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AGRICULTURE

Price Support Major Factor in Farm Outlook

WHENEVER farmers get together and talk over their economic affairs, they soon get into a discussion of the government's farm price support program.

An important reason for this is that this program is a tremendously significant factor in the farm outlook. It appears, too, that it may become even more important in 1950 as farm surpluses pile up and foreign market outlets decline in importance.

Prices of farm products today are near "parity" with prices farmers pay. At that, the current parity relationship is less favorable to farmers than it has been in the last eight years. The urgent demands for food and fiber during and since the war put the farmer in an exceptionally favorable price-cost position.

Farmers remember, however, that in the late 1930's price-cost relationships were 15 to 20 points below the present level, and that in the early 1930's these price relationships were extremely unfavorable to them. In fact, less than 20 years ago there was a period when the ratio of prices received by farmers to prices paid, including interest and taxes, was not quite 50% of parity.

Farmers remember, too, way back to the aftermath of World war I when the bottom fell out of farm prices as a result of expanded production, reduced domestic demand, and a decline in foreign markets. For nearly 20 years following that war, farmers wallowed in a slough of unfavorable prices and financial distress.

They are now wondering if history may not repeat itself sooner or later in view of the current expansion of production and a prospective decline in agricultural exports as a result of reduced foreign aid expenditures and a revived foreign agriculture.

During World war II, Congress took emergency action to protect farmers from precipitous price declines after the war and to give them a chance to readjust to peace-time conditions. But the program of temporary price supports for readjustment purposes has now been supplemented by more permanent types of support.

Agricultural Acts of 1948 and 1949 promised government help to agriculture on a more or less permanent basis.

To make a long story short, the farmer in spite of his so-called rugged individualism has gradually become accustomed to a system of price supports and controls that is likely to be increasingly significant to his economic life.

With this thought in mind, an analysis of the Agricultural Act of 1949 as it affects the 1950 farm outlook for the Ninth district seems important.

- ***Ratio of prices received by farmers to prices paid at normal, but it is the lowest in eight years.***
- ***New farm act of 1949 promises high level price support to important Ninth district farm commodities.***
- ***New parity formula boosts parity prices on some farm products.***

NEW FARM ACT DEALS WITH FARM PRODUCTS IN 3 GROUPS

The Agricultural Act of 1949 deals with agricultural commodities in three groups; basic commodities, designated nonbasic commodities, and other nonbasic commodities.

Of the six basic crops only two—corn and wheat—are important to this area. The other four—cotton, tobacco, rice, and peanuts—are southern crops.

Price support for these six basic crops in 1950 will be a continuation at 90% of parity with added provisions for acreage allotments and marketing quotas. In 1951 the support will be 80% to 90% of parity, depending on market supplies and at the discretion of the Secretary of Agriculture. In 1952 and succeeding years, the support price may vary from 75% to 90% of parity. Tobacco is one exception. It is to get continued assistance at 90% of parity.

Support prices to individual farmers, of course, are subject to farmer compliance with acreage allotment and quota programs that are in force.

If marketing quotas are disapproved by the farmers on the basic crops, support prices will be at 50% of parity except in the case of tobacco, where it would be zero. Marketing quotas are approved or disapproved by a referendum vote among farmers. If two-thirds or more of the farmers voting approve, then marketing quotas apply to all producers of that commodity.

SOME NONBASIC COMMODITIES CUSHIONED BY SUPPORTS

Another group of farm products to receive mandatory price supports consists of wool, tung nuts, honey, potatoes, milk, and butterfat, and the products of milk and butterfat. These are the "designated nonbasic" commodities.

Price supports for these commodities in 1950 and succeeding years are as follows: Wool is to receive 60% to 90% of parity assistance, depending on the price that is necessary to encourage an annual production of 360 million pounds of shorn wool. This year (1949) about 216 million pounds may be produced.

Tung nuts, honey, and potatoes also are to receive guarantees at 60% to 90% of parity. Dairy products will have support at 75% to 90% of parity. The exact level will be determined by the Secretary of Agriculture in view of economic factors affecting each commodity including supply in relation to normal.

ZERO TO 90% SUPPORT RANGE FOR OTHER FARM PRODUCTS

All other farm products are declared eligible for price support at zero to 90% of parity at the discretion of the Secretary of Agriculture. His decisions as to the actual level of support are to be based on a consideration of several factors, including:

1) The supply of the commodity in relation to the demand therefor.
2) The price levels at which other commodities are being supported and, in the case of feed grains, the feed values of such grains in relation to corn.
3) The availability of funds.
4) The perishability of the commodity.
5) The importance of the commodity to agriculture and the national economy.
6) The ability to dispose of stocks acquired through a price-support operation.
7) The need for offsetting temporary losses of export markets.
8) The ability and willingness of producers to keep supplies in line with demand.

