MONTHLY REVIEW
OF
AGRICULTURAL AND BUSINESS CONDITIONS
IN THE
NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 28) Federal Reserve Bank, Minneapolis 2, Minn. April 30, 1944

Consumer Credit

The recent decline in consumer credit is a result of war-time conditions and regulations. During the decade of the thirties there was a close relationship between the trend of consumer short-term credit and disposable consumer income; that is, income after an allowance is made for taxes. A study made by the United States Department of Commerce reveals that consumer credit declined steadily from 1929 to the middle of 1933 with a decrease in consumer incomes. From 1933 to the end of 1937 consumer credit rose sharply as consumer incomes expanded. The slump in general business activity in 1938 was reflected in a contraction of the total volume of consumer credit. Beginning with 1939 there was another expansion in such credit which ran parallel to the rise in consumer incomes. Thus in the normal pre-war pattern when consumer incomes increased, consumer credit rose, and when consumer incomes decreased, consumer credit declined.

The explanation for the above relationship between consumer credit and income is found largely in the attitude of buyers and sellers. During an expanding economy they are optimistic about the future. The buyer is confident that he will continue to receive his present income, or he may even anticipate an increase in the future. The seller likewise minimizes the risks of extending credit and encourages customers to avail themselves of credit facilities to expand his sales. During a period of general contraction in business activity the attitude of both buyers and sellers is reversed. The buyer is fearful of unemployment and therefore hesitates to mortgage the future, and the seller is also aware of the greater risk involved in extending credit to his customers. As a result, the total volume of consumer credit declines.

Beginning with the latter months of 1941, consumer credit declined sharply while consumer incomes continued to rise at an even greater rate than in previous years. A number of causes have brought about this phenomenon. Consumer instalment credit is used largely in the purchase of durable commodities. The United States Department of Commerce estimates that approximately 60 per cent of the automobiles, household furniture, refrigerators and other household appliances, radios, musical instruments and jewelry are purchased on instalment credit. Moreover, it is estimated that the credit on such commodities constituted as much as 90 per cent of the total amount of instalment sale credit. Automobile credit paper alone accounted for about two-fifths of all consumer instalment credit outstanding in the fall of 1941. Consequently with the disappearance of durable commodities from the market, the demand for instalment sale credit decreased decidedly. Three-fourths of the large decline of $1.8 billions of instalment sale credit in the year following September 1941 is alone attributed to the decrease in automobile paper. These figures indicate that the disappearance of durable consumer commodities from the market is an important cause in the decline in consumer credit.

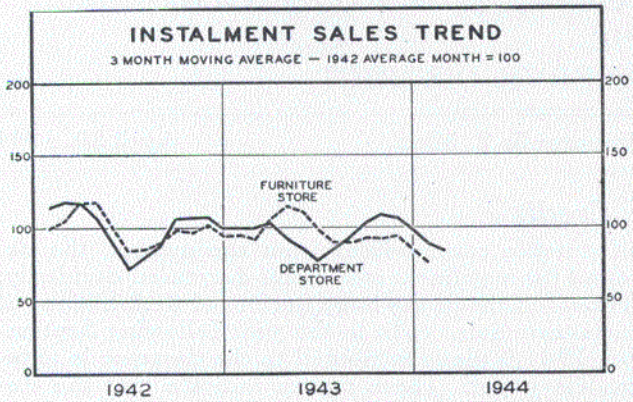
An increase in consumer incomes, after an allowance is made for additional taxes at a time when there are less commodities on the market, decreases the need for consumer credit. The gap between goods and services on the one hand and income on the other, is a result of war conditions and does not occur to an important extent in a peace-time economy. Consumers in wartime have more money to spend on the goods and services available to them and as a result have less need for credit.

Regulation W, which became effective September 1, 1941, is a third factor in the decline of consumer credit. As a part of the war program an attempt has been made to limit the consumer demand for commodities to the available supply on the market. This has been done by increasing taxes, selling war bonds to the public, restricting consumer credit and rationing commodities to insure a more equitable distribution. The restriction of consumer credit was considered an essential part of this program in as much as the extension of consumer credit tends to offset a program designed to limit the aggregate demand for goods to the available supply on the market.

