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Strong Demand Brightens Farm Outlook

Greater Farm Production Needed to Meet Changed Economic Situation, with Surpluses Now Considered Reserves for Contingencies

FARMERS can look forward to favorable prices and higher net farm incomes in 1951, assuming that the defense program will be carried through as now planned, and assuming further that weather conditions will be about average.

These were the convictions of United States Department of Agriculture spokesmen at the National Agricultural Outlook Conference held early in November at Washington, D. C.[1]

Prices will be higher for corn, wheat, livestock and livestock products, and for dairy products in 1951, say these spokesmen. Prices for eggs and potatoes may not be quite so high because of surpluses and because support prices for these commodities may be reduced or eliminated in 1951.

In general, however, Department officials said farm prices may average as much as 10% higher in 1951 compared with the 1950 price level. Even so, farm prices would be no higher in 1951 than they were in 1948, when the general level of farm prices was at an all-time high.

FARM COSTS TO BE HIGHER IN 1951

Increases in costs of farming were predicted also, but perhaps costs may increase no more than, if as much as, prices of farm products. Costs of such things as farm machinery, farm equipment, motor supplies, building and fencing materials and farm wage rates may reach new record-high levels sometime in 1951. Costs of feed, seed, and fertilizer are also expected to be higher, but these costs may not exceed previous high levels reached during 1948.

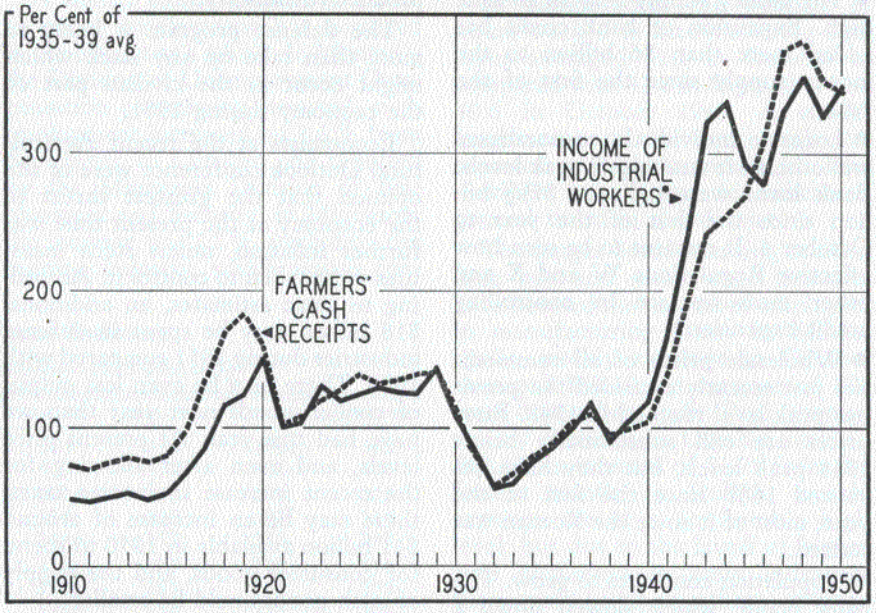
The conclusion that both farm prices and farm costs would likely be higher in 1951 was based primarily on probable developments of the general economic situation. There is a close relationship between business activity, wage rates, and employment and the level of farm prices and farm costs. Therefore, a thorough analysis was made at this outlook conference of the prospective situation in the non-agricultural part of the economy. Some of the highlights of this analysis are presented in the following paragraphs.

By FRANKLIN L. PARSONS

STRONG DEMAND IS BASIS OF FARM PROSPERITY

The generally strong demand outlook for farm products during 1951 comes from the prospects that the

FARMERS' CASH RECEIPTS IN RELATION TO INCOME OF INDUSTRIAL WORKERS



THE CLOSE relationship between farm income and income of industrial workers is shown by this chart. Continued expansion in business activity in 1951 would therefore stimulate expansion in farm income.

Source: USDA "Agricultural Outlook Charts," October 1950.

[1] This article is a result of impressions gathered by the writer while attending the National Agricultural Outlook Conference in Washington, D. C., October 30, to November 4, 1950.

domestic economy will continue to operate at near-record capacity throughout 1951 and perhaps for a longer period.

Farmers who are interested in the long-term farm planning will be interested in the present economic situation and the probable long-run effects of an anticipated enormous defense program on consumer demand.

