MONTHLY REVIEW

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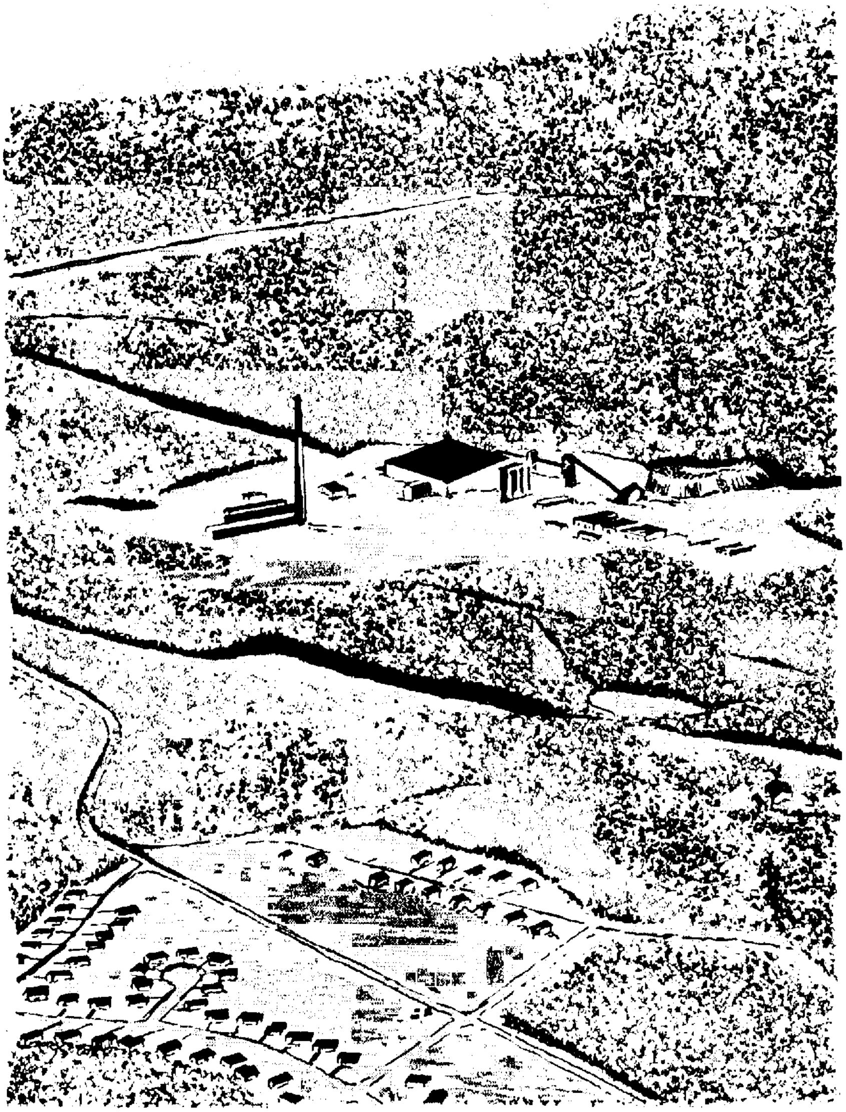
FEDERAL RESERVE BANK OF MINNEAPOLIS

APRIL 1962

White Pine project spurs economy



A $6 million project that will tap a newly discovered source of low grade copper ore is underway in Upper Michigan. The new orebody is owned by the White Pine Copper Company, a wholly owned subsidiary of the Copper Range Company, and is known as the Southwest property.

Located in the community of White Pine in Ontonagon County, Michigan, the White Pine Company expects that expansion of the firm due to the new ore discovery will increase employment by one-fourth in the next few years. Current employment is 1,634 and is expected to top the 2,000 mark when construction of the new facilities is completed.

The White Pine mine ranks as the second largest underground copper mine in the country and about tenth in production among all copper mines in the country. It is located six miles from the south shore of Lake Superior, near the southeast border of the Porcupine Mountains State Park.

In 1952, with the assistance of a government loan and purchase contract, the White Pine Copper Company began construction of an $80 million project to produce copper from a long-known low grade orebody. The same site was initially mined between 1915 and 1921 and produced 9,000 tons in total, compared with the present annual production of 50,000 tons of refined copper.

