# MONTHLY REVIEW

*of Ninth District Agricultural and Business Conditions*

FEDERAL RESERVE BANK OF MINNEAPOLIS

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**SPECIAL ARTICLE**

# *The Two Postwar Periods Are Found to Vary*

## Similarities in the General Business Activity Pattern Are Evident, But Underlying Differences Significant

WITH the continued strong upward pressure on prices, on the one hand, and the recent decline in security prices, on the other, much concern has been manifested over the trend of future business activity. Will the present replacement boom be followed by another sharp business recession such as occurred after World War I or will the adjustment to normal business conditions be relatively moderate? An examination of the business situation following World War I and at the present time reveals numerous similarities on the surface but also some fundamental differences.

### PRICE INFLATION LESS DURING RECENT WAR

Some similarity is observed in the price pattern. During World War I, prices rose a number of points immediately following the declaration of war in Europe, as may be observed on the accompanying chart. However, by October of that year prices had again receded to their former level. It was not until the fall of 1915 that the upward surge of prices began. By November 1918, when the Armistice was declared, prices had doubled during a period of about three years.

Price controls of the selective type were imposed from the summer of 1917 to December 1918. Prices of materials basic to the nation's food, fuel, and munitions supply were controlled almost entirely at the manufacturers' and wholesalers' level. In all, 573 commodities were regulated by various governmental agencies. During the period of regulation, prices in general rose only 9 percent. The uncontrolled prices continued to rise at the former rate, which accounted for most all of the increase.

Following the signing of the Armistice, prices receded during the first two months of 1919 and then again started to rise sharply until May 1920, when the peak of price inflation was reached. During this replacement boom, prices rose another 29 percent, which boosted prices to 148 percent above the June 1914 level. If the prices of agricultural products had not started a downward trend a few months previously, aggregate prices would have reached a still higher level.

According to the review of agricultural and business conditions published by the Minneapolis Federal Reserve Bank in August 1919, there was much apprehension over the rapidly rising prices during the replacement boom. Profiteering was singled out as one of the primary causes of the rapid price advance as the following paragraph indicates:

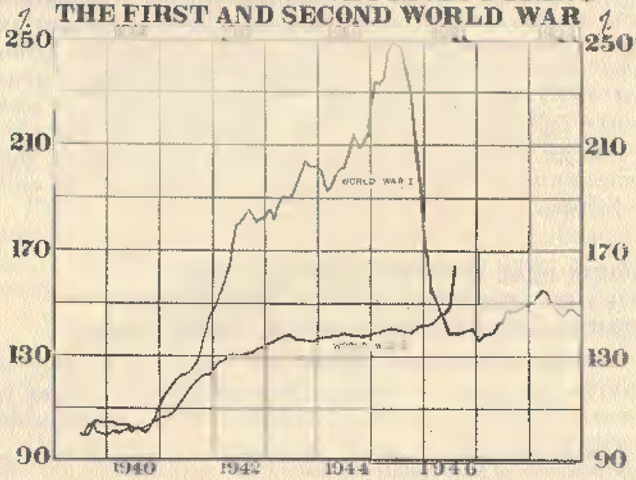
> "A price investigation shows substantial advances in the cost of goods to the retailer, and also shows that the advance to the consumer has likewise been substantial. This is not only true of goods which may be classed as luxuries, but extends to practically all of the staple and essential commodities. To what extent these advances are justified by higher operating costs, which include a considerable advance in labor costs, would be a difficult thing to say without a lengthy and very careful investigation and analysis. It is altogether likely that some retailers have not been very punctilious in confining price advances within limits proportionate to the advanced cost to them, but there is, on the other hand, considerable evidence of profiteering on the part of manufacturers, from which the wholesaler, the retailer, and the consumer have suffered."

As early as November 1919 a change in the trend of prices was anticipated. In this issue the following paragraph appeared:

> "There is a disposition to look for more conservative buying during the coming year. Trade in the principal lines is giving attention to the condition of stocks and the difficulties that may face merchants in the event of any appreciable decline in prices if they are caught with large stocks of high-priced goods and a falling market."

In the next issue, December 1919, the following significant paragraph was written in regard to the

TREND OF WHOLESALE PRICES DURING THE FIRST AND SECOND WORLD WAR



impending change in the trend of prices:

> "There were some evidences during the month of impending changes in the very high price levels which have continued for a long period. Efforts to market merchandise have been more vigorous, sales have been more numerous, and advertising more extensive. Some price recessions have resulted, and, in a limited way, there has been a marking down on certain classes of goods. The result is not so interesting in connection with any reduction of consequence in the cost of living as it is when considered in its relation to probable conditions during the next six months. Some change has undoubtedly occurred, and indications are that it will continue, exercising a corrective influence upon high prices, and encouraging a gradual return to a more reasonable basis."

