MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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BANKING

Long Rise in Demand Deposits Terminated

- ***Private demand deposits showed stability, with decrease in Ninth district less than the national figure.***
- ***Decline in farmers' deposits was partially offset by increase in business deposits, annual Federal Reserve System survey shows.***
- ***There has been a noticeable tendency toward holding larger account balances.***

DEMAND deposits of individuals, partnerships, and corporations in the Ninth district declined only slightly from the peak reached in January 1948, according to the annual survey made by the Federal Reserve System in January 1949.

At the end of January these deposits stood at $2,604 million, compared with $2,608 million in January 1948. This decrease of two-tenths of one per cent was indicative of the leveling off found in most types of accounts studied in the survey.

In the United States as a whole, the same trend was observed with such deposits declining from $82.4 billion to $80.8 billion—a decrease of 1.9 per cent. Thus the decline in the Ninth district was considerably less than the national average.

OWNERSHIP PATTERN VARIES WITH SIZE OF BANK

Chart I shows the pattern of ownership of demand deposits for the different bank size groups. In the smaller banks, those with demand deposits of under $10 million, farmers' and other personal accounts dominate the picture. Retail and wholesale trade, as can be seen from the chart, account for approximately the same proportion of demand deposits in all bank size groups. Manufacturing and mining, on the other hand, make up a much larger proportion of the total for the larger banks than in the smaller banks.

Some groups of banks fared better than others during the year. In the group with deposits between $1 million and $10 million, an increase of 1.7 per cent was recorded, reflecting an increase in business accounts. The larger banks, those with demand deposits of individuals and business firms above $10 million, were responsible for a major part of the decreases evident in the total figures.

In the Ninth district, as well as in the nation as a whole, there has been a noticeable tendency toward holding larger account balances. While over half the accounts show balances under $10,000, accounts with balances of $10-25 thousand and over $25 thousand made up a higher percentage of the total as compared with the previous year.

This tendency toward a decline in the smaller accounts and a rise in the larger accounts reflects a shift from personal accounts to business accounts, since business accounts are generally larger on the average than personal accounts.

The explanation of this trend is undoubtedly to be found in the use of demand deposit balances to purchase consumer durable goods and newly constructed private residences. It may also reflect some shifting from checking accounts to other forms of liquid assets, such as time deposits and savings bonds.

In all Federal Reserve districts, except one, individuals lost deposits while businesses gained; or, where both declined, individuals lost more than did business firms.

LARGEST DECLINE SHOWN IN FARMERS' ACCOUNTS

In the Ninth district almost all of the decline in personal accounts is attributable to a decline in farmers' balances. Of the total decline in these individual accounts of $17 million during the survey period, farmers lost $15 million while other personal accounts declined only $2 million. At the same time, total business accounts gained $12 million.

An analysis of accounts other than those of individuals reveals that manufacturing and mining accounts in the Ninth district declined 3 per cent during the period between surveys. Retail and wholesale trade accounts in the whole district held to the level reached last year. But, when analyzed according to bank size groups, it was found that these accounts sustained losses in all bank groups except that of banks with demand deposits of under $1 million. The 16% increase in this group was sufficient to offset the declines registered in the other groups.

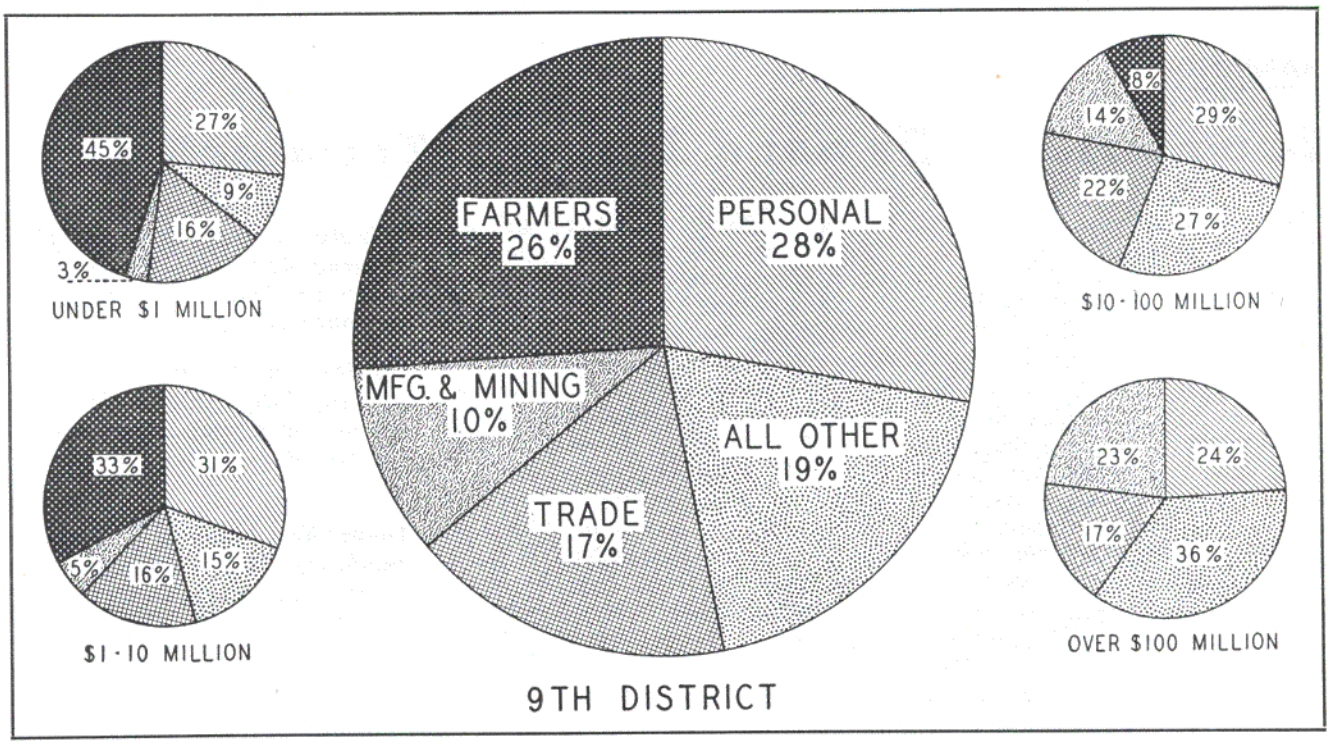
Another type of accounts that registered an increase was all other non-financial accounts (which include a myriad of enterprises ranging from warehouses to beauty shops) gaining 3% over January 1948. Non-profit accounts also continued to expand, although at a slower rate than in the previous surveys.

