MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

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AGRICULTURE

New Techniques Boom Crop Production

THIS year Mother Nature has gone all out in pouring out bountiful crops both in the Ninth district and for the country as a whole.

The U. S. corn crop of 3.5 billion bushels will be an all-time record, as will also the crops of soybeans, rice, and peanuts. The cotton crop of 15 million bales has exceeded all earlier estimates. The wheat crop is a near record, and most other crops are above average in yields.

In the Ninth district, 1948 production may exceed last year's good crops by 17% and total grain production is expected to be a new high record. District crop production is expected to be nearly double that of the pre-war average, 1935-39. (See chart)

The part nature has played in overall crop production in recent years is assumed by some to be all important. Cooperation of the forces of nature is, of course, vitally important. However, man himself with his new and improved crop varieties, increased mechanization, and improved farm and soil management practices, deserves much of the credit for the increase in yields over pre-war.

This fact is demonstrated by farm management records. On central Illinois cost account farms, for example, a study shows corn yield per acre increased from 48 bushels for the 3-year average 1927-29 to 64.4 bushels in the 3-year period 1944-46. This was accomplished at the same time man-hours per acre were reduced from 12.8 to 6.6 as a result of farm mechanization.

Wheat yields on these same farms were increased from 20.7 bushels per acre, in the 3-year period 1927-29, to 23.3 bushels for the 1944-46 average. Man-hours per acre were reduced from 10.3 to 3.5, indicating again the tremendous shift to large scale farm mechanization that has occurred in the last 20 years.

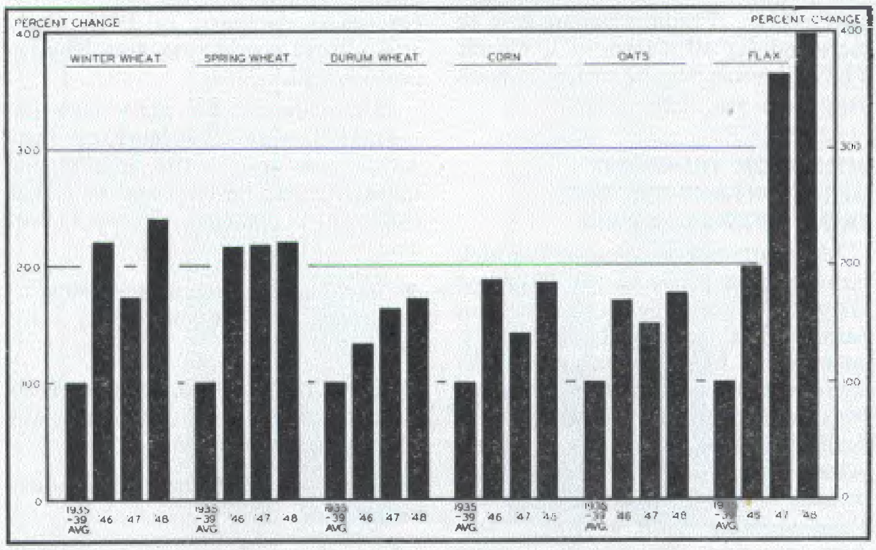
The Department of Agriculture has estimated that, even with average weather conditions, total agricultural production may exceed that of pre-war by 25% or more because of the many new techniques and methods currently used in farming operations. Taking wheat as one example, average weather is said to produce approximately 2½ more bushels per acre than pre-war.

Another example will further illustrate this point. The weed situation on many wheat farms in eastern Montana was especially bad this spring. Some farmers estimated these weeds would choke out the wheat until only a maximum 10-15 bushel yield could possibly be expected. However, chemical weed killers were applied in many fields and wheat yields on these same farms were actually 30-35 bushels per acre.

The story is yet to be written of the precise economic importance of

- ***Record crops put pressure on farm price floors.***
- ***Farm price support programs are an important factor in preventing 1920-21 pattern of deflation.***
- ***High grain prices discourage farm diversification.***

CHANGES IN NINTH DISTRICT CROP PRODUCTION FROM PRE-WAR 1935-39 AVERAGE*



1948 CROP PRODUCTION as a whole is about 17% above last year's good crop and nearly double the 1935-39 average.

*Four Ninth district states: Minnesota, Montana, North Dakota, South Dakota.

Sources: **Agricultural Statistics**, 1938 and 1939. **Summary of Crop Production**, Dec. 1947. **Crop Production**, 1939, 1940, and 1948.

new chemical weed and insect controls to Ninth district agriculture. However, in a semi-arid area, a device which will control moisture wasting weeds will be of tremendous significance to future crop production.

RECORD CROPS BRING PRESSURE ON PRICES

Wheat and corn prices are down about a dollar a bushel from peak levels last winter. Oats, barley, and rye are selling at nearly half winter peak prices. Flax is down as much as $2.50 a bushel from the peak.

The sharp decline in grain prices is, of course, the result of the pressure of record crops and the steadily declining numbers of livestock to feed.

When account is taken of the carryover of old grains, total feed supplies are again about equal to the record level of 1946. Since there are nearly 5% fewer livestock units on farms now compared with 1946, it means that feed grain supplies per animal unit are the largest on record. It also means that, barring excessive exports, carryover of feed grains a year from now may be back again to pre-war high levels.

This will be a favorable situation for livestock producers, who for the past 18 to 24 months have had more or less unfavorable feed-price relationships. More pigs may be farrowed and more poultry produced next spring. Feeding rations may be increased for all classes of livestock. The end result may be increased meat supplies a year from now.