Certain business indexes help to give a picture of the current situation and to some extent of the prospective demand situation. These are:

- Industrial production is now running at record peacetime levels. The physical volume of goods produced is now more than double the 1935-39 average.
- Wages and salaries are at record-high levels. The average wage paid factory workers was $60.52 a week in September, this year. This is about $5.00 a week more compared to September a year ago. It is more than three times the 1935-39 average.
- Dividend payments to stockholders of corporations will be at record levels in 1950.
- Employment is at an all-time peak. There are few unemployed people. In fact, a condition of over-employment may soon be reached as defense contracts are developed.
- The money supply is at an all-time high. Expansion of bank credit has added more than $6 billion to the money supply since the first of the year.
- Loans to individuals, corporations, and others are running at peak levels. Bank loans were up over $5½ billion since the first of the year to October 4. It remains to be seen how effective Regulations W and X and other measures are in controlling credit expansion.
- Wholesale prices of all commodities just recently exceeded the previous peak level reached in 1948. Farm prices are still substantially below 1948 peak levels, but they have advanced 16% since the first of the year; most of it since the Korean war started.
- Population continues to grow. The baby boom, which slowed down a bit last year, may be off to a new start judging by the current rush to the marriage altar.

It is evident that the economy is in high gear at the present time. On top of this, we are now starting to build a huge defense economy. The defense program may take many months to fully develop. Just prior to July 1, this year, about $1 billion a month was spent on defense. This was 5% to 6% of the country's productive capacity. By mid-1951, we probably will be spending at least $2½ to $3 billion a month on defense, or 10% to 12% of the country's productive capacity.

The defense program is likely to more than take up any slack which might occur in the civilian part of the economy during 1951.

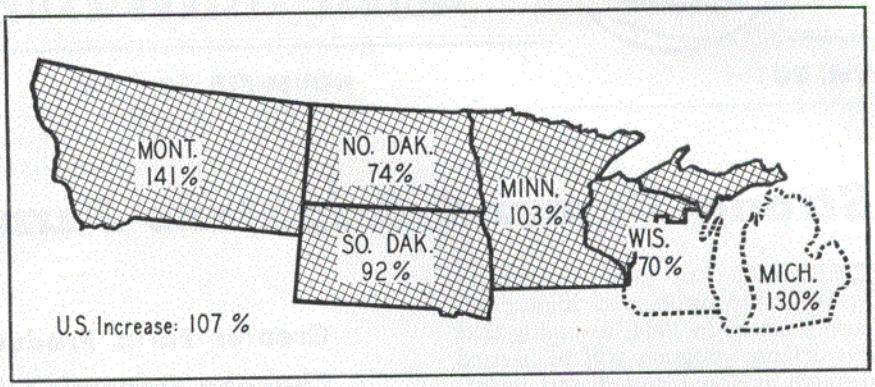
Economists at the recent Agricultural Outlook conference were of the opinion that the greatest threat to the economy at the present time was further inflation, unless stern measures were taken to control it. According to some estimates, an additional $18 billion may be spent in defense industries during 1951 compared with 1950. There may be even less output of civilian goods next year than we have had this year. At present price levels, and even after allowing for the recent increase in income taxes, there may be an increase of around $11 billion available in 1950 to spend for consumer goods, and the supply of such goods could be smaller.

The inflationary potential in this situation is thus very great, and, unless restrained by higher taxes, savings, or in some other way, the only possible result is higher prices.

It is this situation which provides the setting for the anticipated strong demand for farm products during 1951.

PERCENTAGE INCREASE IN DOLLAR VALUE OF FARM LAND*

1935-39 to July 1950



LAND VALUES have increased substantially since World War II started. Rising prices of farm products and fear of inflation are factors stimulating land values in recent months.

*Based on index numbers of value per acre, including improvements.
Source: USDA "Agricultural Outlook Charts," October 1950.

ABUNDANT FARM PRODUCTION WANTED IN 1951

The Secretary of Agriculture in his remarks at the opening of the Outlook Conference said this: ". . . we are going to eliminate acreage and marketing restrictions on commodities in strong demand in order to encourage the abundance needed . . . ."

Experts in the U. S. Department of Agriculture estimated that if weather is just average, over-all agricultural production for the U. S. might be increased as much as 10% in 1951, over 1950.

Farmers will be stimulated to produce to the limit by the expectation of higher prices. Fewer restrictions on crop acreages will help, too. Furthermore, farmers have never been as well supplied with tractors, up-to-date efficient machinery, and know-how as they are at the present time. In view of the current economic situation, a 10% increase in production appears to be a desirable goal for farmers to shoot at during 1951.