Exploration not complete

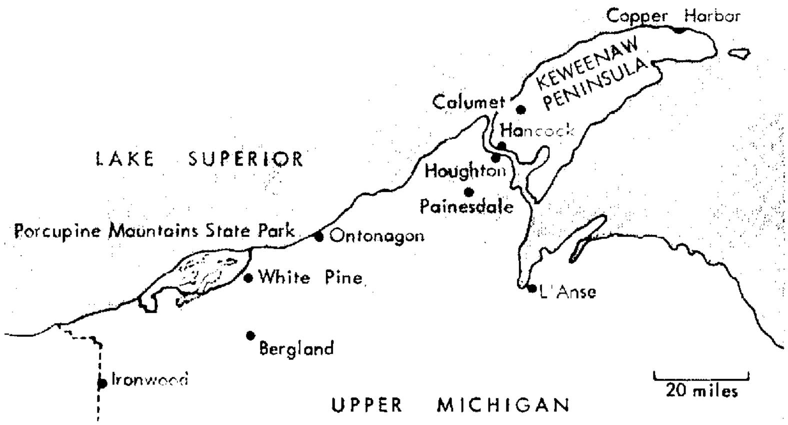
The White Pine ore reserves, which have proven to be one of the eight or ten largest known copper orebodies in the United States, are located in the lower 30 feet of a widespread layer of shale known as the Nonesuch Formation. The new Southwest property was discovered in 1957 by the Copper Range Company at a site one mile south of the community of White Pine. It is separated from the main orebody by the White Pine fault, and extends to the southwest at depths varying from 1,100 to 2,700 feet. Drillings have already outlined a reserve of 50 million tons of ore averaging 1.5 percent copper, compared with the 1.1 percent copper content of the main orebody. Although it has not been fully explored, the Southwest property is known to contain an additional 50 million tons of lower grade material.

Recently White Pine began to test bulk samples at the 16,000-ton per day flotation concentrator serving the main underground copper mine. They estimate that six months will be required to confirm the diamond drilling results which indicate that mining conditions and the metallurgy of the ore do not differ greatly from the main orebody.

The Copper Range Company acquired the present White Pine property in 1929, and later an exploration program confirmed the existence of a copper ore deposit with its copper in the form of copper *sulfide.* This mineral characteristic distinguishes the White Pine property sharply from all other copper operations on the peninsula. Other mines all recover and process native *metallic* copper imbedded in the mine rock. By 1949 the company had invested $2 million in exploration and metallurgical studies aimed at opening a major new mine. Under the 1950 Defense Production Act the newly incorporated White Pine Copper Company was granted more than $66 million in loans, and by late 1954 limited operations at White Pine were begun.

Townsite built

A mill, smelter, refinery and administration building were constructed. The company also built an electric power plant and a water supply system from Lake Superior. A townsite of homes, apartments, elementary school, hospital, shopping center, restaurant and hotel were built to accommo-



THE COPPER COUNTRY — UPPER MICHIGAN

The Keweenaw Peninsula of Upper Michigan has been famous for its native copper since 1630.

The white man's first serious mining effort in the region was made in 1711, but it ended in failure. Nearly 100 years after the land was ceded to the United States in 1783 further efforts were made to investigate the metal deposits. The Cliff Mine, which opened in 1845, was the first in the world to mine native copper.

date the employees of the company.

The first refined copper was poured in January 1955, and the mine was in operation at planned capacity later the same year.

The importance of the White Pine development to the Upper Michigan economy is considerable. Nearly a century ago the three-county copper area of the upper peninsula was the country's major supplier, and since that time the prosperity of the region has swung with the fortunes of the copper industry. In 1916, the peak year of output, 136,000 tons of copper ore were recovered, but since the mid-20s copper production has steadily dwindled, and with it the population has grown smaller.

High costs hamper operations

Depletion of the better ores and deeper mining have made copper recovery a high cost undertaking at the older mine localities in the area. The region's copper ore has not by any means been depleted, for, by liberal estimates, at least, the Keweenaw peninsula still ranks among the ten largest copper districts in the world in terms of deposits. But because of the high costs involved in recovery, many mines are now shut down, abandoned or inoperative. Some have operated only by virtue of government subsidy. Driving through the region the visitor may be surprised to come upon relic ghost towns which once housed a profitable mining firm's employees.

