FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY REVIEW

9th DISTRICT AGRICULTURAL AND BUSINESS CONDITIONS

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BUSINESS

District Mining at Crucial Stage

MINING regions of the Ninth district, feeling the impact of the defense program with its heavy demand for raw materials and aided by an earlier-than-usual opening of Lake Superior shipping, are heading for a record year.

Not only will the Lake Superior area produce the bulk of this year's iron ore requirements, despite increased imports of foreign iron ores, but plans for working low-grade copper deposits in upper Michigan and in Montana promise increased output of another critical metal.

As the mining economy experiences unusual demands on its resources, another measure designed to increase total potential output is the investigation on a large scale of beneficiation of taconite. Construction is already underway on three pilot plants in Minnesota.

Iron Ore Shipments May Reach 90 Million Tons

The April 11 opening of Lake Superior shipping, 20 days earlier than last year, has caused some observers to believe that iron ore shipments for 1951 will reach 90 million tons, close to the all-time record.

Cargo boats plying between the head of the lakes and blast furnaces during April 1951 moved 6.2 million tons, as compared with slightly less than 350,000 tons in April 1950, according to the Lake Superior Ore association. In May of this year, 12.7 million tons were shipped, for an increase of 3.2 million tons over the total for May 1950.

In addition to the tonnage moved by boat, some ore is shipped by rail direct to the blast furnaces. It is now estimated that approximately 4 million tons, the same tonnage as last year, may be shipped.

Where total ore shipments may reach 90 million tons this year, 82.2 million tons were shipped from this district in 1950. Of this amount, 80 million tons were shipped from U. S. mines and slightly over 2 million tons from Canadian mines. The tonnage approached closely the 82.9 million tons shipped in 1948. The record was set in 1942 with 92.1 million tons for the season.

Mining Companies Turn To Low-Grade Ores

Large annual shipments of iron ore during the past decade have centered the attention of many observers on the possible depletion of high-grade ores in the Lake Superior ranges. Each year a larger proportion of ores mined is beneficiated; that is, the iron ore is separated from other materials by one of several methods before shipment is made to the blast furnaces.

Last year slightly over one-fourth the total tonnage shipped was beneficiated, and this year the proportion of the tonnage so treated will be larger. Furthermore, several mining companies have carried on intensive research on the beneficiation of taconite, a low-grade ore found in very large deposits.

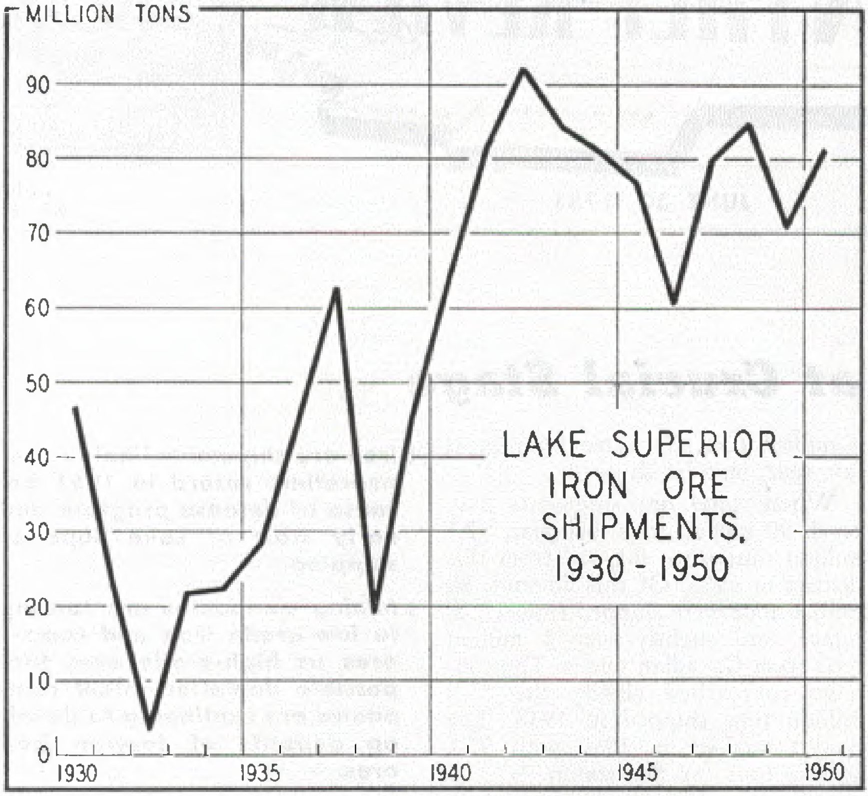
Steel Industry Turns To Foreign Ores

Because of depletion of high-grade ores in the Lake Superior ranges, steel companies for over a decade have searched for ore deposits in Labrador, Venezuela, and Liberia. Discovery of ore bodies in these regions has seen rapid progress being made in the development of their deposits. Some companies are just beginning to import ores from these newly developed mines.

- ***Iron ore shipments likely to set peacetime record in 1951 because of defense program and early start of Lake Superior shipping.***
- ***Mining companies are turning to low-grade iron and copper ores as high-grade ores face possible depletion. Steel companies are continuing to develop deposits of foreign iron ores.***
- ***Investment of nearly $40 million in plants for beneficiation of taconite gives promise of meeting competition of foreign ores and expanding district mining activity.***

Nearly 19.2 million net tons of iron ore were imported last year. This was the largest tonnage ever imported, exceeding the 1949 total by about one million tons. Chile, Sweden, and Canada, in the order named, were the largest suppliers of foreign ores. Due to new mines which are coming into production, Venezuela promises to occupy first place in the near future.

