MONTHLY Review

FEDERAL RESERVE BANK
OF MINNEAPOLIS

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Midyear Perspective Finds . . . .

Economic Activity at New Highs for Both Ninth District and Nation

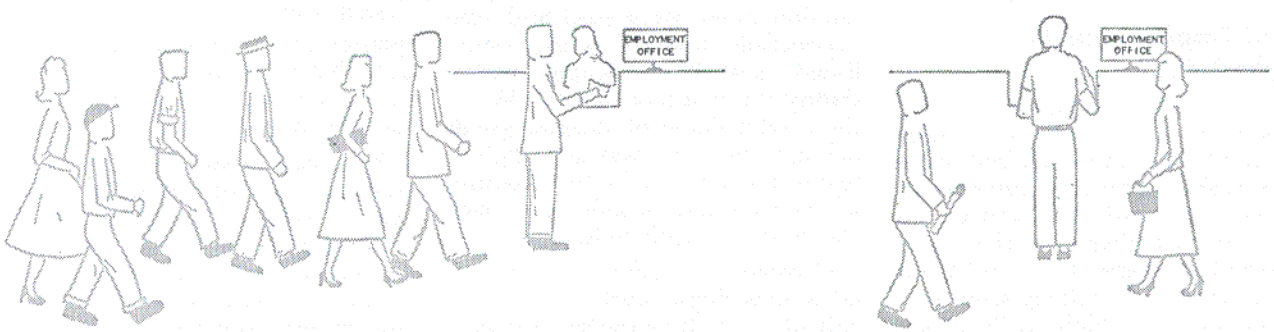
NEW high levels of business activity were recorded both in the Ninth district and for the nation as a whole during the first half of 1955. Of the two, however, the rise in district activity was the more moderate, suggesting that district improvement stemmed partly from national conditions and was not entirely due to developments within the area.

Since national conditions have an important influence in any event, reviewing them is the first step in analyzing district trends.

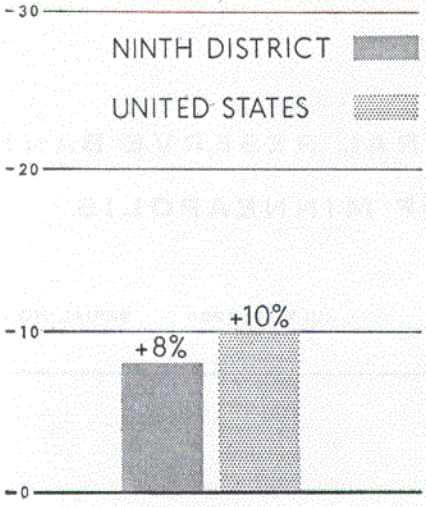
To those who paused to appraise midyear business activity in the perspective of their earlier expectations, it probably seemed that the condition of the U. S. economy left little to be desired. Most beginning-of-the-year forecasts had been realized—many of them far surpassed. Output was higher than ever before. So was total employment. Industry was adding to the nation's stock of capital – durable goods, buildings, roadways, and the like—at a record rate. Income per person was higher than ever before. Yet credit continued to be generally available at interest rates only slightly higher than in 1954. And average prices, so often buoyant in a recovery movement, were largely unchanged from the level prevailing at the low point of economic activity in 1954.

This expansion was accomplished at a time when spending (or buying) by the Federal Government was being reduced. This means that buyers other

