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District Manufacturing Expanding Since 1939

Rate of Growth Compares Favorably with Other Regions; Food Processing Is Now Rivalled by Other Types of Manufacturing

By OSCAR F. LITTERER

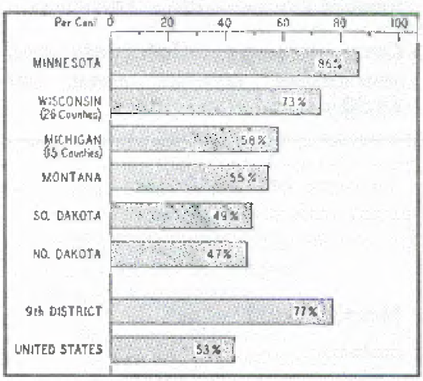
MANUFACTURING in the Ninth district has grown rapidly during the present decade after a period of stagnation which followed the Great Depression of the early Thirties. This was revealed by preliminary tabulations of the 1947 Census of Manufactures.

Along with the larger yields of crops and the increase in livestock on farms, manufacture of food has expanded materially, for a large share of the agricultural products raised in this region are also processed here. In general, the Ninth district often has been characterized as a food producing area.

FOOD PROCESSING GROWS WITH LARGER FARM OUTPUT

The number of workers in food processing concerns, which includes such industries as meat packing, flour milling, creameries, vegetable canning, sugar refining, and many others, in 1947 totaled 48,200 in the four states wholly in this district—that is, Minnesota, Montana, North Dakota, and South Dakota. This represents an increase of approximately 45 per cent from 1939, when the last census of manufacturing was taken.

INCREASE IN FACTORY PRODUCTION WORKERS IN NINTH DISTRICT AND UNITED STATES, 1939-47



PRODUCTION workers in the Ninth district percentage-wise increased more than in the nation as a whole.

Source: Census of Manufactures: 1947.

The value added through the processing of food—that is, the difference between the cost of raw materials and supplies used in the manufacturing process on the one hand, and the value of the finished products, on the other—in 1947 aggregated almost \$29.5 million. In 1939, the value added was slightly less than \$11 million. A large part of this enormous increase of 168 per cent in the total value of manufactured food products, of course, is due to inflation of prices. On the basis of the index of food prices compiled by the U. S. Bureau of Labor Statistics, such prices rose 140 per cent between 1939 and 1947.

OTHER MANUFACTURING NOW SURPASSES FOOD PROCESSING

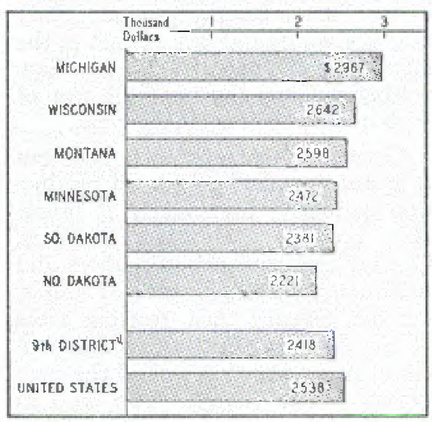
Food processing is by far the principal industry in North and South Dakota. In 1947, 69 and 66 per cent respectively of the factory workers in these states were employed in such concerns. In Minnesota, it is still the largest single industry, but the proportion of total factory workers employed in such concerns has fallen to 26 per cent due to the rapid growth in other industries.

In the other states, Montana, Michigan, and Wisconsin, other industries surpass food processing. In Montana, more than twice as many workers are employed in the lumber industry as in the manufacture of food. In Michigan, several industries, in addition to the automobile industry, exceed the food industry in size, while in Wisconsin the manufacture of machinery ranks first and food second.

SIGNIFICANT GROWTH IN TOTAL INDUSTRIAL OUTPUT

Manufacturing in the Ninth district between the two census dates, 1939 and 1947, has grown faster than

AVERAGE WAGE PAID TO FACTORY PRODUCTION WORKER IN 1947, NINTH DISTRICT AND UNITED STATES



AVERAGE WAGE paid to production workers in the Ninth district approximates that for the United States.

[1] The Ninth district average is based on the four states—Montana, Minnesota, North Dakota, and South Dakota.

in the nation as a whole. The number of production workers increased 77 per cent in this district as compared to 53 per cent in the nation as a whole. The value added by all types of manufacturing in this region rose by 218 per cent, while in the nation it was 204 per cent. As was mentioned formerly in connection with the manufacture of food, a large part of the increase in the value added through manufacturing is due to price inflation.

A comparison of the increase in the number of production workers and in the value added through manufacture in this district and in the entire nation reveals a lag in the rise of productivity per worker in this area. The value added per production worker in this district rose by 80 per cent between the two censuses, while in the United States as a whole it doubled. When the final tabulations with the more detailed breakdowns of the data are published, it will be possible to examine the causes of this differential in productivity.

Among the states wholly or partly in the Ninth district, manufacturing on a percentage basis has grown most in Minnesota. In 1947, 86 per cent more production workers were employed in the factories of this state than in 1939. In Michigan, a highly industrialized state, the increase was 58 per cent. In states predominantly agricultural, like North Dakota and South Dakota, the increase was less than 50 per cent.

The growth in manufacturing in this district apparently is traced in a large measure to the expanded operations of established concerns. The number of manufacturing establishments increased 21 per cent, which was about half the rate of increase for the nation.

Wages paid to factory workers in this district tend to approximate the national average. The average wage paid to production workers in the United States during 1947 was $2,538. The average wage paid in Minnesota and North and South Dakota was somewhat below the national average, while in Michigan and Wisconsin it was above.