Following May 1920 price deflation was even sharper than the former inflation. Over a period of 13 months, prices fell from 148 percent to 39 percent above the June 1914 level.

With the declaration of the recent war, prices advanced a few points but gradually settled back to the former level. In the last few months of 1940, prices began to rise in response to an increased demand for goods, and during 1941 they rose rapidly. By March 1942, prices had risen 25 percent.

The General Maximum Price Regulation measure was enacted in April 1942 and ceilings were placed on the prices of all commodities, with the exception of raw agricultural products, equal to those in effect during March of that year. The maximum prices of raw agricultural products were set at prices prevailing between October 1 and 15, 1941, insofar as practicable.[1]

Prices from March 1942 to VJ-day were controlled quite effectively. The increase in prices was held down to 8 percent.

Following VJ-day, prices have crept up faster. In a period of 10 months from August 1945 through June 1946, prices rose 7 percent. Largely as a result of the elimination of subsidies paid on a number of agricultural products, prices increased another 10 percent during July. Prices are now 65 percent above the pre-war level.

A comparison of the trend in prices during the two war periods on the accompanying chart reveals decidedly less inflation of prices during the recent war period than during the former. Whereas prices had doubled by the time the Armistice was signed during the first World War, prices by VJ-day during the recent war had increased only 40 percent from the June 1939 level. During the first postwar year of 1919, prices increased 17 percent, while in one year following VJ-day they increased 18 percent. A large part of the latter increase is traced to the elimination of subsidies on farm products at the end of June.

## FARM REAL ESTATE PRICES ARE LESS OUT-OF-LINE NOW, URBAN REAL ESTATE PRICES MORE SO THAN AFTER WORLD WAR I

Since real estate prices are capitalized over a period of years, a sharp rise or decline in prices is more disturbing to the economy than a comparable fluctuation in the prices of other commodities.

Land speculation drove up farm real estate values during and following World War I. Prices of Minnesota farms in 1920 averaged more than double those from 1912 to 1914, according to the index compiled by the United States Department of Agriculture. In the other states of the district the rise in land values was less. In South Dakota the average increase was 81 percent, in North Dakota 45 percent, and in Montana 26 percent.

At the time some observers were of the opinion that the higher land values would remain permanently. Such a view was expressed in the May 1919 issue of the **Monthly Review**:

> "There are substantial indications that the period of stagnation in the farm land business is over, and that throughout the northwestern states, where there is still a very large amount of excellent farm land to be had at reasonable figures, the next year will witness a period of considerable activity. Repeated evidences of advances in farm land values constitute an assurance of a healthy demand for productive acreage."

As the speculation in farm real estate in this district gained momentum, the same observers became alarmed over the movement. In the July 1919 issue of the **Monthly Review** the subsequent statement was written:

> "Reports indicate that about 25 percent of the sales so far made are to farmers from Iowa, Illinois, and other states to the south where a land boom is also in progress, and where farms are selling at prices which in very many cases are more than double the average values for good farm lands in the Ninth District. Out of this movement has sprung one rather questionable element. The active movement of farm lands has undoubtedly resulted in some sections at least in considerable inflation of values, and in widespread dealings on options."

Statistics are not available on the rise of urban real estate prices during World War I. Other information available, however, leads to the conclusion that the increase was much less as compared with the inflation in recent years. A serious shortage of housing did not exist when the nation entered into World War I; the construction of residences was not suspended during the period of hostilities as it was during the past years; and the prices of other commodities rose more rapidly, which dampened the effective demand for shelter.

In recent years farm real estate values again have risen sharply. On the basis of the 1935 to 1939 average, the prices of Montana farms have nearly doubled. In the other states in this district, the rise in farm values has been decidedly less: in Minnesota 52 percent, and in North and South Dakota 34 percent.

The recent rise in farm real estate prices is not so much out-of-line as it was during World War I. Farm prices during the latter half of the Thirties were quite low as compared with the level prior to World War I. Farm prices in North and South Dakota are still significantly below the 1912 to 1914 average. In spite of the rapid rise in Montana farm prices, the prices are now only equal to this aver-

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[1] Exceptions made to a general price ceiling were given in the July 30, 1945 issue of the Monthly Review.

## AGRICULTURE

# Cash Farm Income Up 10% First Half of '46

***TOTAL crop production is 8 to 10 percent below last year but near record levels.***

***Prices of farm products increase, particularly livestock.***

***Cash farm income is up, reflecting higher farm prices and heavy marketings.***

CROP PRODUCTION in the Ninth District during 1946 is now pretty well set. Only corn and a few other late-maturing crops will be affected to some extent by the date of the first killing frost. If the frost holds off until about the first of October, the quality of the corn crop will be improved. There was still considerable corn on low ground in Minnesota in mid-September that needed an additional two weeks to produce matured corn. Heavy rains and below normal temperatures during much of September tended to retard maturity.