A large list of commodities were subject to the Regulation. Instalment sales, for many listed articles, now require a down-payment of 33⅓ per cent and mature at the end of twelve months. In addition to instalment sales and instalment loans, the Regulation covers charge account sales of listed articles. Such accounts must be paid by the second calendar month following the purchase of the articles or no further credit can be extended to the consumer. Single-payment loans of $1,500 or less are limited to a maturity of ninety days, but may be renewed under certain circumstances.

For the United States as a whole consumer short-term credit reached the peak figure of $9.7 billions at the end of September 1941. By the end of February of this year this volume of credit decreased to $4.7 billions, a decline of slightly over 50 per cent. In the Ninth Federal Reserve District $279 millions

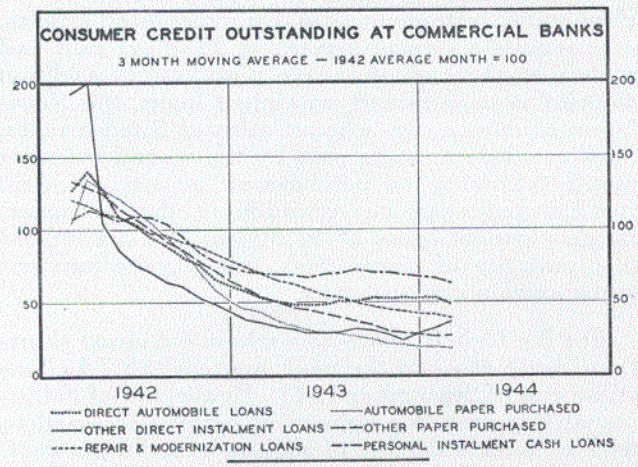
Chart I



of consumer credit were outstanding at the end of September 1941. By the end of February of this year this amount had decreased to $88.7 billions.* This represents a decline of 68 per cent. The largest decrease in the total volume of consumer loans outstanding occurred among commercial banks. At the end of February of this year the total volume outstanding was only a little more than one-fourth of the amount at the end of September 1941. Industrial banks and credit unions reported a decrease of approximately one-half over the same period of time, and small loan companies reported a decrease of slightly more than one-fourth of their former amount. According to these figures the contraction of consumer credit is somewhat larger in the Ninth District than for the nation as a whole, and the loans placed with commercial banks have declined much faster than those placed with other financial institutions.

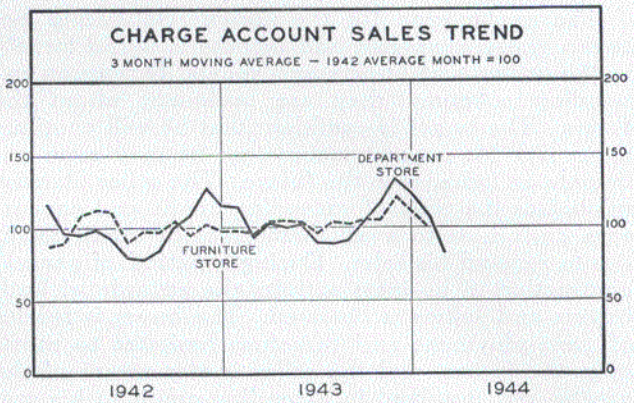
Instalment credit sales in department and furniture stores in the Ninth District decreased very little over the past two years. An examination of the trends on Chart I indicates that instalment credit extended by department stores remained approximately the same during 1943 as in the previous year. Some decline occurred during the first two months of this year as compared with the corresponding months of the past two years. Instalment credit extended by furniture stores decreased by an insignificant amount during 1943. Preliminary figures suggest that a significant decline in the credit occurred during the first month of this year. As may be observed in Chart II; direct retail instalment loans made by commercial banks dropped tremendously. Automobile loans now constitute slightly less than one-half of the average amount during 1942. Other instalment loans dropped even more rapidly. By the end of February of this year the loans outstanding amounted to approximately 35 per cent of the average volume during 1942.

