MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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AGRICULTURE

Trend Is to Larger Farms, Less Tenancy

Farms of 1,000 acres or more show greatest increase in all states of district.

Farm ownership increase sends tenancy to lowest point since 1920.

Loans and purchases are used to meet price support guarantee.

Artificial prices may hinder farm adjustments.

SIGNIFICANT changes in farm size and tenancy have occurred in the Ninth District in recent years. Not only have farmers increased the size of their farms, particularly in the west, but there are now about 6 percent fewer farms, compared with 1940. Because of agricultural prosperity, more farmers have become owner operators.

These trends indicate a normal and healthy condition in Ninth District agriculture. Farmers are able to operate larger units more economically with more mechanical equipment; also, new equipment is highly efficient. Owner operators are usually the best farmers, as they have more incentive to build up their farms and maintain soil fertility.

The average Montana farmer in 1940 operated a 1,111 acre farm, according to Census data. In 1945 the average farm was 1,557 acres—a 40 percent increase. During the same period the number of tenant-operated farms declined from 28 percent to 17 percent.

In the two Dakotas the average farmer operated approximately 600 acres in 1945. This is about 80 acres more than he handled in 1940. At the same time tenancy dropped from 45 to 28 percent in North Dakota and from 53 to 38 percent in South Dakota.

Farm tenancy in the Dakotas and Montana is now the lowest since the census year of 1920. With sharply reduced debts, and barring disastrous land inflation, it would appear that district farmers are in excellent position to maintain these recent gains in farm ownership.

Although the family-type farm dominates in the Ninth District, it may be significant that, in all states, farms in the 1,000-acre bracket and above increased the most. In Montana, for example, the number of farms with 10 to 999 acres decreased more than 21 percent from 1940 to 1945, while farms with 1,000 acres and up increased more than 20 percent. This same trend is observed in other district states. Many of these larger farms, of course, are family operated units, but an increasing proportion may fall in a commercial farm classification—i.e., a farm that supports two or more families.

Change in Number, Size and Tenancy of Farms in Ninth District States[1]

	Number of Farms 1940	Number of Farms 1945	% Change	Size of Farms (In Acres) 1940	Size of Farms (In Acres) 1945	Percent of Tenancy 1940	Percent of Tenancy 1945
Minn.	197,351	188,952	—4	165	175	32	27
Mont.	41,823	37,747	—10	1,111	1,557	28	17
No. Dak.	73,962	69,520	—6	513	590	45	28
So. Dak.	72,454	68,705	—5	545	626	53	38
Wisc.[2]	186,735	177,745	—5	123	133	23	20

[1] Data for Michigan not available.
[2] Entire state.

PRICE SUPPORT PROGRAMS AN IMPORTANT MARKET INFLUENCE

The postwar two-year price guarantee period for "basic" and "Steagall" farm commodities officially started last January 1. This means a fairly definite degree of price and income security for farmers until January 1, 1949. In reality this program provides a floor under farm prices for almost 3½ years after the end of hostilities in early August of 1945.

This longer period of support was made possible by the wording of the Stabilization Act of 1942, which stated that support should continue through a two-year period beginning with the first day of January following the declaration of the end of hostilities. The President did not declare hostilities ended until December 31, 1946.

The significance of this price support program to the economy of the district is apparent when it is realized that prices of many important farm products produced in this area are now at support levels even though both foreign and domestic demand for food is at unprecedented high levels. Prices of corn, potatoes, turkeys, and eggs in recent weeks have been at support levels. In fact the Government has already found it necessary actively to enter the potato and egg market to keep prices at 90 percent of parity for these products.

In view of the probable increasing importance of price support measures in the period ahead, it is advisable to know as much as possible about the methods that may be used to support farm product prices.

A number of support mechanisms are possible, but thus far only two have been used extensively. These are commodity loans and outright purchases. The price support program on wool, for example, is an out-and-out purchase proposition.

The particular method to be used may be determined administratively. As a matter of fact there are a number of questions relative to price support that may be determined by the administrators of the program as we go along.