In contrast to the United States as a whole, where grain production is estimated at an all-time high, production in the Ninth District will probably average about 10 percent below the record high of 1945. The crop this year, however, is probably the fourth largest on record, and it is about 46 percent larger than the 1934-1943 average.

In view of the extended dry period in the May-June period and again during late July and August, the size of the crop appears almost miraculous. Corn is the only crop that promises to be larger than it was last year. On the basis of the September 1 estimate, the district corn crop is expected to exceed last year's crop by about 8 percent and it may be only slightly below the 1944 record.

Wheat production is down about 5 percent from last year, with the bulk of the decline occurring in the spring wheat areas of North Dakota. Oats production, although the second largest on record, was down a fourth from last year. Flax production was down nearly half, but part of this reduction can be explained by a smaller acreage.

Stocks of old wheat in all positions last July 1 in Ninth District states totaled only 31 million bushels. A year earlier 95 million bushels were in storage. This lower crop production and smaller wheat stocks would indicate a reduction in district farm income were it not for the sharp increase in farm prices which occurred after June 30.

**The demand for farm products** continues strong. Civilian employment totaled about 58.1 million persons in early July compared with 54.3 a year ago.

National income is running at near-record high levels. Income payments to individuals for the first six months of this year were only 3 percent below a comparable period a year earlier in spite of widespread strikes earlier in the year.

Industrial output during July established a new post-war record. The Federal Reserve Board index of industrial production (1935-39=100) was 174 in July, compared with 210 in July 1945, of which 60 percent was war production.

The accumulated demand for all kinds of products, particularly durables such as houses and automobiles, will take many months to fill. This indicates continued high employment and sustained purchasing power.

The current market for farm products is much broader compared with pre-war. There are now 9 million more people in the United States than there were in 1939, and the population trend is up. Current exports of agricultural products are tremendous compared with pre-war levels.

People eat more and better when they are employed at relatively high wages. This together with substantial military requirements and large exports explains the large demand for farm products that has persisted for several years.

The supply of food grains, livestock, poultry, and fruits and vegetables is higher than ever before. The apparent shortage arises because employment is high and people have more money with which to buy farm products.

**Prices received by farmers** increased approximately 2 percent during the month ending August 15. Farm prices as a group are now nearly 2½ times the pre-war level (1935-39).

The price index of livestock and livestock products advanced 16 points from mid-July to mid-August—more than 2½ times the pre-war level and to an all-time high.

Hog prices advanced $4.00 or to $20.33 during the month ending August 15. This is $6.26 above

### Crop Production in Ninth District States

(Thousands of Bushels)

| State | 1935-1944 Average | 1945 | Indicated 1946 | 1946 in Percent of 1935-1944 Avg. | 1946 in Percent of 1945 |
|---|---|---|---|---|---|
| **Corn** | | | | | |
| Minnesota | 180,581 | 217,248 | 244,860 | 136% | 113% |
| Montana | 2,502 | 2,010 | 2,358 | 94 | 117 |
| North Dakota | 22,266 | 26,950 | 24,768 | 111 | 92 |
| South Dakota | 60,290 | 118,668 | 123,039 | 204 | 104 |
| **Wheat** | | | | | |
| Minnesota | 24,354 | 21,508 | 24,762 | 102 | 115 |
| Montana | 52,285 | 57,726 | 64,503 | 123 | 112 |
| North Dakota | 98,434 | 161,888 | 139,584 | 142 | 86 |
| South Dakota | 26,893 | 52,572 | 49,953 | 186 | 95 |
| **Oats** | | | | | |
| Minnesota | 149,310 | 242,640 | 200,175 | 134 | 82 |
| Montana | 11,421 | 9,486 | 10,564 | 92 | 111 |
| North Dakota | 47,456 | 82,484 | 53,014 | 112 | 64 |
| South Dakota | 56,232 | 147,963 | 93,456 | 166 | 63 |

Source: "Crop Production," Bureau of Agricultural Economics, United States Department of Agriculture.

the mid-June level and the highest on record. Beef cattle and lambs also established new record highs.

With the reinstatement of the Price Control Act in late August, most livestock prices were rolled back but were pegged at prices higher than prevailed on June 30 when the Price Control Act first expired.

Prices received by farmers for all commodities averaged 122 percent of parity on August 15. This is within one point of the all-time high reached a month earlier. Sharp advances in prices paid by farmers more than offset the increase in farm product prices during the month. It is interesting to compare the present parity ratio of 122 with the early 1930's, when it averaged about 66, and in the late 1930's, when it was about 84.

Farm prices are particularly sensitive to what happens to other phases of the economy. Historically, farm prices have fluctuated more rapidly and over a wider range than prices of industrial products and wage rates. A reduction in agricultural exports or a slackening in domestic demand for one cause or another is quickly reflected in farm prices.

Many farm products are, of course, covered under the price support program at 90 percent of parity (about 30 percent under present parity level). As yet, however, it has not been stated how the guarantee will be made effective.

