# MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

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# Supports May Promote Record Wheat Acreage

## Retention of Rigid Price Floors Can Cause Over-Production of Wheat, and Discourage Desirable Diversification on Western Farms

**By Franklin L. Parsons**

WHEAT is the prima donna among agricultural enterprises in the Ninth Federal Reserve district. From a farm income viewpoint, it is more important than hogs, dairying, cattle, or any other single livestock or crop enterprise.

Wheat accounted for one-fifth of the district's total cash farm income in 1947. It provided nearly half of North Dakota's farm income and about one-third of Montana's farm income. It is also widely grown in South Dakota and Minnesota.

Wheat, therefore, is a main cog in the district's economic machine. Bankers gauge their deposits by the size of the wheat crop and the price level. The press immediately headlines the latest news about wheat production and prices. News about wheat is carefully scanned by farmers, businessmen, and investors alike.

In recent years an almost unbelievable situation has existed in the wheat-growing areas of the district. Production has averaged more than double a recent pre-war average. At the same time, wheat prices steadily advanced until mid-1948.

Prior to the war, when the semi-arid areas of the Dakotas and Montana produced a large wheat crop, total U. S. wheat production was so large that prices frequently sank to ruinously low levels. Since 1945, however, total wheat production in the district has been larger each year than the year before and more than double the 1935-39 average. (See chart.)

Paradoxically, prices received for wheat have averaged from $1.50 a bushel in 1945 to $2.40 in 1947. This year (1948) the price may average about $2.00 a bushel to the farmer. The pre-war average (1935-39) was only $0.81.

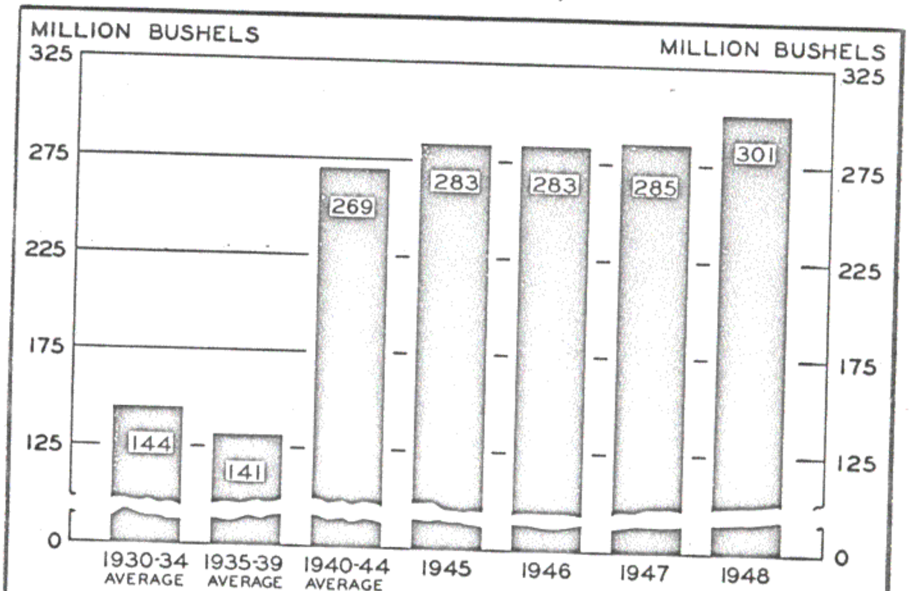
Over a long period of years, wheat growers have had many ups and downs. Wheat farmers in the western part of the district found it difficult during most of the 1930's to meet production expenses—let alone make a net profit on investments.

Even in 1940, when a fair crop was harvested, the net income of an average producer of spring wheat was less than $1,200 (estimates made by USDA). In that year, however, the average price per bushel to farmers was only $0.71.

Last year, 1947, the average price of wheat to farmers in the district was $2.40 a bushel and the net income of a typical spring wheat producer was estimated by the U. S. Department of Agriculture at $9,225. Producers of winter wheat in the southern plains netted $14,342 on the

**NINTH DISTRICT WHEAT PRODUCTION [1]**

(In Million Bushels)




*WHEAT production in recent years — with a record high in 1948 — has been more than double the pre-war average.*

1/ Four states: Minnesota, Montana, North and South Dakota.
Source: Crop Production reports, USDA.

average.

In 1948, with the biggest wheat crop of all time in the Ninth district but with somewhat lower prices and higher costs, net income may be slightly lower than in 1947. In recent years, however, many energetic and progressive wheat producers have accumulated small fortunes by operating larger acreages more efficiently.

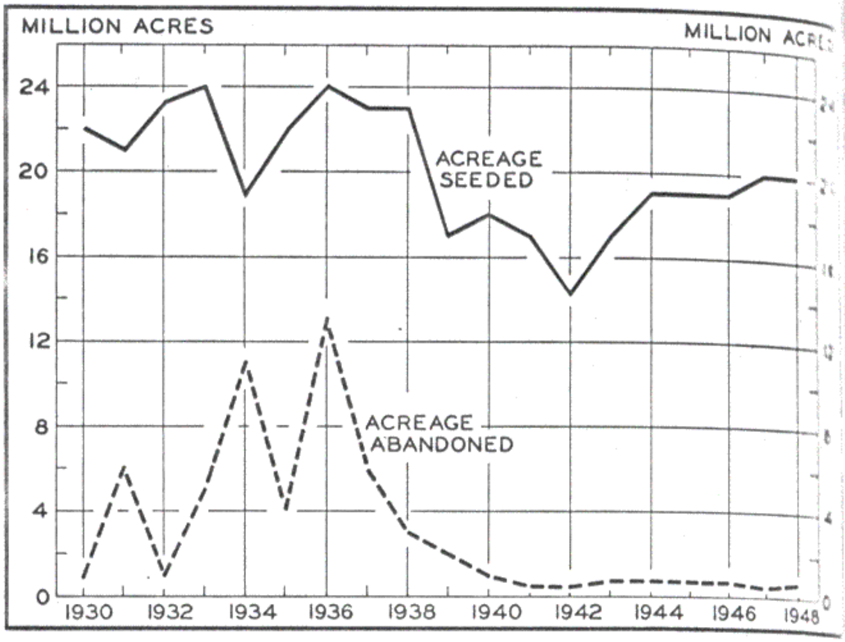
### WHEAT ACREAGE EXPANDED

Because of exceptionally favorable returns from wheat farming in recent years, it is only natural that farmers should have expanded their wheat acreage. This they have done to the tune of approximately 3 million acres of spring wheat (18% greater compared to the 5-year period 1939-43) with more than 90% of this total spring wheat acreage planted in the Ninth district area.

