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Consumer Buying Propels Economy Upward

Recent Spurt in National Business Activity Suggests That a Leveling Off Would Be Better Than Any Further Rapid Expansion

By J. MARVIN PETERSON

BUSINESS activity in this district did not follow the 1949 drop in cash farm income all the way downward. This may be attributed to the remarkable recovery and pronounced upturn in the industrial sector of the national economy since mid-summer of last year.

Rising national income and nonfarm employment have in recent months increased the demand for both agricultural and industrial products of this area. Prices of meat animals, for example, doubtless were maintained at levels somewhat higher than producers had expected due to high incomes realized by people engaged in industrial production.

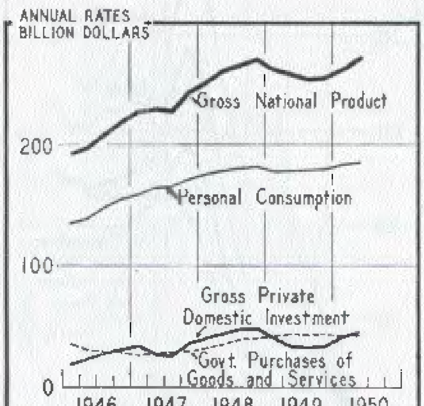
Surely, Ninth district agriculture, as well as industry, is benefitted by high level industrial production and employment in the nation as a whole. It remains to be seen whether the nation will enjoy stable high levels of income, production, investment, and employment — fortifying the Ninth district economy—or be plagued by booms and busts.

The recovery from the recession of 1949, which has progressed at a faster rate than most observers expected, justifies a mid-1950 recital of statistics reflecting that recovery:

- Personal consumption expenditures declined slightly from the postwar high point of \$180.9 billion (annual rate) in the fourth quarter of 1948 to \$178.7 billion in the first quarter of 1949. They are estimated to be (at an annual rate) \$185.5 billion for the three months ending June 30, 1950. The rise was at an annual rate of approximately \$1.0 billion per month since the end of last year.
- Output has reached new peacetime levels, both in physical volume and dollar amounts. The Federal Reserve index of industrial production, which reached a postwar high point of 195 in late 1948 (1935-39=100) and declined to 163 in July 1949, early in June 1950 reached the former postwar high point and is rising rapidly.
- Gross private domestic investment, which had fallen from the postwar high point of \$48.0 billion annual rate in the fourth quarter of 1948 to a low point of \$32.1 billion in the third quarter of 1949, has now (June 1950) recovered to a point close to \$45.0 billion. Of that increase, \$11 billion has occurred in the past six months.
- The most marked change in the investment picture has occurred in business inventories. At annual rates, inventory accumulation was \$9.0 billion in the fourth quarter of 1948, while in the third quarter of 1949 inventory liquidation of \$5.0 billion occurred, representing a change of \$14.0 billion. In June 1950, business inventories were accumulated at an estimated annual rate of \$3.5 billion.
- In private construction, residential building has taken the spotlight during the past year. The severe decline, more than seasonal, in the winter of 1948-49 was followed by a steady advance in housing units started. About 550,000 housing units were started in the first five months of 1950 compared with 355,000 in the corresponding period a year ago. After a slow start in the early months of the year, 1,025,000 units were started in 1949. Allowing for some decline in the last half, at least 1.3 million will be started in 1950.
- Total nonfarm employment, which had decreased by over 1½ million persons from the third quarter of 1948 to the summer of 1949, has increased by three-quarter million. Unemployment, which reached 4.7 million in February 1950, declined to 3.1 million in May 1950. This is 1¼ million more than the low point of 1948. Some part of present-day unemployment is attributable to an unabsorbed increase in the labor force, rather than to a

GROSS NATIONAL PRODUCT*

(Adjusted for Seasonal Variation)



PERSONAL consumption expenditures remained stable in 1949, while gross national product fell. Today both are rising.

* Figures for the second quarter of 1950 are estimated.

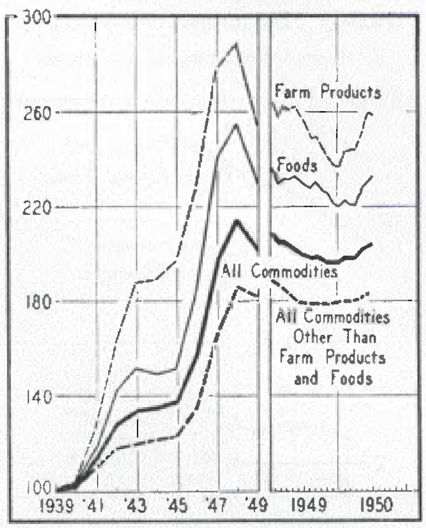
Source: U. S. Department of Commerce.

decline in employment.

