FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY Review

VOL. 11 MAY 31, 1954 SERIAL No. 17

DURABLES LOSE GROUND, CASH SALES GAIN

Buying on Time Has Diminished

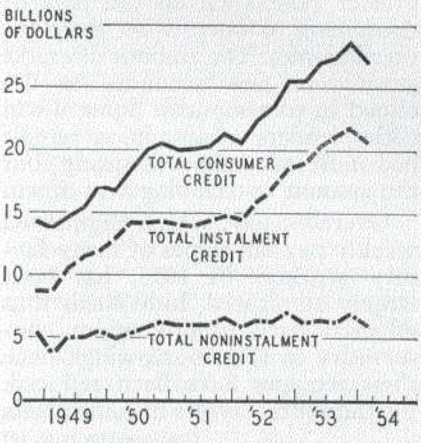
. . . as consumers display reluctance to commit future incomes and lenders screen credit applicants more carefully

REFLECTING the downward adjustment in the economy from its second quarter peak last year, basic changes have taken place in the consumer credit market.

These changes have become evident with the cutbacks in industrial production, reductions in output of defense materials, and a certain inertia in the durable goods markets.

Since the first of the year the amount of credit repaid on old instalment contracts has exceeded the amount granted on new contracts.

CHART I—CONSUMER CREDIT OUTSTANDING IN U.S.



Source: Board of Governors of the Federal Reserve System.

A lesser demand for durable goods had reduced the need for this type of credit, and at the same time a larger proportion of such goods has been purchased for cash. Further, apparently fewer individuals are willing to commit their future incomes.

As another change, although down payments have not been raised nor maturities shortened, lenders have been scrutinizing applicants more carefully as to their credit status because of greater difficulties encountered in collection.

In general these conditions, as observed in the Ninth district, have paralleled those in the nation.

Rapid credit growth ends

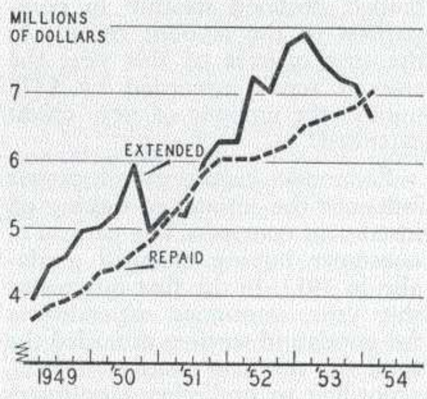
A steady growth in U. S. consumer credit had extended over 21 months, from March 1952 through December 1953. In this period, this type of credit increased by $8¼ billion, which brought the total outstanding to $28.9 billion.

Most of the increase in consumer credit was on instalment contracts. Credit extended for the purpose of purchasing automobiles accounted for $4.2 billion, or one-half the total expansion. The credit extended on other consumer goods accounted for another $1½ billion.

Noninstalment credit, which includes single payment loans, charge accounts, and service credit, increased by less than a billion dollars. The growth in this type of credit paralleled closely the rise in consumer consumption expenditures.

This expansion in consumer credit terminated at the beginning of this year. In the first quarter, the amount outstanding decreased by $1.7 billion. The decline was rather equally divided between instalment and noninstalment credit. Over

CHART II—EXTENSIONS AND REPAYMENTS OF CONSUMER INSTALMENT CREDIT



Source: Board of Governors of the Federal Reserve System.

two-thirds of the decrease in instalment loans outstanding was automobile paper.

The decline in noninstalment credit was largely seasonal. The amount outstanding followed closely the seasonal fluctuations in retail sales. Demand for such credit drops sharply after the Christmas season, but rises again prior to Easter.

The seasonal decrease in noninstalment credit outstanding this year was larger than in the two preceding years. The amount declined by $838 million in the first quarter as compared with $588 million and $536 million respectively in the same periods of 1953 and 1952.

The larger contraction in this type of credit this year can be attributed only in part to the later date of Easter.

Economic conditions affect instalment credit volume

Instalment credit is a volatile type of credit. In periods of strong consumer demand for durable goods it expands rapidly, and in periods of slack demand it contracts just as rapidly. The rise and decline in the amount of instalment credit outstanding of course affects total purchasing power in retail markets.

The amount of credit extended in the 21-month period ending December 1953 greatly exceeded the amount of credit repaid on old contracts, as may be observed on chart II. For instance, on a seasonally adjusted basis, the amount of credit extended in the fourth quarter of 1952 exceeded the amount of credit repaid by $1.5 billion, and by $1.4 billion in the first quarter of 1953.

In 1953 the amount of credit extended declined steadily in comparison to the amount repaid. In the first quarter of this year the amount repaid exceeded by $378 million the amount of new credit extended.

Economic conditions of course influence the amount of buying on instalment contracts. The pattern of consumer buying changed gradually in 1953. In the first quarter of this year, consumer expenditures for goods and services exceeded the total for the first quarter of 1953, according to preliminary estimates made by the Council of Economic Advisers.

However, comparison of expenditures by major categories between these two periods reveals that 7 percent less was spent this year on durable goods and 1 percent less for nondurable goods, whereas 7 percent more was spent for services.

This shift in consumer expenditures had a bearing on the smaller amount of instalment credit extended since the first of the year.

Expenditures for housing boosted over-all total

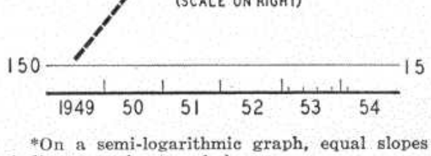
Admittedly, total expenditures have been up from those of a year ago. Since total expenditures for services were more than double the amount spent for durable goods, the increased spending in this category more than offset the decreased spending for durable and nondurable goods.

The expenditure for housing is by far the largest component in services. It includes the actual payment of rent by tenants of nonfarm dwellings. More important is the imputed rent of home owners, which accounts for about 60 percent of all consumer spending on housing.

