FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY REVIEW

9th DISTRICT AGRICULTURAL AND BUSINESS CONDITIONS

Vol. 10 DECEMBER 31, 1951 Serial No. 24

BUSINESS

Real Estate Loans Extensive in District

AT LEAST $1.4 billion in residential real estate mortgage credit and $220 million in non-residential real estate mortgage credit (including farm lending) was outstanding on the books of Ninth district lenders on May 31, 1951.

About $720 million of real estate secured credit was serviced by various Ninth district agencies for other lenders.

These figures, which reveal the immense scope of real estate mortgage lending in the Ninth district, are taken from a tabulation of registration statements filed by real estate lenders under Regulation X.

The figures from the statements, it should be noted, do not reveal the total volume of real estate credit granted. They give only the outstanding balances — not the total amounts of the original loans made—and relate only to loans secured by real estate.

They do not represent all Ninth district lenders whose loans were secured by some form of real estate (such as a house, a barn, an office building, or some land).

Even among commercial banks only about three-fourths of the registration statements were available for tabulation. Also excluded from the group required to file statements were many smaller lenders who had made less than four loans during 1950 or 1951 and whose aggregate loanings were less than $50,000 during those periods. And then, of course, some small amount of real estate credit will be extended that is not secured by real estate.

For the nation, the dollar volume of new real estate mortgage lending remained relatively high throughout 1951, but it had declined somewhat from 1950 — when unprecedented levels of construction and mortgage lending had brought on the credit-restricting measures of Regulation X.

Savings and Loan Lead In Residential Mortgages

Commercial banks, savings and loan associations, insurance companies and commercial bank trust departments stood among the major lenders. Surprisingly, however, a miscellaneous group of lenders made up largely of credit unions and a few production credit associations were the second largest category of lenders in the Ninth district, falling just behind the commercial banks. The relative unimportance of this group of lenders in several of the other Federal Reserve districts makes the larger total of loans here all the more conspicuous.

- ***Volume of mortgage lending remains high, with residential property securing about 85 per cent of the total.***
- ***A few large lenders hold the bulk of total volume. Savings and loan associations exceeded all others in the volume of residential real estate mortgages held.***

I. Real Estate Mortgage Balances Outstanding as of May 31, 1951 Reported by 9th District Regulation X Registrants by Type of Lender

(Millions of Dollars)

Type of Lender	Residential Loans On Own Account	Non-Residential Loans On Own Account
Commercial Banks	$ 332	$102
Credit Unions, et al*	340	40
Savings and Loan Associations	346	10
Insurance Companies	165	41
Trust Departments	134	3
Others (Brokers, misc.)	78	27
	$1,395	$223

*Includes some Production Credit associations.

II. Real Estate Mortgage Balances Outstanding as of May 31, 1951 Reported by 9th District Regulation X Registrants by States

(Millions of Dollars)

State	Residential Loans On Own Account	Non-Residential Loans On Own Account	Real Estate Loans Serviced for Other
Michigan*	$ 33	$ 5	$ 1
Minnesota	1,144	159	591
Montana	62	16	22
North Dakota	56	14	21
South Dakota	50	13	76
Wisconsin*	50	16	10
	$1,395	$223	$721

*Counties in Ninth district only.

Savings and loan associations, an important real estate lending group in the Ninth district, exceeded all others in the volume of residential real estate mortgages held. These findings are highlighted in table I.

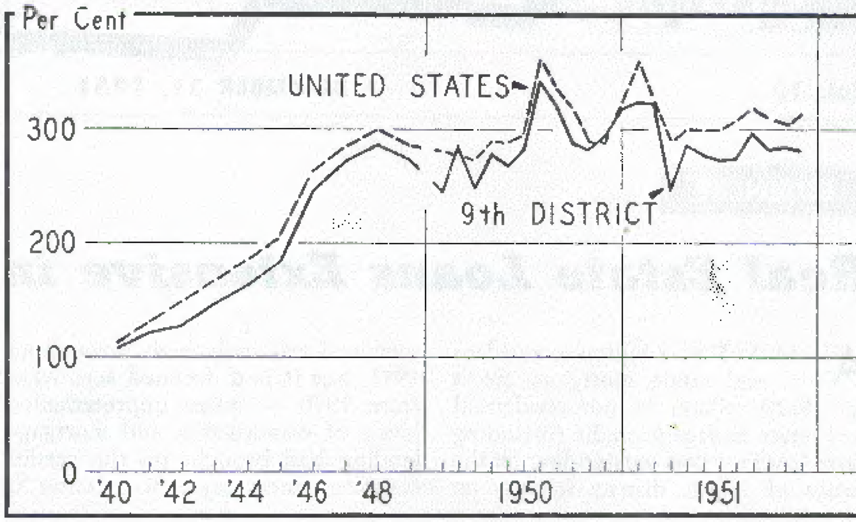
Bulk of Mortgage Business in Twin Cities

Of the total outstanding real estate credit, about 85% was secured by residential property (as distinguished from farm or business buildings). Residential lending, of course, was concentrated in the large urban centers. Minnesota, with the two largest cities in the district, held four-fifths of the district's mortgages. The proportion of residential loans was also greater in Minnesota. The distribution of balances by states is given in table II.

