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FEDERAL RESERVE BANK OF MINNEAPOLIS

MONTHLY Review

VOL. 11 AUGUST 31, 1954 SERIAL NO. 20

ACTIVITY HAS HELD UP WELL UNDER GREATER SUPPLY OF HOUSES

Housing Enters Buyers Market

Within this market, annual survey shows, prices have been stable, although more houses are available and realtors need more time to sell most houses

THE HOUSING market in Minneapolis and many other principal cities of the Ninth district has been gradually shifting from a sellers' to a buyers' market.

This transition has seen a small percentage of houses offered for sale again standing vacant, prospective buyers being given a larger selection, and realtors finding that more time is required to sell most houses.

Despite these changes in the supply and demand relationship, prices of existing houses in the Minneapolis area have remained firm in the 12-month period ended June 30, 1954.

In general, prices of existing houses reached a peak in the first half of 1951. Since then, prices have remained quite stable at a level ranging from 2 to 4 percent below that peak.

Demand for low-priced houses has remained very strong. In the first half of this year, such houses sold at all-time peak prices, whereas those in the medium- and high-priced brackets were down 5 percent and 10 percent respectively from peak prices reached in the first half of 1951.

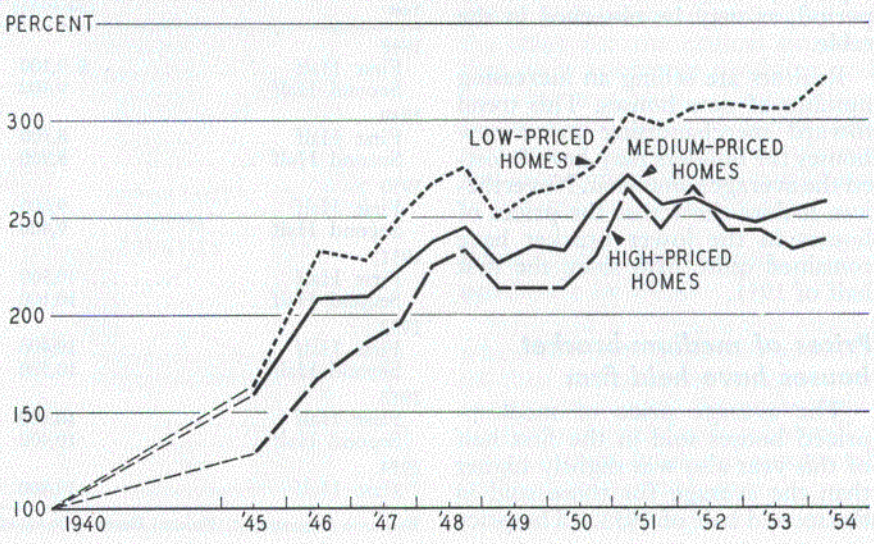
These were chief findings of the annual survey of market prices on houses conducted in the first half of July by the Federal Reserve Bank of Minneapolis in cooperation with the Minneapolis Board of Realtors.

Average price up $100

Information was compiled on 3,646 houses sold during the period from June 30, 1953, to July 1, 1954. This sample is considered representative of the houses sold in the numerous residential areas of Minneapolis and its immediate suburbs.

The survey showed that houses in the 12-month period ended June 30, 1954, sold for an average price of $13,800. In the preceding 12-month period, from June 30, 1952, to July 1, 1953, prices of a similar

INDEX OF REAL ESTATE PRICES, 1940 TO 1954
(1940 = 100)



sample of houses sold averaged $13,700.

On the basis of these annual surveys, it was indicated that prices of houses offered and sold in the market reached a peak in the first half of 1951. The typical sample of houses sold in that period averaged $14,200. Since then, prices of houses have remained quite stable at a price ranging from 2 to 4 percent below this peak.

As was done in previous surveys, the market prices of houses included in the sample were divided into three brackets: low-priced, medium-priced, and high-priced. Sixty percent of the total number of houses sold by realtors whose transactions were involved in the survey were classified as low-priced, 34 percent as medium-priced, and 6 percent as high-priced.

Low-priced bracket at an all-time high

Greatest activity in the residential real estate market, of course, is in houses of relatively low price—which in the recent survey ranged up to $13,500. In the second half of 1953, houses in the low-priced bracket sold for an average price of $10,400, and for an average of $10,800 in the first half of this year.

The increase of $400 between these half-year periods may not be significant, but an examination of the prices of houses sold by months does reveal a slight persistent upward trend since October 1953. In fact, the average price of $10,800 for the first half of this year was the highest average obtained for any period, as may be observed in the table.

Realtors are selling an increasing number of new houses. This trend toward merchandising more new houses for builders may have boosted the average somewhat. Nevertheless, it does show that the prices of houses in the lower bracket have remained quite firm since the first half of 1951.

Prices of medium-bracket houses have held firm

The average price of medium-priced houses sold in the first half of this year also was slightly higher than the average for those sold in the second half of 1953. (The price range extends from $13,500 to $23,250.)

A slight difference between the six-month averages of $16,700 and $16,500 probably is not significant, since an examination of the prices of these houses sold by months does not reveal a persistent upward trend as was observed for lower-priced houses.

Prices in this bracket reached a peak in the first half of 1951 and since that time have remained from 4 to 8 percent below that level.

Largest percent price drop was in high-bracket houses

Prices of houses in the high-priced bracket (6 percent of the sample) also have receded somewhat from the peak reached in 1951 and 1952. (Houses in this bracket sold at prices from $23,500 to $65,000.)

