Land values reach record highs

The upward climb of farm land prices in the Ninth district continued throughout the past year, according to the figures released by the U.S. Department of Agriculture. As measured by the index of farm land values, new records were recorded in all district states. The largest increase in that index was achieved in North Dakota where the July index of land values reached 137 (1957-59 = 100), an increase of 9 per cent over the level of a year earlier. Index numbers of 138 in Montana and 131 in South Dakota reflected respective gains of 5 per cent and 4 per cent over the previous year. In Minnesota the index number moved up 2 per cent to 117. The national index advanced 6 per cent from July 1963 to stand at 138 per cent of the 1957-59 average. As may be observed from Table 1, land values advanced sharply in North Dakota between March and July of this year, while much smaller gains were experienced in the other district states.

In terms of dollar values, the average acre of farm land in Minnesota was evaluated at $168, up $6 per acre from a year earlier, and $13 per acre higher than that of 1960. Land prices in both Dakotas advanced $10 per acre from 1960 to reach $63 in North Dakota and $61 in South Dakota. The March average of $42 per acre in Montana reflected an increase of $7 per acre from 1960.

On March 1, the total value of farm land and buildings in Minnesota was estimated at $5 billion, $2.7 billion each in South Dakota and Montana, and $2.6 billion in North Dakota. The average farm value ranged from a low of $38,600 per farm in Minnesota to a high of $97,900 per farm in Montana. The per-farm figure in South Dakota was $53,200 and $52,200 in North Dakota.

Demand up for western drylands

A strong demand for non-irrigated acres in the western part of the district has significantly increased the value of dryland. Attempts by ranchers to expand cattle business through the acquisition of grazing land has increased the market value of range land in Montana by 43 per cent over the 1957-59 average, according to the March figures. Also, in wheat areas of Montana, the demand by farmers for additional non-irrigated acres has moved the market value of this dryland up 30 per cent. Montana irrigated land, on the other hand, advanced only 22 per cent in value over the 1957-59 average.

Farm sales present mixed pattern

In spite of the marked increase in land values, farm sales in North Dakota and Montana were down from 1963 levels. As of March 1 title transfers on farm land were off 11 per cent from the

TABLE 1—INDEX OF AVERAGE VALUE PER ACRE OF FARM LAND, 1940 TO 1964* (1957-59 = 100)

				1963		1964	
State	1940	1950	1960	March	July	March	July
Minnesota	32	63	108	112	115	117	117
North Dakota	29	64	111	124	126	131	137
South Dakota	31	73	109	125	126	129	131
Montana	24	57	116	130	132	137	138
United States	30	65	111	123	127	131	135

*All farm land with improvements as of March 1, except as indicated.

Source: U.S. Department of Agriculture.

previous year in North Dakota, and down 2 per cent in Montana. The exchange of farm land titles in Minnesota and South Dakota, the two states experiencing the least expansion in land values, were up 23 per cent and 4 per cent, respectively. As may be observed from Table 2, the national

TABLE 2—ESTIMATED NUMBERS OF FARM TITLE TRANSFERS PER 1,000 OF ALL FARMS, MARCH 15, 1961 - MARCH 15, 1964

	Total all classes			
State	1961	1962	1963	1964
Minnesota	39.3	41.6	36.1	44.5
North Dakota	37.3	37.7	36.5	32.5
South Dakota	42.1	43.4	45.4	47.3
Montana	51.4	43.9	50.7	49.6
United States	44.6	45.9	44.8	46.9

Source: U.S. Department of Agriculture.

figure on farm title transfers was up 5 per cent from a year earlier.

Virtually all of the change in total land title transfers was due to changes in the category "voluntary sales and trades." Such sales typically account for about 60 per cent of all title transfers in the district. Title transfers through inheritances, gifts, and the like were down in all of the district states except Minnesota. Forced sales, that is, foreclosures and tax sales, were slightly higher on March 1 of this year as compared with a year earlier in all states, but in total they accounted for only a relatively minor part of total transfers.

