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Devaluation: Dangers Accompany its Benefits

Rising Prices in Sterling Areas Jeopardize Gains from Devaluation; Greatest Danger Can Come from Chaotic Further Devaluation

By J. MARVIN PETERSON

ALTHOUGH the effects on world trade of the devaluation of currencies by numerous countries in recent weeks cannot as yet accurately be appraised, one can be prepared to follow developments by studying (1) the course of events leading up to the devaluation of the pound sterling, (2) the meaning of devaluation, (3) the overnight effects of devaluation, (4) possible advantages and, also, possible dangers in the actions that have been taken.

The balancing of payments between the United States and Great Britain has been one of the difficult postwar problems. That it could not easily be solved was to be expected. The imbalances created by war are not readily rectified.

Most observers of the international scene in recent years have recognized that exchange rates would need to be adjusted. Yet, for a time, it seemed that attempts to restore balance in these payments without resorting to an enforced readjustment of exchange rates would be successful.

In the last half of 1948, Britain's industrial production rose to record levels and her balance of payments on current account was favorable for the first time in any half-year since the end of the war. The "dollar shortage," nevertheless, persisted; the improvement consisting of a small decline in her deficit with the dollar area and a much larger increase in the surplus of payments from over payments to the sterling area.

Evidently, Britain found it easier to sell goods to other parts of the sterling area than to the dollar area. Earnings derived from such trade, however, could not be used to settle deficits with dollar area countries, since the sterling area as a whole was operating at a deficit in its balance of payments with the dollar area as a whole.

The improvements in Great Britain's position, and in the position of the entire sterling area in trade with the dollar area in 1948, took a sudden turn for the worse in the second quarter of 1949. Causes of this reversal of the trend, shown in the accompanying table, are found in a sharp reduction in dollar receipts from the sale of such sterling area products as rubber, wool, diamonds, and cocoa. It has been estimated that these products yielded in the second quarter of 1949 not much more than half the number of dollars as in the previous quarter.

Producers in the dollar area had caught up with many shortages caused by the war and by the great postwar export surpluses. Consumers in that area preferring the products produced by their own countries no longer turned as before to foreign-made goods to satisfy their pent-up demands. A shift from sellers' to buyers' advantage developed, signalling a return to more severe competition among sellers in world market places.

Sterling Area Gold and Dollar Deficits and Reserves

(In Millions of Pounds Sterling)

	Overall Deficit	Reserves (End of Period)
1947 (full year)	1,024	512
1948		
Jan.-March	147	552
Apr.-June	107	473
July-Sept.	76	437
Oct.-Dec.	93	457
1949		
Jan.-March	82	471
Apr.-June	157	406

Source: British Information Services.

This competition the highest-cost countries could not meet. Until recent months, it was quite easy for a high-cost producer to sell his product in competition with more efficient producers, so eager were consumers, armed with war-created money, to buy goods almost regardless of price.

Under this more severe competition among producers, the British economy proved defective. British costs of production were too high at the prevailing rate of exchange, and Britain's exports, both overall and to hard-currency areas, slumped after April.

The position of the sterling area took a turn for the worse in the early summer of 1949 and caused fears of devaluation. These fears in turn hastened consideration of devaluation as a way out. Devaluation of many currencies, led by the devaluation of the pound sterling, became a reality, beginning September 18, 1949.

WHAT IS DEVALUATION?

Devaluation of the pound sterling was accomplished by an announcement that hereafter more units of that currency would, at a new official rate, be offered in exchange for the United States dollar. The new official rate was announced to be 2.8 U. S. dollars for 1 pound sterling, whereas prior to this announcement a pound sterling was exchanged for approximately 4.03 dollars at the official rate.

In other words, the new official rate requires that 1.44 pounds, instead of 1 pound, now be paid for 4.03 U. S. dollars. Thus the cost of goods priced in the same number of dollars offered by U. S. exporters in exchange for pound sterling would cost the British importer 44 per cent more than before and the cost of British goods priced in the same number of pounds would cost the U. S. importer 30.5 per cent less than before devaluation of the pound.

DEVALUATION AFFECTS TRADE WITH STERLING AREA

The countries that devalued their currencies did so in the expectation that such actions would make it easier to sell their goods to the dollar area. This expectation seemed reasonable in view of the fact that, after devaluation, dollars would command in exchange more units of a devalued currency.

It was also expected that consumers in the devaluing countries would buy less goods from the dollar countries, because the currencies in their possession would command in exchange less units of the money used in the dollar area.

Accordingly, United States imports of such British goods as woolens and dinnerware were expected to increase, while our exports of such products as wheat, pork, cotton, typewriters, and industrial equipment would decrease.

These expectations should, however, be tempered by important considerations. One of these is that they would be realized only if the price levels in the two areas remained the same as before the one area devalued its currencies or if the increase in sterling prices will be less than revaluation.

Another is that the commodities traded between the two areas must show a high degree of elasticity of demand—that is, falling prices of goods must immediately induce a greater demand for them and, conversely, rising prices must induce a lesser demand.

Let us examine these two considerations chiefly in terms of trade between the United States and Britain.

PRICES OF MOST BRITISH GOODS LIKELY TO RISE

It is hardly to be expected that the price level in the United States will rise as a consequence of the devaluation of foreign currencies, because the United States, according to the theory of the case, will be supplied with more goods and will supply other countries with less goods. If, therefore, the comparative price levels change following devaluation, the change most likely to occur would be a rise in prices in the devaluing area.

The pressures toward a rise in the price level in a country that has devalued its currency are great. Since its imports will cost more than formerly, laborers will clamor for higher wages in order to sustain their customary standard of living. In Britain, the price of bread has risen, giving laborers a powerful argument for higher wages.

Moreover, several cost items of British manufacturers automatically rose with devaluation. Petroleum and petroleum products furnish a case in point. The same is true of any raw material which must be supplied by dollar-area sources. It therefore is extremely doubtful that British manufacturers can hold down their costs of production to the present already high levels. Failure to do so will jeopardize their gains from devaluation.

