Volume 13 · Number 3
March 31, 1957

Monthly Review
OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

District business strong in most lines

Business activity in the Ninth district during the first quarter appears to have about held its own. Some measures of activity are up; others are down.

A seasonal downturn in economic activity during most of the first quarter period is a regular phenomenon in the Ninth district. Retail sales decline from the Christmas shopping season, and severe cold weather puts a crimp in many lines of construction work. There seems to be scant evidence, however, to support the fears of some that the seasonal downward trends are particularly significant this year. To the contrary, a 2 percent gain in department store sales through mid-March and a 6 percent gain in bank debits through February (latest data now available), compared with last year, strike a moderately optimistic tone. Late March sales, however, may drop below last year's because Easter this year does not come until April 21. Last year, Easter fell on April 1.

A leveling off of business activity, if occurring, should not be regarded as a forerunner of an impending recession. The facts indicate our economy has been moving so fast in recent months that inflation rather than recession has been the serious threat. Current economic adjustments leading to a better balance may ease the pressure on prices. Economic growth and development are best accommodated with stable prices, rather than with prices which fluctuate widely either up or down.

The abatement of strong inflationary pressures is something that has been highly desired by the monetary authorities. What we may be witnessing now is a 'catching-up' period—a time when, for example, savings get into better relationship with the demand for new credit. Catching up may take time but the more rapid growth of time deposits at district member banks recently is encouraging in this regard. One of the objectives of monetary policy in these past months has been to foster a better balance between the demand for money and the supply made available by savers. An easing on interest rates as the demand for new loans becomes less keen is one indication that this objective is being accomplished. It may be said, however, that the Federal Reserve's recent monetary policy has been passive as further signals were awaited as to the direction the economy would take and the intensity of the trend.

Economic signals in the Ninth district, as well as for the nation, at the moment point in different directions, and the judgment on the economy depends in part on which direction one looks.

Cited as factors on the soft side in the Ninth district are such things as persistent weakness in residential construction; some easing in inventory accumulation; a slight increase in unemployment; a decline in prices of some basic raw materials such as copper, steel scrap and aluminum; and more-or-less business pessimism, generated in part by recent downward trends in stock market prices and profit margins.

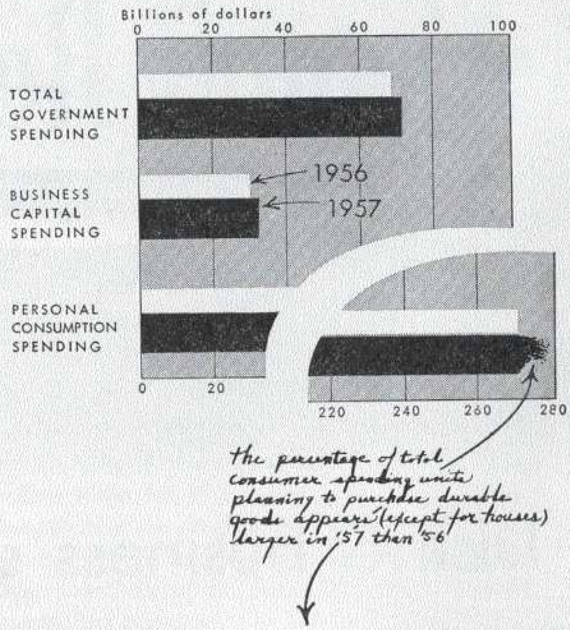
On the strong side of the district's economy are such considerations as a high level of nonresidential construction; rising employment; a high level of incomes; a favorable outlook for farm machinery sales; farm prices holding at a slightly higher level than a year ago; iron ore mining operations scheduled for a strong opening in a few weeks; and a strong demand for commercial and industrial loans.

It is significant that consumer spending intentions for 1957 are modestly higher than they were in early 1956. This conclusion comes from an analysis of the recent nationwide survey by the Survey Research Center of the University of Michigan for the Federal Reserve Board. Furthermore, total government spending in the months ahead is scheduled to increase to a new record peacetime level. Business capital spending in 1957, although not as exuberant as in 1956, may still register greater totals than in 1956.