Farm mortgage lending up

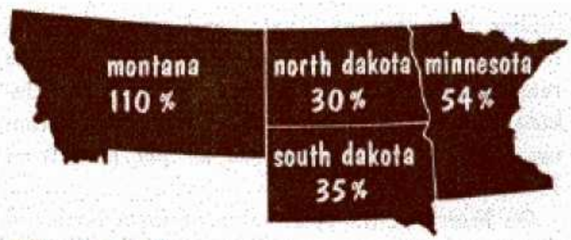
The increase in demand for farm land and corresponding higher land prices pushed mortgage lending to new records. The volume of new loans by the major lenders in 1963 totaled $1.1 billion in the nation, a 17 per cent increase over the previous year. Partial data on new lending in 1964 indicate that this year's total will exceed the 1963 figure.

The average size farm mortgage loan in 1963 was $13,630, up $1,600 from the 1962 average. Life insurance companies, the leading farm mortgage lenders, averaged $32,400 per loan in 1963. No significant changes were made in the mortgage lending field by commercial banks in 1963 as compared with 1962, and most loans of that type were made for refinancing short-term debt and for land improvements.

Changes in land values outpace net income

An area of concern to many with interest in land values and the farm economy has been the steady increase in land prices with respect to farm income. In general the rate of increase in land prices has been well in excess of the gains in per-acre net income. In its report on land values, the Department of Agriculture provided some data on the relationship between land value and net income. For all farms in the nation, the average value of farm land was 9.5 times as great as the net income per acre of farm land during the period 1961-63. That figure is nearly equal to the all-time high reached in 1932 when land values exceeded per-acre net income by a factor of 10. Among the district states, the land value-net income per-acre ratio for the 1961-63 period was highest in Mon-

Increase in value of farmland relative to net income,* four state area (per cent change, 1951-53 to 1961-63)



U.S. 66 per cent

*Percentage by which the increase in value per acre exceeds the change in net income per acre.

Source: U.S. Department of Agriculture.

tana at 13. That figure was followed by ratios of 8 in Minnesota and South Dakota, and 7 in North Dakota.

Not only is the current ratio of land value to net income relatively high, but during the past ten years the land value per acre has increased substantially more than net incomes. This has been especially true in Montana where the change in land value per acre since 1951-53 has exceeded the increase in net income per acre by 110 per cent. In the other district states, per-acre land values have outpaced increases in net income per acre by 54 per cent in Minnesota, 35 per cent in South Dakota, and 30 per cent in North Dakota.

Current conditions . . .

The Ninth district economy has continued to edge upward in most respects, carried along in the ebullient national expansion which even after four years shows little sign of "topping out." Here and there occur local reversals to the general trend: throughout the 1964 crop year most sectors of district agriculture have failed to reach year-ago levels of performance, and in recent months construction activity has moved adversely for this time of the year. Yet, most measures show apparently "healthy" advances from corresponding situations a year earlier: employment is up, average weekly earnings are up, unemployment is down, retail sales in a variety of lines show improvement, personal income is up, and bank credit has, sympathetically, advanced.

Important industries in the district which produce raw materials are operating at high levels compared with the respective volumes for the same month of 1963. Iron ore shipments from district ports on the Great Lakes from the beginning of the navigation season through October 1 exceeded the corresponding tonnage of last year by nearly 10 per cent. Copper production through July was up 21 per cent. Crude oil production through August was up 5 per cent. Since last April, lumber output has been significantly above the 1963 volume. In numerous Montana communities, logging and sawmill operations have run at peak levels.

The output of district manufactured products rose sharply in June and has remained at high levels.

On the financial scene, in September, district member banks continued to expand credit, but only at what must be termed a seasonal pace. The gain in credit totaled $99 million, about the same as the average September expansion of recent years, with, however, a much larger-than-usual increase in loans and a much smaller-than-usual expansion in investment portfolios.

As measured by loan-to-deposit ratios, Ninth district banks are continuing to exhibit a better over-all liquidity position than that of member commercial banks in the United States as a whole.

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

Construction activity contracts slightly

In step with the nation, construction activity in the Ninth district edged downward during August. Most construction indicators (new expenditures, contracts, and residential building permits) appeared to show a softening in the industry although one (employment) did not.

