FEDERAL RESERVE BANK OF MINNEAPOLIS

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AGRICULTURE

Ninth District Produces Bulk of U. S. Flax

- ***New flax varieties, plus efficient weed and insect controls, ensure better yields per acre.***
- ***High cash returns per acre boost flax popularity with district's farmers.***
- ***U. S. is now self-sufficient in flaxseed production.***
- ***Flax price support program is seen as beneficial to U. S. economy in its stabilizing influence.***

MOST of the nation's flax—78% to 90% of total domestic flax production in recent years—is grown by farmers in the Ninth Federal Reserve district.*

Flax is popular in this area because weather and soil conditions are ideally suited to its production, but there are additional factors which have made it an increasingly popular crop enterprise in the states of Minnesota, North and South Dakota, and Montana in recent years. These are:

1—Agricultural research has found an answer to wilt and other prevalent flax disease problems in the form of new hardy and disease-resistant varieties.

2—New insecticides have been developed which are effective in combating flax's old arch enemy—the grasshopper. Grasshoppers are one of the few insects that attack flax.

3—Contrary to opinion prevailing only a few years ago, it has now been definitely proved that flax is no more soil-depleting than any other crop.

4—Prices of flaxseed have been very favorable in most postwar years.

With the stimulus of relatively high support prices in 1947 and 1948 of $6.00 per bushel, cash returns per acre from flax production in these years were higher than for any other grain crop.

Even without the help of a $6.00 support price since 1948, flax has continued to yield an unusually high cash return per acre in relation to other small grains. In fact, it has been the leading crop in cash returns per acre in North Dakota for several years, and it has ranked at or near the top in the other states of the district in the postwar period. (See table.)

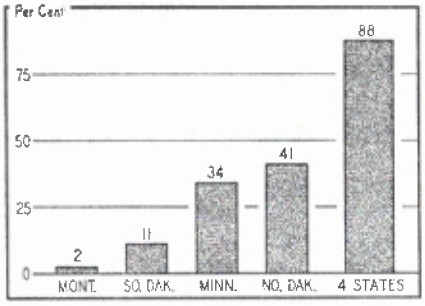
Flax Grown for Its Oil

Flaxseed is grown almost exclusively as a cash crop. The two chief products of flaxseed are linseed oil and linseed meal. The latter, of course, is a residue from the oil extraction process. It is used as a high protein livestock feed. Flaxseed yields from 30% to 40% of its weight in oil or about 2½ gallons to a bushel of 56 pounds of seed.

Linseed oil is used in the manufacture of paints and varnishes, linoleum, oilcloth, imitation leather goods, and many other goods.

FLAXSEED PRODUCTION

In Ninth District States in Per Cent of Total U. S. Production for the 1950 Crop Production Year



MORE THAN 39 million bushels of flaxseed were produced in the U. S. during 1950. Of this amount, 34.5 million bushels, or 88%, were produced in the four full Ninth district states.

Source: USDA "Crop Production," 1950.

During World War II and immediately following it, the U. S. found itself seriously short of linseed oil to meet the needs of industry.

Flaxseed Prices Supported Since 1942

In earlier years, part of the domestic linseed oil requirements were met by imports from Argentina, the only major foreign source of supply. Immediately after World War II, however, Argentine flaxseed was practically unavailable and prices of foreign linseed oil were almost prohibitive.

In view of the importance of linseed oil in the U. S. postwar economy, it was decided to encourage further the domestic production of flaxseed by means of a relatively high price support level in the immediate postwar period. The highest price support level was $6.00 per bushel in 1947 and 1948.

Starting with the 1942 crop, the government through the Commodity Credit Corporation entered into contracts with flaxseed processors. Under this contract arrangement the processor agreed to buy flaxseed at

* Most of remaining production comes from California, Texas, and Iowa.

not less than a stated price. The CCC continued to make these contracts each year throughout the World War II period, but following the war in 1946 no contract was made, although the CCC thereafter guaranteed farmers a minimum price for their flaxseed. (See table.)

Contracts were again made for the 1947 and 1948 crop years, but none since. The 1949 and 1950 crops have been supported entirely by means of loans and purchase agreements with growers.