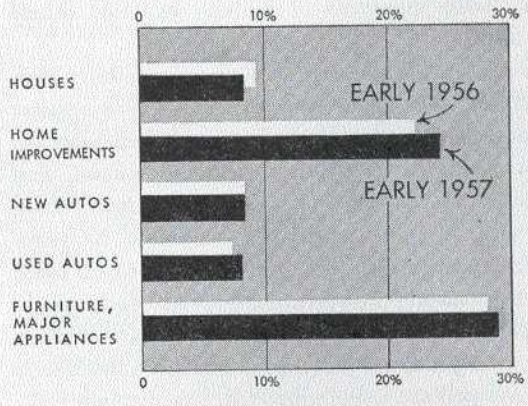
Summing up, it seems logical to expect in the year ahead a substantially strong market for a major share of the economic output of goods and services in the Ninth district. This conclusion seems to be validated by four important factors: (1) record government spending, (2) continued

EXPENDITURES IN 1956 AND PROJECTED 1957

(Billions of dollars)



PERCENT OF CONSUMER SPENDING UNITS PLANNING TO PURCHASE DURABLES



strong consumer buying, (3) some further increase in business capital expenditures, and (4) the currently stabilized agricultural situation.

The following selected topics describe particular aspects of the district's current economic scene:

FEBRUARY BANKING DEVELOPMENTS

The trends observed at district member banks in January, namely a reduction of the loan, investment and deposit figures, continued through February but at a much slower pace. After dropping \$62 million in January, loans fell but \$2 million in February. Deposits, down \$160 million in January, fell but \$25 million in February.

In each of the first two months last year loans rose—up \$31 million for the two-month period. It is worthy of note that the bulk of the decline in loans through February of this year occurred at the city banks. Country bank loans in the district have changed very little so far in 1957. It might also be observed that city banks in the rest of the nation reported a greater decline in loans early this year than was true a year ago.

Through February, deposits in the district had declined \$185 million in contrast to a drop of \$125 million in the comparable period of last year. Both city and country member banks suffered a greater loss this year than last. While the liquidation of loans and investments has aided district member banks in accomodating the large deposit outflow, they have relied on a rising level of borrowings to obtain some needed cash.

Thus, the average daily amount of member bank borrowing at the Federal Reserve Bank of Minneapolis has increased since the first of this year. The ratio of borrowings to required reserves in January was 4.4 percent. In February it was 7.6 percent and in the first half of March it was 12.6 percent.

Despite the heavy loss of total deposits so far in 1957, time deposits at district member banks, particularly country banks, have displayed remarkable growth. Through February country bank time deposits rose \$35 million. A year ago they rose but \$2 million. At district city banks time balances rose \$1 million in January and February last year in contrast to a gain of \$12 million in the same months this year.

DISTRICT EMPLOYMENT REMAINS STRONG

Employment in district states remained at a relatively high level during the winter in spite of a larger seasonal downturn last fall than a year ago. The shortages of many types of skilled labor persisted through the winter, giving evidence of a tight labor market.

As a result of the substantial rise in district employment in 1956, during the past winter employment has remained by a noticeable margin above the year-ago monthly totals. This situation appears to be continuing into the spring. For example, in January district employment was up by nearly $1\frac{1}{2}$ percent or by about 17,000 workers. In Minnesota, the further seasonal decline in employment from January to February was only two-thirds of the drop experienced a year ago. Most likely, other district states also experienced a smaller curtailment, as employment in the nation rose to a new monthly record in February.

Employment in district manufacturing firms has remained high. In the nonseasonal industries, the hiring of additional workers has, in part, offset the layoffs in the seasonal category. For instance, employment in the manufacture of durable goods in January was $4\frac{1}{2}$ percent above a year ago.

The large seasonal downturn in employment last fall was caused mainly by layoffs in construction. Due to the sharp cutback in housing starts, the number of workers employed in the building trades fell to a low figure. In transportation and utilities, employment also has been curtailed slightly more than in 1956.

FARM MACHINERY SALES IMPROVE

A spot survey of major farm machinery manufacturers indicates that farmers are buying farm equipment at a substantially higher rate than was true a year ago. This bears out earlier predictions made last fall for improved machinery sales. Strong demand for new machinery is particularly evident in areas where crop production and farm income have been favorable during the past year.