This is the amount of money that home owners would have to pay in order to rent the dwellings in which they live. The purchase of houses by owners is treated as an investment, and it does not become a part of consumer expenditure figures.

Rents have risen since the first of 1953. Higher actual imputed rents have raised consumer spending for housing which, in turn, accounts for at least half the gain in service expenditures in the past year. An increase in service expenditures of this nature has not shifted employment from the durable goods sector into the service industries.

CHART III—COMPARATIVE RISE IN DISPOSABLE PERSONAL INCOME AND IN CONSUMER CREDIT REPAID (Semi-Log Scale*)



*On a semi-logarithmic graph, equal slopes indicate equal rates of change.

Sources: "Disposable personal income" from U. S. Department of Commerce. "Consumer credit repaid" from Board of Governors, Federal Reserve System.

Durables down in district

Fewer sales of durable goods have reduced the need for instalment credit. Sales of new cars have been down from those for a year ago. In the states wholly or partly in this district, new car registrations in the first quarter were 11 percent below the total for the same period of 1953.

(Nationally, the decrease in the amount of instalment loans made for the purchase of automobiles has been greater than the decline in automobile sales. The ratio of automobile credits extended to sales by automobile dealers declined from about 42 percent in the last quarter of 1953 to about 37 percent in January and February. Thus a larger proportion of the sales has been made for cash. A similar trend was evident in the sale of other durable goods.)

In district department stores, sales of home furnishings, including major appliances, declined 2 percent from the same period of a year ago. Furniture store sales in the same area were down 3 percent.

Borrowers holding back

Credit men in this area report a greater reluctance on the part of consumers to borrow on their future incomes. The amount of credit granted on new accounts has declined in past months. Some Twin Cities lenders of instalment credit had more accounts this spring, but the amount outstanding was down.

Overtime pay, which augmented weekly pay envelopes of many factory workers in 1953, has been largely eliminated. Individuals thus affected have become more conservative in their borrowings since their incomes have been reduced. Furthermore, layoffs in some plants

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Because of changing financial and economic conditions . . .

MANAGEMENT

Is More Important in Farming Today

As farmers invest more in their operating assets, management decisions have more dominant role

THE IMPACT of agricultural progress in recent years has extended much deeper than the visible changes associated with mechanization and new cultural practices.

Studying these changes in order to make a better appraisal of the farm operator's economic position, one finds that the effect has been to alter the balance of resources used in agricultural production.

Another effect has been to produce fundamental changes in the financial organization and capital structure of the farm business.

Much of the attention given these developments has been concerned with visible signs—increased mechanization, new crop and livestock practices, less labor and manpower on farms.

One need only drive through a rural area to observe many of the developments that have made agriculture an exciting drama of technological progress. Each year and each season farmers drive more trucks and tractors; use more specialized equipment, more chemicals and drugs; switch on more electric power to help with everyday farming operations.

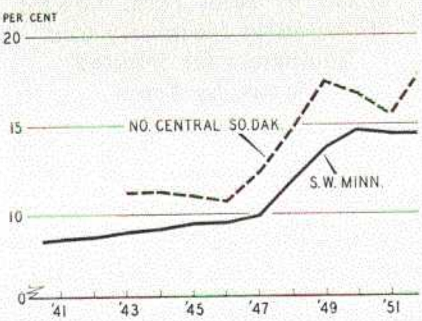
Ninth district farms, to be sure, have experienced their share of this nationwide progress.

Although this pattern of progress has been developing over a period of at least three decades, improvements have seemed to come at an even greater rate since the beginning of World War II. Using less manpower and more equipment, farmers have increased total production by 27 percent since 1940-41. For each man-hour worked, they have increased crop output 73 percent in that time, and their efficiency in livestock production by 42 percent.

This progress has not been without a price, however. If we look beyond the specialized machines and improved methods, we find that some rather fundamental changes have taken place. As a result, the business of farming is financially and economically different from even the early 1940's—and of course vastly different from earlier decades. The outstanding changes are:

- Farmers pay out more cash for operating costs.

PERCENTAGE OF TOTAL FARM ASSETS REPRESENTED BY MACHINERY AND EQUIPMENT 1941-1952



OVER THE PAST DECADE, machinery, equipment and other operating assets have become a larger share of total farm capital. At the same time the investment in land and buildings has become a smaller portion of the total farm operation.

Source: Farm record summaries, South Dakota State college and University of Minnesota.

- They use more short-term credit to finance their operations.
- More of their capital is invested in operating assets.

These are relative changes, not explained by higher prices. All of them influence the operator's ability to adjust changing economic conditions. They call for a greater skill in financial management along with the many other technical and management skills that modern farming requires.

Cash outlays larger

Farm operators pay out more for direct operating costs largely for two reasons. First, many supplies and resources, once raised or available on the farm, are now being purchased off the farm. Seed, feeds, mechanical horsepower and the fuel from that horsepower are common examples.

Additional power, equipment, electricity, and other items are being purchased to replace manpower that was available on farms a dozen years ago. This also represents an important shift—from farm-supplied manpower to power and equipment bought off the farm.

The second reason for the higher operating costs is the fact that more purchased items are going into today's farming operation than formerly. This includes, it should be noted, more than the added fertilizers, chemicals, and pharmaceuticals being used. Improved crop seed, feed supplements, and similar items represent *more* in terms of *quality* — a net increase in the amount that normally was either purchased or used a few years ago.

Thus farmers today not only buy much of (1) what they formerly raised and supplied themselves, but also buy (2) larger quantities than before.

Obviously, this higher level of cash operating expenses sets a higher minimum that must be paid out of income before any net profit can be enjoyed. U. S. Department of Agriculture figures show that for the nation an average 64 percent of gross farm income went to pay production expenses in 1953—leaving only 36 percent as net realized income.

By comparison, production expenses during 1942-47 averaged only 51 percent of gross income. (See chart I.) Ninth district farmers have experienced the same trend. Minimizing these costs, and selecting the best cost alternatives from among several possible production plans, are major factors in determining profits.

