# MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 10 AUGUST 31, 1950 Serial No. 8


BUSINESS

## Economy Now Operating Near Capacity

- District shares in the rapid movement toward full production.
- Department store sales in the first part of August have receded from July peak.
- Bank debits for July set new postwar record.
- District employment rose significantly.
- Valuation of building permits issued in July set new postwar record.

PRIOR to the outbreak of war in Korea, production and trade statistics for the Ninth district, as well as for the nation as a whole, indicated a substantial increase in business activity over levels of the previous year. In weeks following the beginning of hostilities, business activity—spurred by a sharp upturn in consumer buying—reached still higher levels, breaking records established in 1948 following World War II.

The economy is now operating at near capacity levels and the leeway for further expansion is limited. This situation has given rise to widespread fears that substantial inflation is inevitable unless the unprecedented consumer demand is controlled.

Reflecting these fears, voluntary and government enforced controls are being given careful consideration. These would seek to hold down civilian demand for goods and services while demand for goods and manpower to fulfill the military defense program is rising.

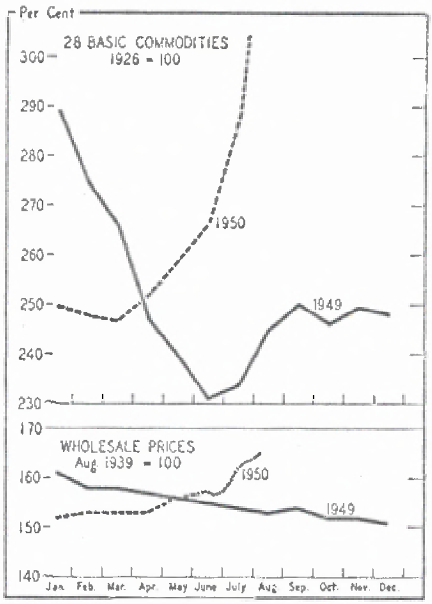
This district has shared in these developments of the economy as a whole. While scare buying has subsided from the feverish pitch witnessed during July, and stocks of merchandise apparently were sufficient to relieve consumers' fears of impending shortages, consumer buying nevertheless continues well above the level maintained before the start of the Korean war. Expectation of rising prices now appears to be a major factor in the large demand for consumer merchandise.

### JULY SALES REFLECTED SCARE BUYING

The fear of impending shortages of merchandise boosted July sales tremendously. In comparison with the volume of sales for corresponding periods in 1949, sales in department stores of this district were 26% higher in July and 5% higher in June, while sales in the first half of this year fell 2% short of equalling the 1949 dollar total. The large increase in sales in July over the 1949 volume reflects the effect of scare buying.

Scare buying has boosted sales in the rural areas as well as in the cities. Before the beginning of the Korean war, sales in department stores serving the agricultural regions were down as compared with the 1949 sales volume. For instance, sales in this district, outside of the four large cities of Minneapolis, St. Paul, Duluth, and Superior, were down 8% for the first half of this year. Sales were down as much as 13% in North Dakota and as much as 11% in South Dakota.

THE TREND OF PRICES IN PRIMARY MARKETS AND AT THE WHOLESALE LEVEL




*THE INDEX of 28 basic commodities for June and July revealed a sharp rise of prices in the primary markets, with wholesale prices following, as usual.*

July department store sales in this district, exclusive of the four large cities, were 15% above the corresponding 1949 volume of sales. In North Dakota and in South Dakota, where before the beginning of the Korean war sales were lagging significantly in terms of last year's volume, July sales were respectively 16% and 21% higher.

In the four large cities, department store sales for the first half of this year were approximately equal to those for the first half of 1949. June sales in these cities were 6% higher and July sales were 34% higher. Sales in these cities which for six months prior to the war were already as high as last year's volume, were boosted to an exceptionally high level by the scare buying.

Sales in furniture stores have followed the trend described for department store sales. In comparison with 1949 monthly sales, June sales in this district were only 10% higher, while July sales were 39% higher.

For the weeks of August 12 and

19, sales in the four large cities of this district were respectively 32% and 20% above the volume for the corresponding weeks in 1949. When scare buying was at a feverish peak, sales for the weeks ending July 22 and 29 were up 41% and 42% respectively. Further evidence of more normal consumer buying is the disappearance of premium prices which were paid for some durable commodities, especially new and used cars.

### COMMODITIES SCARCE IN LAST WAR IN GREATEST DEMAND

The demand for both new and used cars has been tremendous. However, according to recent reports from dealers, the demand has receded sharply. In cities within the range of television stations, television sets have been selling at a rapid rate. Radios and phonographs, which are in the same category, also have been in great demand.

Remembering the difficulties encountered during the last war in obtaining parts for household appliances, many families rushed to the stores to trade in their old appliances before the supply was exhausted. Sales also were exceptionally high on other durable items, such as domestic

### Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

| | July[1] | Percent Change[2] July | Percent Change[2] Jan.-July |
|---|---|---|---|
| MINNESOTA | | | |
| Duluth-Superior | 302 | +26 | + 0 |
| Fairmont | 294 | + 9 | — 3 |
| Mankato | 231 | +12 | — 2 |
| Minneapolis | 290 | +35 | + 6 |
| Rochester | 230 | + 9 | — 6 |
| St. Cloud | 269 | + 4 | — 8 |
| St. Paul | 253 | +33 | + 4 |
| Willmar | 280 | +35 | — 0 |
| Winona | 276 | +34 | + 4 |
| MONTANA | | | |
| Great Falls | 343 | + 4 | — 8 |
| NORTH DAKOTA | | | |
| Bismarck | 297 | +17 | —10 |
| Grand Forks | 271 | +10 | — 8 |
| Minot | 303 | +13 | — 5 |
| Valley City | 208 | +18 | —12 |
| SOUTH DAKOTA | | | |
| Aberdeen | 368 | +27 | —10 |
| Rapid City | 370 | + 7 | — 2 |
| Sioux Falls | 333 | +32 | — 4 |
| Yankton | 282 | +28 | — 5 |
| WISCONSIN | | | |
| LaCrosse | 230 | +16 | — 1 |

[1] Based on daily average sales.