From this brief analysis of the preliminary reports of the 1947 Census of Manufactures, it appears that manufacturing in the Ninth district during the present decade has grown at a rate which compares favorably with most regions in the nation.

END

AGRICULTURE

New Corn Crop Nearly Up to '48 Record

PROSPECTS for another bumper corn crop for the Ninth district appear in mid-August to be excellent. In fact, in the main parts of the commercial corn growing areas of the district, prospects were never better.

Ears are well formed and they appear to be ahead of normal in maturity. Color of the foliage is good, and soil moisture appears to be ample in most areas for the present. Only hot, dry winds and lack of rain in the latter part of August and early September can stop another huge crop of high quality corn again this year.

Corn borer infestation is bad, but it is not expected to curtail production seriously, particularly if favorable growing conditions continue. Central and southern Minnesota and southeastern South Dakota, of course, are the primary corn growing areas of the district. Minnesota alone produces about two-thirds of all the corn grown in the district. The crop in Minnesota is expected to exceed last year's record production.

In spite of the district's somewhat limited commercial growing areas, more bushels of corn are produced than of any other grain crop. This year, for example, about 433 million bushels of corn may be produced in the four district states, compared to only about 223 million bushels of wheat.

More corn is produced in the district than all the oats, barley, rye, and flax combined.

CORN STOCKS ON FARMS SHOW TREMENDOUS INCREASE

Supplies of old corn on district farms as of July 1, 1949, were more than three times what they were a year earlier and more than double that of the most recent 10-year average. This, of course, is a reflection of last year's bumper crop of excellent quality grain.

With the harvest of the new crop only about eight weeks away, most of the farm storage space is still crammed with last year's corn, part of it under government loan.

- ***Minnesota produces about two-thirds of corn in district; 1949 crop may be largest.***
- ***Old corn stocks on farms are three times last year and double normal.***
- ***Government grants favorable loan terms for new grain storage construction.***
- ***Farmers to get 10 cents a bushel for resealing 1948 corn.***
- ***Corn acreage allotments and marketing quotas seen for 1950 crop.***

Farmers of the district are concerned with what to do about storing the new crop now maturing.

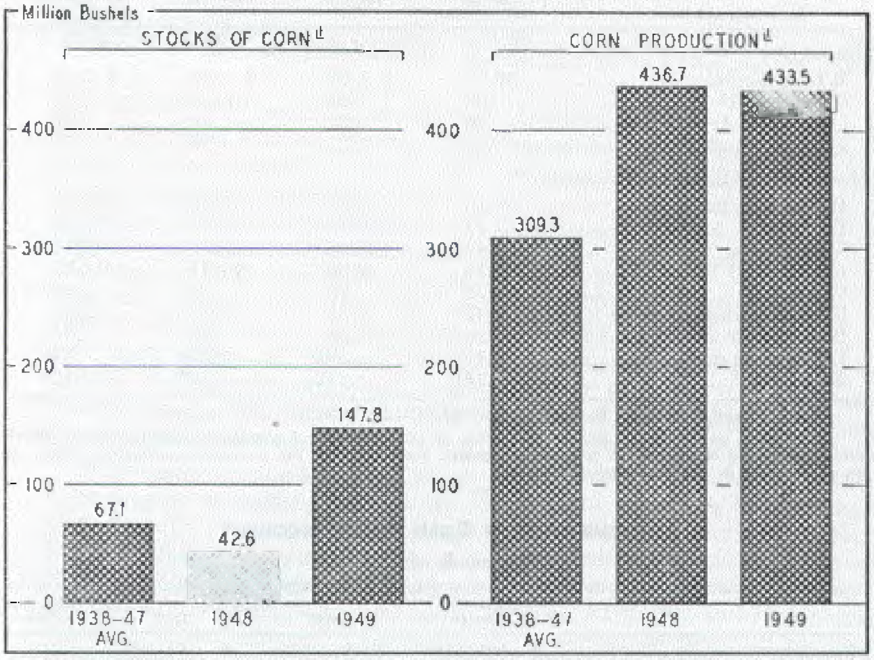
Grain Production—Four Northwest States*

(Thousands of Bushels)

	Wheat	Corn	Oats	Barley	Rye	Flax	Total
1945	282,615	354,803	481,606	112,105	7,656	29,879	1,268,664
1946	282,989	388,788	371,382	114,781	6,550	18,214	1,182,704
1947	285,990	293,833	333,672	127,372	12,347	34,073	1,087,287
1948	296,027	436,688	384,548	148,790	13,231	42,857	1,322,141
1949 Aug. Est.	223,334	433,462	290,173	80,244	7,781	33,709	1,068,703

* Minnesota, Montana, North Dakota, and South Dakota.
Source: Crop Production—Annual Summaries from 1935 to 1949.

STOCKS OF CORN AND CORN PRODUCTION ON DISTRICT FARMS, 1938-47 AVERAGE, 1948, 1949*



RECORD CORN STOCKS and near-record corn production this year indicate acreage allotments and marketing quotas may be imposed on the 1950 crop.

* Crop Production, USDA.

[1] Four states — Minnesota, Montana, North and South Dakota.

Note: The 1949 figure on stocks of corn is a July 1 estimate; 1949 corn production is an August 1 estimate.

Farm storage is inadequate, and in spite of frantic efforts by the Government to supply new bin space there most certainly will be much corn that will be ineligible for loan this fall. Last fall corn sold on the market for 25 cents or more under the loan rate because of a lack of approved storage facilities. This year the storage situation may be even more acute and the price discounts from the loan severe.

