MONTHLY REVIEW
of Ninth District Agricultural and Business Conditions
FEDERAL RESERVE BANK OF MINNEAPOLIS

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BANKING

Consumer Loans Rose Sharply in Past Year

ADVANCING almost without interruption, consumer instalment loans in Ninth district member banks have staged a seven-fold increase since the end of World War II. Where four and one-half years ago consumers owed member banks in this district a total of $24.6 million for instalment loans, today this figure stands at $175.5 million.

The rapid expansion in loans to consumers, which has taken place nationally as well as in this district, has been one of the major developments in banking in recent years. A relative newcomer in the field of bank credit, consumer instalment lending today is a well-established service in most banks.

A record volume of loans to finance purchases of automobiles has provided the major impetus for the skyrocketing growth of consumer instalment credit. During last year alone—from June 1949 to June 1950—retail automobile instalment paper held by Ninth district member banks increased almost 50%. Amounting to $43.2 million in June 1949, retail automobile instalment credit had risen to $63.9 million in June 1950.

Other retail instalment paper—on furniture, refrigerators, television sets, and other consumer durables—has also increased sharply. In the past year such loans in Ninth district member banks rose $8.4 million to a total of $43.4 million.

Instalment loans for home repairs, which are made primarily by banks in the larger cities, have risen substantially as a counterpart of the housing boom.

The smallest dollar gain since June 1949 was in personal instalment cash lending. Although there has been a considerable increase in personal loans in the post-war years, these loans have expanded at a slower rate than other types of instalment lending.

FIFTH OF BANK LOANS CONSUMER INSTALMENT

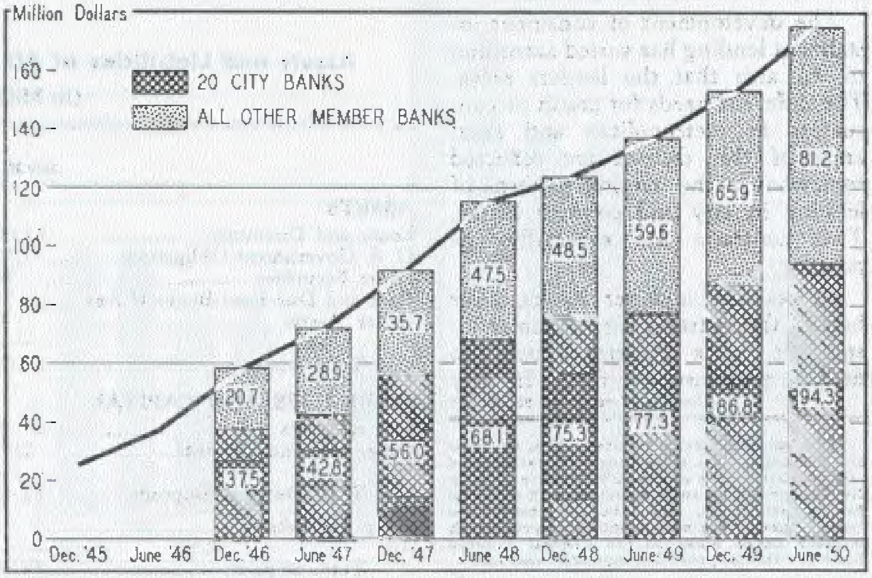
From June 1948 to June 1949 the growth of consumer instalment credit sagged somewhat. With the abatement of inflationary pressures, consumers cut their purchases of durable goods and bankers were less willing to make consumer loans. Having increased more than 60% from June 1947 to June 1948, consumer instalment loans in Ninth district member banks rose only 18% in the 12 months ending June 1949.

The past year, however, has seen a revival of the rapid increase in consumer lending. Along with the quickened tempo of consumer buying, the rate of increase in consumer instalment loans jumped to 28% for the period June 1949 to June 1950.

- ***Instalment credit extended to individuals by Ninth district member banks increased 28% from June 1949 to June 1950.***
- ***Loans to finance automobile purchases have led the post-war increase in consumer lending.***
- ***Revival of Regulation W aims to curb growth of consumer instalment debt.***

The growing importance of consumer instalment loans is seen in their changing contribution to total loan portfolios. Looking back to the end of the war, instalment loans to

CONSUMER INSTALMENT LOANS OF NINTH DISTRICT MEMBER BANKS, DECEMBER 1945 - JUNE 1950



BOTH city and country banks have been active in the unprecedented postwar rise in consumer instalment lending.

individuals in December 1945 accounted for only about 5% of total loans in member banks of this district. By June of this year this percentage had jumped to almost 20%.

LOANS ROSE FASTER IN COUNTRY THAN IN CITY BANKS

Both city and country banks in this district actively engage in consumer instalment lending. Of the $175.5 million of consumer loans outstanding at mid-year, $94.3 million were loans extended by the 20 larger city banks, while $81.2 million were loans in portfolios of the district's 458 country member banks. (See chart.)

Whereas both city and country member banks have enjoyed a rapid rise in the volume of their lending to consumers, the increase has been more marked in the country areas. This fact has been reflected in the steadily rising share of the district's consumer lending accounted for by country banks.

Four and one-half years ago — at year-end 1946 — country member bank instalment loans accounted for 35% of the district's total, with city banks holding 65%. By June 30 of this year the country member bank's share had grown to 46%, while city banks held about 54% of the district's member bank consumer instalment loans.