There was the feeling that what was considered as burdensome food surpluses before the Korean war are now looked upon as welcome reserves. At least, this is particularly true for such things as feed stocks with which to expand livestock production.

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BUSINESS

District Resources Nearly Fully Employed

- ***Manpower and plant being utilized almost to capacity.***
- ***Deposit activity at highest level in many years.***
- ***Enlarged labor force and longer hours figure in expanded output.***
- ***Sales, with exception of scattered items, have receded to 1949 volume.***
- ***Number of October permits indicate construction to stay at high level.***

NINTH district business activity during October followed diverse trends. As evidenced by the larger number of workers employed and by the longer hours averaged by employees, manufacturing concerns have continued to expand their output. On the other hand, retail sales have receded from the abnormally high peak reached during the summer months.

Regardless of the decline in retail sales to a more normal level, manufacturing concerns undoubtedly will continue to operate close to capacity, since the defense program is gaining momentum. Some manufacturers are shifting to the production of war equipment.

MONEY CHANGING HANDS AT A FASTER RATE

In recent months, bank debits in this district have set a new record. The volume has surpassed the previous peak reached in October 1948, when postwar business activity was exceptionally brisk. For August the index, adjusted for the usual seasonal variations, was 383% of the 1935 to 1939 base period. For October, the index was still high even though it had declined to 374% of the prewar base.

Individuals and business concerns have been spending their funds at a rapid rate while at the same time securing additional credit. In the first quarter of this year, deposits in 111 banks located in 24 of the larger centers of this district were turning over at a rate of 12 times a year. Since June, the activity in deposits has increased materially. In October, deposits were turning over at a rate of 16½ times a year.

Greater activity in bank deposits has the same effect on prices as an increase in the amount of credit outstanding; it raises the effective demand for merchandise and services. Currently, a large demand for merchandise in relation to the available supply can be traced, in part, to the rapid turnover of deposits.

MANUFACTURERS HAVE BEEN EXPANDING OUTPUT

The laboring force in manufacturing concerns continues to grow steadily. For instance, in Minneapolis the local office of the Minnesota Division of Employment and Security reported for October the ninth consecutive monthly increase in manufacturing employment. In Duluth, the local office reported large gains in employment in textile and apparel concerns, which more than offset losses in other industries due to the approach of winter weather.

A similar steady growth in manufacturing employment has occurred in the district as a whole. In Montana, the Division of Unemployment Compensation commission reported, such employment increased by 3.6% from September to October. As reported by the Minnesota Division of Employment and Security, in Minnesota the increase was 1.2%, excluding the canning industry, which always contracts at this time of year. Unemployment has receded to a low figure; it consists mostly of workers moving from one job to another.

A more recent development in the labor field is the longer hours and larger weekly earnings due to overtime. Shortages have developed in certain types of skilled labor in this district, which is generally a labor supply area during periods of a tight labor situation.

In Minneapolis, the number of hours worked in manufacturing concerns averaged 42.1 in October as compared with 41.8 in September and 40.6 in October 1949. A similar lengthening of the work week was reported in Duluth and in St. Paul —which is sufficient to indicate a general trend in the district.

The longer hours resulting in overtime pay and some wage increases have boosted the income of employees in manufacturing firms. In Minneapolis, weekly earnings in October averaged $62.19, an increase of 82c from September. In St. Paul, average weekly earnings in October reached $62.47, an increase of $1.79 from the former month. In Duluth, weekly earnings are at a comparable high level, but due to the layoff of higher paid employees in some industries than were hired in others, average earnings in October were down slightly from the former month.

Although larger amounts are withheld from pay envelopes for the federal income tax, beginning with the fourth quarter, most of these em-

Northwest Business Indexes

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

	Oct. '50	Sept. '50	Oct. '49	Oct. '48
Bank Debits—93 Cities	374	354	306r	362
Bank Debits—Farming Centers	467	472	406r	433
Ninth District Department Store Sales	292p	289	278	303
City Department Store Sales	334	320	303	315
Country Department Store Sales	249p	257	253	292
Ninth District Department Store Stocks	353p	323	298	328
City Department Store Stocks	322p	285	252	279
Country Department Store Stocks	378p	354	335	368
Country Lumber Sales	154p	178p	175*	166r
Miscellaneous Carloadings	135	144	105	131
Total Carloadings (excl. Misc.)	121	115	59	118
Farm Prices (Minn. unadj.)	.....	.....	227	266

p Preliminary.
r Revised.

ployees, nevertheless, have more income at their disposal than formerly.