For example, are supports to operate at the farm level or the terminal market level? Will loans be used or will outright purchases be made? Possibly both methods may be used, depending on local storage facilities or other factors. To what grades does the support price apply? Do supports apply to a particular day, month, or marketing season? These questions serve to illustrate some of the administrative problems involved. It is obviously impossible to make legislative provisions for the myriad details involved in a program of this sort.

The Department of Agriculture tries as far as possible to use normal trade channels in carrying out loans and purchases. Where loans are made to farmers, local banks or other local lending agencies are customarily used. In carrying out purchase programs the Department usually enters into contract with dealers or processors that in turn have paid farmers the designated support price.

The support price, of course, is measured from the parity price. In the case of the six basic commodities[1] support is given at 90 percent of parity, (cotton at 92½ percent).

For the 14 Steagall commodities[2] support is promised at not less than 90 percent of parity. It may be more. Flaxseed, for example, is supported at $6.00 per bushel in 1947 (Minneapolis basis). Parity on January 15 was $3.63.

For farm products other than "basic" or "Steagall," support may be given to bring price to a fair parity relationship with other farm commodities. Whether support will be given will depend largely on whether funds are available.

PARITY IS MEASURE FOR PRICE SUPPORT

Parity is used as a yardstick for determining what price the farmer should get to give him the same purchasing power he had in a base period, usually 1909-14. In other words, it is the price he must get for his eggs, butter, pork, wheat, corn, etc., in order to keep his buying power up to its favorable position in the base period.

Since the important price support program is tied to parity, an understanding of the methods used to estimate parity prices is desirable. In reality this is simple to figure.

[1] Basic commodities include corn, wheat, rice, tobacco, peanuts for nuts and cotton.

[2] Steagall commodities are hogs, eggs, chickens over 3½ pounds live weight, turkeys, milk and butterfat, dry peas of certain varieties, dry edible beans of certain varieties, soybeans for oil, peanuts for oil, American-Egyptian cotton, potatoes, sweet potatoes, and flaxseed.

First, it is necessary to know what the average price was for farm products during the base period. Base period prices (1909-14) which are important in the Ninth District are:

Wheat, bu.	$0.884	Hogs, 100 lbs.	$7.27
Corn, bu.	.642	Cattle, 100 lbs.	5.42
Oats, bu.	.399	Lambs, 100 lbs.	5.88
Barley, bu.	.619	Milk, 100 lbs.	1.60
Rye, bu.	.720	Wool, lb.	.183
Flaxseed, bu.	1.690	Butterfat, lb.	.263
Potatoes,* bu.	1.120	Chickens, lb.	.114
		Eggs, doz.	.215

* Base period for potatoes, 1919-28.

Prices paid by farmers for production and living expenses are now much higher than they were in the 1909-14 period. Therefore, if the farmer is to enjoy equivalent purchasing power at the present time, his prices must be adjusted upward to the same extent their production and living costs have advanced.

Each month the Department of Agriculture publishes an index number of prices paid by farmers. This index number is an average of 86 items used in farm family living and 94 items used in farm production. It includes interest and taxes, also. It is called the parity index, and its base also is 1909-14. The parity index for January 1947 was 215. In other words, prices paid by farmers were more than double what they were back in 1909-14.

Obviously if farmers are to have the same purchasing power now that they had previous to World War I, the prices of farm products must also be more than double. Therefore, if the present parity index of 215 is multiplied by the base period price of any farm product, the result is the current parity price for that farm product.

Corn will serve as an example. The 1909-14 average price of corn was $.642 a bushel. The January parity index (prices paid by farmers) was 215 percent of the base period. Therefore $.642×215%= $1.38, the present parity price for corn at the national level. Parity for other commodities may be figured in the same manner.

The loan rate or support price on corn is 90 percent of the parity price of corn at the beginning of the crop year—October 1. At that time the parity index was only 200 (200 percent of the base period). This gave a parity price of $1.28 a bushel with a support price at 90 percent of parity, or $1.15 a bushel for the marketing year beginning October 1, 1946.