**Cash farm income** in the Ninth District was 10 percent higher the first six months this year compared with the same period in 1945. South Dakota, particularly, was high compared with a year earlier, reflecting the excellent crop and livestock conditions in that area.

Cash farm income in the third quarter this year is expected to show a large increase over that of a year earlier. This will reflect the sharp rise in farm prices which occurred after June 30, as well as the heavy marketings of livestock and grain.

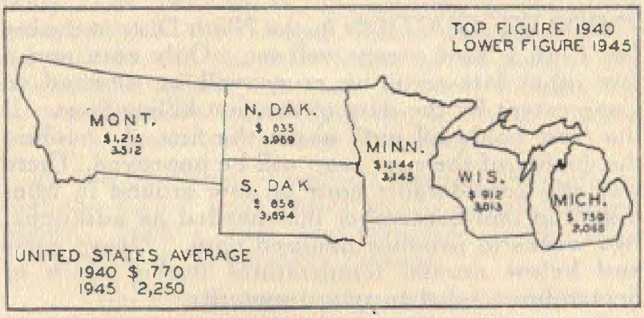
### Average Prices Received by Farmers[1]

| Commodity and Unit | Ninth District Aug. 15 1937-1941 Avg. | Ninth District Aug. 15 1945 | Ninth District Aug. 15 1946 | Parity Prices[2] United States Aug. 15, 1946 |
|---|---|---|---|---|
| **Crops** | | | | |
| Wheat, bushel | $ .69 | $ 1.45 | $ 1.76 | $ 1.80 |
| Corn, bushel | .56 | 1.00 | 1.67 | 1.31 |
| Oats, bushel | .24 | .50 | .66 | .814 |
| Potatoes, bushel | .63 | 1.87 | 1.73 | 1.50 |
| **Livestock and Livestock Products** | | | | |
| Hogs, 100 lbs. | 8.04 | 13.92 | 20.33 | 14.80 |
| Beef Cattle, 100 lbs. | 7.44 | 12.04 | 17.61 | 11.10 |
| Veal Calves, 100 lbs. | 8.70 | 13.58 | 16.55 | 13.80 |
| Lambs, 100 lbs. | 7.94 | 12.64 | 15.76 | 12.00 |
| Wool, lb. | .26 | .41 | .42 | .373 |
| Milk, wholesale, 100 lbs. | 1.47 | 2.68 | 3.42 | 3.19 |
| Butterfat, lb. | .29 | .52 | .75 | .511 |
| Chickens, live, lb. | .129 | .251 | .244 | .233 |
| Eggs, dozen | .171 | .372 | .324 | .443 |

[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.

### AVERAGE REALIZED NET INCOME OF FARM OPERATORS, PER FARM, IN 1940 AND 1945




Slaughter of livestock under Federal inspection for a four-week period ending August 17 was about 38 percent greater than the preceding four weeks and it was a third larger than a comparable period a year earlier. The increase in hog slaughter over a year ago was approximately 50 percent for the four-week period—a greater increase than for any other class of livestock.

These abnormally large livestock marketings at this time are, of course, a reflection of a temporary return of free farm markets with sharply higher farm prices.

Farmers took advantage of the temporary higher price level by heavy marketing of livestock, some of it unfinished or at relatively light weights. Livestock marketings have been extremely light since O.P.A. was reinstated in late August. As a result, cash farm income in the July-August period may show a bulge, with a depression following in the September-October period. Marketing of the large 1946 grain crop at prices currently higher than a year ago and some liquidation of livestock numbers indicate that cash farm income for the year 1946 may be substantially higher than it was in 1945.

For the country as a whole, cash farm income the first half of 1946 was about the same as it was in the first half of 1945. The Department of Agriculture has estimated, however, that cash receipts from farm marketings for the year may approximate 10 percent over that of 1945, chiefly because of a higher price level. With increases in costs of farming, however, net farm income is expected to be only slightly higher this year.

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

(Thousands of Dollars)

| State | 1935-1939 Average | 1945 | 1946 | 1946 in Per-cent of 1945 |
|---|---|---|---|---|
| Minnesota | $ 154,557 | $ 391,418 | $ 408,596 | 104% |
| North Dakota | 37,444 | 147,940 | 167,597 | 113 |
| South Dakota | 45,700 | 170,267 | 219,758 | 129 |
| Montana | 26,447 | 74,863 | 75,534 | 101 |
| Ninth District[2] | 301,082 | 878,763 | 967,730 | 110 |
| United States | 3,416,392 | 9,263,000 | 9,267,000 | 100 |

[1] Data from "The Farm Income Situation," United States Department of Agriculture.

[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

## BANKING

# *Trio of Factors Affect Banks' Reserves*

SEVERAL developments point up the tighter reserve position for the weekly reporting member banks during the last month.

First, total deposits, other than war loan accounts, increased by $22 million.