Although flaxseed prices have varied in different flax growing areas, the effective support level on a "delivered Minneapolis basis" for No. 1 flax together with an estimated season average, market prices were as follows for the years 1942 to date:

Year	Price Support Mpls. Basis (Per Bu.)	Season Average Market Price (Per Bu.)[1]
1942	$2.40	$2.58
1943	2.85	3.05
1944	2.95	3.10
1945	3.00	3.14
1946	3.60	4.82
1947	6.00	6.38
1948	6.00	5.98
1949	3.99	3.94[2]
1950	2.82	.....

[1]Crop year beginning August 1.
[2]Crop year beginning July 1.

U. S. Self Sufficient In Flaxseed Production

The price support program has undoubtedly been a major stimulus to increased flax production in recent years.

Whatever the major cause, the U. S. has gone from a net import to a net export basis on flaxseed and linseed oil since 1947, and almost all of the linseed oil used in the U. S. in the last three years has been produced from domestically grown flaxseed.

In order to make the flax price support program effective, however, the government through the Commodity Credit Corporation found it necessary to purchase large quantities of flaxseed and linseed oil under its contract arrangements with processors, and to make a substantial volume of non-recourse flax loans to farmers in recent years.

This resulted in the accumulation of large inventories of both flax and linseed oil within the last three-year period, 1948-50. The amount of such loans and CCC acquired inventories are listed in the table above.

Despite net exports of both flaxseed and linseed oil from the bumper crops of 1947, 1948, and 1949, total stocks of flaxseed on July 1, 1950, totaled 16.8 million bushels, more than twice the average carryover. Of these totals, the CCC held over 13 million bushels of flaxseed and 472 million pounds of linseed oil.

During the last half of 1950, the CCC sold practically all its holdings of flaxseed to domestic and foreign buyers, mostly to domestic crushers. The large CCC stocks of linseed oil (close to a year's domestic needs), apparently had been diminished only by a small amount in the same period. All of this stock had been available for sale, but the CCC recently withdrew part of its linseed oil supply from the market in order to build a strategic stockpile for emergency use. Concluded on Page 151

Average Gross Value Per Acre of Important Crops Grown in Ninth District States During 1950*

Crop	Minnesota	North Dakota	South Dakota	Montana
Flax	$35.64	$30.78	$29.16	$29.16
Corn	54.11	30.14	38.36	32.88
Soybeans	39.37	26.67	31.75	.....
Spring Wheat	32.98	27.16	19.40	35.89
Barley	33.63	27.36	18.81	31.92
Oats	27.01	20.44	19.34	26.28
Rye	18.70	15.48	16.12	16.12

*Source: USDA "Annual Crop Production Summary" and "Agricultural Prices." Average value per acre is estimated by taking average yield per acre, as given in the Summary of December 1950, times average prices received by farmers, as given in the September 1950 Prices report. (Nov. 15 prices are used for corn and soybeans.)

U. S. Stocks, Imports, and Exports of Flaxseed and Linseed Oil for Certain Years*

FLAXSEED

Year Beginning July 1	Stocks July 1 1000 Bu.	Imports 1000 Bu.	Exports 1000 Bu.	Change Net Imports (+) Net Exports (—) 1000 Bu.
1932-36	2,605	16,186	.....	+ 16,186
1937-41	3,823	16,857	9	+ 16,848
1941-46	6,498	6,594	13	+ 6,581
1947	1,691	721	22	+ 699
1948	7,217	618	4,674	— 4,056
1949	19,359	2	1,991	— 1,989
1950	16,785	....	.....	.....

LINSEED OIL

	1000 Lb.	1000 Lb.	1000 Lb.	1000 Lb.
1932-36	115,508	3,083	878	+ 2,205
1937-41	140,504	90	10,547	— 10,457
1941-46	205,945	85,870	116,975	— 31,105
1947	144,439	13,797	20,328	— 6,531
1948	138,423	2,242	13,990	— 11,748
1949	381,363	85	4,779	— 4,694
1950	578,526	.....	.....	.....

*Source: USDA "Fats & Oils Situation"—December 1950 & January 1951.