This concentration in Minnesota also reflected another factor—the great majority of dollar balances tended to be held by a relatively few large lenders. For example, the top 2 per cent of the lenders (in size) held nearly 70 per cent of the total outstanding balances, while the top one-sixth (in size) held over nine-tenths of the outstanding real estate loans. However, smaller dealers (such as real estate brokers and agents) had important shares of real estate mortgages serviced for others. END

CHART I DEPARTMENT STORE SALES IN THE NINTH DISTRICT AND UNITED STATES FROM 1940 TO DATE

1935-39=100; Seasonally Adjusted Index Numbers



THE LOSS of population due to the unprecedented inter-regional migration accounts for the smaller growth in district department store sales since 1940.

NINTH DISTRICT BUSINESS INDEXES REVISED

THE Ninth district business indexes have been revised for the entire period covered by these series. The revisions have been undertaken as part of a nationwide project of the Federal Reserve System and have been computed according to procedures developed by Reserve System representatives. Principal features of the revisions are:

(1) The indexes have been adjusted where possible to reflect changes indicated by comprehensive Census data for the two years 1939 and 1948. This includes adjustments in the indexes of department store sales to permit the use of the changed definition of a "department store" which was used in the 1948 Census of Business.

(2) The base period for the indexes has been changed from 1935-39 to 1947-49. This change was in accordance with the recommendation of the Division of Statistical Standards of the Bureau of the budget that all federal agencies shift the base period of statistical index numbers from a pre-World War II period to the postwar years, 1947-49.

(3) Seasonal adjustment factors have been reviewed for the years 1940 to date for the department store sales and stocks indexes and the bank debits index, and for the entire period of the carloadings indexes and the lumber sales index. Revisions have been made where necessary.

Beginning with this issue of the Monthly Review all Ninth district indexes will be published on the revised basis. Complete back figures are available on request from the Research department, Federal Reserve Bank of Minneapolis.

For the convenience of readers, this issue of the Review also carries a table showing the most recent figures on the old basis, thereby providing an overlap period of one month. Subsequent issues will carry only the revised indexes on a 1947-49 base.

For those users who wish for a time to continue using a 1935-39 base, a special release giving back figures for the revised indexes on a 1935-39 base is also available on request. This release also contains conversion factors which may be used to convert indexes for subsequent months to the 1935-39 base.

A complete description of the techniques used in revising the department store sales and stocks indexes is contained in the Federal Reserve Bulletin for December 1951. Similar methods and procedures were used in revising the other indexes.

Business Indicators Show District Economy Operating At Full Capacity

A CONTINUING high level of business activity was indicated for the Ninth Federal Reserve district during November as full employment and record bank debits were charted.

Department store sales, although slow in November, reflected an improvement in the over-all retail picture. Christmas buying had started off slowly in this district, but in the first two weeks of December it had picked up considerably. According to preliminary figures available, 1951 may turn out to be another big Christmas shopping year.

For the four weeks ending December 1, department store sales in Duluth, Minneapolis, St. Paul, and Superior were 4 per cent below dollar receipts for the corresponding period of 1950. Sales were down 1 per cent for the first week in December and 2 per cent for the second week.

During November, department store sales in this district did not compare favorably with those in other districts. As stated above, sales were down 4 per cent in the four large centers of this district, whereas in the nation they were up 6 per cent. For the first two weeks in December, Ninth district sales again were in line with those prevailing in other districts. For the nation as a whole, sales in the first and second weeks were down 1 per cent and 2 per cent respectively on the basis of receipts for corresponding weeks of 1950.

Since December 1950 sales were exceptionally high as a result of the beginning of the second scare buying wave, the percentage change in sales for December 1951 is not expected to be very impressive. After an allowance was made for the usual seasonal increase, December 1950 sales in this district were 9 per cent higher than those for the preceding November.

The recent slump in Ninth district department store sales has directed attention to the possible underlying causes. Chart I was drawn to provide a perspective on the trend of sales for this district and for the nation. Annual figures were plotted from 1940 through 1949 and monthly figures were plotted beginning with 1950.

Since the two series were plotted in terms of index numbers with the period from 1935 to 1939 equal to 100 per cent, the two lines reveal the relative expansion of sales in this district and in the nation since 1939. As may be readily observed on the chart, the expansion in Ninth district sales steadily fell below the expansion in sales for the nation.

The second chart reveals the expansion in department store sales between the large industrial centers of this district and the smaller centers. The trend line designated "city" is based on the sales in Duluth, Minneapolis, St. Paul, and Superior. The trend line designated "country" is based on a representative sample of sales in this district, excluding those in the four large centers. As shown on the chart, expansion of sales in the large cities has exceeded significantly that in smaller centers.

The slower growth of department store sales in this district, and especially in the smaller centers, may be traced to the loss in population due to inter-regional migration. Net migration from this district during the '40s has been estimated over 530,000. This emigration constituted a loss of consumers which had a direct bearing on the growth of department store sales.

