# MONTHLY REVIEW

*of Ninth District Agricultural and Business Conditions*

FEDERAL RESERVE BANK OF MINNEAPOLIS

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**SPECIAL ARTICLE**

# *Agriculture's Financial Position Strong*

UNPRECEDENTED agricultural production plus favorable prices add up to record high cash farm incomes. That is a picture of Ninth District agriculture since the war started.

Not since crop production records were first taken in the Northwest has there been such a string of good crop years. Favorable weather therefore has been a principal factor in farm prosperity. Weather is particularly a key factor to agricultural well-being in the Ninth District, since much of it lies in an area where normal annual rainfall is 15 inches or less.

Along with this record farm production, prices have been high, nearly double the prewar 5-year average 1935-1939. This combination of record production and high prices, particularly over a period of several years in succession, is rare in Ninth District farm history.

Since 1942, district cash farm incomes exceeded the 2 billion dollar level in every year. This is about three times the prewar, 1935-1939 level of three-quarter billion dollars. The farm income picture appears even more significant if viewed on a per farm basis.

Farmer's cash income on Ninth District farms in 1932 averaged only $854 per farm. This is before production expenses were taken out. In 1940 it was about $2,000 per farm. Last year, 1945, it reached $4,922 per farm—a new high because of the record production, continued high prices, and a 7 percent decrease in number of farms since 1940.

As might be expected, cash income per farm showed the greatest fluctuations in the Dakotas and Montana. In Montana the average income per farm was only $985 in 1932. In 1945 it was at the all time high of $6,793. In North Dakota the year to year variations in farm income have been even larger. Wheat is a major share of total income in North Dakota and Montana, and crops have been excellent for several years. In South Dakota, Minnesota, and Wisconsin, farm incomes have fluctuated less due to the stabilizing influence of livestock as a major part of farm incomes (see map).

Thus far in 1946, cash farm income is about the same as a year earlier, reflecting large marketings and a continued high price level for farm products. A high level of civilian food consumption, food exports to meet the desperate world food shortage, and drastic reductions in carry-over of the district's principal crops by next July 1 indicate an optimistic outlook for farm products from the demand side. From

**Income Per Farm Is Increased $2,900 Since 1940, as Record Crops, High Prices Triple Returns in District; Weather Is Key to Farm Prosperity**

the supply side, Mother Nature has yet to show her hand, but the condition of winter wheat and soil moisture conditions in the district in general appear fairly favorable for the new crop year.

The Department of Agriculture has been increasingly optimistic in recent weeks about 1946 farm income in the country as a whole being maintained at or near 1945 record levels.

### FARM MORTGAGE DEBT LOWEST IN 30 YEARS

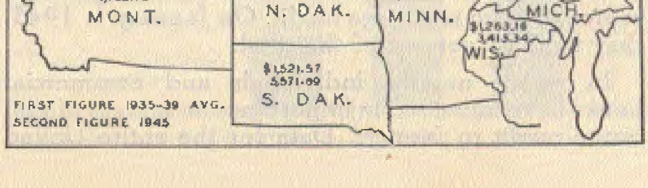
As farmers' incomes have increased, farm real estate mortgage debts have declined. This is a logical course of events even though it is opposite to what happened back in World War I days. So far this time farmers as a class have avoided speculative excesses—which characterized much of the World War I period.

It also has been impossible in recent years for many farmers to buy certain needed farm equipment such as tractors, combines, and corn pickers, not to mention cars, trucks, refrigerators, etc. The money that would have been spent for such equipment, had it been available, was therefore used to reduce debts, buy bonds, or increase bank balances.

Farm mortgage debt in the Ninth District today is the lowest in over 30 years. It is approximately half what it was at the peak in 1923, with nearly half of this decline occurring since 1939.

As might be expected, the largest decline in farm mortgage debt occurred in the important wheat growing areas of the district. In North Dakota and Montana, real estate debt is about half what it was

**ESTIMATED CASH INCOME PER FARM IN NINTH DISTRICT STATES 1935-39 AVG. AND 1945**



in 1939 and only a fraction of the peak in 1923 (see table).

In Minnesota and Wisconsin, important dairy producing areas, the reduction in debt has been substantial but not as spectacular as in the wheat areas. Dairy farm incomes have increased in recent years, but not as much as wheat farm incomes. If times should change — bad weather, decreasing demand, etc.— dairy incomes might well be in the favored position. In other words, wheat incomes might decline sharply in relation to dairy incomes.

### Farm Real Estate Mortgage Indebtedness[1]

(Thousands of Dollars)

| State | 1915 | 1923 | 1939 | 1945 | 1945 in Percent of 1939 | 1945 in Percent of 1923 |
|---|---|---|---|---|---|---|
| Minnesota | 303,936 | 606,134 | 375,943 | 355,221 | 94 | 59 |
| Montana | 73,454 | 192,092 | 72,670 | 32,971 | 45 | 17 |
| North Dakota | 169,864 | 312,870 | 154,312 | 83,150 | 54 | 27 |
| South Dakota | 164,584 | 451,281 | 145,808 | 98,755 | 68 | 22 |
| Wisconsin | 326,156 | 569,846 | 368,975 | 270,016 | 73 | 47 |

[1] United States Department of Agriculture.

The downward trend in farm debt shows signs of straightening out. In fact, the trend may shortly be reversed as returning servicemen and war workers buy farms, and as older farmers retire and turn the farm to younger operators who must give mortgages as part of the purchase price. Crop conditions and the level of farm prices in the years ahead will, of course, determine to a large extent the "slant" of the farm debt trend line.

It should be remembered, however, that although net mortgage debt was reduced during the war, there was a substantial group of farmers who increased their indebtedness. In fact new mortgage business in 1945 for the entire United States was estimated at over one billion dollars compared with 772 million dollars in 1940. This would indicate that the financial position of all farmers may not be strong.

## WHO OWNS THE FARM MORTGAGES?

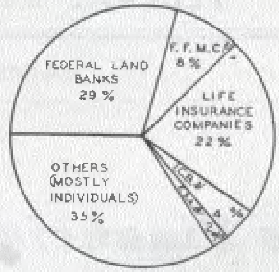
The Federal Land Banks hold about one-third of farm real estate mortgages in the Ninth District, although the proportion varies by states. The western states of the district have a much larger share of Federal Land Bank mortgages compared with the eastern areas.

