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Lower Farm Purchasing Power Seen for 1950

High Domestic Demand and Government Programs to Support Agricultural Economy at Favorable Levels in Spite of Continued Price-Cost Squeeze

By FRANKLIN L. PARSONS

WITHIN the past dozen years or so, farmers have become much more efficient. They now produce one-third more than they did before the war and they do it with several million less workers on farms. They have mechanized their farms to a high degree. They use many new improved crop varieties and they have developed better production practices for crops and livestock.

One of the results of these efficiencies, together with increased farm production and high war-inflated prices, is that the balance sheet of agriculture today looks exceedingly healthy. On the asset side, demand deposits in country banks in the Ninth district are four to five times pre-war levels.

Farmers hold substantial amounts of savings bonds. In the U. S. as a whole, farmers hold about $5 billion in savings bonds compared with less than $1/4 billion in the Thirties. They have sizeable investments in their marketing cooperatives, and farmers' safety deposit boxes in country banks are comfortably filled. In addition, the dollar value of land and other physical assets is near record levels.

On the liability side of the balance sheet, there also has been a substantial change. Farm real estate mortgage debt in the Ninth district is now less than half of what it was in the 1930's. In North Dakota it is the lowest on record (records going to 1910). In Montana, it is the smallest since 1913.

Short-term farm debt has more than doubled since the end of the war, but it does not appear to be out of line with present values of farm real estate and farm products.

CYCLE OF FARM PRICES HAS SHOWN SHARP SWINGS

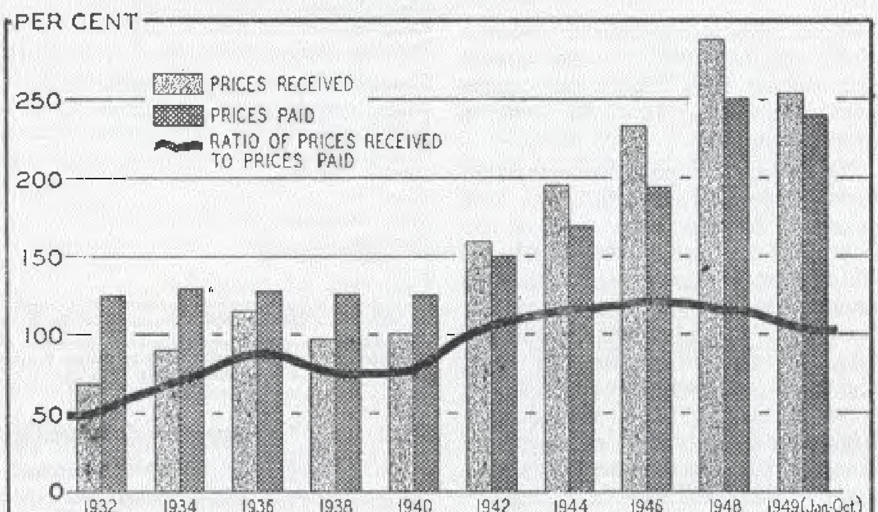
Farmers, in less than 20 years, have gone through the worst depression and the greatest prosperity in American history.

In the early Thirties, fat cattle prices were as low as $5.00 per cwt.; hogs $3.00; wheat 25c a bushel; corn 15c; butterfat 15c a pound; and so on down the list of farm products. In recent years, fat cattle prices have exceeded $40.00 per cwt.; hogs $30.00; wheat almost $3.00 per bushel; corn as high as $2.50; butterfat $1.00 per pound. Prices of other farm products prices were in proportion.

Farmers are still riding the crest of the war-born inflation wave to a large extent in spite of two downward price adjustments in less than two years. The first of these adjustments occurred in the early part of 1948 and the second in the spring of 1949.

Farm prices today are now almost 20% below the all-time peak of 307 (1910-14 = 100) reached in Janu-

INDEX NUMBERS OF PRICES RECEIVED BY FARMERS AND PRICES PAID BY FARMERS
Including Interest and Taxes, 1932-1949*
(1910-14 = 100)



THE RATIO of prices received by farmers to prices paid has been least favorable to farmers in periods of depression and large unemployment and most favorable in times of prosperity and full employment.

*Source: U. S. D. A. Outlook Charts, 1950, and Agricultural Situation bulletins for 1944, 1945, and 1949.

ary of 1948, and farmers are fearful of further downward price adjustments in early 1950.

The Bureau of Agricultural Economics also believes that farm prices in 1950 may continue their downward drift and may average as much as 10% below the average for 1949. If the present high level of farm production continues and more and more is added to existing farm surpluses, it may become increasingly difficult to maintain farm product prices at recent levels.

PRICE-COST SQUEEZE MAY CONTINUE

In contrast to the 20% decline in farm product prices since the peak in early 1948, prices paid by farmers for items used in farm production and farm-family living have declined less than 4%. Farmers have, therefore, experienced a considerable price-cost squeeze.

This price-cost squeeze may become more serious if the BAE's forecast of a 10% decline in prices received actually occurs in 1950. Costs of farming in 1950 are expected to decline only slightly because of cost rigidities in the things farmers buy. However, if farm prices decline as much as 10% in 1950, the parity ratio (ratio of prices received by farmers to prices paid, including interest and taxes), would drop below 100.

This ratio is expected to average about 104 for 1949. In the depression of the early 1930's, the parity ratio was in the 50's. In 1940, it averaged only 78.

