MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 8 **JANUARY 31, 1947** **Serial No. 61**

BUSINESS

District Tops Nation's Business Expansion

MAKING a survey of 1946 economic developments requires an unusual degree of analytical agility. In some respects the year began inauspiciously. There was apparently an impressive array of very formidable production and employment hurdles ahead before the post-war economic sprint could be achieved.

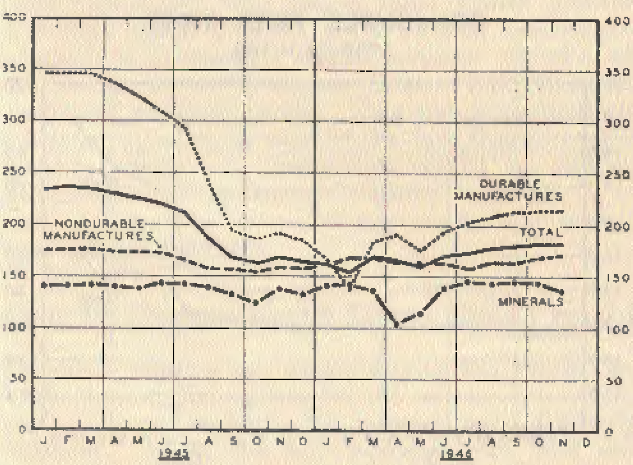
First, no small part of the technical problems of reconversion were ahead. Furthermore, the problem of rethreading civilian supply lines would remain even after much of the reconversion was completed.

Second, the problem of reabsorbing several million demobilized veterans into the peacetime labor force had to be faced. In addition to the demobilization from the armed services, there was a substantial number of workers employed in strictly war industries who would also be in the labor market seeking peacetime employment.

Third, the customer which during the war had been taking approximately half of the total output of the goods and services (the U. S. Government) was destined to shrink its demands by an impressive 50 percent. It appeared that not often in its history had the American economy been faced with a withering away of such a substantial demand for goods and services without sustaining a considerable shock. Few doubted that private demand was there for civilian goods. The unanswered question was whether civilian production could be stepped up rapidly enough to replace the rapidly declining government demand in the market place.

INDEX OF INDUSTRIAL PRODUCTION

Seasonally Adjusted 1935-39 = 100



Source: Board of Governors, Federal Reserve System.

THE NATION

AT the end of 1946, retail sales were high, with little evidence of decline.

Inflationary forces were still stronger than those tending toward deflation.

Sellers' market continued in many areas.

Inventories were still rising.

Credit to private borrowers was still expanding sharply.

THE DISTRICT

Steady rise observed in the dollar volume of retail sales.

Employment expanded in non-agricultural establishments.

Mining activity continued to recede from wartime peak.

Residential construction fell short of goal.

Income payments in 1946 exceeded all previous records.

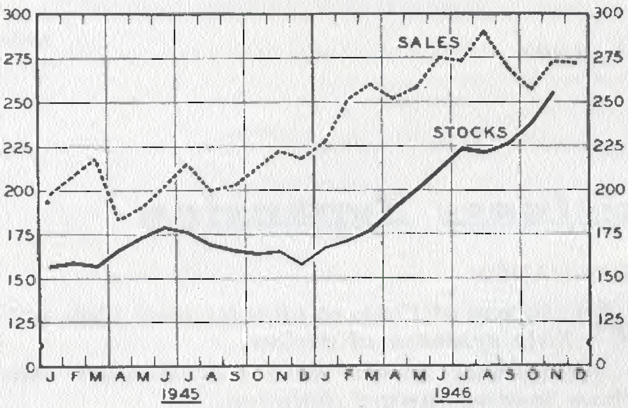
Fourth, and to some extent least expected, the nation all during the fore part of the year was involved in a number of major work stoppages in critical industries. This was a development which tended to complicate materially the problem of clearing the inevitable hurdles incident to full speed ahead for the civilian economy. It is not difficult to understand, therefore, a low for the industrial production index in February of 152, 10 points below the average for pre-war 1941.

OPTIMISM IN BUSINESS PREVAILED DESPITE RECONVERSION PROBLEMS

This formidable array of economic hurdles under virtually any other circumstances could have been counted upon to produce a considerable amount of pessimism about the business outlook. Yet the pessimism, at least on the part of the business community, was not forthcoming. All during the fore part of the year there seemed to be an underlying, impregnable optimism—a feeling that once these kinks could be worked out the economic machine would be disgorging an unparalleled output.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS (UNITED STATES)

Seasonally Adjusted 1935-39=100



Source: Federal Reserve Bulletin.

As a matter of fact, some guarded optimism seemed to be justified. Even the more urgent demands for housing, automobiles, and hard goods seemed unlimited. Prior to the war a high volume of activity in these industries had virtually assured substantial prosperity for most of the other parts of the economy. By mid-year, furthermore, the production outlook appeared to justify some hope that assembly lines would not continue to operate by fits and starts. Industrial production did not, in fact, make any significant progress on balance between January and May.

While the industrial production index for May of 159 was still 1 point below the January level, June saw a remarkable jump of 11 points to 170; and by October the rapid upward surge had carried the index up another 12 points, where it stood at the year's end.

Another evidence of the optimism during 1946 was the remarkably persistent expansion in department store sales. During the first three months of the year, and in spite of the large number of work stoppages, sales at department stores rose for the nation as a whole by almost 15 percent (after an allowance for the usual seasonal variations). From March to May there was an evident tendency to level off, and, in fact, the department store sales index for May fell slightly below the March level.

As was true for industrial production, June ushered in a period of substantial further expansion in department store sales which carried the national index from 258 in May to 290 in August, the peak for the year after allowing for seasonal variations. During the two succeeding months, sales fell off somewhat, although the decline was in no small measure attributable to work stoppages in the eastern sections of the country. After a low in October of 257 the index climbed back to 273 in November and wound up with 272 in December, an annual rate roughly 22 percent larger than at the beginning of the year, again after an allowance for the normally large volume of sales during December.

EXPANSION IN SALES IN PART DUE TO RISE IN PRICES

Any comparison of the expansion in physical production and the dollar volume of sales reveals that the latter substantially outpaced the increase in production. Therefore, the year also witnessed a considerable price increase, no small part of which actually occurred during the final six months of the year. The consumers' price index of the U. S. Department of Labor began the year at 129.9, and by May had risen to only 131.7 percent, a rise of approximately 1 percent. In June the increase was slightly less than the total increase for the preceding five months. In July, with the demise of OPA, the consumer price index jumped from 133.3 to 141.2. This jump was about as much as the rise for the entire two-year period ending in June.

While final figures are not yet available, it is evident that the consumers' price index by the end of the year had reached a level of perhaps 152 percent, a total rise during 1946 of approximately 17 percent. The great bulk of the increase is to be explained by the 30 percent rise in food prices, which constitute about 41 percent of the total consumers' price index.

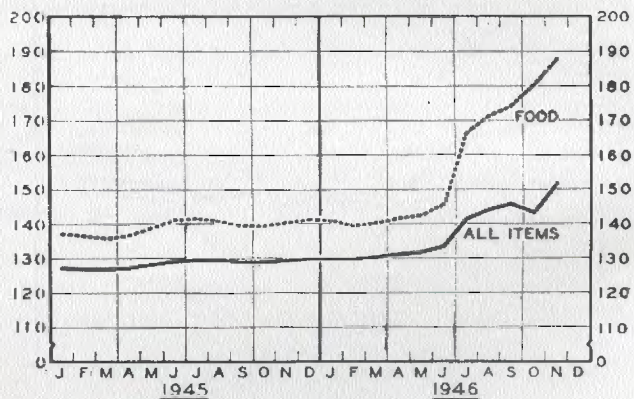
The second half of the year contained, in other words, many elements to justify some degree of optimism about the business picture. Production was rising. It was true that prices had increased fairly rapidly, but even so there was no conclusive evidence that any great proportion of the outpouring of goods and services was in danger of going begging for want of customers (except for a few scattered and largely luxury items). Yet with the advent of this rising volume of business activity, a considerable degree of pessimism began to develop. There was some concrete evidence to support a less unbounded degree of optimism than seemed to characterize the first part of the year.

END OF BULL MARKET ONE FACTOR IN DAMPENING OPTIMISM

The first sour note was struck by the stock market decline. The bull market came to an end shortly before the middle of the year. For the next three

CONSUMERS' PRICE INDEX

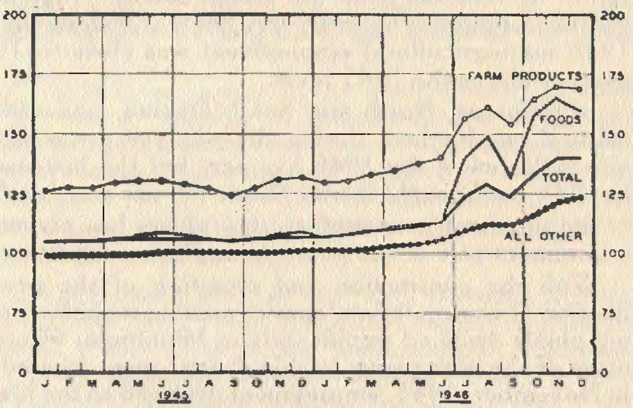
1935-39 = 100



Source: U. S. Department of Labor.

WHOLESALE PRICE INDEX [1]

1926 = 100



[1] Source: U. S. Department of Labor.

months a roughly horizontal trend developed. Beginning in September, however, a break developed which precipitated an impressive descent for most of the stock averages.

Second, during the latter part of the year there was some fear about the rapidly rising volume of business inventories. Again the final figures are not available, but it seems evident that the value of business inventories was increasing at the annual rate of $15 to $16 billion by the latter part of 1946. There seemed to be no consensus about whether this was yet an ominous development. It was true that such a rate of expansion could not be sustained over any considerable period.