Second, borrowings rose from $2 million in the middle of August to $19 million in mid-September.

Third, holdings of short term government securities declined $18 million during the month ending September 18.

These readjustments have apparently arisen to a large extent out of a substantial increase in loans, an expansion which has been in process at a fairly vigorous rate for the past several months. Commercial, industrial, and agricultural loans, which were $139 million on August 21, have risen to $165 million on September 18, an increase of $26 million or 19 percent. This loan expansion has been proceeding at a very marked rate since April of this year, during which period the increase has been approximately 65 percent.

Other types of loans during the month remained virtually steady. Real estate loans continued their upward trend and on September 18 amounted to $36 million compared with $35 million a month earlier. Loans to brokers and dealers and other loans for carrying securities both exhibited slight decreases during the month. Miscellaneous loans increased $3 million. These various readjustments in the loan portfolios combined to produce a net expansion from $270 million for total loans on August 21, to $297 million on September 18.

***TOTAL deposits increased $22 million, borrowings from $2 to $19 million, while short-term government securities holdings declined $18 million.***

***Commercial, industrial, and agricultural loans expand 65 percent since April.***

Holdings of U. S. Government securities declined $20 million. These declines were centered almost entirely in short term securities. Holdings of U. S. Treasury bills were reduced from $12 million to $4 million, U. S. Treasury certificates of indebtedness from $99 million to $91 million, and U. S. Treasury notes from $150 million to $148 million. U. S. Government bonds also declined $2 million, but the percentage rate was not material.

U. S. Government deposits continued their decline of recent months, with a reduction during the month ending September 18 of $22 million. Since total deposits, other than U. S. Government deposits, increased by the same amount, total deposits remained virtually unchanged at $1,557 million.

Country member bank deposits continued to expand and during the last two weeks of August averaged $1,760 million, an increase of $36 million over the corresponding period in July. Time deposits accounted for approximately one-fourth of the increase, with the remainder accruing to demand deposits. The increase was fairly evenly distributed by states. Michigan country bank deposits increased $2 million, Wisconsin $5 million, and coun-

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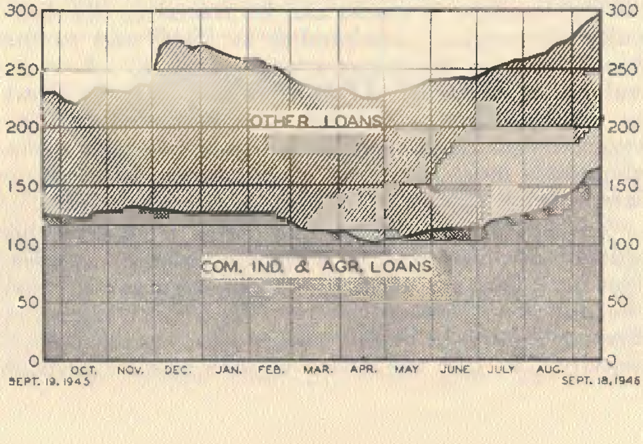
### Assets and Liabilities of Ninth District City Member Banks

(In million dollars)

| | 8/21/46 | 9/18/46 | Change |
|---|---|---|---|
| **Assets** | | | |
| Commercial, industrial and agricultural loans | $ 139 | $ 165 | +26 |
| Real estate loans | 35 | 36 | + 1 |
| Loans for carrying securities | 33 | 30 | — 3 |
| Other loans | 63 | 66 | + 3 |
| Total loans | 270 | 297 | +27 |
| U. S. Treasury bills | 12 | 4 | — 8 |
| U. S. Treasury certificates of indebtedness | 99 | 91 | — 8 |
| U. S. Treasury notes | 150 | 148 | — 2 |
| U. S. Treasury bonds | 647 | 645 | — 2 |
| Total U. S. Government securities | 908 | 888 | —20 |
| Other investments | 59 | 59 | ........ |
| Cash, due from banks, and reserves | 407 | 418 | +11 |
| Miscellaneous assets | 17 | 16 | — 1 |
| Total assets | 1,661 | 1,678 | +17 |
| **Liabilities** | | | |
| Deposits of U. S. Government | 149 | 127 | —22 |
| Other deposits | 1,408 | 1,430 | +22 |
| Total deposits | 1,557 | 1,557 | ........ |
| Borrowings | 2 | 19 | +17 |
| Capital accounts | 11 | 11 | ........ |
| Miscellaneous liabilities | 91 | 91 | ........ |
| Total liabilities and capital | 1,661 | 1,678 | +17 |
| Excess reserves | 1 | 5 | + 4 |

### LOANS OF NINTH DISTRICT WEEKLY REPORTING BANKS

(In Million Dollars)



## SPECIAL ARTICLE

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age. In Minnesota, they are now 29 percent higher than the former average.