With the advent of World War II, residents of the area found more attractive war jobs in industrial centers, and between 1940 and 1950 the net effect of migration was a loss of 16 percent of the area's population. When the White Pine Mine began production in 1954 it was in the face of discouraging developments in the upper peninsula copper economy.

The discovery of the Southwest orebody is a hopeful note in the overall picture. Expanded production, with its implications for increased employment, should thus enable this "newcomer" operation to play an increasingly important role in the economy of the upper peninsula.

The dollar: its world position today

The large gold outflow of the last four years has dramatized the fundamental change which has been taking place in the economic position of the United States.

Whereas in the early post-war years the United States had enjoyed an overwhelming predominance in the world economy, this position has been gradually eroded to the degree that many observers have now become apprehensive of the United States' ability to compete in the world markets. Moreover, while until a few years ago attention was concentrated on an alleged dollar shortage, recently, particularly since the fall of 1960, doubts have arisen concerning the continued stability of the U. S. dollar. In part, the gold outflow has been a symptom of this concern.

The direct cause of the change in the international dollar account from dollar shortage to dollar saturation has been the deficits on the U. S. balance of payments—the summary of all U. S. transactions with the rest of the world—in every year since 1950, except 1957. For the twelve year period from 1950 to 1961 the total deficit[1] was approximately $24 billion. However, until 1957, far from being considered a burden or as threatening the soundness of the dollar, the deficits (on the average $1.5 billion per year between 1950-56) were generally accepted as desirable. Indeed, when in 1957 the U. S. balance of payments showed a small surplus many observers were concerned lest the alleged dollar shortage would grow more acute. Even in 1958 when the balance of payments deficit became very large, there was little recognition of the possibility that a dollar saturation might be near. Only when the deficit increased still further in 1959 did some misgivings begin to be heard. Yet, it was not until well into 1960 that the dollar outflow became a matter of general concern. The general public was hardly aware of a U. S. balance of payments problem until it was brought into focus by the dramatic rise in the price of gold in the London free market in the fall of 1960.

Undoubtedly, the failure to foresee the approaching dollar saturation and the delay in recognizing the threat to the United States dollar posed by continued large balance of payments deficits were due to an extreme preoccupation with the dollar shortage issue which had dominated economic discussions since the end of World War II.

To be sure, in a world of inconvertible currencies, with most of the free world's gold stock in the possession of the United States as it existed in the early post-war years, U. S. balance of payments deficits were both harmless and necessary—harmless in that the United States as the mightiest creditor country could easily afford them, and necessary because they were the only means by which to increase the liquidity of the rest of the world *vis a vis* the United States, which in turn was a prerequisite to convertibility and multilateralism. Unfortunately, by the time the industrial countries of Western Europe and Japan finally built up their economic strength sufficiently to make their currencies convertible,[2] U. S. balance of payments deficits instead of slowly turning smaller as they ideally should have, became very large.

As a result of the timing of the sharp worsening in the U.S. balance of payments situation, foreigners were left with larger dollar surpluses than ever before at a time when their total holdings of liquid dollars assets were already considerable. Thus, it should have been no surprise when it became obvious that they gradually grew less willing to absorb their dollar surpluses by continuing to pile up United States IOU's.

The period of deterioration

In retrospect it is clear that the dollar saturation was approached already in 1958. As can be seen from Table 1, whereas during 1950-57 net foreign purchases of U. S. gold were relatively negligible (on the average slightly over $200 million per year), after 1957 foreigners made it a practice to convert a substantial portion of their dollar surplus into gold.

The change of attitude toward the dollar which is indicated by the large shift from dollar asset acquisition to gold acquisition was, no doubt, greatly stimulated by the re-establishment of convertibility for the main West European currencies; since restrictions on the movements of funds among the main industrial countries were largely removed, the relative attraction to hold dollar assets (as compared to assets in some other convertible currency) became to a great extent dependent on current differences in yields in the various

[1]The U. S. balance of payments deficit can be generally defined as the excess of payments over receipts in international transactions of the United States. Just like any private individual whose expenditures in a given period exceed his income must draw on his accumulated savings or borrow the difference, so equally, the United States must finance its balance of payments deficit by drawing on its international reserves or by foreign borrowing. Consequently, the U. S. Department of Commerce identifies a balance of payments deficit as the decrease in U. S. official gold and foreign convertible currency holdings, plus any increase in U. S. short-term obligations to foreigners.