On the other hand, inventories relative to the volume of business did not seem to be out of line. Furthermore, inventories were seriously out of balance. Stocks of some items were approaching excess at the same time stocks of other goods were seriously short, if not nonexistent. Whatever the final significance of this rapid rise in the value of inventories, it was clearly a sobering development and precipitated toward the end of the year a considerably more cautious attitude than was true at the beginning.

The third skeptical note came from the agricultural economists who raised some rather pointed questions about whether, given normal agricultural production, consumers would continue to take off the market as much as they had in 1946 if prices continued at those levels. This was a particularly pertinent question in view of the fact that increased durable consumers' production would be making stronger bids for consumers' dollars.

Of perhaps symbolic importance only, the latter part of the year did witness price breaks in certain scattered lines. The most dramatic were the breaks in the cotton market, a little later a break in the fur market, and to some extent price weaknesses for luxury goods in general. While these did not bulk very large in the average consumer's budget, they did seem to pose questions about what might lie ahead for the price level in general.

WHAT IS IN STORE FOR 1947?

Where do we now stand at the beginning of 1947? Has 1947 inherited from its predecessor a continued boom? What is on balance from our economic problem heritage from 1946? Or will substantial price readjustments develop throughout the year? If they do, will they be piecemeal and scattered over the year or be more concentrated in the form of a break in the general price level? In either case, what will be the resulting effect on production and business activity? There was more agreement on the questions than on the answers. Few were wise enough or daring enough to have any firm convictions about what the answers would finally be.

These in general seemed to be the crucial economic developments as the economy was ushered into 1947. First, retail sales were high.

Second, developments edging the price level on up seemed to be slightly stronger than those which would produce a decline, except in farm product prices, although price-making forces were much more in balance than a few months earlier. And scattered downward price trends in a few cases were developing.

Third, production was running at the average rate of 12 to 15 percent above 1941, and a substantial part of this production was still enjoying a sellers' market. The rate of production, furthermore, in certain critical industries did not seem to have made much headway in liquidating deferred demands at any reasonable level of prices.

Fourth, inventories were still rising at a considerable rate, with some concern about the wisdom of further increases being voiced in some quarters.

Fifth, expansion of bank credit to private borrowers was proceeding at a very impressive pace, in part explained by inventory expansion.

Do these portend for 1947 a continuation of the 1946 boom or a sharp decline in business activity, employment, and prices? Not until December 31 will that question be conclusively answered.

THE NINTH DISTRICT

Rise in Department Store Sales and Non-Farm Employment Feature Year

IN some respects our experience in the Ninth District was similar to that for the nation as a whole, and in some respects the pattern was distinctly different. 1946, the first postwar year, was distinguished by an exceptionally high level of business activity, even relative to the nation as a whole. Nearly all productive resources were employed in the production and distribution of goods and services,

Northwest Business Indexes

Adjusted for Seasonal Variations—1935-1939=100

	Dec. 1946	Nov. 1946	Dec. 1945	Dec. 1944
Bank Debits—93 Cities	282	291	237	208
Bank Debits—Farming Centers	330	314	250	221
City Department Store Sales	271	269	218	192
Country Department Store Sales	234	236	180	169
City Department Store Stocks	272	246	149	151
Country Department Store Stocks	307	269	160	178
Country Lumber Sales	105	....	141	159
Miscellaneous Carloadings	154	145	138	150
Total Carloadings (Excl. Misc.)	103	137	99	97
Farm Prices (Minn. Unadj.)	265	261	175	172

but even this was not enough to satisfy the unprecedented demand of consumers. Consequently, consumers exerted a constant upward pressure on prices.

Bank debits are one measure of general business activity. Even though they include transfers of funds which represent no business transactions, the large amount of debits, nevertheless, is indicative of the large amount of payments made for goods and services. The dollar amount of checks charged against the accounts of individuals, business firms, and governmental units in this district in 1946 exceeded all previous records. Total debits last year were almost 2¼ times the amount in 1940. The increase of 20 percent over the 1945 total was exceeded in only one previous pre-war year, 1943, when total debits in the district increased 24 percent over the previous yearly total.

DEPARTMENT STORE SALES LAGGED DURING WAR PERIOD; EXPANSION NOW EQUALS EXPANSION FOR THE NATION

Since department stores sell a wide variety of merchandise, their sales are roughly representative of total sales. During the war years, the rise in department store sales in this district lagged behind the rise for the nation as a whole. At VJ-day, Ninth District department store sales had risen approximately 10 percent less than the sales in the nation. The migration of labor out of this district to the war production centers, in part, accounted for the smaller expansion in sales.

During 1946, department store sales in the Ninth District increased faster than in other regions of the nation. In September and in October, sales, measured in terms of the increase over the 1935 to 1939 average, exceeded the increase in sales for the nation. The rapid expansion in sales is traced primarily to the continued rise in both farm and non-farm income.

MANUFACTURING HAS REGAINED MUCH OF WARTIME EXPANSION

The total number of employees in non-agricultural establishments, as estimated by the U. S. Department of Labor for the four states wholly within this district, was 5½ percent larger for the first nine months of 1946 as compared with the same period of 1945. The steady expansion of such employment is attributed to the return of laborers from war production centers outside of the district and the return of veterans from the armed forces. Figures for the last quarter of 1946 very likely will show that 1946 non-agricultural employment was close to 10 percent above the 1945 level.

In Montana, North and South Dakota, non-agricultural employment during the war years was significantly below the 1940 average, but the increase in 1946 has brought it well above the pre-war level.

Employment in manufacturing plants has played a dominant role in the postwar employment picture.

With the contraction and cessation of the production of war materials, employment in manufacturing plants declined significantly in Minnesota, where most of the war plants in this district were located. In November, 1945, employment dropped to the low point of 179,000 from the peak of 224,000 in February, which was the high point during the war period.

In the other states of this district, manufacturing employment was almost unaffected by the reconversion from war to civilian production. The de-

(Continued on Page 412)

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Dec., 1946 of Dec., 1945	% Jan.-Dec., 1946 of Jan.-Dec., 1945
Total District	231	18	126	132
Mpls., St. Paul, Dul.-Sup.	20	2	125	133
Country Stores	211	16	126	130
Minnesota	67	5	121	126
Central	7	1	123	126
Northeastern	7	0	117	130
Red River Valley	4	0	124	128
South Central	19	1	121	122
Southeastern	11	0	130	131
Southwestern	19	3	114	124
Montana	31	4	124	132
Mountains	10	1	127	137
Plains	21	3	123	131
North Dakota	44	2	131	135
North Central	9	1	132	130
Northwestern	5	0	133	133
Red River Valley	16	0	134	139
Southeastern	12	1	127	131
Southwestern	*	*	....	....
Red Riv. Val.-Minn. & N. D.	20	0	132	137
South Dakota	19	2	131	132
Southeastern	5	1	134	136
Other Eastern	8	1	129	130
Western	6	0	126	126
Wisconsin and Michigan	50	3	128	127
Northern Wisconsin	15	0	126	129
West Central Wisconsin	27	3	130	126
Upper Peninsula Michigan	8	0	123	129

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

Department Store Sales by Cities

	Percent One Year Ago Dec.	Percent One Year Ago Jan.-Dec.	Percent 1935-1939 Average
Minneapolis	124	133	430
St. Paul	131	135	382
Duluth-Superior	124	126	*
La Crosse	133	130	
Mankato	117	119	
St. Cloud	127	129	

* Insufficient number of stores.

AGRICULTURE

1946--Agriculture's Most Prosperous Year

CASH farm income in the Ninth District in 1946 was the highest on record—almost 20 percent above the previous record in 1945. This agricultural income makes up a major share of total income payments in the Ninth District, whereas in the United States as a whole farm income constitutes a relatively small share of approximately 12 to 13 percent.

Agriculture's share of the Ninth District's total income payments varies greatly, of course, in different areas. The share in the western areas (Montana and the Dakotas) is high, between 50 and 70 percent. It is somewhat lower in the eastern area. Even in Minnesota and Wisconsin, however, farm income accounts for nearly twice as large a share of the total state income payments compared with the country as a whole.

The tremendous importance of agriculture in the Ninth District, as well as for the entire United States, is emphasized by the fact it supplies raw materials for a substantial part of United States industry's needs—and approximately one-third of the people in factories are said to be processing or fabricating farm-derived raw materials.

The significant part which farming plays in the district and for the United States is indicated by the following production figures. During 1946 about 25 percent of all wheat produced came from the four district states.[1] Nearly 84 percent of all spring wheat is produced here, about half of it in North Dakota alone. Slightly more than 80 percent of 1946 flax came from the Ninth District, about half of it from the state of Minnesota. Corn, oats, rye, and barley production in the district during 1946 accounted for 14, 24, 35, and 44 percent, respectively, of total United States production of these crops.

From 10 to 14 percent of the nation's hogs, cattle, sheep, and poultry are found on farms in the four states, with sheep being in the highest proportion (see accompanying chart).

Only 6.1 percent of the nation's farms are in the four Northwest states, but these farms contained 15.4 percent of total farm acreage, indicating that district farms are much larger compared with the United States average.

The number of acres per farm in Ninth District states has increased during the last 25 years, with an accentuation of this trend since 1935. This trend is especially noticeable in the western part of the district. In Montana, for example, the average size of farms has increased two and one-half times. Farm size in North and South Dakota has also increased sharply. Of course, this trend is largely a result of increased farm mechanization. Farms are smaller in the eastern part of the district, as the type of farming here has been less affected by mechanization.

[1] Minnesota, Montana, North and South Dakota.

FARM production was of near-record volume, with prices highest on record.

Bank deposits and savings hit peak levels, while farm debt was held at low mark.

Land prices not seriously inflated.

Four district states produced 25% of all wheat; North Dakota 86% of all spring wheat.

Eighty percent of flax came from Ninth District — half from Minnesota.