Fortunately, the loss of consumers was partially offset by a rise in per capita income. In the decade of the '30s, the Ninth district was a low-income region, whereas in the '40s it rose to an average-income region. Since 1940, the increase in per capita income in this district has exceeded the national average. North and South Dakota have enjoyed the largest increases among the 48 states.

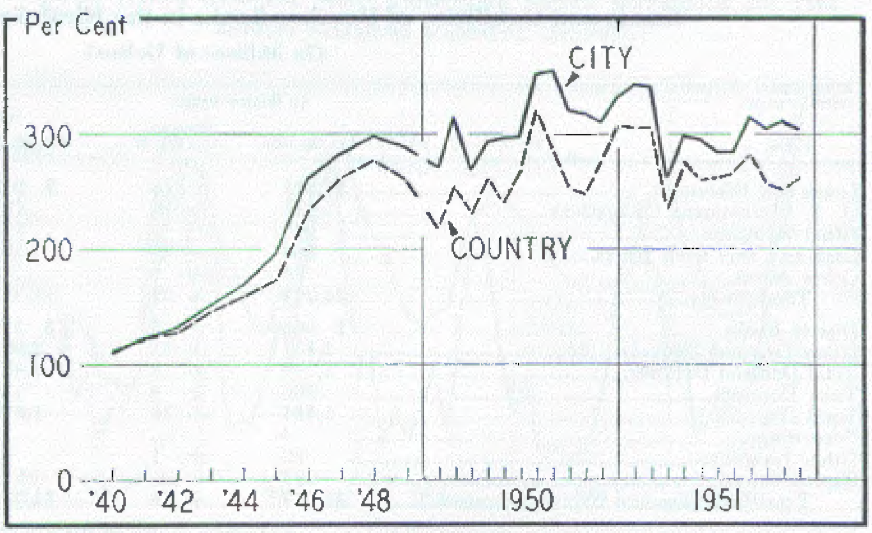
For relatively short periods, district department store sales have dropped further below the national average than at other times. Such has been the situation this year, beginning with the second quarter. Sales in the smaller centers have held up fairly well, but sales in the four large metropolitan centers have fallen behind.

In making an examination of possible causes which may have contributed to the slump in sales, two

(Continued on Page 245)

CHART II NINTH DISTRICT CITY AND COUNTRY DEPARTMENT STORE SALES FROM 1940 TO DATE

1935-39=100; Seasonally Adjusted Index Numbers



THE GROWTH in Ninth district department store sales since 1940 has been larger in the industrial and wholesale centers than it has been in the smaller centers because of the latter's loss in population.

Index of Department Store Sales by Cities

(Unadjusted)

	Nov.[1] 1947-49 =100	Nov.[1] 1935-39 =100	Percent Change[2] Nov.	Percent Change[2] Jan.-Nov.
MINNESOTA				
Duluth-Superior	118	331	— 2	— 1
Fairmont	93	270	—17	— 6
Mankato	170	352	— 3	+ 2
Minneapolis	127	387	— 1	+ 0
Rochester	93	226	—15	— 7
St. Cloud	91	301	—10	— 9
St. Paul	110	294	— 2	— 5
Willmar	116	327	— 8	— 1
Winona	124	319	— 2	+ 0
MONTANA				
Great Falls	116	380	+ 0	+ 7
NORTH DAKOTA				
Bismarck	130	397	+ 4	+ 8
Grand Forks	117	397	— 4	+ 4
Minot	139	434	+ 4	+ 4
Valley City	108	271	— 2	+ 4
SOUTH DAKOTA				
Aberdeen	108	453	+ 4	+ 2
Rapid City	126	470	+19	+10
Sioux Falls p	106	369	— 6	— 1
Yankton p	83	248	—13	+ 8
WISCONSIN				
La Crosse	126	320	+ 4	+ 8

[1] Based on daily average sales.

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

p—preliminary.

Sales at Ninth District Department Stores*

	% Nov. '51 of Nov. '50	% Jan.-Nov. '51 of Jan.-Nov. '50	Number of Stores[1] showing Increase	Number of Stores[1] showing Decrease
Total District	99	100	147	122
Mpls., St. Paul, Dul.-Sup.	98	99	16	11
Country Stores	102	103	131	111
Minnesota (City and Country)	98	99	53	44
Minnesota (Country)	98	99	37	36
Central	105	94	2	4
Northeastern	94	103	2	3
Red River Valley	97	95	3	3
South Central	102	103	11	5
Southeastern	95	98	9	5
Southwestern	96	100	10	16
Montana	110	106	19	18
Mountains	101	106	6	5
Plains	114	106	13	13
North Dakota	100	104	22	26
North Central	96	106	2	7
Northwestern	104	105	5	2
Red River Valley	98	101	6	12
Southeastern	101	107	6	5
Southwestern	117	116	3	0
Red River Valley-Minn. & N. D.	98	100	9	15
South Dakota	96	102	16	13
Southeastern	93	101	2	6
Other Eastern	103	103	10	5
Western	83	103	4	2
Wisconsin and Michigan	105	106	37	18
Northern Wisconsin	97	106	11	4
West Central Wisconsin	106	106	19	9
Upper Peninsula Michigan	106	105	7	5

* Percentages are based on dollar volume of sales.

