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

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Loan Demand Up in Country, Down in Cities

Special Survey Among 9th District Member Bankers Reveals Divergent Trends in Loan Demand, with an Over-all Policy of Caution

By JUDITH A. WEISS

BRISK demand for short-term farm credit — in many cases ..tripping that of a year ago—is ..rently reported by Ninth district ..ntry bankers.

Bankers in larger cities, however, ..e a different story to tell as cut- ..ks in business inventories and ex- ..sion plans have resulted in a ..gish demand for commercial and ..dustrial loans.

Throughout the district, generally, ..kers concur that demand for con- ..er credit is riding high.

These conclusions are based on a ..vey of the loan situation during ..rch, April and May conducted by .. Federal Reserve Bank of Min- ..polis in 50 member banks located .. key areas throughout the district, .. on reports of field representa- ..es of this bank who have recently ..mpleted visits to Ninth district ..nks.

..CREASED DEMAND FOR FARM ..ANS MORE THAN SEASONAL

The wave of demand for short- ..m farm credit has been due largely ..spring planting operations; farm- .. have sought funds with which ..buy seed, fertilizer, fuel oil and ..hinery.

This year, however, several factors ..nified the usual springtime de- ..d for farm loans. The farmer's ..ketbook has been hit by the de- ..ing trend in farm prices, coupled .. the relatively rigid high costs ..he things he buys. While sav- .. bond holdings and savings de- ..ts have been kept pretty much ..t, cash reserves of farmers have .. soaked up to a considerable ex- .. Moreover, machinery and ..pment which farmers may desire ..uy are now readily available. .. was much less generally the .. a year ago.

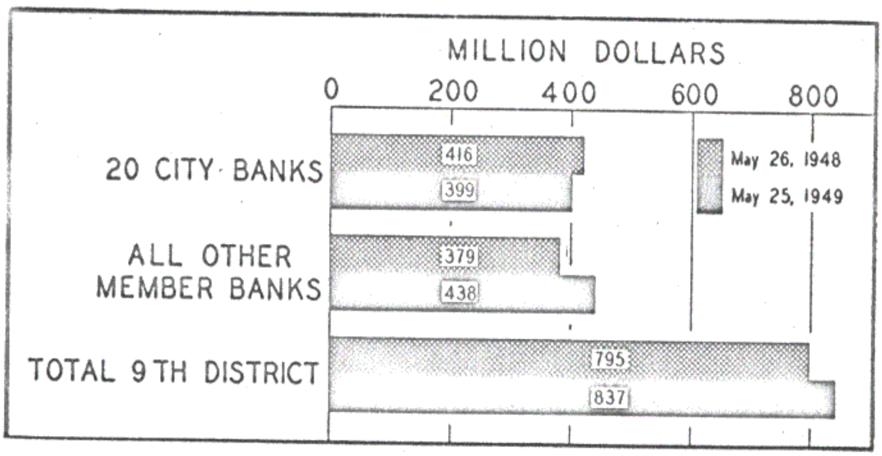
..n the whole there appears to be ..mple supply of short-term farm credit available in Ninth district country banks. Many bankers, however, reported that they are turning down an increasing number of loan applications. For the most part, they are shying away from credit extension for marginal or submarginal farm operators. Moreover, loans collateralized by heavy machinery and used machinery are considered doubtful risks in the strictly cash-grain areas of the Dakotas and Montana. (See agricultural section for further discussion of farm loans.)

In general, the larger city banks are currently experiencing a lull in demand for commercial and industrial loans. To some extent, this slackening is seasonal. Loans to grain dealers, who are among the largest customers of Ninth district city banks, are typically low in the late spring and early summer months —the tail-end of the crop year.

Perhaps of greater significance than the seasonal influence, however, has been the slowing down of business activity in general. As deflationary winds have blown across the country, businessmen have adopted cautious inventory policies. Expansion plans have been curtailed, making internal funds available for working capital purposes.

These factors have reduced credit

TOTAL LOANS OUTSTANDING IN ALL NINTH DISTRICT MEMBER BANKS, MAY 26, 1948, AND MAY 25, 1949



STRONG DEMAND for farm credit has boosted total country bank loans over those of a year ago, while sagging demand from business borrowers is reflected in a reduced volume of city bank loans this year.

requirements in the larger cities of the Ninth district, as well as in the business and industrial centers of the nation generally.

Business loan demand has also been in the doldrums in the northern Minnesota and Upper Michigan areas which are dependent on lumbering, pulpwood, and related industries. Curtailed operations in these lines, as well as in the copper mines of Michigan and Montana, have depressed demand for business loans in these localities.

In contrast, the iron range in northern Minnesota has continued to enjoy almost full-scale operations, food processing plants are running in high gear, and commercial fishing along the Lake Superior coast line of Michigan and Wisconsin is providing a stable, dependable source of demand for business loans.

In country areas, there are frequent requests for floor plan loans for financing inventories of durable consumers' goods. Bankers have become increasingly selective in such lending, however, and are stressing nationally-advertised appliances.

Currently, demand for business loans in many regions of the Ninth district is getting a shot in the arm from tourist and resort enterprises. While a good year is in prospect, banks are carefully screening applications for these loans and in most cases are refusing credit for extended expansion of resort facilities or new business ventures.

PRICE FACTOR SHIFTING MORTGAGE CREDIT USE

The demand for real estate loans in Ninth district member banks presented a mixed picture. In country areas many bankers reported they have about as much invested in farm real estate loans as they care to take on. In other areas where housing shortages apparently still exist, bankers are adding cautiously to their real estate portfolios.

In the larger cities, current demand for mortgage credit has held up to about the level of the same months a year ago, but the public has become noticeably more mindful of price. Demand is centered on lower-priced houses of about $10,000 and under, while many homes in the higher-price brackets are lying dormant.