FINANCIAL POSITION OF FARMERS IN 1946 BEST ON RECORD

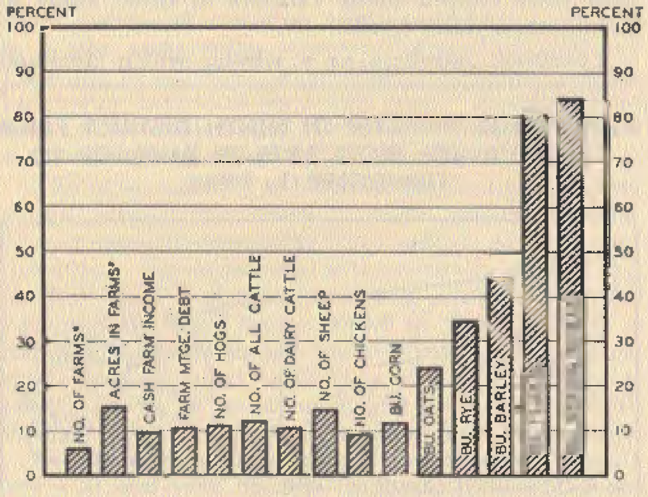
Crop production was at a near record level. Livestock numbers were maintained at high levels in spite of heavy marketings. Agricultural prices advanced sharply to the highest point in history. Cash farm income reached a new peak. Farm bank deposits and bond holdings were at peak levels. Farm mortgage indebtedness held at a relatively low level. And land prices were not seriously inflated for the district as a whole.

Cash farm income in the district approached an estimated $2\frac{2}{3}$ billion in 1946—about a fifth more than last year's record and more than $3\frac{1}{2}$ times the 1935-39 average.

This prosperity boom in agriculture is, of course, the result of two important factors. First, there was a phenomenal increase in over-all agricultural production due to a considerable extent in the Ninth District to several years of exceptionally favorable weather conditions. Second, an unprecedented demand for food products boosted prices to levels approximately $2\frac{1}{2}$ times the pre-war level.

It is generally agreed among farm economists that

NINTH DISTRICT AGRICULTURE IN PERCENT OF U. S. TOTAL FOR 1946 [1]



*1945 census data.
[1] Minnesota, Montana, North and South Dakota.

cash farm income during the year just ended will have established a record not likely to be equaled in the next several years. Most economists believe also that rising costs in farming may reduce net farm income sharply, especially if there is a general decline in agricultural prices.

Approximately 60 percent of the district's cash farm income last year was derived from the sale of livestock and livestock products. About 36 percent was from cash crops, and the remainder from government payments. The proportion of farm income derived from crops and livestock varies considerably from state to state and between areas within states. In Minnesota, for example, approximately 73 percent of cash income comes from the sale of livestock and livestock products, while in North Dakota only about 32 percent comes from this source, with 66 percent derived from the sale of crops, particularly wheat.

GOOD WEATHER AND BETTER METHODS BOOSTED FARM OUTPUT

Agricultural production in the Ninth District during 1946, although slightly below 1945, was substantially above pre-war levels. Wheat production, for example, in 1946 was double the average for the 1935-39 period, and corn and oats production were nearly doubled. Barley and potato production were below last year's levels but were slightly above the pre-war average. Rye production was a notable exception, as the 1946 crop was 14 percent below last year's crop and only about a fourth as large as the 1935-39 average.

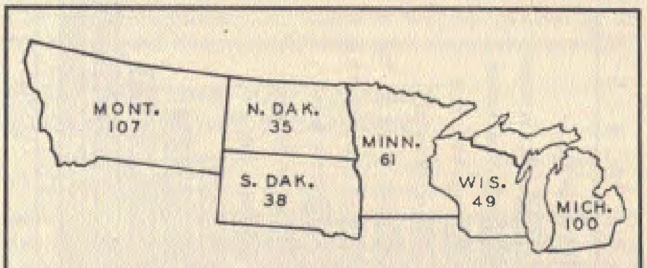
Dairy production apparently has been maintained throughout the year at levels only slightly below last year in spite of a continuation in the decline of dairy cow numbers. Dairy cow numbers in the district as of January 1, 1947, are expected to total less than a year earlier and probably 12 to 15 percent below the peak, January 1, 1944.

As might be expected, the greatest decline in milk cow numbers has come in the western part of the district, where dairying is only a minor farm enterprise. Other profitable farm enterprises plus labor shortages have caused many farmers in these areas to reduce their dairy herds.

Livestock numbers as a whole, which declined through most of 1945 and early 1946, probably reversed the trend in late 1946 as feed supplies again became plentiful and feeding ratios generally more favorable.

With excellent range and feed conditions prevailing, there is little indication of an immediate reduction in beef cattle numbers from their near-record levels. Expansion in hog production appears likely in view of the record corn crop and an exceptionally favorable feeding ratio. Hog numbers on farms in the district are about double the pre-war average.

PERCENTAGE INCREASE IN NINTH DISTRICT FARM LAND VALUES FROM 1935-39 AVERAGE TO NOVEMBER 1, 1946



U. S. AVERAGE INCREASE 83 PERCENT

Average Prices Received by Farmers [1]

Commodity and Unit	Ninth District — Dec. 15, 1937-1941 Avg.	Ninth District — Dec. 15, 1945	Ninth District — Dec. 15, 1946	Parity Prices[2] United States Dec. 15, 1946
Crops				
Wheat, bushel	$ .75	$ 1.50	$ 1.94	$ 1.88
Corn, bushel	.44	.94	1.06	1.37
Oats, bushel	.28	.65	.74	.85
Potatoes, bushel	.48	1.03	1.13	1.58
Livestock and Livestock Products				
Hogs, 100 lbs.	6.88	13.96	22.45	15.50
Beef Cattle, 100 lbs.	7.23	10.62	17.10	11.50
Veal Calves, 100 lbs.	8.61	12.95	17.15	14.40
Lambs, 100 lbs.	8.04	12.57	17.80	12.50
Wool, lb.	.27	.44	.42	.39
Milk, wholesale, 100 lbs.	1.75	2.82	4.74	3.73
Butterfat, lb.	.34	.53	.92	.613
Chickens, live, lb.	.118	.213	.233	.243
Eggs, dozen	.238	.422	.387	.554

[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.

January-October Cash Farm Income [1]

(Thousands of Dollars)

State	1935-1939 Average	1945	1946	1946 in Percent of 1945
Minnesota	$ 281,466	$ 691,522	$ 785,788	114%
North Dakota	92,795	368,457	434,465	118
South Dakota	89,304	338,785	457,756	135
Montana	73,817	176,600	211,030	119
Ninth District[2]	584,578	1,736,932	2,067,953	119
United States	6,683,437	17,326,000	19,373,000	112

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

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

BANKS INCREASED LOANS TO AGRICULTURE

Farm debt in the Ninth District is low. Total real estate mortgage debt on January 1, 1946, totaled only $627 million. This compares with $827 million in 1940 and $1,745 million at the peak in 1923. Current farm real estate debt is therefore only about a third of what it was at the peak. The trend, steadily down for almost 24 years, may have reversed itself in recent months.

For the country as a whole, the estimated debt on July 1, 1946, was about $80 million higher than for January 1, 1946. The Department of Agriculture reports substantial increases in the first six months of 1946 in farm mortgage debt held by commercial banks, individuals, and other miscellaneous lenders.

(Continued on Page 414)

BANKING

Deposits Expand More Than for Nation

THREE major developments characterized the 1946 Ninth District banking picture. First, deposits other than war-loan balances for the area continued during the year to increase at a rate substantially greater than for the nation as a whole. Second, the latter part of the year witnessed a very marked expansion in the demand from private sources for bank credit. Third, the U. S. Treasury's use of its large war-loan balance at the beginning of the year ($24 billion nationally) to reduce the public debt resulted in substantial changes in both the pattern of assets of member banks and in their reserve position.

DEPOSITS OF MEMBER BANKS DECLINED $300 MILLION IN 1946

For the first time since 1937, member bank deposits for the district were lower at the end of the year than at the beginning. On December 31, 1946, member bank deposits for the Ninth District aggregated $3,126 million, off $301 million from the beginning total of $3,427 million.

The importance of this deposit decline was considerably reduced, however, by the fact that the reduction of war-loan balances accounted for more than the entire decline. Member banks started the year with deposit balances to the credit of the U. S. Government of $550 million. The periodic use of these funds during 1946 to redeem U. S. Government securities for cash had shrunk these balances to $76 million by the year's end. Therefore, deposits

TABLE I

Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

	Dec. 31, 1946*	June 29, 1946	Dec. 31, 1945
Loans and discounts	$ 567	$ 459	$ 452
U. S. Government securities	1,789	2,071	2,158
Other investments	136	138	125
Cash and due from banks	798	767	849
Other assets	24	25	26
Total assets	3,314	3,460	3,610
Demand deposits of individuals, partnerships, corporations	1,658	1,546	1,498
Time deposits of individuals, partnerships, corporations	794	823	760
Deposits of U. S. Government	76	305	550
Deposits of states and political subdivisions	183	216	164
Deposits of banks	387	355	425
Other deposits	28	27	30
Total deposits	3,126	3,272	3,427
Miscellaneous liabilities	14	11	14
Capital funds	174	177	169
Total liabilities and capital	3,314	3,460	3,610
Number of banks	470	468	472

* Preliminary.

DEMAND deposits of individuals and businesses rose 11% during 1946.

Member bank deposits for district lower at year-end first time since 1937, due to reduced war-loan balances.

Active lending marked last half of year, as inventory accumulations, increased customer credit, and notes payable to trade increased bank loans.

Treasury's use of war-loan balance ($474 million out of district) created some reserve problems.

Ratio of deposits to capital was reduced from 21 to 1 to 18 to 1 as member banks increased capital with earnings.

other than those of the U. S. Government actually increased from $2,877 million at the end of 1945 to $3,050 million a year later.