Part of the acreage expansion has come from "new breaking" and part of it on normally sub-marginal land. A larger part, however, came from a substitution of wheat for other crops. Spring wheat acreage seeded in the spring of 1949 may be increased even further in view of continued price support at 90% of parity and some shifting from flax to wheat production.

However, an expansion in wheat acreage seeded in the district doesn't always mean a large acreage will be harvested or that yields per acre will continue at high levels. The record has been wonderfully good since 1939, but in some years in the mid-Thirties the acreage abandoned actually was larger than the acrea harvested. Since 1938, the acrea abandoned has averaged only 3% 4% of the acreage seeded; befo the war, 1935-39 average, it was 26%.

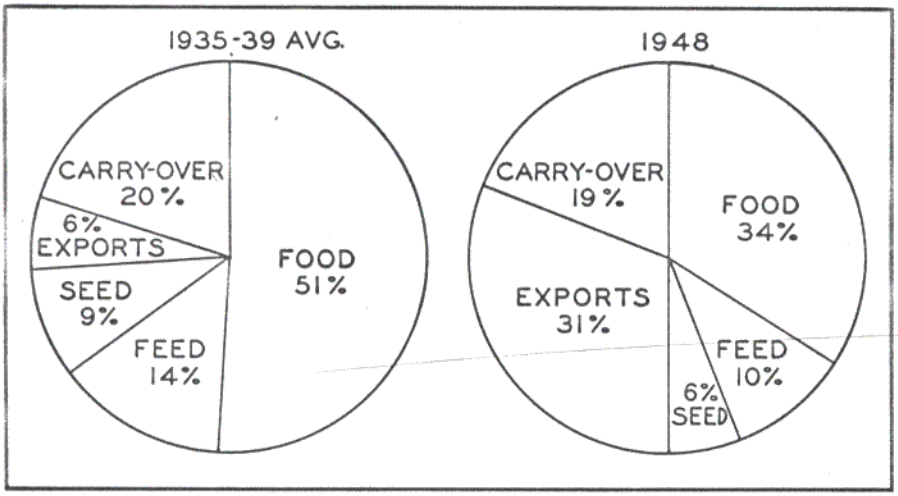
### TOTAL SPRING WHEAT ACREAGE SEEDED AND ACREAGE ABANDONED, 1930-1948 [1]




*A SMALL proportion of seeded wheat acreage has been abandoned since 1940, in sharp contrast to relatively large abandonment in the 30's.*

Source: "Wheat Situation," USDA—March-April 1943 and August 1948.
1/ More than 90% of total U. S. Spring wheat acreage is planted in the Ninth Federal Reserve district.

### DISTRIBUTION OF WHEAT SUPPLIES, 1935-39 AVERAGE AND 1947




*THE PRINCIPAL change in wheat utilization in recent years has been greatly expanded exports.*

Source: "Wheat Situation," August 1948.

### YIELDS PER HARVESTED ACRE UP ALMOST 60% FROM PRE-WAR

Wheat yield per acre in the Ninth district has increased phenomenally in recent years. Yields per acre since 1940 have averaged about 16 bushels for the district as a whole. This compares with 9.6 bushels for the 1935-39 average and 9.5 bushels for the 1930-34 period.

What will be the trend in yield per acre in 1949? How much have summer fallowing, other improved farming practices, mechanization and chemical weed controls contributed to the increased yield per acre, and how much of it is attributable to favorable weather?

Certainly, the weather cycle is particularly important in the Dakotas and Montana. The next 10 years could easily produce a "dry cycle" and many expect it. On the other

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BUSINESS

# November Business Decline Largely Seasonal

- **Department store sales adjusted for seasonal variation declined from October peak.**
- **Department store stocks were high in relation to sales.**
- **Construction contracts and building permits were lower.**
- **November employment in nonagricultural industries set a new record.**

THE decline in the prices of farm products and food and the levelling off in the prices of other commodities has caused considerable speculation as to whether or not the economy may have reached the peak of the present business boom.

With the exception of department store sales, which failed this year to show the same rise as in previous years, business indicators for November reflected not much more than a seasonal decline in the volume of business transacted.

The course of Christmas sales often has been a barometer of sales during the first few months of the next year. Therefore the trend of department store sales in the past several weeks has been followed closely by observers of general business conditions.

During the first half of November, department store sales in this district as well as in other areas of the United States fell below the dollar volume of a year ago. Since retail prices in this period increased roughly by five percent, the sales totals represent significantly less merchandise than in the same weeks of the previous year. However, sales increased materially during the latter half of November.

In this district, sales for the month exceeded those of the same month of a year ago by two percent. In only the far eastern part of the district did the monthly total fall below that of a year ago. Stores located on the Upper Peninsula of Michigan reported a seven percent smaller volume of sales, and those located in the northwestern part of Wisconsin reported a five percent decline.

## SALES IN LARGE CITIES DOWN

During the first two weeks in December, sales reported by stores located in the four large cities of the district — Duluth, Minneapolis, St. Paul, and Superior—were one percent below the amount reported for the corresponding weeks in 1947.

The index of department store sales with the seasonal variation in sales eliminated provides a measure of the level of sales from one month to the next. The adjusted index for November was 279 percent of the 1935 to 1939 base, while for October the index was at a peak of 311 percent of the above base. Thus, sales declined by 11 percent from October to November, after an allowance was made for the ordinary rise in November sales due to the approach of the Christmas season.

Recent sales fell back to about the level of sales during the first quarter. During the spring, summer, and autumn months, the level of sales was almost 10 percent higher than those reported for November.

It now appears that a number of factors contributed to the decline in November sales. The weather in this region was very mild, causing individuals to procrastinate in their Christmas buying. The scarcity of gift items which motivated customers to shop early in previous years has now disappeared from the market scene. Furthermore, a decline in food prices has led many customers to anticipate a decline in the prices of other types of merchandise.

## RETAIL STOCKS IN SMALL CITIES ROSE SHARPLY

A change in the level of retail sales has a direct bearing on the amount of stocks held by distributors. In the past several months, stocks of some items in the hands of wholesalers and retailers rose rapidly; in fact, to such an extent that some manufacturers in this area reduced their output. This represents a seasonal decline which manufacturers have not experienced since the beginning of the recent war.

