MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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BUSINESS

Economy Feels Effect of Defense Program

IN RECENT WEEKS, the civilian economy began to feel the impact of the expanding defense program in two directions: less consumer merchandise on the supply side, and restrictions on use of consumer purchasing power on the demand side.

As early as last September, steps were taken to reduce consumer demand for durable merchandise by imposing restrictions on consumer and real estate credit.

Beginning with the fourth quarter of 1950, higher taxes were enacted to drain off more income and to hold down effective purchasing power. Further tax increases may follow.

The National Production Authority has curtailed uses of some industrial materials, making them increasingly scarce to producers of civilian items.

These measures were designed to reduce production of civilian merchandise on the one hand and demand for it on the other while the federal government makes way for an expanded defense program in an economy now operating at capacity levels.

BASIC MATERIALS IN SHORT SUPPLY

On the supply side, in recent weeks the expanding defense program has tightened its grip on the economy. A priority system has been created for defense orders. Manufacturers now may accept defense orders for different types of products ranging from 5% to 40% of their average monthly production during a specified period of months in 1950.

For example, producers of steel products may accept defense orders for specific forms of steel products ranging from 5% to 25% of their average monthly production from January 1, 1950, to August 31, 1950. Producers of aluminum may accept defense orders ranging from 15% on some items to 35% on others of their average monthly shipments of aluminum during the first eight months of 1950. However, shipments in any one month from a producer of primary or secondary aluminum are limited to a maximum of 25% of his scheduled production for that month.

The filling of defense orders is reducing at an increasing rate the supply of industrial materials for civilian uses. To insure a sufficient supply of materials for defense orders and to maintain an equitable distribution of the remaining supply through normal channels of distribution and to encourage suppliers to give due regard to the needs of new and small business concerns, the National Production Authority has issued orders limiting the use of some industrial materials in the fabrication of civilian products, mainly beginning in the first quarter of 1951.

In December, use of aluminum for non-defense purposes was generally limited to the average monthly quantity used during the first six months of 1950. In January 1951, civilian use will be cut back 20%; in February, 25%; and in March, 35%.

A similar order cuts the quantity of copper used in the production of civilian merchandise by 15% in January and February and by 20% in March. Civilian use of nickel has been cut 35% for the first quarter of 1951, while the quantity of zinc has been cut 20% commencing January 1, 1951.

On December 21, the National Production Authority issued an order to limit users of tin in January to the average monthly consumption in the first half of 1950. In February and March, they will be cut back 20%.

To conserve the supply of natural rubber for national defense needs, the

> *Basic metals are being conserved for production of war equipment.*
>
> *Civilian production has been cut back.*
>
> *Department stores were well stocked for the Christmas trade.*
>
> *Regulation W terms have limited expansion of consumer credit.*
>
> *Residential building continues high, due to earlier commitments.*

National Production Authority has ordered manufacturers of pneumatic tires to use a minimum of 35% synthetic rubber. The quantity of both natural and synthetic rubber for the production of civilian items was cut 18% for January and 20% for February.

The construction of buildings and other structures used for recreational, amusement, or entertainment purposes, whether public or private, has been prohibited to conserve critical metals and other materials needed for the defense program.

Most of the industrial raw materials had become scarce even before the production of defense materials drew heavily on the supply of such materials. This situation has led manufacturers in this district to bid heavily on defense contracts. With these contracts, they gained a priority position to secure essential materials to keep their plants in operation.

The scarcity of industrial materials is partly traced to government stock-piling. After war started in Korea, the government reduced its purchases of copper, but the monthly purchases still average about 15,000 tons. During most of 1950, the stock-piling of zinc has taken over 12,000 tons a month.

Curtailment of the quantities of raw materials used in the production of civilian merchandise will be felt more and more by consumers as 1951 progresses.

RETAILERS WELL STOCKED WITH MERCHANDISE

Through December retail trade was not affected by curtailment of industrial materials. Stores were well stocked with merchandise for the Christmas season. As Christmas shopping gained momentum in this district, stocks held by department stores declined less than usual. The adjusted index at the end of November was 347% of the 1935 to 1939 base period, while at the end of October it stood at 353%.

Even though retailers were well stocked with merchandise, they continued to place orders in anticipation of shortages next year. At the end of November, the volume of new orders outstanding at department stores was approximately equal to the volume outstanding a year ago.

