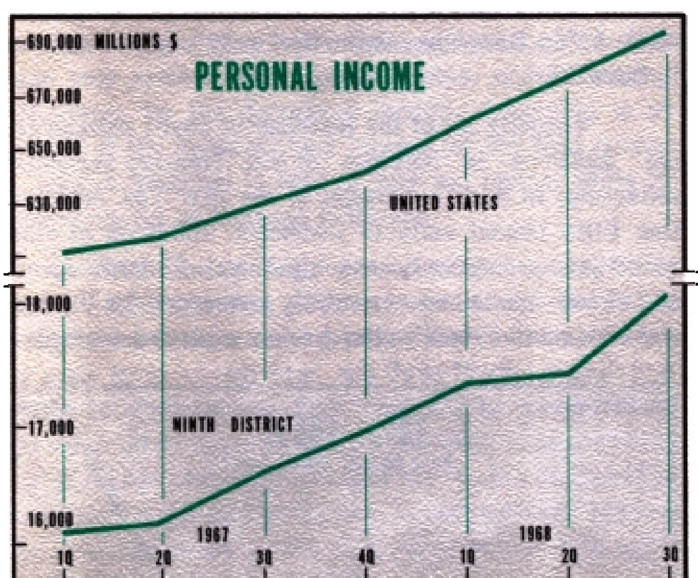




throughout most of the year. Both city and country banks experienced much slower loan growth rates in December. At city banks loans increased by a mere 4 percent in December following the near 50 percent increase recorded in the preceding two months. Virtually all of this slowdown was accounted for by a drop in the growth rate of business loans.

NINTH DISTRICT BUSINESS ACTIVITY ADVANCES AT VIGOROUS PACE

Business activity reached an all-time high level at the end of 1968. Although the rate of growth slowed in November, district wage and salary employment advanced at a 5.2 percent annual rate in the fourth quarter. The fourth quarter advance in employment was spread fairly evenly over the major industrial sectors of the district. Only the mining, transportation, communciations and public utilities sectors recorded declines in employment levels from the third to the fourth quarter. Of those showing gains in employment, manufacturing had the largest, but notable contributions to the overall increase came from the government sector as well as the important service sector. The construction sector also recorded substantial gains from the third to the fourth quarter as employment increased during that period at an annual rate of better than 10 percent.



SEASONALLY ADJUSTED DATA

An increase in third quarter personal income supports the general upswing in district economic activity that has been reflected by the increase in total wage and salary employment for the last five months of 1968. The district's rate of growth in personal income from the second quarter to the third, at 4.7 percent, was also well above the nation's 2.4 percent rate of increase. In North Dakota, personal income increased 14.4 percent over second quarter levels – substantially above the national rate of gain. The second to third quarter increase in Minnesota, at 4.2 percent, was also well above the national advance. In South Dakota, however, the advance in personal income was just slightly above the national increase, and in Montana, it was slightly below.

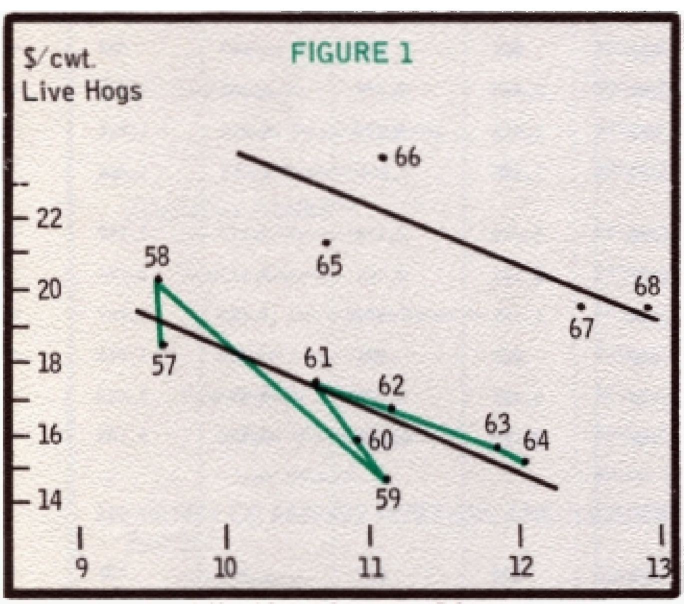
The housing industry was largely responsible for the substantial improvement in construction employment in the fourth quarter. According to building permit data, growth in the housing industry was rather slow during the first half of 1968, but the acceleration was so great in the second half of the year that housing units authorized for the entire year of 1968 were 40 percent greater than in 1967. This rapid growth in the number of new housing units built in the district reflects, in large part, the recent trend in the construction of large multiple unit dwellings rather than single family units. In December, for example, permits were issued for 1,689 units in large apartment buildings in the Twin Cities. This is twice the number of units that were authorized during the previous December.