As a result of the decline in November sales, department stores were holding larger stocks at the end of the month. The index, adjusted for the customary decline in stocks during November, stood at 328 percent as compared with 310 percent at the end of October. This represents a six percent increase.

The department stores located in the four large cities—Duluth, Minneapolis, St. Paul, and Superior—have held their stocks down to the level of sales. At the end of November, the adjusted stocks index for these cities was 294 percent of the 1935 to 1939 base, while the adjusted sales index was 290 percent of the same base period.

In stores located in the smaller cities and towns, stocks have risen materially as compared with the sales volume. The November adjusted stocks index for these stores, which are designated as the country stores, was 357 percent of the 1935 to 1939 base, while the November adjusted sales index was only 269 percent of the same base period. According to the differential between these percentages, stocks held by the country stores were one-third larger in relation to the sales volume than in the pre-war period.

## DECLINE IN CONSTRUCTION HAS BEEN SEASONAL

Each year the winter weather in this region reduces construction activity. Some projects are completed, others are slowed down or discontinued, and new ones are postponed until the spring months. For instance, from the middle of October to the middle of November, employment on construction projects in Minnesota declined by about 2,000 workers.

However, construction activity as measured by employment figures in this district continues significantly above the volume of a year ago. As compared with November 1947, employment on construction projects in Minnesota was 7.8 percent higher and in Montana 25.7 percent higher—two states for which figures are available.

Construction indicators, such as the valuation of building permits and the amount of contracts awarded, in recent months have fallen below last year's level.

The valuation of building permits issued in 79 cities of this district during November was 8½ percent less than in the same month of 1947. However, the valuation of building permits issued fluctuates widely from month to month. For instance, in October the total was six percent larger, and in September it was five percent smaller as compared with the corresponding months of last year.

The amount of contracts awarded in this district for all types of building in October fell below the corresponding 1947 figure by 10 percent, according to the F. W. Dodge corporation. Again, the monthly total fluctuates widely. The total for September was 41 percent larger than a year ago.

The amount of contracts awarded for residential building in recent months has declined more than the usual seasonal amount. Even so, the amount awarded during November was still at a high figure. The adjusted index was 458 percent of the 1935 to 1939 base, whereas the average for the first 11 months was only 411 percent of the former base period. In September the adjusted index rose to a peak of 517 percent.

A large volume of public construction is financed by governmental units. The amount of contracts awarded in both October and November was three times the amount of last year. For several former months, it was equally high.

### Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

| | Nov.[1] | Percent Change[2] from Year Ago Nov. | Jan.-Nov. |
|---|---|---|---|
| Minneapolis | 372 | + 4 | + 8 |
| St. Paul | 310 | — 3 | + 3 |
| Duluth-Superior | 325 | + 1 | +11 |
| Aberdeen | 557 | +21 | + 5 |
| Bismarck | 393 | +12 | +13 |
| Grand Forks | 421 | — 1 | + 4 |
| Great Falls | 404 | + 7 | + 8 |
| La Crosse | 287 | — 1 | + 4 |
| Mankato | 361 | + 9 | +13 |
| Minot | 402 | + 4 | + 4 |
| Rochester | 264 | + 2 | + 8 |
| Sioux Falls | 422 | + 8 | +11 |
| Valley City | 322 | + 1 | — 5 |
| Willmar | 347 | + 5 | + 5 |
| Winona | 312 | + 4 | +13 |
| Yankton | 304 | —12 | + 2 |

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

### Northwest Business Indexes

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

| | Nov. 48 | Oct. 48 | Nov. 47 |
|---|---|---|---|
| Bank Debits—93 Cities | 350 | 367 | 339 |
| Bank Debits—Farming Centers | 413 | 417 | 367 |
| Ninth District Dept. Store Sales | 279p | 311 | 280 |
| City Department Store Sales | 290p | 327 | 294 |
| Country Department Store Sales | 269 | 295 | 267 |
| Ninth District Department Store Stocks | 328p | 310p | 281 |
| City Department Store Stocks | 294p | 264 | 250 |
| Country Department Store Stocks | 357p | 348p | 306 |
| Country Lumber Sales | 152p | 156 | 126 |
| Miscellaneous Carloadings | 140 | 126 | 143 |
| Total Carloadings (excl. Misc.) | 136 | 127 | 135 |
| Farm Prices (Minn. unadj.) | 261 | 266 | 287 |

p—Preliminary.

### Sales at Ninth District Department Stores[1]

| | % Nov. 1948 of Nov. 1947 | % Jan.-Nov. 1948 of Jan.-Nov. 1947 | Number of Stores Showing Increase |
|---|---|---|---|
| Total District | 102 | 107 | 133 |
| Mpls., St. Paul, Duluth-Superior | 102 | 107 | 13 |
| Country Stores | 103 | 106 | 120 |
| Minnesota | 104 | 108 | 36 |
| Central | 98 | 106 | 2 |
| Northeastern | 112 | 111 | 2 |
| Red River Valley | 88 | 96 | 1 |
| South Central | 111 | 111 | 10 |
| Southeastern | 102 | 110 | 4 |
| Southwestern | 104 | 106 | 17 |
| Montana | 105 | 108 | 27 |
| Mountains | 105 | 110 | 9 |
| Plains | 105 | 107 | 18 |
| North Dakota | 103 | 104 | 24 |
| North Central | 94 | 100 | 4 |
| Northwestern | 103 | 104 | 2 |
| Red River Valley | 105 | 105 | 9 |
| Southeastern | 103 | 103 | 7 |
| Southwestern | 116 | 118 | 2 |
| Red River Valley-Minn. & N. D. | 103 | 104 | 10 |
| South Dakota | 105 | 107 | 22 |
| Southeastern | 105 | 109 | 9 |
| Other Eastern | 101 | 103 | 8 |
| Western | 139 | 124 | 5 |
| Wisconsin and Michigan | 95 | 103 | 11 |
| Northern Wisconsin | 96 | 104 | 4 |
| West Central Wisconsin | 95 | 103 | 4 |
| Upper Peninsula Michigan | 93 | 104 | 3 |

[1] Percentages are based on dollar volume of sales.
[2] November 1948 compared with November 1947.