Individuals hold slightly more than a third of real estate mortgages and as a group are the most important single source of farm real estate mortgage credit in the Ninth District as well as for the United States as a whole. These mortgages arise generally when a farmer sells and takes a mortgage in part payment. In many cases retiring farmers are glad to keep the mortgage as a source of income.

Life insurance companies are also an important source of farm mortgage credit. On January 1, 1945, they held 22 percent of the total.

In recent months individuals and commercial banks have increased in importance as sources of real estate credit to farmers. Data for the entire United

FARM MORTGAGE DEBT OUTSTANDING AS OF JANUARY 1, 1945, BY PRINCIPAL LENDER GROUPS, NINTH DISTRICT STATES 1/




1/ MINNESOTA, MONTANA, NORTH AND SOUTH DAKOTA
2/ FEDERAL FARM MORTGAGE CORPORATION
3/ INSURED COMMERCIAL BANKS
4/ FARM SECURITY ADMINISTRATION

SHORT-TERM LOANS AS OF JANUARY 1945, IN THE NINTH DISTRICT 1/


1/ MINNESOTA, MONTANA, NORTH AND SOUTH DAKOTA
2/ PRODUCTION CREDIT ASSOCIATIONS
3/ FEDERAL INTERMEDIATE CREDIT BANKS

States indicate that in the second quarter of 1945 individuals made loans on 46 percent of credit financed farm sales, while commercial banks were lenders in 25 percent of these sales. Insurance companies made 10 percent of such loans to finance farm sales, land banks 11 percent, and other lenders 8 percent.

Commercial banks, of course, are the principal source of short-term collateral or chattel loans. From the total loans by institutional lenders in the Ninth District, as indicated in the accompanying chart, commercial banks owned 54 percent of the chattel mortgages on January 1, 1946. This compared with only 6 percent for the Production Credit associations and 13 percent for the Farm Security Administration. Surprisingly, about a fourth of short-term chattel mortgages outstanding were Emergency Crop and Feed loans, some of them dating back to the mid-Thirties. Such loans constitute a substantial proportion of outstanding loans in areas subject to drouths. The amount of short-term loans made by individuals is not available for the district.

## LAND PRICES CONTINUE UPWARD TREND

Land values in Ninth District states have advanced steadily since the outbreak of the war in 1939. The trend thus far is similar to what happened in the World War I period, but it is at lower levels. In the three western states land values on November 1, 1945, were not as high as in the 1912-1914 base period (see chart).

With the exception of Montana, land values in Ninth District states have advanced much less from the 1935-1939 period than is true for the country as a whole. In the Dakotas, for example, land values were up less than 25 percent from the prewar average compared with 40 percent for Minnesota and 60 percent for the country as a whole.

On the whole, it must be concluded that on the basis of present land values, the financial stability of Ninth District agriculture is not threatened.

A glance at the chart below indicates that the most explosive land inflation in the World War I period occurred during the 18 months following World War I. Speculation and credit inflation marked this period to a considerable extent. (Continued on Page 323)

## BANKING

# Bank Earnings in '45 Showed Moderate Gain

***NET earnings of member banks in 1945 up 17 percent. Operating costs increased 12 percent.***

***Recoveries and profits on securities accounted for 15 percent of profits before taxes.***

NET income after taxes of member banks in the Ninth District was $19 million in 1945, up 17 percent over the $16.3 million of the previous year. This was a rate of increase substantially higher than net earnings after taxes exhibited from 1943 to 1944, when they rose by slightly less than 10 percent.

The picture over the district was not, however, at all uniform. Net earnings after taxes of Upper Peninsula Michigan banks actually declined slightly, while Wisconsin banks (in the Ninth District) turned in net earnings after taxes one-third above 1944.

Gross current earnings were up $7.2 million over 1944, amounting to $56.8 million in 1945. Of this amount 54 percent, or $30.2 million, was interest earned on investments, a substantial proportion of which ($27.3 million) was from U. S. government securities. Gross current earnings were thus 15 percent above 1944, and 64 percent higher than the average for the 1935-1939 prewar period.

**Sources of Ninth District Member Banks' Current Earnings**

(In thousands of dollars)

| | 1935-39 Average | 1944 | 1945 |
|---|---|---|---|
| Interest and dividends on securities | $12,922 | $24,226 | $30,153 |
| Earnings on loans | 14,012 | 14,475 | 15,337 |
| Service charges on deposit accounts | 1,315 | 2,948 | 2,988 |
| Other earnings | 6,496 | 7,927 | 8,284 |
| Total | $34,745 | $49,576 | $56,762 |

The expanded earnings were derived almost entirely from larger investment incomes, which rose from $24.2 million in 1944 to $30.2 million in 1945. Earnings from loans were up $800,000, reflecting the fact that the total 1945 loan volume was about 10 percent above the previous year.

Earnings from service charges on deposit accounts increased only very slightly. This was to be expected. While deposits were somewhat larger, a larger proportion of the deposits was presumably in accounts large enough to be free of certain charges.

The fundamental explanation for these increased earnings is, of course, the large increase in deposit liabilities during the year. For Ninth District member banks the 1945 deposit increase was 22 percent, with member banks in South Dakota recording a 35 percent expansion. It is thus evident that the expansion of earnings did not keep pace with the banks' increased deposit liabilities. Total earnings from all sources amounted to 2.2 percent of total assets, down somewhat from the previous year's figure of 2.4 percent.

Earnings as a percentage of total assets were highest for the smaller banks, and lowest for the larger institutions. The same pattern was evident for the ratio of net profits after taxes to total assets.