Department store sales receded to the 1949 volume in the latter half of October, but in November it again moved ahead. In this district, November sales were 9% higher as compared with last year's receipts. In North Dakota and in South Dakota, where sales were down in October, November sales were up 17% and 4% respectively.

According to weekly figures on department store sales in the four large cities of this district, sales in the first half of December did not rise as fast in the corresponding period of last year. As a result, sales once more have fallen back to the 1949 dollar volume. During the four weeks ending December 16, sales were +2%.

Northwest Business Indexes

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

	Nov. '50	Oct. '50	Nov. '49	[illegible]
Bank Debits—93 Cities	375	374	301	[illegible]
Bank Debits—Farming Centers	450	467	382	[illegible]
Ninth District Department Store Sales	291p	292	267	[illegible]
City Department Store Sales	310	334	285	[illegible]
Country Department Store Sales	272p	249	250	[illegible]
Ninth District Department Store Stocks	345p	353	305	[illegible]
City Department Store Stocks	302	323	256	[illegible]
Country Department Store Stocks	380p	377	345	[illegible]
Country Lumber Sales	151p	147	161	[illegible]
Miscellaneous Carloadings	133	135	106	[illegible]
Total Carloadings (excl. Misc.)	121	121	73	[illegible]
Farm Prices (Minn. unadj.)	......	......	216	[illegible]

p—Preliminary.

Sales at Ninth District Department Stores*

	% Nov. 1950 of Nov. 1949	% Jan.-Nov. 1950[1] of Jan.-Nov. 1949	Number of Stores showing Increase	Number of Stores showing Decrease
Total District	109	104	186	[illegible]
Mpls., St. Paul, Dul.-Sup.	108	108	22	[illegible]
Country Stores	110	99	164	[illegible]
Minnesota (City and Country)	121	107	62	[illegible]
Minnesota (Country)	106	99	44	[illegible]
Central	101	96	5	[illegible]
Northeastern	123	106	4	[illegible]
Red River Valley	111	92	4	[illegible]
South Central	103	99	9	[illegible]
Southeastern	102	101	7	[illegible]
Southwestern	107	99	15	[illegible]
Montana	112	99	25	[illegible]
Mountains	114	102	7	[illegible]
Plains	112	97	18	[illegible]
North Dakota	117	95	37	[illegible]
North Central	130	96	9	[illegible]
Northwestern	123	96	5	[illegible]
Red River Valley	111	96	14	[illegible]
Southeastern	118	93	8	[illegible]
Southwestern	(3)	(3)	1	[illegible]
Red River Valley-Minn. & N. D.	111	95	18	[illegible]
South Dakota	104	98	29	[illegible]
Southeastern	103	100	7	[illegible]
Other Eastern	104	97	18	[illegible]
Western	112	99	4	[illegible]
Wisconsin and Michigan	108	101	29	[illegible]
Northern Wisconsin	98	100	7	[illegible]
West Central Wisconsin	106	101	12	[illegible]
Upper Peninsula Michigan	117	101	10	[illegible]

* Percentages are based on dollar volume of sales.

[1] Cumulative figures are a combination of data for all reporting stores for the period through October, plus sales of those stores for which November figures are available.

[2] November 1950 compared with November 1949.

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

CONSUMER CREDIT EXPANSION REDUCED BY REGULATION W

As industrial facilities are shifted to the production of defense equipment, consumer demand for civilian merchandise must be curtailed to prevent a sharp rise in prices. Regulation W terms now in effect have slowed down materially the expansion in consumer credit and, therefore, have become a factor in holding down the effective purchasing power of consumers. For this district during November, a downward trend was observed in all types of instalment loans.

Credit extended on automobiles comprises a large part of the instalment credit. In November, credit extended on automobiles declined significantly. In a representative sample of commercial banks in this district, the volume of such new loans was down 17% from the October volume.

As compared with a year ago, the volume of new loans extended was down approximately 2%, even though the sale of new automobiles was up significantly. The amount of automobile paper purchased was also down. A similar downward trend was observed among other financial institutions granting such credit.

Continued on Page

AGRICULTURE

Livestock Prices Swing with Inflation

SINCE the end of the war, livestock producers have felt prosperous in terms of money, but they have found that their inflated income has been partially dissipated by much higher costs of production.

To most people, inflation means a general rise in prices. This is another way of saying that the dollar has lost some of its purchasing power or that it takes more dollars to buy the same amount of goods and services now compared with what it did at some previous time such as 10 years ago, or even at mid-1950.