## EMPLOYMENT CONTINUED AT RECORD LEVEL

Employment in non-agricultural industries in this district is high for this time of year. According to the Minnesota Division of Employment and Security, Minnesota employment in November was almost at the same level as in October. It is the highest employment on record for this season of the year. As compared with a year ago, such employment in November was 2.8 percent higher.

Seasonal decreases in constru[illegible] transportation, manufacturing, [illegible] mining and quarrying were offs[illegible] the increases in retail trade and [illegible] ernment—that is, additional [illegible] workers.

In Montana, figures on em[illegible] ment in non-agricultural indu[illegible] indicate an exceptionally high [illegible] of economic activity. Accordin[illegible] the Unemployment Compens[illegible] commission, such employment is [illegible]

Concluded on Page 644, Column

BANKING

# City Bank Investments and Deposits Fall Off

TOTAL government security holdings in all Ninth district member banks during November declined $5 million. Amounting to less than one percent, this was a relatively nominal change. Nonetheless, behind-the-scenes in the government securities market during November there were developments of major significance.

First was the rally in the government bond market. On the heels of the Democratic victory, offerings of government bonds dropped sharply and prices rose above the levels established by Federal Reserve support operations.

Under the Federal Reserve bond support program—which is designed to maintain the 2½ percent rate on long-term bonds—the Reserve banks through the open-market committee purchase at par or slightly above any bonds offered in the open market which cannot find other buyers at these prices. This has meant that the Federal Reserve banks over the past year have been called on to purchase large quantities of government bonds.

Such purchases, which have been especially large in recent months, amounted in September in the 12 Federal Reserve banks combined to almost $1½ billion, and in October to over $1⅔ billion. During the week ending November 17, however, the Federal Reserve banks actually were able to sell small amounts of bonds, and subsequently Reserve bank holdings of bonds have declined further.

This abrupt change in market sentiment was apparently set off by the election results, which were interpreted by the market to mean that present bond pegs would not be altered. Moreover, insurance companies and other nonbank investors who have recently been heavy sellers of government bonds presumably adopted a "wait-and-see" attitude toward economic developments.

In addition, in mid-November the Treasury announced that notes and certificates of indebtedness maturing January 1, 1949, will be exchanged for one-year certificates at 1¼ percent, the prevailing rate since last September. Thus an increase in the government short-term rate which had been anticipated in some quarters did not materialize.

### DEVELOPMENTS FAVORED LONGER-TERM SECURITIES

Individual appraisals of November's money market developments varied greatly. Generally, however, among both bank and nonbank investors the bond market rally plus the Treasury decision not to boost the short-term interest rate in the January refunding created some preference for longer-term securities.

This observation was borne out, to some extent, by the activity of the 20 reporting banks in the Ninth district. Changes in government security portfolios of these Ninth district banks during the week ending November 3 and the three weeks ending November 24 are shown at left.

**Government Security Portfolios of 20 Reporting Banks in the Ninth District**

(Millions of Dollars)

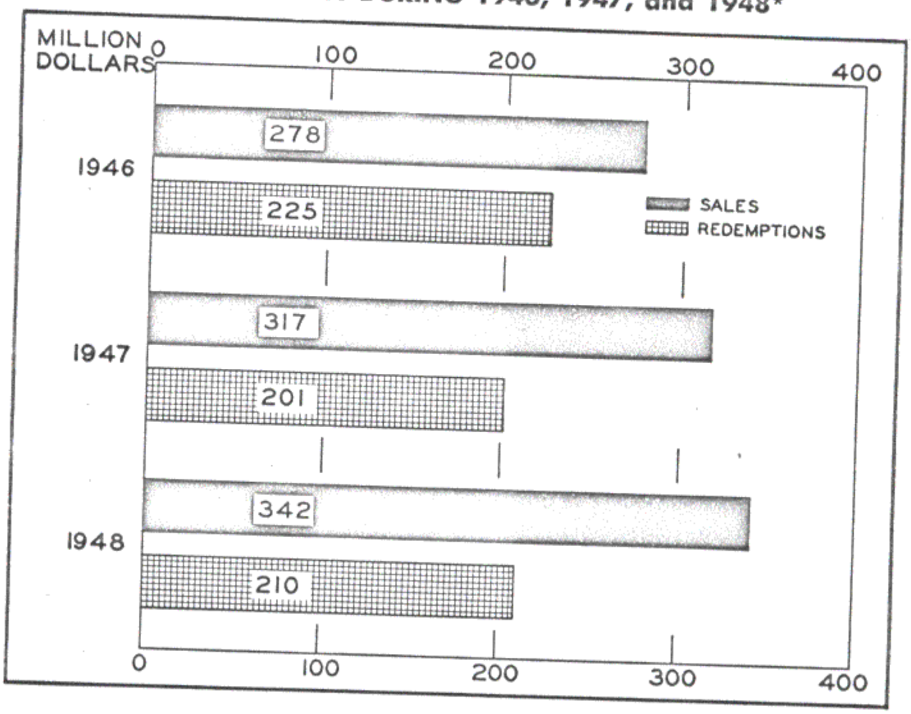
| | 1 Week Ending November 3 | 3 Weeks Ending November 24 |
|---|---|---|
| U. S. Treasury Bills | $+27 | $—19 |
| U. S. Treasury Crt. of Indbt. | — 1 | — 9 |
| U. S. Treasury Notes | + 3 | + 2 |
| U. S. Government Bonds | —16 | + 3 |
| Total U. S. Gov't Securities | +13 | —23 |

▸ ***Preference for longer-term securities was created by money market developments.***

▸ ***Country bank demand deposits were up $6 million.***

▸ ***Modest gain was registered in district loans outstanding.***

**SALES AND REDEMPTIONS OF U. S. SAVINGS BONDS IN NINTH DISTRICT DURING 1946, 1947, and 1948***




*THE RATIO OF SALES to redemptions of U. S. savings bonds in the Ninth district has progressively improved during the last three years.*

*Estimated on basis of first 11 months.

The major changes in the week prior to the election were the increase in bill holdings of $27 million and the decrease in bond portfolios of $16 million. The former was due, primarily, to the investment of temporarily idle funds, while the latter reflected the pre-election spurt in sales of bonds by investors.

In the three weeks ending November 24, however, bill holdings were down $19 million, certificates of indebtedness were also down $9 million, while notes and bonds rose $2 million and $3 million respectively. The sale of bills was largely in order to obtain funds to meet the deposit drain which occurred in these banks during November; the liquidation of certificates to some extent reflected swaps into longer maturity notes and into bonds, while the increases in notes and bonds indicated a slight lengthening of government security portfolios.