Total Loans Outstanding in All Ninth District Member Banks by State, May 26, 1948 - May 25, 1949

(In Millions of Dollars)

	May 26, 1948	May 25, 1949	$ Change	% Change
Minnesota	$ 527	$530	$ + 3	+ 1%
Montana	83	93	+10	+12
North Dakota	37	43	+ 6	+16
South Dakota	70	88	+18	+26
Michigan (15 counties)	36	40	+ 4	+11
Wisconsin (26 counties)	42	43	+ 1	+ 2
Ninth District	$795	$837	$ +42	+ 5%

Throughout the district reports indicated that many potential buyers lack the required down payment and that this has become an increasingly important deterrent to mortgage lending.

DEMAND FOR CONSUMER FINANCING HEAVY

Consumer instalment lending in recent months has been a stronghold of demand for bank credit in practically all areas of this district. Automobile financing has been the major prop to this demand as cars have reappeared on the market. The current bulge in automobile sales is also partly explained by the usual springtime upswing.

In regions where plant lay-offs and shorter work weeks have cramped workers' financial positions, there has been an increased demand for personal loans for the consolidation of debts.

While there has been considerable call for loans to finance the purchase of appliances, it appears that a buyers' market for these goods is generally ruling. Potential purchasers are price conscious and are looking for bargains. In many rural areas the introduction of electricity under the Rural Electrification Administration has created a demand for electric stoves, washing machines, radios and other appliances, and banks are playing a leading role in financing such purchases.

Consumer loan applications account for a big share of the loan rejections currently being made by banks. Requests for skimpy down payments and too long terms are being turned down, and in many cases borrowers seeking personal loans have poor credit standings and uncertain outlooks for future income. In automobile financing, used car loans are being refused or whittled down because of the declining price trend in used car values as the market adjusts itself to a lower level.

COLLECTIONS HAVE SLOWED, BUT NOT ALARMINGLY

Collection experience in many Ninth district banks is currently maintaining the satisfactory pattern of prompt payments of the past few years. A growing number of banks, however, report that loan collections have slowed slightly, although not to an alarming extent. For the most part, slower collections appear to be a counterpart of readjustment to a more normal pace of business activity.

Evidence of delinquent accounts has been very spotty, and forced liquidations are reported in only a few scattered instances. In city banks, while, generally, overdue accounts are not a serious problem, it is true that payments are somewhat less prompt than during the past two years or so when the economy was riding the crest of the boom.

In many reports, bankers indicated that they are devoting more time to servicing loans to avert collection difficulties—loan cases are being carefully watched and slow accounts assiduously followed up. Some banks have bolstered loan service activities by added personnel.

CHANGES IN LENDING TERMS ARE MODERATE

In the banks surveyed, lending policies appeared to be fairly stable. In country areas there was some evidence of a tightened credit situation. Several bankers reported that interest rates have firmed slightly, strengthened collateral is being required, and maturities have been

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BUSINESS

Production Slips as Sales Hold Steady

ANY recession the economy of this district has experienced appears to be concentrated largely in manufacturing, a look at business conditions in early June indicates. Consumer buying and construction have held up quite well so far this year, while manufacturing has declined for several months—although the usual spring rise in manufacturing, in effect, arrested the contraction during May.

The sale of some specific consumer items has slumped significantly but, in general, sales have held up quite well when an allowance is made for the decline in retail prices in dollar sales. It must be kept in mind that department store sales represent a wide segment of consumer buying.

May sales were down from April, but were still at a relatively high level. The index adjusted for seasonal variation stood at 273 per cent of the 1935 to 1939 average. As compared with a year ago, dollar sales were down by six per cent. Preliminary figures for the first part of June indicate that sales have continued at approximately the same volume.

Passenger car sales have been a buoyant factor in the economy thus far in 1949. During the first four months, sales in North Dakota were 43 per cent higher and in South Dakota 13 per cent higher than a year ago. The larger sales account, in a substantial measure, for the decline in bank deposits. As payments are made for the cars, the deposits are shifted from this region to the automobile manufacturing areas.

Commercial truck sales, on the other hand, are up in some states and down in others. For instance, during the first four months, sales in North Dakota were 31 per cent higher as compared with the same period in 1948, while in South Dakota the sales were down by eight per cent.

In the aggregate, a comparable level of business activity was maintained in this district between April and May. The index of bank debits, adjusted for seasonal variation, stood at 324 per cent for May—a decrease of only four points from the previous month. This still represents a high level of business activity.

CONSTRUCTION INDUSTRY DISPLAYS MIXED PATTERN

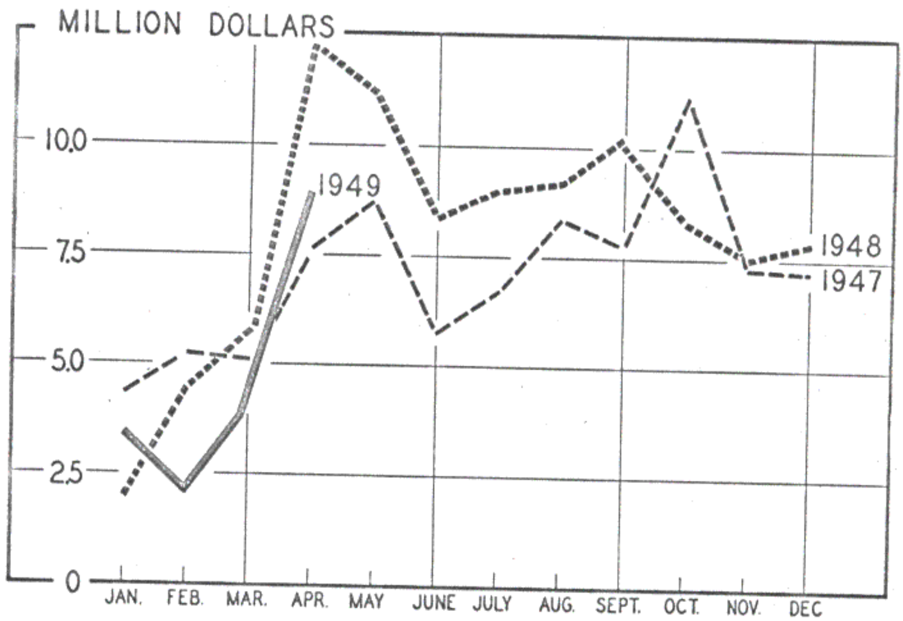
Construction activity has expanded noticeably from the low level of mid-winter. Moreover, this expansion has taken place at a time when wage negotiations were in progress. Several contractors in this area are of the opinion that a settlement of the wage differences may result in a further expansion of activity.

