MONTHLY REVIEW

Contents:

FEDERAL RESERVE BANK OF MINNEAPOLIS

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Ski resorts in the ninth district

From small beginnings initially linked rather closely to Scandinavian influences in Minnesota, northwestern Wisconsin, and Upper Michigan, and to early ski clubs in New England, skiing has developed into a popular American sport. The principal period of transition from club to sport developed during the 1930s when, first, the 1932 Winter Olympic games held at Lake Placid, New York directed considerable attention toward skiing. Two years later the sport gained additional impetus when the nation's first rope tow was installed at Woodstock, Vermont; and later, in 1937, when the nation's first chair lift was placed in operation at Sun Valley, Idaho.

Important stimulants to the popularity of skiing have been not only the widespread installation of ski lifts and, to a lesser extent, of artificial snowmaking equipment, but also increased leisure and the development of higher spendable incomes. Depending upon who does the counting (a difficulty which arises because of different definitions as to what constitutes a skier), there are now from 5 to 11 million skiing Americans.

Ninth district ski areas

Four generalized ski areas can be demarcated in the Ninth district (see map). One is located along the Rocky mountains in the western portion of Montana; another surrounds the Minneapolis-St. Paul metropolitan area; a third is found in northern Minnesota; and the fourth is made up of a group of ski resorts in northwestern Wisconsin and Upper Michigan.

A characteristic of the skiing business is that, often, where there is one resort, another, or maybe two, can be found nearby. Resorts tend to compliment each other; that is, two resorts in close proximity may obtain more than twice as much business as a single resort. The logic of this is grounded not only in slope and snow considerations, but also in those of travel. When two resorts are located in the same general area, a better road is sometimes available to serve them.

Most of the customers at Ninth district ski areas travel to a resort by automobile. Chartered trains or planes to ski areas are infrequent; two of the district's railroads reported operating their last chartered ski train about five years ago. Of the nearly 100 Ninth district resorts now in operation, at least 38 are dependent on their local area as the main source of their customers.

"Slopes" at Ninth district resorts show great diversity of skiing characteristics. Vertical drops vary from a low of 100 feet in Minnesota to a high of 2,600 feet in Montana; runs vary from 350 feet in length in Minnesota to 14,500 feet in Montana. For all resorts the mixture of novice, intermediate, and expert slopes is about equal. A total of 210 rope tows, 23 T- and J-bars, 16 poma lifts, and 7 chair lifts entice skiers to the upper reaches of the slopes.

average district resort totaled about $16,000 from lift and tow tickets. Canteen and restaurant operations add about $10,000 more to the total; and the sale, rental, and repair of equipment, another $14,500. The resorts of Upper Michigan have by far the largest gross receipts from lift and tow tickets than any other district state.

As might be expected, weekends are the busiest days at a ski resort. About one-half of the district's ski capacity is used on weekends, but this rate falls to 7 per cent on weekdays. Utilization is highest in Upper Michigan, second in northwestern Wisconsin, third in Montana and North Dakota, and lowest in Minnesota. In general, the resorts have the capacity to handle a great many more customers with their present plant and equipment than they have been doing in recent years.

Physical facilities at the average Ninth district resort have a replacement cost of about $140,000. Among district states the data again vary widely. The highest average valuation of over $200,000 is in Upper Michigan; Wisconsin, second at over $160,000; Minnesota, third at $140,000; and the combined Montana and Dakotas, fourth and fifth, at $95,000.

Information on profits is, of course, subject to comparative difficulties which arise from variances in accounting procedures from resort to resort (accelerated depreciation, officers' privileges, etc.). Tentatively, however, reported net income (pre-tax) represents approximately 2 per cent of the reported replacement value of assets. State-by-state variations in rates of return were rather small.

In sum, while the popularity of district ski resorting undoubtedly will grow, at present there seems to be more resorts than there are customers to fully utilize them.

Some characteristics of successful resorts

Good community relations seem to be an important characteristic of a successful ski resort. Such relations help, particularly, the resort to obtain financial resources and labor from local sources.