Expenditures for new construction dipped slightly in August, with the nation recording $66.0 billion (seasonally adjusted annual rate).* Cutbacks in governmental outlays and multiunit housing led the downturn.

Reports which tabulate the valuation of construction contracts awarded also indicated a downward turn. August contracts valuation for the nation (reported by F. W. Dodge company) dropped more than 18 per cent from July leaving August about 7 per cent below the level for August 1963. A reduction in the valuation of residential contracts awarded comprised the major part of the drop, but nonresidential contracts also fell substantially. Comparable data for the Ninth district indicated that the valuation of construction contracts awarded fell almost 31 per cent from the July level and 7 per cent from the August 1963 level. The Ninth district (four full states) differed from the nation in that nonresidential contracts accounted for the major portion of the Ninth district decline. Residential contracts fell only about 13 per cent below July.

The valuation of residential building permits issued, another "advance" indicator for the industry, revealed a drop in valuation for the nation of about 7 per cent from the July level, and 4 per cent from the August 1963 level. Building permit valuations for the Ninth district (four full states) were estimated to be down about 28 per cent from July, but still they were 3 per cent above August 1963.

*More recent data now indicate that the September level was again slightly lower at $65.9 billion.

Construction employment figures held a steady pattern from July to August. Nationally there were 3,492,000 workers in the contract construction industry in July. The August level increased to 3,538,000. Although these figures would seem to indicate that construction activity expanded rather than contracted during August, the paradox is removed when it is observed that employment in the construction industry decreased slightly on a seasonally adjusted basis. (Unadjusted data are used here because they are the only kind available for the Ninth district.)

Ninth district (excluding Wisconsin) data showed employment in the construction industry gaining from 117,500 in July to 120,600 in August, a percentage gain of 2.6 per cent. During this period the nation gained 1.3 per cent.

In August North Dakota experienced the largest percentage gain in the Ninth district, an increase of 5 per cent to a total of 14,950 workers. This high level in North Dakota was in a large part attributable to construction underway on the Grand Forks missile complex.

South Dakota reported a 3 per cent August gain in contract construction employment to 15,450 workers. Montana set a new record for total employment in August, and the construction industry contributed to this with an employment increase of 200 workers to an August level of 15,400. Minnesota gained 2.6 per cent in August construction employment; 70,100 workers held jobs in that industry.

Livestock feeders reduce operations

District livestock feeders are cutting back feeding operations this fall, according to U. S. Department of Agriculture reports. The October 1 inventory of cattle and calves on feed points up a 13 per cent reduction from the number reported October 1, 1963. This district cutback is 11 percentage points greater than the 2 per cent reduction reported for the 28 major feeding states. As may be observed from Table 1, the largest drops occurred in Minnesota and South Dakota, the district's most important livestock feeding states.

Fed cattle marketings in the district in the July-September period of this year totaled 391,000 head, an increase of 19 per cent over the marketings during the same period in 1963. Total marketings in the 28 states exceeded year-ago levels by 9 per cent. For the last quarter of 1964, marketings from the district are expected to fall below last year's levels. Of the cattle on feed in October,

TABLE 1—CATTLE AND CALVES ON FEED, OCTOBER 1

	1963	1964	1964 as a % of 1963
	(thousand head)		
Minnesota	350	287	80%
South Dakota	220	191	87
North Dakota	94	85	90
Montana	37	50	135
4 States	701	613	87
28 States*	6,777	6,617	98

*Includes major cattle and calf feeding states.

340,000 head are expected to be moved to market before January 1, a figure 6 per cent under the levels of last year. The total number of cattle to be marketed after December, 273,000 head, reflects a 20 per cent drop from marketings of that period during the previous year. For the 28-state area, October-December marketings are expected to be 1 per cent under last year, while the numbers of cattle on feed on October 1 to be marketed after January 1 are expected to be down 6 per cent.

