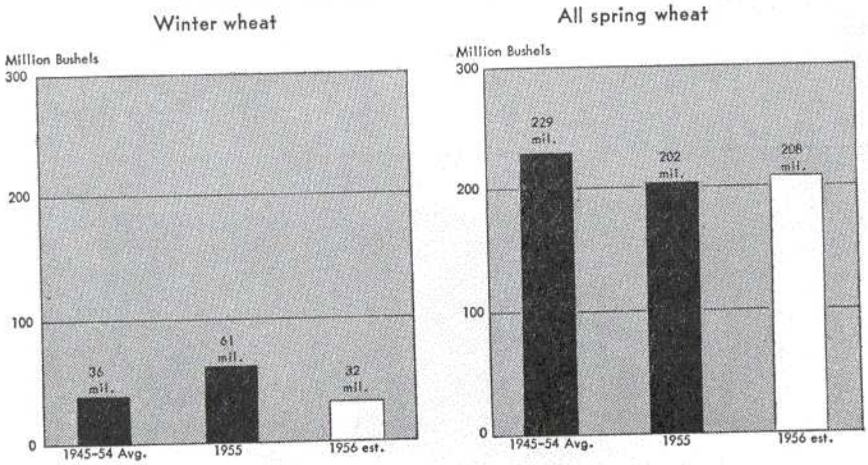
Current conditions . . . .

WHEAT PRODUCTION IN THE NINTH DISTRICT



1945-54 average; 1955, 1956*

*Data from Crop Production report, USDA, June 1, 1956

Estimates of winter wheat production for 1956 are on the basis of planted acreage and condition. Spring wheat estimates are on the basis of prospective planted acreage last March, and average yields. Recent dry weather may lower the estimates somewhat for 1956.

In general, the prospects now are for average-or-better total grain production in most of the eastern parts of the district but below normal grain production in much of the western areas.

Assuming average growing conditions from here on out, district winter wheat production at best can average only around half as much as last year. The winter wheat producing areas of Montana were hit particularly hard by lack of moisture last winter and this spring. A 40 to 60 percent plow-up is reported—much of it replanted to spring wheat.

Many farmers in local drouth areas may take advantage of the recently announced Soil Bank plan, which provides payment for withdrawing wheat and corn acres from production even where these acres have been rendered unproductive by drouth or other natural forces.

Despite the early-season drouth, district business activity at the mid-year point remains at prosperity proportions. Bank debits and department store sales were at record levels for May. Employment at the beginning of June was 3 to 5 percent larger compared with a year ago and unemployment was down 18 percent. This high employment is associated with a 6 percent increase in average weekly earnings in district manufacturing industries. Higher earnings and record employment in recent months will add up to record nonfarm personal incomes during the first half of 1956. Even farm income in the first half year, thanks to slightly rising prices of farm commodities and heavy marketings of livestock and crops, will approximate that of the first half of 1955.

Still another reason for high employment in the district is found in current continued strength in the construction industry. Construction contracts awarded in May total $122 million, a 13 percent gain from May of 1955.

Some concern is felt over a general increase in inventory stocks and the rising trend in bank loans. Department store stocks are nearly 8 percent larger than a year ago. Furniture store stocks are up 13 percent.

Bank loans at district member banks on May 30 were up 14 to 18 percent respectively from a year ago in country and city banks. Borrowings by member banks at the Federal Reserve bank during May averaged higher than any other month so far this year in spite of the higher 3 percent discount rate which was put in effect April 13.

Wholesale prices of farm products, processed foods, and commodities other than farm products and foods, all registered gains in May. The consumer price index was at 115.4 in May compared with 114.9 in April and 114.2 in May of 1955 (1947-49=100).

In terms of the several district economic indicators, up to June 1 (latest available data) there appeared little change in the sidewise movement that has persisted for several preceding months. There has been some shift in recent weeks, however, in business sentiment. There appears to be a tendency to stress the soft spots, such as fewer automobile sales, a rapid rise in inventory stocks, and rising bank loans.

In this district the early season drouth with its threat of lowered farm production has aroused some further concern, for the time being at least, over economic prospects in the immediate future.