TWO TYPES OF PARITY MAY BE USED IN 1950

The new farm bill provides for two parity formulas. First, the old parity formula based on 1910-14 price relationships; second, a modernized parity formula which includes wartime subsidy payments and wages paid hired farm labor. This formula also is based, in part, on prices received by farmers within a recent 10-year period. This formula will be used for all nonbasic commodities starting in 1950 and for basic crops after 1953.

For basic crops—price support may be based on either parity formula, whichever yields the highest level of price support until 1954, when the new formula must be used. The modernized parity price can be reduced by 5 percent of original price on each January 1 from 1950 through 1954. These reductions may be allowed to accumulate and all become effective at the same time, so that by 1954, when the new parity price is first scheduled for certain crops, it could be 25 percent below the old price.

The Department of Agriculture has made comparisons, for illustrative purposes only, of parity prices as computed with the old and new formulas. These comparisons based on September 15, 1949 price relationships but subject to revision are as follows:

Commodity	Parity Prices Under Old Formula	Parity Prices as Computed with New Formula
Wheat (bu.)	$2.14	$1.88
Corn (bu.)	1.55	1.47
Flaxseed (lb.)	4.09	4.31
Milk (100 lbs.)	3.87	4.41
Butterfat (lb.)	.639	.704
Wool (lb.)	.443	.502
Potatoes (bu.)	1.77	1.61
Hogs (100 lbs.)	17.60	19.00
Beef Cattle (100 lbs.)	13.10	17.00
Eggs (doz.)	.520	.459

Note: Parity prices according to the new formula, when officially determined, may differ substantially from these illustrations.

Higher than 90% of parity supports may be granted by the Secretary if he determines after a public hearing that it is necessary to relieve a shortage of a commodity essential to the national welfare or security.

The Secretary is also instructed as far as practicable to "announce the level of price support for field crops in advance of the planting season and for other agricultural commodities in advance of the beginning of the marketing season or year," for that commodity.

CCC LOANS AND PURCHASES IMPLEMENT SUPPORTS

The Commodity Credit Corporation has authority to use approximately $4¾ billion in the current fiscal year to support farm prices. Approximately $3 billion of these funds was reported as obligated by November 1 and, at that time, 1949 corn had barely started to be put under loan. It is believed by many agricultural economists that existing funds for price support may not be sufficient to carry through next July 1.

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January-October Cash Farm Income[1]

(Thousands of Dollars)

State	1935-39 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 281,466	$ 1,114,507	$ 953,608	86%
North Dakota	92,795	582,595	403,473	69
South Dakota	89,304	541,306	449,257	83
Montana	73,817	306,408	241,426	79
Ninth District[2]	584,578	2,779,238	2,240,607	81
United States	6,683,437	24,634,923	22,162,761	90

[1] Data from "The Farm Income Situation," dated November, 1949.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Ninth District Farmers*

Commodity and Unit	Nov. 15 1937-41 Avg.	Nov. 15 1948	Nov. 15 1949	Parity Prices[1] United States Nov. 15, 1949
Crops				
Wheat, bushel	$0.70	$ 2.06	$ 1.95	$ 2.12
Corn, bushel	.42	1.12	.94	1.54
Oats, bushel	.26	.68	.59	.958
Potatoes, bushel	.44	1.30	1.22	1.76
Livestock and Livestock Products				
Hogs, 100 lbs.	7.15	22.09	15.15	17.40
Beef Cattle, 100 lbs.	7.22	20.71	18.90	13.00
Veal Calves, 100 lbs.	8.69	25.16	23.17	16.20
Lambs, 100 lbs.	7.99	21.47	21.18	14.10
Wool, lb.	.27	.51	.46	.439
Milk, wholesale, 100 lbs.	1.73	3.87	3.37	3.84
Butterfat, lb.	.33	.68	.66	.631
Chickens, live, lb.	.119	.248	.186	.274
Eggs, dozen	.253	.506	.405	.516

* Source: Data compiled from USDA Agricultural Prices—November 29, 1949.

[1] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

BUSINESS

Urban Trade in District Comparatively Strong

THE mild business recovery which was interrupted by the coal and steel strikes again has gained considerable momentum. In this district, as in the entire nation, industrial employment has been maintained at a high level, although the November seasonal downtrend in soft goods has tended to offset increases in the coal and steel industries.

In the large urban centers of this district, retail sales during the Christmas season may prove to be one of the best on record. However, in the rural areas sales have begun to lag, which may reflect the decline in agricultural income.

Department store sales in Minneapolis and St. Paul have been close to the 1948 volume, as have sales in Duluth and Superior following the coal and steel strikes. For the week ending December 10, sales in Duluth and Superior were 6% above the 1948 dollar volume in the corresponding week; in Minneapolis, sales were 4% above, and in St. Paul they were 1% below. For the four cities combined, sales were 3% above the volume for the corresponding week of 1948.

The complete returns on department store sales for November disclosed a marked difference in the level of sales between the smaller centers in the district and the four larger centers which comprise Minneapolis, St. Paul, Duluth, and Superior.

