December 31, 1957
Volume 13 · Number 12

Monthly Review

OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Year ends on cautious note

The fourth quarter upturn in business activity in the Ninth district was not as strong this year as in other recent years. At the end of the year several business indicators have turned down. Yet, broadly viewed, the economic tempo continues at a relatively high level. Store sales in recent weeks have exceeded slightly the favorable year-ago performance. Employment in manufacturing is off sharply and insured unemployment is higher at the year's end compared with that of a year ago. The number of persons drawing unemployment benefits in December over-all averaged only about 2.3 percent of total nonagricultural employment but locally the situation is accentuated — particularly in those areas where mining of non-ferrous metals and lumbering dominate the local economy. Business sentiment has turned even more cautious as the latest business indicators further validate opinions that an adjustment is in the making. No over-all production index is available for the Ninth district, but nationally the index of industrial production was down to 139 in November—down 5 points from September and down 7 points from the first quarter of 1957.

The reduction in the district's discount rate in mid-November from 3½ to 3 percent was effected in recognition of the 'easier' conditions developing in the economy and the fact that shortages of

Agriculture under pressure

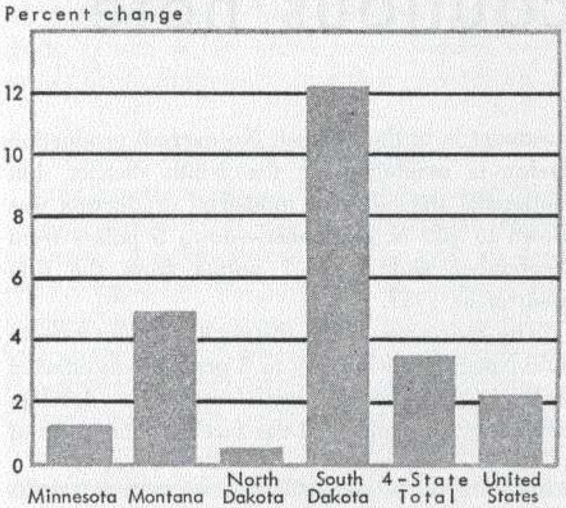
An analysis of the rapid advance of agricultural technology and its effects on production and management . . . see page 6

materials and labor had practically disappeared. Furthermore, inventories were no longer being accumulated and in some categories were being reduced.

Business demands for bank credit in the Ninth district have slackened in recent weeks in relation to the usual heavy demands at this season. Downward trends in stock market prices are also a reflection of investors' thinking concerning the business outlook.

Still another indication that inflation is no longer the dominant factor in the nation's economy is the softening of general wholesale prices and prices of many basic commodities. However, the consumer price index, which leveled off in October for the first time in many months, took a half-point jump in November reflecting higher new car prices, rents and costs of services.

Cash farm income first 9 months of 1957, percent change from year ago



Fortunately, there remain several areas of important economic strength in the district's economy. One of these is agriculture. Fall and winter feed and range conditions have been especially favorable for livestock development. Livestock conditions in early December, over most of the area, were reported the best in many years. The late, wet fall delayed corn and soybean harvesting but more favorable weather in early December permitted harvesting with little field loss. High moisture corn is a problem, however, for this corn must be fed or marketed in the next few months to avoid further loss. This has stimulated a keen demand for feeder cattle to utilize the corn.

Construction activity in the Ninth district, although down seasonally, is relatively strong. Recent issues of building permits have been exceeding those of a year ago, particularly for residential housing. The highway expansion program is expected to expand sharply in the next year and continued heavy outlays for schools, municipal developments and public housing will stimulate business activity.

The banking picture in the district also continues relatively favorable with demand deposits up slightly from year-ago levels and time deposits up about 13 percent. Some easing in demand for credit is not altogether unwelcome by many bankers who were concerned about the over-all loan volume in relation to bank deposits.

In summary, it can be said that with local exceptions such as western Montana's mining and lumbering areas, the economy of the district continues with relatively less 'sag' than seems in evidence for the country as a whole. In this region, unemployment is not as high, farm income is up to a greater extent, and trends in bank deposits are somewhat more favorable.

