FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY REVIEW

9th DISTRICT AGRICULTURAL AND BUSINESS CONDITIONS

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EXCESS WHEAT SOLD IN WORLD MARKET

Farmers Have a Stake in Wheat Agreement

A UNIQUE experiment in international wheat marketing has been in operation since mid-1949. It is the International Wheat Agreement. After a four-year trial, it will terminate next July unless the International Wheat council, which meets late in January 1953 in Washington, D. C., can come to some agreement on a new contract. The Congress would also have to approve any new agreement that might be made.

The International Wheat Agreement is of great significance to many Ninth district farmers and to the Ninth district economy. It is of especial interest because it deals with the most important single farm commodity produced in this district—wheat.

Wheat is the backbone of the agricultural economy of many communities in eastern Montana and in North and South Dakota. This is true because wheat acreage comprised nearly two-thirds of the total crop acreage in Montana during 1951 and it provided more than a third of total cash farm income.

Wheat is even more important to the economy of North Dakota, where from 40 per cent to 50 per cent of farm income normally is derived from wheat.

What Is the IWA?

Briefly, the wheat agreement is an effort to overcome hardships to both exporters and importers caused by world competition and recurring wheat surpluses and shortages. It is an effort to balance exports among the surplus wheat-producing countries so that production programs may be planned in a more orderly manner.

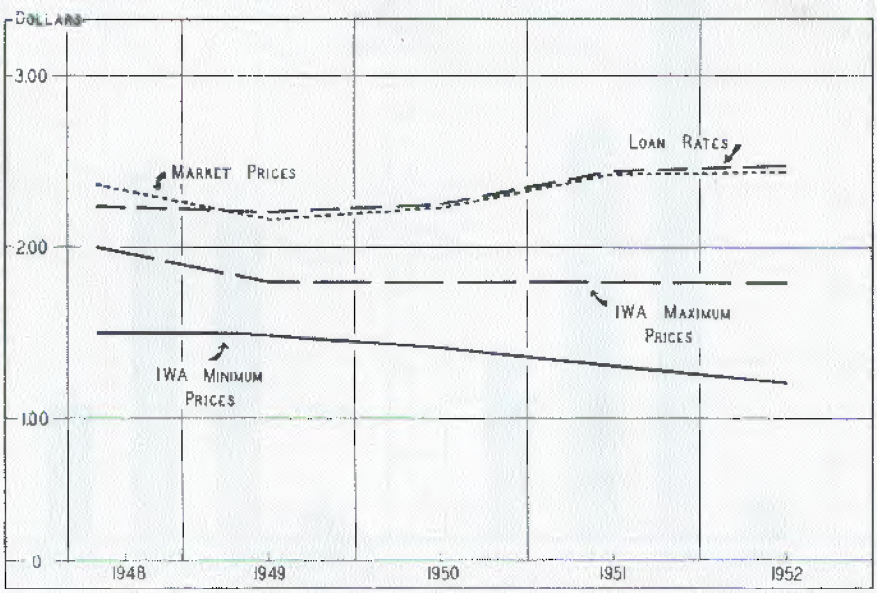
It is also an effort to guarantee to wheat-importing countries that a certain amount of wheat will be made available to them at prices fixed well in advance. This enables these countries to plan more realistically the extent of food imports and the allocation of dollars for this purpose.

In years of normal wheat production, approximately one-third must be exported to avoid surpluses.

Present wheat agreement involves substantial export subsidies.

Renewal of world contract is dependent on price compromise between exporting and importing countries.

INTERNATIONAL WHEAT AGREEMENT PRICES IN RELATION TO MARKET AND SUPPORT PRICES FOR U. S. WHEAT, 1948-52



UNITED STATES market and support prices for wheat have averaged substantially above the maximum price paid on exports under the IWA.

The 1949 agreement was entered into voluntarily by governments of exporting and importing countries. Currently 42 countries are participants. Only four, the U. S., Canada, France, and Australia, are wheat exporters. The others are importers of wheat. Argentina is a major exporting country that is not in the agreement.

This year more than two-thirds of the wheat moved in world trade has been under the terms of the agreement.

It is administered by an International Wheat council composed of a voting member from each of the exporting and importing countries. Each member, however, does not have an equal vote. Voting strength is divided equally between exporters and importers, and each country votes in proportion to its contribution to exports or imports.