Home building has lagged significantly in comparison with the peak level of activity in 1948. The dollar amount of residential contracts awarded during the first four months, as compiled by the F. W. Dodge Corp., was one-fourth less than the same period a year ago. However, in recent weeks there has been a marked come-back in residential building. The increase in the amount of contracts awarded from March through April was greater than last year, and the April total exceeded the 1947 figure by 15 per cent.

Residential building a year ago was at a record level. The amount of contracts awarded reached a peak in April and May and fell off gradually during the summer. Even though fewer houses are being built now as compared with last year, resi-

- ***Manufacturing employment in the district leveled off in May.***
- ***Passenger car sales highlighted sustained consumer buying. Department store sales were within 6% of a year ago.***
- ***Public building and highway work boosted construction total. Home building in 1949 gives promise of becoming second best postwar year.***
- ***Down payments on large items have remained above Regulation W minimums.***

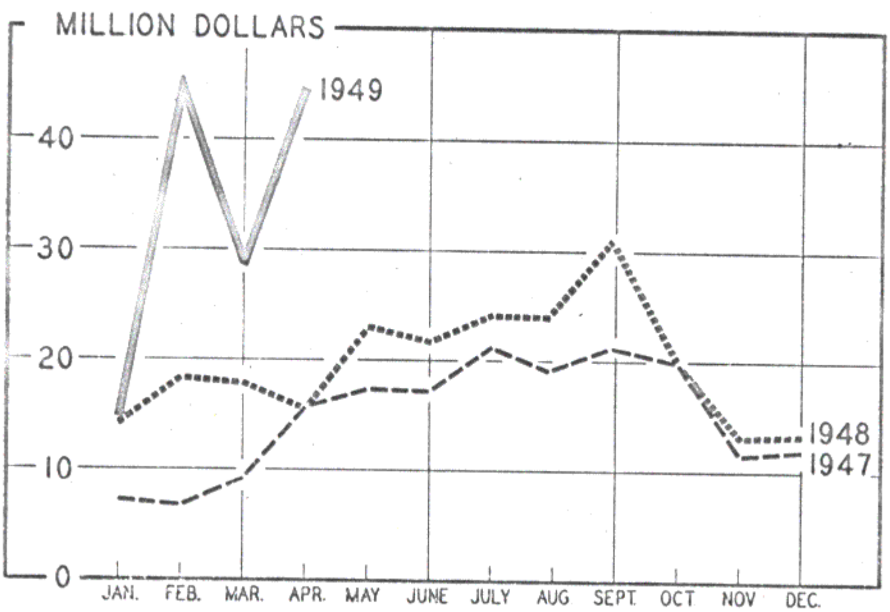
NINTH DISTRICT RESIDENTIAL CONTRACTS AWARDED, 1947-49



ALTHOUGH residential construction is below the record level of 1948, it has surpassed 1947, which was also a very high year.

Source: F. W. Dodge Corporation.

NINTH DISTRICT CONSTRUCTION CONTRACTS AWARDED, EXCLUSIVE OF RESIDENTIAL, 1947-49



IN 1949, the volume of construction, excluding dwelling units, has thus far greatly exceeded the peak year, 1948. It was still a major factor in maintaining the present high level of prosperity.

Source: F. W. Dodge Corporation.

dential building is still at a relatively high level. In fact, 1949 may still prove to be the second-best postwar year in home construction.

With a satisfactory supply of building materials, the prospective home owner determines the level of construction. Costs have started to decline, and, if they continue, more families will be brought into the housing market.

On the basis of the E. H. Boeckh and Associates index, the cost of building frame or brick houses in the Twin Cities during April was only two per cent below the 1948 figure. The costs to the prospective owner, however, have fallen more than is reflected by the index. It is now possible to secure a fixed bid contract without large contingency markups, premium payments for materials, and excessive overtime labor charges. Such items were not included in the index.

Other types of construction, especially schools, hospitals and highway construction, are far above the 1948 level. The dollar amount of contracts awarded for all types of construction, except residential, in this district during the first four months of this year was double the amount for the corresponding period of 1948. The construction industry during this period of price readjustment is an important factor in the prosperity of this region.

CONTRACTION IN INDUSTRIAL ACTIVITY HALTED IN MAY

Manufacturing employment in Minnesota leveled off in May, according to the report released by the Minnesota Division of Employment and Security. The number of workers employed at mid-May was only 177 less than at mid-April. As compared with a year ago, the employment was down by 2.7 per cent.

In Montana, manufacturing employment continued to increase by approximately 100 workers between April and May. The increase over the past several months, however, has not been sufficient to absorb all of the available labor supply. Insured unemployment is about 60 per cent above last year. According to the Unemployment Compensation commission, the expanded labor force is due, in part, to the immigration of workers from the surrounding states. These workers have been attracted to the state by the wide publicity given to the large reclamation projects.

Average weekly earnings in Minnesota manufacturing industries reached a peak in the fall of 1948. Since that time, there has been a gradual decline which is attributed almost entirely to a decrease in the number of hours worked. The average weekly earnings of production workers in mid-May were $53.75, which was still 65 cents higher than a year ago.

CONSUMER CREDIT TERMS REMAIN ABOVE MINIMUM

The down payment and maturity requirements under Regulation W have been relaxed twice since it was reinstated on September 20, 1948. Originally, a down payment of 20 per cent was required on all articles, except automobiles, which were covered by the regulation. A minimum down payment of 33⅓ per cent was required on automobiles. The maturity of instalment credit was limited to 15 months for an amount not exceeding $1,000 and to 18 months for an amount over $1,000.

On March 7, 1949, the minimum down payment on all articles, except automobiles, was reduced from 20 to 15 per cent. The maximum maturity on instalment credit was extended from 15 and 18 months to 21 months.

On April 27, 1949, the restrictions on consumer credit were relaxed a second time. The down payment on all articles, except automobiles, was reduced from 15 to 10 per cent. The maturity on the credit was extended from 21 to 24 months. Furthermore, small purchases exempt from the regulation were raised from $50 to $100.