Looking at this question from the point of view of British manufacturers, quite likely only the prices of goods which they have found difficult to sell will be kept at the same sterling price (a lower dollar price after devaluation), while prices of British goods for which there is a ready market will be increased (perhaps a higher sterling price and the same dollar price after devaluation).

Developments since devaluation confirm this observation. The dollar prices of Scotch whiskey and chinaware have not fallen, indicating a rise in sterling price at the production sites. These are articles for which British producers have found demand to be great in U. S. markets.

On the other hand, the prices of British automobiles, for which the U. S. demand has fallen, have declined in this country, indicating no increase in their prices in units of sterling.

If this reasoning is correct—that Britain will suffer higher production costs by reason of higher wages and higher raw material costs and that there will be markups in sterling quotations on her most-wanted goods—the price level in Britain is likely to rise.

FOREIGN GOODS NOT LIKELY TO FLOOD OUR MARKETS

In the first half of 1949 our merchandise exports were $6.6 billion, an annual rate of $13.2 billion. Our imports were $3.4 billion, an annual rate of $6.8 billion. Thus the annual rate of surplus of exports over imports was $6.4 billion, financed mainly by extraordinary U. S. financial assistance.

Even if our exports should decline by about one-third and our imports increase by one-third, we would still have a balanced condition in our international merchandise transaction.

Should our merchandise imports increase by 33⅓ per cent over the rate for the first half of 1949, the total increase would amount to less than 1 per cent of our gross national product. This is the prize Britain would like to win. Since sterling prices on British goods in greatest demand likely will rise, it will be difficult to reach this goal.

There exists a better chance that raw material imports from countries other than Britain, such as rubber from Malaya, will increase. In this commodity, present market quotations indicate that the sterling price has increased somewhat while the dollar price has slightly decreased.

This means that natural rubber is costing us less and the British more than before devaluation. Such a development is not harmful to the American economy as a whole, although synthetic rubber producers might find it more difficult to compete with the natural product.

On balance, it appears that our markets will not be flooded with cheap foreign goods as a result of devaluation. Decrease in tariffs, stockpiling of raw materials, and relaxation of regulations requiring the use of synthetic rubber, and like moves—all deliberate choices on our part—could have more effect than devaluation on our imports. These measures would at the same time bolster any tendency toward a decline in our exports.

U. S. EXPORTS CAN INCREASE

It is to be expected that sterling area importers will shift their purchase orders from the dollar area to countries in their own bloc, to the

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AGRICULTURE

Cash Farm Income Off 17% from 1948

MAKING an analysis of the economic well-being of a region requires a knowledge of its major sources of income payments to individuals. In the Ninth Federal Reserve district, as much or more so than any other district, a major source of income payments is to farmers.

During 1948, farmers in the Ninth district received approximately \$3½ billion in cash for the sale of farm products and from government payments. This was an all-time high. It was more than four times cash farm income in the last pre-war year of 1939. Not only was cash farm income at a peak during 1948 but net farm income was also at record levels, approximately 3½ times pre-war.

So far in 1949, cash farm income is about 17% less than the comparable period in 1948, but farm income is still high judged by pre-war standards.

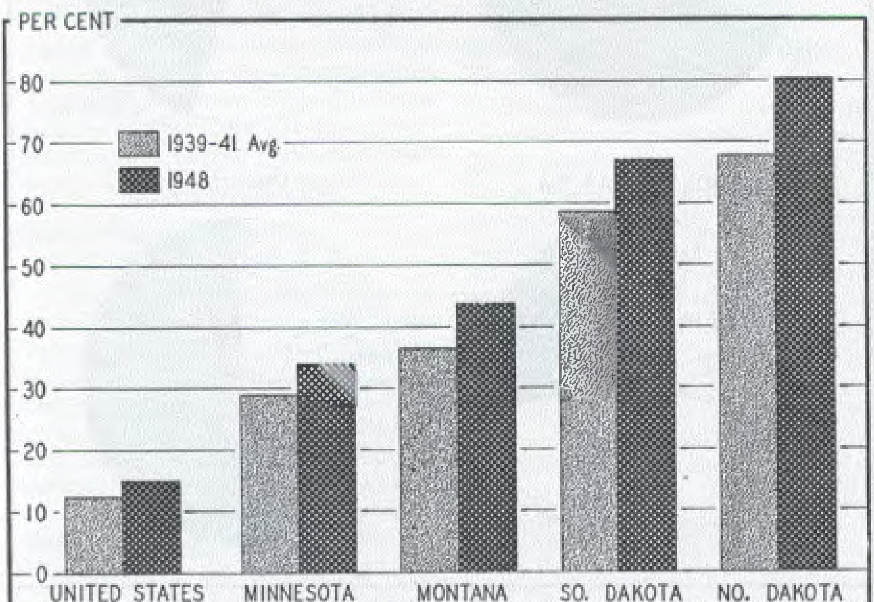
The relative importance of agriculture to the Ninth district economy is forcefully proven by comparing cash farm income with total income payments to individuals in this district and for the U. S. as a whole.

For the four full states in the district, 1948 cash farm income was equal to 46% of estimated total income payments. For the U. S. as a whole, cash farm income was only 14.9% of total income payments to individuals.

Actually, a comparison of cash farm income with net income payments to individuals overstates the importance of agriculture, since production expenses are included in cash farm income. The comparison, however, of cash farm income with total income payments for the states in this region and for the U. S. does show spectacularly the importance of agriculture to Ninth district economy. (See chart.)

- ***District cash farm income equals 46% of total net income to individuals — about 15% for entire U. S.***
- ***Wheat accounted for 42% of North Dakota's 1948 farm income.***
- ***Montana and South Dakota got one-fourth of farm income from cattle and calves.***
- ***Minnesota has greatest diversification of farm enterprises.***

CASH FARM INCOME IN PER CENT OF TOTAL INCOME PAYMENTS TO INDIVIDUALS*
U. S. and Four Full States in Ninth District



CASH FARM INCOME is not strictly comparable to net income payments, since production expenses are not taken into account in farmers' cash income from marketings.