## CITY BANK DEMAND DEPOSITS DOWN 3% IN NOVEMBER

Total demand deposits in all Ninth district member banks during November experienced a rather sharp drop, declining $34 million to a volume of $2,583 million. The "all bank" picture for the district revealed an even split between "due to" bank balances and "other" demand deposits, each accounting for one-half of the deposit drain.

There was a marked contrast during the month, however, between the deposit experience of the larger city banks (the 20 reporting banks) and that of the country banks. For one thing, the loss of deposits due to banks occurred entirely in city banks, with no change in country bank "due to" balances.

In addition, and perhaps of greater significance, the decline in "other" demand deposits was also concentrated in the 20 reporting banks. City banks registered a decline of $23 million in "other" demand deposits this month. For the most part, this drop was centered in accounts of individuals, partnerships, and corporations and of states, counties, and municipalities.

On the other hand, in country banks the seasonal upswing in deposits, which (following the pattern of grain marketings) has taken place in the past few months, continued rising during November. The result was that country banks showed a plus

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

(In Million Dollars)

| | Oct. 27, 1948 | Nov. 24, 1948 | $ Change Oct. 27, 1948 Nov. 24, 1948 | $ Change Nov. 2[illegible] Nov. 24, [illegible] |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and Discounts | $ 861 | $ 864 | + 3 | +11[illegible] |
| U. S. Government Obligations | 1,699 | 1,694 | — 5 | —17[illegible] |
| Other Securities | 200 | 200 | | + [illegible] |
| Cash and Due from Banks | 972 | 947 | — 25 | + 4[illegible] |
| Other Assets | 30 | 30 | | — [illegible] |
| Total Assets | $3,762 | $3,735 | — 27 | + [illegible] |
| **Liabilities and Capital** | | | | |
| Due to Banks | $ 359 | $ 342 | — 17 | — 5[illegible] |
| Other Demand Deposits | 2,258 | 2,241 | — 17 | + 4[illegible] |
| Total Demand Deposits | $2,617 | $2,583 | — 34 | — 1[illegible] |
| Time Deposits | 929 | 935 | + 6 | + [illegible] |
| Total Deposits | $3,546 | $3,518 | — 28 | — [illegible] |
| Borrowings | ....... | ....... | | — [illegible] |
| Other Liabilities | 17 | 18 | + 1 | + [illegible] |
| Capital Funds | 199 | 199 | | + [illegible] |
| Total Liabilities and Capital | $3,762 | $3,735 | — 27 | + [illegible] |

[1] This table is in part estimated. Data on loans and discounts, U. S. government obligati[illegible] and other securities are obtained by reports directly from the member banks. Balances w[illegible] domestic banks, cash items, and data on deposits are largely taken from semi-monthly repo[illegible] which members banks make to the Federal Reserve Bank for the purpose of computing reser[illegible]

Reserve balances and data on borrowings from the Federal Reserve banks are taken dire[illegible] from the books of the Federal Reserve Bank. Data on other borrowings are estimated. Capi[illegible] funds, other assets, and the other liabilities are extrapolated from call report data.

### Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

| | Oct. 27, 1948 | Nov. 24, 1948 | Dec. 15, 1948 | $ Change Oct. 27-Nov. [illegible] |
|---|---|---|---|---|
| **Assets** | | | | |
| Comm., Ind., & Ag. Loans | $ 251 | $ 252 | $ 252 | $+ [illegible] |
| Real Estate Loans | 62 | 62 | 63 | ....... |
| Loans on Securities | 15 | 14 | 14 | — [illegible] |
| Other (Largely Consumer Loans) | 110 | 111 | 114 | + [illegible] |
| Total Gross Loans and Disc. | $ 438 | $ 439 | $ 443 | $+ [illegible] |
| Less Reserves | —4 | —4 | —4 | ....... |
| Total Net Loans & Discounts | $ 434 | $ 435 | $ 439 | $+ [illegible] |
| U. S. Treasury Bills | 48 | 56 | 43 | + [illegible] |
| U. S. Treasury Cert. of Indebt. | 139 | 129 | 131 | — 1[illegible] |
| U. S. Treasury Notes | 31 | 36 | 33 | + [illegible] |
| U. S. Government Bonds | 459 | 446 | 443 | — 1[illegible] |
| Total U. S. Gov't Securities | $ 677 | $ 667 | $ 650 | $— 1[illegible] |
| Other Investments | 77 | 78 | 80 | + [illegible] |
| Cash and due from Banks | 506 | 477 | 493 | — 2[illegible] |
| Miscellaneous Assets | 16 | 17 | 16 | + [illegible] |
| Total Assets | $1,710 | $1,674 | $1,678 | $— 3[illegible] |
| **Liabilities** | | | | |
| Demand Deposits, Ind., Part., Corp. | $ 818 | $ 801 | $ 824 | $— 1[illegible] |
| Demand Deposits, U. S. Gov't | 24 | 25 | 16 | + [illegible] |
| Due to other Banks | 316 | 300 | 301 | — 1[illegible] |
| Other Deposits | 442 | 437 | 423 | — [illegible] |
| Total Deposits | $1,600 | $1,563 | $1,564 | $— 1[illegible] |
| Borrowings | ....... | ....... | 1 | ....... |
| Miscellaneous Liabilities | 12 | 13 | 15 | + [illegible] |
| Capital Funds | 98 | 98 | 98 | ....... |
| Total Liabilities & Capital | $1,710 | $1,674 | $1,678 | $— 3[illegible] |

… million in "other" demand deposits.

## TIME DEPOSITS INCREASED

During November, time deposits in both city and country banks in this district rose slightly, registering a combined increase of $6 million. This carried total time deposits to … million—up $9 million over a year ago.

In earlier months of this year, time deposits experienced a consistently downward trend. Presumably, high prices cutting into accumulated savings was the dominating factor. Since September, however, time deposits have increased and it is not unlikely that the end of this year will reveal a volume of time deposits in Ninth district member banks greater than that at year-end 1947.

Moreover, it is significant that other avenues of savings are currently registering net increases. A primary example is U. S. savings bonds.