The averages for which the more expensive houses sold in the second half of 1953 and in the first half of this year were $29,700 and $30,300 respectively. Their average represents a decrease of approximately 11 percent from the peak reached in the first half of 1952.

Income properties popular

Demand for income properties has continued strong. For example, the average price on single units rose by $200 between the second half of 1953 and the first half of this year, whereas the average price on duplexes rose by $3,000 in the same period. In fact, prices on duplexes sold have risen continuously since July 1952.

Price trends uniform

In the shift from a sellers' to a buyers' market, no significant difference in the trend of prices was observed among houses sold in low-, medium-, and high-rent areas of Minneapolis as these areas are defined by the U. S. Bureau of the Census.

There is no evidence that prices of houses sold in the low-rent areas, which presumably comprise the less desirable residential districts of the city, have slumped any in the buyers' market. The average price of houses sold in these areas in the survey period has held up as well as those in the medium- and high-rent areas.

Price differentials unchanged

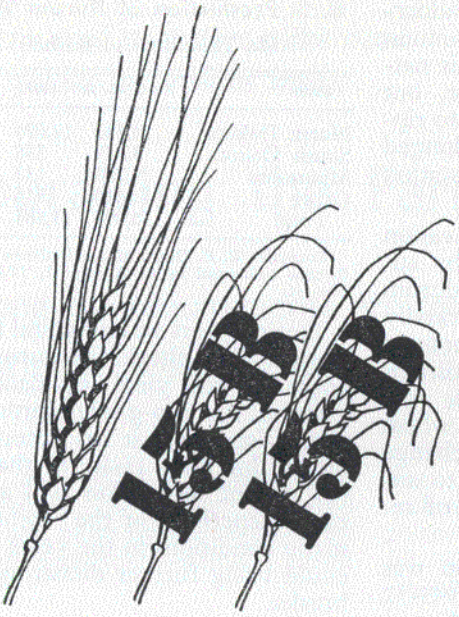
As tabulated by real estate districts, houses in the survey revealed no significant differences in their price trend among different residential districts of the Minneapolis metropolitan area.

In some districts the trend of prices has been up slightly, whereas in others it has been down somewhat. However, no definite price trend was detected for any district which differed significantly from the general trend for the entire metropolitan area. Concluded on Page 169

Residential Real Estate Prices, by Price Bracket, in Minneapolis and Surrounding Suburbs, from 1948 to July 1, 1954

Year	Low-Priced	Medium-Priced	High-Priced	All Houses
1948				
First Half	$ 9,100	$15,400	$28,600	$12,400
Second Half	9,400	15,900	29,500	12,800
1949				
First Half	8,500	14,700	27,000	11,700
Second Half	8,900	15,200	27,100	12,100
1950				
First Half	9,000	15,000	27,100	12,100
Second Half	9,400	16,600	28,900	13,000
1951				
First Half	10,300	17,600	33,700	14,200
Second Half	10,100	16,800	31,100	13,600
1952				
First Half	10,400	16,900	33,800	14,000
Second Half	10,500	16,400	30,800	13,800
1953				
First Half	10,400	16,200	30,800	13,600
Second Half	10,400	16,500	29,700	13,600
1954				
First Half	10,800	16,700	30,300	14,000

Research Department, Federal Reserve Bank of Minneapolis, August 19, 1954.



Virulent stem rust threatens a

CRISIS IN THE DURUM TRIANGLE

New fungus invades North Dakota's coolest sector, nation's leading producer of 'macaroni wheat'

THE OMINOUS shadow of an unwelcome parasitical visitor has crept over the durum triangle of the Ninth district's rich wheatlands. Always a menace, stem rust in a new strain has made extensive inroads on the area's "macaroni wheat."

"Durum triangle" is the name given to a sector of North Dakota where nearly all this nation's durum wheat is grown. Major producing counties in the state form a roughly triangular pattern, although durum is raised in almost all other counties of North Dakota and in adjoining areas of South Dakota and Minnesota.

The durums are hard-grained, spring-sown wheats that are highly specialized both as to the locality in which they are grown and in the uses to which they are put. Originated in the Russian Ukraine, they have found a peculiar adaptation to the climate and soils of a small area in the northern Great Plains.

During the period 1943-1952, durum farmers of North Dakota harvested an annual average of 31.5 million bushels of durum wheat—nearly 90 percent of the nation's production. Most of the remainder came from South Dakota and Minnesota.

Durum flours have developed a very specialized market in the manufacture of spaghetti, macaroni, vermicelli, and similar products. The bulk of the best-grade durum, a hard amber-colored grain, is shipped to the Twin Cities, where it is milled into a bright yellow flour called *semolina*.

This top-grade durum flour is in great demand by macaroni manufacturers, since inclusion of even small amounts of other classes of wheat flour (for example, farina) results in a lower quality product.