In keeping with the strong demand for new housing, mortgage interest rates in the Minneapolis-St. Paul metropolitan area rose during December and the average effective interest rate for new home mortgages climbed 34 basis points to an average 7.40 percent. This increase was substantially greater than the average increase for the nation as a whole; nationwide, mortgage rates rose 2 basis points to an average effective rate of 7.23 percent. Three reasons may, at least, partly explain the increase in mortgage rates in the Twin Cities. First, part of the increase was due to the generally upward trend of interest rates in the nation's money and capital markets during December. Second, a large proportion of housing units authorized during December were apartment units. Interest rates on apartment mortgage loans typically are higher than single family mortgages. Third, mortgage lenders in the Twin Cities began to quote higher mortgage interest rates because of their high level of commitments compared to anticipated cash flows.

On the other side of the picture, activity in the nonresidential construction area slowed somewhat during the fourth quarter. At least two reasons account for this slowdown. First, contract awards for nonresidential construction projects were unusually large during the summer because of the award for an antiballistic-missile base in North Dakota. Second, the temporary freeze on highway spending forced highway departments in district states to postpone an estimated $50 million in highway improvement projects.

RELATIVELY HIGH PRICES FOR HOGS PERSIST IN SPITE OF RECORD PRODUCTION – HOG CYCLE THEORY CAST IN DOUBT

The current situation of relatively high hog prices and record pork production in spite of high prices for corn has caused some rethinking of the old theories regarding the levels of production and prices for hogs. Theory had it that the price of hogs and the amount of pork produced varied inversely to each other in a cyclical pattern. It was thought that there was a fairly stable demand relation for pork and, when a small amount was produced, prices would be high. When the price of hogs was high, particularly when they were high in relation to the price of corn, many farmers would enter pork production, output would rise and hog prices would be lower for two or three years. The low prices would, then, cause farmers to leave pork production, production would subsequently fall and prices would be higher for a time. The logical conclusion of this theory suggested that if points were plotted representing prices of hogs and quantities of pork produced, they would tend to trace out a pattern progressing back and fourth along a downward sloping demand relation such as the lower diagonal line in figure 1.[1] This line is arbitrarily drawn to represent a demand relation that appeared to exist for the years 1957 through 1964. It will be noticed that during this period, two back and forth movements occurred along the demand relation.



BILLION POUNDS - PORK

More recently, price-output combinations have been higher than the '57 through '64 demand relation would have permitted. This can be seen in the points in figure 1 which are labeled '65-'68.

Some analysts have pointed out that it appears as though a sudden shift in the demand relation occurred about 1965, and at that time the demand relation raised to something like the upper diagonal line in figure 1.

These analysts also suggest that the old cycle theory no longer applies.[2] Pork production, they say, is no longer a game for the small producer who goes in and out of production every few years as price relationships change. The modern way of producing pork involves large volumes and a high proportion of fixed costs. It isn't practical to shut down a large hog operation when prices decline two or three dollars. That, they say, is why decreases in total production have not occurred in recent years. By this new theory, production is predicted to stabilize somewhere in the area of 1967-68 levels, with prices maintaining a "new plateau" due to the new basic demand.