Credit use increases

It follows that higher operating costs may in many instances encourage the use of short-term (non-real-estate) credit. This is the type of credit, extended to farmers largely by commercial banks, most commonly used to finance the purchase of farm supplies, feeder livestock, and many items of equipment. This is one of the reasons why the amount of non-real-estate debt owed by farmers has risen rather sharply since the end of World War II.

The fact that more farm operations involve direct cash outlays suggests that a farm operation may expect unforeseen financial needs to arise somewhat more frequently. This also calls for a higher degree of financial management, in the use of the farmer's capital as well as in the use of credit. It also makes a readily available credit source more important to the farm business.

More capital invested in operating assets

Higher operating costs and greater use of short-term credit are closely related to another important change in the farm business—larger investment in operating assets—for it is in the operation and use of such assets that the higher operating costs are largely incurred.

In recent years, the proportion of total capital invested in operating assets on farms has risen significantly. The percentage invested in real estate (land and buildings) has declined. Figures taken from the records of farm management services in Minnesota and South Dakota show this trend. (See accompanying table.)

This change in the capital structure of groups of farms clearly shows the shift in the combination of resources being used in farming today, as compared with a decade or so ago. It means that the basic "farm plant," consisting of land and the buildings that stand on it, contribute less, relatively, to total production and income; the operating assets such as machinery, equipment, livestock, and other inventories contribute relatively more.

Management's burden greater

All of these changes tend to place greater responsibilities on the shoulders of management. Today's farm operator obviously must have a thorough technical knowledge of farming. He must know exactly when and how to do each job—and, in addition to knowing how, he must have the *ability* to get it done in the right way at the right time.

Percent of Total Farm Capital Invested in Machinery and Equipment for Selected Areas, by Years

	Southeastern Minnesota	Southwestern Minnesota	South-eastern South Dakota	North Central South Dakota
1941	11.8%	8.5%	...%	...%
1942	12.4	8.6	...	...
1943	12.0	9.0	9.4	11.1
1944	11.8	9.2	9.5	11.3
1945	12.0	9.4	10.3	11.0
1946	11.6	9.5	10.0	10.8
1947	11.8	9.9	9.4	12.3
1948	13.7	11.8	12.2	14.8
1949	16.0	13.7	12.1	17.4
1950	17.6	14.7	13.0	16.7
1951	17.9	14.5	13.2	15.6
1952	17.4	14.6	15.9	18.3

Source: Data obtained from Cooperating Farm Management associations, through agricultural extension services of Minnesota and South Dakota.

He must have a sharp pencil for figuring and comparing costs, and the ability to get maximum output from his operation at the least possible cost. He must know when to spend more money to increase his output in some cases, and also when and where to cut back his expenses in order to protect profits in others.

Finally, he must exercise a high degree of skilled financial judgment —making the best possible use of his limited funds, including credit, where they will contribute most to financial progress.

It is in the use of his operating assets—his machinery, equipment, and operating supplies — that the farm operator has the greatest and most direct influence on production. It is in the use of these assets that he determines when and how well each production job will be done. Since these assets now represent a much larger share of the total business, management itself has a more critical and more exacting role in today's farming operation.

This explains to some extent why many students of agriculture have emphasized management's greater responsibility under present-day conditions. This is why many students believe that superior management in farming has greater opportunities for financial progress and profit than ever before.

Trend will continue

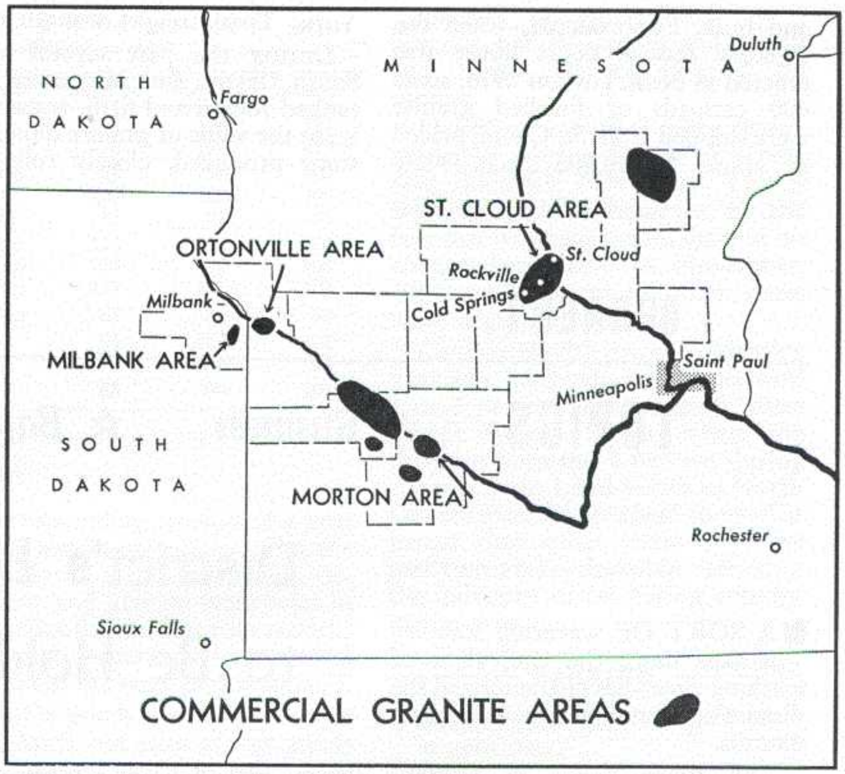
It seems inevitable that Ninth district farmers will in the years ahead invest still more in operating equipment, pay out more of their gross income for operating expense —and will certainly be called on to apply a higher degree of management skill and technical know-how in handling their complex operating and financial affairs.