CONSUMER BUYING APPROXIMATED '49 VOLUME

The sale of some consumer items continues high, but, in general, retail sales have settled back to a level commensurated with current consumer incomes. For October, department store sales in this district were 2% above the comparable month last year. In the western states, sales fell below last year's total. Furniture store sales in the district for October were equal to those of a year ago on the basis of a preliminary sample of reporting stores.

A breakdown of department store sales by departments indicates that sales of some items in the house furnishings classification remained high in October. Men's clothing sales also were substantially above those of last year. In the Twin Cities area, sales of radios, phonographs, television sets, records, etc., continued to lead all other items in the percentage increase over a year ago.

Since the terms in Regulation W were tightened on October 16, the attention of many people has been focused on automobile sales. In Hennepin county, the sale of new cars and new trucks has continued to exceed last year's sales. The number of new cars registered from October 30 to November 16 inclusive was 32% above the number registered in the same period last year. New truck registrations were 7% higher as compared with last year's registrations.

The terms of the regulation do reduce demand for automobiles in that they exclude from the market those individuals who have not accumulated sufficient savings for the required down payments or who do not have sufficient incomes to make the large monthly payments required under the maximum credit terms. Nevertheless, on the basis of the information available, the demand for new automobiles still is high in terms of previous records.

In the sale of furniture, the regulation has reduced the proportion of sales made on contract. According to a preliminary tabulation of furniture store reports for this district, instalment sales in October were almost one-fifth less than in September. On the other hand, cash sales in October exceeded those of the former month.

Charge account sales were down slightly, but not nearly as much as instalment sales. As compared with a year ago, the October volume of instalment sales was down, while both cash and charge account sales were up.

RETAIL STOCKS HAVE BEEN RISING SHARPLY

As a result of retail sales receding to a more normal level, retailers have been in a position to rebuild their stocks. In furniture stores of this district, stocks held at the end of October were approximately one-fifth larger, in terms of dollar amount, than at the same period last year. Department stores reported stocks at a comparable level. The index of department stocks, adjusted for the usual seasonal variations, was 353% of the prewar average from 1935 to 1939. The comparable index for department stores was 292% of the same base period.

With large shipments of merchandise to retailers, the volume of outstanding orders at department stores has declined steadily. At the end of October, the aggregate volume was

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Sales at Ninth District Department Stores*

	% Oct. 1950 of Oct. 1949	% Jan.-Oct. 1950 of Jan.-Oct. 1949	Number of Stores [1] showing Increase	Decrease
Total District	102	104	101	179
Mpls., St. Paul, Dul.-Sup.	105	108	16	11
Country Stores	97	98	85	168
Minnesota (City and Country)	104	107	35	57
Minnesota (Country)	98	100	23	46
Central	107	102	1	7
Northeastern	117	103	5	0
Red River Valley	86	91	2	2
South Central	97	98	5	9
Southeastern	97	101	6	6
Southwestern	90	98	4	22
Montana	98	100	14	21
Mountains	98	102	2	9
Plains	98	99	12	12
North Dakota	92	93	12	37
North Central	95	95	3	6
Northwestern	84	93	1	5
Red River Valley	96	94	5	14
Southeastern	89	89	2	10
Southwestern	101	88	1	2
Red River Valley-Minn. & N. D.	95	94	7	16
South Dakota	93	97	9	35
Southeastern	95	99	3	9
Other Eastern	93	94	5	21
Western	90	98	1	5
Wisconsin and Michigan	103	101	27	29
Northern Wisconsin	100	101	7	8
West Central Wisconsin	103	101	12	17
Upper Peninsula Michigan	107	100	8	4

*Percentages are based on dollar volume of sales.
[1] October 1950 compared with October 1949.