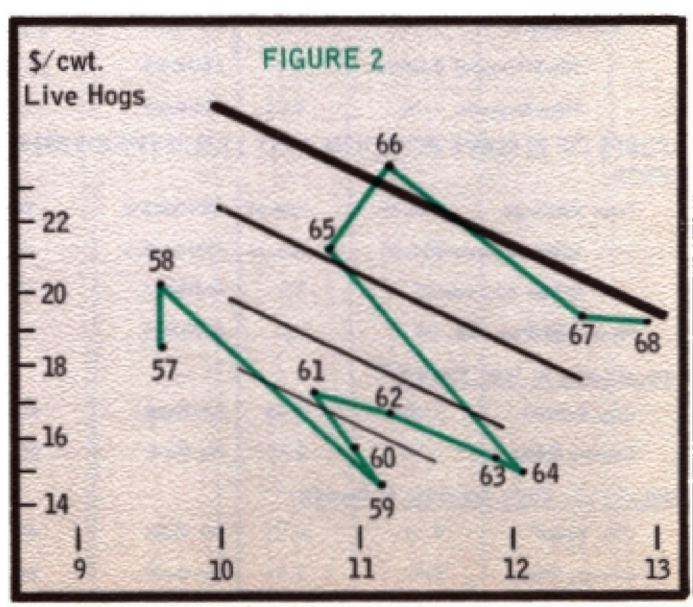
One alternative interpretation would be that the cycle still exists but its appearance has been less obvious since it has recently been observed under conditions of gradually advancing demand as shown by the successive diagonal lines in figure 2. This interpretation may have three advantages over the previous suggestions: 1) The four consecutive years of increases in pork production (1965-68 and the projected increase for 1969) may constitute a time period that is really to short to allow the conclusion that the cycle has been broken. 2) A general shift in demand may seem more plausible than an abrupt one. 3) It accounts for the general zig-zag pattern up and to the right that is observed when the connecting of points for successive years is extended as it is in figure 2.

There will likely be somewhat lower hog prices in most of '69 due to an expected further increase in supply. Historically, however, there is reason to expect prices to rise again – perhaps in late 1969 or 1970. Over the long run, price and production will probably continue their zig-zag pattern with overall moderately higher prices but, more noticeably, with greater levels of production.

---

[1] "Farm Business – 1969: Hogs," Doane's, 1/8/69.

[2] "Hog-Corn Ratio a Declining Indicator," Doane's, 1/8/67.



BILLION POUNDS - PORK

NINTH DISTRICT[1] income and financial indicators

item	unit	1967		1968			1969	9th dist. percent change
		DECEMBER	JANUARY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	DEC. to DEC.
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION								
Total Personal Income[2]								
Nonagricultural Personal Income								
Average Weekly Earnings in Manufacturing[3]	Dollars,	126.67	126.30	129.72p	129.31p	130.23e		+ 2.8
Consumer Instalment Credit Outstanding[4]	Million $	1,097	1,094	1,272	1,198	1,210		+ 10.3
Time & Savings Deposits at Member Banks	Million $	4,228	4,277	4,744	4,846	4,850	4,820	+ 14.7
Savings Balances at Savings & Loan Assoc.[2]	Million $	3,052	3,041	3,174	3,192	3,234		+ 6.0
Cash Farm Receipts, Total[2]	Million $	319	359	460	376	472		+ 48.0
Receipts from Crops	Million $	126	149	169	190	135		+ 7.1
Receipts from Livestock & Produce	Million $	193	210	291	282	241		+ 24.9
MEASURES OF PRICE LEVELS								
Consumer Price Index[5]	Index, sa		119.3	122.2				
Prices Received by Farmers[6]	Index,	106	106	112	113	114	115	+ 7.5
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS[7]								
CITY BANKS[8]								
Adjusted Loans and Discounts[9]	Million $	2,013	1,968	2,198	2,242	2,299	2,217	+ 14.2
Real Estate Loans	Million $	358	359	415	421	420	425	+ 17.3
Commercial and Industrial Loans	Million $	968	941	1,046	1,083	1,061	1,034	+ 9.6
Total Investments	Million $	788	877	902	892	944	911	+ 19.8
U.S. Government Obligations	Million $	376	446	377	363	395	387	+ 5.1
Other Securities	Million $	412	431	525	529	549	524	+ 33.3
Total Deposits	Million $	3,328	3,203	3,410	3,479	4,008	3,398	+ 20.4
Gross Demand Deposits	Million $	1,999	1,873	1,915	1,924	2,476	1,934	+ 23.9
Time Deposits	Million $	1,329	1,330	1,495	1,555	1,532	1,464	+ 15.3
COUNTRY BANKS[10]								
Loans and Discounts	Million $	2,767	2,770	3,075	3,114	3,119r	3,113	+ 12.7
Total Investments	Million $	1,978	1,977	2,150	2,165	2,173r	2,184	+ 9.9
U.S. Government Securities	Million $	1,122	1,114	1,193	1,194	1,185r	1,169	+ 5.6
Other Securities	Million $	856	863	957	971	988r	1,015	+ 15.4
Total Deposits	Million $	4,981	4,928	5,427	5,520	5,597r	5,460	+ 12.4
Gross Demand Deposits	Million $	2,083	1,981	2,179	2,229	2,278r	2,103	+ 9.4
Time Deposits	Million $							
MEASURES OF RESERVE POSITION AND LIQUIDITY OF MEMBER BANKS								
Reserves:[11]								
Total Reserves	Million $	606	632	655	667	686	701	+ 13.2
Required Reserves	Million $	589	616	646	658	669	691	+ 13.6
Excess Reserves	Million $	17	16	9	9	17	10	0.0
Borrowings from FRB	Million $	1	2	20	24	13	8	+1200.0
Ratio of Loans to Total Deposits:[7]								
City Banks	Per Cent	61.7	62.9	65.4	65.6	58.7	66.4	- 4.9
Country Banks	Per Cent	55.6	56.2	56.7	56.4	55.7	57.0	+ 0.2
Ratio of U.S. Gov't Securities to Deposits:[7]								
City Banks	Per Cent	11.3	13.9	11.1	10.4	9.9	11.4	- 12.4
Country Banks	Per Cent	22.5	22.6	22.0	21.6	21.2	21.4	- 5.8