This does not mean that every farmer can put his corn under loan at $1.15 a bushel. The loan rate varies from $1.05 to $1.34 depending on location.

There are other details in the corn loan program. These cover the length of time in which loans are available, the grade, the rate of interest, and the geographical area covered.

Loan programs on other commodities are similar to corn, with variations that have a bearing on each commodity.

(Continued on Page

...nces Pushed Sales Above Usual Volume

COMPARISON of smaller increase in dollar total with rise in prices indicates volume of consumer purchases down.

Dollar volume for first half of February drops, after January clearance sales.

Sales of women's apparel decline below those of year ago.

Consumer credit, 39% below that at year-end 1941, is rising rapidly.

Inventory accumulation may be tapering off.

...tment store sales are indicative of the ...e retail market, they deserve close ex... a time when there is some question ... business activity levelling off.

...to the department store sales index ...he usual seasonal variations, sales in ...strict reached a peak in September ... percent above the pre-war average. ...ent month, sales contracted significant... last two months of the year. Christmas ...not boost the dollar volume as much ...nticipated on the basis of the rising ... during the summer months. The sea...ed index for November and December ... percent above the pre-war average. ... in some respect sales during the last ...f 1946 did not come up to expecta...

...to reduce the inventories of some mer...h had become excessive, most stores ...rance sales during January. These ...price mark-downs in many lines. The ...pparently stimulated sales so that the ...lar sales declined from December to ...s than the usual seasonal amount. The ...nally adjusted index was 161 percent ...-war base period. The much antici...n consumer buying was averted.

...umber of clearance sales greatly re...l volume of sales in more recent weeks ... Preliminary figures for the first two ...uary indicate that the dollar volume ...y several points.

...PURCHASE LESS ...AT HIGHER PRICES

...s of a comparison with a year ago, re... risen decidedly more than the dollar ...es. According to the U. S. Depart...merce, retail prices were 20 percent ...ember than a year ago. The dollar ...s in the first half of February in this ...ly about 10 percent higher than in the ... period of last year. The much small...he dollar volume of sales as compared ...n prices indicates that the number of ...d by consumers has fallen. A reduced ...andise to consumers may hasten in...ulation and the elimination of short...

...tion of shortages of particular items ... pattern of sales to shift. Consumers ...entrate their purchases on items which ...ce. A large number of the items clas...me furnishings, such as refrigerators, ... and washers, as well as muslins and ... either not produced or were made ...ted quantity for civilians during the war. The sale of these items has mounted as rapidly as production has permitted.

The sale of such items as toys, games, sporting goods, and luggage increased at a faster rate during 1946 than total sales. The higher birth rate and more leisure time may result in a brisk demand for these items for some time.

Conversely, the relative demand for articles which were available during most of the war period has weakened. The sale of toilet articles, drug sundries, stationery, books and magazines during December fell below the dollar volume of a year ago. Jewelry sales approximately equalled last year's dollar volume.

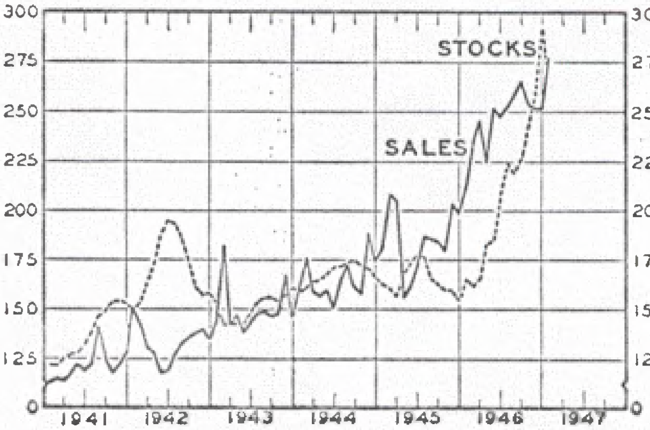
The sales of women's wearing apparel have fallen off significantly. The largest decline in sales has occurred in furs, neckwear, scarfs, and handkerchiefs. During December the dollar volume was decidedly below that of a year ago.

