MONTHLY Review

FEDERAL RESERVE BANK OF MINNEAPOLIS

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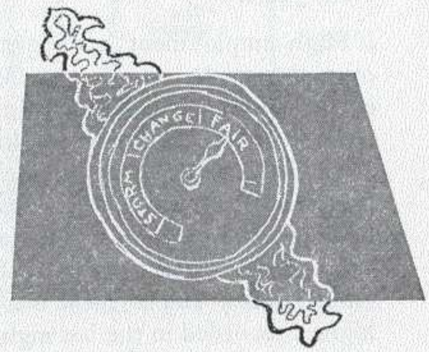
Current conditions . . . .

Dominant pattern of region's economy is one of continued strength



THE FIRST QUARTER of 1956 is now behind us and business conditions in the Ninth district appear to have been generally good. Perhaps when the complete economic record for this period is available, it will show business to have been better than many anticipated. The record will doubtless reveal in general that spending, store sales and employment ranged at higher levels than during first-quarter 1955.

The current business scene in the Ninth district, however, is not all on the rosy side. Consumer credit, business credit and farm credit have expanded sharply in recent months. District bank deposits (late February) were slightly lower than a year ago. Bank deposits appear to be flowing out of the district at a somewhat more rapid rate than in early 1955. And net bank profits at the end of 1955 were slightly less than they were in 1954. However, instalment and mortgage loan collections among urban dwellers are good; delinquencies are lower than a year ago.

Current favorable reports on building permits and contract awards indicate the important construction industry in the district may again exhibit much spring vitality following the characteristic winter slowdown. A spot survey among Minneapolis builders in mid-March reveals that few new houses currently remain unsold. Builders are optimistic as the 1956 building season opens.

Other Twin Cities business men polled also expressed optimistic attitudes toward sales of automobiles, farm machinery and general merchandise in the immediate future. Inventories at the wholesale level are reported normal and in line with current sales. Inventories of automobiles are being whittled down, and the expected seasonal pickup in spring sales will reduce them further. Farm machinery-and-equipment inventories are reported as not excessive.

The rate of farm marketings from last year's bumper crops and high livestock production lends support to the current optimism about automobile and farm machinery sales among some dealers. Farmers, although harassed by a relatively low price level and high costs, are buying machinery where the need and the economy of the investment can be positively demonstrated. An abundance of feed and of good pastures in 1955 permitted farmers to build up record numbers of cattle and calves. This indicates a record calf crop is in prospect for 1956, which in turn promises increased cattle marketings later in the year.

The region's economy is now at the threshold of an important new crop year, when once again the Ninth district farmer takes up his partnership with the unpredictable climate. Rain, wind and temperature will play upon all efforts to produce crops from the region's varied soils. The fortunes of this contest can change from week to week, yet its outcome, again this year, will be the key determinant of economic vigor throughout much of the Ninth district.

Current conditions . . . .

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

Record winter employment

NINTH DISTRICT nonfarm employment set a new record in the past winter. Despite a prolonged winter, with temperatures averaging below normal, the seasonal dip in employment was less than in previous years.

High employment has prevailed over almost the whole area. Most of the communities in the district have shared in it. For example, in 20 of the 25 larger Minnesota cities for which separate reports are made, employment was up in January and February. In nine of these cities January employment was the highest recorded in the last eight or more years. Even on the Upper Michigan Peninsula, where employment has fallen off gradually since 1951, more people were at work this winter than a year ago.

The rise in employment has been quite general. Nearly all industries have employed more people. To illustrate, in Minnesota nonfarm employment in February in comparison with a year ago was up 4 percent. All major industry groups in this state shared in the rise. Montana had the highest January employment in the state's history; all industries employed more workers than a year ago. Comparable conditions prevailed in North Dakota. In South Dakota, where employment has risen over a year ago by a smaller margin, only a few industries shared in the increase.

In the iron-ore mining region activity has been high in removing the overburden from ore bodies and preparing the equipment for the mining and shipping of ore, getting ready for resuming navigation on the Great Lakes. These and other seasonal industries will employ additional workers in the coming weeks.