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	October [1]	Percent Change [2] October	Jan.-Oct.
MINNESOTA			
Duluth-Superior	318	+ 9	+ 5
Fairmont	277	—10	— 3
Mankato	286	— 4	— 0
Minneapolis	384	+ 7	+ 8
Rochester	238	— 7	— 5
St. Cloud	330	+ 2	— 4
St. Paul	289	— 0	+ 7
Willmar	317	— 7	— 0
Winona	278	— 4	+ 4
MONTANA			
Great Falls	349	— 1	— 7
NORTH DAKOTA			
Bismarck	381	—11	— 9
Grand Forks	381	—17	— 7
Minot	365	—17	— 7
Valley City	255	—10	— 7
SOUTH DAKOTA			
Aberdeen	428	— 5	— 7
Rapid City	374	— 8	— 1
Sioux Falls	368	— 3	— 3
Yankton	273	— 9	— 4
WISCONSIN			
La Crosse	281	+10	+ 2

[1] Based on daily average sales.
[2] Based on total dollar volume of sales. Percentage comparison is with the same period a year ago.

BANKING

Curb Further Credit Expansion--McCabe

The timely character of a letter addressed to all member banks by Thomas B. McCabe, chairman of the Board of Governors of the Federal Reserve System, warrants its reproduction in the Monthly Review.

It reviews recent national developments in bank credit and pleads for restraint in further bank credit expansion.

Banking developments in the Ninth district for October follow Chairman McCabe's letter.

November 17, 1950

THE success of the battle against inflationary dangers depends in large measure upon maintaining a reasonable balance between available goods and services and the supply of dollars bidding in the market place. Since early summer the persistent and unprecedented rise in bank loans has been the major factor in the country's increasing money supply.

From mid-year to mid-November total loans at all commercial banks rose well over five billion dollars. This was a much greater expansion than occurred in the corresponding period of any previous year on record. Continued growth of bank credit, not balanced by increases in production of civilian goods, would put additional upward pressure on prices, impairing the buying power of the dollar and adding to the cost of the nation's defense program.

The Board of Governors of the Federal Reserve System therefore again wishes to call to the attention of every member bank the loan policy announcement of August 4, 1950 which was unanimously approved by the Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks. As you will recall, that joint statement stressed the importance of sensible and restrained action by businessmen, laborers, farmers, and consumers, as well as governmental agencies, national and state, to curb excessive credit expansion. The joint declaration concluded:

"A continuation of the rapid growth of credit resulting from consumer demand for houses and other goods and speculative accumulation of inventories by business would add to inflationary pressures and seriously handicap the necessary expansion of military production. Therefore, lenders should carefully analyze all loan applications and avoid making loans which would have these adverse effects."

The purpose of this letter is to request your utmost cooperation in helping to achieve the objectives of the foregoing appeal. Every bank has it within its power to make an important contribution to sound money by limiting loan extensions, and by advising would-be borrowers to hold their borrowing requirements to the lowest limits consistent with their rock-bottom needs.

We realize that bankers have been exercising selection in the kind of credit they are extending. The point we wish to emphasize is that in a period like this even sound individual credits are inflationary if, in the aggregate, they add unduly to a growing supply of money. With full employment, high level production, and rising wages and prices, almost everyone's credit appears to be good. Further expansion in bank credit means more dollars competing for limited supplies of labor and materials. Unless such expansion of credit is checked it is bound to raise prices. Defense dollars will soon be added to civilian dollars in competition for available goods. The nation's defense needs must be adequately met without runaway prices.

To meet its statutory responsibilities and to play its part in restraining over-expansion of bank credit, the Federal Reserve System has adopted an anti-inflationary program. As integral parts of this program, the Federal Reserve, under the authorization of the Defense Production Act of 1950, has instituted consumer credit regulations. With the concurrence of the Housing and Home Finance Agency, it has also adopted curbs on residential construction credit.

- ***Commercial bank loans rose well over $5 billion from mid-year to mid-November.***
- ***Even sound individual credits are inflationary if they add to the money supply.***
- ***Borrowers are advised to avoid over-stocking of inventories and to postpone unnecessary business expansion.***
- ***Chairman McCabe requests bankers' opinions on the outlook for bank credit.***

Commercial banks can also do their part in bringing about restraint of credit by advising borrowers to avoid overstocking of inventories and to postpone unnecessary business expansion and by discouraging various types of loans that do not make a definite contribution to the defense effort. The sacrifice of some earnings at this time is a small price to pay for the defense of the dollar which is of paramount importance.

The Federal Reserve people are eager to know what the commercial bankers are thinking about the trend in bank loans. It would be greatly appreciated if you would care to write a letter to the president of the Federal Reserve Bank of your district so that we may have the benefit of your views with regard to the following questions or any other information that you would care to communicate:

What types of classes of borrowers occasioned most of the new loans in your bank since mid-year? Can you say whether their borrowing is or is not largely seasonal? If not seasonal, can you identify a principal purpose? Do you expect the large demand for credit to taper off, continue, or increase in the next three months?

