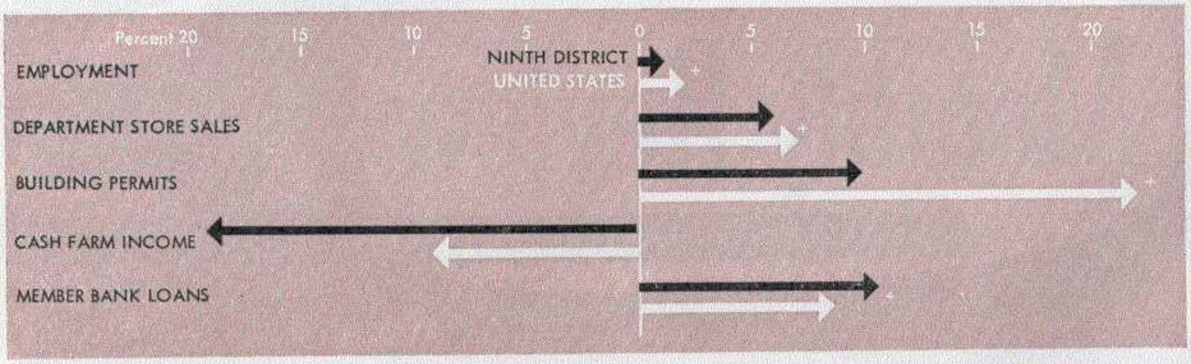
Percent change in selected economic indicators
(year to date compared with same period in 1958)



be reduced or closed down altogether for the winter.

Bank debits, a rough measure of the volume of spending, stood during September at a relatively small 3 percent above last year. For the country as a whole the percentage increase was 5 percent. In most of the strike centers and hard-hit drouth areas of the region bank debits registered declines compared with year-earlier figures.

District employment in nonagricultural establishments registered only a 1 percent increase on a monthly average basis since the first of the year. This compares with a 2.8 percent increase for the United States. Building permit valuations increased 9.6 percent in the district and 22 percent for the country as a whole.

These statistics give substance to the view that the district economy has been lagging in comparison with the over-all U. S. economic recovery for some months.

For the United States there are also a number of statistical indicators which reflect a slowdown in the rate of business activity, much of it related to the steel strike impact. Gross National Product actually declined during the third quarter largely because of a change in the rate of inventory accumulation. Another indicator, industrial production, has declined for three consecutive months, which again is a reflection of the steel strike impact. Other broader and less volatile indicators have also reflected some slowdown. Personal income, for example, actually has been reduced in recent months. Unemployment, too, has edged upward but over-all price trends have remained relatively level.

