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of Ninth District Agricultural and Business Conditions
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1949 Opens on a Note of Uncertainty

FOR the year as a whole, 1948 was one of the most prosperous in the nation's history. The Ninth Federal Reserve district enjoyed a pro rata share in the general prosperity. Yet for this district and for the nation the past year must be described as a year in which readjustments and leveling off, rather than sharp expansion, took place.

The accompanying chart reveals the relatively small rate of increase in several business indicators for the Ninth District over the high levels of 1947.

Such comprehensive indicators as the value of goods and services produced, personal incomes, and employment reached new high levels in 1948. In those lines of business where record-breaking levels were not reached, a very high level of activity was nevertheless maintained. The declines experienced in some sectors of the economy were more than offset by advances in others.

GROSS NATIONAL PRODUCT REACHED NEW HIGH

The most comprehensive measure of business activity is gross national

Gross National Product (In Billions of Dollars)

1929	103.8
1933	55.8
1939	90.4
1941	125.3
1944	212.2
1946	209.3
1947	231.6
1948	(est.) 252.7

Gross National Product By Quarters, 1947-48 (In Billions of Dollars)

1947—First quarter	226.4
Second quarter	228.3
Third quarter	227.9
Fourth quarter	243.8
1948—First quarter	244.9
Second quarter	250.2
Third quarter	254.9
Fourth quarter (est.)	260.8

Although Many All-Time Records Were Set in 1948, the Year Was Characterized by Leveling Off and Readjustments Rather Than Expansion

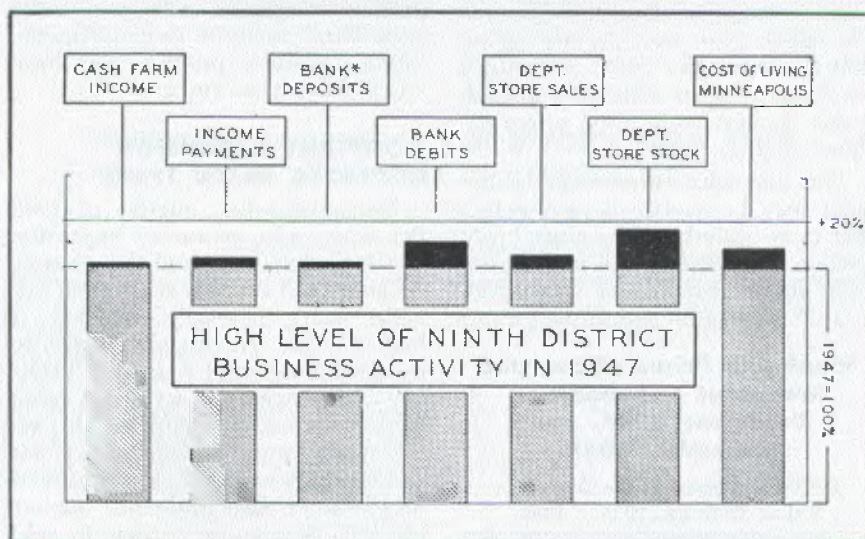
By J. Marvin Peterson

product or total output of goods and services which, in 1948, reached a new peak that far exceeded that of the war years.

The steady and substantial increase in the dollar volume of the economy's output of goods and services was

not matched, however, by the same rate of increase in physical volume of production, except in agriculture. While gross national product increased in the second half of 1948 by 23 percent over the year 1946, the physical production of goods and utilities, excluding agriculture, had increased only 13 percent over the figures recorded for the year 1946.

PERCENTAGE EXPANSION IN NINTH DISTRICT BUSINESS INDICATORS, 1947-48



GENERALLY, the postwar expansion slowed down in 1948 and economic activity steadied on a high plateau. Ninth district business indicators made relatively small increases this year over the high levels of 1947.

*Estimated on the basis of data for the first 11 months. December figures, which subsequently became available show a 3 per cent drop.

Source: Cash Farm Income, USDA; Income Payments, Survey of Current Business; Cost of Living, Department of Labor.

NOTE: Data for 1948 are, in all cases, partially estimated. Department store stocks are measured from year-end 1947 to year-end 1948. "Cost of living" represents the percentage change in an annual average of the quarterly data. All other items are based on annual volume.

Indexes of Output (1946 = 100)

Calendar Year	Gross National Product Current Prices	Physical Production of Goods and Services, Excluding Agriculture
1947: Total	111	109
First half.....	109	109
Second half....	113	110
1948: Total	121	113
First half.....	118	113
Second half....	123	113

Source: The Annual Report of the President's Council of Economic Advisers, January 3, 1949.

Industrial production increased slightly more than 3 percent in 1948 over 1947, while agricultural production increased 9 percent. Reflecting these changes in production, industrial wholesale prices averaged over 5 percent above those prevailing in December 1947, while wholesale prices of farm products declined 10 percent.

PATTERN OF PRICES SHOWED READJUSTMENTS

That significant readjustments in the pattern of prices occurred in 1948 may be demonstrated by comparisons of price changes in selected groups of commodities. The Bureau of Labor Statistics index of all commodities for December 1948 was slightly below that for December 1947. The index for farm products suffered a considerable decline, while food prices declined slightly.

This somewhat surprising development may be explained by the fact that more abundant agricultural production did not result in proportionately greater supplies of food products. A substantial part of the greater

Wholesale Prices of Selected Groups of Commodities, December 1947, and December 1948

(Index Numbers of the Bureau of Labor Statistics, 1926 = 100)

	December 1947	December 1948 (Est.)	Percentage Change
All commodities....	163.2	163.5	+ 0.2
Farm products.....	196.7	176.1	-10.5
Foods	178.4	173.5	- 2.8
Hides and leather products	203.4	184.4	- 9.4
Textile products....	148.0	145.8	- 1.5
Metals and metal products	151.5	173.8	+14.7
Building materials..	191.0	202.1	+ 5.8
House furnishings	139.4	147.5	+ 5.8

supplies of grains remained on the farms to be fed to livestock over a period of time. Greater supplies of grains, therefore, were not immediately reflected in proportionately greater supplies of food products, such as meats.

Another explanation is the customary lag in the rate of decline in retail prices compared with wholesale prices in a period of general decline in prices.

Prices of metals and metal products, such as iron and steel, farm machinery, motor vehicles, and nonferrous metals rose sharply in 1948. Building materials, such as cement, lumber, brick and tile, plumbing and heating also increased in price during the year.

PRICES OF FARM PRODUCTS DECLINED, OTHERS ROSE

That these changes in prices are significant to the Ninth Federal Reserve district can hardly be doubted, since this region is a great exporter of agricultural products and is a net importer of other products. This readjustment in the pattern of prices, which is analyzed in the section of this Review, devoted to agriculture, portends a struggle on the part of the agricultural interests to maintain the highly favorable position they have enjoyed in recent years.

MONETARY EXPANSION DISPLAYED MIXED TREND

During the first quarter of 1948 the spectacular monetary expansion which had characterized the wartime economy and the two succeeding calendar years, not only subsided—it backed down. Attributable largely to the accumulation of a sizeable Treasury cash surplus and its use to retire bank-held federal securities, the active money supply (demand deposits and currency outside banks) declined \$6.4 billion dollars in the first quarter of 1948, despite an increase in gold stock.

Thereafter, as the Treasury cash surplus fell, owing to the reduction in tax rates and an increase in expenditures for defense and foreign aid, and as increases took place in Federal Reserve bank credit, gold stock, and bank loans, the money supply recovered approximately half the loss it sustained in the first quarter of the year.

EXPORTS FELL WHILE IMPORTS ROSE

A decline in exports and an increase in imports in 1948 over 1947 resulted in a loss of \$4.8 billion in our favorable balance of payments during the two years. Nevertheless, our favorable balance—\$6.5 billion for 1948—was exceptionally high compared with pre-war years.

A factor of considerable importance is the decision reached in November that a more rapid use should be made of funds appropriated by Congress for the European Recovery Program. It may be expected, therefore, that exports will increase early in 1949. If the expansion of imports continues, as is expected, the increase, if any, in our export balance is likely to be moderate.

Investigation of the composition of procurement authorizations under the European Recovery Program indicate a shift away from food and agricultural commodities (relief items) toward an increasing proportion of industrial products (recovery items). This development portends growing surpluses of such commodities as wheat, already in oversupply.

BUSINESS INVESTMENT SHOWED LARGEST GAIN

In order to appraise changes in the economy from one year to another, one must look at changes in the composition of gross national product as well as changes in the total.

In its report on "Economic Trends During 1948," the Council of Economic Advisers observes in comparing 1947 with 1948 that "... business income (retained earnings and additions to reserves) and gross private domestic investment showed the largest percentage increase; consumer incomes and expenditures increased less; government expenditures remained at about the same level; and net foreign investments declined substantially. In fact, it is an outstanding characteristic of the present economy that business income and expenditures have increased more than consumer income and expenditures since the pre-war year 1939."

FIVE BIG QUESTIONS FOR 1949

This breakdown of gross national product and observations concerning the component parts helps to point out the strategic factors in the outlook for 1949. Most observers agree

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AGRICULTURE

Record Crops Fattened Farmers' Purse

THANKS to a continuation of favorable circumstances, Ninth district farmers again hit the jackpot during 1948.

That this is no exaggeration is indicated by total crop production, which was almost double pre-war (1935-39) and about 19 percent larger compared with 1947. Furthermore, the 1948 crop was marketed at prices only slightly below those of 1947 and at approximately 2½ times the pre-war 5-year average.

Crop production has been good for almost 10 years and, except for slight setbacks occasionally, each succeeding year has seen larger crop totals.

Nearly 300 million bushels of wheat, a new record, was produced in the Dakotas, Montana and Minnesota in 1948. At around \$2.00 per bushel average farm price, wheat alone added about \$600 million of new wealth to the pockets of district farmers. The record corn crop of 437 million bushels has a cash value to farmers of more than a half-billion dollars.