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

EMPLOYMENT SLIPS FROM PEAK

With the recent indications of recession in economic activity, employment trends are now watched closely. Seasonal layoffs are common occurrences in the autumn when much outdoor work terminates. However, this year these layoffs have been accompanied by others resulting from a 'cyclical' decline in business activity. As a result, the decline from the summer peak has been greater than in the past few years. In the nation, civilian employment last July passed the 67 million mark for the first time. In November, it was down to 64.9 million.

Much of the outdoor work is completed on farms. A large decrease occurs each fall in the number of persons working on farms. According to the Bureau of the Census, agricultural employment in November was down by almost two million from the peak in July and was 375,000 less than a year earlier. Reductions in employment also occurred in other types of outdoor work, especially in construction and in transportation. The Bureau of Labor Statistics report for November showed employment in contract construction had declined by 268,000 workers from the peak in August and in transportation, by 77,000 workers from the peak in September.

A part of the employment decrease in construction and in transportation is of a cyclical nature. However, most of the cyclical decline at the end of November was concentrated in manufacturing. In the nation, employment in manufacturing, seasonally adjusted, with one exception, has declined in almost every month since November 1956. At that time, 17 million workers were employed and one year later, it had dropped by 620,000. In November, construction employment was down by 133,000 from a year ago and transportation employment, by 78,000.

In most of the district states, nonfarm employment in November was still above the year ago totals. For the district as a whole, November employment was roughly 6,000 above last year's total which was an increase of less than one-half of one percent. The gain in employment over 1956 became narrower each month of this year. For instance, January nonfarm employment was about 30,000 above that for January 1956.

Most of the decrease in district employment has been concentrated in manufacturing. In all district states, employment in manufacturing firms in recent months has slipped below 1956 figures. The decrease has occurred in the manufacture of both durable and nondurable products.

In iron ore mining, employment held up well in 1957. However, in other metal mining—copper in particular—a decline began in July which has extended through the latter half of the year.

Employment in other district industries has declined very slowly during 1957. In some localities, the effect of the layoffs made in manufacturing and mining industries has reached into the trade and service channels. In a few communities it has also curtailed the construction activity.

DISTRICT CHRISTMAS SALES STRENGTHEN

Department store sales this Christmas season perked up from an earlier autumn slump (slump, that is, relative to the 1956 performance) and firmed during recent weeks to levels slightly above last year's dollar figures. This conclusion is based on preliminary weekly information. With some allowance for general price increases, however, the physical volume of goods sold through these important retail channels may not have been quite as great as that sold during the 1956 Christmas season.

Weekly department store sales reports from the two metropolitan areas of Duluth-Superior and St. Paul-Minneapolis, tally the situation through the twenty-first of December, thus including the great bulk of Christmas buying. The first three weeks in December, according to these reports, averaged roughly a 2 percent dollar-volume increase over the corresponding weeks of 1956.

Of course, these figures measure the success of department store retailing only in relative terms. Poor showings one year may result simply from exceptionally high sales the previous year. Examining the 1956 figures in this light, it may be noted that each week from early November through Christmas during 1956 showed consistent and fairly substantial gains over 1955. Hence the comparisons for this year are being made with a relatively successful 1956 sales period.

Looking back on the year over-all, a favorable comparative total was rung up by the *weekly* reported figures: between January 1 and December 21, department store sales in the Ninth district totaled 2 percent more than the dollar volume registered for the like period of 1956. This corresponds fairly closely with the more inclusive *monthly* department store report, presently available only through November.

Weekly figures over the past six months reveal some interesting contrasts between this year's and last year's pattern of sales. During August, September and most of October, the sales for this year ran consistently above last year and encouraged expectations for very strong sales in last half 1957. These hopes were dampened as the never-quite-predictable consumer slackened his purchases during late October and most of November, introducing several substantial minus signs into the figures. At the time, these declines suspiciously coincided with other indications of a recessionary adjustment in the economy. Perhaps the most significant aspect of the year's sales picture, then, is the fact that data for December suggest a strengthening in consumer buying in the face of recession symptoms.