CITY AND COUNTRY BANK LENDING PATTERNS DIFFER

The development of consumer instalment lending has varied according to the area that the lenders serve. The different needs for credit of consumers in metropolitan and rural areas of this district are reflected somewhat in the varying patterns of lending in city and country banks. Two contrasts are especially apparent.

In country member banks, over half of the outstanding consumer instalment loans represent loans to finance purchases of cars. In city

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*This table in part estimated. Data on loans and discounts, U. S. government obligations and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve Bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 26, 1950	Aug. 30, 1950	Sept. 13, 1950	$ Change July 26-Aug. 30
ASSETS				
Comm., Ind., and Ag. Loans	$ 233	$ 232	$ 254	— 1
Real Estate Loans	88	91	92	+ 3
Loans on Securities	11	10	11	— 1
Other (largely consumer) Loans	170	161	162	— 9
Total Gross Loans & Discounts	$ 502	$ 494	$ 519	— 8
Less Reserves	7	7	7	....
Total Net Loans & Discounts	$ 495	$ 487	$ 512	— 8
U. S. Treasury Bills	5	19	30	+ 14
U. S. Treasury C. of I.'s	35	34	34	— 1
U. S. Treasury Notes	150	143	146	— 7
U. S. Government Bonds	437	417	399	— 20
Total U. S. Gov't Securities	$ 627	$ 613	$ 609	— 14
Other Investments	131	133	136	+ 2
Cash and Due from Banks	424	443	507	+ 19
Miscellaneous Assets	16	18	18	+ 2
Total Assets	$1,693	$1,694	$1,782	+ 1
LIABILITIES				
Due to Banks	$ 271	$ 272	$ 323	+ 1
Demand Deposits, Ind., Part., Corp.	814	839	882	+ 25
Demand Deposits, U. S. Gov't	51	65	64	+ 14
Other Demand Deposits	164	131	132	— 33
Total Demand Deposits	$1,300	$1,307	$1,401	+ 7
Time Deposits	250	248	247	— 2
Total Deposits	$1,550	$1,555	$1,648	+ 5
Borrowings	20	14	9	— 6
Miscellaneous Libailities	18	20	19	+ 2
Capital Funds	105	105	106	....
Total Liabilities & Capital	$1,693	$1,694	$1,782	+ 1

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	July 26, 1950	Aug. 30, 1950	$ Change July 26, 1950 Aug. 30, 1950	$ Change Aug. 31, 1949 Aug. 30, 1950
ASSETS				
Loans and Discounts	$1,007	$1,005	— 2	+ 103
U. S. Government Obligations	1,581	1,556	— 25	— 142
Other Securities	263	267	+ 4	+ 41
Cash and Due from Banks & Res	786	817	+ 31	— 44
Other Assets	32	33	+ 1	+ 2
Total Assets	$3,669	$3,678	+ 9	— 40
LIABILITIES AND CAPITAL				
Due to Banks	$ 307	$ 310	+ 3	— 60
Other Demand Deposits	2,173	2,191	+ 18	+ 6
Total Demand Deposits	$2,480	$2,501	+ 21	— 54
Time Deposits	922	914	— 8	— 17
Total Deposits	$3,402	$3,415	+ 13	— 71
Borrowings	21	15	— 6	+ 15
Other Liabilities	25	26	+ 1	+ 3
Capital Funds	221	222	+ 1	+ 13
Total Liabilities and Capital	$3,669	$3,678	+ 9	— 40

AGRICULTURE

Defense Expenditures Spur Farm Economy

IT IS only natural to associate the war in Korea with the change in the entire economic picture. Actually, sharp upward economic pressures had been in existence during most of early 1950.

In the first place, consumer incomes and expenditures were rising. It seems that consumers early in 1950 decided that prices would more likely rise than fall. They wanted to buy before prices went higher.

Secondly, people seemed to be fearful of another World war with its attendant restrictions, allocations, rationing, and price controls. This further encouraged buying.

The increased demand for goods by consumers was soon reflected in an increased demand for workers on production lines. Payrolls expanded. Bulging bank loans and further increases in outstanding consumer credit also added to the effective demand for goods and services through September 1950.

INCREASED BUSINESS TEMPO STRENGTHENS FARM MARKETS

The strength in the industrial sector of the economy was felt in the agricultural section of the economy even prior to the outbreak of hostilities. Farm prices in general had begun to firm up early in 1950. The first shot in Korea tended to crystallize people's fear of an impending war and set off a wave of food buying which lifted prices.

Actually, the rush to buy food and farm products in anticipation of higher prices seems illogical. There were, and still are, huge stocks of food on hand. Livestock numbers have been, and still are, increasing. Feed supplies per animal unit are near record levels.

Moreover, another huge crop may be harvested this year in this district and in the U.S. as a whole. It should be remembered also that the farmer has the capacity to produce even more next year, if acreage allotments are reduced or removed and weather is normal.

One thing is certain and that is that we face an abruptly changed situation for farmers from what it was prior to June 25.

Before the Korean "incident," it appeared to almost everyone that farmers faced a period of declining prices and a further pinch on net income.

Farm prices by early 1950 had declined almost one-fourth from the peak levels of late 1948. The costs of production had declined only a few percentage points in the same period. For example, prices of such things as gasoline, oil, rubber tires, tractors, and other machinery and equipment of all kinds went down very little, if any. As a result, the parity ratio—and hence farmers' net income—was being squeezed compared with the "lush" decade of the Forties.