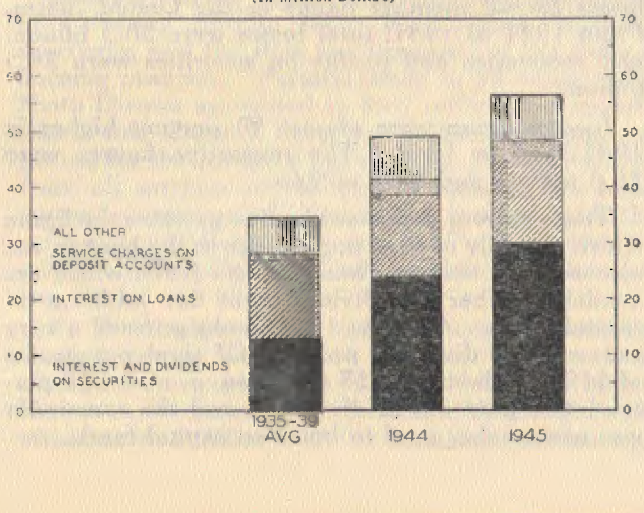
During 1945, banks averaged 1.5 percent from their investments in government securities and 3.2 percent from funds invested in other types of securities. This figure was strikingly uniform for all sizes of banks.

Relative earnings from loans and discounts were substantially higher than from investments. Banks averaged 5.6 percent from these funds, up slightly from the previous year's average of 5.5 percent. Average interest earnings on loans varied widely according to size of bank. The smallest banks (deposits under $500,000) averaged 7.8 percent, while the largest banks (deposits over $10 million) earned an average of 4.3 percent from their loan portfolios. Both large and small banks averaged a slightly higher return on loans in 1945 than in 1944.

The banks in 1945 required 12 percent more money for costs of operation, these costs amounting to $35.7 million. The largest jump in operating costs was exhibited by interest payments on time and savings deposits; these costs in 1945 were almost one-fourth higher than the previous year. This is in line with the rapid rise of time deposits during the latter part of the war, relatively much larger than for total deposits. (Continued on Next Page)

**GROSS EARNINGS OF NINTH DISTRICT MEMBER BANKS**

(In Million Dollars)



### Net Profits After Taxes of Ninth District Member Banks by States

(In thousands of dollars)

| | 1944 | 1945 | % Change |
|---|---|---|---|
| Minnesota | $10,759 | $12,714 | + 18.2 |
| Montana | 1,392 | 1,713 | + 23.1 |
| North Dakota | 1,028 | 1,168 | + 13.6 |
| South Dakota | 1,327 | 1,389 | + 4.7 |
| Northwestern Wisconsin | 830 | 1,123 | + 35.3 |
| Upper Peninsula Michigan | 917 | 848 | — 7.5 |
| Total Ninth District | $16,253 | $18,955 | + 16.6 |

### Operating Expenses of Ninth District Member Banks

(In thousands of dollars)

| | 1935-39 Average | 1944 | 1945 |
|---|---|---|---|
| Salaries and wages | $10,764 | $14,455 | $15,927 |
| Interest on time deposits | 5,816 | 4,899 | 6,234 |
| Other operating expenses* | 9,694 | 12,521 | 13,513 |
| Total | $26,274 | $31,875 | $35,674 |

* Excludes income taxes.

Salaries and wages were, of course, the largest single item of operating costs. In 1945, salary and wage payments were $15.9 million, 45 percent of total operating costs before an allowance for profit on capital.

Net current earnings, gross current earnings less operating expenses, rose to $21.1 million in 1945 from the previous year's figure of $17.7 million.

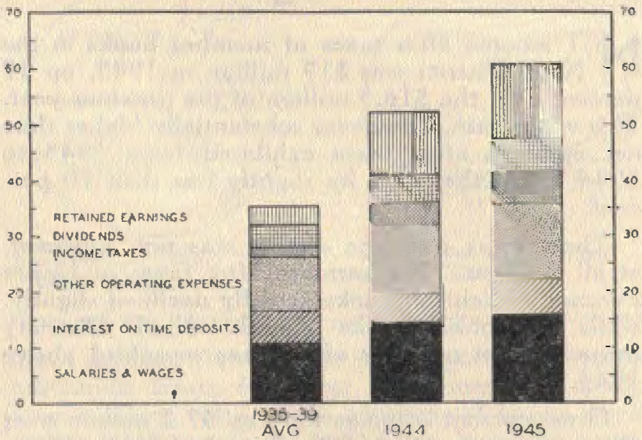
Net recoveries and profits from sale of securities contributed heavily to profits. In 1945 these recoveries and profits amounted to $3.8 million, 15 percent of net profits before taxes. While this figure is materially above the previous year, it is well to remember that this element of income is uncertain and unpredictable and by its very nature cannot be considered an indefinitely recurring part of bank earnings. With a material decline in business activity, losses have historically exceeded recoveries, with the **net** figure a charge against net current earnings rather than an addition to them as in recent years. As a matter of fact, during the 20-year period ending with the war, gross recoveries and profits on securities were only 54 percent of losses for all member banks in the United States. From 1921 to 1941, total losses were $8.3 billion, and recoveries and profits on securities were $4.5 billion.

Income taxes were almost 50 percent higher in 1945 than in 1944. The respective figures were $6.0 million and $4.1 million.

These various data combined to produce the figure which is finally of most importance to the banker, net income after taxes. These are the funds which are available either for dividends or for addition to capital funds. Again in 1945 banks pursued a very conservative dividend policy. Of total net profits of $19.0 million, only $5.6 million, or about 30 percent, was paid out in dividends and the remainder was presumably used to build up capital funds.

### DISPOSITION OF GROSS EARNINGS AND PROFITS OF RECOVERIES OF NINTH DISTRICT MEMBER BANKS

(In Million Dollars)




According to the operating ratio report, cash dividends declared amounted to 3.3 percent of capital funds (3.1 percent in 1944), and net profits after income taxes were 11.6 percent of total capital funds (11.1 percent for the previous year). It is worth noting, however, that of the 454 banks included in the study only 252 banks showed an

(Continued on Page 324)

### Disposition of Ninth District Member Bank Earnings

(In thousand dollars)

| | 1935-39 Average | 1944 | 1945 |
|---|---|---|---|
| Gross current earnings | $34,745 | $49,576 | $56,762 |
| Less: Operating expenses | 26,274 | 31,875 | 35,674 |
| Equals: Net current earnings | 8,471 | 17,701 | 21,088 |
| Plus: Net recoveries, etc. | 517 | 2,620 | 3,826 |
| Equals: Net profits before income taxes | 8,988 | 20,321 | 24,914 |
| Less: Income taxes | 1,792 | 4,068 | 5,959 |
| Equals: Net profits after income taxes | 7,196 | 16,253 | 18,955 |
| Less: Cash dividends declared | 3,847 | 4,844 | 5,633 |
| Equals: Retained earnings | 3,349 | 11,409 | 13,322 |

