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Continued Farm Prosperity Envisioned

Preview of Agriculture, 1949-54, Provided by Outlook Conference, Pictures Its Future As Dependent on Business and Industrial Activity

By Franklin L. Parsons

IF FORECASTS made at the Agricultural Outlook Conference[1] in Washington, D. C., October 11-15, are reasonably accurate in relation to both high and low employment levels, it would appear that agriculture is facing a reasonably profitable future even if the economy does not run at full maximum capacity during 1949 and the succeeding five-year period, 1950-1954.

If such turns out to be the real situation, then warnings of a serious agricultural depression occurring in the near future may be heavily discounted.

Whatever is in store for farm prices and income during the 1949-1954 period may therefore depend significantly on the general level of business activity. This is true because the farmers' market is largely dependent upon consumer purchasing power which, of course, varies according to the level of industrial activity. (See chart at right.)

At the conference the view was expressed by several well-known economists that a precarious balance between inflationary and deflationary forces appeared to exist currently in the domestic economy.

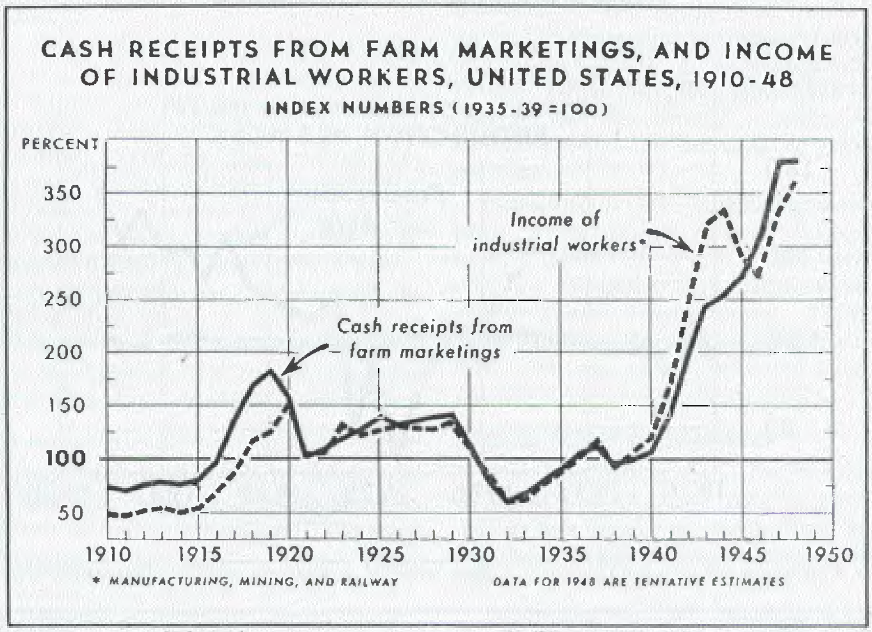
At least two of the principal speakers at this conference expressed the view that inflationary forces would continue to dominate the economy in the next several months. In substantiating this view, it was pointed out that:

- further expansion in military expenditures appeared probable;
- military demand for manpower probably would reduce the already tight labor force by that much, and this in turn might stimulate a fourth round of wage increases;
- businessmen appear more willing to mark up prices as costs advance than was true in the immediate postwar period;
- the public apparently is behind increased government expenditures for foreign aid to rehabilitate Europe and to avoid if possible a future conflict over eastern and western ideologies.

Under this set of assumptions, these speakers suggested that disposable income to individuals in 1949 may be as high or even higher than it is in 1948. As a result, business activity and consumer purchasing may be expected to continue at present or at even higher levels.

U.S.D.A. ECONOMISTS TAKE CONSERVATIVE VIEW

Department of Agriculture speakers at the conference also recognized the present delicate balance between inflationary and deflationary forces. However, they took the position that we may have already reached the peak in agricultural prices and in-



FARM PROSPERITY, as indicated by cash farm income, varies directly with the level of consumer purchasing power.

[1] This special article is a report by the writer of information and impressions received at the 26th Annual Agricultural Outlook Conference, Washington, D. C., October 11-15, 1948.

comes and that 1949 would see at least a leveling off and perhaps some decline by the latter part of the year if not sooner.

This view was based on the assumptions that world peace would improve rather than get worse and that defense spending may not be increased substantially from current levels.

There was almost universal opinion among the economists present that prices of industrial goods might remain near present levels or even go higher in the next several months. They also assumed that a decline in food prices might be an important factor in discouraging a fourth round of wage increases, although the possibility of further wage demands and its effect was not ruled out in their thinking about future farm price trends.

TIPOFF TO ECONOMIC FUTURE MAY COME IN EARLY 1949

After listening to the discussions for several days, the writer thought four factors seemed to stand out as important to keep check on this winter—factors which are probable indicators of what actually may be ahead economically for farmers as well as for everyone else.

First is the matter of defense spending, including military aid to western Europe. If these expenditures are actually made larger and larger because of an ever-increasing rift between east and west, business activity may be expected to expand further and disposable incomes to individuals increase without offsetting increases in consumer goods to civilians.

Second, the funds for ECA will largely have been exhausted by next April 1. The new Congress will be asked for appropriations to finish out the year and for new funds starting next July 1. The size of such appropriations will be another important sign on the direction the economy may take.