[2] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.

### Sales of Ninth District Department Stores*

| | % July 1950 of July 1949 | % Jan.-July 1950 of Jan.-July 1949 | Number of Stores showing Increase | Number of Stores showing Decrease |
|---|---|---|---|---|
| Total District | 126 | 102 | 216 | [illegible] |
| Mpls., St. Paul, Dul.-Sup. | 134 | 105 | 28 | [illegible] |
| Country Stores | 115 | 96 | 188 | [illegible] |
| Minnesota (City and Country) | 131 | 104 | 74 | [illegible] |
| Minnesota (Country) | 115 | 98 | 51 | [illegible] |
| Central | 118 | 99 | 6 | [illegible] |
| Northeastern | 121 | 100 | 4 | [illegible] |
| Red River Valley | 102 | 90 | 3 | [illegible] |
| South Central | 108 | 95 | 8 | [illegible] |
| Southeastern | 121 | 99 | 10 | [illegible] |
| Southwestern | 114 | 98 | 20 | [illegible] |
| Montana | 115 | 99 | 25 | [illegible] |
| Mountains | 128 | 100 | 11 | [illegible] |
| Plains | 105 | 98 | 14 | [illegible] |
| North Dakota | 116 | 91 | 33 | 16 |
| North Central | 115 | 93 | 5 | [illegible] |
| Northwestern | 114 | 95 | 4 | [illegible] |
| Red River Valley | 117 | 92 | 13 | [illegible] |
| Southeastern | 116 | 85 | 9 | [illegible] |
| Southwestern | 102 | 81 | 2 | [illegible] |
| Red River Valley-Minn. & N. D. | 115 | 92 | 16 | [illegible] |
| South Dakota | 121 | 95 | 37 | [illegible] |
| Southeastern | 125 | 98 | 12 | [illegible] |
| Other Eastern | 118 | 92 | 20 | [illegible] |
| Western | 112 | 94 | 5 | [illegible] |
| Wisconsin and Michigan | 112 | 99 | 42 | [illegible] |
| Northern Wisconsin | 105 | 100 | 10 | [illegible] |
| West Central Wisconsin | 114 | 99 | 25 | [illegible] |
| Upper Peninsula Michigan | 114 | 97 | 7 | [illegible] |

*Percentages are based on dollar volume of sales. 1 July 1950 compared with July 194[illegible]

### Northwest Business Indexes

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

| | July '50 | June '50 | July '49 | July '[illegible] |
|---|---|---|---|---|
| Bank Debits—93 Cities | 372 | 347 | 347 | 353 |
| Bank Debits—Farming Centers | 475 | 410 | 403 | 423 |
| Ninth District Department Store Sales | 342 | 284 | 261 | 294 |
| City Department Store Sales | 362 | 298 | 272 | 299 |
| Country Department Store Sales | 321 | 269 | 251 | 289 |
| Ninth District Department Store Stocks | 286 | 304 | 283 | 318 |
| City Department Store Stocks | 259 | 267 | 246 | 277 |
| Country Department Store Stocks | 307 | 333 | 312 | 351 |
| Country Lumber Sales | 204p | 177p | 147 | 158 |
| Miscellaneous Carloadings | 139 | 143 | 116 | 126 |
| Total Carloadings (excl. Misc.) | 111 | 111 | 116 | 119 |
| Farm Prices (Minn. unadj.) | 249 | 241 | 230 | 303 |

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floor coverings, furniture, and bedding. Among the non-durable items, women's hosiery has been subject to much scare buying.

### DEPARTMENT STORE STOCKS DECLINED FROM MAY PEAK

The clamor for merchandise which grew out of the Korean war has enabled many retailers to unload stocks which had become difficult to sell at prevailing prices. Stocks held by department stores in the district at the end of May were 222% above the pre-war base period after an adjustment was made in the index for the usual seasonal fluctuations in stocks held by such stores. At the end of June, the stocks had declined to 204% and at the end of July to 186%.

### WAR EXPANDED MOST TYPES OF BUSINESSES

The recent upsurge in business has not been limited to retailing. In an effort to replenish their stocks, re

Continued on Page 89, Col. 1

AGRICULTURE

# Livestock Main Source of District Farm Income

It is a well-known fact that the fatness of the farmer's pocketbook is an important factor in Ninth district economy—this because cash farm income constitutes such a high proportion of total income payments in this district.

In the four full states in the district, cash farm income in recent years was equal to nearly half of total income payments. For the U. S. as a whole, cash farm income was less than 15% of total income payments.

Actually, a comparison of cash farm income with total income payments to individuals is not strictly accurate, since cash farm income data and net income payments to individuals are not comparable. The former is a gross income figure (production expenses are included) and the latter is a net figure in so far as it applies to proprietors.