Demand deposits of individuals and businesses continued the war-time expansion and during the year rose 11 percent to a total of $1,658 million. Balances of states and minor political subdivisions swelled 12 percent to $183 million. Deposit balances of other banks dropped 9 percent to a total of $386 million. While time deposits of $794 million at the year's end were 4 percent above December 1945, the rate of expansion was somewhat less dramatic.

In general the wartime trend toward increased deposits continued at a slightly modified pace through 1946, although the heavy withdrawal of war-loan balances actually pulled the year-end total deposit figure down by 9 percent, relative to 1945.

COMMERCIAL, REAL ESTATE, AND CONSUMER LOANS ROSE RAPIDLY DURING LAST HALF OF '46

During 1946 most types of bank loans witnessed a very material expansion. Inventory accumulations, increased customer credit, and notes payable to trade apparently strained internal sources of financing to an extent which made considerable bank borrowing necessary for many firms. In addition to this, consumer and real estate loans also evidenced a strong upward surge during the year.

The latter half of 1946 was a period of particularly active lending for Ninth District member banks. They began the year with $451 million of loans and discounts. Six months later the figure had increased by less than 2 percent to $459 million. By the year-end the total had jumped to $567 million, a rise of 24 percent during the final six months. Moreover, this had occurred in spite of a $44 million decline in loans on securities during the year, $15 million of which occurred during the final six months.

Commercial and industrial loans were actually lower at mid-year ($149.7 million) than at the beginning ($150.6 million). Then occurred a very

TABLE II

Loans and Discounts of Ninth District Member Banks

(In Million Dollars)

Type	Dec. 31, 1946*	June 29, 1946	Dec. 31, 1945
Commercial and industrial	$233	$150	$151
Loans to farmers guaranteed by CCC	9	1	9
Other loans to farmers	49	55	48
Loans on securities	30	44	74
Real estate loans	128	112	88
On farm land	14	14	11
On residential property	89	81	66
On other property	25	17	11
Other loans to individuals	70	55	40
Loans to banks	1	1	1
Other loans	47	41	40
TOTAL	$567	$459	$451

* Preliminary.

marked upward surge which boosted them by 55 percent in six months to a total of $232.6 million by the year-end. No information is currently available concerning what types of business were doing the borrowing and for what purposes; a study is now under way to throw more light on this critical question.

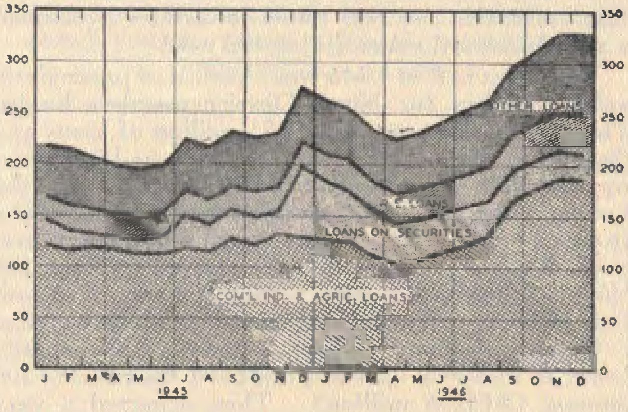
Loans to farmers exhibited a slightly different pattern. Loans guaranteed by the CCC declined slightly by mid-year but by December had just about recovered to the $9 million level of year-end 1945. The pattern of other loans to farmers was reversed. They were higher at the time of the June call report ($55 million) than for December 1945 ($48 million) or year-end 1946 ($49 million).

Real estate loans secured by farm land and residential property achieved a considerable proportion of their increase during the first six months. During the first half of the year, loans on farm land were pushed up from $11.5 million at the beginning of the year to $13.7 million at the end of June, but during the second half of the year they rose further to only $13.9 million.

Loans on residential property jumped from $66 million at the end of 1945 to $89 million a year later, a 35 percent expansion, about two-thirds of which occurred during the first half of 1946. Loans secured by other properties more than doubled during 1946, swelling from $11 million at the beginning to $25 million at the end.

LOANS AT WEEKLY REPORTING NINTH DISTRICT BANKS

(In Million Dollars)



Other loans to individuals, largely known as consumer loans, turned in one of the most rapid yearly rates of increase in their history. At the beginning of 1946, member banks had $40 million of these loans on their books. At the end of the year they had swelled to $70 million, an expansion of 75 percent.

Miscellaneous loans went from $40 million to $48 million during 1946.

LOAN EXPANSION IN 1946 VARIED FROM BOSTON'S 23% TO SAN FRANCISCO'S 80%

Nationally, information is as yet available only for the weekly reporting banks in 101 cities. From January 2 to December 31, 1946, total loans at these banks showed an increase of only 5 percent, due to certain cancelling features. Bank loans for purchasing or carrying securities declined substantially, reflecting primarily liquidation of loans made for the purchase of Government securities. There had also been some decline in loans on listed securities as a result of the increased margin requirements.

On the other hand, commercial, industrial, agricultural, real estate, and consumer loans have made significant gains. In the Weekly Reporting Member Bank series, commercial, industrial, and agricultural loans increased from $7.3 billion on January 2, 1946, to $10.3 billion on December 31, 1946 (a 41 percent increase). Most of this change may be safely attributed to commercial and industrial loans if the fairly horizontal trend during the year in agricultural loans in this district is at all indicative.

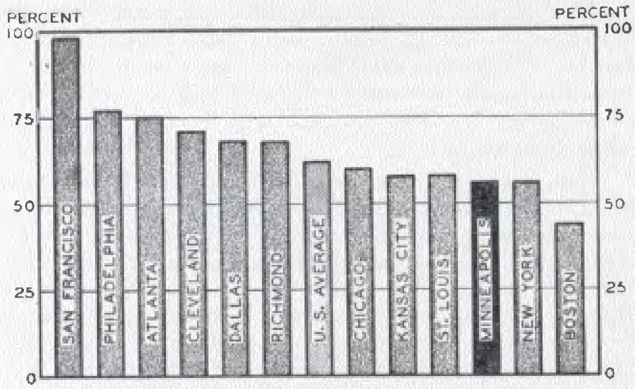
A 43 percent increase has taken place in real estate loans at these banks since January 2, 1946. Differing from other phases of the loan expansion, this rise has been a steady month-to-month movement. This increase reflects in part higher values and a larger available number of mortgages.

The third item in the loan portfolio which showed substantial gain was other loans, which are mostly to consumers.

According to the data given in the Weekly Reporting Member Bank series, the timing of the loan expansion seems to have been fairly uniform throughout the United States. Generally, total loans reached a low point around April and May of 1945 all over the country. They started up again slightly, suffered a small set-back in August, September, and October, and then began climbing upward. The middle of 1946 saw a slight decline, which was followed by the greater part of the expansion.

The amount of increase varied from one Federal Reserve district to another. The New York district, which holds approximately 40 percent of the loans outstanding at these weekly reporting banks, showed a small net loss from January 2, 1946, to December 31, 1946, because of a heavy run-off of loans on securities. The greatest gains for a corresponding period were registered for the Minneapolis, Kansas City, and San Francisco districts, ranging from 23 to

EXPANSION IN COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS[1]



[1] Percentage increase from Oct. 17, 1945, to Nov. 20, 1946, at weekly reporting member banks.

42 percent. The Minneapolis Federal Reserve district had an increase of 23 percent.

Generally speaking, the midwestern and western sections of the country made the greatest gains, the south and central were next, and the eastern financial centers showed the least change.

The expansion of commercial, industrial, and agricultural loans showed great variation from 23 percent for the Boston district to 80 percent for the San Francisco district in the period ending December 31. It would appear that the demand for funds for reconversion and expansion has increased to the greatest degree in districts where industry was located which has sprung up in the war period in answer to the need for war production.

In the well-established, heavy industry sections of the country the gains have not been as pronounced. In comparing the industrial districts of Boston, New York, Philadelphia, Cleveland, and Chicago with the rest of the country, it is significant to find an increase in commercial, industrial, and agricultural loans of only 38 percent as compared with a 50 percent gain in the less industrialized regions, in spite of the nominal net increase in agricultural loans in the strictly farming centers.

This would suggest that the smaller and middle-sized business firms and industries are the ones where the demand for bank financing has increased most sharply. Corroborating this conclusion is the difference in the percentage changes in loans of central reserve city banks and other banks. From the first of the year to December 31, an increase of 36 percent occurred in the central reserve city banks, whereas it amounted to 47 percent for other banks.

All districts experienced a sharp decline in loans on securities in the past year. These declines ranged from 43 percent to 63 percent. This development was to be expected during the year following the Victory Loan of December 1945.

Real estate loans were up throughout the nation, the smallest increase being in the New York district, where a 25 percent gain was registered. The Minneapolis district showed a 60 percent increase (for the 20 banks included in the Weekly Reporting series) while the greatest increases were in the Atlanta and Dallas districts, with 83 and 72 percent respectively. The other districts' gains ranged between 32 and 59 percent.

In the "other loans" category, St. Louis and San Francisco gained 56 and 73 percent. On the other end were Boston and Atlanta with 16 percent increases. The Ninth District registered a 52 percent increase. Other increases ranged between 24 and 52 percent.

DEBT REDEMPTION PROGRAM REDUCED HOLDINGS OF SHORT-TERM SECURITIES

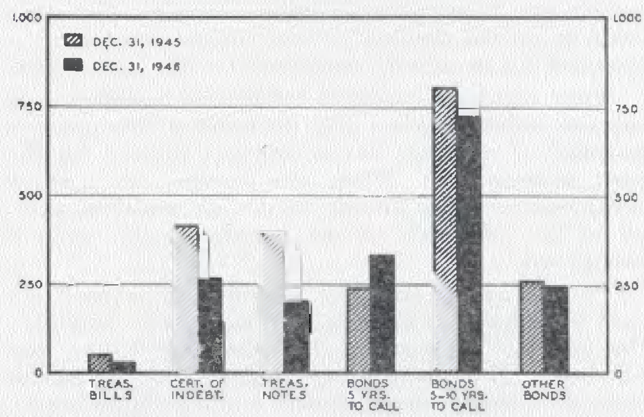
During 1946 the U. S. Treasury redeemed for cash $23 billion of outstanding securities. This affected the Ninth District banking picture in several ways. First, Treasury funds in war-loan balances were used to redeem the debt, thereby reducing these war-loan balances accordingly. For all Ninth District member banks, demand deposits of the U. S. Government of $550 million at the beginning of the year had declined to a nominal $76 million by the year end.

