MONTHLY Review

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Current conditions in the Ninth district . . . .

Record business activity, here and nation-wide, brings focus on inflation--deflation factors

First-half bank earnings . . . . . *see page 4*

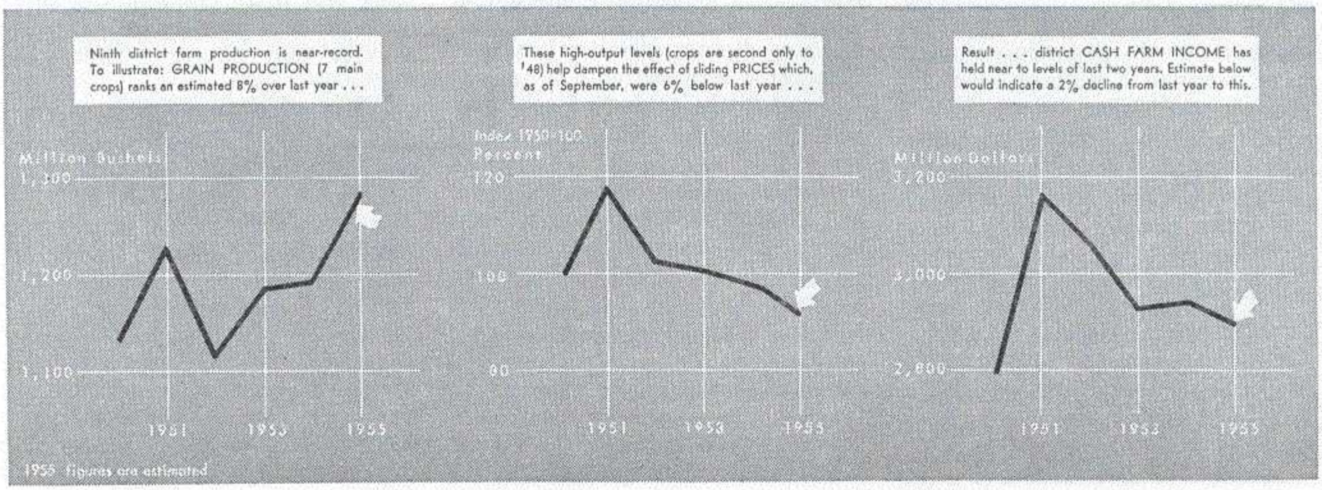
District farm products, income . . . . *see page 6*

ALMOST ALL measures of economic activity in the Ninth district, except those of agriculture, continue to move along at or near boom proportions — a situation that also prevails nationally. In fact, general business recovery has gained such proportions that the spotlight is now focused on a variety of 'braking' actions to forestall potential inflation. One of these is credit policy.

The rediscount rates at Federal Reserve banks have been raised three times since the first of the year. The latest increase at the Federal Reserve Bank of Minneapolis took place September 12. Stock margin requirements were raised twice (January and April).

The Federal Reserve has sold or has allowed Treasury bill holdings to 'run off,' thus reducing excess reserves of member banks and hence the supply of loanable funds. Both V.A. and F.H.A. authorities have tightened mortgage credit terms. Back of these braking actions lies the belief that the best way to prevent a recession and to insure prosperity is to discourage excessive demands on an economy already operating at capacity.

One danger signal has been the sharp increases in the prices of commodities. Prices of some industrial



materials have had a recent and spectacular rise (for example, copper), although the average prices of industrial materials in the general wholesale price index are up about 6 percent from levels prevailing in the spring of 1954. Average prices of commodities other than farm and food are up nearly 5 percent. Metals and building materials are at very advanced levels and increases are spreading to materials such as chemicals and paper.

The national economy—with the important exception of agriculture—has been moving to higher and higher levels of activity for over a year. Measures of retail selling are at or near record levels in the Ninth district and nationally. One gauge of spending in our region — bank debits—was 8 percent larger for the first nine months of 1955 compared with a year earlier.

At present there are a number of factors which are operating to level off the boom. Some of these—exemplified by the credit policies already discussed — are deliberately designed to prevent economic excesses and, thereby, prolong reasonable prosperity and economic growth. Others concern changing conditions of overall supply and demand.