January - June Cash Farm Income[1]

(Thousands of Dollars)

State	1935-39 Average	1947	1948	1948 in Percent of 1947
Minnesota	$154,557	$ 567,110	$ 625,280	110%
North Dakota	37,444	230,548	286,810	124
South Dakota	45,700	276,877	282,240	102
Montana	26,447	109,506	119,506	109
Ninth District[2]	301,082	1,305,210	1,451,557	111
United States	3,416,392	12,010,694	12,751,447	106

[1]Data from "The Farm Income Situation," dated June-July 1948.
[2]Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers, Ninth District[1]

Commodity and Unit	August 15 1937-1941 Avg.	August 15 1947	August 15 1948	Parity Prices[2] United States August 1, 1948
Crops				
Wheat, bushel	$0.69	$2.13	$1.95	$2.22
Corn, bushel	.56	2.13	1.77	1.61
Oats, bushel	.24	.90	.59	1.00
Potatoes, bushel	.63	1.70	1.74	1.86
Livestock and Livestock Products				
Hogs, 100 lbs.	8.04	23.81	26.30	18.20
Beef Cattle, 100 lbs.	7.44	20.48	23.86	13.60
Veal Calves, 100 lbs.	8.70	21.71	27.05	16.90
Lambs, 100 lbs.	7.94	20.19	23.72	14.80
Wool, lb.	.26	.43	.53	.459
Milk, wholesale, 100 lbs.	1.47	3.30	4.43	3.94
Butterfat, lb.	.29	.77	.86	.628
Chickens, live, lb.	.129	.217	.305	.286
Eggs, doz.	.171	.401	.416	.540

[1] Data compiled from "August 27, 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.

SITUATION DIFFERENT IN IMPORTANT RESPECTS FROM 1920-21 PERIOD

Many attempt to compare the high farm product prices of the 1919 and early 1920 period with the current period. Then, as now, U. S. food exports were high and domestic demand was keen. However, expanded crop production in 1920 and a sharp decline in food exports broke farm prices almost 50% in a few short months in late 1920 and early 1921. This, together with a heavy farm debt situation, put many farmers through the economic wringer during the 1920's and early 1930's.

The situation now is similar, in some respects, in that farm production has again expanded even more than in 1919 in response to high farm prices. Again, the real need of food exports is declining as 1948 world agricultural production gets back to near normal.

If it were not for three very important factors, the level of farm prices now and in the next several months might be expected to follow the 1920-21 pattern. These factors are:

- Various government price support programs, such as commodity loans and purchases.
- Subsidized exports, such as Army feeding of occupied territories, the ECA program, and others.
- Low farm debts and high financial reserves.

This latter is important because farmers as a group are not under too great pressure to sell as they were in 1920, when debts were high. In other words, farm lands and farm commodities, for the most part, are now in "strong hands."

DIFFICULTIES MET IN SUPPORTING FARM PRICES

The Agricultural Act of 1948 was passed by the 80th Congress in the last few days of its session. It continues for the most part the current price supports for "Basic" and "Steagall" commodities at 90% of parity until January 1, 1950, with a few exceptions as to the exact date that price support will end.

Developments since the passage of this act point to several difficulties in keeping farm prices at the specified levels. The most important of these difficulties is a direct result of the harvesting of record crops. This certainly was not foreseen when support prices were set at the current high levels.

Take wheat as an example. The 1948 harvest is nearly 1.3 billion bushels, second only to last year's all-time high. Only 750 to 800 million bushels of wheat can be used domestically. Roughly, 700 million bush-

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BUSINESS

Non-Agricultural Employment at Highest Point

NEARLY all business and industrial concerns in this district have operated close to full capacity during the summer months. Employment and payrolls in non-agricultural industries during August reached their highest peaks. With both urban and rural incomes at a high level, dollar department store sales continue in high volume.

Total employment in non-agricultural industries in Minnesota rose by 10,200 workers between the middle of July and the middle of August, according to a report issued by the Minnesota Division of Employment and Security. Of this number, 3,358 were absorbed by manufacturing concerns.

This absorption was encouraged by two factors: 1) An increase in outstanding orders enabled manufacturers of durable goods to expand their operations. 2) Early ripening of the corn crop minimized the fall in employment normally occurring in the canning industry between the pea and corn pack.

Retail and wholesale trade absorbed another 2,500 workers, while most of the remaining workers were added to payrolls of construction and service industries.

Although comparable employment figures are not attainable for the other states in the district, available information points to a similar expansion in the employment of non-agricultural industries. The Unemployment Compensation Commission of Montana reports that Montana industries during the first eight months hired nearly as many workers through the employment office facilities of the commission as they hired during the entire calendar year of 1947.

In July, employment in non-agricultural industries in Montana rose by 2,700 over the preceding month. Contract construction showed the largest gain of 9.6 percent. Manufacturing employment also rose by 2.5 percent.

Electric power consumption, which is a rough measure of industrial activity, has been consistently above the amount consumed a year ago. In the four states wholly within this district, June and July consumption was 18 and 6 percent larger respectively than in the corresponding months of 1947.

LARGER PAYROLLS IN CITIES

In addition to the larger payrolls resulting from greater employment, employees' income in August rose further as a result of longer hours and higher wage rates. The August average weekly earnings in Minneapolis and St. Paul were $54.81 and $56.03 respectively. This represents an increase of $1.14 in Minneapolis and $.82 in St. Paul from average weekly earnings reported for July.