Further progress in methods and efficiency are surely in store. If past history offers any lesson, it is that these new developments may come unexpectedly and are likely to be more important in their effect than can be foreseen.

Those who adjust effectively to these changes are likely to prosper, perhaps to an even greater extent than during past years. Those who fail to make the necessary adjustments can expect to do less well than before. • • •

A LOOK AT DISTRICT'S RESOURCES REVEALS . . .

An Industry in Granite



Production of granite, chiefly for monuments, is a major activity in several communities located along the Minnesota and Mississippi river valleys

GRANITE is the bedrock that signals "end of the line" to oil drillers—at least to those who find it necessary to drill that deep in the Williston basin. However, if you travel eastward from the famous oil basin's great layered masses of limestone and sandstone, you will find many localities near central Minnesota where the granite "basement" emerges from its customary subterranean haunts and assumes an entirely different economic significance.

In this region, outlined on the accompanying map, granite is raw material for an industry with national markets and considerable local importance.

Granite is best known for its angular, grainy appearance, its strength, and its ability to take a "high polish." The native stone, occurring in a great variety of textures and colors, crystallized millions of years ago out of molten material. This most generally transpired after explosions of liquid rock from the earth's molten interior welled upward in large underground pockets, later to be solidified and bared by erosion.

Milbank is big producer

One such occurrence (bearing the technical name, "batholith") is located in northeastern South Dakota. It comprises a 30-square mile, practically bottomless deposit of rich, mahogany-colored granite. At present, a small three-square-mile section of this outcrop, referred to as the Milbank granite area, is the scene of several active quarrying projects from which comes nearly a third of the dressed monumental granite produced in the United States.

About 85 percent of the output of the Milbank area is used in monuments. Value of stone taken from this locality in 1952 was estimated at about $3 million. Quarrying has shown a steady growth since the area was first developed, until about 200 men are now employed by the industry in the Milbank region. Six of the eight companies quarrying in the area, however, ship their granite to plants in central Minnesota for processing.

St. Cloud second nationally

St. Cloud, Minnesota, is the center of the granite industry in this section of the country, ranking second only to Barre, Vermont, nationally as a monumental stone center. In the area around St. Cloud, more than 1,100 persons are employed in quarrying and finishing of granite. The largest granite finishing plant in the country is located there. As of 1950, some 16 plants were active in Minnesota.

There are a great variety of attractive granites in the state, among the most prized of which are red and gray granites of the St. Cloud and Ortonville districts and variegated (patterned) granites of the Morton district.

From an area southwest of St. Cloud comes an important pink granite used extensively as building stone. Marketed under such names as Rockville Pink and Cold Springs Pearl Pink, it has been used widely in prominent buildings as far away as Massachusetts, Florida, and southern California. Among many structures using the pink granites are the federal court house in New York, Tribune tower in Chicago, Bell Telephone building in Dallas, and the Federal Reserve bank building in Minneapolis.

Distant shipments feasible

The desirable qualities of these granites permit their shipment great distances in spite of their weight and bulk. For example, when the 38-story federal court house was erected in New York in 1936, some 600 carloads of finished granite were shipped from St. Cloud, priced at about $1,350,000 f.o.b. New York. Total freight was $208,000.

During the past several years, South Dakota and Minnesota have ranked fourth and fifth, respectively, in the value of granite dimension stone produced, closely following Vermont, Massachusetts, and Georgia. Dressed stones (in contrast to rough stones) make up a relatively greater portion of the stone work in this district than in other leading granite areas. • • •

CURRENT TOPICS ☆ Business ☆ Banking ☆ Farming

District's Economy Appears to Be Holding Its Own

■ A SORT OF wavering stability—perhaps more the equivalent of marking time—has characterized the district's economy the past few months.

The sharp break in business looked for by some with the onset of the current recession has not materialized. So far the district's economic ledger shows only scattered gains and losses, and most entries seem to be made with little change.

Spending, as indicated by debits to bank accounts in this district, is still high. As a matter of fact, debits during April were better than last year at this time by a few percent.

Retail purchases, as reflected in department store sales, were practically at last year's levels. An active April rescued the 1954 showing after poor sales in March had pulled this year's record below board.

It is worth noting that the debits and sales showing was equally good in farm centers and urban centers.

Farm prices on average have been stable over the past half year. Some commodities showed their changed status by demanding more or less money in the market. For example, the price of pork went up in response to smaller supplies, while the price of milk went down, reflecting a change in government price supports.

Over-all employment trends were not clearly defined, but it appeared that the spring upturn was smaller than last year. In the western part of the district there were practically as many persons employed this spring as last.

In the eastern part, however, employment was down several thousand—the bulk of this being factory employment in the larger cities.

These were some of the entries in the district's economic ledger during April and May. They added little in the way of strong signs pointing the direction the economy will take over the next few months. For those who watched the developments closely—whether anticipating stepped-up business or expecting a wider recession — statistics suggest that the region's economy has been holding its own, although marked upturns in depressed segments have not yet developed.

BUSINESS

► *District employment boosted by outdoor activities*

The Ninth district has not experienced as large a slump of employment* as many other regions of the nation.

However, the seasonal pickup in employment this spring has been smaller than in preceding years. This has brought employment in all states of the district either closer all states of the district closer to last year's corresponding monthly totals—in some cases just above, in others just below.

In the western half of the district, employment set a new record during the winter. During the past spring, the small increase brought the monthly totals closer to those of 1953.

In Montana, employment in March was equal to the March 1953 total and in April was 1 percent below the previous year. In both North and South Dakota, March employment still was 1 percent above last year's total.

In the eastern half of the district, the seasonal pickup in employment may not have been quite enough to be considered a reversal of the downward trend of the winter months. In Minnesota, where April figures are available, employment dropped by another 300 workers. As compared with year-ago figures, the April total was down 2 percent, while those for the preceding winter months were down only 1 percent.

