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District Prosperity Due to Trio of Factors

Larger Crops and Higher Prices, Greater Output Per Worker, Industrial Expansion Are Bases of the Area's Increased Income

IN THE present decade, the Ninth district has enjoyed exceptional economic prosperity. While the source of this prosperity is traced, in very large measure, to agriculture, the bases for this region's purchasing power are not solely in the higher prices of agricultural products and the larger crop yields.

The greater output per farm operator and worker also has played a significant role in rural prosperity, and a larger output of industrial products has been a source of augmented income in numerous urban centers of this district.

The sharp rise in farm product prices resulted from an unusually large demand for food, attributable to larger consumer incomes and, to a lesser extent, to the devastation of the war and the subsequent rehabilitation program. Prices for grains and other crops produced in this area in 1946 were double, and in 1947 were two and three-fourth times the 1935 to 1939 average.

The prices of livestock and livestock products have risen substantially, but at a slower rate than the prices of grains and other feeds. These prices in 1946 were 65 percent above, and in 1947 they were double the pre-war average.

It has been a peculiarly fortunate coincidence for this area that production should be so high at a time of such heavy demand. The large crop yields during the present decade have stood in marked contrast to the small yields during the Thirties. Crop yields, including wheat, corn, oats, barley, rye, flaxseed, soybeans, and potatoes in the four states of Minnesota, Montana, North Dakota, and South Dakota, reached a peak in 1945 of 76 percent above the 1935 to 1939 average output.

Even in 1947, when weather conditions were not so favorable, the crop production was still 50 percent larger than for the five-year pre-war average. A favorable weather cycle coupled with improved farming methods is the explanation of the large crop yields.

The combination of high farm product prices and large crop yields has raised significantly the agricultural net income in this district. In North Dakota, South Dakota, and Wisconsin, the realized net income of farm operators in 1945 was respectively 4½, 4, and 3 times the 1940 totals.[1] In Michigan, Minnesota, and Montana, the 1945 net farm income was roughly 2½ times the 1940 income. According to the cash income from farm marketings, which is a gross figure, the net farm income was even larger in the two subsequent years.

GREATER OUTPUT THIRD SOURCE OF FARM PROSPERITY

While much of it can be attributed to high farm product prices and larger crop yields, a substantial share of the large rural purchasing power, at least on a per capita basis, arises from a larger output per farm operator and worker.

Rapid mechanization of farm operations, development of disease-resistant and greater-yield varieties of seed for most of the major crops, improved methods of pest and disease control for both crops and livestock, better breeding practices, and more efficient farm management have resulted in a substantially larger output per man hour.

According to a study made by the United States Bureau of Labor Statistics,[2] the small-grain area, of which Montana, North Dakota, and South Dakota are a part, increased output per farm worker over the 11-year period from 1935 to 1946 by 52 percent. In other words, the same amount of labor on farms in these states in 1946 as in 1935 produced over 50 percent more small grain.

In the western dairy area, which comprises Michigan, Minnesota, and Wisconsin, the output per farm worker increased by 45 percent over this 11-year period.

From these percentages it is evident that agriculture has made tremendous strides in lifting the productivity per worker—which is the only technique available that leads to a higher standard of living.

INDUSTRY, COMMERCE DRAW LABOR FROM AGRICULTURE

For several decades, industry and commerce have offered labor better opportunities for employment than agriculture. The rapid mechanization of farm operations has increased the number of acres per farm and reduced the number of workers on them. Consequently, labor has mi-

Trend of Farm Population in Ninth District

States	1940	1945	Percent Change
Michigan	870,832	663,610	—24
Minnesota	914,609	730,748	—20
Montana	176,054	134,551	—24
N. Dakota	327,943	269,779	—18
S. Dakota	307,318	253,899	—17
Wisconsin	882,938	719,913	—18

Sources: United States Census of Agriculture, 1945, Vol. II, p. 292.

[1] United States Department of Agriculture, The Farm Income Situation, July, 1946, pp. 19, 20, and 21.

[2] United States Department of Labor, Productivity in Agriculture: 1909-1946, December, 1947, pp. 1-27.

grated from the rural areas to the urban centers.

During the war this migration was greatly accelerated due to the exceptional employment opportunities in industry and commerce. From 1940 to 1945, the decline in farm population in this district ranged from 17 percent in South Dakota to 24 percent in Michigan and Montana, as may be observed from the accompanying table.

The population movement from rural to urban centers has resulted in the greatest interstate migration in the history of the nation. Since the Ninth district is predominantly agricultural, this region during the recent war was frequently characterized as a labor supply area.

PER CAPITA FARM INCOME UP MORE THAN AGGREGATE

As a result of the greater productivity on farms, on the one hand, and the decline in farm population, on the other, the per capita income on farms has risen from one-fourth to one-third faster than aggregate net farm income in the states of this district.

