



# MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions  
FEDERAL RESERVE BANK OF MINNEAPOLIS

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## Construction Leads Business Activity

IN THE present year, business activity has been sparked by a construction boom. In spite of rising costs, the largest postwar volume of construction is underway. This industry has absorbed most of the additional workers coming into the labor market during the spring and summer months.

Several measures of building activity in the Ninth district reveal substantial increases over the 1947 level. The value of building permits authorized by representative cities during the first half of this year was 65 percent larger than in the same period of last year. Even though a peak in the value of building permits authorized occurred in April, the total value of permits for May and June was, nevertheless, 75 and 35 percent respectively above that for the corresponding months of last year.

The aggregate amount of contracts awarded reflects a similar expansion. In the first half of this year, the amount of contracts awarded exceeded the amount in the same period of 1947 by 42 percent. Comparable figures for 37 states reveal a 36 percent increase. A high point of \$34 million for awards made was reached in May this year, as compared with \$26 million for May 1947. Even though the amount for June declined to \$31 million, it was still equal to the peak month of last year.

### HIGHER COSTS SEEN AS PART OF CONSTRUCTION EXPANSION

The increase in the dollar amount of construction contracts awarded and in the value of building permits authorized reflects to a certain extent the rise in construction costs. The present boom may set a new dollar value record in new construction activity, but the physical volume during the first five months was still 20 percent below the first five months for 1942, when physical volume was close to peak levels, according to U. S. Department of Commerce figures.

### Building Permits and Construction Contracts Show Substantial Increase in Dollar Volume in First Half of 1948 Despite 12% Higher Costs

The cost of materials and labor in the Minneapolis and St. Paul area has risen about 12 percent over the past year, according to the building cost index published by E. H. Boeckh and Associates.

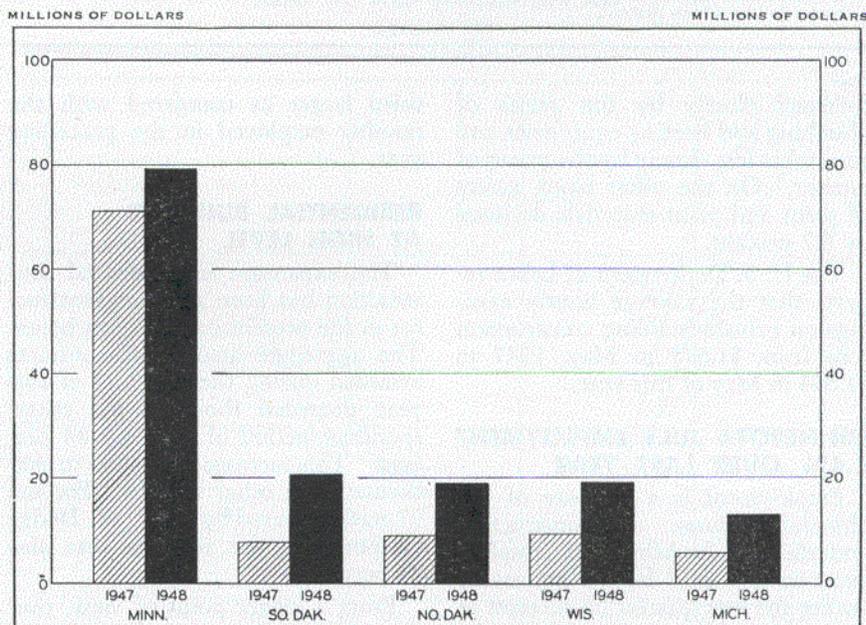
The scale of minimum wage rates agreed upon through collective bargaining between employers and trade unions in the past year has risen seven percent in Minneapolis and St. Paul and nine percent in Duluth, as re-

ported by the U. S. Department of Labor.

The rise in material and labor costs is equal to the general increase in the nation. According to the U. S. Department of Labor, construction material prices in May were 11 percent higher than in the same month of 1947.

Among the various construction materials, the largest increase occurred in the prices of structural steel,

### CONTRACTS AWARDED BY STATES IN THE NINTH DISTRICT<sup>1</sup> First Half of 1947 and of 1948

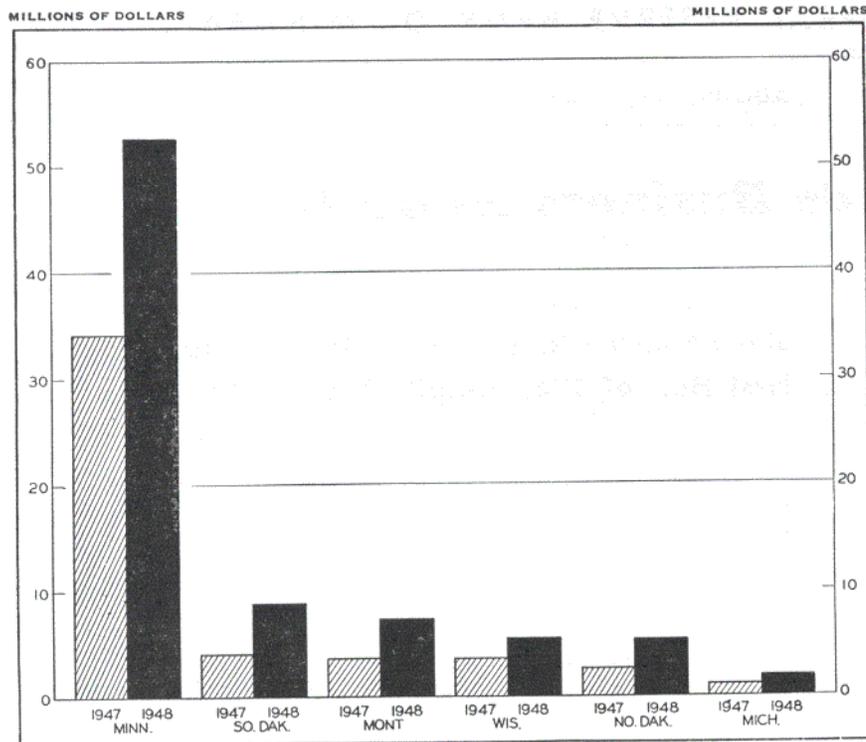


CONTRACTS awarded in this district aggregated \$151 million during the first half of 1948 as compared with \$108 million during the first half of 1947.

Source: F. W. Dodge Corporation.

<sup>1</sup> Montana figures are not available.

### BUILDING PERMITS AUTHORIZED BY STATES IN NINTH DISTRICT First Half of 1947 and of 1948



THE RISE in the amount of building permits authorized by representative cities is a measure of the expansion in building activity.

NOTE: Figures are based upon the permits authorized by representative cities in each state. Michigan and Wisconsin data are for only the portions of these states in the Ninth district.

followed closely by the prices of plumbing and heating equipment and somewhat less closely by the prices of lumber. On the other hand, prices of paint and paint materials declined by 6.7 percent.

The U. S. Department of Labor reports that the average hourly earnings on private building construction rose from \$1.655 in May, 1947 to \$1.833 in May of this year.

#### MINNESOTA JULY EMPLOYMENT 8.4% OVER LAST YEAR

Employment is a measure of the physical volume of construction undertaken. In Minnesota, employment in this field lagged noticeably during the first quarter on account of the unfavorable weather, but in the second quarter, monthly employment averaged four percent above the same period of 1947. In Montana, employment in construction during the first quarter was nine percent larger and in the second quarter about one-

third larger as compared with the number employed in the preceding year.