Payrolls are high

In conjunction with the rise in employment in the past year, earnings per worker have also risen substantially. Weekly earnings of production workers in Minnesota manufacturing plants in January averaged $82.59, an increase of $6.15 over a year ago. In Montana during the same month earnings averaged $90.88 per week, an increase of $7.83. These average increases have substantially boosted industrial payrolls in this district.

High employment last winter does not dim the prospect for the usual spring pickup. Activity in home building was curtailed sharply last fall when cold weather set in early. The number of housekeeping units authorized by permits in 440 Ninth-district cities in January and February was down 15 percent and 24 percent respectively from a year ago. Builders now are preparing for another good season of home construction. In fact, home builders in the Twin Cities metropolitan area will begin their spring program with almost no inventory of unsold new houses.

The amendment to the Fair Labor Standards Act which became effective on March 1, 1956 raised the minimum hourly wage rate from $.75 to $1.00. Managements of many district firms began raising the hourly rates of their lowest paid employees shortly after the first of the year. It will be several months before it will be known how much this has added to payrolls, but comments received from the management of a number of firms indicate that the figure is believed to be significant.

Durum acreage liberalized

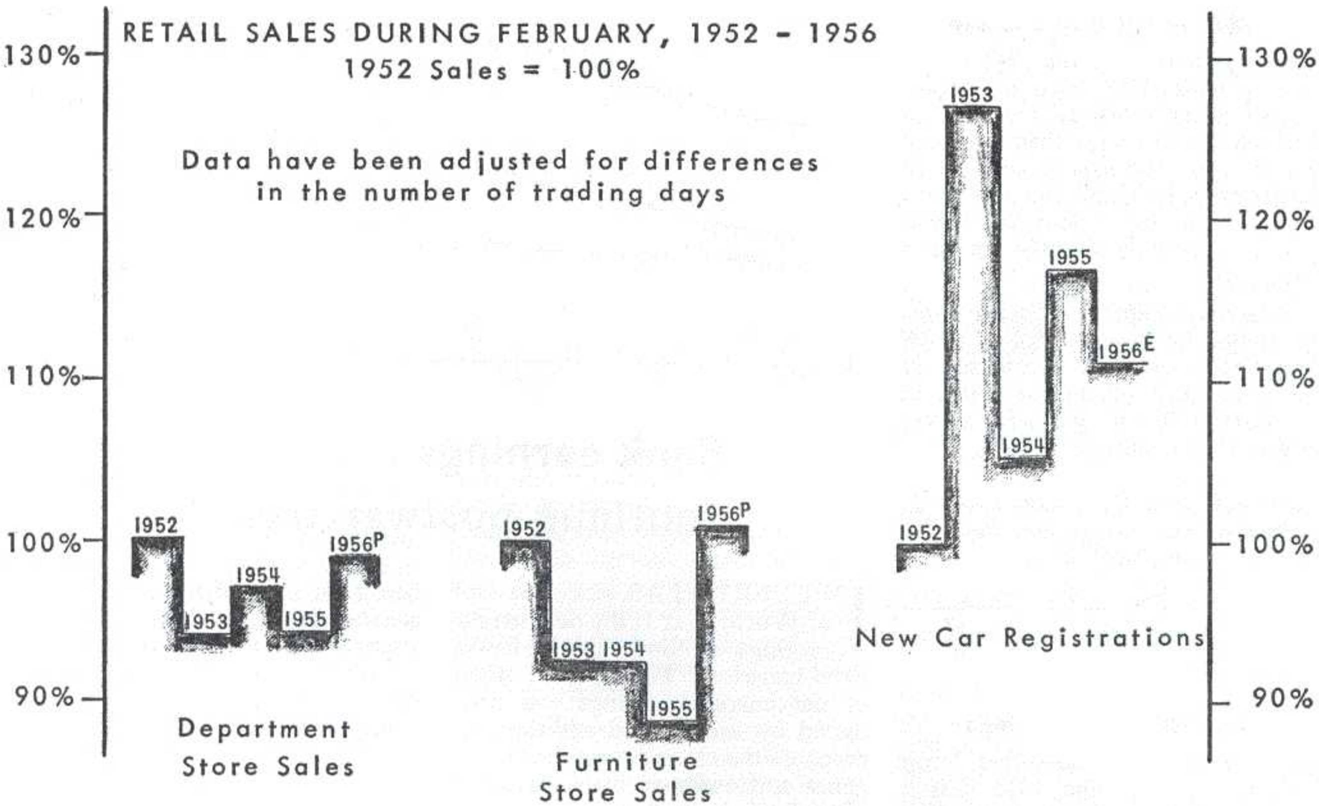
THE RESTRICTIONS on durum acreage in 1956 have been liberalized on a '2 for 1' basis that varies substantially from the 1955 regulations. This year wheat growers are allowed to plant two additional acres of durum wheat for each acre of their regular wheat allotment that they plant to durum.

