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Construction Is Bright Spot

Commercial, residential, and government building remains at a high level

CONFIDENCE IN A GROWING ECONOMY SHOWN BY VOLUME

OPTIMISTIC viewers of the business outlook can find impressive justification for their attitude in at least one sector of the economy—namely, construction.

Looking at the picture of all the projects under way or on drawing boards, one sees that the Ninth district is not lagging behind the nation.

The large volume of construction activity in the recent winter has been an element of strength in the economy. It has partially offset some of the contraction in business activity caused by the liquidation of inventories and by cutbacks in the output of such defense materials as ordnance.

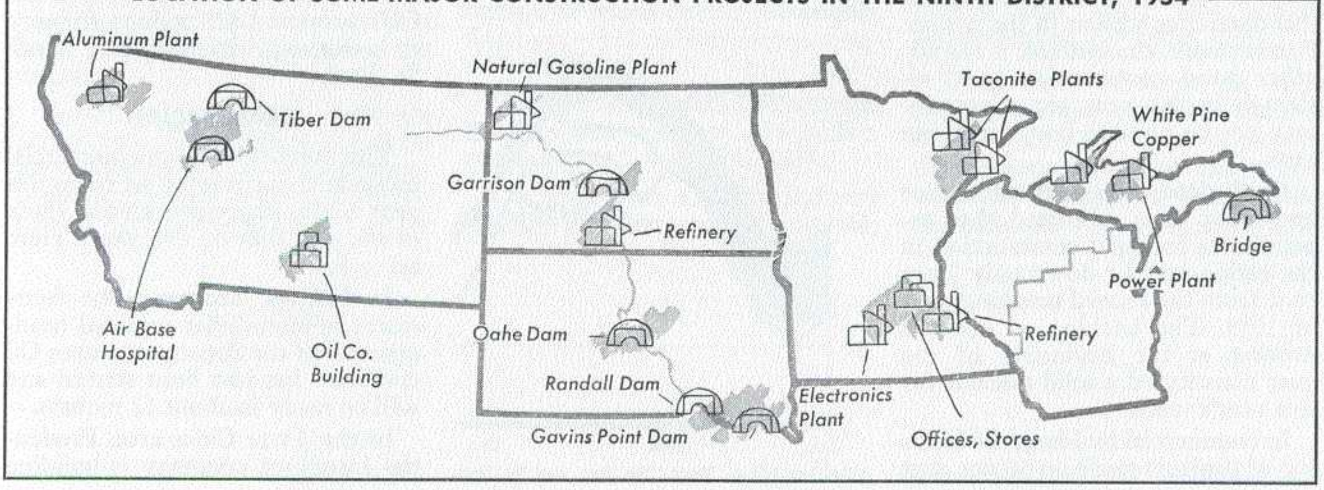
More men were employed on construction projects in most states of this district during the past several months than were employed a winter ago. In fact, the aggregate physical volume of construction undertaken in January and February set a new record in this district as well as in the nation.

In residential building, the amount of contracts awarded for new houses has remained fairly stable following a decline in the summer of 1953. However, there was an increase in the number of houses finished during the past winter, attributable to exceptionally mild weather.

A significant development is that a steady rise has taken place during the past year in most types of construction, which had been retarded by the Korean war and defense needs. Most noteworthy is that more contracts have been awarded for commercial building; namely, wholesale and retail outlets and service establishments.

A causal factor can be found in

LOCATION OF SOME MAJOR CONSTRUCTION PROJECTS IN THE NINTH DISTRICT, 1954



the trek of home owners to the suburbs of the larger cities, with retail and service firms following in their train. This has resulted in much building of retail outlets, garages, restaurants, etc., in these outlying areas.

Even industrial building, which was not restricted during the Korean conflict, has held up well. For instance, more contracts were awarded in January for manufacturing plants than were awarded a year ago.

Another significant component of total construction—that financed by local and state governments — has also risen. For example, building of new schools to provide sufficient classroom space for the rapidly increasing school population is expanding. In January, more contracts were let in this district for such buildings than were let a year ago.

Not all states have shared equally in the district's satisfactory performance of construction activity. In the three western states—Montana, North Dakota, and South Dakota — aggregate construction has fallen, attributable partly to lessened activity on the Missouri basin development program. Appropriations made by Congress for this program in fiscal year 1954 totaled only $342 million as compared with $368 million for the preceding fiscal year.