Ninth district public utilities appear to be maintaining their cash balances despite their programs of expansion. This was in contrast to the United States as a whole, where these accounts fell 4.6%.

Summarizing the results of the latest survey, the entire ownership picture seems to be one of leveling off. Chart 2 reveals that, except for the decline in farmers' accounts, the movement has been toward stabilization of the postwar peak reached in January 1948.

CHART I

THE PATTERN OF OWNERSHIP OF DEMAND DEPOSITS
9th District Banks by Size Groups
January 31, 1949



TEN YEARS OF MONETARY EXPANSION ENDED

The decline in demand deposits in 1948, which was accompanied by a fall in the volume of currency in circulation, broke an advance in the privately held money supply extending over a period of 10 successive years.

During the war years the average annual expansion of the public's holdings of bank deposits and currency was $15 billion. For the first two postwar years nearly $10 billion was added annually to the total money supply. The decline in 1948, amounting to approximately $1 billion ($1.6 billion decrease in demand deposits adjusted, $1.1 billion increase in time deposits, and $0.5 billion decrease in money in circulation), was moderate in amount.

The major factor producing a decline in deposits and currency in 1948 was the use of the Treasury cash surplus built up by high tax collections to retire U. S. Government securities held by the Federal Reserve banks and to augment Treasury deposits with the Reserve banks. Since these Treasury operations were $900 million greater than the increase in commercial bank loans plus the net gold inflow, other factors of increase in the money supply equalled the other factors of decrease.

Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in Ninth District Banks, Jan. 31, 1949.

(Estimates in Millions of Dollars)

Type of Holder	Amount Outstanding Jan. 31, 1949	Change from Jan. 31, 1948 Dollar Amount	Change from Jan. 31, 1948 Percentage
Total business	$1,067	+$12	+ 1%
Manufacturing and mining	249	— 8	— 3
Public utilities	96	+ 4	+ 4
Trade	438	— 1	*
Other nonfinancial	127	+ 4	+ 3
Financial	156	+ 12	+ 8
Insurance	54	+ 3	+ 7
All other financial	102	+ 9	+ 10
Personal	1,417	— 17	— 1
Farmers	686	— 15	— 2
Others	731	— 2	*
Trust funds	22	— 4	— 14
Nonprofit associations	97	+ 4	+ 5
Foreigners	**	***	***
Total	$2,604	—$ 4	*

* Less than one per cent.
** Less than $500,000.
*** No change.

OUTLOOK FOR DEPOSITS IN NINTH DISTRICT

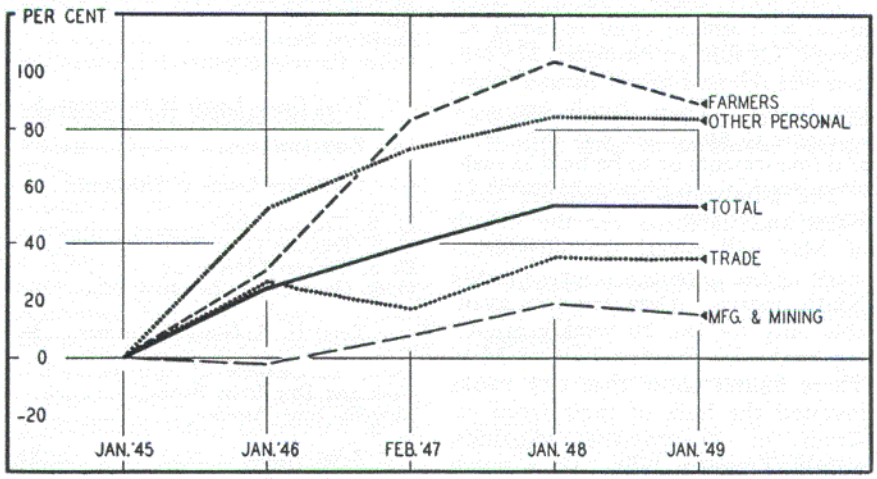
In the years since 1939 the increase in privately held deposits at member banks in the Ninth district topped the percentage increase for the nation. From 1939 to 1945 such deposits in this district increased 157.9 per cent compared with a national average of 135.7 per cent. During 1945-1947 the Ninth district led the nation with an increase of 26.3 per cent compared with the national average of 15.2 per cent. In 1948, as previously observed, the decline in this district was less than the decline for the nation as a whole.