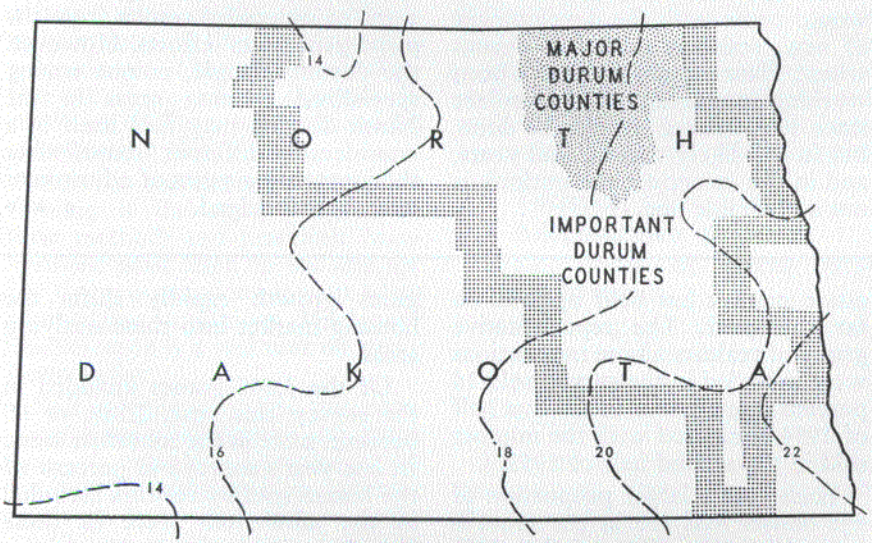
Unfortunately, durum's premium rating and restricted geography set the stage for the critical situation that now confronts producer and manufacturer alike. Twin villains in the drama were an active *stem rust* and a combination of climate and crop conditions that particularly favored rust development.

Race 15-B, new fungus, epidemic in 1950

Stem rust is a fungus that attacks wheat and other grasses by growing on their living parts. It saps water and nutrients until the grain shrivels. Ultimately the embrittled stalks, covered with brick-red patches of spore growth, break over.

Rusts are nothing new to wheat

DURUM PRODUCING COUNTIES OF NORTH DAKOTA



Source: 1949 Census of Agriculture. (Figures show annual rainfall in inches.)

farmers of the Great Plains; some 240 parasitic strains or races of stem rust are known. In fact, almost every variety of wheat grown on the plains today has been specially bred for its resistance to one or another rust.

But nature wages grim competition by breeding new and more virulent strains, and in 1950 the previously-resistant durum wheat fell before a deadly off-shoot of stem rust Race 15.

By the late 1930's, scientists had isolated and identified a new strain of stem rust previously unknown in North America. They named it "Race 15-B," and recognized it at once as a potential menace, since none of the varieties of wheat grown commercially on the Great Plains were resistant to it. The discovery meant that spores of Race 15-B were active on this continent at least as early as 1937, though it was not until 1950 that the "right" combination of climatic and crop conditions fostered a destructive epidemic on wheats of the northern Great Plains.

During the early part of that year, Race 15-B like many other rusts "wintered" on grasses in the warm climates of northern Mexico and southern Texas, where myriads of spores burst from pustules on infected plants. The spores, swept up by winds, were lofted from state to state as the spring growing season moved northward—at times producing whole new generations in a week. This airborne invasion carried Race 15-B to its first recorded appearance in North Dakota.

Durums especially susceptible

Although Race 15-B attacks all commercial varieties of wheat, it caused no excessive damage until it reached the northern Great Plains' less arid parts—roughly the areas where durum growth is centered.

Durum wheats are more vulnerable targets than the common wheats, not only because their natural susceptibility is greater, but also because they take longer to ripen, thereby offering a prolonged period during which rust infestation may develop.

Results of the airborne invasion of Race 15-B were evident by autumn of that year. The durum wheat harvest of 1950 was markedly reduced, and yield has declined steadily since that time as conditions favoring development of the rust continued. Prices of durum wheat on the Minneapolis grain exchange jumped sharply in response to announcements of rust damage of recent years.

Last year the durum crop was only about one-third of the 1943-52 average, and this year (according to indications in the U. S. Department of Agriculture's August 1 crop report) rust damage is equally widespread. The 1954 crop likely will be even smaller than that of 1953.

All this has added up to nothing short of crisis to the producers and processors of durum wheat. The durums have been an important income source to farmers of North Dakota, comprising as they do some 32 million bushels out of an average annual spring-wheat production of 136 million bushels.

Development of resistant strains to take years

To farmers of the durum triangle, certainly one of the most hopeful reprieves from the threat of 15-B would come with the development of new, resistant strains of durum wheat. Plant experts who have been working intensively on the project since 1950 believe this can be done, but it will likely take several years, and in the meantime the outlook is not a favorable one.

U. S. Production of Durum Wheat

(In Thousands of Bushels)

State	Aver. '43-'52	1953	1954*
North Dakota	31,547	12,096	11,752
South Dakota	3,159	738	532
Minnesota	780	133	152
Other	610	916	517
Total	36,096	13,883	12,953

Sources: U. S. Dept. of Agriculture; *1954 figures indicated as of August 1, 1954 Crop Report.

During years when natural forces keep 15-B in check, the durum triangle can still yield abundant harvests of the top-grade durum varieties for which it has become famous. But with 15-B "in the air," the risk of severe loss will always exist. Repetition of the "right" climatic conditions in the years ahead could bring further disastrous outbreaks.

The durum producer may have to choose between shifting to other crops, thus losing his premium position, and such potentially costly alternatives as fighting rust infestations by dusting with sulfur or other fungicides.

Millers and manufacturers, who have enjoyed a growing per capita consumption of their semolina products over the past several years, are faced with unpredictable shortages of their premium raw material. They may have to make other moves, such as encouraging production elsewhere (one possibility being the more arid region westward from the durum triangle) and establishing import markets on which they may draw.