But—there are also several inflationary forces still at work. These include: continued expansion in bank loans and consumer credit; labor shortages in some areas; advances in farm-land prices (particularly noticeable in this district); rising prices for some industrial raw materials; rising levels of money income; and capacity use of many of the nation's resources.

There are two factors—of particular importance at this time of the year — which may give a 'tip-off' to the direction the economy will take. These are: businessmen's decisions about inventory accumulation, and businessmen's decisions about additional investment in new plant and equipment. At the moment expansion appears to be the rule in both these areas although the situation could change quickly. (Generally speaking, inventories are not considered excessive in relation to sales, and the current higher volume of new factory orders is reassuring.)

At a time when the nation's plant and manpower resources are almost fully utilized, further rapid expansion in demands would probably result in serious inflationary problems. Already, important increases in prices of industrial raw materials have occurred, and there is evidence these increases are spreading to finished goods.

Following are summaries that highlight the current economic scene in the Ninth district:

Retailers build inventories

Retailers in the Ninth district are continuing to build up their stocks of goods in anticipation of heavy Christmas sales. Autumn is typically a time of stocks build-up, but this year inventory increases began somewhat earlier.

For instance, during the recent summer months department stores were carrying 6 percent more inventory (in dollar value) than a year ago. The spurt in September sales reduced inventories less than 1 percent, indicating a ready availability of merchandise.

Inventory building at furniture stores did not begin until late in the summer, probably due to exceptionally high sales earlier. Even so, at the end of September of this year stocks were 12 percent higher than they were last year.

Rapid growth in consumer credit

In this period of economic recovery (which began in the autumn of 1954) the rise in consumer purchases of services and of durable and nondurable goods is reflected in the growing amount of consumer credit outstanding at Ninth district commercial banks. The amount of consumer loans in force at a sampling of district member banks on October 1 represented a 9 percent increase in the period of one year.

There have been sharp differences, however, in the behavior of particular types of consumer loans. For example, 'single-payment' loans increased 34 percent. The proceeds of these loans, of course, are used by individuals for many purposes.

The amount of automobile paper outstanding rose by 25 percent, and other consumer-goods paper by 9 percent. The amount of repair-and-modernization loans, on the other hand, had declined by 9 percent.

Loans and deposits at district banks

In the twelve months from October 1953 to October 1954, district member bank loans had grown little more than 3 percent. In the period from October 1954 to October 1955, loan expansion amounted to 17 percent, an increase felt in both large and small communities since the difference between growth rates at city and country banks was minor.

District banks added $44 million to loans in September; this compares with an increase of $29 million in the same month of 1954. Proportionately, banks in North Dakota and Montana added the most to loans in September this year. The respective gains in these states were 7 percent and 4 percent contrasted with a district-average gain of 3 percent. (It is likely that in North Dakota and Montana—where wheat growing is of major importance — part of the loan increase represents government-guaranteed crop-loans on the freshly harvested wheat.)

Deposits at district member banks were unchanged in September, with new *time deposits* of $3 million exactly offset by withdrawals from demand deposit accounts. The acquisition of additional loans, and of $9 million of new investments during the period, reflected a substitution of earning assets for cash and for 'balances-due,' which fell by $33 million. Also, an increase of $18 million in borrowings from the Minneapolis Federal Reserve Bank provided funds to the commercial banks.

Store sales hold steady above 1954

SINCE last March Ninth district department store sales, as reported each month on a year-to-date basis, have remained either 4 percent or 5 percent above 1954 receipts. For the first nine months sales were up 5 percent.

The Christmas shopping season will soon begin. Many observers anticipate it will call forth the largest volume of sales on record. It is of interest to note, therefore, that sales have receded in recent weeks after they had perked up temporarily at the beginning of the fall season. These fluctuations are attributable principally to the weather, which has deviated from the normal more than last year.

For the district, September sales were 4 percent higher than in August, on a seasonally adjusted basis. As compared to a year ago, sales were up 7 percent.

In the four cities — Minneapolis, St. Paul, Duluth, and Superior — September sales, seasonally adjusted, were up an average of 5 percent from August. The increase from a year ago was 7 percent.

In the first half of October sales dipped again in these cities. In fact, sales were 2 percent below receipts for the same two weeks of last year.

Employment at new records

IN the summer and early autumn non-farm employment in some district states established new records. Because of the annual growth in the labor force, new employment records are expected in periods of economic recovery such as the one experienced this year, but 1955's near-full employment has been exceptional.