Buyers of farm machinery continue to emphasize the use of machinery which can substitute for expensive and hard-to-get labor on the farm, the manufacturers report. New equipment which can combine or eliminate one or more previous jobs, thus performing necessary farm work more quickly and more economically, is also in strong demand. Continued trends toward greater use of irrigation equipment are also reported.

DISTRICT INVENTORY BUILD-UP TAPERING OFF

Inventory build-up in district department stores tapered off last fall. Since that time, available statistics indicate some liquidation. Although inventories last fall did not appear to be excessive in relation to sales, in some departments they apparently had become heavy.

At the end of January, the ratio of stocks to sales was down slightly from a year ago. For stores located in the three large metropolitan centers—Minneapolis, St. Paul and Duluth—the ratio was 3.4 in January 1957, 3.5 in January 1956 and 3.3 in January 1955. For stores located outside of these three metropolitan centers, the ratios were 5.5, 6.0 and 5.1 respectively.

The incentive to build up or maintain high inventories in some businesses seems to have abated. The prices on many basic industrial materials have declined. In February, the prices of textiles, copper and steel scrap again declined. According to a report published by the National Association of Purchasing Agents, the prices of nonferrous metals are expected to hold steady or decline in coming months. Furthermore, no major work stoppages are anticipated this year that would interrupt supplies.

The shift in sentiment toward inventories among retailers has resulted in a slowing down in the turnover of inventories held by some jobbers,

DEPARTMENT STORE SALES AND STOCKS, NINTH DISTRICT, 1950-1957

wholesalers and manufacturers in this district. To carry stocks, some firms have applied for bank loans; others have sought extensions on existing loans. Nevertheless, these firms are not excessively overstocked, nor are the loans heavy. The expectation is that the loans will be repaid by early summer.

RETAIL SALES ARE UP

Through the middle of March, district department store sales have held to a high volume for the winter season. February sales, seasonally adjusted, were down 3 percent from January. Even with this decline, sales still were 6 percent above a year ago. Without the adjustment for one less trading day in February this year, sales were up 2 percent.

In the first two weeks of March, sales fell below last year's volume. The lower volume is attributable to the date of Easter—three weeks later than last year. Because of the greater probability of pleasant weather preceding Easter, in addition to high personal incomes, retailers in this district anticipate a good Easter shopping season.

The decline in the sale of soft goods was less than was shown by sales in durable items in district department stores during February. According to preliminary figures released by the U.S. Census, gains in February sales in the nation from the preceding month were larger in stores selling durable goods than in those selling soft items. Apparently, consumer buying remains strong in most areas. The exception is in the purchase of new houses.

DISTRICT FARMERS PLAN 1957 CROPS

District farmers indicate that they may plant substantially less spring wheat than in 1956, according to the USDA's March 1 survey of farmers' planting intentions—with most of the acreage shift going into increased plantings of barley and soybeans.

Minor reductions in corn, oats, and potatoes were indicated, with no change in flax acreage. All of the 1 percent reduction in corn acreage estimated for the district came from the Dakotas, as Minnesota farmers expected to plant the same acreage to corn as a year ago. Major reductions in planting of 33 percent for durum wheat and 17 percent other spring wheat compared with a year ago seemed the most substantial changes for the district. Nationally, the intended plantings of all spring wheat are the smallest on record—21 percent below 1956 and a third below average.

Durum wheat acreage, which is entirely within the four Ninth district states, may be increased somewhat if planting restrictions are liberalized. Also, farmers' reactions to the corn program may also be subject to some change since March 1, as the final terms of the corn program were not certain at that time.

Population and Shopping Centers

An up-to-date version of our publication, *Population Growth and Shopping Centers in the Twin Cities Area* will soon be ready. The pamphlet describes postwar-era population growth in the St. Paul-Minneapolis metropolitan area and plots in detail the suburban shopping center expansion during this period. Copies may be obtained free upon request to the Research Department, Federal Reserve Bank, Minneapolis 2, Minn.

How now, Mr. Consumer?

The consumer (and aren't we all) played a key role in lightening the effects of two generally-acknowledged recessions of recent years—those of 1949 and 1953-54.

An inventory adjustment during 1949 created in the minds of many an apprehension that the long-predicted postwar depression was about to begin. Many businessmen commenced to retrench. Mr. Consumer on the other hand ignored past history. His borrowing and spending kept right on rising.