Chart II



Other types of consumer credit extended by commercial banks show a similar trend. The amount of outstanding automobile instalment paper purchased declined to about 18 per cent of the 1942 average. Other retail instalment paper purchased decreased somewhat less. The amount is now about 27 per cent of the 1942 average. On the same basis, repair and modernization loans have dropped to approximately 39 per cent of the former average. The volume of personal instalment cash loans has been maintained at a much higher level relative to the other types of consumer loans. The amount outstanding at the end of February was about 63 per cent of the 1942 average.

Chart III



The volume of charge accounts in department and furniture stores has remained quite constant over the past two years. As the trends on Chart III indicate, an increase of approximately 4 per cent occurred for both types of stores in 1943 as compared with the average for the previous year.

Nearly all of the increased volume of retail business has gone into cash sales. During the first month of this year cash sales were considerably more than 50 per cent above the average amount of such sales for 1942. With the increase in cash business and the liquidation of consumer credit, the American public will be in a favorable financial position during the postwar years to demand goods and services.

* The total volume of consumer credit outstanding at the end of February 1941 was estimated on the basis of a sample of commercial banks, industrial banks, small loan companies and credit unions that report monthly their outstanding loans to the Federal Reserve Bank. Therefore, the estimate of the aggregate amount of loans outstanding may be subject to some error.

The volume of business transacted in the Ninth District during the month of March tended to equal or exceed the high level attained during the first two months of the year. March bank debits were more than double the 1935-1939 average and department store sales indicate that the high tempo of retail buying continues.

BUSINESS

According to the business indicators available at the present time, the volume of business transacted in the Ninth District during the month of March tended to equal or exceed the high level attained during the first two months of the year.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	March 1944	Feb. 1944	March 1943	March 1942
Bank debits—93 cities	205	229	178	145
Bank debits—farming centers	215	235	189	159
City department store sales	159	172	137	127
City department store stocks	141	145	122	141
Country department store sales	160	181	147	136
Country lumber sales	181	215	219	169
Miscellaneous carloadings	127	150	119	136
Total carloadings (excel. misc.)	136	110	94	117
Farm prices—Minn. (unadj.)	168	165	173	134
Employment—Minn. (unadj. 1936=100)	137	140	138	120
Payrolls—Minn. (unadj. 1936=100)	225	231	204	164

Bank debits, which constitute primarily the checks drawn against demand deposits in payment for goods, services, debts and investments, still remained, during March, over two times the 1935-1939 average. They decreased by almost 10 per cent as compared with the two preceding months. However, the large increase in bank debits during January and February was in large part due to the Fourth War Loan drive which began on January 18 and closed on February 15. In many instances individuals used their checking accounts to purchase the bonds. As a result, the larger amount of bank debits during the first two months, very likely, does not represent a larger volume of business than was transacted during the past month.

Department store sales increased significantly during March as compared with the figures for the corresponding month of last year. An increase was reported by stores in all areas except two over the Ninth District. In these two areas sales remained nearly at the same volume as a year ago. The rise in retail sales does not represent the beginning of an upward trend. Easter fell on the ninth of April this year and obviously most of the Easter buying was done in March. Last year Easter fell on the twenty-fifth of April and so most of the buying for the occasion was done a month later. Moreover, as compared with February sales, March sales declined by 7.6 per cent. The department store figures, nevertheless, provide some evidence that the high tempo of retail buying continues. The sales for the first three months of this year were 7 per cent larger than for the same period a year ago.

Department store stocks have been rising slowly, in spite of the large volume of sales. During February they were 45 per cent above the 1935-1939 average. According to preliminary figures the heavy buying in March reduced the stocks on hand only by a small per cent of the February total.