AGGREGATE SALES AGAIN LIMITED BY CONSUMER INCOMES

During the war, as well as the earlier part of 1946, aggregate sales were limited primarily by the

NINTH DISTRICT DEPARTMENT STORE SALES AND STOCKS

1935-39 = 100—Adjusted



supply of merchandise. Consumers saved a relatively large proportion of their current incomes—which they otherwise most likely would have spent. With the sharp rise in prices during the latter half of 1946 and a larger supply of merchandise, aggregate sales again were limited by the amount of income consumers had at their disposal.

Even though the absolute amount saved is still l...er than previous to the war, savings, neverthe...s, may be close to the amount which individuals have committed themselves to save through the purchase of life insurance, homes, household appliances, etc. A smaller percent of the current income received by individuals is saved now as compared with the percent of the 1940 income saved.

Since aggregate sales may be limited by the amount of incomes individuals have at their disposal, the various types of merchandise in the market must compete again for the consumer's dollar. As more durable goods pour into the market their increased sales will tend to reduce the sales of soft goods, as suggested earlier in this Review.

CREDIT SALES RISING FASTER THAN CASH SALES

An expansion of consumer credit may continue to expand the aggregate dollar volume of retail sales. Cash sales in department stores of the Ninth District rose rapidly during the war. At VJ-day the volume of cash sales was 122 percent above the 1941 average, while charge account sales were only 5 percent larger and instalment sales were 33 percent smaller. Since VJ-day, credit sales have expanded much faster than cash sales. By the end of November, cash sales had risen only 55 percent from the amount in August 1945, while charge account sales increased 120 percent and instalment sales 158 percent.

Consumer credit at department stores is still at a relatively low figure. Consumer instalment sale credit at department stores and mail order houses in the nation at the end of November was still 39 percent below the amount outstanding at the end of 1941. With the high level of employment and income, there is considerable leeway for credit expansion, although the rate of increase in recent months has been impressive.

An outstanding characteristic of the postwar business boom is the rapid accumulation of inventory. Following the cessation of hostilities in the Pacific, inventories in department stores declined sharply due to the large volume of sales. In 1946, inventories rose rapidly, as may be observed in the accompanying chart. At the end of December the dollar volume of stocks in relation to sales was noticeably higher than the ratio of stocks to sales maintained in the pre-war period from 1935 to 1939 inclusively. Clearance sales during January reduced stocks considerably, and by the end of the month stocks were ...in close to the ratio maintained prior to the war. ...ing to the recent trend in department store ...he inventory accumulation may be tapering

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% January 194[illegible] of January 194[illegible]
Total District	215	24	125
Mpls., St. Paul, Dul.-Sup.	22	1	125
Country Stores	193	23	125
Minnesota	61	4	127
Central	8	0	131
Northeastern	3	1	106
Red River Valley	3	1	117
South Central	17	1	138
Southeastern	12	0	128
Southwestern	18	1	127
Montana	28	7	121
Mountains	7	4	117
Plains	21	3	122
North Dakota	47	1	133
North Central	10	0	141
Northwestern	5	0	123
Red River Valley	17	0	142
Southeastern	13	1	121
Southwestern	*	*	......
Red River Valley—Minnesota and No. Dakota	20	1	138
South Dakota	17	2	122
Southeastern	6	0	122
Other Eastern	6	1	121
Western	5	1	127
Wisconsin and Michigan	40	9	121
Northern Wisconsin	11	1	113
West Central Wisconsin	23	6	123
Upper Peninsula Michigan	6	2	123

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

Department Store Sales by Cities

	Percent One Year Ago	Percent 1935-1939 Average
Minneapolis	124	231
St. Paul	127	197
Duluth-Superior	117	*
La Crosse	115	
Mankato	135	
St. Cloud	133	

* Insufficient number of stores.