Amount of Flaxseed Under Government Loan and Purchase Agreements and in CCC Inventories

Year	U. S. Flaxseed Production (No. of Bushels)	Flaxseed Under CCC Loan and Purchase Agreement (No. of Bushels)	CCC Flax Loans in % of Annual Production	Flaxseed In CCC Inventories June 30 (No. of Bushels)
1946	22,585,000	.....	..... %	.....
1947	40,536,000	.....	.....	.....
1948	54,529,000	3,700,000	6.8	.....
1949	43,946,000	11,900,000	27.1	18,500,000
1950	39,263,000	871,000	2.2	13,373,000

Data from USDA sources.

BUSINESS

Buyers' Fears Induce High January Sales

- **Likelihood of increased taxes, threatening shortages, and climbing prices explain phenomenal forward buying.**
- **Ninth district department store sales in January were 31% above a year ago.**
- **Businessmen as well as consumers added to their stocks of merchandise.**
- **Industrial, commercial, and residential building exhibited continued buoyancy.**

REFLECTED most markedly by a jump of 31% in dollar volume of department store sales in the Ninth district over a year ago, another surge in consumer buying occurred in January which encompassed an even wider range of commodities than the buying spree of last July and August.

There were a number of developments which apparently fostered a belief in the public mind that it was advantageous to buy now. In addition to the stimulus provided by rising incomes, several specific considerations influenced consumers:

- President Truman's recommendation to Congress that the excise tax base be broadened to include more consumer goods and that the rate be raised on some items already subject to the tax.
- Issuance of numerous orders by the National Production Authority limiting use of basic raw materials in manufacture of civilian products.
- The steady climb in prices, with the outlook for further advances.

Threat of Higher Taxes Hikes Consumer Demand

Much of the merchandise purchased since Christmas has represented "forward buying" — that is, merchandise which was not needed at the time but was bought with future needs in mind.

Principal items which consumers rushed to buy so as to avoid paying higher taxes later in the year were automobiles, household appliances, and television sets.

In Minnesota, new motor vehicles registered were over three and one-half times the number registered in December. Although the number of new vehicles sold in January is generally higher than in December, due to the introduction of new model cars, the increase was exceptionally large this year.

As compared with the number of new motor vehicles registered in January 1950, 70% more vehicles were registered in January of this year. Comparable figures for other states in the district are not available.

Activity in the used car market also rose in January. Figures from the Minnesota motor vehicle department reveal the transfer of one-third more passenger cars from one owner to another this year as compared with the number transferred in January 1950.

Cuts in Raw Materials Spur Retail Buying

Expected shortages and lowered quality stemming from limiting use of basic raw materials are two other considerations which undoubtedly prompted the unseasonal buying surge.

Even though the cutback in production of civilian products may not be severe in terms of the postwar level of output, manufacturers will be forced to use substitutes.

THE ATTENTION of bankers and business people is called to the Regulations and Orders of the National Production Authority, U. S. Department of Commerce.

Aimed at maintaining facilities and equipment in efficient operation for production of goods and services is a program which permits business enterprises and institutions to use a priority rating, DO-97, without individual NPA authorization. DO-97 is the preference symbol assigned by NPA for use on orders for maintenance, repair, and operating supplies (MRO).

M-4, an order which first affected building of amusement enterprises and later was applied to certain types of commercial construction, also is of particular interest to business people. The construction order (M-4) requires specific NPA authorization before most types of commercial construction can begin.

Copies of NPA Regulations, Orders and Forms may be obtained at the Minneapolis regional office, U. S. Department of Commerce and at the following additional centers: District office, Butte, Mont., field offices in Duluth, Minn., Fargo, N. D., and Sioux Falls, S. D.

Adding further to buying pressure was failure of prices to level off during the winter, as had been expected, before production of defense materials got under way.

This development has reflected the usual lag between rising wholesale and retail prices. Later, when retailers replenish their stocks of merchandise at higher wholesale prices, the customary markup may be expected to result in higher retail prices.

That both wholesale and retail prices will continue to be under pressure to rise is reflected by the index of 28 basic commodities. From the first of this year to February 2, the average price of basic raw materials used in the manufacture of products rose by another 6%.

However, as will be noted later in this article, freezing of prices and wages on January 27 apparently has caused the public that the rise in prices has been halted temporarily, for consumer buying in this district receded to a more normal level during the first half of February.

Retail Sales Exceptionally High in January

Not only were district department store sales in January 31% above dollar volume of a year ago, they were higher than December 1950 sales, adjusted for the usual decline from the Christmas peak. The adjusted index rose from 318% in December to 325% in January.