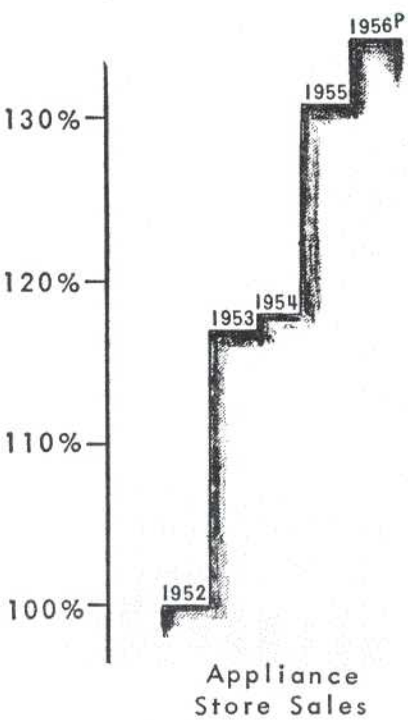
Regular durum wheat growers will thus be able to plant three times their normal wheat allotment. Non-durum raisers will be permitted to grow additional durum only as they plant part of their regular allotment to durum also.

Resistant durum

BETWEEN 100,000 and 125,000 acres will be planted to new durum wheat varieties which are resistant to *race 15B* stem rust for the first time this year. Four new varieties —Langdon, Towner, Ramsey and Yuma—have been brought into production in less than six years as a result of successful accelerated breeding programs carried on by the USDA's Agriculture Research Service and the North Dakota Agricultural Experiment Station. This is about half the time normally required for the development of a new wheat variety.

The accelerated development of rust-resistant durum is made possible by two-and-three-times-a-year planting in North Dakota and on irrigated land in Arizona.





Most retail sales comparisons favorable

During February most categories of retail trade had favorable sales comparisons with a year ago. At district department and general stores, sales were 5 percent above a year ago, furniture stores reported an increase of 13 percent, and appliance-store sales were up 3 percent—all of these comparisons are after allowance for the extra trading day during February this year.

District data on new car registrations during February are not available, but on the basis of registrations in the Minneapolis - St. Paul area new car sales during February will be 2 percent below last year. The decline would have been more noticeable except for the additional trading day.

Comparison with February sales in preceding years (*see chart*) reveals that quite generally this is the best February in recent years. Only in new car registrations is there an element of decline and this is by comparison with the excellent sales of February 1955.

During the first half of March the sales picture continued favorable. Department stores in the large metropolitan areas reported sales that exceeded March 1955 by approximately 1 percent. Easter this year falls on April 1, which should, barring bad weather, bring sales during the latter half of March to levels substantially above a year ago, when Easter fell on April 10. New car registrations during the first 13 trading days of March were up seasonally from February and approximately equal to registrations during the corresponding period of March 1955.

Current conditions . . . .

Movement into storage

THE MOVEMENT of the 1956 wheat crop under CCC loan is substantially greater in Montana and North Dakota for this year than was true a year ago—due mainly to a much larger crop. In Minnesota and South Dakota the movement of wheat price support is slightly under a year ago.