The outlook in the Ninth district for the next few years is not as bright as in the past 10 years because the farmers are now facing a less favorable relationship between costs and income. The April banking developments, set forth below, indicate a loss of deposits in this area, which loss may be only seasonal and be regained in the fall of the year. If this should prove not to be a seasonal movement, the end of a period of a highly favorable relationship between this agricultural area and more highly industrialized areas may be indicated. END

CHART II

PERCENTAGE CHANGES IN OWNERSHIP OF DEMAND DEPOSITS
By Major Type of Holder, in 9th District

January 1945 = 100



DEPOSITS in the Ninth district, except those of farmers, maintained relatively the high level reached in January 1948.

NOTE: Estimates of farmers and other personal accounts January 1944 and on have been revised.

April Banking Developments

DIVERGENT trends were evident in country and city member banks in the Ninth district during April as heightened demand for farm credit dominated the rural picture, while cautious attitudes of both borrowers and lenders held sway in the larger city areas.

TOTAL LOANS . . in country member banks jumped $8 million during April, reflecting the advent of the new crop year, which gave rise to a brisk demand for agricultural loans. In addition, Commodity Credit Corporation corn loans, available until June 30, were a factor boosting loan totals in banks of southern Minnesota and eastern South Dakota.

In contrast, total loans in city banks slid off rather sharply this month as the Ninth district's larger banks joined the national parade of declining business loans. Commercial, industrial, and agricultural loans in the 20 weekly reporting banks were down $17 million during April.

This drop can be explained to a considerable extent by repayments and cautious inventory buying on the part of borrowers and careful screening of loan applications on the part of bankers. Some offset to April's dip, however, was provided by a moderate seasonal spurt in real estate and consumer loans.

GROSS DEMAND DEPOSITS . . . in country member banks declined $15 million during April, while city bank demand deposits rose $6 million. In country banks the decline resulted from deposit withdrawals which were coupled with increased borrowing to provide funds for agricultural purchases. To the extent that such purchases were made from outlets in the larger cities of the Ninth district, deposits flowed into city banks. Deposit totals in the weekly reporting banks were also increased by the bulge in accounts of states, counties, and municipalities.

Notwithstanding this month's increase in city bank deposits, total deposits for the district as a whole have shown a marked seasonal slump in the first four months of this year. Moreover, the velocity of deposits—that is, the speed with which deposits are being spent—has also slackened in the period January through April of this year. Whereas during the first four months of 1948 deposits turned over at an average of 13.6 times per year, in the same period this year deposit turns have dropped to an annual rate of 12.8.

GOVERNMENT SECURITIES . . . in country member banks declined $15 million in April, reflecting for the most part liquidations to meet the demand for loans and depositors' withdrawals. In contrast, city banks augmented their government security holdings by $3 million. Moreover, "other" security portfolios (mainly municipal and corporate bonds) in city banks rose $5 million as banks sought earning assets to replace shrinking loans.

REDUCED RESERVE REQUIREMENTS . . . were announced on April 29 to be effective in the first week of May. Reserve requirements against net demand deposits in cen-

tral reserve city banks were lowered from 26% to 24%, in reserve city banks from 22% to 21%, and in country banks from 16% to 15%. On time deposits the rate for all member banks was cut from 7½% to 7%.

Nationally, these reductions freed about $1.2 billion from required reserves. Of this, an estimated $25 million was released in our district member banks. These funds are now available to find their way into loans and investments or to be held as cash.

The tabulations of member bank assets and liabilities for the month of May will reveal the disposition made of the unfrozen reserves in the Ninth district. Data are now available only for the 20 weekly reporting banks for the first half of May. These figures show that city banks invested the bulk of their freed reserves in government securities, mainly Treasury bills. To a much lesser degree, correspondent balances were built up.

Loans in the first half of May in the 20 city banks continued declining as a result of lagging demand from business borrowers. END

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Mar. 30, 1949	Apr. 27, 1949	May 11, 1949	$ Change Mar. 30-Apr. 27
Assets				
Comm., Ind., and Ag. Loans	$ 253	$ 236	$ 217	—17
Real Estate Loans	63	64	64	+ 1
Loans on Securities	14	14	14	.....
Other (largely consumer) Loans	115	120	119	+ 5
Total Gross Loans & Discounts	$ 445	$ 434	$ 414	—11
Less Reserves	5	6	6	+ 1
Total Net Loans & Discounts	$ 440	$ 428	$ 408	—12
U. S. Treasury Bills	7	14	47	+ 7
U. S. Treasury C. of I.'s	131	126	128	— 5
U. S. Treasury Notes	14	14	20	.....
U. S. Government Bonds	444	445	452	+ 1
Total U. S. Gov't. Securities	$ 596	$ 599	$ 647	+ 3
Other Investments	82	87	90	+ 5
Cash and Due from Banks	411	418	438	+ 7
Miscellaneous Assets	14	15	16	+ 1
Total Assets	$1,543	$1,547	$1,599	+ 4
Liabilities				
Due to Banks	$ 240	$ 231	$ 270	— 9
Demand Deposits, Ind., Part., Corp.	699	725	745	+26
Demand Deposits, U. S. Gov't.	45	25	18	—20
Other Demand Deposits	187	196	192	+ 9
Total Demand Deposits	$1,171	$1,177	$1,225	+ 6
Time Deposits	257	256	255	— 1
Total Deposits	$1,428	$1,433	$1,480	+ 5
Borrowings	2	1	5	— 1
Miscellaneous Liabilities	14	14	15	.....
Capital Funds	99	99	99	.....
Total Liabilities and Capital	$1,543	$1,547	$1,599	+ 4