### Selected Operating Ratios of Ninth District Member Banks*

| | 1944 | 1945 |
|---|---|---|
| Percentage of total capital funds: | | |
| Net current earnings | 12.0% | 13.1% |
| Profits before income taxes | 13.2 | 14.4 |
| Profits after income taxes | 11.1 | 11.6 |
| Cash dividends declared | 3.1 | 3.3 |
| Percentage of total securities: | | |
| Interest and dividends on U. S. securities | 1.5 | 1.6 |
| Interest and dividends on other securities | 3.2 | |
| Percentage of total loans: | | |
| Interest and discounts on loans | 5.5 | 5.6 |
| Capital and deposit ratios—in percentages: | | |
| Capital funds to total assets less government securities and cash assets | 34.5 | 37.7 |
| Capital funds to total deposits | 7.0 | 6.0 |
| Interest on time deposits to time deposits** | 1.1 | 1.0 |

* These are the simple averages of the individual ratios computed for each bank.

** Banks reporting zero amounts were excluded in computing this figure.

## BUSINESS

# February Trade Volume Shows Expansion

***UPWARD retail sales trend sustained. Department store sales for February were 27 percent over last year.***

***Bank debits were larger by 19 percent.***

***Building activity moved forward.***

***Employment at a high level as labor force shifts to peacetime activities.***

RETAIL trade in the district maintained its course upward and moved sales at department stores to an unprecedented dollar volume for the month of February.

The 27 percent sales gain for the month was not at the expense of inventories, for the value of stocks at the month end exceeded figures for a year earlier and also for January. Household appliances, furniture, and houseware departments were leaders in sales gains, but men's clothing and furnishings also moved readily to consumers.

Sales, stocks, and outstanding orders currently reported by department stores reveal some interesting changes when viewed along with figures reported by these same stores in 1942.

In the earlier years, outstanding orders were twice the monthly sales volume. Currently, outstanding orders are more than four times the monthly sales. The ratio of stocks to sales for February, 1942, showed sales to have been 25 percent of stocks on hand. For February this year, sales were 40 percent of stocks on hand, indicating a much faster rate of turnover of merchandise.

The high ratio of outstanding orders to sales focuses attention on two things:

1. The manufacturers' practice of delivering saleable merchandise on a percentage basis of orders received. This probably has caused some duplicate ordering.

2. The optimism of merchants as they study the economic factors likely to affect retail sales in 1946. In view of the inventory situation that developed after World War I, present developments may suggest caution. In 1920, large inventories accumulated at high prices were later moved to consumers on a falling market, incurring losses to merchants.

City department stores reported February sales 27 percent over a year ago, while country stores sales were up 26 percent. Sales gains by cities appear in the accompanying table.

Furniture stores reported sales for the month 51 percent larger than February, 1945, and 7 percent over January this year. Stocks also showed improvement from last year to indicate an expanding volume of merchandise reaching the market.

**Department Store Sales Indexes by Cities**
**(1935-1939 = 100 unadjusted)**

| | Feb. 1946 | Feb. 1945 | Feb. 1944 | Feb. 1941 |
|---|---|---|---|---|
| Minneapolis | 213 | 164 | 132 | 86 |
| St. Paul | 179 | 143 | 115 | 82 |
| Duluth-Superior | 188 | 159 | 130 | 71 |

**Department Store Sales, February, 1946**
**Percent increase over February 1945**

| | |
|---|---|
| Duluth-Superior | +16 |
| Mankato | +21 |
| Minneapolis | +30 |
| St. Cloud | +35 |
| St. Paul | +25 |

**Debits** to depositor checking accounts at commercial banks moved to an even higher plane for the month of February, 19 percent above February, 1945. Customary as large percentage gains over the previous periods have been, the growth in dollar volume of business activity, as measured by bank debits, is not fully grasped. Only by comparing current figures with prewar totals is the significant dollar expansion accurately reflected.

In February this year, debits to accounts at 132 cities in the Ninth District amounted to $1.7 billion. In February 1945 they totalled $1.4 billion and for February 1940 only $0.8 billion. The 1935-1939 average was $0.6 billion. The dollar value of checks against depositors' demand accounts is currently running about three times the prewar level, reflecting both higher prices and an increased volume of business.

Debits in the larger metropolitan centers failed to keep pace with most farming centers. The South Dakota state total was up 44 percent for the month of February. Banks at Chamberlain, South Dakota, reported debits up 70 percent, Mitchell 65 percent, and Sioux Falls 52 percent. At Duluth, Minnesota, debits were off 1 percent from a year ago, probably reflecting a slower rate of activity in shipbuilding and related lines. Several cities in the upper Peninsula of Michigan also showed a smaller volume of debits compared to last year.

**Building activity** moved forward during the month of February despite labor controversy, material shortages, and the slow development of the federal housing program. Permits issued in 49 cities in the Ninth District amounted to $6.7 million last month, which was about 9 times the $760,000 figure reported for these centers in February, 1945. Reports from all sections of the district indicate the same general expansion of construction activity, with the exception of Minneapolis and St. Paul, where permits granted indicate a faster building rate than for the district as a whole.

F. W. Dodge figures on total construction, including public works and utilities, indicate little change from a year ago for the Northwest states. However, the same large increase in residential construction was evident.

(Continued on Next Page)

F. W. Dodge reported total construction in 37 states for February, 1946, at $387 million as against $147 million for the same month in 1945.

**The employment picture** in the Ninth District has changed in some aspects during the winter months. The number employed in non-agricultural pursuits is less than a year ago but substantially above the prewar level. Reconversion factors as well as the usual seasonal conditions have contributed to the gradual rise in the number of unemployed.

Among the unemployed are many discharged veterans. While in the armed forces, many of them acquired new skills as an outcome of intensive training courses. Some of these men are now seeking jobs which will enable them to use their newly acquired skills instead of returning to their old jobs. Since the scale of wages, in many instances, is below their expectation, much time is spent in searching for the best-paying job.