Wheat Prices Set Four Years Ahead

Under the terms of the agreement as set up by the council in 1949, maximum and minimum prices were set four years ahead. These prices were:

Maximum price, $1.80 per bushel
Minimum price, $1.50 - $1.20 per bushel

It is only fair to say that when the agreement was drawn in 1949 an effort was made to estimate the guaranteed maximum and minimum prices in terms of wheat supply and demand conditions that seemed most likely to prevail over the four-year period.

Actually, all sales to date have been at the legal maximum price. World inflation due to repercussions from the Korean war weighted the demand so heavily that agreement prices have been below free market levels.

Consequently, importing countries, for the most part, have enjoyed a price advantage as far as U. S. wheat exports are concerned.

It may be argued, however, that moderate world prices for this important food item have helped in the effort toward world price stabilization. At least, with stable wheat prices, importing countries were able to use more of their relatively scarce dollar exchange for other important purposes.

IWA Assures Exports

Basically, however, the purpose of the IWA is to introduce greater stability into world wheat trade among wheat-exporting and wheat-importing countries.

U. S. representatives on the wheat council hoped, of course, that U. S. exports might be enlarged over a period of years from what they would be on a free trading basis as a result of guaranteed sales.

If it is true as claimed that the IWA has promoted larger exports from the U. S., then it has been of value to the district's wheat producers. This contention may be supported by two considerations; first, it has helped to maintain price and, second, it has reduced wheat carryover and thus minimized the need for production controls.

It may be argued that the agreement actually has been of advantage to wheat growers on both points. Perhaps this is true because during much of the past few years the agreement price of wheat has been substantially below the domestic price, which has been maintained by price supports. (See chart on wheat prices.) A subsidy was therefore necessary to meet our export commitments under the terms of the agreement.

The actual benefits of the IWA to the district's wheat producers appear therefore to have been substantial, assuming that exports actually were larger under the agreement than would otherwise have been the case.

The U. S. subsidy to wheat farmers on IWA sales during 1949-50 was about 55 cents per bushel. During the last two years the subsidy has averaged approximately 68 cents per bushel. Total subsidy costs are estimated at over one-half billion dollars on nearly three-fourths of a billion bushels of wheat exports.

It should be mentioned, however, that foreign aid programs have been in effect during the life of the agreement. Because of these programs on

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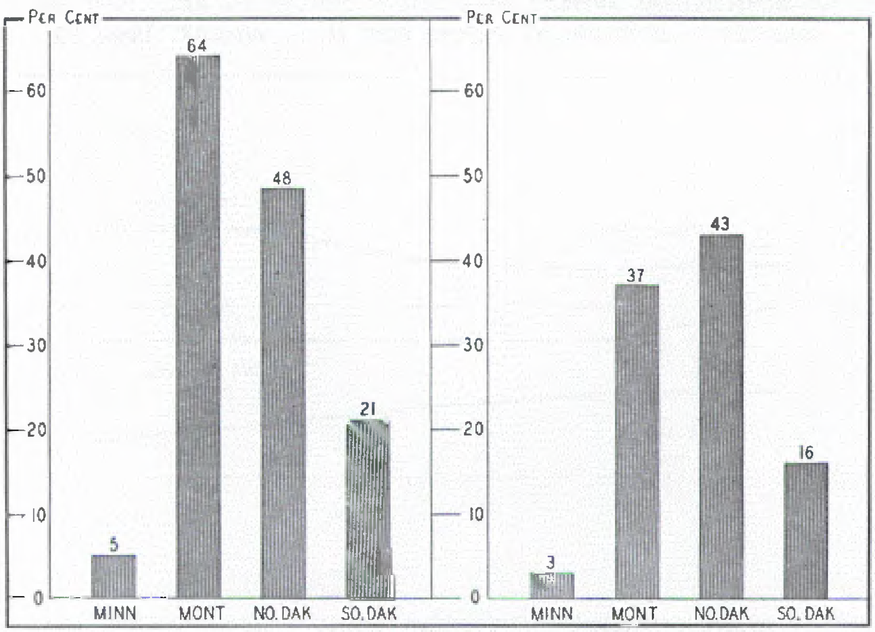
WHEAT ACREAGE IN % OF TOTAL CROP ACREAGE | **CASH INCOME FROM WHEAT IN % OF TOTAL CASH FARM INCOME**



APPROXIMATELY one-third of harvested crop acreage in Ninth district states was utilized in wheat production during 1951. Income from wheat accounted for nearly one-fifth of total cash farm income.