In general, retailers have required larger down payments and shorter maturities than those required by the regulation.

SEASONAL RISE IN CONSUMER CREDIT

Consumer purchases on credit rose during May, evidencing a seasonal trend. With the return of a buyers' market, consumers tend to purchase items only when they are in need of them. With the approach of summer, a number of large items, such as refrigerators and automobiles, are in greater demand. Such items are frequently sold on credit.

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AGRICULTURE

District Farmers in Good Shape Financially

DESPITE increased short and long-term farm debt — nationally — the financial health of the farmer is excellent.

For the country as a whole, bank deposits and currency owned by farmers on January 1, 1949, were nearly four times what they were in 1940. Farmers now own an estimated $5 billion of war bonds compared with less than one-quarter billion in 1940. Also, farmers' investments in cooperatives have increased roughly 2½ times pre-war levels and now total more than $2 billion.

Exact data on farmers' financial assets are not available for the Ninth district. It is believed, however, that farmers in this area, and particularly so in the cash-grain sections, have been able to build up even more favorable financial reserves than is true for the country as a whole.

One indication of this is the trend in Ninth district demand deposits of country member banks compared with the trend for the country as a whole. (See accompanying table.)

Demand deposits in North Dakota country banks have increased from less than $13 million in 1941 to about $87 million by the latter part of May —nearly a seven-fold increase.

In both South Dakota and Montana, the increase in demand deposits has exceeded five times the 1941 average. Furthermore, reports from bankers indicate that safety deposit boxes are well filled with savings bonds. Bond redemptions thus far have been relatively small in Ninth district rural areas. Farmers seem to prefer to borrow from the bank, if necessary, to have funds for short periods of time rather than cash bonds.

In Minnesota and the eastern part of the district, the increase since 1941 in farmers' demand deposits has approximated 3½ times—which is substantially less compared with the western areas. (See table.)

NON-REAL-ESTATE FARM LOANS NEARLY DOUBLE PRE-WAR

During the war, farmers' short-term bank loans in the Ninth district held relatively steady. Immediately after the war, however, farm loans slanted upwards, and during 1947, 1948, and thus far in 1949, the increase has been at an accelerated pace. (See special article on page 1.)

Short-term bank loans to farmers are now estimated at more than double what they were when the U. S. entered the war. These loan estimates do not include CCC loans, which have greatly expanded in the last year.

Surprising as it may seem, short-term bank loans have shown the greatest increase in recent years in the cash-grain areas, where farmers have enjoyed the greatest farm prosperity.

In North Dakota, for example, where 75% to 80% of cash farm income is from wheat and other cash grain, there is an apparent shortage of farm operating capital this spring.

Most farmers in this state have reduced or paid off entirely their real estate mortgages. They have purchased a great deal of new farm machinery. A surprisingly large number of farmers in North Dakota are reported to be virtually land and machinery poor. They have a high book value of assets, but operating capital has been short this spring.

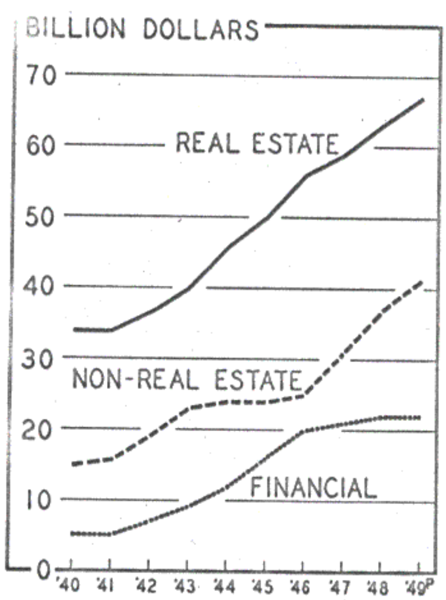
This same situation also applies generally to the cash-grain growing areas of South Dakota and Montana.

▶ ***Demand deposits in country banks are more than four times the pre-war level.***

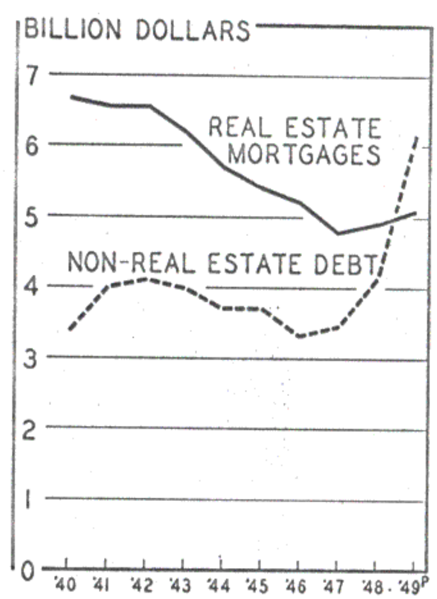
▶ ***Agricultural loans are at a post-war peak. Short-term loans are up sharply, while real estate debt is down slightly.***

▶ ***Commercial banks wrote fewer farm real estate mortgages in the fourth quarter of 1948.***

ASSETS OF UNITED STATES AGRICULTURE, 1940-49*



LIABILITIES OF UNITED STATES AGRICULTURE, 1940-49*



AGRICULTURE'S balance sheet for 1948 showed a further increase in assets and an upward turn in farm liabilities. The increase in non-real estate debt was particularly pronounced.

NOTE: Non-real estate assets represent all physical assets exclusive of real estate.
p—Preliminary.
*USDA Balance Sheet of Agriculture (1946, 1948, 1949).

To meet the need for operating funds, the farmer has turned to his banker. In many cases, the farmer only has machinery to offer as collateral. Experience has taught the banker to be cautious about lending heavily on farm machinery as collateral, because historically farm machinery has depreciated sharply in value when crops were poor or prices low.

As a result, quite a number of wheat and cash-grain farmers have found it necessary to turn to the Farmers' Home Administration for help in financing part of their normal spring farm operations. There is an unfortunate aspect to this situation in that it sets up a pattern or habit of reliance on government agencies for credit assistance.