GOVERNMENT MOVES TO STIMULATE NEW FARM STORAGE FACILITIES

At least two measures have been taken recently by government agencies to stimulate new farm storage for corn, wheat, or other grains. One is liberal loans to farmers for the construction of new permanent storage. Briefly, these are the terms of this program:

- Loans are available for the current fiscal year.
- Loans can be made up to 85% of the cost, but not to exceed 45c a bushel.
- Loans are repayable in annual instalments over a 5-year period or less. They may be extended in case of crop failure.
- Interest is at 4%.
- Loans may be secured through approved local lending agencies or the Commodity Credit Corporation.

Secondly, the CCC is offering a storage payment of 10c a bushel for all 1948 loan corn resealed and kept off the market until July 31, 1950.

Those farmers who hold purchase agreements on 1948 corn are permitted to shift to a loan basis in order to get the 10c storage fee.

SHOULD FARMERS RESEAL?

Farmers have until October 31 this year to decide whether or not they will reseal their 1948 corn and take advantage of the 10c per bushel storage fee.

The farmer who has old corn under loan or purchase agreement and who has enough space for both the old and prospective new crop may find it advantageous to reseal. This farmer runs very little risk, and the chances are he can buy corn from his neighbors for his livestock feeding operation at less than the loan value. This was true last year, and current corn market futures indicate cash corn this fall will be substantially under the loan rate if nothing happens to mar present favorable crop prospects.

Where a farmer finds that his regular corn storage space is limited, the problem is different. If he has some buildings that may be converted into temporary storage space at a nominal cost, it may pay him to do it.

Most farmers, however, may find that storage space is entirely inadequate to take care of both 1948 and 1949 corn. Should these farmers build new storage?

Iowa State agricultural college experts who have been studying this problem say that farmers without enough current storage capacity have three major questions to answer:

1. Is this the time to add to grain storage buildings?
2. If they do, what kind and type of storage should be added?
3. Should they plan to invest in a permanent type of building or one with a shorter life?

The college specialists point out that these questions cannot be answered precisely. The situation varies from farm to farm.

However, farmers who are thinking about adding additional space should remember that next year the corn crop may not be as large as in 1948 or 1949. Also, corn marketing quotas and acreage allotments may be imposed in 1950. Support prices on corn may not always remain at such favorable levels. In other words, storage might have to be paid for with cheaper corn in the years ahead.

Building costs are still high—roughly two and one-half times prewar. Labor costs also are high.

On the other side, it appears probable that farm programs in the foreseeable future will carry relatively favorable storage provisions and more grain may be on a carry-over basis compared with earlier periods.

It was suggested by the Iowa college, however, that temporary ear corn storage requires the smallest out-of-pocket cash outlay. It has an additional advantage, too, in that major building decisions can be postponed until economic trends become clearer.

CORN MARKETING QUOTAS APPEAR INEVITABLE

The prospective huge corn crop this fall probably means acreage allotments and marketing quotas for the 1950 crop.

Acreage allotments curtail production by restricting the acreage each farmer may plant. They have been used on corn before in the years 1938 through 1943. If acreage allotments are to be reimposed in 1950, the Secretary of Agriculture must announce them before February 1, 1950, so that farmers may plan their 1950 plantings. Allotments are automatic if marketing quotas have been previously announced.

Marketing quotas for corn have never yet been imposed. If they are imposed, each farmer will be told how many bushels of corn he can sell without severe penalties.

In the first place, however, marketing quotas on corn will not be put into effect unless two-thirds of the farmers voting in a referendum are in favor of them.

Secondly, marketing quotas will not be imposed unless total estimated corn supplies from the 1949 crop plus carry-over from last year exceeds by 10% estimated domestic consumption, plus exports, plus a 7% margin. This is based on the assumption that the Agricultural Act of 1938 will be the basis for determining whether or not marketing quotas are to be proclaimed. If supplies exceed this amount, then the Secretary is compelled to announce marketing quotas by November 15.

Corn carry-over next October 1 is expected to be about 800 million bushels. Add this to 1949 corn production of 3.5 billion bushels and corn supplies for the new crop year may total approximately 4.3 billion bushels.

Only about 3 billion bushels of corn are used domestically, and less than 100 million bushels may be exported. Even with the 7% margin, it therefore appears likely that corn supplies will exceed by a considerable amount the minimum requirements for imposition of marketing quotas.

If quotas are voted by growers within 20 days after the quota proclamation, every farmer growing more than 15 acres of corn will be affected. He can sell as his quota only the corn produced from his allotted acreage.

If a farmer exceeds his quota, he is permitted to keep the excess corn on the farm and apply it against next year's allotment, or he can sell it and pay the government a penalty on the excess equal to 50% of the basic loan rate.

The objective of corn quotas according to the law is to "prevent abnormally excessive and abnormally deficient supplies of these commodities and thereby stabilize prices in the interests of both producers and consumers."

If marketing quotas are voted, only "cooperating" farmers will receive direct price support at 90% of parity or whatever the rate may be. "Noncooperation" would get only 54% of parity support.

If marketing quotas (at the referendum vote) on corn are turned down (which is unlikely), the government may not support corn prices at all. END

Average Prices Received By Farmers*

Commodity and Unit	July 15, 1937-41 Avg.	July 15, 1948	July 15, 1949	Parity Prices [1] United States July 15, 1949
Crops				
Wheat, bushel	$0.73	$ 2.08	$ 1.98	$ 2.16
Corn, bushel	.60	1.84	1.14	1.57
Oats, bushel	.26	.81	.50	.974
Potatoes, bushel	.72	1.73	1.56	1.79
Livestock and Livestock Products				
Hogs, 100 lbs.	8.10	24.69	18.26	17.70
Beef Cattle, 100 lbs.	7.37	25.40	19.81	13.20
Veal Calves, 100 lbs.	8.43	26.60	23.25	16.50
Lambs, 100 lbs.	7.50	24.06	21.91	14.30
Wool, lb.	.26	.53	.47	.447
Milk, wholesale, 100 lbs.	1.49	4.26	3.00	3.90
Butterfat, lb.	.29	.89	.62	.642
Chickens, live, lb.	.126	.278	.198	.278
Eggs, doz.	.168	.392	.395	.525

* Data compiled from U. S. D. A. AGRICULTURAL PRICES—July 29, 1949.