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

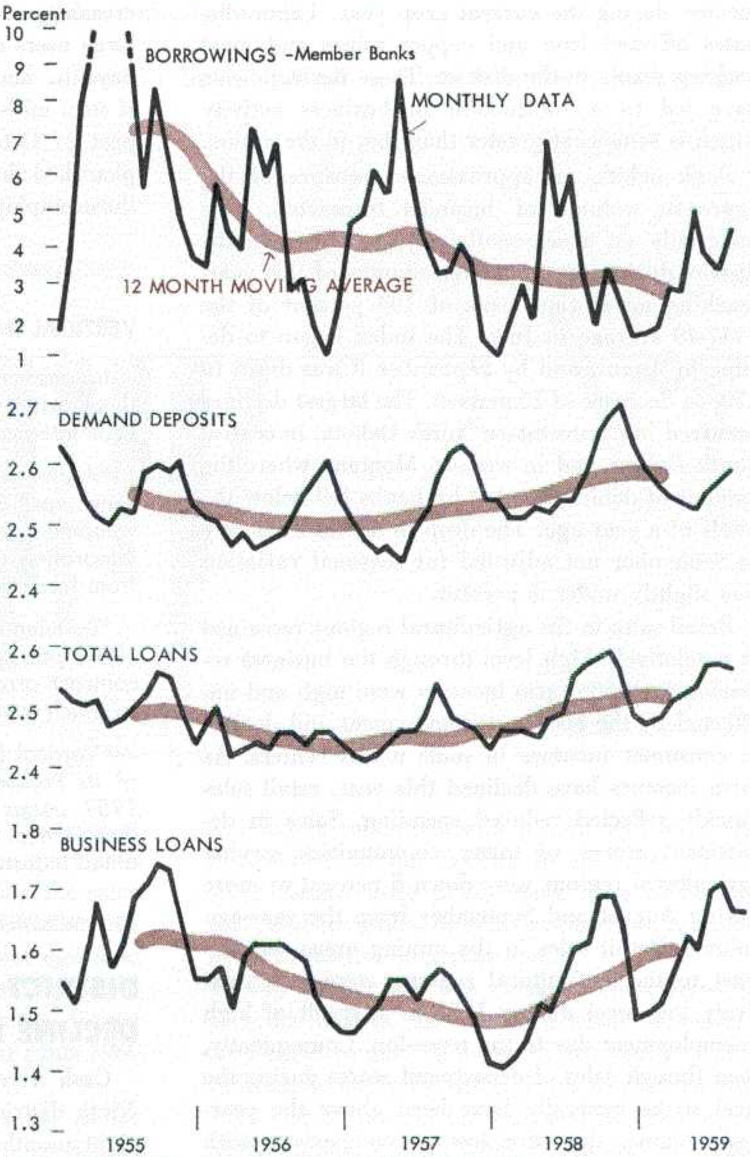
BANKING TRENDS

During August district banks held 2.6 percent of total demand deposits at member banks in the United States. Member bank demand deposits in the Ninth district, which had gained relative to the national total from late 1956 through the end of 1958, have tended to just about keep pace with the national total so far in 1959.

The district's share of total loans and of business loans has tended to parallel the trend in its share of deposits. Furthermore, during most of 1958 and the first few months of this year, total loan and business loan growth in the district outpaced the comparable national performance. These tendencies are reflected on the accompanying chart. Suggestive of a possible reversal of the upward trend in the total loan ratio is the ratio's failure to match the comparable year-earlier figures in August for the first time this year. In recent months business loans at the weekly reporting banks in this district held their own relative to like national figures in contrast to sharp relative gains during most of 1958 and early 1959.

During the first half of September, borrowing from the Federal Reserve continued to be relatively more important in this district than in the nation as a whole as a source of money to loan or invest. However, relative to national totals, member banks in this district have tended to cut their borrowings in recent years. District member banks obtained 9.2 percent of their required reserves by borrowing from their Reserve bank during the semi-monthly period ended September 15. Member banks in the nation as a whole borrowed only 5.7 percent of their required reserves in the like period. The bulk of the explanation of the higher than average borrowing level in the district is the 14.4 percent of required reserves borrowed by the ten district reserve city banks in contrast to only 6.2 percent by all reserve city and central reserve city member banks in the nation as a whole. During the half month ended September 15, the 466 country member banks in the district got about half as much as the amount borrowed by the ten reserve city banks. And country banks in the district borrowed 5.3 percent of their required reserves—slightly above the 4.9 percent obtained in this way by country member banks in the entire nation.

District banking figures as a percent of national totals



Business loan data apply to weekly reporting banks only.

BUSINESS CONDITIONS

As a result of the steel strike, consumer incomes and retail sales in the nation had begun to decline by mid-September. Shortages of steel in the latter part of the month began to curtail the output of fabricated steel products. By mid-October the large layoffs in automobile parts and assembly plants reduced employment in nonagricultural establishments which had been quite well maintained up to that time.

Business activity in this district began to slow down earlier than in the nation. Sharply reduced yields of small grains in some areas has cut farm income during the current crop year. Labor disputes affected iron and copper mines and meat packing plants in the district. These developments have led to a contraction in business activity which is somewhat greater than that in the nation.

Bank debits, an approximate measure of the aggregate volume of business transacted, rose materially on a seasonally adjusted basis in the district during the first seven months of this year, reaching an all-time peak of 194 percent of the 1947-49 average in July. The index began to decline in August and by September it was down to 170—a decrease of 15 percent. The largest declines occurred in northwestern North Dakota, in central South Dakota and in western Montana where the amount of debits reported by banks fell below the totals of a year ago. The drop in debits from July to September not adjusted for seasonal variation was slightly under 4 percent.

Retail sales in the agricultural regions remained at a relatively high level through the business recession in 1958. Farm incomes were high and unaffected by the rise in unemployment and decline in consumer incomes in some urban centers. As farm incomes have declined this year, retail sales quickly reflected reduced spending. Sales in department stores of many communities serving agricultural regions were down 5 percent or more during August and September from the year-ago volume. Retail sales in the mining areas, in contrast to the agricultural regions, were at a relatively low level during 1958 as a result of high unemployment due to the recession. Consequently, even though sales of department stores during the steel strike generally have been above the year-ago volume, they are low in comparison with former years.

The hiring of additional workers in industries unaffected by work stoppages was sufficient to maintain aggregate employment in district nonagricultural establishments through September. More railroad workers were laid off in October because of the shrinking freight movements. Shortages of steel caused small layoffs in an increasing number of manufacturing firms. Some large users of steel reduced the work week to four days to maintain the present labor force. Even if steel mills should be reopened during the latter part of October, stocks of steel may not be replenished in time to prevent further layoffs of those employed in the fabrication of steel products.