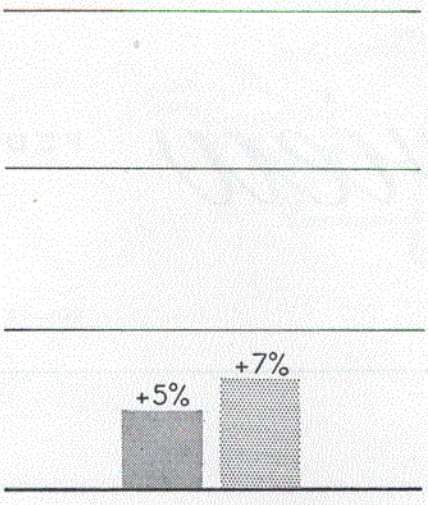
1954 1955



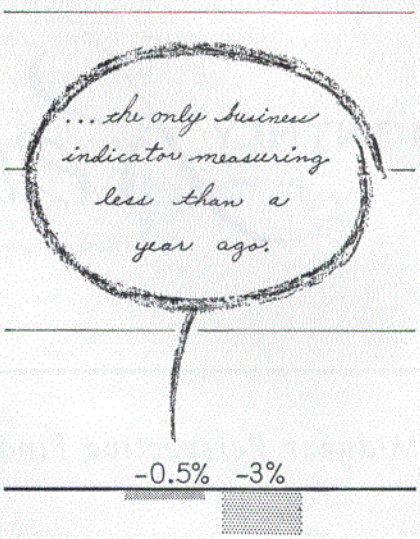
June unemployment for the nation was 2.7 million—down .6 million from a year ago



BANK DEBITS (check writings) during January-May reflected greater spending in 1955 than during the like period a year earlier.



DEPARTMENT STORE SALES totaled larger during January-May, 1955, than last year.



FARM INCOME (cash receipts from marketings) was below last year for the January-April period, but the Ninth district showed less decline.

than the Federal Government increased their "takings" not only by the amount of additional total output but also by the amount that Government buying was reduced. Output itself was higher for two reasons—because more people were working than before, and because productivity per worker was higher.

In June and in early July the possibility of major strikes in the auto and steel industries threatened the resurgent prosperity. But the speedy conclusion of wage contract negotiations avoided any significant loss of production. Thus, the outlook for the last half of the year was improved by the assurance that these particular strike threats had vanished.

Total Employment Is Highest Ever

In June more than 64 million persons were employed (including self-employed) in the United States —the highest total employment figure ever reported. This was almost two million higher than the figure reported for June, 1954, and compares with 63.7 million employed at the previous high in July and August of 1953. Unemployment—at 2.7 million persons—was .6 million less than a year earlier. (Employment in terms of wage-and-salary jobs was still somewhat below 1953, however.) In many industries the average weekly hours worked were also higher than a year ago.

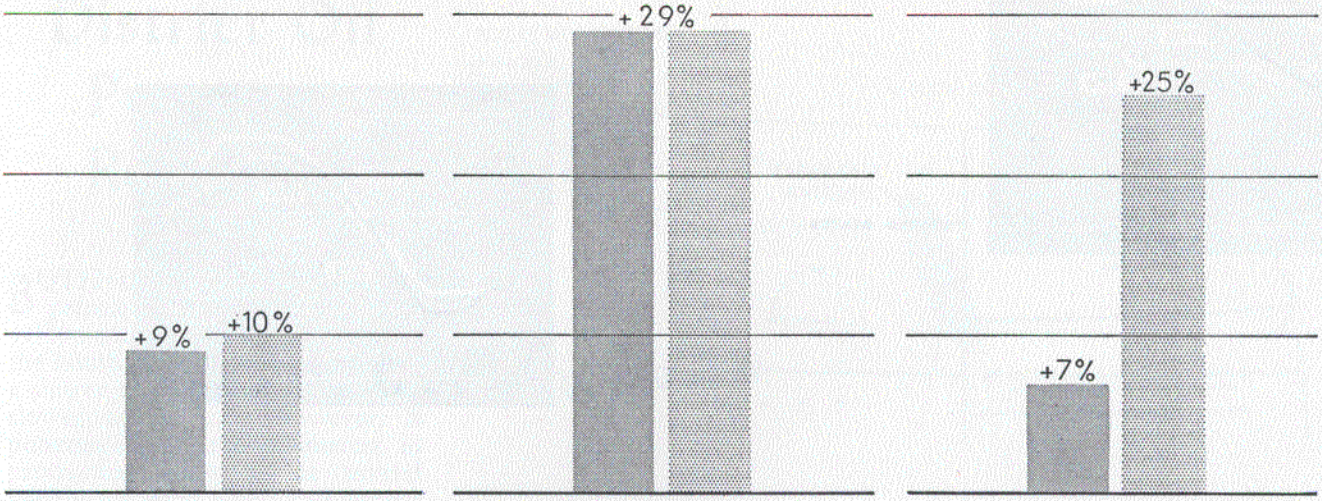
Industrial production (seasonally adjusted rate) has increased in every month since August of 1954. In June this rate was the highest ever at 139 percent of the 1947-49 average. It compares with a rate of 124 percent a year earlier. In part the increase was accomplished with higher productivity and longer hours, but it also reflects the employment of more people in factories and mines than in 1954.