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

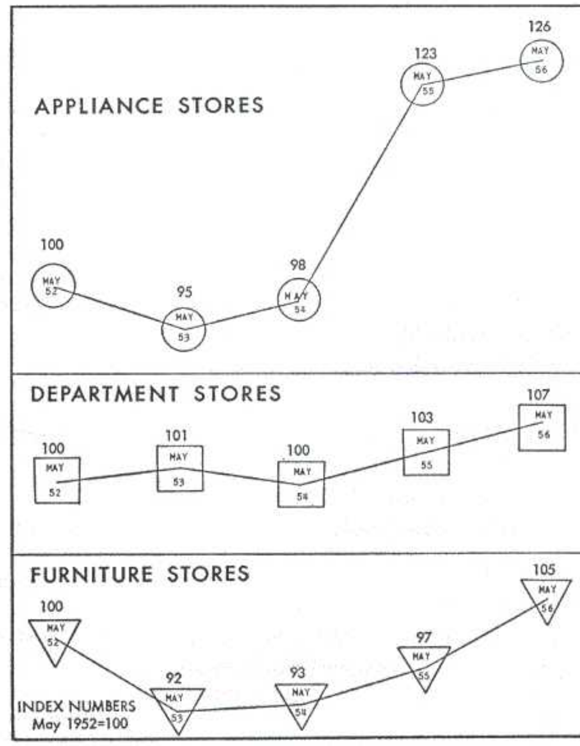
Retail spending

THE PRESENT high levels of employment and income give evidence that consumers in the aggregate are in a good position to spend for goods and services. While the rate of increase has slowed, personal income in the nation (seasonally adjusted annual rates) has risen each quarter since mid-1954. The annual rate of personal income during April was $317 billion—up $18 billion from a year ago.

With personal income at new highs, it is only normal that consumers' spending should also continue to rise—however, the increase has been at a slower pace than a year ago. For some goods, notably consumer durables and in particular automobiles, consumers are spending less than a year ago. This is also true of consumer investment in new residential construction.

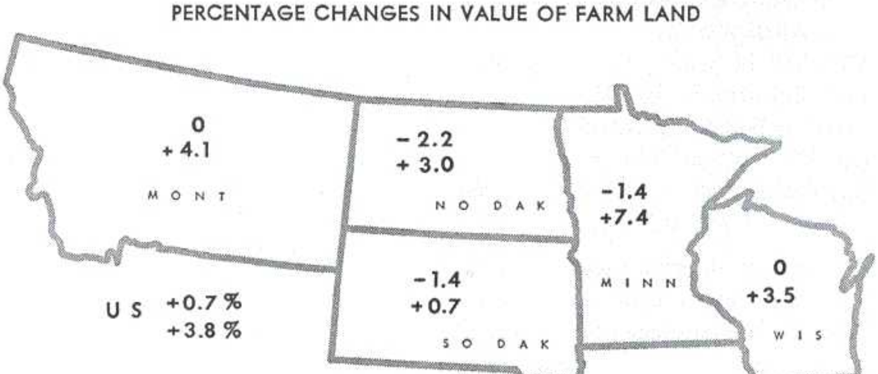
In the Ninth district, retail sales, including furniture and appliances, are above a year ago. As shown in the accompanying chart, sales at department, appliance and furniture stores in May were ahead of a year ago. Especially strong was the rise in sales reported by furniture stores; the increases in department and appliance store sales were more modest. May data for Ninth district auto sales are not available. In the Minneapolis-St. Paul area, however, new cars registered to individuals during May 1956 were down 28 percent from May 1955.

YEAR-TO-YEAR CHANGES in MAY RETAIL SALES 1952-1956



Severe competition in many retail lines together with decreases in auto sales and housing starts should not be allowed to obscure the fact that consumers in the aggregate are still enjoying high incomes and spending them in accord with their preferences.

PERCENTAGE CHANGES IN VALUE OF FARM LAND



The upper figure for each state indicates the percentage change in average value of farm land during the four-month period from November 1, 1955 to March 1, 1956. The lower figure shows the year-long change from March 1955 to March 1956.