*Source: Survey of Current Business, August, 1948; USDA Farm Income Situation, July-August, 1949.

CASH FARM INCOME ABOUT HALF ALL INCOME PAYMENTS

For the entire Ninth district, cash farm income in 1948 is estimated at approximately half of total income payments to individuals. This is a slightly larger proportion to agriculture compared with the 1939-41 period, when cash farm income was only about 40% of total income payments.

Even in the Ninth district, however, there is great variation from state to state in the proportion of cash farm income to total income payments.

For example, cash farm income in Minnesota during 1948 was 33.8% of the state's total income payments to individuals. In Montana, it was 43.7%; in South Dakota, 67.1%; and in North Dakota, 80.4%. (See chart.)

The ratio of cash farm income to total income payments to individuals was substantially higher in 1948 in each of the district states compared with the 1939-41 period (see chart), proving that agriculture has benefited particularly from the inflation of the war and postwar period.

NET FARM INCOME — SMALLER SHARE OF TOTAL INCOME

A comparison of net agricultural income in 1948 with total income payments to individuals was made in the August 1949 issue of "The Survey of Current Business." This comparison gives the true income relationship of one segment of the economy to total income payments. Comparable net income data for the pre-war period is not available—the reason cash farm income comparisons were used in the earlier part of this study and in the chart. Regardless of whether net farm income (excluding production expenses) or cash farm income is used, the purpose here is to show as realistically as possible the importance of agricultural income in the Ninth district.

For the continental U. S., net agricultural income in 1948 was only 10.2 per cent of total income. For the four full states, the percentages were as follows: Minnesota, 23.6%; Montana, 34.4%; North Dakota, 48.9%; and South Dakota, 50.3%.

AGRICULTURAL PROSPERITY IS REFLECTED IN TOTAL ECONOMY OF DISTRICT

Unprecedented agricultural prosperity in recent years has brought a high degree of financial health to the total economy of the Ninth district. Not only does farm prosperity fill the farmer's billfold, but it also swells the income of those who market, process, and distribute farm products to consumers. It is this handling and processing of food and fiber that forms the basis of most of the district's industry and business.

When crops are good and farmers have high net incomes, almost everybody—and especially in the smaller urban communities—feels the glow of reflected prosperity. Business men have a ready market for their merchandise, since farmers have an almost unlimited demand for equipment and various gadgets to make farm work easier and more efficient. Processors are busy. Transportation facilities tend toward capacity. Various service agencies are expanded to meet both rural and urban demand. Bank debits are high, jobs are plentiful, and income payments to all individuals tend to increase.

This is exactly what happened in 1948, when total income payments to individuals in the four full states of the Ninth district increased about 18% compared with 1947.

The year 1948, however, may go down in history as the peak year both for agricultural and total income payments in the immediate postwar period. At least a prospective decline of 17% to 22% in cash farm income for 1949, compared with 1948, indicates a decline in total income payments for this year.

For the first seven months of 1949, cash farm income in this district was 17% less compared with the same period last year. The greatest decline has been in North Dakota, which dropped 34%.

Peak marketings of district crop production occur in the second half of the year. Therefore, the decline in farm income in 1949 will be even more pronounced when the balance of marketings are completed.

NEARLY TWO-THIRDS OF FARM INCOME FROM LIVESTOCK AND LIVESTOCK PRODUCTS

The proportion of farm income derived from the sale of crops, livestock, and livestock products varies from year to year and from state to state in the district.

This diversification and difference in sources of farm income is due to the geographic location of the Ninth Federal Reserve district. It stretches for about 1,500 miles along the northern border of the U. S. There is a great range in rainfall from one end to the other. Topography, climate, and soil conditions also vary greatly.

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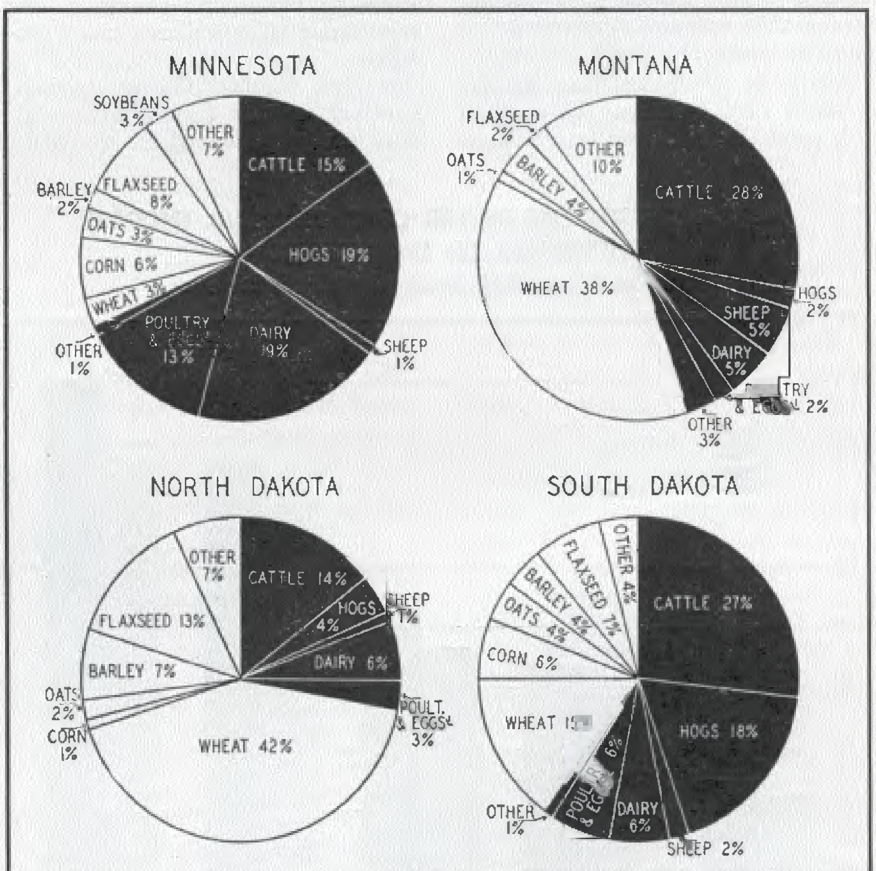
PROPORTION OF CASH FARM INCOME DERIVED FROM DIFFERENT FARM PRODUCTS IN NINTH DISTRICT STATES, 1948*