In North and South Dakota, November sales were down as much as 16% and 17%, respectively, from a year ago. In the other states, sales were down by a smaller margin but, nevertheless, by a significant amount. In Montana, sales were off 10% and in Minnesota, exclusive of the three large metropolitan centers, they were off 9%. The smallest decrease of 6% was reported by stores located in the northwest part of Wisconsin. Sales on the Upper Peninsula of Michigan suffered materially from the loss of consumer income which was the direct effect of the coal and steel strikes. As a result, sales in that area were down 19% from a year ago.

In the November number of the **Monthly Review**, the contraction in farm purchasing power in this district was stressed. This contraction in farm purchasing power apparently was reflected in November department store sales.

As may be observed from the table on cash farm income, such income in North Dakota for the first 10 months of this year was down almost one-third as compared with the income for the corresponding period in 1948.

In the other states, the decrease was less but, nevertheless, significant. The decline in cash farm income for the Ninth district averaged 19%.

Numerous commercial bankers have observed that many farm families have reduced their purchases by a larger percentage than the decline in farm income. Some of them are limiting expenditures to current income rather than buying on credit in anticipation of future receipts.

SOME MERCHANDISE IN BRISK DEMAND

In the large industrial centers of this district, there has been a strong demand for some types of merchandise. For instance, in recent months, the dollar sales of men's clothing, furniture, bedding, and major household appliances have exceeded those in the same months of last year.

Television sets, in particular, have been selling rapidly in communities which are within range of a television station.

- ***Department store sales remain high in large urban centers but have been lagging in rural areas.***
- ***Passenger car sales in 1949 have set record, while commercial car sales have slumped.***
- ***Construction industry has large number of projects in blueprint stage.***
- ***Employment still held down by effects of coal and steel strikes.***
- ***Consumer credit increased 6% in four months.***

PASSENGER CAR SALES RISE; COMMERCIAL SALES DECLINE

Automobile dealers are finishing a year of big business. On the basis of the number of registrations, new passenger car sales were very high. Dealers in North Dakota, who led dealers in the other states of this district in the larger number of cars sold during the first 10 months sold almost 19,000 cars. This number of new cars represents a 70% increase over the previous year's volume. In the other states, the increase in the number of cars sold ranged from one-third to one-half of the respective 1948 volume.

On the other hand, the demand for commercial cars has leveled off significantly in the past summer. Sales in both Minnesota and Mon-

Northwest Business Indexes

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

	Nov. '49	Oct. '49	Nov. '48	Nov. '47
Bank Debits—93 Cities	301	310	333	322
Bank Debits—Farming Centers	382	414	412	365
Ninth District Dept. Store Sales	267p	278	286	283
City Department Store Sales	285	303	297	292
Country Department Store Sales	250p	253	275	273
Ninth District Department Store Stocks	305p	298	319	278
City Department Store Stocks	256	252	277	250
Country Department Store Stocks	345p	335	353	301
Country Lumber Sales	155p	175	161	126
Miscellaneous Carloadings	106	105	128	131
Total Carloadings (excl. Misc.)	73	59	124	123
Farm Prices (Minn. unadj.)	216	227	261	287

p—Preliminary.

tana have fallen below 1948 sales.

CONSTRUCTION HAS LARGE BACKLOG

More evidence is accumulating on the growing backlog of construction. If all the projects now in the blueprint stage are carried through to completion, the construction industry will operate close to full capacity during a large part of 1950.

In 81 representative cities of this district, the total valuation of building permits issued in November was almost double the aggregate valuation in November, 1948. A steady rising trend has been evident since last June, whereas total permit valuations during the first half of the year actually fell below the total for the first half of 1948.

In the residential field, the building of large rental units is coming into the foreground. Permits issued for retail outlets are still numerous, while the number issued for industrial construction has tapered off. A large amount of public construction, such as the erection of buildings for public and private schools, hospitals, churches, and other municipal improvements, is still in the blueprint stage.

Sales at Ninth District Department Stores*

	% Nov. 1949 of Nov. 1948	% Jan.-Nov. 1949 of Jan.-Nov. 1948	Number of Stores[1] Showing Increase	Decrease
Total District	93	94	40	200
Minneapolis, St. Paul, Duluth-Superior	95	95	4	22
Country Stores	88	92	36	178
Minnesota (city and country)	95	95	16	65
Minnesota (country)	91	94	12	47
Central	96	90	2	5
Northeastern	80	93	1	3
Red River Valley	92	93	0	4
South Central	92	95	3	11
Southeastern	99	95	3	6
Southwestern	88	94	3	18
Montana	90	97	8	25
Mountains	90	94	4	7
Plains	90	99	4	18
North Dakota	84	91	4	41
North Central	84	94	1	8
Northwestern	84	93	0	6
Red River Valley	85	89	2	15
Southeastern	83	94	1	10
Southwestern	(2)	(2)	....	....
Red River Valley - Minn. & N. D.	86	90	2	19
South Dakota	83	87	3	19
Southeastern	85	88	2	3
Other Eastern	81	85	0	11
Western	84	93	1	5
Wisconsin and Michigan	91	90	9	46
Northern Wisconsin	94	94	4	12
West Central Wisconsin	94	91	4	25
Upper Peninsula Michigan	81	84	1	9

* Percentages are based on dollar volume of sales.