VERTICAL INTEGRATION IN AGRICULTURE

In answer to numerous requests, the following three articles constitute our complete series on vertical integration in agriculture:

"Agriculture: Industry in Transition," **Monthly Review,** April 30, 1959, pages 10-12, reviews the development underlying the trend toward increased integration or coordination of production activities from farm to market in agriculture.

"Farming on Contract," **Monthly Review,** June 30, 1959, pages 6-10, reviews some specific kinds of contract arrangements in existence and the extent to which contract farming activities have developed.

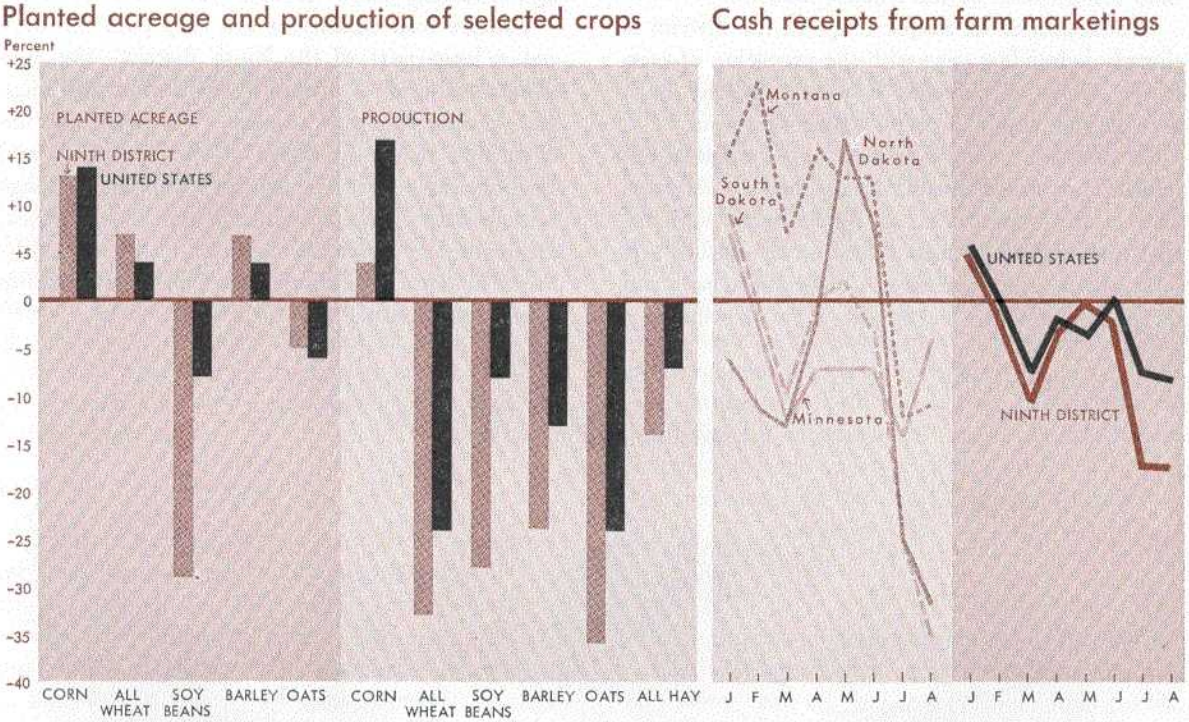
"Vertical Integration in Agriculture: a Discussion of Its Prospects," **Monthly Review,** September 30, 1959, pages 2-7, considers some of the implications that vertical integration may hold for agriculturally allied industries in the future.

DISTRICT FARM CASH RECEIPTS DECLINE SHARPLY

Cash receipts from farm marketings in the Ninth district totaled $1,762 million for the first eight months of 1959; this was 6 percent below the level of a year ago. A decline of less than 3 percent was experienced in the nation as a whole for the January through August period this year as compared with last year.

However, the picture for July and August alone, the start of the 1959 crop year, was somewhat different. For that two-month period cash receipts

1959 compared with 1958 percent change in . . .



in the district were 19 percent below the level of a year earlier; the nation as a whole experienced a 9 percent drop in cash income during the same period. The district's farm income situation appears somewhat more bleak than a year ago, and in contrast with the nation. Prospects are for a continuation of depressed farm income in the district throughout the balance of this crop year (July 1959—June 1960).

The district experienced a banner year as far as crop production was concerned in 1958, and heavy carryovers maintained cash receipts during the first six months of 1959. Sharply reduced crop production this year due to serious drouth particularly in the Dakotas, eastern Montana, and in parts of western Minnesota, is the primary factor causing the noted reduction in farm income.

Lower prices for hogs, eggs, poultry, and sheep and lambs compared with a year ago have also contributed to the decline in incomes. On the other hand, cattle prices have been above last year, and the prices of some grains have exhibited strength relative to a year ago.