BANK DEBITS REFLECT HIGH VOLUME OF BUSINESS

The large urban and rural incomes are primary factors in the large volume of business transacted. Bank debits, which are the checks charged against accounts of individuals, firms, corporations, and government accounts, indicate that payments made for goods, services, debts, etc., during the summer months have been approximately three and a quarter times the pre-war amount.

Over the past year, the amount of debits has risen substantially. For 133 cities in this district, debits for the first eight months were 14 percent higher as compared with the amount for the corresponding period in 1947. In August, debits were 12 percent larger than a year ago.

Index of Department Store Sales by Cities
(Unadjusted 1935-39 = 100)

	August[1]	Percent Change[2] From Year Ago August	Jan.-Aug.
Minneapolis	274	+12	+ 9
St. Paul	250	+ 7	+ 5
Duluth-Superior	270	+ 3	+13
Aberdeen	432	+13	+ 5
Bismarck	302	+22	+14
Grand Forks	276	+ 6	+ 4
Great Falls	301	+ 6	+ 7
La Crosse	226	— 1	+ 2
Mankato	245	+ 7	+14
Minot	272	+ 1	+ 5
Rochester	235	+11	+10
Sioux Falls	338	+10	+11
Valley City	212	— 8	— 3
Willmar	295	+ 9	+ 6
Winona	245	+17	+15
Yankton	278	— 2	+ 6

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.

- ***Economy operating close to full capacity as manufacturing, trade, and construction lead expansion.***
- ***Larger payrolls result from greater employment, higher hourly rates, and longer hours.***
- ***Greater dollar volume of department store sales traced largely to consumer durable goods.***
- ***Basement store increases outstrip other departments.***
- ***Credit sales factor in dollar volume expansion.***

DEPARTMENT STORE SALES VOLUME MAY SET RECORD

In the first eight months of this year, department store sales, in terms of dollar volume, in this district have exceeded those in the same period of 1947 by 7 percent. August sales were also 7 percent higher than last year, which has been typical of the rise in sales during the summer months.

Expansion in sales is concentrated primarily among the durable goods items. According to a sample of stores reporting sales by departments, sales of housefurnishings, which include most of the durable consumer items, were six percent higher during the first seven months of this year as compared with the corresponding 1947 figures.

In many soft goods lines, however, the dollar volume has fallen below that of 1947. In July, sales of piece goods, household textiles, small wares, women's and misses' ready-to-wear accessories, and men's and boys' wear fell below last year's volume. Only in women's and misses' ready-to-wear apparel have sales continued above the 1947 volume.

According to the National Industrial Conference Board, durable goods' sales now constitute 25 percent of total retail sales as compared with the wartime low of 14 percent in 1944. Prior to the war, the peak in durable goods' sales was reached in 1929 when they comprised 29 percent of the total. The low was reached in 1933 when they fell to 20 percent of the total.

Dollar volume of sales increases of basement stores continue to outstrip those of other departments. In July these sales in this sample of stores were 13 percent higher than in 1947, whereas sales for the entire store were only three percent larger.

Sales at Ninth District Department Stores[1]

	% Aug. 1948 of Aug. 1947	% Jan.-Aug. 1948 of Jan.-Aug. 1947	Number of Stores[2] showing Increase	Decrease
Total District	107	107	220	173
Mpls., St. Paul, Dul.-Sup	110	108	26	9
Country Stores	104	107	194	164
Minnesota	105	109	65	46
Central	111	120	12	7
Northeastern	103	113	5	3
Red River Valley	83	96	3	6
South Central	105	109	13	10
Southeastern	112	110	12	7
Southwestern	104	104	20	13
Montana	110	111	33	16
Mountains	117	112	11	5
Plains	107	111	22	11
North Dakota	102	105	39	25
North Central	104	100	9	4
Northwestern	101	104	3	6
Red River Valley	100	106	12	11
Southeastern	105	106	12	4
Southwestern	114	120	3	0
Red River Valley-Minn. & N. D.	97	104	15	17
South Dakota	105	107	29	31
Southeastern	105	108	6	11
Other Eastern	104	104	19	17
Western	112	118	4	3
Wisconsin and Michigan	99	104	28	46
Northern Wisconsin	101	106	11	12
West Central Wisconsin	100	103	14	23
Upper Peninsula Michigan	95	103	3	11

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

CREDIT SALES A FACTOR IN LARGER RETAIL SALES

Instalment and charge account sales have risen much faster than cash sales. During the first seven months of this year, instalment sales in department stores of this district aggregated 50 percent more than in the same period of 1947, and charge account sales were 16 percent larger. Cash sales, on the other hand, were only six percent larger.

A similar trend occurred in furniture stores. During the first seven months, credit sales totalled three percent above the corresponding total for 1947, while cash sales fell eight percent below last year's amount.

As a result of the increase in credit sales, furniture stores are carrying more of the consumers on their books. Over a period of a year, the accounts receivable have risen by 23 percent.

Northwest Business Indexes

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

	Aug. '48	July '48	Aug. '47	Aug. '46
Bank Debits—93 Cities	320	322	288	253
Bank Debits—Farming Centers	418	389	351	300
Ninth District Dept. Store Sales	292p	294	271	259
City Department Store Sales	294p	299	267	259
Country Department Store Sales	289p	289	274	260
Ninth District Department Store Stocks	311p	321	241	219
City Department Store Stocks	257p	274	209	225
Country Department Store Stocks	354	358	266	214
Country Lumber Sales	152p	167	124	113
Miscellaneous Carloadings	124	117	125	124
Total Carloadings (excl. Misc.)	127	132	128	116
Farm Prices (Minn. unadj.)	289	303	296	241

p—Preliminary

CONSTRUCTION ACTIVITY HIGH

The large volume of construction reported for the summer months may continue for some time, according to the value of building permits issued in this district. In 77 cities during August, the value of building permits issued exceeded the total for August 1947 by 21 percent. In the preceding months, the increase in the total value of permits over a year ago was even greater. For the first eight months the value of the permits was 45 percent larger.