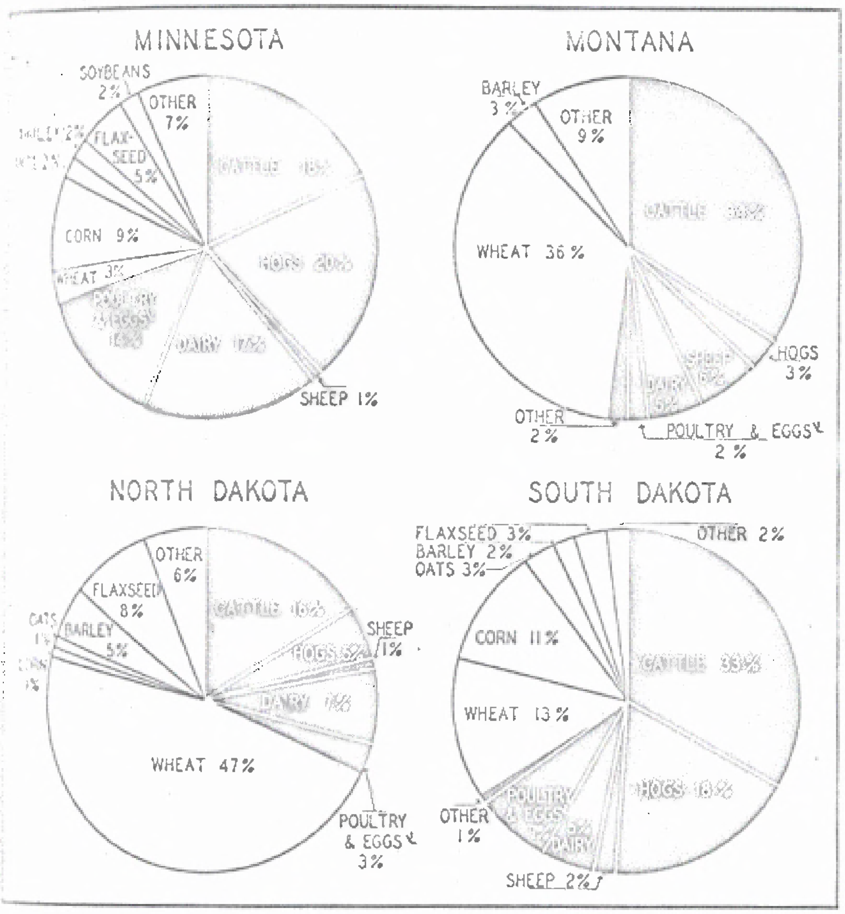
The comparison is used, however, since comparable net income is not available and the analysis does show the relative importance of agriculture to the Ninth district economy and to the U. S.

Unprecedented agricultural production and favorable prices in recent years throughout the area covered by the Ninth Federal Reserve district has brought a high degree of financial health to farmers as a group. Not only does farm prosperity fatten the farmer's purse, but it also swells the income of those who process, market, and distribute farm products to consumers. It is this handling and processing of food and fiber that forms the basis of most of the district's industry, finance, and business.

When crops are good and farmers have high cash incomes, almost everybody feels a reflected glow of farm prosperity—especially those in urban communities. Businessmen have a ready market for their merchandise, since farmers apparently have an almost unlimited demand for equipment and gadgets to make farm work easier and more efficient. Processors are busy. Transportation hums. The farmer gets his hair cut more often; his family sees more picture shows; he uses more kilowatt hours. In other words, the service industries are expanded.

This is the picture of what has happened in recent years in the Ninth district. Agricultural prosperity was at a peak in 1948, when district cash farm income totaled nearly $3½ bil-

**PROPORTION OF CASH FARM INCOME DERIVED FROM DIFFERENT FARM PRODUCTS IN NINTH DISTRICT STATES, 1949**




*LARGEST SHARE of district cash farm income is from sale of livestock and livestock products. North Dakota, with about half of its farm income from wheat, is an exception.*

- *First half farm income was 10% to 15% below the same period last year.*
- *Higher farm prices and potentially larger crop production may reverse farm income trend in last half of year.*
- *Sales of cattle, hogs, dairy products, and poultry and eggs contribute about equally to Minnesota farm income.*
- *Wheat comprises nearly half of North Dakota income. Dairying brings in half of Wisconsin farm income.*
- *South Dakota has wide diversification of farm income, but over half is from sale of cattle and hogs.*
- *Montana balances cash farm income about evenly between livestock and crops.*

lion. This was nearly four times the pre-war average.

Last year, 1949, cash farm income tumbled about 20% from the previous year's high level. Furthermore, farm expenses stayed high. Farmers' net income was pinched harder in 1949 than it had been for several years. Net farm income in 1949, however, was still more than double pre-war figures.

Cash farm income for 1950 thus far has continued the slide which started last year. For the first five months, district cash farm income was 15% less compared with the same period last year. (See table on farm income.)

Cash farm income was off a full third in North Dakota, reflecting smaller marketings from that state's reduced crop harvests in 1949.

### FARM INCOME TREND MAY BE REVERSED

By mid-year, however, the economic picture for agriculture began to change. In the first place, business in general was expanding and this in turn was reflected in a strong demand for farm products. Secondly, military activity further influenced farm prices as it has prices in general.

Farm prices speeded up after the war started in Korea. The index of prices received by farmers gained 6½% from mid-June to mid-July and was almost 7% above a year earlier. July was the first month in 1950 when the farm price index topped a comparable month in 1949.

Crop production potentiality this year currently holds promise of being slightly larger than last year, especially in the western end of the district. Favorable weather for crop maturities in September would insure higher crop yields and higher agricultural production compared with 1949.

There is therefore reason to hope that the recent downtrend in farm income has been reversed and that 1950 district farm income might at least approximate that of last year.

### SOURCES OF FARM INCOME VARY WIDELY

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

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

These varying conditions are reflected in differences in major sources

Continued on Page 89, Col.

**Proportion of Cash Farm Income Derived from Different Farm Products in Ninth District States, 1949**

| | Minn. | Mont. | No. Dak. | So. Dak. | Mich. | Wis. | 4-State Avg.* |
|---|---|---|---|---|---|---|---|
| LIVESTOCK & L.S. PROD.: | 70% | 52% | 32% | 66% | 60% | 87% | [illegible] |
| Cattle & Calves | 18 | 34 | 16 | 33 | 12 | 15 | [illegible] |
| Hogs | 20/38 | 3/37 | 5/21 | 18/51 | 8 | 12 | 14 |
| Sheep & Lambs | 1/39 | 6/43 | 1/22 | 2/53 | 1 | .... | [illegible] |
| Dairy Products | 17/56 | 5/48 | 7/29 | 5/58 | 27 | 49 | 11 |
| Poultry & Eggs 1/ | 14/70 | 2/50 | 3/32 | 7/65 | 12 | 11 | 9 |
| Others | .... | 2/52 | .... | 1/66 | .... | .... | [illegible] |
| CROPS | 29% | 48% | 68% | 34% | 40% | 13% | [illegible] |
| Wheat | 3/73 | 36/88 | 47/79 | 13/79 | 7 | .... | [illegible] |
| Corn | 9/82 | .... | 1/80 | 11/90 | 2 | 1 | 6 |
| Oats | 2/84 | .... | 1/81 | 3/93 | 1 | 1 | [illegible] |
| Barley | 2/86 | 3/91 | 5/86 | 2/95 | .... | 1 | [illegible] |
| Flaxseed | 5/91 | .... | 8/94 | 3/98 | .... | .... | [illegible] |
| Soybeans | 2/93 | .... | .... | .... | .... | .... | [illegible] |
| Other | 6/99 | 9/100 | 6/100 | 2/100 | 30 | 10 | 6 |
| GOVERNMENT PAYMENTS | 1/100 | .... | .... | .... | .... | .... | .... |