In the four large cities of this dis-

trict, department store sales for the week ending January 20, 1951, reached a peak of 38% above volume for the corresponding week in 1950.

With freezing of prices and wages on January 27, department store sales receded to a more normal figure. As compared with sales in the corresponding week of 1950, sales in the four large cities for the week ending February 3, 1951, were 2% higher, and 6% higher for the week ending February 10, 1951. In these cities, sales for the week ending February 17 were 14% more than a year ago.

Weather conditions during winter months generally influence weekly sales trends, but the trend observed during January and in the first part of February was due primarily to the other causes mentioned formerly.

Meanwhile, more direct federal actions have been taken to modify the price rises. Following the federal freeze of prices and wages on January 27, a recent order, effective February 27, was issued establishing procedures for determining margins for retailers of numerous commodities.

Index of Department Store Sales by Cities

Unadjusted 1935-39=100

	January [1]	Percent Change [2] From Year Ago January [3]
Minnesota		
Duluth-Superior	244	+31
Fairmont	214	+41
Mankato	228	+35
Minneapolis	309	+31
Rochester	195	+13
St. Cloud	209	+25
St. Paul	225	+31
Willmar	195	+33
Winona	202	+37
Montana		
Great Falls	249	+44
North Dakota		
Bismarck	187	+32
Grand Forks	227	+16
Minot	198	+38
Valley City	144	+55
South Dakota		
Aberdeen	287	+55
Rapid City	268	+43
Sioux Falls	300	+47
Yankton	244	+58
Wisconsin		
La Crosse	207	+38

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.
[3] There were 26 trade days in January this year against 25 last year.

Ninth District Business Indexes

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

	Jan. '51	Dec. '50	Jan. '50	Jan. '49
Bank Debits—93 Cities	378	372	301	310
Bank Debits—Farming Centers	435	450	352	368
Ninth District Department Store Sales	325p	318	246	265
City Department Store Sales	344p	328	272	289
Country Department Store Sales	307p	308	219	241
Ninth District Department Store Stocks	351p	335	306	307
City Department Store Stocks	321p	308	278	265
Country Department Store Stocks	375p	357	329	342
Country Lumber Sales	169p	184	122	136
Miscellaneous Carloadings	132	128	116	120
Total Carloadings (excl. Misc.)	109	114	83	100
Farm Prices (Minn. unadj.)	268	253	210	240

p—preliminary

Sales at Ninth District Department Stores*

	% Jan. 1951 of Jan. 1950	Number of Stores[1] showing Increase	Decrease
Total District	131	243	30
Mpls., St. Paul, Dul.-Sup.	132	26	2
Country Stores	131	217	28
Minnesota (City and Country)	131	80	10
Minnesota (Country)	124	58	8
Central	113	5	1
Northeastern	122	5	0
Red River Valley	112	4	0
South Central	130	13	1
Southeastern	120	10	1
Southwestern	129	21	5
Montana	134	28	7
Mountains	149	9	2
Plains	125	19	5
North Dakota	131	38	5
North Central	141	9	0
Northwestern	137	4	0
Red River Valley	127	15	3
Southeastern	136	8	2
Southwestern	(2)	----	----
Red River Valley-Minn. & N. D.	125	19	3
South Dakota	141	43	3
Southeastern	147	13	1
Other Eastern	137	24	2
Western	132	6	0
Wisconsin and Michigan	131	50	5
Northern Wisconsin	120	12	3
West Central Wisconsin	130	26	2
Upper Peninsula Michigan	144	12	0

*Percentages are based on dollar volume of sales.
[1] January 1951 compared with January 1950.
[2] Not shown, but included in totals. Insufficient number reporting.

Inventories High In Spite of Shortages

The consumer buying spree and the general business situation have caused retailers to buy in larger volume and further in advance of the selling season.

In spite of large January sales, department stores in this district accumulated more inventory during the month. The index, adjusted for the usual seasonal variation, rose from 335% for December to 351% for January.