The movement of corn into support, on the other hand, is much larger than last year at this time in all three corn producing states in the district. Total figures for wheat and corn are shown below.

Corn and Wheat Under CCC Loan and Purchase Agreement in Ninth District (in million bushels)

	Feb. 15, 1955	Feb. 15, 1956
Corn	19	53
Wheat	60	92

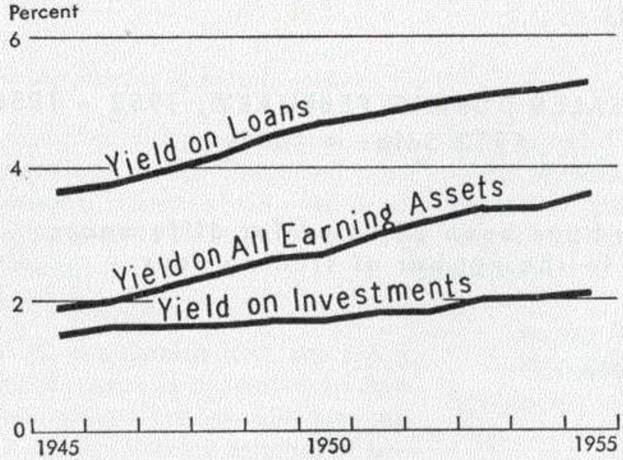
District crop plantings

ESTIMATES of prospective crop plantings for the 1956 season show reductions in acres of feed grains—corn, oats, barley—planted in the Ninth district, and also in winter wheat acreage. But acres of spring wheat (not including durum) are up slightly from a year ago. And durum wheat plantings—under liberalized acreage regulation—are expected to be 42 per cent higher than a year ago for the district. Planting intentions for soybeans, flax and potatoes are also larger than a year ago.

1956 Prospective Crop Acreages as Percentage of Actual 1955 Acreages

Crops	Percent
Corn	98
Spring Wheat	101
Durum Wheat	142
Winter Wheat	92
Oats	95
Barley	87
Hay	102
Soybeans	117
Flaxseed	106
Potatoes	104

END



AVERAGE YIELDS ON EARNING ASSETS AT DISTRICT MEMBER BANKS 1945-1955 (Chart 1)

Bank earnings . . . continue postwar trend

IN EVERY YEAR since the end of World War II the net current earnings of Ninth district banks have increased. The upward trend of net current earnings was produced by more rapid additions to revenues than to expenses; both revenues and expenses have increased in each of the last 10 years.

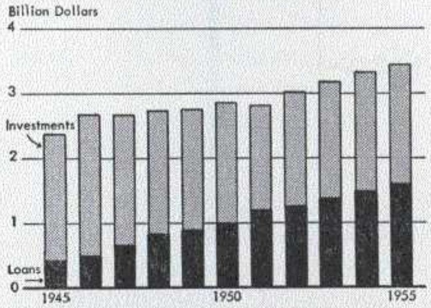
The most important causes of swelling revenue at district member banks are two in number. First, the amount of bank assets on which interest is collected has increased in every year save two of the postwar period. This growth in the amount of bank resources was characteristic of the banking system in general, and reflected strong private demands for bank accommodation. It also reflected a monetary policy which — although more restrictive at some times than at others—permitted substantial commercial bank credit creation for the period as a whole.

The 'balance of payments' between the district and the rest of the nation was also favorable to the growth of district banks. Had the 'payments balance' been unfavorable, Ninth district bank resources might have declined in the face of a general monetary expansion.

The amount and composition of earning assets at district member banks for each of the past 10 years are shown in *chart 2*. Evidence of the strength and persistence of private demands for bank credit is found in the fact that district member bank loans have increased in each of the past 10 years, during which time the total of loans has more than tripled.