Existing backlog large

Despite the decline in federally financed construction, the 1953 aggregate volume set a new record in this district as well as in the nation. Furthermore, the outlook is for another good construction year, although in the year ahead activity may not be quite as buoyant as last year.

U. S. departments of commerce and labor have estimated that expenditures for new construction in the nation may be down only 2 per cent from the record breaking year of 1953. The backlog of projects existing at the beginning of the year constituted a solid nucleus for this year's work.

In commercial building, the backlog of projects made up 50 per cent of the estimated volume of construction for warehouses, office buildings, and lofts of the heavier type, and 20 per cent for the lighter type of building.

Thus, it may be seen that both private enterprise and government units of this district are participating in what is expected to be a large volume of construction for the 1954 building season as a whole. A description of the larger projects scheduled supports this estimate.

Plant construction in Ninth district is progressing

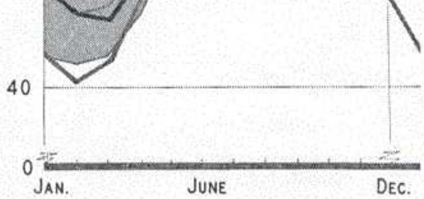
Both public and private spending for new plants and buildings remain at high levels—seemingly independent of other indicators reflecting economic downturn.

The level of spending is readily illustrated by a summary of large construction projects under way or ready to begin in the Ninth district. Obviously many specific projects cannot be covered in any brief listing, but some of the major ones are listed and described.

INDUSTRIAL

Near Columbia Falls, Montana, Anaconda's $50 million aluminum reduction plant begun last June is well under way. Between now and mid-1955 when the plant begins operation, peak building activity will require more than 1,000 construction workers.

CONSTRUCTION EMPLOYMENT IN THE NINTH DISTRICT, 1949-54*



*Total of Minn., Mont., No. Dak. and So. Dak.

At Babbitt and Beaver Bay, Minnesota, Reserve Mining company is spending nearly $200 million on taconite concentrate plants that will require at least until 1957 to complete. Work is progressing on all phases of the project, including housing, and about 200 new houses will be added at Babbitt this year.

One of the largest private construction projects under way in the U. S. will get into full swing this summer near Aurora, Minnesota, where Erie Mining company will erect a $300 million taconite concentrate plant. Nearly 4,000 workers will be required during construction, and the plant will take three to five years to complete.

The $70 million White Pine Copper project begun two years ago on Michigan's upper peninsula is now 75% completed with operations scheduled for some time in 1955.

Many other projects on a smaller scale are to be undertaken this year throughout the district. Examples: a $6 million, 22,000 KW power plant at Marquette, Michigan, by the Upper Peninsula Generating company; a plant to be put up by local interests at New Ulm, Minnesota, where some 300 to 400 persons eventually will be employed by Webster-Chicago electronics firm.

Then, too, there are industrial projects resulting from discovery of oil in the Williston basin, including: Standard Oil of Indiana's $35 million refinery now being built at Mandan, North Dakota; Signal Oil's $15 million natural gasoline plant under construction at Tioga, North Dakota; and Great Northern Oil's proposed $20 million refinery to be started this spring near South St. Paul.

COMMERCIAL

The number of large commercial projects under way or set to go this year is also impressive among those of the past four or five years. Here are a few:

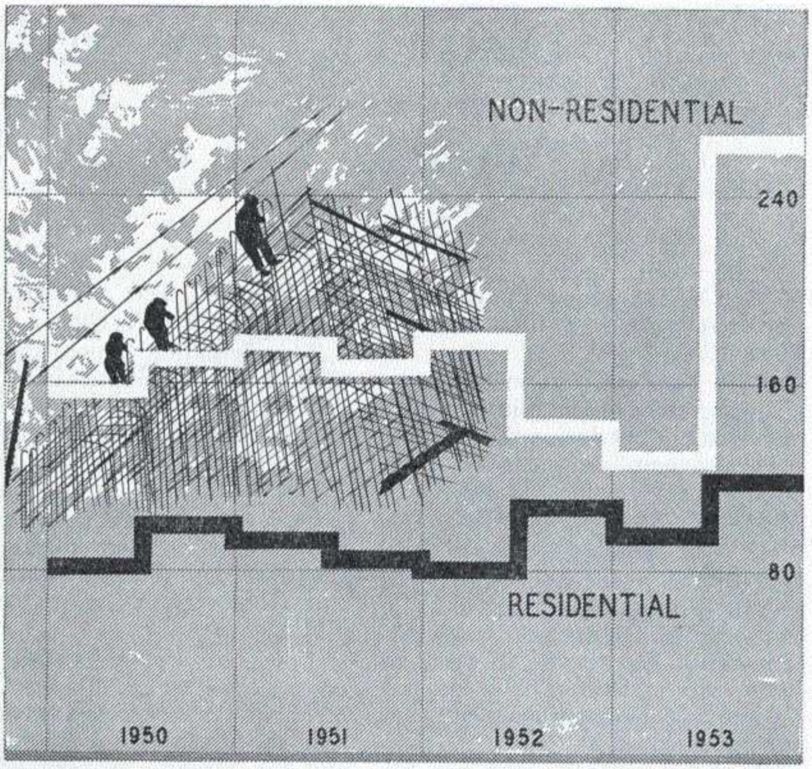
In Billings, Montana, the four-story, million-dollar regional headquarters of the Socony-Vacuum Oil company has just been started and will be ready in about 12 months.

In the Twin Cities area, Prudential Insurance company is building a multiple-story, 293,000 square-foot regional headquarters at a cost to exceed $7 million. Construction employment will reach about 500 before completion of the structure in the spring of 1955.

In downtown Minneapolis, a five-story, $3.5 million addition to the Baker Arcade building is nearing completion, and several other construction and remodeling endeavors are set to begin this year, including a $1.5 million office building for the Lutheran Brotherhood life insurance society.

In downtown St. Paul, work is in process on an 8-story, $2.5 million office building for Minnesota Mutual Life Insurance company to be completed by August 1955.

In the suburbs of the Twin Cities, two large shopping centers are scheduled to be under way this year. The $15 million Southdale development has already begun on a 500-acre tract southwest of Minneapolis, while $5 million Knollwood Plaza shopping center is scheduled for another Minneapolis suburb.



CONSTRUCTION CONTRACTS AWARDED IN THE NINTH DISTRICT, BY HALF-YEAR PERIODS FOR THE YEARS 1950-1953 (IN MILLIONS)

Source: F. W. Dodge Co. Reports.

PUBLIC

Largest state project in the district is the $96 million Mackinac Straits bridge, which has just reached the construction stage. It will employ some 500 to 1,000 workers before it opens for traffic in late 1957.

Announcements of school, church, and hospital construction programs for the coming year, and involving sums up to $5 million, have been frequently forthcoming from communities throughout the district.

Several major federal dams are under way. Since funds for these are dependent on Congressional appropriation, expenditures to be expected over the next year or so are somewhat uncertain. Appropriations for the year ending June 30, 1954, have already been made, while those for fiscal year 1955 have not. However, here are the major projects together with the President's 1955 budget recommendations:

Randall dam (South Dakota), now nearly completed, had $11.5 million to spend during the present fiscal year; $17 million recommended for fiscal 1955.

Gavins Point (South Dakota) had $10.3 million this year; $11 million recommended for fiscal 1955.

Garrison dam (North Dakota) had $29.1 million to spend this year; $27.5 million recommended for fiscal 1955.

Oahe dam (South Dakota), which is in its very early stages of construction, had $8 million this year; $9 million recommended for fiscal 1955.

Tiber dam (Montana) had $6.6 million this year; $6.1 million recommended for fiscal 1955.

Total cost of some of these larger dams may reach the order of $200 million or more, indicating that several years of substantial construction outlays lie ahead under the Missouri basin program. END

FARMERS' ALLOTMENTS SET BY LOCAL COMMITTEE

District's Corn Producers Face Acreage Cut of 20 Per Cent

CORN acreage allotments are here again—for the first time since 1950.

Most corn growers in the corn-growing areas of the Ninth district received notices during the past few weeks of their "allotment" for 1954. And some were not too happy with it, because the "cut" was a deep one.

It was proposed that nearly 1,700,000 acres of corn land in the Ninth district, almost all of it in southern Minnesota and southeastern South Dakota, be diverted to other uses in 1954. This is about a 20 per cent diversion from the corn acreage planted in 1953.