The seasonal rise in employment has resulted from the normal build-up of workers for outdoor projects — in construction especially highway and street jobs, and in the transportation industry the rehiring

Ninth District Business Indexes
(Adjusted for Seasonal Variation—1947-49 = 100)

	April '54	March '54	April '53	April '52
Bank Debits—93 Cities	132	135	129	121
Bank Debits—Farming Centers	126	128	122	117
Ninth District Dept. Store Sales	100p	95	99	100
City Department Store Sales	105	100	103	102
Country Department Store Sales	93p	87	92	95
Ninth District Dept. Store Stocks	112p	111	114	104
City Department Store Stocks	115p	114	116	105
Country Department Store Stocks	109p	111	115	107
Lumber Sales at Retail Yards (Bd. Ft.)	84p	81	81	80
Miscellaneous Carloadings	95	93	109	102
Total Carloadings (excl. Misc.)	66	75	108	97
Farm Prices (Minn. unadj.)	87	88	90	101

p—preliminary

of maintenance crews by railway companies.

The downward trend in factory employment in this district has not been reversed. For instance, in Minnesota nonfarm employment in April was down 13,400 workers from the total for the same month of 1953. Of this decrease in employment, 12,800 workers, or about 95 percent, were in manufacturing industries. Since manufacturing is heavily concentrated in the three large cities of the state, over one-half of the drop in this type of employment occurred in these cities.

*Employment referred to does not include labor on farms.

► *Average weekly earnings continued to rise*

Despite the decline in factory employment, average weekly earnings in most district states have continued to rise during the past year. Average weekly hours have declined, but average hourly earnings have shown a further increase.

In all states except Montana, the rise in hourly earnings in the latter half of 1953 and in the first three or four months of this year has more than offset the lesser income occasioned by the decline in hours worked.

Although weekly earnings in Montana in the first four months of this year averaged 89 cents less than in the same period of 1953, they still were higher at $78.92 than in the other states or parts of states in this district.

► *Department store sales were about even with year ago*

The increase in April sales over the corresponding receipts of a year ago was almost enough to offset the lower March sales. As a result, department and general store sales in this district for the first four months were only 1 percent below total receipts for the same period in 1953.

Durable goods sales continued to lag in April, but sales of soft goods were strong enough to more than offset the decrease.

FARMING

► Farm prices holding steady

Average prices of farm products have been fairly stable over the past six months, with the index of prices farmers receive turning upward slightly from their low of last fall.

However, prices farmers pay for services and supplies have also gone up slightly. As a result the parity ratio between these two indexes has hovered between 90 and 92 percent of parity since last September.

Figured at a percent of current parity, prices of most small grains and corn are holding at levels comparable to a year ago—reflecting in part, no doubt, the effect of support prices.

Prices of potatoes, butterfat and milk are lower than a year ago in relation to their parity level. Soybeans and hogs are sharply higher than a year ago. Beef is about the same and lambs are slightly higher.

► *Land prices at a plateau*

Average prices of farm land throughout most of the Ninth district showed little change from November to March, according to the U. S. Department of Agriculture. Minnesota prices declined just 1 percent, but Wisconsin and North and South Dakota showed no change.

Montana, on the other hand, measured a price decline of 4 percent since last November. This is largely explained, however, by the fact that Montana prices showed no change from July to November, 1953, while prices in other states were edging downward.

Compared with prices in March a year ago, land values have declined 4 or 5 percent in all district states except North Dakota, where the drop has been just 1 percent during the past year. Land values in North Dakota seem to have held somewhat firmer than other states over the past two years—probably reflecting the influence of oil leasing activity in the area.

BANKING

► *Deposits fell less in April than a year ago*

During April the outflow of deposits at member banks in the district was less than in the same month last year. This was true of both city banks and country banks. Net withdrawals for the month amounted to $22 million.

In the first four months of the year, deposits of member banks in the cities were reduced by only 70 percent of the reduction experienced in the same period of 1953. The country bank deposit reduction for the same period was 83 percent of the 1953 amount.

Time deposits grew by $17 million in the first four months of 1954 at district member banks, whereas growth in the same period of last year was $19 million.

Both city and country banks added to loans between March 31 and April 28, with the bulk of the $7 million addition at the country banks.

Investments—government securities and other securities—worth $33 million were liquidated. Supplemented by an increase in borrowings of $15 million, these funds were more than sufficient to finance the addition to loans and the deposit withdrawals, with the result that cash balances were $23 million higher at the end of the period than at the beginning. • • •

MOST FARM PRODUCTS UNDER NEW FORMULA

Parity--the Old and the New

Only wheat, corn, cotton, and peanut parity prices are now calculated by old parity formula

BANKERS and their farmer customers often talk about parity and parity prices. Not many, perhaps, understand just how a parity price actually is calculated.

Since the parity mechanism is not too well understood, many people are led to believe that parity simply means a "fair" price. If parity means this, then they assume that when the market price is below parity, the farmer is in some way being cheated of that which rightfully should be his.

The assumption is also made that a parity price indicates a level or constant purchasing power for farm products in relation to some base period. It is reasoned that when a farmer sells a given quantity of products on today's market, the price should be high enough to purchase the same quantity of things the farmer needs in production and family living as was true in some given base period.

Old formula based on 1910-14 relationships

Perhaps this problem of parity might be better understood if the mathematics involved in calculating parity prices were explained in some detail.

To begin with, the parity concept was first officially recognized in the Agricultural Act of 1933. The act provided that a definite formula be used in figuring parity prices of farm products.

From 1933 until January 1, 1950, parity prices were computed simply by finding the average price received by farmers for a given farm product during a base period, usually 1909-14, and then multiplying this figure by a current index figure showing the average of all prices paid by farmers for the items used in production and family living. This index figure is published each month by the United States Department of Agriculture. It, too, is based on 1910-14 as 100.