In North Dakota the per capita net farm income rose from $188 in 1940 to $1,028 in 1945, and in South Dakota from $202 to $1,000. In the other states of this district, the increase in the 1945 per capita net farm income was somewhat less but, nevertheless, materially more than three times the 1940 amount. The per capita income has continued to rise in subsequent years.'

The tremendous rise in the farmers' purchasing power has had a significant bearing on wholesale and retail markets in this region. In a large measure, it has offset the effect of the decline in population. The nature of the market, however, has changed materially. For instance, food sales are influenced by the population residing in a particular locality as well as by the amount of purchasing power. The population decline in some states of this district has materially retarded the growth in food sales.

INDUSTRY EXPANDS OUTPUT

Much of industry in this district is closely tied to agriculture. Food processing plants constitute the most important industry in this region. Nearly one-third of the total manufacturing labor force in Minnesota, Montana, North Dakota, and South Dakota is employed in these industries

A larger output of grains, livestock and livestock products results in a larger industrial production. For instance, Northwest flour mills in 1940 produced slightly under 15 million barrels of flour and in 1947 almost 25 million barrels. Employment in all food processing industries in the four states wholly within this district has risen from 45,600 in 1940 to 71,000 in 1947.

The growth in manufacturing has been associated with a greater diversification. A large number of concerns established relatively recently in this district are not dependent upon either agriculture or forestry for their raw materials. The Twin Cities for some time have been a center for the wearing apparel industry. During recent years a number of new plants were established outside of this metropolitan area. In the postwar period, industrial plants were established to manufacture agricultural implements, plastics, leather goods, soap, shoes, lubricants, chemical compounds, sporting goods, and inn erable other items. Most of this velopment is centered in Minnes and the northwestern part of W consin.

Employment in all types of man facturing establishments in the fo states wholly within this district h risen from 144,000 in 1940 to 236,0C in 1947—an increase of 64 percen Since the end of hostilities, new cor cerns and old ones that have expand ed their plant capacities have ab sorbed most of the surplus labor mi grating from the rural areas. During the war, a large share of this labor migrated out of this district to the industrial centers in the Pacific coast states, in some Rocky Mountain States and in a few states bordering the Great Lakes.

As a result of the expansion in manufacturing, payrolls have risen significantly in this district. According to the data available,[3] the payroll of wage and salary workers in Minnesota industrial concerns increased from $115 million in 1939 to $542 million in 1947. In Montana the manufacturing payroll rose from $15 million in 1939 to $48 million in 1947.

Even after an allowance is made for the rise of about 70 percent in the cost of living over this period, it is evident that manufacturing payrolls, which have risen four and two-thirds times in Minnesota and slightly over three times in Montana, have added greatly to the aggregate purchasing power of numerous urban centers in this region.

—Oscar F. Litterer.

[3] The figures for 1939 were taken from the U. S. Census of Manufactures and those for 1947 were secured from the Minnesota Division of Employment and Security and from the Montana Unemployment Compensation Commission.

AGRICULTURE

Agricultural Act of '48 Boon to Farmers

THE promise of another bumper crop in 1948 and the continuation of wartime government price support for both 1948 and 1949 farm production should bring joy to farmers and those interested in the farm market of the Ninth district.

All reports indicate that another big grain crop in 1948 is in the making or practically in the bin. A week or 10 days of hot dry weather in early July over most of the Ninth district was alarming, but showers and cooler weather came along in time to make the July 1 crop estimates appear reasonable of attainment.

If July 1 crop estimates for the district materialize, corn production may be as much as a third larger compared with last year, oats about 10 percent larger, and wheat, the district's most important cash crop, approximately the same as last year's bumper crop.

It is true, of course, that in an area with the tremendous length and breadth of the Ninth district, considerable variation exists in crop prospects. It's true also that weather in late July and August will continue to be a major factor in the final outturn of the spring wheat and corn crop.

RAIN SAVED CROPS, BUT DROUTH INJURY PRESENT

At the current writing (July 20), there are no serious moisture deficient areas of large extent in the Ninth district. Northwestern North Dakota and the extreme northeastern corner of Montana had been very dry until mid-July, but moderate to heavy rainfall has been received in time to prevent a crop disaster. However, conditions here are reported spotted, with considerable permanent injury from drouth.

Elsewhere in only occasional local areas has insufficient moisture retarded crop development. In most such areas, fair yields are in prospect even though the straw is short.

Montana, largest state in the district and third largest in the nation, is enjoying perhaps the best general range and crop conditions in its interesting history. Ranges are well covered with a rank growth of nutritious grasses, and the wheat crop gives promise of being the second best on record. Irrigation water is plentiful and the beet crop, as well as other irrigated crops, is coming along nicely.

The Red River Valley crops, as well as southern Minnesota and southeastern South Dakota fields and pastures, are much above average in condition and prospective crop yields.