According to the September 1 inventory, district farmers have continued to reduce hog numbers. As may be observed from Table 2, the total

TABLE 2—NUMBER OF HOGS ON FARMS, SEPTEMBER 1

	1963	1964	1964 as a % of 1963
Minnesota	4,194	3,775	90%
South Dakota	2,140	2,076	97
10 States*	50,964	47,470	93

*Includes major hog producing areas.

number of hogs on farms in Minnesota and South Dakota, the only district states included in the survey, were down from that date in 1963. In Minnesota the 10 per cent cutback applied equally to both breeding stock and market hogs, but in South Dakota breedings were increased in number 1 per cent while market hogs were cut by 4 per cent.

The June-August pig crop in the ten major producing states was down 8 per cent from a year earlier, South Dakota was unchanged, and Minnesota was down 5 per cent. Expected farrowings during the September-November period are also down: an over-all cutback of 5 per cent is expected for the ten states, including a 15 per cent reduction for Minnesota, and a 1 per cent drop for South Dakota.

Iron mining buoyed by record steel demand

Iron ore shipments from mines of the Lake Superior district are responding modestly to the abrupt surge in national steel production which is occurring this year. Steel production is expected by industry authorities to set a record, nearly 125 million net tons of ingot steel for the year 1964, bettering the previous record of 117 million net tons set in 1955. The upsurge marks a sharp recovery from reduced production levels of the past five years.

Total lake shipments of iron ore from the Ninth district through October 1 stood 4 million gross tons above that of the corresponding year-earlier figure (see Chart). Total shipments will likely reach about 60 million gross tons by the end of the shipping season, the largest tonnage to be moved in a "normal" year since 1957. The exception is 1960 when a 66 million-ton total included much "make up" ore resulting from the prolonged steel strike of 1959.

The employment impact of expanded ore shipments has been varied. In aggregate, the levels of mine and plant employment through October 1 have held very close to those of the previous year — a few hundred lower in Minnesota, a few hundred higher in Michigan (see Chart). Yet, even though the over-all total in Minnesota is lower, some local iron range employment offices have reported increases in mining employment over last year; for example, the areas of Grand Rapids and Virginia.

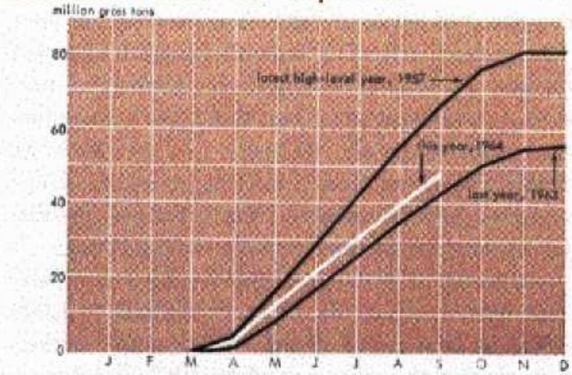
With several years of high unemployment levels all too fresh an experience, the district's iron mining communities look hopefully in two directions: the first, toward the possible emergence of greater steel demand from the protracted recent doldrums; and the second, toward imminent capital expansion programs for low-grade ore facilities (see *Economic Briefs*).

Credit expands at seasonal pace

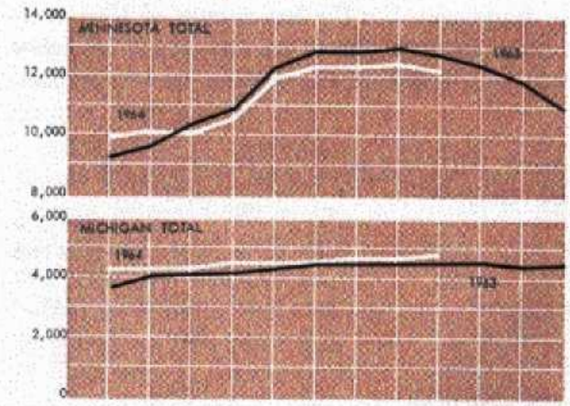
District member banks continued to expand credit in September, but only at what must be termed a seasonal pace. The gain in credit totaled $99 million, about average for the month. Outstanding loans increased $55 million, almost twice as large as usual. Investments, on the other hand, were up only $44 million, a figure substantially below the normal expansion for the month.