Reflected by the industrial production index were steel and auto production, both of which established new "high water marks" during the first half of 1955. While the total volume of durable goods being turned out was still slightly below the rate set in 1953, output of non-durable goods was well above 1953's peak volume.

Construction activity, too, reached a new high level in the first half of 1955. June outlays for new construction were the highest for any month on record. For the first half of 1955, such outlays were 11 percent ahead of the year earlier level. New homes, an important component of total construction, were being started at a rate almost 20 percent higher than during the first half of 1954.

Estimates of gross national product, while somewhat less current than other statistics, illustrate the direction and volume of total production. The seasonally adjusted annual rate of total production for the first quarter of 1955 was estimated at approximately $375.3 billion. This compares with the previous record year of 1953, when the gross national product was valued at $364.5 billion, and with the previous high quarterly rate of $369.9 billion set in the second quarter of 1953. Most figures indicate that the national product rate continued to rise during the second quarter of 1955.

Evidence that the country's swelling flow of output is finding ready buyers can be found on the cash register tapes and credit ledgers of the nation's retailers. The Commerce Department estimated that in June retail sales were up 6 percent from a year earlier. More



BANK LOANS outstanding at member banks were higher in May 1955 than for May a year ago.

CONSTRUCTION CONTRACTS through May showed large gains over 1955, as did other measures of construction.

NEW CAR REGISTRATIONS during January-May, 1955—district gains over 1954 did not match the nation.

goods were moved off retail shelves in the first half of 1955 than in the comparable period of any other year.

Farm Income Continues Lower

As is usually true in a free society, however, not all industries have qualified for the "prosperous" label during this favorable period. Although agricultural production has continued high, prices of farm products generally have been characterized by weakness rather than by strength. Farm income has continued to decline. Continued high production, along with the inventories of many important farm products accumulated under the price support program, have removed the "zip" from what otherwise would be a favorable market situation for farmers—namely, high incomes in the city. Average income per farm has fallen somewhat less rapidly than total farm income during this period, however, owing to the movement of rural population to urban areas.

District Improvement Substantial, but Less Than National Trend

DESPITE the absence of general improvement in the economic position of district farmers, business conditions generally throughout the district compare favorably with a year ago.

In fact, cash farm income is the only one of several district economic measures that did not register higher during the early months of 1955 than a year ago. The cash receipts of district farmers from their marketings during the first four months of 1955 were down just slightly (less than one percent) from 1954, whereas cash receipts of farmers for the U. S. as a whole declined by a little more than 3 percent. Thus, district farm income enjoyed two distinctions—not only is it the sole economic indicator registering less than a year ago, but it is also the only district measure that compares more favorably with a year ago than the comparable national figure.

Generally lower prices for farm products important within the district were largely offset by a larger volume of commodities marketed during the first four months of the year. This larger movement of products through market channels also contributed to greater activity in marketing and processing and handling industries

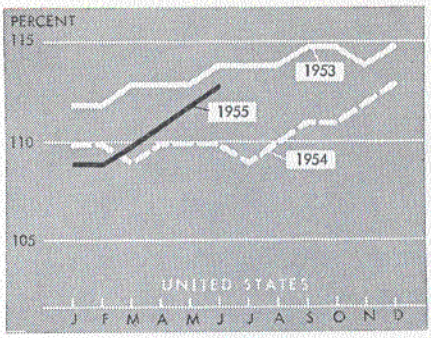
Off the farm, in factories and other non-agricultural enterprises, activity in May was ahead of a year ago and equal to the highest previous level for that month, established in 1953. This is indicated by the non-agricultural employment figures for the district, which were up slightly from last May.