[2]Non-resident convertibility (i.e. convertibility of foreign held funds only) was re-introduced by the major West European countries in December 1958.

financial markets. Thus, when in 1958 interest rates in the United States were relatively low through much of the year, non-official foreign holdings of liquid dollar assets increased only moderately ($391 million), despite the large U. S. balance of payments deficit. Obviously, private foreigners were then unloading dollars on foreign official institutions on a large scale.

By contrast, foreign holders of official exchange reserves had grown less mindful of yields as their holdings of dollars increased. As first, perhaps for prestige and out of tradition, but later also as a means of hedging against possible devaluation of the reserve currencies, some foreign central banks started increasing the gold-dollar ratio of their reserves even though this involved the sacrifice of the yield they might have received on a short-term dollar investment. Thus, in 1958, when most of the newly issued United States IOU's were turning up in their hands, official foreign institutions converted some $2.3 billion or about two-thirds of the over-all U. S. deficit for that year, into gold.

In 1959, in spite of the record balance of payments deficit ($3.9 billion), the pressure on the dollar was temporarily reduced mainly due to an appreciable improvement of yields in United States money markets. However, in the latter part of 1960, the pressure was renewed and, for a time at least, assumed critical proportions. In the final quarter of the year, there was an actual exodus of foreign private short-term funds as foreign banks alone liquidated about $500 million of their short-term dollar investments. In the same period, official foreign institutions converted over $900 million of their dollar assets into gold. Nevertheless, the latter showed a remarkable restraint insofar that in the unsettled atmosphere as it then existed, they added to their reserves more than $2 billion in liquid dollar assets.

The reason for the intensification of the pressure on the dollar in the latter part of 1960 was twofold. In part it was caused by the decline in money market rates in the United States during the cyclical downswing of the domestic economy which got under way in the spring of 1960. However, at least for a time, a weakening confidence in the future of the dollar may have played an even greater role. Both the unprecedented outflow of U. S. short-term funds and, especially, that of foreign funds was probably to a great extent motivated by speculative expectations of a possible depreciation of the dollar. The existence of such expectations at that time was demonstrated most dramatically by the rise in the price of gold on the London free market. For a brief period the price was quoted as high as $40 per fine ounce, compared with the official U. S. price of $35 per ounce.

The improvement in 1961 and the outlook for the future

During 1961 the confidence in the dollar was largely restored and the pressure against it had subsided. In part, this favorable change of atmosphere is perhaps attributable to the improvement in the U. S. balance of payments which was quite significant in the first part of the year. However, of greatest importance was probably the apparent determination of the U. S. Government to reduce the deficits further and, eventually, to establish an external equilibrium.

It should be clear, of course, that the newly found confidence in the dollar can be maintained into a more distant future only if the United States continues to make visible progress toward reducing the magnitude of the deficits. There can be no doubt that if the United States continued to pile up balance of payments deficits year after year, at anywhere near the rate of the past four years, a breakdown would have to come eventually.

Fortunately, since the beginning of last year several developments have taken place which offer good prospects that the confidence in the dollar will be maintained for some time.

Firstly, the Federal Reserve System has now accepted the task of defending the dollar against temporary short-term capital shifts. To achieve this purpose more effectively, the System will intervene whenever the need arises directly in the various spot and forward foreign exchange markets to influence the spread between the spot and forward rates. Thus, the System should be able to effect the incentive for covered interest arbitrage with less dependence on domestic monetary measures.

Secondly, there has been emerging a new cooperative spirit among governments and central banks of the countries of the free world. The evidence of such spirit can be seen, for example, in the Basle Agreement of the West European central banks of last spring. Acting under this agreement, the participants have already demonstrated on several occasions their willingness to extend short-term credit to member countries experiencing short-term capital outflows. It is probable that the United States could secure similar cooperation if the need arose. Another provision, attesting to the same spirit, but intended as a source of a somewhat longer-term credit to countries in balance of payments difficulties, is the proposed stand-by borrowing authority of the International Monetary Fund negotiated last fall in Vienna which will increase the resources of that institution by a total of $6 billion and increase the drawing rights of the United States by $2 billion.