Demand Deposits of Country Member Banks in Ninth District States*

(In Thousands of Dollars)

As of May 16-31**	Minn.	No. Dak.	So. Dak.	Mont.	Ninth District
1941	$ 71,146	$ 12,798	$ 30,620	$ 30,061	$174,[illegible]
1942	85,857	17,105	38,411	36,264	211,[illegible]
1943	136,894	32,507	65,234	62,722	350,[illegible]
1944	158,264	45,185	77,332	80,583	427,[illegible]
1945	173,639	56,335	88,622	104,228	499,[illegible]
1946	248,230	78,054	126,333	142,482	697,[illegible]
1947	243,925	84,702	148,116	158,040	727,[illegible]
1948	251,190	87,122	153,894	159,849	746,[illegible]
1949	246,062	86,806	151,251	162,167	734,[illegible]

* Based upon data reported by member banks of the Federal Reserve System located in places of less than 15,000 population.
** Daily average.

CREDIT INCREASE DUE TO SEVERAL FACTORS

There are many reasons for the expansion in farm loans. For instance, a new crop of farmers, many of them veterans, have started farming in recent years. They have had to borrow heavily in many instances.

Supplies of machinery, automobiles, household items, and farm equipment in general have increased substantially, and this has bid for the farmers' cash and credit dollar.

Prices for farm equipment and supplies are higher. In other words, it takes more cash and credit dollars to purchase farm supplies now than several years ago.

Favorable farm prices and incomes in recent years have encouraged farmers to spend liberally. All of these factors have contributed to the increased demand for farm credit.

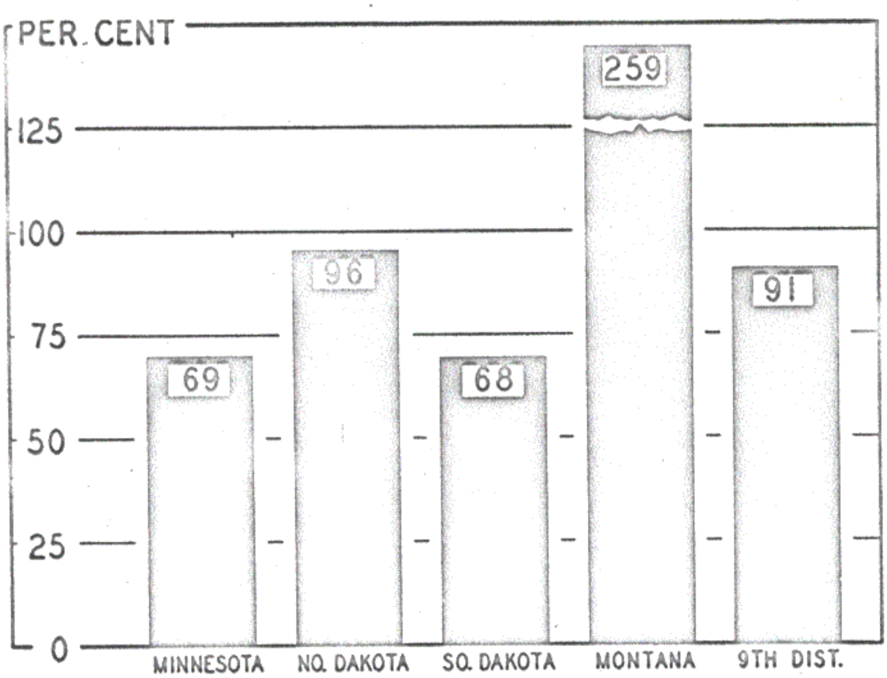
A decline in farm prices or a sharp reduction in farm production might be financially embarrassing to those farmers who have borrowed heavily. In fact, there have been scattered reports already that some farmers have found it necessary to ask for loan renewals. Most farm loans are not "dragging" yet, but there has been a noticeable slowing up in payments—particularly prepayments.

There is also the very beginning of a trend towards re-financing of short-term debt into long-term real estate mortgage debt. A long and general decline in net farm income would certainly accelerate this trend, as it did in the early 1920's, when a substantial part of agriculture's short-term debt was refunded into long-term farm mortgages.

Fortunately, prospects for another large crop appear favorable at the present time. In fact, based on June 1 conditions, spring wheat production may be even larger than last year. The most critical growing period for this crop, however, is late June and July.

Also, the Administration apparently will go all out in bringing favorable prices to farmers this year through various support programs even though the costs of such programs to taxpayers may be in billions of dollars.

PER CENT INCREASE IN SHORT-TERM AGRICULTURAL LOANS TO FARMERS IN NINTH DISTRICT MEMBER BANKS DEC. 31, 1942, TO DEC. 31, 1948*



SHORT-TERM loans to farmers have nearly doubled since 1946, indicating farmers are buying heavily of new machinery and equipment.

*FDIC. Data does not include CCC loans.

FARM REAL ESTATE DEBT SHOWS FURTHER DECLINE

In contrast to a 4.6% increase in farm real estate mortgage debt during 1948 for the country as a whole, farmers in the Ninth district shaved off another $6½ million from the 1947 figure. The reduction, however, was the smallest since 1936, and it averaged less than 2%.

Farm mortgage debt in the Ninth district is now less than half what it was in 1936, and it is less than a third of the peak period in 1923.