*States of Minnesota, Montana, North Dakota and South Dakota.
1/ Includes broilers and turkeys.
SOURCE: "Farm Income Situation"—June 1950.

**Average Prices Received by Farmers in the Ninth District***

| Commodity and Unit | July 15 1937-41 Avg. | July 15 1949 | July 15 1950 | Parity Price United States July 15, 1950 |
|---|---|---|---|---|
| **Crops** | | | | |
| Wheat, bushel | $0.73 | $ 1.98 | $ 2.09 | $ [illegible] |
| Corn, bushel | .60 | 1.14 | 1.30 | [illegible] |
| Oats, bushel | .26 | .50 | .71 | [illegible] |
| Potatoes, bushel | .72 | 1.56 | 1.39 | [illegible] |
| **Livestock and Livestock Products** | | | | |
| Hogs, 100 lbs. | 8.10 | 18.26 | 20.64 | [illegible] |
| Beef Cattle, 100 lbs. | 7.37 | 19.81 | 24.43 | [illegible] |
| Veal Calves, 100 lbs. | 8.43 | 23.25 | 27.55 | [illegible] |
| Lambs, 100 lbs. | 7.50 | 21.91 | 23.97 | [illegible] |
| Wool, lb. | .26 | .47 | .59 | [illegible] |
| Milk, wholesale, 100 lbs. | 1.49 | 3.00 | 3.01 | [illegible] |
| Butterfat, lb. | .29 | .62 | .63 | [illegible] |
| Chickens, live, lb. | .126 | .198 | .184 | [illegible] |
| Eggs, doz. | .168 | .395 | .282 | [illegible] |

*Source: "Agricultural Prices"—July 28, 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-May Cash Farm Income***

(Thousands of Dollars)

| State | 1935-39 Average | 1949 | 1950 | 1950 in Percent of 1949 |
|---|---|---|---|---|
| Minnesota | $ 127,339 | $ 462,357 | $ 435,622 | 94 |
| North Dakota | 30,422 | 172,272 | 114,546 | 66 |
| South Dakota | 37,505 | 200,408 | 159,857 | 80 |
| Montana | 21,594 | 100,833 | 79,111 | 78 |
| Ninth District[1] | 238,221 | 1,029,234 | 878,752 | 85 |
| United States | 2,818,839 | 9,595,615 | 8,789,228 | 92 |

*Data from "The Farm Income Situation," June 1950.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

BANKING

# Expanding Bank Loans Hit New Peak

WITH almost every measure of business activity setting new records in the first half of 1950, bank loans also—both nationally and in the Ninth district—scaled previously uncharted peaks.

The major props of the business boom were residential building and consumers' purchases of durable goods. The biggest gains in bank loans were scored by real estate credit and consumer instalment loans especially those to people buying cars. (See chart.)

In Ninth district member banks the rising tide of bank credit was augmented by increased loans to businessmen, mainly to finance growing inventories. Nationally, commercial and industrial loans decreased slightly. However, the drop was less than the usual seasonal decline; and it appeared even milder compared to the first half of 1949, when business loans were in a steep decline.

Further boosting loan totals this year was the seasonal rise in agricultural credit. Short-term loans to farmers—which make up about one-fifth of total loan portfolios of country banks in this district—rose roughly the same proportion in the first half of 1950 as they did in the first six months of a year ago.

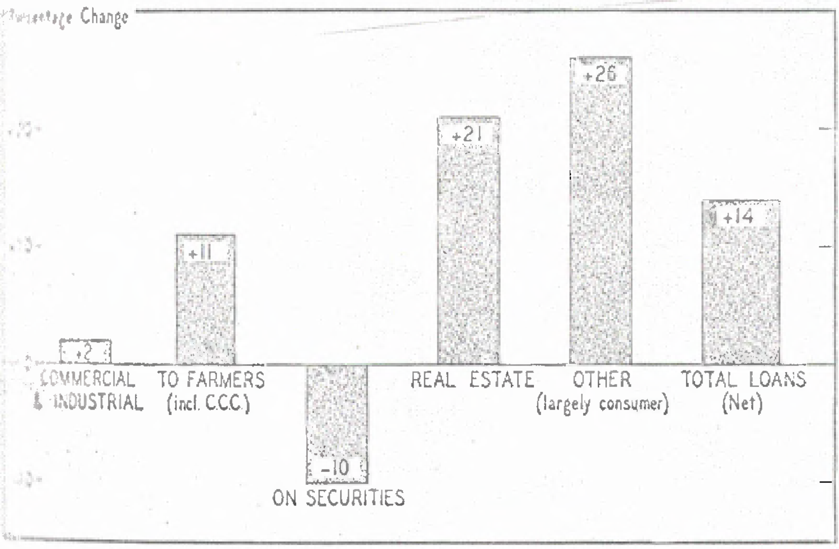
## DISTRICT LOANS TOP ONE BILLION DOLLARS

At mid-year 1950, loans in Ninth district member banks totalled $976 million; and by the end of July they had pushed over the $1 billion mark. Both city and country member banks were in on the wave of bank credit expansion, which carried the district's loan total to roughly 14% over a year ago.