In Venezuela, the Bethlehem Steel company has discovered and developed a moderate-sized deposit of high-grade ore. First shipments to the Sparrow's Point plant in Delaware are expected this year. In the same country, the United States Steel corporation has discovered and is now developing a much larger deposit of high-grade ore. Devel-



IRON ORE shipments during recent years have been maintained at rates which compare with the peak war years. These heavy shipments are rapidly depleting high-grade ores in the Lake Superior ranges.

Source: Lake Superior Iron Ore association and Skilling's Mining Review.

opment of these mines and of transportation facilities is scheduled for completion so as to permit first ore shipments to be made in 1954.

In Labrador, a large deposit of high-grade ore was discovered several years ago. Five independent steel companies are now developing this deposit. Last year, work was begun on a 360-mile railroad to carry ore from Labrador to the Seven Islands on the St. Lawrence river. This railroad is scheduled for completion in 1954 or 1955.

In Liberia, on the west coast of Africa, the Republic Steel corporation is developing a moderate-sized deposit of very high-grade ore. A railroad is now under construction from the deposit to a shipping point on the coast.

Under the bed of Canada's Steep Rock lake, which lies north of the Vermillion range, important ore bodies were discovered. These deposits are now being developed by the Inland Steel company and the Pickands-Mather company.

These are only the larger foreign projects underway at the present time designed to increase the supply of ore to a rapidly expanding steel industry.

As a result of the steel industry turning to foreign deposits of ore, the geographic location of the industry is changing. Large steel plants are under construction on or near the Atlantic coast. According to plans, new plants will be built in the South as well as in the West. Thus, the steel industry is undergoing greater decentralization than previously has existed as it moves away from the Great Lakes.

Taconite May Help Meet Competition of Foreign Ore

In times of national emergency, such as the present, the abnormally large demand for iron ore has taxed capacities of mining companies in all regions. The price of ore recently has enabled companies to sell previously sub-marginal ore at a profit. But in a return to a peaceful economy, the demand for ore most likely will recede from the present high level and competition will determine the share of the iron ore market to be supplied by the several domestic and foreign iron ore ranges.

In Minnesota, intensive laboratory research over the past several years has been done on the beneficiation of taconite. Since research has proved that taconite can be beneficiated successfully, three companies have decided to carry the experimental work into the pilot plant stage to solve problems encountered on a commercial scale of operation and to secure cost figures.

The Erie Mining company has built a pilot plant at Aurora, Minnesota; the Reserve Mining company is constructing a plant at Babbitt, Minnesota; and the Oliver Iron Mining company recently has announced construction of a plant near Mountain Iron, Minnesota.

In the aggregate, these companies are investing approximately $40 million. This volume of invested capital indicates confidence that concentrated taconite can compete successfully with high-grade ores located in places more distant from the blast furnaces.

In addition to the work on taconite, washing plants are being built to beneficiate other types of low-grade ores. The first commercial size plant for the treatment of low-grade ore is now under construction on the Marquette range in the Upper Peninsula of Michigan.

Successful beneficiation of taconite and other low-grade ores may assure the Lake Superior district a bright future for many decades. Moreover, beneficiation of low-grade ore in place of direct shipping of high-grade ore may expand the activity in the mining communities. It was estimated that beneficiation of taconite on a commercial scale will require an investment of $400 million in mines, plants, and facilities. More labor would need to be employed to operate this new equipment.

(Continued on Page 189)

BANKING

Liquidity of District's Banks Remains High

NOT only are Ninth district member banks considerably more liquid now than they were prior to World War II, but their liquidity position today compares favorably with all member banks in the nation.

These findings, which may be considered surprising in view of the expansion in bank loans during the past year, came out in a recent study made by the Federal Reserve Bank of Minneapolis.

This study of the liquidity position of banks required that the term "liquid assets" be defined. Since liquidity refers to the ability to exchange an asset for cash without sustaining a capital loss, the criteria used in the selection of "liquid assets" deserves some attention.