CATTLE FEEDING DEVELOPMENTS DELAYED

Cattle feeding operations in the nine corn belt states were estimated October 1 to include 9 percent fewer cattle than a year ago. The Ninth district states of Minnesota and South Dakota are included in the nine corn belt states, and account for approximately 12 percent of the cattle being fattened in the entire area.

Corn belt feeding operations for the coming year may not show the reductions indicated in the October 1 estimate, however. The year may actually shape up as a near-record feeding year, but the developments are being delayed. Although the October 1 estimates of cattle on feed are low, feeder cattle shipments into the nine corn belt states in October reached the largest total on record—estimated at 1,190,454 head or 74,000 head above the previous 1952 record.

Several factors are causing the feeding picture to develop later than normal. Ranchers have had excellent range for cattle and plentiful feed supplies for wintering cattle. This has caused cattle to be marketed later than usual, and at heavier weights. In addition, favorable feeder cattle prices are inducing ranchers to hold back cattle for herd expansion.

One indicator of increased demand for cattle for herd expansion is the pattern of slaughter; when herd expansion is occurring, calf slaughter drops. In the district calf slaughter was down 22 percent* in October 1957 compared with a year ago, further documenting the herd build-up. For the nation as a whole, calf slaughter was down 13 percent from a year ago.

Another indicator of the hold-back of cattle for expansion is the proportion of cows to the total number of cattle marketed at the major markets; this figure has been running considerably below a year ago. (See table 1.)

Table I—Slaughter cows as a percent of total marketings at selected major markets (estimated)

Market	1956 Oct.-Nov. avg.	1957 Oct.-Nov. avg.
Chicago	8%	7%
Kansas City	16%	13%
Omaha	15%	12%
South St. Paul	50%	37%

Also, during periods of herd expansion the price of slaughter cows rises relative to the price of slaughter steers. Comparing market prices for October-November 1956 with October-November 1957, it is noted that during the year commercial grade slaughter cow prices have risen relative to

*Includes only the four states entirely within the district—North Dakota, South Dakota, Montana and Minnesota.

choice slaughter steer prices. For example, the average commercial grade cow price for October-November 1956 at south St. Paul was 50 percent of the choice slaughter steer price; during the same period in 1957 the average increased to 62 percent. (See table 2.)

Table 2—Average commercial cow price as a percent of choice slaughter steer price in selected major markets

Market	1956 Oct.-Nov. avg.	1957 Oct.-Nov. avg.
Chicago	49%	61%
Kansas City	51%	63%
Omaha	49%	63%
South St. Paul	50%	62%

In addition to the demands for cattle for herd expansion, there has been an active demand for feeder cattle because of record supplies of feedstuffs, including large quantities of soft corn, and favorable fed cattle prices. Also, there has been an active demand for cattle to utilize the lush fall growth on the winter wheat pastures in Kansas, Oklahoma and surrounding areas.

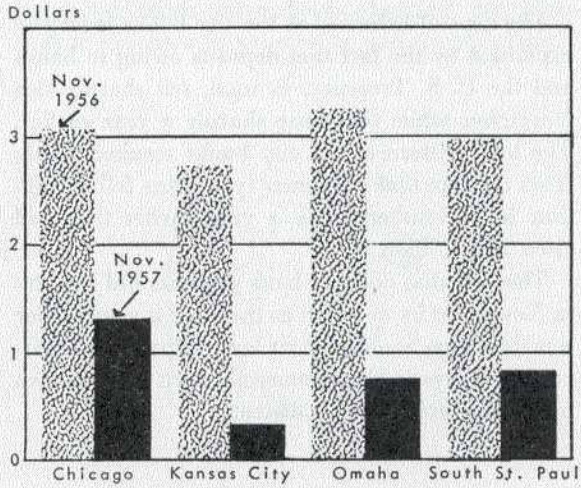
Since cattle from the range have been marketed in good condition this year the packers are also interested; they have been bidding for many offerings that could go to slaughter. Commercial cattle slaughter in October was down from a year ago, however, indicating that the cattle feeders are taking the heavier cattle out to feed lots. Since these cattle are going into feed lots in relatively good condition the feeding program may be shorter than usual and the weights of the fed cattle somewhat above usual weights. In the district, commercial cattle slaughter in October was 6 percent below a year ago. Nationally, cattle slaughter was down 7 percent during October compared with a year earlier.