According to a survey made by the Minneapolis Federal Reserve Bank, the price of Minneapolis residential property is now nearly double the 1940 price level. This is very likely typical of the rise in such prices in other cities of the Ninth District.

### DEPARTMENT STORE SALES INCREASED MORE DURING WORLD WAR II THAN EVER BEFORE

After the signing of the Armistice, purchases of merchandise were reduced in anticipation of a greater quantity of goods appearing in the markets, which would drive down prices. Department store sales in the Ninth District were 3½ percent smaller in September 1919 as compared with the preceding January sales after an adjustment was made for the usual seasonal variation in the volume of monthly sales. When the goods did not appear in markets in greater quantity over a period of months, the former rate of purchases was again resumed. Department store sales from September 1919 to September of the following year, when the peak in sales was reached, increased 18 percent. Sales continued to rise for a few months following the turning point in the trend of prices as a result of the large demand for merchandise and the extensive sales offered by retailers.

As a result of the general business recession, department store sales in the Ninth District declined by 17 percent from September 1920 to the end of the year.

After VJ-day, department store sales continued the unprecedented expansion. In recent months the dollar receipts have exceeded 2½ times the pre-war volume. In the one year following VJ-day, department store sales in the Ninth District have risen approximately 42 percent as compared with 11 percent in the first year following the armistice.

### HEAVY INVENTORY INCREASE HAS OCCURRED AFTER EACH WAR

Department store stocks in the Ninth District, according to the statistics available, rose significantly in 1919 through August 1920 with a total increase of 42 percent over the period. Since prices increased only 20 percent, the rise in stocks represented a substantial accumulation of inventory.

The increase in stocks can be traced to the difficulty of securing merchandise in 1919 and to the breakdown in the transportation system. A large volume of duplicate orders were placed in an effort to secure the stock needed. As manufacturers increased their output and as railroads began to make shipments more promptly, stocks began to accumulate in retail stores.

After VJ-day, department store stocks in this district declined due to a heavy volume of sales. Not until January of this year did they again equal the dollar volume on hand at VJ-day. During the first seven months of this year, stocks have increased rapidly. In July the dollar volume was 35 percent larger than the amount on hand in January. Stocks are now 2¼ times the 1935 to 1939 level, while sales are 2½ times the former level.

### HIGH EMPLOYMENT CHARACTERIZES BOTH POSTWAR PERIODS

During World Wars I and II, experts predicted serious unemployment in the reconversion period which might cause a general deflation. In both instances, the dammed-up demand for merchandise and services created more jobs than there were workers available.

The concern over the re-employment of returning soldiers is reflected in the following sentences written in March 1919 issue of the **Monthly Review.**

> "The anticipated problem of re-employment of returned soldiers has not developed the seriousness that was looked for. Returning men are being rapidly absorbed, and there is no reason to believe that those who are still to come will not find satisfactory opportunities without serious delay. Wage rates continue to be satisfactory to the wage earner, and will likely change little during the year. The war period brought large industrial production. There is no possible reason why peace should not bring equal or even greater activities as soon as industries can make the necessary readjustments."

### CREDIT, EXPANDED TO LIMIT DURING AND FOLLOWING WORLD WAR I, CONTRACTED SHARPLY DURING WORLD WAR II AND SINCE HAS EXPANDED RAPIDLY

In the general business recession following World War I, much liquidation was caused by the indebtedness accumulated by individuals and businesses during the war years. From June 30, 1915, to June 30, 1920, the volume of loans in commercial banks of this district more than doubled and exceeded the rise in total deposits.

The stringent credit conditions in the spring of 1920 are described in the following sentences taken from the March number of the **Monthly Review:**

> "The call for loans upon all commercial banks, not alone in this district but throughout practically the whole United States, is heavy. The spring demand is being felt at the Federal Reserve Bank. Member banks in all parts of the district are freely offering paper in support of spring agricultural operations. Careful efforts are being made to discriminate in the granting of credit in order that essential business activities and agriculture may have the first call."

The large volume of business during the recent war years has been transacted with a minimum amount of credit.

Consumer credit extended by commercial banks in the Ninth District declined steadily from 1941 through July 1944. Since that time it has again expanded gradually. The net amount outstanding in July of this year was about 50 percent of the net amount outstanding in January 1942.

Business establishments are in a very liquid position. In many instances, pre-war obligations have been repaid and a reserve has been accumulated. The liquid assets held by business over the nation has been estimated by the Board of Governors of the Federal Reserve System at $79.8 billion in December 1945 as compared with $22.3 billion in December 1940.

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## BUSINESS

# Bank Debits Indicate Business Expansion

THE business picture in the Northwest for the month of August embraced several offsetting developments to indicate an over-all business volume comparable to that of July. Reflecting both higher prices and an expanded physical volume, the indexes of bank debits, which measure the dollar amount of checks written against depositors' accounts, advanced to new all-time highs in the larger business centers as well as at farming centers.