Such other information and views as you would care to express on our mutual problem of curbing inflation would also be most welcome to the Federal Reserve System.

Sincerely yours,

THOMAS B. McCABE,
Chairman.

October Banking Developments

BANK loans and corporate and municipal security investments increased sharply during October, continuing the rising tide of bank credit. Reflecting mainly loans to finance inventory accumulations, crop movements, and purchases of feeder cattle, total loans and holdings of securities other than U. S. governments in Ninth district member banks rose 3% in October, to a new high of $1.4 billion.

Deposits also rose sharply this month with the rising tempo of crop marketings. Because of the lateness of this year's crop, the 1950 seasonal bulge in deposits began a month or so later than in recent years.

Total loans increased generally throughout the district during October. State-wise, North Dakota member banks scored the largest relative gain with loans advancing 6%. South Dakota and Minnesota member banks followed, showing loans up 3%.

Since about mid-year there has been an upsurge in business loans, considerably outstripping the usual seasonal pattern. In Ninth district weekly reporting banks, commercial, industrial, and agricultural loans jumped to $274 million by the middle of November, up 23% over a year ago.

Real estate and consumer loans in city banks have continued to rise steadily. During October the Board of Governors of the Federal Reserve System imposed Regulation X, controlling real estate credit, and also tightened the terms of Regulation W, which controls consumer credit. While it is too early to see the effects of these controls in the credit statistics, it is expected that Regulations W and X will considerably curb further expansion in consumer and real estate lending.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	Sept. 27, 1950	Oct. 25, 1950	Nov. 15, 1950	$ Change Sept. 27-Oct. 25
ASSETS				
Comm., Ind., and Ag. Loans	$ 258	$ 267	$ 274	+ 9
Real Estate Loans	94	96	99	+ 2
Loans on Securities	12	11	11	— 1
Other (largely consumer) Loans	163	165	166	+ 2
Total Gross Loans & Discounts	$ 527	$ 539	$ 550	+ 12
Less Reserves	7	7	7	....
Total Net Loans & Discounts	$ 520	$ 532	$ 543	+ 12
U. S. Treasury Bills	19	25	25	+ 6
U. S. Treasury C. of I.'s	31	30	29	— 1
U. S. Treasury Notes	144	146	147	+ 2
U. S. Government Bonds	379	380	378	+ 1
Total U. S. Gov't Securities	$ 573	$ 581	$ 579	+ 8
Other Investments	140	141	142	+ 1
Cash and Due from Banks	440	452	516	+ 12
Miscellaneous Assets	17	17	17	....
Total Assets	$1,690	$1,723	$1,797	+ 33
LIABILITIES				
Due to Banks	$ 283	$ 302	$ 348	+ 19
Demand Deposits, Ind., Part., Corp.	834	866	909	+ 32
Demand Deposits, U. S. Gov't	56	48	51	— 8
Other Demand Deposits	129	119	113	— 10
Total Demand Deposits	$1,302	$1,335	$1,421	+ 33
Time Deposits	247	245	243	— 2
Total Deposits	$1,549	$1,580	$1,664	+ 31
Borrowings	15	16	6	+ 1
Miscellaneous Liabilities	20	20	20	....
Capital Funds	106	107	107	+ 1
Total Liabilities & Capital	$1,690	$1,723	$1,797	+ 33

Assets and Liabilities of All Ninth District Member Banks

(In Million Dollars)

	Sept. 27, 1950	Oct. 25, 1950	$ Change Sept. 27, 1950 Oct. 25, 1950	$ Change Oct. 26, 1949 Oct. 25, 1950
ASSETS				
Loans and Discounts	$1,050	$1,083	+ 33	+ 209
U. S. Government Obligations	1,498	1,512	+ 14	— 254
Other Securities	274	281	+ 7	+ 40
Cash and Due from Banks & Res.	821	841	+ 20	+ 6
Other Assets	33	33	....	+ 2
Total Assets	$3,676	$3,750	+ 74	+ 3
LIABILITIES AND CAPITAL				
Due to Banks	$ 325	$ 348	+ 23	— 6
Other Demand Deposits	2,177	2,228	+ 51	+ 1
Total Demand Deposits	$2,502	$2,576	+ 74	— 5
Time Deposits	910	908	— 2	— 23
Total Deposits	$3,412	$3,484	+ 72	— 28
Borrowings	15	16	+ 1	+ 13
Other Liabilities	26	27	+ 1	+ 5
Capital Funds	223	223	....	+ 13
Total Liabilities & Capital	$3,676	$3,750	+ 74	+ 3

*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.