Assets and Liabilities of All Ninth District Member Banks [1]

(In Million Dollars)

	Mar. 30, 1949	Apr. 27, 1949	$ Change Mar. 30, 1949 Apr. 27, 1949	$ Change Apr. 28, 1948 Apr. 27, 1949
Assets				
Loans and Discounts	$ 903	$ 899	— 4	+113
U. S. Government Obligations	1,557	1,545	—12	—122
Other Securities	199	205	+ 6	+ 8
Cash and due from Banks and Res.	812	811	— 1	+ 37
Other Assets	28	30	+ 2	+ 3
Total Assets	$3,499	$3,490	— 9	+ 39
Liabilities and Capital				
Due to Banks	$ 273	$ 261	—12	— 23
Other Demand Deposits	2,061	2,064	+ 3	+ 38
Total Demand Deposits	$2,334	$2,325	— 9	+ 15
Time Deposits	940	937	— 3	+ 11
Total Deposits	$3,274	$3,262	—12	+ 26
Borrowings	2	2	0	+ 2
Other Liabilities	19	20	+ 1	+ 4
Capital Funds	204	206	+ 2	+ 7
Total Liabilities and Capital	$3,499	$3,490	— 9	+ 39

[1] This table 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 reports 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 the other liabilities are extrapolated from call report data.

BUSINESS

April Failed to Show Expected Recovery

THE upturn of business activity during April in some phases of the Ninth district economy fell short of the usual spring expansion.

The aggregate dollar volume of business transacted, as revealed by bank debits, increased during April over March, so that the volume equalled or slightly exceeded the level of a year ago, and the department store sales in April increased sufficiently so that the dollar volume again equalled that of last year.

The index of bank debits, adjusted for seasonal variation, rose by 14 points from March to April and was nine points higher than in April, 1948. Although bank debits are only an approximation of business activity, the increase is sufficient to warrant some attention.

On the other hand, factory employment continued to decline, falling materially below last year's figure, and the seasonal rise in building permit valuations fell noticeably short of the usual expansion.

On balance, April figures were somewhat disappointing to anyone who expected an upward movement in business trends.

DEPARTMENT STORE SALES IMPROVED IN APRIL; STOCKS HIGH IN SMALL CENTERS

Department store sales in April, for the first time since last December, again equalled the dollar volume of the corresponding month of a year ago. The index of department store sales, adjusted for seasonal variation, rose from 267 per cent for March to 292 per cent for April.

A breakdown of March sales by departments again reveals a significant lag in sales of major appliances. However, price reductions on these items as well as on others have brought some reluctant buyers into the market.

Department store stocks in this district have remained quite stable since the first of the year. The adjusted index for April stood at 309 per cent. The stocks held by stores in the smaller cities and towns continue to be much higher than in the larger cities. At the end of April, the adjusted index for country stores was 328 per cent as compared with 285 per cent for the city stores.

CUTBACK IN INDUSTRIAL PRODUCTION CONTINUED

The amount of electrical energy consumed by industrial concerns is a rough measure of their output over a relatively short period. Since January, the kilowatt hours of energy consumed has gone down. Among the large concerns, the downturn did not occur until February.

Employment in manufacturing concerns in April continued to decline. The state office of the Division of Employment and Security reports that in Minnesota this employment has reached the lowest level since June 1946. According to reports received by state unemployment offices, manufacturers anticipate only a small expansion in their operations during the next several months.

As a result of the continued decline in manufacturing employment, total employment in all types of non-agricultural establishments in the eastern part of this district in April for the first time fell below the level of a year ago. In the western part, which includes Montana, North and South Dakota, total employment still remains high. According to the Unemployment Compensation Commission of Montana, there are now about 2,500 more individuals employed in the state than ever before in April.

- ***Employment in April for the first time fell below the corresponding period of 1948.***
- ***Department store sales were bright spot in business picture.***
- ***Manufacturing and construction evidenced a further contraction.***
- ***Gradual transition from boom not paralleled by former periods.***

A comparison of the decline in kilowatt hours of electrical energy consumed and in employment leads one to the conclusion that the output of industrial products probably has fallen less than employment. This supports the prevailing opinion that the output per worker is gaining.