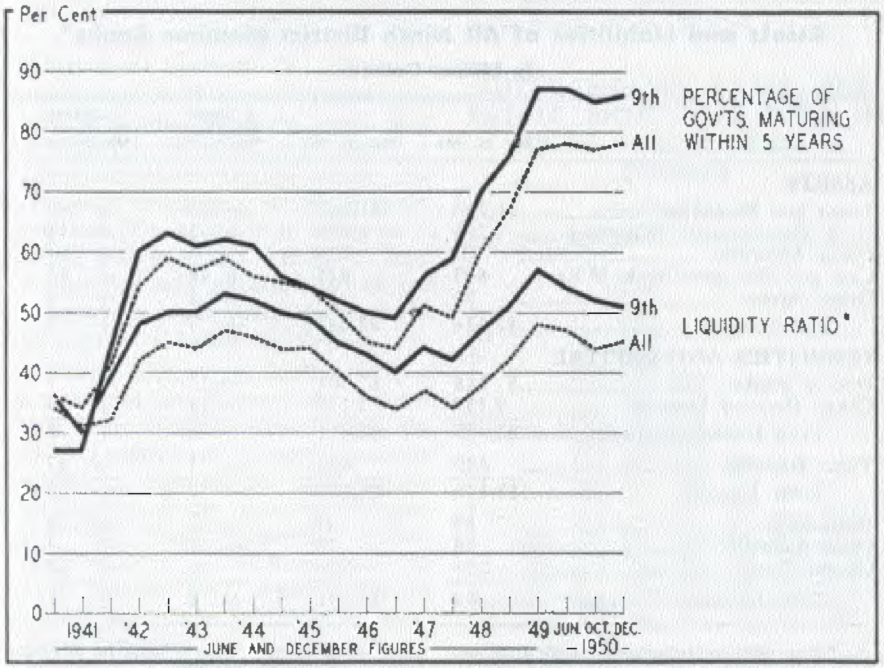
These criteria are almost completely arbitrary. There is no insurance that any asset, other than cash and excess reserves, can immediately be used to satisfy deposit withdrawals. But in order to be realistic it is necessary that probabilities be considered. Assets for which there is a good probability of exchange at par for cash immediately are called "liquid".

It has been customary to include government securities maturing within five years in "liquid assets".* (The recent decline in governments raises some question with regard to this treatment.) Notwithstanding arbitrariness in fixing a dividing line between liquid assets and other assets, the customary treatment is used in this study in order to afford comparability with other similar studies.

In this connection it is important to recognize that the liquidity ratio is biased upward to the extent that securities called liquid may not always readily be exchangeable for cash at book value. In addition to government securities maturing within five years, "liquid assets" include cash assets other than required reserves.** Liquidity is then described in terms of the ratio of liquid assets to total deposits.

- ***Despite recent loan expansion, survey shows, district's member banks hold a high proportion of total assets in more marketable short-term governments.***
- ***Liquidity ratio of member banks here is better than national average.***
- ***Survey showed faster wartime deposit growth at Ninth district banks than for nation. Splendid performance of agriculture was important factor.***
- ***Excess reserves of member banks in May fell to the lowest level since February 1934. Borrowing at Federal Reserve bank almost tripled.***

SELECTED DATA FOR NINTH DISTRICT MEMBER BANKS AND ALL MEMBER BANKS



AVERAGE maturities of bank-held government debt have greatly shortened since 1947. In consequence, liquidity of member banks is still high.

* Cash assets other than required reserves plus short term governments divided by total deposits.

Forties Witnessed Great Improvement

An analysis of the data reveals that the liquidity ratio of banks in this district described an upward trend from the early part of World War II until June of 1944, at which time a reversal occurred, the downward trend continuing until June of 1947. In June of 1948 the trend once again assumed an upward slope which continued until December of 1949, when another reversal occurred which has continued until the present time.

Behavior of the liquidity ratio over the last 10 years largely reflects changes in the magnitude and composition of government security portfolios at the banks.

In the early days of the war, banks

* Federal Reserve Bulletin, Oct., 1950, pp. 1279.

** Excess reserves, balances at other banks, cash in vault, cash items in process and non-marketable government securities.

were adding to their holdings of government obligations while shortening the average maturity, and as a consequence of these changes liquidity improved rapidly. Between June of 1944 and June of 1947 average maturities lengthened; this lengthening process was accompanied by a declining liquidity ratio as the "liquid asset" numerator of our ratio was diminished.

After June of 1947 the percentage of total holdings of governments maturing within five years at Ninth district banks climbed from 49% to a peak of 87% in December of 1949. The percentage has displayed very little change since that time despite a decline in total holdings.

Late in 1949 the liquidity of banks here and elsewhere began a decline that has persisted until the present time. The decrement can be ascribed primarily to a shift from governments to loans and other investments; this action caused the numerator of our ratio to fall while the denominator, total deposits, was rising slightly. In other words, there were fewer "liquid assets" to support a slightly larger volume of deposits.

The importance of the liquidity ratio is dependent on the possibility that Ninth district bankers will be faced with heavy net withdrawals of deposits, relative to banks in other districts. This would necessitate the sale of assets in order to meet unfavorable clearing balances. The behavior of deposits at any bank or group of banks is, in turn, dependent upon the prosperity of the customers they serve.

The essential consideration is whether residents of the Ninth district will pay more or less for the products they buy from other districts than the residents of other districts pay for their purchases here.

Growth of District Banks Exceeds National Rate

Since it is quite likely that we will be living in a high level defense economy for the foreseeable future, it seems appropriate to consider the experience of the Ninth district in World War II.