Drawing customers to a ski area, and especially a new one, typically requires promotion. An advertising program is virtually a must, and this constitutes another distinguishing characteristic of many successful ski resorts. In some cases local motels or hotels pay for advertisements knowing that good ski business is helpful to lodging business. Also, resorts often seek to develop contacts within ski clubs to inform skiers of new happenings and thereby attract them to their ski area.

Future

In the 1963-64 ski season, 418,528 lift or tow tickets were sold in the district — up from 179,528 in the 1959-60 season. Over this 4-year period the number of lift or tow tickets sold has thus increased at a compounded annual rate of 24 per cent. The prospects for continuation of such growth are favorable. For most Ninth district residents, a ski resort is reasonably accessible by car. Also, a generally rising level of personal income will tend to encourage the sport. The resulting increased number of skiers will improve capacity utilization and profitability beyond present levels, if there are no net additions to capacity, or if the additions that do occur will accommodate fewer skiers than growth in their actual number.

Despite the increased popularity of skiing, only scanty quantitative information has been available on financial and business aspects of Ninth district skiing. To fill part of this information gap, a questionnaire was sent to 98 Ninth district ski resorts. Information reported on the 73 returned questionnaires forms the basis for a larger report (which this article summarizes) on district ski resorts. For a copy of the complete 18-page report, write Publications Section, Research Department, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota 55440.

Agricultural outlook for 1965

Continued stability is the forecast for the nation's farm economy during 1965. That conclusion was the considered opinion of the agricultural experts at the recent Agricultural Outlook Conference sponsored by the U.S. Department of Agriculture. As always, a definite future is obscure because of the uncertainty of growing conditions and other factors, but the appraisal of economic forces, at least at this time, indicates that there should be no marked changes in the year ahead.

Food demand remains strong

On the demand side of the market for farm products, it is expected that population growth, a continuation of economic growth, and rising consumer incomes will increase total consumer spending on food products. The increase in the domestic demand for food in 1965, however, is unlikely to match the rate of growth achieved during 1964. Per capita food consumption is not expected to be much changed from 1964, and most of the increase in total food purchases will come from population growth. Government food consumption programs such as the food stamp plan and school lunch programs will again provide an important supplement to total consumer purchases.

The export of farm products from the U.S. is expected to achieve high levels in 1965 although slightly under the records reached in 1964. Foreign livestock producers are expected to provide the strongest foreign market: expanding animal output in other countries will draw heavily on U.S. feed grains, protein supplements, and soybeans. The expected decline, however, will be due primarily to an anticipated drop in wheat shipments with the recovery of output in Western Europe and the Soviet Union.

Supplies to show gains

The production of both livestock and crops is expected to be slightly higher in the coming year. Livestock production is likely to be greater in 1965 as increases in beef, dairy, and poultry output offset declines in hog and sheep production. The increase in total livestock output is expected to be similar to that of 1964. Crop output in the fall of 1964 was reduced by about 3 per cent, indicating reduced marketings during the coming marketing year; but with normal growing conditions next summer, total marketings in 1965 should be about the same as this year.

Price index to hold at 1964 levels

Over-all, little change is expected to occur in prices received by farmers during the coming year. On the average livestock prices should remain unchanged to a little higher. Hog and sheep prices should be up on the strength of reduced output, and cattle prices are expected to average near current levels. Higher output of poultry producers can be expected to exert downward pressure on prices in the coming year.

Crop prices are expected to average a little lower, but the decline should be offset by higher government payments. The sharp drop in the market price for wheat reflects, of course, the new program; but certificate payments should make up most of the difference between 1964-65 prices and those of the year earlier.

No change expected in farm income

Farm incomes in 1965 are expected to hold at the levels attained in 1964. Gross farm income, including cash receipts, government payments, and non-money income should be about the same as in 1964 and perhaps a little higher. Farm expenses will likely rise, but the increase will probably be small since a drop in labor expense should offset much of the increase in other expenditures. Thus, the Agricultural outlook conference concluded that realized net farm income should continue at about the same level that has been attained since 1960.