CONSTRUCTION OUTLOOK INDICATES FURTHER DECLINE

For the second consecutive month, the valuation of building permits issued by representative cities in this district fell below the total for the same month in 1948. Valuations in April were 16 per cent less and in March, 21 per cent less. For the first four months, the valuations ag-

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-39 = 100)

(Mo.)	Apr. 1949	Mar. 1949	Apr. 1948	Apr. 1947
Bank Debits—93 Cities	328	314	319	300
Bank Debits—Farming Centers	395	375	394	342
Ninth District Department Store Sales	292p	267	293	265
City Department Store Sales	298p	277	301	277
Country Department Store Sales	286p	256	285	253
Ninth District Department Store Stocks	309p	300	340	269
City Department Store Stocks	285p	263	298	258
Country Department Store Stocks	328p	330	374	277
Country Lumber Sales	141	154	147	124
Miscellaneous Carloadings	128	130	133	133
Total Carloadings (excl. Misc.)	149	93	151	141
Farm Prices (Minn. unadj.)	231	232	274	254

p—preliminary.

NOTE: Since the monthly department store sales and stocks are returning to the pre-war seasonal pattern, the seasonal adjustment factors for these indexes have been revised.

gregated five per cent less than in the corresponding period of 1948.

Public building, highway construction, and public utility plant expansion constitute a large proportion of the total. The electrification of farms has created a large demand for electrical energy. With the return of favorable weather, residential building has increased, but it is still substantially below a year ago.

PRESENT TRANSITION PERIOD DIFFERS FROM FORMER PERIODS

In many respects, the present business situation is without parallel in former periods of transition from boom to recession. Since 1930, legislation and national policy have brought about some basic changes in the economy which may have modified, in some measure, the course of the business cycle.

1) Federal governmental expenditures in the next fiscal year may reach a new peacetime record.

In the President's budget message for 1950, total payments by the federal government to the public were estimated at $46 billion. The appropriations approved by the House, to date, are more than $4 billion ahead of last year.

National defense is the largest item in the budget, totaling over $14 billion. On April 9, the House appropriations committee approved $15.9 billion for the military program, which exceeds the President's request. The total voted last year by Congress was $10.5 billion.

The above appropriation does not include expenditures on arms for western Europe under the North Atlantic Pact. The State and Defense departments have prepared a program amounting to $1.8 billion, which includes transfers of existing military stocks and, therefore, is not completely a monetary outlay.

2) Credit stringencies did not cause the recent boom to come to an end.

Interest rates have remained low for a boom period. The rediscount rate at the Minneapolis Federal Reserve bank in 1920 was six and seven per cent, and in 1929, 4½ and 5 per cent, while at the present time it is still 1½ per cent. The yield of long-term government bonds is still less than 2½ per cent, which is less than one-half of the prevailing yield in 1920.

The tightening of credit in the recent boom has been primarily in the estimate made by credit men of future business conditions.

3) The Marshall plan initiated to rebuild Europe may prevent a sharp decrease in the exports of United States merchandise such as took place in 1920 and in 1929.

As it has turned out, the Economic Cooperation Program did not add as much to the inflationary pressures as was feared and proved to be a lesser drain on the nation's resources than had been anticipated; it has resulted in a more gradual tapering off in the foreign demand for United States merchandise than otherwise would have been the case.

Congress has appropriated $5.5 billion for western Europe, which may be spent over the ensuing 15 months. Thus, the program will continue to support exports of United States merchandise.

4) As the present boom progressed, consumer purchasing power held up well as compared with former booms.

The personal holdings of liquid assets at the beginning of 1948 were estimated by the Board of Governors of the Federal Reserve System at the

Concluded on Page 698, Column 2

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	April [1]	Per Cent Change [2] From Year Ago April	Jan.-Apr.
Minneapolis	324	+ 4	— 2
St. Paul	277	+ 1	— 7
Duluth-Superior	308	+ 8	+ 0
Aberdeen	356	—12	—11
Bismarck	344	+ 5	— 2
Fairmont	309	+ 1	— 6
Grand Forks	397	+17	+ 3
Great Falls	345	+14	+ 1
La Crosse	283	+12	— 5
Mankato	328	+22	+ 1
Minot	340	+ 4	— 8
Rapid City	347	— 6	—11
Rochester	266	+13	+ 1
St. Cloud	350	+ 1	— 6
Sioux Falls	361	+ 7	— 1
Valley City	225	—10	— 5
Willmar	290	+ 1	+ 1
Yankton	319	— 6	—17

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.

Sales at Ninth District Department Stores [1]

	% Apr. 1949 of Apr. 1948	% Jan.-Apr. 1949 of Jan.-Apr. 1948	Number of Stores [2] Showing Increase	Decrease
Total District	105	97	191	71
Mpls., St. Paul, Dul.-Sup.	103	97	20	9
Country Stores	107	97	171	62
Minnesota	111	99	49	16
Central	101	92	4	4
Northeastern	108	104	4	0
Red River Valley	89	88	2	2
South Central	123	102	11	3
Southeastern	111	101	10	4
Southwestern	114	98	18	3
Montana	111	100	31	6
Mountains	106	100	10	3
Plains	114	101	21	3
North Dakota	109	96	42	6
North Central	117	95	9	1
Northwetsern	104	91	5	1
Red River Valley	108	96	17	2
Southeastern	105	102	9	2
Southwestern	(3)	(3)	.....	.....
Red River Valley-Minn. & N. D.	105	95	19	4
South Dakota	100	93	13	11
Southeastern	105	95	4	2
Other Eastern	92	90	5	6
Western	105	95	4	3
Wisconsin and Michigan	103	94	36	23
Northern Wisconsin	107	99	11	5
West Central Wisconsin	104	94	19	14
Upper Peninsula Michigan	99	93	6	4

[1] Percentages are based on dollar volume of sales.
[2] April 1949 compared with April 1948.
[3] Not shown, but included in totals. Insufficient number reporting.