Outstanding loans at country banks rose $31 million during the month, $18 million higher than average. This strong upsurge can be partially explained by the drop in farm income — a decline which is reflected in the increased demand for farm debt refinancing and the slowdown in debt repayment. During September investment portfolios of country banks showed less vigorous growth than in recent Septembers, perhaps because of the unusually strong demand for loans in

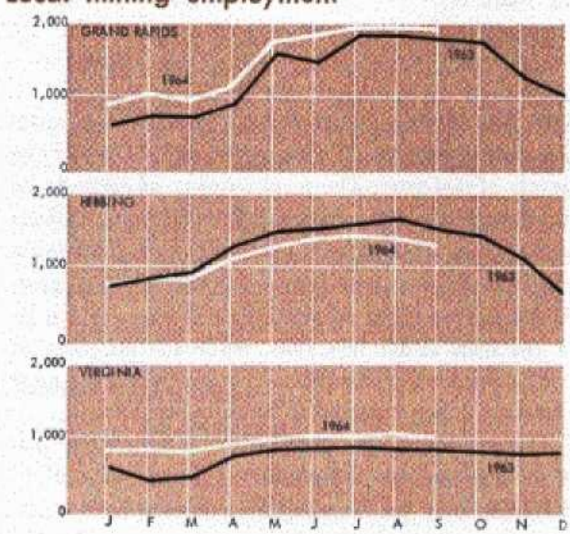
Cumulative iron ore shipments



State iron mining employment



Local mining employment



a period when deposits were undergoing no more than seasonal expansion. As a result, at country banks, total loans and investments increased $61 million during September, a figure only slightly higher than the $53 million average growth for the period.

Credit at city banks increased $38 million, almost identical to the average advance for the month. Loans were up $24 million, $8 million above the normal September increase. Security holdings, on the other hand, rose only $15 million — $9 million below the average expansion.

Despite the relatively strong September loan performance, however, the rate at which city banks have been expanding their loan portfolios continues to lag behind that for all city banks in the nation. During the last 12 months, district city banks increased outstanding loans by 7 per cent, whereas loans held by city banks in the United States rose by almost 12 per cent. The principal reason for this difference lies in the contrasting growth rates in the "commercial and industrial loans" category. Here, for city banks in the United States, the 12-month increase was over 10 per cent, about double the growth rate at district city banks.

In line with the normal deposit growth for the month, bank deposits in the district expanded by $115 million during September. Time deposits, as they have for most of the year, continued to grow at a faster rate than demand deposits. The record for city banks was primarily responsible for the continuation of these trends during September — an unusually heavy time-deposit inflow coupled with a below-average expansion in demand deposits. Seasonal advances prevailed in both components at country banks.

The Bank's First Half-Century

Exactly 50 years ago this month the 12 Federal Reserve banks were officially organized. On November 16, 1914 the Federal Reserve Bank of Minneapolis opened for business in temporary quarters in the Lumber Exchange Building at Fifth and Hennepin, downtown Minneapolis. With a tiny nucleus of personnel, the Bank then stood ready to rediscount commercial paper for member banks of the Ninth district.

Initially, the demand was light and operations were limited to a few "courtesy" borrowings by banks wishing to familiarize themselves with the new institution and to acquaint the public with the new Federal Reserve currency. But by year's end the Federal Reserve Bank had made at least a modest beginning on the great variety of functions envisioned for it in the Congressional Act of December 23, 1913 that had created the Federal Reserve System.

At that juncture half a century ago, far-reaching changes lay ahead for the System—changes that were to alter many early ideas about the nature of the Federal Reserve Bank of Minneapolis and the System of which it was a part. To mark its Fiftieth Anniversary year, the Federal Reserve Bank of Minneapolis has published a short history outlining the origin and evolution of the Bank and its role in the nation's credit structure. Readers interested in obtaining this booklet, **Reflections from History: First Half-Century of the Minneapolis Federal Reserve Bank,** may secure a copy by writing to the Bank and Public Services Department, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota 55440.

FEDERAL RESERVE BANK OF MINNEAPOLIS

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50th Anniversary