Third, the attitude of the new Congress and the administration toward farm price support and appropriation of funds for such purposes will be of no little significance. Under existing legislation considerable leeway as to the exact level of support of individual farm commodities and the number of commodities actually to be supported is left to the Secretary of Agriculture.

Fourth, if another round of wage increases actually gets rolling in early 1949, it may be followed almost immediately by a mark-up in prices of industrial goods.

Summing up, it appears that the general outlook for agriculture during 1949 will be closely associated with the trends in business and industrial activity. These in turn will be tremendously influenced by political developments both domestically and abroad.

LIVESTOCK PRICE OUTLOOK PARTICULARLY GOOD

Livestock numbers in general have been declining for several years until today they are relatively low, and particularly so from a per capita basis. Meat supplies per capita in 1949 may be as large as they are this year only if pork production can be expanded appreciably. Beef and lamb slaughter in 1949 is expected to be smaller than in the last two years.

In fact, an increase in cattle numbers will not occur until cattle slaughter is reduced below 31 million head. Thirty-six million head were killed in 1947, and an estimated 33 million will be slaughtered this year.

During the last six years we have had large supplies of mutton and lamb because of one of the most severe liquidation programs in history. Sheep and lamb numbers declined 37 percent and are now at the lowest point since 1871. The situation may very well be reversed in the next several years as sheep are held back from market, with lamb and mutton relatively scarce at retail levels.

Even if the increase in the spring pig crop is substantial, meat supplies per capita in 1949 may be no larger than in 1948 and from 10 to 15 pounds per capita below the peak in 1947.

The Department of Agriculture's economists seem to believe that so long as the general price level, employment, industrial activity, and consumer incomes remain high, prices of meats and meat animals in 1949 are likely to remain higher than in any year with the possible exception of 1948.

They also think that beef and cattle prices are likely to average comparatively higher than pork and hog

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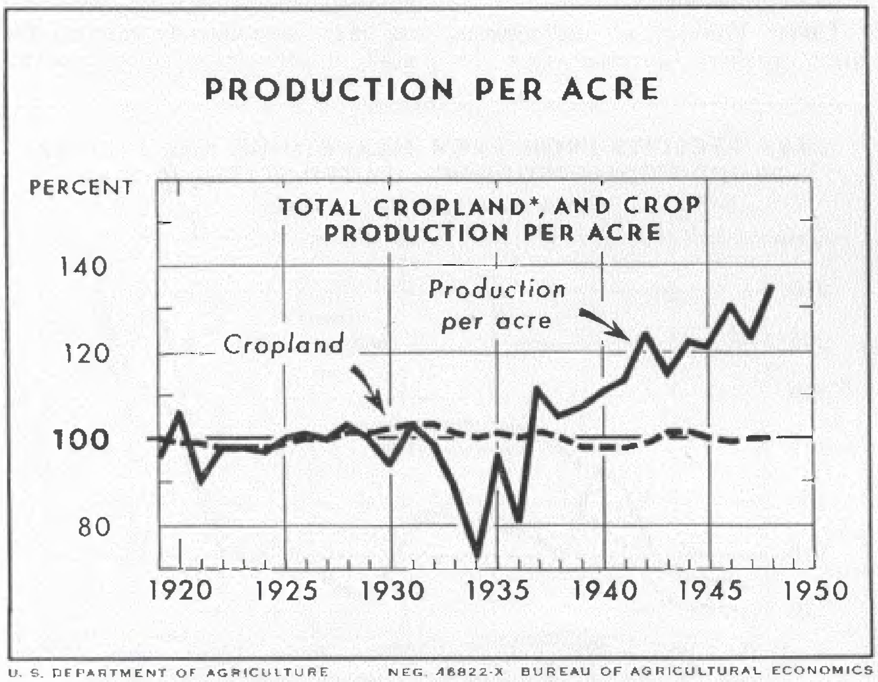

MECHANIZATION, better crop varieties, and more efficient methods are yielding larger crop production without increased acreage.

*Sum of the estimated acreage of land from which one or more crops were harvested plus acreage of crop failure and summer fallow.

BUSINESS

Economy Operates Near Full Capacity

SEPTEMBER business activity in this district continued at a high dollar volume despite a decline in farm product prices, a softening in the market for some merchandise, and a tendency toward decreased instalment sales with reimposition of Regulation W on September 20.

September bank debits,* adjusted for the usual seasonal increase, were 10 percent higher than in August. This increase, however, is traced primarily to federal income tax payments at the end of the third quarter, which is not eliminated by the seasonal adjustment factor. The tax collections in Minnesota alone totalled almost $51 million in September, only $350,000 less than in June.

On the basis of an estimate of the amount of federal income tax payments in the aggregate volume of bank debits, it appears that the total attributable to business transactions in this area was roughly equal to that for August.

DEPARTMENT STORE SALES VOLUME STAYS HIGH

Department store sales in September, corrected for the usual fall expansion in sales, were 191 percent above the 1935 to 1939 average. This level of sales has been maintained in this district since last May. In the larger cities — Duluth, Minneapolis, St. Paul, and Superior—sales for the past few months have been somewhat higher, on the basis of the pre-war average, than in the smaller cities of the district.