Optimistically one may look forward to successful results from the plant geneticists' efforts. However, the durum triangle, unique among specialized farming areas in the Ninth district, may find itself in a considerably different "shape" after the intervening years of adjustment have been bridged. • • •

HOUSING

Continued from Page 167

Apparently the buyers' market has not prevailed long enough to register buyers' preferences for certain residential districts in terms of changes in price differentials.

Activity in the residential real estate market has held up well so far this year. The representative group of realtors whose transactions were included in the survey sold 16 percent more houses in the first half of 1954 compared with the number sold in the second half of 1953.

Each year a larger proportion of the houses sold are in the suburbs around Minneapolis as their prodigious growth rapidly shifts the housing market into these outlying areas.

Of the 3,646 houses included in the survey this year, 2,188, or 60 percent, were in the suburban areas. In last year's survey, 48 percent of the houses sold by realtors included in the tabulations were in these have been bridged. • • •

Lenders and operators alike need new guides for insight into . . .

Appraising the Farm Management Function

Among the requirements are technical know-how, use of new methods, marketing knowledge, adjusting to trends, handling costs well, and sound financing

THE SUCCESS of today's farm operator is being measured more and more by the severest test of any enterprise – namely, profit results.

Purely statistical means may never provide an accurate measure of management's contribution toward that end, but the significance of managerial skill in successful farming is becoming ever more apparent as farming becomes more complex.

If profits in farming hinge more than ever on management skills, it is also true that lenders must look to the ability of management in considering the risk and soundness of a loan.

Fundamental changes in the way farm businesses are operated have brought more of the operation directly under the influence of management. Operating equipment, machinery, supplies, and the other tools of production now represent a larger share of the total investment in farming than was true even a decade ago. The timely and effective use of these tools depends directly on the farm operator and his management ability.

Another fundamental change in farming is the rapid progress in farm methods and practices. Management must learn to use and apply the new practices; it must adapt to changing conditions. Machinery obsolescence is a real cost on many farms today.

Still another condition that complicates the management job is the lack of complete knowledge regarding the many facts an operator needs to know in order to make correct management decisions. Even the best informed operators lack a great deal of necessary information. Individual farmers differ widely in both the kind and amount of knowledge they have.

As a result, the typical farm manager is engaged in a constant struggle to adjust his operations to changing economic conditions and to new methods and practices—all with a degree of knowledge that is at best incomplete.

To analyze the role of management in farming, it is helpful to divide the management job into different types of skills that a successful manager must have. This offers the individual operator, who may be interested in developing his own skills as a manager, a set of more measurable standards for gauging his own ability in relation to the goals he sets for himself.

This sort of analysis may also be useful for bankers and other lenders, who must inevitably evaluate management when making farm loans.

Here, then, are *some* of the important skills that management must use—skills that affect the farm operator's ability to make a profit:

- Technical know-how
- Adopting new practices
- Knowledge of prices, economic trends
- Adjusting to changing economic conditions
- Handling costs
- Financial management

Each of these skills is a purely management function. Although they may be used in combination, they may be considered separately.

Technical know-how is indispensable asset

Technical knowledge of farming —"know-how" as it is frequently expressed—is vastly more complex today than ever before, and more important. Without a good knowledge of the technical facts of producing crops and livestock, no operator can hope to produce efficiently under present conditions.

This store of technical knowledge is constantly being modified and elaborated upon by research, experience, and by new developments. New developments in feeding and nutrition, new machines and new methods—these are just some of the technical aspects of farming that require such knowledge and technical skills on the part of the operator-manager.

The farm operator's ability to make sound and profitable management decisions will be limited by his knowledge of such technical production details.

Adopting new practices can mean profit gain

New operating methods have come at a rapid rate in recent years, involving all phases of farm production. New practices that are more efficient usually work to increase profits in two ways—either (1) by reducing the cost of producing the same output, or (2) by increasing output. Frequently both effects are involved.

Operators who first adopt the improved practices quickly obtain a competitive advantage on their neighbors during the time that the practice is coming into use. After it

comes into general use, however, this advantage may be lost, since it is reflected in the price sooner or later. Those who fail to adopt the more efficient methods ultimately suffer a profit disadvantage in comparison with those who have moved ahead with progress.

As new methods make farming more productive and more efficient it becomes the job of management to adopt the new methods as soon as they offer a more efficient means of production. Operators who are progressive in adopting new and better methods—though perhaps not before they have been proved more efficient and practical—will usually tend to earn higher profits.

Knowledge of prices, trends improves profit position

Knowledge of prices, market conditions, and economic trends is equally important. Not infrequently, a major part of the profit from an operation may be determined by how the operator buys and sells—such as in feeding cattle. Marketing alone can be very important—frequently representing a large percentage of the small margin of income that is net profit from the enterprise.

Prices tend to follow normal seasonal patterns which are fairly well established. These patterns are affected by specific economic conditions that may change from year to year and from season to season. Prices are also influenced by short-run day-to-day, week-to-week conditions that require alert attention.

A sound working knowledge of economic principles is rather important to the interpretation of these price trends, but practical knowledge of how the markets function is just as important. Markets are highly specialized, and few farm operators understand them perfectly. A sound working relationship with established market agencies can be a very valuable part of management.