In 1953-54, reduction of government expenditures after the end of the Korean war depressed the economy. In anticipation of reduced demand business inventories were cut back by $2.6 billion and investments in plant and equipment dropped $1.9 billion. Again Mr. Consumer paid no heed to the trend. He kept right on borrowing and spending. Businessmen soon discovered they were busier than ever producing *more* goods, not less.

And today? There is no question that now, in these early months of 1957, the delicate balance between 'too much' and 'not enough' presents to the eye of many a picture of business uncertainty. Businessmen apprehensive of 'adjustments' are looking harder than ever at the consumer. Will he continue to be a stubborn opponent of return to less-than-normalcy? Or will he not?

If the consumer performs his job of consuming with the hardiness he has indicated in the polls and surveys, there seems little to worry about on the consumption side. His spirit is willing and his income remains anything but weak. He keeps his buying sights on bigger and better things, which implies, it would seem, continued high spending and perhaps added debt.

The Twelfth Annual Survey of Consumer Finances, prepared for the Federal Reserve System by the Survey Research Center of the University of Michigan, affirms these consumer attitudes.

- Income remains strong—about 41 percent of all 'spending units' reported total incomes of $5000 or more in 1956, compared with 36 percent in 1955 and 26 percent in 1952 (in these years the consumer was spending freely, too).
- Numbers holding liquid assets increased from 72 percent of the 'spending units' early in 1956 to 75 percent early this year.
- About 40 percent of all 'spending units' expect further increases in their incomes in 1957; about 60 percent expect general business conditions to be good.
- Plans to buy durables are about the same as early 1956; in both new and used car purchases, intentions have been upgraded a bit from 1956.
- There was a mild decline from 1956 in reported plans for buying a house; a larger number than last year apparently intend to make expenditures on home improvement or maintenance.

The consumer, then, continues to say: "I have money, and I want to spend most of it (a bit over 90 percent; I'm saving the rest). Lend me the purchasing power for my larger-scale buying and I'll pay you back—promptly (in most cases) out of my future income. As long as that pay envelope of mine stays fat and steady, I'll buy, all right."

A look at farm income trends

Farm income figures are important indicators of the financial returns, and thus the spending power, of farmers. But in a broader sense they measure the economic value placed by our economy on the products of agriculture—the 'reward' extended to farmers for their production. For the nation as a whole, this value is determined largely through the interaction of normal supply-demand forces. Thus, large supplies tend to reduce market prices, and for some products even income may be negatively correlated with production volume —as when a larger crop sells for less total return than a smaller one.

For individuals and for localized areas, however, income is more directly related to the volume of products sold. While national price levels are determined largely by total production of given commodities, local and regional output have a proportionately lesser effect upon the total market; local farm income is more directly correlated with production success.

District farm income stable

Because of drouth conditions in substantial areas of the Dakotas and eastern Montana during 1956, crop production this past year did not equal the 1955 harvest. Total receipts of district farmers from their marketings of farm products were, nevertheless, nearly equal to the previous year. Higher livestock sales and higher prices for most crops and livestock helped to offset the smaller volume of crop marketings to some extent. As is usually the case, however, state-by-state farm income comparisons show greater variations from a year ago than the district both in the amount and direction of change. For example, Minnesota and North Dakota farmers, blessed with generally favorable crop conditions in both years, enjoyed 3 and 4 percent higher returns from their marketings in 1956 than in the previous year. In South Dakota, on the other hand, where dryness was widespread and had its most severe effect, farmers received only 90 percent as much for their marketings as during the previous year. In Montana, farm cash receipts were down 3 percent from the previous year.

Such state-by-state comparisons reflect the changes both in marketings and in prices for the particular commodities important to each state's agriculture. Just as district farm income trends are the sum of income trends for individual states, so are state figures made up of the combined individual income changes for individual producers, local communities, and for the particular commodities which farmers produce and sell. Thus a given decline or gain in farm income for an individual state is derived from combining a whole range of individual income changes.

Total cash receipts from the sale of farm products were approximately the same for the four Ninth district states in 1956 as in 1955. At $2,662 million, this is the major source of income to district farmers—and represents the 'reward' extended by the nation's economy to district farmers for their production.