Corrected for seasonal variation, the bank debits index for cities advanced to 253, 20 points above July and 68 points higher than August a year ago. At farming centers the advances were 29 points for the month and 89 points over a year ago. The dollar volume of checks written against depositors' accounts at farming centers in August was three times the 1935-1939 monthly average.

Offsetting the expanded business volume indicated by bank debits, the index of city department store sales dropped 11 points from July when allowance is made for the usual seasonal rise July to August. Also behind last month were total carloadings, country lumber sales, and the indexes of country and city department store stocks.

**Bank debits** at metropolitan centers rose sharply in the month of August to exceed the state average, whereas these cities in earlier months this year had failed to register the percentage gains evident at country banks. Reflecting, in part at least, the higher farm prices for grain and livestock, the volume of bank debits at Minneapolis and at South St. Paul expanded 45 percent and 44 percent respectively when compared to a year ago. Duluth and St. Paul, to a lesser degree involved in grain and livestock marketing, had increases of 16 and 22 percent respectively.

For the district, August bank debits were 37 percent greater than a year ago, while the average for the first 8 months was but 18 percent. North Dakota experienced the greatest expansion with a gain of 49 percent over last August.

**Employment** in manufacturing industries over this district is high, which is evidence of a large volume of production. The usual seasonal expansion in employment has taken place during the summer months.

During the past few weeks, the canning of sweet corn has been in full swing in most corn producing areas over the district. A large number of women, as usual, have accepted temporary employment in this industry. Managers of numerous plants, however, have reported a shortage of labor.

In Minnesota, as a result of a larger quantity of available material the production of iron and steel equipment and of machinery (except electrical) was increased during August. According to the report

***NORTH DAKOTA's 49 percent increase over last year leads district's 37 percent average.***

***Upward trend in district manufacturing employment indicates large volume of production.***

***Retail sales at general and department stores exhibit increase from 34 to 61 percent over August 1945.***

made by the Bureau of Labor Statistics in cooperation with the Minnesota Division of Employment and Security, employment in these industries was 5 percent larger in the middle of August as compared with the number employed during July.

In Montana the usual seasonal factors have increased the employment in manufacturing industries. The settlement of a labor dispute in the lumber industry has also increased the employment. In June, manufacturing employment was 13 percent larger than in April.

In the other states of the district, manufacturing employment has followed a similar upward trend during the summer months.

The expansion in the peacetime manufacturing industries in this district has offset largely the decline in employment resulting from the shutdown of war plants. In Montana, manufacturing employment in June was 7 percent larger than a year ago, and in South Dakota it was 2.1 percent larger. In Minnesota such employment in August was only 5.5 percent less than a year ago, and in North Dakota it was still 15.8 percent less in June than a year ago.

**Retail Sales** at general and department stores continued in large volume during the month of August, with increases over a year ago ranging from 34 to 61 percent in the various trade sections of the district. City department stores reported sales up 40 percent from last year, while country stores averaged 43 percent over August 1945. St. Paul stores had sales 48 percent above a year ago, followed by St. Cloud with a gain of 42 percent and Mankato

### Northwest Business Indexes

Adjusted for Seasonal Variation—1935-1939=100

| | Aug. 1946 | July 1946 | Aug. 1945 | Aug. 1944 |
|---|---|---|---|---|
| Bank Debits—93 Cities | 253 | 233 | 185 | 175 |
| Bank Debits—Farming Centers | 300 | 271 | 210 | 191 |
| City Department Store Sales | 259 | 270 | 185 | 166 |
| Country Department Store Sales | 257 | 236 | 172 | 163 |
| City Department Store Stocks | 223 | 229 | 160 | 157 |
| Country Department Store Stocks | 214 | 224 | 171 | 189 |
| Country Lumber Sales | 127 | 128 | 110 | 110 |
| Miscellaneous Carloadings | 124 | 117 | 109 | 120 |
| Total Carloadings (Excl. Misc.) | 116 | 131 | 119 | 127 |
| Farm Prices—Minn. (Unadj.) | 241 | 230 | 183 | 177 |

with 40 percent.