AGRICULTURE

Spring Wheat May Set Size of Crop Surplus

- ***Record spring wheat acreage was planted this spring.***
- ***Record grain stocks indicate serious farm storage problem likely if new crop is average or better.***
- ***Farm storage is necessary to take full advantage of price support program.***

ANOTHER bumper winter wheat crop is practically in the bin. In fact, the May 10 estimate was for a total winter wheat crop in excess of one billion bushels, and prospects for a big crop apparently have improved during May.

A billion bushels of wheat is enough to meet domestic requirements plus at least 300 million bushels of exports. Spring wheat production may, therefore, measure approximately the amount of wheat surplus that may be added to the carry-over a year from now. It will, unless the government in one way or another is able to export more than 300 million bushels of wheat. In order to keep surpluses down the government may attempt to export 400 to 450 million bushels from the 1949 crop.

Last year the total production of spring wheat, including durum, amounted to almost 300 million bushels or approximately one-fourth of total U. S. wheat production. Of this amount, the Ninth Federal Reserve district produces approximately 85 per cent of spring wheat other than durum, and it produces almost 100 per cent of the durum wheat.

Total U. S. carry-over of all old wheat by June 30, this year, is expected to be nearly 300 million bushels. Assuming the spring wheat crop amounts to 250 million bushels (the 1933-46 average), carry-over in mid-1950 may approximate 500-550 million bushels. The actual amount will depend to a considerable extent on the amount of wheat the government will succeed in exporting under various relief programs as well as under normal trade outlets.

If a better than average spring wheat crop materializes, the carry-over in mid-1950 will be correspondingly higher and it may easily be the second largest on record. Such a huge carry-over would seriously depress wheat prices were it not for artificial market pegs. Artificial influences such as loans at support prices and outright purchases may have a bearing for a time on the market but, in time, supply and demand factors will dominate.

If support prices are continued above free market prices, it would seem that the only alternative open is for severe and rigid production controls to be applied beginning with the 1950 wheat crop.

EARLY PROSPECTS FOR SPRING WHEAT NOT FAVORABLE

A record spring wheat acreage has been planted in the Ninth district. In fact, there seems to be a tendency this year to go "all out" on both wheat and flax production.

Much marginal and sub-marginal land in northwestern South Dakota and in parts of North Dakota and Montana have been broken this spring and planted to wheat and flax. Part of this may be a result of more machinery and partly due to a desire to establish a larger base for the inevitable acreage and production controls.

Fall and winter moisture was deficient in most spring wheat areas, and up until early May it had been unusually dry in the small grain areas. Fortunately, the rain came in early May, covering most of the Dakotas and the area east. This area as a whole is now in good shape.

Northern Montana and the extreme northwestern corner of North Dakota were critically dry until May 18, when life-saving rains up to 1⅓ inches covered this area. Up until this time, pastures were practically dried up and spring planted grains lay unsprouted in the dry soil. Summer fallowed crops were the exception in this drouth area, although stooling and growth had been noticeably retarded.

It's a long way to go yet before Ninth district crops are made, but the "break" of the early season drouth gives new hope. Normally, the most critical time for the district western crops is the late June and July period.

CANADIAN PRAIRIE PROVINCES GET MUCH NEEDED RAIN

Not only did the Northwest get needed moisture, but it also extended into the Canadian prairie provinces,

Spring Wheat Acreage Planted in Ninth District States*

STATE	Average 1938-47	1948	1949 Prelim.	1949 as % of 1948
		(In thousand acres)		
Minnesota	1,247	924	970	105%
Montana	2,774	3,396	3,702	109
North Dakota	6,886	6,763	7,236	107
South Dakota	2,660	3,472	3,507	101
	13,567	14,555	15,415	

*Data from United States Department of Agriculture.

Stocks of Wheat April 1 in Ninth District States*

STATE	Off-Farm 1948	Off-Farm 1949	On-Farm 1948	On-Farm 1949
		(In thousands of bushels)		
Minnesota	11,626	17,605	5,984	6,478
Montana	4,796	12,640	16,990	33,502
North Dakota	9,471	21,832	55,626	65,558
South Dakota	2,683	5,025	19,842	22,172
	28,576	57,102	98,442	127,710

*Data from the United States Department of Agriculture.

where conditions had been extremely critical.

The greatly improved prospects for the spring wheat crop in the Northwest and in Canada has weakened cash wheat and the futures market. Normally, wheat prices weaken seasonally as the new crop approaches harvest and the larger the crop the more serious the price decline.

Last year, cash wheat sold off the farm at harvest at around 18 cents below the support price. This spread was due to farmers having inadequate storage space to take advantage of the loan.

This year the current spread between the cash price and July futures indicates that cash wheat from the new 1949 crop may sell as much as 25 cents below the loan rate. This may be true because the pressure on storage space may be even greater this year as a result of increased grain carry-over supplies from last year's crop.