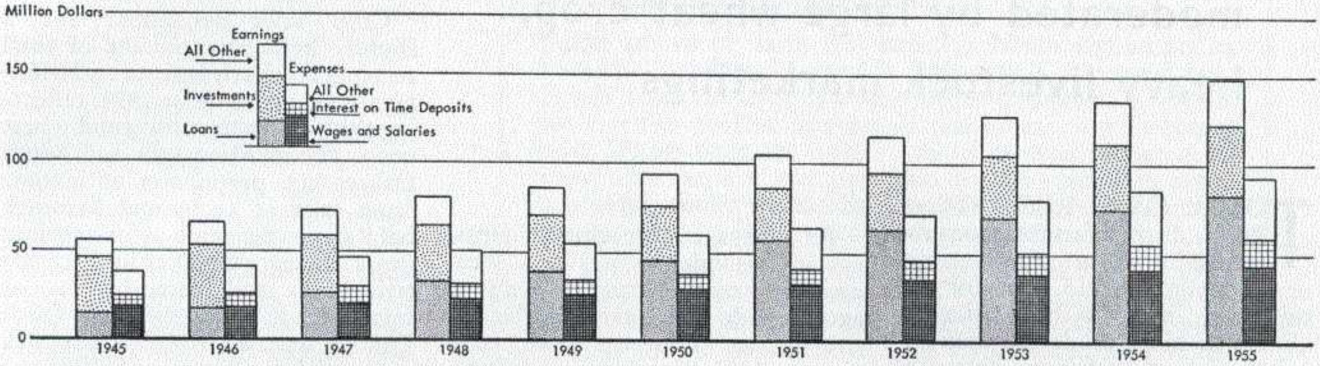
This credit development contrasts sharply with the experience of the war years. Then, large purchases of government securities were almost entirely responsible for the rapid increase of earning assets that occurred. For example, from the end of 1940 to the end of 1945 the total of loans and investments at district member banks rose by $1,904 million. Investments alone rose $1,870 million.

TOTAL EARNING ASSETS
District Member Banks* 1945-1955



*Averages of amounts shown on Call reports, Chart 2.

EARNINGS AND EXPENSES OF NINTH DISTRICT MEMBER BANKS 1945-1955



Interest rates have risen

The changing ratio of loans to total earning assets shown in *chart 2* suggests the second reason for swelling revenues in the postwar years, namely, a rising rate of return on total earning assets. Since loans earn a higher rate of return than securities, and since the proportion of loans to securities has been rising, the average rate of return on total assets has improved. Also, interest rates in general are now substantially higher than was true in the early postwar years. The upward slope of the top and bottom lines in *chart 1* illustrates this. These lines show the average rate of return on loans and investments, respectively, at district member banks during the period under review.

The middle line on *chart 1* represents the income from both loans and investments expressed as a percentage of total earning assets. This line slopes upward more sharply than the other two since it incorporates the effect of both rising interest rates and a rising ratio of loans to investments at district member banks.

To an important degree the rising level of gross current earnings at the banks has been offset by a rising level of expense. Thus, in 1955, both current earnings and current expenses were 2.5 times larger than in 1946. Expenses have increased because more people, materials and equipment have been needed to accommodate a steady growth in the volume of transactions at banks. Also, wages, salaries, and prices of materials and equipment are now generally higher than was true in the early postwar years.

An additional and important item of expense is interest on time deposits. In only one of the postwar years—1950—has this amount failed to increase. Besides reflecting a steady growth (except in '49-'50) of time deposits, the rising amount of interest paid also reflects the fact that many banks have raised the rate of return offered to time depositors.

Selected Items of Earnings and Expense at District Member Banks
(in millions of dollars)

	1955	1954
Interest on securities	$ 39.6	$ 37.5
Interest on loans	83.8	75.9
Other current earnings	24.9	23.4
Total current earnings	$148.3	$136.8
Salaries	$ 44.9	$ 41.9
Interest on time deposits	15.1	14.2
Other current expense	33.0	30.0
Total current expense	$ 93.0	$ 86.0
Net current earnings	$ 55.3	$ 50.8
Profits on securities	1.4	8.4
Other charges and credits (net)	—8.8	—10.2
Profits before income taxes	47.9	49.0
Income taxes	20.0	20.4
Profits after taxes	$ 27.9	$ 28.6

Trends persist in 1955

The postwar trends in operating earnings and expense at district member banks, described above, continued in evidence during 1955. Gross revenues and the rate of return on assets increased because loans were substituted for investments and because the average rate of return on both loans and investments edged a little higher. Current expenses, too, were higher than in the previous year, but by less than the increase of current earnings.