LARGEST SHARE of cash farm income in North Dakota and Montana is from sale of crops. In Minnesota and South Dakota, major revenue is from livestock and livestock products.

*States of Minnesota, Montana, North Dakota and South Dakota.
Source: USDA Farm Income Situation, June, 1949.
[1]Includes broilers and turkeys.

BUSINESS

Pickup in September Topped '48 Seasonal Rise

SEPTEMBER business reflected more than the usual seasonal pickup in activity. Miscellaneous carloadings, seasonally adjusted, rose above those for August 1949 and for the first time this year exceeded loadings of a year ago. Electric power production and consumption remained at high levels. Building permits for September increased over August and greatly exceeded those of a year ago.

The coal and steel strikes, so far, have had little tangible impact on the district's economy. However, as the strikes continue, purchasing power of consumers will decline in Duluth, Superior, and in the iron range cities of Minnesota, Wisconsin, and Michigan, where steel and some iron ore workers are out on strike. Many railroad workers have also been laid off.

Should the strikes continue for some time, shortages of coal and steel may result and cause lay-offs in metal working industries. The ensuing scarcities could result in another round of price increases, for both coal and steel are basic commodities. The more recent strike of the aluminum workers, while not directly affecting this district, will contribute to the scarcity of metal products.

DEPARTMENT STORE SALES VOLUME HIGH

Department store sales in this district for September were only 3 per cent below the September 1948 dollar volume. Thus, sales have held up remarkably well. However, the volume is holding up better in Minnesota than in the western part of the district, where the small grain crop, adversely affected by the summer drought, reduced cash farm income.

The index of department store sales for September stood at 276 per cent of the 1935 to 1939 average with seasonal adjustment. This compares favorably with the level of sales for preceding months. The peak in sales occurred in October 1948, when the index rose to 304 per cent of the pre-war average. September sales were down only 9 per cent from the peak.

A comparison of the monthly sales with those of the corresponding months of 1948 indicates that sales during the first nine months of this year were down 5 per cent. When the decline in retail prices is taken into account, it is evident that the physical volume of consumer purchases has been close to the 1948 peak level.

A breakdown of sales by departments indicates that consumers again have increased their purchases of certain hard goods. Sales of durable goods in September were equal to those of a year ago. Increased sales of furniture, radios, television sets, and phonographs offset a large decline in sales of major household appliances.

Soft goods sales are holding up well, although in September they were slightly below those of a year ago. Women's accessories and men's clothing were selling better than during the comparable period of a year ago, while women's apparel sales were down.

EMPLOYMENT IN EASTERN SECTION OF DISTRICT BELOW LAST YEAR

During the summer months, sales of soft goods remained high while hard goods sales slumped. Employment reports mirrored this trend. In August, employment in the durable goods industries of Minnesota was down 12 per cent from a year ago. The eight months of 1949 are only 91 per cent of last year for a comparable period.

- ***Business activity increased over August in regard to employment, freight carloadings, building permits, and department store sales.***
- ***Volume of department store sales dropped in western part of district, where smaller crops cut cash farm income.***
- ***Easy terms in metropolitan centers expanded consumer credit outstanding.***
- ***Federal Reserve Board study reveals consumer spending plans little changed by economic readjustment.***
- ***Bank survey indicates business is in no serious need of working capital.***

While decreases are reported for most types of durable goods, machinery production shows the greatest amount of decline. Of late, employment in non-durable goods has also decreased, but the eight months of 1949 are equal to the same period of last year. This is true in spite of the fact that textile mill employment in this state is substantially below last year.

There has been no decrease in employment for Montana and the western part of the district. The number of workers in durable goods industries in August was equal to and in September was above last year. In

Northwest Business Indexes

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

	Sept. '49	Aug. '49	Sept. '48	Sept. '47
Bank Debits—93 Cities	313	340	342	321
Bank Debits—Farming Centers	414	413	429	383
Ninth District Department Store Sales	276p	269	287	282
City Department Store Sales	296	281	299	289
Country Department Store Sales	256p	257	274	274
Ninth District Department Store Stocks	295p	290	336	258
City Department Store Stocks	251	245	279	231
Country Department Store Stocks	331p	326	381	281
Country Lumber Sales	202	158	168	148
Miscellaneous Carloadings	145	127	143	113
Total Carloadings (excl. Misc.)	102	111	118	97
Farm Prices (Minn. unadj.)	228	226	274	305

p—preliminary.

non-durable goods factories the number of workers was above a year ago during both August and September.

Construction employment in Minnesota and Montana decreased during the past three months. Since April 1949, employment in trade also declined in Minnesota. This drop was centered in retail rather than in wholesale trade. On the other hand, trade employment in Montana has risen during the summer months, and has been slightly above the level of a year ago.

Total non-agricultural employment in Minnesota during August was 3.2 per cent below a year ago—while the first eight months of this year were 2 per cent below last year. This holds true for the eastern part of our district; while in the west, employment is still equal to a year ago.