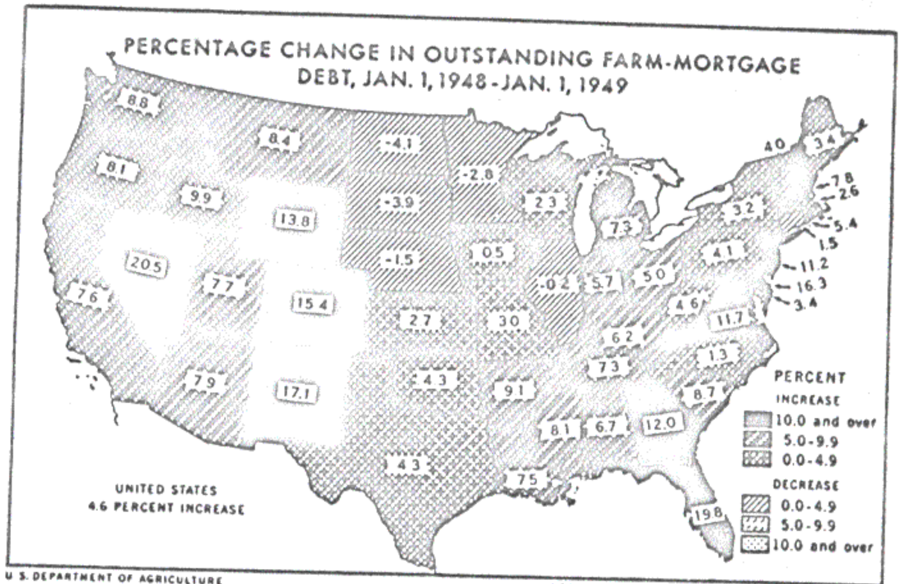
However, farmers are finding many uses for their income other than debt retirement, and the general upward trend in farm mortgage debt for the country as a whole is not surprising.

In the postwar period, commercial banks for the country as a whole have been aggressive lenders on farm real estate. For example, in the last half of 1947, banks made 35.5% of new farm real estate loans.

Before the war, banks held only about 12% of outstanding farm real estate mortgages, and even today, in spite of relatively heavy lending activity by commercial banks in recent years, they only own about 17% of the outstanding farm real estate debt.

In recent months, however, there is evidence that banks are becoming much more conservative in making new farm mortgage loans. Commercial banks in the fourth quarter of 1948 comprised the only major lender group which showed a decrease in recordings compared with the same quarter of 1947. Banks showed a 5% decrease. Federal land banks, in the same period, showed a 19% increase; insurance companies 10%; and individuals a 5% increase.

END



U. S. DEPARTMENT OF AGRICULTURE NEG 47212 BUREAU OF AGRICULTURAL ECONOMICS

THE NINTH DISTRICT area was practically alone in a further reduction in farm mortgage debt during 1948. There was an increase in the remainder of the U. S.

January-April Cash Farm Income*
(Thousands of Dollars)

State	1935-1939 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 102,257	$ 407,756	$ 362,880	89%
North Dakota	23,566	177,027	108,375	61
South Dakota	30,533	182,592	158,304	87
Montana	17,082	84,229	71,217	85
Ninth District [1]	197,391	936,334	772,684	83
United States	2,238,447	8,277,046	7,903,637	95

* Data from THE FARM INCOME SITUATION, May 1949.
[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Average Prices Received by Farmers in Ninth District*

Commodity and Unit	May 15, 1937-41 Avg.	May 15, 1948	May 15, 1949	Parity Prices [1] United States May 15, 1949
Crops				
Wheat, bushel	$0.80	$2.33	$1.97	$2.17
Corn, bushel	.60	2.04	1.09	1.57
Oats, bushel	.30	1.03	.57	.978
Potatoes, bushel	.64	1.64	1.53	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.33	19.11	17.72	17.80
Beef Cattle, 100 lbs.	7.17	23.23	20.00	13.30
Veal Calves, 100 lbs.	8.33	24.44	23.63	16.50
Lambs, 100 lbs.	8.20	21.78	23.28	14.40
Wool, lb.	.27	.48	.51	.448
Milk, wholesale, 100 lbs.	1.45	4.00	2.85	3.92
Butterfat, lb.	.29	.89	.64	.644
Chickens, live, lb.	.128	.212	.232	.279
Eggs, dozen	.156	.372	.391	.527

* Data compiled from USDA Agricultural Prices, May 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.

LOAN DEMAND UP IN COUNTRY, DOWN IN CITIES

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somewhat shortened. While there is ample credit available for good credit risks, banks apparently are, for the most part, buttoning up on loans a little tighter.

In city banks more emphasis has been put on aggressively seeking sound opportunities for bank investments. Earnings have sloughed off as commercial loans declined. Nonetheless, "caution" is decidedly the watchword for city bankers.

Terms on most loans have not changed significantly since last August, when rates were raised in line with the boost in the government short-term money rate. There has been, however, a trend toward larger down payments and shorter maturities on real estate and consumer credit. Moreover, selective credit policies are clearly evident in the careful screening of loan applications.

The over-all policy picture of Ninth district member banks is one of increasing caution. Bank policy stresses the extension of sound loans for needed production and distribution. However, new loans are being closely scrutinized and bankers are weeding out credits which are vulnerable to a changing economy.

TOTAL LOANS OUTSTANDING IN DISTRICT MEMBER BANKS UP 5% OVER A YEAR AGO

The total volume of loans outstanding amounted to $837 million on May 25, 1949—up $42 million, or more than 5 per cent over loans outstanding a year ago. Percentage increases by state ranged from 1 per cent in Minnesota to 26 per cen[t] [i]n South Dakota. Dollar increases b[y] states ranged from about $1 milli[on] in Wisconsin (26 counties) to $[..] million in South Dakota.

Comparing city and country ban[ks] (see chart), total loans in the [20] weekly reporting city banks declin[ed] $17 million from May 1948 to Ma[y] 1949, whereas country bank loan to[tals] increased $59 million.

EN[D]

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Apr. 27, 1949	May 25, 1949	June 15, 1949	$ Change Apr. 27-May 25
Assets				
Comm., Ind., and Ag. Loans	$ 236	$ 209	$ 203	—27
Real Estate Loans	64	64	65	—
Loans on Securities	14	13	13	— 1
Other (largely consumer) Loans	120	119	118	— 1
Total Gross Loans and Disc.	$ 434	$ 405	$ 399	—29
Less Reserves	6	6	6	—
Total Net Loans and Discounts	$ 428	$ 399	$ 393	—29
U. S. Treasury Bills	14	45	48	+31
U. S. Treasury C. of I.'s	126	131	142	+ 5
U. S. Treasury Notes	14	27	19	+13
U. S. Government Bonds	445	445	456	—
Total U. S. Government Sec.	$ 599	$ 648	$ 665	+49
Other Investments	87	93	97	+ 6
Cash and Due from Banks	418	442	477	+24
Miscellaneous Assets	15	16	15	+ 1
Total Assets	$1,547	$1,598	$1,647	+51
Liabilities				
Due to Banks	$ 231	$ 267	$ 284	+36
Demand Deposits, Ind., Part., Corp.	725	745	764	+20
Demand Deposits, U. S. Govt.	25	22	14	— 3
Other Demand Deposits	196	194	215	— 2
Total Demand Deposits	$1,177	$1,228	$1,277	+51
Time Deposits	256	255	254	— 1
Total Deposits	$1,433	$1,483	$1,531	+50
Borrowings	1	1	1	—
Miscellaneous Liabilities	14	15	15	+ 1
Capital Funds	99	99	100	—
Total Liabilities and Capital	$1,547	$1,598	$1,647	+51