Per-farm incomes should rise again in 1965 as farm numbers continue to fall. An increase in off-farm income during the coming year is also expected to raise per capita farm incomes.

Commodity highlights

Beef Cattle: A large increase in cattle slaughter and a decrease in live animal imports during the past year dampened the buildup in cattle numbers. Cattle numbers on January 1, 1965 are expected to be only slightly greater than a year earlier. Fed cattle marketings during the coming year are expected to remain near last year's level, although not as large as those of the third quarter of 1964. A strong demand for beef and less competition for pork, however, are expected to maintain the increased price for fed beef that was established the past fall. While a continuation of heavy supplies on the market could put pressure on prices, over-all fed beef prices are expected to be higher in 1965 than in 1964. The price situation for feeder cattle for early 1965 is less encouraging, however, as large supplies are likely to keep prices suppressed.

Hogs and lambs: Price prospects look favorable at least into mid-1965 as supplies are unlikely to run at 1964 levels. The reported number of pigs on farms and farmers' farrowing intentions indicate a reduction of supplies to mid-year. Prices in the latter half of 1965 depend on farmers' reactions to higher early year prices, but in any case, hog prices for all of 1965 should average higher than in 1964. Sheep and lamb numbers are expected to show a continuation of the decline experienced during the past few years and prices should run higher through the coming year. Sheep prices are not expected to be high enough, however, to reverse the downtrend in numbers.

Dairy and poultry: The higher receipts from the sales of milk and cream during 1964 should be retained and perhaps improved upon in 1965. Prices are expected to stay at 1964 levels in spite of an anticipated increase in milk supplies during the coming year. This favorable situation exists because of a heavy foreign demand for milk products and a reduction in carry-over supplies.

An increase in poultry production can be expected to push prices below levels of 1964. An expansion in the production of turkeys and eggs is already underway and the likelihood is for further increases. Broiler production appears to be increasing at a lower rate and some price increases are possible.

Feed grains: The upward movement in feed grain prices experienced during the past three years is likely to continue through the 1965 marketing year. This price rise is the result of a general decline in feed grain supplies, a reduction that is accentuated by the reduced 1964 output. Too, the provisions of the 1964 feed grain program, whereby the Commodity Credit Corporation can only sell stocks at the loan rate plus carrying charges, has had a strengthening effect on market prices.

Corn prices have shown the greatest price increase over the past few years. An increase in support price and this year's reduced output should, on average, keep the price of corn above that of the last market year.

Because of lower wheat prices, the amount of wheat fed to livestock is expected to be up sharply over that of the past two years. In spite of the increase, however, wheat used as feed is expected to amount to only 2 per cent of total feed concentrates fed and should not have much price impact.

Wheat: The supply of wheat available for the 1964-65 marketing year is estimated at about 2.2 billion bushels, down from 2.3 billion bushels for a year earlier. The reduction in supply reflects a sharp drop in the July 1, 1964 carry-over, a decline which more than offset the 1964 production of wheat. Total wheat use during the year is expected to nearly equal this year's crop production which means that there will be little change in the carry-over next summer. Domestic use of wheat is expected to be much greater this year due to the increased use of wheat as an animal feed. Exports of wheat, however, are likely to be considerably below those of the 1963-64 marketing year.

The market price for wheat at the farm level is expected to average near the national average loan rate of $1.32 per bushel. After the past harvest, wheat prices moved to $1.35 at the farm level reflecting a margin over the loan rate that was indicative of unusual marketing conditions. With the supply and demand situation as it now appears, such a price spread is unlikely to prevail.

Current conditions . . .

Moderate expansion typified most economic trends in the Ninth district during the first three quarters of 1964 as compared with the similar time period of 1963. The rate of expansion, however, lagged that of the nation in some respects. District personal incomes, for example, were up approximately 4 per cent compared with a 5.9 per cent change for the nation. District employment increased, but at a slightly lower pace than nationally. District insured unemployment was down, but the percentage change did not quite equal national trends. Total district retail sales this past summer were 5.7 per cent higher than a year ago; nationally, the increase was 6.4 per cent.