Second, a very substantial proportion of these securities, perhaps as much as half, was held by the commercial banks throughout the U. S. To the extent that these securities were redeemed for cash, bank holdings of these securities declined accordingly. All member banks in this district held $2,158 million of U. S. Government securities at the beginning of the year, a figure which had declined to $1,789 million at the end. The reduction was, of course, not uniform for all types of securities. Holdings of U. S. Treasury notes underwent the most drastic reduction. By year-end 1946, member banks in this district had liquidated almost half of the $396 million of these securities held at the beginning of the year.

The relative decline was somewhat similar for certificates of indebtedness, although not so severe. Our member banks began the year with $413 million of these securities, and still held in their port-

NINTH DISTRICT MEMBER BANK HOLDINGS OF U. S. GOVERNMENT SECURITIES

(In Million Dollars)



1946 data preliminary.

TABLE III

Ninth District Member Bank Holdings of U. S. Government Securities
(In Million Dollars)

Security	Dec. 31, 1946	June 29, 1946	Dec. 31, 1945
Treasury bills	$ 27	$ 24	$ 49
Certificates of indebtedness	266	368	413
Treasury notes	201	334	396
U. S. savings bonds	63	70	71
Other bonds, 5 years from call	331	276	238
Other bonds, 5-10 years from call	720	811	802
Other bonds, 10-20 years from call	116	116	114
Other bonds, after 20 years	65	71	73
Total	$1,789	$2,070	$2,156

folios roughly two-thirds by the year-end. Bill holdings were reduced from $49 million to $27 million during the year.

There was no material change in total holdings of longer-term U. S. Government securities. There was, however, a substantial shift to bonds 5 years or less from call date from those 5 to 10 years from call date. Holdings of the former increased by $93 million, while holdings of the latter were reduced by $82 million.

The debt redemption program did create some reserve problems for the member banks during the year. These redeemed securities were held by the non-banking public, the banks, or the Federal Reserve banks. To the extent that they were held by commercial banks, the debt redemption program posed no particular problems, since war-loan deposits used to redeem the debt were not subject to reserves.

It might be worthwhile to trace through the process by which these securities were redeemed for cash. War-loan deposits at the commercial banks were in effect transferred to the Treasury's account at the Federal Reserve banks. This temporarily reduced member bank reserve balances at the Federal Reserve banks and increased the Treasury's balance at the Federal Reserve banks by the same amount.

When the Treasury then called for cash redemption the securities held by the commercial banks, it paid the banks off with its temporarily enlarged balances at the Federal Reserve banks. Member bank reserve balances were, therefore, restored to the previous level. The only net result of the redemption was that on the member banks' liability ledger war-loan balances were down by the same amount as the decline in their holdings of the redeemed Government securities on the asset side.

Since war-loan balances require no reserves, and reserve balances were left unchanged, the reserve position of member banks was not altered by the cash redemption. While the process did involve some readjustment among banks, no problem overall of the adequacy of the member bank reserves was posed.

To the extent that the securities redeemed for cash were held by the non-banking public, however, the reserve position of the member banks was affected. The net result in this case was a transfer from war-loan deposit balances at the member banks, which did not require reserves, to the deposits of the banks' regular customers, which did require reserves.

The process is essentially the same as when the securities to be redeemed were held by commercial banks. When the war-loan accounts were called in, member bank reserves at the Federal Reserve banks went down by that amount and Treasury balances were increased.

The Treasury then drew checks on its enlarged balances at the Federal Reserve banks payable to the non-bank holders of the securities to be redeemed. These drafts were deposited at the commercial banks, increasing the deposit balances of the banks' regular customers. The member banks in turn cleared the checks through the Federal Reserve banks, restoring member bank reserve balances to the previous total. (Treasury balances went back down by the same amount.)

Here was the difference from the first case. Member bank reserves had been built back up only to the previous total, but deposits of the member banks' regular customers, against which the banks were required to keep reserves, had increased. Required reserves, therefore, had increased while reserve balances remained finally unaltered. This tended to tighten the reserve position of the member banks and, therefore, required periodically some open-market purchases of securities by the Federal Reserve banks to furnish added member bank reserves and ease the reserve position.

The effect was even more clear-cut if the securities were held by the Federal Reserve banks. In this case the net effect was a permanent decline in member bank reserves by the amount of the securities held by the Federal Reserve banks and redeemed for cash. Again war-loan balances were transferred to the Treasury's deposit account at the Federal Reserve banks. This the member banks did by drawing down their reserve balances at the Federal Reserve banks, which funds were credited to the Treasury's accounts at the Federal Reserve banks. The Treasury drew down this balance to redeem for cash the securities held by the Federal Reserve banks.

There the transaction ended. Member bank balances at the Federal Reserve banks were down by the amount of the redemption and Federal Reserve bank assets were down by the amount of their securities redeemed. At the same time required reserves remained unchanged. For this reason it was necessary for the Federal Reserve System to purchase securities in the open market in order to replenish reduced reserve balances.

Precise information on the ownership of securities redeemed for cash is not available, but the evidence indicates that roughly 50 percent were held by the commercial banks, 20 percent by the Federal Reserve banks, and 30 percent by non-bank investors. It was the redemption of securities held by the latter two which necessitated Federal Reserve open-market purchases of securities in order to alleviate what might otherwise have been a stringency of member bank reserves.

(Continued on Page 414)

BUSINESS

(From Page 405)

cline in employment which followed VJ-day was almost entirely of a seasonal nature.

In 1946, employment expanded rapidly in the manufacturing plants of this district. In September and in November, employment in Minnesota again almost reached the 200,000 mark. During the first 10 months such employment in Montana and in North Dakota was 13 and 5 percent larger respectively than in the same months of 1945. In South Dakota, 1946 manufacturing employment was slightly below the 1945 level. Thus, the manufacturing plants of this district have regained much of the wartime expansion.

Electric power production is a rough measure of manufacturing plants' output of finished products. The small industrial plants in this district in 1946 consumed approximately 17 percent more kilowatt hours of electrical energy than in 1945. The large industrial plants, on the other hand, consumed approximately 10 percent less last year than in the preceding year. This decline, of course, reflects the dropping out during 1945 of the war plants which were large users of electrical power.

MINING ACTIVITY CONTINUED TO CONTRACT FROM WARTIME PEAK

Mining activity in this district during 1946 continued to recede from the wartime peak. The production of iron ore continued the steady decline from the peak reached in 1942; the production of copper also continued to decline from the peak reached in 1942 and 1943; and the production of silver dropped sharply in 1946 from the previous year's output. The production of gold, on the contrary, greatly curtailed during the war, rose sharply as compared with the output in the preceding years.

Iron ore production in the Lake Superior Region declined more in 1946 than in any previous year since 1942. Shipments from this region totalled 59,417,326 long tons. Even though this was 21½ percent less than was shipped in 1945, the record was considered satisfactory. The goal of 60 million long tons, set up during the latter part of the year, was almost reached before the fleet of ore boats was forced to halt transportation for the winter.

The mining of iron ore in 1946 was curtailed by work stoppages and by a labor shortage. Strikes in most mines of the Lake Superior region reduced the output of ore to a low figure during the spring. It was not until the end of May that most of the operators were back in production.

A shortage of labor became serious in 1945 and continued on through 1946. The management of some mines was obliged to transfer workers who normally are used in developmental work into the production of ore. In Minnesota, where most of the ore is mined, employment in 1946 was slightly below the level in 1945.

Stocks of iron ore, exclusive of those at mines, were nearly 42 million long tons at the end of November. Considering the decline in the consumption of ore since the end of hostilities, the stocks appear to be at a satisfactory level.

The consumption of ore by furnaces in the first 11 months totalled 56½ million long tons—a decrease of 17 percent from the same period of 1945. The demand for domestic ore is not only reduced by the smaller consumption but also by the imports, which again appeared in a substantial quantity during the closing months of 1945 and continued through 1946.

The domestic production of copper declined sharply in 1946 in the face of an unusually large demand from industry.

The production of copper in this district for the first 11 months of 1946 totalled only 142,457,000 pounds—a decrease of 34 percent from the same period in 1945. The decline in production, according to competent observers, is attributed to shutdowns in mines, in mills, and in smelters; a shortage of labor; and an overall decline in productivity.

During April, work stoppages reduced the output of copper to the lowest level for many years. Not until June were most of the operators again in production. The average monthly employment during 1946 was 17 percent less than in 1945. Work stoppages, of course, are reflected in the smaller employment figures, but the low level of employment also reflects a general shortage of labor. Employment has declined steadily since 1942, when the number employed was nearly three-fourths more than last year.

In spite of the unusual fluctuations in the output of copper in recent years, the copper producing states have maintained their former rank. Montana has held third position, with Arizona and Utah holding first and second positions respectively. Michigan for some time has ranked in sixth position; years ago it was the leading copper producing state.

The drastic curtailment in copper production was cushioned by a release of government owned copper imported from foreign producers during the war. Approximately 200,000 tons of copper was supplied to industry from this source during the first six months of 1946.

Since the domestic production of silver during the war period was primarily a by-product in the mining of base metal ores, the production of silver has paralleled the production of these metals, of which copper is a very important one. In this district, silver production in 1946 was only one-half of the total production in 1945. This large decline in the output of silver is traced chiefly to the smaller quantities of copper ores and tailings treated for silver.

An acute shortage of silver developed during the war as a result of an increased industrial demand for the metal, on the one hand, and the depletion of stocks held by treasuries of several nations, on the other.