AMAZING CROP YIELDS DUE PARTLY TO BETTER METHODS

The big crops of recent years are not altogether accidents of favorable weather. Some fundamental changes have been occurring, such as new crop varieties, mechanization, and better methods of farming.

Take wheat, for example. Studies at Kansas State college show that one man can now handle about 750 acres of wheatland on western Kansas farms of 1,000 acres or more. This represents a big increase in efficiency in recent years.

These studies show that a wheat farmer, operating on a large scale, can handle an acre of wheat with around 2 to 3 man-hours of labor. With yields running up to 20 and 30 bushels per acre, wheat farmers have garnered some handsome profits, according to those who are close to the wheat farming industry.

▶ ***District crop production may be near record.***

▶ ***Price support and improved crop production methods partly eliminate risk of western wheat farming.***

▶ ***New formula would lower crop parities but increase livestock parity prices.***

Improved varieties have also contributed to better wheat yields, as is true also of other small grains and hybrid corn. A new hard winter wheat under test in Kansas has produced 51 percent higher yields than the old standby, Turkey Red.

Strip crop summerfallow is now common practice among the better wheat farmers in the western part of the Ninth district. New techniques and machines are being developed to anchor straw and trash in the surface soil to prevent soil blowing and to preserve moisture. And it is as yet difficult to judge how important the new chemical weed killers have been to over-all wheat production or to the farmer's net profits in 1948, or will be in the years ahead.

Average Prices Received by Farmers in the Ninth District[1]

Commodity and Unit	June 15 1937-1941 Avg.	June 15 1947	June 15 1948	Parity Prices[2] United States June 15, 1948
Crops				
Wheat, bushel	$0.76	$2.28	$2.25	$2.22
Corn, bushel	.61	1.71	2.03	1.61
Oats, bushel	.30	.86	1.03	1.00
Potatoes, bushel	.61	1.32	1.63	1.86
Livestock and Livestock Products				
Hogs, 100 lbs.	7.51	23.25	22.13	18.20
Beef Cattle, 100 lbs.	7.30	19.61	24.41	13.60
Veal Calves, 100 lbs.	8.36	21.07	26.05	16.90
Lambs, 100 lbs.	8.00	19.33	22.82	14.80
Wool, lb.	.26	.39	.51	.459
Milk, wholesale, 100 lbs.	1.44	2.90	4.06	3.58
Butterfat, lb.	.29	.66	.87	.605
Chickens, live, lb.	.124	.218	.236	.286
Eggs, doz.	.156	.376	.379	.475

[1] Data compiled from "June 29, 1948, Agricultural Prices"—USDA.

[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.

PRICE SUPPORT BENEFITS WHEAT FARMERS PARTICULARLY

Because of better methods, improved varieties, and greater mechanization, the costs of producing a bushel of wheat have not been as high as they otherwise might be. At the same time, the support price for wheat has been tied to a 1910-14 parity base relationship of prices and production costs. The margin of profit thus becomes more favorable as efficiencies in production have occurred.

In a period of rapidly rising prices, such as have occurred in recent years, parity wheat prices as established by law on a 1910-14 basis have therefore been increasingly favorable to producers.

Before the days of government price support, a big wheat crop in the Dakotas and Montana was usually associated with sharply lower prices. A small wheat crop in the Plains area usually brought a relatively high price per bushel. This benefited the eastern wheat producer, but his western brother had little if any wheat to sell. Therefore, it wasn't in the cards for the average western wheat farmer to enjoy both high production and a high price in the same year.

The law of supply and demand in a free market economy just didn't work that way. This was accepted as one of the hazards by the producers of wheat in this area. These hazards were pretty well discounted in land prices.

However, high wartime price support programs may augur large changes. Wheat prices may be made more and more in Washington as big crops are produced and price support programs continue in effect. During the past several years of high production, a Plains wheat farmer has been in the happy position of harvesting a bumper crop and still getting a price at a reasonable relationship to parity. This has been primarily because of extensive foreign relief programs.

The government may be expected to assume at least part of the price risk in the next several years that formerly was assumed by the individual wheat farmer. The new Agricultural Act of 1948 by its generous price support provisions assures wheat growers in the next few years at least that the risk will not be so much that of price as it is yield per acre — and even here the new production techniques, new varieties, and chemical weed killers may have reduced this risk at least to some extent.

To better understand the possible effects of continued price support on the total agricultural economy of the district, an analysis of the recently passed Agricultural Act of 1948 is enlightening.

NEW FARM LEGISLATION COMPROMISE OF TWO BILLS

During the past session of Congress two farm bills were considered. One was the Hope bill passed by the House, which among other things provided for continuation of price supports as at present for another year[1]. The second was the long-range Aiken bill passed by the Senate.