[1] November 1951 compared with November 1950.

Note: The per cent 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.

Assets and Liabilities of Member Banks in the Ninth Federal Reserve District

(In Millions of Dollars)

ITEM	All Member Banks Nov. 28, 1951	All Member Banks Change Since Oct. 31	City Banks (weekly reporting) Nov. 28, 1951	City Banks (weekly reporting) Change Since Oct. 31	Country Banks (non-weekly reporting) Nov. 28, 1951	Country Banks (non-weekly reporting) Change Since Oct. 31
Loans and Discounts	$1,255	+ 16	$ 618	+ 13	$ 637	+ 3
U. S. Government Obligations	1,423	+ 48	527	+ 17	896	+ 31
Other Securities	277	— 3	128	— 3	149	....
Cash and Due from Banks	964	— 23	503	— 23	461	....
Other Assets	35	+ 1	18	+ 1	17	....
Total Assets	$3,954	+ 39	$1,794	+ 5	$2,160	+ 34
Due to Banks	$ 408	+ 3	$ 355	+ 1	$ 53	+ 2
Other Demand Deposits	2,371	+ 31	1,067	+ 2	1,304	+ 29
Total Demand Deposits	2,779	+ 34	1,422	+ 3	1,357	+ 31
Time Deposits	906	+ 4	236	....	670	+ 4
Total Deposits	3,685	+ 38	1,658	+ 3	2,027	+ 35
Borrowings	4	....	3	....	1	....
Other Liabilities	30	+ 1	22	+ 1	8	....
Capital Funds	235	....	111	+ 1	124	— 1
Total Liabilities and Capital Accounts	$3,954	+ 39	$1,794	+ 5	$2,160	+ 34

Reporting bank data are from balance sheets submitted weekly. Non-reporting bank data are 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 in the process of collection, 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 required 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.

BANKING

Ninth District Deposits Hit All-Time High

FOR the second successive month, Ninth district member banks reported a new record high level of deposits in November—$3,685,000,000. This development reflects primarily the operation of two factors:

(1) the almost continuous expansion of bank credit both here and nationally since early 1950 and

(2) the seasonal inflow of funds resulting from the sale of Ninth district agricultural production.

With regard to bank credit, the accompanying table illustrates the magnitude and composition of the increase that has occurred here and elsewhere since mid-1950.

As can be seen from the table, bankers elsewhere made more loans and liquidated fewer securities than did bankers in this area.

It is impossible to ascertain the extent to which deposit changes at one group of banks reflect extensions of credit by those or other banks, since this depends upon where the proceeds of the credits are spent. For instance, it is quite reasonable to assume that a large part of the funds made available by the increase in loans at Ninth district banks was used to finance purchases in other districts. Such transactions would increase deposits at other than Ninth district banks.

Bulk of Increase Came From Outside Credits

By the same token, there is no doubt that much of the recent deposit increase in the Ninth district represents receipt of checks drawn on credits granted elsewhere.

It can be said with regard to these inter-district relationships that, as the size of the area under consideration increases, there is a greater tendency for funds withdrawn from any particular bank to be deposited at another bank within the same area. Also, this tendency increases with the degree of self-sufficiency that prevails in the area.

The most important function of money is that it facilitates realization of the economies inherent in regional specialization; it permits the easy trade of one area's specialties for those of another area.

Perhaps the most important single "specialty" in the Ninth district is agricultural production. Receipts from the sale of Ninth district agricultural products are particularly important to banks in rural areas, since farmers constitute an important proportion of rural bank customers.

The close relationship that exists between cash farm income* and country (non-weekly reporting) bank deposits can be observed by referring to the accompanying graph. This graph reveals wide seasonal variations in the level of deposits in Ninth district banks.

Variation in Deposits Demands High Liquidity

It would seem that banks with such seasonal deposit variation would ordinarily maintain greater liquidity than banks with more stable deposit ex-

* Dept. of Agriculture estimates.

▶ ***More bank credit since mid-1950 together with the seasonal inflow of funds boosted deposits at member banks to $3,685,000,000 for a new record.***

▶ ***Most of the November increase was registered at country banks.***

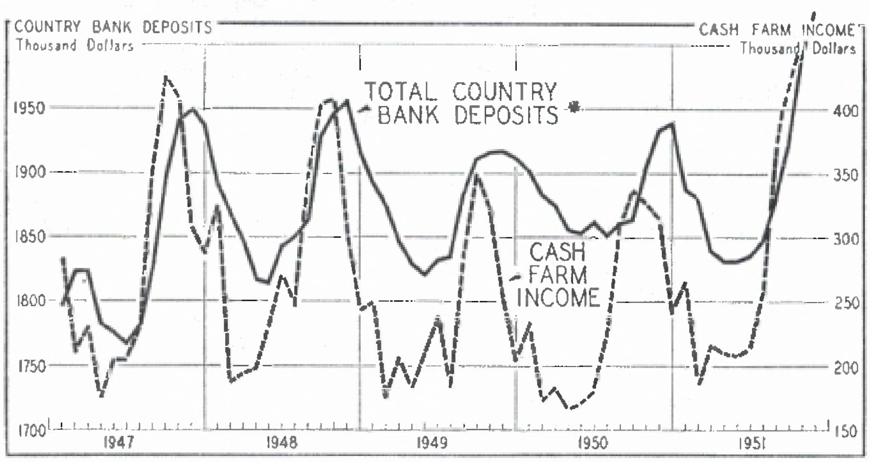
▶ ***Despite the record level, the gain in Ninth district bank deposits was still short of the national increase.***

perience. This is because the amount of assets which were acquired by banks with funds derived from the seasonal increase in deposits must be liquidated when a seasonal decline occurs later.