Northwest Business Indexes

Adjusted for Seasonal Variations—1935-1939 = 100

	Jan. 1947	Dec. 1946	Jan. 1946	Jan. 1945
Bank Debits—93 Cities	314	282	247	215
Bank Debits—Farming Centers	392	330	292	240
City Department Store Sales	277	271	222	190
Country Department Store Sales	245	231	201	166
City Department Store Stocks	263	269	157	148
Country Department Store Stocks	302	290	174	175
Country Lumber Sales	151	111	185	146
Miscellaneous Carloadings	154	154	143	156
Total Carloadings (excl. Misc.)	100	103	99	92
Farm Prices (Minn. unadj.)	242	265	168	168

GENERAL BUSINESS ACTIVITY REMAINS STABLE

General business activity in the Ninth District has remained quite stable since the first of the year. The aggregate volume of commodities flowing into markets during January approximately equalled the volume during December, according to figures on railroad carloadings. The small decline in manufacturing employment during January is attributed to usual normal conditions. The payments made by in-

(Continued on Page 227)

BANKING

Member Banks Experience Deposit Decline

BANKING trends in the Ninth District since the first of the year have been characterized by three developments. First, for the district as a whole, total deposits at all member banks during January decreased by $90 million, more than accounted for by a $100 million decline in demand deposits. Personal and business demand deposits of $1,874 million at the end of January were $95 million lower than at the year end. Deposits due to other banks, for the district as a whole, showed a net decline of $12 million, while U. S. Government deposits expanded slightly.

Second, the active demand for bank credit which began developing in this area during the middle part of 1946 has continued in a fairly substantial way into 1947. Member bank loans and discounts of $593 million continued a modest increase during January to $599 million. Holdings of U. S. Government obligations decreased by $13 million to an aggregate total of $1,899 million by the final week of January. Holdings of other securities experienced a nominal expansion.

Third, the experience of the comparatively larger weekly reporting banks, which represent approximately 45 percent of the total member bank resources of the district, in some respects has diverged from this picture of general expansion.

As was true for the district as a whole, their total deposits have declined since the beginning of the year, but the drop in deposits has been somewhat sharper. While the reporting city banks represent less than half of the district's member bank deposits, they have accounted for almost two-thirds of the deposit decline since the beginning of the year.

Assets and Liabilities of All Ninth District Member Banks
(In Million Dollars)

Assets	Jan. 29, 1947	Dec. 31, 1946	Change
Loans and Discounts	$ 599	$ 593	+ 6
U. S. Government Obligations	1,899	1,912	— 13
Other Securities	145	144	+ 1
Cash Items	779	840	— 61
Other Assets	22	26	— 4
Total Assets	$3,444	$3,515	— 71
Liabilities and Capital			
Due to Banks	$ 385	$ 397	— 12
War Loan Deposits	81	74	+ 7
Other Demand Deposits	1,874	1,969	— 95
Total Demand Deposits	$2,340	$2,440	—100
Time Deposits	887	877	+ 10
Total Deposits	$3,227	$3,317	— 90
Borrowings from F. R. B.	29		+ 29
Other Liabilities	14	15	— 1
Capital Funds	174	183	— 9
Total Liabilities and Capital	$3,444	$3,515	— 71

DEPOSIT reduction particularly sharp at larger city banks.

Private demand for bank credit continues strong.

Income tax payments shift funds to Treasury and tighten reserves.

TAX PAYMENTS SHIFT FUNDS TO TREASURY

The fairly substantial increase during January in Treasury balances at the Federal Reserve Bank (rising from $47 million at the beginning of the month to $67 million at the end) explains a very substantial part of the deposit reduction at the reporting banks. This shift of funds from the deposit balances of the banks' regular customers to the Treasury balances held at the Federal Reserve Bank is largely explained by the annual income tax payments made during the month, and is reflected in the $50 million decline in cash and reserves from mid-January to mid-February. Deposits of the reporting banks due to other commercial banks also declined and, combined with the other deposit adjustments, produced a net contraction of total deposits for these banks of $63 million.