To point out probable trends in farm production costs in 1950, it is necessary to summarize some of the important cost items. Wages of hired labor is one important cost item on many farms. Farm wages have advanced to roughly four times prewar, but a small decline has been registered in recent months. The wage trend in 1950 will depend largely upon industrial employment. If industrial unemployment increases, some workers will seek farm employment—which may have a further softening effect on farm wage rates.

Offsetting slightly lower wage rates in 1950 is the trend toward increased farm real estate taxes and increased debt carrying charges.

Fertilizer has become an important farm cost item in recent years. Farmers use much more than they did before the war. Fertilizer supply has improved, but the demand is such that prices are not expected to decline much if any in 1950, according to the Bureau of Agricultural Economics. In fact, the BAE believes expenditures may be maintained at or even above the level of recent years.

Expenditures for farm machinery and equipment are especially important farm cost items. War influences have tremendously stimulated farm mechanization. This trend toward further mechanization is likely to continue in 1950 but at a decreasing rate because of decreased net farm purchasing power and because farmers have caught up in large part on immediate machinery needs.

Mechanization has introduced a new set of fairly rigid costs in the farming picture. Such costs include replacement, servicing, and operating expenses on farm machinery.

Another item of cost which is not expected to decrease much, if any, is transportation rates. Distribution and marketing costs also reflect the general rigidity of wages and hence are likely to remain fairly high in 1950.

On balance, therefore, it would appear that the Department of Agriculture's estimate of only a slight decline in farm costs in 1950 is reasonable.

CROP PRODUCTION DOWN, LIVESTOCK UP IN 1950

There are three major factors that determine agriculture's net income and net purchasing power. One is prices received by farmers, the second is the level of costs, and the third is crop and livestock production. Two of these three factors have already been discussed.

U. S. farm production this year (1949) may be as large as the record production of 1948. It is estimated by the Department of Agriculture that total U. S. farm production in 1948 was 140% and in 1949 it was 138% of the 1935-39 average.

Crop production in the Ninth Federal Reserve district in 1949 was reduced approximately 17% from the

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Average Prices Received By U. S. Farmers*

Commodity and Unit	Oct. 15, 1937-41 Avg.	Oct. 15, 1948	Oct. 15, 1949	Parity Prices[1] United States Oct. 15, 1949
Crops				
Wheat, bushel	$0.69	$1.98	$1.94	$2.12
Corn, bushel	.43	1.24	.99	1.54
Oats, bushel	.24	.60	.54	.958
Potatoes, bushel	.40	1.27	1.14	1.76
Livestock and Livestock Products				
Hogs, 100 lbs.	7.80	24.16	17.54	17.40
Beef Cattle, 100 lbs.	7.41	21.14	19.62	13.00
Veal Calves, 100 lbs.	9.09	25.42	23.55	16.20
Lambs, 100 lbs.	7.99	21.78	21.12	14.10
Wool, lb.	.28	.53	.48	.439
Milk, wholesale, 100 lbs.	1.66	3.85	3.32	3.84
Butterfat, lb.	.31	.73	.66	.631
Chickens, live, lb.	.125	.254	.187	.274
Eggs, doz.	.221	.459	.445	.516

*Source: Data compiled from U. S. D. A. Agricultural Prices—October 28, 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-September Cash Farm Income[1]

(Thousands of Dollars)

State	1935-39 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 247,481	$ 982,803	$ 838,523	85%
North Dakota	77,025	475,669	343,739	72
South Dakota	77,530	472,914	384,193	81
Montana	57,857	222,360	193,846	87
Ninth District[2]	516,913	2,364,510	1,932,416	82
United States	5,684,905	20,763,775	19,035,962	92

[1] Data from "The Farm Income Situation," dated September-October, 1949.

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

BUSINESS

Strikes Interrupted Business Revival

EXPANSION in the district's business activity which began in the latter half of August has been overshadowed by the effects of the coal and steel strikes. In the areas directly affected by these strikes, employment and consumer expenditures declined significantly. The decrease in consumer expenditures has been reflected in lower department store sales and in smaller bank debits.

The direct impact of the coal and steel strikes on the economy of this region was the interruption of iron mining and shipping from the Lake Superior district and the return shipping of coal from the lower lakes.

Iron ore shipments for this season on the first of October were almost 2½% larger than for the corresponding period of 1948. The steel strike, which included the iron ore workers, brought the shipment of ore from the Lake Superior district during October to a standstill. As a result, the shipments for the season at the end of October had fallen 9% below the tonnage shipped during the corresponding period of last year.

Since the shipping season usually closes during the first part of December, the shipment of ore following the settlement of the strike will constitute only a small fraction of the tonnage that was lost in October.

However, the loss of iron ore shipments in October apparently will not force steel mills to ship ore by rail and thereby increase the cost of ore to maintain steel production during the winter months. Iron ore stocks at the steel mills and on Lake Erie docks on the United States side were at a high level when the strike was called.

At the end of September, stocks totalled nearly 45½ million gross tons, which was approximately one-half million tons more than was on hand in the steel mills region at the end of the 1948 shipping season.

It now appears that steel mills have an ample supply of stock piles of ore, with the exception of some specific grades of ore. These specific grades are needed to secure the proper composition for blast furnaces. Consequently, this small amount of required grades of ore may be transported before the shipping season closes on the Great Lakes.

The primary effect of the steel strike on the economy of this district has been a loss of employment and of consumer income in the mining areas, especially in Duluth, Superior, and other port cities.

APPROACH OF WINTER FINDS COAL STOCKS LOW

The three-day work week in the coal mines, followed by the coal strike, has reduced the stocks of coal at the head of Lake Superior to a low figure. If the low stocks are not replenished before the shipping season closes, a shortage of dock coal may force users of coal in the Lake Superior territory to pay higher prices for coal shipped by rail.