Source: U. S. Dept. of Agriculture.

District land values have leveled off

LATEST USDA estimates suggest that land values in the Ninth district states tended to level off during the four-month period ending March 1, 1956. Average prices of farm land dropped slightly in Minnesota and the Dakotas, the estimates show. In Montana and Wisconsin, no change was indicated during this period.

Compared with the previous March, however, land values were higher than a year ago in all district states, with increases ranging from

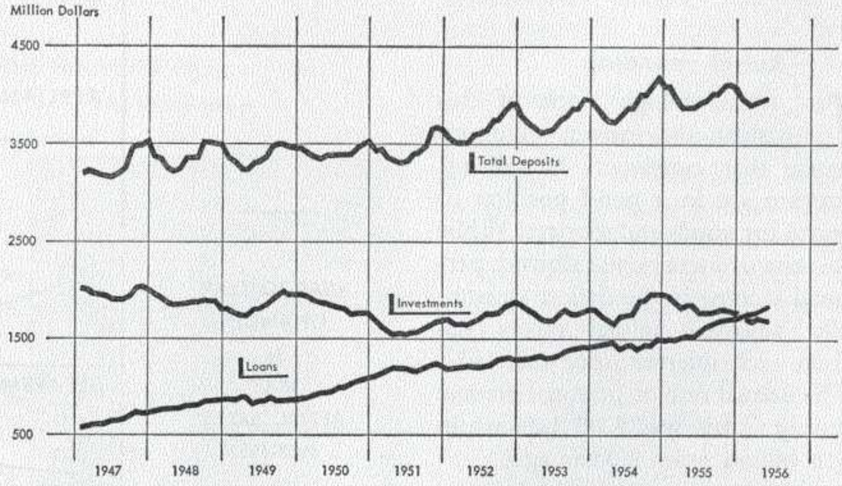
1 to 7 percent above a year ago. For the entire nation, the average increase during the year measured 4 percent. For the four-month period ending March 1, the national increase amounted to slightly less than 1 percent.

Estimated changes of this magnitude probably are significant largely for the leveling-off that they indicate. The small percentage decline during the November-March interval is as yet too small and too short-run to establish a definite downturn in land values.

The volume of farm land being sold has continued at a rather low level, with present farm operators buying up a substantial portion of that being offered for sale.

The rise in land values—which began in 1954 and carried average prices of farm land in most district states to new highs last year—has been of particular interest because of its pronounced contradiction of declining farm price and income trends.

DEPOSITS, INVESTMENTS AND LOANS OF NINTH DISTRICT MEMBER BANKS



During April, holdings of securities rose for the first time since last October; in May, however, security holdings again declined. Loans resumed an upward course in April and May after a slight drop in March.

PERCENTAGE INCREASE OF LOANS AT NINTH DISTRICT MEMBER BANKS

May 25, 1955 — May 30, 1956

Michigan	12.4%	South Dakota	5.6%
Minnesota	16.1%	Wisconsin	10.5%
Montana	23.5%	CITY	17.8%
North Dakota	17.7%	COUNTRY	13.8%

Member bank loans rise

An unusually heavy volume of member bank borrowing occured at the Federal Reserve Bank of Minneapolis during May. For the first time in 15 years, eligible paper rather than government securities was offered to serve as collateral for the notes of member banks. The average daily volume of loans at the Minneapolis Reserve Bank in May was over $71 million. This figure compares with 27, 47, 44 and 40 million dollars in the months of January, February, March and April, respectively. The discount rate was raised to 3 percent on April 13.

Reports from district member banks indicate that the upward drift of loans was resumed in April and May after a minor dip in March. Besides expanding their loans by $15 million in April, district member banks in the aggregate purchased securities (net) valued at $20 million. April was the first month since October in which securities were not liquidated. In May, district member banks expanded their loans by $21 million, but resumed the liquidation of securities by the amount of $31 million.

Loans at district member banks have been in an upward trend for 10 years; but the pace of the increase in the past 12 months has accelerated somewhat. The table shows the proportionate growth in loans during the past year at member banks, classified by state, and by country or city location without respect to state.