Together the domestic and international measures seem to guarantee the United States a breathing spell within which the adjustment process can continue. In the near future, perhaps beyond the end of this year, prospects are good that the confidence in the dollar will remain high — even in the face of a possible increase in the balance of payments deficit this year. Since, if there is a continued upswing of the domestic economy, interest rates in the American money markets are apt to rise above their present level, the yields on liquid dollar assets may very well become sufficiently attractive relative to the yields of liquid assets in other convertible currencies to attract foreign private funds and to keep U. S. funds at home. Under these conditions, the outflow of U. S.

TABLE I - SETTLEMENT OF U. S. BALANCE OF PAYMENTS DEFICITS, 1950-61

	1950-57		1958-60		1958		1959		1960		1961P	
Financing Items	Amount (in millions)	Per Cent of Total	Amount (in millions)	Per Cent of Total	Amount (in millions)	Per Cent of Total	Amount (in millions)	Per Cent of Total	Amount (in millions)	Per Cent of Total	Amount (in millions)	Per Cent of Total
Increase in foreign liquid dollar holdings	8,561	83	6,498	58	1,202	35	3,166	81	2,130	55	1,683	70
Sales of gold	1,712	17	4,708	42	2,275	65	731	19	1,702	45	840	30
Increase in official U. S. holdings of foreign convertible currencies											—116	
Total deficit	10,273	100	11,206	100	3,477	100	3,897	100	3,832	100	2,407	100

P preliminary

Source: Federal Reserve Board, Federal Reserve Bulletin, and U. S. Department of Commerce Survey of Current Business gold may be expected to be relatively small.

To remove the threat to the dollar in a more distant future, it will be necessary to stimulate an adjustment on the basic accounts in the balance of payments. Essentially this means an increase in the surplus of exports over imports and/or a decline of the debit balances on the long-term capital account and on Government loans and grants.

—ZDENEK CERNOHOUS

Current conditions . . .

District economic activity during the first quarter of 1962 exhibited divergent trends. Some of the declines registered were not surprising in view of the unusually heavy snowstorms and severe cold weather during that period. Department store sales as well as retail sales of appliances and durables have been consistently slow since the first of the year, but this is explained in part by the close correlation that exists between sales volume and weather extremes. Outside construction activity, too, has been affected by the severe weather. Minnesota employment in highway and heavy construction work, for example, was off 9 percent during February from a year earlier. It is reported, also, that farmers' marketings have been slowed to some extent by road conditions as well as the cold.

District nonagricultural employment during the first two months of 1962 registered a modest advance from year earlier levels with the greatest gains made in manufacturing employment. In the durables manufacturing sector, February employment was particularly strong — up 9.3 percent in Minnesota from a year ago. Total construction employment was up slightly but mining employment continues substantially less than a year earlier.

A leader in the job parade in February in Minnesota was the electrical machinery industry, with a 29 percent jump from February 1961. Much of this increase was attributable to new defense contract payrolls.

In Minneapolis alone total employment in mid-February was put at 270,150. This is 16 percent up from a year ago. Minneapolis unemployment was estimated at 15,300 in mid-February, a 35 percent decline from a year ago.

The improvement in job opportunities is also suggested by the 30 percent increase compared with a year earlier in the number of help-wanted lines of advertising by employers in the district's four largest metropolitan newspapers this February.

Initial claims for unemployment insurance and the number of persons receiving unemployment compensation in the district were down 4 and 8 percent respectively in January from year earlier levels. Total unemployment figures for the district are not yet available for February, but the Minnesota Department of Employment Security reported mid-February unemployment in the Twin Cities as the lowest jobless figure for the month since 1957. The Twin Cities jobless figure dropped 1,400 from mid-January to mid-March, whereas it usually shows a seasonal uptrend.

District personal incomes, which had been moving up at a good rate in late 1961, slowed down to a more moderate rate in January and February. This slowing in the rate of increase is due to a number of factors, including fewer hours worked in manufacturing as overtime is cut back, a slight decrease in weekly earnings in manufacturing, and a continuing impact of last summer's drouth on farmers' cash incomes.