Inflation, then, means both rising prices and a decline in the dollar's buying power. Stockmen have found this to be true.

What is the cause of inflation? Why is it that the price level has more than doubled during the past 10 years and the purchasing power of the dollar almost halved?

Why do consumers pay around a dollar a pound for good sirloin steak now compared with 30c to 40c a pound in 1940? Why have haircuts gone up from 25c to $1.00 and more, gas from 18c to 30c a gallon, and Chevrolet cars from around $900 to $1,500 or higher?

These things don't just happen. There is a reason for the phenomena, and it should be understood by farmers and stockmen if they are to live most successfully with inflation.

WHAT CAUSES INFLATION?

Inflation usually occurs when the rate of increase in people's incomes or their spending power is greater than that of the supply of goods available.

As will be recalled, during the World War II period almost everybody, including many housewives, had jobs at good pay. But many were engaged in war work producing guns, tanks, bombs, and airplanes. Fewer cars, radios, houses, etc. were produced than before the war. So, there was much more money available while civilian goods were relatively scarce—the result: higher prices.

Violent inflation has always developed where countries have followed a policy of large and long-continued accumulative deficits—i. e., spending more than is taken in by taxes. During wars, particularly, government deficits usually get bigger and bigger.

When, as was the case in World War II, these deficits are financed partially by the banking system, the money supply increases. This greater amount of money competes for relatively fewer civilian goods and this exerts pressure on the price level.

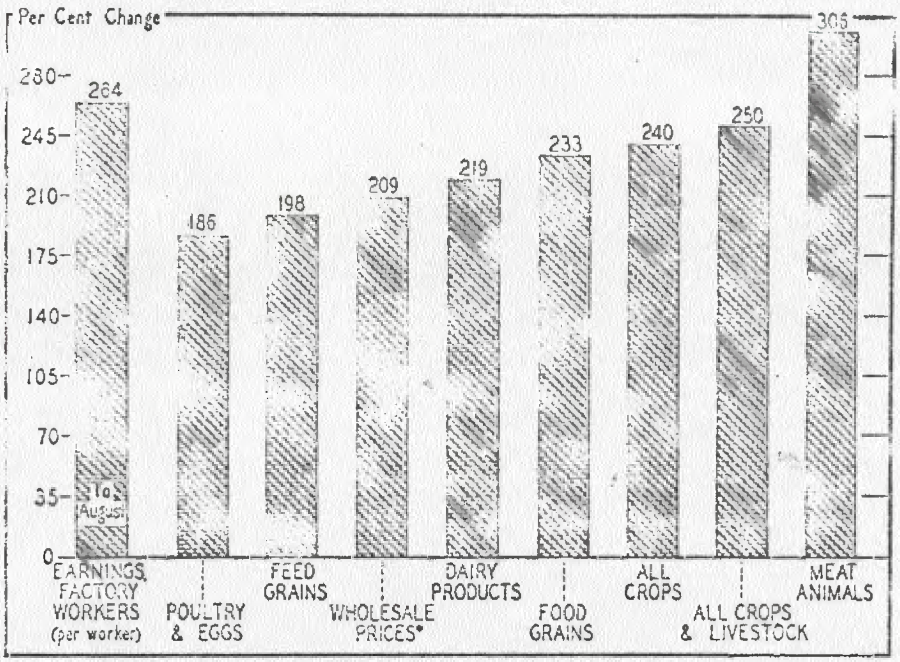
Now that we are again facing new deficit financing and cuts in the volume of consumer goods, we are witnessing a revival of the inflationary conditions; that is, a rapid rate of growth in the money supply while the available supply of consumer goods and services increases little, if any.

- *Farmers are in good position to meet serious inflationary threats.*
- *Inflation is measured by rising prices and declining purchasing power of the dollar.*
- *Price controls are only partly effective against inflation when people's buying power continues to increase.*
- *Meat producers have experienced larger price increases than most groups.*

STOCKMEN FARE RELATIVELY WELL DURING INFLATION

Livestock producers do especially well during the rising period of the inflationary spiral. At least, they did

PER CENT INCREASE IN COMMODITY GROUP PRICES AND FACTORY WAGE RATES, 1935-39 AVERAGE TO OCTOBER, 1950



PRICES RECEIVED by farmers are now more than 2½ times the prewar 1935-39 average. Weekly earnings of factory workers are set up approximately the same. This indicates the close correlation of farm prices and income to wages of industrial workers.