[1] 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, 1910-14.

January-May Cash Farm Income*

(Thousands of Dollars)

State	1935-1939 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 127,339	$ 514,251	$ 453,198	88%
North Dakota	30,422	228,368	147,883	65
South Dakota	37,505	228,655	199,082	87
Montana	21,594	102,681	96,452	94
Ninth District [1]	238,221	1,184,496	989,066	84
United States	2,818,839	10,350,506	9,819,190	95

* Data from THE FARM INCOME SITUATION, June, 1949.

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

BUSINESS

Mixed Trends Characterize Business Picture

DIVERGENT trends characterize the present business picture. For instance, the volume of new orders during the past few months has risen, while July sales in department stores continued to decline a trifle more. On the basis of such trends, it appears that the business recession may be close to a low point and activity again will soon begin to expand, or a plateau has been reached which only temporarily has interrupted the contraction in business activity.

Business men in the soft goods lines have begun to replenish their depleted stocks. Apparently they have been convinced that prices are stabilizing and that little can be gained by postponing the purchase of new merchandise. Furthermore, consumer purchases have held up better than had been expected.

Because these merchants have come into the markets, the volume of new orders has been boosted materially. According to a report released by the U. S. Department of Commerce, the five months decline in new orders was interrupted in May with a slight rise in the daily average value of new orders received by manufacturers. In soft goods, the increase in orders was as much as six per cent, while in hard goods the May orders held approximately at the April level. The larger volume of new orders appears to have continued through the intervening months.

More recently, vigorous buying returned to the nonferrous metal markets. In fact, buying was in sufficient quantity to raise prices in numerous cases. For instance, the price of copper rose during the first half of July from 15.9 cents per pound to 17.5 cents. The price of zinc in the latter half of July rose from 9.7 cents per pound to 10.7 cents. The price of lead has increased quite steadily since the first of July. At that time it was quoted at 12.0 cents per pound, and on August 12 it had climbed to 15.1 cents.

Active buying also raised prices in other primary markets. On July 9 the Bureau of Labor Statistics index of spot market prices stood at 229.0 per cent of the August 1939 base. By August 6 the index had risen to 240.4 per cent—an increase of five per cent in four weeks. This index is based on 28 commodities traded on organized exchanges and is therefore very sensitive to changes in market conditions.

FREIGHT MOVEMENT IN DISTRICT SHOWS GAIN

The rise in new orders has been reflected in a larger movement of merchandise from factory to distributors in this region. Miscellaneous carloadings, which largely comprise fabricated materials, slumped noticeably after September 1948. The index, adjusted for the usual seasonal fluctuations, dropped from 143 per cent in September to 117 per cent in February of this year. In March, the shipment of fabricated materials recovered considerably from the slump, and in subsequent months has continued at that level, although it has not reached the unusually high level of 1948.

Finished merchandise shipped in less-than-carload lots since the first of the year has fallen consistently below the corresponding 1948 monthly volume. However, in recent months, the volume has risen closer to last year's level.

The Twin Cities are a distributing center for a large portion of the Ninth district. The freight traffic in and out of this center was significantly smaller during the first half of 1949 as compared with the first half of 1948, according to the reports issued by the traffic associations in the two cities. The number of freight cars received in both Minneapolis and St. Paul was 12 per cent less, and the number of cars forwarded was eight per cent less than in the corresponding period of last year. In recent months there has been somewhat more than a seasonal increase in freight movement.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	July [1]	Per Cent Change [2] from Year Ago: July [3]	Per Cent Change [2] from Year Ago: Jan.-July
Minneapolis	218	—11	— 4
St. Paul	190	—17	— 9
Duluth-Superior	239	—12	— 4
Aberdeen	291	—28	—16
Bismarck	254	—12	— 3
Fairmont	270	—13	— 9
Grand Forks	247	— 7	— 1
Great Falls	330	0	+ 3
La Crosse	199	—11	— 7
Mankato	206	—16	— 5
Minot	267	—10	— 8
Rapid City	346	—16	—12
Rochester	215	—11	— 3
St. Cloud	257	—20	—10
Sioux Falls	253	—21	— 4
Valley City	176	—25	—14
Willmar	207	—18	— 5
Winona	210	— 9	— 4
Yankton	219	—25	—17

[1] Based on daily average sales.

[2] Based on total dollar volume of sales.

[3] July 1949 had only 26 trade days; July 1948 had 26.

- ***New orders to manufacturers have increased.***
- ***Larger freight movements from factory to distributor have taken place.***
- ***Department store sales in July declined slightly from June.***
- ***New passenger car sales have remained strong.***
- ***Construction, following settlement of the labor dispute, has proceeded at a rapid pace.***
- ***Manufacturing employment held steady in June and July.***

DEPARTMENT STORE SALES IN FURTHER DECLINE

Consumer purchases during this recession have held up quite well, but in the past month have not increased commensurable with the improvement in other phases of the economy. In fact, department store sales in July declined a few points from June. The Ninth district index, adjusted for seasonal variation, decreased to 262 per cent—a one and one-half per cent drop from June.