A record flaxseed crop of about 43 million bushels at approximately \$6.00 per bushel to district growers was worth around a quarter-billion dollars—and incidentally the Ninth district produces about 85 percent of U. S. flax production.

A relatively new crop, soybeans, has found favor with many farmers in the more humid areas of the district. Soybean production in 1948 was a new high and seven times larger compared with the 10-year average, 1936-45.

Eventually, of course, this new wealth is reflected in all phases of the Ninth district economy. Bankers, food and feed processors, transportation agencies, wholesalers, and businessmen in general feel a reflected glow of prosperity. Even the consumer benefits by reduced retail food costs as a result of bumper crops.

CASH INCOME FROM CROPS 7 TIMES PRE-WAR

Not all crops produced in the district are sold for cash. Feed grain crops for the most part are marketed

through livestock. In spite of this, the value of cash grain marketings during 1948 was estimated at more than \$1½ billion, three percent larger than last year and a new all-time high. It compares with only \$185 million in cash grain marketings for the 1935-39 average.

Carry-over stocks of 1948 grains into the new year are at record highs in the Ninth district. Grain carloadings in the fourth quarter were estimated at less than for the same period in 1947, which indicates farmers may have planned to carry a larger than normal amount of grain marketings into 1949. Farmers as a group are in a strong financial position and they were able to do this without difficulty.

Farmers also took advantage of C.C.C. loans and purchase agreements in the 4th quarter. They are more and more mindful of Uncle Sam's heavy tax bite in the upper income brackets and they have tried to even out year to year incomes by delaying marketings as much as possible into the succeeding year in years of purse-fattening crops.

▶ **Cash farm income was at a new high in '48 — but parity ratios were less favorable.**

▶ **Total farm real estate debt declined, although banks increased agricultural loans to farmers.**

▶ **Land values continued their upward trend.**

DECREASED LIVESTOCK NUMBERS REDUCED INCOME

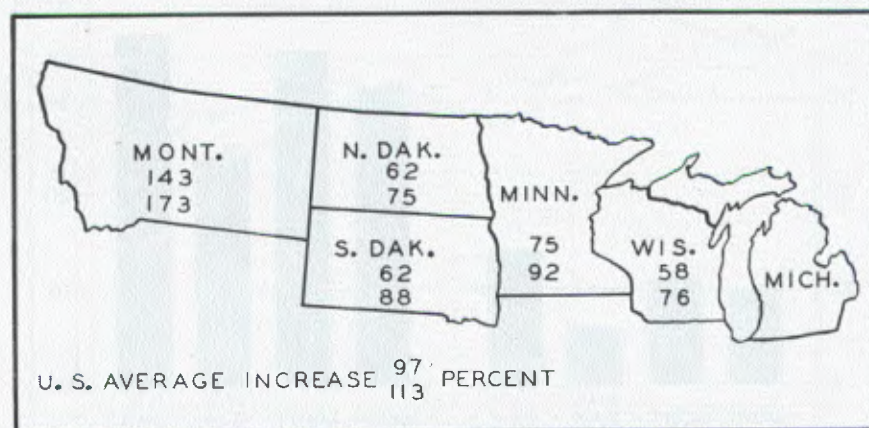
Livestock numbers on district farms have steadily declined since 1945. Data for the 1948 year-end is not yet available, but slaughter data indicate a further decline for the year just past for most meat animals. Emphasis on cash grain marketing and unfavorable feeding price ratios in recent years have been largely responsible for the sharp reduction in livestock population.

With bumper feed-grain production and lower feed prices beginning in the latter part of 1948, more emphasis may be put on livestock pro-

PERCENTAGE INCREASE IN 9TH DISTRICT FARM LAND VALUE FROM 1935-39 AVERAGE TO:

November 1, 1947 (Top Figure)

November 1, 1948 (Lower Figure)



DISTRICT land values continued to advance during 1948, although increases since pre-war are less than for the United States as a whole.

duction in 1949 and the downward drift in numbers may be reversed.

However, if rigid price supports at 90 percent of parity or better on basic crops are maintained for several years, it undoubtedly will slow increases in livestock production. Farm-favorable incomes from cash grainers may then continue with such farming that the economic incentive to expand livestock operations will be lacking.

This situation is alarmingly apparent today in some of the wheat growing areas of the district. Dairy cow numbers, particularly, have been drastically reduced in the Dakotas and Montana in recent years.

Cash income from the sale of livestock and livestock products during 1948 reversed the long upward trend that started with the beginning of the war. Cash sales of livestock and livestock products for the year were in excess of \$2 billion, but this was slightly below 1947 figures. Before the war the average (1935-39) for livestock and livestock products was only \$485 million.

Before the war (1935-39) cash income from the sale of livestock and livestock products accounted for 66 percent of the district's farm income.

In 1948, it was only 60 percent, reflecting the relative increase in the importance of cash grain farming in recent years and a decreased emphasis on livestock production.

FARM PRICES DECLINED IN 1948—COSTS STAYED HIGH

During the year just ended, prices of farm products declined approximately 13 percent.

Grain prices, particularly, performed badly during the year. Corn prices on December 15, 1948, averaged only \$1.23 a bushel to farmers. A year earlier, it was \$2.37. Wheat prices at year-end averaged about \$2.05 a bushel to farmers. This was 74c per bushel less compared with a year earlier. Oats went down 42c; barley 87c; soybeans \$1.33; flaxseed 91c.

In fact, most grains were at support levels by the year-end. Had it not been for extensive direct and indirect price support programs during the year, the record grain crops undoubtedly would have pushed prices even lower—perhaps much lower.

If another big wheat and feed grain crop is produced again this year, the outlook for grain prices is pretty much the price support level.

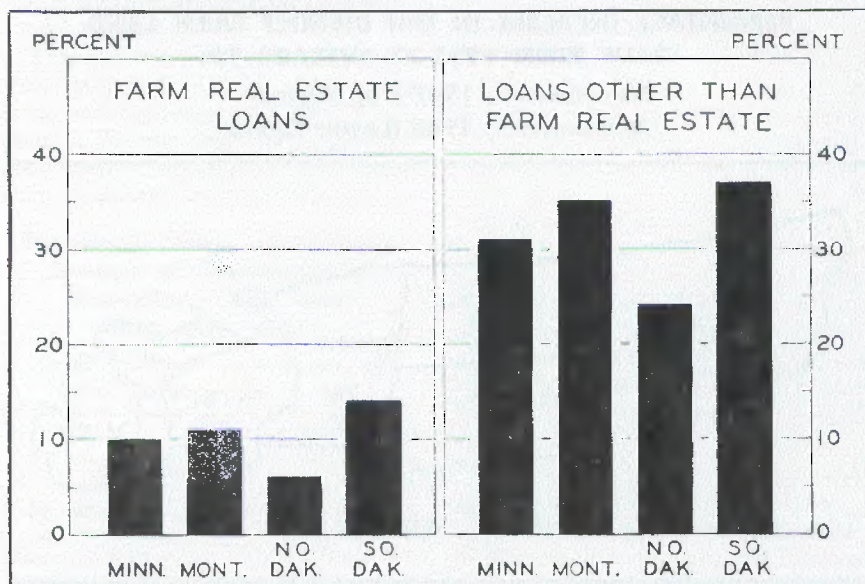
Cattle and hog prices moved erratically during 1948. First, a sharp price break occurred in early February. This was followed in mid-summer by record high price peaks for most livestock. Livestock prices declined again by the year-end to approximately 6 percent below what they were at the year's beginning.

Prices of dairy products behaved unseasonably during the past year. During the summer months, prices of dairy products were relatively high in spite of the increase in production. In the fall of the year prices, particularly butter, declined even though production of dairy products was down seasonally.

Prices paid by farmers including interest and taxes are down less than 2 percent from July, and most of this decline is due to lower prices of feed in the prices paid formula.

A sharper decline in prices received by farmers compared with prices paid brought the parity ratio (prices received index divided by prices paid index, 1910-1914 = 100) down to 109 in mid-December, 9 percent below last July and the lowest since September 1942. However at 109 the parity ratio is still decidedly favorable to agriculture compared with pre-war (1935-39) when it averaged 84.

PERCENTAGE INCREASE, AGRICULTURAL LOANS IN INSURED COMMERCIAL BANKS, FROM MID-1947 TO MID-1948



FARMERS used bank credit liberally during 1948 to purchase land and equipment. South Dakota banks showed the greatest increase in loans.

Source: Assets and Liabilities, June 30, 1947 and 1948, FDIC.

FARM REAL-ESTATE DEBTS SMALLEST SINCE 1911

Farmers in the Ninth district as a whole further improved their financial position during 1948. Bumper crops and high prices have enabled them to maintain their bank deposits at near-record proportions. In the Dakotas, for example, demand deposits, although slightly below last year, are seven to eight times the 1939 level. Bonds and other liquid asset holdings have steadily increased. Total liquid financial assets of farmers for the U. S., as a whole, are currently more than 5 times what they were at the beginning of 1940.

It is probable that the increase in currency, bank deposits, and savings bonds of farmers in the Ninth district is substantially higher than for the country as a whole. This is because of bumper wheat and other cash grain crops and particularly favorable net returns from cash grain farming.

Although farm real estate values increased further in book value dur-

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BUSINESS

Demand and Supply in Better Balance in '48

AN OUTSTANDING characteristic of the 1948 economy is the greater balance achieved between the demand for and the supply of consumer merchandise. This has been reflected by the levelling off in prices during the latter part of 1948.

Most of the scarcities among consumer items have disappeared from the retail market. A large number of consumers have caught up with their demands which had been deferred on account of the war. Others have been forced out of the market by the rise in prices.

On the supply side, the economy was operating close to full capacity in 1948 and produced a record volume of finished products. The index of industrial production, which is a measure of physical volume, was 2.7 percent higher than in the previous year. This district experienced practically full employment through most of the year; in fact, a new record was set during the summer months.