Lumber sales are setting a record. Retail lumber dealers in the first seven months sold 29 percent more board feet of lumber than in the corresponding period of 1947. With the larger sales, dealers are also carrying more stock. Over the past year, it increased by 19 percent.

Since the prices of lumber have been rising substantially, sales in terms of dollars have risen decidedly more than in terms of board feet. For the first seven months dollar sales exceeded those of the same period for 1947 by 58 percent.

As was observed in the sales of other types of merchandise, credit sales are rising faster than cash sales in the lumber business. Accounts and notes receivable have risen by 35 percent over a 12-month period.

END

BANKING

District Banks Show More Liquid Position

TWO major developments affecting Ninth district member banks took place during August. First, monetary authorities initiated a series of anti-inflationary measures designed to curb further expansion of bank credit. Secondly, farm marketings—which loom large in the late summer and fall months—proceeded on a substantial scale in August.

Effects of the money market developments were most evident in this district in the reserve city banks, where noticeable shifts were made out of longer-term government bonds into cash and near-cash assets.

Effects of the seasonal increase in farm marketings were most evident in the country banks, where swelling demand deposit accounts dominated the banking picture.

The anti-inflationary drive which occurred during this month was heralded by the Congressional authorization of increased reserve requirements in all member banks. The Federal Reserve Board was given the power to increase reserve requirements against net demand deposits by 4 percentage points to a maximum of 30% for central reserve city banks, 24% for reserve city banks and 18% for country banks and to increase the reserve requirements against time deposits 1½ percentage points to 7½% for all classes of banks. Action by the Federal Reserve Board to increase reserve requirements, however, was held in abeyance during August.

The rise in reserve requirements, however, materialized in September with the Federal Reserve Board's announcement of increased reserve requirements of 2% on net demand deposits and 1½% on time deposits in all member banks. These increases became effective as of September 16 for country banks and September 24 for reserve city banks. Thus the direct impact of this development on Ninth district member banks will not be evident until next month's banking statistics.

TREASURY BOOSTS SHORT TERM INTEREST RATES

Early in August the Treasury, continuing the anti-inflationary program, announced an increase in its short-term borrowing rates. Treasury certificates and notes maturing on October 1 will be refunded into one-year certificates of indebtedness bearing a 1¼% interest rate, which represents an increase of ⅛%. Treasury notes maturing September 15, 1948, will be refunded into 1⅜% Treasury notes maturing April 1, 1950. The rate of interest on Treasury savings notes was also adjusted upward.

The Treasury's boost in money rates set off a chain reaction in the market for short-term funds. The increase spread first to the Federal Reserve rediscount rate, which was increased from 1¼% to 1½%, and then to a general hardening of commercial bank lending rates all along the line.

It is generally held that the effect of these anti-inflationary moves will be largely psychological—that is, they will tend to serve notice that credit is tightening. It now remains to be seen whether or not they will be successful deterrents to the continued rapid expansion of bank credit. Immediate repercussions of August's developments, however, were evident in bank portfolios in the Ninth district, as well as in the nation as a whole.

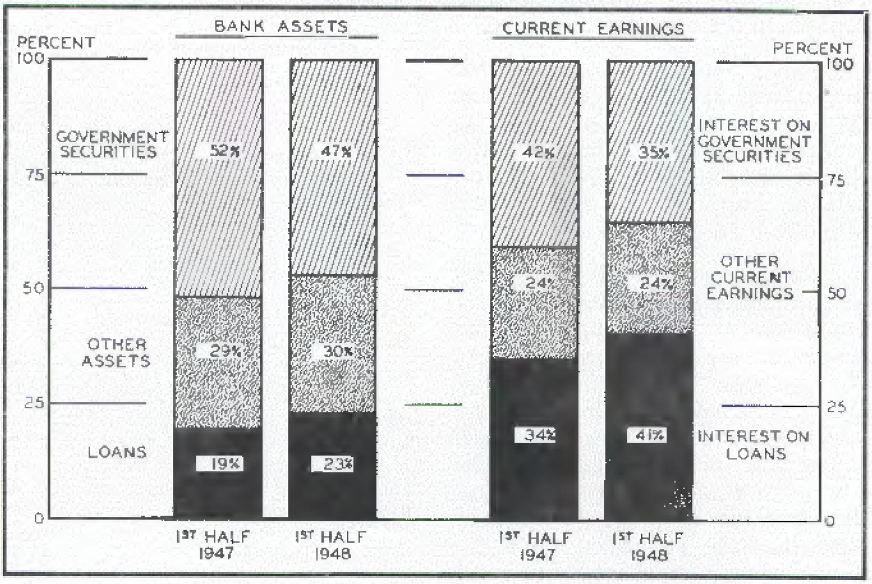
- ***Anticipation in August of possible increase in reserve requirements was reflected in shifts into cash and near-cash assets.***
- ***Increase of $14 million in demand deposits was concentrated in country banks.***
- ***Current earnings of district banks were up 10% at midyear.***

SECURITY HOLDINGS SHIFT TOWARD LIQUIDITY

During August total government security portfolios in all Ninth district

THE PATTERN OF BANK ASSETS AND CURRENT EARNINGS IN ALL NINTH DISTRICT MEMBER BANKS

In the First Half of 1947 and First Half of 1948



AS GOVERNMENT securities accounted for a smaller share and loans for a larger share of total assets, the contribution of income from these sources to total current earnings shifted correspondingly.

member banks were reduced by $9 million. The bulk of this reduction occurred in the reserve city banks, which accounted for all but $2 million of this decline.