At the Duluth and Superior docks, coal stocks on October 1 consisted of 3,428,937 tons of bituminous and 138,875 tons of anthracite—the lowest level since 1945. As compared with a year ago, stocks of bituminous coal were down over one million tons and stocks of anthracite almost 70,000 tons. Even though reloadings out of Lake Superior docks have been heavier than usual, the Maher coal bureau of St. Paul in the third week of November estimated a shortage of 1¼ million tons of bituminous coal. Approximately half of the shortage is in the type of coal used for domestic heating.

- ***Mining regions chiefly affected by coal and steel workstoppages.***
- ***Strikes created small amount of indirect unemployment in district.***
- ***Department store stocks rose in October for third consecutive month.***
- ***First 10 months show department store sales down only 6% as compared with 1948.***

It still may be possible to supply this territory with a substantial portion of the needed amount of dock coal. By November 14, the coal mines were again in full operation, so the coal is being delivered to the lower lake docks.

Secondly, the insurance underwriters have agreed to continue the insurance on the cargo and vessels through December 27 at an additional premium of about 25%. It now appears that coal will be shipped to Lake Superior docks through December.

If the necessary amount of coal is not shipped before the upper lakes freeze over, it will be necessary to transport the coal for the areas usually supplied from the Lake Superior docks by rail from the Midwestern fields which are located in southern

Northwest Business Indexes

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

	Oct. 49	Sept. 49	Oct. 48	Oct. 47
Bank Debits—93 Cities	310	313	362	358
Bank Debits—Farming Centers	414	414	433	404
Ninth District Dept. Store Sales	278p	276	303	274
City Department Store Sales	303p	296	315	290
Country Department Store Sales	253	257	292	258
Ninth District Department Store Stocks	298p	296	328	264
City Department Store Stocks	252p	251	279	236
Country Department Store Stocks	335	333	368	286
Country Lumber Sales	175	202	166	161
Miscellaneous Carloadings	105	145	131	132
Total Carloadings (excl. Misc.)	59*	102	118	123
Farm Prices (Minn. unadj.)	227	228	266	300

p—Preliminary.

* Carloadings reflect the interruption of iron ore shipments due to the steel strike.

Illinois, Indiana, and western Kentucky.

CONTRACTION IN BUSINESS LIMITED TO MINING DISTRICT

The steel strike was settled and the coal strike was terminated, at least temporarily, before the economic effects of the work stoppages in these industries spread, to any material extent, to the economy outside of the mining region and the port cities.

The Minnesota Division of Employment and Security has estimated that 21,600 workers in Minnesota were unemployed as a result of these strikes. Of this number 20,300 workers were employed in mines, on railroads, docks, and lake vessels. Only 1,300 workers in the state were indirectly unemployed as a result of the stoppages in those operations. For instance, in the Twin Cities, unemployment of less than a thousand workers in October can be traced to these strikes.

On the Upper Peninsula of Michigan, approximately 6,500 workers engaged in iron ore mining and about 1,500 workers in related industries were laid off as a result of the coal and steel strikes, according to the October report of the Michigan Unemployment Compensation Commission.

Sales at Ninth District Department Stores*

	% Oct. 1949 of Oct. 1948	% Jan.-Oct. 1949 of Jan.-Oct. 1948	Number of Stores[1] Showing Increase	Decrease
Total District	92	94	45	227
Mpls., St. Paul, Dul.-Sup.	96	95	5	19
Country	85	93	40	208
Minnesota (city and country)	95	95	17	74
Minnesota (country)	85	94	12	57
Central	77	87	1	6
Northeastern	73	95	0	5
Red River Valley	89	93	0	4
South Central	87	95	2	12
Southeastern	91	96	5	7
Southwestern	88	95	4	23
Montana	94	97	13	20
Mountains	92	94	5	6
Plains	95	100	8	14
North Dakota	86	92	7	42
North Central	86	95	1	9
Northwestern	93	94	2	4
Red River Valley	84	90	3	15
Southeastern	89	94	1	11
Southwestern	73	82	0	3
Red River Valley - Minn. & N. D.	84	91	3	19
South Dakota	81	89	4	40
Southeastern	82	93	1	13
Other Eastern	78	85	1	24
Western	86	93	2	3
Wisconsin and Michigan	82	90	4	49
Northern Wisconsin	87	93	1	13
West Central Wisconsin	84	91	3	26
Upper Peninsula Michigan	72	85	0	10

* Percentages are based on dollar volume of sales.
[1] October, 1949, compared with October, 1948.

EXPANSION IN BUSINESS INTERRUPTED BY STRIKE

The strikes in coal and steel interrupted a rise in employment in this district. On the Upper Peninsula of Michigan, employment in non-agricultural industries in September rose substantially, bringing it to the highest level for this year. Reopening of the copper mines employed roughly 1,500 workers. Manufacturing industries in the 30 days prior to September 15 increased their labor forces by 600 workers. Part of this increase was traced to the settlement of a labor dispute in the apparel industry. A major gain in employment also occurred in the lumber and wood products industry due to a larger consumer demand.

In Montana, September employment again broke all postwar records. On the basis of the estimate made by the Unemployment Compensation Commission of Montana, 300 more workers were employed than in October 1948, which was the previous record month.