Discharged war plant workers hesitate to accept the jobs open to them at the present time. The openings tend to be at wages much below those they received at war plants. In a period of rising living costs such jobs are more unattractive.

Employers, on the other hand, are reluctant to fill some vacancies. Material shortages limit the scale of operations in many firms. The wage-price controversy also creates an element of uncertainty. As a result, management hesitates to enlarge its labor force.

In spite of the present labor surplus, as indicated by the number of individuals drawing unemployment compensation, some firms are still experiencing a labor shortage. This situation is the result of a labor dislocation. During the war large producers and the Government pulled laborers into industries producing war materials. Now the economy is faced with the problem of realigning the labor force to peacetime industry. This is a slow and painful process, for in most cases it involves a down-grading of labor; that is, former war plant employees must accept new jobs at decidedly lower wages.

**Instalment loans** made by commercial banks, reflecting the results of their efforts to participate actively in this loaning program, expanded still further in the month of February. Consumer credit of reporting banks was one-third larger than a year ago due to greater extensions in all categories—personal loans, repair and modernization loans, direct automobile loans and purchased instalment paper.

The Board of Governors of the Federal Reserve System reported U. S. consumer credit for year end 1945 at $6.7 billion. This was one-third below the 1941 peak but included a gain of $800 million for the year 1945.

**Livestock slaughtering,** one of the leading manufacturing enterprises of the district, kept pace with the expanding business volume registered in other lines of activity. The U. S. Department of Agriculture reported for February increased slaughtering of all classes of livestock in the St. Paul-Wisconsin area. Cattle and calf killings showed a moderate increase, while slaughterings of hogs and sheep were substantially larger than a year ago. For the nation, federally-inspected hog slaughterings in February were 44 percent larger than for that month in 1945.

Flour production for the short month of February was off 6 percent from January, but was 9 percent greater than a year ago. The 1.8 million barrels produced in Northwest mills was the largest February output reported since 1929. Electric power production in the Northwest remains at the high wartime level to indicate an uninterrupted consumption of this commodity by industry.

**Freight carloadings** in the Northwest region in the aggregate were unchanged from February a year ago, but considerable variation in volume occurred among kinds of freight shipped. The larger movements of livestock—49 per cent over '45—and grain and grain products—up 39 percent—were offset by reduced rail shipments of lumber, coal, coke, and miscellaneous freight.

The Association of American Railroads reported US loadings of revenue freight for February about 10 percent below the wartime rate of shipments.

### Sales at Department Stores

| | Number of Stores showing Increase | Decrease | % Feb. 1946 of Feb. 1945 | % Jan.-Feb. 1946 of Jan.-Feb. 1945 |
|---|---|---|---|---|
| Total District | 274 | 22 | 127 | 121 |
| Mpls., St. Paul, Dul.-Sup. | 26 | 1 | 127 | 122 |
| Country Stores | 248 | 21 | 126 | 121 |
| Minnesota | 74 | 3 | 128 | 118 |
| Central | 9 | 0 | 130 | 115 |
| Northeastern | 6 | 0 | 131 | 124 |
| Red River Valley | 5 | 0 | 128 | 119 |
| South Central | 20 | 1 | 123 | 114 |
| Southeastern | 13 | 0 | 129 | 126 |
| Southwestern | 21 | 2 | 130 | 120 |
| Montana | 37 | 0 | 131 | 127 |
| Mountains | 12 | 0 | 135 | 131 |
| Plains | 25 | 0 | 129 | 126 |
| North Dakota | 40 | 10 | 113 | 114 |
| North Central | 7 | 4 | 99 | 97 |
| Northwestern | 2 | 3 | 110 | 113 |
| Red River Valley | 16 | 1 | 112 | 114 |
| Southeastern | 13 | 2 | 120 | 119 |
| Southwestern | * | * | — | — |
| Red Riv. Val.-Minn. & N.D. | 21 | 1 | 115 | 115 |
| South Dakota | 42 | 4 | 131 | 124 |
| Southeastern | 13 | 1 | 140 | 130 |
| Other Eastern | 21 | 2 | 125 | 121 |
| Western | 8 | 1 | 119 | 110 |
| Wisconsin and Michigan | 55 | 4 | 126 | 119 |
| Northern Wisconsin | 14 | 2 | 138 | 128 |
| West Central Wisconsin | 30 | 2 | 123 | 118 |
| Upper Peninsula Mich. | 11 | 0 | 127 | 118 |

* Not shown, but included in totals. Insufficient number reporting.

### Northwest Business Indexes

(Adjusted for seasonal variation 1935-1939 = 100)

| | Feb. 1946 | Jan. 1946 | Feb. 1945 | Feb. 1944 |
|---|---|---|---|---|
| Bank Debits—93 Cities | 248 | 247 | 208 | 229 |
| Bank Debits—Farming Centers | 300 | 292 | 231 | 236 |
| City Department Store Sales | 272 | 215 | 213 | 173 |
| City Department Store Stocks | 149 | 154 | 144 | 146 |
| Country Department Store Sales | 257 | 210 | 202 | 181 |
| Miscellaneous Carloadings | 119 | 143 | 156 | 150 |
| Total Carloadings (Excl. Misc.) | 97 | 99 | 95 | 110 |
| Farm Prices—Minn. (Unadj.) | 167 | 168 | 168 | 165 |

## AGRICULTURE

# *Food Crisis Hinges on the Weather*

***THREE years of world drouth cause world food grain shortage.***

***Favorable prices are indicated for 1946 wheat crop.***

***Farm product prices up.***

***Good weather would insure high 1946 farm income.***

MANY people thought that, within a few months after the end of the war, food surpluses would develop as military and lend-lease food requirements were reduced. In fact it was felt that, if unemployment should become widespread, the supply of farm products would exceed the demand and farm prices would fall. Some even predicted that the costs of maintaining farm prices at the guaranteed level would run into the billions.

That these fears were groundless is proved now by the current world food crisis. Right now the food crisis is confined largely to the grains—wheat, rice, corn, and the other feed grains. Shortages may later spread to livestock as feed grain shortages curtail feeding operations.

The present world food troubles have their origin several years back. While the United States has been enjoying record crops since we entered the war, most other major grain producing areas of the world have had widespread drouth.