In addition to returns from the sale of farm products, however, district farmers received payments for participation in government programs during 1956 which were substantially larger than in 1955. Mainly because of soil bank payments, made for the first time in 1956, the total amount of government payments to district farmers was approximately double the amount paid in 1955. In all states except Montana soil bank payments constituted at least half of all government payments to farmers. The break-down of 1956 government payments to farmers in the four Ninth district states is shown in the table below. Wool incentive payments were also included in the total for the first time this year, and were a substantial portion of payments to Montana farmers.

GOVERNMENT PAYMENTS BY PROGRAMS FOR DISTRICT STATES

(Thousands of dollars)

	Government Programs, 1956				Total Payments	
	Conservation	Sugar Act	Wool Act	Soil Bank	1956	1955
Minnesota	6,103	1,884	1,333	9,677	18,997	6,968
No. Dakota	3,882	973	1,121	12,756	18,732	4,212
So. Dakota	5,904	158	2,320	14,061	22,443	5,790
Montana	2,835	1,778	3,045	1,658	9,316	4,160

National farm income turns up

The USDA report on national farm income for 1956 includes a step-by-step analysis of the different income components and of the factors affecting them. Reviewing these may help provide further insight into district and state farm income figures.

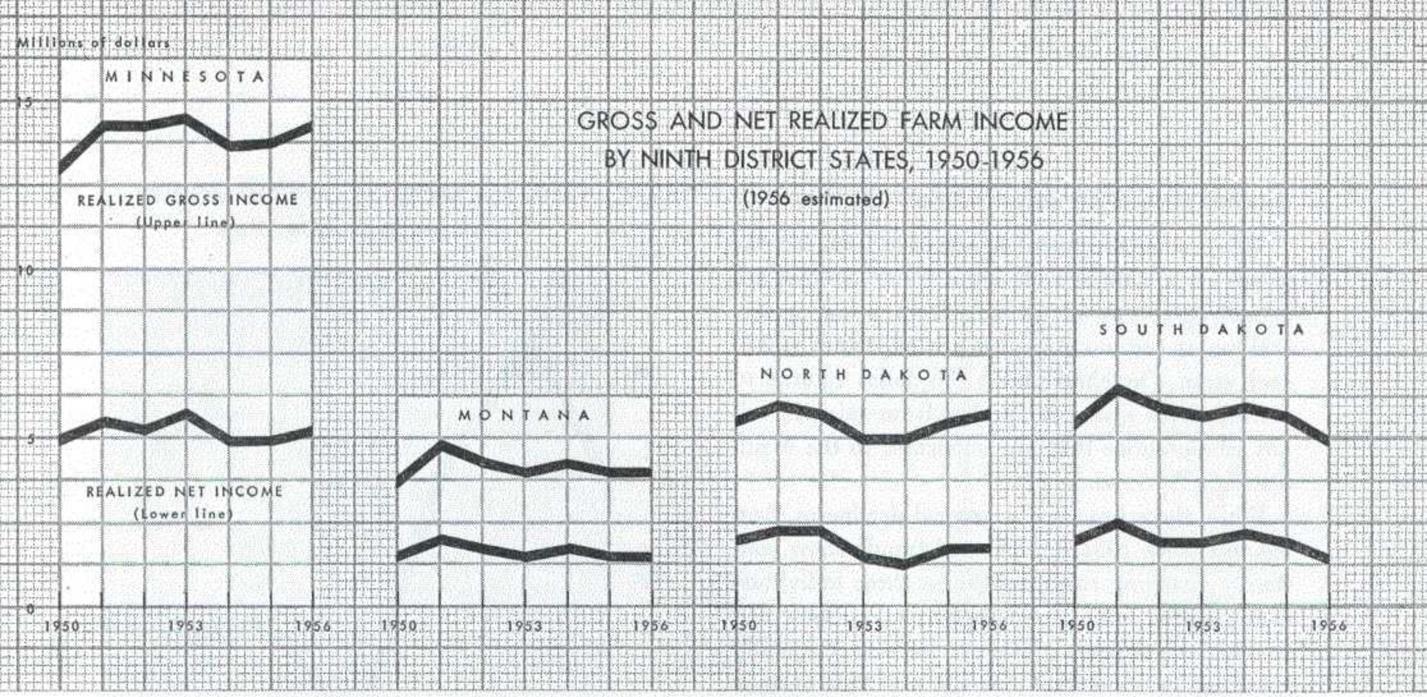
For the nation, the cash receipts of farmers from their marketings in 1956 exceeded the previous year by about 4 percent, following a four-year decline. Government payments were also about double the 1955 payments, due mainly to the soil bank, and this added further to the increase in cash farm income.