District nonagricultural output for important industries thus far in 1964 exceeds year-ago levels. Iron Ore shipments may, when final statistics are tabulated, exceed last year's amounts by around 10 per cent. Crude oil production is 4.3 per cent, and copper production through August surpassed year-earlier figures by 8.6 per cent.

One general measure of total district industrial output is the bank's series on industrial use of electric power. This index has been running close to 10 per cent over last year.

The banking statistics, too, for the first three quarters of 1964 show growth trends. Total loans and discounts at member banks advanced about 9 per cent over 1963 with total deposits registering a 6.5 per cent gain. Although loan-to-deposit ratios increased somewhat, bank liquidity positions seem to be generally favorable. Thus far in 1964, relatively few banks have found it necessary to resort to the discount window.

Total check activity as measured by the bank debits series has been averaging close to 8.6 per cent more than year earlier figures. This is close to the national trend.

During October, district bank credit, despite a slowdown in deposit inflow, expanded at the same pace as in September. The October advance, moreover, was almost 50 per cent higher than that of October 1963. Investments accounted for most of the October credit expansion as well as for the higher credit growth rate. Loans increased moderately, in line with last year's advance. The slowdown in deposit expansion, exhibited entirely in the reports from country banks, may have been caused by a reduction in farm cash receipts.

It seems certain that the drought in many parts of the district this past summer has been responsible for the slightly lower rates of increase in many of the district's economic indicators. Only wheat and rye productions in 1964 were larger than last year or larger than the 1958-62 average. All other major grain crops were lower, some substantially so. Corn production, for instance, was off about 29 per cent from 1963 and down about 8 per cent from the 5-year average.

Lower grain production along with declining farm prices and higher productions costs has led to reduced farm purchasing power and this in turn to the smaller rate of increase in district personal incomes.

Future economic trends in the district will, of course, be influenced significantly by national trends since most of the industrial output of the region is dispersed into national markets. At the moment, however, partly as a reflection of national expansion, business sentiment in the district is generally optimistic.

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

Bank credit holds to pattern

Despite a slow-down in deposit inflow during October, district bank credit expanded at the same vigorous pace as in September. The October advance totaled $104 million, almost 50 per cent higher than that of October 1963. Additions to investment portfolios accounted for most of the strong October credit showing. Investments were up $75 million, about $30 million higher than in October 1963. Loans increased $29 million, about the same as a year ago.

The October pattern essentially characterizes district bank performance for the first ten months of the year. The increase in total credit so far this year exceeds that of last year by nearly 40 per cent, yet loan expansion is less than 4 per cent higher. Virtually the entire increment in credit expansion this year over last is attributable to the increase in investments, primarily in the form of United States Government securities.

The increase in credit at city and at country banks took contrasting forms during October. At city banks a strong demand for business and consumer loans furnished the main impetus for a $43 million rise in credit exceeding by $25 million the advance of October 1963. Loan expansion, however, was almost nonexistent at country banks. Of the total $61 million rise in credit, only $7 million resulted from loans — $20 million less than in October 1963. On the other hand, investment portfolios increased $54 million ($25 million more than a year ago) to move total credit expansion for the month slightly ahead of the credit advance made in October last year.

Deposit inflow at district banks was down more than usual during October. Net deposit inflow amounted to $41 million, about $20 million less than in October 1963. At country banks, perhaps because of a decline in farm cash receipts, deposits increased only $55 million, less than one-half the size of deposit expansion in the previous year. City banks which suffered a $60 million deposit outflow last October were able to reduce deposit losses by $45 million this year.

District soybean production down

Unfavorable weather conditions last summer resulted in a reduction of soybean output in the Ninth district. Although no change in U.S. production of soybeans from last year is predicted in the October crop report released by the U.S. Department of Agriculture, district production in the three most important producing states, at 62.6 million bushels, is expected to be 3 per cent below that of 1963. In Minnesota, despite the increased bean acreage planted in 1964, soybean output is expected to drop to 55.9 million bushels, 4 per cent below last year. In North Dakota, where soybean crops were damaged by cool temperatures and early frosts, yields are estimated to drop 10 per cent to 2.7 million bushels. The present prospects for a 4 million bushel soybean crop in South Dakota, however, indicate an increase of 12 per cent above 1963 production.