The heavy demand for feeder cattle bearing on a limited supply has caused feeder cattle prices to rise relative to fed cattle prices. Thus, the margins of fed cattle prices over feeder cattle prices have declined. The feeder-fed cattle price spreads are considerably less than a year ago. (See chart.)

Even in the face of a narrow current price spread, feeding profits may be satisfactory for the coming year. The USDA indicates that a smaller beef supply is expected in 1958, and provided that consumers' incomes and the demand for beef remain high, fed cattle prices should rise. The 1957 national calf crop averaged 2 percent below a year earlier and this indicates less beef for 1958. Further, the herd expansion that is taking place will hold some beef off the market. Counteracting somewhat this reduction in beef production, the feeding programs this fall are tending to put somewhat more beef on fewer animals—cattle that normally are marketed for slaughter directly from the range are being purchased by feed lot operators. Slaughter weights this year are running ahead of 1956 slaughter weights. October slaughter cattle averaged 957 pounds per head liveweight, 18 pounds heavier than the average for October 1956.

The USDA forecast for the coming year indi-

Average daily price spread between choice slaughter steers and choice feeder steers, November 1956 and 1957*



*900-1100 pound slaughter steers.
500-800 pound feeder steers.

cates that at least average profits are expected on feeding operations. However, there may be periods in the early spring of heavy marketings of cattle that have been on feed a short time. As a consequence, beef prices may be somewhat depressed at that time—particularly for heavier cattle.

NOVEMBER BANKING DEVELOPMENTS

The weakness displayed by loans and deposits at district member banks in October continued in evidence during November. Whereas loans (other than loans to banks) and deposits increased by $19 million and $61 million respectively in November last year, respective declines of $13 million and $2 million were reported for November this year.

City and country bank loans declined respectively by $11 million and $2 million during November in contrast to a gain of $19 million at the city banks and no change at the country banks in November last year. City bank deposits fell $4 million this November in contrast to an increase of $35 million a year earlier; country bank deposits were up $2 million in November, much less than the $26 million gain reported for the same month last year.

The deposit behavior at the city banks is largely explained by the fact that deposits owing to banks and the U. S. Treasury, in total, fell sharply this November while they rose sharply a year earlier. The loan pattern at the city banks resulted partly from the fact that consumer type loans fell $1 million in November while a year earlier they had risen $22 million.

The fact that country bank deposits did not rise in November by as much as they had a year earlier was doubtless associated, at least in part, with harvesting delays in the commercial corn and soybean producing areas of the district.

Agriculture under pressure

The steady advance of agricultural technology, while part of a long-range trend in agriculture, seems to have speeded up or at least maintained its rapid development during recent years of economic adversity for agriculture. Many complex forces have been at work, of course, and it would be oversimple to attribute all of the speed-up to economic pressures within agriculture. Yet the adjustments have been rapid. They seem closely related to economic conditions affecting agriculture. Many of them suggest important changes in the way agriculture functions within our national economy.

Since the Korean war, prices of farm commodities and farm incomes have been notably low in relation to price trends in the rest of our prospering economy. For the most part, these reduced prices and incomes represent adjustments from the abnormally high demand for farm products generated by World War II and then renewed by the Korean war. These adjustments had begun to show themselves in 1947-49, but were delayed by the Korean episode until after 1951. The wartime demand subsided. But farm output did not; instead, it continued to increase.