As compared with a year ago, September sales were only two percent larger, while August sales and an average for the first nine months were 7 percent larger. The small percent increase for September is traced to an exceptionally high volume of sales in September, 1947; it proved to be the peak month of the year.

An examination of sales by departments reveals some soft spots in the market. According to the August departmental report for this district, basement store sales, which comprise the lower priced items, continued to expand faster than those in the main store. As compared with a year ago, the basement store sales for August were 16 percent larger, while the main store sales were only 7 percent larger.

Some of the soft merchandise has ceased to rise in dollar turnover. Women's and misses' ready-to-wear accessories sales in August were just equal to those of a year ago, while men's and boys' wear sales fell 9 percent below last year's dollar volume. Shoes especially are a weak spot in the market. The dollar volume for some months has been down

*Bank debits represent the payments made by governmental agencies, businesses, and individuals for merchandise, services, debts, etc. Consequently, they are a measure of business transacted.

DURABLE GOODS VOLUME MAINTAINS TOTAL SALES

Durable consumer merchandise sales, on the contrary, have been rising fast enough to boost the total volume. Housefurnishings, which includes most of the durable items, were 13 percent higher in August than a year ago. Major household appliances — refrigerators, washers, ironers, stoves, and cabinets—have been among the leaders in the larger sales.

Automobiles, a major durable consumer item, under the manufacturer's list prices are still in a strong sellers market. The sales of new cars are limited solely by the number delivered by the manufacturers to the dealers. Production is ahead of last year, and sales in this district have risen noticeably. In North Dakota, new passenger car registrations in September were 11 percent larger than in 1947. In some of the states in this district new registrations for the first eight months ranged from

New Passenger Car Registrations 9th District, First 8 Months

States	1947	1948	Percent Increase
Michigan	156,968	157,863	.6
Minnesota	42,162	51,622	22.4
Montana	9,822	12,110	23.3
No. Dakota	7,539	8,051	6.8
So. Dakota	6,941	9,086	30.9
Wisconsin	45,970	55,526	20.8

Source: R. L. Polk and Company, published in Automotive News.

- ***Larger durable goods sales offset lesser soft goods sales during September.***
- ***Department store stocks in smaller communities were greater than in larger cities.***
- ***Employment in non-agricultural industries was at an all-time peak.***
- ***Decline in farm product prices brings them in closer alignment with industrial prices.***
- ***Regulation W may reduce credit sales on large consumer items.***

one-fifth to one-third larger than in the preceding year, as may be observed in the accompanying table.

ACCUMULATION OF HOLIDAY STOCKS LARGER THAN USUAL

Department store stocks, adjusted for the usual seasonal rise, increased by two percent during September. Those in the smaller cities and towns of this district are much higher than in the larger cities. The dollar amount of stocks carried in the smaller communities has risen by 360 percent of the 1935 to 1939 base and in the larger communities by 262 percent of the former average—a differential of 38 percent in this increase.

According to the departmental report, stocks at the end of August over a period of a year had risen roughly 50 percent in girls' wear, women's and misses' coats, cotton wash goods, men's clothing, domestic floor coverings, upholstered and other furniture, and rugs and carpets.

LABOR SUPPLY TIGHTENS

The production and distribution of goods and the rendering of services in this district is approaching an upper limit, since nearly every able-bodied individual is employed.

According to the Montana Unemployment Compensation Commission, unemployment in that state is now lower than ever before in a peace-time year. In September the unemployed list consisted of less than

BANKING

Reserves, Deposits, and Loans at 1948 Peak

A MARKED increase in total reserve accounts and a sharp rise in total deposits in Ninth district member banks were the major developments in the banking picture during September.

Increased reserve requirements of 2% on net demand deposits and 1½% on time deposits in all member banks was the primary factor in the rise in reserve accounts. Ordered by the Federal Reserve Board, these increases were effective September 16 for country banks and September 24 for central reserve city and reserve city banks.*

The increase in total deposits in banks of this district—a development which was primarily local in nature—reflected, for the most part, the seasonal bulge in cash farm income.

This flow of funds into our area, which boosted total deposits to the peak volume attained thus far in 1948, not only eased the transition by Ninth district member banks to their new reserve positions, but made room for an accelerated expansion of loans and for considerable additions to short-term government security portfolios.

HIGHER RESERVE PERCENTAGES ABSORB $46 MILLION IN DISTRICT

The impact of higher reserve requirements on member banks in this district can be seen in the accompanying table entitled "Factors in the Increase in Ninth District Member Bank Reserves During September 1948."

As the table indicates, total reserve accounts in all Ninth district member banks increased $61.7 million during September. (The data in this table are based on a comparison of daily average figures for the last half of August with daily average figures for the last half of September.)

The increase in total reserve accounts due to the higher reserve requirement percentages, which went into effect during the last half of September, amounted to over $46 million—close to $10 million coming from reserve city banks and over $36½ million from country banks.

The remainder of the increase in required reserves was due to the advance in total deposits in member banks in this district. Since there were more deposits being held, a greater volume of reserves was required.