In country member banks, consumer loans—led by retail automobile credit—rose 34% from June 30, 1949, to the end of June this year. Loans on real estate advanced 17%, and commercial, industrial, and agricultural loans grew 5%. In the district's 20 weekly reporting city banks, consumer loans were up 20%, real estate credit registered plus 30%, and business loans plus 5%.

**LOANS OF NINTH DISTRICT MEMBER BANKS**

Percentage Change June 1949 to June 1950




*SUPPORTING the boom in residential building and consumers durable goods, real estate and consumer loans increased sharply in the past 12 months.*

***Real estate credit and consumer loans in Ninth district member banks made the sharpest gains in the past year.***

***Quickened turnover of deposits reflects the growing business boom.***

***Restraint is keynote of Federal Reserve credit policy.***

In addition to expanding loans and discounts, banks in the past year rapidly increased their investments in securities other than U. S. governments. Holdings of state, municipal, and corporate securities in member banks rose by $50 million, making this form of credit one of the principal sources of the over-all increase in bank credit.

## DEPOSIT DROP LESS SHARP THAN IN FIRST HALF OF '49

Demand deposits in Ninth district member banks declined from $2,569 million to $2,481 million in the first six months of 1950.

A decline in deposits in the first half of the year is expected, since income tax payments, made in the first quarter, channel funds out of private deposits into Treasury balances at the Federal Reserve banks. This year, however, deposits did not drop as sharply as in the first half of 1949. Whereas demand deposits of individuals, partnerships, and corporations decreased 10% from the beginning of January through June 1949, this year these accounts were off only 6½%.

Not only did increasing loans contribute to deposit totals in 1950, but the veterans insurance refund also offset some of the usual drain on deposits. At the end of June, total demand deposits of $2,481 million, while down from year-end 1949, were $71 million above the deposit level of a year ago.

Reflecting the stepped-up tempo of business activity, depositors in recent months have been spending their deposit dollars at a faster rate. In June and July, total deposits in selected Ninth district banks turned over at an average rate of 14.0 turns per year. In the same months last year, consumers and businessmen were using their deposits at an average rate of 13.2 times per year.

## MORE TREASURY FINANCING IN DEPOSIT OUTLOOK

Treasury operations will weigh heavily in what happens to bank deposits in the months to come. The key question is how the Treasury will finance the enlarged expenditures for defense. That we must expand and strengthen our defense program is made unmistakably clear by the Korean crisis.

To build up its pocketbook, the government can tax; it can borrow from the current savings of the public; and it can borrow from the banking system.

Bank deposits will increase to the extent that the government finds it necessary to borrow from the banking system. Drawing on bank credit, however, is the most inflationary way for the nation to pay for the defense program.

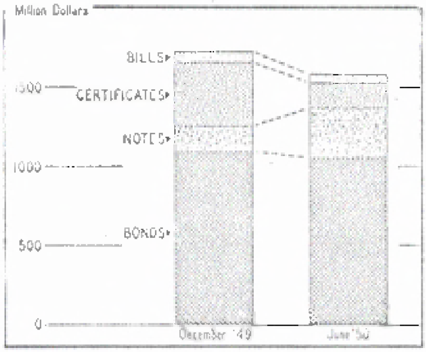
Military expenditures will come on top of an economy that is already running at near-capacity and in which inflationary forces have been building up for some time. Increasing the money supply in the face of a limited output of goods and services will reinforce upward pressure on prices.

Taxation, which provides a pay-as-you-go basis for government expenditures, would dampen the inflationary potential. By siphoning off current income, taxes would divert dollars from the civilian spending stream.

Next to taxing, borrowing from the current savings of the public would be the least inflationary method of government finance. Borrowing from the public stores up liquid assets which in the future may be monetized. Currently, however, it does not increase the money supply because the Treasury, by selling securities to nonbank investors, recovers an amount of money equal to government expenditures.

In view of the recent increase in the turnover of bank deposits, one further point is significant: Even without an increase in deposits, if people spend the existing money supply faster the result is enlarged demand for goods and services.

## HOLDINGS OF U.S. GOVERNMENT SECURITIES IN NINTH DISTRICT MEMBER BANKS




*IN THE FIRST HALF of 1950, mainly as a result of Treasury refundings, bank holdings of notes expanded, certificate portfolios declined.*

## GOVERNMENT SECURITY PORTFOLIOS DECLINED

In the past several years, government security holdings of banks have followed a see-saw trend. During World War II, banks purchased government securities on a grand scale. At the end of the war, government security portfolios bulged while loans were at a relatively low ebb. The postwar years saw bankers liquidate government securities in order to expand loans to private borrowers.

In 1949, however, the postwar trend was reversed. Supplied with funds released by reductions in reserve requirements and from repayments of loans, banks vigorously purchased government securities.

Again in February of this year the trend of government security holdings in district member banks changed directions. To secure funds for the sharp expansion in loans a