The parity ratio (ratio of prices received by farmers to prices paid) averaged below 100 in the first half of 1950—the first time since 1941. Another thing that was beginning to darken the farm picture was mounting farm surpluses.

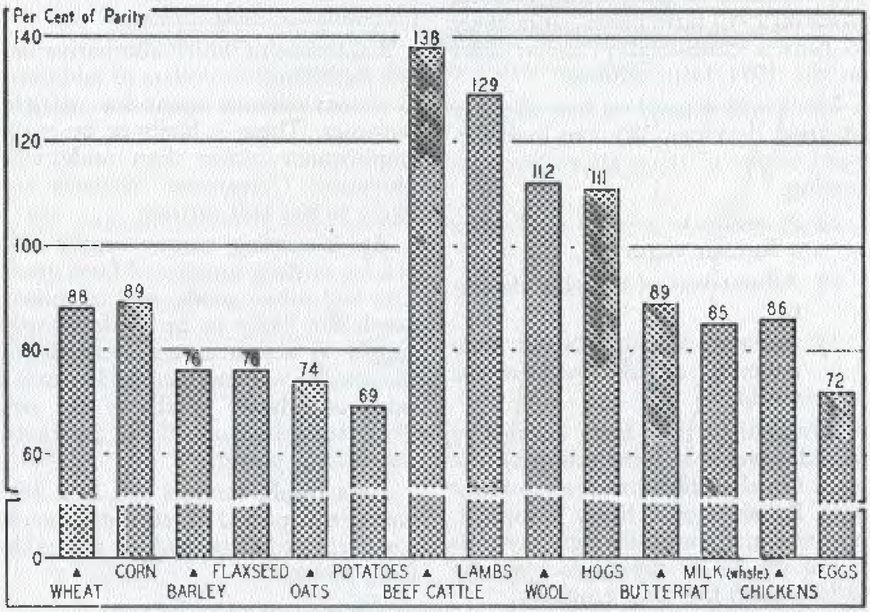
Government investments in the support of farm prices by mid-1950 approached $4 billion. Earlier it appeared that additional billions would be needed for the new crop coming onto the market, if farm prices were to be held at the support level.

- ***Improved consumer buying power puts strong support under farm markets.***
- ***Prices of farm products advanced about 9% since mid-1950. Costs of farming are moving up—but at slower pace.***
- ***Large food stocks and heavy production potential should prevent serious inflation of farm product prices.***
- ***Under defense act, ceilings cannot be applied to farm products until prices reach parity or prices prevailing May 24 to June 24, whichever is higher.***

FARM PRICES ADVANCE 9% IN TWO MONTHS

Then came the Korean war in late June of 1950, and with it the inevit-

AVERAGE PRICES OF CERTAIN FARM PRODUCTS AS A PERCENTAGE OF PARITY PRICES, AUGUST 15, 1950*



PRICES of most farm products are currently below potential price ceilings, with meat animals one exception.

*Source: USDA "Agricultural Prices," August 30, 1950.

able flurry in farm commodity prices. Hog prices shot up $6.00 to $8.00 per hundredweight in a matter of a few short weeks. Part of this was seasonal, but war hysteria and anticipation of increased demand was also a factor.

Cattle prices, which had remained fairly firm in the first half of 1950, developed further strength in July and August. Feeder cattle prices reached record high levels. Corn and wheat prices advanced. Grain prices in general were substantially higher in July and August compared with these same months of last year.

In general, prices received by farmers increased from an index number of 247 (1910-14=100) in mid-June to 267 in mid-August—an increase of 20 points. During this same two-month period, prices paid by farmers went up only three points. As a result, the parity ratio jumped from 97 to 103 during this 60-day period. The sharp increase in the parity ratio in the first two months of the conflict is no indication that further sharp increases are ahead. In the early period of a boom, costs normally lag behind a general price increase of farm products.

January-June Cash Farm Income*

(Thousands of Dollars)

State	1935-39 Average	1949	1950	1950 in Percent of 1949
Minnesota	$ 154,557	$ 557,703	$ 517,568	93%
North Dakota	37,444	219,036	137,938	63
South Dakota	45,700	249,387	197,175	79
Montana	26,447	125,382	93,843	75
Ninth District [1]	301,082	1,266,449	1,056,732	83
United States	3,416,392	11,662,501	10,614,249	91

*Data from "The Farm Income Situation," July 1950.

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

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	August 15 1937-41 Avg.	August 15 1949	August 15 1950	Parity Prices [1] United States August 15, 1950
Crops				
Wheat, bushel	$0.69	$ 1.85	$ 2.04	$ 2.23
Corn, bushel	.56	1.04	1.30	1.62
Oats, bushel	.24	.50	.62	.960
Potatoes, bushel	.63	1.58	1.44	1.76
Livestock and Livestock Products				
Hogs, 100 lbs.	8.04	18.39	21.06	19.40
Beef Cattle, 100 lbs.	7.44	19.29	23.92	17.50
Veal Calves, 100 lbs.	8.70	23.45	28.00	19.70
Lambs, 100 lbs.	7.94	20.65	24.09	19.30
Wool, lb.	.26	.47	.58	.519
Milk, wholesale, 100 lbs.	1.47	3.13	3.06	4.46
Butterfat, lb.	.29	.64	.64	.715
Chickens, live, lb.	.129	.215	.209	.294
Eggs, doz.	.171	.435	.307	.515

*Source: "Agricultural Prices," August 30, 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.