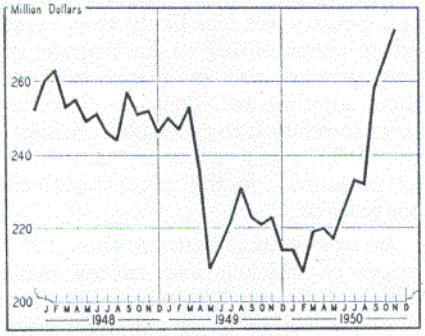
Government security portfolios rose in both city and country member banks during October. In the city banks most of the rise reflected increased Treasury bill holdings. Apparently bankers sought to maintain maximum liquidity in their portfolios, partly in anticipation of a possible increase in legal reserve requirements and partly because of the uncertainty as to the future course of interest rates.

The Federal Reserve appears to be having some success in its efforts to boost short-term money rates. Ninety-one-day Treasury bills dated November 24 sold at an average yield of 1.38%—a new high for recent years. By mid-November the yield on securities maturing in about one year approached 1½%.

Many commercial bankers took advantage of the special offering of Series F and G bonds during October 1-10. The U. S. Treasury announced that sales of F and G bonds, nationally, during this period totalled over $621 million. Of this amount, commercial banks purchased $327 million, savings banks $35 million, savings and loans $4½ million, and insurance companies $93 million.

COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS IN NINTH DISTRICT WEEKLY REPORTING MEMBER BANKS*

1948-1950



RISING more than seasonally, business loans in Ninth district city banks have increased roughly $50 million since June of this year.

*Latest date plotted: November 15, 1950.

Demand deposits in Ninth district member banks increased markedly during October—up $33 million in city banks and $41 million in country member banks. In the district as a whole, the volume of demand deposits at the end of October was at roughly the same level as that of a year ago.

The velocity of total deposits in this area has been increasing steadily. During October, deposits in selected Ninth district banks turned over at a rate of 16.5 times per year. In the same month a year ago deposit velocity was at an annual rate of 13.3.

Time deposits in district member banks decreased during October for the sixth consecutive month. The drop in the past two months, however, was considerably less than that of July and August, when heavy net withdrawals of time deposits reflected, in part at least, the wave of scare buying prompted by the outbreak of the Korean war.

STRONG DEMAND BRIGHTENS FARM OUTLOOK

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FARM INCOMES TO BE HIGHER

Assuming that both farm prices and farm production show increases in 1950, then farm income should also be substantially higher. However, costs may go up an equivalent amount also—which may largely offset the expected price increase on net farm income. The hope for higher net farm incomes in 1951 must therefore be based on a potential increase in farm production.

A larger farm output would also tend to decrease costs per unit of output, and thus net farm income may benefit somewhat. The anticipated 10% to 15% increase in farmers' net income, as a result of larger production, would add up to $14 to $15 billion in 1951. This is considerably smaller than the peak income of about $18 billion in 1947, but it still looks very favorable compared to the $5 billion a year averages before World War II. There are now considerably fewer farmers, too—which means the average net income per farmer in 1951 may be more than three times the prewar figure. The farmer's dollar, like everybody else's dollar, however, won't buy nearly as much as it once did.

LAND VALUES ON THE MOVE

Farm land values have advanced tremendously in the last 10 years. Increases in land prices have varied a great deal from state to state, area to area, and even from farm to farm.

Except for the Dakotas, and perhaps northern Wisconsin, land values have more than doubled in the Ninth district states from the 1935-39 period.

Farm land values in the Ninth district showed a slight tendency to decline during much of 1949, but this trend has been definitely reversed thus far in 1950, and particularly so since the start of the Korean war.

Land values may continue to be stimulated by the prospects of favorable farm income, fewer government restrictions on farm production and because of the serious inflationary pressures in the general economy. On the other hand, land values are at peak levels which may suggest caution on the part of prospective land purchasers.

OPTIMISTIC OUTLOOK FOR MOST COMMODITIES

Livestock and Meat—Anticipated full employment at record-high wage levels in 1951 is expected to result in higher prices of all classes of meat animals. This is the opinion of economists in the U. S. Department of Agriculture. Furthermore, a reduction in available supplies of certain durable goods such as houses, cars, refrigerators, etc., may result in an increased demand for meat and other high quality foods. At least, this is what happened in similar circumstances during World War II.