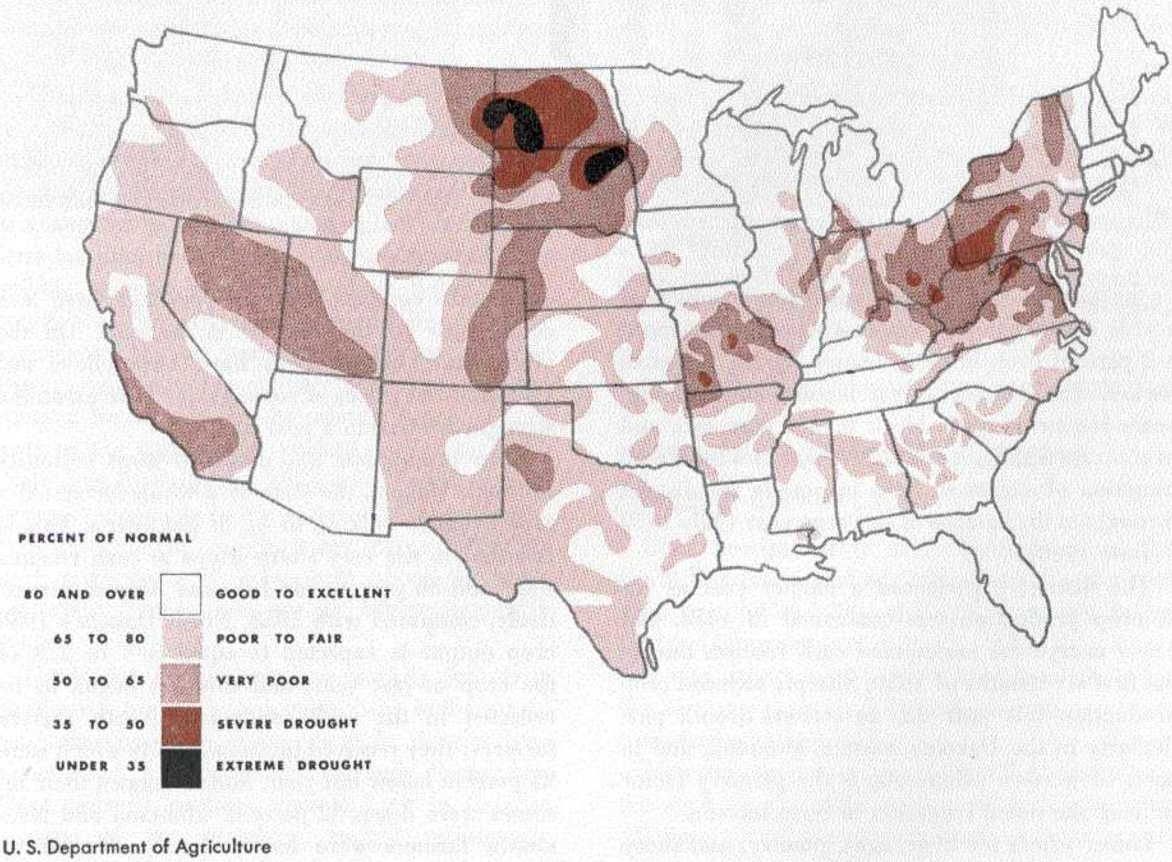
Crop production was curtailed most seriously in South Dakota, the state as a whole harvested a crop equal to only 1/4 to 1/3 of last year's. This is reflected in the very sharp drops in cash receipts —24 and 35 percent for July and August, respectively, compared with 1958. North Dakota's 1959 crop output is expected to equal 3/5 to 2/3 of the crop of last year, and this has begun to be reflected in the cash receipts of North Dakota farmers; they received incomes in July which were 25 percent below last year, and in August their incomes were down 32 percent. Montana and Minnesota farmers were less seriously affected by drouth as a whole, and their incomes were maintained during July and August somewhat better than the incomes of the Dakota farmers.

Production of all major crops in the district is sharply below last year with the exception of corn which is up 4 percent. However, district corn acreage increased 13 percent from last year.

In contrast, total production of all crops in the nation is expected to equal the record of last year. The U. S. Department of Agriculture estimates that total output of feed grains in the nation this year will exceed a year ago. A record corn crop and large sorghum and barley crops far over-balance the relatively sharp decline in oats production. Food grain tonnage for the nation is below a year ago reflecting mainly smaller wheat and rye crops.

Pasture feed conditions are very poor throughout a large part of the Ninth district—the only substantial area of drouth in the nation. Although hay production and pasture conditions are unfavorable this year most district ranchers and farmers have a sufficient carryover of roughage and feed to at least maintain their brood stock. However, the drouth is likely to result in a slowdown in cattle expansion in the Ninth district compared with the nation.