Despite the improvement of net current earnings and despite a reduction of income taxes at district member banks in 1955, profits after taxes were lower than in the previous year owing to a large reduction in profits from the sale of securities. Such profits are not included in operating earnings, described previously. END

District farm income decline moderated by large wheat crop, heavy livestock marketings

TOTAL CASH RECEIPTS of Ninth district farmers from the marketing of farm products declined again in 1955. But for the third year in a row the district decline was more moderate than receipts of farmers for the nation as a whole. Final farm income figures released by the Department of Agriculture for 1955 show a 3-percent decline in gross cash receipts of U. S. farmers. For the farmers in the Ninth district the drop in cash income was only half as great —down 1½ percent—as more favorable production and marketings from district farms offset declining prices to a somewhat greater degree than on the nation's farms generally.

This more moderate income decline not only helped stabilize the Ninth district economy, in which agriculture figures so predominantly, but the large output of products and marketings also lent support to industries which handle and process farm products.

State trends differ

As always, cash receipts of farmers in individual states and local areas vary more sharply from a year ago than do the totals for the entire district. This was particularly true in 1955. For instance, North Dakota farm income was up 15 per cent from a year ago, boosted by a 39-percent-larger wheat crop at prices only slightly below 1954 levels. Farmers in neighboring South Dakota received 11 percent less than a year ago, partly reflecting crops that were hurt by drought in 1955 and so compared unfavorably with 1954's exceptionally good crop output.

Cash receipts of Montana farmers were 1 percent higher than in 1954, while in Minnesota, where lower prices for livestock helped tip the income balance downward, year-end estimates showed receipts from farm marketings down about 4 percent from 1954. Cash receipts for the entire state of Wisconsin were down 3 percent in 1955. In neighboring Iowa, farmers' cash receipts totaled 10 percent less than in 1954.

Crop sales accounted for a slightly higher percentage of total receipts in North Dakota and Montana than was true in 1954, reflecting this year's unusually good wheat crop. But in Minnesota and South Dakota the proportion of income from sales of crops and livestock held about the same as in previous years. Livestock makes up between two-thirds and three-fourths of total sales in Minnesota and South Dakota, whereas Montana livestock accounted for less than half of the total sales, and in North Dakota less than a third.

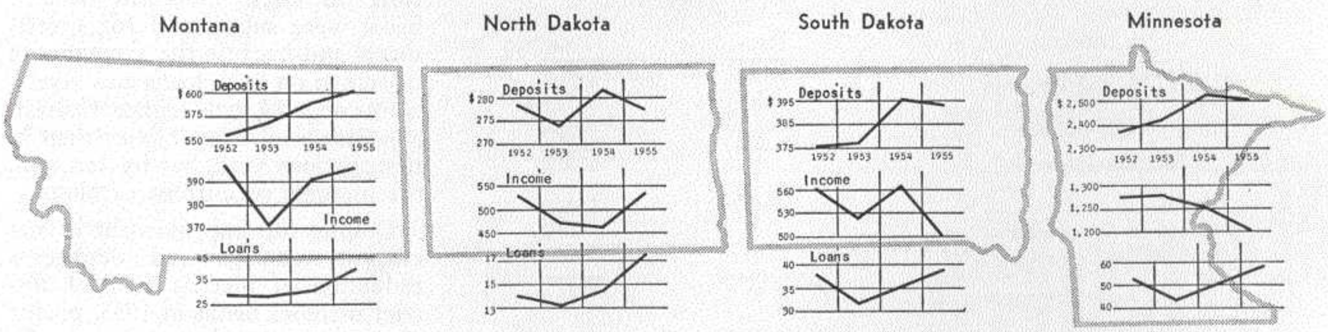
U. S. farm income declined more

For the entire nation total cash receipts of farmers from their marketings declined from $30.2 billion to $29.4 billion. Total gross realized income of U. S. farmers declined from $34 billion in 1954 to $33.2 billion estimated for 1955. Production expenses of all farmers, on the other hand, increased by 2 percent —from $22 billion to $22.4 billion.