For 14 years, with the exception of 1950, corn producers have been permitted to grow all the corn they wished and still claim price support loans. It will be different this year. They can't claim price support unless they comply with their corn acreage allotment.

Allotments vary by areas

It is a bit bewildering to note the difference in allotments from county to county and even from farm to farm. Therefore a brief description of the methods used would seem to be in order.

The allotments were determined primarily from statistical averages of corn acreages in recent years, and also, but within somewhat narrow limits, from the judgment of the county committees administering the program.

In the first place, a county must have been designated as a commercial corn-growing area before corn acreage restrictions were imposed. This was done by arbitrarily defining a "corn" county as one where the average corn production of all farms was over 450 bushels per farm, or 4 bushels per acre. That is, all the farms and all the crop acres in the area were considered in arriving at these averages.

This definition limited the allotment area to 59 counties in southern Minnesota, 36 in eastern South Dakota and only one, Richland, in North Dakota. There were none in Montana.

Each "commercial corn" county was given an acreage allotment by the state Agricultural Stabilization and Conservation committee (the ASC).

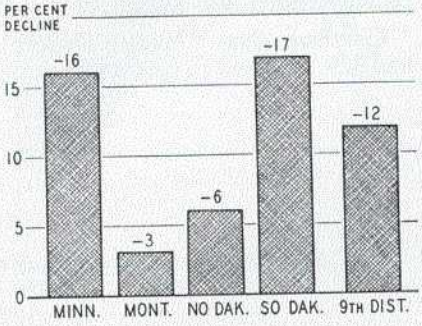
This county allotment was based on the most recent 10-year record of planted corn acreage, with some adjustments for abnormal weather and the "trend" in corn acreage, whether down or up, during the 10-year period. Previous acreage allotment program experiences were also taken into account.

Farmer allotments based on three-year history

The local or county ASC committee calculated the acreage allotments for the individual farmer. This was done by figuring the average acreage for the three previous years of 1951, 1952, and 1953 for each farm in the county.

PER CENT DECLINE IN FARM PRODUCTION LOANS OUTSTANDING, MEMBER BANKS

Jan. 1, 1953—Jan. 1, 1954



However, the committee was permitted to make some adjustments in the farmer's acreage quota if evidence were presented to show the three-year statistical average was not representative of normal farm operations in the area.

For example, evidence may have been presented to show that the three-year statistical average was abnormally low because of drouth, flood, or some other hazard. In such cases, the committee had some leeway in adjusting either up or down a particular farmer's allotment.

Two new adjustments were permitted this year for the first time:

1) The farmer's allotment could be adjusted upward by a maximum of 10 per cent if evidence were presented to show it was abnormally low because of the type of soils, land topography, and total tillable acres. This provision was designed to give relief to those farmers who, for several years, have been following desirable soil conservation practices on their farms.
2) The farmer's allotment could be adjusted downward by a maximum of 25 per cent if evidence were presented indicating the allotted acreage was abnormally high in relation to the farm's soils, topography, and total tillable acres.

Non-compliance penalized

The only penalty for non-compliance with the corn acreage allotment program in 1954 is that the farmer will not be eligible for price support loans.

To many farmers, however, this makes little difference because they feed most or all of their corn on the farm. There will be no compelling incentive for these farmers to cut acreage. Rather, it would be to their disadvantage to do so.

Failure to comply with ruling means loss of 90 per cent of parity price support

Based on experience in previous years when corn allotments were in effect, less than 50 per cent of farmers may actually comply with acreage restrictions in 1954. Instead of a reduction of 1,700,000 acres of corn in the Ninth district, less than 850,000 acres may actually be diverted to other use.

Furthermore, it is possible that farmers choosing to get into the program will use more fertilizer and intensive production practices in an effort to increase corn production per acre on the allotted acres. Hence, corn production may not be reduced as much as the acreage cut would indicate.

Farmers not in designated commercial corn-growing areas can plant all the corn they wish, but these farmers are eligible for price support loans only at 67½ per cent of parity or approximately $1.21 per bushel. This is in contrast to 90 per cent price supports or $1.62 for farmers in compliance in the commercial corn areas.

Use made of diverted acres

Perhaps 65 to 75 per cent of the diverted corn acreage in Minnesota and South Dakota will be planted to soybeans this spring. This is the expectation because soybeans are well adapted to this area and they are considered by many as next to corn as the best cash crop. Increased soybean production may precipitate some marketing problems for this commodity.