FREIGHT CARLOADINGS EXPECTED TO DECLINE

In the northwest district miscellaneous freight carloadings, which are 40 per cent agricultural products and 30 per cent manufactured, have held close to a year ago, down 3 per cent during the first nine months of 1949. In September the adjusted index of miscellaneous freight carloadings rose 1.5 per cent above last year. Other carloadings, however, averaged 9 per cent below a year ago. This reflects a smaller movement of forest products, coal, and less-than-carload-lot shipments.

According to the Regional Shippers Advisory board report, there will be a further decrease in freight carloadings during the coming quarter as compared with a year ago. The expected decline for this area is greater than that predicted for the nation as a whole. Large decreases are anticipated in iron, steel, ores, petroleum, and machinery shipments. Many agricultural products were also expected to be below a year ago—among them grains, poultry, and dairy products. To offset part of these decreases, livestock, sugar, and brick and clay shipments are expected to increase.

CONSUMER CREDIT EXPANDS UNDER EASY TERMS

Following the termination of Regulation W, retailers in larger centers quickly eased their credit terms in an effort to bolster their volume of sales and to meet competition. On major appliances, many stores require no down payment. Monthly payments in some instances are extended over as long a period as 24 months.

To further ease credit terms, some stores have adopted the meter plan for appliances. Under this plan, the customer usually makes no down payment and must deposit a coin in the meter at regular intervals to maintain the service of the appliance.

On charge accounts, most stores have adopted either the revolving plan or the 30-60-90 day plan. On the revolving plan, the customer has 90 days to pay for an item, with one-third of the total falling due each 30 days. Should the customer purchase a second item before he has completed his payments on the first, the amount he owes is added to the amount of the second purchase and the customer again is given 90 days in which to pay. Under the 30-60-90 day plan, the customer is scheduled to pay a third of the cost each month.

In many smaller communities of this district, retail merchants are still doing primarily a cash business. Their credit terms are tighter than those prior to the termination of Regulation W.

As a result of the liberalization of credit in larger centers, credit sales have risen. Consumer instalment credit outstanding at lending institu-

Sales at Ninth District Department Stores*

	% Sept. 1949 of Sept. 1948	% Jan.-Sept. 1949 of Jan.-Sept. 1948	Number of Stores [1] Showing Increase	Decrease
Total District	97	95	71	201
Mpls., St. Paul, Dul.-Sup.	100	95	7	19
Country Stores	93	94	64	182
Minnesota (City and Country)	100	95	32	61
Minnesota (Country)	99	96	25	45
Central	98	91	3	5
Northeastern	102	98	2	3
Red River Valley	107	94	3	1
South Central	95	97	5	9
Southeastern	104	99	6	6
Southwestern	96	96	6	21
Montana	93	98	9	22
Mountains	86	93	1	8
Plains	96	100	8	14
North Dakota	93	93	13	35
North Central	98	96	4	6
Northwestern	103	94	4	2
Red River Valley	89	91	3	14
Southeastern	95	95	2	11
Southwestern	(2)	(2)	....	....
Red River Valley-Minn. & N. D.	91	91	6	15
South Dakota	88	89	8	36
Southeastern	91	91	3	10
Other Eastern	84	86	2	23
Western	94	93	3	3
Wisconsin and Michigan	90	91	9	44
Northern Wisconsin	99	95	5	9
West Central Wisconsin	91	91	4	26
Upper Peninsula Michigan	79	86	0	9

*Percentages are based on dollar volume of sales.

[1] September 1949 compared with September 1948.

[2] Not shown, but included in totals. Insufficient number reporting.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Sept. [1]	Per Cent Change [2] from Year Ago Sept.	Jan.-Sept.
Minneapolis	337	+ 2	— 3
St. Paul[3]	273	— 8	—10
Duluth-Superior	303	— 5	— 4
Aberdeen	440	—19	—16
Bismarck	418	— 4	— 3
Fairmont	347	— 5	— 8
Grand Forks	381	— 3	— 2
Great Falls	392	+ 1	+ 4
La Crosse	266	— 8	— 7
Mankato	289	— 2	— 5
Minot	411	+ 5	— 5
Rapid City	367	—15	—13
Rochester	256	+ 4	— 2
St. Cloud	327	— 6	—10
Sioux Falls	402	— 3	— 4
Valley City	267	—13	—14
Willmar	301	— 9	— 6
Winona	281	+ 4	— 3
Yankton	301	—12	—16

[1] Based on daily average sales.

[2] Based on total dollar volume of sales.

[3] Labor difficulties — ended September 9, 1949.

tions has increased also. The amount outstanding at commercial banks of this district on August 31 was 15 per cent larger than a year ago. A substantial expansion in the amount outstanding likewise has taken place at credit unions, small loan companies, and industrial banks.

CONSUMER SPENDING PLANS STILL FAVORABLE

The results of a special study of consumer finances made in July for the Board of Governors of the Federal Reserve System are now available. This survey shows that the majority of consumers were not substantially affected by the economic readjustment during the first half of this year, and that future buying plans have not been radically altered from the first of the year.

While one-third of the consumers interviewed felt the pinch of lower incomes, only a few had financial problems as a result of it. Most of those who were affected adversely during the change were in the lower income brackets. On the whole, people felt conditions were worse than in January of this year, and they were more uncertain about the future than they had been previously.

The data indicate that about one-third expect their incomes to decline in the next 12 months but, on the whole, consumer income will not be far short of the two previous years. The high level of employment, income, and the record holdings of liquid and nonliquid assets, contribute to a large demand for consumers goods. Intentions to buy were found to be as great as at the beginning of the year. However, there was some feeling that purchases might be postponed.

BUSINESS IS IN A SOUND FINANCIAL CONDITION

A gradual decline in prices inevitably results in some inventory losses, which are especially hard on marginal firms. The small decline in dollar volume of sales since the first of the year has reduced cash reserves of numerous small retailers who were not in a position to build up reserves during the lush period. In recent months, wholesalers have had an increasing number of checks returned to them for lack of sufficient funds.

Despite these developments, business is still in a sound financial condition. This has been proven by the fact that there has been no unusual demand for business credit.