- Total personal income, which had declined from \$216.6 billion in the fourth quarter of 1948 to \$208.2 billion in the third quarter of 1949, has now slightly more than recovered all the loss, disregarding the veterans' insurance payments which boosted personal incomes greatly in the first quarter of 1950. Only the income of farm proprietors, which declined steadily from a high point of \$19.1 billion in the second quarter of 1948 to \$12.0 billion estimated for the second quarter of 1950, has failed to recover postwar peak levels. (All figures are annual rates.)
- Corporate profits, which had dropped from an annual rate of \$36.6 billion in the third quarter of 1948 by as much as \$10 billion in the early months of 1949, have again reached the earlier high point, according to recent estimates.
- Prices have been churning around during the past year. Until recently, when some strengthening took place, prices of farm products declined to the lowest level since the end of price control in 1946. Industrial prices responded quickly to the recovery from the recession of 1949. Prices of major products imported from sterling area countries declined temporarily after devaluation, but recovered all that loss in the strong markets of the United States since that time. Recently prices have advanced on a broad front. Copper, zinc, paper pulp, lumber and chemicals have advanced in price, some of them very sharply, in recent weeks. Prices of steel scrap, rubber, wool, coffee, and cocoa, after skyrocketing, eased a bit in mid-June.
- Expansion of the money supply in the postwar economy, halted in 1948, was resumed in 1949. Despite a decline in the first quarter of 1950, attributable to the Treasury's cash surplus and large purchases of securities by non-bank investors from the banking system, deposits and currency held by individuals and businesses totaled \$3.5 billion larger on May 31, 1950, than on the corresponding date of 1949.
- The postwar expansion in bank loans, interrupted in the early months of 1949, was resumed in August. Reflecting chiefly growth in loans to individuals, rather than loans to businesses, total loans of all commercial banks rose more than \$3.5 from \$46.7 billion in May 1949 to \$50.4 billion in March 1950.
- Because in 1949 the federal cash deficit was financed entirely by sales of securities to non-bank investors, it was not a factor increasing the money supply. The cash deficit in the calendar year 1950, which is expected to be \$3 billion or more, will increase the volume of the public's money supply to the extent that securities issued to finance the deficit are purchased by the banking system. State and local governments are financing heavy purchases of goods and services for new school buildings, roads, and other public facilities by borrowing, in part, from the banking system. Currently, state and local governments are borrowing at an annual rate of \$3 billion, about half of which sum represents bank credit.
- Total public and private debt is now at an all-time high level. The ratio of debt to income, although now rising, is nevertheless less than in pre-war years. Debt outstanding on residential property is now twice as high as at the end of the war, and total consumer debt is three times the low volume prevailing late in 1945.

WHOLESALE PRICES IN U.S.*

(Index Numbers, 1939=100)



AFTER falling for more than a year, prices are now pointing upward again.

* Latest figures plotted are for the week ending June 13.

Source: Bureau of Labor Statistics.

HIGH CONSUMER BUYING IS CAUSAL FACTOR IN CURRENT BOOMLET

In this listing of important elements in the changing business situation since mid-1949, those relating to consumer demand, which was high at the beginning of the recovery movement and grew ever higher as that movement progressed, seem most important.

American consumers have been in a buying mood in these postwar years. They know what they want and they know how to get what they want. Most of all they want housing, household appliances, automobiles, and high-protein foods. They have acquired these goods, if not by cash, then by credit. Filling these wants —yet not satiating them—has caused U. S. industry to hum at high speed.

Where has the money come from? Largely from the following sources: (1) non-bank investors turning in non-cash items, chiefly government securities, to the banking system for cash; (2) bank loans; and (3) financing a Treasury deficit by sales of new government securities to the banking system.

The general public is also using the existing money supply more intensively—meaning an increase in money turnover—which is equivalent to an increase in the money supply.

BEHAVIOR OF PRICES AND CREDITS SUGGESTS CAUTION

The markets are today flashing at least two warning signals. One of these is rising prices. Rising prices may induce buyers' resistance, which, if it comes early enough and is decisive, is a good development because it prevents prosperity from degenerating into a boom. If instead of buyers' resistance we get frenzied inventory buying and consumer buying out of fear that prices might rise still more, we get widespread speculation and boom—then bust.

The other warning signal is that buying on credit is increasing rapidly. This is borrowing against future income to make purchases today. Total consumer credit and new mort-

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BUSINESS

Urban Trade in District Shows Expansion

WITH the demand for some commodities again exceeding the supply, and with both employment and production showing improvement, Ninth district business activity in May, despite lagging trade in rural areas, rose above previous levels.

For example, the buyers of popular makes of cars were forced to wait several weeks for delivery. It was also noticeable that, due to the rapid rise in lumber prices, some home builders were submitting cost proposals subject to a rise in these prices.

With the exception of department store sales in rural areas, an expansion in business has occurred in all regions of the district—although delayed in some parts by the cold and wet spring weather. In the inundated areas, business is recovering from the interruption caused by the floods.

This surge in business activity was reflected in the amount of bank debits reported by commercial banks. In all states of this district, the amount of debits for May exceeded the volume for the same month of last year. The index adjusted for the usual seasonal variation was 343% of the 1935 to 1939 base period. This was higher than for any previous month since July 1949.

URBAN EMPLOYMENT EXCEEDS 1949 LEVEL

Employment in the cities and towns has risen steadily, constituting the primary source of the growing consumer purchases of merchandise and services. In the first half of this year, consumer purchasing power was augmented by national life insurance refunds and by state bonus payments. The anticipated effect of these payments on the demand for merchandise and services was originally underestimated.

On the basis of the trend in employment, the number employed in most areas is expected to surpass the 1949 level. In Montana, employment in non-agricultural industries since the first of the year has been steadily higher than a year ago.

On the Upper Peninsula of Michigan, where the number of unemployed workers has been high due to the partly closed copper and iron ore mines, employment since January, nevertheless, has been higher than in the corresponding months of 1949. In the April report, the Michigan Unemployment Compensation commission stated that an upturn in employment on the Upper Peninsula is probable during the coming months.

In April, layoffs in the lumber and wood products industries were caused by the curtailment of operations from poor weather conditions. The opening of the iron ore shipping season on Lake Superior was delayed more than a month due to heavy ice on the lake. A seasonal upturn in employment always coincides with the opening of the lake to navigation.

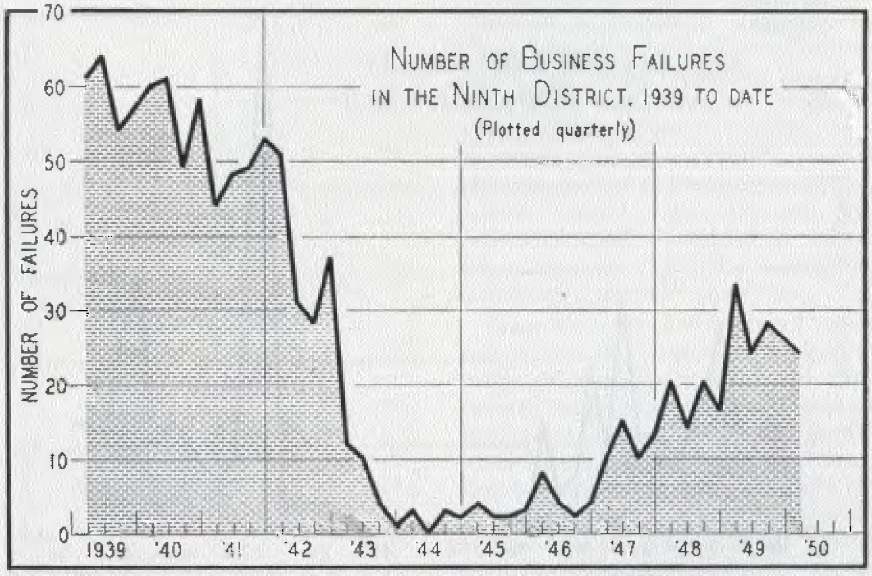
On the other hand, Minnesota employment in April had just reached the 1949 level, and in Wisconsin employment was still down a fraction of a per cent. The recent reports issued by the respective state agencies indicate that employment in May in both states surpassed the corresponding totals for last year.