UNITED STATES income and financial indicators

U.S.[15] percent change DEC. to DEC.	item	unit	1967 DECEMBER	1968 JANUARY	1968 OCTOBER	1968 NOVEMBER	1968 DECEMBER	1969 JANUARY
	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION							
+ 9.3	Total Personal Income	Billion $, saar	652.6	654.9	703.2	708.0	713.4p	
+ 9.4	Nonagricultural Personal Income	Billion $, saar	633.0	635.1	682.2	687.0	692.5p	
+ 6.5	Average Weekly Earnings in Manufacturing	Dollars,	119.60	117.60	125.77	125.97	127.41p	
+ 13.1	Consumer Instalment Credit Outstanding[4]	Billion $	32.7	32.7	36.4	36.6	37.0	
+ 10.4	Time & Savings Deposits at Member Banks	Billion $	148.2	150.3	161.7	163.1	163.6	
+ 5.6	Savings Balances at Savings & Loan Assoc.	Billion $	124.6	124.1	129.4	130.0	131.6p	
+ 5.3	Cash Farm Receipts, Total	Billion $	3.8	3.8	5.2	4.9	4.0	
0.0	Receipts from Crops	Billion $	1.9	1.7	2.7	2.7	1.9	
+ 10.5	Receipts from Livestock & Produce	Billion $	1.9	2.1	2.5	2.2	2.1	
	MEASURES OF PRICE LEVELS							
+ 4.7	Consumer Price Index	Index, sa	118.2	118.6	122.9	123.4	123.7	
+ 2.9	Prices Received by Farmers	Index,	105	105	108	108	108	
	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS[7]							
	CITY BANKS[8]							
+ 12.9	Adjusted Loans and Discounts[9]	Billion $	143.3	141.8	151.9	154.0	161.8	
+ 10.7	Real Estate Loans	Billion $	29.0	29.0	31.5	31.8	32.1	
+ 12.3	Commercial and Industrial Loans	Billion $	65.9	65.0	69.7	71.2	74.0	
+ 10.7	Total Investments	Billion $	61.8	62.1	68.1	66.5	68.4	
+ 3.9	U.S. Government Obligations	Billion $	28.3	28.1	30.1	28.2	29.4	
+ 16.4	Other Securities	Billion $	33.5	34.0	38.0	38.3	39.0	
+ 12.1	Total Deposits	Billion $	228.7	224.3	234.4	236.9	256.4	
+ 14.8	Gross Demand Deposits	Billion $	125.7	120.1	123.6	125.0	144.3	
+ 8.8	Time Deposits	Billion $	103.0	104.2	110.8	111.9	112.1	
	COUNTRY BANKS[10]							
+ 11.7	Loans and Discounts	Billion $	49.4	49.1	54.3	55.0	55.2	
+ 8.3	Total Investments	Billion $	33.6	34.1	35.8	36.0	36.4	
+ 1.6	U.S. Government Securities	Billion $	18.5	18.5	18.6	18.6	18.8	
+ 16.6	Other Securities	Billion $	15.1	15.6	17.2	17.4	17.6	
+ 11.8	Total Deposits	Billion $	88.1	87.2	94.9	96.2	98.5	
+ 9.6	Gross Demand Deposits	Billion $	42.9	41.1	44.0	45.1	47.0	
+ 13.9	Time Deposits	Billion $	45.2	46.1	50.9	51.1	51.5	
	MEASURES OF RESERVE POSITION AND 'LIQUIDITY' OF MEMBER BANKS							
	Reserves:[11]							
+ 5.4	Total Reserves	Million $	25,378	25,769	26,665	26,892	26,745p	
+ 6.4	Required Reserves	Million $	24,981	25,411	26,428	26,459	26,582p	
- 21.9	Excess Reserves	Million $	397	358	237	286	310p	
+ 142.9	Borrowings from FRB	Million $	247	220	438	541	600p	
	Ratio of Loans to Total Deposits:[7]							
- 0.3	City Banks	Per Cent	64.5	64.7	66.5	66.7	64.3	
+ 0.2	Country Banks	Per Cent	56.0	56.3	57.2	57.1	56.1	
	Ratio of U.S. Gov't Securities to Deposits:[7]							
- 8.1	City Banks	Per Cent	12.4	12.5	12.8	11.9	11.4	
- 9.0	Country Banks	Per Cent	21.0	21.2	19.6	19.3	19.1	