Source: USDA "The Agricultural Situation," November 1950.

during most of the World War II period, when prices of livestock advanced faster than did costs of operation. This was a pleasant feeling at the time, but eventually costs came up, too, and stockmen found their income dollars had also lost purchasing power.

If inflation means that dollars will buy less and less, then obviously it hurts everybody. Savings, bonds, pensions, and life insurance funds all lose buying value. The farmers and stockmen are in better positions, however, to defend themselves against the dangers of future inflation.

Their incomes are more flexible. There are more ways for them to keep their money working. Investments made in livestock tend to return more dollars, which for a time at least may equal if not exceed costs. Unfortunately, people with fixed incomes do not share such an advantage.

The stockman is fortunate in another respect—his money is invested in such things as land, livestock, machinery and equipment, and these values go up during inflation. Land has long been considered one of the best hedges against serious, long-drawn-out inflation. Land values, of course, tend to follow the trend of farm prices and farm income, which in turn are stimulated by the strong demand situation brought about by inflationary forces.

SITUATION SUGGESTS MORE INFLATION AHEAD

The future demand for meat and for many other farm products depends largely on the number of people who have jobs; how much spendable income they have after taxes; and upon the availability of certain durable goods.

At present people are nearly fully employed at the highest wages in history. More and more overtime work is being reported. Productive capacity of the country is nearly in full use. Wholesale prices recently reached a new high. The gross national income is running close to $300 billion a year, compared with only about $81 billion in 1940. The national income during 1951 is expected to soar into new high levels.

The economy is, therefore, chugging along with a full load. The new multi-billion dollar expenditures for

January-October Cash Farm Income Ninth District[1]
(Thousands of Dollars)

State	1935-39 Average	1949	1950	1950 in Per Cent of 1949
Minnesota	$ 281,466	$ 979,355	$ 936,906	96%
North Dakota	92,795	465,283	392,124	84
South Dakota	89,304	466,169	415,590	89
Montana	73,817	308,394	311,818	101
Ninth District[2]	584,578	2,413,195	2,247,544	93
United States	6,68[illegible],437	22,770,186	21,987,899	97

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

Average Prices Received by Ninth District Farmers*

Commodity and Unit	Nov. 15 1937-41 Avg.	Nov. 15 1949	Nov. 15 1950	Parity Price United States Nov. 15, 1950[1]
Crops				
Wheat, bushel	$0.70	$ 1.95	$ 1.90	$ 2.29
Corn, bushel	.42	.94	1.27	1.66
Oats, bushel	.26	.59	.73	.978
Potatoes, bushel	.44	1.22	.82	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.15	15.15	17.27	19.80
Beef Cattle, 100 lbs.	7.22	18.90	25.07	17.80
Veal Calves, 100 lbs.	8.69	23.17	28.77	20.00
Lambs, 100 lbs.	7.99	21.18	26.33	19.70
Wool, lb.	.27	.46	.71	.529
Milk, wholesale, 100 lbs.	1.73	3.37	3.38	4.55
Butterfat, lb.	.33	.66	.67	.729
Chickens, live, lb.	.119	.186	.179	.300
Eggs, doz.	.253	.405	.385	.529

*Data compiled from "Agricultural Prices"—dated November 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.

the defense program will soon add more steam (dollars) but there is not likely to be an offsetting increase in supplies of civilian goods. The excess steam (purchasing power) will therefore escape through the safety valve in the form of price increases.

Clamping on price controls may temporarily hold prices down, but unless the increased purchasing power generated by defense expenditures is siphoned off by taxation, savings, or some other way, it will eventually find expression in the price level much as it did after 1945 when price ceilings were removed.

STOCKMEN APPEAR TO BE IN FAVORED POSITION

If inflation is defined as rising prices, then producers of meat animals, particularly beef cattle producers, have enjoyed the largest price increase of the major farm groups with the possible exception of cotton producers. Furthermore, meat prices have advanced substantially more than wholesale prices of all commodities during the last 10 to 15 years.

Beef cattle prices averaged $6.[illegible] per cwt. during the 1935-39 period. On October 15, 1950, the average was $24.30, an increase of over 3½ times. This doesn't necessarily mean that the livestock producer has had it good all during this period. In some years, prices were better than in others. Drouths, high feed prices, and blizzards all entered into the economic picture for individual cattlemen.