The rise in employment through April was traced primarily to the hiring of more workers in the manufacture of durable goods and on construction projects. In May, the hiring of more workers in the food processing industries began to boost total employment in the catagory of non-durable goods.

- ***High employment and larger output per worker boost industrial production.***
- ***National life insurance refunds and veterans' bonuses added to high level of consumer purchasing power.***
- ***Department store sales in May fell below 1949 dollar volume, due to lower demand in rural areas.***
- ***Business failures were still low compared with pre-war average.***

WORKERS TURNED OUT MORE PRODUCTS

In the past several months, industrial production has risen more than is reflected by employment figures. The output per worker has increased significantly. For the nation as a whole, the index of industrial pro-



BUSINESS FAILURES, which declined to a very low level during the war years, have shown a consistent increase since 1946.

Source: Dun and Bradstreet.

duction for April stood at 189% of the pre-war base, while a year ago the index was at 179%.

On a regional basis, the consumption of electrical energy by industrial concerns is a rough measure of the output of industrial products. During the first four months, industrial concerns in this district used 4% more kilowatts of electrical energy than in the same period of last year.

The increased use of electrical energy by industrial concerns was only a small part of the larger use of energy in the district. The electrification of farms, the building of more homes, and the purchase of more appliances by the average householder have added greatly to the demand for electrical energy. In most instances so far this year, total consumption of electrical energy was about 10% larger as compared with consumption in the corresponding months of 1949.

RETAIL SALES LAGGED BEHIND BUSINESS UPSURGE

Department stores sales did not reflect the rise in volume of business transacted shown by bank debits, employment, and consumption of electrical energy. The relatively small rise in such sales in recent months is traced to a divergent trend between the sale of soft goods and of hard goods.

Northwest Business Indexes

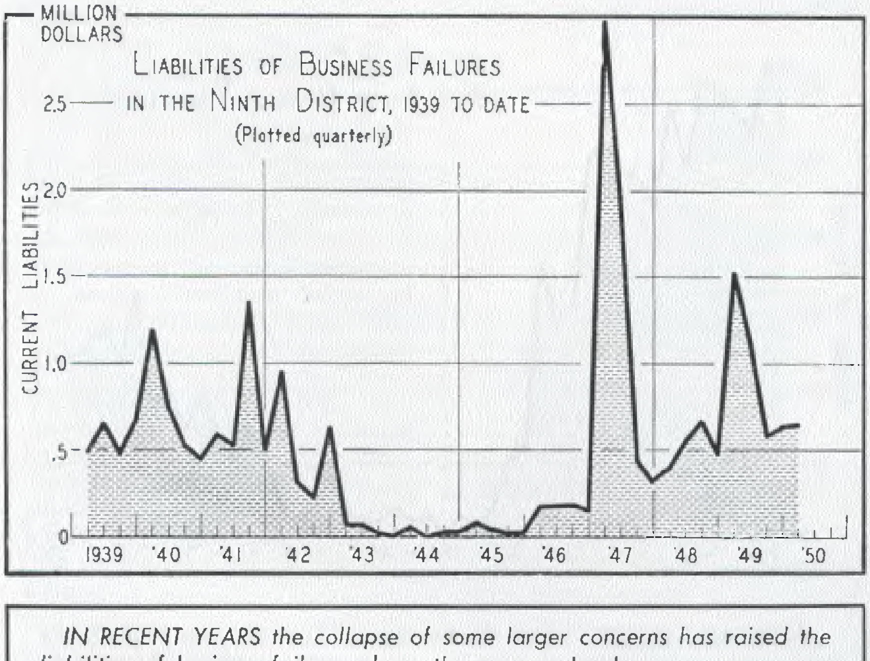
(Adjusted for Seasonal Variations — 1935-39=100)

	May '50	Apr. '50	May '49	May '48
Bank Debits—93 Cities	343	334	329	335
Bank Debits—Farming Centers	406	393	407	410
Ninth District Department Store Sales	268p	277	273	288
City Department Store Sales	296p	294	289	302
Country Department Store Sales	239p	261	258	274
Ninth District Department Store Stocks	323p	316	301	329
City Department Store Stocks	281p	296	261	277
Country Department Store Stocks	357p	331	332	371
Country Lumber Sales	148p	127	147	164
Miscellaneous Carloadings	113	130	125	134
Total Carloadings (excl. Misc.)	109	67	115	119
Farm Prices (Minn. unadj.)	239	221	232	289

p—preliminary

The sale of soft goods, such as piece goods, household textiles, and women's wearing apparel, has been below last year's dollar volume while the sale of hard goods, especially housefurnishings, has been high enough so that total sales in the district have been down only a few percentage points or equal to the 1949 dollar volume.

In May, district department store sales were 2% lower (after adjustment for seasonal variation and differences in the number of trading days) than in the corresponding month of last year. Sales in the larger metropolitan centers are still significantly above those in the smaller centers which serve largely farm families. If the outlook for another crop improves, rural families may increase their purchases.



IN RECENT YEARS the collapse of some larger concerns has raised the liabilities of business failures above the pre-war level.

Source: Dun and Bradstreet.