The demand created by new industrial uses for silver has more than offset the declining monetary demand of coinage, bullion reserves, and a store of value. Since silver has a greater heat absorbing capacity than copper, a new silver alloy bearing was developed for the B-29 Super-fortress. It now appears that this bearing will be used in other types of high speed engines, especially the automobile motor. For the atomic bomb tests, 427 million ounces of silver were made available. The experimentation with atomic energy for civilian uses will, no doubt, require additional quantities of silver.

For nearly 75 years the supply of newly mined silver had competed in this world market with the sale of silver from hoards accumulated in national treasuries.[1] Nearly all of these hoards, except that held by the U. S. Treasury, were wiped out during the recent war, and the amount held by the U. S. Treasury was reduced sharply.

On December 31, 1942, the amount of silver in the U. S. Treasury was at an all-time peak of 2,860 million ounces. Of this amount about 1,315 million ounces were not pledged to the currency system and, therefore, free for other uses.

During the war the Office of Defense Plants of the Reconstruction Finance Corporation assumed title to 877,715,175 ounces, which was loaned to industry for use in the production of war equipment. Some of this silver has been returned to the Treasury. On October 30, 1946, the amount of silver in the Treasury totalled 1,963 million ounces, and only 207 million ounces was unpledged and, therefore, free for other uses. Thus, the fact remains that industrial users as well as government treasuries that may wish to replenish a stock of silver must soon rely on newly mined silver as the only source of supply.

The depletion of the hoards of silver in government treasuries, moreover, occurs at a time when the mining industry has failed to find new deposits of silver ore. According to the Bureau of Mines, the known reserves of all silver ores in this country are approaching exhaustion.

The production of gold during the war was reduced to a very low figure as a result of the order from the War Production Board in October 1942. In 1944 the gold output in this district fell to the low figure of 12,624 ounces. With the rescinding of the wartime order on July 1, 1945, the output began to rise immediately. For the first 11 months of 1946 the output has aggregated 288,147 ounces. Even though this represents a sharp increase from the previous year, it approximates only one-half of the annual pre-war output.

The gold mine operations have been hampered by a shortage of both equipment and labor. A much larger share than usual of the gold mined in 1946 came from placer properties. Due to the inability of operators to secure much-needed new equipment, gold lode miners could not undertake large scale operations. When the mines closed during the war, labor migrated to other places to secure employment. Some of these laborers found comparable or better jobs and, consequently, have not returned to their former community.

[1] See "Silver and Its Position in the World", Skillings Mining Review, July 27, 1946, pp. 1, 2, and 11.

CONSTRUCTION ACTIVITY FALLS SHORT OF GOAL

Construction activity in 1946 disappointed many families who anticipated satisfactory quarters through the construction of new houses. The large number of building permits issued following VJ-day and during the winter and spring of last year was evidence of the great demand for new housing. However, due to the stringent shortage of building materials, the number of building permits issued is only a measure of the demand and not of building activity. Many holders of permits were unable to secure contractors who could start construction within a reasonable period of time.

Construction contracts awarded rose sharply in 1946. The valuation of contracts awarded for residential building in this district was 6½ times the amount for the same period in 1945. Due to the restrictions placed on commercial and industrial building, the valuation of all contracts awarded for such construction in the first 11 months of 1946 was only 2¾ times the amount in 1945. Again, the valuation of contracts awarded does not measure the volume of construction. Due to the shortage of materials, construction on many units was started but not completed.

Of the total number of residential units started in 1946, only a small percent was completed before the end of the year. For example, according to the Associated General Contractors of Minnesota, about 4,000 building permits were issued in Minneapolis and in the surrounding suburban area in 1946. During the year construction was started on 80 percent of these units, and by the end of October only 13 percent of those started had been completed.

The volume of construction in 1946 was held down primarily by an acute shortage of materials. The outlook for materials in 1947 is favorable. According to the F. W. Dodge Corporation, the Wyatt program did stimulate the production of basic building materials through the payment of premiums to producers for exceeding their quotas. According to national figures, the shortages of most materials disappeared by the end of the year. However, some of the much-needed materials still have not reached many communities in this district.

It is now generally agreed that the building industry in 1947 will be faced with a labor shortage. Practically all skilled craftsmen were employed last year. Thus, the industry has no reserve of labor to draw on as more materials become available.

INCOME PAYMENTS EXCEED ALL PREVIOUS RECORDS

As a result of the large volume of business transacted in this district in 1946 and the general upsurge in prices, the total income received by individuals last year exceeded all previous records.

The income payments for the past three years in the four states wholly within this district are tabulated in the accompanying table. The payments for 1946 are estimates. The cash farm income for the first 10 months of 1946 was available from the

Income Payments in the Ninth District
(Millions)

	1944[1]	1945[1]	1946[2]
Minnesota	$2,426	$2,666	$3,018
Montana	549	539	651
North Dakota	559	588	688
South Dakota	518	599	777

[1] Source: U. S. Department of Commerce.
[2] Estimated by Research Department, Federal Reserve Bank of Minneapolis.

U. S. Department of Agriculture. The farm income for the last two months was estimated from the trend in previous years. All other income for 1946 was estimated from the trend in bank debits.[2]

On the basis of the above estimates, the Ninth District in 1946 received a larger proportion of the total national income than in 1945. The United States Department of Commerce has estimated national income payments for 1946 at $164 billion as compared with $161 billion in 1945—an increase of about 2 percent as compared with an increase of about 17 per cent for the four states wholly within the Ninth District.

Of the 1946 total income, approximately 47 percent was received by farmers and 53 percent by all other groups. The rise in non-agricultural income is attributed to a rise in wages, profits, etc., as well as to an increase in the number of individuals employed. For example, according to unemployment compensation statistics, the average earnings per employee increased substantially throughout the past year.

[2] The income for North Dakota was adjusted up and the income for Montana was adjusted down to bring the income in these states more in line with the rise in cash farm income.

AGRICULTURE

(From Page 407)

At the same time a distinct slowing up was noted in the rate of decline by federal lending agencies. It was reported that both smaller debt repayment and an increased volume of new debt was responsible for the $80 million increase.

It is perhaps significant that in the four full states in the Ninth District farm real estate loans held by commercial banks on July 1, 1946, were 19 percent larger compared with July 1, 1945. This does not mean, however, that total district mortgage debt increased by that percentage.

On the other hand, the relatively conservative trend in land values in the district, and large farm production, indicate that any increase in debt may be less than for the entire United States.

Farmers' short-term debt remained fairly steady during the war period at about $1.8 billion for the entire United States. For the year ending last July, however, short-term debt increased to over $2 billion. This was the highest in over 10 years but was still less than half what it was in 1920 following World War I.

Prospects are that farmers will need increasing amounts of short-term credit in 1947 as machinery, equipment, and household appliances become more freely available. Also, many young men are taking over farm management, and this usually means some increase in short-term credit needs.

LAND VALUES LAG FARM PRODUCT PRICES

Farm land values in the Ninth District continued to rise during 1946. As of November 1, land values were up 57 percent from the 1935-39 average. Increases in land values from the pre-war average have been spotty (see chart). In Montana, land values have more than doubled, while values in the Dakotas were up little more than one-third. In recent months land values have been increasing at about 1 point a month.

Except for the New England area there apparently has been less land inflation in the Ninth District than in any other Federal Reserve district in the United States. This probably is because the depression and drouth period of the early Thirties was particularly severe in the wheat areas of this district and land investors have been reluctant to bid up values again.

Most competent observers are of the opinion that land values may reach a peak sometime in 1947, as land values tend to lag by a few months the trend of farm product prices. There is almost a unanimity of opinion among agricultural economists that the peak in farm product prices occurred in late 1946 and that a period of declining farm prices may be in prospect. If this proves correct, farm land values may be expected to level off, perhaps even reversing the current land value trend.

BANKING

(From Page 411)

It is reassuring to note that member banks have again utilized a considerable proportion of 1946 earnings to augment capital. These banks began the year with $169.4 million of capital funds and closed their books at the year's end with $173.7 million. With the slight deposit decline, 1946, therefore, becomes the first year for a substantial period of time when capital funds were increased relative to deposit liabilities. At the end of 1945, deposits were 21 times as large as capital funds; at the end of 1946 the ratio was 18 to 1.

The ratio of risk assets (all assets except Treasury bills, certificates of indebtedness, notes, savings bonds, and cash and due from banks) to capital, increased, however. At the end of 1945 the ratio was 9.9 to 1, increasing to 10.3 to 1 by December 1946. This is to be explained both by the rapid rise of loans and the decline in holdings of short-maturity government securities and cash reserves.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JANUARY 29, 1947

INDUSTRIAL output declined slightly in December owing mainly to a temporary reduction in coal supplies and to holiday influences. Value of retail trade maintained close to record levels. Wholesale prices of industrial products have advanced somewhat further in recent weeks; prices of some basic commodities, however, like butter, hides, and silver, have shown further marked declines.

INDUSTRIAL PRODUCTION — The Board's seasonally adjusted index of industrial production was 179 percent of the 1935-39 average in December as compared with 182 in November.

Output of durable goods decreased somewhat, reflecting chiefly a decline in production of iron and steel owing to the bituminous coal work stoppage. In the early part of January, steel operations were raised to the peak rates prevailing in the middle of November. Activity in machinery and transportation equipment industries showed little change in December. Production of non-ferrous metal products increased somewhat further. Activity in the furniture industry reached a new record level for the postwar period.

Output in industries manufacturing non-durable goods declined to 168 percent of the 1935-39 level, from 172 in November, owing in part to curtailed operations during the Christmas week. Production of textile products decreased about 7 percent. Meat packing activity declined from the sharply advanced level reached in November, while output of most other manufactured foods showed a small increase. Newsprint consumption increased, and production of most chemical and rubber products remained at advanced levels.