CITY BANK LOANS RISE

On the other hand, the reporting banks continued their loan expansion of recent months. Commercial, industrial, and agricultural loans experienced a substantial increase of $14 million during the month ending February 12. Real estate loans increased nominally, although miscellaneous loans declined sufficiently to reduce the net loan expansion to $11 million for the month ending in the middle of February.

This fairly sharp contraction of deposits, together

Beginning with this issue, the Monthly Review banking section will carry regularly a condensed Condition Statement for all Ninth District member banks as of the close of business on the last Wednesday of the month. This is made possible by the cooperation of member banks in reporting to the Federal Reserve Bank, information monthly on loans, U. S. Government obligations, and other investments. From these three items and the information available from the records of the Federal Reserve Bank, it is possible to consolidate data for the country member banks with those for the weekly reporting banks, whose data have formed the basis for our banking section for a period of years. These data, hereafter, will be as of the last Wednesday of each month.

with a continued demand for credit, considerably tightened the reserve position at the reporting banks. The reporting banks adjusted to this situation in three ways. First, U. S. Treasury bill holdings of $16 million in mid-January had declined to $9 million a month later. Holdings of all other types of Government securities declined on balance by another $5 million. Second, these banks increased their borrowings from $9 million in the middle of January to $23 million by mid-February. Third, a decline of cash and reserves of $50 million, and a corresponding reduction of excess reserves, met the remainder of the requirements posed by the loan expansion and the deposit contraction.

The fact that the experience of the weekly reporting banks diverged from that of all member banks combined suggests a relative shift of deposits from the larger city banks to the country banks in the district.

Daily Average Reserve Position for All Ninth District Member Banks for the 16-Day Period Ending January 31, 1947

	Average Reserves Carried (000)	Average Reserves Required (000)	Average Excess Reserves (000)
Reserve City Banks	$177,521	$175,228	$ 2,293
Other City Banks	32,738	29,676	3,062
Total City Banks	210,259	204,904	5,355
Total Country Banks	200,803	168,853	31,950
Total Ninth District—1947	411,062	373,757	37,305
Total Ninth District—1946	387,153	332,679	54,474

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Feb. 12, 1947	Jan. 15, 1947	Change
Assets			
Comm., Ind. & Ag. Loans	$ 203	$ 189	+ 14
Real Estate Loans	43	42	+ 1
Loans on Securities	21	21	———
Other Loans	78	82	— 4
Total Loans	$ 345	$ 334	+ 11
U. S. Treasury Bills	9	16	— 7
U. S. Treasury Cert. of Indebt.	51	53	— 2
U. S. Treasury Notes	82	84	— 2
U. S. Government Bonds	621	623	— 2
Total U. S. Government Sec.	$ 763	$ 776	— 13
Other Investments	59	56	+ 3
Cash, due from banks, and reserves	384	434	— 50
Miscellaneous Assets	16	14	+ 2
Total Assets	$1,567	$1,614	— 47
Liabilities			
Demand Deposits, Ind., Part., Corp.	705	743	— 38
Demand Deposits, U. S. Govt.	49	40	+ 9
Due to Other Banks	330	363	— 33
Other Deposits	356	355	+ 1
Total Deposits	$1,440	$1,501	— 61
Borrowings	23	9	+ 14
Misc. Liabilities	11	11	———
Capital Funds	93	93	———
Total Liabilities and Capital	$1,567	$1,614	— 47
Excess Reserves	3	7	— 4

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 26, 1947

INDUSTRIAL output reached a new record peacetime level in January—one-sixth higher than at the beginning of last year. Dollar volume of retail sales during January and the early part of February was substantially larger than in the same period last year, reflecting mainly increased prices. Prices of agricultural commodities have risen in recent weeks, following earlier declines, and prices of building materials have shown further increases.