BUSINESS FAILURES LOW IN TERMS OF PRE-WAR LEVEL

The recent spurt in business activity has aroused fears of further inflation. Prices of numerous commodities have edged up in the past weeks. The index of wholesale prices, a slow-moving index, has risen 4% since the first of the year. The index of spot primary market prices of 28 commodities, a sensitive index, has risen 8%.

Under present business conditions, it is especially pertinent to examine the trend of business failures. The record of business failures compiled by Dun and Bradstreet shows that during our major wars business insolvencies declined to a very low point. In a great war, inefficient firms as well as efficient ones have a place in producing materials and civilian merchandise. As a result, the mortality rate decreases sharply. With the return of competition following the major wars, the number of business insolvencies tends to return to the pre-war level.

On the first chart was plotted the number of concerns which failed in this district from 1939 through the first quarter of 1950. It is particularly interesting to note that in the second quarter of 1944 business failures completely disappeared in this district. In that year, the annual reported number of failures was as low as eight.

In the fall of 1945 following VJ-day, the number of failures began to rise, but the trend was reversed in 1946. The relaxation of price controls resulted in a sharp rise in prices which enabled inefficient firms as well as efficient ones to operate at a profit. Since the fall of 1946, there has been a steady rise in the number of failures.

The number of failures is still low in comparison with the pre-war average. In 1939, for example, 236 firms failed in this district — which was quite typical of the annual number failing during the latter half of the Thirties. Last year, however, 111 firms failed, and, judging by the number of failures during the first quarter of this year, the total for this year may be even less.

On the second chart was plotted the current liabilities of firms that failed in this district from 1939 through the first quarter of 1950. The amount of current liabilities, like the number of failures, was at a low ebb during the war years, but in the post-war years the liabilities of failing firms in two quarters exceeded noticeably the pre-war average. The general rise in prices, of course, is reflected in the liabilities.

RETAILER'S POSTWAR LIFE EXPECTANCY HIGH

In the first half of 1947, the peak in the amount of liabilities of insolvent firms was due to a proportionately large number of manufacturing firms failing. These firms generally have heavy liabilities.

Since the end of the war, retailing establishments have made a better record than other types of businesses. In 1949, business mortalities rose to 111 in this district. Of this number, only 49 were retail establishments. In comparison with the pre-war failures in 1939, less than one-third as many retailing firms failed last year while actually a larger number of manufacturing, construction, and commercial service firms failed in this district. According to these figures, the retailer's life expectancy has improved.

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	May[2]	Percent Change[1] May[3]	Percent Change[1] Jan.-May
MINNESOTA			
Duluth-Superior	302	+ 5	— 5
Fairmont	256	+ 4	— 9
Mankato	251	— 0	— 6
Minneapolis	320	+10	+ 2
Rochester	240	— 2	—10
St. Cloud	299	— 8	—12
St. Paul	260	+ 1	— 1
Willmar	251	— 5	—10
Winona	273	+ 0	— 4
MONTANA			
Great Falls	282	—13	— 9
NORTH DAKOTA			
Bismarck	248	—19	—18
Grand Forks	315	— 7	—13
Minot	253	—12	— 9
Valley City	178	—22	—20
SOUTH DAKOTA			
Aberdeen	303	—15	—20
Rapid City	340	+ 4	— 7
Sioux Falls	315	— 5	—11
Yankton	262	— 3	—12
WISCONSIN			
LaCrosse	239	— 4	— 7

[1] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.
[2] Based on daily average sales.
[3] May 1950 had 26 trade days whereas May 1949 had only 25.

Sales at Ninth District Department Stores*

	% May 1950[3] of May 1949	% Jan.-May 1950 of Jan.-May 1949	Number of Stores[1] showing Increase	Number of Stores[1] showing Decrease
Total District	103	97	92	184
Mpls., St. Paul, Dul.-Sup.	107	100	19	11
Country Stores	95	91	73	173
Minnesota (City and Country)	106	100	35	57
Minnesota (Country)	98	93	21	46
Central	99	95	2	6
Northeastern	99	95	1	4
Red River Valley	92	85	1	3
South Central	94	91	4	10
Southeastern	100	95	7	5
Southwestern	98	93	6	18
Montana	100	95	13	19
Mountains	105	93	5	6
Plains	95	96	8	13
North Dakota	86	84	3	45
North Central	75	86	0	9
Northwestern	89	91	0	6
Red River Valley	92	85	3	15
Southeastern	78	77	0	13
Southwestern	(2)	(2)	....	....
Red River Valley-Minn. & N. D.	92	85	4	18
South Dakota	90	85	13	30
Southeastern	92	85	5	8
Other Eastern	87	84	7	18
Western	96	88	1	4
Wisconsin and Michigan	100	94	23	33
Northern Wisconsin	101	99	7	8
West Central Wisconsin	100	95	10	18
Upper Peninsula Michigan	98	90	6	7

* Percentages are based on dollar volume of sales.
[1] May 1950 compared with May 1949.
[2] Not shown, but included in totals. Insufficient number reporting.
[3] May 1950 had 26 trade days; May 1949 had only 25.

INCOMPETENT MANAGEMENT CAUSE OF INSOLVENCIES

In an extensive study of the causes of business failures, the economists of Dun and Bradstreet stress the importance of competent management. The underlying cause of most failures was found to be inefficient management due to inexperience or incompetence. The quality of judgment exercised by management in the initial planning stage and during the first several years of operation until the firm is securely established determines in most cases the success or failure of a business enterprise.

Some observers have pointed to the lack of working capital as the largest single cause of business failures. According to the economists of Dun and Bradstreet, lack of working capital invariably is only an outward expression of the inexperience or inability of management. Competent management limits the scope of operations to the amount of capital in the firm and to the amount others are willing to risk in the venture.

Among the numerous adverse factors confronting business management, a decline in wholesale commodity prices subjects management to the severest test. When the general level of prices declines, merchandise on hand must be marked down and, as a result, it is frequently sold at a loss. Under such conditions, marginal firms often succumb before the price trend reverses itself. Consequently, business failures generally decrease when wholesale prices rise and increase when such prices decline.