As a result net realized income of U. S. farmers dropped an even billion dollars in 1955, or 9 percent below the 1954 level—from $11.8

BANK DEPOSITS AND NON-REAL-ESTATE LOANS TO FARMERS AT MEMBER BANKS, AND CASH RECEIPTS OF FARMERS*

Ninth district states, 1952-55 (millions of dollars)



Cash receipts of farmers from their marketings have not shown a consistent decline in any district state over the past four years. Total receipts in Minnesota have, however, declined each year since 1953. During the same period, bank deposits generally have been rising, but they leveled off in 1955. All four states experienced rising farm loans (mostly short-term loans for production purposes) during the past year.

*Deposit and loan figures are based on year-end Call reports of member banks. Cash receipts of farmers from marketings are totals for the year.

to $10.8 billion. Estimates of realized gross and net income include both government payments to farmers and the non-money income gained from products consumed on the farm.

When changes in farm inventories of crops and livestock are included, the difference between 1954 and 1955 net income amounts to $1.3 billion or 11 percent. Farmers added to their inventories in both years, actually, but their 1955 additions were smaller than in 1954. After this adjustment for inventory change, the net farm income total was $11 billion for 1955. If farm wages (totaling $2 billion) and income from nonfarm sources ($6 billion) are added to this figure, the total income of people on farms from all sources comes to $19 billion in 1955. This is down 5 percent from the 1954 level. Farm population actually increased 1 percent from 1954 to 1955 (estimates are made as of April each year so that most of this increase really occurred during 1954). As a result, on a per-person basis, total net income of people on farms (from all sources) declined 6 percent, from $913 to $860. Average income of nonfarm population increased about 5 percent. Total net income per farm dropped from $2,413 in 1954 to $2,192 in 1955.

Expenses run high

Roughly 67½ percent of gross realized farm income was required to pay production expenses on farms in 1955—a figure exceeded only by the depression year, 1932, when the ratio was 70 percent. The two periods are not very comparable, of course, since much of the higher present-day outlays represent added investments in fertilizers, supplies and equipment. These help make farm income much more certain and much more profitable than in earlier years. The expense portion between gross and net, nevertheless, has been growing wider in recent years, with a slimmer margin of profit left to cover unforeseen family and farm expenses.

Farm taxes . . . up slightly in 1955—doubled in 10-year period

TAXES LEVIED on farm real estate in Ninth district states, which were largely payable during 1955, increased only slightly from the level of a year earlier (see table). Over-all, this was the smallest increase in real estate costs in recent years. These taxes are now 15 to 18 percent higher compared with the level that prevailed in 1950—except in South Dakota where the increase has been less. Taxes have increased 2 to 2¼ times the low rates existing in 1940.

Taxes per acre in Minnesota averaged about $1.58 in 1954. This is about 3 times the rate in the Dakotas and 6 times the average rate in Montana (see table). These different state rates, of course, represent in part variations in land values and in part the need of tax funds in the different localities.

TAXES LEVIED ON FARM REAL ESTATE
Dollars per acre per year
(Year of levy but not necessarily year of payment)

State	1930	1940	1950	1953	1954
Minnesota	$ .87	$ .66	$1.33	$1.56	$1.58
North Dakota	.38	.22	.43	.44	.46
South Dakota	.44	.28	.47	.54	.55
Montana	.14	.11	.21	.24	.26

Source: U.S.D.A. "Taxes levied on farm and real estate in 1954." July 1955.