Dollar sales in July of this year were down 13 per cent from the corresponding month last year, due in part to the fact that there was one less trading day in July 1949 than in July 1948. When an adjustment for this difference is made, the decrease in sales is reduced to less than 11 per cent.

Department store sales in the western part of the district are holding up better than in the eastern part. In Montana, July sales were down only seven per cent from a year ago, with no correction for the difference in trading days.

The sale of new passenger cars continues very strong. In North Dakota, figures available for July indicate that sales exceeded the 1948 total by 21 per cent.

The June sales in this district exceeded the 1948 volume by an even larger percentage. For instance, in South Dakota, the sales were more than three times those for June 1948, and in Minnesota they were over two and one-half times a year earlier.

PUBLIC BUILDING BOOSTS CONSTRUCTION TOTAL

With the settlement of the labor dispute in the building trades in the Twin Cities, construction is again moving ahead at a rapid pace. In the western part of the district, the volume of construction is significantly above last year's high figure. According to the reports released by the Unemployment Compensation Commission of Montana, the number of workers employed on projects this summer has been approximately one-fourth larger than last summer. The construction of the federal dam at Hungry Horse, where about 3,000 workers are employed, has a significant influence on the total.

The valuation of building permits issued in 78 representative cities of this district in July was five per cent larger than in the corresponding month of last year. Permits were issued for a large number of public buildings and some commercial buildings. This type of building is an important factor in maintaining a high total.

The amount of construction contracts awarded in this district during the past few months has been well ahead of the 1948 monthly figures. In June, contracts awarded for residential construction were 27 per cent larger and for all other types of construction 38 per cent larger as compared with the totals for June, 1948.

The large amount of public construction is financed, in part, by the issuance of bonds. State and local governments, in the aggregate, are operating at a deficit. In the first half of 1949, the deficit was at an annual rate, seasonally adjusted, of $1.4 billion.

On the basis of the information available at the present time, the decline in manufacturing over the past months may have been arrested in July. According to the report released by the Minnesota Division of Employment and Security, there were about as many workers employed in factories in mid-July as in the middle of the preceding month. In Montana, the Unemployment Compensation Commission reports an increase of 700 workers for the month. END

Northwest Business Indexes

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

	July '49	June '49	July '48	July '47
Bank Debits—93 Cities	347	322	353	299
Bank Debits—Farming Centers	403	394	423	356
Ninth District Dept. Store Sales	261	266	294	268
City Department Store Sales	271	279	299	276
Country Department Store Sales	251	252	289	259
Ninth District Dept. Store Stocks	284	301	318	250
City Department Store Stocks	244	257	277	228
Country Department Store Stocks	313p	337	351	268
Country Lumber Sales	145p	148	167	130
Miscellaneous Carloadings	108	111	117	123
Total Carloadings (excl. Misc.)	129	138	132	138
Farm Prices (Minn. unadj.)	230	236	303	268

p—preliminary.

Sales at Ninth District Department Stores*

	% July, 1949[2] of July, 1948	% Jan.-July, 1949 of Jan.-July, 1948	Number of Stores[1] Showing Increase	Decrease
Total District	87	94	33	245
Mpls., St. Paul, Dul.-Sup.	87	95	2	27
Country Stores	86	94	31	218
Minnesota (city and country)	87	95	9	86
Minnesota (country)	89	96	7	63
Central	80	88	0	7
Northeastern	91	99	0	4
Red River Valley	93	90	0	4
South Central	88	98	0	14
Southeastern	90	98	2	12
Southwestern	89	96	5	22
Montana	93	98	12	20
Mountains	87	96	1	11
Plains	97	101	11	9
North Dakota	84	92	7	42
North Central	92	94	2	8
Northwestern	88	91	0	6
Red River Valley	82	91	4	15
Southeastern	82	95	1	11
Southwestern	73	87	0	3
Red River Valley-Minn. & N. D.	83	91	4	19
South Dakota	79	90	2	43
Southeastern	80	93	0	14
Other Eastern	76	87	1	23
Western	87	94	1	6
Wisconsin and Michigan	86	92	3	50
Northern Wisconsin	91	96	2	12
West Central Wisconsin	86	92	1	29
Upper Peninsula Michigan	78	87	0	9

* Percentages are based on dollar volume of sales.

[1] July, 1949 compared with July, 1948.

[2] July, 1949—25 trading days. July, 1948—26 trading days.

BANKING

Mid-'49 Deposits, Loans Below Six Months Ago

THE changing profile of assets and liabilities in Ninth district member banks crystallized into the following picture in the first half of 1949:

TOTAL LOANS declined 3 per cent, from $884 million on December 31, 1948, to $857 million at mid-year 1949. This drop was due mainly to a slide-off in commercial and industrial loans in the larger city banks, reflecting curtailed business expenditures. However, in June, July, and the first two weeks of August, city banks reported increased business loans.

GOVERNMENT SECURITY HOLDINGS were off 2 per cent, from $1,646 million at the end of last year to $1,614 million on June 30, 1949. This decline, however, obscures the fact that since April, government portfolios in the district's member banks have increased, reversing the downward trend of the past 3½ years.

CASH AND DUE FROM BANKS fell from $961 million on December 31, 1948, to $854 million on June 30, 1949—down 11 per cent. Bankers drew on correspondent balances to meet the deposit drain, incident to tax payments, in the first quarter of this year. Later, reserves with the Federal Reserve bank, freed by reductions in legal requirements, were used somewhat to expand loan and investment portfolios.

TOTAL DEPOSITS registered a 4½ per cent drop in the first half of this year, following the usual seasonal pattern. The decline in 1949, however, was less than that of the same period a year ago when deposits tumbled 6 per cent.