Since the end of the war, thousands of new businesses have sprung up. When a buyer's market supplants the present seller's market, the economy may enter a period of severe competition. Under those circumstances, the management that is well informed will possess the greatest chances of survival. END

May Banking Developments

THREE developments highlighted the credit picture in Ninth district member banks during May: real estate and consumer loans continued their upward trend; Commodity Credit Corporation grain loans were retired in considerable amounts; and production farm credit was in demand, partly as a result of the late spring weather.

Total loans rose $2 million in city banks during May, while declining $3 million in country member banks. City bank real estate loans totaled $83 million at the end of the month—up 30% over last year. "All other" loans, mainly consumer loans, reached $159 million, marking an increase of 34% over a year ago.

Business loans in city banks dipped slightly in May. Amounting to $217 million, they were, however, an edge above the volume outstanding at the beginning of this year. In contrast, business loans nationally have been in a mild downslide so far in 1950. This reduction has been less than seasonally anticipated, however, reflecting the accumulation of inventories in many lines.

Commodity Credit Corporation guaranteed loans held by district banks decreased in May, due to the April 30 maturity of such loans on grains. This year's drop, however, was substantially smaller than that of a year ago. Generally loans on farm-stored grains are retired in May when the farmer-producers deliver the grain, but this year because of market conditions this was largely delayed until June to give the farmer-producers further opportunity to redeem their loans.

Outside of CCC guaranteed loans, demand for farm credit was brisk during May as persistent subnormal temperatures put spring planting way behind schedule and resulted in exhausted cattle feed reserves.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Apr. 26, 1950	May 31, 1950	June 14, 1950	$ Change Apr. 26-May 31
ASSETS				
Comm., Ind., and Ag. Loans	$ 220	$ 217	$ 225	— 3
Real Estate Loans	80	83	85	+ 3
Loans on Securities	11	11	12	...
Other (largely consumer) Loans	156	159	157	+ 3
Total Gross Loans & Discounts	$ 467	$ 470	$ 479	+ 3
Less Reserves	6	7	7	+ 1
Total Net Loans & Discounts	$ 461	$ 463	$ 472	+ 2
U. S. Treasury Bills	2	15	17	+ 13
U. S. Treasury C. of I.'s	86	80	57	— 6
U. S. Treasury Notes	133	125	133	— 8
U. S. Government Bonds	428	426	428	— 2
Total U. S. Gov't Securities	$ 649	$ 646	$ 635	— 3
Other Investments	128	128	131	...
Cash and Due from Banks	392	411	458	+ 19
Miscellaneous Assets	16	17	17	+ 1
Total Assets	$1,646	$1,665	$1,713	+ 19
LIABILITIES				
Due to Banks	$ 259	$ 259	$ 287	...
Demand Deposits, Ind., Part., Corp.	781	800	832	+ 19
Demand Deposits, U. S. Gov't	48	49	52	+ 1
Other Demand Deposits	165	163	160	— 2
Total Demand Deposits	$1,253	$1,271	$1,331	+ 18
Time Deposits	255	253	253	+ 2
Total Deposits	$1,508	$1,524	$1,584	+ 16
Borrowings	18	20	7	+ 2
Miscellaneous Liabilities	17	17	18	...
Capital Funds	103	104	104	+ 1
Total Liabilities & Capital	$1,646	$1,665	$1,713	+ 19

Gross demand deposits rose $21 million in May—$18 million in city banks and $3 million in country member banks. The sharp rise in city banks, which continued in the first two weeks in June, was concentrated in deposits of individuals, partnerships and corporations. Partly explaining this advance is the fact that U. S. Treasury expenditures during May considerably exceeded Treasury income. Thus, in spite of rather heavy calls on Treasury tax and loan accounts, Treasury operations channelled funds into banks throughout the nation.

Since the beginning of the year, deposit totals have been running ahead of a year ago. Gross demand deposits in district member banks at the end of May were 3% above the same date last year. Reflecting the decline in cash farm income, however, the Ninth district has not fared as well as the nation as a whole. Nationally, member banks demand deposits are roughly 5% above a year ago.

Government security portfolios declined $3 million in city banks during May and $7 million in

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AGRICULTURE

Farm Adjustments Stimulate Use of Credit

▶ ***Bankers recognize importance of maintaining land productivity and of tying loans more closely to earning capacity.***

▶ ***Modern farm family living brings new demand for agricultural credit.***

▶ ***Population growth, new techniques, and larger farm units make farm outlook optimistic.***

▶ ***Use of farm credit expected to increase in future.***

THERE are many fundamental considerations that are important in extending credit to farmers. Obviously I cannot cover all of these in my brief remarks.* Therefore, I shall mention only a few fundamentals that appear to be particularly important in thinking about problems of financing farmers on a sound basis in the years which lie ahead.

In financing farmers, creditors deal with land problems, and I wish to refer to these problems first in this discussion. Land is a basic resource in agricultural production. While local banks make many farm mortgage loans, the major share of their credit to farmers is not secured by real estate mortgages but is based on unsecured notes and chattel mortgages. However, loans to farmers must be paid from the earnings of the farm, and, since land is a basic factor determining farm income, recognition must be given to land problems in financing farmers.

One characteristic of land is that it has fluctuated widely in sales value over the years. In these violent swings in prices for farm real estate we note that the course of values has followed the changes in farm income, with a lag usually of one or two years.

Many of the difficulties of farmers in the depression of the Thirties can be traced back to the over-capitalization of farm land in the World War I period, accompanied by a sharp increase in farm mortgage debt.

Fortunately, during the World War II period farm mortgage debt did not increase but actually decreased. The farm real estate debt in 1940 in the United States was approximately $6½ billion; by 1946 it had declined to $4.7 billion. Since that time, however, it has increased slowly until today it is approximately $5½ billion. In contrast to the situation following World War I, farmers of this country in the present postwar period find themselves in comparatively strong financial position.

* An address (abridged) by E. C. Johnson, assistant deputy land bank commissioner, Farm Credit administration, Washington, D. C., at the Minneapolis Federal Reserve Bank Conference of Ninth District Bankers, held at Minneapolis, Minn., April 19, 1950.