TOTAL LOANS DOUBLED SINCE 1947

Rate of '52 Loan Increase Slows in South Dakota

SINCE the end of 1947, loans at the 62 member banks in South Dakota have doubled in amount. The borrowers accommodated by this expanding credit sent the loans total up at an average rate of $12 million per year, or $1 million per month.

Reports for 1952, through November, indicate, however, that the rate of increase has been slowed. Only $8 million was added to loans in this period—less than $1 million a month.

More than a third of the loans added between June of 1948 and June of 1952 went to farmers. At mid-year the debt of farmers represented more than a third of the loan total.

Loans to farmers* represent a higher proportion of total loans at South Dakota member banks than they do at member banks in any other Ninth district state. This is not surprising, in the light of government estimates that agriculture was a more important source of income for residents of South Dakota last year than it was for residents of any other state.

Home owners added the next largest amount to their borrowings during the period, with consumers in third place. Commercial and industrial borrowers accounted for little more than 10 per cent of the additional loans.

Seasonal Factor Mild

Although loans outstanding have been on the increase almost constantly for five years, there has been a tendency for the rate of increase to diminish in the middle months of the year. (See chart.) Sometimes small declines occurred at this time.

The experience of recent years suggests the presence of a mild seasonal factor in the loan totals. The operation of a seasonal factor is much less important in the case of loan movements, however, than it is for deposit movements.

In the last five years the seasonal rise and fall of deposits at South Dakota member banks has approximated the district average of 8 per cent of total deposits. This range of fluctuation is somewhat less than in the other western states of the Ninth district — Montana and North Dakota. The lesser range of seasonal fluctuation in South Dakota probably reflects in part a more staggered schedule of cash receipts resulting from greater diversification of agricultural production.

* Other than loans guaranteed by the Commodity Credit Corporation.

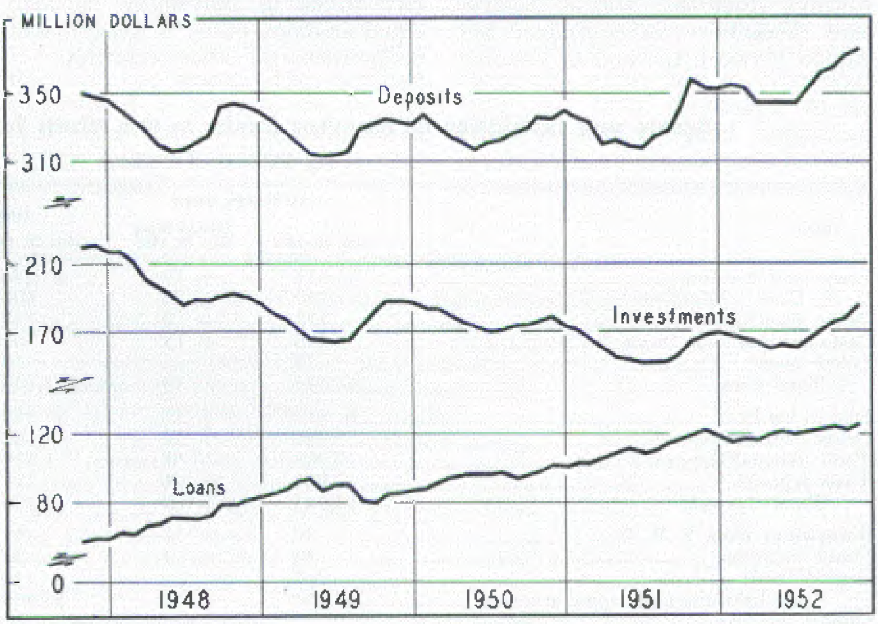
▶ ***The rate of loan expansion in 1952 was less than the five-year average expansion of $1 million monthly.***

▶ ***Deposits have set a new record in every month since July 1952.***

Deposits Up in '51

Four years elapsed before the $350 million deposit level of 1947 was reached again by South Dakota member banks. During these years a rather stable deposit trend was recorded after the initial drop. The stability persisted until late in 1951,

DEPOSITS, INVESTMENTS, AND LOANS AT SOUTH DAKOTA MEMBER BANKS, 1947-1952



SINCE late 1951, deposits at member banks located in South Dakota have displayed a vigorous growth. Since July 1952, new records have been set each month.

when a more than average seasonal rise brought deposits to a new all-time high.