INDUSTRIAL PRODUCTION—Total output at factories and mines in January was at a rate of 188 percent of the 1935-39 averages, according to the Board's seasonally adjusted index, as compared with 181 in December and with the previous peacetime peak of 183 in November. The large rise in January reflected chiefly sharp gains in output of coal, iron and steel. Production of these materials had been curtailed in November and December owing to the bituminous coal work stoppage.

Production of iron and steel in January was in the largest volume since May 1945. Steel mill operations averaged 93 percent of capacity and were at a slightly higher scheduled rate during the first three weeks of February. Output of building materials was maintained at an unusually high level for this season, and activity in the non-ferrous metals, machinery, and transportation equipment industries was maintained close to the December rate.

Production of non-durable goods was at a rate of 177 percent of the 1935-39 average in January as compared with 173 in November and December. Activity in the chemicals, foods, and paper and printing industries reached new postwar peak rates in January, while output of most textile and leather products was below earlier peak rates.

Output of bituminous coal, after being curtailed in November and December, increased in January to the highest level in 20 years and was 9 percent above a year ago. Production of metals advanced somewhat, while output of anthracite and crude petroleum declined slightly.

EMPLOYMENT—Employment in manufacturing and most other non-agricultural industries continued to show little change in January, after allowing for the usual seasonal variation. The number of persons unemployed increased further to a level of 2,400,000.

CONSTRUCTION—Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased by one-fourth in January following a marked decline during the preceding seven months. About one-half of the increase was accounted for by public non-residential construction, reflecting chiefly large awards for veterans' hospitals. Residential contracts expanded by one-third due principally to awards for several large apartment projects.

DISTRIBUTION — Value of department store sales in January and the early part of February was maintained close to the level prevailing since last June, after allowance is made for the usual seasonal changes. Sales during the first seven weeks of this year were 17 percent larger than the same period last year. Sales at other retail stores were at a relatively higher level compared with last year, reflecting mainly advanced prices for foods and increased supplies of such durable goods as automobiles and hardware. Unit sales of numerous non-durable goods apparently have declined somewhat from earlier advanced levels.

Freight carloadings increased somewhat further in January, reflecting chiefly increased shipments of coal, iron, steel, and lumber. Shipments of most manufactured products and agricultural commodities showed little change. Shortages of cars continued to limit the movement of some classes of freight.

COMMODITY PRICES—Prices of farm products and foods, which declined from the middle of December to the latter part of January, have risen since that time, reflecting partly severe weather conditions and increased federal export allocations for grains. Wholesale prices of most industrial products have shown little change, but building material prices have increased further.

BANK CREDIT—Income tax collections greatly increased Treasury deposits at the Reserve banks in January and the first half of February and placed member banks under moderate reserve pressure. A post-holiday return flow of currency of about $900 million and an increase in monetary gold stock supplied some reserve funds to member banks and there was a decline in required reserves. To maintain their reserve positions, however, banks sold short-term Government securities to the Reserve banks.

Bank deposits were also reduced by tax collections, notwithstanding the return flow of currency. At member banks in leading cities, demand deposits adjusted declined by $1.3 billion in the four weeks ending February 19. Commercial and industrial loans continued to expand during January and early February; the rate of increase was more moderate than during last summer and fall. Government security holdings declined further, reflecting Treasury debt retirement and bank sales of bills and certificates.

AGRICULTURE

(From Page 421)

PRICE SUPPORT PROGRAM TO HELP FARMERS MAKE READJUSTMENT

The purpose of the price support program on "Steagall" commodities was twofold. First, to get an expanded production of certain farm products to meet wartime demands. Second, to give farmers a period after the war to readjust back to peacetime demand without facing ruinously low farm prices.

Farm production was expanded some 30 percent during the war. It is difficult to say, however, to what extent this was due to Government planning or to natural and technological factors. It is undoubtedly true that the production of some farm products such as soybeans, peanuts, dried milk and others were influenced by the promise of support prices. With other commodities such as eggs, hogs, chickens, and possibly others, there may be a ques- [illegible] whether increased production was due to factors [illegible] price guarantees. Feed supplies, feed-price ratios, and patriotic motives also must have been important production influences. In the case of feed crops, of course, a combination of fortuitous weather and increased use of hybrids, fertilizers, and mechanical equipment has also contributed heavily to increased production.