CONSUMER INCOMES SHOWED SMALL RISE IN 1948

Consumer incomes during 1948 levelled off materially. In the four states wholly within this district—Minnesota, Montana, North Dakota, and South Dakota—the income paid to individuals for their products, services, and as a return on their investments and savings exceeded the 1947 total by less than two percent.

An examination of the income by states reveals significant variations in the trend from a year ago. In Minnesota and Montana, the 1948 total income was three percent larger and in South Dakota one percent larger, while in North Dakota it was five percent smaller. In Michigan and Wisconsin, which are only partly in this district, the total income continued to rise during the past year by seven and four percent respectively.

The leveling off in the total income paid to individuals in this region from the rapid rise during the first two postwar years is traced, in a large measure, to the trend in farm product prices. In the four states wholly within this district, the 1946 and 1947 total income showed an increase of 17 percent over the previous years.

In Michigan and Wisconsin, which are more industrialized states, the rise in the total income was less during these years but continued to show a somewhat larger increase during 1948.

CONSUMER CREDIT EXPANSION A FACTOR IN LARGER SALES

The small rise in consumer incomes in this district during 1948 as compared with previous years has had a bearing on the dollar volume of retail sales. However, sales were not held to this small increase.

The expansion in consumer credit has continued to be an increment in the aggregate consumer purchasing power. According to the sample of department stores reporting cash and credit sales, cash sales were about equal to those in the past year, while charge account sales increased by 13.8 percent and instalment sales by 22.3 percent. United States figures indicate that cash sales were also about equal, while charge account sales increased by 10.3 percent and instalment sales by 29.2 percent.

As a result of the shift to credit

▶ **Consumer incomes rose by only a small percentage over 1947.**

▶ **Consumer credit expansion and liquidation in savings accounted for larger department store sales.**

▶ **A seasonal slump was experienced for the first time since the war by some manufacturing firms.**

▶ **Iron ore shipments in 1948 were at highest peacetime level.**

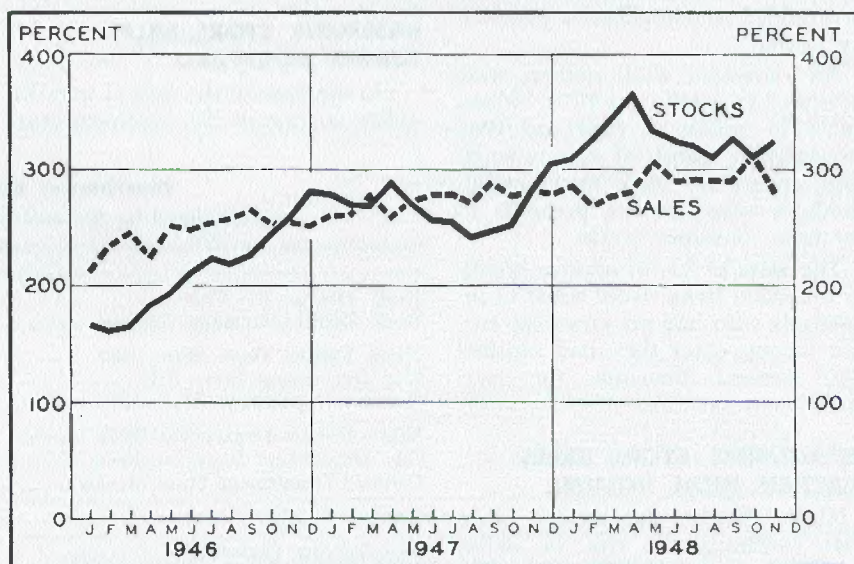
▶ **Construction growth was greater in non-residential building.**

sales, more credit has been outstanding in department stores. The amount on charge accounts increased by 14.9 percent during the past year and on instalment contracts by 56.1 percent.

More consumer credit is also outstanding at commercial banks. The instalment credit in this district at the end of November 1947 was estimated at \$107 million and at the end of November 1948 at \$147 million. This

NINTH DISTRICT DEPARTMENT STORES SALES AND STOCKS

1935-39=100



RECENT sales promotions by department stores have tended to bring stocks more nearly in line with sales volume.

represents an increase of 36 percent over a period of 12 months.

In other financial institutions a similar expansion in consumer credit has taken place. According to a sample of credit unions in this district, the amount of loans outstanding at federal credit unions at the end of November had risen by 57 percent over a period of 12 months and at state credit unions by 34 percent. At industrial loan and small loan companies, the amount of loans rose by 11 and 12 percent respectively.

In terms of pre-war relationships, the amount of consumer credit outstanding is still low in comparison with the high level of consumer incomes and retail sales. As the amount of credit outstanding increases, more of the current income has been contracted on previous purchases. Consequently, less of the current earnings are available for new purchases. A further expansion of consumer credit may be a smaller increment in the aggregate purchasing power, especially when consumer incomes are levelling off.

LIQUIDATION OF SAVINGS A FACTOR IN LARGER SALES

The liquidation of past savings has been another source of purchasing power. Even though the sales of U. S. savings bonds in this district during the three postwar years have exceeded the redemptions progressively, the redemptions, nevertheless, have added to the effective purchasing power.

An estimated \$210 million were redeemed in 1948, and \$201 million and \$225 million in 1947 and 1946 respectively. Most of the redemptions apparently were made by individuals who use the proceeds to purchase consumer goods.

The sales of U. S. savings bonds, on the other hand, were made to individuals who had an excess of current income after they had satisfied their current demands for merchandise.

DEPARTMENT STORE SALES REACHED HIGH VOLUME

Ninth district department store sales continued to rise in dollar volume during 1948. The index for the year was 289 percent of the 1935 to 1939 average as compared with 273 percent for 1947. The trend through the year reveals an upward

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Dec. 1	Percent Change ² From Year Ago Dec. Jan.-Dec.	
Minneapolis	+478	+ 1	+ 7
St. Paul	+407	- 4	+ 2
Duluth-Superior ..	+466	+ 4	+10
Aberdeen	+663	+ 1	+ 5
Bismarck	+401	- 1	+11
Grand Forks	+460	- 4	+ 3
Great Falls	+552	+ 9	+ 8
La Crosse	+422	+ 7	+ 4
Mankato	+419	+ 4	+12
Minot	+433	- 4	+ 3
Rochester	+326	+ 1	+ 7
Sioux Falls	+517	+ 4	+10
Valley City	+408	+ 9	- 4
Willmar	+410	0	+ 5
Winona	+418	+ 4	+12
Yankton	+394	-12	0

¹ Based on daily average sales.

² Based on total dollar volume of sales.

surge in the first quarter, reaching a peak in May of 306 percent. In the summer months, the adjusted index held quite steady at 292 percent of the pre-war base. In October the index rose above the May peak to 311 percent. In November, the much discussed slump in sales pulled the index down to 279 percent—a figure lower than any month since February, 1948.

Increased sales during December raised the adjusted index to 281 percent. This was still a few points below the average for the year of 289 percent.

BASEMENT STORE SALES SURGED FORWARD

On the basis of the first 11 months, dollar volume in the basement store

greatly surpassed all departments in the main store in terms of a percent increase over a year ago. The sales in the basement store totalled 13 percent larger, while the main store was only three percent larger.

Within the main store, the 1948 sales in the miscellaneous merchandise department and women's and misses' ready-to-wear apparel exceeded significantly the sales of a year ago. On the contrary, the sales of men's and boys' wear fell below last year's volume.

The November slump in sales was centered in certain types of merchandise. The house furnishings sales were materially below those of a year ago. Major household appliances, which include refrigerators, washers, ironers, stoves, and cabinets, fell farther below last year's dollar volume than any other item. Men's and boys' wear sales also slumped noticeably.

JANUARY SALES WERE BELOW THOSE OF YEAR AGO

Indications are that January sales fell slightly short of a year ago. For the four weeks ending January 29, the dollar volume in Duluth, Minneapolis, St. Paul and Superior was two percent less as compared with the corresponding period of 1948.

In general, prices have ceased the upward surge—which has a bearing on the trend of department store sales. According to the index of retail prices compiled by the Fairchild Publications, retail prices on January 1 were back to the August 1 level as

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Northwest Business Indexes

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

	Dec. '48	Nov. '48	Dec. '47	Dec. '46
Bank Debits—93 Cities ¹	316	333	315	275
Bank Debits—Farming Centers ¹	394	412	375	329
Ninth District Dept. Store Sales.....	281p	279	276	251
City Department Store Sales.....	298p	290	299	272
Country Department Store Sales.....	265p	269	254	231
Ninth District Department Store Stocks.....	335p	325	306	281
City Department Store Stocks.....	296p	285	269	269
Country Department Store Stocks.....	367p	357	335	290
Country Lumber Sales.....	192p	164p	168	142
Miscellaneous Carloadings.....	149	140	152	154
Total Carloadings (excl. Misc.).....	91	136	105	103
Farm Prices (Minn. unadj.).....	254	261	302	265

¹ A new seasonal adjustment factor was computed for the bank debits series. The new adjusted index for former years is available to the reader upon request.

p—preliminary.

BANKING

Loan Rise Slowed in 1948; Deposits Declined

THE stake of Ninth district member banks in the prosperity and welfare of this area reached new heights during 1948.

On the asset side of Ninth district member banking: total loans in 1948 hit an all-time peak volume; government security portfolios continued their postwar declining trend; and reserve balances at the Federal Reserve bank were built up to the largest volume on record.

On the liabilities side of Ninth district member banking: total deposits—although down slightly from 1947—surpassed all other previous years and, moreover, deposits changed hands more rapidly than a year ago; borrowings from the Reserve bank were held to a minimum equalling zero at the close of the year; and capital accounts increased to a new high level.

This record of achievement speaks well for both the economy of the Ninth district and the services made available by its bankers. Judgment, however, must be made in the light of the general economic developments of the year.

Although 1948 showed some signs of readjustment and tempering of high prices, the number one problem continued to be inflation. A vital force generating inflation in the postwar period has been the excessively large supply of money relative to the available supply of goods and services. This huge money supply pressing on a very slowly expanding volume of production pushed prices higher and higher. Thus, from the point of view of inflation control, bringing the money supply into closer balance with total production was to be desired.