The forces which had operated to produce this record were apparently still at work in 1952, because the seasonal decline in the early part of the year was less than average. Also, the seasonal rise which is still in progress has set new records each month since July.

The diminished rate of loan expansion which characterized 1952 caused South Dakota bankers to invest most of the proceeds of the large deposit growth in securities. The graph shows that investments added since June are almost equal to the deposits added since that time. END

Composition of Total Loans at South Dakota Member Banks, June 1948-June 1952 (In Millions)

	6-30-48	12-31-48	6-30-49	12-31-49	6-30-50	12-31-50	6-30-51	12-31-51	6-30-52
Com. & Ind. Loans	16.9	15.2	16.2	14.3	16.7	19.0	24.2	20.6	22.9
Loans to Farmers..	22.8	21.6	25.7	22.5	26.9	28.3	36.0	39.0	42.7
Real Estate Loans..	18.2	19.5	20.4	21.6	24.2	28.0	29.8	30.9	32.5
All Other	13.9	28.6	28.9	30.5	29.6	28.0	23.1	30.2	25.3
Gross Total	71.8	84.9	91.2	88.9	97.4	103.3	113.1	120.7	123.4

CURRENT DEVELOPMENTS

Deposits Up in City and Country

■ Although they were not as large as in the previous month, sizeable deposit gains were reported in November at both city and country banks. At both groups of banks, the gain was accompanied on the asset side by higher loans and investments.

City Banks—More than a third of the funds made available to city banks in November by the deposit inflow was utilized to reduce borrowings from the Federal Reserve bank. Such borrowings declined $11 million between the end of October and the end of November.

The rest of the deposit increase, together with a reduction of cash and due from banks, was accompanied by a $26 million addition to loans and investments.

Most of the new loans went to borrowers who are classified in that category which is made up mostly of consumers. This was true of the loan increase last month also. Commercial, industrial, and agricultural borrowers have added to their loans hardly at all in the past two months; this is in contrast to additions of $14 million and $18 million in August and September respectively.

The investments acquired by the city banks in November included equal amounts of U. S. government obligations and other securities.

The $9 million increase in holdings of governments represented the purchase of Treasury bills worth $12 million and Treasury bonds worth $1 million, while $4 million of Treasury notes and certificates were liquidated.

Country Banks — Only $2 million of the $39 million deposit gain reported for November was matched by higher loans. This compares with new loans worth $13 million reported for October.

Most of the funds made available by deposit growth to country banks in November were added to cash and due from banks and were converted to government securities holdings, which rose by $17 million.

Time deposits rose $4 million.

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

(In Millions of Dollars)

ITEM	All Member Banks Nov. 26, 1952	All Member Banks Change Since Oct. 29, 1952	City Banks (weekly reporting) Nov. 26, 1952	City Banks Change Since Oct. 29, 1952	Country Banks (non-weekly reporting) Nov. 26, 1952	Country Banks Change Since Oct. 29, 1952
Loans and discounts	$1,333	+ 10	$ 656	+ 8	$ 677	+ 2
U. S. Govt. obligations	1,567	+ 26	608	+ 9	959	+ 17
Other securities	318	+ 8	159	+ 9	159	— 1
Cash and due from banks	990	+ 15	507	— 6	483	+ 21
Other assets	38	....	19	+ 1	19	— 1
Total assets	$4,246	+ 59	$1,949	+ 21	$2,297	+ 38
Due to banks	$ 410	+ 11	$ 357	+ 8	$ 53	+ 3
Other demand deposits	2,550	+ 54	1,182	+ 22	1,368	+ 32
Total demand deposits	2,960	+ 65	1,539	+ 30	1,421	+ 35
Time deposits	983	+ 4	254	....	729	+ 4
Total deposits	$3,943	+ 69	$1,793	+ 30	$2,150	+ 39
Borrowings from F. R. B.	20	— 11	15	— 11	5	....
Other liabilities	38	+ 1	27	+ 1	11	....
Capital funds	245	....	114	+ 1	131	— 1
Total liabilities and capital accounts	$4,246	+ 59	$1,949	+ 21	$2,297	+ 38