#### RESIDENTIAL BUILDING AT HIGH LEVEL

The expansion in residential construction has been an important factor in the present construction boom. The aggregate amount of contracts awarded during the first half of this year exceeded those of the corresponding period of 1947 by 24 percent. This increase was equal to that occurring in other regions. For the 37 states covered by the F. W. Dodge Corporation, the increase was also 24 percent.

From a longer point of view, residential building in this district slumped more during the war years than in other regions. Since 1944, the expansion in this type of construction has been greater than for the nation. As may be observed in the accompanying chart, on the basis

of the 1939 level of construction, residential building in this district has exceeded the national level since 1945.

#### INDUSTRIAL CONSTRUCTION TAPERING OFF

The industrial construction in this district may have passed its peak, as has been reported for the nation. From March through May, an average of \$2¼ million of contracts awarded were reported for the Minneapolis territory. In June the amount fell to \$772,000.

For the nation as a whole, expenditures in industrial construction last year totalled \$1.7 billion, whereas for this year the total is estimated at \$1.4 billion.

A significant number of industrial concerns have completed, or nearly completed, their postwar expansion and modernization program. With only the less urgent construction remaining, high cost may be a growing deterrent factor.

#### NON-FARM MORTGAGES RISE SIGNIFICANTLY

Construction is always financed, in a large measure, through borrowed capital. In the six states wholly or partly in this district, approximately \$320 million in non-farm mortgages of \$20,000 or under were recorded during the first quarter of this year, as compared with \$283 million during the same period of 1947. This represents an increase of 13 percent.

In the accompanying table, listed by states, are the sources of these borrowed funds, the amount of capital invested by each source, and the percent of the total. In all states, except Michigan, savings and loan associations were the largest investors in non-farm mortgages.

In all of the states, the amount invested by savings and loan associations was less than 40 percent of the total, and in some states it was only a trifle more than was invested by some of the other institutions.

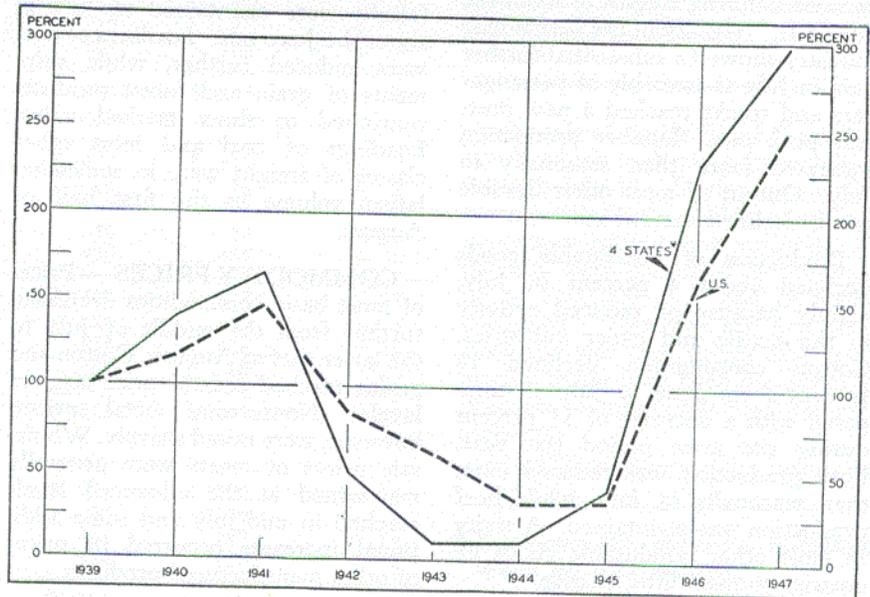
With the rise in non-farm mortgage lending, more mortgages were insured under FHA as in the first half of last year. In Minnesota, during the first half of this year over 2¼ times as many mortgages were insured under FHA than in the first half of last year. The amount of these mortgages aggregated \$8,197,-

**Non-Farm Mortgage Recordings of \$20,000 or Less by States in Ninth District**  
(Thousands of Dollars)

Type of Holder	First Quarter 1947		First Quarter 1948		First Quarter 1947		First Quarter 1948	
	Dollar Volume	Percent of Total	Dollar Volume	Percent of Total	Dollar Volume	Percent of Total	Dollar Volume	Percent of Total
	Michigan				Minnesota			
Savings & Loan.....	\$ 26,864	20.5	\$ 25,849	16.4	\$24,956	37.4	\$26,630	38.8
Insurance Cos.....	14,343	11.0	26,233	16.7	4,022	6.0	3,028	4.4
Banks & Trust Cos.....	50,851	38.8	53,385	34.0	15,651	23.5	17,926	26.1
Mutual Savings Bks.....	.....	.....	.....	.....	2,804	4.2	2,509	3.6
Individuals.....	13,777	10.5	14,041	8.9	7,889	11.8	8,809	12.8
Other.....	25,146	19.2	37,765	24.0	11,386	17.1	9,816	14.3
Total.....	\$130,981	100.0	\$157,273	100.0	\$66,708	100.0	\$68,718	100.0
	Montana				North Dakota			
Savings & Loan.....	\$2,096	28.1	\$2,668	31.0	\$2,711	52.3	\$2,864	47.3
Insurance Cos.....	297	4.0	643	7.5	182	3.5	322	5.3
Banks & Trust Cos.....	2,611	35.0	2,507	29.1	1,215	23.5	1,301	21.5
Mutual Savings Bks.....	.....	.....	.....	.....	.....	.....	.....	.....
Individuals.....	2,291	30.7	2,640	30.6	742	14.3	1,194	19.7
Other.....	168	2.2	158	1.8	330	6.4	373	6.2
Total.....	\$7,463	100.0	\$8,616	100.0	\$5,180	100.0	\$6,054	100.0
	South Dakota <sup>1</sup>				Wisconsin			
Savings & Loan.....	\$ 511	38.1	\$ 621	32.9	\$23,603	33.6	\$26,993	35.5
Insurance Cos.....	62	4.6	224	11.9	5,819	8.3	5,068	6.7
Banks & Trust Cos.....	421	31.4	581	30.8	19,944	28.3	20,640	27.2
Mutual Savings Bks.....	.....	.....	.....	.....	211	3	275	4
Individuals.....	322	24.0	418	22.1	15,750	22.4	17,300	22.7
Other.....	26	1.9	44	2.3	4,963	7.1	5,693	7.5
Total.....	\$1,342	100.0	\$1,888	100.0	\$70,290	100.0	75,969	100.0

<sup>1</sup>South Dakota Figures are for first 2 months.  
SOURCE: Federal Home Loan Bank Review.

**INDEX OF RESIDENTIAL CONSTRUCTION IN NINTH DISTRICT AND IN THE UNITED STATES**  
1939 = 100



POSTWAR residential building in this district exceeds the nation on the basis of pre-war activity.

SOURCE: U. S. Department of Commerce, Construction and Construction Materials, statistical supplement, June 1948, p. 7.

\*Four states are Minnesota, Montana, North Dakota, South Dakota.

000, which is within \$186,000 of the total for the entire year of 1947.

In Montana, the increase in the number of insured mortgages so far has been small. During the first five months of this year, 285 mortgages were accepted by FHA as compared with 252 for the corresponding period of 1947. Comparable figures are not available for North Dakota and South Dakota.