[1] November 1949 compared with November 1948.

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

NON-AGRICULTURAL EMPLOYMENT REMAINS HIGH

Employment in some industries is receding due to the advent of winter weather. This is the familiar pattern of employment in the Ninth district.

In November the employment in non-agricultural industries in Montana had decreased nearly 2% from the September peak, according to the report issued by the Unemployment Compensation commission. Since this decline has been only seasonal, total employment continues to set a record as compared with employment in corresponding months of previous years.

Following the termination of the coal and steel strikes, employment in Minnesota quickly returned close to the former level. The Minnesota Division of Employment and Security estimated that approximately 18,000 persons returned to their jobs early in November.

Notwithstanding this back-to-work movement, some of the effects of the strikes lingered on in that some metal fabricators could not secure sufficient quantities of raw materials to operate at their former capacities. Consequently, November employment did not achieve the expected level.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Nov.[1]	Percent Change[2] from Year Ago Nov.	Jan.-Nov.
Minneapolis	357	—3	—3
St. Paul	291	—6	—9
Duluth-Superior	291	—11	[illegible]
Aberdeen	417	—25	[illegible]
Bismarck	338	[illegible]	—5
Fairmont	289	—21	—11
Grand Forks	382	—9	—4
Great Falls	341	—15	—0
La Crosse	[illegible]	—1	—8
Mankato	345	—4	—6
Minot	344	—14	—6
Rapid City	386	—18	—15
Rochester	273	+3	—2
St. Cloud	366	—10	—12
Sioux Falls	377	—11	—6
Valley City	257	—20	—15
Willmar	308	—11	—6
Winona	307	—0	—3
Yankton	267	—12	—16

[1] Based on daily average sales.

[2] Based on total dollar volume of sales.

CONSUMER CREDIT INCREASES

Frequent reference has been made to the rapidly mounting consumer indebtedness. As of October 31, 1949, the total amount of consumer credit outstanding in the United States totalled $17.2 billion. During 1949 consumer credit rose sharply while personal income, in the aggregate, has declined. The amount of such credit outstanding is now slightly over 8% of the total personal income in the nation.

It is difficult to break down by districts the total amount of consumer credit outstanding. For instance, several sales finance companies operate on a national scale. A total of $172 million of consumer instalment credit was outstanding on October 31, 1949 in Ninth district commercial banks. The amount outstanding increased 19% over a 12-month period, which is very similar to an increase of 21% in commercial banks in the nation.

Most of the rise in consumer credit has come from instalment credit and

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BANKING

January 1 to See War Loan Account Revised

UNCLE SAM keeps a handsome share of his huge checking account in the nation's commercial banks. The bulk of these U. S. Treasury deposits have been known as the "war loan account." Effective January 1, 1950, such balances will be renamed "Treasury tax and loan account."

Originally springing from wartime purchases of government securities, war loan accounts today are built up from the sales proceeds of savings bonds and notes and from withheld tax collections. Along with the rechristening of war loan accounts on January 1, 1950, banks will be granted permission to credit social security tax receipts to these accounts.

War loan accounts had their heyday during World war I and again in the second World war. The war loan account was born out of the first Liberty Loan act of 1917 which authorized banks purchasing government securities for their own or their customers' accounts to make payments for these securities by crediting special "war loan accounts."

Such accounts were made attractive to banks in several ways. First of all, from the time of its inception to 1935, war loan deposits were exempt from reserve requirements. And moreover, during the first war period, when banks generally paid interest on demand deposits, the rate on Treasury deposits was considerably lower than the going market rate.

BANKS ENCOURAGED TO HOLD GOVERNMENT DEPOSITS IN WORLD WAR II

During the interwar period, as receipts from the sale of marketable securities dwindled to an almost negligible amount, war loan deposits faded out. The number of depositary banks declined sharply.

Financing World war II, however, brought a rejuvenation of government deposits in commercial banks.