Output of minerals in December was at the November rate. Owing to the termination of the two-and-a-half week work stoppage in the bituminous coal industry on December 9 and the high rate of output in subsequent weeks, coal production was 9 percent larger in December than in November. Production of crude petroleum decreased slightly.

EMPLOYMENT—Non-agricultural employment in December remained at the November level, after allowances for seasonal increases in trade and government post-offices and the usual decline in construction employment. Unemployment increased by about 200,000 persons.

DISTRIBUTION — Department store sales in December showed the usual sharp increase and the Board's adjusted index was 272 percent of the 1935-39 average. Total sales in the fourth-quarter holiday shopping season were 23 percent larger than in the same period in 1945, and for the year 1946 sales were 27 percent greater than in 1945. Sales in the first three weeks of January showed about the usual seasonal decline. Department store stocks showed a much smaller decline than usual in December and, according to preliminary figures, were 70 percent larger than at the end of 1945. Outstanding orders for merchandise continued to decline and were about 30 percent smaller than on December 31, 1945.

Loadings of railroad revenue freight in December and the first three weeks of January exceeded the volume shipped during the corresponding period in 1945-46 by about 10 percent. Loadings of grain products were the greatest on record for the month of December owing to large shipments for export.

COMMODITY PRICES—The general level of wholesale commodity prices advanced slightly further from the middle of December to the latter part of January, reflecting increases in prices of industrial products, offset in part by decreases in prices of most livestock and poultry products, grains, cotton, and canned fruits and vegetables.

Among industrial products, prices of building materials and metal products generally showed the largest increases in the early part of January. Silver prices, however, declined considerably and a leading manufacturer of lower-priced automobiles reduced prices slightly.

Retail food prices declined somewhat further from earlier peak levels, and clearance sales before and after the Christmas holiday resulted in substantial price reductions for various types of merchandise. Retail prices of most standard types of goods, however, were maintained or increased further in this period.

BANK CREDIT — Real estate and consumer loans at banks in leading cities continued to increase during December and the first half of January. Commercial and industrial loans, following the rapid expansion of the summer and fall months, increased only slightly further. Substantial reductions in holdings of Government securities reflected largely the $3.3 billion Treasury note retirement of mid-December.

Deposits at member banks increased in the early part of December but declined in the latter half of the month as a result of income tax and other payments. Member bank reserve balances showed similar fluctuation, with little net change for the period as a whole. Reserve funds which became available to banks through a post-holiday decline in currency in circulation and through increases in monetary gold stock were about offset by reductions in Government security holdings and an increase in Treasury deposits at the Reserve banks.

The 1935-39 Average and the Years 1943 to 1946

in the Ninth Federal Reserve District

BUSINESS

Northwest Business Indexes (Monthly Averages 1935-39=100)

	1942	1943	1944	1945	1946
Bank Debits—93 Cities	149	182	200	211	252
Bank Debits—Farming Centers	158	185	206	226	293
City Department Store Sales	131	152	170	197	261p
Country Department Store Sales	126	145	159	174	233p
Mpls. Dept. Store Sales (unadj.)	134	156	176	207	275p
St. Paul Dept. Store Sales (unadj.)	127	142	156	181	242
City Department Store Stocks	157	141	153	157	208p
Country Department Store Stocks	182	159	181	171	215p
Country Lumber Sales	146	159	137	141	154p
Miscellaneous Carloadings	132	120	129	127	127
Total Carloadings (excl. misc.)	131	124	126	119	112
Farm Prices—Minnesota	143	171	171	175	212

p—preliminary.

Bank Debits (T-h-o-u-s-a-n-d-s)

Bank Debits	1935-39 Av.	1943	1944	1945	1946
TOTAL—108 Cities	$ 9,988,121	$18,204,908	$19,672,630	$21,036,083	$24,964,152
Minneapolis	4,076,953	7,473,039	8,023,312	8,626,532	10,062,865
St. Paul	1,929,849	3,550,443	3,813,602	4,010,888	4,550,699
South St. Paul	264,108	697,304	595,499	539,746	671,408
Duluth-Superior	566,771	980,247	1,123,146	1,161,570	1,253,206
Michigan—14 Cities	251,171	438,209	464,821	502,549	601,568
Minnesota—38 Cities	791,036	1,301,720	1,451,762	1,565,949	2,056,285
Montana—15 Cities	747,514	1,182,220	1,410,675	1,524,498	1,753,480
North Dakota—13 Cities	561,721	1,033,226	1,173,919	1,278,802	1,620,197
South Dakota—16 Cities	514,531	1,078,322	1,094,174	1,230,635	1,592,905
Wisconsin—7 Cities	284,467	470,188	521,720	594,914	801,539

Country Check Clearings (T-h-o-u-s-a-n-d-s)

Country Check Clearings	1935-39 Av.	1943	1944	1945	1946
TOTAL	$ 2,085,295	$ 3,894,910	$ 4,135,602	$ 4,616,783	$ 6,096,571
Minnesota	1,016,178	1,798,806	1,897,312	2,069,002	2,735,702
Montana	242,415	473,300	491,402	579,920	759,640
North and South Dakota	535,293	1,157,031	1,220,993	1,353,533	1,772,427
Michigan and Wisconsin	290,712	465,773	525,895	614,328	828,802

Retail Sales (T-h-o-u-s-a-n-d-s)

Retail Sales	1935-39 Av.	1943	1944	1945	1946
413 Lumber Yards (Board feet)	100,921	138,513	115,843	121,155	121,546
413 Lumber Yards (Dollar volume)	$ 14,744	$ 24,458	$ 24,652	$ 26,908	$ 35,423
City Dept. Stores (22 stores)	64,083	97,068	108,866	125,709	167,067
Country Dept. Stores (523 stores)	74,940	105,621	114,964	124,094	165,973
Minnesota (188 stores)	24,086	32,151	35,031	37,589	50,706
Montana (84 stores)	16,437	21,629	23,327	25,411	33,604
North Dakota (90 stores)	12,313	17,997	20,436	21,852	31,258
South Dakota (89 stores)	10,671	16,858	18,301	20,192	27,154
Mich. & Wis. (72 stores)	11,430	16,985	17,867	19,048	23,250

Inventories, December 31 (T-h-o-u-s-a-n-d-s)

Inventories, December 31	1935-39 Av.	1943	1944	1945	1946
393 Lumber Yards (Board feet)	56,293	49,472	59,639	27,223	21,128
16 City Department Stores	$ 7,663	$ 16,304	$ 16,672	$ 16,645	$ 30,584
111 Country Department Stores	2,510	2,492	2,561	2,167	14,141

Freight Carloadings — N. W. District (T-h-o-u-s-a-n-d-s)

Freight Carloadings	1935-39 Av.	1943	1944	1945	1946
TOTAL	4,764	5,938	5,979	5,847	5,631
Grain and Grain Products	453	802	714	744	675
Livestock	168	197	219	227	234
Coal	308	412	294	397	367
Coke	68	96	100	95	80
Forest Products	433	562	596	483	520
Ore	790	1,565	1,479	1,414	1,125
Miscellaneous	1,551	1,843	1,974	1,951	1,952
Merchandise—LCL	990	459	499	532	675

Electric Power Production (KWH)

	1935-39 Av.	1943	1944	1945	1946
			(T-h-o-u-s-a-n-d-s)		
TOTAL	1,986,043	5,632,478	5,612,137	5,583,453	6,070,503
Minnesota	1,509,249	2,539,736	2,622,190	2,695,178	2,937,868
Montana	139,296	2,595,369	2,459,863	2,312,785	2,458,609
North Dakota	198,608	267,739	289,411	310,195	352,741
South Dakota	138,890	229,634	240,673	265,295	321,285

Accts. & Notes Receivable, Dec. 31

	1935-39 Av.	1943	1944	1945	1946
			(T-h-o-u-s-a-n-d-s)		
356 Lumber Yards	2,135	1,755	1,808	2,250	2,412
17 City Department Stores	7,651	6,490	7,540	8,204	13,595

Life Insurance Sales	1935-39 Av.	1943	1944	1945	1946
			(T-h-o-u-s-a-n-d-s)		
TOTAL	$ 207,564	$ 216,584	$ 255,218	$ 282,006	$ 459,941
Minnesota	148,572	147,297	169,487	181,785	294,323
Montana	22,720	21,042	26,259	31,312	53,158
North Dakota	17,781	23,090	28,245	34,415	54,627
South Dakota	18,491	25,155	31,227	34,494	57,833

Manufacturing and Mining	1935-39 Av.	1943	1944	1945	1946
			(T-h-o-u-s-a-n-d-s)		
Flour Production:					
Minneapolis Mills (bbls.)	6,007	7,365	7,542	8,196	7,956
Other N. W. Mills (bbls.)	9,031	9,897	11,078	14,538	13,145
Flour Shipped from Mpls. (bbls.)	6,552	6,492	6,610	7,249	7,309
Linseed Product Shipped (lbs.)	226,529	958,200	926,340	630,360	667,200
Iron Ore Shipped (gross ton)	40,030	84,404	81,170	75,714	59,357

Construction Contracts Awarded

	1935-39 Av.	1943	1944	1945	1946
			(T-h-o-u-s-a-n-d-s)		
TOTAL	$ 87,002	$ 39,695	$ 40,823	$ 72,553	$ 243,648
Public Works	32,593	6,042	11,488	10,075	52,002
Public Utilities	8,133	11,368	5,053	6,872	27,353
Total Building	46,276	22,285	24,282	55,606	164,293
Residential	19,640	4,005	5,979	20,065	94,026
Commercial and Industrial	8,453	13,977	15,003	23,679	48,692
Educational	8,496	551	1,307	758	3,048
All Other	9,687	3,752	1,993	11,104	18,527