The increase in employment during September occurred principally in manufacturing, coal mining, retail trade, and state and federal government. The larger employment in government resulted from an expansion of highway crews and the organization of staffs for reclamation projects in the state.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Oct.[1]	Per Cent Change[2] From Year Ago Oct.	Jan.-Oct.
Minneapolis	362	—2	—3
St. Paul	289	—5	—9
Duluth-Superior	291	—14	—5
Aberdeen	447	—26	—17
Bismarck	429	—10	—4
Fairmont	307	—22	—10
Grand Forks	461	—13	—4
Great Falls	353	—13	+2
La Crosse	257	—18	—8
Mankato	300	—14	—6
Minot	439	—7	—5
Rapid City	406	—28	—15
Rochester	251	—7	—2
St. Cloud	326	—26	—13
Sioux Falls	377	—19	—6
Valley City	284	—18	—14
Willmar	340	—6	—6
Winona	293	—9	—3
Yankton	299	—19	—16

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

In Minnesota, several manufacturing industries expanded their labor forces during September. Employment in metal working industries rose by 1,000 workers, reversing a steady downward trend for the five previous months. The manufacture of refrigeration and heating equipment and of hardware accounted for most of this increase. Logging camps and sawmills continued to expand their operations in an effort to deliver their finished products to the building constructors before severe winter weather closes the season.

On the other hand, employment dropped noticeably in the food and kindred products industry due to the completion of the corn pack. In fact, it more than offset the gain in the durable goods industries.

Even though the strikes in the basic industries of coal and steel have been settled for the present, employment in this district most likely will not return to the September

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BANKING

Region Favored by Deposit Shifts in '40s

FEW bankers will soon forget the skyrocketing expansion of bank deposits during World War II. In the nation's member banks total deposits rose from $62 billion in December 1941 to $130 billion by year-end 1945. Deposits had doubled themselves in four years.

In Ninth district member banks, the deposit growth was even more spectacular. For every dollar on deposit at the close of 1941, there were almost three dollars by December of 1945. Total deposits in all Ninth district member banks expanded from $1⅓ billion to nearly $3½ billion.

Financing the tremendous expenditures for war provided the real steam behind this uphill climb of deposits. Banks expanded their holdings of government securities, thereby placing a like amount of new deposits in government accounts. As Uncle Sam spent his newly-created funds, these deposits were distributed throughout the nation.

It was noted above that member bank deposits in the Ninth district increased at a faster rate than that for the nation as a whole. This indicated that Northwest banks were not only sharing in the national rise but were pulling in deposits from other areas as well. In other words, the Ninth district was enjoying a "favorable balance of payments" — there were more money payments flowing into this region than there were flowing out.

This area's favorable payments balance during the war reflected a combination of factors. On the one hand, there was an unprecedented demand for food. Bumper crops and soaring farm prices resulted in a record dollar volume of purchases from Ninth district farmers and related industries. On the other hand, production of manufactured goods for civilian use was sharply curtailed, cutting off the supply of goods which typically lures the Ninth district deposit dollar into other areas.

Table I shows the war-time deposit experience of member banks in the U. S. and in the Ninth district. Total deposits in all member banks throughout the country rose 110%; in Ninth district member banks, total deposits were up 158%.

Looking at the Ninth district picture by states, it can be seen that the Dakotas and northwestern Wisconsin led the parade with increases for North Dakota of 233%, South Dakota of 193%, and northwestern Wisconsin (26 counties) of 202%. The Upper Peninsula of Michigan (15 counties) brought up the rear with an expansion of 140%. Without exception, however, state figures in this district ran considerably ahead of the national average.

BANK ASSETS SHIFTABLE AT END OF WORLD WAR II

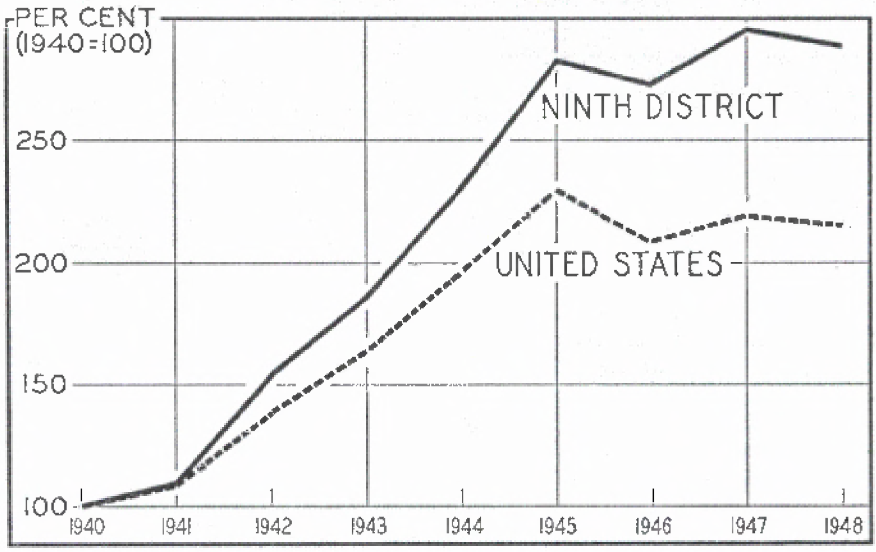
At the end of the war most observers looked for a net loss of deposits in Ninth district banks—that is, a return flow of deposits **from** this area **to** the rest of the nation.

Parallels were drawn between the current postwar period and the aftermath of World War I. In 1920-21, Ninth district member banks experienced a sharp and painful shift of deposits out of this area. Observers were quick to point out, however, that while a loss of deposits following World War II was probably imminent, banks were now in a strong position to meet withdrawals.