May Banking Developments

REDUCTIONS in reserve re[-] quirements and the retirem[ent] of matured Commodity Credit Co[r]poration loans were the ma[jor] monetary developments underly[ing] changes in assets and liabilities [of] Ninth district member banks dur[ing] May.

TOTAL LOANS were down shar[p]ly both in country banks and in th[e] 20 weekly reporting city banks, a[s] CCC crop loans which matured o[n] April 30 and throughout May wer[e] paid off. Loans declined $62 mill[ion] in the district as a whole—$33 mi[l]lion in country banks and $29 mi[l]lion in city banks. Outside of CC[C] loans, demand for farm producti[on] credit continued brisk in count[ry] areas, while slowed demand for bu[si]ness loans persisted in the larger c[ity] banks.

REQUIRED RESERVE BALANCE[S] of all Ninth district member ba[nks] declined almost $23½ million o[n a] daily average basis for the last h[alf] of May compared with the last ha[lf] of April. Of this, city banks a[c]counted for over $5½ million a[nd] country banks for close to $[..] million.

These declines were due prima[rily] to the reductions in reserve requ[ire]ments for reserve city and coun[try] member banks of 1% on net dem[and] deposits and ½% on time depo[sits] effective in the first week of Ma[y].

Excess reserve balances in c[ity] banks declined as the "free" reser[ves] plus a margin of previously accu[mu]lated excess balances were w[...]

[1]Reserve requirements against net dem[and] deposits in central reserve city banks w[ere] reduced from 26% to 24%, in reserve city ba[nks] from 22% to 21%, and in country mem[ber] banks from 16% to 15%. The perce[ntage] against time deposits in all member banks w[as] cut from 7½% to 7%.

...wn, presumably for investment ...overnment securities. In country ...ks excess balances piled up as ...y part of the "free" reserves were ...drawn.

DISPOSITION OF "FREE" RESERVES and of the funds received ...m CCC repayments assumed a ...ferent pattern in city and country ...ks. In city banks, the bulk of the ...ilable funds were invested in gov-...ment securities—mainly Treasury ...s. City bank total government ...tfolios advanced $49 million dur-... May. In addition, balances with ...er banks were built up some-...at, rising $23 million. An added ...rce of funds in city banks was ...vided by the sharp rise of $36 ...lion in deposits held for other ...nks.

In country banks, correspondent ...ances received the lion's share of ...ailable funds. Balances with other ...nks rose $21 million, while gov-...ment security holdings increased ... million.

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

(In Million Dollars)

	Apr. 27, 1949	May 25, 1949	Apr. 27, 1949 May 25, 1949	May 26, 1948 May 25, 1949
Assets				
Loans and Discounts	$ 899	$ 837	−62	+41
U. S. Government Obligations	1,545	1,603	+58	−65
Other Securities	205	212	+ 7	+13
Cash and Due from Banks and Res.	811	848	+37	+67
Other Assets	30	31	+ 1	+ 2
Total Assets	$3,490	$3,531	+41	+58
Liabilities and Capital				
Due to Banks	$ 261	$ 300	+39	+19
Other Demand Deposits	2,064	2,068	+ 4	+16
Total Demand Deposits	$2,325	$2,368	+43	+35
Time Deposits	937	935	− 2	+13
Total Deposits	$3,262	$3,303	+41	+48
Borrowings	2	1	− 1	− 2
Other Liabilities	20	21	+ 1	+ 4
Capital Funds	206	206	—	+ 8
Total Liabilities and Capital	$3,490	$3,531	+41	+58

[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.

"OTHER" DEMAND DEPOSITS ...creased $13 million in city banks ...d fell $9 million in country banks. This transfer of funds from country to city banks reflects, in part, the heavy farm purchases of automobiles, farm equipment, and supplies for spring operations which are channeling deposits out of country areas.

END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 28, 1949

PRODUCTION at factories and mines declined further in May and June. ...nstruction activity increased somewhat ...d employment in most other lines was ...aintained. Prices of industrial com-...dities continued downward and prices ... farm products and foods declined in ...ne following some advance in May. De-...rtment store sales were maintained at ...latively high levels.

INDUSTRIAL PRODUCTION—The ...ard's seasonally adjusted index of in-...strial production declined 5 points in ...ay to 174 per cent of the 1935-39 aver-...ge and, according to present indications, ...ay show a similar decrease in June. The ...ay decline reflected mainly a further ...bstantial reduction in activity in in-...stries manufacturing durable goods. ...tput of non-durable goods and of min-...als, which earlier had declined more than ...tput of durable goods, showed only ...ght decreases in May.

Activity in the iron and steel, machinery, ...d non-ferrous metals industries showed ...arked declines in May, reflecting a re-...ced volume of orders. Steel production ...eraged 93 per cent of capacity and ...ce then has declined further to a ...heduled rate of 84 per cent of capacity during the week beginning June 20, as compared with the peak of 103 in March. Machinery production has declined about one-fifth since the end of last year. Output of passenger cars was temporarily curtailed in May as a result of a major work stoppage, but by mid-June increased to new record postwar rates. Activity in most other industries manufacturing durable goods declined slightly in May.

Activity in the cotton and rayon industries decreased further. Output of wool textiles, however, increased from the exceptionally low April rate, which was about 40 per cent below peak postwar levels. Cotton consumption in May was at the lowest rate since 1939. Petroleum refining activity showed a slight gain in May, and newsprint consumption rose further to a new record rate. Activity in most other non-durable goods industries showed little change.