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. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

Employment, Earnings Make Gains

BUSINESS ACTIVITY IN NINTH DISTRICT HIGH THIS WINTER

BUSINESS was brisk in the Ninth Federal Reserve district in November and December. This was true despite the closing down of some seasonal industries, such as Lake Superior iron ore shipments.

Expansion in other industries has partially offset the decline in seasonal industries. An indication of this expansion is found in high levels of employment and in average weekly earnings of wage earners.

These high earnings have enabled shoppers to make heavy purchases of merchandise during the Christmas season, especially in industrial communities.

Wages and Salaries—In addition to the impressive gains made by nonagricultural employment in this district since last September (described in the November issue of the "Monthly Review"), average wages and salaries paid to employees also have been setting a new high record.

Wages and salaries paid in 1952 to employees in Minnesota non-agricultural establishments may reach $2.7 billion, according to an estimate made by the Minnesota employment and security division. This total will be an increase of about $155.5 million, or 6 per cent over the total paid in 1951.

The largest recent increase in weekly earnings occurred in the ordnance industry. The earnings averaged $84.77 in August and rose to $95.62 in September. In October, they dropped back to $89.33, which was due mainly to the layoff of workers who had been receiving higher rates of pay for night work.

Large percentage increases in Minnesota annual payrolls were recorded in federal, state, and local governmental units, manufacturing firms, finance, insurance and real estate companies, and in service concerns.

In the other states of this district, there were similar increases in 1952 earnings. In Montana, October average weekly earnings increased from a year ago by $3.00 in manufacturing, $6.62 in mining, $5.90 in transportation (except railroads), and $1.70 in utilities and communications. In Wisconsin, South Dakota, and North Dakota, October average weekly earnings in manufacturing from those of a year ago were up $4.61, $6.71, and $4.16 respectively. These increases compared with $5.76 in Minnesota manufacturing. The larger weekly earnings were traced mostly to higher hourly rates.

Iron Ore—The shipping of iron ore from the Lake Superior region is one of the largest seasonal operations in this district. This year the Lake Superior shipping season closed on December 4 when the last ships cleared Lake Superior ports.

The steel strike in June and July practically halted iron ore shipments for 54 days. Despite this interruption, the movement of iron ore by boat from the upper lake ports totaled slightly under 75 million gross tons for the season. This tonnage represented a decrease of 16 per cent from the 1951 season, when slightly over 89 million gross tons were shipped.

Following the steel strike, heavy rail shipments directly to the steel mills increased the movement of ore from the Lake Superior mines. (This figure not included in above total.)

The large tonnage of ore moved by boat to the lower lake ports was attributed to the early opening of the navigation season and to the new records set in the movement of ore following the settlement of the strike. The 1952 navigation season at the Head of the Lakes was opened on April 5 when the first freighter entered Superior port for a load of iron ore. In 1951, the shipping season was not opened until April 11.

Following the settlement of the steel strike, over 14.3 million gross tons of ore were moved by boat to the lower ports in August, setting a new monthly record. This record did not long endure, since in September the tonnage moved by boat topped the August total by 21,000 tons.

According to the Lake Superior Iron Ore association, transportation of 14,388,632 gross tons in September now stands as the largest tonnage shipped in any month in the history of Great Lakes movement of iron ore.

Stocks of Lake Superior iron ore at furnaces and on Lake Erie docks were 51.2 million gross tons at the end of November as compared with 49.1 and 41.5 million gross tons respectively at the end of November 1951 and 1950. According to reports released by steel companies, stocks on hand are adequate for winter and spring consumption until the

Ninth District Business Indexes

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

	Nov. '52	Oct. '52	Nov. '51	Nov. '50
Bank Debits—93 Cities	112	117	118	118
Bank Debits—Farming Centers	117	122	120	118
Ninth District Dept. Store Sales	107	110	107	108
City Department Store Sales	110	114	109	111
Country Department Store Sales	101	102	102	103
Ninth District Dept. Store Stocks	110p	113	107	111
City Dept. Store Stocks	112p	112	108	113
Country Department Store Stocks	108p	113	106	109
Lumber Sales at Retail Yards (Bd. Ft.)	98p	95	85	91
Miscellaneous Carloadings	105	122	100	106
Total Carloadings (excl. Misc.)	112	107	94	102
Farm Prices (Minn. Unadj.)	94	99	102	95

p—preliminary.