The new law (H.R. 6248), as compromised in the last few days of a busy session, extends existing price support legislation to basic commodities marketed before June 30, 1950, and with certain important modifications, to Steagall commodities marketed before January 1, 1950. Beyond these dates, it provides the parity and price support provisions of the Aiken bill.

TOO HIGH PRICE SUPPORT MAY INSURE SURPLUSES

Specifically, the so-called "basic commodities," cotton, wheat, corn, tobacco, rice, and peanuts that go to market before July 1, 1950, will be supported at 90 percent of parity. For wheat, the 1948 support price on the farm will average about $2.00 a bushel. It probably will be near that level or higher for the 1949 crop.

Prices of certain "Steagall commodities," Irish potatoes, milk and dairy products, hogs, chickens, and eggs marketed before January 1, 1950, will be supported at the 90 percent level. Prices of the other "Steagall commodities" are to be supported at not less than 60 percent of parity nor more than current support levels until January 1, 1950.

Some of the problems of price support are evidenced by potatoes and eggs, which were included in the 90 percent support group. The problem with these two commodities in recent months has been one of surplus disposal. Potatoes have been in surplus supply each year since 1943. The crop this year may be 7 million bushels larger than it was last year. The support price this year is about $2.58 per 100 pounds.

To dispose of surplus potatoes the government may sell some to farmers for livestock feed. Last year surplus potatoes were sold to farmers for livestock feed at 1c per 100 pounds. Some will be made into flour or dehydrated for export. Others will go into starch manufacture. Processors of industrial alcohol may also purchase surplus potatoes at a fraction of the support cost.

Over the past 5 years, the government is estimated to have spent $160,000,000 in the purchase of 200 million bushels of surplus potatoes. The cost of supporting the 1948 crop will add new millions of dollars.

It is reported currently that the ECA (European aid program) will buy 37½ million pounds of frozen eggs from the USDA's past price support purchase.

Another section of the Act gives permission (not mandatory) for price support of commodities other than "basic" or "Steagall."

LONG-RANGE FARM PROGRAM TAKES OVER IN 1950

Beginning in 1950 the long-range part of the new farm legislation comes into effect. This part may be modified or changed by the new Congress, but as it now stands tobacco gets support at 90 percent of parity when marketing quotas are in effect. The other five basic commodities will get support at 60 percent to 90 percent of parity depending on production and market surpluses.

Other farm commodities will get support at 0 to 90 percent of parity, depending on what the Secretary of Agriculture feels is necessary to provide production in the national interest.

The long-range farm program provides that support prices will not drop more than 5 percent in any one year during the transition period from the old method of figuring parity to the new method. In other words, if the redefinition of the parity formula dropped wheat parity 20 percent, it would take 4 years

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[1] A complete summary of H. R. 6248 (Agricultural Act of 1948) is available on request from Research department, Federal Reserve Bank of Minneapolis.

BUSINESS

Higher Prices Boost Business Volume

THE hesitation which developed among both consumers and businessmen following the break in farm product prices during the first week in February obviously has disappeared.

Ninth district department store sales during June remained at a high level. Furthermore, a large number of department store executives apparently anticipate that the upward business trend will continue for some time, since outstanding orders of department stores in this district have started to turn up. At the end of May 1948, outstanding orders were 10 percent larger than at the end of the preceding month, and preliminary figures indicate that an even larger increase occurred during June.

The reduction of the federal personal income tax, which became effective on May 1, increased the amount of income individuals have at their disposal. A substantial share of this income has been used to purchase consumer goods, as evidenced by the high level of department store sales.

The excellent prospect of another large crop has apparently caused farmers as well as others in the rural areas to raise their rate of purchases. In the urban centers, the third round of wage increases has had a similar effect among a substantial number of wage earners.

PRICES AT JANUARY PEAK

The heavy consumer purchases have created a steady pressure on prices. During the week ending July 3, wholesale prices of all industrial commodities and food were two points higher than in the middle of January. Farm product prices were within four points of the January peak. Preliminary figures issued by the United States Bureau of Labor Statistics indicate that prices have continued to rise in the more recent weeks.

Checks charged against the accounts of individuals, firms, corporations, and the government were at a record level in June. The adjusted index based on 93 representative cities in the district was 241 percent above the 1935 to 1939 average. This was a 10 percent increase over May, and a 15 percent increase over June 1947.

The second quarter federal income tax collections had a significant bearing on the sharp rise in bank debits. During June the Bureau of Internal Revenue collected $51 millions in Minnesota as compared with $68 million in March, when the final return was filed for 1947.

The increase in debits from June 1947 varied noticeably among the states in the district. In North and South Dakota, the increase was 33 and 27 percent respectively, while in Montana and the northwestern part of Wisconsin, it was only 16 and 17 percent respectively.