Studies conducted earlier this year by the Federal Reserve Bank of Minneapolis confirm this observation. Ninth district member banks were found to be significantly more liquid than the average of all member banks.**

** Monthly Review for June, 1951.

CASH FARM INCOME AND COUNTRY BANK DEPOSITS IN THE NINTH FEDERAL RESERVE DISTRICT



THE CLOSE relationship between country bank deposits and cash farm income is shown by this chart. Data for recent months disclosed that each series reached a record level.

*As reported by the banks. Cash farm income figures are from the U. S. Department of Agriculture.

Between mid-1950 and October 31, 1951 deposits at banks in the rest of the nation increased by 10%; the increase at Ninth district banks was 7%. Thus it is seen that, although deposits in this district are at a record level, they have not kept pace with the national increase. END

Changes in Member Bank Credit Items, National and Ninth District

	National June '50	National Oct. '51	Change	Ninth District June '50	Ninth District Oct. '51	Change
Loans & Investments	103.0	110.3	+ 7%	2.831	2.894	+ 2.2%
Loans	37.8	48.6	+29%	.976	1.239	+27.2%
U. S. Gov't Obligations	55.9	50.9	— 9%	1.588	1.375	—13.0%
Other Securities	9.2	10.7	+16%	.267	.280	+ 5.0%

CURRENT BANKING DEVELOPMENTS

Total deposits were up $38 million at Ninth district banks in November. More than 91 per cent of the increase was at country banks.

New loans were granted faster than old ones were repaid in November. The resulting loan increase was almost entirely confined to city banks, where consumer loans accounted for most of the change.

Government obligations were acquired in larger volume by district member banks in November than in any other month this year. Of the $48 million increase, $31 million were purchased by the country banks. Almost all of the funds made available by the deposit increase at country banks were used to finance these purchases.

Borrowings, at $4 million, were unchanged from the preceding month. END

DISTRICT ECONOMY AT FULL CAPACITY

Continued from Page 242

are found to have stood out. Employment in these cities has not increased as rapidly as in the nation, and the increase in average weekly earnings of manufacturing workers has lagged behind the increase for the nation. Larger savings from current earnings also may have contributed to a lower level of consumer expenditures.

Employment in the district continued strong, although the seasonal decline in business activity brought about some contraction. This varied by states from somewhat more than normal to less than normal.

On the Upper Peninsula of Michigan, wet weather during October brought a decline in employment in logging, lumbering, and wood products industries, according to the report issued by the Michigan employment security commission.

In Montana, the state employment service traced the reduction in employment principally to the smaller crews on construction projects and to fewer workers employed in the production of building material industries.

In Minnesota and Wisconsin, similar seasonal conditions have reduced employment, but there has been more of an opportunity to shift manpower to defense work. The Minnesota division of employment and security reported that the growth of employment in the ordnance industry of over 6,000 workers during the past year has been one of the major causes of increased employment in the durable goods manufacturing group.

In these two states, the number of workers engaged in the production of almost innumerable defense products many times exceeds the number employed in the ordnance plants. This type of production gained considerable momentum during the latter half of this year.

Bank debits set a new record for November in this district, providing concrete evidence of the large amount of business transacted. The index, adjusted for seasonal variations, was 377 per cent of the 1935 to 1939 base period. For November 1950, the index stood at 375 per cent. The increase in debits reported by banks was higher in the farming centers than it was in the larger industrial centers. END

Ninth District Business Indexes

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

	Nov. '51	Oct. '51	Nov. '50	Nov. '49
Bank Debits—93 Cities	377	391	375	301
Bank Debits—Farming Centers	459	493	450	382
Ninth District Dept. Store Sales	282p	286	291	267
City Department Store Sales	304p	312	310	285
Country Department Store Sales	261p	261	273	250
Ninth District Dept. Store Stocks	333p	347	345	305
City Department Store Stocks	288p	302	302	256
Country Department Store Stocks	370p	383	380	345
Lumber Sales at Retail Yards (Bd. Ft.)	124p	145	142	153
Miscellaneous Carloadings	126	131	133	106
Total Carloadings (excl. Misc.)	115	113	121	73
Farm Prices (Minn. unadj.)	266	272	247	216

p—preliminary

Ninth District Business Indexes

(Adjusted for Seasonal Variations—1947-49=100)

	Nov. '51	Oct. '51	Nov. '50	Nov. '49
Bank Debits—93 Cities	118	117	118	95
Bank Debits—Farming Centers	120	122	118	100
Ninth District Dept. Store Sales	107	104	108	99
City Department Store Sales	109	106	111	102
Country Department Store Sales	102	100	103	94
Ninth District Dept. Store Stocks	107	113	111	98
City Department Store Stocks	108	115	113	98
Country Department Store Stocks	106	112	109	98
Country Lumber Sales	82	87	91	104
Miscellaneous Carloadings	100	104	106	84
Total Carloadings (excl. Misc.)	94	98	102	62
Farm Prices (Minn. unadj.)	102	105	95	83

p—preliminary.