In the 20 weekly reporting banks of this district, real estate loans show a steadily rising trend. Mortgage money has become tighter in that interest rates have advanced except where they are fixed by government action as in the FHA Title VI and in the G.I. loan program. Title VI provision of FHA expired on April 30. Nevertheless, a substantial number of both single-family and multiple-family dwelling units will be started under Title VI through most of this year. An extensive backlog of commitments was built up since the latter part of 1947.

END

# National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM, AUGUST 28, 1948

**I**NDUSTRIAL output declined somewhat in July and regained part of the loss in August. Unusually favorable weather in July resulted in a further marked gain in crop prospects. Prices of basic commodities generally decreased somewhat further from mid-July to the latter part of August, reaching the lowest levels since the end of August 1947. The general wholesale price level showed little change and was 10 percent higher than a year ago.

## INDUSTRIAL PRODUCTION

—The Board's seasonally adjusted index of industrial production declined 5 points in July to a level of 187 percent of the 1935-39 average. This decline reflected in large part the effects of employee vacations, especially in certain nondurable industries. Preliminary information for the first part of August indicates a somewhat higher rate of total production than in July.

Output of durable goods showed a slight decrease in July. Production of iron and steel declined 3 percent, but recovered during August to about the June rate. Activity in the automobile industry showed a substantial further gain in July as assembly of passenger cars and trucks reached a new post-war peak rate. Lumber production increased more than seasonally in July. Output of most other durable goods declined somewhat.

Production of nondurable goods declined about 4 percent in July, mainly because of reduced activity in the textile and paper industries. Cotton consumption declined 18 percent from June to July as compared with a decrease of 11 percent during the same period last year. Pork production was reduced more than seasonally in July, while beef production was maintained. Activity in most other nondurable goods industries showed little change.

Minerals production declined 3 percent in July mainly because of reduced output of bituminous coal. Total coal production for the month, however, was about one-fifth above the rate in July 1947. Crude petro-

leum production continued at an exceptionally high rate in July and rose further the early part of August.

**CONSTRUCTION** — Value of new construction put in place, according to joint estimates of the Departments of Commerce and Labor, rose further in July to a new record of over \$1,700 million, an increase of \$100 million from June. The number of new houses started in July was estimated at 94,000—2,000 units fewer than in June, but 13,000 more than the number started in July 1947.

**DISTRIBUTION** — Department store sales in July and August showed chiefly seasonal changes. Value of sales in the first half of August was substantially larger than in the corresponding period last year, when sales were temporarily limited by unfavorable weather. Also, sales in recent weeks appear to have been stimulated by prospective restrictions in terms resulting from the reimposition of instalment credit regulations on September 20.

Shipments of railroad revenue freight were maintained in July at about the June rate. Loadings of coal were reduced further, while shipments of grain and forest products continued to show marked gains. Loadings of coal and most other classes of freight were in somewhat larger volume in the first half of August.

**COMMODITY PRICES** — Prices of most basic commodities decreased further from the middle of July to the latter part of August. Cotton and grains reached federal price support levels. Nonferrous metal prices, however, were raised sharply. Wholesale prices of meats were generally maintained at the advanced levels reached in mid-July and some additional increases occurred in prices of other manufactured products.

The consumers' price index rose further by 1.2 percent from mid-June to mid-July, reflecting chiefly higher retail prices for foods and automobiles, and increased transportation fares.

**AGRICULTURE** — During July and August weather conditions continued to be unusually favorable for crop development. The August 1 official forecast of cotton was 15.2 million bales, more than a fourth larger than last year's crop. The outlook for grains showed further marked improvement and total production of these and other principal crops was indicated to be 12 percent larger than last year.

Marketings of livestock and products in August continued below the same period a year ago, reflecting mainly the reduced number of meat animals on farms.

**BANK CREDIT** — Support purchases of Treasury bonds and certificates by the Federal Reserve System were large in July and the first three weeks of August. These additions to the portfolios of the Reserve banks were in excess of reductions in holdings of bills as a result of Treasury cash retirement and market sales, and total System holdings of government securities increased somewhat. A further increase in gold stock also added to bank reserves.

Commercial and industrial loans increased substantially at banks in leading cities during July and the first three weeks of August. Real estate and consumer loans rose further. Government security holdings expanded somewhat over the period; bill and note holdings were increased and certificate and bond holdings reduced.

**INTEREST RATES AND SECURITY MARKETS** — In August the Treasury announced a rate of 1¼ percent on the October issue of one-year certificates and yields on outstanding short and medium-term government securities rose. The Federal Reserve banks increased discount rates from 1¼ to 1½ percent. Some increases also occurred in other short-term money market rates and in rates on commercial bank loans.

Prices of corporate bonds declined further in the first three weeks of August. Common stock prices fluctuated near the reduced level reached in the third week of July.

## BANKING

## Banks Increased Earning Assets in July

**B**ANKING developments in the Ninth district during July were highlighted by an increase in U. S. government security portfolios. This marked a sharp departure from the almost uninterrupted shrinkage in bank holdings of governments which has characterized this year up to July.

This month's increase—which amounted to \$22 million—raised holdings of government obligations in Ninth district member banks to close to \$1.7 billion. On the basis of the 20 larger weekly reporting banks, it appears that the additions to security holdings were concentrated in U. S. government bonds, although Treasury bills and certificates advanced moderately, while notes registered a slight decline.

To some extent, the rise in bond portfolios reflected the response of Ninth district member banks to the

**Assets and Liabilities of All Ninth District Member Banks**  
(In Million Dollars)

	June 30, 1948 <sup>1</sup>	July 28, 1948 <sup>2</sup>	Change June 30, 1948- July 28, 1948	Change July 30, 1947- July 30, 1948
<b>ASSETS</b>				
Loans and Discounts .....	\$ 813	\$ 820	+ 7	+144
U. S. Government Obligations.....	1,671	1,693	+ 22	+ 68
Other Securities .....	196	201	+ 5	+ 41
Cash and Due from Banks.....	859	832	- 27	+ 39
Other Assets .....	28	29	+ 1	+ 2
<b>Total Assets .....</b>	<b>\$3,567</b>	<b>\$3,575</b>	<b>+ 8</b>	<b>+158</b>
<b>LIABILITIES AND CAPITAL</b>				
Due to Banks .....	\$ 332	\$ 315	- 17	- 8
Other Demand Deposits .....	2,095	2,121	+ 26	+141
<b>Total Demand Deposits.....</b>	<b>\$2,427</b>	<b>\$2,436</b>	<b>+ 9</b>	<b>+133</b>
Time Deposits .....	926	924	- 2	+ 16
<b>Total Deposits .....</b>	<b>\$3,353</b>	<b>\$3,360</b>	<b>+ 7</b>	<b>+149</b>
Borrowings .....	.....	.....	.....	.....
Other Liabilities .....	17	18	+ 1	+ 3
Capital Funds .....	197	197	.....	+ 6
<b>Total Liab. and Capital.....</b>	<b>\$3,567</b>	<b>\$3,575</b>	<b>+ 8</b>	<b>+158</b>

