MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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Failures of Manufacturing Firms on Increase

Liabilities of Failing Concerns Exceed Pre-War Amount, with Chief Cause of Failures Found to Be New Concerns Having Insufficient Reserves

DURING the war years, business failures almost disappeared from the business picture, but more recently credit men have been forced to give attention to the growing number of liquidations.

In several states of this district, no liquidations or only one was recorded for some of those years. However, during 1947 the number of failures reported by Dun and Bradstreet increased noticeably and the amount of liabilities involved rose even faster.

Whereas, in 1946, 18 business concerns with a total of $710,000 liabilities failed in this district, in 1947 failures numbered 48 concerns with a total of $5,714,000. Preliminary figures indicate that business failures have continued to rise sharply during the first quarter of this year.

As compared with business failures prior to the war, the number of firms failing at the present time is still low, but the amount of liabilities involved is high. The 48 concerns classified as failures in this district during 1947 were roughly only one-fifth of the number that failed in 1938, 1939, or 1940.

LIABILITIES AGGREGATED NEARLY $6 MILLION

The amount of liabilities outstanding in this small number of firms, however, far exceeded the pre-war total. In 1947 the liabilities of such firms in this district aggregated $5,714,000, while in 1940 the liabilities of 228 firms totaled only $2,796,000. In other years prior to World War II the amount generally was less than $3 million.

The sharp rise in liabilities reflects the rise in prices as well as the liquidation of larger concerns. The funds invested in buildings, equipment, stock, and fixtures are now approximately double the pre-war amount, and liabilities are correspondingly higher. Wholesale prices at the beginning of this year were 86 percent higher than in 1940 and retail prices more than doubled during the same period.

MORE LIQUIDATIONS OF MANUFACTURING FIRMS

The type of business failings changed noticeably in the past year, with the largest increase in failures reported in this district during 1947 occurring among manufacturing concerns. Twenty firms failed during the past year as compared with five firms during 1946. The total liabilities of such firms rose from $286,000 in 1946 to $4,580,000 in 1947.

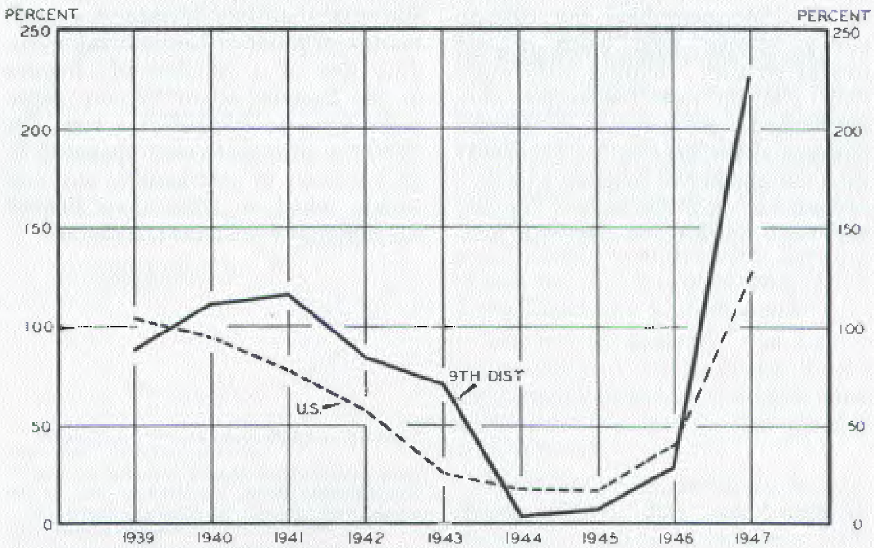
The greater frequency of failures among manufacturing concerns is a significant factor in the sharp rise in the amount of liabilities outstanding. According to the U. S. Department of Commerce, the typically larger scale of operations of manufacturing firms, as compared with other types of firms, results in liabilities which are generally about twice as large as the average liabilities of all other types of firms.

A larger number of retail establishments also have failed during the past year. Fifteen firms with liabilities totaling $360,000 failed in 1947 as compared with seven firms with liabilities of $167,000 in 1946.

INCREASE COMPARABLE TO NATIONAL TREND

The rapid rise in business failures in this district during 1947 is merely part of a national trend. As may be observed from the accompanying charts, the number of firms failing in

LIABILITIES OF BUSINESS FAILURES IN NINTH DISTRICT AND UNITED STATES (1939-1940=100)

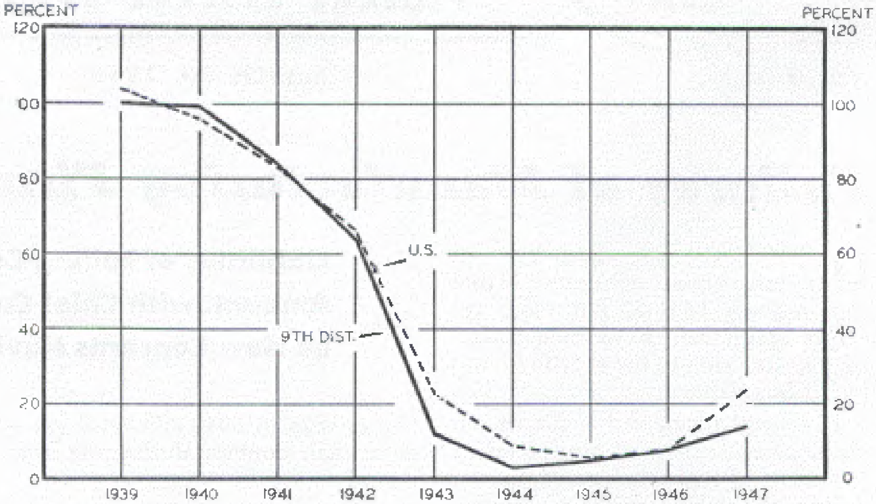


Source: Dun and Bradstreet.

this area has risen somewhat less from the low point during the war than for the nation, but the amount of liabilities outstanding has risen faster.

An examination of business failures by states in the Ninth district indicates that most of them are concentrated in Minnesota, where most of the manufacturing firms are located. Of the 48 failures in 1947 only 12 occurred outside of Minnesota, 6 on the Upper Peninsula of Michigan and in the northwestern part of Wisconsin, and 3 each in Montana and in South Dakota.

NUMBER OF BUSINESS FAILURES IN NINTH DISTRICT AND UNITED STATES (1939-1940=100)



Source: Dun and Bradstreet.