Pasture feed conditions



U. S. Department of Agriculture

Lessons of past experience—the impact of steel strikes, farm income declines on district banking

Nineteen fifty-nine has proven to be a year of notable income declines in two basic sectors of the district economy—small grain farming and iron mining, each of which accounts for slightly over 1 percent of district personal income. But such conditions have occurred before. Since changing income patterns might be expected to have an impact on banks, we thought it would be of interest to examine the record of previous periods of farm income declines and steel strikes and see what impact these developments had on district banking.

Reduced farm income

A clue to possible effects on district banking of farm income cuts can be obtained by viewing the 1952 situation. In that year, district farmers earned almost one-fourth less than they did in the previous year. Farm income continued to slide in the following three years, but the 1952 income drop accounted for nearly three-fourths of the over-all 32 percent decline between 1951 and 1955. *Despite farm income cuts, deposits of district member banks increased in each of the years from 1951 to 1955.* The impact of income cuts was observed, however, in reduced member bank lending to farmers in 1952 and 1953 following the sharp drop in farm income in 1952.

One other pattern observed in earlier experience is that changes in the relative importance of farm income to other district income tended to be followed by like changes in the relative importance of farm loans to other types of loans. Finally, with the exception of 1952, the year of greatest farm income loss during the period, the declining importance of farm income does not appear to have affected the proportion of total district deposits held in the smaller centers of population.

This earlier experience with district farm income reduction indicates that net farm income losses of one-fourth or more—such as the district experienced in 1952 and individual states have experienced in other recent years—may result in a new outflow of deposits from the states involved. In regions that depend more heavily on agriculture, deeper cuts in deposits may be expected. Sharp cuts in farm income are expected mainly in the Dakotas, but minor reductions probably will be widespread and, if not offset, could be expected to drain deposits from the district. Since farm income directly accounts for less than one-fifth of district income, deposit and income gains in the nonfarm sector of the district economy may well offset these losses for the district as a whole.

Steel strikes

Both direct and indirect income losses resulting from the 1959 steel strike may also affect many district banks. Over-all district deposit and loan growth was influenced to some degree during and after the two-month 1952 steel strike and the one-month 1956 strike. Loans, in particular tended to rise at less than the average month-to-month rate witnessed during the seven-year period 1952 through 1958. Minnesota member banks felt somewhat more pronounced effects of the strikes, reflecting in part the facts that Minnesota had more strikers than any other district state and that it also has greater industrial concentration.

In general, there was a tendency for loans at district banks to fall below the 1952-58 average during and shortly after the strikes but to pick up speed then and to pass the average. Whether the aftermath of the 1959 steel strike follows this pattern is anybody's guess, but possibly history will repeat. This would imply some drag on loan growth just after the strike is settled, followed by a more rapid expansion later on.

Housing prices, residential construction

The rise in real disposable incomes since the end of World War II has given American people more income to spend for discretionary products and services. It has been of special importance to the building industry that an increasingly greater share of the consumers' growing income has been directed into housing over the postwar period.

The record covering the post World War II period shows that an increasing proportion of the current income consumers have had at their disposal has gone into housing services with the exception of the Korean War period. In 1946, 8.6 percent of such income was spent on housing and by 1957 it had risen to 11.7 percent of a much higher income. The marked rise in these expenditures reflects not only a relative increase in the price per unit, but also the large number of new dwelling units and the improved quality of many existing housing units through the large amount of repair and modernization.

Although the expenditures for housing have increased much since 1946, the standard of dwelling units has not increased commensurably with the rise in real family incomes. From the point of view of the entire stock of housing, the post World War II housing and modernization boom has done little more than offset the abnormally low level of building activity during the 1930's and during World War II. In the past 30 years, the value of dwelling units has increased little, if at all, in terms of constant dollars while real family income has risen by some 30 percent. Therefore, it appears that the building industry still may have a large potential market.

Survey on prices paid for houses

To secure specific data on the trend in prices paid for existing and new houses, an annual survey is conducted by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors and Minneapolis Home Builders on sales made in Minneapolis and its immediate suburbs. The averages for selected years listed in the accompanying table indicate that prices have risen sharply—more than 45 percent—since 1946.

Since 1954, a sufficient number of transactions of both existing and new houses have been included in the sample to compute separate averages. It is interesting to note that in 1954, the average price paid for existing houses (by definition those that have been lived in before) was $13,600 which was equal to the average price paid for new houses. Since that time, the average price paid for existing houses has risen slower than the average paid for new houses.