With more people at work, district residents were apparently more willing to spend than formerly. While a district retail sales figure comparable to the national series is not available, district figures do show an increase for some of the major components of total retail sales which are measured on a district basis.

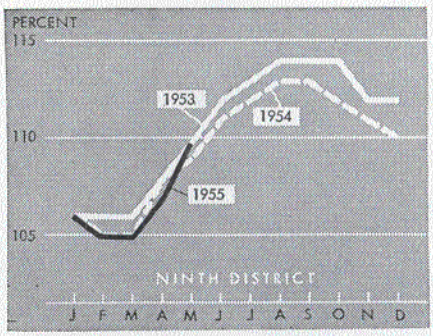
For example, the figures on new car registrations, which are a good measure of new car sales, were up from a year ago by 7 percent in the first five months of the year according to reports for the four states fully within the Ninth district. The increase from a year ago

EMPLOYMENT IN NON-AGRICULTURAL ESTABLISHMENTS

Unadjusted Index Numbers (1947-49=100)



←UNITED STATES



NINTH DISTRICT→

was not sufficient to establish a new record for the district. But for the nation, the previous record for auto sales was surpassed in this 5-month period, with a 25 percent increase over last year.

District department store sales—another major component of total retail sales—were higher in the first half than in any other year on a seasonally adjusted basis; but again, the national improvement of 7 percent from a year ago was greater than the district gain of 5 percent.

Further evidence that spending in the district has increased less rapidly than the national average is found in the ledger books of district banks. Reports from a sample of district banks disclose that the dollar amount of checks drawn through May this year was 8 percent higher than a year earlier. This compares with a larger national gain of 10 percent.

In keeping with the pattern of other indicators, member bank deposits in the district also have increased from a year ago but not quite as much as the national average gain. A district gain of 2.1 percent compares with a gain of 4.7 percent for all member banks in the nation. Proportionately, the district growth in member bank loans, at 9 percent over a year ago, was almost as great as the national growth of 10 percent.

In construction, the district compares more favorably with the national economy. Contract awards, for example, were up by 29 percent from a year ago in both the district and the nation in early 1955. The value of building permits granted by district communities was never higher than in the first half of this year. Construction employment figures confirm the other indicators in showing high activity.

Most of these statistics indicate substantial improvement of economic conditions in the district since last year. They also suggest that the improvement has been somewhat less spectacular than in the rest of the nation. Part of the reason for this may lie in the relative condition of the district and national economy a year ago. Generally speaking, the Ninth district was less affected by the so-called recession conditions of 1954 than some other areas. This also affects this year's comparison with a year ago.

The state of the district's economy will normally reflect a combination of both national trends and the level of business originating strictly within the district.

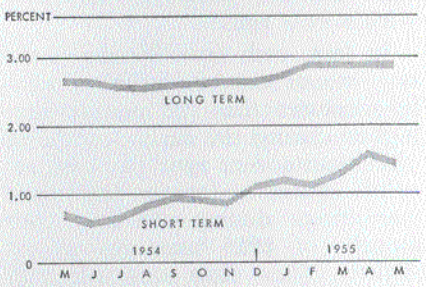
The Cost of Credit

Loan balances at member banks increased in the past year in response to a relatively strong demand for credit of all kinds. Consumer credit and mortgage credit in particular experienced substantial growth. Also security issues of governments at all levels continued to absorb lendable funds in large volume.