NEWLY ORGANIZED FIRMS DOMINATE FAILURE LIST

The usual causes of a rise in business failures have been negligible in recent years. A general recession or depression with its declining prices and falling-off in the volume of business transacted has not occurred. In fact, the almost steady rise in prices and the expansion in the dollar volume of business transacted has doubtless prevented some business liquidations.

The primary cause of the recent rise in business failures stems out of the postwar business developments. Since the end of hostilities a vast number of new business establishments have been organized. Lacking experience or capital or both they are during the first few years highly vulnerable to changes in the business situation.

According to the U. S. Department of Commerce, the opening of 188,000 new businesses during the first quarter of 1946 resembled the trek to newly opened gold fields of the former century. During 1947 more than 200,000 new businesses were established. As a result of this expansion, at the beginning of this year the total number of business concerns exceeded the pre-war high of September 1941 by 470,000 and the war-time low of December 1943 by fully 1 million.

As to type of business, the greatest expansion has taken place among manufacturing firms. The increase in the number of such firms far exceeded the proportional increases in other types of businesses.

The younger the business firm the more vulnerable it is to the numerous factors which cause failure. According to a survey conducted by the U. S. Department of Commerce, 37 percent of the firms classified as failures in the second quarter of 1946 were only one year of age or less and 59 percent were three years or less.

Some firms are always marginal in the sense that they operate on a small margin of profit or barely break even. Any one of a number of changes in the business situation may cause these firms to operate at a loss. In 1946 the principal cause appeared to be a scarcity of merchandise and materials, which in some cases limited the volume of business transacted.

Other important causes of failure were the lack of competent employees, the increase in labor costs, difficulty in securing customers, lack of capital, and increases in rent.

BUSINESS POPULATION EXPANDS TO NORMAL LEVEL

On the basis of a pre-war relationship, the number of businesses now in operation is appropriate to the large volume of business transacted. Consequently, the pre-war competition among business firms to secure a share of the total business has been restored. As a result, more failures are now due to such factors as high operating costs, inadequate record keeping, inexperienced management, poor location, etc.

Even though the number of business failures in the district is still small, the large amount of liabilities involved in liquidations has resulted in some tendency to check credit risks more carefully.

—Oscar F. Litterer

Farmers Look to Banks for Production Credit

Agricultural Adjustments in Prospect Suggest Profitable Business Opportunities for Bankers

VOLUME of short-term bank credit to farmers in the United States has increased substantially since the end of the war. Currently, non-real estate loans to farmers are the highest since 1930, but at that they are about one-third less compared with the early 1920's following World War I.

Based on past relationships, the current volume of production credit to farmers appears low relative to present production costs and capital outlays. It also appears low in relation to the greatly expanded output of agricultural products.

It is well known that commercial banks are in excellent position to finance farmers' credit needs. This is in sharp contrast to the situation during much of the inter-war period.

This fact may be illustrated by a comparison of member bank loans (to others as well as farmers) to total assets during the 1920's and the present.

In the Twenties, loans were approximately 60 percent of total assets. On June 30, 1947, loans were only about 25 percent of total assets, and they have been below 20 percent most of the time since 1943.

Even though the ratio of bank assets to loans is very high, the dollar volume of total bank loans increased tremendously during 1947. In fact, total loans outstanding at the beginning of 1948 were $7½ billion larger compared with a year earlier.

Noting this, bankers have been greatly concerned as to inflationary danger of expanding loans. As a result there has been a stiffening in credit terms and extensions. This is a healthful situation so long as inflationary pressures are so great.

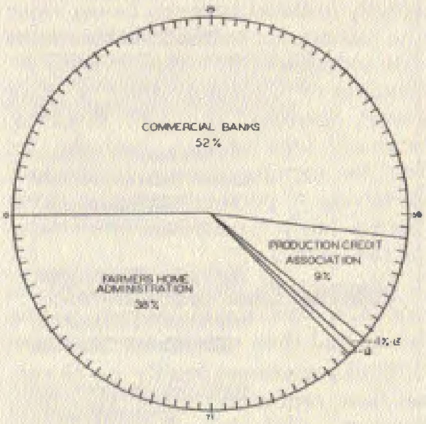
EXPANSION IN CREDIT POSSIBLE IN FUTURE

The longer-term future may reveal a changing picture. If history repeats, the farmer may sooner or later face a long period of declining prices for the things he sells, while his costs may stay relatively high, or at least come down slowly. Some say prices paid by farmers are "sticky." Historically, this is true. This fact tends to put farmers in a squeeze on the decline just as they gain relatively on the upswing. The intensity of the squeeze depends on the degree and extent prices fall and the disparity between the declines in prices received and prices paid by farmers.

As net farm income is reduced, farmers may ask for more credit to purchase livestock, machinery and supplies. They did this after World War I. In fact, the present accumulated demand for farm equipment indicates heavy expenditures and a substantial demand for credit for some time in the future.

In addition to furnishing credit for expanding farm mechanization, the banks may be asked to participate in financing other major adjustments in farming. Soil conservation practices, increased use of fertilizer, home improvements, larger farm units, shifts in types of farming (for example, wheat to flax, sheep to cattle or vice-versa) and new methods and techniques of various kinds, are some of the changes that may take sizable amounts of capital — part of it as credit.

PROPORTION OF NON-REAL ESTATE FARM LOANS HELD BY DIFFERENT CREDIT AGENCIES JULY 1, 1947, IN 4 STATES [4]



[1] Data from "Agricultural Finance Review," Nov. 1947, USDA p. 124-126.

[2] Private agencies, largely livestock loan companies and agricultural credit corporations.

[3] Regional Agricultural Credit Corporation (less than 1 percent).

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

BANKS PROVIDE BULK OF SHORT-TERM FARM CREDIT

Commercial banks provide the bulk of farm production credit in the Ninth district in spite of the enlarged operations of government-sponsored credit agencies.

Of the total volume of non-real estate farm loans outstanding on July 1, 1947, 52 percent was held by commercial banks. The Production Credit associations held only 9 percent of the total. The proportion of loans held by the PCA system varies considerably from area to area. In Montana, for example, 18 percent of outstanding loans were owned by the Production Credit associations; in the Dakotas, it was about 6 percent; in Minnesota, 9 percent.

It is surprising to note the proportion of non-real estate loans to farmers that are held by the Farmers Home Administration (formerly the Farm Security Administration)—38 percent (see pie chart). These include emergency crop and feed loans and production and subsistence loans.

In spite of record farm prosperity, particularly in the wheat areas, FHA loans last July were 65 percent of total outstanding short-term loans to farmers in North Dakota, and they were 44 percent in South Dakota.