Adjusting to changing economic conditions important

Changes in the economic climate almost always call for adjustments in the way that any business is operated. During boom periods, with rising price levels, profit margins for most farm production are favorable. Under those conditions it usually pays to push production to the limit, even if it means higher operating costs.

When general price levels are declining, then it pays to give special attention to costs. Keep them trimmed as much as possible. Hold production at its most efficient point.

It has been observed that many farm operators differ in adjusting to these situations. Some individuals seem to do best during the boom period. They go "all-out" for production and earn large profits when conditions are favorable, but they may lack the same ability in adjusting to less favorable conditions. Other individuals may fail to get maximal profits during the favorable period, but demonstrate their best management under less favorable conditions. This ability to adjust appropriately to different economic conditions is an important quality of management.

Handling costs wisely is important management skill

The cost side of farming has become more important as operations have become mechanized and more of the tools and supplies of production are purchased with cash. There is a notable difference in the ability of individual farm operators to keep costs down.

A recent analysis of cost records from a group of southern Minnesota farms showed machinery costs ranging from $2 to $14 per acre—a far greater range than is explained by differences in the farms themselves. The records of these farmers show that machinery costs can be kept low without sacrificing efficiency. The same is true of other types of farm costs.

Careful analysis of these costs can often disclose short cuts in expense that can protect net profits during periods of declining income. Costs, after all, are just as important as total income in determining net profits. Operators who handle them wisely are using a very important and very valuable management skill.

A good set of farm records, carefully kept and properly interpreted, is in itself a valuable management asset and a source of facts about the farm business without which accurate decisions cannot easily be made.

Financial management may be critical skill

Large cash operating expenses, large investments in equipment, machinery, and other productive assets, as well as in land and buildings, stretch the financial resources of many operators to the limit. As a result the ability to handle financial matters smartly and shrewdly can have a substantial effect on profits.

It is important to invest as much as possible in production to get

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***Measures of Farm Organization and Management Efficiency, 1952 on 118 Southwestern Minnesota Farms**

	Average of 118 farms	24 most profitable farms	24 least profitable farms
Operator's labor earnings	$3,936	$9,337	$ -829
Crop yields	100	102	98
Per cent land in high-return crops	61%	58%	62%
Return for $100 feed to productive livestock	100	110	90
Productive livestock units per 100 acres	33	31	42
Size of business (work units)	515	645	544
Work units per worker	322	379	286
Power machinery, equipment, and building expense per work unit	$ 8.29	$ 7.39	$10.28

IN THIS TABLE is shown the standing of average, above-average, and below-average farms according to seven standard measures of management efficiency as developed and estimated by the University of Minnesota farm management staff. In effect, these measures describe not management itself but the results that management has achieved.

If net profits are consistently above average, it seems reasonable to conclude that management is doing a good job. Note that variations in profits (operator's labor earnings) are much greater than the differences in other measures.

*Source: 1952 Annual Report of the Southwestern Minnesota Farm Management Service, Department of Agricultural Economics, University of Minnesota.

Immediate Period Ahead Appears to Be Favorable

■ IT IS probably too early to predict with certainty the trend of the district's economy for the rest of 1954, but various factors appear to be balancing out for a relatively favorable fall and winter season.

With one notable exception, the 1954 district crop outlook is good. This exception is the spring wheat crop, which is now estimated at one-fourth below last year and substantially below a recent 10-year average. Dry weather, rust, and the wheat allotment program all were important factors in the reduction of the district's number one cash crop.

Total gross farm income during the first half of 1954 is now estimated at approximately the same as for the first half of 1953. Farm marketings—livestock and all crops—are expected to be well maintained in the remainder of 1954, but farm prices are below year-ago levels.

Spending in the district—as indicated by such measures as bank debits and department store sales—for the first seven months of 1954 appears to have been about equal to that of the preceding year.

Shipments of iron ore from Lake Superior ports, the focus of much activity in the northeastern part of the district, appear to be suffering from the "recession hangover." This season's shipments to date are lagging those of last year by nearly one-third. Even so, stockpiles of ore at lower lake ports have been rapidly growing and many ore boats have already been taken out of service for the 1954 season.

Lower farm prices, some unemployment—especially in the mining and manufacturing areas—and an increased rate of business failures indicate that today's economic climate is a rigorous one for the farmer and business man.

Both can take hope, however, in the over-all market strength as indicated by a record level of consumer disposable income.

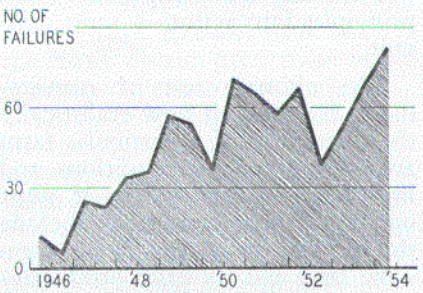
BUSINESS

► *Lake Superior iron ore shipments down a third*

Iron ore shipments from the Lake Superior region so far this year have aggregated about one-third less than the tonnage shipped last year, according to Iron Ore association reports. At the end of July, 33 million tons had been shipped as compared with 50½ million tons in the same period of 1953.

Consumption of ore by United States and Canadian blast furnaces also has been a smaller proportion of shipments than in previous years. In June, for example, shipments to lower lake docks totaled 10½ million tons and the consumption by furnaces was less than 5½ million tons.

BUSINESS FAILURES IN THE NINTH DISTRICT



Sources: Dun and Bradstreet, Inc.