NINTH DISTRICT[1] production and employment indicators

item	unit	1967 DECEMBER	1968 JANUARY	1968 OCTOBER	1968 NOVEMBER	1968 DECEMBER	1969 JANUARY	9th dist. percent change DEC. to DEC.
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION								
Total Industrial Production:								
Manufacturing								
Mining								
Utilities								
Electrical Energy Consumption: Mfg. & Mining	Index, sa	218	225	240	241	239		+ 9.6
Manufacturing	Index, sa	201	208	225	226	225		+ 11.9
Mining	Index, sa	303	309	312	317	307		+ 1.3
Production Worker Manhours: Mfg. & Mining	Index, sa	119	118	124	123p	n.a.		
Manufacturing	Index, sa	129	128	133	132p	n.a.		
Mining	Index, sa	71	70	83	81p	n.a.		
Total Construction Constracts Awarded	Million $, sa	158.8	214.9	173.9	221.1	n.a.		
Residential Buildings	Million $, sa	61.0	93.8	73.9	71.3	n.a.		
Nonresidential Buildings	Million $, sa	48.8	58.4	58.4	50.0	n.a.		
All Other Construction	Million $, sa	49.0	62.7	41.6	99.8	n.a.		
Bldg. Permits: New Housing Units[12]	Number	1,632	1,442	3,827	3,046	2,715		+ 66.4
MEASURES OF MANPOWER UTILIZATION[3]								
Civilian Work Force	Thousands, sa	2,501	2,536	2,520	2,533p	2,531p		+ 1.2
Total Civilian Employment	Thousands, sa	2,413	2,448	2,430	2,442p	2,450p		+ 1.5
Number Unemployed	Thousands, sa	88	88	90	91p	81p		- 8.0
Unemployment Rate	Per Cent, sa	3.5	3.4	3.6	3.6p	3.2p		- 8.6
Average Weekly Hours in Manufacturing	Hours, sa	41.5	41.7	41.2p	41.5p	40.8e		- 1.7
EMPLOYMENT BY INDUSTRY SECTOR[3]								
Wage and Salary Employment, Nonfarm	Thousands, sa	1,800	1,819	1,844	1,846p	1,850p		+ 2.8
Manufacturing	Thousands, sa	370	372	380	379p	380p		+ 2.7
Mining	Thousands, sa	29	29	32	32p	32p		+ 10.3
Construction	Thousands, sa	97	101	95	97p	99p		+ 2.1
Transport., Comm., & Public Utilities	Thousands, sa	129	130	129	129p	129p		0.0
Trade	Thousands, sa	433	440	446	446p	445p		+ 2.8
Finance, Insurance & Real Estate	Thousands, sa	81	82	83	83p	83p		+ 2.5
Service Industries	Thousands, sa	282	284	291	292p	293p		+ 3.9
Government	Thousands, sa	379	381	388	388p	389p		+ 2.6
Number of Workers on Farms	Thousands, sa	367	377	347	347p	355p		- 3.3
MEASURES OF SPENDING								
Total Retail Sales	Million $, sa							
Durable Goods								
Nondurable Goods	Million $, sa		Discontinued June 1968					
GAF[13]	Million $, sa							
New Passenger Car Registrations	Thousands, sa	16.2	19.3	23.1	19.5	n.a.		
Bank Debits[14]	Billion $, saar	105.6	114.4	126.7	139.3	135.6		+ 28.4