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

| | June 28, 1950 | July 26, 1950 | Aug. 9, 1950 | $ Change June 28-[illegible] |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Comm., Ind., and Ag. Loans | $ 225 | $ 233 | $ 224 | + [illegible] |
| Real Estate Loans | 85 | 88 | 89 | + [illegible] |
| Loans on Securities | 11 | 11 | 11 | |
| Other (largely consumer) loans | 159 | 170 | 161 | + [illegible] |
| Total Gross Loans & Discounts | $ 480 | $ 502 | $ 485 | + [illegible] |
| Less Reserves | 6 | 7 | 7 | + [illegible] |
| Total Net Loans & Discounts | $ 474 | $ 495 | $ 478 | + [illegible] |
| U. S. Treasury Bills | 20 | 5 | 16 | − [illegible] |
| U. S. Treasury C. of I.'s | 52 | 35 | 38 | − [illegible] |
| U. S. Treasury Notes | 131 | 150 | 148 | + [illegible] |
| U. S. Government Bonds | 426 | 437 | 434 | + [illegible] |
| Total U. S. Gov't. Securities | $ 629 | $ 627 | $ 636 | − [illegible] |
| Other Investments | 134 | 131 | 131 | − [illegible] |
| Cash and Due from Banks | 427 | 424 | 430 | − [illegible] |
| Miscellaneous Assets | 15 | 16 | 17 | + [illegible] |
| Total Assets | $1,679 | $1,693 | $1,692 | + [illegible] |
| **LIABILITIES** | | | | |
| Due to Banks | $ 270 | $ 271 | $ 295 | + [illegible] |
| Demand Deposits, Ind., Part., Corp. | 778 | 814 | 822 | + [illegible] |
| Demand Deposits, U. S. Gov't. | 60 | 51 | 61 | − [illegible] |
| Other Demand Deposits | 185 | 164 | 136 | − [illegible] |
| Total Demand Deposits | $1,293 | $1,300 | $1,314 | + [illegible] |
| Time Deposits | 253 | 250 | 249 | − [illegible] |
| Total Deposits | $1,546 | $1,550 | $1,563 | + [illegible] |
| Borrowings | 11 | 20 | 5 | + [illegible] |
| Miscellaneous Liabilities | 18 | 18 | 19 | |
| Capital Funds | 104 | 105 | 105 | + [illegible] |
| Total Liabilities & Capital | $1,679 | $1,693 | $1,692 | + [illegible] |

...holdings of securities other than governments and to meet the ... deposits, Ninth district member banks had liquidated $162 million of their government holdings by the end of July 1950. This drop ... about four-fifths of the increase of 1949.

## TREASURY REFUNDINGS AND NOTE HOLDINGS

The composition of government security holdings in banks changed ... in the first half of 1950. Reflecting mainly the refunding operations of the U. S. Treasury, there was a sharp increase in holdings of notes coupled with a decline in certificates of indebtedness. (See table.)

From the end of the war to December of last year, the Treasury held close to the pattern of offering one-year certificates of indebtedness in exchange for matured or called securities.

This year the Treasury shifted to ...-term notes in its refunding of certificates, notes and bonds. The first note offering was made in December 1949 when the Treasury refunded over matured and called certificates and bonds into 4¼-year, ...% Treasury notes.

In subsequent months the Treasury offered new 5-year, 1½% notes and several issues of 1¼% notes with maturities ranging from 20 to ... months. Most recently, the Treasury announced that it would offer 13 months, 1¼% notes for certificates and bonds falling due September 15 and certificates maturing October 1. This reaffirms the ...% rate set in the June-July refundings.

## RESERVE POLICY DESIGNED TO CURB CREDIT EXPANSION

In the first half of 1950 the Federal Reserve shifted to a policy of mild restraint. With inflationary pressures reappearing in the economy, the Federal Reserve has used open market operations to induce a somewhat higher cost for credit.

So far this year the Federal Reserve has been selling long-term government bonds in the open market. Yields on long-term ineligible Treasury issues, after declining almost steadily in 1949, rose by roughly ... of 1% over the first half of 1950. At the same time the Federal Reserve permitted short-term money rates to rise. However, since May the System has purchased short-term securities in order to prevent a rise in short-term rates and make possible successful refunding of maturing issues by the Treasury.

The open market operations of the Federal Reserve, particularly the sales of long-term bonds, have tended to absorb bank reserves.

On August 18, the Board of Governors approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½% to 1¾%. Shortly after, the other Federal Reserve banks, including the Reserve bank of Minneapolis, followed suit. Largely psychological in its effect, the increase in discount rates served notice that restraint in further expanding credit is in order.

Along with approving the discount rate rise, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee issued the following statement:

"Within the past six weeks, loans and holdings of corporate and municipal securities have expanded by $1½ billion at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintain-

### Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

| | June 30, 1949[1] | Dec. 31, 1949[1] | June 30, 1950[1] | July 26, 1950[2] |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Comm. and Ind. Loans | $ 279 | $ 269 | $ 285 | .......... |
| Loans to Farmers Guar. by C.C.C. | 37 | 64 | 44 | .......... |
| Other Loans to Farmers | 99 | 88 | 107 | .......... |
| Loans on Securities | 20 | 16 | 18 | .......... |
| Real Estate Loans | 219 | 233 | 265 | .......... |
| Other (largely consumer) Loans | 213 | 231 | 269 | .......... |
| Total Gross Loans & Discounts | $ 867 | $ 901 | $ 988 | .......... |
| Less Reserves | 10 | 11 | 12 | .......... |
| Total Net Loans & Discounts | $ 857 | $ 890 | $ 976 | $1,007 |
| U. S. Treasury Bills | 52 | 69 | 55 | .......... |
| U. S. Treasury C. of I.'s | 327 | 395 | 157 | .......... |
| U. S. Treasury Notes | 59 | 166 | 315 | .......... |
| U. S. Government Bonds | 1,176 | 1,093 | 1,053 | .......... |
| Total U. S. Gov't Securities | $1,614 | $1,723 | $1,580 | $1,581 |
| Other Investments | 218 | 238 | 268 | 263 |
| Cash and Due from Banks | 854 | 859 | 802 | 786 |
| Other Assets | 30 | 31 | 32 | 32 |
| Total Assets | $3,573 | $3,741 | $3,658 | $3,669 |
| **LIABILITIES AND CAPITAL** | | | | |
| Demand Deposits, Ind., Part., and Corp. | $1,694 | $1,862 | $1,736 | .......... |
| Time Deposits, Ind., Part., and Corp. | 923 | 924 | 922 | .......... |
| U. S. Government Deposits | 45 | 75 | 99 | .......... |
| Due to Other Banks | 306 | 351 | 314 | .......... |
| Other Deposits | 376 | 291 | 342 | .......... |
| Total Deposits | $3,344 | $3,503 | $3,413 | $3,402 |
| Borrowings | .......... | .......... | .......... | 21 |
| Miscellaneous Liabilities | 20 | 23 | 24 | 25 |
| Capital Funds | 209 | 215 | 221 | 221 |
| Total Liabilities & Capital | $3,573 | $3,741 | $3,658 | $3,669 |
| Number of Banks | 477 | 478 | 478 | .......... |

[1] Call report data.