In the early Twenties, when the deposit drain hit Ninth district banks, the asset side of ledger sheets reflected a pronounced lack of shiftability. Loans accounted for almost 75% of total assets. Banks able to liquidate their loans could meet de-

- ***Ninth district banks gained deposits faster than country as a whole during the war and in early postwar.***
- ***Net inflow of deposits into this area was reversed in 1948 but reappeared in the first nine months of this year.***
- ***Declining trend in farm income may be setting stage for a loss of deposits from Ninth district banks.***

COMPARISON OF GROWTH OF TOTAL DEPOSITS IN 9TH DISTRICT AND U. S. MEMBER BANKS, YEAR-END 1940-48



CONTRARY TO EXPECTATIONS, the Ninth district did not experience a sharp drain of deposits in the postwar period as farm income continued at a high level.

posit withdrawals. Others, stuck with frozen assets, were forced to close.

In contrast, at the end of World War II banks were in the most liquid position on record. Loans accounted for only 12% of total assets in Ninth district member banks, while government securities, which provided a reservoir of easily shiftable funds, accounted for 60%. Today, while the proportion of assets accounted for by loans has grown to about 25%, banks still retain a high degree of shiftability.

TABLE I

World War II Deposit Shifts

Total Deposits in Member Banks, in Millions

	December 1941	December 1945	% Change
United States	$61,717	$129,670	+ 110
Ninth District	1,328	3,427	+ 158
Minnesota	894	2,178	+ 144
Montana	154	427	+ 177
North Dakota	67	223	+ 233
South Dakota	92	270	+ 193
U. P. Mich. (15 counties)	62	149	+ 140
N. W. Wisconsin (26 counties)	59	178	+ 202

TABLE II

Postwar Deposit Shifts

Total Deposits in Member Banks, in Millions

	Dec. 1945	Dec. 1947	Dec. 1948	% Change 1945-47	1947-48
United States	$129,670	$122,528	$121,362	— 6	— 1
Ninth District	3,427	3,552	3,501	+ 4	— 2
Minnesota	2,178	2,121	2,059	— 3	— 3
Montana	427	477	495	+12	+ 4
North Dakota	223	265	270	+19	+ 2
South Dakota	270	347	339	+28	— 2
U. P. Mich. (15 counties)	150	155	155	+ 3	0
N. W. Wis. (26 counties)	179	187	183	+ 4	— 2

NINTH'S "FAVORABLE BALANCE" RETAINED IN EARLY POSTWAR

What actually took place on the deposit scene in the postwar years can be seen in table II. From December 1945 to December 1947 total deposits in U. S. member banks shrank from $130 billion to $122½ billion—a drop of 6%.

This reduction in bank deposits could be traced to the Treasury cash redemption program launched early in 1946. In that year, the Treasury drew heavily on war loan accounts which had been built up in the Victory loan drive. Beginning in 1947, the Treasury cash surplus of tax receipts over expenditures provided the wherewithal for debt retirement. Bank-held securities were redeemed, thereby extinguishing private deposits. The decline in deposits was held to a low figure, however, by the rapid expansion of loans which, of course, gave birth to new deposits.

Ninth district member banks, in contrast to the U. S., chalked up an increase in total deposits in the early postwar years. From 1945 to 1947, deposits rose 4%, indicating that this area was keeping hold of its "favorable balance of payments."

Again farm prosperity held the key to the favorable position of this district, relative to the rest of the nation. Record-breaking crop production and continued heavy demand for farm products—especially for shipment abroad—meant a flow of funds into agricultural areas.

As table II shows, in the span 1945-47 the Dakotas again were out in front with a combined rise in total deposits of about 24%, while Minnesota showed a decline of 3%—slightly less than the national average.

'48 SAW MILD OUTFLOW OF DISTRICT'S DEPOSITS

In 1948 the much-heralded outflow of Ninth district deposits made its first appearance, but in a very mild manner. Nationally deposits continued to decline as loan expansion slowed down while the debt-retirement program moved ahead. Total deposits in U. S. member banks dropped 1% during 1948.

Concurrently, total deposits in Ninth district member banks shrank 2%, indicating a net drain on deposits in this region. (State percentage changes are shown in table II.) Individuals were purchasing hard goods, and businesses and farmers were stocking up on capital goods and inventories. Funds flowing from this district to manufacturers in other areas outran the continued inflow of money payments for farm products.

Last year's drain out of the deposit barrel, however, was relatively moderate. At the end of 1948 Ninth district member banks still held a significantly greater share of the nation's deposits than they had at the beginning of the war. At year-end 1948, total deposits in Ninth district member banks accounted for 2.88% of U. S. member bank deposits. Seven years earlier this district's member banks had claim to only 2.15% of the nation's bank books.

DISTRICT DEPOSITS SHOW SLIGHT RELATIVE GAIN THUS FAR IN 1949

So far in 1949 it appears that deposits on balance are again flowing into this area. In the first nine months of this year average deposits in Ninth district member banks have edged above those of the same period a year ago. This is not the case nationally. Average deposits in U. S. member banks in the first nine months of 1949 have slid slightly below the record for 1948.

The Ninth district's relative gain in deposits occurred despite a rather sharp drop in cash farm income. In the first nine months of 1949 cash farm income in this region was about 18% less than in the comparable period in 1948. The Dakotas and northwestern Wisconsin suffered the sharpest declines, the Upper Peninsula of Michigan the mildest.

It is not entirely clear what the record will show when the story is completely told for 1949. So far the edge held by this district's member banks is extremely moderate.