The reduced farm prices and incomes since 1952 are not due to any lack of normal demand in our high-level economy—the evidence is clear on that. Consumer spending since 1951 has continued to increase steadily each year, with roughly the same proportion of disposable income being spent for food. Demand from foreign market outlets, too, has been relatively stable and rising since 1953.

The 'price' of production . . .

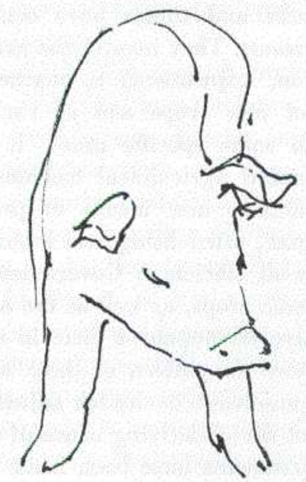
Rather, it has been the high level of farm production which has kept farm prices and incomes under persistent pressure. Even with our population rising at a very rapid rate, farmers have increased output so rapidly that major crops and food products have continued to be produced in relative surplus. As a result, agriculture has not shared fully in the prosperity so evident—until recently, at least—in the rest of our economy.

. . . and of prosperity

On the cost side of farming, the same high-level prosperity which failed to generate improvements in farm prices and income, nevertheless succeeded in keeping prices high for the things farmers buy and use in production. As a result, farmers have been able to reduce their production expenses very little in the face of lower commodity prices. In fact, they have increased their use of machinery, equipment, and the various manufactured supplies and services necessary for efficient farm production.

Prices of these expense items have been set in markets and by economic forces related not to agriculture but to conditions in our general economy. For example, manufacturers of farm machinery and equipment have not only had to compete with an active demand for steel in our economy, but also with tight markets for skilled labor and capital required to produce such equipment. Also, under these conditions, many manufacturers found more profitable opportunities in using more of their facilities for the production of nonfarm lines of equipment for which demand was strong. Thus, many of the costs of labor, materials, machinery and equipment have continued to rise, subject to the strong inflationary pressures that have been evident in most lines of industry during most of this period. Yet these same forces were not able to achieve a corresponding rise in prices of farm commodities, because of high production levels.

The costs of processing, transportation and marketing services have been affected by these same conditions. Because labor, materials and other expenses have continued to rise (in the face of pressing demands from our industrial economy) costs of these services have continued to increase also—even as prices of farm commodities themselves were declining. Thus, most of the increases that have occurred in the retail spending for farm-produced foods have been absorbed by these higher expenses in processing and transportation.



An apt term

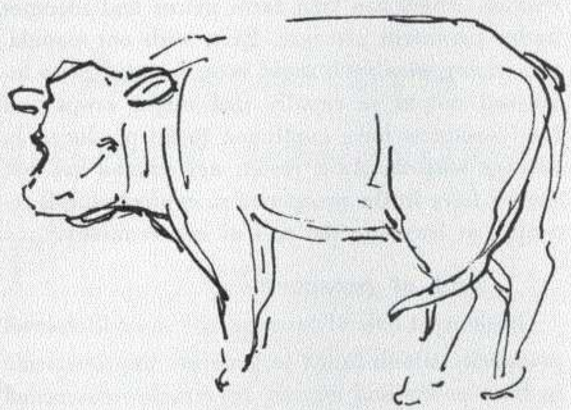
Between these opposing pressures—persistently low prices and continuing high costs—agriculture has during most of these years been subjected to the well-known 'price-cost squeeze.' It is an apt term, with the pressure coming from both sides.

But while the price-cost problems of agriculture appear to have become 'chronic' during these recent years, agriculture has by no means been characterized by static conditions within the industry. Even as incomes have continued relatively low, many significant adjustments within agriculture have been taking place, and at an increasingly rapid rate.