In the latter thirties, the Federal Reserve banks loaned funds to numerous business firms which were unable to qualify for regular commercial bank credit. As a result, many basically sound firms were saved from involuntary liquidation.

This summer the Federal Reserve Bank of Minneapolis reminded banks and business concerns in the district that it still stands ready to furnish working capital on a sound basis to established industrial and commercial businesses. After business firms have exhausted the usual local sources of credit; namely, the commercial banks, they may apply for credit at the Federal Reserve bank.

Even though this letter was mailed to 1,400 commercial banks and over 13,000 business concerns in this district during the first part of July, the Federal Reserve bank up to October 20 has received only 24 applications for loans from business firms.

END

DEVALUATION: DANGERS ACCOMPANY ITS BENEFITS

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extent that such alternative choices exist. If, for example, a country that has devalued its currency has the choice of buying tobacco from the United States or from a country with devalued currency, the latter choice would presumably now be taken, other things being equal.

Merchandise produced in the United States is, however, in great demand throughout the world. The popularity of most of our export items probably will not suffer a decline attributable to devaluation of currencies. The chief handicap to our sales in greater volume is lack of foreign purchasing power. If, as a result of devaluation or otherwise, foreign buyers get more dollars, our goods will probably be in greater rather than lesser demand in world markets.

DEVALUATION TIMED WITH LAG IN BRITISH SALES

Most students of international finance agree that the pound sterling at the official rates of 4.03 dollars was greatly overvalued. That being the case, the new rate probably is more realistic than the old rate. Why then, did not the British devaluate earlier?

The answer is found in part in the observation that there was no necessity, from the British point of view, to devalue as long as the world would take all the goods Britain was capable of producing for export regardless of price. Only when competition reached the stage where the British encountered difficulty in selling goods in world market would devaluation offer any possible advantage to them. Earlier action would have meant that no more goods could be sold (since she was selling all she could produce for export) and her imports would have cost more.

Thus devaluation at an earlier time would have been a handicap rather than an aid in balancing her international payments. Nor could devaluation have been delayed much longer, since with such delay Britain's gold reserves would have soon been exhausted.

In other words, only when Britain became fairly well prepared to produce abundantly for export, having first gone through a period of postwar industrial reconstruction, could devaluation offer much hope for expansion of her export trade.

END OF MARSHALL PLAN CAN FOLLOW DEVALUATION

During the past three and one-half years the United States has made huge grants and loans for relief and recovery to the countries that have now devalued their currencies. Observers are generally agreed that these loans and grants have enabled these countries to make remarkable progress in their efforts to reconstruct their economies.

Having helped them to make such progress, we are now, through devaluation of their currencies, offering to give them a better chance to sell their goods and services to us. That being the case, it would seem to be altogether logical that devaluation of these currencies offers grounds for the hope that foreign need for extraordinary U. S. aid will be reduced and ultimately disappear.

(Continued on next page)

FURTHER DEVALUATION THE CHIEF DANGER

The greatest danger in resorting to devaluation of currencies as a means of correcting imbalances in balances of payment is further devaluation. This danger might readily become grave because several countries that have devalued their currencies are seeking to sell the same types of products to the dollar area. The temptation to engage in competitive devaluation, the end product of which is chaos, under these circumstances is dangerously strong.

It is fervently to be hoped that the International Monetary Fund should demonstrate usefulness in dissuading each nation from attempts to solve its problems without regard for international consequences.

A further danger in devaluation is that a nation might, having taken that action, fail to correct the fundamental causes of the situation that gave rise to it. In fact, devaluation might aggravate the causes that gave rise to it.

Applying these observations to the British situation, it cannot without lack of astuteness be said that the only thing wrong with the British economy on September 17, 1949, was the rate of exchange between the dollar and the pound, and that on September 19 nothing was wrong with the British economy.

The British must, if the benefits of devaluation are not to evaporate, achieve greater efficiency in production, either under the doctrines of the welfare state or any other doctrine. The test of any contemplated action by the British under present circumstances should be its probable contribution to economic efficiency.

DEVALUATION CAN HELP REMOVE TRADE BARRIERS

The greatest gain from the devaluation of currencies is not found in devaluation **per se**; it is rather that such action provides a better opportunity than heretofore existed for the removal of many barriers to the flow of trade between nations.

Admitting that overvaluation of some currencies compared with others is a handicap to healthy future international trade relations, and ignoring the causes of those currencies having become so overvalued, devaluation should be accompanied

Assets and Liabilities of Twenty Reporting Banks

(In Million $)

	Aug. 31, 1949	Sept. 28, 1949	Oct. 12, 1949	$ Change Aug. 31-Sept. 28
ASSETS				
Comm., Ind., and Ag. Loans	$ 231	$ 223	$ 223	— 8
Real Estate Loans	66	67	67	+ 1
Loans on Securities	14	13	10	— 1
Other (largely consumer) Loans	152	140	133	— 12
Total Gross Loans & Discounts	$ 463	$ 443	$ 433	— 20
Less Reserves	6	6	6	....
Total Net Loans & Discounts	$ 457	$ 437	$ 427	— 20
U. S. Treasury Bills	80	72	71	— 8
U. S. Treasury C. of I.'s	138	158	171	+ 20
U. S. Treasury Notes	19	21	22	+ 2
U. S. Government Bonds	479	479	480	....
Total U. S. Gov't Securities	$ 716	$ 730	$ 744	+ 14
Other Investments	104	105	110	+ 1
Cash and Due from Banks	428	440	465	+ 12
Miscellaneous Assets	16	16	15	....
Total Assets	$1,721	$1,728	$1,761	+ 7
LIABILITIES				
Due to Banks	$ 330	$ 334	$ 348	+ 4
Demand Deposits, Ind., Part., Corp.	777	778	819	+ 1
Demand Deposits, U. S. Gov't	40	64	57	+ 24
Other Demand Deposits	205	175	167	— 30
Total Demand Deposits	$1,352	$1,351	$1,391	— 1
Time Deposits	252	252	253	....
Total Deposits	$1,604	$1,603	$1,644	— 1
Borrowings	....	7	....	+ 7
Miscellaneous Liabilities	17	17	16	....
Capital Funds	100	101	101	+ 1
Total Liabilities & Capital	$1,721	$1,728	$1,761	+ 7