CAPITAL ACCOUNTS grew almost 2½ per cent, continuing the rising trend of recent years.

CITY BANK BUSINESS LOANS DECLINED

In the first half of this year demand for commercial loans sloughed off as deflationary tendencies clouded the financial skies. Business men adopted cautious inventory policies, capital expenditures were curtailed, and falling prices resulted in lower working capital requirements. Borrowing from banks declined as old loans were paid off faster than new ones were being made.

In the Ninth district's city banks, commercial, industrial, and agricultural loans dropped 16 per cent in the first five months of this year—from $248 million at year-end 1948 to $209 million on May 25, 1949. Since May, however, such loans have risen almost steadily as grain companies borrowed to absorb farm marketings and businesses began to restock shrunken inventories. By the middle of August, commercial loans in city banks recovered to a volume of $230 million.

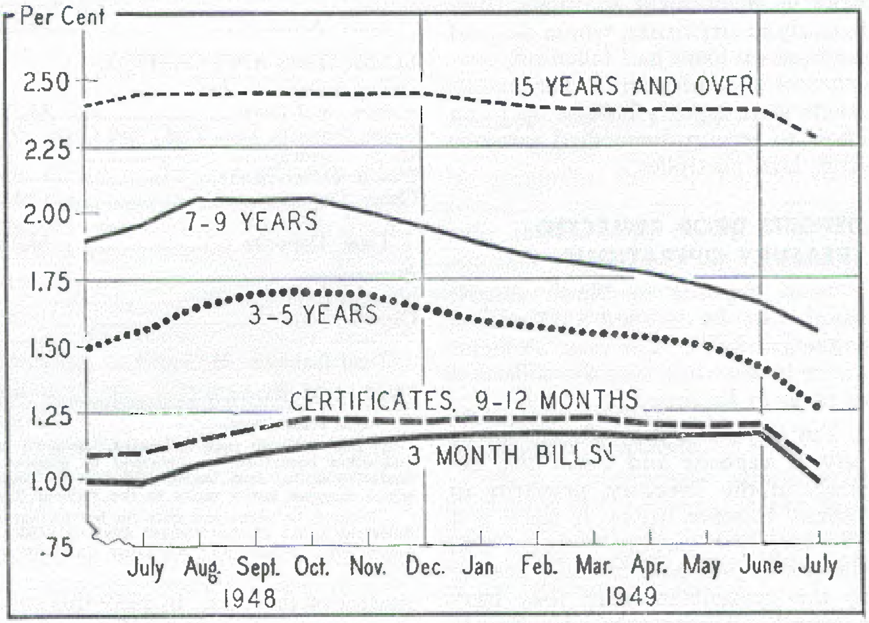
In country banks, loans to farmers (other than Commodity Credit Corporation loans) rose seasonally in the first half of this year, reflecting the use of bank credit for purchases of seed, fertilizer, machinery, etc. C.C.C. loans to farmers, however, dropped considerably due mainly to the maturing of crop loans on April 30 and throughout May.

In both city and country banks real estate and consumer loans continued to climb uphill in the first half of this year, but with substantially less vigor than a year ago.

On balance, total loans in city

- ***Loan decline reflected sluggish demand for business loans in city banks; however, commercial lending increased in June and July.***
- ***Government security holdings have risen since April, reversing the postwar downhill trend.***
- ***Total deposits dipped $157 million from December 1948 through June 1949.***

AVERAGE YIELDS ON TAXABLE U. S. GOVERNMENT SECURITIES, 1948-49



YIELDS on government securities, which declined slowly in the first half of this year, dropped sharply in July, reflecting the modification in Federal Reserve open market policy.

[1] Rate on new issues offered within period.

Member Bank Reserve Requirements, 1949

(Per Cent of Deposits)

Period In Effect	NET DEMAND Central Reserve City	NET DEMAND Reserve City	NET DEMAND Country	TIME All Member Banks
On Jan. 1, 1949 to Apr. 30-May 4	26	22	16	7½
May 1-5 to June 29-30	24	21	15	7
June 30*-July 1 to July 31-Aug. 31	24	20	14	6
Aug. 1-Sept. 1 and after	22	18	12	5

* The reduction of June 30 was due to the expiration of the Board's temporary authority to increase reserve requirements granted by Congress in September, 1948.

Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

	June 30, 1948 [1]	Dec. 31, 1948 [1]	June 30, 1949 [1]	July 27, 1949 [2]
ASSETS				
Comm. and Ind. Loans	$ 327	$ 307	$ 279	
Loans to Farmers Guar. by C.C.C.	....	75	37	
Other Loans to Farmers	86	81	99	
Loans on Securities	24	22	20	
Real Estate Loans	200	212	219	
Other (largely consumer) Loans	181	195	213	
Total Gross Loans & Discounts	$ 818	$ 892	$ 867	
Less Reserves	5	8	10	
Total Net Loans & Discounts	$ 813	$ 884	$ 857	$ 875
U. S. Treasury Bills	46	56	52	
U. S. Treasury C. of I.'s	278	325	327	
U. S. Treasury Notes	162	93	59	
U. S. Government Bonds	1,185	1,172	1,176	
Total U. S. Gov't Securities	$1,671	$1,646	$1,614	$1,645
Other Investments	196	203	218	224
Cash and Due from Banks	860	961	854	845
Other Assets	27	30	30	30
Total Assets	$3,567	$3,724	$3,573	$3,619
LIABILITIES AND CAPITAL				
Demand Deposits, Ind., Part., and Corp.	$1,719	$1,882	$1,694	
Time Deposits, Ind., Part., and Corp.	917	930	923	
U. S. Government Deposits	54	55	45	
Due to Other Banks	334	333	306	
Other Deposits	329	301	376	
Total Deposits	$3,353	$3,501	$3,344	$3,384
Borrowings	....	....	....	6
Miscellaneous Liabilities	17	19	20	20
Capital Funds	197	204	209	209
Total Liabilities & Capital	$3,567	$3,724	$3,573	$3,619
Number of Banks	476	476	477	

[1] Call report data.