DEPARTMENT STORE SALES REMAIN HIGH

Ninth district department store sales in June declined from the May peaks, but were still above the former level. The index adjusted for the usual seasonal variation was 192 percent above the 1935 to 1939 average. This constitutes a decrease of five percent from the May peak, but is still two percent above the highest preceding month otherwise.

Important factors in the decline in department store sales from May to June were the larger number of people away on vacation and the unusually hot weather. The decline was concentrated almost entirely among the stores located in the large urban centers. The increasing number of city dwellers leaving the cities for their vacations is not eliminated from the trend of sales by the seasonal adjustment.

Index of Department Store Sales by Cities

(Unadjusted 1935-1939 = 100)

	(Mo.) June [1]	Percentage Change [2] From Year Ago (Mo.) June	Jan.-June
Minneapolis	287	+ 7	+ 8
St. Paul	272	+ 9	+ 4
Duluth-Superior	300	+ 22	+ 16
Great Falls	307	+ 6	+ 6
La Crosse	267	+ 6	+ 3
Mankato	251	+ 21	+ 14
Aberdeen	......	+ 6	+ 3
Bismarck	......	+ 6	+ 9
Grand Forks	......	+ 6	+ 3
Minot	......	+ 16	+ 4
Sioux Falls	......	+ 12	+ 12
Valley City	......	+ 15	— 3
Willmar	......	+ 7	+ 6
Winona	......	+ 12	+ 14
Yankton	......	— 2	+ 7

[1] Based on daily average sales.

[2] Based on total dollar volume of sales.

Note: June 1948 had 26 trading days; June 1947 had 25.

▶ ***June bank debits in district were 10% larger than in May.***

▶ ***Department store sales, at a peak in May, declined 5% in June.***

▶ ***Rail movement of raw and finished materials in first half of 1948 was somewhat less than first half of 1947.***

Department store stocks during June declined several points more than usually occurs during this month. The adjusted index dropped from 333 percent at the end of May to 326 percent of the pre-war base at the end of June. The stores located in the larger cities—Duluth, Minneapolis, St. Paul, and Superior—carry a significantly smaller volume of inventory than the stores in the smaller communities. As may be observed in the table entitled "Northwest Indexes," the adjusted index for the stores in the above cities was 277 percent of the pre-war average, while the adjusted index for the country stores, or those located in all other communities in the district, was 365 percent of the same base period. In relation to the current level of sales, the latter stores are carrying 26 percent more in stock than in the five year period from 1935 to 1939.

CARLOADINGS FALL BELOW THOSE OF A YEAR AGO

Carloadings are a measure of the raw and finished products moving through the economy. Total carloadings, less the miscellaneous ones, in this region during the first quarter fell far below those for the corresponding period of last year. In the second quarter, the loadings were approximately equal to those of last year.

As compared with the pre-war

volume from 1935 to 1939, loadings were 16 percent larger during the first half of this year.

Miscellaneous carloadings, which comprise largely fabricated materials, during the first half of this year were approximately equal to those of a year ago. They were 35 percent above the 1935 to 1939 average.

An examination of shipments by type of commodity indicates that the volume of coal, coke, and ore which moved during the first half of this year was larger than last year. The opening of water transportation in Duluth and Superior on April 5, the third earliest opening in history, has had a direct bearing on the larger number of these ore-loadings.

The shipments of fabricated materials, which come under the miscellaneous classification, as was mentioned above, were approximately equal to those of last year. Merchandise shipped in less-than-carload lots fell slightly below last year's volume.

The shipments of other types of commodities during the first half of this year were noticeably below the volume during the same period in 1947. Monthly shipments of grain and grain products were lower. If recent wheat shipments to the Kansas market are an indication, similar shipments in this region may go up sharply following the harvest.

Livestock shipments also were lower. Only during April did shipments exceed those of last year. Forest product shipments have lagged noticeably. January was the only month in which they did exceed last year's shipments and in one month they fell as much as one-third below the previous year's volume. END

Sales at Ninth District Department Stores

	% June 1948 of June 1947	% Jan.-June 1948 of Jan.-June 1947	Number of Stores showing Increase	Decrease
Total District	109	107	217	69
Mpls., St. Paul, Dul-Sup.	108	107	24	11
Country Stores	111	108	193	58
Minnesota	110	108	52	18
Central	113	107	7	2
Northeastern	108	111	4	0
Red River Valley	97	99	2	2
South Central	112	111	11	4
Southeastern	116	111	11	4
Southwestern	106	106	17	6
Montana	116	113	29	8
Mountains	127	112	9	3
Plains	111	113	20	5
North Dakota	111	107	44	6
North Central	120	99	9	1
Northwestern	117	104	6	0
Red River Valley	106	108	15	3
Southeastern	114	107	12	1
Southwestern	108	118	2	1
Red River Val.-Minn. & N. Dak.	105	107	17	5
South Dakota	109	108	32	14
Southeastern	107	109	9	6
Other Eastern	108	104	17	7
Western	123	119	6	1
Wisconsin and Michigan	108	104	36	12
Northern Wisconsin	116	110	7	2
West Central Wisconsin	107	103	23	7
Upper Peninsula Michigan	105	104	6	3

[1] Percentages are based on dollar volume of sales.
[2] June 1948 compared with June 1947.
Note: There were 26 trading days in June 1948; June 1947 had 25.