Against this background, then, the most significant developments of 1948 may prove to be the facts that—both nationally and in the Ninth district—(1) although loans increased in 1948, they rose at a greatly slackened pace compared with the galloping expansion of previous postwar years; and (2) that bank deposits, which constitute the great bulk of our money supply, leveled off during the year.

LOAN EXPANSION SLACKENED

Total loans in all Ninth district member banks equalled \$876 million at the close of 1948. This volume of loans not only surpassed year-end 1947, when loans equalled \$754 million, but overtook the previous all-time high of June 1920 when loans stood at \$811 million.

Although a new peak was reached, the rate of loan expansion in 1948 was the lowest so far in the postwar period. In 1946 total loans in all Ninth district member banks rose from \$451 million to \$593 million—an advance of 31 percent. In 1947 Ninth district loans reached \$754 million—up 27 percent over the preceding year. At the end of 1948, with an increase of \$122 million, loans had expanded only 16 percent.

On the basis of the 20 reporting banks in this district, the major sources of loan expansion during

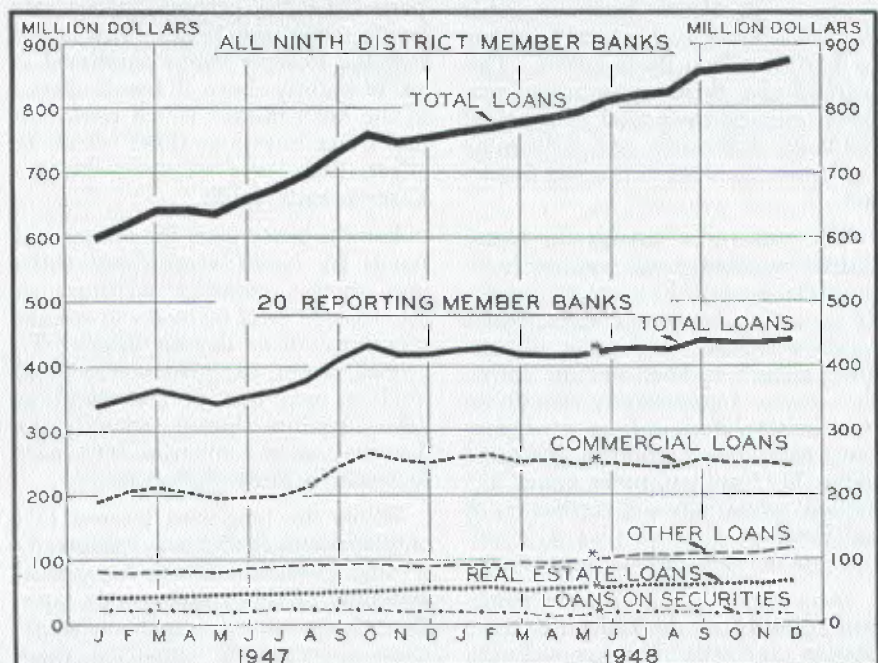
► The percentage increase in loans outstanding—which was 31% in 1946 and 27% in 1947—was down to 16% in 1948.

► Total loans hit an all-time peak of \$876 million.

► Demand deposits dropped 4% to \$3,444 million.

► Banking developments reflected Federal Reserve bond support and anti-inflationary program.

1948 presumably were real estate loans and others, largely consumer loans. In the 20 reporting banks (the larger city banks) real estate loans rose almost steadily from \$55 million at year-end 1947 to \$63 million at year-end 1948. That these loans did not increase further despite the brisk demand for mortgage credit is due largely to a greater reluctance

NINTH DISTRICT MEMBER BANK LOANS IN 1947 AND 1948

TOTAL LOANS in all district member banks rose steadily in 1948, but at a slackened pace compared with 1947. In the 20 reporting banks the increase was in real estate loans and others (large consumer).

*Beginning June 30, 1948, individual loan items are reported gross, i.e., before deduction of valuation reserves, instead of net as previously reported.

by banks to lend in an inflated real estate market.

Other loans, largely consumer, in the 20 reporting banks increased in 1948 from \$91 million to \$118 million. The expansion of these loans was perhaps held down by the reimposition of Regulation W covering consumer instalment credit, effective September 20, 1948. While most commercial banks were already extending credit on terms similar to those stipulated in Regulation W, its enforcement sounded a warning that Congress and the Federal Reserve Board considered instalment lending an important potential source of inflationary pressure.

Commercial, industrial, and agricultural loans in the 20 reporting banks declined from \$252 million in December of last year to \$246 million on December 29, 1948. The course of these loans zigzagged during the year with little evidence of a continuous trend. Loans on securities also declined in 1948, from \$20 million to \$15 million.

SECURITY PORTFOLIOS SHIFTED TO SHORTER MATURITIES

Total government security portfolios in all Ninth district member banks declined from \$1,827 million to \$1,651 million during 1948. This marked the third consecutive year banks reduced their total government holdings, following the ballooning expansion incident to the war financing.

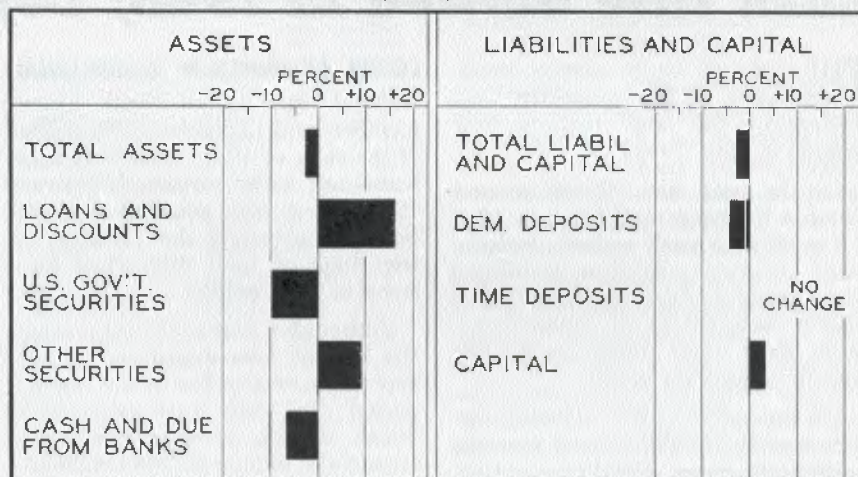
The pattern of changes in Ninth district member bank security holdings is evident in the portfolios of the 20 reporting banks. In these banks total portfolios were reduced from \$696 million to \$640 million during the year. Concurrently portfolios were being shifted in favor of shorter maturities. Bond holdings registered minus \$133 million, notes minus \$31 million, while bills and certificates of indebtedness showed plus \$19 million and plus \$89 million respectively.

Steps taken by the central monetary authorities—the Federal Reserve System and the Treasury—during 1948 were instrumental in the changes which occurred in bank portfolios.

Because of the importance in our economy of the \$250 billion government debt, the Reserve System (and the Treasury) during 1948 contin-

PERCENTAGE CHANGES IN ASSETS AND LIABILITIES IN ALL 9TH DISTRICT MEMBER BANKS

From Dec. 31, 1947, to Dec. 29, 1948



HIGHLIGHTS of the Ninth district banking picture in 1948: Loans up 16% over 1947; U. S. government securities down 10%; demand deposits off 4%; capital accounts up 3%.

ued the war and postwar policy of maintaining an orderly and stable market for government bonds. To insure this, the Reserve System supported the $2\frac{1}{2}$ percent interest rate level on long-term bonds. This meant that the Reserve banks purchased at par or slightly above all bonds offered in the open market which could not find other buyers at these prices. In effect, there was an open door to Reserve bank credit.

For the most part, liquidations of bonds by banks represented shifts into shorter maturity securities or into cash to meet increases in reserve requirements or deposit drains. To a small extent, the reduction in bond holdings was due to retirement or refunding into shorter terms by the Treasury or to conversion into more lucrative loans by the banks.

While the long-term interest rate on government bonds was held steady during 1948, there was a gradual stiffening of short-term money rates. The rising rate of return on short-term governments enhanced these securities as an investment medium.

During 1948 the average discount rate on weekly offerings of Treasury bills rose steadily from 0.951 percent for the last offering in December 1947 to 1.157 for the offering dated December 30, 1948. Twice during

the year, the Treasury boosted the one-year money rate in certificate refunding operations. In the January 1948 offering the certificate rate was increased from 1 percent to $1\frac{1}{4}$ percent; in the September and October offerings (announced in August) the one-year rate was allowed to rise to $1\frac{1}{4}$ percent.

At the same time the Federal Reserve banks hiked their rediscount rates in line with the Treasury increases. The Federal lending rate to member banks (for discounts and advances secured by government obligations and eligible paper) was increased in January from 1 percent to $1\frac{1}{4}$ percent and again in August to $1\frac{1}{2}$ percent.

INCREASED REQUIREMENTS BOOSTED RESERVE BALANCES

Total reserve balances with the Minneapolis Federal Reserve Bank of all Ninth district member banks at the end of 1948 (daily average figure for the last half of December) were \$496 million — \$464 million in required reserves, \$32 million in excess reserves. This represented an increase over a year ago of \$44 million in total balances—up \$35 million in required reserves, down \$11 million in excess reserves.

The major factor increasing re-

serve balances during 1948 was, of course, the increase in reserve percentages of 2 points on net demand deposits and 1½ points on time deposits effective September 16 for country member banks and September 24 for reserve city member banks. These increases boosted reserve requirements on net demand deposits to 22 percent and 16 percent respectively in reserve city and country banks and on time deposits to 7½ percent in both classes of banks.

The reserve requirements on net demand deposits are currently within 2 points of their legal maximum and on time deposits are at their legal ceiling established August 7 in the Anti-Inflation Act of 1948. Prior to this Congressional action, reserve requirements in the Ninth district (reserve city banks and country banks) were at the then legal maximum of 20 percent and 14 percent on net demand deposits in reserve city and country banks respectively and 6½ percent on time in both classes. These percentages had been in effect since August 1942.