Data for the 20 weekly reporting banks (which includes 11 large banks in addition to the reserve city banks) indicate that the selling of securities was concentrated in longer-term holdings—that is, bonds and notes. The declines in the former equalled $2 million and in the latter $9 million. On the other hand, holdings of Treasury bills increased $6 million, although this was slightly offset by a drop in certificates of $1 million.

In addition, cash and due from banks in the 20 reporting banks were built up during August by $9 million. This marked tendency away from long-term bonds toward liquidity was to no small extent a reflection of concern over the possibility of increased reserve requirements.

During August, total demand deposits in all Ninth district member banks moved upward. The increase, which amounted to $14 million, was largely concentrated in country banks. For the most part, it reflected the seasonal increase in cash farm income arising out of farm marketings. The fact that the normal period of heavy farm marketings in the Ninth district extends through November suggests a continuation of this rising trend in deposits in the next month or two.

Country banks also accounted for the increase in loans during August. An increase of $8 million in loans at country banks offset a $2 million decline in reserve city banks. Thus, on balance, loans for the district as a whole rose $6 million.

Data for the 20 weekly reporting banks indicate that for the most part trends evidenced in August gained momentum during the first two weeks of September. Additions amounting to $33 million were made in shorter-term government securities—$24 million in bills and $9 million in certificates of indebtedness. Treasury notes also increased by $10 million, while bond holdings continued their decline, dropping $6 million. Cash and due from banks in the 20 weekly reporting banks rose $77 million in the two-week period. In addition, demand deposits increased markedly and loans also rose. END

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

(In Million Dollars)

	July 28, 1948	Aug. 25, 1948	$ Change July 28, 1948-Aug. 25, 1948	$ Change Aug. 27, 1947-Aug. 25, 1948
Assets				
Loans and Discounts	$ 820	$ 826	+ 6	+129
U. S. Government Obligations	1,693	1,684	— 9	— 76
Other Securities	201	201	....	+ 40
Cash and Due from Banks	832	848	+16	— 5
Other Assets	29	30	+ 1	+ 2
Total Assets	$3,575	$3,589	+14	+ 90
Liabilities and Capital				
Due to Banks	$ 315	$ 321	+ 6	— 44
Other Demand Deposits	2,121	2,129	+ 8	+116
Total Demand Deposits	$2,436	$2,450	+14	+ 72
Time Deposits	924	923	— 1	+ 11
Total Deposits	$3,360	$3,373	+13	+ 83
Borrowings	....	1	+ 1	+ 1
Other Liabilities	18	18	....	+ 1
Capital Funds	197	197	....	+ 5
Total Liab. and Capital	$3,575	$3,589	+14	+ 90

[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 semi-monthly reports 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.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 28, 1948	Aug. 25, 1948	Sept. 15, 1948	$ Change July 28-Aug. 25
Assets				
Comm., Ind., and Ag. Loans	$ 246	$ 244	$ 249	—2
Real Estate Loans	59	60	60	+1
Loans on Securities	17	17	16	......
Other Loans	107	107	111	......
Total Gross Loans & Dis.	$ 429	$ 428	$ 436	—1
Less Reserves	—3	—3	—3	......
Total Net Loans & Dis.	$ 426	$ 425	$ 433	—1
U. S. Treasury Bills	30	36	60	+6
U. S. Treasury Cert. of Indebt.	105	104	113	—1
U. S. Treasury Notes	56	47	57	—9
U. S. Government Bonds	470	468	462	—2
Total U. S. Govt. Sec.	$ 661	$ 655	$ 692	—6
Other Investments	83	83	82	......
Cash and Due from Banks	433	442	519	+9
Miscellaneous Assets	15	16	15	+1
Total Assets	$1,618	$1,621	$1,741	+3
Liabilities				
Demand Dep., Ind., Part., Corp.	$ 754	$ 757	$ 830	+3
Demand Deposits, U. S. Govt.	27	28	25	+1
Due to Other Banks	281	287	351	+6
Other Deposits	448	440	426	—8
Total Deposits	$1,510	$1,512	$1,632	+2
Borrowings	....	....	....	......
Miscellaneous Liabilities	12	13	12	+1
Capital Funds	96	96	97	......
Total Liabilities & Capital	$1,618	$1,621	$1,741	+3
Excess Reserves	8	7	1	—1

MID-YEAR EARNINGS AND EXPENSES

District Bank Earnings Up, Profits Down

EARNINGS reports of Ninth district member banks for the first six months of 1948 reveal a seesaw pattern as compared with the mid-year reports of a year ago.

Net current earnings are up (about 10%), but increases in losses and charge-offs and additions to valuation reserves on securities and loans resulted in net profits before income taxes going down (about one-fourth) while dividend payments are up (over 10%) despite lower profits.

The trend of current earnings in banks in this district during the first half of 1948 was dominated by two developments which had their beginnings in the early postwar period.