Northwest Business Indexes

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

	June 1948	May 1948	June 1947	June 1946
Bank Debits—93 Cities	341	311	273	233
Bank Debits—Farming Centers	398	380	326	265
Ninth District Dept. Store Sales	291	306	277	248
City Department Store Sales	296	321	281	263
Country Department Store Sales	287	291	273	234
Ninth District Department Store Stocks	326p	333	256	207
City Department Store Stocks	277p	279	234	211
Country Department Store Stocks	365p	376	275	203
Country Lumber Sales	152	164	119	109
Miscellaneous Carloadings	116	126	118	109
Total Carloadings (excl. Misc.)	137	138	138	121
Farm Prices (Minn. unadj.)	304	289	262	197

p—preliminary.

AGRICULTURAL ACT OF '48 BOON TO FARMERS

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(20 ÷ 5) before the change could be fully reflected in support prices under the new parity formula.

NEW FORMULA LOWERS PARITY PRICE FOR FIELD CROPS; LIVESTOCK PARITY UPPED

The new parity formula which becomes effective January 1, 1950, ties in price trends of the preceding 10-year average with the 1910-14 base period. This tends to modernize the formula, and over a period of years will reflect, partially at least, cost of production changes among different farm commodities.

Such a change will be particularly beneficial to livestock and livestock product parity prices, since it will reflect the higher production costs for these commodities compared with that of grain, where production efficiencies have been so important in the cost picture.

Another provision of the new legislation is that compliance with acreage allotments, production goals, and marketing practices prescribed by the Secretary of Agriculture may also be required as a condition of eligibility for price support.

If marketing quotas for any commodity are opposed by more than one-third of the farmers voting in a referendum, price support may be entirely withheld or reduced sharply, depending upon the commodity and the prevailing conditions. END

BANKING

Bank Loans and Deposits Continue Rise

THE slowly rising tide of bank lending in the Ninth district gained momentum during the month of June as loans and discounts in all member banks reached a new high for this year.

At the same time, investment portfolios remained practically unchanged, since reductions in U. S. Government securities were almost entirely offset by increased holdings of other securities.

Rising also last month in all Ninth district member banks were total deposits. This marks the second month of increase in total deposits following the declining trend of the first four months of 1948.

MONTHLY INCREASE IN LOANS ACCELERATED

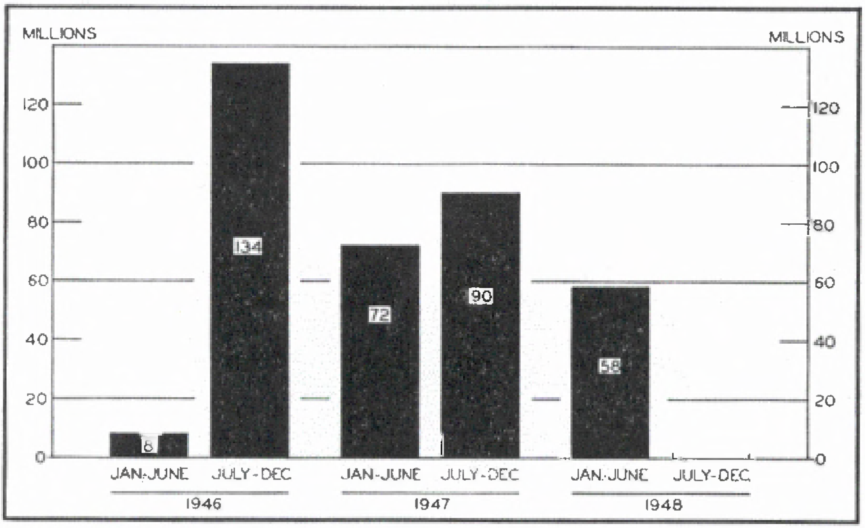
Loans and discounts in all member banks in our district on June 30 equalled $812 million—an 8 percent increase over the first of the year and a 2 percent rise over May 26. This is the largest monthly percentage advance in loans and discounts registered so far in 1948.