Assets and Liabilities of All Ninth District Member Banks*

(In Million $)

	Aug. 31, 1949	Sept. 28, 1949	$ Change Aug. 31, 1949 Sept. 28, 1949	$ Change Sept. 29, 1948 Sept. 28, 1949
ASSETS				
Loans and Discounts	$ 902	$ 879	— 23	+ 23
U. S. Government Obligations	1,698	1,747	+ 49	+ 48
Other Securities	226	229	+ 3	+ 28
Cash and due from Banks and Res.	861c	866	+ 5	— 95
Other Assets	31c	31	....	— 3
Total Assets	$3,718c	$3,752	+ 34	+ 1
LIABILITIES AND CAPITAL				
Due to Banks	$ 370	$ 380	+ 10	....
Other Demand Deposits	2,185	2,202	+ 17	— 27
Total Demand Deposits	$2,555	$2,582	+ 27	— 27
Time Deposits	931	932	+ 1	+ 5
Total Deposits	$3,486	$3,514	+ 28	— 22
Borrowings	....	7	+ 7	+ 7
Other Liabilities	23c	22	— 1	+ 5
Capital Funds	209c	209	....	+ 11
Total Liabilities and Capital	$3,718c	$3,752	+ 34	+ 1

*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.

c—Corrected. Figures for these items were listed incorrectly in the September Review.

by the removal of other barriers. Among these are bilateral arrangements, currency controls, quotas, etc., which were designed to protect inefficient production.

Leaders in democratic nations agree that freer, more competitive trade should now become their goal.

FREER TRADE ENCOURAGED

With the signing of the basic multilateral accord in Geneva in 1947, a significant step toward freer international trade was taken. Another step in this direction was recently taken at Annecy, France, where 33 nations drew up new lower customs tariff schedules on a great variety of items.

Representatives of the U. S., once again moving away from its traditional policy, accepted findings which would reduce tariff on many products, including steel, cutlery, plywood, bacons, hams, butter, cheese, macaroni, fruits, cocoa, rum, aquavit, vermouth, matches, silver, jewelry, works of art, and umbrellas.

Reports state that in negotiations with Denmark the United States agreed to permit entry of 10,000,000 pounds of butter at seven cents a pound duty during the summer months. Previously, the rates were 14 cents a pound during the summer months and seven cents, under quota, for the winter months.

The tariff reductions alongside the devaluation of currencies by our competitors in the production of these items, constitute a significant invitation on our part to accept greater competition in trade. END

September Banking Developments

DURING September, Ninth district member banks increased their holdings of U. S. government securities by $49 million. This was the fifth consecutive monthly increase and a reversal of the downward trend which has persisted since the end of 1945. It coincides with a seasonal rise in deposits, a slackening in the demand for loans, and a series of reductions in reserve requirements which occurred during the period May 1 to September 1.

Demand deposits other than those due to banks increased by $22 million. This rise was concentrated in the country banks, where crop marketings were boosting farmer deposits. The lower level of prices received by farmers, together with smaller crop yields, produced a marked reduction in cash farm income as compared to a year ago. As a result, the seasonal increase in deposits was substantially below the increase in September 1948.

In the large city banks U. S. government deposits increased $24 million during September, reflecting quarterly income tax collections in the latter half of September. This increase was more than offset by decreases of $30 million in other demand deposits.

Reserve requirements of reserve city banks were lowered on September 1, when the reserve to be maintained on net demand deposits dropped ½ per cent to 18 per cent. This was the final adjustment in a series of successive changes in member bank reserve requirements which were initiated by the Board of Governors in May.

Total loans at all member banks dropped $23 million during September. This decrease was concentrated in the larger city banks, where a few large isolated transactions resulted in a drop of $20 million.

Government security holdings increased in both city and country member banks. In city banks, this increase was largely in holdings of certificates of indebtedness, which rose $20 million. City bank bill portfolios dropped $8 million. END

CASH FARM INCOME OFF 17% FROM 1948

Continued from Page 743

For the area as a whole, and for a period of years, nearly two-thirds of cash farm income has been derived from the sale of livestock and livestock products. The remaining third is from the sale of crops, with wheat sales accounting for nearly half.

In more recent years, when crop production was particularly good, the proportion of farm income from sale of crops was slightly higher. In 1948 for example, crop sales in the district were 42% of total cash farm income, with income from livestock and livestock products only 58% of the total.

SOURCES OF FARM INCOME VARY FROM STATE TO STATE

In the Ninth district part of Wisconsin, the sale of livestock and livestock products accounted for an estimated 86% of total cash farm income during 1948. At the other extreme, North Dakota in 1948 got only 28% of its farm income from the sale of livestock and livestock products. The remainder came from cash crop sales—most of it from wheat.

Minnesota is representative of an area with many important agricul-

Average Prices Received by Farmers*

Commodity and Unit	Sept. 15, 1937-41 Avg.	Sept 15, 1948	Sept. 15, 1949	Parity Prices [1] United States Sept. 15, 1949
Crops				
Wheat, bushel	$0.72	$ 1.96	$ 1.91	$ 2.14
Corn, bushel	.57	1.65	1.06	1.55
Oats, bushel	.25	.58	.54	.966
Potatoes, bushel	.47	1.40	1.22	1.77
Livestock and Livestock Products				
Hogs, 100 lbs.	8.53	26.73	19.22	17.60
Beef Cattle, 100 lbs.	7.73	23.42	20.10	13.10
Veal Calves, 100 lbs.	9.22	26.52	24.14	16.30
Lambs, 100 lbs.	8.15	22.92	21.24	14.20
Wool, lb.	.27	.52	.50	.443
Milk, wholesale, 100 lbs.	1.60	4.42	3.23	3.87
Butterfat, lb.	.30	.81	.66	.636
Chickens, live, lb.	.133	.291	.203	.276
Eggs, dozen	.198	.423	.451	.520

*Source: Data compiled from USDA AGRICULTURAL PRICES—September 30, 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.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 28, 1949

INDUSTRIAL production and employment increased somewhat further in September, but, as a result of industrial disputes, were curtailed sharply in October. Department store sales were below seasonal expectations from mid-September to the third week of October. Wholesale commodity price movements were mixed, with only a small decline in the average level. Construction activity continued at high levels. Stock prices advanced moderately and bond prices held firm.