Farm income effects

Since production expenses tend to remain stable in the face of fluctuating gross income, changes in net farm income are almost always more pronounced percentage-wise than the changes in gross income. This is true in the Ninth district as well as for the nation. Thus in areas where cash receipts are down from last year, farm operators are undoubtedly feeling the pinch of a still greater net income decline. But where cash receipts from marketings are above last year, net incomes will tend to rise more sharply in percentage terms than the rise in gross receipts.

Personal spending of the farm operator and his family are largely geared to the amount of *net income* he has left after paying farm business expenses. But for farm spending as a whole, *gross income*, or cash receipts, are a much better measure of total spending. In most cases necessary farm operating expenses tend to be paid regardless of changes in net or total income. Credit may be used to finance such expenditure during a particular year if the operator lacks the necessary capital. Thus from the standpoint of the local communities and businesses serving agriculture — although not for the farmers themselves—total income and total spending of farmers are probably more significant than net income estimates.

The drop in gross farm income has been substantially less severe in the past few years than net income estimates. Businesses supplying the farmers with their necessary operating supplies can expect farmers to continue relatively high-level purchases in order to maintain necessary operations.

Farm debts rise; deposits level off

The short-term, non-real-estate debts of farmers in the Ninth district rose significantly between the beginning and the end of 1955. Non-real-estate loans at member banks in the district were up 17 percent during the year. (And this increase followed an 11-percent rise from December 1953 to December 1954.) During the same period the volume of bank deposits at member banks leveled off; 1955 was the first year since 1948 that district bank deposits failed to register an increase.

Although this trend in deposit levels is due mainly to national monetary conditions, coupled with the increase in farm loans it means that average banks in the district are making a higher proportion of loans to farmers in relation to their total deposits than was true in 1954. There is no evidence at this time that the amount of credit being made available to farmers is being curtailed—except that where a farm operator's financial position has deteriorated he may not now qualify for credit on the same terms that might have qualified him a year or two ago. Credit demand and credit problems are noted to be increasing, however. Also, real estate credit has been rising, and there is some evidence of refinancing short-term debts into longer-term real estate credit in order to reconsolidate the debt position of some farmers. END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT

1-Utility building Montana dam

Early phases of the $85 million Noxon Rapids dam, which the Washington Water Power Company is building in northwestern Montana, are well underway. The 38-mile reservoir will put 9,700 acres under water. At its peak the construction will employ more than 2000 persons. The dam is scheduled to generate its first power by 1959.

2-Super Valu builds in Bismark

On April 15 Super Valu Stores, Inc., wholesale grocery distributors, will begin construction of a 96,000-square-foot warehouse for its Bismarck, North Dakota division, which serves stores in western North Dakota and eastern Montana.

3-Oliver Iron erects plant

Oliver Iron Ore Mining Division has started construction on an ore-sizing plant at Virginia, Minnesota. The new plant will sinter (make large clinkers of the fine ores) only direct-shipment ores produced in its nearby-area mines.

In addition Oliver will install and place in operation this year sizing units for the concentrates produced at four of its low-grade ore-beneficiation plants. Oliver is a division of U. S. Steel.

4-Housing for taconite workers

A new, 1000-home taconite-development village will rise on the Mesabi range near Aurora, Minnesota. The Erie Mining Company has awarded a $4 million contract to furnish pre-fabricated family housing for workers at its low-grade iron-ore project.

5-Brown & Bigelow expansion

Brown & Bigelow (Remembrance Advertising) of St. Paul has announced a $3 million expansion program. A new $1 million, one-story, 165,000-square-foot plant will be built on a 6-acre area in St. Paul to house three subsidiary envelope and box companies that, together, employ a total of about 300 persons.

The present plant used by the subsidiaries will be remodeled at a cost of $500,000 for Brown & Bigelow's own factory and office expansion. Contracts have now been let for $1.5 million of operational equipment for the projects.

6-Milk-products plant in Clarkfield

In February a new $500,000 skim-milk drying plant began operation in Clarkfield, Minnesota. A division of the Clarkfield Farmers Co-operative creamery, the plant, when fully completed in late spring, will have a capacity of 500,000 pounds of skim-milk powder a day.