A reduction in excess reserves of $1½ million made a small contribution to absorbing the increase in required reserves. Thus, whereas total reserve accounts at the end of August equalled $428 million, Ninth District member banks finished the month of September with total reserve accounts of over $490 million, the largest volume of member bank deposits held with the Federal Reserve Bank this year.

RESERVE INCREASE TAKEN AS "ANTI-INFLATIONARY" STEP

The move to raise reserve requirements was announced by the Board of Governors as "a further step toward restraining inflationary expansion of bank credit." The extent to which this result may in fact be accomplished is difficult to appraise. However, some general observations can be made.

First of all, the increase in reserves nullifies, to some extent, the large volume of reserves flowing to member banks. These funds are being created by sales of government bonds by nonbank investors and their purchase by the Federal Reserve System in support of the market, by the inflow of gold, and by the return flow of currency in circulation to the banks.

- ***Total reserve accounts were up $62 million in September, due to increased reserve requirements and deposit rise.***
- ***Deposits were up 5% as seasonal farm marketings drew funds into this area.***
- ***Loans reached new high of $856 million.***
- ***Uniform Reserve Requirement Plan suggested to eliminate inequities in reserve structure.***

Moreover, due to the increase in reserve requirements, funds otherwise available for investment in earning assets are drawn into no-income reserves. This may lead to a further hardening of loan rates, thereby offsetting the reduction in earnings attributable to higher reserve requirements.

In addition, the higher reserve requirements have the arithmetical effect of reducing the credit expansion ratio. If reserve requirements, for example, are 20 percent, $1 of reserves supports $5 of deposits; but with a reserve requirement of 25 percent, $1 of reserves supports only $4 of deposits. And finally, the increase serves as a psychological warning that the Board of Governors favors a dampening down of future credit expansion.

SEASONAL FARM MARKETINGS SWELL DEPOSITS

The rise in total deposits which took place during September in

Factors in Increase of Ninth District Member Bank Reserves During September 1948*

(In Millions of Dollars)

	All Member Banks	Reserve City Banks	Country Banks
Change in Total Reserve Accounts	+ 61.7	+ 22.2	+ 39.5
Change in Required Reserves	+ 63.2	+ 20.1	+ 43.0
Due to higher reserve requirements	+ 46.3	+ 9.7	+ 36.6
Due to increase in total deposits	+ 16.9	+ 10.4	+ 6.4
Change in Excess Reserves	— 1.5	+ 2.1	— 3.5

* Daily average figures for the last half of August compared with daily average figures for the last half of September.

*The new requirements boost legal reserves against net demand deposits to 26 percent in central reserve city banks, 22 percent in reserve city banks, and 16 percent in country banks and raise the legal reserve requirement against time deposits to 7½ percent in all classes of banks.

Ninth district member banks equalled $163 million. This month's increase was the largest advance registered to date this year and carried total deposits to a peak volume of over $3½ billion.

The seasonal movement of farm crops and livestock into the markets which began in the late summer months was in full swing during September. Record-breaking crop production and sustained high prices (grain price declines were more than offset by rising livestock prices) were reflected in high farm revenues, and these likewise showed up in the sharp increase in bank deposits, as funds flowed into this area.

Percentage-wise the largest gains in total deposits during September were registered in North Dakota banks, where deposits were up over 9%. Montana and South Dakota ran a close second, each showing increases of 6%. Minnesota's percentage rise equalled 5%, while the changes in Michigan (15 counties) and Wisconsin (26 counties) were negligible. For the district as a whole, the percentage increase in deposits during the month equalled 5%.

LOANS UP 4% IN SEPTEMBER

Presumably about one-sixth of the September advance in deposits originated in increased loans made by Ninth district member banks. Total loans during the month were up $30 million, reaching a new high of $856 million. On the basis of the 20 weekly reporting banks in this area, it appears that, for the most part, the loan expansion during September was concentrated in commercial, industrial, and agricultural loans. The $12 million increase in this category of loans accounted for all but $2 million of the total increase in the 20 reporting banks.

Moreover, preliminary estimates indicate that a considerable share of lending in Ninth district country banks this month represented Commodity Credit Corporation crop loans.

In judging the quality of Ninth district loan portfolios, it is significant that CCC loans constitute riskless assets, since they are fully guaranteed by the federal government. On the other hand, from the point of view of bank earnings, the noteworthy feature of CCC loans is their relatively low yield. Farmers pay 3 percent for such loans. Of this, 1½ percent goes to the government to compensate it for its risk-taking, while 1½ percent goes to the bank to cover the cost of processing the loans.

As was expected, the distribution

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

(In Million Dollars)

	Aug. 25, 1948	Sept. 29, 1948	$ Change Aug. 25, 1948-Sept. 29, 1948	$ Change Sept. 24, 1947-Sept. 29, 1948
Assets				
Loans and Discounts	$ 826	$ 856	+ 30	+124
U. S. Government Obligations	1,684	1,699	+ 15	—111
Other Securities	201	201	....	+ 32
Cash and Due from Banks	848	961	+113	+ 24
Other Assets	30	34	+ 4	+ 11
Total Assets	$3,589	$3,751	+162	+ 80
Liabilities and Capital				
Due to Banks	$ 321	$ 380	+ 59	— 57
Other Demand Deposits	2,129	2,229	+100	+133
Total Demand Deposits	$2,450	$2,609	+159	+ 76
Time Deposits	923	927	+ 4	+ 9
Total Deposits	$3,373	$3,536	+163	+ 85
Borrowings	1	....	— 1	— 10
Other Liabilities	18	17	— 1	+ 1
Capital Funds	197	198	+ 1	+ 4
Total Liabilities and Capital	$3,589	$3,751	+162	+ 80