SOYBEAN PRODUCTION, THREE STATES, 1963-1964

	Soybean Production (1,000 bu.)			Yield Per Acre (bu.)		
	1963	1964*	Per cent change	1963	1964*	Per cent change
Minnesota	58,236	55,868	— 4%	24.5	19.5	—20%
North Dakota	3,040	2,730	—10	19.0	14.0	—26
South Dakota	3,576	4,000	+12	24.0	16.0	—33
3 States	64,852	62,598	— 3	.....	......	....
United States	701,465	701,503	0	24.5	22.7	— 7

*Preliminary

Lower average yields per acre in the district as well as in the United States are expected. The yield in the United States is expected to average 22.7 bushels per harvested acre, down by 7 per cent from 24.5 bushels last year. A drop of 5 bushels per acre is forecast for both Minnesota and North Dakota. Minnesota's average is expected to be 19.5 bushels per acre; North Dakota's, 14.0 bushels. The 1964 yield per acre in South Dakota is estimated at 16.0 bushels per acre, 8 bushels below 1963's record of 24.0 bushels.

Retail sales hold steady

Consumers continued their contribution to the general economic expansion in the Ninth district during the summer by maintaining a high level of expenditures at retail stores. Data on retail sales for the fall months are still in the collection process, but preliminary evidence indicates that sales remained steady.

Retail sales in the Ninth district were 5.7 per cent higher for the summer months (June, July, and August) of 1964 than for the same period in 1963. Although this figure is somewhat below the national increase of 6.4 per cent, the difference is not too surprising in light of the fact that generally lower rates of growth in personal income were observed in the Ninth district during this period also. Total volume of retail sales for the Ninth district during the three-month period was $2,354 million, a monthly average of almost $800 million.

The Ninth district expansion was dominated by increased expenditures for durable goods. Sales of durables advanced by almost 12 per cent while the summer-to-summer increase in nondurable expenditures was only 2.7 per cent. The national expansion was more evenly balanced with durables expanding by 7.3 per cent and nondurables by 5.3 per cent. In the Ninth district durable goods sales accounted for about one-third of total retail sales and nondurables for about two-thirds; consequently, the large percentage change in durables was not large enough to pull the total sales change up to the national level.

Since automobile sales constitute about 50 per cent of expenditures for durable goods at the retail level of trade, much of the variation in durable sales can thus be explained by a variation in total auto sales. Ninth district auto sales were up by 10.3 per cent compared to the national summer-to-summer increase of 6.9 per cent.

On the national level, retail sales in September and October have remained strong, but have not made the usual seasonal advances. Whether or not the same will hold true for the Ninth district remains to be seen because data are still being collected. Some preliminary information, however, is available.

In the Ninth district department store sales dropped by $2 million from August to September to $38 million. This was $2 million above the September 1963 level. Both furniture and appliance sales figures indicate August-to-September drops, combined total sales of these items were about the same as in September 1963. Retail lumber sales were off in September, and even slightly below their year-ago level. New passenger car registrations in the Ninth district were off slightly during September, but still 27 per cent above their year-ago level. October data are not yet available to reflect the impact of the GM strike on Ninth district registrations.