In the Twin Cities, real estate brokers and builders tend to classify houses into three relative price categories, the limits of which are adjusted up or down as prices change. Approximately 60 percent of houses sold fall into a low-price bracket; 34 percent fall into a medium-price bracket; and 6 percent fall into a high-price one. Since 1946 prices of houses at the lower end of the scale have risen relatively more than those at the upper end. Prices paid for houses in this group from 1946 to 1959 have risen by 60 percent while those in the medium and high-price brackets have risen only by 36 percent and 43 percent respectively. Liberalization of mortgage terms has broadened the market primarily for low-priced houses.

In the low-price bracket, the average price of existing houses in 1954 was $10,500 and of new, $11,700—a difference of $1,200. Since that time, the average price of both types of houses has risen at approximately the same rate. In the first half of 1959, the average price of existing houses was

$12,100 and of new, $13,300—again a difference of $1,200.

In the medium-price bracket, the average price of existing houses has consistently exceeded the average paid for new houses. In 1954, the average price on existing houses was $16,600 and on new, $15,300. Since that time, prices of existing houses have risen somewhat less than on new houses. Nevertheless, in the first half of 1959, the average price paid for existing houses ($18,700) was still higher than the average ($17,800) paid for new houses.

The explanation for a lower average price on new houses than on existing ones in this category is found in the price range of new houses being built. In the medium-price bracket, from $15,500 to $25,000, home builders year after year have concentrated on the building of homes which were priced at less than $20,000 while a larger proportion of existing houses placed on the market were above this figure.

In the high-price bracket, the average price paid for existing houses has also consistently exceeded the average for new houses. Although among the existing dwellings, mansions frequently have been sold at a sacrifice in terms of original investment, sale prices, nevertheless, have been relatively high and have pulled up the average. On the other hand, the number of houses built to sell in excess of $45,000 has been relatively small.

TABLE I—AVERAGE PRICE OF HOUSES SOLD IN MINNEAPOLIS AREA

	—Lowest 60%—		—Middle 34%—		—Highest 6%—	
	Existing	New	Existing	New	Existing	New
1954	10,500	11,700	16,600	15,300	30,400	28,900
1955	10,750	12,100	17,100	15,950	28,950	28,850
1956	11,200	13,400	17,650	18,150	32,200	29,300
1957	11,500	14,350	17,900	18,950	32,000	30,750
1958	11,900	13,700	18,800	17,250	31,300	28,000
1959 (first half)	12,100	13,300	18,700	17,800	31,500	29,600

The estimated annual income of families in Hennepin county, which includes Minneapolis and its immediate suburbs, has risen from 1946 to 1959 at a slower rate than has the price of houses. The rate of increase in income was about half that of housing prices in the late 1940's but rose at a faster rate in the first half of the 1950's. Then in the late 1950's, the rate of increase in annual family income was again approximately the same as in the late 1940's. The average price of houses in the first half of this year was $15,700 compared with an average income of about $6,775.

TABLE II—FAMILY INCOMES AND PRICES PAID FOR HOUSES IN MINNEAPOLIS AND SUBURBS

Years	Annual family income[1]	Average price paid for houses
1946	$4,858	$10,700
1950	5,235	12,500
1955	6,475	14,000
1959 (first half)	6,775[2]	15,700

[1] **Sales Management**, Effective Buying in Hennepin County.
[2] The increase from 1958 was estimated.

Liberalization of terms on mortgage loans during the 1940's and 1950's stimulated the sale of houses and raised the ratio of home owners to tenants materially bringing housing within reach of families in lower income brackets. However, in addition to widening the market for housing, it also contributed to the rise in prices. Especially in the late 1940's when home builders were operating at maximum capacity and the demand for houses exceeded the supply, a substantial proportion of the additional funds made available to home buyers through liberal mortgage terms resulted in a competitive bidding up of prices.

The movement toward greater liberalization of mortgage credit seems to have nearly reached its limit. It is doubtful that lending institutions will extend maturities much beyond 30 years even on government underwritten mortgages nor can they reduce down payments much below present levels. Thus, family income again may become the important economic variable in housing prices.

Changing demand for housing

Beginning in 1958, a definite change occurred in the demand for housing. Demand for apartments arose and this has led to the building of more rental units. This trend in residential building is reminiscent of the apartment house boom of the 1920's.

In the nation during 1958, the number of dwelling units started in three-or-more family structures was the largest total in the past 30 years. Of the privately financed housing starts, multiple units in two-or-more structures constituted over one-fifth of the total for 1958 and in the first five months of this year rose to one-fourth. In this district, out of a total of 24,923 new dwelling units authorized by building permits in 1958, 5,714 or almost one-fourth were duplexes, triplexes or apartment houses. During the first eight months of this year, multiple units continued to make up the same proportion of total dwelling units while the number authorized was larger than during the corresponding period of 1958.