Between June '41 and June '45, total deposits at all member banks in the nation doubled while total de-

(Continued on Page 191)

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Apr. 25, 1951	May 30, 1951	June 13, 1951	$ Change Apr. 25-May 30
ASSETS				
Comm., Ind., and Ag. Loans	$ 359	$ 339	$ 341	— 20
Real Estate Loans	107	109	110	+ 2
Loans on Securities	10	10	10	....
Other (largely consumer) loans	165	164	159	— 1
Total Gross Loans & Discounts	$ 641	$ 622	$ 620	— 19
Less Reserves	8	8	8	....
Total Net Loans	$ 633	$ 614	$ 612	— 19
U. S. Treasury Bills	2	5	7	+ 3
U. S. Treasury C. of I's.	.....	.....	.....	....
U. S. Treasury Notes	137	130	132	— 7
U. S. Government Bonds	319	332	325	+ 13
Total U. S. Govt. Securities	$ 458	$ 467	$ 464	+ 9
Other Investments	139	137	135	— 2
Cash and Due from Banks	423	443	501	+ 20
Miscellaneous Assets	16	17	18	+ 1
Total Assets	$1,669	$1,678	$1,730	+ 9
LIABILITIES				
Due to Banks	$ 277	$ 263	$ 305	— 14
Demand Deposits, Ind., Part., Corp.	798	813	852	+ 15
Demand Deposits, U. S. Govt.	76	74	60	— 2
Other Demand Deposits	126	122	130	— 4
Total Demand Deposits	$1,277	$1,272	$1,347	— 5
Time Deposits	236	234	234	— 2
Total Deposits	$1,513	$1,506	$1,581	— 7
Borrowings	29	44	22	+ 15
Miscellaneous Liabilities	19	20	19	+ 1
Capital Funds	108	108	108	....
Total Liabilities & Capital	$1,669	$1,678	$1,730	+ 9

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	Apr. 25, 1951	May 30, 1951	$ Change Apr. 25, 1951 May 30, 1951	$ Change May 31, 1950 May 30, 1951
ASSETS				
Loans and Discounts	$1,220	$1,207	— 13	+ 249
U. S. Government Obligations	1,296	1,299	+ 3	— 315
Other Securities	279	276	— 3	+ 14
Cash and Due from Banks & Res.	807	825	+ 18	+ 53
Other Assets	32	34	+ 2	+ 2
Total Assets	$3,634	$3,641	+ 7	+ 3
LIABILITIES AND CAPITAL				
Due to Banks	$ 318	$ 301	— 17	+ 5
Other Demand Deposits	2,139	2,150	+ 11	+ 3
Total Demand Deposits	$2,457	$2,451	— 6	+ 8
Time Deposits	889	888	— 1	— 47
Total Deposits	$3,346	$3,339	— 7	— 39
Borrowings	33	45	+ 12	+ 25
Other Liabilities	26	28	+ 2	+ 4
Capital Funds	229	229	....	+ 13
Total Liabilities & Capital	$3,634	$3,641	+ 7	+ 3

* This table is 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.

AGRICULTURE

More Credit, Rising Costs Nick Farm Income

FARMERS, who have been gradually working into a stronger financial position since June 1950, also have reasons to be optimistic about prices and income for the second half of 1951.

Prices received by farmers a year ago had declined about one-fourth from the 1948 peak, but prices since then have regained all lost ground and have surpassed 1948 peak levels.

This favorable trend in farm prices is due primarily to economic forces which have been released as a result of the Korean struggle and the efforts toward rearmament.

The parity ratio, which measures the relationship between prices received by farmers and farm costs, has also improved materially within the last 12-month period. A year ago in June, this ratio was 97. It is now approximately 108, which is only slightly below the most favorable postwar ratio.

Prices of farm products thus far in 1951 have averaged about 20% higher compared with those of 1950. With some increase in volume of marketings in prospect, farmers' cash income might easily be a fourth larger than last year, and it is quite possible that a new record for the district as a whole may be set. If growing conditions continue average or better this year, the volume of farm marketings will exceed that of last year, and it could easily approach the all-time record sales of 1949.

Rising costs of production will, of course, cut into farmer's net income this year, but economists with the U. S. Department of Agriculture are confident national net farm income will approach the peak reached during 1947. These economists believe costs may be up no more than 10-15% for the year, while prices received may average 20% or more above last year.

Whether or not the Ninth Federal Reserve district gets its share of net farm income will depend, of course, on Mother Nature's whims and fancies in the critical weeks ahead. In any event, district farmers are likely to find prices satisfactory during the heavy marketing season of the third quarter. Their principal concern is likely to be maximum production rather than price.

Even though farmers' net income in 1951 may equal the lush year of 1947, their real income may be smaller. The purchasing power of the dollar has depreciated so much since 1947 that farmers' net income would have to be 12-15% higher in 1951 in order to buy the same amount of goods and services it did three to four years ago.

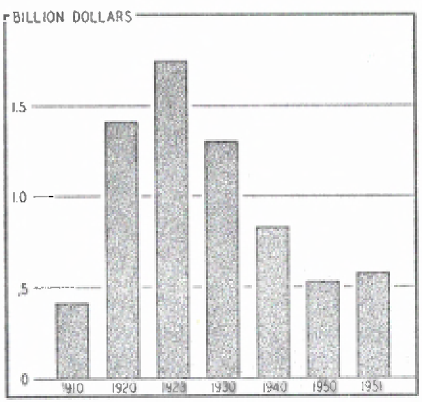
- ***Farmers optimistic on price and income prospects for last half of 1951.***
- ***Rising costs of production likely to offset anticipated higher farm incomes only in part.***
- ***Production loans to farmers are up 2½ times in 5 years. Real estate loans up only slightly in same period.***
- ***Restrictions put least productive farm loans under voluntary credit restraint program.***

Volume and Costs of Farm Credit are Rising

High costs associated with modern farming increase the risk a farmer must face these days. Production failure for one reason or another is quickly reflected in his net earnings. Unless he gets reasonable production at fair prices, the farmer of today can lose out quickly, because it is now much more difficult for him to draw in his cost belt compared with 10 to 20 years ago. A mechanized agricultural economy is much different in cost aspects compared with the horse economy of a generation ago.