The increase in reserve requirements was part of the overall credit restraint program of the Federal Reserve System during 1948. It was directed specifically, however, at mopping up new reserves which had been created since about mid-year. These new reserves were largely the by-product of sales of government bonds to the Reserve System by nonbank investors—insurance companies, savings and loan associations and others. Such sales became especially heavy beginning around the end of June. Gold inflow was also a factor increasing reserve balances of member banks.

It is generally understood that sales of bonds to the Reserve System by commercial banks increase reserve balances by an amount equal to the sales. It is less clear, however, that sales by nonbank investors increase both bank deposits and bank reserves by a corresponding amount. When a nonbank investor sells a bond to the Reserve System, a check drawn on a Reserve bank is paid to the seller. Bank deposits are increased when this check finds its way into a commercial bank. Bank reserves are created when the check is cleared through the Reserve bank and the account of the commercial bank credited.

Total Deposits of Ninth District Member Banks, by States (Millions of Dollars)

	Dec. 31, 1947	Dec. 29, 1948	\$ Change	% Change
Minnesota	\$2,121	\$2,016	—105	— 5.0
Montana	477	492	+ 15	+ 3.1
North Dakota	265	266	+ 1	+ 0.4
South Dakota	347	335	— 12	— 3.5
N. W. Wisconsin	187	182	— 5	— 2.7
U. P. Michigan	155	153	— 2	— 1.3
Total	\$3,552	\$3,444	—108	— 3.0

The increase in reserve requirements last September froze about \$2 billion nationally and over \$50 million in the Ninth district into non-earning reserve balances. It is significant that, despite this, the volume of total earning assets at the year's end, both on the national scene and in the Ninth district, was not reduced from that held at mid-year, prior to the increase. Earning assets were, in fact, increased. The following table bears this out.

Changes in Earning Assets and Reserve Balances of All 9th District Member Banks, June 30, 1948, to December 29, 1948 (Millions of Dollars)

	\$ Change 6/30/48 to 12/29/48
Earning Assets:	
Loans and Discounts	\$ + 63
U. S. Gov't Securities	— 20
All Other Investments	+ 7
Total Loans and Investments	\$ + 50
Reserve Balances:	
Required Reserves*	\$ + 76
Excess Reserves*	— 2
Total Reserves*	\$ + 74

* Changes in daily average figures for the last half of the month.

DEMAND DEPOSITS DECLINED, TIME DEPOSITS HELD EVEN

Total deposits in all Ninth district member banks were \$3,444 million at the close of 1948—down \$108 million from a year ago. About one-third of this decline was accounted for by "other" demand deposits, about two-thirds by "due to" bank deposits. Time deposits, although fluctuating gently throughout the year, ended 1948 unchanged from year-end 1947 at \$937 million.

The net decline in "other" demand deposits in 1948 came to \$36 million with the major drop occurring in the first three months of the year. This reduction in deposits was largely due to the Treasury use of its cash surplus to retire Federal Reserve-held government obligations. The cash surplus in the first quarter of the year resulted primarily from the huge income tax payments flowing into Treasury coffers. This money was being withdrawn from private deposit balances. By retiring Reserve-held government debt with the Treasury surplus, this deposit money was thereby removed from the money stream.

The Treasury surplus was the principal monetary bulwark restraining inflation from January through March. For the remainder of 1948, however, reductions in taxes and increased government expenditures for defense and foreign aid ate away the government surplus. Thus the means to continue the debt retirement program of the Treasury were for the most part unavailable.

After the first quarter's decline in "other" demand deposits, these accounts rose almost steadily until late in the year. The December deposit drop was concentrated in country banks and probably reflected, to some extent, the delaying of farm marketings. Farmers, in years of big crops, have evened out annual incomes for tax purposes by carrying over some of the last month's marketings to the beginning of the new year.

The net decline in "due to" bank deposits in all Ninth district member banks in 1948 came to \$72 million. This reduction also occurred largely in the first quarter and last month of the year, as banks withdrew correspondent balances to meet the deposit drain in "other" demand accounts. The increase in reserve percentages also resulted in pulling

down "due to" balances. Since correspondent bank business is handled for the most part by larger banks, the drop in "due to" balances in the Ninth district was concentrated in the 20 reporting banks, which include nine reserve city banks and 11 other large city banks.

The reduction of total deposits during 1948 resulted in some lessening in the upward pressure of the money supply on the price level. However, this was somewhat offset by the fact that the rate of spending was stepped up in 1948. Whereas in 1947 in the Ninth district each deposit dollar did the work of \$13.80 during the year, in 1948 the estimated annual rate of deposit turnover was 14.40.

Because of the dominance of farming and related enterprise in our district, the state of agriculture is a vital factor in the Ninth district banking picture. During the past few years, bumper crops and high farm prices have channelled funds into this area. Should the agricultural health chart reveal a downward turn in 1949, the Ninth district may experience a net drainage of funds to the rest of the country. If such is the case, Ninth district banks may stand to lose some of the deposits which have been flowing to them in the postwar period.

Assets and Liabilities of Twenty Reporting Banks (In Million Dollars)

	Dec. 31, 1947	June 30, 1948	Dec. 29, 1948	Yearly Change \$
Assets				
Comm., Ind., and Ag. Loans.....	\$ 252	\$ 251	\$ 246	- 6*
Real Estate Loans.....	55	56	63	+ 8*
Loans on Securities.....	20	16	15	- 5*
Other (Largely Consumer Loans).....	91	103	118	+ 27*
Total Gross Loans and Disc.....	\$ 418	\$ 426	\$ 442	+ 24*
Less Reserves		-3	-5	+ 5
Total Net Loans and Disc.....	\$ 418	\$ 423	\$ 437	+ 19
U. S. Treasury Bills.....	10	26	29	+ 19
U. S. Treasury Cert. of Indebt.....	40	103	129	+ 89
U. S. Treasury Notes.....	66	61	35	- 31
U. S. Government Bonds.....	580	460	447	-133
Total U. S. Gov't Securities.....	\$ 696	\$ 650	\$ 640	- 56
Other Investments	70	78	81	+ 11
Cash and due from Banks.....	526	451	467	- 59
Miscellaneous Assets	14	15	16	+ 2
Total Assets	\$1,724	\$1,617	\$1,641	- 83
Liabilities				
Demand Deposits, Ind., Part., Corp.....	\$ 858	\$ 746	\$ 799	- 59
Demand Deposits, U. S. Gov't.....	17	24	23	+ 6
Due to other Banks.....	340	295	280	- 60
Other Deposits	402	445	426	+ 24
Total Deposits	\$1,617	\$1,510	\$1,528	- 89
Borrowings				
Miscellaneous Liabilities	10	11	15	+ 5
Capital Funds	97	96	98	+ 1
Total Liabilities and Capital.....	\$1,724	\$1,617	\$1,641	- 83

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

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

	Dec. 31, 1947 ¹	June 30, 1948 ²	Dec. 29, 1948 ²	\$ Change Dec. 1947 to Dec. 1948
Assets				
Loans and Discounts.....	\$ 754	\$ 813	\$ 876	+122
U. S. Government Obligations.....	1,827	1,671	1,651	-176
Other Securities	186	196	203	+ 17
Cash and Due from Banks.....	967	859	904	- 63
Other Assets	26	28	30	+ 4
Total Assets	\$3,760	\$3,567	\$3,664	- 96
Liabilities and Capital				
Due to Banks.....	\$ 387	\$ 332	\$ 315	- 72
Other Demand Deposits.....	2,228	2,095	2,192	- 36
Total Demand Deposits.....	\$2,615	\$2,427	\$2,507	-108
Time Deposits	937	926	937	
Total Deposits	\$3,552	\$3,353	\$3,444	-108
Borrowings				
Other Liabilities	14	17	20	+ 6
Capital Funds	194	197	200	+ 6
Total Liabilities and Capital.....	\$3,760	\$3,567	\$3,664	- 96

¹ Call report figures.

² 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 Bank 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.

MONETARY POLICY IN 1948 HAD DOUBLE AIMS

Threaded through this story of Ninth district banking developments in 1948 is the outline of monetary and fiscal policy actions taken by the Board of Governors and the Treasury. The program of the central banking authorities in 1948 was geared to two major aims: One, the maintenance of orderly conditions in the bond market effected by supporting the 2½ percent interest rate on government bonds. The other, the pursuit of a modest anti-inflationary program. This program involved three major steps:

- The use of the Treasury cash surplus to retire Federal Reserve-held government securities.

- The gradual stiffening of short-term money rates.

- The increase in reserve requirements against deposits in all member banks and the reimposition of consumer instalment credit controls.

The anti-inflationary program of 1948 was rounded out by the "psy-

chological warfare" against excessive credit expansion waged by Federal and state banking authorities and the American Bankers Association and the voluntary restraint exercised by individual bankers.

The drama of monetary-fiscal policy in 1948 might appropriately

be titled "The Monetary Paradox." On the one hand, support of government bond prices and the resulting open market purchases of bonds by the Reserve banks created commercial bank reserves. On the other hand, the anti-inflationary program was designed to put pressure on bank

reserve positions. Thus this year central bank policy represented the compromise between two conflicting aims—both of which, however, were for the greater purpose of stabilizing our economic machine.

END

RECORD CROPS FATTENED FARMERS' PURSE

Continued from Page 649

ing 1948, working capital assets such as livestock, machinery, crops on hand, and household equipment suffered some depreciation. It is probable, therefore, that the net worth position of many farmers may be slightly less compared with a year earlier although it is still extremely favorable. For the future it is significant to remember that whereas liquid assets may hold their face value, land and other physical asset values will fluctuate with market conditions.

Although 1948 data is not yet available, it is probable that the total district farm mortgage debt was whittled down even more. On January 1, 1948, the total farm mortgage debt for the district was only about half what it was for the 1935-39 average, and it was the smallest since 1911.