As a result, stocks have accumulated at near-record rates on lower lake docks and in furnace yards. At the end of June, they totaled nearly 35 million tons, considerably more at that time than in any previous year since 1938. Such large stocks obviously will limit stockpiling severely in the latter half of this season.

► *Greater competition has brought rise in business failures*

Business failures are currently at a postwar high. In this district, 82 firms with $3.8 million in current liabilities failed in the first half of this year. The accompanying chart depicts the rise in business failures since 1945.

The increase in failures this year reflects more rigorous competitive conditions. The number of failures also has been influenced by the fact that numerous new businesses were established after World War II, when the failure rate was abnormally low. Many of these firms were organized with small amounts of equity capital.

The current rate of business failures, comparable to that prevailing in 1938, provides some evidence that risks involved in operating a business now are about as great as they were before World War II.

► *Department store sales stay near last year's, bank debits above*

Department store sales in this district have held close to last year's receipts. In July, they were down 1 percent and the cumulative total for the first seven months was also

Ninth District Business Indexes, Adj. for Seasonal Variation

1947-49 = 100

	July '54	June '54	July '53	July '52
Bank Debits—93 Cities	128	135	128	124
Bank Debits—Farming Centers	127	128	125	118
Ninth District Dept. Store Sales	103p	103	105	104
City Department Store Sales	111	109	110	108
Country Department Store Sales	91p	94	97	98
Ninth District Dept. Store Stocks	112p	112	117	108
City Department Store Stocks	116p	116	116	107
Country Department Store Stocks	107p	106	119	109
Lumber Sales at Retail Yards (Bd. Ft.)	92p	88	83	91
Miscellaneous Carloadings	97	101	104	91*
Total Carloadings (excl. Misc.)	58	87	99	47*
Farm Prices (Minn. unadj.)	83	85	95	103

p—preliminary.
*—Steel strike.

down only 1 percent.

Bank debits in this district so far this year have remained above the corresponding total for last year. For the first seven months the increase was 3 percent. However, in July the district total declined to that of a year ago.

In Montana and North Dakota, gains still were reported, but in the other district states debits were down slightly.

FARMING

► *Over-all crop prospects good*

Just a few weeks of adverse weather can change farmers' fortunes. This year is a good example. It started off cold and dry in April and May. June was perfect—rainfall was ample, temperatures were warm, and all crops got off to a good start. But then it turned dry again in July and it was hot. The rust hit some crops, particularly durum wheat and other spring wheat. Based on August 1 crop estimates, the district wheat crop will be about one-fourth less compared with last year. Durum wheat production may be the smallest in 18 years.

On the other hand, the oats and barley crops were excellent—better than last year and a recent 10-year average. Corn, soybean, and flax producers are still smiling, since the weather has been relatively good to them so far.

The district corn crop may be the fourth largest on record, barring an early frost. Flax may come out as the third best on record. Soybean production may ring up a new record.

From an over-all viewpoint, it appears to be a fairly good crop year for the district as a whole.

► *Hog and cattle receipts above year ago*

Receipts of all hogs at the South St. Paul market—representing marketings largely from within the Ninth district—have been well above receipts of a year ago during recent weeks. In some weeks they have been more than 40 percent higher.

Total marketings at all midwest markets also have been larger than a year ago, though by a smaller margin.

This reflects both the larger crop of spring pigs and the fact that a larger-than-normal share of the spring increase comes from early-farrowed litters. It continues the trend toward earlier fall marketing that has been evident over the past several years.

Cattle receipts also have been slightly above last year during recent weeks. However, pasture and feed conditions throughout the Ninth district are reported rather spotty—some good, some rather poor. Dry pastures and lack of feed may speed up marketings of western cattle from these areas.

APPRAISING MANAGEMENT

Continued from Page 171

high output. Yet the operator must also be able to obtain adequate working capital at all times as well as cash for unforeseen needs when special profit opportunities arise.

Many operators are reluctant to use as much credit as they should; using more might add to their profits. Others, of course, may be too willing to borrow, or are inclined to use credit for purposes which do not pay off in higher returns. This adds to costs without increasing income.

Keeping the operation going at full volume, yet at the same time having the additional source of funds available in case of special need, is an important job of management.

Decisions are final test

How well or how poorly the individual farm operator—the manager—is informed in these different areas has a direct bearing on his ability to make sound business decisions. The better his knowledge of facts relating to his business the better his analysis of conditions is likely to be. But the act of decision—converting knowledge, facts, and principles into action—is most difficult.

The ultimate test of management, however, is how realistically the operations of a particular farm are geared to the conditions and limitations within which it must operate. These conditions include the physical resources of the farm—the land and its basic productivity, the buildings and their suitability for different uses, the farm layout, and its equipment.

It also includes the capacity and limitations of the operator. What is practical and feasible for one operator with a special set of interests and abilities may not be practical for another operator with another set of abilities and interests.

Nevertheless, the management skills discussed here may serve as a guide for appraising the capacity of management in relation to specific farm operations. Better understanding of the management function, and how important it is, can be helpful in developing higher net profits. On the part of lenders, it can lead to more realistic lending policies—to the ultimate benefit of both borrower and lender. • • •

MID-YEAR CALL REPORTS
show time deposits growth less than in other districts, but . . .