Computations of national income also include an estimate of the value of farm products consumed on the farm and also for the rental value of farm dwellings. These represent income to farmers, even though no cash transactions are involved. The total of these three components — receipts from marketings, government payments, and products and services consumed on the farm—constitute gross realized farm income. For the year 1956, this national total was 4 percent above 1955.

The *net* realized income of farm operators is obtained by subtracting farm production expenses from this national gross. Practically all production expenses of farmers continued to rise throughout 1956, the USDA indicates. The increase was fairly well distributed throughout an extensive list of expense items—including purchased feed and livestock, hired labor, motor vehicle operation, machinery repairs, and many other miscellaneous supplies and services. Overhead items of depreciation, property taxes and interest payments also continued to cost more. Main exceptions to this rising cost trend were fertilizer and seed, for which farmers spent less than in 1955.

Realized gross and net income estimates do not consider changes in the volume of crop and livestock inventories farmers hold, however. Excluding inventory changes from these calculations provides a measure of income actually 'realized' and available for family living during a given year. Such inventory changes must be considered, however, in order to estimate the value and income produced from the current year's production.

For instance, during 1955 farmers sold or consumed 1 percent less than they produced, thus building up their inventories by that amount. Then, in 1956, farmers consumed or sold 1 percent more than they produced during the year. Their realized income reflected this partial liquidation of inventories; their total sales of 1956 exceeded what they produced. When realized net income figures are adjusted for the $250 million inventory liquidation that took place during 1956,



the resulting *total* net income of farm operators (compared with *realized* net income) is about 1 percent smaller than for 1955.

Off-the-farm income one-third of farmers' net

Such computations show the income of farm operators from farming. Also included in the income of our farm population are the wages received by farm workers who live on farms. Furthermore, a very substantial amount of the income of people living on farms is derived from employment off the farm. In 1956, income earned from nonfarm sources added almost $6.5 billion to the total income of people living on farms, bringing the total from all sources to $19.8 billion, or about 1 percent more than in 1955.

This nonfarm source of income to people living on farms is also significant, in that a large number of persons listed as farmers in many sections of the country are operating small or part-time farm units and relying on outside work to round out their full-time employment opportunities throughout the year.

Because the number of farms in the United States declined about 2 percent from 1955 to 1956, realized net income of farm operators rose 6 percent on a per-farm basis. But total net income of farmers per farm, including inventory changes, rose only about 1 percent during the year.

Gross and net by states

Estimates of gross and net realized farm income are also made for individual states by the U.S. Department of Agriculture. These estimates show the year-to-year income variations of individual states, and also the more extreme percentage changes in net income as compared with gross income. The greater variations in net income result from the relatively inflexible nature of necessary farm production expenses. As gross income varies with both prices and production, production expenses tend to remain relatively constant, leaving a more highly variable net in terms of percentage change.

Gross income figures are probably the most useful measure of the total business and economic activity within the district. These reflect both the value of marketings of farm products and also the income to farmers that provides the basis for their production and family spending and for savings. In contrast net income figures perhaps more nearly indicate the financial welfare or progress of the individual farming operation.

Income trends by commodities

While it is convenient to compare farm income trends on a state-by-state basis, these incomes are actually made up of incomes from a few or several major commodities that are important within each state. The chart shows the dollar returns to farmers over a six-year period from sale of various commodities that are important to the Ninth district (1956 estimated).

While there has been a general decline in farm receipts since 1951, the charted trends show constantly changing relationships for these individual commodities, both in relation to each other and to total cash income of district farmers. Generally speaking, local communities will find their income closely tied to the price trend of the commodities which are most important to farmers in their particular area, along with local weather and production conditions which also affect the returns from these commodities.