[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 the other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks

(In Millions of Dollars)

	Aug. 25, 1948	Sept. 29, 1948	Oct. 13, 1948	$ Change Aug. 25-Sept. 29
Comm., Ind., and Ag. Loans	$ 244	$ 256	$ 264	+ 12
Real Estate Loans	60	61	61	+ 1
Loans on Securities	17	15	15	— 2
Other Loans	107	110	102	+ 3
Total Gross Loans and Discounts	$ 428	$ 442	$ 442	+ 14
Less Reserves	—3	—3	—3	....
Total Net Loans and Discounts	$ 425	$ 439	$ 439	+ 14
U. S. Treasury Bills	36	45	56	+ 9
U. S. Treasury Cert. of Indebt.	104	114	141	+ 10
U. S. Treasury Notes	47	59	38	+ 12
U. S. Government Bonds	468	455	454	— 13
Total U. S. Govt. Securities	$ 655	$ 673	$ 689	+ 18
Other Investments	83	81	81	— 2
Cash and due from Banks	442	504	553	+ 62
Miscellaneous Assets	16	20	19	+ 4
Total Assets	$1,621	$1,717	$1,781	+ 96
Liabilities				
Demand Deposits, Ind., Part., Corp.	$ 757	$ 788	$ 869	+ 31
Demand Deposits, U. S. Govt.	28	36	25	+ 8
Due to other Banks	287	341	349	+ 54
Other Deposits	440	443	424	+ 3
Total Deposits	$1,512	$1,608	$1,667	+ 96
Borrowings	....	....	5	....
Miscellaneous Liabilities	13	12	12	— 1
Capital Funds	96	97	97	+ 1
Total Liabilities and Capital	$1,621	$1,717	$1,781	+ 96

of the loan expansion among the states of the Ninth district matched closely the pattern described for the deposit increases. Loans were up most sharply in North Dakota, South Dakota, and Montana, where the percentage advances equalled 14%, 8%, and 6% respectively. The increase in the remainder of the district averaged slightly over 1%, while for the district as a whole, loans increased 4%.

TOTAL GOVERNMENT SECURITY PORTFOLIOS SHOW ADVANCE

In addition to increased loans, Ninth district member banks augmented their earning assets during September by net purchases of U. S. government securities. Total government portfolios increased $15 million during the month.

Shifts in the pattern of government holdings are indicated by reports from the 20 weekly reporting banks. It can be seen that while a reduction occurred in holdings of long-term bonds, this was more than offset by increased holdings of bills, certificates of indebtedness, and notes.

Two factors operated during the month to draw down bond holdings of member banks. First, the 2½ percent partially tax-exempt Treasury bonds which matured on September 15 were paid off in cash, thus extinguishing this bond issue. Secondly, many banks liquidated long-term bonds in order to meet the increased reserve requirements.

It is interesting to note that reductions in bond holdings also characterized member banks for the country as a whole. Moreover, holdings of shorter-term government securities (bills, certificates, and notes) on a nation-wide basis were also reduced considerably. This, however, was in sharp contrast to Ninth district developments.

In the country as a whole, deposits registered a decline during September. Thus liquidation of some government securities in all maturity classes presumably was the major source of funds for meeting the increase in reserve requirements. For Ninth district member banks, however, the rising volume of deposits provided an ample source of funds to meet the increase.

In consequence of this favorable deposit experience, it was possible for Ninth district member banks to increase their holdings of short-term securities, thus taking advantage of the improved rates being offered by the Treasury.

QUESTION OF RESERVE REQUIREMENTS SPOTLIGHTED BY SEPTEMBER INCREASE

The increase in reserve requirements which took place during September focused interest on the general problem of bank reserves. There are two aspects to this problem which are of concern to the banking community.

One is changes in the aggregate volume of reserves held by all member banks. The other is the aspect of the structure of reserve requirements. That is, how much reserve should each bank hold; what should be the basis of distributing reserve requirements among member banks?

A proposal for revising the present basis of reserve requirements is currently being studied by the Board of Governors and the 12 Federal Reserve banks. This plan is known as the "Uniform Reserve Requirement Proposal." Its main feature is the proposal that reserve requirements be related directly to the character of business done by a bank rather than to the location of the bank as under our present system.

RESERVE STRUCTURE TIED TO LOCATION OF BANK

Member banks today are classified for the purpose of reserve requirements according to their location in central reserve cities, reserve cities, or country areas. Percentage requirements are highest in central reserve city banks, slightly lower in reserve city banks, and lowest in country banks.

This tri-group classification of banks is rooted in the early history of American banking. It is a legacy of the National Bank Act of 1863, which designated banks eligible to hold reserves of other banks by their location in central reserve or reserve cities. Such banks were subject to higher reserve requirements than the "country" banks.