Since prewar (1935-39) averages and up to October 15, 1950, poultry and egg prices have not quite doubled; dairy product prices have advanced nearly 2¼ times; food grains gained a little more than 2¼ times; feed grains and hay prices have almost doubled; and all crop and livestock prices are up approximately 2½ times. (See chart.)

Further proof that inflation has dealt kindly with farmers as a group and especially with livestock producers is indicated by a comparison of prices received by farmers with prices paid and with the wholesale prices of all commodities. Farm prices

Continued on Page 1[illegible]

BANKING

Tempo of Bank Deposit Turnover Heightens

NOT ONLY has the volume of bank deposits increased in recent months, but a more rapid turnover or velocity of deposits also has occurred. This greater activity in deposit accounts reflects high levels of business activity induced by the eagerness of consumers, investors, and the government to spend freely on goods and services.

Greater turnover of deposits is equivalent to an increase in the money supply. When the $173 billion of deposits and currency now held by the public turns over at a faster rate—say 10% faster—the effect may be about the same as that of an increase of $17.3 billion in the money supply. A speed-up in the use of money is as significant as a more readily recognized increase in the volume of money. This factor can be a highly inflationary one, whether accompanied or unaccompanied by an increase in the money supply.

That bank deposit activity has risen is revealed by the accompanying chart showing the rate of turnover at New York City banks, banks outside New York City, and Ninth district banks. Although a part of the rise in deposit activity in recent weeks is seasonal in character, the trend is upward. Bankers will recognize this phenomenon in the increased tempo of bank debits and cash-letter items.

December Banking Developments

Deposits, other than interbank, of Ninth district member banks have increased in all but one month (September) since May of this year. In November the increase was slight in city banks and substantial ($31 million) at all member banks. The rise in deposit accounts of country banks doubtless reflected large livestock and grain marketings.

Time deposits have moved in the opposite direction—having fallen in every month since April. In November they fell $4 million in the 20 weekly reporting banks and $3 million in all Ninth district member banks.

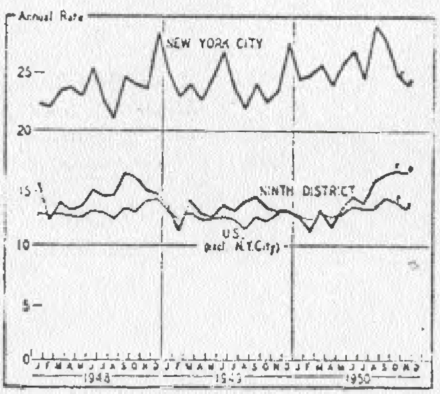
Total loans continued to rise in November, although the rate of increase has declined since September, when the upturn was especially great. As a result of a special survey on the purposes for which bank credit has been advanced in recent months, it is known that most of the increase in loans made by Ninth district member banks has been occasioned by the handling of livestock and grains, and the need for working capital in food processing plants, etc.

Country banks reported an unusually great demand for loans to farmers for purchasing feeder cattle. The more-than-normal increase in feeder-cattle loans is attributable in part to the abundant quantity of low-quality, high-moisture-content corn which could be salvaged in many cases only by feeding it to livestock.

In a letter addressed to member banks, Thomas B. McCabe, chairman of the Board of Governors, urged banks to hold loan extensions to "rock-bottom" needs and also requested them to give him their estimates of the future demand for bank loans. Ninth district bankers who replied to this letter were almost unanimous in their opinion that the large demand for credit in recent months was largely seasonal in character, that the new loans accounting for the increase in total loans were made for productive purposes, and that the demand would taper off in the next three months.

TURNOVER OF DEPOSITS

Based on Total Deposits Except Interbank



AN UNUSUAL RISE *in the turnover or velocity of deposits of banks outside New York City has occurred since last winter. Inflationary potentialities inherent in this factor need to be watched.*

Source: New York and United States figures are from the Federal Reserve Bulletin. Ninth district figures are based on reports from weekly reporting banks. Data for October and November are partially estimated.

▷ Increase in deposit turnover is as significant as an increase in the money supply.

▷ Loans of banks, purportedly made for productive purposes, continued to rise in November.

▷ New Treasury note issue represents step toward lengthening maturities of government obligations.

By the middle of December, however, bank loans had not turned downward. In New York City, business loans of banks reached an all-time high in mid-December, flouting a normal seasonal decline. In the Ninth district, loans of member banks for all purposes have increased almost 25% since December 1949.