Since April, in the four states wholly in this district, the number of unemployment-insurance claims fell below the comparable total in 1954. The number of claims have continued to decline in each successive month. In July, for instance, the number of average weekly claims filed was down over 35 percent from a year ago.

Employment generally is at a seasonal peak in September. The relatively small number of claims filed for unemployment insurance last month indicated that the economy was operating at a record employment level. During the first two weeks of October, when a lowering of the employment level is usual, an increase occurred in the number of claims filed for unemployment insurance, but the rise was small in comparison with last year's figure.

More cattle in feedlots

SUBSTANTIAL increases in the number of cattle on feed in the Ninth district were indicated by the U.S.D.A.'s October 1 estimate. Minnesota farmers had 35 percent more cattle on feed and South Dakota farmers 76 percent more on feed than October 1 a year ago. These increases compare with a 25 percent rise in on-feed numbers for the nine corn belt states for which feedlot numbers are estimated.

This sharp percentage increase seems to assure large marketings of beef cattle during the winter and spring months. A year ago, during the late fall and winter months, there was a relative shortage of well-finished beef coming to market.

More pigs being produced

A TEN-PERCENT increase in the fall pig crop for Minnesota, and an 18-percent increase over a year ago in South Dakota (estimated by the USDA's reporting service), suggests that farmers have not yet found hog prices sufficiently discouraging to cut back their production. However, a leveling off is in sight. The increase in these two district states compares with a 12 percent average increase estimated for the nine corn belt states in which hog production is a major enterprise.

It is estimated that Minnesota-South Dakota hog raisers increased their pig production 5 percent during the June-August period. A possible 22-percent rise is expected during September—November. During the winter months, December—February, Minnesota farmers have indicated they may increase their farrowings a further 3 percent. South Dakota farmers, according to present intentions, plan to farrow only 59 percent as many hogs as last winter. For the entire corn belt area the number of sows expected to farrow pigs during December—February is down 2 percent from a year ago.

Although the prices farmers have been receiving for hogs in recent months is well below the level of a year ago, corn and other feed prices are also down. The result is that the hog-corn ratio has been about in line with a year ago. END

Great Lakes Ore Fleet

AN ARTICLE of special interest to many of our readers has been published in the October **Monthly Business Review** of the Federal Reserve Bank of Cleveland. Described are the history and scope of today's Great Lakes ore fleet, as well as the present and the probable future sources of iron ore for Lower Lakes steel mills. A concluding remark: "The future of the Lake Superior region as a major supplier of the country's iron-ore needs seems secure." Copies may be secured by writing directly to the Federal Reserve Bank of Cleveland, Cleveland 1, Ohio.

FIRST-HALF BANK PROFITS . . . .

THE Earnings and Dividends reports submitted by Ninth district member banks for the first half of 1955 have now been tabulated. By comparing this year's tabulations with those for the same period of last year, the impact of changing economic conditions on the operation of banks can be evaluated. The upsurge in demand for bank loans since last year was manifest in reports of higher loan income; this higher income was the result of higher average loan balances, and, also, of a very modest upturn for interest rates charged on loans.

When interest rates go up, the price of bonds goes down. Accordingly, the forces which produced rising interest rates were also responsible for a falling bond market. This falling market reduced profits on sales of securities to such an extent that total profits reported by member banks in the first half of this year were smaller than those of a year ago.

Thus, profits before income taxes this year were a shade under $25 million—about $1.6 million less than in the first half of 1954. The decline in profits from the sale of securities was more than enough to account for this reduction of total profits. In the first half of last year profits resulting from the sale of securities amounted to $4.9 million while in the comparable 1955 period only about $3/4 million was added to profits from this source. In the 1954 period the bond market was rising; in the 1955 period it was falling.

Current position improves

Net current operating earnings of banks (which exclude profits or losses on securities) moved up slightly from last year as current earnings rose faster than current expenses. Total current expense was up by $3.2 million; current earnings rose $4.1 million.

The largest boost to current earnings came from loan revenues. These returns were $2.2 million higher in the first half of this year than a year earlier, up 11.4 percent. An increase of 5.6 percent in average loan balances* accompanied the gain in loan revenue, indicating a higher rate of return on loans in the more recent period.