AGRICULTURE

Farm Trends Emphasize Good Leases

ALTHOUGH the decade of the Forties brought a decline in both the proportion and number of tenant-operated farms in the Ninth district, the large capital requirements and high operating costs of modern farming place continued emphasis on good leasing arrangements.

Farms operated by tenants still represent an important part of the total. The production from those farms is especially significant, since tenant farming tends to be concentrated in the more productive farming areas.

Three main conditions made it easier for tenant operators to purchase and pay for a farm during the Forties:

First, rising prices and favorable price-cost relationships widened the margin of profit on many farm products. The farm parity ratio stood at 80 in 1940—then rose sharply to remain well above 100 through 1948. (See table.)

Second, more efficient farming methods, better crop varieties, greater use of machinery and fertilizers boosted the basic productivity of agriculture an estimated 20 to 30 per cent. Together, the greater output and favorable prices added substantially to net farm incomes.

Third, generally inflationary price trends made it easy to pay for a farm, because mortgages based on lower price and value levels were paid off in cheaper, inflated dollars.

As farm incomes rose, rental charges also moved upward — and moved still higher in the late Forties as the supply of farms available for renting frequently fell short of the demand for farms to rent. Some tenant operators were forced to buy a farm in order to have a place to operate, even though their financial position made the purchase difficult at the time.

While economic conditions favored the purchase of a farm, many non-farming owners of land were willing to sell at the higher land prices. In 1940, the major lending institutions still owned many farms that they had acquired during the depression of the Thirties.

Most of these were "unloaded" during the early 1940's. Life insurance companies, which had owned farms valued at $600 million in 1940, had reduced their holdings to less than $14 million by 1948. The Federal Land banks reduced their holdings from more than $125 million to $171 thousand in the same period.

Recent figures on farms owned by commercial banks are not available, but the fact that they reduced their holdings by more than 50 per cent from 1940 to June 1942 indicates that they have followed a similar pattern.

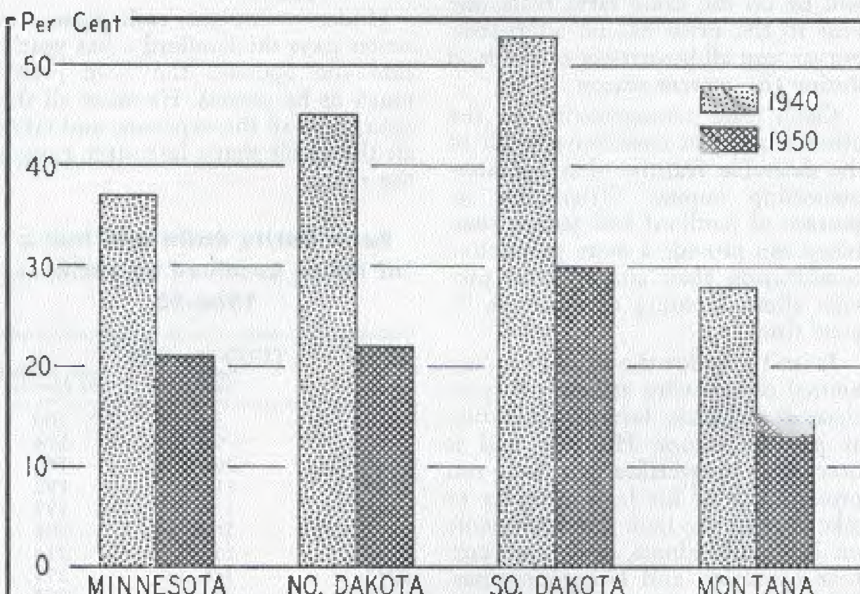
Since the reduction in holdings of the institutional lending agencies far exceeds the decline in the number of rented farms, it seems evident that individuals now own a larger portion of the farms that are operated by tenant farmers.

It has long been considered a desirable thing for those who produce the crops and the livestock to own the farms they operate. Owning the land is said to foster better land use and conservation of soil and water, encourage richer and more stable communities, and establish a sounder base for democracy.

Obviously, an operator who owns his land is apt to have a deeper interest in maintaining its productivity,

- ***Both the number and proportion of tenant-operated farms have declined sharply, with more operators owning their farms.***
- ***Tenant-operated farms, however, still produce an important share of total farm output.***
- ***Current capital and operating costs make good leasing arrangements essential to efficient farm production.***

PERCENTAGE OF FARMS OPERATED BY TENANTS IN NINTH DISTRICT STATES, 1950 COMPARED WITH 1940



ALTHOUGH both the number and percentage of farms operated by tenants has dropped sharply, such farms still represent an important part of total farm production.

Source: U. S. Census.