U. S. government securities held by all Ninth district member banks in November showed no change. City banks, however, reduced their government securities portfolios by $5 million, while country banks added to their holdings. This is in sharp contrast to the substantial reductions in such assets in the months February through September of this year, when banks reduced their portfolios, as reported in previous issues of the Monthly Review.

A new development in the government security market was the issuance by the Treasury of a five-year note with a 1¾% coupon. This new security was issued to refund $5,373 million of 1⅛% certificates maturing on January 1, 1951 and $2,635 million of 1½% Treasury bonds maturing on December 15, 1950.

Generally speaking, nonbank investors showed a preference for shorter-term Treasury notes maturing in 1951 and were sellers of rights to the new longer-term issue. Nationally, it has been estimated that about 86% of the maturing security was rolled over.

An important result of this refunding operation has been to reduce somewhat the large amount of government securities due or callable in less than one year.

The Federal Reserve System purchased a substantial amount of the maturing issues from nonbank investors and sold short-term securities from its portfolios.

Thus a step has been taken to lengthen maturities of the short-term Treasury obligations and, coincident with generally higher market yields on government securities, the coupon rate on Treasury notes has been advanced above the rate on the longest-term issues of those securities outstanding prior to the new issue.

END

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

	Oct. 25, 1950	Nov. 29, 1950	Dec. 13, 1950	$ Change Oct. 25-Nov. 29
ASSETS				
Comm., Ind., and Ag. Loans	$ 267	$ 274	$ 272	+ 7
Real Estate Loans	96	100	101	+ 4
Loans on Securities	11	12	12	+ 1
Other (largely consumer) Loans	165	166	167	+ 1
Total Gross Loans & Discounts	$ 539	$ 552	$ 552	+ 13
Less Reserves	7	7	7	....
Total Net Loans & Discounts	$ 532	$ 545	$ 545	+ 13
U. S. Treasury Bills	25	19	20	— 6
U. S. Treasury C. of I.'s	30	28	21	— 2
U. S. Treasury Notes	146	148	158	+ 2
U. S. Government Bonds	380	381	376	+ 1
Total U. S. Gov't Securities	$ 581	$ 576	$ 575	— 5
Other Investments	141	142	140	+ 1
Cash and Due from Banks	452	453	505	+ 1
Miscellaneous Assets	17	18	17	+ 1
Total Assets	$1,723	$1,734	$1,782	+ 11
LIABILITIES				
Due to Banks	$ 302	$ 313	$ 331	+ 11
Demand Deposits, Ind., Part., Corp.	866	880	928	+ 14
Demand Deposits, U. S. Gov't	48	39	44	— 9
Other Demand Deposits	119	115	110	— 4
Total Demand Deposits	$1,335	$1,347	$1,413	+ 12
Time Deposits	245	241	241	— 4
Total Deposits	$1,580	$1,588	$1,654	+ 8
Borrowings	16	18	1	+ 2
Miscellaneous Liabilities	20	21	20	+ 1
Capital Funds	107	107	107	....
Total Liabilities and Capital	$1,723	$1,734	$1,782	+ 11

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

	Oct. 25, 1950	Nov. 29, 1950	$ Change Oct. 25, 1950 Nov. 29, 1950	$ Change Nov. 30, 19[illegible] Nov. 29, 19[illegible]
ASSETS				
Loans and Discounts	$1,083	$1,105	+ 22	+217
U. S. Government Obligations	1,512	1,512	....	—220
Other Securities	281	282	+ 1	+ 42
Cash and Due from Banks & Res.	841	858	+ 17	+ 21
Other Assets	33	34	+ 1	+ 2
Total Assets	$3,750	$3,791	+ 41	+ 62
LIABILITIES AND CAPITAL				
Due to Banks	$ 348	$ 361	+ 13	+ 19
Other Demand Deposits	2,228	2,260	+ 32	+ 44
Total Demand Deposits	$2,576	$2,621	+ 45	+ 63
Time Deposits	908	901	— 7	— 27
Total Deposits	$3,484	$3,522	+ 38	+ 36
Borrowings	16	18	+ 2	+ 9
Other Liabilities	27	28	+ 1	+ 5
Capital Funds	223	223	....	+ 12
Total Liabilities and Capital	$3,750	$3,791	+ 41	+ 62

*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.