Soil bank payments available in 1956

Ninth district farmers whose wheat or corn has been damaged as a result of drouth or other natural causes may be eligible to receive payments under the acreage reserve program this year—providing other requirements of the program have been met. Primary requirements are that the operator has complied with his soil bank corn base and/or his wheat acreage allotment.

Minimum and maximum acreages that can be included under the program are figured as follows:

For corn, the maximum is 50 acres, or half of the corn base acreage—whichever is larger. The minimum is the larger of either 10 percent of the corn base acreage or 5 acres.

In the case of wheat, the maximum acreage may be either 50 acres or half of the wheat allotment for a particular farm—whichever is larger. The minimum wheat acreage is the larger of either 10 percent of the wheat allotment or 5 acres.

Payments which farmers may earn for participating in the acreage reserve program will be determined by multiplying a base rate per bushel by a yield factor. The national average rate for 1956 crops is 90 cents per bushel for corn, $1.20 per bushel for wheat. Payments can be made for underplanting or for destruction by natural causes, for plowing under, cutting or otherwise destroying in some similar way.

Payments for underplanting of 1956 winter wheat, when due to adverse weather conditions, will be $4.00 per acre.

Payments for underplanting of corn and spring wheat will be based on normal yields.

Payments for destruction of the crop—either from natural causes or for plowing under or cutting—will be based on either an appraised yield for a particular field or the normal yield for the farm (whichever is smaller), but will not be less than $6.00 per acre. END

Housing and mortgage markets in the Ninth district: part II.

Expansion and magnitude of the mortgage debt, the repayment picture, and the possible dangers in too-rapid expansion are discussed in this second and final part of the housing and mortgage article.

A SATURATED housing market would not only curtail home building but might cause housing values to drop. Much of the current apprehension about a possible saturation of the housing market can be traced to an uneasiness regarding the large mortgage debt of the country, which has risen to an unprecedented magnitude. In this second part of the housing study we describe the expansion in mortgage debt, the present magnitude of the debt, the general tenor of repayment, and the dangers that may be inherent in too-rapid expansion of the debt.

Rise in mortgage credit

The residential mortgage debt on one-to-four-family houses has risen rapidly, outdistancing other components of the economy. In the past 10 years it has risen nationally from $18.6 billion in 1945 to $88.4 billion in 1955. The debt per nonfarm household has gone up from about $592 to $2,051. The value of new residential construction, which rose by $15.5 billion in this 10-year period, was surpassed almost six times by the mortgage debt. Clearly, an increasing number of mortgages have been placed on the standing stock of houses.

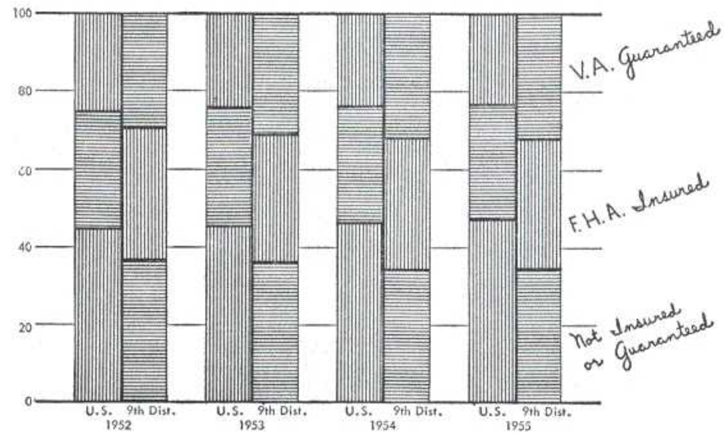
A combination of factors has led to the increased demand for mortgage loans. The large demand for new houses obviously creates a need for credit. But the importance of the demand for loans on existing houses, for repair and modernization (and for other purposes) cannot be minimized. The record number of housing starts made in 1950, for example, has not been exceeded in subsequent years. Yet the mortgage debt has continued to rise sharply, particularly in 1954 and 1955. Larger loans in relation to market values—both on new and existing houses—the increased turnover of residential properties, and rising building costs have all contributed to the debt. Under the impact of this trend toward larger loans, the average amount per mortgage recorded in this district has increased 40 percent, from $5,292 in 1950 to $7,422 in 1955.