Average holdings of investment securities at district member banks were also higher in the first half of this year than in the comparable period of last year. In contrast to an increase in average holdings of 7.6 percent, interest revenue from investments grew by 6.7 percent, indicating a decline in the average rate of return on securities held. Holdings of Treasury securities and of other securities were increased.

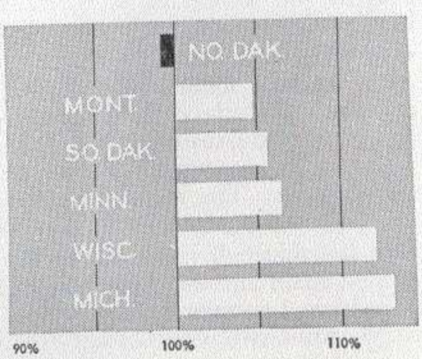
*The asset and liability averages mentioned in this article are averages of amounts reported by banks on the last Wednesday of each month during the respective six-month periods.

The largest item of expense at district banks — salaries — was up 5 percent in the first half of 1955 from a year earlier. This represents a continuation of the upward trend in salaries during the postwar years. The total compensation of both officers and employees was increased.

Interest up on time deposits

An item of growing importance to many banks is the rising amount of interest paid on time deposits. Time balances have been accumulating steadily. Also, the rate of return paid on such balances, together with other interest rates, has been edging up in recent years. In the first half of 1954, interest paid on time deposits averaged 1.30 percent on an annual basis; in the first half of this year such payments amounted to 1.34 percent of time balances, necessitating an increase of $600,000 in expenditures on this item.

LOAN REVENUE: STATE TRENDS



Earnings from loans during the first 6 months of 1955 are shown here as a percent of the comparable figure a year earlier. North Dakota was alone among states in this district in experiencing a decrease.

Ninth District Member Banks Comparative Profit and Loss, First half 1954 - First half 1955
in thousands of dollars

	1954	1955	Change
Interest on Securities	$18,270	$19,504	+$1,234
Interest on Loans	36,392	38,600	+ 2,208
Other Current Earnings	11,103	11,733	+ 630
Total Current Earnings	$65,765	$69,837	+$4,072
Salaries	$20,079	$21,152	+$1,073
Interest on Time Deposits	6,960	7,560	+ 600
Other Current Expenses	13,496	15,044	+ 1,548
Total Current Expenses	$40,535	$43,756	+$3,221
Net Current Earnings	$25,230	$26,081	+$ 851
Profits on sale of Securities	$ 4,869	$ 774	-$4,095
Other Charges and Credits(net)	- 3,506	- 1,860	+ 1,646
Profits Before Income Taxes	26,593	24,995	- 1,598
Income Taxes	12,616	12,719	+ 103
Profits After Taxes	$13,977	$12,276	-$1,701

more loans at higher interest rates

time deposits up -- higher rates paid

lower bond profits caused this decline

this dip is more than 'explained' by lower bond profits

Banks borrowed more

A sign of the times is the larger amount of interest paid on borrowing by district banks in the first half year. Such interest amounted to $410,000 in contrast to $116,000 a year ago. The bulk of these sums was paid to the Federal Reserve Bank of Minneapolis, which earned $302,000 in the first half of 1955 and $95,000 in the like 1954 period from discounts and advances.

In the earlier period the discount rate was reduced twice; in the later period the discount rate was raised once. The recent high amount of borrowing by banks, together with higher interest rates, reflected a more restrictive monetary policy for early 1955.

Net current earnings, up $851,000 in the first half from a year earlier, demonstrate the fact that total current earnings increased by more than total current expense. Since profits from the sale of securities declined in the more recent period, the improvement in net current earnings was not reflected in net profits. With profits before taxes down from a year earlier, and with taxes up in 1955, profits after taxes were down $1.7 million.