The liquidity position of the district's weekly reporting city banks at mid-March was better than it was a year earlier. Total loans had increased by about 3 percent, with total deposits up 6 percent. The loan-deposit ratio declined from 57.5 in March of 1961, to 53.5 this year. The city banks remained largely out of debt to the Federal Reserve Bank of Minneapolis and they continued, as they have for many months, as net lenders of federal funds.

Likewise, the liquidity position of the district's country banks was improved from a year ago as measured by a decline in the loan-deposit ratio from about 50 percent in March 1961, to 48 percent in March of 1962. Loans had increased 3 percent during the year but deposits gained 4 percent.

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

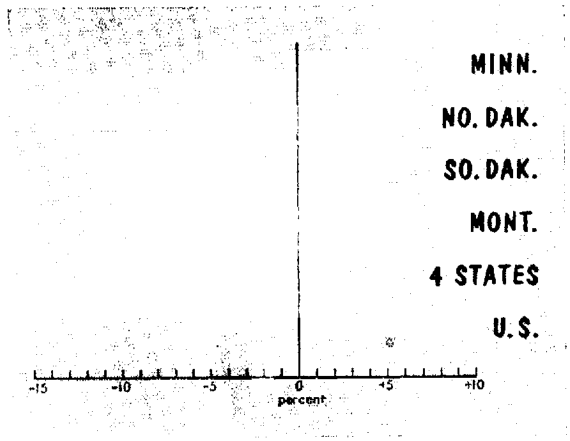
GOVERNMENT PAYMENTS INCREASE

The realized gross incomes of Ninth district farmers were 1 percent higher in 1961 than in 1960 as a result of an increase in the level of government payments. While cash receipts from farm marketings dipped 1 percent below those of 1960, government payments increased from $115 million in 1960 to $184 million last year, up 60 percent. Thus, the total gross farm income reached $3,095 million as compared with $3,061 million in 1960. All of the increase in gross income, however, was concentrated in two states, Minnesota and South Dakota. These two states benefited from both an increase in cash receipts from farm marketings and from substantial increases in government payments. In both Minnesota and South Dakota gross incomes were up 6 percent. In Montana and North

TABLE 1-1961 FARM MARKETINGS AND GOVERNMENT PAYMENTS

	Farm Marketings millions	Farm Marketings % change 60-61	Government Payments millions	Government Payments % change 60-61
Minnesota	$ 1,486	+ 4	$ 79	+148
North Dakota	429	—17	49	+ 15
South Dakota	621	+ 3	44	+ 51
Montana	375	— 8	17	+ 9
4-States	2,911	— 1	184	+ 60
U. S.	34,756	+ 2	1,484	+114

Percent change in gross farm income, 1960 to 1961, by states



Dakota, where relative increases in government payments were not nearly as great as the other district states, gross farm incomes were 15 percent and 9 percent, respectively, below 1960 levels.

Almost all of the increase in government payments was due to farmer participation in the 1961 feed grain program. In total, district farmers collected almost $68 million under that program. Minnesota farmers accounted for $46 million of the $68 million total. Advanced payments for participation in the 1962 wheat and feed grain programs provided an additional $5 million to the district's 1961 total gross income. Government payments to all farmers in the United States more than doubled from 1960 to 1961 resulting in a 4 percent increase in the national realized gross farm income.

TABLE 2-GOVERNMENT PAYMENTS FROM NEW PROGRAMS IN 1961

	1961 Feed Grain Program	1962 Feed and Wheat Programs (millions of dollars)	Total
Minnesota	$ 46.0	$ .5	$ 46.5
North Dakota	5.5	2.5	8.0
South Dakota	15.7	1.2	16.9
Montana	.6	.8	1.4
4-States	$ 67.8	$ 5.0	$ 72.8
U. S.	$767.1	$46.8	$813.9

Farm production expenses increased in both Minnesota and South Dakota and were below 1960 levels in North Dakota and Montana. Total outlays for production expenses in the district were $2,173 million during 1961, 4 percent below the 1960 level. Nationally, production expenses were up 2 percent.