Three years ago, North Africa had its first drouth and crops have been short every year since. North Africa normally is on an export basis — largely to Europe.

Drouth spread to the southern hemisphere in 1944. Australia and Argentina, which normally export huge quantities of wheat, found themselves with short crops. In fact Australia imported wheat from Canada for the first time in history. Argentina's 1945 wheat crop also was hard hit but Australia's crop was better than it was in 1944.

In 1945 the drouth spread to the European countries. Europe is said to have produced the smallest wheat crop in 50 years. South Africa also was affected and found it necessary to import corn—the first time since the Boer Wars.

When the drouth first hit North Africa in 1943, the four chief wheat exporting nations held some 1,750 million bushels of wheat in reserve, the largest on record. It is estimated this will be reduced to only 250 million bushels before the 1946 crop is harvested. This is the lowest world carry-over in modern times. This all adds up to more than 1½ billion bushels of wheat actually being used in the last three years than was produced.

We are now at the end of wheat reserves. The world will largely have to depend on 1946 wheat production after mid-year. The weather here and abroad will largely determine the size of the crop.

If present estimates are correct, it will be impossible to meet world wheat demands in the next few months. Some reports indicate that the Danubian basin surplus wheat will be largely diverted to Russia this year. Normally this wheat went to western Europe in exchange for manufactured goods. This, together with fertilizer and equipment shortages, and other disruptions caused by war, means an accentuated demand for wheat imports in Europe throughout 1946, early 1947, and possibly later if crops continue short. Only 450 million bushels of wheat are estimated to be available for export in the first six months of 1946, while importing countries have asked for 637 million bushels to cover bare minimum needs.

The job of furnishing wheat to Europe to see her through to the next harvest falls almost entirely on the United States and Canada. We are expected to send 225 million bushels, and Canada 160 million bushels by next July 1. We fell down slightly on February shipments, but every effort is being made to make it up during March. Argentina has little to export this year because of drouth and most of Australia's surplus will go to the Orient to ease the severe rice shortage.

This helps to explain the current crisis in the world food situation and the need for maximum food production in 1946. It explains the recent regulations covering wheat and other feed grains. If drouths persist it may be necessary to make restrictions even tighter. Restrictions might even be applied again on other foods — distasteful as this would be to the public.

Our own domestic demands in the first postwar year evidently were underestimated. Per capita food consumption is running 10-12 percent above the prewar level. There are approximately 9 million more mouths to feed than before the war. Another factor which is tightening the food supply is the $2 billion appropriation to UNRRA late in 1945. UNRRA may pick up where lend-lease left off as far as food is concerned.

These unprecedented food demands have wedged prices of food products tightly against ceilings. It has caused the administration to "about face" on the proposition of eliminating food subsidies and price ceilings in the first half of 1946. More and more economists are indicating that prices of most farm products will remain close to present levels, at least until 1947 harvests are in sight. They point to domestic stocks of wheat and corn at one-third to one-fourth of the prewar level and the unprecedented world demand for food.

At the same time, it should be pointed out that with normal weather conditions in this country and abroad the food picture could change over a period of a crop year. Agricultural surpluses could then be the theme rather than shortages.

Weather, always an important factor to Northwest farmers, is more important than ever, not only to farmers in this area but to people all over the world.

**Crop prospects for 1946** appear fairly favorable, although it is still too early to appraise conditions accurately. The southwestern winter wheat belt recently received good soaking rains which relieved the winter drouth. Conditions in the winter wheat area of South Dakota are still somewhat dry, but deep subsoil moisture supplies will help.

The next estimate of the size of the winter wheat crop is April 10. First official estimates of spring wheat acreage will be issued this March 20.

Crop prospects in general are mostly on the favorable side at the opening of the 1946 crop season, according to the Government's March 1 general crop report. This report states that to help attain heavy production this season, for which the present demand is as strong as at any stage in wartime, farmers generally will be well supplied with seeds and insecticides. They will have fairly abundant supplies of most fertilizers. The situation with regard to machinery is slow to improve, according to the report, and it is handicapping spring work to some extent. Labor supplies are still short but improving.

**Cash farm income** in the Ninth District during 1945 totaled over $2.1 billion. This is 103 percent of last year, and nearly three times the 1935-1939 average.

A continued high level of farm income is in prospect if crop conditions are again favorable. Present and prospective demand conditions give assurance of favorable prices. This plus good crops would again add up to high farm incomes.

There are many uncertainties, however, in the 1946 farm income picture. Grain shortages may curtail livestock feeding operations, particularly for hogs, poultry, and dairy cows. This would temporarily increase marketings, but later on the reverse would be true. It has not yet been decided what to do with subsidies and price control. If subsidies are removed it is as yet a question whether ceilings will be adjusted upwards. If subsidies are eliminated without corresponding increases in ceilings it would mean substantial reductions in farm income, particularly dairy, hogs, and cattle incomes.

If price control is not extended beyond June 30 the level of farm prices may be considerably different from present. If world drouth conditions dominated the 1946 crop the demand for food products would be high — possibly larger than at present, since world food stocks have been reduced. On the other hand, if bountiful crops are produced the need for exports from the United States would be sharply reduced.

There are many conflicting views on price control and subsidies. Even in agriculture itself there is much difference of opinion as to what kind of a farm price and subsidy program should be followed. Political

### January-December Cash Farm Income[1]

(Thousands of Dollars)

| State | 1935-1939 Average | 1944 | 1945 | 1945 in Percent of 1944 |
|---|---|---|---|---|
| Minnesota | $ 346,863 | $ 822,086 | $ 833,794 | 101% |
| North Dakota | 113,247 | 424,802 | 435,566 | 103 |
| South Dakota | 110,244 | 348,593 | 381,260 | 109 |
| Montana | 92,904 | 247,316 | 256,838 | 104 |
| Ninth District[2] | 744,407 | 2,045,250 | 2,105,182 | 103 |
| United States | 8,476,000 | 21,038,000 | 21,499,000 | 102 |

[1] Data from "The Farm Income Situation," United States Department of Agriculture.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