Earnings enhanced by loan expansion

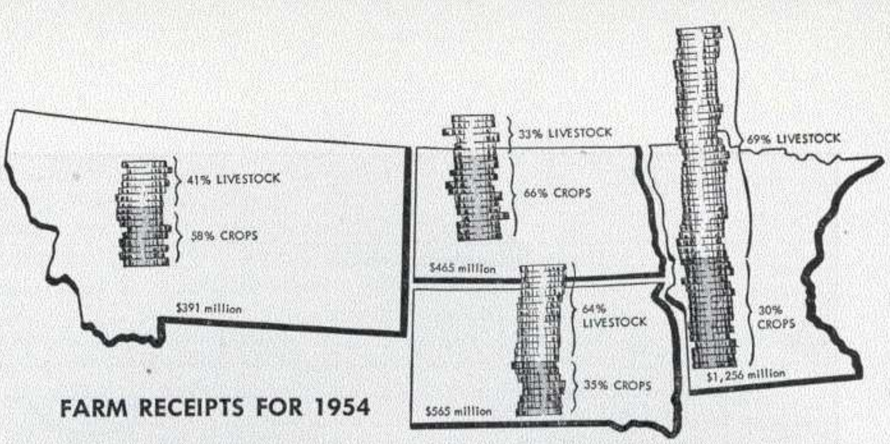
In recent years earnings of commercial banks have benefited greatly from substantial loan expansion. Since loans yield a much higher rate of return than investment securities, the increase in the proportion of bank assets represented by loans has produced a rising average rate of return on total assets.

The chart depicts loan income by states during the first half of 1955, shown as a percentage of loan income in 1954. Member banks in all district states except North Dakota reported more loan income in 1955. For the most part, changes in loan income were produced by changes in the volume of loans held, although higher interest rates were a factor in boosting income from loans.

Since mid-year the return on bank loans has continued the earlier drift upward. In October, banks throughout the nation announced higher prime-loan rates. The higher prices charged for accommodation by lenders are a by-product of national monetary policy aimed at keeping the supply of money and credit at levels consistent with stable prices and continued prosperity.

END

High output, local differences form pattern of ailing farm income



FARM RECEIPTS FOR 1954

The main sources from which farmers derive their income vary with differences in the commodities raised and the type of farming involved. Differences within each state, and from farm to farm are often more marked than state-by-state comparisons.

EACH YEAR since 1951, U. S. farmers have received a smaller and smaller 'slice' of the national income 'pie.'* This trend has been evident in the Ninth Federal Reserve district as well. District farm income has declined steadily, although somewhat more moderately than for the rest of the nation. In each of those years, however, the moderate decline of farm income for the district as a whole has been composed of more pronounced income changes (both up and down) for individual states and local areas within the total. In only two states has annual farm income declined consistently since 1951. When 1955's farm income is totaled it is likely that only one state (Montana) will have experienced a steady, unbroken decline.

Such state and local variations illustrate an important fact—that farm income, like the Walrus' conversation, consists of many things. Within the Ninth district the aggregate of farm income includes the incomes of wheat farms, dairy farms, turkey farms, berry farms, potato farms, of cattle and sheep ranches; it includes income from hog raising, cattle and sheep feeding, from wool, poultry and from a great many other enterprises. Most of this production stems from diversified and semi-diversified farms that combine several such enterprises into a single operation.

Farm income is directly influenced by rainfall and temperature, by insects and disease, by soil characteristics and cropping practices. It reflects the kind and variety of crops grown, since each crop reacts differently to weather and soil conditions. It reflects the fluctuating price of each commodity raised, as determined by the special conditions and influences affecting each commodity.

*The number of recipients, it should be noted, has also grown gradually smaller during these years.

Income varies by farm, by area

As an example: during the years 1951-52, western cattle raisers benefited from an unusually strong demand for their cattle and calves. When cattle prices tumbled (1952-53), cattle raisers absorbed the brunt of a very sharp price decline.

Again, hog prices were low during most of 1952 because of high production. But by April 1954, hog prices at the South St. Paul market reached the highest level on record for that month. Yet, in April of 1955, average hog prices had suffered a 41-percent decline. Currently (in early October) hog prices have been averaging roughly 20 percent lower than a year ago.

Similar fluctuations are also characteristic of grain crops, although prices of many district crops have been partially stabilized by government price support programs.

Even at the level of the individual farm, income is usually derived from several sources. Total income is a combination of two things—(1) the quantities of the various commodities produced, and (2) the prices received for them. As output and prices change from year to year, income also changes, according to the relative importance of each commodity in the total. From farm to farm, and within each community, area and state, there is great diversity in the combination of products that are raised and sold.