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% March 1944 of March 1943	% Jan.-March 1944 of Jan.-March 1943
Total District	190	91	115	107
Mpls., St. Paul, Dul.-Sup.	18	4	118	106
Country Stores	172	87	110	109
Minnesota	54	19	111	109
Central	7	1	136	126
Northeastern	3	4	99	98
Red River Valley	4	0	113	114
South Central	13	7	111	112
Southeastern	10	3	109	105
Southwestern	17	4	106	108
Montana	19	9	113	108
Mountains	9	2	107	100
Plains	10	7	117	114
North Dakota	45	5	117	121
North Central	8	3	108	121
Northwestern	6	0	122	126
Red River Valley	16	1	114	117
Southeastern	13	1	125	123
Southwestern	*	*	...	...
R. Riv. Val.-Minn. & N. D.	20	1	114	116
South Dakota	20	30	109	109
Southeastern	4	9	108	107
Other Eastern	12	15	111	113
Western	4	6	100	104
Wisconsin and Michigan	34	24	103	102
Northern Wisconsin	8	8	102	104
West Central Wisconsin	21	10	104	105
Upper Penn. Michigan	5	6	98	92

* Not shown, but included in totals. Insufficient number reporting.

Electric power production continued to rise steadily. The production in January and February was 2 and 6 per cent respectively over the corresponding month of a year ago.

Freight carloadings for the first three months of this year have been significantly above the 1935-1939 average, while for the corresponding period of a year ago the loadings were consistently below the former average. Livestock continued to move into the markets in large quantities. Grain, on the contrary, is moving in much smaller quantities. Beginning with the last week in March, iron ore shipments exceed those of a year ago.

BANKING

City member bank deposits continued the decline which began in February. Total deposits on April 12 were $1,244 millions as compared with $1,266 millions on March 15.

The decline in deposits is due primarily to a decrease in government accounts. United States Government accounts dropped by $30 millions over the interval of twenty-eight days, and state, county and municipal accounts dropped by another $7 millions.

The amount due to other banks is also less by $8 millions. Demand deposits of individuals, partnerships and corporations, on the contrary, increased by $3 millions. The trend of time deposits is still upward. Over the period mentioned above they rose by $3 millions, and the total is now over $138 millions. The expansion in time deposits may indicate that some of the increased volume of funds in the hands of civilians is going into corporate or personal savings, and is not used to bid up the prices of goods and services.

Country member bank deposits show a similar picture. Total deposits during the latter half of March averaged $1,062 millions. This is $8 millions less than the average for the corresponding period of February. Demand deposits of individuals, partnerships and corporations actually increased by $11 millions during the month of March. Time deposits increased by $5 millions.

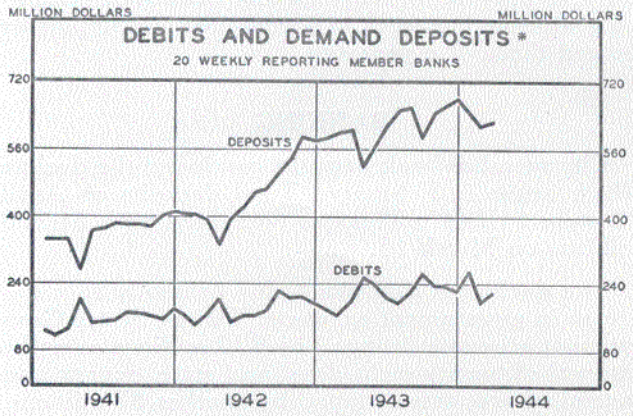
The reserve position of the member banks in the Ninth District is shown in the following Table. With the rise in deposits subject to reserve requirements, average excess reserves have decreased. As may be observed in the Table, they have decreased nearly $7 millions over a space of a year.

Daily Average Reserve Position for all Ninth District Member Banks for the Sixteen-Day Period Ending March 31, 1944

Type of Bank	Average Reserves Carried (000)	Average Reserves Required (000)	Average Reserves Excess (000)
Reserve City Banks	$139,007	$136,773	$ 2,234
Other City Banks	19,958	18,396	1,562
Total City Banks	158,965	155,169	3,796
Total Country Banks	122,276	89,679	32,597
Total Ninth District—1944	281,241	244,848	36,393
Total Ninth District—1943	269,750	226,743	43,007

Investments and loans of city member banks declined from $1,019 millions on March 15 to $992 millions on April 12. The decline in investments is due primarily to a decrease in United States Treasury bills and obligations guaranteed by the United States Government. The decrease in loans is accounted for almost entirely by the liquidation of agricultural loans and loans for carrying securities.