This is not surprising—that the urgency of economic necessity should spur the shift to more economical production methods for those who have the financial and managerial wherewithal to make effective adjustments. During most of the period from 1940 through 1951 farmers were under economic pressure—in the form of favorable prices and profit margins—to increase output in response to war-stimulated demand. During 1952-57 the pressures may have been just as urgent, but of a different nature: to reduce cost per unit of product. Often this adjustment took the form of increased production volume; but the initial incentive was to lower costs and preserve profit margins in the face of lower prices.

Many forces and trends have contributed to these adjustments. They involve the greater use of mechanization, adjustments to markets, the development of new crops and of varieties more adaptable to some specific areas. It involves a greatly advanced agricultural technology that is constantly finding new means of producing in greater volume, often using less labor, and with greater over-all efficiency. Government-supported prices for some crops, as well as the acreage controls that have accompanied them in many cases, have influenced the pattern of these adjustments. They are themselves a device for adjustment, however, and not the underlying cause of adjustment.

Many adjustments have been made during this period of price-cost pressure on agriculture. For example, production of soybeans has continued to grow and spread both within the corn belt and along its far-flung fringes. Cotton production has continued to shift toward the West, largely under the impetus of mechanization. Production of feed grains has greatly increased, as barley and sorghums are now grown in much greater abundance, particularly in the acre-restricted areas of wheat and cotton. Production of grain sorghums in the United States during 1957 increased by 2½ times from the previous year, and in wheat-producing Kansas and Nebraska even exceeded the total production of wheat by a substantial margin. While this was largely due to drouth, it illustrates our greater ability to produce feed grains in the wheat belt. As acre restrictions limited other crops, better adapted corn hybrids pushed out from the fringes of the corn belt into less intensive corn areas. As a result, this fall the Department of Agriculture announced an additional 38 counties in the officially-designated commercial corn producing area of the country.



All these changes plus the steady increases in the use of fertilizers, the substitution of mechanized operations for labor, new tillage and harvesting methods, improved animal nutrition, disease and insect control, as well as land reclamation and irrigation have contributed to widespread shifts in the regional character of agricultural production.

Comparable and related shifts also have taken place on individual farms and within individual agricultural enterprises. Some have been made to meet competitive market conditions, as in the case of the development of meat-type hog production. Others have been made to gain internal efficiencies in production, as in dairying, broiler and egg production, higher fertilization of field crops and similar improved practices.

Many advances in farm technology have worked to emphasize the efficiencies of large-scale production. Not all of them have worked in this direction, to be sure. But the net effect has been to achieve a lower cost per unit of product as higher production volume is attained. The force of these changes has been one of the dominant factors in causing land values throughout most of the country to continue to rise at the same time that farm prices and incomes have remained at their relatively low level.

Emphasis on management

Changes in the economic structure of agriculture as well as modern farm technology have emphasized the role of management in successful farming operations. That modern farming or ranching requires a high level of technical knowledge and skill in order to execute the details of production successfully is a truism that need not be labored. And the oft-noted trend toward larger farm units adds still further to the requirements of management in handling these larger and more complex units successfully.

The role of financial management also has grown in scope and complexity, step by step with advances in farm technology. Most developments in technology in recent years have also contributed directly to the higher level of cash operating expenses in farming and to higher investment in the operating assets such as machinery, equipment and supplies. Not only has the total investment in a typical farming operation grown rapidly, but also the investment in these operating assets has grown in relation to the total. Such trends represent basic changes in the structure and organization of farm and ranch operations. Both of them emphasize the role of management by making a greater part of the total operation directly subject to the control, decisions and ability of management.

Integration on farms is 'economic'

That management has responded to this challenge is evidenced by the rapid rate of adjustments and adaptation on farms in recent years. Among these changes, those relating to the integration of farm supply, production and processing activities —sometimes achieved through 'contract' farming —suggest and illustrate some of the types of changes which may be forthcoming in the relatively near future. Probably the most striking instance of this development has occurred in the broiler enterprise. Similar adaptations have developed in other enterprises as well, although usually in modified form and to a lesser degree. Contract agreements have been noted in the production and marketing of hogs, potatoes, and eggs, and with a large number of specialty crops.