- ***U. S. government funds in commercial banks and trust companies will be rechristened "Treasury tax and loan account."***
- ***Qualified banks will be permitted to credit social security tax receipts to Treasury tax and loan accounts.***
- ***Special issue of 2% depositary bonds, formerly allotted to banks holding war loan accounts, will be terminated as of January 1, 1950.***
- ***U. S. government deposits in district member banks, currently at $43 million, are down sharply from the wartime peak of $550 million.***

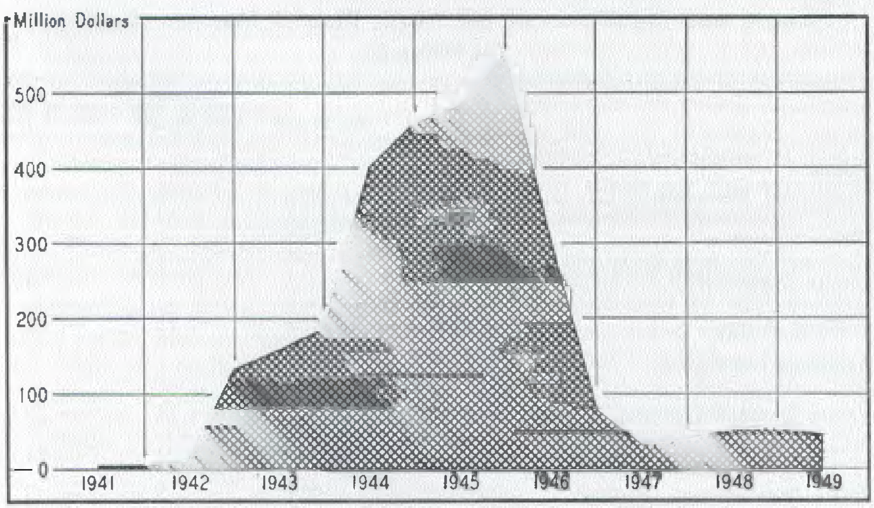
Again special provisions were made to encourage banks to open war loan accounts.

In 1943, reserve requirements against war loan accounts were again suspended, as well as insurance assessments on such deposits for the Federal Deposit Insurance Corporation. These exemptions were in force until June 30, 1947.

In addition from 1943 to January 1, 1950, banks holding receipts of withheld income taxes were offered a special issue of nonmarketable bonds—2 percent depositary bonds, second series—whose yield was higher than that of many other government securities available to the banks. Depositary banks were permitted to invest in this issue in an amount based on the volume of tax payments held.

Thus as the Treasury's needs for banking facilities expanded during the war, more and more banks found it advantageous to hold U. S. government deposits.

U. S. GOVERNMENT DEMAND DEPOSITS IN NINTH DISTRICT MEMBER BANKS, 1941-1949.



WAR LOAN ACCOUNTS in the postwar period — built up from sales proceeds of savings bonds and notes and from withheld tax collections — are down sharply from wartime totals but are riding considerably above the pre-war level.

GOVERNMENT DEPOSITS SKYROCKETED DURING WAR

At the start of World war II, Ninth district member banks held approximately $3 million of U. S. government demand deposits. (See chart.) Less than ½% of total demand deposits in this district's member banks represented funds belonging to Uncle Sam.

By December 1945, the peak year for war loan accounts, U. S. government demand deposits (primarily war loan accounts) in Ninth district member banks had zoomed to $550 million. Over one-fifth of total demand deposits represented credits to the account of the federal government.

During 1946 and the first half of 1947, war loan accounts were drawn down sharply. To brake inflationary pressures in the economy, the Treasury launched a program of debt retirement financed out of accumulated balances in war loan accounts. By June 1947, U. S. government demand deposits in Ninth district member banks had been reduced to $32 million—a small fraction of the volume of a year and a half earlier.

WAR LOAN ACCOUNTS ABOVE PREVIOUS PEACE-TIME LEVELS

Since mid-year 1947, U. S. government demand deposits in this district's member banks have run roughly around the $30 million to $55 million level.

Compared with wartime peaks, war loan accounts today appear to be a midget figure. Compared with pre-war years, however, it is evident that war loan accounts currently top previous peacetime volumes by a considerable margin.

From shortly after the end of World war II to the current fiscal year, the U. S. Treasury has been "in the black" in financing current expenditures — the federal government has not, on balance, borrowed funds in the market. Nonetheless, there have continued to be substantial sales of savings bonds and notes, and most of the proceeds of these sales have been channeled through war loan accounts. Moreover, start-

*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.

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

	Oct. 26, 1949	Nov. 30, 1949	Dec. 14, 1949	$ Change 10/26 - 11/30
Assets				
Comm., Ind., and Ag. Loans	$ 221	$ 223	$ 213	+ 2
Real Estate Loans	68	69	71	+ 1
Loans on Securities	10	10	11	....
Other (largely consumer) Loans	131	139	133	+ 8
Total Gross Loans and Discounts	$ 430	$ 441	$ 428	+ 11
Less Reserves	6	6	6	....
Total Net Loans and Discounts	$ 424	$ 435	$ 422	+ 11
U. S. Treasury Bills	60	32	39	— 28
U. S. Treasury C. of I.'s	178	170	169	— 8
U. S. Treasury Notes	21	22	22	+ 1
U. S. Government Bonds	479	481	484	+ 2
Total U. S. Gov't Securities	$ 738	$ 705	$ 714	— 33
Other Investments	112	112	112	....
Cash and Due from Banks	427	428	459	+ 1
Miscellaneous Assets	16	17	18	+ 1
Total Assets	$1,717	$1,697	$1,725	— 20
Liabilities				
Due to Banks	$ 310	$ 298	$ 313	— 12
Demand Deposits, Ind., Part., Corp.	811	815	850	+ 4
Demand Deposits, U. S. Gov't	52	42	37	— 10
Other Demand Deposits	171	163	152	— 8
Total Demand Deposits	$1,344	$1,318	$1,352	— 26
Time Deposits	252	251	251	— 1
Total Deposits	$1,596	$1,569	$1,603	— 27
Borrowings	3	9	3	+ 6
Miscellaneous Liabilities	16	17	17	+ 1
Capital Funds	102	102	102	....
Total Liabilities and Capital	$1,717	$1,697	$1,725	— 20