First, a brisk demand for bank loans resulted in swelling total loans and discounts in Ninth district member banks to $818 million by June 1948—up almost a fourth over mid-year 1947. This sharp advance in outstanding loans, accompanied by some firming in interest rates, boosted loan earnings by $3.8 million, reaching a total of nearly $16 million for the first six months of 1948. Moreover, a growing proportion of loan portfolios represented consumer and real estate loans, both of which afford banks higher-than-average yields.

Second, accompanying the rise in loans was a marked decline in bank holdings of government securities. While on June 30, 1947, government security holdings in Ninth district member banks totalled $1.8 billion, by mid-year 1948 a decline of almost $100 million had been experienced.

These diminished holdings showed up in the current earnings picture in the $800 thousand reduction in interest income from government securities, which shrunk total earnings from this source to $13.8 million. The downward trend in holdings of government securities reflected both the Treasury's program of debt retirement and the sale of securities by banks in order to provide funds for the expansion of more profitable private loans.

Furthermore, as a protective measure in the declining government security market, banks shifted toward liquidity in their security portfolios. Hence low-yielding assets comprised an increased proportion of total holdings.

On balance, the decline in earnings from government securities was more than offset by the increased income from loans. As a result, income from these assets swelled total current earnings by almost $3 million.

In addition to the larger income from loans, member banks in this district in the first half of 1948 enjoyed a rise in income from service charges. The greater turnover of business and the addition of new accounts were factors in this rise. Furthermore, current earnings were augmented by increased income from non-government securities and miscellaneous sources.

In total, operating earnings in Ninth district member banks for the first half of 1948 equalled $39 million—an advance of 11% over the comparable 1947 figure.

EARNINGS REFLECT BANK OPERATIONS

As shown in the accompanying chart, shifts in the pattern of total current earnings reflected the changing field of bank operations. As banks reduced their holdings of government securities and moved rapidly into the sphere of private lending, the contribution of income from these sources to total current earnings shifted correspondingly.

In the first half of 1947 in Ninth district member banks government securities accounted for 52% of total assets, while loans accounted for 19% and other assets for the remaining 29%. By mid-year 1948, government securities had declined to 47% of total assets, loans had risen to 23% and other assets had stayed at about the same level.

Correspondingly, whereas interest on government securities accounted for 42% of total current earnings in the first half of 1947, it accounted for only 35% in the first half of 1948. At the same time, interest and discounts on loans increased its contribution to total current earnings from 34% to 41%. The percentage share of other current earnings remained the same at 24% in both periods.

RISING OPERATING COSTS EAT INTO GROSS EARNINGS

The rise in operating costs in the first half of 1948 absorbed over two-thirds of the increase in current earnings in member banks in this district. Operating expenses of $24.7 million were 12% higher than a year ago, with all major items showing increases.

The largest share of the over-all rise, however, was accounted for by wages and salaries which represent almost one-half of total operating costs. Payrolls in the first half of 1948 were 15% above the comparable figures for 1947 and equalled over $12 mil-

Current Earnings and Current Expenses of Ninth District Member Banks

(In Million Dollars)

	1st half 1947	1st half 1948	% Change
Current Earnings			
Interest on Government Obligations	$14.6	$13.8	— 5
Interest and Dividends on Other Securities	1.5	1.8	+20
Interest and Discounts on Loans	12.1	15.9	+31
Service Charges on Deposit accounts	2.0	2.3	+15
Other Current Earnings	4.8	5.2	+ 8
Total Current Earnings	$35.0	$39.0	+11
Current Expenses			
Salaries and Wages	$10.5	$12.1	+15
Interest on Time Deposits	4.0	4.2	+ 5
Other Current Expenses	7.5	8.4	+12
Total Current Expenses	$22.0	$24.7	+12
NET CURRENT EARNINGS	13.0	14.3	+10

lion. Rising wage rates as well as increased numbers of employees explain the advance in wages and salaries.

A further increase in current expenses was due to the larger amount of interest paid on time deposits. This reflected, for the most part, expansion of time deposits.

Thus the rise in current earnings coupled with the lesser advance in current expenses resulted in net current earnings of $14.3 million—up 10% over mid-year 1947.

Disposition of Net Current Earnings in Ninth District Member Banks
(In Million Dollars)

	1st half 1947	1st half 1948	% Change
NET CURRENT EARNINGS	$13.0	$14.3	+ 10
Total Recoveries			
Recoveries and Profits on Securities	1.1	1.1	
Recoveries on Loans	0.5	0.8	
All Other	0.3	0.4	
Total Recoveries	$ 1.9	$ 2.3	+ 21
Total Losses			
Losses on Securities	1.0	1.7	
Losses on Loans [1]	0.5	4.4	
All Other	0.6	1.0	
Total Losses	$ 2.1	$ 7.1	+238
NET LOSSES	0.2	4.8	*
PROFITS BEFORE INCOME TAXES	12.8	9.5	— 26
TAXES ON NET INCOME	4.0	3.5	— 12
PROFITS AFTER INCOME TAXES	8.8	6.0	— 32
DIVIDENDS ON COMMON STOCK	3.0	3.3	+ 10

* Increased more than twenty times.
[1] Includes transfers to reserves for bad debt losses on loans.

NET PROFITS DECLINE

As mentioned above, however, net profits in Ninth district member banks for the first six months of 1948 declined, notwithstanding the increase in net current earnings. The chief cause of this year's lower net profits is found in the marked increases in net losses on securities and loans and particularly in transfers to reserves against such losses.