UNITED STATES production and employment indicators

U.S.[15] percent change	item	unit	1967	1968				1969
DEC. to DEC.			DECEMBER	JANUARY	OCTOBER	NOVEMBER	DECEMBER	JANUARY
	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION							
+ 4.3	Total Industrial Production:	Index, sa	162	161	166	167	169p	169p
+ 3.7	Manufacturing	Index, sa	164	163	167	169	170p	
+ 3.3	Mining	Index, sa	123	122	121	126	127p	
+ 9.8	Utilities	Index, sa	193	197	208	210	212p	
	Electrical Energy Consumption: Mfg. & Mining							
	Manufacturing							
	Mining							
+ 3.5	Production Worker Manhours: Mfg. & Mining	Index, sa	113	113	117	116p	117p	
+ 2.6	Manufacturing	Index, sa	117	116	120	120p	120p	
+ 6.5	Mining	Index, sa	77	75	78	81p	82p	
+ 11.7	Total Construction Contracts Awarded	Million $, sa	5036.3	5136.3	5956.7	5549.0	5625.0	
+ 16.9	Residential Buildings	Million $, sa	2038.9	2019.3	2450.1	2304.0	2383.8	
+ 19.1	Nonresidential Buildings	Million $, sa	1824.4	1847.7	2209.8	2274.2	2172.5	
- 8.9	All Other Construction	Million $, sa	1173.0	1269.3	1296.8	970.8	1068.7	
+ 7.8	Bldg. Permits: New Housing Units[12]	Thousands	88.0	75.1	130.1	106.5	94.9p	
	MEASURES OF MANPOWER UTILIZATION							
+ 1.3	Civilian Work Force	Thousands, sa	78,473	77,923	78,804	79,032	79,456p	
+ 1.7	Total Civilian Employment	Thousands, sa	75,577	75,167	75,952	76,389	76,867p	
- 10.6	Number Unemployed	Thousands, sa	2,896	2,756	2,852	2,643	2,589p	
- 10.8	Unemployment Rate	Per Cent, sa	3.7	3.5	3.6	3.3	3.3p	3.3p
0.0	Average Weekly Hours in Manufacturing	Hours, sa	40.7	40.2	41.0	40.8	40.7p	
	EMPLOYMENT BY INDUSTRY SECTOR							
+ 3.2	Wage and Salary Employment, Nonfarm	Thousands, sa	67,060	67,058	68,701	68,920	69,186p	
+ 1.7	Manufacturing	Thousands, sa	19,593	19,612	19,807	19,854	19,918p	
+ 5.8	Mining	Thousands, sa	603	604	591	635	638p	
+ 2.4	Construction	Thousands, sa	3,275	3,107	3,285	3,273	3,353p	
+ 1.6	Transport., Comm., & Public Utilities	Thousands, sa	4,302	4,317	4,374	4,394	4,369p	
+ 3.7	Trade	Thousands, sa	13,793	13,818	14,298	14,331	14,310p	
+ 4.6	Finance, Insurance & Real Estate	Thousands, sa	3,289	3,291	3,411	3,425	3,441p	
+ 4.3	Service Industries	Thousands, sa	10,316	10,331	10,610	10,695	10,758p	
+ 4.3	Government	Thousands, sa	11,889	11,978	12,325	12,313	12,399p	
- 8.1	Number of Workers on Farms	Thousands, sa	4,216	4,003	3,481	3,676	3,874p	
	MEASURES OF SPENDING							
+ 7.2	Total Retail Sales	Million $, sa	26,368	26,936	28,706	28,891p	28,273e	
+ 8.9	Durable Goods	Million $, sa	8,422	8,502	9,402	9,320p	9,174e	
+ 6.4	Nondurable Goods	Million $, sa	17,946	18,434	19,304	19,571p	19,099e	
	GAF[13]	Million $, sa	7,091	7,161	7,615	7,750p	n.a.	
	New Passenger Car Registrations	Thousands, sa	650.3	748.1	856.1	778.4	n.a.	
+ 16.4	Bank Debits[14]	Billion $, saar	2381.9	2461.2	2741.2	2710.1	2773.7	

NOTE: For explanation of footnotes, sources and other notes used in volume 3, No. 2(February 1969 issue), see volume 3, No. 1 (January 1969 issue).