DEFENSE SPENDING NEGATES FARM RECESSION

The war, of course, has had and will continue to have a big indirect effect on 1950 farm prices. It is likely to have a considerably larger effect on the 1951 farm outlook.

Much will depend on how the war situation develops. We can look forward to one of these alternatives occurring:

1) A return to a "cold war" after a Korean victory.
2) All-out war of a global character.
3) An outbreak of "small incidents" in different parts of the world.

Obviously, the first alternative would upset the farm economy the least. On the other hand, all-out war with Russia would likely bring immediate and drastically rigid controls to all phases of the farm economy as well as to the total economy.

Regardless of which alternative actually develops in the period ahead, it appears that any serious farm recession is now out of the picture. As one writer recently put it, "the outlook for human welfare is black, but the immediate economic outlook is favorable for most farmers."

Regardless of which alternative develops, billions of dollars of additional money will be spent for defense purposes. There is likely to be over-employment rather than under-employment. Consumers' incomes are likely to rise still further.

An increasing money supply will bid for existing supplies of farm products and other goods, and consumer goods are likely to be in decreasing supply as resources are increasingly allocated to war production. Increased taxes and bond purchases are not likely to siphon off all the increased purchasing power.

As a result, farmers can look forward to a period of strong demand for their products, and of favorable farm income.

FURTHER SHARP PRICE INCREASES NOT EXPECTED

Regardless of which alternative develops, wild inflation of farm prices is no more imminent than drastic deflation. As mentioned above, current food supplies and potential food production are enormous. Also, strict price controls would likely become effective if a serious national emergency occurred suddenly. Congress has already passed the necessary laws for this.

Unless global war develops, it would seem that the situation for farmers may be summarized as follows during the rest of 1950:

1) Total food supplies will be at record or near-record proportions.
2) Reductions in farm exports may be about offset by increases in military purchases.
3) Costs of production (prices paid by farmers) may increase slowly.
4) Farm machinery may again be in "tight supply," but farmers generally are well stocked with essential machinery and tools.
5) Prices of many important farm products produced in the Ninth

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BUSINESS

Construction Highlights Economic Scene

IN A PERIOD which saw panic buying and the accompanying run on inventories subside, construction assumed major interest as it held at boom levels in August and the first part of September.

Even though credit in the construction field has tightened, the construction industry in this district is still operating at capacity. As may be observed on the accompanying chart, aggregate valuation of building permits issued by representative cities during August surpassed previous high months. In fact, it was over twice the amount issued in August 1949. If construction undertaken in August is carried through to completion, the industry will continue to operate near capacity levels during the remainder of the present construction season.

The chart on the valuation of building permits clearly depicts the large amount of construction undertaken this year in comparison with the volume in previous post-war years. Following the outbreak of the Korean war, the number of permits issued for industrial and commercial building increased. Apparently the heavy demands for civilian merchandise and the prospect of an enlarged defense program have caused management to expand the capacities of their concerns.

REAL ESTATE MORTGAGE CREDIT TIGHTENED

On July 19, the Veterans Administration raised the requirements for the guarantee or insurance of mortgage loans. A veteran purchasing a house now is required to make a 5% down payment. Appraisal value of a house is based on construction costs prevailing on July 1. Furthermore, a veteran to whom a VA loan has been granted for purchase or construction of a home cannot request an additional amount of credit.

At the same time the Federal Housing Administration tightened terms of insurance on mortgage loans. A down payment of 10% is required on Title I loans, which comprise repair and modernization loans. Appraisal value of houses, like those made by the Veterans Administration, is based on construction costs prevailing on July 1. Credit loaned on appraisal values was reduced by 5%. The maximum amount loaned on a single dwelling house has been reduced from $16,000 to $14,000.

Many commercial bankers have ceased granting construction loans. The final investment in new houses has become unpredictable on account of the sharp rise in building material prices. Moreover, shortages of building materials in many instances have greatly delayed completion of new houses.

These measures to tighten real estate credit eventually will become effective in reducing the number of housing starts. The Federal Housing Administration reported that the applications received during August were almost 40% below the number received during July.

PANIC BUYING SUBSIDES

In the past two issues of the Monthly Review, the summary of business conditions emphasized the effect of panic buying by the public on retail sales and on prices. The most recent trade statistics indicate that this type of buying now has subsided materially.