BANKERS CONTRIBUTE TO STABILITY IN AGRICULTURE

The present comparatively favorable financial position of farmers, as contrasted to the World War I period, is due in no small measure to careful financial management by the farmers themselves and to sounder loan practices by lenders.

Many farmers, remembering the great distress in agriculture in the Thirties, have used their increased earnings in recent years to retire debts and place themselves in a strong financial position. Local bankers and other financial institutions, by following realistic loan policies, have also contributed to greater stability in agriculture.

What I have tried to say is that, while farm land prices have increased greatly in recent years, loans based on farm real estate to a large extent have been held to reasonable levels. This being the case, most farmers should be able to adjust to the gradual decline in farm real estate prices which may occur in the next few years.

Individual institutions can contribute to stability by recognizing that farm land values fluctuate over the years and that by lending conservatively on farms in periods of prosperity they will be in a stronger position to carry their deserving borrowers through periods of lower farm income that may follow.

Land varies greatly in productivity, and these variations in productivity must be recognized in any sound program of credit to farmers. The land market generally has functioned on a basis resulting in over-valuation of lands of low productivity and undervaluation of lands of high productivity.

Changes in the techniques of farming, such as better varieties, improved soil and management practices, and the use of power equipment, have generally favored the lands of high productivity, and are resulting in a wider differential in value between the poor lands and the good lands.

PROMOTION OF SOIL CONSERVATION SHOULD BE AN OBJECTIVE

In referring to land, mention should be made of the importance of conserving our soil resources. In programs of soil conservation bankers can play and are playing a leading role. The American Bankers Association and its member banks are deserving of our compliments for recognizing the importance of soil conservation and carrying on programs that will contribute greatly to maintaining the productivity of our soil resources. Local bankers by their contacts and other educational activities have encouraged farmers to conserve soil resources. Also, they have advanced funds for specific soil improvement and soil conserving practices.

Soil conservation has gone hand in hand with the utilization of part of the land for grass and improved pastures, and in a region such as that of the Ninth Federal Reserve district, where livestock production is a major farm enterprise, conservation of soil has been largely one of improving farming practices. This is in contrast to some areas of the South, for example, where drastic adjustments from cotton production to diversified farming and livestock production is in order if soil erosion is to be prevented.

In former years creditors often contributed to soil wastage by making loans to farmers beyond the earning capacity of the farm. Loans that were based on speculative values of land became excessive when farm earnings declined to lower levels. Farmers in an effort to meet large debt payments often plowed up pastures for the production of cash crops and otherwise mined the soil. This meant losses to the farmers, the creditors, and to the community.

Fortunately, in more recent years loans have been tied more closely to the earning capacity of the farms, and creditors have recognized the importance of maintaining the productivity of the land.

MODERN TREND IN FARMING INTENSIFIES CREDIT PROBLEMS

Another fundamental consideration which has great significance from the standpoint of sound lending to farmers is the rapid increase of commercialization in agriculture.

The use of tractor power has enabled a family to operate a larger farm, and we are witnessing a trend in the direction of larger commercial family farms. Farms are becoming larger business concerns with a greatly increased capital investment. Increased investments and larger cash operating expenses mean that farmers to a larger degree than formerly will rely on credit in obtaining funds for both fixed and operating capital.

The increased commercialization along with higher prices for farm equipment and supplies, and higher wage rates, have more than doubled the total cost of operating particular farms in the last decade.

During 1948 and 1949 there was a substantial decline in the prices of most farm commodities. Costs of production, however, declined only slightly. As a result we have witnessed a decline in net income on American farms from $17.8 billion in 1947 to $13.8 billion in 1949, a decline of 22%. With a further decline in prices of some farm products in prospect in the next year or two, net earnings of farmers are likely to decline appreciably, since farmers will have difficulty in materially reducing operating costs.

With a less favorable situation developing, it becomes increasingly important for creditors to intelligently analyze the business of farmers whom they finance.

Management is an exceedingly important element in the success of farming, and with increased commercialization and the use of modern techniques the management factor has become increasingly important. Making of sound loans in agriculture calls for careful investigation of the personal factor, including the ability of the farmer as a manager.

As agricultural conditions become less favorable, the intelligent manager may have fairly satisfactory earnings on his farm, but the farmer lacking in ability as a manager may find himself operating at a loss.

While the period immediately ahead in agriculture is likely to be one of readjustment to lower incomes, the situation is not alarming. The supports on farm commodity prices, plus the resources in the hands of most farmers, mean that the industry can go through considerable readjustment toward lower net incomes without disastrous effects.

The situation is not one that calls for any general tightening of credit to farmers, but it does call for more careful analysis of applications for loans for the purpose of determining if such loans are sound and of service to the borrower.

With net incomes declining it would be expected that farmers would call upon local banks and other lending institutions to a greater extent. Since an important test of any lending institution serving farmers is its ability to assist deserving farmers when they encounter difficulties due to declining incomes, the period ahead presents a challenge to bankers.

MODERN STANDARDS OF FARM LIVING PRESENT NEW CREDIT PROBLEMS

In farming we find a close relationship between family and business affairs, and therefore family living expenses represent another element that must be considered in extending credit to farmers.

The minimum cash costs for family living have been rising with increased standards of living. Farmers, like other groups of our population, will resist reductions in family living standards. While net farm incomes are declining, farm families will continue to use electricity and the modern appliances in the home. An automobile has become a necessity on most American farms.

In other words, the costs of maintaining the family at reasonable and modern standards are becoming an integral part of the over-all costs of

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	May 15 1937-41 Avg.	May 15 1949	May 15 1950	Parity Prices[1] United States May 15, 1950
Crops				
Wheat, bushel	$0.80	$ 1.97	$ 2.04	$ 2.19
Corn, bushel	.60	1.09	1.24	1.59
Oats, bushel	.30	.57	.73	.940
Potatoes, bushel	.64	1.53	1.31	1.72
Livestock and Livestock Products				
Hogs, 100 lbs.	7.33	17.72	18.34	19.10
Beef Cattle, 100 lbs.	7.17	20.00	22.74	17.20
Veal Calves, 100 lbs.	8.33	23.63	26.63	19.40
Lambs, 100 lbs.	8.20	23.28	24.04	19.00
Wool, lb.	.27	.51	.54	.511
Milk, wholesale, 100 lbs.	1.45	2.85	2.94	4.39
Butterfat, lb.	.29	.64	.64	.704
Chickens, live, lb.	.128	.232	.177	.290
Eggs, doz.	.156	.391	.264	.506

* Source: "Agricultural Prices"—May 31, 1950.