FARM LOANS IMPORTANT IN BANKS' LOAN PORTFOLIO

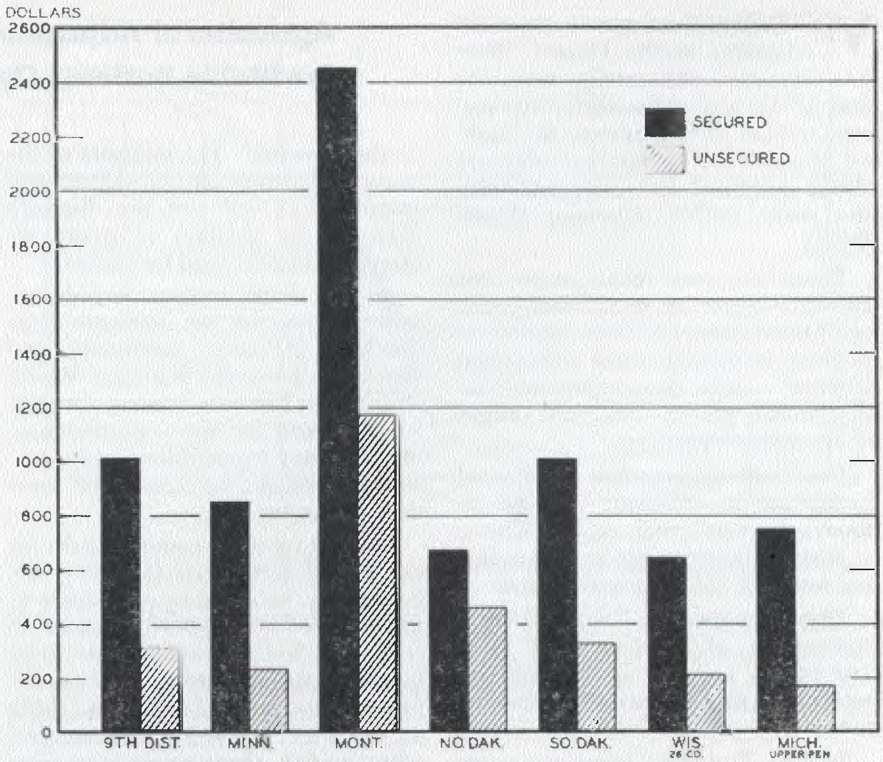
In the Dakotas, non-real estate loans to farmers on July 1, 1947, were nearly double the total of all commercial and industrial loans. In Montana, the two types were about equal. In Minnesota, industrial loans were much larger comparatively because of industry and manufacturing in the Twin Cities and Duluth areas.

The fact is, however, that by far the majority of Ninth district banks are country banks in the sense that most of their business is done directly with farmers.

Therefore, it is useful to analyze certain current data and trends in connection with bank loans for farm production purposes.

In 1947, a detailed study was made of the farm loan portfolios of a number of banks picked at random throughout the Ninth district. This study provided data on such things as security, size of loan, purpose, interest rates, net worth of borrowers, type of farms on which loans were made, and other data. Some of the results of this study follow.

AVERAGE AMOUNT OF SECURED AND UNSECURED NON-REAL ESTATE FARM LOANS IN COMMERCIAL BANKS, MID-1947



CHATTEL SECURITY TAKEN ON MOST FARM LOANS

Before World War I, it was not uncommon for the average farmer to get unsecured loans from his banker. However, "slow loans" and serious losses during the agricultural depression of the Twenties and Thirties changed this practice to a large extent.

This practice of asking for collateral security in connection with loans changed but little in recent years in spite of the farmer's vastly improved financial position.

The survey of non-real estate bank loans made in mid-1947 indicated approximately 81 percent of the dollar volume of loans outstanding in the Ninth Federal Reserve district were secured by chattels, usually livestock and machinery, while only 16 percent were unsecured loans. The remaining 3 percent of loan volume either carried additional endorsements as security, or the security status was not determined. A surprising degree of uniformity was observed from state to state in the relationship of secured to unsecured loans, both as to number of loans and dollar volume.

The number of secured loans in relation to unsecured loans, however, was substantially less when compared with the same analysis of dollar volume of loans. This, of course, is because many loans are relatively small and the banker, in such cases, often does not feel the necessity of bothering with securing a chattel mortgage. Approximately 37 percent of the number of loans outstanding in mid-1947 were estimated to be unsecured, while 59 percent were secured.

It was observed that the dollar value of secured loans averaged three times larger than unsecured loans. It was also noted that all loans were relatively large in livestock areas and comparatively small in areas where farming was general. (See chart.)

6% TYPICAL ON NON-REAL ESTATE LOANS

Apparently there was a considerable degree of interest rate uniformity over the district as a whole. Rates were usually higher, sometimes 7 to 8 percent, on small unsecured loans, but uniformly lower, 5 to 6 percent, on large secured loans.

Interest rates, of course, were not strictly uniform between banks, since the management of each bank sets its rate independently. Rates varied depending on the competition of other credit agencies, the risk involved, size and type of loan, and the desire for earning assets. In general, however, 6 percent seems to have been a fairly typical rate in all parts of the district.

Discounting, interest charged in advance, was found in only a few banks and then only in special cases.

Banks made practically no charge on farm production loans other than interest. Only in exceptional cases was a loan appraisal fee charged. Where field appraisals were made, the cost usually was absorbed by the lending bank. Borrowers customarily paid filing charges at cost.

Banks have sometimes been criticized because their interest rate was often in excess of the rate charged by competitive government credit agencies. However, when all charges made in connection with loans were considered by both agencies, the difference was much less obvious.

MOST LOANS FOR OPERATIONS, MACHINERY, AND STOCK

Farmers borrow money for a number of purposes. These purposes, of course, vary greatly from year to year, season to season, or area to area.

In mid-1947, 43 percent of the estimated 178,000 non-real estate farm loans outstanding in district banks were for general farm production purposes, such as purchase of feed, seed, and fertilizer, paying labor costs, or in general crop and livestock production operations. About the same amount (39 percent) was designated specifically for the purpose of buying either machinery or livestock. Only 6 percent was borrowed to make improvements on land and buildings and about 9 percent of the amount borrowed went to repay other debts.

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AGRICULTURE

Livestock Liquidation Boosts Farm Income

IT IS NOT entirely clear that the significance of livestock reduction to northwest farmers is fully appreciated, but the fact remains that livestock numbers declined sharply in 1947. For many classes of livestock this reduction has been in progress since 1944, and numbers are even less now than in 1940.

For one thing, more livestock has been sold off farms since 1944 than has been produced. Swollen cash farm incomes in recent years, therefore, are partly a reflection of stepped-up livestock sales along with record high prices. It is a rare combination to have such huge marketings and record high prices simultaneously, but this is what has happened in recent years.