Inventories are also high among wholesalers and manufacturers. According to figures released by the U. S. Department of Commerce, wholesalers in the nation as a whole added $300 million to their inven-

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BANKING

Loan Expansion Carries Over into 1951

- **According to tentative data for the whole of 1950, member bank loans increased $8.6 billion.**
- **Two-thirds of 1950 loan expansion was in the commercial and industrial fields.**
- **Contrary to expectations, Ninth district figures for January indicate a continuation of the rise in bank lending.**

PRELIMINARY data on bank loans indicate that member bank loans for the nation increased by $8.6 billion in 1950. Most of the rise occurred in the last half of the year, when loans increased by $7.1 billion.

In no other period of equal length in banking history has loan expansion been so great. The increase in bank loans in the last halves of 1946 and 1947, which at the time was considered extraordinarily large, was approximately $3 billion less than that recorded in the last half of 1950.

A breakdown of member bank loans by principal categories, as shown in the accompanying table, reveals that two-thirds of the total expansion was in commercial and industrial loans. After declining slightly in the first half of the year, this classification increased by $4.8 billion in the second half, compared with an expansion in these loans of approximately $1 billion in the last half of 1949.

It may be observed that consumer loans followed an opposite trend, increasing rapidly in the first half and moving side-wise in the last half, especially in the last quarter.

The increase in real estate loans of $1.7 billion was more evenly divided between the first and second halves of the year, increasing $976 million in the second half and $702 million in the first six months.

Agricultural loans, nationally, decreased slightly in the year as a whole. This may be attributed to a rise in farmers' incomes in 1950 over 1949. In some areas of the Ninth district, however, agricultural loans increased, especially in sections where the demand for feeder cattle loans was greater than the normal seasonal demand. This development was doubtless caused by great supplies of unmarketable corn, which could be salvaged only by feeding it to livestock, and extremely high prices for feeder cattle.

JANUARY BANKING DEVELOPMENTS

In the Ninth district, as well as in other areas, it was reported in October that a substantial proportion of the increase in bank loans was made to commodity dealers and to processors of agricultural commodities. The consensus among bankers at the time was that these loans would contract early in the new year, and that as a consequence total loans would fall.

January 31 reports, however, indicate that total loans and discounts of both city and country banks rose in the first month of the year.

Loans of the 20 weekly reporting banks increased $20 million in January. Commercial, industrial, and agricultural loans rose $25 million, real estate loans $2 million; offset by a decline of $6 million in other (largely consumer) loans and a $1 million drop in loans on securities.

Loans and discounts of all Ninth district member banks recorded a rise of $19 million in January. Since the 20 banks are a part of the all-member-bank group, it may be inferred that loans of country member banks declined slightly while those of city banks rose. The explanation, in the case of country banks, may be found in repayments by farmers from proceeds of crop marketings.

Accounting, in part, for the recent rise in loans of city banks was the shortage of freight cars, which resulted in a slowing down of the movement of crops and a need for bank credit pending their moving forward through regular channels.

Also contributing to the extraordinary loan demand was the anxiety felt by most dealers and manufacturers over the future availability of supplies. This fear of imminent shortages induced them to do as much forward buying as their cash on hand and lines of credit would allow. For these and other reasons loan demand, which had been expected to fall in January, rose to new high levels.

Government security holdings of member banks, both in the city and country groups, fell substantially. This development also carried over from the 1950 trend. The 20 reporting banks reduced government security holdings $28 million. Most of this decline can be attributed to

Changes in U. S. Member Bank Loans in 1950 By Principal Categories[1]

(In Million Dollars)

Item	Amounts on December 30, 1950*	Changes Since — October 4, 1950	June 30, 1950	December 31, 1949
Comm. and Ind. Loans	$20,516	+$2,179	+$4,808	+$4,659
Agricultural Loans	1,808	+ 79	+ 38	— 137
Loans for Purchasing or Carrying Securities	2,697	+ 414	+ 51	+ 203
Real Estate Loans	10,522	+ 406	+ 976	+ 1,688
Consumer Loans	6,169	+ 24	+ 664	+ 1,392
Single-Payment Loans to Individuals of $3,000 and Over	2,141	+ 110	+ 245	+ 366
All Other, Including Loans to Banks	1,444	— 55	+ 339	+ 410
Total, Gross*	$45,298	+$3,156	+$7,120	+$8,581

*Before deduction of valuation reserves.