F. H. A. Mortgages	1935-39 Av.	1943	1944	1945	1946
Number—4-State TOTAL	3,281	1,066	958	1,438	1,613
Valuation—TOTAL	$ 1,178,000	$ 4,222,000	$ 3,795,000	$ 6,260,000	$ 7,898,000
Minnesota	822,000	2,364,000	1,255,000	3,338,000	3,306,000
Montana	1,610,000	826,000	1,744,000	1,491,000	2,446,000
North Dakota	611,000	49,000	51,000	297,000	163,000
South Dakota	1,071,000	983,000	745,000	1,134,000	1,983,000

Business Failures	1935-39 Av.	1943	1944	1945	1946
Number	235	28	8	11	18
Liabilities	$ 3,549,000	$ 182,000	$ 113,000	$ 171,000	$ 710,000

Non-Farm Real Estate Foreclosures

	1935-39 Av.	1943	1944	1945	1946
Number—TOTAL	2,760	526	292	141	84
Minnesota	1,838	270	124	66	48
Montana	158	46	11	12	10
North Dakota	267	80	98	34	17
South Dakota	509	130	59	29	9

AGRICULTURE

Cash Income from Farm Marketings (USDA)

	1935-39 Av.	1943	1944	1945	1946[1]	1946 in Per-cent of 1945
			(T-h-o-u-s-a-n-d-s)			
Ninth District—TOTAL	$ 744,407	$2,125,580	$2,142,135	$2,250,233	$2,679,442	119%
Crops	188,621	659,489	709,921	781,173	963,927	123
Livestock and Livestock Products	491,981	1,384,116	1,343,621	1,380,627	1,627,082	118
Government Payments	63,805	81,975	88,593	88,433	88,433	100
Michigan (15 Counties)	11,852	25,649	27,452	28,279	32,185	114
Minnesota	346,863	893,955	838,967	901,183	1,036,052	115
Montana	92,904	236,068	271,779	243,471	296,118	122
North Dakota	113,247	434,732	460,919	465,969	553,982	119
South Dakota	110,244	371,236	366,469	426,710	555,042	130
Wisconsin (26 Counties)	69,297	163,940	176,549	184,621	206,063	112

[1] 1946 estimated on basis of first 10 months.

Farm Production 4 Northwest States [1]

	1935-39 Av.	1943	1944	1945	1946	1946 in Per-cent of 1945
			(T-h-o-u-s-a-n-d-s)			
Wheat (Bu.)	141,102	283,363	295,930	282,615	282,496	100%
Corn (Bu.)	208,096	323,743	432,881	354,803	388,250	109
Oats (Bu.)	220,275	302,135	346,148	481,606	365,839	76
Barley (Bu.)	101,791	138,813	115,907	112,105	116,151	104
Rye (Bu.)	23,185	11,178	8,027	7,656	6,422	84
Potatoes (Bu.)	35,890	51,996	41,279	47,195	39,292	83
Wool (Lbs.)	50,260	64,122	57,324	48,286	43,072	89
Milk (Lbs.)	11,943,000	13,638,000	13,000,000	13,034,000	....	....
Butter (Lbs.)	380,813	413,054	356,187	328,211	263,214	80
Eggs (Doz.)	207,833	446,000	478,500	478,250	493,417	103

[1] Data from United States Department of Agriculture for Minnesota, Montana, North Dakota and South Dakota.

Farm Real Estate Mortgage Indebtedness, January 1 [1]

	1935-39 Av.	1943	1944	1945	1946	1946 in Per-cent of 1945
			(T-h-o-u-s-a-n-d-s)			
Michigan (15 Counties)	$ 12,671	$ 11,286	$ 10,532	$ 10,313	$ 10,417	101%
Minnesota	387,703	385,623	364,768	355,221	345,501	97
Montana	87,154	48,143	39,876	32,971	31,509	96
North Dakota	181,156	122,631	105,047	83,150	75,230	90
South Dakota	180,998	114,740	105,042	98,755	89,813	91
Wisconsin (26 Counties)	114,472	91,041	83,379	78,305	74,889	96
Ninth District	964,153	773,464	708,644	658,715	627,359	95

[1] Data from United States Department of Agriculture.

Land Values March 1 [1] (1912-1914 = 100)

	1935-39 Av.	1943	1944	1945	1946	1946 in Per-cent of 1945
Michigan	88	115	134	145	167	115%
Minnesota	86	100	110	115	129	112
Montana	53	69	80	89	102	115
North Dakota	65	58	70	76	83	109
South Dakota	52	47	57	62	68	110
Wisconsin	86	92	102	110	120	109

[1] Data from United States Department of Agriculture.

Ninth District Farm Prices [1] (Monthly Av.)

	1935-39 Av.	1943	1944	1945	1946	1946 in Per-cent of 1945
Wheat	$ .87	$ 1.21	$ 1.39	$ 1.46	$ 1.72	118%
Corn	.58	.88	.99	.93	1.27	137
Oats	.26	.58	.64	.60	.71	118
Barley	.46	.82	1.03	1.00	1.25	125
Rye	.47	.75	.98	1.24	1.98	160
Flax	1.66	2.79	2.84	2.87	3.81	133
Potatoes	.63	1.25	1.16	1.44	1.24	86
Hogs	8.37	13.55	13.05	13.91	16.87	121
Beef Cattle	6.95	12.13	11.54	11.71	14.62	125
Veal Calves	7.81	13.32	12.92	13.23	14.85	112
Sheep	4.03	6.38	6.21	6.32	7.32	116
Lambs	7.88	12.78	12.20	12.77	14.78	116
Chickens	.13	.21	.21	.22	.23	105
Butterfat	.29	.52	.52	.52	.68	131
Milk	1.59	2.61	2.70	2.69	3.41	127
Eggs	.20	.35	.31	.35	.34	97
Wool	.23	.42	.43	.42	.43	102

[1] Data from United States Department of Agriculture.

Livestock Numbers, 4 Northwest States, January 1 [1]

	1935-39 Av.	1943	1944	1945	1946	1946 in Percent of 1945
			(T-h-o-u-s-a-n-d-s)			
All Cattle and Calves	7,170	9,209	9,825	9,789	9,572	98%
Dairy Cows	2,931	3,189	3,217	3,078	2,894	94
Sheep and Lambs	6,101	9,108	8,612	7,490	6,541	87
Hogs	3,464	8,343	9,590	6,200	7,050	114
Chickens	29,650	50,005	53,518	48,781	48,762	100
Turkeys	942	987	854	763	852	112

[1] Data from United States Department of Agriculture for Minnesota, Montana, North Dakota and South Dakota.

BANKING

All Member Bank Total Deposits

	1935-39 Av.	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	Dec. 31, 1946
			(T-h-o-u-s-a-n-d-s)		
TOTAL	$ 1,036,345	$ 2,248,790	$ 2,800,157	$ 3,424,936	$ 3,315,811
Michigan—15 Counties	58,413	93,772	118,475	149,376	148,618
Minnesota	695,966	1,496,148	1,833,276	2,178,417	1,993,818
Montana	119,182	263,052	337,974	425,198	446,688 p
North Dakota	49,717	129,907	170,729	223,152	238,214
South Dakota	65,413	167,796	199,944	270,327	304,222
Wisconsin—26 Counties	47,652	98,115	139,759	178,466	184,251

p — preliminary

City Member Banks	1935-39 Av.	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	Dec. 31, 1946
			(T-h-o-u-s-a-n-d-s)		
Loans and Discounts	$ 175,656	$ 195,465	$ 233,331	$ 267,658	$ 335,483
U. S. Gov't. Securities	174,924	732,169	929,523	1,069,420	792,908
Other Securities	43,434	39,674	41,449	55,223	57,612
Total Deposits	560,186	1,224,953	1,497,485	1,733,227	1,516,715
Dem. Dep. Ind., Pt. & Corp.	244,867	605,731	616,746	674,201	777,669
Time Dep. Ind., Pt. & Corp.	120,455	129,665	165,963	207,210	237,476
Public Deposits	57,994	219,091	413,981	466,244	145,572
Due to Banks and Other Dep.	136,869	270,466	300,795	385,572	355,998
Estimated Excess Reserves	19,779	5,853	10,017	11,216	9,215

Country Member Banks	1935-39 Av.	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	Dec. 31, 1946
			(T-h-o-u-s-a-n-d-s)		
Loans and Discounts	$ 136,792	$ 165,165	$ 174,240	$ 183,779	$ 231,193
U. S. Gov't. Securities	128,818	562,696	794,601	1,088,657	996,075
Other Securities	102,534	64,467	63,177	69,798	78,884
Total Deposits	476,159	1,023,837	1,301,971	1,693,938	1,609,176
Dem. Dep. Ind., Pt. & Corp.	171,966	531,546	635,295	824,293	880,026
Time Dep. Ind., Pt. & Corp.	229,188	318,887	420,032	553,262	556,514
Public Deposits	52,767	120,348	190,323	247,468	113,938
Due to Banks and Other Dep.	22,238	53,056	56,321	68,915	58,698
Estimated Excess Reserves	19,367	31,844	37,754	48,485	33,322

Interest Rates (Percent)	1943	1944	1945	1946
Minneapolis Commercial Banks	2½ - 3	2½ - 3	2½ - 3	2½ - 3
Commercial Paper (Net Rate)	⅝	1	1	1
Minneapolis Federal Reserve Bank	1	1	1	1

Minneapolis Federal Reserve Bank

	1935-39 Av.	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	Dec. 31, 1946
			(T-h-o-u-s-a-n-d-s)		
Loans to Member Banks	99	0	0	0	0
Twin Cities	0	0	0	0	0
Minn., Wis. & Mich.	56	0	0	0	0
North Dakota & Montana	12	0	0	0	0
South Dakota	30	0	0	0	0
Industrial Advances	999	178	0	0	0
Total Earning Assets	75,868	358,374	465,835	630,640	639,552
Mem. Bank Res. Balances	122,225	295,470	317,789	385,403	398,589
Fed. Res. Notes in Circ.	132,502	385,761	475,794	551,859	592,688
Total Reserves	208,697	383,515	366,305	359,767	378,418