TABLE 3-NET INCOME PER FARM, 1960 AND 1961

	1960	1961	Percent change
Minnesota	$2,748	$3,351	+21.9
North Dakota	2,585	1,828	—29.3
South Dakota	3,416	4,639	+18.2
Montana	5,128	4,303	—16.1
4-States	3,104	3,304	+ 6.4
U. S.	3,028	3,401	+12.3

Net farm income in the district rose from $878 million to $921 million, an increase of 5 percent. In Minnesota and South Dakota, the 1961 realized net farm incomes were increased 21 percent and 16 percent, respectively, over 1960. Montana and North Dakota farmers realized net income declines of 17 and 31 percent, respectively. On a per farm basis the typical district farm realized a net income of $3,304 in 1961 as compared with $3,104 in 1960. Nationally, the average farm showed a net income of $3,401 in 1961, an increase of 12 percent over 1960.

WEATHER CURBS SALES

Adverse weather conditions in January and February had a depressing effect on Ninth district department store sales. Although colder average temperatures than were registered a year ago seemed to have an effect on Twin Cities' sales, heavy snowfalls that disrupted traffic probably were the major reason for lower sales. Similar unfavorable weather conditions have prevailed over large areas of the district.

District department store sales, seasonally adjusted, in the first two months of 1962 did not equal the volume of last November and December, and they were also lower than in the first two months of 1961. Adjusted sales in January were down substantially, to 133 percent from 142 percent in December. There was some improvement in February when the adjusted index again rose to 140 percent.

Turning to the national picture, January and February department store sales were up 4.9 and 4.1 percent respectively from a year ago, but retail sales failed to sustain the zip shown last October and November. According to the revised estimate made by the U. S. Department of Commerce, seasonally adjusted sales declined from $19.1 billion in November to $18.8 billion in December. The adjusted total for January showed a slight gain, up to $18.9 billion, but it was still about $200 million short of the November total. The preliminary estimate for February is $18.9 billion, seasonally adjusted, virtually unchanged from the previous month.

The trend in retail sales during January and February is frequently disrupted by the influence of inclement weather. This year the southern and midwestern regions of the United States had a combination of heavy snowstorms and extreme low temperatures.

Sales of new cars in the nation during mid-March were the highest in the past seven years for March, according to Ward's Automotive Reports. For the first quarter of 1962, sales were up about one-fourth from 1961.

The demand for durable products such as automobiles has not risen significantly since 1959, and in 1961 consumer expenditures for durable goods declined by more than $2 billion. Depreciation on durable products, however, must eventually lead to a rising market. According to R. L. Polk and Company, the number of motor vehicles scrapped in 1961 was the second largest in history at the same time that the growth in the number of vehicles in use was the smallest of any year since 1952. As a result of this reduction in the rate of growth of the number of cars in use, growth in the market for durable products may begin in the automotive industry.

FARM LAND VALUES INCREASE

The market value of farm real estate in the Ninth district resumed its upward trend during the past year. After a brief leveling off early in 1961, farm land prices gained strength and ended the year at record levels. From November 1960, to November 1961, farm land values increased 2 percent in Minnesota, 3 percent in each of the Dakotas and 5 percent in Montana. Nation-wide farm land values increased 4 percent during that period.

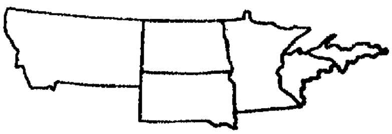
Several factors are involved in the recent rise in farm land values. One of the more important is the purchase of farm land for farm enlargement. Forty-six percent of all purchases in the United States were made for that purpose. Farm operators are adding acreage in an attempt to more fully utilize equipment and labor and thus add to their total income. The limitations on the acreages of certain crops under present agricultural programs and the prospects of more limitations under future programs have also increased the pressures on farmers to add acres in order to gain greater allotments. Higher farm incomes have also been important in the land market. On one hand, prospects of improved incomes have made farmers more willing to bid higher for desired acreages. On the other side of the market, higher incomes have enabled prospective farm sellers to wait out the market for a longer time in anticipation of more favorable selling prices.

INDEX OF AVERAGE PER ACRE VALUE OF FARMS

(1947-49 = 100)

	1959*	1961*	1961 March	1961 November
Minnesota	181	182	178	184
North Dakota	178	182	182	187
South Dakota	171	173	173	178
Montana	183	191	197	201

*March 1 reporting dates



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