[1]Based on preliminary data submitted by the Federal Reserve banks.

the elimination of U. S. Treasury certificates of indebtedness and an unwillingness to replace them by larger holdings of other government securities.

In all member banks holdings of U. S. government obligations fell $55 million in January. The 20 reporting banks account for about half —$28 million—of that total.

Demand deposits fell substantially in January, most of the decline occurring in the city banks where the magnitude of the decline was $55 million. More than two-thirds of the decline, or $39 million, was in the individuals - partnerships - corporations category. For all member banks the decrease was $49 million. Time deposits fell slightly — $1 million.

Borrowings of member banks increased, mostly by city banks. An increase of $33 million took place among them.

All asset and liability items of the 20 reporting banks added up to total footings which were $24 million less than on December 27, 1950. For all member banks they fell by $51 million. END

Assets and Liabilities of 20 Reporting Banks

(In Million Dollars)

	Dec. 27, 1950	Jan. 31, 1951	Feb. 14, 1951	$ Change Dec. 27-Jan. 31
ASSETS				
Comm., Ind., and Ag. Loans	$ 274	$ 299	$ 310	+ 25
Real Estate Loans	102	104	105	+ 2
Loans on Securities	11	10	10	— 1
Other (largely consumer) Loans	175	169	169	— 6
Total Gross Loans & Discounts	$ 562	$ 582	$ 594	+ 20
Less Reserves	7	8	8	+ 1
Total Net Loans & Discounts	$ 555	$ 574	$ 586	+ 19
U. S. Treasury Bills	20	22	13	+ 2
U. S. Treasury C. of I.'s	20	....	....	— 20
U. S. Treasury Notes	165	163	164	— 2
U. S. Government Bonds	371	363	360	— 8
Total U. S. Gov't Securities	$ 576	$ 548	$ 537	— 28
Other Investments	142	144	145	+ 2
Cash and Due from Banks	478	461	481	— 17
Miscellaneous Assets	16	16	16	....
Total Assets	$1,767	$1,743	$1,765	— 24
LIABILITIES				
Due to Banks	$ 325	$ 287	$ 299	— 38
Demand Deposits, Ind., Part., Corp.	922	883	921	— 39
Demand Deposits, U. S. Gov't	43	51	57	+ 8
Other Demand Deposits	109	123	103	+ 14
Total Demand Deposits	$1,399	$1,344	$1,380	— 55
Time Deposits	241	240	239	— 1
Total Deposits	$1,640	$1,584	$1,629	— 56
Borrowings	1	34	20	+ 33
Miscellaneous Liabilities	19	19	20	....
Capital Funds	107	106	106	— 1
Total Liabilities & Capital	$1,767	$1,743	$1,765	— 24

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Dec. 27, 1950	Jan. 31, 1951	$ Change Dec. 27, 1950 Jan. 31, 1951	$ Change Jan. 25, 1950 Jan. 31, 1951
ASSETS				
Loans and Discounts	$1,122	$1,141	+ 19	+ 239
U. S. Government Obligations	1,501	1,446	— 55	— 297
Other Securities	282	284	+ 2	+ 41
Cash and Due From Banks & Res.	874	857	— 17	+ 57
Other Assets	32	32	....	+ 2
Total Assets	$3,811	$3,760	— 51	+ 42
LIABILITIES AND CAPITAL				
Due to Banks	$ 372	$ 332	— 40	— 19
Other Demand Deposits	2,289	2,240	— 49	+ 55
Total Demand Deposits	$2,661	$2,572	— 89	+ 36
Time Deposits	900	899	— 1	— 35
Total Deposits	$3,561	$3,471	— 90	+ 1
Borrowings	1	35	+ 34	+ 25
Other Liabilities	25	27	+ 2	+ 4
Capital Funds	224	227	+ 3	+ 12
Total Liabilities & Capital	$3,811	$3,760	— 51	+ 42

*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.

NINTH DISTRICT GROWS BULK OF U. S. FLAX

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Flax Support Program Beneficial to Economy

No attempt has been made in this brief analysis to estimate the exact costs involved to the government in its flax price support operations. Available information on costs and sales prices of government-acquired flaxseed and linseed oil inventories indicates that some net losses have occurred.