Although since 1917 members of the Federal Reserve System have been required to deposit their legal reserves in the Federal Reserve banks, many member banks have continued to carry a portion of their cash reserves in the form of correspondent balances. Moreover, "due from" other bank balances still constitute legal reserves for nonmember banks.

Thus our present-day system is based on the recognition that reserves against deposits of other banks should be relatively higher than reserves against ordinary commercial bank deposits. The use of location as the criterion for differences in reserve requirements, however, has resulted in a somewhat inequitable distribution of reserves among the system.

Banks in central reserve and reserve cities must carry heavier requirements, even if their correspondent business is negligible. (The Board of Governors may, however, designate banks in "outlying" districts of central reserve or reserve cities as country banks.)

On the other hand, country banks which do a substantial correspondent business have the competitive advantage of lower reserve requirements.

The inequitable features of the structure of reserve requirements have long been recognized. It is to ameliorate this condition that the Uniform Reserve Requirement Plan has been proposed.

PROPOSAL FOR UNIFORM RESERVE REQUIREMENTS

The Uniform Reserve Requirement Proposal suggests the following changes in the present method of computing reserve requirements:

- Eliminate the distinction between central reserve, reserve city, and country banks;
- Establish separate reserve requirements—applicable to all member banks alike—for interbank deposits, for other demand deposits, and for time deposits;
- Permit vault cash to be counted as part of required reserve; and
- Permit a bank to deduct from its required reserves a percentage of its balances "due from" other banks equal to the percentage of reserves to be held against balances "due to" other banks. (Actually this is equivalent to what an individual bank does, under present requirements, when it deducts "due from" balances from gross demand deposits to determine the volume of net deposits against which reserves are to be held.)

Under the URRP, balances "due to" other banks would be subjected to higher reserve percentages than other demand deposits. It has been pointed out that the intent of differences in reserve requirements under the present system is to require banks holding deposits of other banks to carry higher reserves. The URRP, by relating reserve requirements to the kind of deposits held, rather than to the location of the bank, accomplishes this purpose in a direct manner.

Moreover, the administration of the URRP would be a relatively easy procedure. The three classes of deposits—interbank deposits, other demand deposits, and time deposits—are readily identifiable, and difference in treatment is an established part of American banking tradition.

HOW WOULD REQUIREMENTS AFFECT MEMBER BANKS?

The Uniform Reserve Requirement Proposal raises two paramount questions: First, would total reserves of the banking system be affected, and, if so, how? Second, how would the reserve requirements of the individual member banks be affected?

The answers to both these questions rest, of course, on the specific percentages that would be applied to the three classes of deposits.

Such percentages as have been suggested, however, have been designed to leave aggregate reserve requirements substantially unchanged.[1] The URRP is not meant as a temporary adjustment to combat the current inflation problem. It is rather a basic change in the method of computing reserves, intended to be effective in whatever economic milieu central bank policy may be operating.

In the nature of the case, the effect on individual banks depends largely on its correspondent bank relationships and its holdings of vault cash.

Banks with relatively large amounts of vault cash and balances "due from" correspondent banks would experience reductions in reserve requirements. On the other hand, banks now designated as country banks which hold substantial amounts of correspondent bank balances would be subject to increased reserve requirements. In addition, banks which hold relatively small amounts of vault cash and balances "due from" other banks might find themselves required to increase reserves.

Thus while reserve requirements of some banks would be increased, those of other banks would be decreased. However, the specific reserve percentages used would be aimed at keeping changes in individual cases within reasonable limits. And such changes as would occur would be in the direction of greater equity. END

[1] A Uniform Reserve Plan was submitted by representatives of the Federal Reserve System to the Joint Committee on the Economic Report on May 27, 1948. The specific requirements suggested for the three classes of deposits were 30 percent for "due to" other bank balances, 20 percent for other demand deposits, and 6 percent for time deposits. (These percentages were suggested prior to the increases in reserve requirements which were effective this month.) Cash items in process of collection were deductible from other demand deposits before computing required reserves. Full reserve credit was given for vault cash and for 30 percent of "due from" other bank balances.

CONTINUED FARM PROSPERITY ENVISIONED

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prices, since less beef and more pork may be produced in 1949.

BIG FEED CROPS A BOON TO LIVESTOCK PRODUCERS

An all-time record feed grain supply is indicated for 1948. Protein and other feed concentrates are also at a record level in relation to livestock numbers. This giant feed crop has come at a time when feed stocks were seriously depleted. However, this year's feed crops are so large that carryover, even after allowing for sizeable exports, may be at record levels by the end of the current crop year.

Hay supplies, too, although spotty in areas, are large in relation to the livestock population.

This favorable feed supply situation is expected to encourage an expansion in livestock production, and particularly so in hogs and poultry during 1949.

Supply and demand relationships make it probable that livestock-feeding ratios may be about as favorable as any on record if livestock and meat prices continue high, according to observers in the Bureau of Agricultural Economics. The hog-corn ratio, for example, moved from 9.1 in May to 14.2 in August for the U. S. as a whole. This ratio is even more favorable now, especially in areas where corn can be secured substantially below support price levels.

Favorable feeding ratios may also stimulate heavy feeding per livestock unit during the current feeding year.