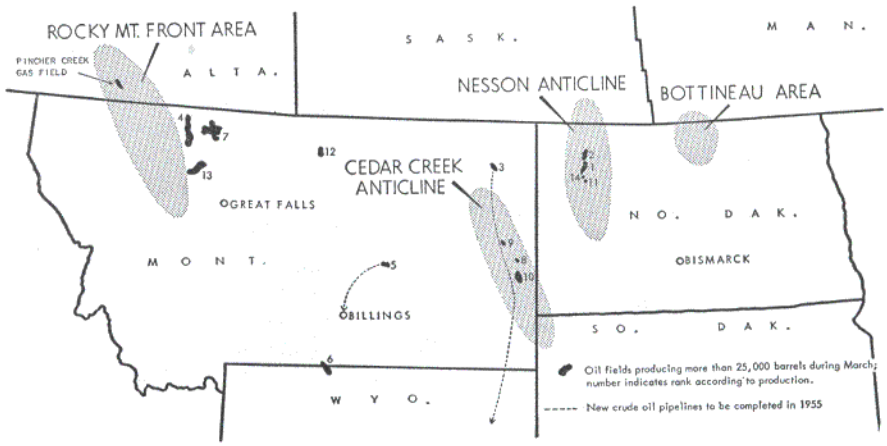
While the continuing supply of lendable funds originating with savers has been augmented by commercial bank credit expansion, credit demands have been sufficiently great to produce slowly rising interest rates after the recovery movement began in mid-1954.

Since the economy is again nearing the full employment of its resources, the danger of inflation from monetary expansion is now greater than was true last year. Under these circumstances, higher interest rates contribute to price stability by discouraging credit-financed spending and by encouraging savings. Without higher interest rates, the chances for continued price stability would be less than otherwise. END

YIELDS ON GOVERNMENT SECURITIES



District Oil Progress Reviewed



Keen interest locally punctuates generally slower oil development

BOTH the exploration for new petroleum deposits and the development of known reserves in the Ninth district are proceeding at a slower rate than a year ago. The slower overall rate, however, is punctuated by intense interest in production prospects at several widely scattered points throughout the area. Here are a few recent highlights which mark the continuing development of petroleum resources in the district's western states.

More Oil Produced

Total oil production for the district as a whole has continued to move upward to higher output levels. Average daily output for the district was about 73,500 barrels during March, compared with an average 51,000 barrels daily during March of 1954. (Almost all of this production is from Montana and North Dakota.)

The Williston Basin, where the first discoveries were made in 1951, already provides more than half of this amount. Growth of the Basin's production over the past year and a half is indicated by the following table:

WILLISTON BASIN OIL OUTPUT
(Average barrels per day)

	August 1953	March 1955
North Dakota	14,320	29,000
Montana	7,600	18,400
Manitoba	1,820	9,700
Saskatchewan	1,540	7,400
Total	25,280	64,500

Source: State oil supervisory agencies, Williston Basin Oil Review.

The Montana figure of 18,400 barrels includes only production from within the generally accepted limits of the Williston Basin, whereas output for the entire state averaged 44,500 barrels a day during March. It may be of interest to note, however, that the Poplar Field in Montana, within the Williston Basin, is now the state's biggest producer.

In North Dakota, about 80 percent of the state's production comes from its two largest fields, Beaver Lodge and Tioga.

Proved Reserves are Larger, Too

Reserves developed so far in the Ninth district represent only a small part of the nation's total supply, but the share they represent is growing. As of December 31, 1954, reserves in the Ninth district made up about 1½ percent of the estimated proved reserves of crude oil in the U. S. Changes in reserves during 1954 are given in the following table.

For the district as a whole, both production and reserves are growing at greater-than-national rates. Because of the relative recency of development in large areas of this district, current production and reserve levels are considered to be far below their ultimate potential.

Oil has been discovered in northwestern South Dakota. However, production to date is erratic, and estimates of reserves are not yet feasible.

Oil Search Takes Pause

Drilling rigs were less active in the Ninth district this spring than during the spring of last year. This experience was shared with other parts of the northern Great Plains, as the following table shows:

This Number of Rotary Drilling Rigs were Active:

	March 31, 1954	March 31, 1955
Montana	32	27
North Dakota	35	19
South Dakota	3	0
Wyoming	88	65
Western Canada	127	85
U. S. Total	2,601	2,656

Source: Interstate Oil Compact Commission.