1953 navigation season opens on Lake Superior.

Banking of steel furnaces during the strike partially offset in its effect on ore stocks the loss in ore shipments. Lake carriers lost from 23 to 25 million gross tons of ore shipments during the strike. However, consumption by blast furnaces was reduced by about 13 million gross tons. Large scale shipments of ore by rail directly to the steel mills during the winter months were planned following the steel strike, but they now have been abandoned.

Closing of navigation on Lake Superior no longer halts operations in the iron ore mines, as was the case prior to World War II. When shipments cease, operations at the open pit mines turn to stripping overburden to uncover new bodies of ore for the next shipping season and to constructing additional facilities for the beneficiation of low-grade ores. At the underground mines, the mining of ore continues and the ore is stockpiled.

These operations have removed much of the seasonal factor in employment in the mining industry. For example, in February 1952, the month of lowest activity in mining, 16,426 workers were employed in Minnesota, while in May, following the opening of the navigation season, 18,548 workers were employed—an increase of only 2,122 workers.

In Montana and on the Upper Peninsula of Michigan, where the weather has had practically no bearing on underground mining operations, more workers were employed in the winter of 1952 than during the summer months.

Retail Trade—District department store sales in November were down slightly from the impressive dollar volume recorded in October. The index adjusted for seasonal variation (1947-49=100) was 110 per cent for October and 108 per cent for November.

In comparison with November 1951 sales, this year's November sales were down 3 per cent. One less trading day this year accounted for the decrease in sales. On a daily average basis, sales were equal to those of a year ago.

The 1952 Christmas shopping season may prove to be the largest in history. Preliminary figures on December department store sales show a substantial increase over those for a year ago. In the four large cities of this district, sales during the first and second weeks were 3 per cent and 5 per cent respectively above the receipts for the corresponding weeks of 1951.

This year the fewer shopping days between Thanksgiving and Christmas probably had the effect of concentrating buying in December. Also, good weather may have contributed to higher sales.

Most important to the bright retail picture, however, is the high employment in urban centers and the high weekly earnings which have provided many consumers with the essential purchasing power. END

FARMERS HAVE STAKE IN WHEAT AGREEMENT

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wheat exports, costs under the foreign aid programs were probably smaller than they otherwise would have been.

Most of U. S. Exports Are Under IWA

During the current marketing year, the four exporting countries in the IWA have contracted to deliver 581 million bushels to some 37 importing countries. The U. S. share is 253 million bushels, or about 45 per cent of the total. Probably only 50 to 100 million bushels will be shipped outside the agreement during the marketing year ending next July 1.

The price at which this 253 million bushels of wheat is sold is at the maximum of $1.80 per bushel, basis No. 1 Manitoba at Port Arthur, Fort William, Canada. The market price of No. 1 hard winter wheat at Minneapolis in late December was $2.42.

It is this price difference, amounting to approximately 68 cents per bushel for each of the last two years, that will be the chief obstacle to acceptance of a new agreement. In other words, the U. S. representatives may wish to increase the maximum price so as to reduce or eliminate the current subsidy. Importing countries, on the other hand, may not be willing to see prices advanced from those of the old schedule.

This point of difference may be a chief stumbling block to the writing of a new agreement when the council meets late in January. Even if the wheat council does come to an understanding on a new contract, the Congress may not approve it unless there is a real prospect that costs to American taxpayers can be eliminated or substantially reduced.

Those who favor a renewal of the agreement argue that orderly trade is important to world stability, peace, and goodwill. They also say that unless we can manage to continue to export from a fourth to a third of our total wheat production, wheat farmers must expect lower prices or strict production controls or perhaps both.