**Assets and Liabilities of Twenty Reporting Banks**  
(In Million Dollars)

	June 30, 1948	July 28, 1948	Aug. 11, 1948	\$ Change June 30-July 28
<b>ASSETS</b>				
Comm., Ind., and Ag. Loans.....	\$ 251	\$ 246	\$ 250	- 5
Real Estate Loans.....	56	59	59	+ 3
Loans on Securities .....	16	17	17	+ 1
Other Loans .....	103	107	108	+ 4
<b>Total Gross Loans and Dis.....</b>	<b>\$ 426</b>	<b>\$ 429</b>	<b>\$ 434</b>	<b>+ 3</b>
Less Reserves .....	-3	-3	-3	.....
<b>Total Net Loans and Dis.....</b>	<b>\$ 423</b>	<b>\$ 426</b>	<b>\$ 431</b>	<b>+ 3</b>
U. S. Treasury Bills .....	26	30	28	+ 4
U. S. Treasury Cert. of Indebt.....	103	105	103	+ 2
U. S. Treasury Notes.....	61	56	57	- 5
U. S. Govt. Bonds.....	460	470	469	+ 10
<b>Total U. S. Govt. Sec.....</b>	<b>\$ 650</b>	<b>\$ 661</b>	<b>\$ 657</b>	<b>+ 11</b>
Other Investments .....	78	83	84	+ 5
Cash and Due from Banks.....	451	433	460	- 18
Miscellaneous Assets .....	15	15	15	.....
<b>Total Assets .....</b>	<b>\$1,617</b>	<b>\$1,618</b>	<b>\$1,647</b>	<b>+ 1</b>
<b>LIABILITIES</b>				
Demand Dep., Ind., Part., Corp. ....	\$ 746	\$ 754	\$ 776	+ 8
Demand Deposits, U. S. Govt.....	24	27	29	+ 3
Due to Other Banks.....	295	281	297	- 14
Other Deposits .....	445	448	436	+ 3
<b>Total Deposits .....</b>	<b>\$1,510</b>	<b>\$1,510</b>	<b>\$1,538</b>	<b>.....</b>
Borrowings .....	.....	.....	.....	.....
Miscellaneous Liabilities .....	11	12	13	+ 1
Capital Funds .....	96	96	96	.....
<b>Total Liabilities and Capital.....</b>	<b>\$1,617</b>	<b>\$1,618</b>	<b>\$1,647</b>	<b>+ 1</b>
Excess Reserves .....	9	8	12	- 1

<sup>1</sup> Call report data.

<sup>2</sup> This table is in part estimated. Data on loans and discounts, U. S. government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly report which member banks make to the Federal Reserve Bank for the purpose of computing reserves. Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve Bank. Data on other borrowings are estimated. Capital funds, other assets, and other liabilities are extrapolated from call report data.

special sale of Series F and G savings bonds which took place from July 1 through July 15. During this period commercial banks holding savings deposits or issuing time certificates of deposits were permitted to purchase up to \$100,000 of F and G bonds combined. This was the first time since the war loan drives that commercial banks have been permitted to purchase savings bonds for their own accounts.

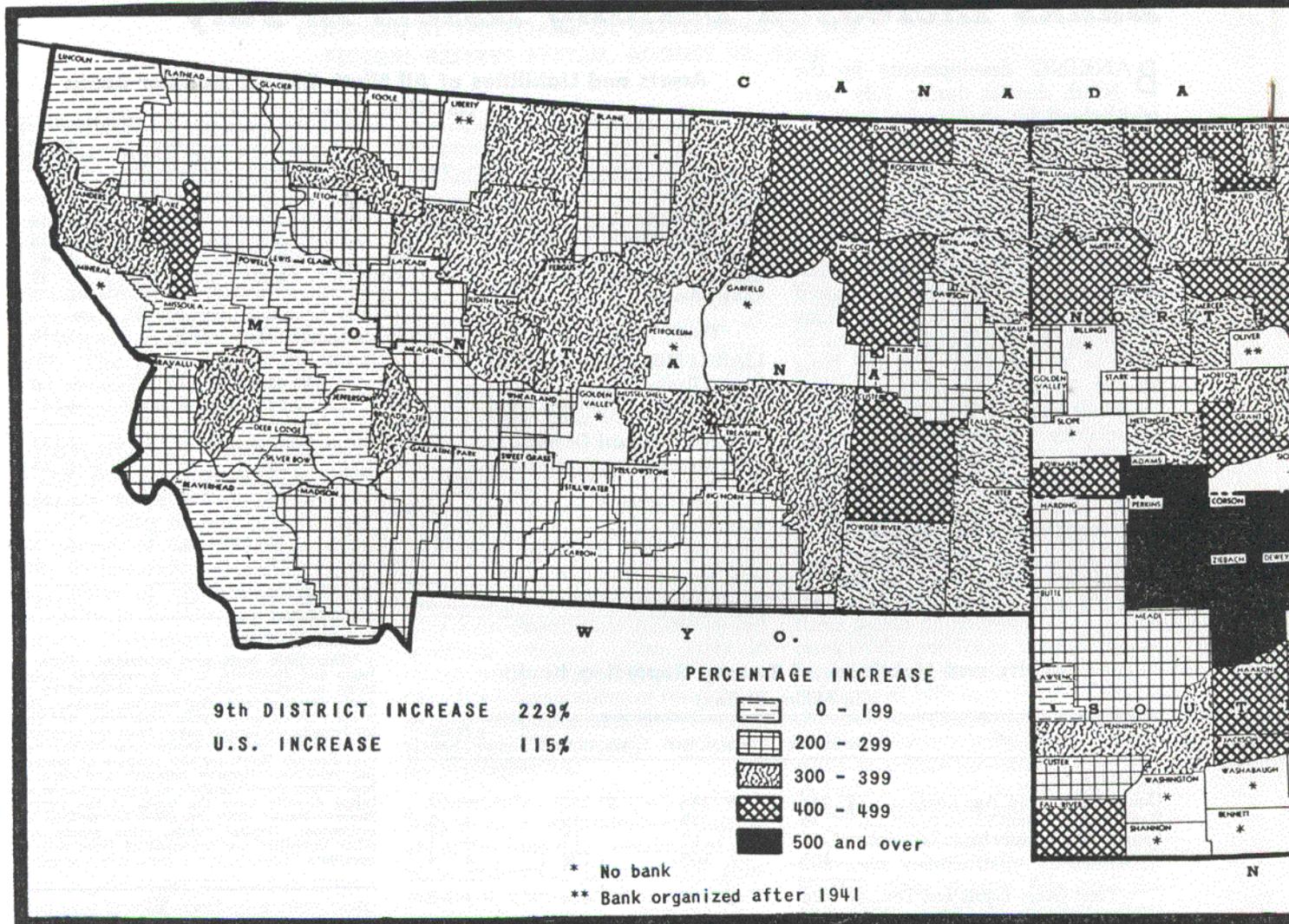
In addition, during July, loans and

► **Government security holdings were up \$22 million.**

► **Loans and discounts continue rising trend.**

► **Rapidly expanding instalment credit exerts upward pressure on prices.**

## PERCENTAGE CHANGE, 1941-47, BY COUNTIES OF YEAR-END BANK DEPOSITS OF INDI



NOTE: A tabulation showing Ninth district bank deposits by counties as of Dec. 31, 1941, and Dec. 31, 1947, is available from this bank on request.

SOURCE: "Distribution of Bank Deposits by Counties, Dec. 31, 1941," Treasury department, Office of the Secretary, March 1943. "Distribution of Bank Deposits by Counties, Dec. 31, 1947," Board of Governors of the Federal Reserve System, July 1948.

discounts increased \$7 million, thereby continuing their upward trend of the past several months, although at a slightly slackened pace. Furthermore, "other" securities rose \$5 million. Tabulations showing kinds of loans are available only for the weekly reporting banks. In these, real estate and consumer ("other") loans account for the lion's share of July's increased lending.