The decline in profits and recoveries on securities and the sharp upturn in losses on securities resulted in net losses equalling almost $650 thousand. This compares with net profits and recoveries on securities in the first half of 1947 of $100 thousand.

Largely responsible for this switch from net profits to net losses on securities was the fact that banks in the first half of 1948 were liquidating bonds in a market which had settled to lower levels.

This development is especially noteworthy since, during the war and early postwar period, net profits on securities contributed markedly to bank earnings. During 1945 in Ninth district member banks, net profits on securities accounted for about 10% of net profits before income taxes. In 1946 they declined but still accounted for about 2% of net profits.

A further interesting development in the first half of 1948 in banks of this district is the excess of losses on loans (which includes transfers to reserves against future loan losses) over recoveries on loans. Losses on loans and transfers to reserves of almost $4½ million represented an eight-fold increase over the comparable figure for 1947, while recoveries on loans in mid-year 1948 equalled less than $1 million.

The current figures, however, must be interpreted with care. Although undoubtedly some actual losses on loans have materialized in the first half of 1948, this figure in the earnings report is largely an accounting phenomenon. It reflects the transition in a large number of banks to a new method of determining the deduction for bad debts.

According to a Treasury ruling of December 8, 1947, banks are authorized to accumulate tax-free reserves against loan losses based on their experience over the past 20 years. To determine the amount allowed to be set aside in the reserve, an average ratio of losses to loans for this period is applied to the loans outstanding at the end of the current taxable year.

Deductions for taxable years after the reserve is set up are figured in the same manner; however, there is a ceiling on the total amount which may be accumulated in the reserve account. This is equal to three times the loss experience ratio applied to loans outstanding. In setting up such reserves, the initial transfer of funds into the reserve account was added to losses on loans, thereby markedly increasing this account.

Furthermore, this ballooning of deductions for losses on loans was a primary factor in transposing the increase in this year's net current earnings, as compared with mid-year 1947, into a decrease in net profits before taxes. Net current earnings for the first half of 1948 were up $1.3 million from the corresponding 1947 level. In contrast, net profits before taxes were down $3.3 million.

The spread between these two figures equals $4.6 million, which represents the increase in net losses on securities and loans. Of this, $3.9 million is accounted for by the rise in losses on loans and transfers to reserves for loan losses.

TAXES DOWN, DIVIDENDS UP

Net profits before income taxes in member banks of this district for the first half of 1948 equalled $9½ million. Over 36% of these profits were absorbed by income taxes.

Compared with mid-year figures of 1947, income tax liabilities registered a decline of $½ million. The reduced tax liabilities reflected lower income tax rates, as well as the drop in net profits before taxes.

Thus net profits after taxes—the final index of the half year's operations—equalled $6 million at mid-year 1948, a decline of $2.8 million from the corresponding 1947 level.

Despite the reduction in profits, however, dividend payments continued their upward trend which began in 1943. Dividends on common stocks at mid-year 1948 in Ninth district member banks came to $3.3 million, increasing 10% over the first half of 1947 and representing a 55% distribution of net profits. END

NEW TECHNIQUES BOOM CROP PRODUCTION

Continued from Page 606

els (195 million carryover plus 500 million bushels of new crop wheat) are available for export during the current year and for carryover next year.

The U. S. D. A. estimated this spring that probably 300 million bushels of wheat would need to be exported. Now the talk is in terms of around 500 million bushels, or nearly 40% of the crop, in order to maintain prices at the desired level.

At $2.00 a bushel and with no marketing quotas, wheat acreage for the 1949 crop may exceed last year's near record of about 78 million acres in spite of lowered production goals. The need in the near future may be to dump abroad, or in some way hold off the market, enormous quantities of wheat and other supported grains in order to hold prices at the 90% level.

90% SUPPORT ON GRAINS MAY DISCOURAGE DIVERSIFICATION

Another problem that is showing up as a result of continued high support levels for grains is a preference among farmers to produce and market cash grain rather than to produce livestock and livestock products. This trend appears to be stronger than that which may be attributed to unfavorable feeding ratios.

Numbers of livestock have declined generally, but the trend is particularly noticeable in the large wheat growing areas. In fact, many wheat farmers in the Ninth district have eliminated livestock altogether from their farm management program. Many wheat farmers have moved into town, or, if they are on the farm, they feel that livestock production ties them too closely to the farm, or perhaps they reason that in view of high wheat prices it is more profitable to devote all their energies to grain production.

A 25% decline has occurred in dairy cow numbers in the Dakotas and Montana from the 1944 peak. A 9% decline was indicated for the year of 1947. These statistics indicate the seriousness of this problem. Even in southern Minnesota, many farmers are reported to have reduced the size of their dairy herds because returns from cash grain farming have been so profitable.

A system of one-crop farming, or lack of proper farm diversification, might have a most unfavorable effect on many communities if a crop failure occurred or if support prices were to be suddenly eliminated and prices fell to below cost of production levels.

Fortunately, the high 90% of parity guarantee on many grain prices ceases to be mandatory after the 1949 crop is harvested. Perhaps future price support levels will be more favorable to the production of livestock and livestock products.

Still another difficulty in supporting farm prices, in part by large exports, is that many European countries are finding themselves increasingly short of dollars. As world agriculture gets back to normal production, these countries prefer to spend scarce American dollars for commodities other than agricultural. This means that the world outlet for surplus U. S. farm products may be sharply reduced in 1949. Judging from foreign crop reports, the real demand for American farm products is much less now than it was in 1947 or 1946.