For another thing, when the turn comes and farmers start rebuilding their herds, breeding stock will be withheld. Livestock marketings may then decline substantially and farm income may suffer. The extent of the decline in future livestock receipts will, of course, depend on how far the current liquidation program goes and, when the turn comes, on the degree to which breeding stock is withheld from the market.

What has caused the decline in numbers of almost all classes of livestock from the wartime peak in 1944 or 1945? Two reasons may be mentioned specifically. First, farmers have felt for some time that prices were too high and that a decline was overdue. They wished to avoid being caught with large livestock inventories when a decline occurred.

Second, feeding ratios during part of the time, particularly in recent months, have been distinctly unfavorable to the livestock producer. This latter reason is probably the more important of the two.

The chart on this page shows graphically the degree to which numbers of certain classes of livestock in Ninth district states have declined since 1940. Sheep numbers are down 38%, dairy cows 11%, hogs 7%, and turkeys 78%. Only chickens and beef cattle are more plentiful on farms on January 1, 1948, compared with pre-war 1940.

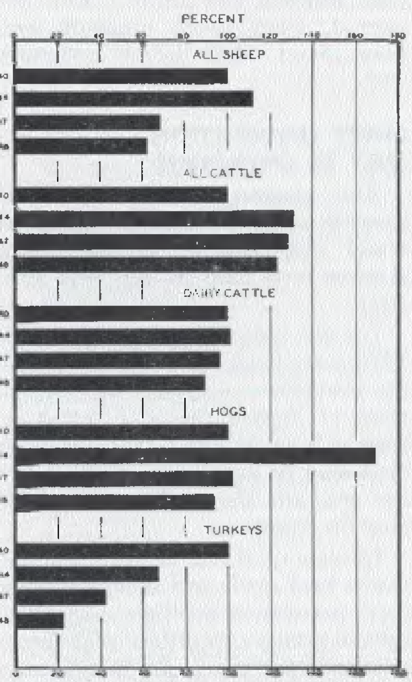
The sharpest decline in livestock numbers from the wartime peak has occurred during 1947. This is probably a result of extremely unfavorable feeding ratios for almost all classes of livestock during most of the year.

TURKEY NUMBERS DOWN MOST

The decline in turkey numbers in all states of the district is almost unbelievable. For every 100 turkeys on farms, January 1, 1940, there were only 22 at the beginning of this year. Almost a 50% decline occurred during 1947.

The percentage decline since 1940 was as follows in the various states: Minnesota 58%, Montana 77%, North Dakota 89%, South Dakota 90%, and Wisconsin 23%. For the entire U. S., the decline in turkeys numbers was 47% since 1940 and 32% since January 1, 1947. Turkey numbers on farms on January 1, this year, were the lowest since 1929.

PERCENTAGE CHANGE SINCE JAN. 1, 1940, IN NUMBERS OF SOME CLASSES OF LIVESTOCK, 9th DISTRICT*



* Four-state total, Minnesota, North Dakota, South Dakota, and Montana.
Source: "Livestock on Farms Jan. 1" USDA.

- ***Population has increased 11 million since 1940, but livestock numbers are down.***
- ***Turkey numbers are down nearly 50% from last year—78% from 1940.***
- ***Wheat farmers are keeping fewer milk cows.***
- ***Beef cow population was maintained during 1947.***
- ***Big corn crop in 1948 would improve livestock-feed price ratios.***

Despite the reduction in feed prices since early February, the trade feels that farmers' intentions as of January 1, to cut purchases of 1948 turkey poults 18%, will be carried out.

Even though feeding ratios should become favorable, a limiting factor to turkey production in 1948 will be the unavailability of hatching eggs in large volumes. The number of breeder hens on farms January 1, was reported one-third below last year and the lowest on record. The Department of Agriculture estimated that turkey meat supplies in 1948 will be the smallest in a decade.

MILK COW NUMBERS DOWN MOST IN MONTANA, DAKOTAS

Apparently many wheat farmers in the district keep dairy cows only when it is economically necessary. In spite of good feed supplies in recent years, Montana and Dakota farmers have cut milk cow population approximately 15% from what it was in 1940. Milk cow numbers in these three states are down more than 25% from the 1944 high, and they are 9% below numbers on farms January 1, 1947.

Even in Minnesota, dairy cow numbers are 7% less than a year earlier and 8% less compared with 1940. Only in Wisconsin have milk cows increased in number since 1940—approximately 12%.

For the U. S. as a whole, milk cow numbers on January 1, 1948, were 4% less compared with a year earlier and barely 1% more than the number on farms January 1, 1940.

Fortunately, total milk production in recent years has been 15 to 20% above pre-war. This is because of better feeding practices and a severe culling program of poor producing animals. The demand for milk, however, has outrun the supply in recent years. Human population has increased approximately 11 million since 1940 and people want more dairy products when their incomes are high.

From a supply and demand viewpoint, the dairy enterprise should remain in a favorable economic position during 1948, and possibly longer, as it takes several years to increase substantially the number of dairy cows on farms.

Average Prices Received by Farmers, Ninth District[1]

Commodity and Unit	February 15, 1937-1941 Avg.	February 15, 1947	February 15, 1948	Parity Prices[2] United States February 15, 1948
Crops				
Wheat, bushel	$ .83	$ 1.97	$ 2.20	$ 2.19
Corn, bushel	.55	1.05	1.78	1.59
Oats, bushel	.31	.71	.97	.990
Potatoes, bushel	.64	1.12	1.59	1.84
Livestock and Livestock Products				
Hogs, 100 lbs.	7.17	23.81	21.36	18.00
Beef Cattle, 100 lbs.	6.76	17.21	19.39	13.40
Veal Calves, 100 lbs.	8.65	19.47	23.52	16.70
Lambs, 100 lbs.	7.73	18.75	20.43	14.60
Wool, lb.	.26	.42	.42	.454
Milk, wholesale, 100 lbs.	1.57	3.73	4.25	4.08
Butterfat, lb.	.31	.72	.90	.668
Chickens, live, lb.	.116	.207	.195	.283
Eggs, dozen	.156	.335	.376	.490

[1] Data compiled from February 27, 1948, "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-December Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1946	1947	1947 in Percent of 1946
Minnesota	$ 346,863	$ 1,054,876	$ 1,335,556	127%
North Dakota	113,247	498,592	736,927	148
South Dakota	110,244	498,251	671,099	135
Montana	92,904	303,438	397,350	131
Ninth District[2]	744,407	2,600,543	3,418,433	131
United States	8,476,000	24,518,527	30,174,744	123

[1] Data from "The Farm Income Situation," dated January 1948, USDA.