Many of the diverted corn acres may be used for feed grains, hay, and roughage production. When more feed is grown, it may stimulate the production of more livestock and poultry.

The Agricultural Stabilization and Conservation committees are urging that a substantial amount of the diverted corn acres be planted to soil building crops such as alfalfa, the clovers, and other soil-building crops.

To stimulate such a soil-building program, producers may receive government assistance equal to a maximum of 50 per cent of the cost of certain grass and legume seed and fertilizers.

The objective of this soil conservation program is two-fold:

1) To prevent the over-production of crops such as soybeans or oats, that may be used as a substitute for corn, and
2) To stockpile fertility in the soil by the use of legumes and other soil-building crops and grasses.

Lower Consumer Spending for Durables Indicated by Federal Reserve Board Survey

CONSUMERS expect to buy fewer new durable goods this year than in 1953, according to preliminary findings of the Federal Reserve System Survey of Consumer Finances.

This information came on the heels of two earlier estimates of expenditures in other fields. One of these was that of the Council of Economic Advisers, who estimated lowered expenditures by the federal government.

The other was that of the Commerce department, whose survey indicated slightly lower expenditures by businesses for plant and equipment this year than last.

Thus, three major components of total demand for the products of our economy appear to offer less promise of sustaining high levels of business activity than formerly.

Even if these expectations turn out to be correct, however, it is not impossible for other components of total demand, such as spending for inventories and nondurable goods and services, to rise and offset the declines mentioned.

Because consumers absorb a much larger share of production than government and business together, clues to their buying plans are very useful in appraising economic prospects.

The survey of consumer finances revealed a decline from last year in the proportion of consumers planning to buy houses, new cars, furniture, and major appliances.

The proportion of consumers planning the purchase of used cars was unchanged from a year earlier, while a larger proportion than last year planned expenditures for home improvements.

More expect lower prices

It is notable that more people expected prices to fall than was true at the time of the previous survey a year ago. Reflecting the prosperous condition of the economy last year, the current survey found the proportion of consumers in the lowest income groups had declined, while those in the middle and highest brackets increased in number. Also, the proportion of spending units which held no liquid assets declined from 29 per cent in 1953 to 26 per cent early this year.

But uncertainty was reflected, too, by a decline from last year in the proportion of people who expected their incomes to rise and an increase in the percentage of people who expected a reduction in earnings.

An increase in the proportion of investors who favor assets of fixed money value as a vehicle for savings indicates a greater confidence in the purchasing power of the dollar. Common stock and real estate lost popularity as investments since the previous survey.

It is encouraging to note that the frequency of intentions to purchase houses and major durables — while lower than a year ago — was still higher than in 1952, which was a "good" year.

Any number of forces may cause consumer behavior to differ from that indicated by the survey, but it is recognized that survey findings constitute the best available information concerning an important segment of our economy. END

Spending Not Yet Badly Cut by Job Drop

■ Industrial unemployment—which in recent months has grown slowly—has doubtless acted as a deterrent to consumption expenditures, but its impact seems not as yet to have carried total current spending to significantly lower levels.

As evidence, bank debits in the Ninth district thus far this year have exceeded those of the corresponding period a year earlier.

Department store sales, a sensitive indicator of consumption expenditures, have compared favorably with their year-ago performance.

Another bright spot, perhaps the brightest light behind the black cloud of unemployment, is construction. Commercial building—the strongest of the components of total construction – residential building, and building by state and local governments have bolstered the economy.

Unemployment, however, has been reflected nationally in a decline in the Federal Reserve's index of industrial production, which has fallen about 10 per cent from the May-July 1953 high points.

Also indicating apprehension over the outlook for incomes and prices is the recently released report on the Survey of Consumer Finances which indicates cautiousness on the part of consumers in their plans for expenditures on durable goods in the months ahead.

Meanwhile, prices for farm products and farmers' incomes – stable for many months—remain dependent on the weather and the federal government's price support program. • • •

BUSINESS

► District employment slump less than in the nation

Fortunately for this district, the number of unemployed workers has been a smaller percentage of the labor force than in the nation at large. Employment this winter in the western half of the district has been either above or very near the level of a year ago.

In both Montana and North Dakota the number of full- and part-time workers employed during January in non-agricultural establishments exceeded the number at work a year ago, while in South Dakota the number was down only by a few hundred workers.