[2] This table in part estimated. Data on loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves. Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

ing orderly conditions in the Government securities market.

"The Board is also prepared to request the Congress for additional authority should that prove necessary.

"Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential."

The current program of restraint contrasts with Federal Reserve policy of a year ago. In the spring and summer of 1949 the money managers were combating a downturn in business activity by a series of steps designed to make credit easier.

The underlying objective of Federal Reserve policy is to promote economic stability and growth at high levels of employment and production. To achieve this aim, Federal Reserve actions are adjusted to meet changing conditions in the economy. END

## ECONOMY OPERATING NEAR CAPACITY

Continued from Page 83

tailers have placed large orders. Manufacturers in most lines are operating at full capacity to supply this exceptionally large consumer demand. Contracts let by the armed forces for war equipment and materials has added to this already large demand for manufactured products.

That the economy is operating near capacity is reflected by several business indicators. In July, bank debits for this district set a new postwar record. The index, adjusted for the usual seasonal variation, was 272% above the 1935 to 1939 base period. In the fall of 1948, when business activity reached a peak, the index for October was 262% above the pre-war base.

The high level of activity is also reflected in the figures on employment. According to the Division of Unemployment Compensation Commission of Montana, in July more persons were employed in that state than at any former time of its history. The 157,600 persons employed exceeded the July 1949 total by 4.3%.

The large increase in employment over June was concentrated in mining and construction. In expanding their operations, manufacturers have hired additional workers. As a result of this rise in employment, the pool of available workers in Montana has shrunk from 19,000 workers in February to 4,500 workers in July.

In Minnesota, employment in industry and commerce followed a similar trend. Construction employment rose by almost 8% from June to July and by 4% in manufacturing.

### LARGE BACKLOG FOUND IN CONSTRUCTION

As for construction, according to the recent figures on building permits the industry is not only operating near capacity but also has a large backlog of orders. In July, the dollar valuation of building permits issued by representative cities of this district aggregated one and three-fourths times the amount issued in July 1949. As compared with previous months, a larger number of permits were issued for commercial and industrial buildings in addition to the large number issued for houses. END

## LIVESTOCK MAIN SOURCE OF DISTRICT FARM INCOME

Continued from Page 85

of farm income in Ninth district states.

### MINNESOTA HAS DIVERSIFIED SOURCES OF FARM INCOME

During 1949, Minnesota farmers pocketed nearly $1.2 billion of cash farm income. With approximately 188,000 farmers in Minnesota, according to the census, this means the "average" farmer (if there is such a person), received around $6,000 of gross cash income. Of course, out of this he had to pay expenses of production, which took a substantial amount.

Cash farm income data shows that Minnesota's "average" farmer received 70% of his 1949 farm income from the sale of cattle, hogs, dairy products, and poultry and eggs. The remaining 30% came from the sale of crops, of which wheat and flaxseed accounted for half. (See chart.)

For every dollar of cash farm income that this "average" Minnesota farmer put in his billfold in 1949, 20 cents came from the sale of hogs. Another 18 cents came from the sale of cattle and calves. Dairy products accounted for 17 cents and poultry and eggs, 14 cents. This adds up to 69 cents and another penny from sheep and lamb sales made it 70 cents out of each dollar of income from livestock or livestock products. (See chart.)

Minnesota produces a lot of corn, but most of it is fed on the farm where it is produced. Many farmers, however, do sell corn on the market, and the "average" farmer got 9 cents out of each income dollar from this source. Five cents came from flaxseed sales. Wheat accounted for 3 cents with soybeans and oats contributing 2 cents each. Government payments brought in about 1 cent of each farm income dollar.

### HALF OF NORTH DAKOTA FARM INCOME FROM WHEAT

Farmers in North Dakota rang up over $537 million on the cash register during 1949. With about 70,000 farmers in the state, this means that North Dakota's "average" farmer received in gross cash farm income about $7,600 in 1949. The year before, 1948, this average farmer received over $10,500. Of course, out of this he had to pay all the costs of production.

North Dakota is a big state and much of it is semi-arid. It is ideally situated to produce both hard spring and durum wheat. For every dollar the average farmer received in 1949, approximately half (47c) came from the sale of wheat.

The proportion of farm income received from livestock and crops in North Dakota during 1949 was nearly the reverse of that in Minnesota. North Dakota farmers got 68 cents of each dollar of income from the sale of crops in 1949. Minnesota farmers got only 29 cents. (See chart.)

However, North Dakota farmers produced and marketed a substantial number of beef cattle and calves last year. For this they received an estimated 16 cents from each income dollar.

### HALF OF SOUTH DAKOTA INCOME FROM CATTLE, HOGS

There are not quite as many farmers in South Dakota (68,700, according to the last census), as there are in North Dakota (69,500). However, $555 million in gross cash income were received by these farmers during 1949. That figures closely to $8,000 for the so-called "average" farmer. It was almost $10,000 in 1948.

South Dakota is a state of considerable diversification of farm interests. In the west, cattle raising predominates. In the north central part, wheat production is important. In the east and southeast, there is much production and feeding of livestock as well as the production of cash and feed crops.

For the state as a whole, however, 33 cents from each farm dollar received during 1949 came from the sale of cattle and calves. The next biggest share of cash farm income, 15 cents, was from the sale of hogs. Dairy and poultry together brought in 12 cents of each farm income dollar.

In crops, wheat sales contributed 33c, corn 11c, and oats, barley, and flaxseed about 3c each. (See chart.)

### MONTANA FARM INCOME DERIVED EQUALLY FROM CROPS AND LIVESTOCK

In Montana there are approximately 37,500 farmers. These farmers cashed in on about $367 million worth of business during 1949. Some farmers, of course, had very large incomes, others very small. The hypothetical "average" farmer received approximately $9,800 of gross cash farm income for his efforts. This compares with over $11,000 in 1948, when crop production was more favorable.