Basic Farm Census Data for Four Ninth District States, 1940 and 1950

	MINNESOTA 1950	MINNESOTA 1940	NORTH DAKOTA 1950	NORTH DAKOTA 1940	SOUTH DAKOTA 1950	SOUTH DAKOTA 1940	MONTANA 1950	MONTANA 1940
No. of farms	179,101	197,351	65,401	73,962	66,452	72,454	35,085	41,823
No. of owners	106,487	103,866	25,483	18,651	20,697	15,053	16,090	17,028
No. part owners*	34,843	29,037	25,493	21,740	25,334	18,750	13,573	12,856
No. of tenants	37,396	63,817	14,300	33,377	20,197	38,398	5,155	11,642
Per cent tenants	20.9	32.3	21.9	45.1	30.4	53.0	14.7	27.8
Avg. farm size (acres)	184.	165.2	630.	512.9	674.	544.8	1,689	1,111
No. of tractors	204,361	105,075	98,672	49,361	88,991	44,154	44,991	22,587
No. farms with electricity	150,755	59,838	44,200	11,446	45,898	12,845	26,335	11,688

* By census definition, a part owner is an operator who owns land, and rents additional land. The total of owners, part-owners, and tenants does not exactly equal the number of farms, because a small number of manager-operated farms are not included in this table.
Source: U. S. Census.

and his greater security of tenure may often contribute indirectly to a richer community life.

Not every farmer, however, is in a position to buy the farm he operates. Most beginning farmers are short of capital. Even some experienced farmers prefer to let someone else own the land and use their own capital for operating purposes.

Careless or arbitrary lease agreements often discourage long-run planning, and programs of soil building and fertility maintenance. Such leases can make an efficient balance of crops and livestock difficult if not impossible on some farms. The tenant who leases for a share of the crop, and with no assurance that he will be on the same farm from one year to the next, has no alternative but to crop all he can out of the land during the current season.

Good lease arrangements, on the other hand, can contribute to all of the desirable features that operator-ownership implies. Often the resources of landlord and tenant combined can provide a more productive combination than either could provide alone. Renting also can be "a good thing."

It isn't easy for the man with only limited capital who attempts to purchase a full-scale farming operation at present values. He may find it necessary to sacrifice the long-run productivity of his farm in order to take care of the high fixed payments on his indebtedness, and meet current operating and living expenses. Renting a large, well-stocked, productive farm may be more desirable than owning the kind of farming operation such a person could afford.

Cash Farm Income for Ninth District—January-October

(Thousands of Dollars)

State	1935-39 Average	1950	1951	1951 in Per-cent of 1950
Minnesota	$ 281,466	$ 989,225	$ 1,117,722	113%
North Dakota	92,795	422,990	525,891	124
South Dakota	89,304	411,578	553,511	134
Montana	73,817	283,641	343,491	121
Ninth District [1]	584,578	2,300,171	2,781,371	121
United States	6,683,437	22,617,626	26,111,315	115

[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.
* Source: "Farm Income Situation," Oct.-Nov. 1951.

Four Kinds of Leases Used in This Region

Four main types of leases are used in the Upper Midwest.

Under a straight **cash lease** the renter pays the landlord a flat yearly sum and operates the farm pretty much as he pleases. He takes all the risks, pays all the expenses, and takes all the profit that's left after paying the rent.

Farm Parity Ratio and Index of Prices Received by Farmers, 1940-50

(1910-14=100)

Year	Parity Ratio	Prices Received by Farmers
1940	80	100
1941	94	124
1942	106	159
1943	119	192
1944	115	195
1945	109	206
1946	113	234
1947	115	275
1948	110	285
1949	100	249
1950	100	256

Source: USDA Bureau of Agricultural Economics.

This was the most common lease in Minnesota in 1940. But as farm productivity and income rose — and rental rates rose along with them — many cash leases were discontinued in favor of the crop-share type.

Under the **crop-share lease** the landlord receives a share of the crops raised. In many cases a cash rental for pasture and buildings is also included; most leases in Minnesota and South Dakota are now of this type.

Under this arrangement the landlord has something to say about the crops raised and other management decisions. He shares some of the risks and may share some of the expenses — such as for fertilizers and other items which boost crop yields. However, since the rent is based on crop production, only a limited degree of diversification can be worked into the farm program.

Such leases are well-suited to cash grain farming. In Montana and North Dakota a straight crop-share lease, with no cash involved, is most common.

The **livestock-share lease** is a very flexible lease and perhaps the only one which can encourage a sound livestock program on a rented farm —one adapted both to the conditions of the farm and the management abilities of landlord and tenant.

This type of lease is often used by beginning farmers who work into a partnership with their father or father-in-law as a step toward eventual ownership of the farm. The tenant has an opportunity to gain management experience while building up his own capital in preparation for buying the farm.

Although the livestock-share lease is gaining favor, greater use of it could increase the income from many rented farms that are adapted to livestock production. This was well demonstrated this year, when soft corn cut sharply into the returns of many farms that were not set up to feed livestock.

Under this lease the landlord and tenant may share the ownership, expenses, and the returns from the livestock enterprises in a variety of ways. Almost any combination of expense-sharing and management cooperation can be provided for under this lease.