Larger loans in relation to market value, accompanied by marked extension of maturities, have brought more customers into the housing market. And, in some cases, a proportion of the mortgage credit has been secured for purposes other than acquiring or improving housing. Some home owners who were overextended in instalment debt experienced difficulty in meeting monthly payments and consolidated these debts into mortgage loans.

To the house owner, there are advantages in making such a transfer of his debt burden. The monthly principal repayment is usually smaller, interest rates are lower, and the time period of payment is longer. Furthermore, the entire interest payment on mortgages is denet yields on federally-underwritten mortgages and the yields on government bonds in the maturity range from 10 to 15 years or more. For instance, in the Twin Cities in recent weeks the yield on FHA-insured and VA-guaranteed loans has ranged from 4.63 percent to 4.88 percent, while the yield on U. S. Government bonds has ranged from 3.06 percent to 2.87 percent.

The federal agencies have not experienced difficulties under the magnitude of the mortgage debt. The insurance premium on FHA-insured mortgages has been sufficient to cover all losses, and for some mutual funds has been more than enough to provide for reserves considered adequate by the Administrator. The guarantee of GI home-mortgage loans by the Veterans Administration has been equally successful. On no-down-payment loans, as well as on others, veterans have established an excellent repayment record. Since the loan-guaranty program is a veteran benefit, the cost of administration, as well as any losses incurred, are borne by the taxpayer. But since the inception of the program in 1934, the VA has assumed a loss of only .06 of 1 percent on the $33 billion of home loans guaranteed for veterans.

RESIDENTIAL REAL ESTATE LOANS by TYPE



Percentage distribution of residential real estate loans, by type of loan in operating, insured commercial banks, four Ninth district states* and U. S., June 30, 1952 to 1955

*Minnesota, Montana, North and South Dakota.
Source: Federal Deposit Insurance Corporation reports.

Possible dangers in too-rapid expansion

In the housing boom of last year, mortgage debt outstanding rose at an exceptionally rapid rate. This rate of increase cannot be maintained indefinitely. When the mortgage-debt expansion has slowed down, as it eventually must, what will be the effect on general economic prosperity?

On this point there is wide disagreement. Some economists believe that a resulting recession, with a substantial rise in unemployment, could be severe. Others believe that a housing-market decline may be offset by an expansion in any one of several other industries.

No blueprint can be drawn up on any future economic recession. Only the past and the present are known with some certainty; the future can be predicted only with a wide margin of error. However, in making projections a bright spot does appear on the horizon. Evidence is accumulating that greater economic stability than that of past eras has been achieved.

Since the end of World War II there has been a degree of stability in the economy which has permitted 'rotation' . . . or 'rolling adjustments.' Described in these terms, we get a picture of one industry after another which has (in this period) undergone recession and readjustment without a serious general decline of the economy. The expansion in capital expenditures during early 1956—offsetting declines in home construction and auto production—is a recent example of such a rolling adjustment.

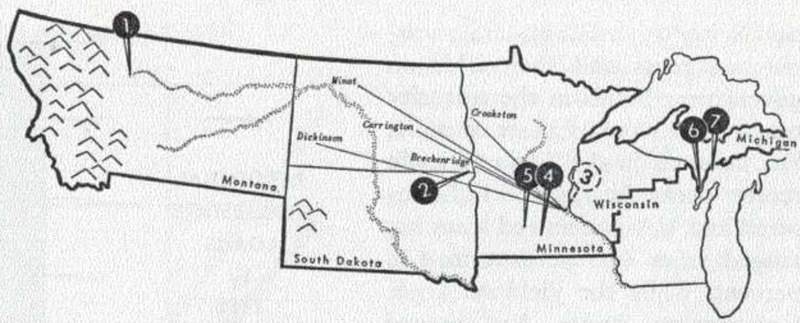
Outlook appears bright for mortgage holders

Several factors underly the strength of mortgage loans as a good investment. More objective appraisals developed by the FHA give greater assurance that a present-day estimated value will hold up better in a future recession than the inflated appraisals did in the twenties. There is a lessened risk of loss, with the federal government assuming a great share of this risk on one-to-four-family properties. Preventing foreclosures is part of the government plan, with Veterans Administration officials prepared to adopt methods to keep mortgagors on their properties.