Such 'contract' farming is not new. Specialty crops have been grown under contract for many years, particularly in the case of canning vegetables, sugar beets, and other crops which require special handling or marketing procedures.

While the terms of these contract arrangements are interesting in themselves, of greater long-term significance perhaps are the underlying reasons why such agreements have developed and the considerations involved.

In the rapid development of specialized broiler production, both feed manufacturers and poultry processors have become directly involved in the financing, the production and the marketing of broilers. Frequently a substantial part of the management function, including decisions as to when and how to market, has been relinquished by the producer. In return, he has sometimes received price and/or income guarantees, and often a greater amount of financing than would otherwise be possible. In many instances a considerable share of the total risk has been shifted from the individual producer to the processor or feed supplier.

Many new economic relationships—contractual and otherwise — between the producer and supplier-processors have thus been developed.

The development of vertically-integrated procedures in agriculture—sometimes also discussed as 'vertical structuring'—involves at least four important considerations which significantly alter the economic relationship of producer-processor-suppliers.

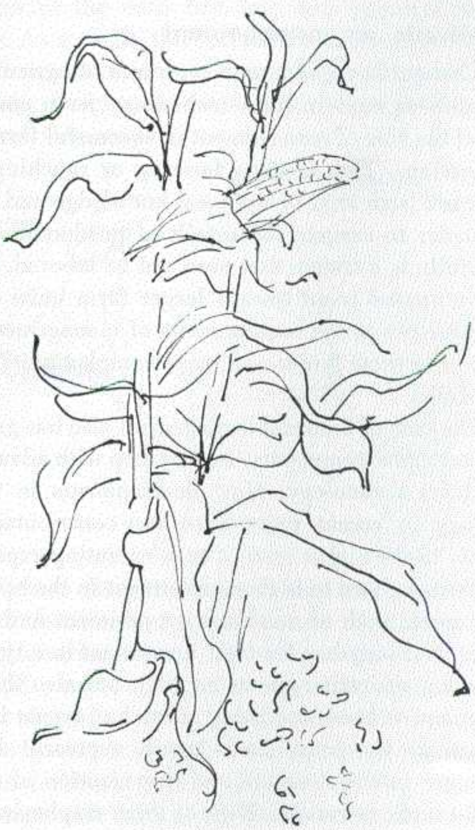
• Technical management skills in the specialized production enterprise become extremely critical. Any one of many errors in management can cause serious loss in production. Feed suppliers, processors, distributors or similar large business organizations are often able to provide highly skilled technical supervisors and consultants to make certain that the technical management of the production process is adequate—adequate to insure efficient high-volume, high-quality production.

• Extensive financing of operating expenses, capital equipment and production stock may often be feasible under contract arrangements where it would not be for an independent producer. Close management supervision and control, thus minimizing risk, make such financing economically sound in many instances where similar financing would not be feasible or sound from leading institutions that are not in a position to maintain such close supervision of the entire operation.

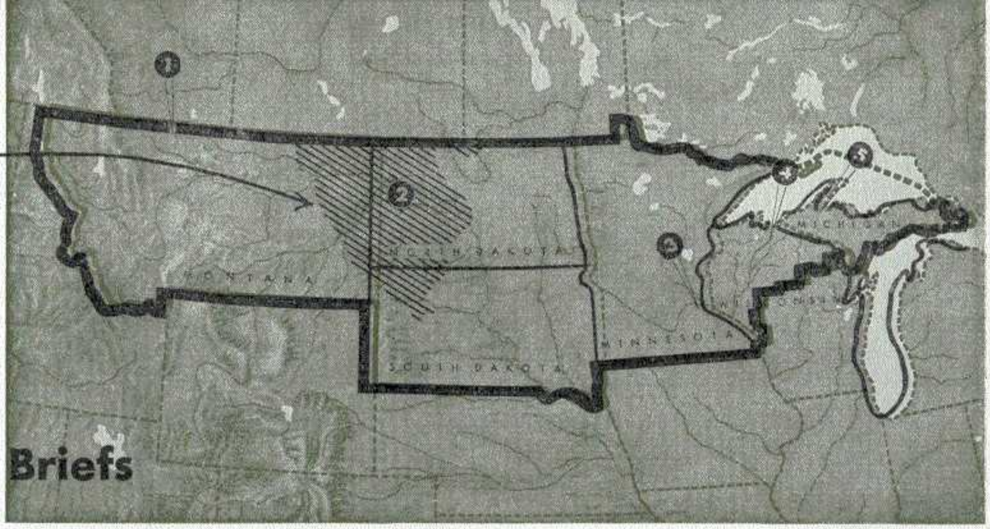
• The larger financial resources of such partners in agricultural production enable them to assume a greater share of the price and production risk. They are thus able to guarantee to individual producers a satisfactory and a more certain price and income under many circumstances. Price uncertainties are frequently such in agriculture that a *lower* average price, if guaranteed in advance, may be 'more satisfactory' to many producers than the *higher* actual average price (and higher income over a period of time) that would occur under conditions of normal uncertainty.