EUROPE'S WHEAT PROSPECTS HAVE BRIGHTENED

Until about mid-May, wheat prospects in Europe had been deteriorating. More recently, however, rains have been reported, and if conditions continue favorable wheat production may equal last year's large output. Brightening crop prospects in Europe may rule out continued exports of wheat from the U. S. of 400 to 500 million bushels.

The Senate has not yet ratified the International Wheat Agreement, but if approved it provides for exports of 168 million bushels of wheat at $1.80 a bushel. At current domestic wheat prices, this may add up to a loss of as much as $84 million on our export quota.

The experts figure, however, that this may be a cheap price to pay for a market guarantee of this much wheat in the next three years. However, it may be significant that there is nothing in the agreement which will compel foreign countries to buy our wheat if they can get it cheaper elsewhere.

APRIL 1 WHEAT STOCKS MUCH ABOVE LAST YEAR

If another large wheat crop is produced in the Ninth district this year, it may put considerable strain on storage facilities. Both farm and off-farm storage stocks of wheat on April 1 were substantially larger than a year earlier, and unless these are moved out before the new crop matures some grain may have to be piled on the ground.

Under the price support loan program the government took over a substantial part of wheat stocks on April 30—probably about 300 million bushels. Part of this wheat is at terminal storage points where 70 to 80 per cent of terminal storage stocks are reported as government owned wheat. These grain-terminal facilities at the first of May were reported loaded to 43 per cent of capacity compared with only 24 per cent at the same time last year. At this time of year elevators are at about the year's seasonal low point in stocks.

The balance of CCC wheat is in farm storage and in country elevators. This is the point of immediate pressure, however, since it is necessary to clear these facilities in the near future for the new crop.

In view of the permanent farm price support programs now shaping up, it is increasingly recognized that more farm storage space is needed. Without adequate storage, farmers cannot take full advantage of the government price support programs. The spread between the loan price and market price at harvesting season last year, and prospects for an even larger price spread this year is proof of this.

In addition to huge reserves of wheat as of April 1, stocks of corn were the largest on record and barley and oats were at near record levels. This adds further to the farm storage problem for the new crop year.

FARMERS CAN RENEW LOANS ON FARM-STORED WHEAT, OATS, AND BARLEY

In an effort to slow down the movement of loan and purchase agreement grain off farms in excess of market requirements, the government in mid-May announced a program permitting farmers to keep the grain on the farm.

If wheat farmers take advantage of this resealing program, they will

Average Prices Received By Farmers, Ninth District*

Commodity and Unit	April 15 1937-41 Avg.	April 15 1948	April 15 1949	Parity Prices [1] United States April 15, 1949
Crops				
Wheat, bushel	$0.84	$ 2.40	$ 1.98	$ 2.17
Corn, bushel	.59	2.09	1.10	1.58
Oats, bushel	.31	1.14	.60	.982
Potatoes, bushel	.66	1.72	1.51	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.29	20.06	18.54	17.90
Beef Cattle, 100 lbs.	7.12	21.06	19.81	13.30
Veal Calves, 100 lbs.	8.25	22.77	25.42	16.60
Lambs, 100 lbs.	8.34	20.19	24.78	14.50
Wool, lb.	.26	.44	.53	.450
Milk, wholesale, 100 lbs.	1.48	3.97	2.89	3.94
Butterfat, lb.	.29	.89	.65	.647
Chickens, live, lb.	.124	.200	.268	.280
Eggs, doz.	.157	.390	.381	.529

*Data compiled from U.S.D.A. Agricultural Prices, April 29, 1949.

[1] 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, 1910-14.

January-March Cash Farm Income [1]

(Thousands of Dollars)

STATE	1935-1939 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 76,843	$ 311,460	$ 277,122	89%
North Dakota	17,388	138,959	85,147	61
South Dakota	23,345	139,976	125,778	90
Montana	12,874	67,796	56,614	84
Ninth District [2]	148,196	721,137	598,612	83
United States	1,680,482	6,270,226	6,081,029	97

[1] Data from The Farm Income Situation, April, 1949.

[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

receive an immediate storage payment of 7 cents a bushel for the 1948-49 storage period, and they will receive from 10 to 11½ cents for the 1949-50 period on wheat delivered to CCC at maturity of the loans.

According to a government news release, oats and barley will receive no storage payments for the 1948-49 storage period, but payments amounting to 8 cents a bushel for oats, and 10 cents for barley, will be made for the 1949-50 period for grain delivered to the CCC at the maturity of the loans.

It is too early to determine the extent to which farmers of the Ninth district may reseal their grain. If a large grain crop materializes, farmers may reseal only a small amount because they must move out old grain to make room for the new crop.

On the other hand, if the crop promises to be short, farmers may decide to reseal in order to take advantage of the storage payment and to have grain available for a possible emergency. END

APRIL FAILED TO SHOW EXPECTED RECOVERY

Continued from Page 695

then record figure of $172.0 billion. This included the holdings of currency, demand and time deposits, savings and loans shares, and U. S. government securities.

5) Prices have declined slowly —thus far—from the peak reached in 1948 as compared with former deflationary periods.

In the recession of 1920, the prices of all commodities declined by 44 per cent from May 1920 to June 1921. The prices of agricultural products declined even more sharply. These prices reached a peak in January 1920, and by June 1921 they had fallen by 54 per cent. In the depression which followed 1929, the prices of all commodities fell by 38 per cent and prices of farm products by 62 per cent. The low point was reached in 1933.