In brief, the old parity formula may be stated as follows:

Price of farm product (1909-14avg.), *times current prices paid index, equals* (=) *parity price.*

EXAMPLE OF OLD AND NEW PARITY COMPUTATION FOR WHEAT AS OF MID-MARCH, 1954

Old parity computation

(a) Avg. price received for wheat per bushel (Aug. 1909-July 1914) \$0.884

(b) Index of prices paid by farmers, March 15, 1954.... 283
(1910-14 = 100)

(c) Old parity price for wheat per bushel on March 15, 1954 .... 2.50
(a) × (b) =

New parity computation

(a) Avg. price received for wheat per bushel (1944-1953) \$1.92

(b) Index of prices received for all farm commodities, Avg. of 1944-1953......... 255
(1910-14 = 100)

(c) Adjusted base period price per bushel (a) ÷ (b) = \$ .753

(d) Index of prices paid by farmers on March 15, 1954.. 283
(1910-14 = 100)

(e) New modernized parity price per bushel........... \$2.13
(c) × (d) =

The base price (usually 1910-14) once established did not change. On the other hand, the prices-paid index does change from time to time as prices paid by farmers vary. Theoretically, the resulting parity price gave a constant purchasing power for a particular farm product.

In other words, the parity price of a bushel or pound of "X" would vary in such a way from time to time that it would buy the same quantities of things the farmer needed for his farming operations and family living.

Parity formula was brought up-to-date

Authors of the old parity formula could not have foreseen nor taken into account all the changes that occurred or which were to take place in agricultural production methods and techniques in an expanding economy. The revolution in agricultural production methods and changing consumer preferences was bound to affect agricultural enterprises in different ways. As changes occurred in the production, marketing, and consumption of farm products over the years, it became evident that the old parity formula was inadequate.

For example, wheat farming has changed tremendously since pre-World War I days. Most wheat farmers have mechanized their operation in recent years. Livestock producers, on the other hand, have not been able to adjust, to the same degree, to mechanization and other labor saving devices.

Since the old parity formula does not take into account such differences, wheat parity today, at about \$2.49 per bushel, may actually enjoy a relatively higher purchasing power per unit compared with the parity prices of cattle, hogs, or dairy products.

It was the recognition of this situation which stimulated Congress in 1948 and 1949 to make provisions for a new, modernized parity formula which became effective on January 1, 1950.

That is, it became effective for all farm commodities except the six basic crops of wheat, corn, cotton, peanuts, tobacco, and rice. These crops were permitted to use either the old or the new formula, whichever was higher, for price support purposes.

This provision for the basics expires on January 1, 1956, at which time the new formula will be used for all farm products, unless Congress chooses to extend the present arrangement further into the future.

Three steps in figuring modernized parity

Briefly, the method of calculating parity prices under the new modernized formula is as follows:

1—The average monthly price received for a farm product during the most recent 10-year period is calculated.

2—This average price is then divided by the over-all index prices received by farmers for the most recent 10-year period. This gives the new adjusted base price. This base price will change as these 10-year moving price averages change.

3—This adjusted base price is then multiplied by the appropriate monthly index of prices paid by farmers to give the modernized parity figure for that particular month.

It may be observed from the table that the parity price of wheat on March 15, 1954, under the old parity formula was 37 cents per bushel higher than it would have been under the modernized parity formula. A similar analysis indicates that corn parity would have been about 19 cents a bushel higher.

This explains why it has been to the advantage of producers of some of the so-called basic crops to operate under the old parity formula for price support purposes.

Parity ratio different from parity price

Thus far, the discussion has concerned parity prices and how they are calculated. Nothing has been said about the parity ratio.

The parity ratio refers to the purchasing power of agricultural commodities as a whole. This is in contrast to the parity price, which refers only to a particular farm commodity.

Each month the United States Department of Agriculture publishes two index figures as follows:

1) The index of Prices Received by farmers for all farm commodities, with 1910-14 = 100.

2) The index of Prices Paid by farmers, including interest, taxes, and wage rates, with 1910-14 = 100.

The method used in figuring the parity ratio is illustrated as follows:

1) March 15, 1954, Index of Prices Rec'd. 256 (1910-14 = 100)

2) March 15, 1954, Index of Prices Paid 283 (1910-14 = 100)

3) March 15, 1954, Parity Ratio (1) ÷ (2) 90. • • •

Loan Totals at District Member Banks Reflect Price Support Program

■ A PECULIARITY associated with commodity marketing under the government price support program was, to a large extent, reflected by the increase in loans at district member banks since the spring of 1953. C.C.C. loans comprised most of the gain.

At the end of March, this year, the ratio of loans to total assets at Ninth district member banks was the same as the national average for member banks—namely, 36 per cent. While the national average ratio was almost unchanged from a year earlier, the district ratio had increased from 33 percent 12 months previous.

Meanwhile, deposits of member banks within the Ninth district had increased, but the increase was somewhat less rapid than at member banks in other parts of the country.

Investments, both government obligations and other securities, were liquidated during this period by district member banks in contrast to net purchases of securities by member banks elsewhere.

Thus, funds for loan expansion were made available to member banks in the district by an increase of deposits as well as by sales of securities. Also, the reduction of member bank reserve requirements in July, 1953, added to the supply of lendable funds.

Loan Increases at Member Banks

April, 1953 - April, 1954

Michigan	+12%
Minnesota	+ 7.5%
Montana	+12%
North Dakota	+28%
South Dakota	+22%
Wisconsin	+16%

Percentagewise, district member banks expanded loans by approximately 11 per cent at a time when the national total of member bank loans gained by less than 2.5 percent. Rates of loan increase varied widely within the district from a low of +7.5 percent at member banks located in Minnesota to a high of +28 percent at member banks located in North Dakota.