Chart IV



On Chart IV are plotted demand deposits* and debits to such accounts for city member banks in the Ninth District for 1941-1943. The increase in demand deposits is revealed by the trend. The debits made to such accounts have risen somewhat less in proportion to the deposits. As a result, the annual rate of turnover of demand deposits has decreased. The ratio of total debits to average demand deposits for 1941 was 22.4, for 1942 was 21.0, and for 1943 was 19.2.

* They include the deposits of individuals, partnerships and corporations, and of states, counties and municipalities.

AGRICULTURE

Farmers' cash income in the Ninth District during 1943 totaled nearly $2.1 billions compared with approximately $1.7 billions during 1942 and $.8 billion for the 1936-1940 average. Cash income from crops in 1943 was about a third larger compared with 1942 and nearly triple the cash income from crops for the 1936-1940 average. Cash income from crops in 1943 was about half as large as income from livestock. This relationship is apparently about normal for the District over a period of years.

Cash income from livestock was about a fourth larger in 1943 compared with 1942 and more than two and one-half times larger than the 1936-1940 average. Record numbers of livestock on farms, crop acreages somewhat higher than last year, improved moisture conditions, and prices received by farmers at or near ceiling levels for most farm commodities, indicate that cash farm income in 1944 may be near the 1943 record high level.

Farmers' Cash Income in the Ninth Federal Reserve District*

Source of Income	Average 1936-40	1942 (Thousands of Dollars)	1943
Crops	$ 206,552	$ 510,760	$ 661,134
Livestock	515,466	1,083,886	1,351,548
Government Payments	71,903	88,929	81,975
Total	$ 793,921	$1,683,575	$2,094,657

*Compiled from data furnished by the U. S. Dept. of Agriculture.

Farmers' cash income in the Ninth District during the month of March totaled $141,510,000. This was 13 per cent more than March, 1943, and 101 per cent higher than the March five-year average 1939-1943.

Prices received by farmers in the United States in mid-March were reported in the United States Department of Agriculture index at 96 points above the August 1909-July 1914 average. This "prices received" index is one point higher than the previous month and four points higher than March 1943. This is the smallest rise over the corresponding month of the previous year that has occurred in over three years and it indicates that the farm price level

may be leveling out. Prices paid by farmers continued the gradual upward movement of recent months and the March 15 index was 176, which is thirteen points above a year ago according to statistics from the Department of Agriculture. The ratio of prices received to prices paid by farmers remained at 115 in March compared with 120 in March 1943, and 83 for the prewar 1935-1939 average.

Estimated Crop Acreages in 1944 as a Percentage of 1943

	Four Ninth District States				
	Minnesota	North Dakota	South Dakota	Montana	United States
Corn	111%	105%	104%	100%	102.5%
Spring Wheat (Not durum)	117	123	115	112	116.3
Spring Wheat (Durum)	112	103	102	.....	103.1
Oats	113	106	117	90	107.7
Barley	74	97	88	101	87.0
Flax	70	69	70	70	68.8
Potatoes	86	90	90	80	92.7
Tame Hay	99	100	103	95	98.2

Source—United States Department of Agriculture.

Prospective crop acreages in the Ninth District during 1944 promise to be larger compared with 1943 and with a recent ten-year average according to data on farmers' intentions to plant made available by the United States Department of Agriculture. The acreages which farmers intend to plant to corn, oats, barley and spring wheat in the four Ninth District States during 1944 totals 45,952,000 acres—8.5 per cent over the acreage planted to these crops last year and about 8.7 per cent over the average acreage for the 1933-1942 period.

Estimates of barley, flax, potatoes, and tame hay acreages in the Ninth District States during 1944 are somewhat less compared with last year but are about the same as the most recent ten-year average. Flax acreage in 1944 is estimated at 31 per cent below 1943 but it is 70 per cent above the ten-year average. Barley acreage is indicated at 10 per cent below last year but this would be approximately the same as the recent ten-year average.

The crop producing areas of the country have had the wettest March since 1922 according to a United States Department of Agriculture crop report issued April 1. In Northern areas, from the Rocky Mountains eastward, widespread rains have greatly improved prospects for crops and pastures. In nearly all areas there is now enough surface moisture to give early grass and grain crops a good start. Subsoil moisture is only fair in many areas according to the report.