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

	Oct. 26, 1949	Nov. 30, 1949	$ Change Oct. 26, 1949 Nov. 30, 1949	$ Change Nov. 24, 1948 Nov. 30, 1949
Assets				
Loans and Discounts	$ 874	$ 888	+ 14	+ 24
U. S. Government Obligations	1,766	1,732	— 34	+ 38
Other Securities	241	240	— 1	+ 40
Cash and Due from Banks and Res.	835	837	+ 2	—110
Other Assets	31	32	+ 1	+ 2
Total Assets	$3,747	$3,729	— 18	— 6
Liabilities and Capital				
Due to Banks	$ 354	$ 342	— 12	....
Other Demand Deposits	2,227	2,216	— 11	— 25
Total Demand Deposits	$2,581	$2,558	— 23	— 25
Time Deposits	931	928	— 3	— 7
Total Deposits	$3,512	$3,486	— 26	— 32
Borrowings	3	9	+ 6	+ 9
Other Liabilities	22	23	+ 1	+ 5
Capital Funds	210	211	+ 1	+ 12
Total Liabilities and Capital	$3,747	$3,729	— 18	— 6

ing in March 1948 banks were permitted to credit receipts of withheld income taxes to war loan balances.

BANKS TO HOLD SOCIAL SECURITY TAX RECEIPTS

The war loan account in commercial banks was distinctly a war baby, and it was named accordingly. Since the end of World war II, however, in view of the changing character of government deposits, the label "war loan account" has become a misnomer. Accordingly, the U. S. Treasurer recently announced that effective January 1, 1950, the title "war loan account" will be changed to "Treasury tax and loan account."

More important than the name-change, however, is the added provision that effective January 1, 1950, qualified banks will be permitted to accept deposits of social security taxes, as well as withheld income tax receipts.

Under the new plan, the Treasury will discontinue reimbursement to banks for expenses in handling tax receipts. This means that the special issue of 2% depositary bonds will be terminated at the beginning of 1950.

In addition, all 2% depositary bonds, second series, outstanding on February 28, 1950, will be redeemed as of the close of business on that date. However, any qualified bank desiring to do so, will receive the benefit under the new plan of holding government deposits in its "Treasury tax and loan account."

WAR LOAN ACCOUNTS ARE "SHOCK ABSORBERS"

In the past decade, war loan accounts have been used to smooth out the impact of Treasury financial operations. When Treasury receipts are directly deposited at the Federal Reserve banks, bank reserves are immediately decreased. When, however, Treasury receipts are channeled into war loan accounts, banks do not lose reserves until the Treasury issues a call for its funds.

During World war II, qualified banks could make payment for government securities purchased for their own or customers' accounts through their war loan accounts. In this way, bank reserves were not immediately reduced when new government securities were issued. Subsequently, the Treasury made calls on war loan accounts as funds were needed to meet government expenses. Thus reserves were being drawn down by the loss of Treasury deposits at the same time that the Treasury was pumping new reserves into the banking system through governmental expenditures.

In a similar manner in peacetime, the Treasury could time their calls on war loan accounts so that reserves would be withdrawn at the same time that other market factors were feeding funds into reserve accounts.

Many Treasury receipts and expenditures are bunched together, and hence bank reserve positions may be subject to considerable jolts. For example, income tax payments can cause, periodically, temporary drains on bank reserves. On the other hand, interest payments on the public debt could let loose a gush of bank reserves in certain weeks. Through the mechanism of war loan accounts in commercial banks, it has been possible to iron out some of these disruptive effects on the banking system.

END

November Banking Developments

THERE was little change in the consolidated balance sheet of Ninth district country member banks during November. In contrast, city bank ledgers revealed a 2½% increase in total loans, a rather sharp decline in government security portfolios and a loss of deposits in accounts other than those of individuals, partnerships and corporations.

Total loans in country banks edged up $3 million during November, while city bank loans registered an increase of $11 million. The lion's share of the city bank increase was in "other" loans (largely consumer). In addition, business loans showed a plus, breaking the downhill slide of the previous two months, and real estate loans continued their slow, steady advance of this year.