Such preparations, made in anticipation of any possible economic setback, lead to this conclusion: lenders with well-managed mortgage portfolios may be able to ride through a housing-market recession without great difficulty. END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1 - Montana power plant approved

Montana Power Company was licensed by the Federal Power Commission on April 23 to build its proposed $15 million, 50,000-kilowatt hydroelectric plant on the Missouri river near Great Falls. It is planned that this project will be completed and producing power in 1958.

Effective as of December 1, 1948, the commission issued a 50-year license to Montana Power for the new Cochrane development and for eight existing hydroelectric plants on the Madison and Missouri rivers in Montana.

2 - Vegetable-oil mill planned

Spencer Kellogg and Sons, the vegetable-oil processing firm of Buffalo, New York, is planning to build a multi-million dollar elevator and processing mill in the Red River valley. The exact site has yet to be selected, with the choice centering on Fairmount and Wahpeton, North Dakota and Breckenridge, Minnesota.

3 - Giant elevators in N. D., Minn.

Cargill, Inc., Minneapolis, will build five 'outsize' grain elevators—in Minot, Dickinson and Carrington, North Dakota, and Breckenridge and Crookston, Minnesota, to be completed in September in time to receive this year's crop. Cost of construction has not been announced.

Each of the new grain tanks will have a 1-million-bushel capacity in contrast to the 40,000-to-60,000-bushel capacity of the more typical country grain elevator. (A few new country grain elevators have been built with a 150,000-bushel capacity.)

4 - Oil plant output boosted

Honeymead Products Company began expansion of its soybean processing plant at Mankato, Minnesota to increase capacity from the present 800 tons of soybeans a day to 1,500. The firm is adding a vegetable-oil extraction system with a 12,000-ton daily output. Installation was expected to be completed late in June.

5 - Minn. fertilizer mill planned

International Minerals & Chemical Corporation will build a plant at Fairfax, Minnesota to produce mixed fertilizers. Construction will begin soon, and the plant is expected to be operating in time for the 1957 spring season.

The new plant will help meet a growing demand for fertilizer in south-central Minnesota. Currently this region is being supplied by the company's Mason City, Iowa plant.

6 - Receiver sells beet sugar mill

The only sugar manufactury in Upper Michigan—the Superior Refining Company at Menominee—was sold by the Receiver on June 11 to Joseph Behr & Sons, Inc., plant salvage firm, for $177,777. Standing on a 27-acre site, and with 3,500 feet of Menominee river harbor front, the property includes a large sugar refinery, beet-pulp drying plant, a warehouse and office building.

The mill was built about 1902, liquidated in 1929 and, shortly after, resumed operations as the Superior sugar firm. The plant operated under that name until recently.

The salvage firm plans to explore possibilities for converting the property to some other type of manufacture before wrecking it for salvage.

7 - Progress in Mich. power project

The $7-million municipal power plant at Escanaba, Michigan, to be completed and in operation by January, 1958, is proceeding on schedule. The two 12,650-kilowatt generators which will be the heart of the plant are now being constructed. Purchase of boilers, turbines and other equipment has been approved by the city council.

The city has entered into a contract with the Upper Peninsula Power Company to have the firm operate the plant as an agent of the city. The power company will buy the surplus power to sell outside the city.

PULP-AND-PAPER INDUSTRY in the upper lakes region (which includes the eastern part of the Ninth district) is the subject of a special report to be published during the coming month as a supplement to the *Monthly Review*. Growth prospects for this important industry will be analyzed in a discussion that should prove of particular interest to the region's bankers.

The report will be sent to all *Monthly Review* subscribers and should reach you before the end of July.