Thus during the month, a substantial volume of funds was channeled

into earning assets in Ninth district member banks. These funds, for the most part, were derived from increased deposits and withdrawals of balances with other banks.

#### TOTAL DEPOSITS INCREASE

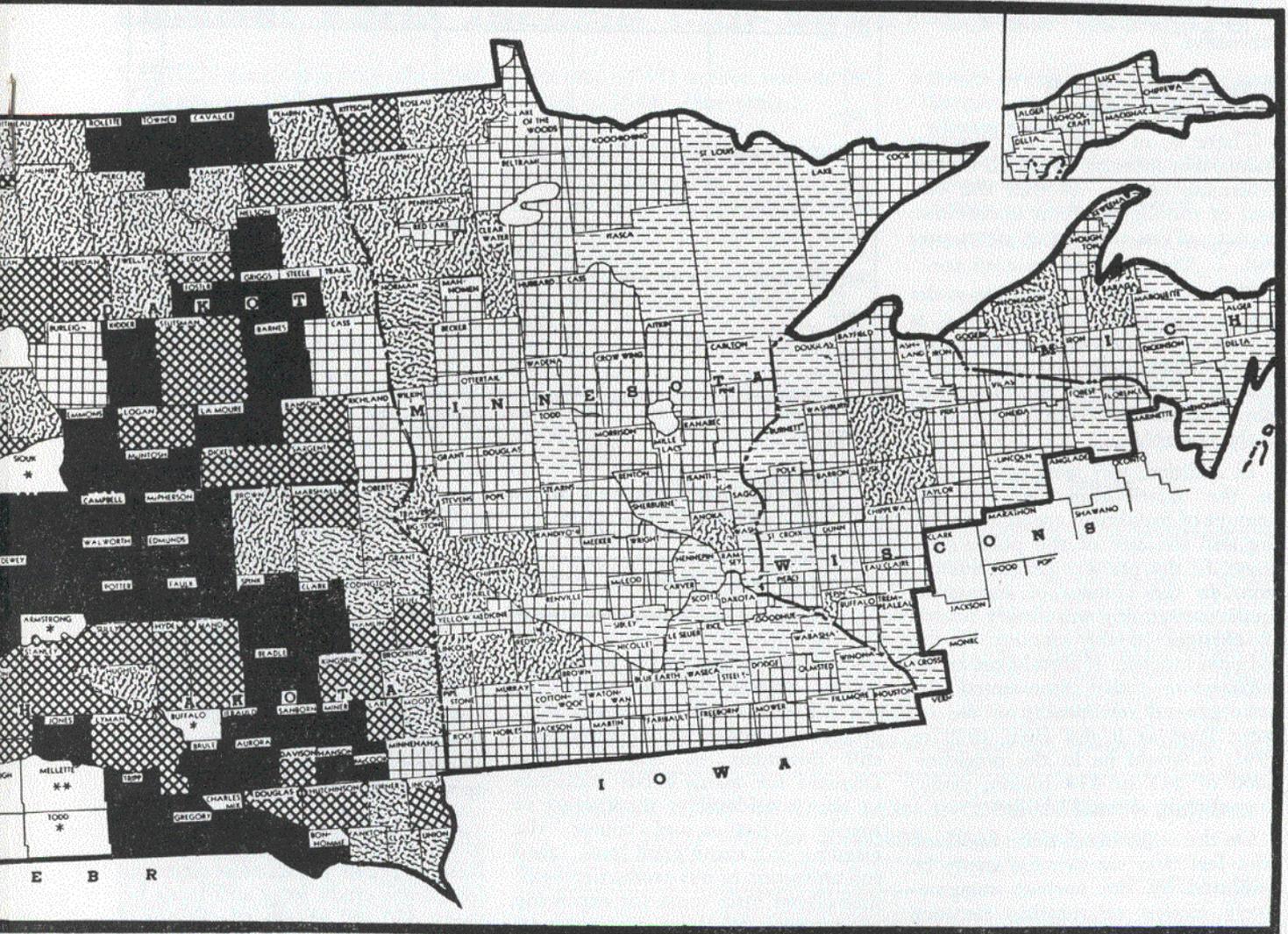
"Other" demand deposits showed a gain of \$26 million. However, this was partly offset by a decline in interbank demand deposits and to a lesser degree in time deposits, resulting in a net increase in total deposits of \$7 million. In general, the increase in total deposits was fairly uniform throughout the states of this district. Percentage-wise, state gains equalled 1 percent in North and South Dakota, 2 percent in Michigan (15 counties), Minnesota, and Montana, and 3 percent in Wisconsin (26 counties).

The increase in "other" demand deposits, to some extent, was due to the usual seasonal upswing in farm income as new crop grains, particularly wheat, began their late summer move into the market. In addition, the special sale of Series F and G savings bonds to nonbank institutional investors<sup>1</sup> resulted in building up U. S. government deposits which are a component part of "other" demand deposits.

As noted above, preliminary reports indicate that consumer loans moved upward during July. A buoyant demand for consumer credit, especially on an instalment basis, has

<sup>1</sup> The special July 1 through July 15 sale included permission to several classes of institutional investors to increase their total purchases of Series F and G bonds for the calendar year 1948 to as much as \$1 million, whereas the usual annual limit has been \$100,000.

## INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS IN NINTH FEDERAL RESERVE DISTRICT



characterized the nation as a whole as well as the Ninth district for many months. Moreover, retail merchants, sales finance companies, industrial banks, industrial loan companies and credit unions have shared with commercial banks in extending consumer instalment credit. The recent revival of consumer instalment credit controls focuses special attention on the significance of these developments.

#### INSTALMENT CREDIT'S ROLE IN THE ECONOMY

Instalment credit is, of course, an integral part of our business system—American consumers buy their cars and furnish their homes to a large extent on a time-payment basis. Thus by oiling the wheels of distribution, instalment credit plays an important

role in making possible the mass production as well as the widely spread enjoyment of many durable consumer goods.

On June 30, 1948, total instalment credit—which includes instalment sale credit and instalment loans—in the country as a whole reached an all-time high of \$7.2 billion. This was almost four times the volume outstanding in June 1944, the lowest wartime year, while it overtopped June 1941, the highest pre-war year, by more than \$1 billion.

In the accompanying chart the course of instalment credit for the past 18 years is pictured. It can be seen that there have been wide fluctuations in the amounts outstanding and moreover that the pattern of these fluctuations up to the war

period followed closely the cyclical swings in business activity.

In December 1929, consumer instalment debt exceeded \$3 billion. During the subsequent business decline instalment credit fell rapidly, narrowing to around \$1.5 billion by the close of 1933. In the next four years it expanded again reaching \$4 billion in 1937. After a short but substantial decline during the recession of 1938, consumer instalment credit resumed its upward trend, which was culminated in the pre-war high of over \$6¼ billion in midyear 1941.

Thus our experience prior to the war period shows that instalment credit tends to expand rapidly in good times and to contract sharply when income and employment decline. It

is this aspect of the instalment credit picture that gives rise to the question that is frequently heard today: Is the current volume of instalment credit "excessive"?

### IS THERE TOO MUCH INSTALMENT CREDIT?

There is, of course, no objective standard or measure by which we can determine exactly whether the volume of instalment credit is excessive or not. Thus conflicting views prevail.