Government security portfolios in country member banks were off $1 million in November; city bank government issue portfolios showed a drop of $33 million —down roughly 4½% from a month ago. City banks this month liquidated Treasury bills and to a lesser extent certificates of indebtedness in order to provide funds for the expansion of loans and to meet deposit withdrawals.

Total demand deposits in country banks increased $3 million; city banks experienced a drain on total demand deposits of $26 million. The deposit decline in the larger city banks reflected withdrawals of interbank deposits and deposits of the U. S. government and local governments. Individual, partnership, and corporation accounts were up slightly.

The U. S. Treasurer announced the terms of a king-sized refunding operation during November. The refinancing of a total of over $10½ billion of outstanding government obligations is as follows:

- Four and one-quarter year, 1⅜% Treasury notes have been offered in exchange for $519 million of certificates of indebtedness maturing December 15, 1949, and for three series of Treasury bonds totaling $4⅓ billion called for redemption on December 15, 1949.

- One-year, 1⅛% certificates of indebtedness have been offered in exchange for $5⅔ billion of certificates falling due January 1.

In addition this month the Treasury issued a call for redemption on March 15, 1950, for roughly $2 billion of 2% Treasury bonds of 1950-52, due to mature March 15, 1952. Refunding terms on this issue have not as yet been announced. END

PRICE SUPPORT MAJOR FACTOR IN FARM OUTLOOK

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Once the CCC has acquired ownership of a basic or storable non-basic commodity, it is prohibited from reselling "at less than 5% above the current support price of such commodity, plus reasonable carrying charges, subject to certain exceptions."

Reasonable carrying charges are explained as "an amount suffiicent to encourage the private trade to purchase and maintain a reasonable inventory of the commodity rather than relying upon the availability of stocks from the corporation."

There are several exceptions to the above rule on CCC sales. For example, commodities may be resold for new and by-product uses, for export, or for seed or feed where this does not interfere with any price support program.

ALLOTMENTS AND MARKETING QUOTAS THE NEXT STEP

Only "cooperators" are eligible for price support—cooperators referring to those who have complied with allotments, quotas, and production and marketing practices when authorized by law.

Supports to non-cooperators are discretionary with the Secretary but, of course, they must not exceed the limits set for "cooperators".

Acreage allotments are set at levels sufficient to provide for domestic consumption, for exports and carryover or reserve supplies. State acreage allotments are established, and these are further broken down by counties and to the individual farms. The acreage allotments for the commercial corn-growing areas are divided directly among the counties in the area.

The commercial corn-growing area is defined as follows: "Commercial corn-producing area shall include all counties in which the average production of corn (excluding corn used as silage) during the ten calendar years immediately preceding the calendar year for which such area is determined, after adjustment for abnormal weather conditions, is 450 bushels or more per farm and four bushels or more for each acre of farm land in the county."

In the case of corn, support at the full rates applies only in the commercial loan area. Farmers outside this area get only three-fourths of what those inside the area get.

Up to the present time, farmers in the Ninth district have been able to comply with acreage allotments on a voluntary basis except that in the early war years quotas were in effect for wheat. If they planted in excess of allotments, they were not penalized except that the noncooperator lost direct price support. Also, payments for soil conservation practices could be withheld under certain conditions.

However, if supplies of any one of the basic crops become so large that they disrupt the market, marketing quotas may be proclaimed by the Secretary, provided two-thirds of the producers voting in a referendum approve. When quotas are in effect (a quota is all the production from a given acreage allotment), any marketings in excess of the quota are subject to severe penalties of so much per unit. This penalty would apply only to marketings and not on supplies held off the market.

SURPLUS STOCKS MAY BE TRADED OR GIVEN AWAY

Farm products that are acquired by the government in price support operations may be disposed of in several ways. The Agricultural Act of 1949 authorizes the Secretary and the CCC to dispose of such stocks that are in danger of spoilage or deterioration by making them available to the munitions board or any other federal agency making payments for commodities not produced in the U. S.

For example, surplus farm products might, in effect, be bartered for tin, coffee, and bananas from Central and South America, or for oil and rubber from the Middle East and Far East.

Furthermore, surplus farm commodities not disposed of by barter arrangements may be made available free of cost at the point of storage in accordance with the following priorities:

1) To school lunch programs and to the Bureau of Indian Affairs and Federal, State, and local public welfare organizations for the relief of Indians and other needy persons;
2) To private welfare organizations for the assistance of needy persons within the United States; and
3) To private welfare organizations for the assistance of needy persons outside the United States. END

URBAN TRADE IN DISTRICT STRONG

Continued from Page 763

specifically from sales credit. Most of the new credit extended has gone toward the purchase of automobiles. Since June when Regulation W was lifted, automobile credit in the nation has risen $495 million. On the other hand, noninstalment credit, which includes charge accounts, service credit, and single payment loans, has risen only $8 million. In fact, charge account and service credit have decreased significantly below the June level while single payment loans have increased $109 million.