The **labor-share lease** is least common but is useful for individuals who have very little working capital, equipment, or management experience. The landlord provides most if not all of the equipment, livestock, and operating expenses; the tenant's contribution is mostly labor and he receives a share of the profit in accordance with his contributions.

All Leases Flexible

Custom has established fairly standard leasing arrangements for most farming areas. Obviously, however, no two operations are identical; and a good lease should provide the flexibility to cover all special conditions. Any type of lease can be so adjusted.

In working out a sound leasing arrangement it is very important that tenant and landlord should discuss and recognize their mutual interests, responsibilities and problems. Put it in writing!

The emphasis on efficient, full-scale farming will most likely be greater than ever in the years ahead —even if price trends continue mildly upward. Large capital investments and the changing structure of farm costs make it important to use more detailed, more equitable lease arrangements.

Such arrangements may become an increasingly effective means of bringing together the most efficient combinations of farm capital, livestock, skilled management, and operating equipment. END

National Summary of Business Conditions

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

GENERAL business activity continued to show little change at the end of 1951. Industrial output, construction activity, employment, retail sales, and wholesale prices remained somewhat below the peaks reached earlier in the year and were at about the same levels as at the end of 1950. Consumer incomes and prices were above year-ago levels. Total bank credit outstanding and the privately-held money supply were also larger than at the end of 1950.

INDUSTRIAL PRODUCTION — The Board's index of industrial production in November held steady at the October level of 218 per cent of the 1935-39 average. Non-durable goods output remained at the reduced October rate, while a small increase in production of durable goods was offset by a decline in mining.

Steel production was at a new record as electric furnace utilization in November reached rated capacity for the first time since early 1949 and, despite scrap shortages, steel mill activity increased slightly further in early December. Refinery output of nonferrous metals was practically unchanged from the postwar high of October.

Output of the textile and leather industries was unchanged in November following sharp curtailment in previous months. Paperboard production, however, continued to decline in November, while output at most paper mills apparently remained at very high levels.

Reduced minerals production in November reflected largely a cut in crude petroleum which more than offset further expansion in bituminous coal mining. Iron ore mining decreased somewhat more than seasonally from earlier record levels.

CONSTRUCTION — Value of construction contract awards declined seasonally in November, reflecting decreases in most categories of private awards. The 76,000 housing units started in November brought the 11-month total to 1,023,000 units, 21 per cent less than the record started in the comparable 1950 period.

Expenditures for construction put in place, allowing for seasonal influences, were little changed from October, and about as large as in November 1950.

EMPLOYMENT—Seasonally adjusted employment in most non-agricultural lines in November remained at or close to October levels, and total non-agricultural employment continued slightly below the mid-1951 peak.

At 40.3 hours, the average workweek at factories was little changed from October, while average hourly earnings rose slightly to a new peak of $1.62. Unemployment increased by 200,000 to 1.8 million, reflecting to some extent the seasonal curtailment of outdoor activities.

AGRICULTURE — Crop prospects declined further during November, and output for the year is now estimated to be only 2 per cent larger than in 1950. Grain production is indicated to be 6 per cent smaller, while cotton output, though substantially below early estimates, was reported to be 53 per cent greater than last year's small harvest.

Meat production has been increasing seasonally and is now at about year-ago levels; egg production in November was 6 per cent above last year.

DISTRIBUTION—Seasonally adjusted department store sales showed little change from the third to the fourth quarter, and the value of holiday sales was about the same as in 1950. Dollar volume of sales for the year is expected to be approximately 3 per cent larger than in 1950. Inventories held by department stores showed a further decline in the fourth quarter, after seasonal adjustment.

COMMODITY PRICES — The average level of wholesale commodity prices continued to show relative stability from mid-November to the fourth week in December. Changes have been largely among agricultural commodities and seasonal in character.

Although the December 10 government cotton crop estimate of 15.3 million bales was 480,000 below the November estimate, in the week following release of the report raw cotton prices declined about 1½ cents per pound, about as much as they had advanced in late November.

The consumers price index advanced .6 per cent from mid-October to mid-November, reflecting chiefly a rise in food prices and increased excise taxes.

BANK CREDIT — Total bank credit outstanding at banks in leading cities increased further in November and the first half of December. The increase was dominated by a continued rise in bank loans to business, particularly to commodity dealers; food, tobacco, and liquor manufacturers; and metal and metal products manufacturers.

The rise in business loans was particularly marked in the first half of December. Deposits and currency of individuals and businesses continued to increase in November and early December, largely because of expansion in bank loans and investments.

Banks in the larger financial centers increased their interest rates on new loans to prime business borrowers by ¼ per cent, from 2¾ to 3 per cent, in December. This was the second increase in the rate on these loans in two months.

SECURITY MARKETS—Yields on U. S. government and high-grade corporate securities were steady during the first half of December and rose thereafter. In late December, yields on most types of bonds were considerably higher than a year ago, and money market tightness was reflected in higher rates on all types of short-term paper.

On December 3 the Treasury announced the offering of new 1⅞ per cent certificates of indebtedness to holders of the $1.1 billion of 2¼ per cent Treasury bonds of 1951-53 maturing December 15.