The situation in the wheat growing areas of the district during recent years has been particularly favorable for long-term debt liquidation. This is reflected in the drastically reduced mortgage debt in the Dakotas and Montana. (See statistical tables at end of Review.)

LAND VALUES CONTINUED UPWARD TREND IN 1948

Land values in Ninth district states have not increased as much from pre-war as they have in most other parts of the U. S. In fact, land values in all district states except Montana were up (Nov. 1, 1948) less than 92 percent from the 1935-39 average. In Montana, values were 173 percent of the pre-war base (1935-39=100) and it was 113 percent for the U. S. as a whole. (See chart on land values.)

It would appear that district land

values in 1948 and in other recent years has not fully reflected net farm earnings. Many farms have been purchased and paid for from the proceeds of only a few years' operation. In fact, it has not been an unusual occurrence for some wheat and flax farms to be paid for out of a single year's earnings.

This unusual relationship between land values and income is not surprising in the western part of the district because land investors for several years have been anticipating a return to a period of dry years when incomes would be much less. Such caution would be fully justified in the event serious drouth conditions developed.

Whether district land values will tend to rise or fall during 1949 from current levels therefore will depend importantly upon support programs for farm commodities and the weather cycle. If prices for the basic crop are kept at or near 90 percent of parity and crops continue average or better, there seems to be little prospect of any sharp break in land prices during 1949.

The long-term level of land values is determined by two basic factors: (1) expected net income from farm operations, and (2) capitalization rates as influenced by investment returns from alternative enterprises. Currently, of course, in view of the new techniques and methods of farm-

Average Prices Received by Farmers, Ninth District¹

Commodity and Unit	December 15, 1937-1941 Avg.	December 15, 1947	December 15, 1948	Parity Prices ² United States December 15, 1948
Crops				
Wheat, bushel	\$0.75	\$2.85	\$2.00	\$2.18
Corn, bushel .....	.44	2.34	1.15	1.59
Oats, bushel .....	.28	1.11	.67	.986
Potatoes, bushel .....	.48	1.49	1.40	1.83
Livestock and Livestock Products				
Hogs, 100 lbs.	6.88	24.74	21.14	18.00
Beef Cattle, 100 lbs.	7.23	19.65	19.66	13.40
Veal Calves, 100 lbs.	8.61	22.93	25.31	16.70
Lambs, 100 lbs.	8.04	21.69	21.52	14.50
Wool, lb. ....	.27	.43	.51	.452
Milk, wholesale, 100 lbs.	1.75	4.27	3.62	4.32
Butterfat, lb. ....	.34	.93	.69	.712
Chickens, live, lb. ....	.118	.189	.258	.282
Eggs, doz. ....	.238	.491	.431	.643

¹ Data compiled from "December 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-November Cash Farm Income¹ (Thousands of Dollars)

State	1935-39 Average	1947	1948	1948 in Percent of 1947
Minnesota	\$ 312,762	\$ 1,212,004	\$ 1,244,613	103%
North Dakota	104,468	659,000	671,371	102
South Dakota	100,442	622,274	587,914	94
Montana	84,425	340,848	376,742	111
Ninth District ²	656,283	3,064,660	3,136,984	102
United States	7,525,852	27,360,674	28,289,005	103

¹ Data from "The Farm Income Situation," dated December, 1948.

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

ing and prospects for favorable farm programs the outlook for farm land values appears relatively optimistic.

AGRICULTURAL LOANS IN BANKS INCREASED SHARPLY

Banks lent considerable more money to farmers in 1948 than they did the previous year. Particularly, banks have increased their short-term production loans to farmers. Data for the year-end are not yet available but on June 30, 1948, district banks showed a 32 percent increase in non-real-estate agricultural loan volume compared with June 30, 1947.

This increase in non-real-estate bank credit is partly a result of rising costs and partly because of greater supplies of durable goods. Farmers have been able to get farm machinery, trucks, building materials, and other farm and household equipment in large volume in recent months, and apparently they have not hesitated

to use credit when needed.

As compared with 1940, however, volume of agricultural bank credit currently outstanding in Ninth district states is not excessive. In mid-1940, there were \$126 million of agricultural loans outstanding in the four full district states. In mid-1948, there were \$207 million, an increase of only 65 percent. During this same period, the agricultural price level was about trebled and the index of farm costs went up about two and one-fourth times.

Even though total farm real estate mortgage credits of all lending agencies in the district may show a net decline for the year, data from commercial banks indicate a slightly larger loan volume. As of June 30, 1948, farm real estate loans were 10 percent larger compared with a year earlier. This percentage increase is fairly uniform among the several district states. (See chart.) **END**

DEMAND AND SUPPLY IN BETTER BALANCE IN '48

Continued from Page 651

a result of a decline over the past 60 days. However, as compared with January 1, 1948, prices were still two percent higher. When prices remain level, sales reflect more accurately the fluctuations in the volume of business transacted because they do not include changes in value.

DISTRICT OUTPUT CLOSE TO UPPER LIMIT

From the point of view of production and distribution, the economy in this district during the past year operated close to full capacity. Further expansion occurred in the number of workers employed by the non-agricultural industries. In Minnesota, the average monthly employment was 795,400 as compared with 771,400 in 1947. This represents an increase of 3.1 percent. In Montana, average monthly employment rose to 138,100 as compared with 133,800 in the former year—an increase of 3.2 percent. In the other states, the information on hand points to a similar increase in the number of workers employed in non-agricultural industries.

The rapid expansion in manufacturing witnessed immediately after the war in this area has tapered off. On the basis of average monthly em-

ployment, a small expansion during 1948 occurred in Minnesota, Montana, and North Dakota. In Minnesota, an average of 500 additional workers were employed throughout the year. In Montana and North Dakota approximately 200 and 100 additional workers respectively were employed. In South Dakota as well as in Michigan and Wisconsin, which are largely outside of this district, there was a slight decline in the yearly manufacturing employment.

The electrical energy consumed by manufacturing establishments is a rough measure of the output of manufactured products. In the four states wholly within this district, there was an increase of 10 percent in the electrical energy consumed during the past year. A breakdown of a substantial proportion of the total electrical energy sales by type of users indicates that industrial and commercial concerns increased their use by five percent. This provides some evidence that the output of manufactured products continued to rise as a result of a larger output per worker and due to a larger number of workers.

Residential users increased their consumption of electricity by 13 percent. However, due to the rapid electrification of farms, rural sales rose by as much as 28 percent to bring total sales up to 10 per cent.

IRON ORE SHIPMENTS RECORD FOR PEACETIME YEAR

A record amount of minerals were mined in this district in response to the demand of a hungry industrial machine. From the Lake Superior area, 82,927,000 tons of iron ore were shipped by boat and some shipments were made to the steel mills by rail. This represents the largest annual shipment of ore during peacetime. It was exceeded in 1942 and 1943 by 92 and 84 million tons respectively.

The mining of other metals was also at a high figure. According to a sample of producers, the 1947 production in copper was exceeded by three percent, and in silver by 16 percent. Output of gold, on the contrary, declined by eight percent.

Along with the greater output of mines in this district, there were also more workers employed in this industry. In Minnesota and Montana, where most of the mining activity is centered, approximately 700 and 900 more workers respectively were employed throughout the year.

1948 CONSTRUCTION REACHED HIGH FIGURE

The 1948 expansion in construction activity was centered, in a large measure, in commercial, industrial,

Income Payments in States of the Ninth District (In Million Dollars)

	1946 ¹	1947 ¹	1948 ²
Michigan	\$7,443	\$8,641	\$9,207
Minnesota	3,123	3,450	3,554
Montana	668	801	827
North Dakota	634	908	826
South Dakota	664	779	789
Wisconsin	3,817	4,341	4,505

¹ Compiled by the U. S. Department of Commerce.

² Estimated by the Research Department of the Minneapolis Federal Reserve Bank.

The 1948 total income payments for the states in this district were estimated on the basis of the total personal income in the United States and the cash farm income in these particular states. The figure on personal income for the first three quarters was taken from the U. S. Department of Commerce and the fourth quarter was estimated from pertinent information in regard to the trend during the last quarter. An estimate of \$211.7 billion for the 1948 personal income total was used in the calculations.

The cash farm income for the states was available for the first 10 months from the U. S. Department of Agriculture. The income for the last two months was estimated from the trend in 1947.

Even though the total personal income in the nation and the cash farm income in the states are closely related to the total income in the states of this region, the estimates, nevertheless, are subject to a margin of error. The reader should bear this in mind if he has an occasion to use these estimates.

and public building as well as in highway construction. The total amount of contracts awarded in this district were \$333 million as compared with \$263 million in 1947—an increase of 26 percent. Of this increase residential building constituted 12 percent and all other types of construction, 33 percent.

INVENTORIES AT NEW LEVEL

With industry operating close to full capacity, pipe lines in the economy have been filled more than in previous years. At the end of December, Ninth district department store stocks were 10 percent higher than a year ago and 116 percent higher than at the end of 1945. The adjusted index was 335 per cent of the 1935 to 1939 average, while the adjusted index of department store sales for December was 281 percent of the same base period.

Stocks held by wholesalers have also risen. According to the U. S. Department of Commerce report, the dollar value of stocks held in the West North Central region at the end of November was 12 percent larger than a year ago, while sales during the month were only nine percent higher. The greatest increase in stocks occurred among appliances, furniture, and house furnishings.

With a large volume of stocks in the hands of wholesalers, some manufacturers for the first time since the war have felt a seasonal slump in orders. In fact, some manufacturers have found it necessary to reduce their output. For instance, in Minnesota in December manufacturing employment was 1.6 percent lower than in December 1947.

BANK DEBITS REFLECTED HIGH BUSINESS ACTIVITY

With the high level of business activity plus some rise in prices, bank debits again set a new record in the past year. The index for 93 representative cities in the district was 336 percent of the pre-war average as compared with 306 percent for 1947, indicating an increase of 10 percent. In the farming centers, debits have also risen to a high level. The index for 1948 was 408 percent as compared with 359 percent for the former year, showing an increase of 14 percent.