:ONOMY FE..S EFFECT :F DEFENSE PROGRAM

Continued from P..ge 123

..spite of the decline in the ..t of instalment credit granted ..mobiles, the sale of new auto-..s has continued high in com-..n with 1949 sales. The number ..w automobiles registered during ..ber in Minneapolis and St. ..was 29% higher. In the first ..f December, the number of ..automobiles registered in this ..politan area was 12% higher.

..xpectation of a shortage of auto-..iles in 1951 no doubt has had a ..ing on the high level of sales. ..e the present terms of Regulation ..became effective October 16, ap-..ntly individuals have had suffi-..t incomes and enough savings to ..t these terms.

Activity in the used car market has ..ined high. In Minnesota during ..vember 1950, 51% more used cars ..re transferred from one owner to ..ther than in November 1949. ..wever, the terms of Regulation W ..doubt were an important factor in ..decline of used car prices from the ..k reached during the summer ..nths.

..FECT OF REGULATION X STILL INDEFINITE

The present terms of Regulation X ..d the larger down payments re-..red for FHA insurance on mort-..ges and VA guarantee or insurance ..mortgages granted to G.I.s have ..ghtened mortgage credit. However, it is too early to appraise the effect of the more conservative financing terms on the building industry.

In the nation, the rate of housing starts in October fell below the 1949 figure, but nevertheless it remains high. The number of starts in October 1949 was the largest number recorded for any October on record.

In Minneapolis, since last July the number of permits issued for dwellings has fallen below the number issued in the same months of 1949. In October, the number of permits was down as much as 35%. The decrease in number of permits issued for dwellings, however, is not an accurate measure of the contraction of activity in the building industry as a whole. Buildings under construction must be taken into consideration. In July 1950, over twice as many permits were issued for dwellings as in the corresponding month of 1949. Finishing work is still being done on many of these houses.

In St. Paul, the number of building permits issued has followed a pattern similar to that observed for Minneapolis. In July 1950, the number of permits issued was 3⅓ times the number issued in July 1949. Since that time, the number of permits issued has declined sharply, but it has remained above those issued last year. For example, in October the number of permits issued was 5% higher, while in November it was 20% higher.

In suburbs of the Twin Cities, the number of permits issued for dwellings has followed the same pattern. Number o. permits issued in July 1950 was exceptionally high. In subsequent months, the number of permits issued in some suburbs fell below the corresponding 1949 figure, while in others it remained above.

From this information, it is evident that the building industry is still operating at a high level for the current season of the year. END

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	Nov.[1]	Per Cent Change[2] Nov.	Jan.-Nov.
MINNESOTA			
Duluth-Superior	336	+15	+6
Fairmont	324	+12	−2
Mankato	369	+7	+1
Minneapolis	393	+9	+8
Rochester	255	−5	−5
St. Cloud	331	−9	−4
St. Paul	301	+4	+7
Willmar	337	+10	+1
Winona	327	+9	+4
MONTANA			
Great Falls	375	+13	−4
NORTH DAKOTA			
Bismarck	383	+13	−7
Grand Forks	413	+8	−6
Minot	415	+21	−4
Valley City	278	+8	−6
SOUTH DAKOTA			
Aberdeen	439	+6	−5
Rapid City	395	+2	−1
Sioux Falls	368	−1	−3
Yankton	287	+7	−3
WISCONSIN			
La Crosse	307	+8	+3

[1] Based on daily average sales.

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

LIVESTOCK PRICES SWING WITH INFLATION

Continued from Page 125

..ce before World War II have in-..creased 2½ times, overall, while ..rices paid and wholesale prices of ..ll commodities have doubled.

GOOD OUTLOOK FOR LIVESTOCK PRODUCERS

What's ahead for stockmen in ..951? Will costs catch up with prices ..d put the squeeze on cattlemen's ..ofits? Will prospective price ceil-..gs mean a rollback of prices and less ..favorable feeding ratios?

The future is, of course, uncertain but some facts bearing on these questions are available.

The 1951 picture for the livestock producer appears optimistic at this time in view of the anticipated further increase in demand for meat. More people working at higher wages while the availability of some durable goods are curtailed adds up to a strong demand for meat during 1951.

Moreover, the cattle population has hardly kept up with the growth in human population in recent years. The tremendous number of children born since 1940, who are now of meat-eating ages, are increasing rapidly month by month.

Barring price ceilings, meat animal prices during 1951 would most likely continue favorable in relation to costs, and profits would be liberal.