In the second and third weeks of September, department store sales in the four large cities of Duluth, Minneapolis, St. Paul and Superior were 8% and 9% respectively above the sales for the corresponding weeks in 1949. Although sales are still high in comparison with the level of sales prior to the Korean war, they have

▶ ***Building boom continues despite more stringent mortgage terms.***

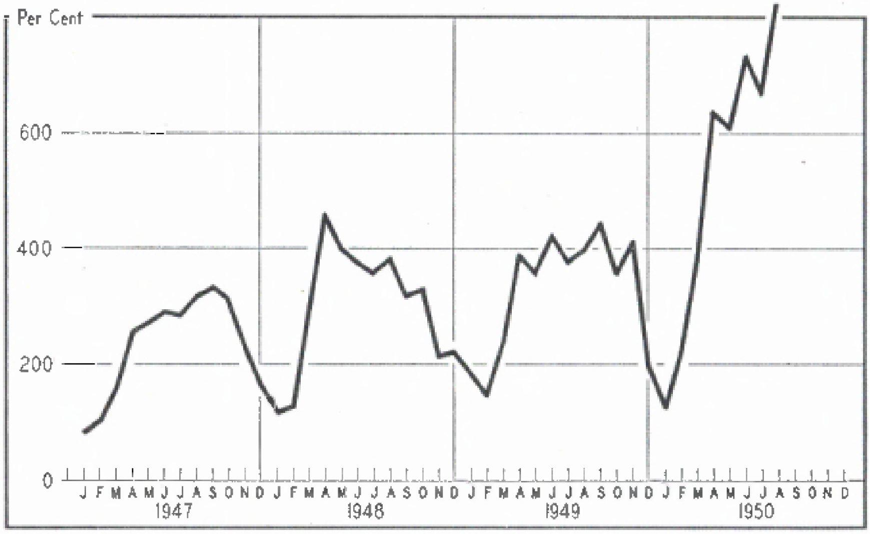
▶ ***Factories, operating near capacity, are turning out chiefly civilian goods.***

▶ ***Department store sales recede from peak but continue above the volume prior to Korean war.***

▶ ***Larger factory payrolls and higher farm incomes in coming months may offset effect of advance buying following outbreak of Korean war.***

VALUATION OF NINTH DISTRICT BUILDING PERMITS

1941 Average Monthly Valuation=100%



VALUATION of building permits issued clearly depicts the large amount of construction undertaken this year in comparison with the volume in previous postwar years.

fallen materially from the peak caused by panic buying. In the weeks ending July 22 and 29, sales in the four large cities were 41% and 42% respectively above sales for the corresponding weeks of last year.

In the district as a whole, department store sales did not reach such a high peak as in the four large cities. Whereas sales for July in these cities were 24% above a year ago, sales were up only 15% in the district, outside of these metropolitan centers.

Department store sales during August reflected the downward trend. For the district, August sales were 20% higher than a year ago, while the July sales were 26% higher. As was pointed out above, preliminary figures indicate that sales have returned to a more normal level during September.

PANIC BUYING DEPLETED INVENTORIES

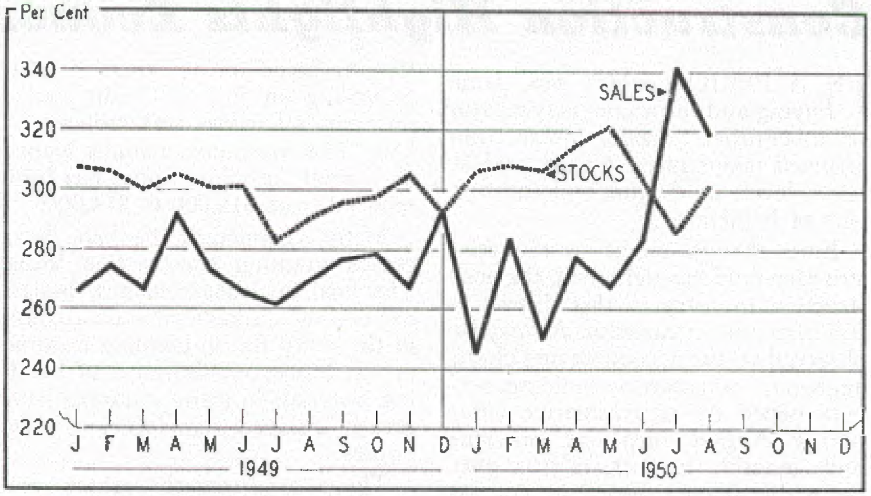
The trend in stocks held by department stores in relation to the trend in sales of such stores is illustrated on the accompanying chart. On this were plotted the amount of stocks held by department stores at the end of each month and the volume of sales for each month. Both series were converted into an index number and adjusted for the usual seasonal variation with the five pre-war years from 1935-39 equaling 100.

As may be observed on the chart, stocks held by department stores in this district were rising during the first half of this year. At the end of May, they were much higher than they had been at the end of any preceding month of this year or in 1949. Meanwhile, sales during four of the first six months of this year fell below the dollar volume of the corresponding months in 1949. The decline in sales was largely a reflection of the contraction in cash farm income. The panic buying which followed outbreak of the Korean war depleted stocks quickly, as is readily observed on the chart.

With the outbreak of the Korean war, many individuals feared a conversion of industry from the production of civilian goods to the production of war materials and supplies. The result obviously would be shortages of certain civilian items as was experienced during World War II. At present (Sept. 25), the volume of new orders held by manufacturers

NINTH DISTRICT DEPARTMENT STORE SALES AND STOCKS

Seasonally Adjusted; 1935-39=100



PANIC BUYING which followed outbreak of the Korean war boosted sales sharply and depleted stocks quickly.

is very large. For example, the amount of orders outstanding at department stores in this district at the end of July was three and one-third times the amount outstanding at the

Index of Department Store Sales by Cities

(Unadjusted 1935-39= 100)