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

BEEF COW POPULATION STAYS ABOVE PRE-WAR

Luck has been with the cattleman in recent years. He has had good grass and feed conditions and prices have been excellent. As a result, numbers of all cattle on farms increased about one-third from 1940. In spite of a sharp decline during 1947, beef cattle numbers in the district are still about one-fourth larger compared with 1940. For the U. S. as a whole, beef cattle numbers are now probably about 16% higher compared with 1940.

In Montana and South Dakota, the major ranching areas of the district, beef cattle population is about 58% above pre-war and cattle population was maintained during 1947.

A good rancher changes his cow population mainly because of grass conditions and only to a small extent because of price changes.

There has been a good deal of speculation as to whether the ranching areas have been overstocked in recent years. In some individual cases, overstocking may have occurred, but in general the ranges are in better condition now than in 1940.

It should be remembered that, although beef cattle numbers have increased, the sheep and horse population on the ranges has been drastically reduced in recent years. This has made more room for more cattle.

Sheep numbers in Montana, for example, are down 41% from 1940. In 1940, there were more than three times as many sheep as cattle on Montana ranches and farms. On January 1, 1948, sheep numbers were only about 30% larger compared with cattle.

SHEEP LIQUIDATION MAY BE OVERDONE

The tremendous liquidation of sheep is without precedent. There are fewer sheep on U. S. farms and ranches now than in any year since 1871.

For the seventh straight year, the 1948 early lamb crop is smaller than the previous year, states the Department of Agriculture in a recent release. It is reported that the lamb crop may be as much as 10% below last year and the smallest early lamb crop on record.

In view of the relative change between beef cattle and sheep numbers from pre-war, it has been suggested, by competent authorities, that future prospects for sheep production may be attractive. Especially might this be true if a major recession and mass unemployment should occur, with a drastic reduction in the demand for beef.

Other observers, however, point out that in a depression there is no guarantee that sheep prices would be less susceptible to declines than prices of other livestock.

FARMERS CUT HOG NUMBERS BELOW PRE-WAR LEVEL

The hog-corn ratio (which is the number of bushels of corn it takes to equal in price 100 lbs. of live hogs) has been extremely unfavorable in recent months. On March 6, 1948, the ratio was 9.5 compared with 17.9 a year earlier and approximately 13.0 for the 1936-47 average for that period.

The ratio is likely to continue below average, at least until prospects for the 1948 corn crop begin to influence corn prices.

An unfavorable hog-corn ratio is usually associated with a decline in

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BUSINESS

Department Store Sales Took Sharp Drop

THERE is some evidence that the break in commodity prices apparently has had a sobering effect on business activity. Department store sales slumped considerably following the break on February 3. Preliminary figures for the first two weeks in March show that sales still continued substantially below the January level. The buyer resistance, at least in part generated by the break in prices, has been augmented in the past few weeks by inclement weather conditions.

On the other hand, wholesale prices began to rise during the first week in March. Farm product prices were six points higher than in the middle of February and food prices were two points higher. Prices of other commodities were not affected by the market break.

Dollar volume in some cities in this district fell below the volume of a year ago. The index, adjusted for the usual seasonal variation, dropped 19 points from a peak of 286 percent of the pre-war average in January to 267 percent in February. The decline in sales was quite comparable between stores reporting from large and small centers.

STILL PURCHASE STANDARD QUALITY MERCHANDISE

An examination of 1947 sales by departments indicates that the sales of housefurnishings, men's and boys' wear, and miscellaneous items—which include toys, games, sporting goods, cameras, and luggage—rose rapidly. Basement sales, which usually represent a lower quality of merchandise, increased only 2 percent, which was substantially below the increase of total store sales.

A similar analysis of 1947 sales for the entire nation reflects a marked expansion in basement sales. Thus, consumers in some parts of the country have turned to the purchasing of less costly quality merchandise.

FREIGHT MOVEMENTS LOW

Total carloadings in February continued to decline slightly more than the usual seasonal amount. The greater share of the decline was concentrated in shipments of grain and livestock.

As compared with a year ago, there has been a noticeable falling off. February shipments of grain were 36 percent less and livestock shipments were 25 percent less.

TAX PAYMENTS CAUSE OF BANK DEBIT CONTRACTION

The February index of bank debits, after an adjustment was made for the usually low activity during this month, stood at 353 percent of the 1935-39 average. This represents a drop of 29 points from the adjusted figure for January.

As a measure of general business activity, bank debits during the first quarter of the year are distorted by income tax payments, for which a proper allowance in the seasonal adjustment is impracticable. Individuals not subject to withholding on the federal income tax must file their returns by January 15. During January, Minnesota taxpayers paid over $70 million to the Collector of Internal Revenue. In February this figure dropped to $14 million. During the first 18 days of March the amount reached $89 million, and this figure will continue to mount as returns are processed. Consequently, the sharp drop in February bank debits is in large measure due to the decline in income tax payments.

- ***February adjusted index was down 19 points from January.***
- ***Shift to less expensive goods observed nationally was not evidenced in Ninth district.***
- ***Decline in bank debits in February is attributed largely to January tax payments.***
- ***Decline in non-agricultural employment was seasonal.***

Sales at Ninth District Department Stores[1]

	% Feb. 1948 of Feb. 1947	% Jan.-Feb. 1948 of Jan.-Feb. 1947	Number of Stores[2] Showing Increase	Number of Stores[2] Showing Decrease
Total District	104	107	135	148
Mpls., St. Paul, Dul.-Sup.	106	108	26	9
Country Stores	100	104	109	139
Minnesota	101	103	32	38
Central	95	98	2	7
Northeastern	105	107	2	2
Red River Valley	85	93	1	3
South Central	105	104	10	5
Southeastern	104	109	6	6
Southwestern	101	103	11	15
Montana	105	109	19	14
Mountains	97	103	4	7
Plains	110	112	15	7
North Dakota	99	104	17	32
North Central	85	91	1	9
Northwestern	89	96	3	3
Red River Valley	107	112	5	12
Southeastern	90	96	5	8
Southwestern	137	128	3	0
Red River Valley - Minn. and N. D.	103	109	6	15
South Dakota	97	101	19	25
Southeastern	102	104	6	9
Other Eastern	92	98	11	14
Western	102	102	2	2
Wisconsin and Michigan	97	102	22	30
Northern Wisconsin	100	104	7	4
West Central Wisconsin	98	102	11	22
Upper Peninsula Michigan	93	101	4	4

[1] Percentages are based on dollar volume of sales.
[2] Feb. 1948 compared with Feb. 1947

NON-AGRICULTURAL EMPLOYMENT REFLECTS SEASONAL TREND

Non-agricultural employment in Minnesota declined by 8,812 between mid-January and mid-February, according to the report released by the Minnesota Division of Employment and Security. This decline is attributed to a usual seasonal contraction.