END

1949 OPENS ON A NOTE OF UNCERTAINTY

Continued from Page 647

that the big questions for the year should include the following:

1. Will private domestic investment maintain the high levels of the previous two years, or recede from those levels in an amount sufficient to cause a recession?
2. Will government expenditures—federal, state, and local—increase in such categories as public buildings and highway construction to take up any slackening in private investment?
3. Will consumption expenditures be deferred or eliminated in sufficient volume to cause a dumping of high-priced inventories on the market at considerably lower prices? In other words, will a buyers' market develop in which prospective buyers will withhold purchases in the expectation of still lower prices in the future?
4. Will another round of wage increases occur and, if so, will

employers be able in a more highly competitive situation to pass on higher wage costs in price advances as has been the case during the past two years? If not, will considerable unemployment develop?

5. Will the international situation remain static, or, will there be an outbreak of war or an outbreak of peace?

Changes in the Nation's Economic Budget (Calendar Years)

Economic Group	Percentage Change 1939 to 1948	Percentage Change 1947 to 1948
Consumers:		
Disposable income ¹	+171.2	+ 9.7
Expenditure	+161.9	+ 7.3
Business:		
Retained earnings ¹	+184.9	+26.9
Private investment.....	+332.2	+29.7
International: Net foreign investment.....	+100.0	-79.8
Government:		
Cash receipts.....	+297.3	+ 4.0
Cash payments.....	+196.0	+ 2.8
Total: Gross National Product.....	+185.2	+11.3

¹ Includes Government transfers.

Source: The Economic Report of the President, January, 1949, p. 33.

Sales at Ninth District Department Stores¹

	% Dec. 1948 of Dec. 1947	% Jan.-Dec. 1948 of Jan.-Dec. 1947	Number of Stores ² Showing Increase	Decrease
Total District	100	106	131	123
Mpls., St. Paul, Duluth-Superior.....	99	106	15	12
Country Stores	100	106	116	111
Minnesota	101	107	29	36
Central	96	104	1	5
Northeastern	104	109	2	2
Red River Valley.....	99	96	1	3
South Central	105	110	10	5
Southeastern	103	110	5	5
Southwestern	99	105	10	16
Montana	103	111	23	12
Mountains	102	116	8	2
Plains	103	109	15	10
North Dakota	96	103	27	20
North Central	97	99	5	5
Northwestern	96	103	2	4
Red River Valley.....	93	102	9	7
Southeastern	105	107	10	2
Southwestern	101	116	1	2
Red River Valley—Minn. & N. D.....	94	101	10	10
South Dakota	99	105	19	25
Southeastern	100	107	6	9
Other Eastern	98	102	10	14
Western	99	106	3	2
Wisconsin and Michigan.....	101	103	18	18
Northern Wisconsin	98	103	5	7
West Central Wisconsin.....	103	103	10	5
Upper Peninsula Michigan.....	101	102	3	6

¹ Percentages are based on dollar volume of sales.

² December 1948 compared with December 1947.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM, JANUARY 27, 1949

OUTPUT at factories and mines declined somewhat in December. Department store sales in December and the early part of January were above the reduced November rate, after allowance for seasonal variation. Wholesale prices of farm products and foods showed further marked declines, and retail prices of foods and some other goods were also reduced.

INDUSTRIAL PRODUCTION

—The Board's seasonally adjusted index of industrial production declined 3 points in December to a rate of 192 per cent of the 1935-39 average, owing primarily to reduced output of nondurable goods. Output for the year 1948 was also 192, as compared with 187 in 1947.

Activity in durable goods industries was maintained in December at about the level of the previous month. Iron and steel production, after allowance for mill closings on Christmas, continued close to the advanced November rate, and in the first three weeks of January rose to new record levels.

Activity in most machinery and transportation equipment industries was also maintained at about the November rate, although output in some lines—mainly those producing household equipment—was curtailed further.

Assembly of new automobiles in December was below the November rate, mainly because of model change-over activity at the end of the month. Passenger car production for the year was 3.9 million vehicles as compared with 3.6 in 1947 and 3.8 in 1941; the number of trucks produced in 1948 was at a record total of about 1.4 million.

Output in the nonferrous metals, lumber, and stone, clay, and glass groups showed little change in December.

Output of nondurable goods in December, according to preliminary figures, was at a rate about 2 per cent lower than in the preceding month. Cotton consumption declined further in December, and for the entire year 1948 was at the lowest

rate since 1940. Paperboard production was curtailed sharply at the end of December, and for the month was 6 per cent below the rate in December 1947. Activity in the petroleum refining industry increased further in December. Output in most other nondurable industries declined somewhat or showed little change.

Minerals production declined 3 per cent in December, mainly because of a considerable reduction in coal output. Production of crude petroleum was maintained at the November rate. In the early part of January, coal production continued at a reduced level, about 12 per cent below the rate at the beginning of 1948, and crude petroleum output was curtailed somewhat.

CONSTRUCTION — Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, rose contraseasonally in December, reflecting chiefly large awards for public works projects. Awards for most types of private construction were unchanged from November. The number of new nonfarm housing units started, according to the Bureau of Labor Statistics, declined further to 56,000 units as compared with 65,000 in November 1948 and 59,000 in December 1947; the total for the year was 927,000 units, almost 10 per cent more than the 849,000 started in 1947.

DISTRIBUTION — Department store sales increased by more than the usual seasonal amount from November to December, and the Board's adjusted index was estimated to be 307 per cent of the 1935-39 average as compared with 287 in November and an average of 302 for the year. Inventories at department stores were at a high level at the year-end, while outstanding orders were the lowest in six years. In the first half of January value of sales was 7 per cent larger than in the corresponding period last year, reflecting partly the effect of more extensive promotional sales.

Shipments of railroad revenue freight showed the usual large seasonal decline in December and were 8 per cent smaller than in the cor-

responding period a year ago, mainly because of reduced loadings of coal and manufactured goods. In the early part of January rail shipments of manufactured goods declined somewhat further.

COMMODITY PRICES — The average level of wholesale commodity prices continued to decline in December and the first three weeks of January, reflecting chiefly further marked decreases in prices of farm products and foods. Prices of alcohol, fuel oil, scrap metals, and some other industrial commodities also declined in this period, while additional advances were announced for metal products, including some new models of automobiles.

In retail market, prices of foods decreased somewhat further in December and January and special sales of apparel and household goods at reduced prices were widespread. Resale prices of passenger automobiles dropped further.

BANK CREDIT — A substantial post-Christmas return of currency from circulation and an excess of Treasury expenditures over receipts supplied reserve funds to member banks during the first three weeks of January. Banks used these funds to increase their holdings of government securities.

SECURITIES — Federal Reserve System holdings of government securities were reduced by over \$1 billion in the first three weeks of January. Bond holdings declined further as market demand for Treasury bonds continued active.

Business loans at member banks in leading cities declined substantially over the year-end but increased somewhat in mid-January. Loans to brokers and dealers in securities were reduced considerably. Increases in bank holdings of government securities reflected primarily large purchases of treasury bills.

SECURITY MARKETS — Prices of United States government and high-grade corporate bonds continued to rise slightly in the first three weeks of January.

The 1935-39 Average and the Years 1945 to 1948 in the Ninth Federal Reserve District

BUSINESS

Northwest Business Indexes (Monthly Averages — 1935-39 = 100)

	1944	1945	1946	1947	1948
Bank Debits—93 Cities	200	211	252	306	336
Bank Debits—Farming Centers	206	226	293	359	408
Ninth District Department Store Sales	164	185	247	273	289p
City Department Store Sales	170	197	261	283	300p
Country Department Store Sales	159	174	233	262	277p
Ninth Dist. Department Store Stocks	169	165	212	266	326p
City Department Store Stocks	153	157	208	242	279p
Country Department Store Stocks	181	171	214	286	364p
Country Lumber Sales	115	121	125	136	159p
Miscellaneous Carloadings	129	127	127	132	132
Total Carloadings (excl. Misc.)	126	119	112	123	120
Farm Prices—Minnesota	171	175	212	272	280

p—Preliminary.

Index of Department Store Sales by Cities (Monthly Averages — 1935-39 = 100)

	1944	1945	1946	1947	1948
Minneapolis	176	207	276	294	314
St. Paul	156	181	242	269	275
Duluth-Superior	185	205	242	268	295
Aberdeen	238	288	409	440	460
Bismarck	182	205	278	292	324
Grand Forks	174	199	273	339	348
Great Falls	199	209	273	314	338
LaCrosse	164	174	226	253	265
Mankato	181	202	242	256	285
Minot	191	208	277	312	321
Rochester	155	164	248	233	249
St. Cloud	218	259	334	336	355
Sioux Falls	197	221	288	334	368
Valley City	161	176	252	271	260
Willmar	164	189	252	281	293
Winona	149	166	224	241	269
Yankton	178	198	276	315	314

Bank Debits	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL—108 Cities	\$ 9,988,121	\$20,998,772	\$24,964,152	\$30,403,101	\$33,501,180
Minneapolis	4,076,953	8,589,221	10,062,865	12,334,351	13,128,906
St. Paul	1,929,849	4,010,888	4,550,699	5,338,788	5,890,987
South St. Paul	264,108	539,746	671,408	984,867	988,449
Duluth-Superior	566,771	1,161,570	1,253,206	1,495,154	1,650,383
Michigan—14 Cities	251,171	502,549	601,568	724,769	801,120
Minnesota—38 Cities	791,036	1,565,949	2,056,285	2,463,669	2,757,280
Montana—15 Cities	747,514	1,524,498	1,753,480	2,097,608	2,628,348
North Dakota—13 Cities	561,721	1,278,802	1,620,197	1,982,296	2,340,817
South Dakota—16 Cities	514,531	1,230,635	1,592,905	2,025,969	2,277,133
Wisconsin—7 Cities	284,467	594,914	801,539	955,630	1,037,757

Country Check Clearings	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL	\$ 2,085,295	\$ 4,616,783	\$ 6,096,571	\$ 7,801,576	\$ 8,893,888
Minnesota	1,016,178	2,069,002	2,735,702	3,468,877	4,008,383
Montana	242,415	579,920	759,640	952,279	1,108,543
North and South Dakota	535,293	1,353,533	1,772,427	2,338,788	2,715,837
Michigan and Wisconsin	290,712	614,328	828,802	1,041,632	1,061,125

Retail Sales	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
440 Lumber Yards (Board Feet)	100,921	122,092	125,744	139,712	164,140p
440 Lumber Yards (Dollar volume) \$	14,744	\$ 27,206	\$ 35,326	\$ 49,114	\$ 62,244p
City Department Stores (19 stores)	62,344	123,154	163,991	178,066	188,630p
Country Dept. Stores (500 stores)	69,872	120,458	163,027	186,218	199,869p
Minnesota (176 stores)	21,887	36,651	50,154	56,620	60,816p
Montana (80 stores)	15,264	24,298	32,833	37,856	41,456p
North Dakota (92 stores)	12,478	22,234	31,830	37,124	39,756p
South Dakota (85 stores)	9,795	19,840	25,953	29,385	32,127p
Mich. and Wis. (67 stores)	10,448	17,435	22,257	25,233	25,714p

p—Preliminary.