• Finally, production in accordance with specified standards of quality, volume and timing frequently permit major efficiencies in processing and handling. This is particularly true in the case of products where quality and quality-maintenance are special problems—such as in the case of eggs, poultry, vegetables and similar perishable items. Many of the developments in 'contract' farming have been related to this quality factor.

All of these important considerations have been factors in the development of 'production for contract' and other forms of economic integration in agriculture. Many of the arrangements are not new; they have been used in some areas for many years. But the development of such contract relationships has clearly begun to involve many more farm enterprises, and on a larger scale than has been true in the past. They represent significant efforts to achieve greater efficiency and economy in the complex business of farming.



Index for the Year 1957



Economic Briefs

1. Montana refinery to be dismantled

The Texas Company plans to dismantle its 8,000-barrel refinery at Sunburst, Montana following the closing down of operations scheduled for early 1959. Most of the 105 men employed at the plant will be offered transfers to the new Texas Co. refinery now under construction at Anacortes, Washington. Deactivation of the plant may mean the removal of nearly half of Sunburst's 845 residents, as well as loss of the town's present water supply obtained through the refinery's facilities.

2. Producers may build joint power plant

Joint construction of a $15 million power plant is being considered by four midwest electric power producers to satisfy their expanding need for generating capacity. The proposed 100,000-kilowatt lignite plant would be located in central North Dakota on the Missouri river. The four producers are Minnkota Power Co-operative, Grand Forks, N. D.; Central Power Electric Co-operative, Minot, N. D.; Northern States Power Co., Minneapolis; and Otter Tail Power Co., Fergus Falls, Minn. Lignite, a low-grade coal, is available in immense quantities in the western Dakotas and eastern Montana.

3. Addition to NSP's Black Dog plant

A $25 million addition to Northern States Power's Black Dog plant south of the Twin Cities is scheduled for completion in 1960. The new unit will increase the potential Black Dog output to 416,000 kilowatts. When completed, the plant will require 210 tons of coal per hour to run at capacity, or 96 freight cars a day, and will represent a total investment of more than $65 million.

4. Wisconsin may get ore plant

A low-grade iron ore pelletizing plant is under consideration for Agenda, Wisc. by the Ashland Mining Company. If general economic conditions remain satisfactory, a plant costing $50 million and employing 500 persons at the outset will be in production about 1960. Ore tests have proven that a mine and concentration plant are economically feasible at the Agenda site. Based on the estimate that 250 million tons of mineable low-grade iron ore exist in the area, a plant producing 1½ million tons of pellets annually would be capable of furnishing employment for more than four decades.

5. Power plant set for Upper Michigan

A $5 million power plant is slated for L'Anse, Michigan. The Upper Peninsula Power Company will build the plant to provide additional electrical energy for the western section of Upper Michigan and to serve as a link in UP's facilities which include plants at Marquette and Escanaba. It will also provide needed electricity for the Celotex pulp and fiber board plant being built at L'Anse.