Offsetting in part its costs, benefits have accrued from the price-support program on flax. These benefits, however, are not fully measurable. Domestic users have been assured adequate supplies. Prices have been lower than existed on Argentine linseed oil at the time the program was initiated, and it is important, too, that the U. S. has become self sufficient in its linseed oil production.

U. S. farmers have learned much about efficient flax production, and cash returns per acre have been very favorable. Furthermore, the program has been a stabilizing influence in the flaxseed and linseed oil markets. The market probably would have been much more erratic if the U. S. had depended for part of its supply on foreign sources.

These considerations make it difficult to ascertain whether the flax price support program has been inflationary or deflationary in effect.

To the extent the support price program has encouraged uneconomic production, if any, it may be said to have been inflationary. Actually, an analysis of the data shows that during most of the period from 1946 to the present, market prices of flax were actually above the support price. Only during 1948 and 1949 did market prices average below support levels.

To the extent that accumulated surpluses were exported by the government on a fractional-cost basis, the program may be said to have been inflationary because in a sense this is a "dumping" procedure. If all stocks of flaxseed and linseed oil acquired by the government in support operations had been sold back into the domestic trade at market prices or if these supplies were stockpiled for that purpose, the program would have about balanced out in its inflationary and deflationary effects.

As a matter of fact, only a small proportion of total U. S. production has actually been exported and most of it was from the record-breaking crop of 1948. END

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	Jan. 15, 1937-41 Avg.	Jan. 15, 1950	Jan. 15, 1951	Parity Prices[1] United States Jan. 15, 1951
Crops				
Wheat, bushel	$0.85	$ 1.93	$ 2.07	$ 2.35
Corn, bushel	.56	1.04	1.41	1.71
Oats, bushel	.31	.62	.80	.954
Potatoes, bushel	.61	1.25	.92	1.76
Livestock & Livestock Products				
Hogs, 100 lbs.	7.18	14.81	19.71	20.60
Beef Cattle, 100 lbs.	6.84	18.77	25.97	19.10
Veal Calves, 100 lbs.	8.49	23.94	30.64	21.50
Lambs, 100 lbs.	7.67	21.23	29.46	21.00
Wool, lb.	.26	.46	.99	.54
Milk, wholesale, 100 lbs.	1.63	3.21	3.80	4.62
Butterfat, lb.	.32	.66	.74	.74
Chickens, live, lb.	.115	.167	.204	.302
Eggs, doz.	.175	.258	.328	.515

*Source: Data compiled from USDA, "Agricultural Prices," dated January 30, 1951.

[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.

BUYERS' FEARS INDUCE HIGH JANUARY SALES

Continued from Page 148

tories in December. This figure takes account of an adjustment for the usual seasonal variation in stocks. The $300 million represented an increase of 2¾% in the book value of inventories within 31 days.

Manufacturers added approximately $1 billion to their inventories in December. This figure was after adjustment for seasonal variation. The increase was about equally divided between durable and nondurable manufacturers. The addition to their inventories represented an increase of 3% in book values.

The higher book values reflected an accumulation of physical stocks in addition to the rise in prices. According to the U. S. Department of Commerce, the rate of inventory accumulation in closing months of the year exceeded any previous quarterly period.

Industrial, Commercial Building Booms

Manufacturers, wholesalers, and retailers were not only bidding heavily for inventories at year-end but also were laying plans for expanding plant and equipment. In 78 representative cities of this district, valuation of building permits issued in January 1951 aggregated over two times the amount issued in January 1950. A substantial number of the large permits were issued for new factories and new wholesale and retail outlets, or additions to such structures.

As for activity in the residential real estate market and real estate lending, surveys indicate an equal buoyancy in January.

One survey made to determine the impact of Regulation X on residential building indicated that opinion was divided. Results of the check showed quite conclusively that it was too early to measure effects of the regulation. About 60% of those participating in the survey felt that activity was lessening, while the other entertained an opposite opinion.

There was substantial agreement that prices of homes were up 5% to 15% over last June, with prices of new homes increasing more than those of old properties. Costs were

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 28, 1951

INDUSTRIAL PRODUCTION—The Board's production index in January was 219 per cent of the 1935-39 average, 10 per cent above last June and 20 per cent above January 1950.