Ninth District Agricultural Credit Conditions Survey

HIGHER FARM INCOMES CITED

The January 1 Agricultural Credit Conditions survey provided clear evidence of an improvement in the Ninth district farm economy. On the basis of the report of 140 country banks responding to the survey, it appears that the shift toward higher farm incomes noted in the October 1 survey continued through the fourth quarter with further gains expected during early 1969. The relatively "easy" credit conditions that were reported in October were also apparent at the end of the year, even though interest rates have moved to higher levels in recent months. The demand for farm credit is largely unchanged from that reported in October and farmers are still rated as conservative in their spending patterns.

Current farm earnings are at or above year-ago levels according to 84 percent of the bankers. This is in marked contrast to the situation last January 1 when over one half of the bankers found incomes below year-earlier levels. In general, those bankers reporting improved incomes are located in dairy and livestock producing areas and, to a lesser extent, in areas where bumper crop yields offset lower grain prices. Those bankers who reported farm incomes that were below those of January 1968 cited weak crop prices, lower quality grains, and harvesting difficulties for the decreased income. According to 69 percent of the bankers, farm income for the first quarter of 1969 is expected to hold at year-ago levels, while 20 percent expect an increase in income.

While farm earnings are somewhat improved little change in farm spending patterns has occurred. Two-thirds of the bankers rate current spending for all items at about the same level as last year, and three-fourths expect that pattern to continue into 1969. Spending for capital items and other relatively expensive purchases is still limited due to higher interest costs and the impact of lower incomes during the past year or so. A concern over increasing farm equipment prices did, however, lead to some increase in equipment purchases.

It appears that farmers in the district used gains in income to reduce debt rather than to increase expenditures as ninety-six percent of the bankers rated current farm debt repayment as normal to rapid. The current demand for credit to refinance farm debt is due to the delayed harvest in the corn and soybean areas, which apparently necessitated some extension of repayment dates.

The overall demand for short-term farm credit was rated to be at normal levels with some increase in demand being generated by the purchase of additional feeder livestock to absorb the bumper feed grain supply. Other sources of pressure for short-term loans were related to the difficulties incurred in last fall's harvest operations and the reluctance of farmers to sell crops at current price levels. The same conditions are expected to prevail during the first quarter of 1969, and considerable pressure for short-term loans could develop early in the coming spring. Wet field conditions this fall prevented many farmers from completing their normal field operations thus delaying many of their operations to spring. A sharp increase in the demand for credit could occur as farmers attempt to finance fertilizer purchases – ordinarily purchased in the fall – as well as additional labor and equipment requirements that may be necessary in order to complete the spring planting within a limited time period.

The demand for farm real estate credit may be characterized as normal to weak with just 5 percent of the bankers indicating a greater than usual demand for farm real estate loans. High land prices and interest rates have discouraged farmers from adding to their land holdings, and higher interest rates have cut incentive to shift short-term debt to mortgage debt. In North Dakota, the 7 percent usuary law has reduced the availability of long-term funds further restricting the extension of real estate credit in that state. There is no anticipated change in the demand for real estate credit in the coming months.

Interest rates on almost all farm credit continued to move upward with little relief expected in the near future. Sixty-two percent of the bankers reported that short-term rates charged in their area were in the 7 to 8 percent category with the remaining bankers citing rates in the 6.5 to 7 percent group. Long-term interest rates were reported as being slightly higher with 42 percent citing rates in the 7–8 percent category as compared to 35 percent in October.

In general, the bankers reported fairly easy credit conditions. Deposit inflows appeared to be fairly strong late in the year which, when combined with a steady loan demand situation, resulted in an overall decline in loan-deposit ratios. One-third of the bankers considered their current loan-deposit ratio as too low, while 60 percent rated the ratio as being at a desired level. Few of the bankers reported any tightness in loanable funds and more than three-fourths were seeking new farm loan accounts. Loan referrals to other banks or nonbank credit agencies were generally rated to be at normal or below normal levels. Several bankers reported that the cost-price squeeze was moving more of their marginal customers into FHA credit, although there appeared to be no problem in meeting the credit needs of the more efficient operators.