In the eastern half of the district, which is more industrialized, a decline in employment has taken place. In Minnesota, non-agricultural employment in February was approximately 7,000 below the total for the same month of last year. Even so it was still the second highest February employment on record.

In Wisconsin, non-agricultural employment in January was down by 21,600 from a year ago—a decrease of 2 per cent. Most of the decrease has taken place in the southern part of the state. Several of the manufacturers in the northern part of the state who laid off workers last fall have rehired many of their workers in recent weeks.

On the upper Michigan peninsula non-agricultural employment in February was down by about 1,500 workers from a year ago. Cutbacks made in mining and manufacturing accounted for much of this.

► February debits up from 1953

Taking into account one less business day this year, the amount of bank debits during January in this district was equal to those for the same month of last year.

In February, bank debits (an approximate measure of the over-all volume of business transacted) were 4 per cent above last year's total. Although in a few cities February debits still were down, there was an increase for each of the states and parts of states in the district.

► District department store sales equal those of 1953

On a daily average basis to allow for one less business day this year, district department store sales in January were equal to those of a year ago. February sales were 4 per cent above those for last year.

The mild temperature and little snow in most regions of the district had the effect of boosting sales. Consumers found nearly all days favorable for shopping, whereas last year severe snowstorms discouraged the activity.

On the other hand, the warm weather reduced sales of certain types of merchandise. For example, purchases of women's and children's coats were down substantially.

According to weekly figures for the four large cities, department store sales in March were below last year's receipts. However, a part of the decrease may be attributed to the later date of Easter. This year, Easter is on April 18, whereas last year it was on April 5. As a result, more sales for this occasion will be made in April and less in March.

► Iron ore shipments in 1954 will be down from 1953

A lower rate of steel production which has averaged slightly less than 73 per cent of capacity since the first of the year and large stocks of iron ore at lower lake ports and at steel mills will result in less iron ore shipments from Lake Superior iron ore ranges in the season soon to open.

Stocks of iron ore at the end of February were 36 million tons, or 6 million tons more than at the same time in 1953.

According to estimates made by firms in Cleveland, about 70 million tons will be shipped in the coming season as compared with the record shipment of 93 million tons last year.

The iron ore shipping season on the Great Lakes may not be opened until the latter part of April, although the Lakes were open for navigation in the latter part of March. The first ore boats last year were loaded at the Head of the Lakes on March 26.

The U. S. Steel corporation has announced that its fleet of boats may start moving ore on approximately April 20.

BANKING

► *Deposit outflow greater than a year ago*

Earning assets and deposits of both city and country member banks in the district were reduced during February. The outflow of deposits at city banks was somewhat larger than a year earlier, while country banks reported withdrawals approximating the year-ago amount.

This contrasts with January, when the outflow of district member bank deposits amounted to only half the outflow of January 1953.

The increase in spending by district bank customers which was reflected in February by the larger deposit reduction than a year ago was also reflected by the amount of debits to deposit accounts at a representative sample of district banks.

Between January and February such debits rose from 3 per cent less than a year earlier to 4 per cent more than a year earlier.

The decline of earning assets which accompanied the deposit movement at district banks entirely represented the liquidation of investments. Loans at both city and country banks were increased during February.

A decline in borrowing by city banks was offset by an increase in borrowings by country banks so that no change occurred in the indebtedness of all member banks in the district.

1953 EARNINGS STATEMENTS TABULATED

Ninth district member banks enjoyed a larger increase in earnings last year than in expenses, so that net profits, despite a provision for increased taxes, were larger than in the year before.

This was true—collectively—for member banks in all district states except Montana, where the provision for taxes increased by more than profits before taxes.

As in other recent years earnings grew by reason of an increase in the amount of earning assets held and an increase in the average rate of return on both loans and investments. Also, the proportion of loans to total earning assets increased somewhat.

Average Rate of Return on Selected Earning Assets

	1951	1952	1953
Loans	4.75%	5.00%	5.10%
U. S. securities	1.74%	1.81%	2.00%

The average rate of return earned by district banks on loans increased less rapidly between 1952 and 1953 than did the return on holdings of government securities.

Recently interest rates have tended downward as Treasury flotations have carried lower rates than formerly and as rate reductions for "prime" loans have been announced by some district banks.