When Regulation W was first removed, there was little lessening of credit restrictions. However, through the summer, credit terms became a competitive weapon among retailers. "No down payment," "two years to pay," and "metered appliances" now are common terms in buying house-furnishings.

In the urban areas of this district, the proportion of department store sales made on an instalment plan has been growing. In fact, the growth of such sales has been faster than in other areas of the nation.

Although credit sales have expanded substantially, collection ratios have declined very little in recent months. END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DECEMBER 29, 1949

INDUSTRIAL production increased moderately in November and the early part of December. Department store sales showed more than the usual sharp pre-holiday rise. Commodity prices were generally stable. Prices of long-term Treasury bonds and common stocks rose to the highest levels in over a year.

INDUSTRIAL PRODUCTION—With the settlement of the steel labor dispute and temporary full-scale operations at coal mines, the Board's seasonally adjusted index of industrial production increased in November to 171 from 166 in October. Indications are that the December index will be slightly above the September figure of 174.

Durable goods output rose about 3% in November as large increases in production of steel ingots, lumber, and copper and copper products more than offset decreases in most metal fabricating activities. Reduced steel stocks resulted in a substantial curtailment in output of fabricated iron and steel products and contributed to reductions in activity in machinery and transportation equipment industries.

In the automobile industry, assembly operations were substantially curtailed by model changeovers. In the machinery group, output of most types of producers equipment was reduced, while production of consumer appliances was maintained.

In December, steel ingot output was scheduled at 93% of capacity, the highest rate since last May and substantially above the November level of 52%. Automobile assemblies increased considerably in the middle of December.

Output of nondurable goods declined slightly in November. There were small further gains in activity at textile, paperboard, and chemical plants and a sharp recovery in coke production, while output of manufactured food products and printing and publishing activity declined somewhat. Activity in the canning industry showed much more than the usual seasonal decrease. Output of most other nondurable goods was unchanged.

Minerals output rose sharply in November as bituminous coal mines were returned to full-scale operations for three weeks ending November 30, and as output of crude petroleum and iron and copper ore increased. In December, minerals production decreased as coal miners returned to a reduced work-week and output of crude petroleum was curtailed about 3%.

CONSTRUCTION — Value of construction contracts awarded in November, according to the F. W. Dodge Corporation, declined seasonally from the exceptionally high autumn level but was still about one-half again as large as in November, 1948.

The volume of new housing starts, as estimated by the Bureau of Labor Statistics, continued unusually large in November, totaling 93,000, compared with 100,000 in October and 64,000 in November, 1948.

EMPLOYMENT—Total employment in nonagricultural establishments showed a rise of about 120,000 from mid-October to mid-November, after allowance for seasonal changes. The return to work of 335,000 bituminous coal miners was partly offset by employment declines in industries producing nondurable goods and in trade and federal government establishments. Employment in other lines was maintained at October levels.

DISTRIBUTION — Department store sales, which had shown a less than seasonal rise in October, increased by more than the usual amount after the middle of November. Value of sales in the first 24 days of December was about 3% below the high level in the corresponding period of 1948; sales in the first 11 months of the year had been at an average level 6% lower than in 1948. Prices at department stores are generally lower than they were a year ago.

Railroad revenue freight traffic recovered considerably in November to about the levels prevailing before the steel and coal labor disputes. While coal shipments declined again in early December, loadings of steel products continued to rise and most other shipments showed largely seasonal changes.

COMMODITY PRICES — The average level of wholesale prices continued to decline slightly from mid-November to the third week in December, reflecting chiefly a decrease of 4% in meat prices and a 34% drop in egg prices. On December 21 it was announced that the federal egg support level would be reduced about one-fifth in 1950.

Prices of most steel products for domestic shipment were raised and there were also some selective increases in prices of other industrial commodities. Prices of steel scrap weakened and tin and lead were reduced further.

BANK CREDIT—Business loans, real estate loans, and loans to consumers continued to expand at banks in leading cities during November and the first three weeks of December. Holdings of U. S. Government securities increased on balance over the period. Deposits at banks increased sharply from the middle of November to the middle of December and there was the usual pre-Christmas increase in currency in circulation.

The currency demand absorbed reserve funds and the growth in deposits required banks to hold additional reserves. While net expenditures by the Treasury supplied funds during the first half of the month, large Treasury receipts from quarterly income tax payments tended to reduce bank reserves after the middle of the month. Substantial purchases of Treasury bills and certificates by the Federal Reserve were necessary to supply banks with reserves required to meet these drains.

SECURITY MARKETS — During the first three weeks of December, prices of long-term Treasury bonds rose to the highest levels in more than two years and yields on short-term Treasury securities also declined. In the same period common stock prices rose in an active market to the highest level in more than a year, while prices of high grade corporate bonds increased only slightly.