ESTIMATED PROVED RESERVES OF CRUDE OIL
(In millions of barrels)

	Mont.	No. Dak.	Wyo.	U. S.	Western Canada
Reserves as of 12/31/53	209	128	1,279	28,945	1,817
Additions during 1954	+77	+12	+113	+2,873	+456
Production during 1954	—14	—6	—89	—2,257	—94
Reserves as of 12/31/54	272	134	1,303	29,561	2,179

Source: American Petroleum Institute.

Exploration activity in the district was also less intensive this spring.

This Number of Geophysical and Core Drill Crews Were Active:

	March 31, 1954	March 31, 1955
Montana	46	23
North Dakota	24	13
South Dakota	6	3
Wyoming	42	50

Source: Interstate Oil Compact Commission.

A number of recent developments suggest that this "pause" in drilling and exploration may be short-lived, however.

New Pipelines

In eastern Montana construction is underway on a crude oil pipeline that will help break the transportation bottleneck in that part of the Williston Basin.

The $19-million Butte Pipeline will stretch some 450 miles from Poplar Field to east-central Wyoming, where it will connect with either Western or Platte pipelines, or possibly both. (These lines carry Wyoming oil to the Chicago and Wood River areas in Illinois.)

Completion of this outlet should raise field prices and permit more rapid development of the score of oil fields so far discovered in eastern Montana—and may spur further exploration activity.

Key Oil Tests

In the Bottineau area of North Dakota, recent finds have increased hopes for shallow production in that state. First oil discovery of the year in North Dakota was made in this area late in June. Aside from these prospects, the hoped-for oil discoveries along the eastern margins of the Williston Basin have not yet materialized.

Meanwhile, in eastern Montana the Cedar Creek anticline has continued to yield new discoveries with considerable potential. Most recent of these was the Pennel Field, discovered during June near Baker. The discovery well yielded oil flows on tests from four different horizons totaling about 680 feet in thickness—one of them a "new producer" in the area.

The region westward from the Williston Basin is being watched with increasing interest. Some recent finds have been encouraging. Among these are the gas discoveries in the Pumpkin Creek area of Powder River County (see December, 1954, *Economic Briefs*) and the oil discovery in northeastern Yellowstone County (see June, 1955, *Economic Briefs*).

Finally, crucial tests are being made in the so-called "Rocky Mountain front" of northwestern Montana. This sector is geologically similar to that of the famous Pincher Creek gas field a relatively short distance away in Alberta. Union Oil Company's well, the "No. 1 Morning Gun," being drilled on the Blackfeet Indian reservation east of Glacier Park, held the spotlight during July as careful testing began of the complexly folded rock layers buried deep along this belt.

Thus, petroleum development in the western part of the District has taken on some of the aspects of "watchful waiting." These and other events of recent months strongly suggest that an intensified search for oil and gas production is ahead for the Ninth district. END

CURRENT TOPICS ☆ *Business* ☆ *Banking* ☆ *Farming*

Agriculture lags in otherwise prosperous district trend

A PROSPEROUS pattern of district economic activity presented little in the nature of contrast at midsummer.

Practically all of the regularly kept measures of business activity registered substantial gains during the first six months of 1955. District industrial production, employment, income and sales were all higher than a year ago. Some were higher than ever before.

Agricultural income was the lagging exception in an otherwise robust upward trend, although the cash received by district farmers for their marketings during January-May was down less than 1 percent from the year-ago receipts.

Actually, agriculture was contributing in an important way to the higher level of district business —as a result of larger livestock production and marketings and a favorable crop prospect that would set some new records if July 1 estimates were realized at harvest time. Although lower prices for many farm products might offset part or all of the increase in output as far as farm income is concerned, the higher output and marketings help to keep handling and processing industries active both within and outside the district.

Except for agriculture, the mid-year economic picture was significant for the conspicuous absence of any weak spots of consequence. Record construction activity, high employment, high spending and consumption as indicated by bank debits, department store sale fig-

ures, and new auto registrations—all combined to form an integrated pattern of economic growth and expansion for the first half of the year.