There are those who, looking at the current situation, point out that it is natural for instalment credit to increase substantially as automobiles, household appliances, and other consumer durable goods become increasingly available.

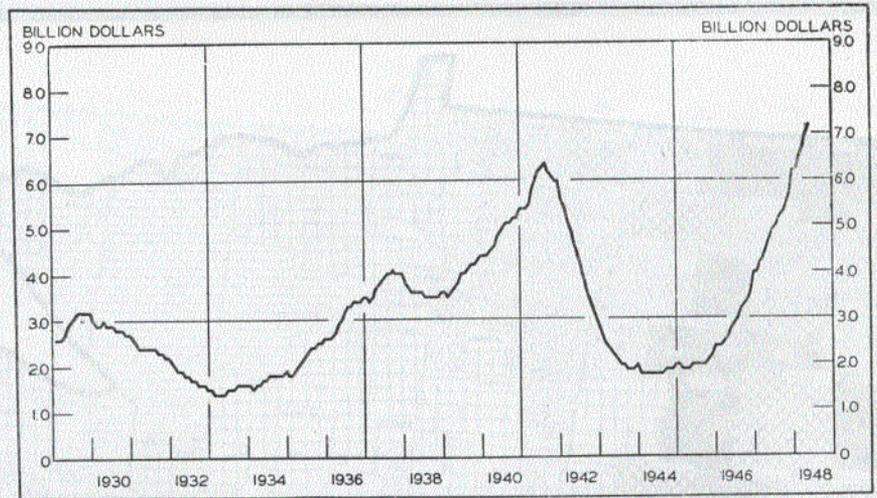
In addition, this view often refers to the relationship between the amount of instalment credit outstanding and the size of the public's income. In the pre-war period fluctuations in the volume of instalment credit outstanding was closely related to changes in the amount of the national income. If instalment credit outstanding today represented the same general relationship to the income level as it did from 1929 to 1941, it would be in the neighborhood of \$13 or \$14 billion, rather than slightly above \$7 billion.

On the other hand, there are those who feel that we can too easily be reassured by the current comparatively modest relationship between instalment debt and national income. Here attention is called to the unprecedented rate of increase in the instalment credit growth of the last two and one-half years. The important thing is this rapid expansion rather than the volume of instalment credit outstanding relative to total business activity. Instalment credit since the beginning of 1946 has increased at an annual average rate of over 50 percent,<sup>2</sup> as compared with an annual average of about 16 percent for the period 1935-41.

Moreover, it is pointed out, the

<sup>2</sup> The annual rate of increase for 1948 was estimated on the basis of January-June figures for this year.

### CONSUMER INSTALMENT CREDIT OUTSTANDING IN THE UNITED STATES, 1929-1948



CONSUMER instalment credit over the past 18 years has fluctuated widely—moving, up to the war period, in the pattern of the upswings and downswings in general business activity.

SOURCE: Board of Governors of the Federal Reserve System.

role of instalment credit should be judged against the background of over-all economic conditions. At the present time inflationary pressures are still dominant in our economy. Demand for many goods continues to be considerably in excess of supply. That is, of course, the meaning of a rising price level. And full utilization of our production facilities allows little room for expansion of output. In these circumstances rapidly expanding instalment credit expresses itself in upward pressure on prices.

This view also appraises the low relative position of instalment credit as compared to national income. This modest ratio, however, is interpreted as a cause for alarm rather than complacency because, it is held, it gives a rough indication of how much farther instalment credit may be expanded if left to the natural play of economic forces. Since the current volume of instalment credit falls short of that to be expected on the basis of pre-war experience, it appears that there is considerable

"stretch" left in the already expanded volume of instalment credit.

The recent Congressional decision to reinstate instalment credit controls represents presumably a balance of opinion in favor of the latter view.

This new regulation, which is under the authority of the Federal Reserve Board, covers most consumer instalment credit sales and loans between \$50 and \$5,000, effective as of September 20. Generally speaking, the controls call for a one-third down-payment on automobiles and a 20 percent down-payment on most household appliances, including cooking stoves, refrigerators, washing machines and radio and television sets. In addition, time payment limits call for maturities of not more than 15 months for purchases under \$1,000 and up to 18 months for purchases over \$1,000.

The objective of these controls is to restrain the upward pressure on prices arising from an over-broadening of the market through rapid consumer credit expansion. END

**AGRICULTURE**

# District Farm Income Can Equal 1947 Record

WHEN the story is fully told, 1948 crop production in the Ninth district may set an all-time record.

Department of Agriculture estimates as of August 1 indicated that total district production of wheat, corn, oats, barley, rye, and flaxseed would exceed 1947 production by nearly 17 percent and that it would be within .3 of one percent of the previous record in 1945. Favorable corn growing conditions thus far in August, however, suggest that final corn crop outcomes may exceed earlier estimates and that total grain production would exceed that of 1945.

Ever since 1942, the district's annual crop production has averaged 50 to 60 percent larger compared with 1935-39 average crop yields. This year total grain production may exceed the pre-war five-year average by approximately 63 percent.

Montana, particularly, will harvest a bonanza grain crop this year. It will be the largest in 21 years, according to reports from the agricultural statisticians office for the state. According to this source the August 1 forecast places all wheat at 92,904,000 bushels. This is 44 percent larger than last year, 56 percent larger than the average for the preceding 10 years, and 14 percent above the previous record crop of 81,713,000 bushels in 1927.

Wheat production in North Dakota may total about 6 percent less compared with last year's bumper crop. Other grain crops, however, are substantially larger compared with 1947.

In South Dakota and Minnesota, also, wheat production will be slightly below last year's excellent yield, but feed grain production, particularly corn, will be much larger.

Corn appears to be a banner crop everywhere in the district. It is fully two weeks ahead of average, and in the northern part of the district much of it may mature where ordinarily it is used only for silage or fodder. Because of continued favorable growing conditions since August 1, subsequent corn production estimates may be boosted to near that of the record

corn crop of 433 million bushels produced in 1944. (See table.)

**BIG CROPS CUT FARM PRICES**

Agricultural prices, fundamentally, are determined by the forces of demand and supply. Forecasts of the largest harvests in history for the United States as a whole have softened grain prices considerably in recent weeks. Eventually these large crops will exert a downward pressure on livestock and livestock product prices, since favorable feeding ratios

▶ Grain production is 17 per cent larger than in 1947; 63% above pre-war.

▶ Grain prices decline; livestock prices are up. Average farm prices are above 1947.

▶ Increased farm costs may cut net income below 1947.

are expected to stimulate livestock production.