Prospects for profitable operations in the various livestock enterprises are seen by Department of Agriculture economists as unusually optimistic during the present crop year. It is also believed that livestock enterprises may be in a particularly strong competitive position with other agricultural enterprises not only next year but also for the succeeding 5-year period, 1950-54.

Barring drouth or other abnormal weather conditions, crop production per acre may continue at near current high levels in the future. This is likely because of farm mechanization, better seed, improved conservation practices, and all-around better crop production methods of recent years.

Therefore, it is argued that since several years are required to rebuild livestock herds and that feed supplies may be ample, it would be logical for livestock enterprises to be relatively profitable for several years and especially so if consumer demand for meat remains high.

DAIRY COW NUMBERS DOWN SIX YEARS IN A ROW

Milk cow numbers have been on the decline for about six years. This is true because of more favorable alternative farm enterprises as well as relatively high feed costs during part of this time. This decline in cow numbers is expected to go on during 1949, partly because farmers expect to make larger profits from cash grain farming or other livestock enterprises.

This situation is particularly noticeable on the fringes of the more specialized dairy areas and especially in the large wheat-growing areas. Farmers are making such high incomes from wheat farming that dairying has been completely eliminated on many farms and reduced materially on others. Dairy cow numbers in the Dakotas and Montana, for example, are down approximately 25% from January 1, 1944.

Milk production during 1949 may

total around 119 billion pounds. At the peak in 1945, about 121½ billion pounds of milk was produced.

Milk production on a per capita basis in 1949 may be the lowest since the drouth period of the 1930's.

However, the drastic decline in per capita butter consumption in recent years leaves larger per capita supplies of fluid milk and other manufactured dairy products available to consumers.

Exports may continue to take a small proportion of total milk equivalent—probably around 2% to 3% compared with 4% to 5% in the early postwar years. In pre-war times, the U. S. imported more dairy products than it exported.

USDA outlookers are of the opinion that dairying will remain in a strong price position in 1949, that net dairy incomes may be higher compared with 1948 chiefly because of expected favorable feeding ratios. They also believe that dairy cow numbers will stabilize by 1950.

As for the dairy picture in 1950-54, ample replacements of young dairy stock now on farms with abundant feed supplies should result in an average annual increase in milk cow numbers of from 1% to 2%. Milk production may increase to a total of 123 billion pounds annually in a few years, and exports may decline to near zero unless foreign export subsidy programs are continued.

In general, however, economists with the Department of Agriculture take an optimistic view of the profit possibilities in the dairy enterprise during the next several years.

Average Prices Received by Farmers in Ninth District[1]

Commodity and Unit	September 15, 1937-1941 Avg.	September 15, 1947	September 15, 1948	Parity Prices [2] United States September 15, 1948
Crops				
Wheat, bushel	$0.72	$2.48	$1.96	$2.21
Corn, bushel	.57	2.35	1.65	1.60
Oats, bushel	.25	1.04	.58	.998
Potatoes, bushel	.47	1.45	1.40	1.86
Livestock and Livestock Products				
Hogs, 100 lbs.	8.53	27.22	26.73	18.20
Beef cattle, 100 lbs.	7.73	20.72	23.42	13.60
Veal Calves, 100 lbs.	9.22	22.72	26.52	16.90
Lambs, 100 lbs.	8.15	20.72	22.92	14.70
Wool, lb.	.27	.43	.52	.458
Milk, wholesale, 100 lbs.	1.60	3.67	4.42	4.12
Butterfat, lb.	.30	.88	.81	.654
Chickens, live, lb.	.133	.236	.291	.285
Eggs, dozen	.198	.453	.423	.576

[1] Data compiled from "September 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.

January-August Cash Farm Income[1]

(Thousands of Dollars)

State	1935-39 Average	1947	1948	1948 in Percent of 1947
Minnesota	$ 214,452	$ 804,408	$ 870,032	108%
North Dakota	59,495	355,979	395,627	111
South Dakota	65,715	404,561	399,881	99
Montana	43,032	172,437	196,526	114
Ninth District [2]	433,009	1,900,926	2,050,425	108
United States	4,828,651	17,187,218	18,151,184	106

[1] Data from "The Farm Income Situation," dated August-September, 1948.

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

FUTURE OF AGRICULTURE TO DEPEND ON EMPLOYMENT LEVEL

At the Agricultural Outlook Conference an effort was made to estimate a probable 5-year trend of farm prices, farm costs, volume of marketings, and farm incomes under two assumptions.

First, what would be the economic situation in agriculture under the assumption that high employment conditions would continue to prevail for several years?

Second, what would likely be agriculture's economic situation if average to low employment conditions were to be the trend in the first half of the 1950's?

Currently, of course, the economy is running at near full capacity. There are around 60 million people working, and unemployment is less than 2 million persons. Wage rates are the highest in history, and consumer incomes are up threefold from pre-war.

In addition to the sharp increase in domestic demand for farm products, the foreign demand in recent years has taken an estimated 9% to 12% of total farm production. As a result, agricultural prices are about 275% of the 1935-39 average, with cash receipts from farm marketings about 4 times the pre-war level and net income to farmers 3½ times as large.

However, if the past is any guide to the future, changes and adjustments are likely to occur in production, prices, and incomes among the different farm commodities during the next several years in response to changing supply and demand relationships.