### Average Prices Received by Farmers[1]

| Commodity and Unit | Ninth District Feb. 15, 1937-1941 Avg. | Ninth District Feb. 15, 1945 | Ninth District Feb. 15, 1946 | Parity Prices[2] United States Feb. 15, 1946 |
|---|---|---|---|---|
| **Crops** | | | | |
| Wheat, bushel | $ .83 | $ 1.42 | $ 1.50 | $ 1.52 |
| Corn, bushel | .55 | .83 | .93 | 1.10 |
| Oats, bushel | .31 | .65 | .67 | .686 |
| Potatoes, bushel | .64 | 1.41 | 1.19 | 1.25 |
| **Livestock and Livestock Products** | | | | |
| Hogs, 100 lbs. | 7.17 | 13.84 | 13.95 | 12.50 |
| Beef Cattle, 100 lbs. | 6.76 | 11.79 | 11.59 | 9.32 |
| Veal Calves, 100 lbs. | 8.65 | 13.05 | 13.33 | 11.60 |
| Lambs, 100 lbs. | 7.73 | 12.95 | 13.27 | 10.10 |
| Wool, lb. | .26 | .43 | .44 | .315 |
| Milk, wholesale, 100 lbs. | 1.57 | 2.70 | 2.75 | 2.82 |
| Butterfat, lb. | .31 | .52 | .53 | .463 |
| Chickens, live, lb. | .116 | .211 | .204 | .196 |
| Eggs, dozen | .156 | .320 | .293 | .340 |

[1] Data compiled from "Agricultural Prices," United States Department of Agriculture.
[2] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

and economic developments in the next few months should be followed closely, as they will indicate, in some measure at least, the size of the farm income in 1946.

**Prices received by farmers** in the Ninth District have generally increased since the first of the year. Poultry and egg prices are about the only exceptions. The demand for farm products has continued strong as a result of high civilian consumption of food and the unprecedented foreign demand for American farm products.

Parity prices for farm products advanced to a new 25-year high in mid-February, and prices actually received by farmers averaged 16 percent above parity.

Prices received for livestock and livestock products were up only slightly in mid-February over January price levels. For the most part, this represents seasonal price increases.

Mid-March prices of grains were up rather sharply from earlier months. This reflects increases in ceiling levels for most grains March 4, and the tight domestic and world grain supply situation. On March 4 ceiling prices were increased as follows: wheat 3 cents a bushel, corn 3 cents, barley 4 cents, and oats 2 cents. Rye gets a 4 cents a bushel increase in ceiling levels next June 1.

The reason for these ceiling adjustments is to make allowances for changes in parity prices that have re-

(Continued on Page 324)

## SPECIAL ARTICLE (From Page 316)

During the past several years, farmers themselves have been the principal purchasers of land and the majority of transfers have been on a cash basis.

The danger period in land price inflation, however, lies immediately ahead—possibly during the next 12 months. There are several factors in support of this view.

First, land values are stimulated by the relatively high level of farm prices and the favorable outlook as long as domestic and export demand remains at or near present levels. The government price support program for the next three years also may affect values.

Second, some expansion in the demand for farms, as veterans with agricultural backgrounds get re-established in their home communities, will tend to further increase values.

Third, large savings, ample credit facilities, and low rates of interest encourage land investment.

Fourth, improvement in farm equipment supplies and an easing labor market may make farm investments more attractive.

Fifth, the development of government programs to eliminate or reduce farm surpluses when they develop, nutritional programs, and possible expansion of world trade may have a bullish effect on land values.

On the other hand, there are several important factors indicating that land values may not repeat the inflationary performance following World War I. First, agricultural prices and farm income historically have not been maintained at wartime levels for any length of time. People recognize this and will discount it in bidding on farm real estate.

Second, labor and other costs are higher, which would reduce net farm income.

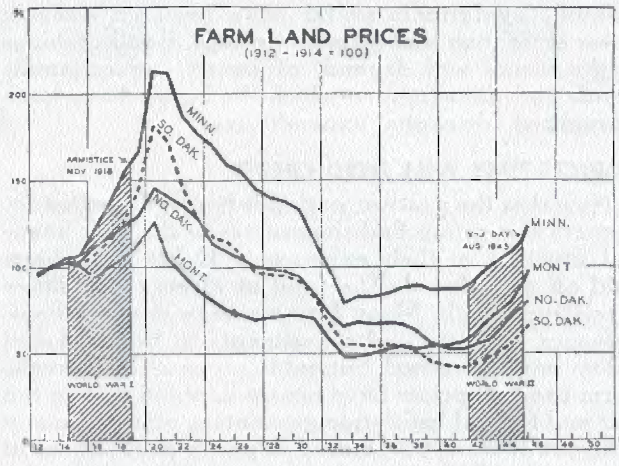
Third, people in general, and credit agencies in particular, remember the disastrous consequences of the land boom of 1919 and early 1920, although there is danger the lesson will be forgotten if high incomes continue. The tremendous educational programs of the Department of Agriculture, agricultural colleges, and others bring this to public attention.

Fourth, the agricultural plant is geared to produce probably a fourth more products than before the war because of technological developments, such as hybrid seeds and new machinery. Current or prospective farm surpluses are not conducive to higher land values.

### FARMERS' SAVINGS UP SHARPLY

Bank deposits in country banks of 20 leading agricultural states by the end of 1945 were approximately 2½ times higher compared with December 1939. A 19 percent increase in the last half of 1945 indicates the trend is still upward.

From a low mark of 53 in 1933 (1924-1929=100) country bank deposits climbed steadily to 102




in 1940, then at a much faster rate to 294 in December 1944 and on up to 380 in December 1945.

Bank deposits in country banks in individual Ninth District states show the same bright over-all picture. Montana showed the greatest upswing with 477 (1924-1929=100). In Wisconsin, the increase was to 346; Michigan 280; South Dakota 270; Minnesota 249; and North Dakota 232. North Dakota, however, has the greatest percentage increase of any of these states during the war years.

Farmers also are piling up large savings in war bonds. Savings bonds are now a significant item in farmers' financial statements. For the United States as a whole, savings bonds in farmers' hands on July 1, 1945, were estimated to represent 4 percent of farmers' total assets and 23 percent of his financial assets.

The purchase of savings bonds by farmers was not of great importance until after our entry into the war.