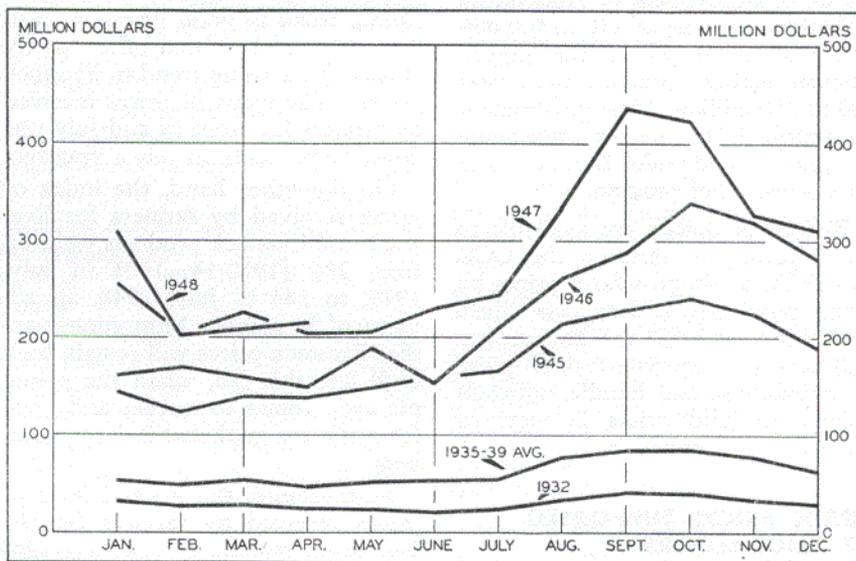
The U. S. corn crop will be by far the largest on record this year. The

**Grain Production—Four Northwest States\***  
(Thousands of Bushels)

	Wheat	Corn	Oats	Barley	Rye	Flax	Total
1934-43 Avg. ....	178,613	232,509	237,977	111,309	20,747	16,747	797,833
1942 .....	292,071	323,771	373,211	189,475	34,019	31,579	1,244,126
1943 .....	278,556	322,751	302,975	137,648	11,207	39,778	1,093,915
1944 .....	295,050	433,249	346,148	117,684	8,123	18,427	1,218,681
1945 .....	293,694	364,876	482,573	113,132	9,025	31,599	1,294,899
1946 .....	278,802	395,025	357,209	112,093	7,531	17,447	1,168,107
1947 .....	284,624	293,833	331,223	125,640	12,185	33,361	1,080,866
1948 (Est.).....	300,805	405,714	386,632	147,128	13,408	36,551	1,290,238

\*Minnesota, Montana, North and South Dakota—Data from Crop Production Reports, USDA.

**MONTHLY TREND OF CASH FARM INCOME IN NINTH DISTRICT**  
1932, 1935-39 AVERAGE, 1945, 1946, 1947



THE TREND in farm prices during the last half of 1948, when marketings of crops and livestock are heavy, will determine whether this year's cash farm income will compare favorably to 1947.

SOURCE: USDA.

wheat crop is near last year's record. Cotton production estimates are above the most optimistic earlier guesses. Soybean, rice, and peanut yields are at record highs, and practically all other crops for the United States as a whole are much above average yields.

Largely as a result of actual or prospective increased supplies, wheat prices to farmers in the Ninth district have tumbled from nearly \$3.00 a bushel early in the year to around \$2.00 currently. In some areas, where farmers can not get adequate storage, wheat is selling below the loan level. However, wheat prices received by farmers in mid-July were only 33 cents a bushel below average wheat prices a year earlier.

Corn prices have declined from about \$2.50 a bushel in early January to around \$1.85 in mid-July, and it is believed that corn will be selling at near the expected support level of about \$1.45 a bushel by this fall. Oat prices have dropped 50 percent from the peak last January.

Some authorities feel that there might be a serious collapse in farm prices this fall similar to that after World War I except for government support.

Indications are, however, that the government will use all its powers to prevent such a price collapse. Already the U. S. Department of Agriculture is thinking in terms of 450 to 500 million bushels of wheat for export, whereas earlier estimates were near 300 to 350 million. The government is expected to export maximum amounts of food under European and far eastern relief programs.

Billions of dollars are available to the government, through the CCC and ECA, to support farm prices by loans, purchases, and exports. Even with funds at hand the government will have a tremendous task physically to purchase and handle sufficient volume to hold prices in view of record crop supplies.

### GRAIN PRICES SUPPORTED AT PRICE FLOORS

The agricultural price support program which Congress enacted in late June calls for pegging the price of the 1948 crop of wheat, corn and cotton at just about the levels cash or futures have reached in recent weeks.

### Average Prices Received by Farmers—Ninth District<sup>1</sup>

Commodity and Unit	July 15 1937-1941 Avg.	July 15 1947	July 15 1948	Parity Prices <sup>2</sup> / United States July 15, 1948
<b>Crops</b>				
Wheat, bushel .....	\$0.73	\$2.41	\$2.08	\$2.22
Corn, bushel .....	.60	1.85	1.84	1.61
Oats, bushel .....	.26	.89	.81	1.00
Potatoes, bushel .....	.72	1.52	1.73	1.86
<b>Livestock and Livestock Products</b>				
Hogs, 100 lbs. ....	8.10	22.96	24.69	18.20
Beef Cattle, 100 lbs. ....	7.37	19.80	25.40	13.60
Veal Calves, 100 lbs. ....	8.43	21.07	26.60	16.90
Lambs, 100 lbs. ....	7.50	19.59	24.06	14.80
Wool, lb. ....	.26	.42	.53	.459
Milk, wholesale, 100 lbs. ....	1.49	3.08	4.26	3.74
Butterfat, lb. ....	.29	.71	.89	.616
Chickens, live, lb. ....	.126	.237	.278	.286
Eggs, doz. ....	.168	.396	.392	.513

<sup>1</sup> Data compiled from "July 30, 1948, Agricultural Prices"—USDA.

<sup>2</sup> The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

Other agricultural commodity prices, with the exception of potatoes, eggs, and chickens, are currently above parity levels. (See table on prices.) Government supports (ranging from 60 to 90 percent of parity on "basic" and "Steagall" commodities for 1948 and 1949 production) may be important market influences in late 1948, and especially so in 1949.

### 1948 FARM INCOME MAY APPROXIMATE 1947 LEVEL

Thus far in 1948 the effect of a declining trend in grain prices on cash farm incomes has been offset, partly at least, by a rising trend in livestock prices. The index of prices received by farmers for crops in mid-July was down 10 points from July a year ago.

On the other hand, the index of prices received by farmers for livestock and livestock products were up from 286 (1910-14=100) in July, 1947, to 344 in July, 1948, an advance of 58 points. Most guesses are that livestock prices will remain high until late this fall, when the spring pig crop comes to market and grass fat cattle are marketed in large numbers.

Furthermore, the general level of prices received by farmers for the first seven months of 1948 averaged 294 percent of the base period (1910-14=100). This compares with only 278 for the entire year 1947. The general level of prices received by farmers in mid-July this year at 301 was the second highest month on

record. It was exceeded only in January 1948, when the index was 307.

Therefore, with a 17 percent increase in crop production for 1948 compared with 1947 and the prospect that the general level of prices received by farmers for the year 1948 may approximate if not exceed that of 1947, it would appear a district cash farm income again nearly equal to last year's record \$3½ billion may be realized. Such an income if realized would be nearly five times the average for the 1935-39 period.

The exact amount of cash farm income for the district in 1948 now appears to be pretty much a function of farm product prices for the balance of the year.

The bulk of farm marketings in the Ninth district occurs in the period August through November. Cash farm income in the last half of the year for the last three years has averaged nearly 60 percent larger compared with the first six-month period. (See chart.)

The bulk of the grain crop is marketed in the last half of the year. Also the heavy marketing period for cattle from the western grass lands is in the fall season. Therefore the trend of both grain and livestock prices in the remaining months of 1948 will exert a heavy influence on the total cash farm income for the year.

## BUSINESS

**District Trade Volume Stays at High Level**

**B**USINESS during the summer months in this district has been operating close to full capacity. The seasonal workers entering the labor market have been absorbed largely by agriculture, construction, and industry. According to department store sales, retail sales in general have been maintained at a high dollar volume.

The rise in retail prices, however, may have reduced, somewhat, the quantity of merchandise purchased by consumers. Freight car loadings of manufactured merchandise for some months have fallen below last year's figures.