Moreover, the current declining trend in farm income (see special article, page 1) has cast some clouds on the deposit outlook for this area. Lower farm income may bring a less favorable relationship between predominantly agricultural sectors and the more highly industrialized regions of the country. If so, Ninth district banks may be on the threshold of a further net loss of deposits to other areas. END

October Banking Developments

A TRIO of developments highlighted the Ninth district banking picture during October: (1) Demand deposits other than interbank continued a seasonal rise in both city and country banks, while interbank deposits in city banks were drawn down considerably. (2) Loans in city banks declined 3 per cent, whereas country bank loans scored a gain of more than 1½ per cent. (3) Security portfolios throughout the district increased for the sixth consecutive month.

Demand deposits other than interbank rose $25 million this month. This reflected, in part, the fact that Treasury disbursements in October exceeded Treasury receipts, thereby feeding funds into the money stream. In country areas, continuation of crop marketings boosted deposit totals, although at a slower pace than in the previous two months, when marketings were at their seasonal peak.

Total loans declined $13 million in city banks, due largely to repayments of accommodations to other banks. In addition, commercial, industrial, and agricultural loans were off slightly, carrying their total to about 12 per cent below the level of a year ago.

In country banks, total loans increased $8 million. Commodity Credit Corporation loans were in demand during October, although with less vigor than in the past couple of months. Currently market prices for most grains are below support levels, and hence a substantial share of crop marketings have been placed

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

	Sept. 28, 1949	Oct. 26, 1949	Nov. 9, 1949	$ Change 9/28 - 10/26
ASSETS				
Com., Ind., and Ag. Loans	$ 223	$ 221	$ 223	— 2
Real Estate Loans	67	68	67	+ 1
Loans on Securities	13	10	10	— 3
Other (largely consumer) Loans	140	131	141	— 9
Total Gross Loans & Discounts	$ 443	$ 430	$ 441	— 13
Less Reserves	6	6	6	......
Total Net Loans & Discounts	$ 437	$ 424	$ 435	— 13
U. S. Treasury Bills	72	60	41	— 12
U. S. Treasury C. of I.'s	158	178	180	+ 20
U. S. Treasury Notes	21	21	22	......
U. S. Government Bonds	479	479	481	......
Total U. S. Gov't Securities	$ 730	$ 738	$ 724	+ 8
Other Investments	105	112	111	+ 7
Cash and Due from Banks	440	427	434	— 13
Miscellaneous Assets	16	16	16	......
Total Assets	$1,728	$1,717	$1,720	— 11
LIABILITIES				
Due to Banks	$ 334	$ 310	$ 324	— 24
Demand Deposits, In., Part., Corp.	778	811	815	+ 33
Demand Deposits, U. S. Gov't	64	52	45	— 12
Other Demand Deposits	175	171	162	— 4
Total Demand Deposits	$1,351	$1,344	$1,346	— 7
Time Deposits	252	252	253	......
Total Deposits	$1,603	$1,596	$1,599	— 7
Borrowings	7	3	3	— 4
Miscellaneous Liabilities	17	16	16	— 1
Capital Funds	101	102	102	+ 1
Total Liabilities & Capital	$1,728	$1,717	$1,720	— 11

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

	Sept. 28, 1949	Oct. 26, 1949	$ Change Sept. 28, 1949 Oct. 26, 1949	$ Change Oct. 27, 1948 Oct. 26, 1949
ASSETS				
Loans and Discounts	$ 879	$ 874	— 5	+ 13
U. S. Government Obligations	1,747	1,766	+ 19	+ 67
Other Securities	229	241	+ 12	+ 41
Cash and Due from Banks & Res.	866	835	— 31	—137
Other Assets	31	31	......	+ 1
Total Assets	$3,752	$3,747	— 5	— 15
LIABILITIES AND CAPITAL				
Due to Banks	$ 380	$ 354	— 26	— 5
Other Demand Deposits	2,202	2,227	+ 25	— 31
Total Demand Deposits	$2,582	$2,581	— 1	— 36
Time Deposits	932	931	— 1	+ 2
Total Deposits	$3,514	$3,512	— 2	— 34
Borrowings	7	3	— 4	+ 3
Other Liabilities	22	22	......	+ 5
Capital Funds	209	210	+ 1	+ 11
Total Liabilities and Capital	$3,752	$3,747	— 5	— 15

* 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.

under loan and purchase agreements.

Government security portfolios advanced $19 million in all Ninth district member banks during October, and holdings of other securities were up $12 million. On November 14 the Treasury announced that 2% Treasury bonds of 1950-52, due March 15, 1952, are called for redemption March 15, 1950. Holders will be given an exchange offering, but the refunding terms have not as yet been announced.

Cash and due from banks declined 3½ per cent this month as non-earning balances were put to work in earning assets. END

LOWER FARM PURCHASING POWER SEEN FOR 1950

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year before by both an early and late season drouth and this has reduced farm purchasing power in the district. The high level of total agricultural production in recent years is due principally to high yields per acre.

Crop production in 1950 may be smaller if average crop yields are assumed and a cut in acreage allotments occurs for some crops.

Offsetting in part, if not in full, a possible reduction in U. S. crop production in 1950 is the record 1949 carry-over of feed grains. Abundant feed supplies may thus stimulate livestock production, and total agricultural production may be nearly as large as this year. In fact, this is the prediction by Department of Agriculture economists.

FARMERS' REAL PURCHASING POWER MAY DROP 15% IN 1950

The probability that farm prices are likely to drift lower in 1950, and that total agricultural production may be no larger, adds up to a potential reduction in 1950 cash farm income.

If, as predicted, the costs of farming tend to decline less than prices received in 1950, farmers' realized net income would be squeezed somewhat tighter.