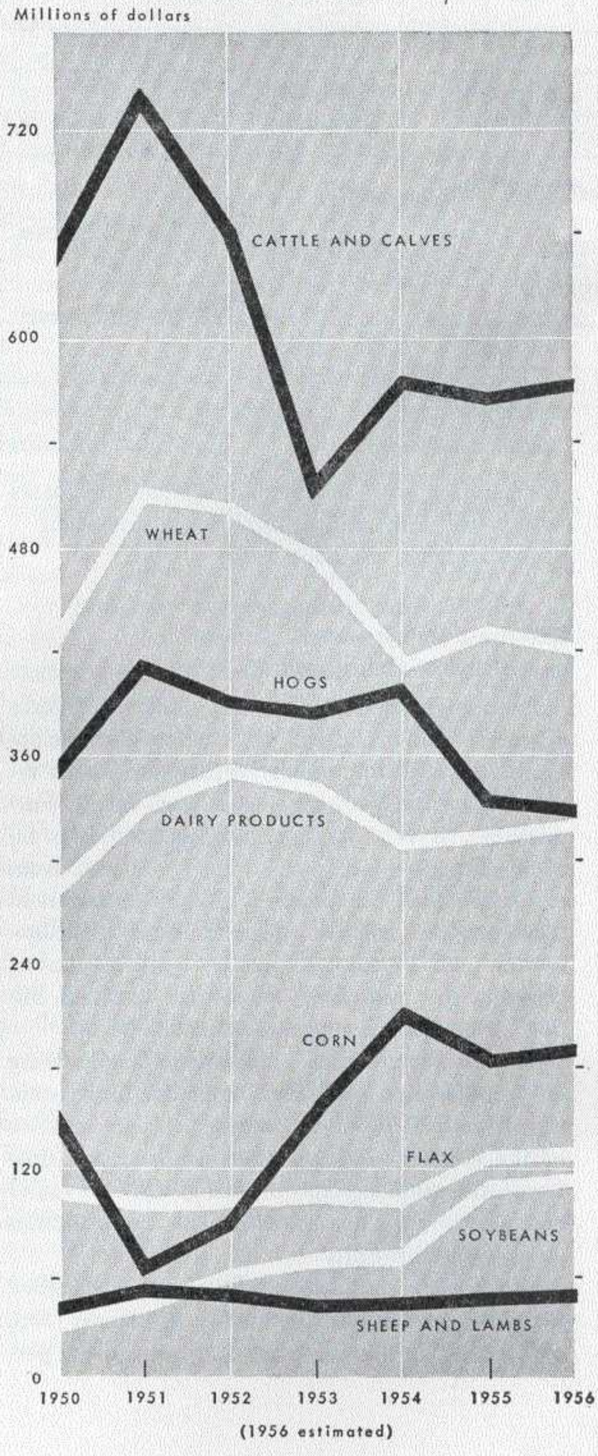
Probably the most dramatic change is seen in the income from sale of cattle and calves. The drop in cattle receipts followed the sharp decline in cattle prices from 1951 to 1953. Wheat returns have been influenced by acreage restrictions starting in 1954. Hog producers suffered their major adjustment in 1955 and 1956 as hog numbers 'peaked' and prices slumped to unusually low levels. But even though hog prices improved substantially during the latter half of 1956, hog income during 1956 is expected to be slightly less than 1955. Hog producers in the Ninth district reduced their production more than the U. S. average.

Dairy producers took their main adjustment between 1952 and 1954 and have been gradually improving their returns since then. Cash receipts from the sale of corn rose sharply during 1952-54, reflecting more the increased movement of corn into CCC hands than an increase in corn production.

Large year-to-year increases in soybean production, along with sustained price levels, make

CASH FARM RECEIPTS BY COMMODITY

(Ninth district four-state total)