OUTSTANDING FARM REAL ESTATE MORTGAGE DEBT IN NINTH FEDERAL RESERVE DISTRICT

(Selected Dates)



DISTRICT farm mortgage debt during the past 30 years has been whittled down more than 75%, but the down-trend has been reversed during the last two years.

Source: USDA "Farm Mortgage Debt by States," 1949-51.

One item of cost that has exhibited a steadily rising trend since 1945 is production credit. The volume of non-real-estate loans to farmers in this district has increased almost 2½ times during the last five years. There was a 25% increase during 1950, and about a 9% increase from January 1 to April 9, this year.

In recent months there is evidence too that the costs (interest rates) are increasing on this growing volume of short-term agricultural credit.

Even though volume of short-term farm loans are substantially higher, compared with 1946, they are not considered excessive in relation to farm assets or to prospective farm income this year.

The increased use of short-term credit by farmers in the district is in sharp contrast to an almost constant volume of farm real estate credit outstanding since the end of the war.

The economy of modern farming is such, however, that production loans or non-real estate farm credit in the future may actually be more important from a total volume standpoint than is farm real estate credit. At least, total short-term credit outstanding is now estimated at a higher figure than the total of farm real estate debt for the first time in history.

Farm Real Estate Loans Below Prewar

Information available for the country as a whole indicates the dollar volume of farm real estate loans recorded during the last half of 1950 was a near-record high. It was a tremendous 24% increase from the corresponding period in 1949.

It was significant, however, that the number of new farm loans registered only a minor 5% increase. The increase, therefore, was almost altogether in dollar volume per loan. Commercial banks accounted for about 20% of new recordings of farm real estate loans. The Federal Land banks wrote only 12% of the new business. The balance of loans were made by insurance companies, individuals, and others.

In spite of the surge in farm real estate financing following the outbreak of war in Korea, the outstanding volume of such credit is small relative to agricultural assets. In the Ninth district such credit totaled a little over $500 million on January 1, 1951, compared with about $811 million 10 years ago, and $1,750,000,000 at the peak in 1923.

It was recently reported by major lenders on farm real estate in the Upper Midwest that pay-offs on old mortgages in recent months were heavy but less than in recent years. It was reported also that many old customers were soliciting increases on their old mortgages in order to meet new capital or production needs.

Heavy Demand for Farm Credit in Prospect

As long as inflation continues as a dominant factor, and barring all-out war, there is likely to be pressure for more and more farm credit. Farmers will be anxious to make improvements because they fear higher prices. They may want to secure machines and equipment now in fear of scarcities at some future time.

Inflation is kind to farmers—in its early stages at least— and current farm earning power may appear favorable to lenders as a basis for making farm loans.

The banker, however, is faced currently with a keen demand for loans of all kinds on one hand, while at the same time he is asked voluntarily to restrict credit to blunt the inflation. He is therefore on the proverbial "horns of a dilemma." What should the banker do? What loans should be made and what loans should be turned down?

There are no over-all answers to these questions. The banker may determine in his own mind whether the extension of additional farm credit will result in essential production of food and fibre which will aid in holding prices down. His efforts probably will be directed to limiting the use of nonproductive farm credit or perhaps to restricting credit on the least productve projects. END

Non-real-estate Loans to Farmers Held by All Insured Commercial Banks, January 1*

Thousands Of Dollars

	1940[1]	1946	1950	1951	1951 in % of 1946	1951 in % of 1950
Minnesota	$ 61,863	$ 46,865	$ 94,770	$120,402	256.9%	127.0%
North Dakota	18,326	9,344	23,860	27,917	298.8	117.0
South Dakota	21,334	23,397	42,125	52,585	224.8	124.8
Montana	17,776	13,797	22,626	27,885	202.1	123.2
	$119,299	$ 93,403	$183,381	$228,789	244.9	124.8

* Does not include loans directly guaranteed by the Commodity Credit Corporation.
[1] Includes CCC loans. Source: FDIC & PCA.

Cash Farm Income for Ninth District—January-April*

(Thousands of Dollars)

State	1935-39 Average	1950	1951	1951 in Percent of 1950
Minnesota	$ 102,257	$ 352,698	$ 409,720	116%
North Dakota	23,566	85,603	114,479	134
South Dakota	30,533	126,854	165,455	130
Montana	17,082	62,568	91,957	147
Ninth District[1]	197,391	697,758	870,784	125
United States	2,238,447	7,162,842	8,489,474	119

* Source: "Farm Income Situation" — May 1951.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	May 15 1937-41 Avg.	May 15 1950	United States May 15, 1951	Parity Prices[1] May 15 1951
Crops				
Wheat, bushel	$0.80	$ 2.04	$ 2.05	$ 2.41
Corn, bushel	.60	1.24	1.50	1.75
Oats, bushel	.30	.73	.79	.981
Potatoes, bushel	.64	1.31	1.01	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.33	18.34	20.12	21.30
Beef Cattle, 100 lbs.	7.17	22.74	28.84	19.80
Veal Cattle, 100 lbs.	8.33	26.63	32.93	22.10
Lambs, 100 lbs.	8.20	24.04	32.03	21.70
Wool, lb.	.27	.54	1.12	.567
Milk, wholesale, 100 lbs.	1.45	2.94	3.57	4.79
Butterfat, lb.	.29	.64	.74	.767
Chickens, live, lb.	.128	.177	.275	.313
Eggs, doz.	.156	.264	.416	.528

* Data compiled from USDA—"Agricultural Prices"—dated May 29, 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.