Minerals output was slightly smaller in May. Activity at non-ferrous metal mines was substantially curtailed, and iron ore output, after allowance for seasonal changes, was slightly below the exceptionally high April level. Crude petroleum production showed little change. Coal output increased somewhat in May, but has been curtailed sharply in June.

CONSTRUCTION—Value of construction contracts awarded, according to the F. W. Dodge Corp., rose slightly in May, reflecting further increases in awards for public construction. Private awards were slightly smaller than in April and continued considerably below a year ago. The number of new housing units started increased further in May and was close to the peak level of 100,000 units a year ago, according to estimates of the Department of Labor.

DISTRIBUTION—Value of department store sales in May showed little change from April, after allowance is made for the usual seasonal fluctuation. Sales in the first half of June were 7 per cent below the high level of the corresponding period in 1948, reflecting in part lower retail prices for apparel and house-furnishings.

Shipments of railroad freight declined in May and early June, reflecting mainly a marked reduction in loadings of miscellaneous products. Total carloadings, after allowance for seasonal changes, have declined about 12 per cent since last autumn.

COMMODITY PRICES—The general level of wholesale commodity prices declined 2 per cent from the middle of May to the third week of June. Meat and livestock prices showed small net change, as decreases in mid-June followed advances in the latter part of May. Cash wheat prices declined about 10 per cent as marketings of another large crop commenced. Prices of industrial commodities, especially textiles, paper, metals, and building materials, continued downward from May to June.

In May, retail prices of most groups of consumers' goods were somewhat lower than in April. The B. L. S. index for all items, including rents and other services, was 169.2 as compared with 169.7 in April and the recent low point of 169.0 in February.

BANK CREDIT — Business loans at banks in leading cities declined substantially during May and by somewhat smaller amounts during the first half of June. Real estate and consumer loans increased slightly. Banks purchased about $2 billion of government securities of both long and short maturities, in part out of reserve funds released by the reduction in reserve requirements effective in early May.

Treasury expenditures were considerably greater than receipts in the first half of June, and Treasury deposits at the Reserve banks declined substantially. This supplied banks with reserve funds and banks bought government securities from the Fede[ral] Reserve System and increased their ex[cess] reserve balances. Subsequently banks l[ost] reserve funds as Treasury balances at the Reserve banks were built up by quarterly income tax payments. Reserve System holdings of government bonds declined further during June.

SECURITY MARKETS — Comm[on] stock prices decreased about 9 per cent with a moderate volume of trading, in the four weeks ended June 13, and recovered part of the decline in the following ten days. Prices of high-grade corporate bonds changed little.

PRODUCTION SLIPS AS SALES HOLD STEADY

Continued from Page 703

The amount of consumer credit outstanding in all financial institutions in this district increased noticeably during May. In federal credit unions, the amount rose by as much as eight per cent. The increase in commercial banks was two per cent.

The amount of credit outstanding at retailers in this region is also going up. The latest figures available are for April. Even during that month, instalment and charge account sales in department stores increased by seven per cent. Collections, on the other hand, are not rising by a comparable percentage. Consequently, the total receivables held by retailers is increasing. END

Index of Department Store Sales by Cities

(Unadjusted—1935-39=100)

	May [1]	Per Cent Change [2] From Year Ago May	Jan.-May
Minneapolis	302	— 5	— 3
St. Paul	269	— 6	— 7
Duluth-Superior	296	— 6	— 1
Aberdeen	367	—18	—13
Bismarck	317	+ 1	— 1
Fairmont	257	—11	— 7
Grand Forks	352	— 8	+ 1
Great Falls	337p	+ 5p	+ 3p
La Crosse	259	— 8	— 5
Mankato	262	— 9	— 2
Minot	298	— 4	— 7
Rapid City	341	—11	—11
Rochester	244	— 4	0
St. Cloud	337	— 8	— 6
Sioux Falls	344	— 4	— 2
Valley City	236	—16	— 8
Willmar	275	— 9	— 1
Winona	276	0	— 4
Yankton	282	—15	—17

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

Northwest Business Indexes

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

	May '49	Apr. '49	May '48	May '47
Bank Debits—93 Cities	324	328	335	295
Bank Debits—Farming Centers	407	395	410	345
Ninth District Dept. Store Sales	273	292	288	265
City Department Store Sales	288	298	302	276
Country Department Store Sales	258	286	274	253
Ninth District Department Store Stocks	302	305	329	265
City Department Store Stocks	263	281	277	243
Country Department Store Stocks	333	325	371	282
Country Lumber Sales	145	142	164	119
Miscellaneous Carloadings	117	128	126	130
Total Carloadings (excl. Misc.)	133	149	138	146
Farm Prices (Minn. unadj.)	232	231	289	247

Sales at Ninth District Department Stores[1]

	% May 1949 of May 1948	% Jan.-May 1949 of Jan.-May 1948	Number of Stores[2] Showing Increase	Decrease
Total District	94	96	68	217
Mpls., St. Paul, Dul.-Sup.	95	96	3	26
Country Stores	93	96	65	191
Minnesota (city and country)	95	96	17	78
Minnesota (country)	94	98	14	56
Central	92	92	0	8
Northeastern	97	102	0	4
Red River Valley	89	88	0	4
South Central	93	100	2	12
Southeastern	97	100	5	8
Southwestern	93	97	7	20
Montana	98	100	20	13
Mountains	95	99	6	5
Plains	101	101	14	8
North Dakota	92	95	17	33
North Central	97	96	4	6
Northwestern	93	92	1	5
Red River Valley	89	94	5	14
Southeastern	94	99	5	8
Southwestern	(3)	(3)	....	....
Red River Valley-Minn. and N. D.	89	94	5	18
South Dakota	87	91	8	37
Southeastern	91	93	4	9
Other Eastern	82	89	2	23
Western	94	95	2	5
Wisconsin and Michigan	92	94	6	52
Northern Wisconsin	92	97	3	13
West Central Wisconsin	93	94	3	28
Upper Peninsula Michigan	89	92	0	11

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