How serious is this cut in net farm income likely to be in 1950? The Department of Agriculture guesses it will be around 15%. If this turns out to be an accurate forecast, it would represent a total decline of one-third since 1947. Farmers' realized net income in 1947 was at a peak of about $18 billion. In 1948, it was $16.7 billion. This year, 1949, it may not exceed $14 billion, and in 1950 it may be approximately $12 billion if a 15% cut in net income actually occurs.

A decline of one-third in farmers' income in a three-year period is substantial, and it will be reflected in the amount of goods and services farmers are able to buy. However, if farmers' realized net income is viewed from the bottom up, the viewpoint is somewhat more optimistic.

A 1950 net farm income of $12 billion would be approximately 2½ times larger than it was for the 1935-39 average. Even after adjustments in prices to pre-war levels, the purchasing power of farmers in 1950 would be substantially higher than before the war, probably about 30% more.

GOVERNMENT PROGRAMS IMPORTANT SUPPORT UNDER FARM PRICES AND INCOME

One very significant factor in the farm outlook for 1950 is the government price support programs. These programs have tended to stabilize farm purchasing power.

The Agricultural Act of 1949, which was signed into law in late October, continues price support on designated farm products at about the same level as in 1949. In fact, with a choice of two parities (the old one and a new modernized parity formula), supports on some commodities could be even higher. These price support programs may prove more and more costly as domestic and foreign demand for farm products fall from war-inflated levels.

Recently, the Commodity Credit Corporation estimated that their net losses may amount to approximately $1½ billion in the fiscal year ending next June 30. Unless markets can be found for current huge and mounting agricultural surpluses, the final accounting may reveal even larger net losses.

One example of the importance of price support programs in agriculture is to be found with corn. Last year's corn loan program ended with about 555 million bushels in government ownership.

One has only to travel in southern Minnesota and note the tremendous number of government corn bins filled to near capacity with 1948 corn to realize the significance of government action in the support of farm prices and incomes.

A reduction in 1950 acreage by allotments of approximately 25% to 30% may help hold down the corn surplus, but weather next summer is likely to be the dominant factor in the size of next year's corn crop. However, land that is taken out of corn production may be utilized for soybeans, flax, or some other crop which in turn may be overproduced in succeeding years.

HIGH FEED GRAIN SUPPORTS CLOUD LIVESTOCK PICTURE

With the largest carry-over of feed grains on record, a sizeable increase in production of livestock and livestock products might reasonably be expected in 1950. Livestock numbers are generally higher in 1949 compared with 1948, and this trend may continue throughout 1950.

However, the certainty of price support at 90% of parity on corn and no definite long-time price guarantees on most livestock enterprises raises the question whether livestock producers may greatly expand their operations.

Theoretically, with a favorable corn-hog ratio such as exists now, a 20% to 25% expansion in next spring's pig crop might reasonably be expected. But corn prices have continuing support in 1950 at a high level and hog price supports expire next March 31. After next March, hog price supports are discretionary with the secretary of agriculture and may be set at any level from 0% to 90% of parity. The livestock experts in the Department of Agriculture are expecting only a 5% to 10% increase in the 1950 spring pig crop.

It seems that many farmers today receive such a comfortable income from cash-grain farming, kept relatively high by government support measures, that they have little incentive to assume the work and risks involved in expansion of livestock enterprises.

GOVERNMENT IS DOMINANT FACTOR IN WHEAT OUTLOOK

Approximately one-third of 1949 wheat production is expected to be under loan or purchase agreement by early 1950. Price support for both 1949 and 1950 wheat crops is to be at 90% of parity.

Favorable wheat prices in recent years have greatly expanded wheat acreage. In fact, the acreage planted for the 1949 crop was the largest on record. Unusually high yield per acre have boosted annual U. S. wheat production since 1943 to over one billion bushels.

Domestically, about 700 million bushels of wheat are used annually. The difference between domestic use of wheat and total production has been used for export and to build up carry-over stocks.

According to the BAE, wheat exports in 1950-51 may total no more than 400 million bushels compared with about 450 million in the current year and 500 million bushels last year.

An 8-million acre reduction in wheat is expected for 1950 under the acreage allotment program. This would mean that 75 million acres may be seeded for the 1950 crop. If average yields are procured, a crop of 1,125 million bushels could be realized. This indicates that unless wheat exports are continued at around 400 million bushels, domestic stocks would increase sharply. U. S. wheat stocks are expected to total about 300 million bushels July 1. This compares with a pre-war average of 235 million bushels. END

STRIKES INTERRUPTED BUSINESS REVIVAL

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level. For instance, the approaching winter weather forces construction and related industries to reduce their operations.

RETAILERS AGAIN BUILDING UP STOCKS

In a previous review of business conditions, it was pointed out that department store stocks in this district began to rise in August following a period of liquidation which extended from September 1948 through July of this year. As these retailers had reduced their stocks to a low level, it was necessary for them to return to the markets and buy heavily. Consequently, the volume of new orders placed with wholesalers and manufacturers rose steeply at the end of the summer. In fact, the demand rose so rapidly that wholesalers in a few lines of merchandise could not fill orders immediately.

After an allowance is made for the usual seasonal rise in department store stocks during the fall of the year, September stocks in this district rose 2%, and in October rose slightly more. The restocking of merchandise again is raising stocks to a level commensurable with the current volume of sales. At the end of October, Ninth district stocks were still 11% below the peak reached in September 1948.

Business inventories in general have followed the trend described for department stores. According to a recent report released by the U. S. Department of Commerce, the book value of business inventories in the United States during September rose $150 million, with an adjustment for the usual seasonal fluctuations.