In February, industrial production is estimated to have declined slightly, owing mainly to the effects of work stoppages at railroad terminals and in the wool textile industry. After the end of the rail strike in mid-February, steel and coal production recovered to about January levels and automobile output rose to the highest weekly rate since last October.

Steel production increased in January to a new record annual rate of 104 million tons. Output of railroad equipment and aircraft also expanded further. Lumber production was at an exceptionally high level for this season.

The rise in nondurable goods output in January reflected mainly new record levels of paper production, and gains in cotton textiles, chemicals, and petroleum products. Meat production declined from the high November-December rates, but was 3 per cent larger than a year ago.

EMPLOYMENT—Employment in nonagricultural establishments, seasonally adjusted, increased slightly further in mid-January to 45.7 million. Employment in retail trade, construction, and manufacturing industries declined less than is usual at this season. The average work week in manufacturing decreased to 40.6 hours, as compared with an average of 41.3 in the preceding three months; average hourly earnings showed some further rise.

CONSTRUCTION — Value of construction contracts declined in January, reflecting seasonal decreases in most categories of awards. The number of housing units started in January continued at a very high winter rate, totalling 87,000 as compared with 95,000 in December and 79,000 in January 1950. The moderate decline from December to January reflected a sharp drop in public units offset in part by some rise in private units started.

DISTRIBUTION — The Board's seasonally adjusted index of the value of department store sales in January was 360 per cent of the 1935-39 average. This was 28 per cent higher than in January 1950 and about equal to the peak reached last July immediately after the Korean outbreak. In mid-February, sales at department stores were about 16 per cent greater than in the same period a year ago.

Despite the exceptionally large volume of sales of numerous non-durable as well as durable goods, retailers' inventories have been generally maintained, reflecting the sustained high level of output.

COMMODITY PRICES—The wholesale price level continued to advance after the announcement of the general federal freeze order on January 26, reflecting mainly increases in farm products and foods which are only partly controlled. Farm products rose 4 per cent further by the third week in February, to a level 33 per cent above the low point reached early last year. Prices of industrial commodities showed little further rise from a level 17 per cent higher than a year ago.

Consumer prices probably advanced somewhat further in January with increases in food prices again accounting for most of the rise.

BANK CREDIT AND THE MONEY SUPPLY—Business loans at banks in leading cities increased substantially further during January and the first half of February—a season of the year when these loans usually decline. Deposits and currency held by businesses and individuals decreased somewhat owing in part to a seasonal transfer of funds from private to Treasury accounts as a result of income tax payments. Purchases of government securities from the banking system by nonbank investors and a continued gold outflow also tended to reduce the privately held money supply.

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estimated to be up by a corresponding percentage.

There was practically no agreement among lenders as to whether real estate lending showed an increase in the past quarter over the same period a year ago. Equally diverse was opinion on how much business had changed, for as many lenders reported decreases of over 15% as reported increases of that amount.

Two out of three lenders reported that at least 90% of loan closings in the past three months were not touched by Regulation X, and most of them predicted that a high proportion of closings in the next three months would also be exempt.

Builders and lenders in the Twin Cities were in agreement that Regulation X has reduced building and lending activities. Outside of this metropolitan area, opinion was evenly divided on the effect of Regulation X.

Severe Weather Curtailed District Production

In spite of the great demand for civilian merchandise, production in this district was slowed in January by severe winter weather and a few shortages of materials.

According to the report issued by the Michigan Unemployment Compensation commission, heavy snows and early winter weather on the Upper Peninsula of Michigan reduced employment in non-agricultural pursuits in January by 1,100 workers.

The Minnesota Division of Employment and Security reported a similar trend in employment. In Duluth, Minneapolis, and St. Paul, January employment was down significantly from December. The decline represented the usual adjustments from the December peak due to Christmas trade. January employment, however, was above the level of employment of a year ago. According to the Minnesota office, employment in the coming spring months is expected to surpass last year's figures.

The switchmen's strike, which began on Jan. 31, no doubt reduced employment during February. In this district, total carloadings less miscellaneous were down some in January from December with adjustment for seasonal variation. The strike tied up freight cars in numerous switchyards, creating a shortage of materials in this district as well as a shortage of freight cars to ship products out of this district.

In general, the economy of this district has operated near capacity levels. Transition thus far from production of civilian products to defense materials has created no noticeable unemployment.

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