Such differences in the commodity sources are illustrated in the accompanying table. These show the proportions of cash farm income (receipts from marketings) received in 1954 from the sale of various livestock and crops for each of the four states fully within the Ninth Federal Reserve district.

In Minnesota almost three-fourths of all farm income is derived from the sale of livestock and livestock products. Beef cattle, hogs, dairy products and poultry are all major income sources. In North Dakota, on the other hand, less than one-third of the income farmers receive comes from livestock; more than two-thirds is from crop sales. Yet North Dakota is slightly more diversified in both crops and livestock than is Montana whose two major income sources are cattle and wheat. South Dakota is also a major livestock state, yet gets 11 percent of its farm income from wheat sales.

The income sources as shown by the table reflect only the aggregate income of all farmers in each state. Differences would be just as great for areas within each state, probably greater. For instance, practically all of the wheat that makes up 2 percent of Minnesota farm receipts comes from one area of the state—the Red River Valley.

1955 income bolstered by marketings

Total crop production in the Ninth district this year is estimated to be about 7 percent larger than in 1954, the largest crop since 1948. In Montana and North Dakota the crop is substantially larger than last year. Minnesota's crop harvest is about the same as in 1954. But in South Dakota, production is significantly smaller than a year ago. All of these year-ago comparisons, of course, reflect the pattern of 1954 output as well as 1955. For example, North Dakota's crop harvest was disappointing last year, whereas South Dakota's crop production was unusually good in 1954.

Because of better moisture conditions and less rust damage, the district's wheat crop is roughly 35 percent larger than in 1954. Rust-sensitive durum made a heartening comeback—from 5.5 million bushels in the three main durum-producing states last year to a 14.4 million-bushel crop for the current season. Obviously, the main wheat producing areas will benefit from such gains.

In contrast, the corn crop was retarded by dry weather conditions during critical growth periods in many communities of South Dakota and Minnesota. As a result the corn crop – grown mainly for livestock feed but with large quantities also committed under the price support program—is estimated to be about 6 percent below last year. Production of oilseed crops, flax and soybeans was above last year largely because of an acreage increase.

For all of the crops important in the Ninth Federal Reserve district, both support prices and market prices are lower than last year. In most cases the market price is down somewhat more than the support price. Probably the only crop for which increased production will more than offset the lower price is wheat. If all wheat produced were sold at the respective support price for each year, returns from the sale of the district's 1955 wheat output would be roughly $515 million, compared with a $411-million return in 1954 figured on the same basis.

Livestock production

Livestock output is also running somewhat higher than a year ago. On January 1 of this year there were 3 percent more cattle, 21 percent more hogs on farms in the district than the year before. In the main hog-producing states, Minnesota and South Dakota, estimated farrowings (number of litters born) during June—August of 1955 were up 5 percent from the previous year; farmers expected 22 percent more sows to farrow in September—November. It is doubtful, however, if this increase in pork production would offset the lower prices being paid for hogs this year.

Despite the lower hog prices, feeding ratios remained about in line with a year ago, due to lower prices for corn and other feed grains. Since most farmers raise the feed used in producing hogs, this represents a lower return for the grain produced and so a lower income, even though the return over feed costs may be about the same as last year.

Cattle production also is being maintained at a higher level than a year ago. There were 11 percent more cattle on feed in district states on July 1 than a year ago. On October 1, there were 52 percent more on feed than a year ago. Cattle prices are also lower than last year, but not as sharply so as hog prices.

High output doubly significant

The high physical output of farm commodities from Ninth district farms is important for two reasons. First, the high output helps to offset to some extent the reduction in prices for most products. In the case of wheat, for instance, the higher production will more than offset lower prices so that district farmers will probably receive more money from this source than they did last year. Second, the high volume of production is important to the marketing, transportation, and processing industries of the district. The larger flow of products means higher employment, more activity in these industries.