Department store sales in July were at the same level as in June, after an adjustment was made for the usual seasonal decline in sales. The adjusted index for this district was 293 percent of the 1935 to 1939 average. Since May, the value of sales has been either over or slightly under three times the pre-war volume.

Sales in the larger cities have been noticeably higher than in the smaller cities and towns. In July, stores located in Duluth, Minneapolis, St. Paul, and Superior reported sales three percent higher than the stores located in the other centers of the district. In preceding months the differential was even greater.

**DEPARTMENT STORE SALES HIGHER IN LARGER CITIES**

The higher volume of dollar sales in the large metropolitan centers may be traced, in substantial measure, to the high level of non-agricultural employment and to wage increases. In Minnesota during July, the Minnesota Division of Employment and Security reports almost 10,000 more workers were employed in our cities and towns than in June. As compared with a year ago, non-agricultural employment has increased by 30,000 workers.

In Montana, non-agricultural employment increased at a greater pace than in the preceding months. June employment was 2,700 higher than in May. According to the report of the Unemployment Compensation Commission of Montana, employment in July may set a peacetime record.

Although comparable figures are not available for North and South Dakota, other business series indicate that very likely a similar rise has taken place in the non-agricultural employment of these states.

Wage rate increases continued to raise average weekly earnings. The average weekly earnings of Minneapolis factory production workers in July were \$53.99 as compared with \$53.42 in June. In St. Paul the average weekly earnings rose from \$52.32 in June to \$54.89 in July. Part of the increase in St. Paul, however, was the result of an increase in the number of hours worked.

**BANK DEBITS A JULY RECORD**

The amount of bank debits reported by banks in this district is further evidence of the large dollar volume of business transacted. The July adjusted index for 93 cities was 322 percent of the 1935 to 1939 average.

This was the largest amount of checks charged against the accounts of individuals, firms, corporations, and government accounts during July, which is usually a relatively slack month.

**Index of Department Store Sales by Cities**  
(Unadjusted 1935-1939=100)

	July 1/	Percent Change %/ From Year Ago July Jan.-July	
Minneapolis	231	+ 8	+ 8
St. Paul	219	+ 6	+ 4
Duluth-			
Superior	260	+ 10p	+ 15p
Great Falls	290	+ 20	+ 8
La Crosse	214	+ 2	+ 3
Mankato	237	+ 30	+ 16
Aberdeen	.....	+ 12	+ 4
Grand Forks	.....	+ 8	+ 4
Minot	.....	+ 9	+ 5
Rochester	.....	+ 18	+ 10
Sioux Falls	.....	+ 12	+ 12
Valley City	.....	+ 3	- 2
Willmar	.....	+ 2	+ 6
Winona	.....	+ 18	+ 14
Yankton	.....	+ 8	+ 7

<sup>1</sup> Based on daily average sales.

<sup>2</sup> Based on total dollar volume of sales.

▶ **High employment boosts department store sales in the larger cities.**

▶ **Weekly earnings of Minneapolis factory workers were \$53.99 in July.**

▶ **Miscellaneous carloadings were down 5% from year ago; carloadings of raw materials maintained year ago levels.**

▶ **Department store stocks, although 28 per cent larger than year ago, showed no change from June 1948.**

**SHIPMENT OF MANUFACTURED GOODS LAGS BEHIND 1947**

Miscellaneous carloadings, which comprise largely fabricated materials, for several months have fallen below last year's volume. In July the loadings were five percent below those of July 1947.

Finished merchandise shipped in less-than-carload lots for several months has also been steadily below last year's volume. In July these shipments were four percent below a year ago. Carloadings of raw materials, on the other hand, have been approximately equal to those of the former year.

Department store stocks were at the same level at the end of July as at the end of June, after an adjustment was made for the usual seasonal rise in stocks during July. The adjusted July index for the district was 325 percent of the 1935 to 1939 average.

The adjusted index for the stores reporting from Duluth, Minneapolis, St. Paul, and Superior stood at 272 percent of the pre-war average, while the adjusted index for the stores reporting from other centers in the district stood at 379 percent.

During the postwar period, stores in the smaller centers have steadily carried larger stock than those in the larger centers.

As compared with a year ago, the dollar amount of stocks now held in this district is 28 percent higher. According to the index of retail prices

compiled by the United States Department of Commerce, prices over the past year have increased about eight percent. Consequently, the quantity of merchandise held by department stores has risen significantly.

END

## DISTRICT FARM INCOME CAN EQUAL '47 RECORD

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## HIGH COSTS MAY CUT NET FARM INCOME

Farmers' net farm income may be reduced in 1948 compared with 1947, although the decline is not expected to be serious. Farm wage rates have advanced, and they set a new record in July. Prices paid by farmers for commodities used in farm production and farm family maintenance in mid-July were 251 percent of the base period, 1910-14. A year ago this index was 230.

It should not be assumed, however, that a general decline in farm product prices when and if it comes will be associated with a comparable decline in farm costs. Historically, the costs of farming have tended to lag by a considerable margin behind prices received by farmers, both when farm product prices are advancing and when they decline.

END

## Sales at Ninth District Department Stores<sup>1</sup>

	% July 1948 of July 1947	% Jan.-July 1948 of Jan.-July 1947	Number of Stores <sup>2/</sup> showing	
			Increase	Decrease
Total District.....	109	107	188	54
Mpls., St. Paul, Dul.-Sup.....	107	107	22	12
Country Stores .....	112	108	166	42
Minnesota .....	113	109	45	16
Central .....	110	103	3	3
Northwestern .....	115	111	4	0
Red River Valley.....	97	104	2	1
South Central .....	118	113	11	2
Southeastern .....	118	112	11	2
Southwestern .....	110	106	14	8
Montana .....	120	111	20	4
Mountains .....	120	112	9	1
Plains .....	120	111	11	3
North Dakota .....	109	107	42	7
North Central .....	115	102	9	1
Northwestern .....	110	105	5	1
Red River Valley.....	103	108	15	3
Southeastern .....	119	109	10	2
Southwestern .....	137	121	3	0
Red River Val.-Minn. & N. D....	102	108	17	4
South Dakota .....	109	107	37	8
Southeastern .....	110	109	10	4
Other Eastern .....	107	103	20	4
Western .....	118	118	7	0
Wisconsin and Michigan.....	108	105	22	7
Northern Wisconsin .....	118	112	5	2
West Central Wisconsin.....	102	103	11	3
Upper Peninsula Michigan.....	113	108	6	2

<sup>1</sup> Percentages are based on dollar volume of sales.

<sup>2</sup> July 1948 compared with July 1947.

## Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-1939=100)

	July 1948	June 1948	July 1947	July 1946
Bank Debits—93 Cities.....	322	341	273	233
Bank Debits—Farming Centers.....	389	398	327	271
Ninth District Dept. Store Sales.....	293p	291	268	253
City Department Store Sales.....	298p	296	276	270
Country Department Store Sales.....	288p	287	259	236
Ninth District Department Store Stocks.....	325p	325p	254	224
City Department Store Stocks.....	272p	276	230	229
Country Department Store Stocks.....	369p	365p	273	220
Country Lumber Sales .....	170p	150	130	114
Miscellaneous Carloadings .....	117	116	123	117
Total Carloadings (excl. Misc.).....	132	137	138	131
Farm Prices (Minn. unadj.).....	303	304	268	230

p—preliminary.