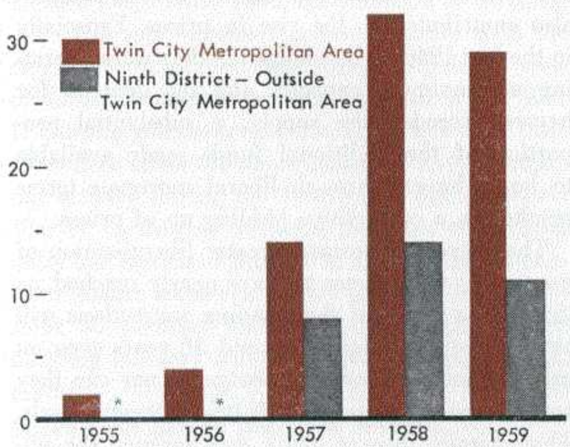
The growing demand for apartments is traced, in part, to the changing age distribution of the population. The numbers of older couples, widows and widowers, whose housing needs are better met by apartments than single unit dwellings, is increasing. An additional demand for apartments in the early 1960's is also expected from young couples. Many find apartment living satisfactory until their children arrive and they have accumulated savings for a down payment on a house. Consequently, the demand for rental units is expected to grow.

A number of less important factors have also contributed to the trend back to apartments. As available building sites become increasingly scarce in growing communities, as they are in Minneapolis and St. Paul, apartment buildings are necessary to accommodate the people who wish to live in these cities. The building of freeways in metropolitan centers is speeding up the demolition of single dwellings. Some of the people forced to vacate their homes prefer apartments in large cities to single residences in suburbs. At the same time, the demand for apartments has also been increasing in the suburbs.

In spite of the apartment house boom, residential building as a whole has begun to decline slowly. In this district, builders during the past summer experienced less than the usual seasonal increase in activity. However, the number of dwelling units authorized by permit did rise to such a high peak last April that even with the decline in subsequent months it still was high in comparison with former years. In July and August, the units authorized by permit were 2 percent above the number in the comparable period of last year.

Residential building permits

(percent multiple dwelling units to total dwelling units)



*Not available

Supply of mortgage credit

Credit is the lifeblood of the real estate industry. In the final sale of houses, approximately 88 percent of purchases are made on credit.

Low maximum rates of interest are set on government underwritten mortgage loans to prevent the charging of excessive rates. In periods of tight credit when the demand for credit from other sectors of the economy is rising, these inflexible rates tend to divert a portion of the supply of credit from mortgage loans into other types of investments.

Although credit has gradually tightened since July 1958, the diversion of mortgage credit into other types of investment in the current restraint period has been less than in former ones because of the large amount of financing through conventional mortgages. Through August of this year, 67 percent of the private housing starts in the nation were made under conventional mortgages where the interest rate is relatively free to rise in response to market forces. Only 34 percent of the starts were made under government underwritten mortgage loans at large discounts. During the housing booms of 1950 and 1955, 51 percent of the privately financed housing starts were made under government underwritten mortgages.

In the current period, a number of developments have led to the increased use of the conventional mortgage loans. Larger incomes of an increasing number of families have made it possible for buyers to meet the higher down payments and larger monthly payments required on such loans. Furthermore, a larger number of home buyers have a house in which they have acquired an equity to sell or trade. Veterans can use the VA guaranteed mortgage only once. In buying a second house, they must use another type of financing.

In addition, savings and loan associations, which prefer conventional mortgages, have extended a larger share of the total mortgage credit in the current year than formerly. In this district, mortgage recordings of these institutions through July of this year represented 48 percent of total recordings compared with 40 percent in 1955 and 39 percent in 1950.[1] In the nation, the recordings of these institutions through July constituted 41 percent of total recordings, compared with 37 percent in 1955 and 31 percent in 1950.

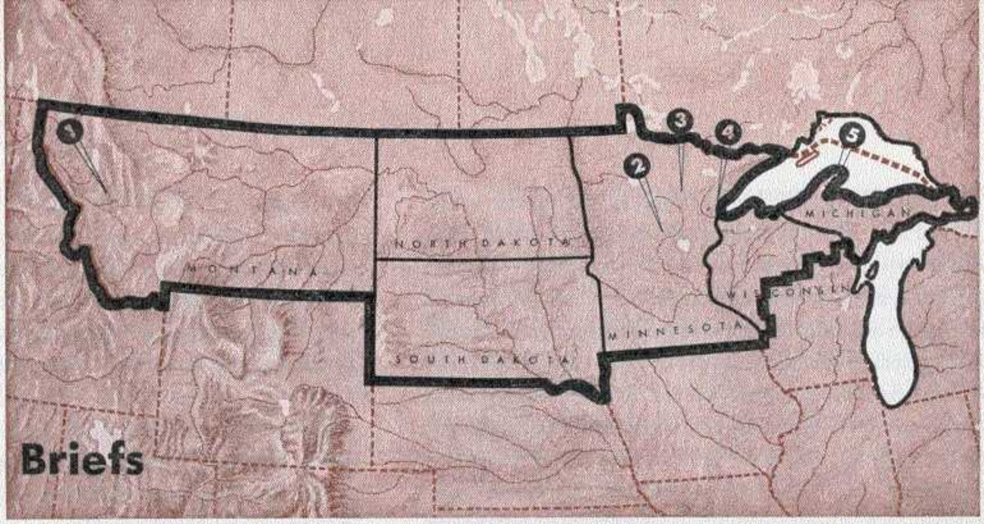
The amount of credit extended annually on government underwritten mortgage loans depends, in a large measure, on the interest rates and appropriations made by Congress for housing. Even though lending on conventional mortgages has risen sharply in 1959, the lending on federally underwritten mortgages has remained extensive and FHA insurance of loans has set new records. Through August of this year, housing starts under FHA ran nearly 30,000 a month in the nation.