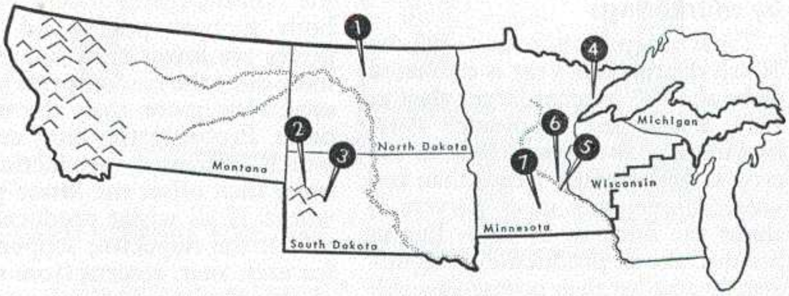
Much of these processing and marketing services—although not all of them—take place within the district. The charges made for these services absorb about half of the revenue that consumers spend at retail for food products. Thus the high level of output contributes significantly to the economic activity in nonfarm lines as well as to higher farm income. END

PERCENT OF CASH FARM INCOME DERIVED FROM VARIOUS PRODUCTS, BY STATES, 1954

State	Cattle	Hogs	Sheep-Wool	Dairy	Poultry-Eggs	Total Livestock	Wheat	Corn	Other Feed Grain	Oilseeds	Total Crops
MINNESOTA	17	20	2	19	11	69%	2	10	4	9	30%
MONTANA	26	2	7	4	2	41%	47	--	5	--	58%
NORTH DAKOTA	16	4	2	8	3	33%	36	1	12	13	66%
SOUTH DAKOTA	32	18	3	5	6	64%	11	12	5	4	35%
4-STATE AVERAGE	21	14	3	13	9	58%	17	6	5	8	41%

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1 - Minot O. K.'s Bond Issues

Bond issues to provide for three public structures were approved by voters in Minot, North Dakota on October 4. A bond issue of $1.1 million will finance construction of a 600-pupil junior high school. The school plans call for 75,000 square feet of floor space to occupy about two acres of a 13-acre site. A $300,000 bond issue will provide a new city hall and a combined police and fire station.

2 - Test Shipment of S. D. Pulpwood

Twelve carloads of pulpwood from the Black Hills were shipped to Wisconsin early this month. The wood will be tested to determine its suitability for pulping. If tests prove successful, surplus timber from the Black Hills area may be put into productive use.

It is estimated that 100,000 cords a year (chiefly Ponderosa pine) could be produced on a sustained basis. In 1954, Wisconsin pulp mills brought in 470,000 cords of pulpwood from outside the state.

3 - Utility Builds Office in S. D.

Montana-Dakota Utilities Company began construction in September of a new office-and-sales building in Rapid City, South Dakota. Scheduled for completion in February 1956, the 15,000-square-foot, two-story-and-basement structure will cost approximately $200,000. The company headquarters in Rapid City services the Black Hills area, including Sturgis, Lead, Deadwood, Spearfish and Belle Fourche, and has a staff of about 110 employees.

4 - Taconite Plant Opens

The first commercial processing of taconite began at Silver Bay, Minnesota the week of October 10. After a series of pilot operations, Reserve Mining Company opened the first of 12 prospective units for producing iron-ore pellets out of taconite.

The remaining units of the $190 million plant will be completed in three or four months and when complete will have an annual capacity of 3.3 million long tons of iron-ore pellets. The new plant is designed to operate on a year-around basis. Pellets produced during the winter, when Lake Superior is closed to shipping, will be stockpiled at the plant.

5 - Balloon Output Expanded

General Mills, Inc. recently expanded its plastic-balloon operations by leasing 41,000 square feet of additional manufacturing facilities in St. Paul, and increasing its staff of balloon-production employees from 250 to 375.

The new quarters afford straight production lines about 300 feet long for producing "Skyhook" high-altitude balloons, which are up to 285 feet tall. In the Minneapolis plant, production is on curved or horseshoe-shaped lines. Balloon production has become a $6 million-a-year business for the company, from a $100,000 beginning eight years ago.

6 - New Shopping Center Planned

Construction will begin in November on a 14-store, $1.5 million shopping center in Columbia Heights, a suburb north of Minneapolis. Scheduled for completion by May 1, 1956, the center's 80,000 square feet of floor space will accommodate a department store, a food store, a hardware and several variety stores. Parking space for about 800 cars will be provided.

7 - Frozen Foods Expansion in Waseca

The Birds Eye division of General Foods Corp. began construction in Waseca, Minnesota of a 32,000 - square - foot warehouse to cost $200,000. The Birds Eye division's increasing output of frozen foods in Waseca made the expansion necessary. The plant here employs 600 workers the year around and up to 1000 during the pea- and corn-packing season.