Inventories, December 31	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
421 Lumber Yards (Board Feet).....	56,293	27,246	20,444	56,726	68,815p
14 City Department Stores.....\$	11,961	\$ 15,881	\$ 28,953	\$ 27,724	\$ 30,589p
110 Country Department Stores ¹	5,613	7,078	13,275	15,296	16,692p

¹ Inventories for 1946, 1947, and 1948 reported at retail. Inventories for earlier years reported at cost.
p—Preliminary.

Accounts and Notes Receivable, December 31

	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
385 Lumber Yards.....\$	2,135	\$ 2,307	\$ 2,446	\$ 4,110	\$ 5,095p
14 City Department Stores.....	7,263	7,973	13,136	17,005	18,589p

p—Preliminary.

Freight Carloadings — N. W. District

	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL.....	4,764	5,847	5,631	6,024	5,997
Grain and Grain Products.....	453	744	676	682	599
Livestock.....	168	227	235	181	151
Coal.....	308	397	367	370	364
Coke.....	68	95	81	97	95
Forest Products.....	433	483	520	556	524
Ore.....	790	1,414	1,125	1,436	1,560
Miscellaneous.....	1,551	1,951	1,952	2,027	2,050
Merchandise—LCL.....	990	532	675	675	654

Electric Power Prod. (KWH)	1935-39 Av.	1945	1946	1947	1948
TOTAL.....	1,986,043	5,571,751	6,070,503	7,044,838	7,740,967
Minnesota.....	1,509,249	2,677,213	2,937,868	3,496,182	3,944,388
Montana.....	1,392,160	2,317,961	2,458,609	2,764,383	2,871,059
North Dakota.....	198,608	312,104	352,741	418,145	499,109
South Dakota.....	138,890	264,473	321,285	366,128	426,411

Life Insurance Sales	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL.....\$	207,564	\$ 283,721	\$ 459,941	\$ 487,476	\$ 465,349
Minnesota.....	148,572	184,446	294,323	304,256	290,349
Montana.....	22,720	31,280	53,158	57,956	58,066
North Dakota.....	17,781	33,830	54,627	57,821	54,310
South Dakota.....	18,491	34,165	57,833	67,443	62,624

Manufacturing and Mining	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
Flour Production:					
Minneapolis Mills (bbls.).....	6,007	8,196	8,384	9,480	7,004
Other N. W. Mills (bbls.).....	9,031	14,538	14,634	15,936	13,141
Flour Shipped from Mpls. (bbls.).....	6,552	7,249	7,309	8,158	6,196
Linseed Product Shipped (lbs.).....	226,529	630,360	667,200	690,840	980,820
Iron Ore Shipped (gross ton).....	40,030	75,714	59,357	77,898	82,937

Construction Contracts Awarded in Ninth District

	1935-39 Av.	1945	1946	1947	1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL.....\$	87,002	\$ 83,335	\$ 243,648	\$ 241,288	\$ 299,249
Public Works.....	32,593	10,314	52,002	66,539	95,520
Public Utilities.....	8,133	7,760	27,353	24,562	18,762
Total Building.....	46,276	65,261	164,293	150,187	184,967
Residential.....	19,640	19,547	94,026	77,871	89,217
Commercial and Industrial.....	8,453	30,301	48,692	41,335	39,981
Educational.....	8,496	1,466	3,048	8,672	18,987
All Other.....	9,687	13,947	18,527	22,309	36,782

Business Failures in 9th District	1935-39	1945	1946	1947	1948
Number.....	235	11	18	48	70
Liabilities.....\$	3,549,000	\$ 171,000	\$ 710,000	\$ 5,714,000	\$ 2,107,000

Livestock Numbers, 4 Northwest States, January 1*

	1935-39 Av.	1945	1946	1947	1948	1948 in Per Cent of 1947
			(T-h-o-u-s-a-n-d-s)			
All Cattle and Calves.....	7,170	10,277	9,874	9,569	9,238p	97%
Dairy Cows.....	2,931	3,120	2,909	2,780	2,568p	92
Sheep and Lambs.....	6,101	6,124	5,101	4,342	4,003p	92
Hogs.....	3,464	6,042	6,940	5,792	5,298p	91
Chickens.....	29,650	48,480	48,724	45,841	44,835p	98
Turkeys.....	942	694	767	538	276p	51

*Source: USDA—"Livestock Market News, July 1948."

p—Preliminary.

BANKING

All Member Bank Total Deposits

	1935-39 Av.	Dec. 31, 1945	Dec. 31, 1946	Dec. 31, 1947	Dec. 31, 1948
			(T-h-o-u-s-a-n-d-s)		
TOTAL.....	\$ 1,036,345	\$ 3,424,936	\$ 3,317,232	\$ 3,551,851	\$ 3,500,998
Michigan—15 Counties.....	58,413	149,376	148,618	155,052	154,545
Minnesota.....	695,966	2,178,417	1,993,818	2,121,191	2,059,313
Montana.....	119,182	425,198	448,109	477,458	495,248
North Dakota.....	49,717	223,152	238,214	264,565	269,497
South Dakota.....	65,413	270,327	304,222	346,825	339,252
Wisconsin—26 Counties.....	47,652	178,466	184,251	186,760	183,143

City Member Banks

	1935-39 Av.	Dec. 31, 1945	Dec. 31, 1946	Dec. 31, 1947	Dec. 31, 1948
			(T-h-o-u-s-a-n-d-s)		
Loans and Discounts.....	\$ 175,656	\$ 267,658	\$ 335,483	\$ 417,928	\$ 439,273
U. S. Government Securities.....	174,924	1,069,420	792,908	695,419	639,932
Other Securities.....	43,434	55,223	57,612	70,812	78,645
Total Deposits.....	560,186	1,733,227	1,516,715	1,617,377	1,566,116
Dem. Dep. Ind., Pt. and Corp.....	244,867	674,201	777,669	859,040	822,725
Time Dep. Ind., Pt. and Corp.....	120,455	207,210	237,476	249,520	249,677
Public Deposits.....	57,994	466,244	145,572	150,426	185,817
Due to Banks and Other Dep.....	136,869	385,572	355,998	358,391	307,897
Estimated Excess Reserves.....	19,779	11,216	9,215	12,929	3,875

Country Member Banks

	1935-39 Av.	Dec. 31, 1945	Dec. 31, 1946	Dec. 31, 1947	Dec. 31, 1948
			(T-h-o-u-s-a-n-d-s)		
Loans and Discounts.....	\$ 136,792	\$ 183,779	\$ 257,052	\$ 335,874	\$ 444,552
U. S. Government Securities.....	128,818	1,088,657	1,119,261	1,131,545	1,006,474
Other Securities.....	102,534	69,798	86,298	115,273	123,918
Total Deposits.....	476,159	1,693,938	1,800,517	1,934,474	1,934,881
Dem. Dep. Ind., Pt. and Corp.....	171,966	824,293	975,244	1,067,018	1,059,531
Time Dep. Ind., Pt. and Corp.....	229,188	553,262	634,970	679,279	679,826
Public Deposits.....	52,767	247,468	124,680	122,688	138,805
Due to Banks and Other Dep.....	22,238	68,915	65,623	65,489	56,719
Estimated Excess Reserves.....	19,367	48,485	33,322	30,703	28,470

Interest Rates (Per Cent)

	1945	1946	1947	1948
Minneapolis Commercial Banks.....	2½ - 3	2½ - 2¾	2¾ - 3	3¼ - 3½
Commercial Paper (Net Rate).....	1	1	1	1
Minneapolis Federal Reserve Bank.....	1	1	1	1¼

Minneapolis Federal Reserve Bank

	1935-39 Av.	Dec. 31, 1945	Dec. 31, 1946	Dec. 31, 1947	Dec. 31, 1948
			(T-h-o-u-s-a-n-d-s)		
Loans to Member Banks.....	\$ 99	\$ 0	\$ 0	\$ 0	\$ 175
Twin Cities.....	0	0	0	0	0
Minn., Wis. and Mich.....	56	0	0	0	0
North Dakota and Montana.....	12	0	0	0	100
South Dakota.....	30	0	0	0	75
Industrial Advances.....	999	0	0	0	0
Total Earning Assets.....	75,868	630,640	639,552	666,184	719,119
Mem. Bank Res. Balances.....	122,225	385,403	398,589	450,552	506,653
Fed. Res. Notes in Circulation.....	132,502	551,859	592,688	626,969	631,349
Total Gold Certificate Reserve.....	208,697	359,767	378,418	454,855	493,555