	August[1]	Percent change[2] August	Percent change[2] Jan.-Aug.
MINNESOTA			
Duluth-Superior	311	+21	+ 3
Fairmont	299	+ 1	— 2
Mankato	275	+28	+ 1
Minneapolis	330	+26	+ 9
Rochester	223	+ 5	— 5
St. Cloud	284	+14	— 6
St. Paul[3]	269	+38	+ 8
Willmar	280	+ 5	+ 1
Winona	269	+10	+ 5
MONTANA			
Great Falls	320	— 6	— 8
NORTH DAKOTA			
Bismarck	313	+10	— 7
Grand Forks	299	+20	— 5
Minot	295	+11	— 3
Valley City	222	+24	— 8
SOUTH DAKOTA			
Aberdeen	384	+ 6	— 8
Rapid City	356	+ 9	— 1
Sioux Falls	358	+10	— 2
Yankton	262	+ 9	— 3
WISCONSIN			
LaCrosse	239	+17	+ 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.

[3] Reflects in part work stoppages in certain stores last year.

end of May. According to preliminary information available, the amount of outstanding orders still remains at this exceptionally high level.

However, barring the outbreak of a global conflict, civilian merchandise will continue to move into retail channels at a rapid rate. Industrial production is at a record level. Industry is turning out more than twice the quantity of finished products that was turned out prior to World War II. Furthermore, the output is still largely civilian merchandise. Thus far, the federal government has let only a limited number of war contracts.

When the Defense Production Act of 1950 was before Congress, Secretary of Defense Johnson presented to the congressmen estimates on quantities of basic metals required in the enlarged defense program. The quantity of steel was placed at four million tons, about 4% of the present annual capacity. Copper requirements were placed at 160,000 tons, about 7% of the present supply, and the quantity of aluminum needed was placed at 100,000 tons, 14% of the estimated current production.

Even though these percentages of the total output of basic metals to be used in the enlarged defense program should prove too low, it does not appear to involve a serious cutback in civilian goods.

CREDIT CONTROLS ESSENTIAL TO PREVENT INFLATION

To prevent a further rise in prices, it is necessary to hold back the consumer demand through credit restrictions. The demands made on industry by the enlarged defense program cannot be placed on top of the large consumer demands without a continued pressure on prices.

Regulation W, controlling consumer credit, was reinstituted effective September 18. Present terms of the regulation will tend to reduce the amount of consumer credit extended in the larger cities of this district. In these cities, prior to the re-enactment of Regulation W, some retailers were offering household appliances and house furnishings on no-down-payment terms. Under the regulation, a 15% minimum down payment is required on household appliances and a 10% minimum down payment is required on house furnishings. Furthermore, the maximum maturity on the credit extended was limited to 18 months.

In the smaller communities, down payments on instalment contracts prior to the re-enactment of the regulation were equal to or larger than the minimum down payments now required. Farmers not in the dairying regions for the most part are not affected by the regulation. They do not have regular monthly incomes; consequently, they generally borrow on single payment loans, which are not covered by Regulation W.

UNCERTAINTY IN BUSINESS SITUATION

In the panic buying, consumers purchased hard and soft goods which under normal circumstances they would not have purchased until later. For example, numerous families have purchased new refrigerators, washing machines, and other appliances which they had planned to purchase next year. Farmers have been purchasing corn planters, grain drills, and other equipment which they will not use until next spring. Thus the spurt in retail sales represents business borrowed from the future.

Sales at Ninth District Department Stores*

	% Aug. 1950 of Aug. 1949	% Jan.-Aug. 1950 of Jan.-Aug. 1949	Number of Stores [1] Showing Increase	Number of Stores [1] Showing Decrease
Total District	120	104	193	72
Mpls., St. Paul, Dul.-Sup.	126	108	26	3
Country Stores	110	98	167	69
Minnesota (City and Country)	125	107	69	21
Minnesota (Country)	110	98	47	18
Central	106	92	4	2
Northeastern	111	101	3	1
Red River Valley	109	92	3	1
South Central	119	95	8	4
Southeastern	113	100	10	2
Southwestern	105	99	19	8
Montana	105	99	15	5
Mountains	108	101	6	2
Plains	103	98	9	3
North Dakota	112	94	28	22
North Central	109	95	5	5
Northwestern	107	97	3	3
Red River Valley	114	95	12	7
Southeastern	115	89	7	6
Southwestern	(2)	(2)	....	....
Red River Valley-Minn. & N. D.	113	94	15	8
South Dakota	107	96	31	14
Southeastern	110	100	11	4
Other Eastern	104	93	18	7
Western	99	94	2	3
Wisconsin and Michigan	112	100	46	10
Northern Wisconsin	113	102	12	3
West Central Wisconsin	113	101	23	6
Upper Peninsula Michigan	108	98	11	1

* Percentages are based on dollar volume of sales.
[1] August 1950 compared with August 1949.
[2] Not shown, but included in totals. Insufficient number reporting.

Northwest Business Indexes

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

	Aug. '50	July '50	Aug. '49	Aug. '48
Bank Debits—93 Cities	383	372	340	350
Bank Debits—Farming Centers	474	475	413	436
Ninth District Department Store Sales	321	342	269	290
City Department Store Sales	356	362	281	304
Country Department Store Sales	285	321	257	276
Ninth District Department Store Stocks	302p	286	290	332
City Department Store Stocks	271	259	245	279
Country Department Store Stocks	327p	307	326	375
Country Lumber Sales	192p	204p	158	149
Miscellaneous Carloadings	137	139	127	129
Total Carloadings (excl. Misc.)	117	111	111	124
Farm Prices (Minn. unadj.)	243	249	226	289

p—Preliminary

On the other hand, factory employment has risen significantly in the past several months, with a resultant expansion in factory payrolls. Farm income in this district also has risen as reported in the agricultural section.