The economic effect of a strict production control program obviously would hit hard at Ninth district wheat farmers and the communities dependent in large measure on a wheat economy. This is true because many such areas are economically best suited for wheat farming. Some would find it unprofitable to produce other crops.

Those who have opposed the IWA point out its costs to an already heavily burdened federal budget. It is also argued that marketing contracts of this kind are an invasion of the functions and rights of private enterprise. They maintain that it involves government - to - government trading and its attendant weaknesses. It is also pictured as a subsidy designed to aid one particular segment of American agriculture.

In any event, discussions of a new wheat marketing agreement during the next several weeks will be of keen interest to Ninth district agricultural and business groups. END

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DEC. 31, 1952

INDUSTRIAL production, employment, and incomes increased somewhat further in November and December, and Christmas retail sales were in record volume. Wholesale prices of agricultural commodities declined further, while industrial commodities continued to show little change. Consumer prices in November increased slightly and were back at their August high. Bank credit expansion continued after mid-November, and common stock prices rose further.

Industrial Production — The Board's industrial production index rose 4 points in November to a postwar record of 233 per cent of the 1935-39 average. Output of both durable and nondurable goods expanded moderately further, and minerals production recovered sharply to the high September level. Industrial production in December was maintained at about the November rate and was about 7 per cent above a year ago.

Activity in machinery industries generally expanded further in November. Output of household appliances and radio and television showed substantial gains, with television output continuing at unusually high levels in December. Despite some interruptions owing to model changeovers, passenger auto assembly during November and December was maintained at advanced rates.

Steel production continued at peak rates. Output of nonferrous metals except aluminum expanded further in November, and lumber production showed much less than the usual seasonal decline.

Nondurable goods production rose somewhat further in November to a level 5 per cent above a year ago and close to earlier highs. Activity in the textile, shoe, paper, and rubber products industries increased and was substantially greater than in the same period last year. Output of industrial chemicals and petroleum products rose to new record levels. Production of meat and other manufactured food products was maintained in large volume.

Coal output recovered in November following the work stoppages in late October, and crude petroleum production rose somewhat further. In early December, however, output of mineral fuels declined moderately. Iron ore production since August has been in record volume for this season.

Construction — Value of contract awards declined slightly in November, reflecting decreases in most types of awards for private construction. Total new construction work put in place declined less than seasonally from the advanced October level. Housing starts were at a seasonally adjusted annual rate of 1,160,000, about the same as in October and substantially higher than a year ago.

Employment — Seasonally adjusted employment in nonfarm establishments rose again in November and was at a new high of 47.5 million. Average hours of work at factories were close to the high October level, and average hourly and weekly earnings continued to rise. Unemployment was little changed in November and at 1.4 million was close to the postwar low reached in October.

Distribution — Seasonally adjusted sales at department stores in November were a little below their high October level but rose again in December. For the Christmas season, department store sales were at a record and considerably above a year ago. Sales of automobiles continued unusually large for this time of the year and dealers' stocks increased only moderately in November.

Commodity Prices — The average level of wholesale prices continued to decline in December, reflecting mainly decreases in prices of foodstuffs. Lead prices were raised, while prices of other industrial materials and finished goods generally continued little changed.

The consumer price index in November rose very slightly to return to its August peak. Further increases in rents and prices of services in November were largely offset by decreases in apparel.

Bank Credit — Business, consumer, and real estate loans at commercial banks continued to increase in the latter part of November and the first half of December. Banks also added to their holdings of U. S. government securities, largely through purchases of tax anticipation bills in the latter part of November.

Member bank reserve positions tightened further in late November and early December, due principally to a seasonal flow of currency into circulation and an increase in required reserves. Member bank borrowings averaged above $1.5 billion during the period. The Federal Reserve also supplies some reserves through purchases of government securities, including some securities acquired under repurchase agreements with dealers.

In mid-December, reserve positions temporarily became somewhat easier as a result of the usual large pre-Christmas expansion in Reserve bank float.

Security Markets—Common stock prices advanced during the first three weeks of December to their highest level since October 1929. Yields on high-grade corporate bonds and long-term government securities rose somewhat. Treasury bill rates increased sharply and reached 2.23 per cent on the new issue awarded on December 22.

FEDERAL RESERVE BANK OF MINNEAPOLIS

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