We are now face to face with the second phase of the program: that of supporting prices while farmers readjust. It seems to be uncertain, however, whether farmers will use this two-year period for the intended purpose, or whether they will over-produce some products so long as the support price is substantially above a free market price.

Potatoes provide an example. The Government was obliged to purchase huge quantities of potatoes from the 1946 crop in order to support prices. The Government used every possible means to move potatoes into normal trade channels, industrial uses, relief programs, and livestock feed. In spite of all this the waste of labor, soil, and food resources and the cost to the Government have been heavy. The net cost to taxpayers is estimated at about $80 million.

Farmers, operating in a profit economy, might be expected to follow a production program that yields the highest net return. They may do this regardless of whether returns are from the market place or from Government funds. The question therefore is posed: Is there any practical reason why they will not do this until the end of the price support period?

If farmers over-produce because it is more profitable to do so, the price support program will serve to prevent farm readjustments to meet peacetime patterns. One alternative to meet this situation (this may be followed with potatoes in 1947) is production control. Under this scheme the farmer gets the support price only if he agrees to curtail production. He gives up a certain amount of freedom of action in return for a degree of [illegible] income security.

Many agricultur[illegible] argued for another method of [illegible] commitment. They suggest that prices of farm products be allowed to seek a market level without interference from Government. If prices of supported commodities fall below the guaranteed level of 90 percent of parity, the Government should pay the producer directly the difference between the actual and the guaranteed price.

This would accomplish several objectives. (1) The price support promise would be met. (2) Consumers would have the benefit of lower prices. (3) Lower prices would encourage exports of some farm products at a competitive level. (4) There would be less farmer regimentation. (5) If prices dropped sharply below supports, it might serve as a clear and sharp warning for farmers to re-plan production programs.

Average Prices Received by Farmers[1]

Commodity and Unit	Ninth District Jan. 15 1937-1941 Avg.	Ninth District Jan. 15 1946	Ninth District Jan. 15 1947	Parity Price[2] United States Jan. 15, 1947
Crops				
Wheat, bushel	$0.85	$ 1.50	$ 1.91	$ 1.90
Corn, bushel	.56	.92	1.04	1.38
Oats, bushel	.31	.66	.71	.858
Potatoes, bushel	.61	1.19	1.09	1.59
Livestock and Livestock Products				
Hogs, 100 lbs.	7.18	13.87	21.87	15.60
Beef Cattle, 100 lbs.	6.84	10.98	17.12	11.70
Veal Calves, 100 lbs.	8.49	13.01	17.86	14.50
Lambs, 100 lbs.	7.67	12.75	18.19	12.60
Wool, lb.	.26	.43	.41	.393
Milk, wholesale, 100 lbs.	1.63	2.78	4.38	3.64
Butterfat, lb.	.32	.53	.78	.587
Chickens, live, lb.	.115	.208	.214	.245
Eggs, dozen	.175	.335	.339	.480

[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-November Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1945	1946	1946 in Per cent of 1945
Minnesota	$ 312,762	$ 776,021	$ 910,747	117%
No. Dak.	104,468	420,115	501,567	122
So. Dak.	100,442	373,248	509,643	137
Montana	84,425	212,261	256,242	121
Ninth Dist.[2]	656,283	1,962,124	2,384,865	122
United States	7,525,852	19,643,000	22,462,000	114

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

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

BUSINESS

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dividuals and business concerns for goods and services roughly approximated the amount made in December. Thus, the economy in this district during the winter months has operated close to full capacity.

The rise in the bank debits for January reflected primarily larger federal income tax payments. In Minnesota alone, $21 million more was paid in income taxes during January than in December. In the other states of the district, where the farmers' income comprises a larger proportion of the total, the rate of increase in income tax payments was even larger.