District Loan Growth Exceeded National Gain

CCC loans at member banks made up half the increase in credit, while investments growth was less rapid

HISTORICALLY, economic declines have frequently been accompanied by liquidation of bank credit with attendant destruction of bank deposits. During the year ended June 30, 1954, however, member banks of the Federal Reserve System added to their earning assets and deposits at a faster rate than in the previous 12-month period.

While it is true that loans were added less rapidly in the latter period than in the former, bank holdings of investment securities—mostly U. S. government obligations—were expanded substantially in the year ended mid-1954, whereas in the previous year such holdings were reduced.

Almost half the $7.4 billion total deposit increase associated with member bank credit expansion during the year ended June 30, 1954, was represented by time deposit growth. In the previous year, additions to time accounts were responsible for all the $2.0 billion total deposit gain at member banks. Thus, both time and demand deposits grew more rapidly at member banks in the latest 12-month call period.

During this same period, member bank loans grew by $1.6 billion, in contrast to a gain of $5.1 billion in the previous year. Much of the change in rate of growth reflects a shift from commercial and industrial loan expansion of $2.0 billion in the earlier period to net liquidation of such credits amounting to $1.4 billion in the most recent period. Most other major components of total loans were larger at the end of June 1954 than a year earlier.

■ A "snapshot" of the banking system was again taken on June 30 as the various supervisory authorities called upon commercial banks to submit fairly detailed reports of condition for that date. Such reports are always required at the end of June and December and are usually required on one or two other dates in the year.

On such occasions, those interested are provided with an opportunity to observe changes which have occurred in the amount and composition of bank assets and liabilities since earlier call dates. Changes in the year ended June 30, 1954, are of particular interest since this period includes the second recession since World War II.

Addition to bank loans here was at a faster rate

While district member bank deposits grew at approximately the same rate (5+%) as deposits at all member banks during the year ended mid-1954, member bank loans in the Ninth district grew more rapidly than in the nation as a whole.

Mid-year condition reports for all member banks in the nation showed a 12-month addition to loans amounting to less than 3 percent, whereas in the Ninth district member bank loans increased by almost 8 percent. By states, member bank loans and deposits grew in the following proportions during the year ended June 30.

	Loans	Deposits
Michigan	+ 8.5%	+7.5%
Minnesota	+ 6.5%	+6.5%
Montana	+ 9.0%	+5.5%
North Dakota	+ 7.5%	+3.0%
South Dakota	+13.5%	+3.0%
Wisconsin	+13.5%	+3.5%
District Total	+ 7.8%	+5.5%

The 7.8 percent gain in district member bank loans amounted to $106.8 million. Various major components of the loan total changed (in millions) as follows:

	$ Change	% Change
Commercial and Industrial Loans	+$18.4	+4.4
Loans to Farmers Guaranteed by C.C.C.	+ 55.5	+500.0
Other Loans to Farmers	— 2.1	—1.4
Real Estate Loans	+22.0	+5.5
All Other Loans	+13.2	+3.4
Total Loans	+$106.8	+7.8

As shown by the table, district member banks added importantly to agricultural loans, as did member banks outside the district. But unlike member banks elsewhere, district banks also added to commercial and industrial loans.

Almost none of the increase in loans to farmers represents conventional types of farm debt. Rather, the gain represents paper acquired by banks in connection with government commodity price support operations. As such, the paper is

guaranteed by the Commodity Credit Corporation and is redeemable on demand. Although classified as loans, these credits are very much like short-term securities.

Offsetting the more rapid growth of loans in this district than in other districts was a much less rapid addition to investments at district member banks. In contrast to a national gain of almost 10 percent for member bank security holdings, district banks added only 3 percent to such holdings. Most of this 3 percent gain reflected the purchase of U. S. Treasury bills, certificates of indebtedness, and notes.

Time deposits accounted for less of district gain

Time deposit growth at member banks in the district was less than in other districts. Twelve-month gains for the nation and for the district were 10 percent and 6 percent respectively. As a proportion of the total deposit increase, time deposits accounted for almost 50 percent nationally, 30 percent in the Ninth district.

With respect to deposit totals, it is encouraging to note that member banks in the district have retained their previous share of the national aggregate. With agriculture so important here and with farm prices down, the terms of trade have certainly not changed in favor of the district.

Deposit comparisons, however, suggest that lower prices for some of the district's most important exports to the rest of the country have yet to be reflected in bank statements. • • •

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT

✓ Montana hail claims mounting

Hail has caused extensive damage in central Montana this season. Damage during July was estimated at $5 million, with the month of August appearing equally bad. The July 8 storm that ranged through Cascade, Judith Basin and Fergus counties, alone was estimated to have caused $1 million in damage.

Insurance claims for crop damage number more than in any year since 1948. In that year the State Board of Hail Insurance, which insures only a part of the crop, paid out $523,000.

✓ Otter Tail Power starts on office

Site preparation is under way for a two-story, $750,000 headquarters office building of the Otter Tail Power company at Fergus Falls, Minn.

Last year the power company bought the Fergus Falls municipal power distributing system for $500,000. Key issue in the referendum vote approving the sale was retention of the head office in Fergus Falls, an office that employs about 600 persons with an annual payroll exceeding $1 million.

The company serves about 95,000 customers in 500 communities in the region where Minnesota, North Dakota, and South Dakota conjoin.

✓ New plant to make milk containers

International Paper company is building a new plant in Golden Valley, a western suburb of Minneapolis, for manufacture of its Pure-Pak paper milk containers. The plant, with a floor space of 64,000 square feet, will have a capacity to produce 40 million containers a month for distribution in the Minnesota-Wisconsin area. Operations are scheduled to begin next spring.