For every dollar the "average" Montana farmer received in 1949, about half was derived from the sale of livestock and livestock products and half came from crop sales.

The sale of cattle and calves alone brought in 34 cents of each dollar, or over one-third of all Montana cash farm income. Many Montana farmers produce only one crop—wheat—but for the state as a whole, 36% of cash farm income was derived from wheat sales in 1949.

There are more sheep produced in Montana than in any other state in the district. Sale of sheep and lambs brought in 6 cents of the 1949 farm dollar.

Income from the sale of dairy products and poultry and eggs is, relatively, the smallest of any state in the district. Together, such sales brought in only 7 cents of each Montana farm dollar in 1949.

### WISCONSIN FARM INCOME CHIEFLY FROM DAIRYING

Farmers that live in the 26 Wisconsin counties that lie within the Ninth district boundaries produce dairy products as their chief source of farm income. Nearly half—49 cents—out of every dollar of cash farm income in 1949 was from this source.

In addition, 38 cents comes from the sale of cattle, calves, hogs, and poultry and eggs. Only 13 cents of each farm dollar comes from crop sales. (See chart.)

### UPPER PENINSULA FAVORS DAIRYING, SPECIALTY CROPS

Farmers in the Upper Peninsula of Michigan received 60% of their income in 1949 from the sale of livestock and livestock products and 40% from the sale of crops. Crop income was principally from the sale of potatoes, berries, and other specialty crops.

Dairying was the principal source of livestock income during 1949. It accounted for more than a fourth of the farm income dollar. (See chart.)

END

# National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUGUST 25, 1

UNDER the stimulus of heavy consumer and business buying after the invasion of Southern Korea, prices, activity and incomes have increased considerably beyond the advanced levels reached in June.

Consumer purchases of goods, although reduced from the July peak, are still at a high level. Prices of agricultural commodities, after a marked rise in the early part of July, have shown little net change, while prices of industrial products have advanced further. Common stock prices have recovered most of the declines from June to mid-July. Bank credit to private borrowers and state and local governments has expanded rapidly.

INDUSTRIAL PRODUCTION—The Board's industrial production index in August is expected to be about 204% of the 1935-39 average, as compared with 199 in June, and 197 in July, when vacations and plant closings not adequately allowed for lowered the index.

Steel production declined slightly in July but returned to capacity levels in the first three weeks of August. Scheduled output in the fourth week was reduced by about one-tenth as a result of a railway labor dispute in steel-producing districts. In July, production of nonferrous metals and lumber declined somewhat.

Production of finished durable goods was generally maintained in July. There were marked gains in output of aircraft and various types of construction and industrial machinery. While little change in output of railroad equipment was noted, new orders for freight cars were the largest in many years. Motor truck production declined in July but in August was close to record levels. Passenger car assemblies were reduced somewhat in July and early August from the peak June level by holiday influences, some model change-overs, and labor disputes.

Nondurable goods output was only slightly lower in July as declines in production of textiles and some other goods, as a result of vacations, were less marked than in other recent years. Production of paper and paperboard in mid-August was about 5% above the record June level. Output of rubber products and petroleum refining activity continued to rise in July. Crude petroleum output increased 3% and was 12% above the average level of the past 15 months.

EMPLOYMENT—Employment in non-agricultural establishments rose by about 150,000 persons in July, after allowing for seasonal changes. Most of this expansion was in industries manufacturing durable goods and in construction and retail trade activities.

CONSTRUCTION — Construction activity continued to increase in July and contract awards were maintained at advanced levels. The number of dwelling units started was estimated to be 144,000 as compared with 142,000 in June and 96,000 a year ago.

AGRICULTURE — The official cotton estimate released August 8, indicated a crop of 10.3 million bales as compared with a harvest of 16.1 million last year; including the increased carryover, however, supplies this season will be about 4.5 million bales less than last season but about as large as in most other recent years. Other crops developed favorably in July and the total harvest of feed and food crops is expected to be about as large as last year.

DISTRIBUTION — The Board's seasonally adjusted index of department store sales rose by one-fifth in July to 362% of the 1935-39 average as anticipatory purchases of some items like major household appliances more than doubled the already high volume of sales prevailing in June. Demand for passenger automobiles was very heavy. Also, purchases of various nondurable goods which were in short supply during the past war expanded considerably in July. Anticipatory buying has decreased in August from the July peak.

COMMODITY PRICES — The average level of wholesale prices, which advanced 5% during July, has shown little change in the first weeks of August. Prices of farm products and foods have declined but prices of industrial commodities have advanced further. The marked increases have been in prices of imported materials. Prices of metal and copper and lead products have also advanced considerably.

In retail markets, average prices have apparently shown change following marked increases in July. Prices of a number of other consumer goods, including fuels, furnishings, tires, and used automobiles, have advanced further.

BANK CREDIT—Total loans and holdings of corporate and municipal securities at banks in leading cities showed an exceptionally large increase of $1\frac{1}{2}$ billion during July and early August. Real estate and consumer loans continued their rapid and business loans also expanded sharply during this period. Banks sold a large volume of short-term government securities to the Federal Reserve and to nonbank investors and purchased a small volume of government bonds.

An outflow of gold and large sales of long-term Treasury bonds by the Federal Reserve System to non-bank investors also tended to drain reserve funds from banks during July and the first half of August. Banks met the drain and accumulated additional reserves more than enough to support the expansion in private credit mainly by their sales of short-term securities.

SECURITY MARKETS—Yields on government securities showed little change during the first three weeks of August. On August 18, the Federal Reserve announced a rise in the discount rate to $1\frac{3}{4}\%$ at New York and a change in open market policies and the same day the Treasury announced new refunding offerings. Following these announcements short-term market rates rose while yields on longer issues remained firm. Yields on high-grade corporate bonds declined in the first three weeks of August and common stock prices increased gradually to a level about 4% below the June peak.