Assets and Liabilities of All Ninth District Member Banks [1]
(In Million Dollars)

	May 26, 1948	June 30, 1948	Change May 26-June 30
ASSETS			
Loans and Discounts	$ 796	$ 812	+ 16
U. S. Government Obligations	1,668	1,649	— 19
Other Securities	199	217	+ 18
Cash and Due from Banks	781	842	+ 61
Other Assets	29	25	— 4
Total Assets	$3,473	$3,545	+ 72
LIABILITIES AND CAPITAL			
Due to Banks	$ 281	$ 330	+ 49
Other Demand Deposits	2,052	2,082	+ 30
Total Demand Deposits	$2,333	$2,412	+ 79
Time Deposits	922	924	+ 2
Total Deposits	$3,255	$3,336	+ 81
Borrowings	3	....	— 3
Other Liabilities	17	16	— 1
Capital Funds	198	193	— 5
Total Liabilities and Capital	$3,473	$3,545	+ 72

[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.

DOLLAR INCREASE IN TOTAL LOANS IN ALL NINTH DISTRICT MEMBER BANKS
During 1946, 1947, and First Half of 1948



THE MAJOR INCREASE in total loans in 1946 and 1947 took place in the second half of each year.

Looking back at 1946 and 1947, it is evident that the major loan expansion in these years—which were periods of unprecedented bank lending—occurred during the latter half of each year. Thus it is by no means certain that the relative slowness of bank credit growth during the forepart of 1948 will also characterize the remainder of this year. Whether or not the June increase is a preview to the traditional final half-year expansion in lending, however, remains to be seen.

On the basis of the experience of the 20 weekly reporting banks, which account for somewhat over two-fifths of total member bank assets in this district, it appears that the 2 percent

- ***Loans increased 2% in June.***
- ***Decline in holdings of U. S. government obligations was offset by rise in other securities.***
- ***Total deposits rose for the second consecutive month.***

increase in total loans and discounts during June came primarily in "other loans," which includes consumer credit.

In addition, commercial, industrial, and agricultural loans and loans on securities increased considerably, while the change in real estate loans was negligible.

SECURITIES REFLECT MIXED DEVELOPMENTS

For the most part, country and reserve city banks experienced similar changes in their assets and liabilities during the month. Investment portfolios, however, were an exception to this rule.

While country member banks' holdings of U. S. government securities declined $28 million, reserve city banks augmented their holdings by $9 million—the rise taking place entirely in short-term securities. On the other hand, country bank portfolios of other securities increased $19 million, while reserve city banks showed a $1 million decline.

Thus, on balance in all Ninth district member banks, U. S. government obligations decreased $19 million and other securities increased $18 million.

TOTAL DEPOSITS SHOW GAIN

The increase in total deposits during June in all member banks equalled $81 million. Increased interbank demand deposits accounted for 60 percent of the rise, other demand deposits for about 37 percent, and time deposits for close to 3 percent.

The increase in deposits due to banks was centered in reserve city and the larger country banks, as it is to be expected, since such banks act as correspondents.

The increase in time deposits, which equalled $2 million, took place entirely in country member banks, while reserve city banks' time deposits remained constant over the month.

During the first two weeks of July only data for the 20 large weekly reporting banks are available. Total loans and discounts at these banks remained constant in the first half of July, reflecting mixed changes in loan portfolios. While other loans showed a substantial gain, commercial, industrial and agricultural loans declined by an offsetting amount.

Holdings of U. S. government securities at the 20 weekly reporting banks during the first half of July increased considerably. This advance was entirely in holdings of bills, certificates, and notes.

A marked gain in total deposits also occurred at these banks, continuing the upward trend of the preceding two months. END

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	May 26, 1948	June 30, 1948	July 14, 1948	$ Change May 26-June 30
ASSETS				
Comm., Ind., and Ag. Loans	$ 249	$ 251	$ 245	+ 2*
Real Estate Loans	56	56	56	*
Loans on Securities	14	16	17	+ 2*
Other Loans	98	103	108	+ 5*
Total Gross Loans and Dis.	$ 417	$ 426	$ 426	*
Less Reserves	......	— 3	— 3	*
Total Net Loans and Dis.	$ 417	$ 423	$ 423	*
U. S. Treas. Bills	15	26	36	+ 11
U. S. Treas. Cert. of Indebt.	84	103	108	+ 19
U. S. Treas. Notes	51	61	72	+ 10
U. S. Govt. Bonds	485	460	459	— 25
Total U. S. Govt. Sec.	$ 635	$ 650	$ 675	+ 15
Other Investments	80	78	79	— 2
Cash and due from Banks	406	451	463	+ 45
Miscellaneous Assets	16	15	16	— 1
Total Assets	$1,554	$1,617	$1,656	+ 63
LIABILITIES				
Demand Deposits, Ind., Part. Corp.	$ 742	$ 746	$ 770	+ 4
Demand Deposits, U. S. Govt.	26	24	24	— 2
Due to Other Banks	247	295	307	+ 48
Other Deposits	425	445	447	+ 20
Total Deposits	$1,440	$1,510	$1,548	+ 70
Borrowings	3	....	....	— 3
Miscellaneous Liabilities	13	11	12	— 2
Capital Funds	98	96	96	— 2*
Total Liabilities and Capital	$1,554	$1,617	$1,656	+ 63
Excess Reserves	— 2	9	1	+ 11

*Beginning June 30, 1948, individual loan items are reported gross, i. e., before deduction of valuation reserves, instead of net as previously reported. Therefore, the figures showing the change during the month are in part a reflection of this change to a new reporting basis.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JULY 24, 1948

TOTAL output at factories and mines showed little change in June and the early part of July after allowance for seasonal influences. Department store sales were at record levels for this season. Prices of meats and steel increased sharply in July, while cotton and grains declined.