In the Housing Act of 1959, Congress again made substantial sums available for housing and urban development and liberalized terms on FHA insured loans. Authorizations totaling $935 million were made for urban renewal, college housing loans, urban planning grants and for Federal National Mortgage Association (FNMA) purchase of cooperative housing mortgages under its special assistance functions. In addition to this, they also provide for new programs of FHA mortgage insurance for military housing and for nursing homes and $50 million in direct loans for an enlarged program of FHA mortgage insurance for housing of the elderly. The FHA general mortgage insurance authorization was increased by $8 billion, and provision was made for 37,000 additional public housing units. A reduction in minimum statutory down payments on FHA insured home mortgages was authorized.

The Federal Housing Administration is this year celebrating its twenty-fifth anniversary. In this quarter century, federally underwritten mortgages, which since 1944 also include VA guaranteed loans, have proven to be good investments from the standpoint of safety, liquidity and yield but they have also been unstable elements in the mortgage market. Much of the instability is traced to the establishment of maximum interest rates which often are below the market rate, to the frequent changes in terms on loans, and to the appropriation of government funds for purchasing FHA and VA mortgages in the secondary market in varying amounts and at irregular intervals. On the basis of the appropriations made in 1959, the government fostered housing program will continue to be a factor in the level of construction.

—Oscar F. Litterer

[1] This data is available only for Minnesota, Montana and North Dakota in the Ninth district.



Economic Briefs

1. Missoula, Mont. pulp mill to produce paper

The Waldorf-Hoerner Paper Products company plans to manufacture paper at its pulp mill west of Missoula, Mont. New buildings to house the paper-making machine and additional pulp-making equipment will double the company's investment to $12 million at the Missoula site. Paper production is set to begin in August of 1960 with an initial plant capacity of 350 tons per day. Nearly all of the pulp output will be used to make paper at Missoula. Installation of the paper machine will add about 35 employees.

2. Brainerd, Minn. paper mill adds capacity

Northwest Paper company has added another paper-making machine at its Brainerd, Minn. mill which will increase the company's local daily capacity by 40 percent. The company, with mills at Cloquet and Brainerd, Minn., will have a total daily output of 550 tons. The new machine is designed to produce a wide range of high-grade printing, writing and converter type papers. About 300 to 400 additional employees will be needed at the Brainerd mill when the machine works at full capacity. In order to house the 1,350-ton machine, 350,000 square feet of floor space have been added to the mill. The company employs more than 2,500 people at its two plants, with a monthly payroll of over $1 million.

3. Grand Rapids, Minn. paper firm expands

The Blandin Paper company has completed a $4½ million expansion of its facilities in Grand Rapids, Minnesota. The expansion includes new pulp-making facilities, new equipment to upgrade paper and a new office building. The increased pulp-making capacity boosts the firm's annual pulpwood requirements by about 10,000 cords to 40,000 cords of balsam. Facilities to upgrade paper include a machine to coat paper with a mixture of clay and starch and a machine to iron the paper smooth. The firm employs about 400 persons.

4. Expanded gas service underway

Construction has been started on the Twin Cities to Duluth-Superior segment of Northern Natural Gas pipeline expansion program. This will be the first natural gas pipeline north of the Twin Cities in Minnesota. The program, which was approved by the Federal Power Commission last July, will extend natural gas to 342 Midwest communities. Plans call for 2,608 additional miles of main line and branch lines, estimated to cost $114,618,000.

5. Ore dock dismantled at Ashland, Wis.

The Chicago & North Western railway is dismantling its last iron ore dock at Ashland, Wisconsin. The dock was originally built to load Great Lakes vessels with iron ore railed from the Gogebic range, some 50 miles inland. The one remaining ore dock at Ashland, a concrete-steel structure owned by the Soo Line railroad, will handle all future ore destined to this port by an arrangement between the two railways.