Bond purchases by farmers in Ninth District states totaled only $19.6 millions in 1940. In 1942 about 93 million dollars in bonds were purchased and in 1944 over $244 million in bonds were purchased. Reports from country banks indicate farmers continued to purchase bonds on a large scale during 1945 and they apparently participated heavily in the Victory bond drive in December 1945. Bond

**Percentage Increase of Total Deposits in Country Banks in Ninth District States**

| State | Increase 1940-1945 | Increase During 1944 | Increase During 1945 |
|---|---|---|---|
| Minnesota | 187.5 | 18.1 | 29.1 |
| North Dakota | 385.8 | 29.4 | 31.5 |
| South Dakota | 245.8 | 17.7 | 34.0 |
| Michigan | 213.3 | 28.3 | 27.7 |
| Wisconsin | 242.1 | 37.3 | 27.9 |
| Montana | 322.8 | 25.5 | 39.0 |

**Farmers' Purchases of War Bonds in Ninth District States[1]**

| | |
|---|---|
| 1940 | $ 19,628,000 |
| 1941 | 24,657,000 |
| 1942 | 93,251,000 |
| 1943 | 195,905,000 |
| 1944 | 244,515,000 |

[1] Includes North and South Dakota, Montana, Minnesota, and all of Wisconsin and Michigan.

cashings by farmers so far have been on a much lower scale than non-farmer cashings. Bond cashings in the future will depend, of course, on economic trends and the extent to which the bonds have been earmarked for capital expenditures.

### AGRICULTURE WILL NEED CREDIT

Now that the postwar period is here, Ninth District farmers as a group find themselves in the best financial situation in their experience. Debts have been paid off or reduced. The ratio of assets to liabilities is relatively high. Many farmers have sizeable bank balances, savings, and investments in bonds. Land values have increased, but not to unreasonable levels. Farm product prices have nearly doubled during the war and federal legislation guarantees prices of many farm products at 90 percent of parity probably until January 1, 1949. Assuming no severe drouths in the Ninth District, this should assure favorable farm incomes for several years, although not necessarily at war time levels.

In spite of farmers' generally favorable financial position, many are likely to need increasing amounts of credit in the next few years. Many farm buildings are in need of repair or replacement. The housewife has her bid in for home modernization, deep freezers, refrigerators and the like. The farmer himself has his eye on improved and new-type farm machinery. In fact, there is a sizeable backlog of demand for farm equipment of all kinds. This is likely to increase the demand for credit. The return of veterans and war workers to farms and the turnover of farms to younger operators will undoubtedly increase the need for both long and short-term credit.

—Franklin L. Parsons

## BANKING

(From Page 318)

increase in net profits after taxes as a ratio of capital funds while 202 experienced a decline.

The previous month has witnessed a modest easing of the reserve position of city banks in this district. While their total cash resources (cash, due from banks, and reserves) actually declined modestly, their borrowings were virtually eliminated for the first time since December 19.

Deposits of the U. S. government declined $18 million, but this reduction was almost offset by an expansion of $11 million in other demand deposits and $3 million in time balances.

Changes in earning assets were mostly in the nature of readjustments. The largest change was the expansion of U. S. treasury bill holdings from $13 million in mid-February to $44 million in March, largely purchased from the Federal Reserve Bank on repurchase option. Since holdings of all other types of securities exhibited consistent reduction, the net increase in U. S. government securities held was only $7 million.

Loans during the month were further reduced by $21 million. The decline in commercial, industrial, and agricultural loans (a group which includes about half of the total loan volume) accounted for two-thirds of the decline. Loans for carrying securities were down another 10 percent.

Country bank deposits have continued the strong upward trend in deposits, with their deposit total hitting a new high of $1,753 million during the last two weeks in February. This was an increase of $59 million during the month and $452 million during the year.

### Assets and Liabilities of Ninth District City Member Banks

(In million dollars)

| | 2/13/46 | 3/13/46 | Change |
|---|---|---|---|
| **Assets** | | | |
| Cash, due from banks, and reserves | $ 400 | $ 393 | — 7 |
| Commercial, indust. and agric. loans | 125 | 111 | —14 |
| Loans to carry securities | 51 | 46 | — 5 |
| All other loans | 79 | 77 | — 2 |
| Total loans | 255 | 234 | —21 |
| U. S. government securities | 1,086 | 1,093 | + 7 |
| Other investments | 57 | 58 | + 1 |
| Other assets | 16 | 17 | + 1 |
| TOTAL ASSETS | 1,814 | 1,795 | —19 |
| **Liabilities** | | | |
| U. S. government deposits | 375 | 357 | —18 |
| Other demand deposits | 1,115 | 1,126 | +11 |
| Time deposits | 213 | 216 | + 3 |
| Total deposits | 1,703 | 1,699 | — 4 |
| Borrowings | 15 | 0 | —15 |
| Misc. liabilities | 9 | 9 | |
| Capital funds | 87 | 87 | |
| TOTAL LIABILITIES & CAPITAL | 1,814 | 1,795 | —19 |
| Excess reserves | 9 | | |

### Daily Average Reserve Position for All Ninth District Member Banks for the 13-Day Period Ending February 28, 1946

| | Average Reserves Carried (000) | Average Reserves Required (000) | Average Excess Reserves (000) |
|---|---|---|---|
| Reserve city banks | $166,213 | $163,346 | $ 2,867 |
| Other city banks | 28,746 | 24,574 | 4,172 |
| Total city banks | 194,959 | 187,920 | 7,039 |
| Total country banks | 184,710 | 145,157 | 39,553 |
| Total Ninth District—1946 | 379,669 | 333,077 | 46,592 |
| Total Ninth District—1945 | 311,442 | 277,848 | 33,594 |

## AGRICULTURE

(From Page 322)

cently occurred and changes that are expected to occur in the next few months. By law a ceiling price cannot be set below parity.

The index of prices paid by farmers for commodities used in farm production and family living is the key to changes in parity prices. This index on February 15 was 178 (1910-1914=100) up one point from mid-January. Before VJ-day this index had for two years or more been moving up at the rate of three to four points annually. In the last five months the index has moved up five points—more than twice the previous annual rate. This trend is likely to continue as farmers pay more for production and living expenses.