[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-April Cash Farm Income*

(Thousands of Dollars)

State	1935-39 Average	1949	1950	1950 In Per Cent of 1949
Minnesota	$ 102,257	$ 369,032	$ 348,958	95%
North Dakota	23,566	130,287	90,897	70
South Dakota	30,533	161,178	128,418	80
Montana	17,082	77,191	66,290	86
Ninth District[1]	197,391	809,861	703,681	87
United States	2,238,447	7,677,267	7,021,233	91

* Data from The Farm Income Situation, May 1950.

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

maintaining our farm economy. This fact must be recognized in extending credit to farmers. As farm incomes decline, creditors will find that farmers will seek to maintain their standards and try to handle their indebtedness in the form of payments spread over a longer period of years.

A full recognition of the costs of maintaining the family is needed in analyzing loans to farmers. Family living expenses have often been referred to as a first lien on the income of the farm. In the period that lies ahead, this fact may become very apparent. However, farms properly organized and efficiently operated should provide the income necessary for a favorable standard of living for the family.

Obviously such standards will vary widely depending upon the resources that are available to the families living on farms. Credit which contributes to improved operation of farms will assist in maintaining higher standards of living.

SHIFT SEEN TO RELATIVELY MORE LONG-TERM FINANCING

Institutions financing farmers will find it important to follow current economic developments. The earnings of farmers are dependent upon the purchasing power of consumers generally. High employment with gradually prosperous conditions for business usually means favorable incomes for farmers. On the other hand, under a situation of high unemployment and low purchasing power of consumers, prices of farm products would decline and farm earnings would be greatly reduced. Conditions obviously will vary with individual farm enterprises.

For some farm commodities the foreign situation is an important factor. The share of the market dependent upon foreign markets is more speculative than the domestic share. Lenders, therefore, financing the production of an exportable commodity such as wheat, need to follow international developments closely.

On the other hand the cattle industry, for example, where exports are not a factor presents a more stable situation with earnings dependent almost wholly on domestic conditions.

The recent increase in the farm mortgage indebtedness to some extent is the beginning of a shift from relatively less short-term financing to a relatively more long-term financing. Many farmers have become over extended with short-term indebtedness who have their real estate free of debt or at least have substantial equities in real estate. Some of these farmers may place themselves in a sounder financial position by using more long-term farm mortgage credit and less short-term credit.

While local banks will carry many of the farm mortgage loans resulting from this adjustment, there are indications that in many cases they are finding it advisable to transfer the long-term credit to agencies specializing in this field, but retain the short-term and more liquid loans to farmers.

AGRICULTURE'S FUTURE APPEARS PROMISING

In the previous remarks I have pointed out that during the last two years farmers have been making adjustments from the very favorable level of earnings during a war period to a lower but more normal level of income. The years immediately ahead are likely to be years of further readjustment to somewhat lower net earnings, but no sharp break in prices such as occurred in 1920-21 following World War I is in prospect at this time.

Government supports of farm prices can prevent disastrous breaks in farm commodity prices. Also, we are likely to find a more determined effort by business organizations to maintain production. These factors plus appropriate monetary credit and fiscal policies should operate in the direction of maintaining purchasing power in our economy and preventing disastrous breaks in prices. While farm incomes will level off on lower levels, the income should be favorable for efficient farmers.

Looking at the agricultural situation from the standpoint of a long period of years into the future, I believe we can be optimistic. The increase in population will mean more people to be fed and clothed and an increasing demand for the products of American farms. The growth in population has been accompanied by higher living standards generally, including a shift in consumption of food products to a lower per capita consumption of potatoes and grains and a higher consumption of meats, dairy products, fruits, and certain vegetables.

These trends definitely favor the livestock industry. Expansion of the livestock industry should result in more effective utilization of land from the standpoint of conserving our soil resources.

Besides the increase in population, another favorable element in the long-term outlook for agriculture is the prospect of further improvements in techniques which should result in greater efficiency in production on our farms.

With increased use of power equipment it would be expected that commercial farms will continue to increase in size, since fairly large-scale operations are essential to efficient use of the equipment. The farms will continue to be family enterprises primarily but with larger acreages. In other words, we may expect that the commercial farms will become larger in size, since a farm family will be able to handle the crops on a larger acreage.

As we look ahead over the years it is apparent that in making readjustments and necessary improvements, farmers will need capital and many will rely on local banks and other agencies for loans to obtain part of this capital. Close contact between the lender and the farmer will be necessary.

In conclusion, I wish to emphasize that the years which lie ahead present a real challenge to the institutions financing American farmers. The adjustments and improvements that will be required on farms will result in an increased use of credit by many farmers. By making this credit available on a sound basis and on reasonable terms geared to anticipated earnings of the farms, bankers and other agencies financing farmers can contribute to greater economic stability in agriculture and to prosperity in our nation.

END

CONSUMER BUYING PROPELS ECONOMY UPWARD

Continued from Page 64

gage loans, both based on very low down payments, have accelerated the current "boomlet." We are doing an unprecedented volume of business "on the cuff." Although the ratio of debt to income is still not higher than in pre-war days, the volume of consumer debt and real estate mortgage debt is high enough to constitute a strong deflationary factor in a period when such debt levels off or declines.

There are competent observers who believe that it would now be well for consumers to display resistance to price increases, for businessmen to exercise caution in the accumulation of inventories, for mortgage lenders to stop following the market up in their appraisals of real estate, and for individuals to reduce rather than build up private debt.