Most of the decline was traced to retail trade establishments, where in the middle of February there were 5,347 fewer employed than in the middle of January. The decrease of slightly over 1,000 in manufacturing was concentrated largely in plants producing confectionery products and in meat packing plants.

According to available data, non-agricultural employment in the other states of this district is at a high level. For instance, manufacturing employment in Montana in the last quarter of 1947 totaled about 19,000—a figure substantially larger than any time during the war years or subsequently.

In North and South Dakota, during the fourth quarter, manufacturing employment was also at an all-time peak of about 7,000 and 11,500 respectively. END

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-39 = 100)

	Feb. 1948	Jan. 1948	Feb. 1947	Feb. 1946
Bank Debits—93 Cities	353	382	304	248
Bank Debits—Farming Centers	420	467	370	300
Ninth District Department Store Sales	267p	286p	261	236
City Department Store Sales	287p	305p	272	248
Country Department Store Sales	247p	267	250	223
Ninth District Department Store Stocks	322	309	270	161
City Department Store Stocks	276	276	253	151
Country Department Store Stocks	359p	336	284	169
Country Lumber Sales	171	164	163	197
Miscellaneous Carloadings	146	154	144	119
Total Carloadings (excl. Misc.)	91	92	100	97
Farm Prices (Minn. unadj.)	268	306	238	167

p—Preliminary

Index of Department Store Sales by Cities

(Unadjusted—1935-39 = 100)

	Feb. [1]	Percent Change [2] from Year Ago Feb.	Percent Change [2] from Year Ago Jan.-Feb.
Minneapolis	244	+ 9	+ 11
St. Paul	213	+ 2	+ 3
Duluth-Superior	189	+ 8	+ 10
Great Falls	263	+ 13	+ 9
La Crosse	191	+ 3	+ 3
Mankato	210	+ 8	+ 7
St. Cloud	294	+ 7	+ 2
Aberdeen	......	+ 7	+ 2
Bismarck	......	+ 10	+ 5
Grand Forks	......	— 9	+ 3
Minot	......	— 8	— 3
Sioux Falls	......	+ 8	+ 8
Willmar	......	+ 6	— 3
Winona	......	+ 8	+ 15

[1] Based on daily average sales.

[2] Based on total dollar volume of sales.

LIVESTOCK LIQUIDATION BOOSTS FARM INCOME

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hog numbers. During 1947, hog numbers declined an estimated 8% in the district compared with about a 3% drop for the U. S. as a whole.

Producers in the important hog raising areas of southern Minnesota and southeastern South Dakota have indicated a 10 to 11% decrease in number of sows to farrow this spring.

A good corn crop and favorable feeding ratios this fall would undoubtedly stimulate a sizeable increase in hog breeding next fall, but increased pork supplies cannot reach the market before the spring of 1949, at the earliest.

SUMMARY

● Livestock units on Ninth district farms, and for the country as a whole, are about the same as pre-war. They are low in relation to human population, which has increased approximately 11 million since 1940. They are particularly low in relation to the increased demand for meat, even though production per animal unit is higher in most cases.

● In pre-war days, the U. S. imported some fresh meat from Canada, canned meat from the Argentine, and some half million cattle from Mexico. In fact, meat imports averaged about 70 million pounds greater than exports. These imports are now shut off for the most part. In recent years the U. S. has exported a small percentage of domestic meat production. The amount exported in 1948 may be smaller than in 1947.

● A further decline in the number of livestock on farms is in prospect for 1948. The extent of the decline will, of course, depend on the size of the corn crop and feed-price relationships this fall. An uptrend does not appear in prospect before next winter at the earliest.

● The current rate of meat slaughter is greater than production. Any upturn in livestock numbers must, for a time, be accompanied by a reduction in meat supplies as breeding stock is withheld from the market. Meat supplies per capita this year are expected to be 10 to 13 pounds less compared with 1947, and supplies may be even less in 1949.

● Assuming good feed crop production in 1948, some increase in the numbers of livestock on farms would appear to be desirable. If livestock numbers decline much further and a big feed crop comes along, feed supplies could be in surplus supply. There might not be enough livestock to consume it. This would be serious for the cash grain farmer, unless demand were propped up through government purchases for foreign relief or other purposes.

END

BANKING

February Uneventful in Banking Circles

BANKING developments in the district during February and early March were generally less significant than has been true for some months past. Most of the changes that occurred were shifts within the pattern of loans or investments rather than changes in the aggregate amounts.

Deposits of all member banks in the district during the four weeks ending on February 25 declined $30 million, or one percent, to a total on that date of $3,363 million. The deposit decline in North Dakota was the most marked where a $17 million deposit reduction was a 6 percent decline.

In Montana, member bank deposits declined 3 percent, or $14 million, and in South Dakota $6 million, or 2 percent. Member banks in the Upper Peninsula of Michigan experienced a one percent deposit shrinkage; but member banks in all other states on balance held about even—most of them exhibiting nominal gains.

The deposit loss was accompanied by three other major changes during this four-week period ending February 25. Loans increased $8 million; holdings of U. S. government securities declined $44 million; and borrowings were reduced by $14 million. Other changes were of a comparatively modest character.

The more detailed information available from the weekly reporting member banks provides further information on changes in the earning assets of city member banks. First, the volume of loans, rapidly rising during recent months, held about even during February and declined during early March. To some extent this is undoubtedly the normal seasonal pattern for loans outstanding, but it is not improbable that the generally more cautious attitude about the business and credit picture may have been exerting some influence.

During the first half of March, as data in the table indicates, commercial, industrial, and agricultural loans declined by $10 million, and real estate loans by $2 million. An expansion of "other" loans (largely to consumers) of $3 million made the net loan reduction for these banks $9 million.