For agriculture as a whole, the long-run trend of agricultural production has been upward regardless of business conditions. Crop acreage may not change much in the next 5 years, but yields per acre and livestock production per unit of feed are expected to increase even further. It is estimated by the Department of Agriculture that the long-term upward trend in farm production of slightly under 1% a year will continue in the future.

POPULATION GROWTH STRONG DEMAND FACTOR

On the demand side, the remarkable recent upsurge in population may be expected to continue to swell the domestic demand for farm products as the population grows at an expected rate of over 1 million persons a year. In 1940, there were approximately 131 million people in the U. S. On July 1, 1948, the number was 146 million—a 15-million increase over a period of 8 years.

Also important to agriculture has been the increase in national output of goods and services resulting from a growing labor force and greater productivity per worker.

These three factors—population growth, increase in national output, and increasing productivity per worker—tend to increase the domestic demand for farm products and may compensate in part for increasing agriculture production.

FARMERS HAVE HIGH STAKE IN FULL EMPLOYMENT

It seemed to be the considered judgment of the working committees at the conference that farming in general would remain in an excellent economic position if employment continues high and if a substantial volume of agricultural exports is continued. ($2 billion worth of annual farm exports were suggested as a possibility for the next several years. This is about half the value of exports in 1947.)

It was suggested that perhaps farm prices would average near 225% of the base price (1910—14=100) during the 1950-54 period if unemployment averaged 3 million persons or less. By comparison, this index of prices received by farmers was 107% before the war. It was 307% last January, and it now stands at about 290%.

Prices paid by farmers for the next few years, providing there is full employment, was suggested as averaging around 215% of the base period (1910-14=100). Currently, it is about 250% and before the war it was 127%.

The parity ratio (ratio of prices paid to prices received by farmers) reached a peak of 133 two years ago in October. It is now 116 compared with 84 for the pre-war 1935-39 average, and it was in the lower 50's during the depression. This parity ratio may average near 105 in the next few years, providing of course, that full employment exists and farm exports are as indicated above.

If high employment continues for several years, net income of farm operators might be expected to average around $14 billion annually—which would be 2½ to 3 times pre-war but substantially less compared with the $18 billion net income figure for 1947.

As outlined above, the general outlook for agriculture would be favorable for several years and substantially better compared with the inter-war period.

It should be noted again, however, that the outlook for individual farm commodities may vary considerably from the general agricultural picture. For example, the wheat, tobacco, and cotton situation will depend particularly on continued large exports. Other commodities such as livestock and livestock products are affected only slightly by foreign markets.

AGRICULTURE'S POSITION LESS FAVORABLE UNDER LOWER DEMAND ASSUMPTION

Prospects for agriculture are, of course, much less favorable in the next several years if there is substantial unemployment, reduced business activity, and smaller farm exports.

It was suggested that if this pattern of economic activity prevailed in the early 1950's prices received by farmers might average about 90% of parity, although there might be wide discrepancies between different commodities. Supplies of some crops such as wheat, tobacco, and cotton might be particularly burdensome if export volume were to be substantially curtailed as might happen under less than full employment conditions.

There seemed to be general agreement at the conference that if economic activity did fall back to near pre-war levels the long-range price support program scheduled to begin in 1950 would exercise a stabilizing influence. In fact, the outlook for many farm commodities might well be the outlook for price support from year to year.

The existence of this program in 1950-54 would certainly operate to reduce the impact of a decline in consumer incomes and smaller exports on agricultural prices and incomes.

It was suggested at the conference that prices received by farmers might be expected to average 175% of the base period, if around 9 million people are unemployed and business activity is also down substantially. Prices paid by farmers would decline less, perhaps to 195%. The resulting parity ratio would then be about 90.

If these suggested prices and costs are realistic, the realized net income to farm operators could not be much more than half the 1947 figure. However, even if price declines were as much as indicated, prices received by farmers would be nearly 60% above the 1935-39 average and net income of farm operators more than double pre-war.

As a matter of fact, the actual level of farm prices and incomes in the first half of the 1950's may fluctuate somewhere in between the two suggested extremes and perhaps even touch both limits in some years. The figures presented are merely to suggest the possible overall trends.

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ECONOMY OPERATES AT FULL CAPACITY

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clined by 13 percent. It is of interest to note that such a drop in prices took place with no noticeable inventory distress in major manufacturing lines.

According to the Bureau of Labor Statistics index of wholesale prices, prices of commodities other than farm products and food have remained quite stable. Since January they have risen two percent, and in the past month they fluctuated only within a few tenths of a point.

REGULATION W MAY REDUCE INSTALMENT SALES

Since Regulation W again became effective on September 20, requiring a minimum down payment of one-third on automobiles and 20 percent on other listed articles, preliminary information suggests a slackening in instalment credit sales. For instance, used car dealers report a noticeable drop in sales.

The statistics available do not reflect the trend of instalment credit following September 20. In commercial banks of this district there is some evidence that the amount of such credit has levelled off during September. According to a sample of banks reporting such information, the net amount of instalment loans outstanding increased by two percent in June and in July, by one percent in August and declined slightly in September.

In other financial institutions, for example credit unions, the amount of credit outstanding during August still rose noticeably. In department stores, credit sales increased more than cash sales.

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