However, it was pointed out by the USDA spokesmen that prices of meat animals may be only moderately higher in 1951, since meat supplies are also expected to be higher.

Numbers of cattle, calves, and hogs on farms are increasing rapidly and feed supplies are ample to carry them until the beginning of the new 1951 crop year.

Production of meat in 1951 may be enough larger to raise the average per capita consumption from the current rate of 145 pounds to 148 pounds. The increase will be mostly in beef and pork. Very little change

is expected in veal, lamb, or mutton production. Total meat production in recent years has just about been keeping up with population growth, as indicated by relatively stable rates of consumption per person since late 1947.

Dairy Products—The prospective increase in consumer demand is the most important factor in the dairy outlook for 1951. Domestic consumer demand is expected to be strong enough to more than offset the effects of larger carryover stocks of dairy products and probably smaller exports, according to the Department of Agriculture.

Total milk production in 1951 is not expected to differ greatly from 1949 or 1950. But more milk may be used in fluid form and in ice-cream during 1951. This is what usually occurs when consumer incomes increase significantly.

Milk cow numbers reached a peak in 1944, but since then they have steadily declined until early in 1949. Currently, milk cow numbers are 11% fewer than at the peak late in 1944. Very little increase, if any, is expected in milk cow numbers during 1951.

In spite of fewer milk cows on farms, total milk production in 1950 may be near record levels. This is because of increased efficiency in dairy production methods and practices. There is reasonable expectation that total production of all dairy products in 1951 will be about the same as in recent years.

Poultry and Eggs—"Prices of eggs and poultry are less likely than most other commodities to participate in any general rise in prices because their supplies are likely to continue large in relation to probable consumption." This is a summary statement as presented at the recent outlook conference.

It was stated further that 1951 prices of chicken and turkey meat will be influenced by trends in meat prices as well as action taken on price support for poultry and eggs. Higher meat prices would automatically increase the competitive position for poultry. Higher prices might also tend to increase poultry production, especially broilers.

Corn and Feed—"Higher feed prices, heavier utilization of feed, and some reduction in our large reserve stocks of feed grains are in prospect for the 1950-51 season," is the opinion of the U. S. Department of Agriculture experts.

They expect that corn prices during 1951 will average near the price support level. They expect prices of oats and barley probably will continue higher at least through this winter and next spring.

Prices of protein concentrates are expected to advance in 1951 at least until the size of next year's crops are determined.

The hay supply is ample. It is at record levels in terms of animal units.

Wheat—"The 1951-52 outlook for wheat is characterized by continued large wheat acreage, the accumulation of a substantial reserve and the likelihood of a slight increase in the wheat loan rate." This is the judgment of the USDA people who study the wheat situation.

There will be acreage allotments on wheat in 1951. These allotments will be the same as this year, 72.8 million acres for the country as a whole. However, seedings for the 1951 crop may exceed the 71.5 million acres actually seeded this year. Conditions for winter wheat seeding this fall have been considerably more favorable compared with a year earlier.

With average yields and with prospects of further reductions in wheat exports, wheat carryover stocks may continue to increase in 1951.

Wheat price supports may be higher next year, reflecting higher parity prices. Offsetting the expected increase in wheat prices to some extent will be the discontinuation of payments to producers for farm storage.

END

DISTRICT RESOURCES NEARLY FULLY EMPLOYED

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one-third less than at the end of August. Manufacturers apparently are gaining on the large volume of orders which accumulated this summer.

CONSTRUCTION ACTIVITY HAS STAYED HIGH

In residential construction, the number of new housing starts has fallen off sharply, a usual occurrence as winter weather approaches. Nevertheless, home building activity remains high. Many houses started during the summer still are under construction. In general, building activity has remained high for this season of the year. In October, a large number of projects were started or plans were formulated to start construction. Total valuation of building permits issued in this district exceeded by 8% the total valuation of permits issued in October 1949, and the total for that month was high compared with the same month in former years.

Numerous permits were issued for such buildings as churches and parsonages, private and public schools, and hospitals. These involve the expenditure of large sums of money and, thereby, add materially to the aggregate volume of construction. Permits for construction of retail outlets, such as grocery stores, garages, etc., were also numerous.

To complete projects in the planning stage or under construction, the construction industry will be required to operate at a high level for some time to come.

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