Farm real estate values increased sharply during the year ended March 1, 1944, with an increase in the Ninth District of approximately 18 per cent compared with a year earlier. For the country as a whole land values increased 15 per cent during the year with a 9 per cent rise since November 1, 1943. Values are now 38 per cent above the 1935-1939 base, in striking similarity to the level of values in 1919 which were 40 per cent above the pre-World War I base according to a report by the Bureau of Agricultural Economics. In World War I a record increase of 21 per cent occurred during the year 1919-1920, but the rate of increase in real estate values for the months since November 1943 is reported as the highest on record.

The volume of sales of farms during 1943 was reported at record levels, surpassing the previous high in 1919. It is estimated that farmers purchased about two-thirds and sold approximately one-third of the tracts transferred during 1943. Speculative buying and selling is becoming an important factor in the land market. During the fourth quarter of 1943 the number of farms sold within two years after purchase in eighty counties in a number of Pacific and North Central states averaged about 10 per cent of all sales made. Almost three-fourths of the tracts resold were held less than a year.[1]

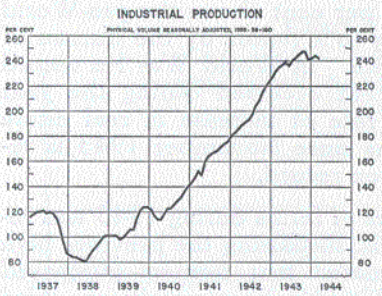
Estimated Farm Real Estate Value Per Acre[1]
(1912-14 = 100)

State	March 1, 1920	March 1, 1933	March 1, 1943	March 1, 1944	% Mar 1, 1944 of March 1, 1943
Minnesota	213	79	100	110	110
North Dakota	145	66	58	70	120
South Dakota	181	55	47	57	121
Montana	126	48	69	80	116
United States	170	73	99	114	115

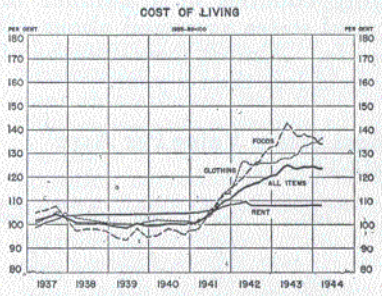
Farm real estate values are still relatively low as indicated by the data in the above table but it is the recent trend in farm land values that appears significant. Several years of relatively high farm prices and increased funds available to many land purchasers are factors influencing land values at the present time. If a land boom should develop as in the World War I period, the experiences of that time may be repeated in greater or lesser degree. In the twenties and thirties, farmers who purchased land at inflated prices often found it extremely difficult to meet financial obligations when land and commodity values declined. The record shows that in the post-land boom period many thousands of farms were foreclosed, tenancy increased sharply, and farmers as a class found it necessary to reduce their standard of living.

Approximately half the farm sales in 1943 were for cash. Of the credit financed sales, the average mortgage debt per acre increased about one-fourth in the last two years. In about three-fourths of credit financed sales the amount of credit used equaled or exceeded 50 per cent of the sale price.[1] In the 1918-1925 period from 20 to 50 per cent of the first mortgages on farms in many areas resulted in foreclosure and if junior lien mortgages and contracts for a deed are included the percentage would have been much larger according to data from the Research Division of the Farm Credit Administration of St. Paul.

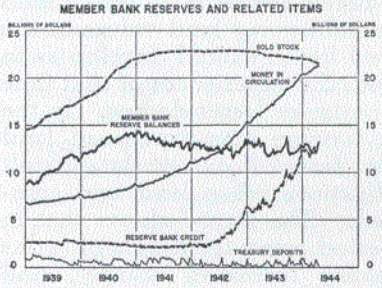
[1] "Current Developments in the Farm Real Estate Market," March 1, 1944, U. S. Dept. of Agriculture, Bureau of Agricultural Economics, Washington, D. C.



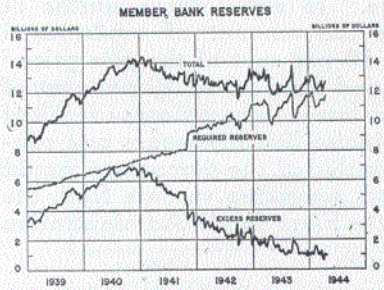
Federal Reserve index. Monthly figures, latest shown is for March 1944.