[2] This table 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.

banks declined $26 million from December 1948 through June 1949; in country banks total loans held about even.

For the bankers' part, loan policy attested that there was ample credit available for sound loans in both city and country banks. However, bankers were screening loan applications more carefully during the first half of 1949 than they had in the buoyant days of the postwar boom.

SECURITY PORTFOLIOS, DOWN FIRST 4 MONTHS, HAVE INCREASED SINCE APRIL

The postwar downward trend in government security holdings was unbroken during the first four months of this year. Government portfolios in Ninth district member banks dropped $101 million.

Since April, however, the trend has been reversed. In May and June government portfolios increased $67 million, and holdings by the end of July were almost at an even keel with the end of last year. City bank purchases of governments accounted for the major share of the increase.

Reductions in reserve requirements provided banks with idle funds which to some extent were put to work in government securities. Particularly in city banks, where demand for business loans had fallen off, government securities and other investments were quickly bought up in an effort to recoup diminished earnings from loan portfolios.

DEPOSIT DROP REFLECTED TREASURY OPERATIONS

Total deposits in Ninth district member banks declined $157 million in the first half of this year. A major factor in this drop was the collection of taxes in January and March.

Tax payments draw funds out of private deposits and boost the deposits of the Treasury, primarily in Federal Reserve banks. If there is a Treasury cash surplus, it means that the public has paid in more money to the government than they have received. Accordingly, deposits in commercial banks, which represent most of the private money supply, are reduced.

Because of heavy tax collections, the U. S. Treasury typically has an operating cash surplus in the first quarter of the year. In 1949 this surplus amounted to $3.2 billion, about half as much as in the first quarter of 1948. The smaller Treasury surplus this year explains, in part at least, the fact that both nationally and in the Ninth district deposits dropped less sharply in the first quarter of this year than in the first quarter of 1948.

Generally Treasury finance operations affect the total volume of deposits in the nation's banks. Deposits in any specific bank are, of course, also affected by shifts of funds between areas.

For example, the purchase of farm equipment may channel deposits out of country areas into more industrialized centers. Precisely this experience took place in the first half of this year when farmers' purchases, in preparation for the new crop year, shifted deposits out of this district's country banks.

RESERVE BANK POLICY ADJUSTED TO CHANGING NEEDS OF THE ECONOMY

Policy decisions of the central bank authorities have exerted a major influence in recent banking developments. Around the close of 1948 the economy turned a corner from the inflationary street traveled during and after World War II. In the first six months of 1949, prices, production, and employment slid downward.

Accordingly, Federal Reserve policy was tailored to meet the changing needs of the economy. Since the first of the year, Congress and the Board of Governors have been unwinding the anti-inflationary machinery set up in the past several years. Credit restraints have been relaxed and reserve requirements stepped down.

Consumer credit regulations were liberalized somewhat last March. In the same month margin requirements on listed stocks were lowered from 75 per cent to 50 per cent. Consumer credit controls were further eased in April; on June 30 Regulation W terminated when the Board's temporary authority to control consumer credit expired.

The Reserve Board has administered several shots-in-the-lending-arm of the banking system by reducing reserve requirements. The table on member bank reserve requirements shows the percentages in effect since the turn of this year.

For the nation as a whole the reductions in reserve requirements (including the drop effective during August and on September 1) injected about \$3.8 billion of freed reserves into the banking system. Of this, roughly \$60 million was in Ninth district member banks.

The most fundamental change in Federal Reserve policy made this year, however, was the modification of open market policy announced on June 28. The Federal Open Market committee declared that "with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the committee to direct purchases, sales, and exchanges of government securities by the Federal Reserve banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the government security market and the confidence of investors in government bonds will be continued."

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

	June 29, 1949	July 27, 1949	Aug. 17, 1949	\$ Change June 29-July 27
ASSETS				
Comm., Ind., and Ag. Loans	\$ 215	\$ 222	\$ 230	+ 7
Real Estate Loans	65	65	65	......
Loans on Securities	14	15	15	+ 1
Other (largely consumer) Loans	123	131	133	+ 8
Total Gross Loans & Discounts	\$ 417	\$ 433	\$ 443	+ 16
Less Reserves	6	6	6	......
Total Net Loans & Discounts	\$ 411	\$ 427	\$ 437	+ 16
U. S. Treasury Bills	26	47	65	+ 21
U. S. Treasury C. of I.'s	148	142	134	— 6
U. S. Treasury Notes	20	20	19	......
U. S. Government Bonds	462	478	477	+ 16
Total U. S. Gov't Securities	\$ 656	\$ 687	\$ 695	+ 31
Other Investments	99	104	105	+ 5
Cash and Due from Banks	432	437	442	+ 5
Miscellaneous Assets	15	15	15	......
Total Assets	\$1,613	\$1,670	\$1,694	+ 57
LIABILITIES				
Due to Banks	\$ 266	\$ 273	\$ 312	+ 7
Demand Deposits, Ind., Part., Corp.	742	754	767	+ 12
Demand Deposits, U. S. Gov't	20	46	44	+ 26
Other Demand Deposits	216	224	200	+ 8
Total Demand Deposits	\$1,244	\$1,297	\$1,323	+ 53
Time Deposits	254	252	252	— 2
Total Deposits	\$1,498	\$1,549	\$1,575	+ 51
Borrowings	....	5	3	+ 5
Miscellaneous Liabilities	15	15	15	......
Capital Funds	100	101	101	+ 1
Total Liabilities & Capital	\$1,613	\$1,670	\$1,694	+ 57

The change in the System's open market policy, which represented a shift away from the relatively fixed interest rate pattern on government securities, was immediately reflected in the money market. Prices of government securities rose sharply (yields declined), accentuating the bullish trend evident since the first of the year (see chart).