INDUSTRIAL PRODUCTION—Industrial production in June continued close to the May level, and the Board's seasonally adjusted index was 192 percent of the 1935-39 average as compared with 191 in May and 188 in April, when output was reduced by a strike at bituminous coal mines.

Output of durable goods increased further in June, reflecting mainly larger production of automobiles following settlement of an industrial dispute at the plants of a leading producer. Activity in the automobile industry reached earlier postwar peak rates in the first half of July.

Steel production in June continued at the May rate. Output of open hearth steel was slightly smaller, while electric steel production increased further by 5 percent to a new record level, exceeding the wartime peak. Output of nonferrous metals was reduced somewhat owing largely to a curtailment of aluminum production during the Columbia river floods.

Production of nondurable goods in June continued at a seasonally adjusted level of 178 percent of the 1935-39 average. This level has prevailed, with slight variation, since the beginning of the year. Cotton consumption and paperboard production declined somewhat in June. Meat production, however, increased substantially following the end of a labor dispute which had curtailed packing operations since the middle of March. Activity in most other nondurable goods industries was maintained at the May rate or advanced slightly.

Minerals output declined 2 percent from the exceptionally high May rate, as bituminous coal output was reduced owing to the beginning of the miners' 10-day holiday on June 26. Crude petroleum production continued to advance.

CONSTRUCTION—About 93,500 dwelling units were started in June, according to preliminary estimates of the Bureau of Labor Statistics. This number was somewhat smaller than the postwar high of 97,000 in May, but still considerably larger than the 77,000 units started in June 1947. Dollar volume of all new construction put in place, according to joint estimates of the departments of Commerce and Labor, continued to increase in June and reached a record amount of $1,600 million.

DISTRIBUTION—Value of department store sales showed about the usual seasonal decline in June and the first half of July. The Board's adjusted index remained around a record level of 310 percent of the 1935-39 average, which was about 7 percent higher than in the corresponding period a year ago.

Rail shipments of grain and forest products were in substantially larger volume in June, while loadings of most other classes of freight declined somewhat from the May rate after allowance for seasonal changes. Total loadings in the first half of July were above the same period a year ago, reflecting mainly a larger volume of coal shipments.

AGRICULTURE—Production of crops this year, as indicated by July 1 conditions, will be substantially larger than in 1947 and in record volume. The most important increase is forecast for corn, output of which is expected to be about 40 percent larger than last year's drought-damaged crop. Estimated wheat production, although smaller than last year's crop of 1.4 billion bushels, would still be the second largest crop on record. Cotton acreage is officially estimated to be up 10 percent from last year. Marketings of livestock have expanded following the end of the packing strike, but the volume has remained 5 to 10 percent below year-ago levels.

COMMODITY PRICES — The general wholesale price level rose further in July, reflecting sharp increases in prices of meats and steel products. Meat and livestock prices in mid-July were about 25 percent higher than a year ago. Prices of most other farm products and foods continued to show little change or declined in July. Cotton and grain prices were somewhat below year-ago levels.

Prices of most iron and steel products were raised by 10 percent or more in July. Coal prices were also advanced, while prices of petroleum products eased and prices of cotton goods declined somewhat further.

BANK CREDIT—Quarterly income tax payments by businesses and individuals during the last half of June substantially increased Treasury deposits at Reserve banks and reduced commercial bank reserves and deposits. Banks met the drain on reserve funds largely through sales of government securities to the Reserve banks and through reductions in their excess reserves. During the first three weeks of July, reserves at banks increased somewhat. The Treasury drew down its balances to retire bills. Federal Reserve bank holdings of bills were thereby reduced, but the system made net market purchases of government securities in approximately equal volume and thereby supplied banks with additional reserves.

Commercial and industrial loans increased moderately in banks in leading cities during June and the first half of July. Consumer and real estate loans continued to expand. Banks reduced further their holdings of government securities.

SECURITY MARKETS — Common stock prices declined sharply in the third week of July, following four weeks of relatively little change. A substantial portion of the mid-March to mid-June gain in prices was lost.

Prices of government bonds changed little in the first three weeks of July, following some decline in June, but prices of corporate bonds declined further.