Holdings of government securities continued to decline during February and March, with the entire reduction centered on holdings of U. S. Treasury notes and bonds. In fact, during both February and early March, holdings of notes and bonds took the full brunt of the shrinkage in the total portfolio of U. S. government securities, and also were further reduced to allow for a

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▶***Deposit decline was most marked in North Dakota.***

▶***Volume of loans followed normal seasonal pattern in holding about even.***

Deposits, Loans, Investments of Ninth District Member Banks By States, February 25, 1948

(Thousands of Dollars)

State	DEPOSITS Amt. on 2/25	Change from 1/28 Per-cent	Amt.	LOANS Amt. on 2/25	Change from 1/28 Per-cent	Amt.	INVESTMENTS Amt. on 2/25	Change from 1/28 Per-cent	Amt.
U. P. Mich.	$ 154.0	— .8	$— 1.3	$ 34.4	+ .4	$+ .2	$ 99.6	— .3	$— .3
Minnesota	1,985.2	+ .3	+ 6.9	531.6	+ .8	+ 4.3	1,052.7	— 2.7	—29.2
Montana	455.6	— 3.0	—14.0	72.0	+ 1.7	+ 1.2	290.5	— 1.5	— 4.5
North Dakota	248.9	— 6.4	—17.0	31.9	+ 4.2	+ 1.3	177.7	— 4.3	— 7.9
South Dakota	335.1	— 1.7	— 5.8	61.1	— .2	— .1	212.5	— 2.7	— 5.9
N. W. Wis.	184.4	+ .5	+ .9	39.1	+ 2.4	+ .9	114.4	— .7	— .8
9th District	$3,363.2	— .9	—30.3	$770.1	+ 1.0	+ 7.6	$1,947.4	— 2.4	—48.6

Assets and Liabilities of All Ninth District Member Banks[1]

(In Million Dollars)

	Jan. 28, 1948	Feb. 25, 1948	$ Change
Assets			
Loans and Discounts	$ 762	$ 770	+ 8
U. S. Government Obligations	1,799	1,755	— 44
Other Securities	197	192	— 5
Cash and Due from Banks	840	836	— 4
Other Assets	26	29	+ 3
Total Assets	$3,624	$3,582	— 42
Liabilities and Capital			
Due to Banks	$ 346	$ 328	— 18
Other Demand Deposits	2,112	2,103	— 9
Total Demand Deposits	$2,458	$2,431	— 27
Time Deposits	936	932	— 4
Total Deposits	$3,394	$3,363	— 31
Borrowings	16	2	— 14
Other Liabilities	17	19	+ 2
Capital Funds	197	198	+ 1
Total Liabilities and Capital	$3,624	$3,582	— 42

[1] This table is in part estimated. Data on loans and discounts, U. S. government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from the semi-monthly report which member banks make to the Federal Reserve bank for the purpose of computing reserves. Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and other liabilities are extrapolated from call report data.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAR. 25, 1948

OUTPUT of manufactures and minerals continued to show little change in February. Department store sales increased by about the usual seasonal amount in February and the first half of March. Wholesale prices generally showed little change following marked declines in farm products and some other commodities from mid-January to mid-February.

INDUSTRIAL PRODUCTION — Industrial production was maintained in February at the January rate of 193 percent of the 1935-39 average, according to the Board's seasonally adjusted index.

Output of durable goods declined slightly in February, partly because unusually severe weather conditions led to a curtailment of activity in a number of lines early in the month. Steel production, however, was maintained at the January rate and scheduled operations were increased in the first three weeks of March. Activity in the machinery and transportation equipment industries declined somewhat in February. Automobile production was sharply reduced in the first two weeks of the month but recovered to earlier postwar peak rates during the last half, and has been maintained at a high level in March. Output of most other durable manufactures showed little change from the January level.

Output of minerals in February was maintained at the January level. Bituminous coal production declined 4 percent, while output of anthracite, crude petroleum, and metals advanced. In the middle of March, bituminous coal output was sharply reduced by a labor-management dispute.

EMPLOYMENT—Employment in nonagricultural establishments in the middle of February was slightly below the January level, after allowance for seasonal changes. The decline reflected mainly the effects of unusually severe weather conditions on activity in industries manufacturing durable goods, and also in mining and construction. The number of persons unemployed increased and was 150,000 larger than in February, 1947.

CONSTRUCTION—Value of construction contracts awarded, according to the F. W. Dodge Corporation, increased somewhat more than seasonally in February, reflecting largely an increase of one-fourth in awards for public types of construction. Private residential awards showed little change as an increase in contracts for apartment buildings was offset by a decline in awards for single family homes. According to Department of Labor estimates the number of dwelling units started was 50,000 in January and 47,000 in February, as compared with a total of 84,000 in the same two months in 1947.

DISTRIBUTION — Department store sales increased seasonally in February and the early part of March, but the Board's seasonally adjusted index of sales continued somewhat below the average level in the fourth quarter of 1947.

COMMODITY PRICES — Prices of farm products rose somewhat from mid-February to mid-March, following the sharp declines in the preceding four weeks. Prices of some industrial materials, like leather and cotton fabrics, however, declined further, and prices of most types of finished industrial products continued unchanged.

Prices of foods in wholesale and retail markets, which had generally been reduced by 3 to 5 percent from mid-January to mid-February, showed little change through the middle of March. In the third week of the month wholesale meat prices advanced, reflecting the effects of the industrial dispute in the packing industry.

BANK CREDIT—Tax receipts in February and the first half of March in excess of Treasury payments shifted deposits from accounts of individuals and businesses at commercial banks to Treasury balances at the Reserve banks. As a result of these deposit transfers, over $1.5 billion were drained out of bank reserve balances. Banks received some new reserve funds from further gold inflows and a small return of currency from circulation. Federal Reserve purchases of government securities in the market supplied the remainder of the funds required to maintain member bank reserve positions.

Further purchases of Treasury bonds were made by the Federal Reserve in support of the market prices of these issues, although after mid-February market conditions were stronger and the volume of such purchases was greatly diminished. Total holdings of government securities at the Reserve banks continued to decline, reflecting Treasury use of its current cash surplus and of a part of its deposit balances to retire about $2.8 billion of securities held by the Reserve banks.

Government security holdings at banks in leading cities declined during February and early March. Real estate loans continued to expand. Commercial and industrial loans declined somewhat at banks in New York City and showed little change at banks in other leading cities.