DISTRICT MINING AT CRUCIAL STAGE

Continued from Page 184

Greater Copper Production Foreseen

Plans are now underway to tap low-grade copper bearing ores, as was noted recently in an issue of the Skillings Mining Review. Two of the six new low-grade copper mines are located in mining regions of the Ninth Federal Reserve district.

The White Pine property in Ontonagon county in the Upper Peninsula of Michigan has one of the largest deposits of untapped low-grade copper ores on the North American continent. Extensive diamond drilling has established an ore body totaling 249,610,000 tons. The ore contains 22.3 pounds of copper a ton. Furthermore, an estimated 156,770,000 tons of parting shale, which averages 24.3 pounds of copper a ton, were discovered.

At Butte, Montana, the Anaconda Copper Mining company in 1947 announced plans to mine low-grade copper ores. The low-grade ores are adjacent to the Butte vein structures. Investigational work has established a large quantity of low-grade ore, totaling more than 130 million tons, lying above the 3,400 foot level of the Butte mines. This ore contains about 1 per cent copper, or 22.4 pounds a ton.

An economical method of mining and abstracting copper from these ores requires large capital expenditures. Construction of a concrete-lined, large capacity shaft was begun in 1947 and is scheduled for completion in 1952. An output as high as 15,000 tons of low-grade ore per day is planned with these facilities.

As in the case of mining low-grade iron ore, mining of low-grade copper bearing ores requires use of more equipment and employment of more labor than were required for the mining of high-grade ores. Turning to these ores may result in a high level of economic activity in the copper mining regions of this district.

Since mining companies now are turning to low-grade ores as well as to high-grade ores in places more distant from markets, many communities in the mining areas of this district now envisage the dawning of a new era instead of the waning of a great industry.

Ninth District Business Indexes

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

	May '51	Apr. '51	May '50	May '49
Bank Debits—93 Cities	405	402	343	329
Bank Debits—Farming Centers	459	455	406	407
Ninth District Dept. Store Sales	278	287	268	273
City Department Store Sales	296	299	296	289
Country Department Store Sales	260	275	239	258
Ninth District Dept. Store Stocks	364p	382	322	301
City Department Store Stocks	352p	379	279	261
Country Department Store Stocks	375p	384	356	332
Country Lumber Sales	127	118	142	147
Miscellaneous Carloadings	144	139	113	125
Total Carloadings (excl. Misc.)	121	128	109	115
Farm Prices (Minn. unadj.)	286	281	239	232

p—preliminary

CURRENT BUSINESS DEVELOPMENTS

Controlled materials plan (CMP) of the National Production Authority goes into effect on July 1, 1951. Briefly, CMP is a method for allocating the supply of three basic metals—steel, copper, and aluminum—to various defense and civilian goods producers. Steel, copper and aluminum alone are "controlled" because (a) they are the most used production materials and (b) the control of these materials is expected to "control" the use of other critical materials.

CMP involves considerable paper work for both government and business, but it is designed to assure a smoother functioning of defense production. The government through the National Production Authority Industry divisions will estimate present and future supplies of the three metals.

Businesses with defense contracts, their sub-contractors and suppliers together will determine amounts and timing of controlled materials needed to meet their contracts. The Defense Production administration will make final decisions as to what and how much will be produced for defense on the basis of programs submitted to it by claimant agencies such as the Department of Defense. The civilian economy will be represented by a special claimant agency.

CMP'S job, then, is to correlate all the production data and "sort out" of the nation's future supplies of steel, copper, and aluminum, specific amounts at definite times to meet the needs of each defense producer —and at the same time to "set

Index of Department Store Sales By Cities

(Unadjusted 1935-39=100)

	May[1]	Per Cent of Change[2] May	Jan.-May
MINNESOTA			
Duluth-Super.	290	−4	+8
Fairmont	257	+1	+4
Mankato	270	+8	+5
Minneapolis	327	+2	+8
Rochester	219	−5	+2
St. Cloud	278	−2	−3
St. Paul	251	−4	+3
Willmar	279	+14	+7
Winona	308	+13	+10
MONTANA			
Great Falls	312	+14	+14
NORTH DAKOTA			
Bismarck	292	+18	+14
Grand Forks	346	+10	+9
Minot	277	+9	+8
Valley City	217	+22	+20
SOUTH DAKOTA			
Aberdeen	346	+14	+12
Rapid City	356	+5	+8
Sioux Falls	317	+0	+5
Yankton	286	+9	+20
WISCONSIN			
La Crosse	283	+19	+17

[1] Based on daily average sales.

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

aside" a part of the supply for ordinary civilian products.

A more detailed description of the operation of the plan can be found in the National Production Authority's pamphlet, "ABC's of CMP".

Consumer credit outstanding has contracted slowly since last October, when the present terms of Regulation W became effective.