FARMING

► *Farm income in district down only 2 per cent*

Final figures for 1953 district cash farm income revealed only a 2 per cent decline from that of 1952. This was surprisingly good in view of the weakness in prices of many farm products, particularly cattle, during 1953. Favorable agricultural production was the big factor in maintaining farm income in this area.

The 2 per cent decline in district farm income compares with a 4 per cent decline for the U. S. as a whole during 1953.

Final cash farm income figures by states and for the U. S. is indicated below.

► *Large stocks of wheat and feed grains on farms*

Wheat stocks on district farms on January 1, this year, were the third largest on record; only 1952 and 1949 stocks were larger.

Farm storage stocks of feed grains—including corn, oats, barley, and rye—were at an all-time high as of January 1, 1954. (See table.)

These large farm storage stocks of wheat and feed grains are a reflection of the relatively large district wheat and corn crops last summer—and also a reflection of large supplies of grains held in storage under CCC price support loan.

► *Farm production loans are down from 1952 peak*

Farmers in the Ninth district may have borrowed fewer dollars for production purposes during 1953, compared with the peak year of 1952. At any rate, member banks' production loans outstanding to farmers by the year-end were some 12 per cent less in dollar volume compared with the same period a year earlier.

The reduction in farm loans was particularly noticeable in Minnesota and South Dakota with declines of 16 and 17 per cent respectively. Farm loans apparently were maintained at a somewhat higher level in Montana and North Dakota. (See chart on farm loans.)

Cash Farm Income for Ninth District—January-December

(Thousands of dollars)

State	1935-39 Average	1952	1953	1953 in Per Cent of 1952
Minnesota	$ 346,863	$ 1,275,219	$ 1,262,141	99%
North Dakota	113,247	517,995	517,098	100
South Dakota	110,244	559,606	549,049	98
Montana	92,904	387,078	373,069	96
Ninth District[1]	744,407	3,005,901	2,946,754	98
United States	8,476,000	32,373,411	30,974,920	96

* Source: USDA—"Farm Income Situation"—March 4, 1954.

[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT

✔ Helena votes school bonds

Trustees of Helena school district No. 1 offered $1,220,000 worth of bonds during February to finance construction of a new high school. Last November, voters in the district approved a $1,720,000 bond issue, $500,000 of which already has been purchased by a Minneapolis firm of bond brokers.

After the new building is completed, the present high school will be used as a junior high school.

✔ Hopkins lets school contract

The school board of Hopkins, Minnesota, awarded construction contracts totaling nearly $2.5 million for a three-story high school, the largest single high school unit to be built in Minnesota in the postwar period. Excavation has begun on the 23-acre site, and completion of the 2,000-student building is set for September 1955.

✔ Electronics firm to expand

Minnesota Electronics corporation, St. Paul (now subsidiary to General Precision Instrument corporation), plans to move April 1 to a new building in the Midway district. The structure will be remodeled and a 24,000 square foot addition made.

The company now employs about 50 workers making digital computers and components and will require an estimated 400 workers by August.

✔ Minneapolis okays school issue

The way was cleared for a $5.1 million Minneapolis public school construction program after approval by the city Board of Estimate and Taxation of the sale of $2.4 million worth of school bonds in 1955. The sale of $2.7 million worth of bonds in 1954 was okayed earlier this month. The program includes four high school projects and three elementary school additions.

✔ N. W. Bell adds microwave units

Northwest Bell Telephone company will build four 200-foot microwave relay towers between Minneapolis and Duluth that will provide direct network TV signals to the Duluth-Superior area. The 140-mile relay system is part of a $22 million expansion program scheduled by the company in Minnesota during 1954. Largest part of the program is the expansion of facilities to eliminate most toll charges among Minneapolis, St. Paul, and suburban areas.

✔ Duluth job loss up

Unemployment at Duluth reached about 12 per cent of the total labor force during early March. Although a large part of this is seasonal, the non-seasonal unemployment is close to 4,800 out of a total labor force of 56,000.

At American Steel and Wire company, Duluth's largest plant, employment is down to 2,600 from a normal of 3,500 following the first major layoffs since before World War II. This reflects the downswing in agriculture, since much of the firm's product is fence wire and posts for farm use.

Another major Duluth plant, Coolerator, has reduced employment from a normal of 1,200 to about 200.