High security prices mean, of course, lower money rates. Hence the revised open market policy tends to create a favorable climate for business and government financing.

An over-all view of central banking policy for the first half of 1949 points to easier money conditions, with the Reserve System's actions dovetailed to a twin aim: adjusting the supply of funds to the general credit and banking situation, and maintaining orderly conditions in the government security market.

BANKING SYSTEM IS BASICALLY STRONG

While downward adjustments dominated the economy in the first half of this year, the underlying pulse beat of the banking system was one of the healthiest on record.

A large proportion of bank assets are in liquid and riskless form. While loans are close to a record volume, cash and government securities constitute about two-thirds of all assets in commercial banks. This is a somewhat larger proportion than in 1939 and more than twice that for 1929.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUGUST 30, 1949

INDUSTRIAL production declined further in July but increased in the early part of August. Prices of basic commodities advanced, while the average of all wholesale commodity prices showed little change. Department store sales declined in July and early August. Construction activity continued at a high level.

INDUSTRIAL PRODUCTION—The Board's seasonally adjusted index of industrial production declined in July to 162 per cent of the 1935-39 average. This compares with 169 in June and with 186 in July 1948. The July decline reflected in part the effects of plant-wide vacations, mainly in nondurable lines, which are not currently allowed for in the Board's index. According to preliminary indications, industrial production in August may be close to the June rate.

Activity in durable goods industries showed a further substantial decline in July, mainly because of another sharp cut in steel output, a further decline in activity in machinery industries, and a reduction in lumber output. In August, steel production has been scheduled at about 83 per cent of capacity as compared with the actual rates of 71 per cent in July and 82 per cent in June. While refinery output of most nonferrous metals was reduced further in July, shipments to fabricators advanced. Automobile production in July and during most of August has been at an exceptionally high level, exceeding earlier record rates reached in 1929.

Among nondurable goods activity was reduced at cotton textile, paper, and paperboard mills during July, but appears to have increased in August. Deliveries of rayon to textile mills showed a large further gain in July, and petroleum refining activity increased slightly.

Minerals output was reduced considerably further in July, reflecting substantially curtailed operations at coal mines, and smaller volume of output of crude petroleum and metals. In the early part of August, coal production increased somewhat.

EMPLOYMENT — Employment in non-agricultural establishments in July was slightly below the level of the preceding two months, after allowance for the usual seasonal changes, and 1.6 million below the high level of July 1948.

CONSTRUCTION — Value of construction contracts awarded in July, according to the F. W. Dodge Corporation, was the same as in June and slightly below the value in July 1948. Further increases in awards for public construction from June to July offset declines in private building awards. The number of new housing units started in July, as estimated by the Bureau of Labor Statistics, was 96,000, compared with 100,000 in June and 95,000 in July 1948.

DISTRIBUTION—Value of department store sales declined slightly in July, after allowance for usual seasonal changes. The Board's adjusted index is estimated at 280 per cent of the 1935-39 average, as compared with 285 in June and 311 in July 1948. Owing in part to the effects of exceptionally hot weather, sales during the first two weeks of August showed much less than the usual seasonal rise, but in the third week sales rose considerably.

Rail shipments of most classes of freight declined further in July and continued in August substantially below the levels of other recent years. Grain shipments in July, however, were the largest on record.

COMMODITY PRICES—Prices of basic commodities advanced from the early part of July to mid-August. The principal increases over this period were for cottonseed oil, cocoa, and numerous industrial materials including nonferrous metals, steel scrap, and cotton cloth. Prices of agricultural products generally declined and prices of worsted fabrics and some other finished manufactured goods were reduced over this period.

The average level of consumers' prices decreased .6 per cent in July as a result mainly of a reduction in food prices and further slight declines in apparel and housefurnishings.

AGRICULTURE — Total crop production, according to the August 1 official forecast, is expected to be 5 per cent below last year's record volume but above any earlier year. The wheat harvest was indicated to be 12 per cent smaller, mainly because of crop deterioration in June and July, while fractionally smaller corn and cotton crops were forecast.

Marketings of meat animals in July and August have been substantially above the reduced level of last year.

BANK CREDIT—On August 5 the Board of Governors announced a schedule of reductions in member bank reserve requirements extending through September 1 which will release a total of approximately $1.8 billion of member bank reserves. During the first three weeks of August, banks used a large part of the funds released to purchase short-term government securities from the Federal Reserve, continuing a trend noted in July. Excess reserves of member banks also increased.

Business loans at member banks in leading cities increased slightly in the first half of August. This rise followed a moderate decline in July which brought the total contraction in business loans since the first of the year to nearly $2.7 billion.

Treasury deposits at banks increased substantially in August, reflecting large sales of savings notes and additions to weekly offerings of Treasury bills. Other deposits, which had increased in July, declined somewhat in the first half of August.

SECURITY MARKETS—Prices of Treasury bonds moved within a narrow range in the first three weeks of August. On August 22, the Treasury announced the offering of 1⅛ per cent one-year certificates to refund the 2 per cent bonds called for September 15.

Prices of corporate bonds advanced further while prices of common stocks fluctuated within a narrow range.