At present, it is difficult to estimate the new effect on retail sales of these two opposing forces; namely, the business borrowed from the future through panic buying and the rise in current incomes. END

CONSUMER LOANS ROSE SHARPLY IN PAST YEAR

Continued from Page 93

banks, retail automobile instalment paper accounts for less than one-fourth of total consumer instalment credit outstanding.

Dollar-wise automobile instalment loans in country member banks at mid-year 1950 were twice those in the 20 city banks. Amounting to $42.5 million in country member banks, such loans totaled only $21.4 million in the city banks.

On the other hand, home repair and modernization loans play a more important role in the city banks. Instalment loans for home repair totaled $37.5 million in the 20 city banks and accounted for 40% of their total consumer instalment lending. In country member banks, repair and modernization loans of $9.0 million accounted for only 11% of the total.

The other two types of loans included in the category of consumer instalment credit are retail instalment paper other than automobile and personal instalment cash loans.

On June 30, 1950, other retail instalment paper of the 20 city banks totaled $26.8 million, surpassing the country member bank total of $16.6 million. In contrast, personal instalment cash loans in city banks of $8.5 million fell short of the $13.2 million held in the country member banks.

INFLATION NECESSITATES CONSUMER CREDIT CONTROLS

On September 18, 1950, under authority of the Defense Production Act of 1950, the Board of Governors of the Federal Reserve System reinstituted Regulation W control of consumer instalment credit. This regulation stipulates minimum down payments and maximum time periods for instalment sale credit and instalment loans by banks and other lenders.

Control of instalment credit is an attempt to moderate the wide swings in consumer debt. Historical records show that consumer instalment credit increases rapidly in boom times, feeding inflationary pressures, and falls rapidly in depression, reinforcing deflationary tendencies.

It would be an important contribution to economic stability if more consumer credit purchases were made during periods of economic slack and less during boom periods.

The current inflation in this country calls for some tempering of the growth of consumer instalment debt. Control of this segment of the economy, however, is not a cure-all. It is merely one part of the over-all anti-inflationary program of the monetary authorities.

The record of the past two decades has shown that consumer instalment lending is an established part of the American economy. While over-extension of instalment credit may exert a disruptive influence, consumer credit wisely employed plays a vital role in the mass distribution of goods and in our high standard of living.

A good share of the consuming public today is following the advice given by Josh Billings, an American humorist, roughly a century ago. Billings said, "Always live within your income, even if you have to borrow to do it." END

AUGUST BANKING DEVELOPMENTS

LOANS in Ninth district city banks declined somewhat in August, while loans in country member banks continued to rise. In the first two weeks of September, however, city bank loans advanced sharply.

In August, bankers adjusted their government security portfolios in anticipation of the U.S. Treasury's September-October refunding operations.

Total loans in district member banks declined $2 million this month, the net result of an $8 million drop in city bank loans and an increase of $6 million in country member banks.

In city banks the decline was concentrated in "all other" loans. It reflected, however, a considerable drop in loans to banks. Consumer loans, which make up the bulk of the "all other" loan category, were practically unchanged during the month.

Business loans in city banks also showed little change in August. However, in the first two weeks of September these loans spurted upward, reaching a total of $254 million, the highest level so far this year.

Real estate loans in August and the first half of September continued their steadily rising trend.

Government security holdings of district member banks decreased $25 million, with both city and country banks sharing in the decline. Apparently most of the funds received from liquidating government securities were deposited in correspondent banks. Balances with other banks rose during August by an amount roughly equal to the decline in government security holdings.

In city banks, bond holdings dropped sharply. Notes also declined. Certificates remained about the same, while bill holdings were increased. Presumably these changes reflected bankers' adjustments of their portfolios to the September-October refunding operations of the Treasury. In August, the Treasury announced that it would offer 13-month 1¼% notes for certificates and bonds falling due September 15 and certificates maturing October 1.

Banks sold some of their holdings of the maturing issues. The Federal Reserve banks, in support of the Treasury's refunding offerings, were the major buyers of these securities. At the same time, bill yields and the return on other shorter-term issues were permitted to increase, making such securities more attractive to investors. The result was that banks increased their bill holdings.

Total demand deposits rose $7 million in city banks and $14 million in country member banks this month. Country bank deposits generally rise in August as farm marketings channel funds into farmers' accounts. The August increase in deposits this year, however, was considerably less than that of the past couple of years. Because of the late harvest, marketing of crops has proceeded more slowly this year than previously.

Time deposits dropped $8 million in August, marking the fourth consecutive monthly decline. Apparently the recent wave of consumer buying has been supported in part by withdrawals from savings accounts. END

DEFENSE EXPENDITURES SPUR FARM ECONOMY

Continued from Page 95

district may decline slightly on a seasonal basis as the full force of this year's big grain and pig crops hit the market. Farm prices are expected to again become stronger following the seasonal downturn.

6) Acreage controls may be reduced or perhaps eliminated. Farmers may even be called on again for maximum production in 1951.