Agricultural loans showed greatest gain

Of more than passing interest is the fact that loans increased the most, proportionately, at member banks in states which derive the largest share of income from agriculture. In this connection, it is worth noting that two-thirds of the total increase in member bank loans during the 12 month period under review consisted of loans to farmers guaranteed by the Commodity Credit Corporation. (This infor-

Composition of District Member Bank Loans ($ Thousands)

	April 20, 1953	April 15, 1954	Change in Amount
Comm. and Ind. (Incl. Op. Mar. Pap.)	$ 428,851	$ 432,938	+$ 4,087
Loans to Farmers Guar. by CCC	46,274	144,048	+ 97,773
Other Loans to Farmers	140,973	131,086	− 9,887
Loans to Brokers and Deal. in Sec.	2,058	2,325	+ 267
Other Loans—Purch. or Carr Sec.	13,763	21,238	+ 7,475
Real Estate Loans			
(A) Sec. by Farm Land	22,288	22,432	+ 144
(B) Sec. by Residential Prop.	313,935	337,000	+ 23,064
(C) Sec. by Other Prop.	51,046	53,570	+ 2,523
Other Loans to Ind.			
(A) Ret. Auto Inst. Paper	94,946	104,560	+ 9,614
(B) Other Ret. Inst. Paper	58,758	60,541	+ 1,782
(C) Rep. and Modern. Inst. Loans	73,540	84,651	+ 11,110
(D) Inst. Cash Loans	29,538	31,442	+ 1,904
(E) Single-Pay. Loans	64,860	56,756	− 8,104
Loans to Banks	481	5,755	+ 5,274
All Other Loans Incl. O.D.'s	35,454	38,772	+ 3,318
Gross Loans and Discounts	1,376,773	1,527,121	+ 150,347
Less Reserves	17,496	17,565	+ 68
Net Loans and Discounts	1,359,277	1,509,556	+ 150,279

mation was taken from reports of condition submitted in response to a call on April 15.)

With these loans removed from consideration the district member bank loan totals would have behaved more nearly like the national totals. In North and South Dakota virtually the entire addition to loans was in the form of C.C.C. credits.

Loans to farmers, other than those guaranteed by the C.C.C. or secured by farm lands, declined by $10 million in the district. Loans secured by farm land were almost unchanged for the period between spring calls this year and last.

Commercial and industrial loans rose slightly in every district state except Minnesota, where a decline was almost sufficient to offset gains in other parts of the district.

Next to C.C.C. loans, the largest absolute gains were registered in loans secured by residential properties. This type of credit was larger by $24 million in April than a year earlier. The gain represents the continuation of a trend which has existed for several years.

Consumer loans turned down after December

Consumer type loans—retail instalment paper and repair and modernization instalment loans — increased by $22.5 million in the year ended April 15, 1954. Since the end of last year, however, each of these types has declined in amount, as has consumer credit for the nation as a whole.

C.C.C. loans, therefore, accounted for 66 percent of the total loan increase at district member banks in the year ended April 15, while residential real estate loans and consumer loans accounted for 16 percent and 15 percent respectively of the total increase.

A large number of C.C.C. loans matured in late April, and it is likely that these repayments will be reflected by member bank condition statements for May.

Such repayments will be a welcome source of cash for many district bankers who—at present—are nearing the end of the season when withdrawals customarily exceed deposits of funds. • • •

BUYING ON TIME

Continued from page 139

have caused many workers still employed to hesitate before commiting future incomes (those not assured) on instalment contracts.

Of course, such an intangible factor as greater reluctance by consumers to borrow is difficult to measure.

Applicants are being screened more carefully

The terms offered on instalment contracts and the credit rating required of applicants limit the number of individuals who can qualify for such credit.

In the second quarter of 1953 there was a general tightening of terms on instalment loans in this district. Since that time, commercial bankers have maintained the same down payments and maturities on instalment contracts for the purchase of new and used cars and of other durable goods.

However, commercial bankers are screening applicants more carefully, as a recent survey indicates. As for delinquencies on instalment loans, these have not risen much, but credit men are working harder to keep their collections from falling.

The number of repossessions has risen in the Twin Cities metropolitan area and in a few other scattered communities. Substantial losses have resulted on repossessions of cars because of the decline in used car prices. In the district as a whole, the number of repossessions has remained small.

This experience has caused credit men to examine more carefully the applications for credit. The possibility of a future layoff of a worker employed with a firm that has cut its labor force is investigated. The chances of a worker being placed on less than a 40-hour week, which would decrease his ability to repay, is studied.

Again, it is impossible to estimate how much this screening may have reduced the amount of credit extended.

Repayments taking more of disposable income

The amount of credit repaid on old contracts continued to rise during the first quarter. The amount of credit repaid, incidentally, is governed by the amount of contracts outstanding and the terms on them. It is affected by a slowing down in economic activity only to the extent that more delinquencies result.

In recent years the amount of consumer credit repaid has risen at a faster rate than has disposable personal income, as may be observed on chart III. Repayments on installment contracts now take nearly 11 percent of disposable income.

The rate of increase in repayments has begun to slow down. As the older contracts are paid off and a smaller amount of credit is extended on new ones, it is likely the amount of repayments will soon turn down. • • •

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT

✔ First N. D. refinery operating

In North Dakota, the Queen City Oil and Refining company of Dickinson produced the first gasoline manufactured by a North Dakota refinery about the end of April this year. This refinery has a capacity of 2,000 barrels a day.

The Williston Basin Refining corporation's 1,500 barrel-a-day refinery at Williston was scheduled to begin operations during May.

As of the middle of May, Standard Oil company's 30,000 barrel-a-day refinery at Mandan was 70 percent completed. Some 1,185 men are working on this refinery, which is scheduled for completion in October.

✔ St. Louis Park now fourth city

The population of St. Louis Park, a Minneapolis suburb, is now 35,289 according to an official count of the U. S. Census Bureau. This is an increase of more than 50 percent from the 1950 Census figures and moves St. Louis Park ahead of Rochester, St. Cloud, Winona, and Austin to the position of fourth largest municipality in Minnesota.