The consistency of the pattern suggests that this growth and progress can be expected to continue during the second half of the year. Yet, it is significant that the district's partnership role in the resurgent national prosperity has been a relatively moderate one. Although district economic measures compare favorably with a year ago, their improvement is generally less pronounced than for the nation as a whole. • • •

Construction leads business expansion

The large amount of construction undertaken this year has contributed significantly to the rise of nonfarm employment and payrolls in this district.

The valuation of building permits issued during the first half of this year totaled 41 percent more than in the first half of 1954. June figures showed no evidence of a slowing down, with permit valuations 59 percent higher than in June, 1954. This indicates that the construction industry had a large backlog of projects at the beginning of the third quarter.

The expansion in construction activity has taken place in both residential building and all other types of construction. Contracts awarded for residential building in April and in May were up 47 percent and 61 percent respectively from the corresponding months of 1954. Contracts awarded for all other types of construction in March were almost double the amount of a year ago. In April and in May the increases over year-ago totals were not so impressive, but in June the large number of building permits issued for projects in excess of $100,000 suggest that the increase over a year ago was probably high.

The large demand for building materials has created shortages in some areas of the district, especially in cement, steel, and sheet rock. There has been a strong demand for kiln-dried lumber, but in general lumber has been in ample supply.

Employment on construction sites has risen steadily during the first half of the year. In May employment in the construction industry exceeded by over 10,000 workers the number employed in the same month of last year. According to figures available for the larger district cities, labor employed on construction projects continued to rise during June.

District industrial output rising steadily

Although employment in manufacturing firms has not expanded as rapidly as on construction projects, there has been a slow-but-steady rise in factory jobs since the first of the year. The kilowatt hours of energy consumed by industrial concerns is higher than a year ago. These barometers indicate that industrial output in the district is rising.

Pay raises and increased overtime have raised weekly earnings of factory workers. For example, average weekly earnings in June rose by $1.53 in Duluth, $1.51 in Minneapolis, and $1.12 in St. Paul.

Nonfarm employment above last year

As a result of additional workers added to payrolls in construction, in manufacturing, and in service industries as the vacation season commenced, nonfarm employment in all but one district state surpassed the number employed a year ago. In Montana employment in June still was trailing the comparable 1954 total by 700 workers. On the Upper Michigan Peninsula, employment has risen rapidly, but in May, nevertheless, was about 100 workers below the total employed in May, 1954.

More cattle on feed

District states shared in the 13 percent increase in the July 1 number of cattle on feed, reported by the U. S. Department of Agriculture for the 13 major feeding states. This category of states includes Minnesota and South Dakota in the Ninth district. There were respectively 7 percent and 17 percent more cattle on feed compared with a year ago in those states.

In the 9 corn belt states the July 1 increase was only 10 percent, with California, where numbers on feed were up 33 percent from last year, accounting for more than its share of the national increase.

Both the number of cattle marketed for slaughter and the number of cattle moving into feedlots since April 1 have been substantially above a year ago.

District figures indicate an increased volume of beef production and marketing from these two states in the months ahead.

Favorable crop prospects

The U. S. Department of Agriculture's estimate of crop production in 1955 for the district offered hope for a larger total production than last year. The corn crop, although still a long way from harvest, would be the district's largest if present yield estimates materialize. An estimated 455 million bushel harvest is forecast compared with the previous record of 442 million in 1948.

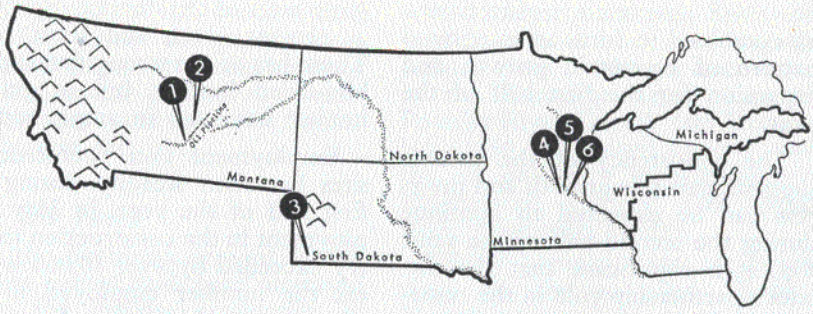
Wheat production, even though under restricted acreage, is estimated higher than last year.