POTENTIAL PRICE CONTROLS EASY ON FARMER

Congress has recently passed legislation (Defense Production Act of 1950) which will give wide discretionary economic controls to the federal government. Under this act, the President was given authority to control prices, and ration and allocate resources and goods, but it was not spelled out specifically just how or when the job should be done. The extent to which this new authority is used will depend on war and defense developments.

Farmers, however, were given special protection in the new legislation. It is provided that price ceilings on farm products cannot be set below parity or at less than actual prices which prevailed during the period May 24 to June 24, 1950, **whichever is higher.**

It is further suggested in the legislation that retail price ceilings on food should be set high enough to reflect back to the farmer the minimum ceilings, if and when they are imposed.

It appears, therefore, that the new legislation is not likely to be too severe on farmers because prices of most farm products, meat animals excepted, are currently well below parity. In fact, dairy products, poultry and eggs, and most crops produced in this area have been marketed in recent weeks at prices reflecting 70% to 90% of parity. Wheat and corn prices, our two principal crops, have held near 90% of parity only because of tremendous price support operations by the government. (See chart.)

Relatively low current farm prices in relation to non-farm prices as measured by the parity formula mean that price ceilings could not be imposed until farm prices forged ahead of other prices. It should be remembered also that parity prices — and hence price ceilings — become higher as prices rise on things farmers buy.

It would seem, therefore, that farmers have been given generous price protection under the new law so far as price ceilings are concerned. END

National Summary of Business Conditions

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

INDUSTRIAL output has shown a further marked increase in August and September above the record peacetime level reached in June. Business and consumer demands, however, have continued to be in excess of output and additional sharp rises have occurred in prices. Numerous industrial materials have risen by about as much since March as during the six-month period following the elimination of wartime price controls in 1946.

A very rapid expansion in private credit and some drawing on liquid assets have been important factors, along with increased incomes, in financing the expanded rate of buying. Consumer credit controls became effective on September 18 under authority of the Defense Production act, enacted September 8, which also authorized additional restrictions on real estate credit.

INDUSTRIAL PRODUCTION—The Board's index of industrial production showed a marked rise in August to 207 and a further rise of about 5 points is likely in September. Output in August increased substantially in all major groups of industries except primary metals, automobiles, and foods.

Nondurable manufactures rose to a new all-time high of 191% of the 1935-39 average, which was 6% above the level prevailing in the first half of this year. The sharpest increases in production were at textile mills, where cotton consumption rose one-sixth above the June rate, and at paper and paperboard mills. Rubber consumption continued at a record level in August, but was apparently reduced in September by a federal order establishing maximum limits for use in civilian output during the last four months of this year.

Production of durable goods showed a considerable increase in August, reflecting mainly marked increases in output in the furniture, machinery, and iron and steel fabricating industries. Activity at aircraft plants and shipyards also expanded rapidly. Production of primary metals, bricks, cement, and lumber continued to show little change from the advanced levels reached in the spring of the year. Demand for these materials—especially metals—has remained far in excess of market supplies. In mid-September the national production authority instituted regulations aimed at limiting inventory buying of most metals and various other industrial materials.

CONSTRUCTION — Contract awards for new construction expanded further in August to a new peak about one-tenth above the previous record reached in July and almost three-fourths higher than in August 1949. This expansion reflected large increases in the value of awards for most types of private construction, which more than offset a small decrease in awards for publicly financed construction. The number of housing units started in August was close to earlier record levels and two-fifths greater than in August 1949.

DISTRIBUTION—Buying at department stores in the four-week period ending September 9, although below the seasonally adjusted peak reached in July, was about one-tenth above year-ago levels. Sales of durable goods spurted again in mid-September, reflecting in part buying in anticipation of the instalment credit controls. August sales at all retail stores were only slightly less than in July, on a seasonally adjusted basis, and 17% greater than in August 1949.

COMMODITY PRICES — The rise in the average level of wholesale prices has continued through the first three weeks in September, reflecting further sharp increases in prices of commodities other than farm products and foods. These commodities, as a group, are about one-tenth higher than in March and prices of numerous materials are up 20% to 60%. Since mid-September, buying of these materials has been less urgent and prices have shown some decline.

Retail food prices have been maintained at the advanced levels reached in July and prices of a number of other consumer goods have been raised since that time.

BANK CREDIT—Since midyear, credit to private borrowers and state and local governments has expanded by over $2½ billion at banks in leading cities, which is an exceptionally large amount for this season of the year. From mid-August to mid-September, business loan expansion accelerated and loans to real estate owners and consumers continued to show large increases.

Following mid-August the Federal Reserve System purchased from banks and other investors a substantial volume of the bonds and certificates involved in the Treasury's current refunding program. Reserves supplied through these purchases were offset by System sales of other types of government securities, by cash redemptions of System-held maturing Treasury bills, and by currency and gold outflows. As a result, member bank reserve balances were unchanged over the five-week period, August 17-September 20. Because of the credit expansion, required reserves increased somewhat further, while excess reserves declined.

Following an increase in the Federal Reserve discount rate and a rise in short-term money rates in August, interest rates to bank customers increased somewhat.

SECURITY MARKETS — Common stock prices rose moderately during the first three weeks of September. Railroad shares continued to show pronounced strength while public utilities issues recovered slowly. Yields on long-term Treasury bonds and high-grade corporate obligations increased slightly.