✓ St. Paul can plant ups capacity

American Can company is expanding its St. Paul plant to approximately double its present capacity. Added will be facilities to increase production of fruit and vegetable tins, and the first facilities in Minnesota for manufacture of beer cans.

After completion of the new addition next spring, the plant will have 450,000 square feet of floor space and will employ an annual average of 400 persons.

✓ U. P. limestone quarry ready in '55

U. S. Steel corporation's Michigan limestone division is progressing on construction of its new dolomite quarry and facilities near Cedarville, Michigan, and expects to begin shipments by spring of 1955.

The quarry, located on the company's 10,000-acre property on the upper peninsula, will employ about 100 persons and produce some 3 million tons of high-grade limestone annually for use in steelmaking.

A 5-mile railroad is being completed to a newly-built port (Port Dolomite) where crushing, screening, and loading facilities with an 1800 ton-an-hour capacity will be located.

The dolomite analyzes 55% calcium carbonate, 45% magnesium carbonate, and less than one-half percent impurities.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUGUST, 1954

■ BUSINESS activity generally continued stable in July. Over-all measures of industrial production, employment, prices, and retail sales changed little. Construction activity rose further. Farm crop prospects deteriorated owing to unusually hot, dry weather. Credit availability generally remained easy.

Industrial Production—The Board's preliminary seasonally adjusted index of industrial production held steady in July at the May-June level of 124 per cent of the 1947-49 average. Plantwide shutdowns for vacations and other purposes, which have become widespread in the postwar period, resulted in about the usual seasonal drops in most industries.

Durable goods production in July rose slightly, reflecting mainly further strength in output of major household goods. Television set production showed much less than the usual seasonal decline in July, partly because important work stoppages were terminated. Output of furniture rose further.

Nondurable goods output in July was unchanged for the third month at 116 per cent of the 1947-49 average, as compared with a low of 112 last winter and 121 a year ago. Substantial recovery in leather and rubber products industries in May and June was interrupted in July by an important work stoppage, while output of paper and chemical products apparently continued very strong.

Activity at petroleum refineries was curtailed moderately further in July with inventories continuing at advanced levels, and there was also a reduction in crude oil production.

Construction — Expenditures for new construction in July, seasonally adjusted, rose slightly further from the advanced level of earlier months as most types of private construction showed small increases. Value of contracts for new construction was at a new high for July, with increases from June in both private and public awards. The number of new housing units included in appraisal requests to the VA continued unusually large in July and was more than twice the year-ago number.

Employment — Seasonally adjusted employment in non-agricultural establishments declined slightly in July to 48 million, reflecting largely work stoppages in the lumber and rubber industries and a further reduction in metalworking employment. Employment was relatively stable in nonmanufacturing industries. Unemployment, at 3.3 million, continued at the May-June level.

Agriculture — Hot, dry weather over much of the nation's agricultural area reduced crop prospects during July. Total volume is now officially forecast at about 5 per cent below last year and about the same as in 1950, the most recent year in which production restrictions were also in effect on all major crops.

Distribution—Retail sales were generally maintained in July after allowance for seasonal variation. Auto sales receded from the sharply advanced June level, but sales of most other merchandise held steady or increased.

At department stores the seasonally adjusted sales index rose to 115 per cent of the 1947-49 average, 3 per cent above June and 2 per cent above July a year ago. Department store stocks in June showed little change at a level 5 per cent below a year ago.

Commodity Prices — Wholesale prices generally continued to change little in July and early August. Prices of livestock and products declined somewhat further during July as marketings showed a more than seasonal expansion. Grain and soybean futures rose, reflecting adverse weather conditions, but weakened in early August as more favorable weather developed.

Among industrial commodities, aluminum prices were raised and steel scrap advanced, but copper scrap declined slightly. Prices of some petroleum products strengthened in early August following earlier increases. Lumber prices, despite the continued work stoppage, declined somewhat from the advanced levels of early July.

A slight rise in the consumer price index in June reflected chiefly seasonal increases in fresh fruits and vegetables. All groups other than foods were unchanged or down slightly. Fresh fruits and vegetables rose somewhat further to mid-July, but meat prices have declined since.

Bank Credit and Reserves — Bank holdings of U. S. government securities increased substantially in early August, reflecting primarily bank purchases of part of the $3.7 billion of tax-anticipation certificates sold by the Treasury. Agricultural loans at commercial banks declined sharply as a result of the redemption of Commodity Credit Corporation paper.

Excess reserves of member banks averaged about $900 million in late July and the first part of August, with borrowing at the Federal Reserve generally less than $100 million. About $900 million of reserves were made available to banks through reductions in reserve requirement percentages, of which only part was absorbed by reduction in Federal Reserve holdings of U. S. government securities, increases in Treasury deposits at the Reserve banks, currency outflows, and increases in member bank deposits.

Reserve positions tightened at banks in the money centers in the second week of August, however, reflecting largely shifts of funds due to Treasury operations.

Security Markets — Yields on most government securities advanced moderately from mid-July to mid-August. In early August holders of the $7.5 billion of certificates maturing in August and September were offered in exchange a 1-year 1⅛ per cent certificate or a 6-year and 3-month 2⅛ per cent bond. Exchanges into bonds total $3.8 billion, and cash redemptions were less than 3 per cent. • • •