### Sales at Department Stores

| | Number of Stores Showing Increase | Number of Stores Showing Decrease | % Aug. 1946 of Aug. 1945 | % Jan.-Aug. 1946 of Jan.-Aug. 1945 |
|---|---|---|---|---|
| Total District | 261 | 9 | 141 | 133 |
| Mpls., St. Paul, Dul.-Sup. | 23 | 2 | 140 | 134 |
| Country Stores | 238 | 7 | 143 | 132 |
| Minnesota | 74 | 3 | 143 | 129 |
| Central | 14 | 0 | 151 | 132 |
| Northeastern | 6 | 0 | 145 | 135 |
| Red River Valley | 4 | 0 | 143 | 134 |
| South Central | 18 | 2 | 136 | 121 |
| Southeastern | 12 | 0 | 146 | 132 |
| Southwestern | 20 | 1 | 142 | 127 |
| Montana | 35 | 1 | 140 | 137 |
| Mountains | 11 | 0 | 158 | 143 |
| Plains | 24 | 1 | 134 | 135 |
| North Dakota | 51 | 2 | 153 | 136 |
| North Central | 10 | 1 | 161 | 130 |
| Northwestern | 5 | 0 | 150 | 137 |
| Red River Valley | 18 | 1 | 155 | 137 |
| Southeastern | 15 | 0 | 148 | 133 |
| Southwestern | 3 | 0 | 146 | 141 |
| Red Riv. Val.-Minn. & N. D. | 22 | 1 | 153 | 137 |
| South Dakota | 26 | 1 | 144 | 134 |
| Southeastern | 8 | 0 | 145 | 139 |
| Other Eastern | 11 | 0 | 141 | 130 |
| Western | 7 | 1 | 149 | 124 |
| Wisconsin and Michigan | 52 | 0 | 136 | 126 |
| Northern Wisconsin | 13 | 0 | 140 | 129 |
| West Central Wisconsin | 31 | 0 | 137 | 123 |
| Upper Pen. Michigan | 8 | 0 | 130 | 133 |

### Department Store Sales Indexes by Cities

1935-1939=100 Unadjusted

| | Month of August 1946 | 1945 | 1944 | 1941 |
|---|---|---|---|---|
| Minneapolis | 240 | 172 | 161 | 123 |
| St. Paul | 224 | 153 | 143 | 132 |
| Duluth-Superior | 227 | 187 | 168 | 118 |

## BANKING (From Page 370)

try banks in Montana, North Dakota, and South Dakota $6 million in each state respectively.

### Assets and Liabilities of All Ninth District Member Banks, June 30, 1946,* and December 30, 1945

(Millions of Dollars)

| | 6/30/46 | 12/30/45 |
|---|---|---|
| **Assets** | | |
| Loans and Discounts | $ 459 | $ 452 |
| U. S. Government Securities | 2,071 | 2,158 |
| Other Investments | 137 | 125 |
| Cash and Due from Banks | 767 | 849 |
| Other Assets | 26 | 26 |
| Total Assets | 3,460 | 3,610 |
| **Liabilities and Capital** | | |
| Demand Deposits (Individuals, Partnerships and Corporations) | 1,546 | 1,499 |
| Time Deposits (Individuals, Partnerships and Corporations) | 823 | 760 |
| U. S. Government Deposits | 305 | 550 |
| Other Deposits | 598 | 618 |
| Total Deposits | 3,272 | 3,427 |
| Capital Account | 177 | 169 |
| Other Liabilities | 11 | 14 |
| Total Liabilities and Capital | 3,460 | 3,610 |
| Number of Banks | 468 | 472 |

* Final tabulation, superseding preliminary figures appearing in July Monthly Review.

## SPECIAL ARTICLE (From Page 371)

Farmers have reduced their indebtedness. Farm mortgage indebtedness in the Ninth District by January of this year had contracted to $627 million from $813 million in January 1941.

The contraction of individual and business indebtedness is reflected in the decline of bank loans. On June 30 of this year, the volume of loans of commercial banks in this district was only 25 percent larger than on June 30, 1940, while deposits more than tripled during this time. Loans, however, have risen sharply since June.

### FUNDAMENTAL DIFFERENCES IN TWO POSTWAR PERIODS

Although prices, retail sales, and inventories since VJ-day have followed a pattern somewhat similar to that observed during the replacement boom following World War I, there are, nevertheless, some fundamental differences in the present business picture.

(1) The price inflation during the recent war has been much less than during World War I. Consequently, a price deflation which may occur as the supply of merchandise approaches the effective demand in all probability will be less crippling to business.

(2) An accumulation of inventory such as occurred in 1920 is not yet evident in this district.

(3) Credit has contracted instead of expanded during the recent war, although some expansion has occurred recently. Price deflation would cause a relatively small amount of forced liquidation.

(4) Some preparation has been made to mitigate the effect of another general business recession.

An agricultural price support program has been enacted by Congress. At least in the short run, this program will prevent a serious collapse in the prices of agricultural products.

Controls have been placed on the accumulation of inventory. Inventories of manufacturers, wholesalers, and retailers are limited to a practical minimum working amount.

Social security through unemployment insurance has placed a floor under the effective purchasing power should another general business recession follow the replacement boom.

(5) The general business recession of 1920 and 1921 is still very vivid in the memories of middle-aged and older individuals. Business decisions are tempered by this experience. As a result, many business concerns and individuals are better prepared to weather a general price deflation should it again follow the replacement boom.

●

In a comparison of the two post-war periods, the differences appear to outweigh the similarities in the business picture. Both should be studied. Should another general business recession follow the replacement boom, it very likely would result in part from a different set of causes than were present in 1919.

—Oscar F. Litterer.