Sales and redemptions of savings bonds in the Ninth district during 1946, 1947, and 1948 are shown in the accompanying chart. It can be seen that during these three years sales of savings bonds have steadily increased, rising from $278 million in 1946 to $317 million in 1947, to an estimated $342 million for this year. At the same time, redemptions, which equalled $225 million in 1946, fell slightly in 1947, rising again this year to an estimated $210 million.

Thus for the last three years in the Ninth district savings bond sales have outrun redemptions and by progressively growing amounts. Moreover, the ratio of sales to redemptions is actually more favorable than these figures indicate, for sales by post-offices are not reflected in these data whereas post-office redemptions are included.

The consolidated balance sheet of all Ninth district member banks for November includes two further notable developments. First, cash and due from banks suffered a decline of $25 million. This was accounted for entirely by city banks, which drew down accounts with the Federal Reserve bank as well as with correspondent banks to meet this month's deposit drain.

The other development was a continued modest increase in loans. Up $3 million over a month ago, total loans amounted to $864 million at the end of November. On the basis of the experience of the 20 reporting banks, it appears that commercial, industrial, and agricultural loans and other loans (largely consumer) were the major areas of loan expansion this month, while real estate loans were steady and loans on securities declined slightly. END

## SUPPORTS MAY PROMOTE RECORD WHEAT ACREAGE

Continued from Page 637

…, it is reported that a large proportion of the western area wheat acreage was sprayed for weed control this season. Many producers harvested 30-35 bushel yields only because a rank growth of weeds was killed with chemicals early in the season.

This new technique in crop production together with greatly improved wheat varieties, better crop management and summer fallowing methods, indicates that wheat yields per acre in the future may average substantially higher compared with pre-war—possibly as much as 25%. Unofficially it is known that certain new wheat varieties under average conditions will produce yields in excess of 40% more than older, well-known varieties.

It would appear, therefore, that barring serious drouth conditions, national wheat production of a billion bushels and over annually might be a common occurrence in the future rather than the exception, assuming continuation of a favorable price support program and that no production controls are applied.

## ONE-THIRD OF WHEAT EXPORTED IN RECENT YEARS

Domestic use of wheat during the last three years has been around 750 million bushels annually. Total annual production since 1945 has averaged in excess of 1,250 million. Therefore, about 500 million bushels of wheat have been available in each of the last three years to export or to build up carryover stocks.

As a matter of record, between 400 and 500 million bushels of wheat have been exported in each of these last three years. This is approximately one-third of domestic annual production. Before the war, wheat exports averaged less than 50 million bushels annually or only about 6% of total wheat production.

## DECLINING EXPORTS MAY SOFTEN WHEAT PRICES

Next year, 1949, nearly 80 million acres of wheat are expected to be planted in the U. S. Of this amount, a record 20 million acres may be planted in the Ninth district if some flax acreage is shifted to wheat as is anticipated. Total U. S. wheat acreage of 80 million acres would be the second largest crop on record, 2.3 million acres more than in 1948, and about one-third larger than the 1940-44 average.

If 80 million acres are actually planted and average yields of 15 bushels per acre realized (the national average this year was 17 bushels), another big crop of 1.2 billion bushels may be expected in 1949.

Since the domestic demand for wheat is relatively fixed at 700-750 million bushels, another half-billion bushels might again be available for export or carry-over from the 1949 crop. Exports next year, therefore, must again be large if heavy price depressing carry-over stocks are to be avoided.

In spite of the fact that exports of wheat may total nearly 500 million from the 1948 crop, wheat prices have been near support levels and even below support at some periods during the harvest season. One wonders what the price might have been without these large export markets.

The amount of wheat exported from the 1949 crop year will depend significantly on two factors. One is world wheat production. It is assumed that world crop production will be further rehabilitated in 1949 and that better distribution from surplus areas will be achieved. If this occurs, how much will wheat importing countries take from the U.S.?

The second factor in the situation is the extent the U. S. government may insist on removal of surplus crops in the ECA and related programs.

In the 5-year period of 1940-44, annual U. S. wheat production averaged around 915 million bushels. The average price to producers was $1.09 a bushel in spite of the fact that during this period the government put about a quarter-billion bushels under loan for the average of the five years and that it subsidized hundreds of millions of bushels of wheat as feed to livestock producers.

In 1943, for example, 488 million bushels were used as feed, much of it on a subsidized basis. In 1944 and again in 1945, about 300 million bushels were used each year as feed. Normally, only about 150 million bushels of wheat are utilized as livestock feed.

## COST OF SUPPORTING WHEAT PRICES MAY BE HIGH

The Agricultural Act of 1948 provides for support of wheat prices at 90% of parity for the 1949 crop. Although the loan level is not fixed until next June, it is expected to average nearly $2.00 a bushel to the farmer, which is also the approximate loan rate for the 1948 crop.

After 1949, the support price may average between 60% and 90% of parity if the Agricultural Act of 1948 is continued or it may be fixed at 90% to 100% of parity if certain influential farm groups are successful with new farm legislation.

As already indicated, there has been a pronounced trend in the last several years toward larger wheat farms, almost complete mechanization, improved wheat varieties and better farming methods. Because of these changes, costs per bushel in wheat production have been greatly affected.

Parity support prices, however, are tied to a 1910-14 relationship of wheat prices and production costs. In other words, a parity price for wheat today is relatively more favorable than it was a decade or so ago.

As a result, the margin of profit in years of average crop yields has been particularly favorable to wheat producers. Farmers have been quick to recognize this situation and they have expanded their acreage accordingly.

Without crop controls and with only average yields, farmers are therefore likely to continue to produce 400 to 500 million bushels of wheat in excess of domestic requirements.

Part of this expected future surplus wheat production may, of course, find a market in regular foreign trade channels, but the proportion of exports to total production will undoubtedly be much smaller unless wheat continues as an important part of grants in aid to foreign countries through the ECA, army feeding, and other related relief programs.

Before the war, wheat exports averaged less than 50 million bushels annually, and efforts to subsidize wheat exports were stiffly resisted by other surplus wheat producing countries and even by some wheat importing countries that were trying to become more self-sufficient in food production.

## LOANS, STOCKPILING, AND SUBSIDIZED EXPORTS TO SUPPORT WHEAT PRICES

How much will a wheat price support program cost the American taxpayer? This is difficult to measure accurately, since there are both direct and indirect costs involved. The initial cash outlay of a wheat support program might be considered as the amount of purchases by the Commodity Credit Corporation or the amount under CCC loan.