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for March 1944.



Wednesday figures, latest shown are for April 19, 1944.



Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown are for April 19, 1944.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, APRIL 26, 1944

Industrial activity declined slightly in March. Retail sales were maintained at an exceptionally high level and commodity prices were relatively stable.

INDUSTRIAL PRODUCTION: Output of manufactures and minerals was slightly smaller in March than in the previous two months and the Board's index of total industrial production declined 2 points to 242 per cent of the 1935-39 average.

Steel production advanced somewhat further in March and the first three weeks of April. Output of lumber was maintained at the level of the first two months of the year and production in the first quarter is indicated to be 3 per cent larger than in the first quarter of 1943.

The number of aircraft delivered increased about 4 per cent above the level of the preceding 4 months to a new high of 9,118 planes. Deliveries of merchant ships continued to rise from the low January rate and in March were at approximately the level of a year ago. Output of other products in the machinery and transportation equipment industries declined somewhat in March.

Output of nondurable manufactures, as measured by the Board's index, declined about 1 per cent in March. This decline was due largely to the continued drop in small arms ammunition production. Manufactured food production was 11 per cent greater than in March of last year.

Coal production declined 6 per cent in March from the exceptionally high rate in February due partly to the return to a six-day work week in anthracite mines and partly to a continuation of manpower shortages in both hard and soft coal mines. Output of crude petroleum and metals was maintained in large volume.

The value of construction contracts awarded in March, according to reports of the F. W. Dodge Corporation, was slightly greater than in January and February, but was still lower than in any corresponding month since 1935.

DISTRIBUTION: Department store sales increased more than seasonally in March and continued at a high level in the first half of April. Sales in March were about 18 per cent larger than in the corresponding month last year, reflecting in part the earlier date of Easter this year and the heavy buying of jewelry, cosmetics, furs, and other items before higher tax rates became effective on April 1.

Freight carloadings declined slightly in March from the high level of earlier months, owing chiefly to a drop in the movement of coal and grain products. Total loadings were maintained in the first half of April.

COMMODITY PRICES: The general level of wholesale commodity prices advanced slightly from the middle of March to the middle of April. Federal maximum prices for cement, lumber, and various other industrial commodities were increased.

Retail food prices showed little change from February to March, while retail prices of most other commodities continued to advance slightly.

BANK CREDIT: Continued growth in currency and the transfers from Treasury war-loan deposits to deposits subject to reserve requirements resulted in a decline in excess reserves of member banks and in substantial purchases of Government securities by the Reserve Banks during March and the first three weeks of April. Owing to special factors, excess reserves declined to a low point of 600 million dollars at the end of March but increased in April and on April 19 were about 900 million dollars, somewhat less than had generally been held in recent months.

Federal Reserve Bank holdings of U. S. Government securities were at a new high level of 12.7 billion dollars on April 19, after increasing by half a billion in the preceding four weeks. Most of the growth was in holdings of Treasury bills.

Reporting member banks in 101 leading cities reduced their holdings of Treasury bills by 325 million dollars in the four weeks ended April 12, while holdings of other Government securities showed little change. The greater part of the decline in bill holdings in the four-week period occurred at banks outside New York and Chicago, but there were wide fluctuations within the period reflecting transactions at Chicago banks associated with the April 1 personal property tax assessment date in Illinois. Loans for purchasing or carrying Government securities continued to decline, as repayments were made on funds advanced during the Fourth War Loan Drive; these loans to brokers and dealers have fallen by 450 million dollars since the end of the drive and are now less than at any time in recent months; loans to others, which rose by 600 million dollars during the drive have subsequently declined by 400 million dollars. Commercial loans declined by 210 million dollars over the month.

Adjusted demand deposits, which declined somewhat in the latter half of March, increased during the first half of April, bringing the total outstanding to about a billion dollars less than the level prior to the opening of the drive. Government deposits at these same banks fell by 1.5 billion dollars during the four weeks ended April 12.