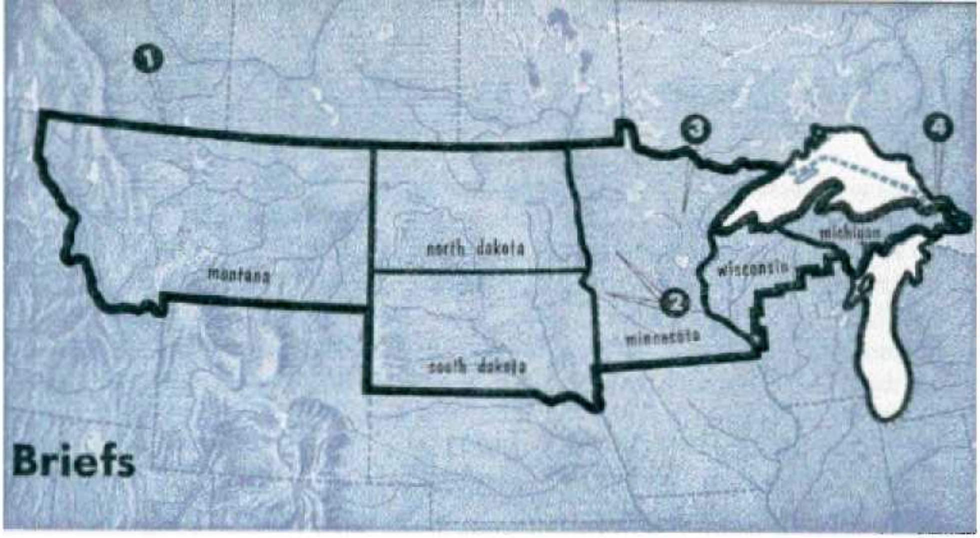
Although these bits of information are important in themselves, their usefulness in indicating the level of total retail sales is not at all clear. Although department store sales are often considered a proxy indicator of retail sales, there are at least two reasons why this inference must be treated carefully: first, department store sales constitute only about 5 per cent of total retail sales; and second, a preliminary study has indicated that Ninth district department store sales move in the same direction as total retail sales only about 40 per cent of the time. The same argument applies to furniture and appliance sales since they constitute an even smaller percentage of total retail sales.

Thus, the total retail sales figure for September and for October in the Ninth district is in doubt since the bits of information currently available are somewhat inconclusive. Less than seasonal advances on the national level, smaller growth rates on the district level, and August-to-September drops in certain components seem to indicate a slight drop for total retail sales in September.

FEDERAL RESERVE BANK OF MINNEAPOLIS

50th Anniversary

Economic Briefs



1. Border area yields new well

A prolific oil discovery has been reported in Montana's Toole county. The well, drilled by a combine of three operating companies, is located in the northwestern part of the county one mile south of the Alberta Border. Flow tested at the rate of 1,248 barrels per day. The well is one of several discoveries in northern Montana in recent months.

2. Tourist, conservation project approved

A $4.4 million plan to help five west-central Minnesota counties attract tourists and improve conservation has been approved by the U.S. Department of Agriculture. The project area covers 2.4 million acres in Swift, Pope, Kandiyohi, and Wadena counties and the eastern part of Otter Tail county. About 43 specific projects are planned, including ski slides, golf courses, fish spawning areas, and stream improvements. USDA will provide $1.7 million; local sources the remainder.

3. Taconite industry to be greatly expanded

Three companies have announced definite plans to build taconite plants in the Minnesota Iron Range; two others, tentative plans. The announcements followed approval by Minnesota voters of a "taconite amendment" to the state constitution, an amendment intended to keep taconite taxes on a par with those of other industries for 25 years. United States Steel Corp. will build a plant at Mountain Iron that will eventually produce some 4.5 million tons of pellets annually. Hanna Mining Corp., a joint venture of Inland Steel Co. and Wheeling Steel Corp., will construct a plant near Nashwauk which will have an annual productive capacity of 2 million tons. Also, Hanna and National Steel Corp. have announced plans for a 2.4-million-ton plant near Keewatin.

Companies announcing tentative construction plans are Jones & Laughlin Steel Corp., a new plant near Biwabik; and Erie Mining Co., expansion of its present facility at Hoyt Lakes.

4. Main contract let for ship lock

The main contract for the world's largest navigation lock — the "New Poe Lock" — was recently awarded. The lock is under construction at Sault Ste. Marie, Michigan on the St. Mary's river, the connecting link between Lake Superior and Lake Huron. Work on the contract, which totals over $21 million, is scheduled for completion in 1967.