The increase in inventories was concentrated in wholesale and retail trade. Stocks held by motor vehicle dealers accounted for about one-third of the total increase. Significant increases also occurred among furniture, apparel ,and general merchandise stores. Some gain in inventories occurred in every major line of retail trade. Manufacturers' inventories, on the contrary, declined almost one-half billion dollars.

From these facts on inventory trends, it is evident that retailers coming into the markets to replenish their depleted stocks of merchandise have set the stage for a rise in manufacturing activity.

DEPARTMENT STORE SALES IN DISTRICT REMAIN FIRM

Department store sales in this district have held up well in spite of the steel strike which stopped mining operations and the transportation of iron ore. October sales were only 8% below the October 1948 dollar volume. This sales volume was not greatly out of line with the level of sales in preceding months. For the first 10 months of this year, sales have averaged 6% below those for the corresponding period of 1948.

In the mining region, department store sales dropped significantly as was expected. In northeastern Minnesota and on the Upper Peninsula of Michigan, October sales declined 27% and 28% respectively of the October 1948 sales. In northern Wisconsin, where mining is of some importance, sales were down only 13%.

Sales during the first three weeks of November averaged 6% below the volume for the corresponding weeks of last year. If the present trend continues, the sales during the coming Christmas season will again be close to a record even though they do not equal last year's dollar amount. The decline in retail prices is an important factor in smaller dollar sales. END

National Summary of Business Conditions

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

OUTPUT and employment at factories and mines decreased in October but increased in the latter part of November. New construction activity was maintained at a high rate in October and the first half of November. Department store sales showed a less than seasonal increase. Commodity price changes continued to be relatively small. Prices of common stocks and bonds generally advanced.

INDUSTRIAL PRODUCTION—The Board's seasonally adjusted index of industrial production was 166 per cent of the 1935-39 average in October as compared with 174 in September and 170 in August. Following settlement of the steel labor dispute and resumption of operations at bituminous coal mines, total industrial production has increased in November.

Activity in durable goods industries declined about 12 per cent in October. The decrease reflected mainly sharp curtailment in output at blast furnaces, steel works, and rolling mills. Steel ingot production was reduced from a rate of 84 per cent of capacity in September to 11 per cent in October. Since early November, however, ingot production has increased again and during the fourth week was scheduled at 78 per cent of capacity. Activity in iron and steel fabricating industries declined only slightly in October, but in early November apparently was reduced considerably, mainly as a result of temporary steel shortages.

Owing in part to model changeovers, the number of passenger cars and trucks assembled was reduced from the record September rate by about one-tenth in October and by one-fifth in the first three weeks of November.

Deliveries of copper to fabricators increased sharply in October, and output of furniture, electrical appliances, and most building materials continued to advance.

Output of nondurable goods showed a further rise in October as a result mainly of substantial increases in the textile, paper, and printing industries. Activity in these lines in October was generally at about the high levels prevailing last autumn. Output of petroleum products also increased in October but in early November was curtailed because of large stocks.

Activity in most other nondurable goods industries in October showed little change.

As a result of work stoppages at bituminous coal and iron mines, minerals output declined considerably further in October. Anthracite production, however, increased substantially, and crude petroleum output continued to expand. In November, bituminous coal production has advanced sharply.

CONSTRUCTION — Value of construction contracts awarded in October, according to the F. W. Dodge Corporation, was maintained at the exceptionally high September level. Increases in public awards, following declines in August and September, offset small declines in awards for most types of private construction. The number of residential units started in October, as estimated by the Bureau of Labor Statistics, was 100,000, the same number as in September and 27,000 more units than in October 1948.

EMPLOYMENT — Employment in non-agricultural establishments declined 2 per cent in October owing mainly to reductions in durable goods manufacturing, mining, and transportation industries as a result of the steel and coal labor disputes. Unemployment rose one-quarter million in early October.

DISTRIBUTION — Department store sales were 275 per cent of the 1935-39 average in October, according to the Board's seasonally adjusted index, as compared with 289 in September and an average of 286 for the first nine months. In the first three weeks of November, sales were 6 per cent below year-ago levels, when the sales index for the month was 290.

Shipments of railroad revenue freight declined considerably in October, reflecting chiefly sharply curtailed shipments of coal, iron ore, and steel products. Loadings increased in the middle of November, reflecting mainly sharp gains in coal shipments; loadings of miscellaneous freight showed a moderate expansion.

COMMODITY PRICES — The average level of wholesale commodity prices declined somewhat further from mid-October to the third week of November, reflecting chiefly seasonal decreases in prices of livestock and meats. Spot prices of apparel wool, lead, and tin also declined, owing in part to earlier reductions in foreign markets, while coffee prices showed a sharp increase. Steel scrap prices rose above pre-strike levels and prices of some additional domestic industrial products were advanced in November.

BANK CREDIT—Business loans at banks in leading cities continued to expand seasonally during October and the first half of November. Loans on real estate and loans to consumers also increased. Holdings of U. S. government securities rose during October but subsequently declined early in November.

A small reduction in gold stock and a seasonal outflow of currency into circulation tended to reduce member bank reserves in the first three weeks of November. Federal Reserve bank credit expanded, however, reflecting primarily purchases of government securities by the System.

SECURITY MARKETS — A steady rise in prices of most long-term government bonds during the first three weeks of November has been accompanied by a moderate increase in prices of high-grade corporate bonds. Common stock prices have fluctuated around the new high level for the year reached in early November. New corporate security issues have continued in small volume.