In commercial banks of this district, the amount of instalment loans outstanding has decreased approximately 1 per cent a month since the first of the year, according to figures compiled from a representative sample of banks. In small loan companies, the amount has declined by a comparable percentage. However, in other financial institutions specializing in consumer credit, loans have continued to expand in some months and to decline in others. Such has been the trend in federal and state credit unions and in industrial loan companies. Nevertheless, in the aggregate, the amount of instalment loans outstanding at financial institutions has been declining slowly.

The trend of consumer credit outstanding at retail establishments reflects more definitely the wave of scare buying which followed the Christmas season than does the trend of credit outstanding at financial institutions. In this district as in others, accounts and notes receivable of department stores were exceptionally high at the end of January. Since that time, the receivables have again gone down. For example, at the end of May, receivables were only 11 per cent higher as compared with the corresponding month in 1950, whereas in January they were 20 per cent higher.

In furniture stores of this district, receivables also have declined since the first of the year. At the end of May receivables were only 2 per cent higher than last year, whereas at the end of January they were 18 per cent higher.

As a result of the heavy buying in January, some consumers overextended themselves and later encountered difficulty in meeting their payments. Collection ratios on large items, especially household appliances, dropped during the past several months. Such ratios are collections made during a month expressed as a percentage of receivables held at the beginning of a month.

In district department stores, the collection ratio declined from 46 per cent in February to 44 per cent in May.

In furniture stores, the collection ratio has held up quite well. For example, in April as well as in February the ratio stood at 19 per cent. In May, the ratio was still at 19 per cent.

It may be concluded that Regulation W terms are holding down the expansion in consumer credit. In the nation, consumer credit decreased nearly $500 million during the six months since October 1950 as compared with an increase of more than $2 billion in the preceding six months.

Department store sales increased less than 2% in May over what they had been in April for Ninth district department stores. This was smaller than the usual increase at this time of the year. Stocks were down somewhat over 5% at the end of May from the record high of the previous month, but they were still above the January-February month-end levels. END

Sales at Ninth District Department Stores*

	% May 1951 of May 1950	% Jan.-May 1951 of Jan.-May 1950	Number of Stores[1] showing Increase	Decrease
Total District	103	108	211	81
Mpls., St. Paul, Dul-Sup.	100	106	14	14
Country Stores	108	109	197	67
Minnesota (City & Country)	101	106	56	37
Minnesota (Country)	105	104	45	23
Central	100	95	3	4
Northeastern	104	107	4	1
Red River Valley	93	100	2	4
South Central	109	107	13	1
Southeastern	102	107	7	5
Southwestern	110	105	16	8
Montana	104	111	26	11
Mountains	104	117	8	4
Plains	105	108	18	7
North Dakota	117	114	47	4
North Central	136	123	9	0
Northwestern	114	112	7	0
Red River Valley	110	110	16	3
Southeastern	125	116	12	1
Southwestern	138	128	3	0
Red River Valley-Minn. & N. D.	106	108	18	7
South Dakota	107	109	33	17
Southeastern	102	107	11	5
Other Eastern	113	110	17	11
Western	105	108	5	1
Wisconsin and Michigan	110	112	46	12
Northern Wisconsin	108	108	11	4
West Central Wisconsin	110	113	24	5
Upper Peninsula Michigan	111	114	11	3

* Percentages are based on dollar volume of sales.

[1] May, 1951, compared with May, 1950.

[2] May, 1951, compared with May, 1950.

NOTE: The per cent change in department store sales from a year ago is computed on a larger sample of stores than that used for the index. Some of these stores do not come within a strict census definition of a department store, but use of the larger sample provides a more representative figure on sales by area within the district.

LIQUIDITY OF DISTRICT'S BANKS REMAINS HIGH

Continued from Page 186

posits in the Ninth district member banks climbed to 240% of the 1941 level. Needless to say, the exceptional performance of our agricultural economy was an important element in this growth.

The evidence testifies that the outlook for the Ninth district is favorable; that is, it is unlikely that bankers here will have occasion to meet persistently unfavorable clearing obligations.

It may be observed that, in addition to the volume of liquid assets, another element of strength lies in the relationship between the Federal Reserve banks and the member banks. The Banking Act of 1935 authorized the extension of Reserve bank credit on much more liberal terms than had previously been the case.

It was in the early Thirties that the entire banking system was in need of cash in order to accommodate deposit withdrawals. The cash acquired from the sale of an asset by one bank was at the expense of other banks' deposits and reserve accounts. It is obvious that, collectively, the effort was futile.

On the other hand, sales of banks' assets to the Federal Reserve System, or discounts and advances by the Reserve banks, would make additional funds available, not merely shift funds within the commercial banking system.

It may be concluded that banks in the Ninth district are more liquid than in previous decades by reason of the improved marketability of their assets and greater accessibility to Federal Reserve bank credit.

END

MAY BANKING DEVELOPMENTS

ATTESTING to the scarcity of lendable funds at Ninth District banks in May was the unusually low level of excess reserves, coupled with an unusually high level of borrowing by banks. The experience in this district was in conformity with national developments.

Excess reserves at member banks here fell to the lowest level since February of 1934. Discounts and advances at the Federal Reserve Bank of Minneapolis almost tripled in May, rising from $13 million to $37 million.

Since the consolidated statement of all Ninth district member banks showed an increase in borrowings of only $12 million, in contrast with an increase of $24 million in borrowing at the Reserve bank, a shift to Reserve bank credit with an attendant reduction of other borrowing is indicated. All of the new borrowing occurred at the city banks; these banks ordinarily maintain a narrower margin of excess reserves than do country banks.