An estimated 250-300 million bushels may be put under loan from the current crop, and an even larger amount is expected by the grain trade to go under loan next year if the crop is average or better and world food production continues favorable. At $2.00 a bushel (currently 90% of parity), the total costs would be between $500 million and $600 million annually.

**Amount of Wheat Under CCC Loan [1]**

| Crop Year | Bushels |
|---|---|
| 1938 | 85,744,000 |
| 1939 | 167,694,000 |
| 1940 | 278,430,000 |
| 1941 | 366,326,000 |
| 1942 | 408,136,000 |
| 1943 | 130,170,000 |
| 1944 | 180,413,000 |
| 1945 | 59,680,000 |
| 1946 | 21,987,000 |
| 1947 | 31,238,000 |
| 1948 | 300,000,000 (Estimated) |

[1] Source: USDA 1938-47. 1948 estimated on basis of 253 million under loan and purchase agreement, Dec. 1.

Net costs, however, of the loan program are absolutely impossible to determine. A domestic and world-wide depression could con[...] bring about a complete finan[...] on wheat owned by the CCC [...] is pretty much the history of th[...] Federal Farm board wheat opera[...] On the other hand, conditions [...] be such as they were durin[...] World War II emergency, whe[...] CCC actually disposed of much [...] holdings at a profit.

How much, if any, of the w[...] that is purchased by the CCC [...] shipped under foreign aid prog[...] was purchased to actually cl[...] domestic surpluses is difficult [...] It is equally difficult to estimate [...] much may be exported from the [...] and later crops for the purpo[...] supporting domestic wheat pri[...]

In any event, the amount of wh[...] shipped as grants in aid in re[...] years has been a substantial pa[...] total wheat exports and as such [...] been paid for with funds from U[...] Sam. At $2.00 a bushel, or bet[...] such costs could easily be in the hu[...]dreds of millions.

People differ in their views con[...]cerning foreign gifts of wheat as direct or indirect price support [...] If the purpose of these large ex[...] is entirely for foreign rehabilita[...] then such costs probably should [...] considered as indirect. To the ex[...] the purpose is to keep prices at 9[...] of parity, or above, the costs may [...] charged as direct.

There may be additional indi[...] or hidden effects of price sup[...] measures. One of these is the [...]creased cost to consumers of produ[...] made from the commodity recei[...] support. Consumers are put [...] two-way squeeze. One is found [...] higher retail prices of food, the oth[...] in the taxes levied to pay for [...] support program.

Another effect may be that dome[...]tic consumption of the particula[...] commodity may be reduced. Th[...] is not a particularly important con[...]sideration with wheat, but for a fo[...] product where there may be a lar[...] degree of substitution it could be sig[...]nificant. In other words, as less [...] such a commodity is consumed do[...]mestically, a larger portion may [...] left for price support disposal.

## HIGH WHEAT PRICE SUPPORTS MAY BRING CROP CONTROLS

Almost everyone is in favor [...] farm programs which will prev[...] serious agricultural depressions. [...]

...ly wants to see the farming community reduced again to near poverty conditions because of 30-cent wheat, ...-cent corn, 3-dollar hogs, 15-cent butterfat, etc.

On the other hand, there are some dangers and pitfalls in a high-level wheat price support which encourages production in excess of reasonable needs. Broadly speaking, it is possible that the end result of such a program may be waste, an uneconomic use of resources, and eventually a highly regulated agricultural economy.

This question should be carefully considered. Will the wheat price support program actually be kept flexible enough to prevent serious overproduction? If it isn't, then production controls and marketing quotas appear inescapable just as soon as the extensive foreign aid program is ended.

Such controls undoubtedly would penalize the efficient western wheat producer, who cannot as easily and efficiently shift over to production of other crops as can his neighbor further east. Farmers on marginal wheat land as well as farmers on good wheat land may have a quota which, of course, would be disadvantageous to land resources that should be in wheat.

Another point to consider is that in the Ninth Federal Reserve district, and particularly in the western wheat growing sections, there is noted a growing tendency toward one-crop farming. Is this a desirable postwar farming adjustment that will bring stability to the area over a longer period of time?

Dairy cow numbers in the Dakotas and Montana for example have been reduced 25% since January 1944. On many of these farms, there are no milk cows and in some instances no livestock of any description. For example, it is estimated that approximately 30% of the fluid milk consumed in North Dakota comes from Minnesota.

In fact, in most areas of the district, including Minnesota, bankers have observed and commented on the increasing farmer interest in cash grain farming as compared with livestock enterprises. The decline in livestock production in recent years gives proof to the trend.

This "drift" away from diversification on farms could have serious effects, particularly in local western communities, in the event a long series of dry years comes along. Feed reserves would be lacking to re-establish adequate livestock enterprises, and if such reserves were re-established on these livestock deficient farms there would be the usual difficulties and expense attendant to building up breeding stock. END

### January-October Cash Farm Income [1]

(Thousands of Dollars)

| STATE | 1935-39 Average | 1947 | 1948 | 1948 in Percent of 1947 |
|---|---|---|---|---|
| Minnesota | $ 281,466 | $ 1,085,750 | $ 1,127,378 | 104% |
| North Dakota | 92,795 | 587,363 | 602,142 | 103 |
| South Dakota | 89,304 | 562,588 | 533,749 | 95 |
| Montana | 73,817 | 295,789 | 329,519 | 111 |
| Ninth District [2] | 584,578 | 2,739,377 | 2,826,882 | 103 |
| United States | 6,683,437 | 24,096,849 | 24,984,908 | 104 |

[1] Data from "The Farm Income Situation," dated October, 1948.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

### Prices Received and Paid by Farmers and Parity Prices

| Commodity | (A) Prices Farmers Received in 1910-14 | (B) Prices Farmers Paid in Nov. 15, 1948 1910-14 = 100 | (C) Parity** Prices Nov. 15, 1948 | (D) Actual Farm Prices Nov. 15, 1948 |
|---|---|---|---|---|
| Wheat, bu.* | $0.884 | 247 | $ 2.18 | $ 2.04 |
| Corn, bu.* | .642 | 247 | 1.59 | 1.21 |
| Oats, bu. | .399 | 247 | .99 | .756 |
| Barley, bu. | .619 | 247 | 1.53 | 1.15 |
| Rye, bu. | .720 | 247 | 1.78 | 1.51 |
| Flaxseed, bu.* | 1.69 | 247 | 4.17 | 5.74 |
| Hogs, 100 lbs. | 7.27 | 247 | 17.96 | 21.80 |
| Cattle, 100 lbs. | 5.42 | 247 | 13.39 | 21.40 |
| Lambs, 100 lbs. | 5.88 | 247 | 14.52 | 22.00 |
| Milk, 100 lbs.* | 1.60 | 247 | 3.95 | 4.90 |
| Wool, lb. | .183 | 247 | .452 | .455 |
| Butterfat, lb.* | .263 | 247 | .650 | .643 |
| Chickens, lb.* | .114 | 247 | .282 | .293 |

* Basic and Steagall commodities on which price support is mandatory for 1947 and 1948 at not less than 90 percent of parity.
** Parity prices estimated by multiplying Column (A) by Column (B).
Source: "November 29, 1948, Agricultural Prices."—USDA.