Assets and Liabilities of 20 Reporting Banks

(In Million Dollars)

	Jan. 28, 1948	Feb. 25, 1947	Mar. 17, 1948	$ Change Jan. 28-Feb. 25
Assets				
Comm., Ind. and Ag. Loans	$ 260	$ 263	$ 253	+ 3
Real Estate Loans	55	56	54	+ 1
Loans on Securities	19	18	18	— 1
Other Loans	92	92	95	....
Total Loans	$ 426	$ 429	$ 420	+ 3
U. S. Treas. Bills	$ 18	$ 20	$ 21	+ 2
Certificates of Indebt.	38	55	60	+ 17
U. S. Treas. Notes	64	56	54	— 8
U. S. Govt. Bonds	556	528	515	— 28
Total U. S. Govt. Sec.	$ 676	$ 659	$ 650	— 17
Other Investments	$ 72	$ 75	$ 78	+ 3
Cash and Due from Banks	438	427	418	— 11
Miscellaneous Assets	15	16	14	+ 1
Total Assets	$1,627	$1,606	$1,580	— 21
Liabilities				
Demand Deposits, Ind., Part., Corp.	$ 779	$ 773	$ 754	— 6
Demand Deposits, U. S. Govt.	22	22	25	....
Due to Other Banks	304	291	282	— 13
Other Deposits	399	411	409	+ 12
Total Deposits	$1,504	$1,497	$1,470	— 7
Borrowings	$ 15	$ 1	$ 2	— 14
Miscellaneous Liabilities	11	11	11	....
Capital Funds	97	97	97	....
Total Liabilities and Cap.	$1,627	$1,606	$1,580	— 21
Excess Reserves	10	2	0	— 8

FEBRUARY UNEVENTFUL IN BANKING CIRCLES

Continued from Page 554

considerable net expansion in the amounts of bills and certificates held.

Reserve pressure was comparatively heavy during this period, particularly in certain weeks, and resulted in a substantial decline in excess reserves. END

FARMERS LOOK TO BANKS FOR PRODUCTION CREDIT

Continued from Page 549

There was a great degree of uniformity among the states of the district in the proportion of loans outstanding for the several indicated purposes.

THIRD OF BORROWERS HAVE NET WORTH OVER $10,000

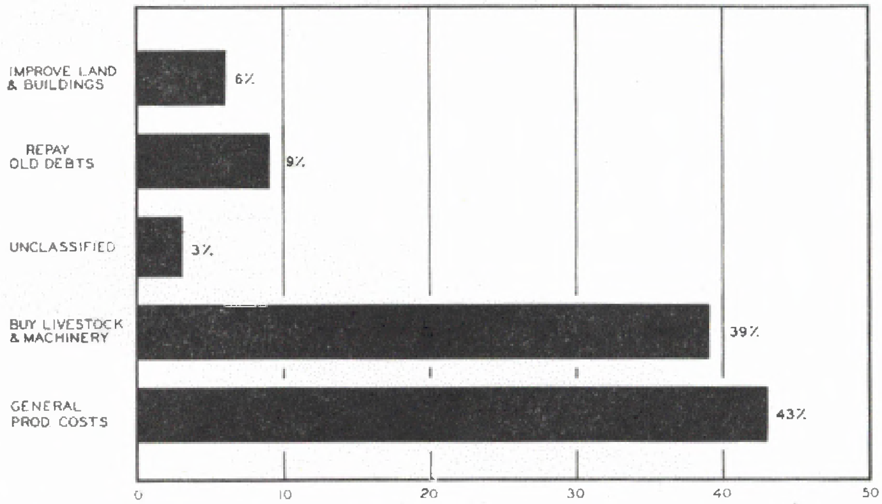
The net-worth position of most farmers in recent years is generally regarded as the best in history. This situation is due, of course, to a considerable extent to war-time demand conditions. It is also a situation which may change rapidly in the future if and when drouths reoccur, or farm prices decline and asset values shrink.

At the time of the survey in mid-June, about one-third of all farmers borrowing from Ninth district banks were estimated to have had a net worth in excess of $10,000. About 60 percent of all borrowers showed a net worth of between $2,000 and $10,000. Only 18 percent indicated a net worth position below $2,000.

Farmers in the large wheat growing areas showed a much larger net worth position compared with general purpose farmers in the eastern areas of the district. In fact, in mid-1947 more than half the borrowers in North Dakota and Montana possessed a net worth in excess of $10,000. In Minnesota and South Dakota less than 30 percent and in Wisconsin only 20 percent of the borrowers had a net worth in excess of $10,000. (See table on net worth.)

In the Thirties it is probable that farmers in the eastern part of the district were in a much more favorable net worth position compared with western farmers. There is no assurance, however, that the present situation is a permanent one.

PROPORTION OF NON-REAL ESTATE FARM LOANS MADE FOR DIFFERENT PURPOSES BY INSURED COMMERCIAL BANKS IN THE NINTH DISTRICT IN MID-1947



Percentage of Non-Real Estate Loans Outstanding in Mid-1947 in Insured Commercial Banks in 9th District States, According to Net Worth of Borrowers

(In Percent)

State	Proportion of all borrowers with net worth below $2,000	Proportion of all borrowers with net worth $2,000 to $10,000	Proportion of all borrowers with net worth over $10,000
Minnesota	10%	63%	27%
Montana	3	39	58
North Dakota	6	46	48
South Dakota	10	61	29
Wisconsin (26 Cos.)..	13	67	20
Michigan (Upper Pen.)	9	69	22

TYPE OF FARMING INFLUENCES CHARACTER OF LOANS MADE

The Ninth Federal Reserve district stretches along the northern boundary of the U. S. for a distance of 1,600 miles. It is not surprising, therefore, that the type of farming and the character of bank lending vary greatly within this vast stretch of country with different rainfall, soil, and climate conditions.

In Wisconsin, over half the farm income comes from dairying with an even larger share in the Ninth district portion. Therefore, it was no surprise to find that 99 percent of the loans outstanding in mid-1947 were classified by bankers as dairy loans. That is, the loans were made on farms where dairying was the major enterprise or brought in the major share of cash farm income.

Neither is it surprising to find that bankers in the Dakotas and Montana classified less than 3 percent of their loans as dairy farm loans. In North Dakota, about 60% of loans outstanding were made on grain farms.

Montana boasts a large number of livestock ranches as well as great wheat farms. Here, 45 percent of loans were classified as coming from livestock farms and 28 percent from grain farms.

Western South Dakota is primarily ranching. Grain farming predominates in much of the central area, while the eastern end is pretty much general farming. Bank credit extension varied with the type of farming.

Minnesota farms are a mixture of types—dairy, livestock, and grain. As a result, bankers classified 52 percent of their farm loans as general purpose. Thirty percent were made on dairy farms and only 9 and 4 percent respectively were designated as strictly grain or livestock farms, i.e., where either grain or livestock was the principal farming enterprise or provided the bulk of cash farm income.

—F. L. Parsons

Proportion of Loans Made by 9th District Banks on Different Types of Farms in Mid-1947

State	General Farms (Percent)	Dairy (Percent)	Grain (Percent)	Livestock (Percent)	Other (Percent)
Minnesota	52	30	9	4	5
Montana	20	3	28	45	3
North Dakota	32	2	59	1	6
South Dakota	62	1	13	24	0
Wisconsin (26 Cos.)	1	99	0	0	0
Michigan (Upper Pen.)	3	78	3	0	16