INDUSTRIAL PRODUCTION—Production of manufactures advanced further in September while output of minerals declined 8 per cent. The Board's seasonally adjusted total index was 172 per cent of the 1935-39 average as compared with 170 in August.

Activity in durable goods industries rose about 2 per cent in September, reflecting mainly increases in output of consumers' durable goods and of metal building materials and equipment. Activity in the machinery industries rose 4 per cent in September, after declining steadily over the preceding eight months with a total reduction of 22 per cent in that period. With work stoppages at most plants, steel production was curtailed to 9 per cent of capacity beginning October 1, compared with 83 per cent in September.

Output of non-durable goods rose about 3 per cent further in September and was at the highest rate since February. Most of the gain represented continued very large increases at textile and paper mills, in part reflecting seasonal influences. Cotton consumption expanded 14 per cent and September deliveries of rayon to textile mills advanced to a new record rate. Paperboard output increased 10 per cent and was also at a new peak rate. Petroleum refinery activity increased somewhat further. Output of most other non-durable goods was maintained in large volume.

Minerals output has declined sharply since the middle of September mainly as a result of work stoppages at most coal mines. Output of iron ore declined more than seasonally in September and in October has dropped sharply as a result of the steel labor dispute. Crude petroleum production, on the other hand, has advanced in September and early October.

CONSTRUCTION — Total value of construction contracts awarded increased substantially in September, reflecting largely a further sharp expansion in residential contracts to a new record rate. Awards for public construction declined seasonally, following a marked drop in August, but the value of public work done has been maintained at a high level, reflecting the large volume of awards earlier this year.

EMPLOYMENT—Employment in nonagricultural establishments increased somewhat more than seasonally from mid-August to mid-September, but subsequently declined as a result of work stoppages.

DISTRIBUTION — Department store sales did not show the usual seasonal increase from the middle of September to the third week of October. Value of sales during the second half of September was 8 per cent smaller than in the corresponding period a year ago and during the first three weeks of October sales were 13 per cent below a year ago. Department store sales had averaged about 6 per cent lower than last year during the first eight months.

Shipments of railroad revenue freight in the first half of September continued at a level about 20 per cent below the same period a year ago. Since the middle of September, however, freight carloadings have dropped sharply, mainly as a result of curtailed shipments of coal, iron ore, and steel products.

COMMODITY PRICES—The general level of wholesale commodity prices decreased somewhat from mid-September to the third week of October. Prices of hogs and pork showed marked seasonal declines and reductions also occurred in some other farm products and foods. Cattle prices, however, advanced and coffee prices rose sharply. Imported materials generally were lower in the third week of October than in mid-September before many foreign currencies were devalued, while prices of some domestic industrial products such as cotton goods and tires were higher.

BANK CREDIT — Business loans at banks in leading cities expanded in September and the first three weeks of October in response to a seasonal rise in credit demand. Loans to consumers and real estate owners and holdings of U. S. government and corporate and municipal securities also increased.

Treasury deposits at Reserve banks, which were large at the end of September, were drawn down in the first three weeks of October, supplying banks with a substantial volume of reserve funds. Federal Reserve holdings of government securities and member bank borrowings at Reserve banks declined somewhat and member bank excess reserves increased moderately.

SECURITY MARKETS — Common stock prices increased somewhat in the first three weeks of October to a new high for the year. Prices of government securities and high-grade corporate bonds showed little change. The volume of new corporate security issues was small in September and October.

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tural enterprises, with its sources of farm income well diversified. During 1948, about 68% of Minnesota's farm income was from the sale of livestock and livestock products. The sale of cattle and calves brought in 15% of total cash farm income, 19% came from the sale of hogs; 19% from dairying, and 13% from poultry and egg sales.

Minnesota agriculture produced also a wide variety of cash crops during 1948. Flaxseed sales led the list with 8% of total cash farm income. Corn was second with 6% of the total. Wheat, oats, barley, and soybeans each contributed 2% to 3% of total cash farm income. (See pie chart on farm income distribution.)

In both Montana and South Dakota over one-fourth of total cash farm income in 1948 was derived from the sale of cattle and calves. Both of these states have extensive pasture and range areas adapted to the production of beef cattle.

In Montana last year, 38% of its farm income was from wheat. Wheat and cattle together brought in over two-thirds of the state's cash farm income. Sheep, hogs, dairying, and poultry and egg enterprises each contributed from 2% to 5% of the total farm income. (See chart on farm income distribution.)

In South Dakota, the sale of hogs brought in about 18% of 1948 cash farm income. Flaxseed sales brought in another 7%, and corn, oats and barley from 4% to 6% each. END

January-July Cash Farm Income*

(Thousands of Dollars)

State	1935-1939 Average	1948	1949	1949 in Percent of 1948
Minnesota	$ 180,401	$ 724,562	$ 628,770	87%
North Dakota	44,916	323,158	211,840	66
South Dakota	54,320	333,182	286,131	86
Montana	32,037	141,762	134,473	95
Ninth District [1]	355,582	1,686,873	1,395,030	83
United States	4,100,168	15,427,926	14,023,611	91

*Data from THE FARM INCOME SITUATION, July-August, 1949.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.