It has been customary in the past for banks to adjust tight reserve positions by liquidating government securities rather than borrowing. The absence of this behavior in May suggests reluctance on the part of bankers to sell governments at present prices.

Government security holdings, which had declined in every month since October of 1950, increased by $3 million in May. The increase was offset by an equivalent decline in other investments.

Loans and discounts for the first time since August of last year, declined in May. The aggregate drop of $13 million obscures an increase of $6 million at the country banks as against a reduction of $19 million at the city (weekly reporting) banks. At the city banks the commercial, industrial, and agricultural component was responsible for the entire decline.

Demand deposits other than those due to banks increased by $11 million. Total demand deposits declined, however, because of a $17 million reduction of bank-owned deposits. Time deposits were down $1 million.

Deposits were turned over faster in May than in the previous month. At an annual rate, turnover was 15.9, up 1. from April.

Mid-June statements from the 20 reporting banks show a deposit increase of $75 million which enabled these banks to extinguish half their borrowing. A $5 million decline in consumer loans was partially offset by slight increases in real estate and commercial, industrial, and agricultural loans.

END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 29, 1951

INDUSTRIAL production was maintained at earlier advanced levels in May and the first three weeks of June. In wholesale markets basic commodity prices declined further while prices of finished commodities generally changed little. Consumers' prices in May advanced to a new high. Awards for defense construction rose sharply. Retail sales were maintained, following earlier declines. Up to early June, bank loans to business declined somewhat, but subsequently a sharp rise occurred; defense loans have been increasing significantly.

INDUSTRIAL PRODUCTION —The Board's seasonally adjusted production index in May was maintained at the March-April level of 223 per cent of the 1935-39 average. In June, industrial production is expected to continue at about this rate, which is 12 per cent higher than a year ago.

Activity in durable goods industries has been stable since March, with industrial and military equipment expanding further, consumer goods declining, and most metals and building materials showing little change. Steel mill activity in May and June has continued at earlier record levels, and ingot output of about 52.5 million tons in the first half of this year has exceeded that in the first half of 1950 by 11 per cent.

Passenger car assembly in May and June has been maintained close to the April rate of 500,000 cars per month, while output of most household durable goods has apparently declined considerably further.

Output of nondurable goods in May remained at the high April level. A slight gain for textiles reflected mainly termination of a labor dispute at cotton mills. Paperboard production reached a new record rate in May, but subsequently declined slightly. Chemicals production continued to expand. Meat production declined somewhat in May; in the first half of June, pork production increased while beef output dropped sharply.

A further small gain in minerals output in May reflected mainly near-record volume of iron ore production for this season.

EMPLOYMENT — Employment in non-agricultural establishments in May, after allowances for seasonal influences, continued at the record April level. The average factory work week declined slightly, while average hourly earnings continued to rise. Unemployment declined somewhat further to 1.6 million, the lowest level since October, 1945.

CONSTRUCTION — Value of construction contract awards showed an unprecedented increase in May, reflecting primarily issuance of several large awards by the Atomic Energy commission totaling almost $1 billion. Awards for some other types of nonresidential construction also showed more than the usual seasonal rise. Nonfarm housing starts increased to 97,000 in May; this was more than one-third below the same month a year ago but about the same as in May 1949.

DISTRIBUTION — Value of retail sales, seasonally adjusted, was maintained in May, following a considerable decline from January to April. Sales of household durable goods decreased further, while sales of apparel and other soft goods increased somewhat. Sales by automotive dealers showed little change.

In the first three weeks of June, sales at department stores continued at about the May level; in New York City sales rose considerably in response to a "price war."

Seasonally adjusted value of department store stocks at the end of May was about 30 per cent above year-ago levels, roughly the same as at the end of April.

COMMODITY PRICES — The general level of wholesale commodity prices has continued to change little since mid-May. Prices of such basic commodities as grains, fats and oils, cotton gray goods, wool, and tin have declined further, and a 14-cent reduction in the price of rubber, to 52 cents per pound, has been announced effective July 1.

Prices of finished goods generally have been maintained. Several manufacturers of carpets have reduced prices up to 11 per cent, less than the increases effected in April when ceilings were raised. Prices of hard floor coverings, in contrast, have been raised further.

Consumer prices rose .4 per cent in May. Prices of foods, which had declined slightly in April, rose .8 per cent to a new high.

BANK CREDIT and the MONEY SUPPLY — Business loans outstanding at banks in leading cities declined somewhat between mid-May and early June and rose thereafter. Loans to finance defense contracts and "defense supporting" activities principally to metal manufacturers and public utilities, increased considerably. Seasonal decreases continued in some types of loans, particularly those to commodity dealers and processors of agricultural commodities.

Deposits and currency held by businesses and individuals increased somewhat in the first half of June following relatively little change in May. The rate of use of demand deposits at banks in leading cities outside New York remained high in May, but was slightly below that of April, the seasonally adjusted peak for recent years.

MONEY RATES and SECURITY MARKETS — Common stock prices showed a moderate advance in early June but by the end of the third week had declined to a level slightly below that of May 31. Yields on high-grade corporate bonds increased moderately during the first three weeks of June. With easy money conditions prevailing, yields on Treasury bills and other short-term government securities declined somewhat.