In the present period, the prices of all commodities reached the peak in August, 1948. Since that time the decrease has been seven per cent. Agricultural product prices reached the highest peak in January 1948, and they have dropped by 14 per cent.

The agricultural price support program has been a major force in preventing a sharp drop in farm prices, even though the prices of some grains have declined below the support level due to inadequate storage facilities and an inferior quality of grain. The parity formula has tied the prices of agricultural products to those of other commodities.

These basic changes have had some effect on the functioning of the economy. Consequently, past periods of transition cannot be used as a blueprint of the present course of business conditions. Rather than using past periods of recession as a guide, one must watch closely developments from month to month to decipher the trend. END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MAY 26, 1949

INDUSTRIAL output declined further in April and the early part of May. Prices of industrial commodities were reduced further, while prices of farm and food products continued to show little change. Construction awards showed a marked seasonal expansion. Value of department store sales increased to close to the advanced level prevailing a year ago.

INDUSTRIAL PRODUCTION—Industrial production, as measured by the Board's seasonally adjusted index, declined further in April to 179 per cent of the 1935-39 average as compared with 184 per cent in March and 195 per cent in November 1948. Present indications are that in May manufacturing has continued downward and that there has also been some decline in output of minerals, which had increased in April.

Open hearth steel production declined 3 per cent in April from the record March level, and output at electric furnaces, which accounts for only a small part of total steel output, was curtailed by 23 per cent to the lowest rate since January 1948. Activity at steel mills has continued to decline in May. Assembly of passenger automobiles increased sharply in April to the highest rate of the postwar period; a strike at plants of one major producer, however, has curtailed activity in May.

Output of most types of machinery in April declined considerably further. Deliveries of nonferrous metals to fabricators were sharply reduced, as prices and private purchases dropped; refinery output of most nonferrous metals, however, was maintained at a high level, reflecting in part government demands for stockpiling. Output of most building materials, after allowance for usual seasonal changes, decreased somewhat further.

Nondurable goods output declined about 4 per cent in April, reflecting mainly further marked reductions in the textile, paper, and chemical industries, as a result in part of seasonal influences not currently allowed for in the Board's adjusted indexes. Rayon production and deliveries to textile mills decreased sharply, and, according to trade reports, activity in the wool textile industry was reduced further. Cotton consumption declined 8 per cent in April. Activity at paper mills decreased about 5 per cent, while paperboard production was maintained at the reduced March level. Newsprint consumption increased slightly, and output of manufactured foods was maintained at the March level.

Minerals production advanced about 8 per cent in April, reflecting chiefly the ending of the work stoppages at coal mines. Iron ore production was in exceptionally large volume for this season. Crude petroleum output, however, was curtailed further by about 4 per cent.

CONSTRUCTION — Value of construction contracts awarded in April, according to the F. W. Dodge Corporation, was one-eighth larger than in March, reflecting increases for private residential building and public works and utilities. Private awards continued considerably smaller than a year ago, while public awards were about one-third larger. The number of permanent residential units started in April, as estimated by the Bureau of Labor Statistics, rose from 62,000 to 86,000 but was still considerably below the postwar peak of 100,000 units in April and May 1948.

EMPLOYMENT — Employment in non-agricultural establishments continued to decline in April, after allowance for seasonal changes, owing mainly to further reductions in most manufacturing industries. The average work week in manufacturing was also reduced further. Construction employment, which had lagged in March, rose somewhat more than seasonally in April. Employment in most other non-agricultural lines showed little change.

DISTRIBUTION — Value of department store sales increased more than seasonally in April and the first half of May. Allowing for the later date of Easter this year, sales in this period were only about 3 per cent below the high level in the corresponding period last year. Since retail prices were moderately lower than a year earlier, little change in over-all unit sales at department stores was indicated.

Carloadings of railroad freight were in larger volume in April and the early part of May, mainly because of the recovery in coal shipments from the reduced March rate. Loadings of most other classes of freight declined somewhat further, after allowance for seasonal changes.

COMMODITY PRICES—Prices of agricultural commodities continued to show little change from mid-April to the third week of May, while prices of industrial commodities generally declined further. Prices of scrap metals continued to weaken and refined copper was cut from 23.5 cents per pound to below 18 cents. Prices of some other industrial materials, however, like burlap, hides, and wool tops, were quite stable in this period.

The consumers' price index showed little change in April as further small advances in rents and in prices of meats and miscellaneous items were largely offset by declines in prices of most other groups of goods and services.

BANK CREDIT — Required reserves of all member banks were decreased by about $1.2 billion in early May when the reduction in reserve requirements announced by the Board of Governors in late April became effective. Banks used most of the released funds to purchase both short-term and longer-term government securities. Reserve bank holdings of government securities declined by about $1.5 billion during the first three weeks of May. The market for Treasury bonds continued active and System sales of these issues amounted to about $500 million.

Business loans declined by $1 billion at banks in leading cities during April and the first half of May; somewhat over half the decline occurred at banks in New York and Chicago. Real estate and consumer loans showed little change.

SECURITY MARKETS — Prices of common stocks fluctuated within a narrow range, and high-grade corporate bonds changed little in the first three weeks of May.