But price ceilings are expected. They may have been applied by the time this is read. Theoretically, prices of beef cattle could be rolled back around $1.50 per cwt. to last June prices. Or, possibly, prices may be pegged at some current level. On the other hand, most feed grain prices are currently 10 to 30 per cent below the level at which minimum ceilings can be applied under existing legislation.

Feeding ratios may therefore become less favorable unless price adjustments are made at the time price ceilings are set. On the other hand, considering livestock numbers, there is practically a record per head supply of roughage as well as feed grains. This situation coupled with maximum effort toward feed-grain production next summer may help maintain favorable feeding ratios even though price ceilings are set early in 1951.

The significant factors we don't know at this time are: (1) what crops will look like in 1951, and what world political and military developments will take place that influence government economic controls and actions.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DECEMBER 30, 1950

MOST measures of business activity were maintained at record levels during November and December. Further marked increases occurred in prices, wages, and bank credit. Additional federal measures, including the declaration of a national emergency, were undertaken to stabilize the economy and expedite the defense production program.

INDUSTRIAL PRODUCTION—The Board's index of industrial production was 215% of the 1935-39 average in November as compared with the revised October figure of 217. This small decline reflected mainly the temporary effects of severe weather on coal and steel output at the end of the month, and some curtailment of activity in the automobile industry accompanying model changeovers. In December, the index is expected to remain at the November level.

Steel production declined 5% in November, while output in most other durable goods industries increased further. Activity in machinery industries reached a rate of 307% of the 1935-39 average as compared with 265% at mid-year and 229% at the beginning of 1950.

The November rise in machinery reflected further gains in output of producers equipment; output of radios, television sets, and household appliances levelled off after advancing sharply in earlier months. Activity in the aircraft, shipbuilding, and railroad equipment industries was also far above the levels prevailing earlier in the year.

Output in most nondurable goods industries continued at the exceptionally high level of the preceding three months. Production of chemicals continued to rise. As a result of federal orders to curtail consumption of rubber for civilian purposes, activity in the rubber products industry was reduced from the record October rate.

COMMODITY PRICES—Wholesale prices rose further in December, with agricultural commodities showing the largest gains. Grain prices reached new highs for the year and prices of livestock and products, which had declined seasonally in September and October, were advancing again.

Early in December, steel prices were raised an average 6% and increases were announced for a variety of goods, including automobiles, machinery, petroleum products, and wool carpets. In some cases these increases were cancelled when the economic stabilization agency announced a system of pricing standards and requested that in general prices not be advanced beyond the levels prevailing on December 1.

The consumers price index advanced .5% in November as prices of apparel and housefurnishings rose further.

EMPLOYMENT—Employment in non-agricultural establishments, allowing for seasonal changes, was maintained in November at the record October level of 45.4 million persons. Manufacturing employment levelled off after expanding by about 1.6 million persons in the preceding nine months. Federal government defense employment continued to increase substantially.

Wage rates have continued to advance. In mid-November average hourly earnings of factory workers were $1.51. This was 7% above the level at the beginning of the year.

CONSTRUCTION — Value of contracts awarded in November for most types of private construction showed only small seasonal declines. Awards for manufacturing buildings rose contra-seasonally and their total value this year will probably be almost double the 1949 volume. The number of housing units started continued to decline from earlier high levels and in November amounted to 85,000 as compared with 103,000 in October. Starts in November of this year were 11,000 less than in November 1949.

DISTRIBUTION — Department store sales showed somewhat more than their usual sharp expansion in the first three weeks of December, reflecting in part a marked pickup in sales of household durable goods which had been declining in October and November from earlier record levels. Total department store sales in the first half of December were about 5% larger than in the corresponding period last year. Value of department store inventories at the end of November was about one-fifth greater than for November 1949.

BANK CREDIT—Loans at commercial banks increased substantially further during November and the first three weeks of December business loans continued to show increases greater than might be expected seasonally. The rate of growth, however, for real estate and consumer loans continued to slacken somewhat. Since June, total loans and corporate and municipal security investments of banks in leading cities have increased by over $[illegible] billion. This is the largest expansion in these loans and investments on record.

A strong seasonal outflow of currency into circulation, which totaled about three-quarters of a billion dollars, reduced bank reserves during November and the first three weeks of December. Continued reductions in monetary gold stock also absorbed reserves. These changes were offset by increases over the same period in Federal Reserve System holdings of government securities of about $1 billion.