✔ Twin Cities arsenal cuts force

Twin Cities Arsenal at New Brighton, which employed 12,000 workers at the peak of its production, was scheduled to cut back to a minimum of 5,000 employees by June 1. Federal Cartridge corporation, which operates small arms production lines, planned to eliminate second shift operations some time in May.

Minneapolis Moline, another company operating at the arsenal, had its contract for 105 mm. shells cancelled, and 320 of the 470 employees in the firm's shell plant were to be laid off by June 1.

✔ Taconite spells 542 new houses

Reserve Mining company is building 300 new houses this year at Silver Bay, Minnesota, in connection with the company's taconite program. Already, 253 houses have been completed at the new ore port.

At Babbitt (scene of another part of Reserve's facilities) work has started on construction of 242 homes this year, which will bring the total number of new homes built in that community to 371.

Work on new 18-classroom elementary schools will be completed in both towns by next fall.

✔ St. Lawrence seaway authorized

The St. Lawrence seaway bill was passed by Congress May 7. The measure authorizes a $105 million revenue bond issue to raise funds for construction of this country's share of a 27-foot waterway along the St. Lawrence river. This signals the go-ahead on the long awaited seaway.

The Duluth-Superior harbor will require some work to adapt it to sea-going vessels, but not as much as most Great Lakes ports. The entrance to the harbor is now 27 feet, sufficient for ocean-going ships.

Bills have already been introduced in Congress to provide for channel and port work all along Great Lakes routes.

✔ Products pipeline expansion set

The Great Lakes Pipeline company has contracted for the construction of an eight-inch line between Alexandria, Minnesota, and Fargo, North Dakota, a distance of about 105 miles.

This line will parallel an existing six-inch line and provide additional capacity to the firm's Fargo terminal.

Capacity to the Alexandria terminal will be increased this summer by a 12-inch line from a junction with other company lines near Rosemount, south of Minneapolis, and paralleling an existing eight-inch line to Alexandria. Several oil companies use this pipeline for transportation of liquid petroleum products into the Minnesota-Dakota area for marketing.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAY 25, 1954

INDUSTRIAL production changed little in April and early May. Retail sales rose moderately in April as auto sales increased further and sales of most other goods were up. Construction activity continued at record levels. Unemployment declined about seasonally to 3.5 million. Prices of industrial materials continued to advance to mid-April and subsequently leveled off. Prices of common stocks advanced further through early May.

Industrial Production—The Board's preliminary seasonally adjusted index of industrial production in April was unchanged from March at 123 per cent of the 1947-49 average, and indications are that in early May production continued steady. In May a year ago the index was at its all-time high of 137.

Steel output in April and early May was maintained at about the reduced March rate of 69 per cent of capacity although there has usually been a seasonal tapering off in steel output after March. After allowing for seasonal influences, automobile assemblies in April and the first half of May were moderately above first quarter rates, and television output rose considerably further.

There was some further decline, however, in output of various semi-finished metal products and of ordnance. Output of most building materials continued close to high year-ago levels in April, and activity in the furniture industry was maintained at the earlier reduced rate.

A slight decline in the seasonally adjusted index of minerals production in April reflected mainly the failure of iron mining to show the usual very large seasonal increase as demand from steel mills continued at reduced levels.

Construction — Total outlays for new construction work in April, seasonally adjusted, continued at the record level of earlier months. Value of contract awards increased substantially further in April, reflecting entirely continued gains in awards for privately financed construction.

The number of private housing units started rose seasonally in April to 109,000, or slightly more than a year earlier. The number of new housing units covered by appraisal requests to VA and applications to FHA increased considerably further in April.

Employment — Unemployment declined 250,000 between early March and April to 3.5 million. The decline, the first since last autumn, reflected seasonal expansion in agricultural and other outdoor activity and a pre-Easter increase in trade employment.

Employment in all non-agricultural industries combined increased less than seasonally, and in durable manufacturing industries employment and average hours of work declined moderately further.

Distribution — Retail sales of new autos, which had risen more than seasonally in February and March, rose further in April. With sales of most other goods also up somewhat, total retail sales increased moderately.

The Board's seasonally adjusted index of department store sales rose approximately 2 points in April to 107 per cent of the 1947-49 average, while in March seasonally adjusted department store stocks rose slightly after declining steadily from last autumn.

Commodity Prices—Prices of industrial materials continued to advance to mid-April, and subsequently leveled off. Metal scrap increased somewhat further, and prices of hides and cotton textiles advanced as buying expanded. Waste paper and tin declined.

Grain futures dropped as crop prospects improved, but cash prices changed little. Average livestock prices rose further in early April but subsequently leveled off as marketings expanded.

Following a slight further decline in the consumer price index in March, retail meat prices advanced. Dairy products declined further, however, and excise taxes on various consumer goods were reduced on April 1.

Bank Credit and Reserves — Total loans and investments at banks in leading cities increased somewhat during the last half of April and early May. Holdings of United States government and municipal securities increased, while loans to businesses declined further as is usual at this time of year.

Demand deposits adjusted showed little change in April, after allowance for usual seasonal movements. Growth of time deposits continued.

Member bank reserve positions continued easy in late April and early May. Excess reserves of member banks averaged about $800 million and borrowings with the Federal Reserve averaged less than $200 million.

Security Markets—Yields on short-term government securities declined in April and leveled off in early May. On 3-month Treasury bills market rates averaged .75 per cent in the week ending May 8. Yields on longer term government securities were steady to moderately lower during the last three weeks of April and rose somewhat in early May.

The Treasury on April 21 sold $1 billion of June 18 tax anticipation bills at an average discount rate of .73 per cent, and on May 4 sold for cash $2.2 billion of 1⅞ per cent notes, due February 1959.

Holders of 2⅝ per cent certificates maturing in June were offered in exchange either the 1⅞ notes or a one-year 1⅛ per cent certificate, and holders of bonds maturing and called in June were also offered the certificate.

Yields on corporate and municipal bonds showed little change during the second half of April and the first week of May. Stock prices continued to rise.