## NOVEMBER BUSINESS DECLINE LARGELY SEASONAL

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...at an all-time high and is expected to maintain that level until Christmas.

On the basis of the available figures, non-agricultural employment in October reached 143,100—an increase of 500 workers from September. Such employment was 3.9 percent above a year ago.

The impact of the winter weather upon the economy in this district will result in some unemployment. Furthermore, some manufacturing concerns are now experiencing a seasonal decline in the demand for their products for the first time since the beginning of the recent war. Consequently, the opportunities for employment may decline more during the coming winter months.

## BANK DEBITS ABOVE PRE-WAR VOLUME

Whereas the above indicators reflect the level of activity in particular phases of the economy, bank debits (which are a total of the payments made by check for goods, services, debts, etc.) provide a rough measure of the over-all business activity. The index of November bank debits was 350 percent of the pre-war base after an adjustment was made for the usual seasonal variation. Although this was a drop of nearly five percent from an October peak, it was still materially above the level for the summer months. From March through August the adjusted index ranged from 282 to 341 percent.

Despite uncertainties concerning the future as reflected by mixed trends in the business indicators, it is true, nevertheless, that in November the economy of this district operated close to full capacity. END

# National Summary of Business Conditions

**COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DECEMBER 30, 1948**

INDUSTRIAL activity was maintained in November at about the high October rate. Department store sales were 5 percent below last year's level but in the early part of December sales increased more than a year ago. Commodity prices showed further moderate decreases in November and the first half of December.

INDUSTRIAL PRODUCTION—Output at factories and mines showed little change in November, and the Board's seasonally adjusted index of industrial production was 194 percent of the 1935-39 average as compared with 195 in October and 192 in November 1947.

Activity in the automobile, machinery, and nonferrous metals industries showed small reductions in November, but output of most other durable goods was maintained at the level of the preceding month. The number of new automobiles assembled declined about 4 percent in November, but rose again in the early part of December to a new postwar peak rate. Output for the year has been about 5,275,000 passenger cars and trucks, the largest annual total since 1929.

Copper smelting was curtailed sharply in November as a result of a labor dispute affecting mine output. Steel production, on the other hand, showed a slight further gain, averaging 100.4 percent of capacity in November as compared with 100 in October.

Production of nondurable goods declined slightly in November, reflecting in large part further curtailments in output of textile and leather products. Cotton consumption decreased 5 percent and was 18 percent smaller than in November 1947. Newsprint consumption was reduced somewhat from the peak rate reached in October. Activity at paper and paperboard mills continued at record levels, and output of most other nondurable goods was maintained at about the October rate.

Minerals production increased somewhat in November, reflecting a slight further gain in crude petroleum output and an unusually large volume of iron ore production for this season. Coal output was maintained in November at the October rate but declined about 5 percent in the first half of December.

EMPLOYMENT — Employment in non-agricultural establishments showed a small decline in mid-November from the record level in October. The decline, which was unusual for this season, reflected mainly some further curtailment of employment in industries manufacturing nondurable goods. Trade employment continued to increase seasonally, although the gain was the smallest for November since 1942. Employment in most other lines showed little change.

CONSTRUCTION — Value of contracts awarded for most types of private and public construction declined more than seasonally in November, according to reports of the F. W. Dodge Corporation. The number of new housing units started decreased further in November to 65,000 as compared with 72,000 in October and 80,000 a year ago.

DISTRIBUTION—Value of department store trade in November showed less than the usual seasonal rise and the average daily rate of sales was 5 percent smaller than a year ago. The Board's adjusted sales index was 287 percent of the 1935-39 average as compared with the advanced level of about 310 which prevailed from April to October. Sales recovered to year-ago levels during the first half of December, however, and it is estimated that total dollar sales for the holiday shopping period will be near last year's record volume.

Sales of appliances and various other durable goods except new automobiles have been below the exceptionally high levels prevailing at the end of last year.

Railroad carloadings of most classes of merchandise showed more than the usual seasonal decline in November and early December and total shipments were about 9 percent below the same period a year ago. Loadings of coal were about 15 percent below a year ago.

Shipments of manufactured goods were down about 5 percent, owing to a further diversion of freight to other forms of transportation and reduction in the physical volume of goods shipped for export. This reduction was augmented in November by a maritime dispute.

COMMODITY PRICES—Wholesale prices and consumer prices declined about 1 percent from mid-October to mid-November, reflecting chiefly decreases in livestock and foods. In the first three weeks of December, prices of foods continued to decline, various industrial materials weakened further, and prices of some appliances and textiles, petroleum, and soap products were reduced. Additional advances were reported in prices of metals.

BANK CREDIT—Federal Reserve System holdings of government securities were further reduced in the first three weeks of December, reflecting sales of Treasury bills, certificates, and bonds. These securities were purchased primarily by commercial banks, which had an abundant supply of funds as a result of a seasonal increase in the volume of checks in clearing and a further gold inflow. Absorption of bank reserves by the pre-Christmas outflow of currency was somewhat smaller than usual.

Loans and investments at banks in leading cities showed little change in November, but increased somewhat in the first half of December. Loans to businesses showed a much smaller growth than in the same period last year. Loans to brokers and dealers for purchasing government securities rose sharply in November, while bank holdings of Treasury bills declined. Deposits declined slightly at all commercial banks in November but increased sharply at banks in leading cities during the first half of December.

SECURITY MARKETS—Prices of U. S. government bonds and high grade corporate and municipal bonds rose slightly during the first three weeks of December. Common stock prices were steady with a moderate volume of trading.