TWO VIEWPOINTS ON AGRICULTURAL EXPORTS

The administration is currently faced with a particularly difficult task. Because of the Agricultural Act of 1948, it must support prices of many farm commodities at a comparatively high fixed level. At the same time, the demand for lower or at least stabilized food prices on the part of consumers is becoming urgent.

At present, there is a considerable controversy over the issue of how much food may be safely exported from this year's farm production. One group argues that food exports should be pushed to the limit in order to consolidate European reconstruction gains that have already been achieved. This group believes also that large farm surpluses left in this country may tend to force farm prices below a fair level next year, particularly if 1949 crops are above average.

Another group believes that 1948 exports should be held down and that grain stocks should be allowed to accumulate domestically to take care of a possible poor crop year in 1949. This group believes that a moderate decline in current food prices would be healthy for the U. S. economy as a whole.

The perfect solution to this problem cannot be foreseen, but it probably is somewhere between the two extremes.

In any event, it will be important to farmers, bankers, and businessmen in the Ninth district to keep posted on current developments on the farm price front in the next several months.

It is important to note, however, that under the longer-range provisions of the Agricultural Act of 1948 (starting in 1950) a more flexible system of price support is provided. Price supports may then be set at a wide range relative to parity, depending upon market supplies of the commodity in question.

END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, SEPTEMBER 28, 1948

INDUSTRIAL output in August and the early part of September regained most of the decline which occurred in July. Department store sales showed about the usual marked seasonal increase. Prices of some additional industrial products were raised, while prices of farm products and foods generally declined somewhat from the beginning of August to the latter part of September.

Industrial Production—The Board's seasonally adjusted index of industrial production was 190 percent of the 1935-39 average in August, as compared with 186 percent in July and 192 percent in June. Most of the increase in August reflected larger output of nondurable goods, but activity in these lines was about 2 percent below the June rate.

Steel production increased in August and was at a rate of 93 percent of capacity. During September, steel mill activity has been scheduled at a somewhat higher rate. Output of lumber and of stone, clay, and glass products was somewhat larger in August than in the preceding month.

Activity in the automotive industry, however, decreased in August and in the early part of September, primarily as a result of work stoppages at plants of parts suppliers and shortages of sheet steel. Output of most other durable goods continued in August at about the July rate.

Production in nondurable goods industries in August recovered most of the decline shown in July, when plant-wide vacations sharply reduced output of textiles, leather, paper, and some other products.

Cotton consumption rose 11 percent in August but was at a rate somewhat below the same month a year ago. Shoe production showed a marked seasonal gain in August, according to trade estimates. Activity also increased in the paper and printing, chemicals, and rubber products industries. Output of manufactured foods, on the other hand, declined in August, reflecting mainly a further sharp reduction in the volume of meat production and a less than seasonal rise in the canning industry.

Production of fuels increased in August and was at a rate 7 percent above the same period a year ago. Output at metal mines remained at the July rate. In the early part of September crude petroleum output declined somewhat as a result of a west coast refinery strike.

Construction—Value of construction contracts awarded in August, according to reports of the F. W. Dodge Corporation, declined moderately from the high levels of recent months. The number of new nonfarm dwelling units started in August was 83,000, as compared with 94,000 in July and a peak of 98,800 in April, according to preliminary estimates of the Bureau of Labor Statistics. Value of construction activity on jobs under way continued to increase during August.

Distribution — Department store sales during August and the first half of September showed about the usual marked seasonal expansion and the Board's adjusted index for the third quarter is likely to be slightly higher than the level during the second quarter, when the index was 309 percent of the 1935-39 average.

Loadings of railroad revenue freight increased in August, largely as a result of increased loadings of coal and miscellaneous merchandise. Shipments of grain decreased somewhat from the high July level, and livestock shipments increased less than normally for this season.

Commodity Prices — The general wholesale price index declined 1 percent in the latter part of August but advanced again in the middle of September, reflecting chiefly fluctuations in meat prices.

In the latter part of September, wholesale prices of farm products and foods, including meats, were somewhat lower than in the early part of August, while average prices of industrial products were higher.

The consumers' price index increased further by one-half percent from mid-July to mid-August, reflecting advances in prices of all major groups of items except foods. Retail food prices, following a rise of 7 percent from March to July, have apparently shown little change since that time.

Bank Credit—Federal Reserve System support purchases of United States government bonds sold by insurance companies and other nonbank investors continued heavy in August and the first half of September. System sales of short-term government securities both to banks and others were also large, and the total portfolio of government securities was little changed.

In the first half of September, bank reserves were substantially increased by a decline in Treasury balances at the Reserve banks, but in the third week of the month these balances were rebuilt by large tax receipts.

In the early part of September the Board of Governors announced an increase in reserve requirements of 2 percentage points on net demand deposits and 1½ percentage points on time deposits, effective September 16 for member banks outside reserve cities and September 24 for reserve city and central reserve city banks. This action increased by $2 billion the amount of reserves that member banks are required to hold.

Pursuant to legislative authority granted in August, the Board of Governors reinstituted the regulation of consumer instalment credit, effective September 20.

Commercial and industrial loans increased by $700 million at banks in leading cities in August and the first half of September.

Real estate and consumer loans also expanded further. Bank holdings of government securities were little changed, despite the retirement for cash of about $400 million of bank-owned government bonds on September 15.

Interest Rates and Security Markets—Interest rates showed little further change in the first three weeks of September, following a rise in short-term money market rates in August. Common stock prices showed further moderate weakness, but prices of high-grade corporate and municipal bonds changed only slightly.