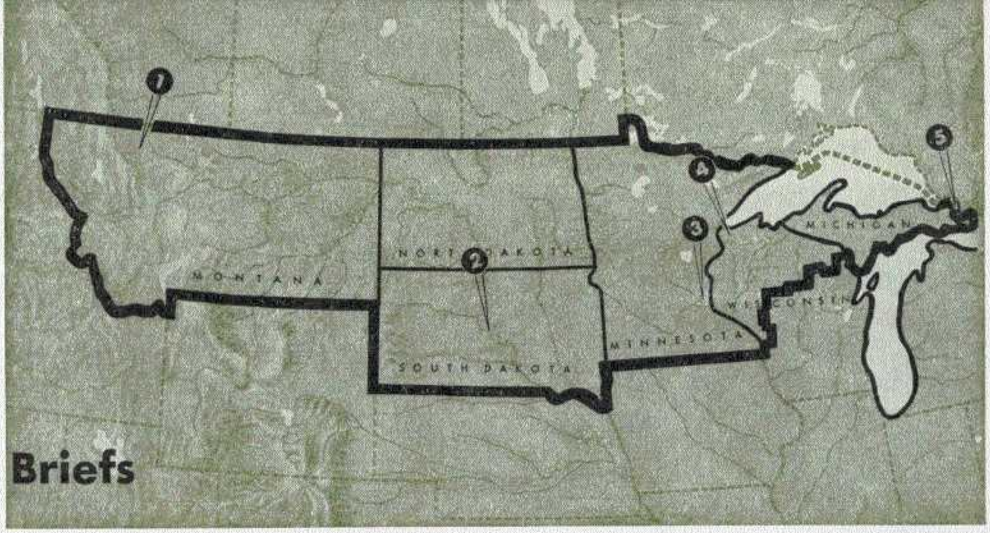
COMPONENTS OF UNITED STATES FARM INCOME, 1955 AND 1956

(In millions of dollars)

	1955	1956
Cash receipts from marketings	$29,264	$29,999
Government payments	229	554
Home consumption of products	1,768	1,752
Rental value of dwellings	1,678	1,674
Realized gross income	**32,939**	**33,979**
Production expenses	21,599	22,143
Operators' realized net income	**11,340**	**11,836**
Net change in inventories	+340	—250
Operators' total net income	**11,680**	**11,586**
Wages of laborers on farms	1,749	1,748
Income of farm population from farming	**13,429**	**13,334**
Income of farm population from nonfarm sources	6,100	6,450
Income of farm population from all sources	**$19,529**	**$19,784**

soybeans the one commodity which has earned consistently larger cash returns in the district over the past six years.

The divergent trends shown in the amount of income accruing to these various commodity-enterprises illustrate the constantly changing relationship among different sources of income for district farmers. Although these relationships have undoubtedly been influenced to some extent by the price-support programs and acreage restrictions on some crops, they remain primarily the product of national price trends and district levels of production. As the chart demonstrates, seldom if ever do we find prices of all commodities or the returns from the sale of all commodities moving in the same direction at the same time.



Economic Briefs

1. Well near Cut Bank evidence of new pay zone

A wildcat well four miles west of Cut Bank flowed oil in late March from a zone a thousand feet deeper than any now producing in the area. The oil fields clustered in this sector of Montana, and claiming the bulk (161 million barrels) of the state's past oil production, draw only on formations at the top of or immediately above the massive Madison limestone. This is at a depth of about 3,500 feet. The new oil discovery at 4,600 feet was drilled jointly by several companies and individuals. It adds evidence to the growing feeling that a heretofore untouched pay zone lies underneath the present active fields in the area.

2. Work progresses on Oahe dam

Recent progress accounts of the huge Oahe dam, which will straddle the Missouri river about six miles north of Pierre, South Dakota, report: that with the onset of spring earthwork construction has begun at the east abutment; that four of the six tunnels for flood control are completed and that this phase of the project will be about 95 percent completed by June 1; that a $10 million contract has now been let for the design and construction of the seven turbines needed for the 425,000 kilowatt Oahe hydroelectric plant.

3. NSP computer center to cut costs

Northern States Power Co. expects to save a half million dollars a year in the cost of customer billing when its $1.1 million, 42,500-square-foot computer center begins operation this fall. The one-story brick structure is being built in Lauderdale, a suburb of St. Paul. A staff of 250 will operate the center.

4. Lake Superior refinery builds addition

A million-dollar expansion program, designed to triple the plant's present capacity, is under way at Lake Superior Refining Co., Superior, Wisconsin. The expansion will add a 10,000-barrel-a-day basic crude oil unit, a 2,000-barrel distillate desulphurizing unit and a 2,000-barrel catalytic reforming unit. The new equipment will increase the plant's daily throughput to 15,000 barrels of crude oil.

5. Sault locks improvement project to begin

Of the $100 million slated to be spent on improvements of the Michigan waterway, the Sault locks of the St. Mary's river and Falls canal (at the outlet of Lake Superior), a $50 million channel-deepening project is scheduled to be started this year. An estimated 800 men will be employed in the first year's dredging.