Prevailing inflationary factors can change to deflationary factors of substantial magnitude. The thinking is that these factors might better level off now rather than add force to current inflation and subsequent deflation.

The optimum condition is steady growth in the economy—say two or three per cent a year — assuring a long period of stable prosperity rather than boom and bust.

END

MAY BANKING DEVELOPMENTS

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country member banks. The $3 million drop in city banks was the net result of decreases in certificate, note, and bond holdings, offset by an increase in bills. It is significant to note that, since April 13, the Treasury has increased its bill offerings by $100 million each week. Thus far the new money borrowed through the bill market and from net sales of savings bonds has sufficed to finance the current budget deficit.

END

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Apr. 26, 1950	May 31, 1950	$ Change Apr. 26, 1950 May 31, 1950	$ Change May 25, 1949 May 31, 1950
ASSETS				
Loans and Discounts	$ 959	$ 958	— 1	+121
U. S. Government Obligations	1,624	1,614	— 10	+ 11
Other Securities	261	262	+ 1	+ 50
Cash and Due from Banks & Res.	746	772	+ 26	— 76
Other Assets	32	32	....	+ 1
Total Assets	$3,622	$3,638	+ 16	+107
LIABILITIES AND CAPITAL				
Due to Banks	$ 296	$ 296	....	— 4
Other Demand Deposits	2,126	2,147	+ 21	+ 79
Total Demand Deposits	$2,422	$2,443	+ 21	+ 75
Time Deposits	941	935	— 6	....
Total Deposits	$3,363	$3,378	+ 15	+ 75
Borrowings	20	20	....	+ 19
Other Liabilities	23	24	+ 1	+ 3
Capital Funds	216	216	....	+ 10
Total Liabilities and Capital	$3,622	$3,638	+ 16	+107

* 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.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 28, 1950

INDUSTRIAL output rose further in May and June. Production of passenger cars and residential construction activity far exceeded earlier record levels. Retail sales were maintained at advanced levels with increases in the dollar volume in some cases reflecting higher prices. Consumer incomes were somewhat below peak levels reached earlier when heavy veterans' insurance payments were being made. On June 26, following news of war in Korea, prices of common stocks dropped sharply and commodities rose.

INDUSTRIAL PRODUCTION—The Board's production index rose 3 points in May to 193% of the 1935-1939 average, reflecting chiefly further increases in output of durable goods. Preliminary indications are that the index for June will equal or slightly exceed the former postwar record level of 195.

Steel production was at a new high in May and has been scheduled at about the same rate in June—101% of this year's larger capacity. Activity in most steel consuming industries continued to advance in May. Automobile assemblies increased considerably, following settlement of a 100-day industrial dispute at the plants of a major producer. In mid-June assemblies were close to 200,000 units per week and nearly 45% greater than in April. Machinery production rose in May for the sixth successive month, with increases indicated for both consumer and producer equipment. For certain types of machinery, however, there were indications of some seasonal slackening in activity.

In response to strong demands from the construction industry, output of cement, clay, glass, and lumber products was close to current capacity levels. Demand for nonferrous metals from the construction and machinery industries was augmented by large government purchases for stockpiling purposes.

Following a small decline in textile production in the early part of the year, output increased slightly in May owing in part to continued expansion in demands for industrial uses. Output of rubber and petroleum products reached the highest levels of the year. Production of most paper and chemical products was maintained at capacity levels.

Bituminous coal output declined further in May but stabilized in June, while crude oil production increased steadily in May and June. Iron ore output rose considerably following the latest opening of the Great Lakes shipping season in many years.

EMPLOYMENT — Non-agricultural employment, seasonally adjusted, expanded further by 300,000 in May, reflecting substantial increases in durable goods manufacturing and in construction; the total—43.5 million—was the highest figure in 15 months. Unemployment declined further to 3.1 million persons in early May, which was about one-quarter million less than in the same period a year ago.

CONSTRUCTION — Value of construction contracts awarded in May continued at the very high April total. The number of new houses and apartment units started rose considerably further to 140,000 in May, as compared with 126,000 in April and 95,000 in May 1949. Most other types of construction activity also expanded.

DISTRIBUTION — Department store sales in May and the first half of June have been at advanced levels, reflecting some recovery in apparel sales. Sales of house furnishings have increased less than seasonally from the exceptionally high level reached in the first quarter. Stocks of these goods have apparently risen further, although April figures indicated that they were still not as large relative to sales as during the first half of last year.

Sales of most other retail outlets showed little change in May except for a sharp further increase in sales by building material dealers, reflecting in part a marked rise in prices. Automotive sales showed a somewhat more than seasonal expansion from the record levels prevailing earlier this year.

COMMODITY PRICES — The general level of wholesale prices was higher in the latter part of June than in mid-May despite some decline in the second week. Increases in prices of farm products and foods largely reflected advances in livestock, meats, and imported foods. Prices of some other foodstuffs declined moderately, influenced by seasonal increases in supplies.

Prices of industrial materials generally advanced further by the fourth week of June and prices of some finished industrial products were raised, while television sets were reduced substantially.

The consumers' price index rose .8% in May and some further increase is indicated in June owing chiefly to the higher level of retail meat prices.

BANK CREDIT—Real estate and consumer loans showed their most substantial increases of the year at banks in leading cities during May and the first half of June. Strong demands for business credit were reflected in increased borrowings during early June. Bank holdings of U. S. government securities expanded during May and the first half of June. Holdings of corporate and municipal securities also increased in June.

A reduction in Treasury balances at the Reserve banks and an inflow of currency from circulation supplied reserve funds during the first half of June. Member banks reduced borrowings at the Reserve banks and increased reserve balances. Subsequently, banks lost reserve funds as Treasury deposits at the Reserve banks were built up through quarterly income tax collections. The Federal Reserve continued to sell Treasury bonds in response to market demand, but purchased a larger amount of short-term issues.

SECURITY MARKETS — Common stock prices declined sharply in the latter part of June, after a marked further rise in the first two weeks, and on June 26 closed at the level of early April. Prices of long-term Treasury bonds declined moderately in June and a lesser decline occurred in prices of corporate bonds.