The Durum crop is estimated at 13.3 million bushels, compared with an actual 5.6 million last year.

Despite early dryness, recent weather has been favorable for crop development. Unofficial estimates suggest less damage from rust than farmers suffered last year. Naturally, some of the estimates may be subject to considerable adjustments before harvest is completed.

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1-Billings Oil Refinery Expansion

A million-dollar expansion program is being planned for the Billings refinery of the Continental Oil Company. The program calls for construction and installation of new gasoline reforming and desulfurizing equipment. Approximately 100 men will be employed to do the work, which is scheduled for completion by the end of this year.

The original refinery was built in 1949 at a cost of $9,500,000 and had a capacity of 7,500 barrels a day. Since that time, improvements have boosted capacity to 8,750 barrels a day.

2-New Pipeline for Montana

Already under construction, the Powder River Pipeline, which will originate in Northwest Sumatra Oil Field and terminate in the Billings-Laurel refinery area, may be in operation by September 1.

The six-inch line will be 78 miles long, tapping present production from more than 50 wells in the Sumatra field, and will pass the Amsden discovery in northeastern Yellowstone County. Potential capacity of the new pipeline is 15,000 barrels per day. Present production from the Northwest Sumatra field is about 4,500 barrels per day.

3-Edgemont Uranium Plant

Ground was broken in June to start the construction of a $2¼ million uranium processing plant at Edgemont, South Dakota, that will process an estimated 200 tons of ore daily and employ approximately 85 men.

The plant is being constructed to provide processing facilities for uranium ore, including that which has been stockpiled at the government-owned buying station in Edgemont.

4-General Mills Expands Research

Early in July General Mills, Inc., world's largest flour miller, announced plans for a multi-million dollar research plant on a 102-acre tract in the Minneapolis suburb of Golden Valley. The initial building will have 65,000 square feet of space and cost about $2 million. Plans call for eight to twelve separate buildings to be built in a park-like setting resembling a small college campus. The project will extend over a three to five year period and may run between $10 and $20 million in total cost.

Research subjects will range from flour to bombsights and automatic machinery.

General Mills will also build a new office building on a 40-acre tract just 1½ miles from the new research project. Planning and construction are expected to take two to three years during which they may continue to occupy their downtown Minneapolis office (sold in February to a Chicago realtor).

5-Grocery Firm Builds

May Brothers Company, a wholesale grocery firm, has started construction of a $1 million office and warehouse building on two spur tracks of the Great Northern Railway in northeast Minneapolis. The new one-story building will have 200,000 square feet of floor space, nearly double that of the firm's present multiple-story building. It will include office space, a refrigerated produce department and an enclosed truck-loading area. Construction will be completed in about nine months.

The firm serves some 650 retail stores, mostly within a 150-mile radius of Minneapolis, and employs 200 persons.

6-$4.5-Million Stadium Begins

Ground was broken June 20 for the new Metropolitan Sport Stadium located in Bloomington, just south of Minneapolis. The first contract for $391,708 to cover excavation and grading work necessary on the site was awarded earlier in the month.

The stadium commission authorized payments totaling about $480,000 for the 160-acre site. Total cost of the initial phase of the stadium with a seating capacity of 30,000 is estimated at $4.5 million. (Expansion to 79,000-seat capacity is provided for if the need develops.)

Over $2 million in bonds has been subscribed locally, and an issue of about $2.5 million to preferred creditors is to be made through security dealers. Bonds are to be retired out of stadium revenues.

Objective of local sponsors is to provide facilities for major league baseball. Target date for completion of the stadium is June 1, 1956.