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Monthly Review
OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Business decline continues

Many of the Ninth district's economic measures continued to register declines through April although in some instances the rate of decline has slowed. For example, there is some indication that the rate of increase in unemployment may be slackening for the district as a whole. Residential construction during April evidenced a stronger seasonal upturn compared to a year ago.

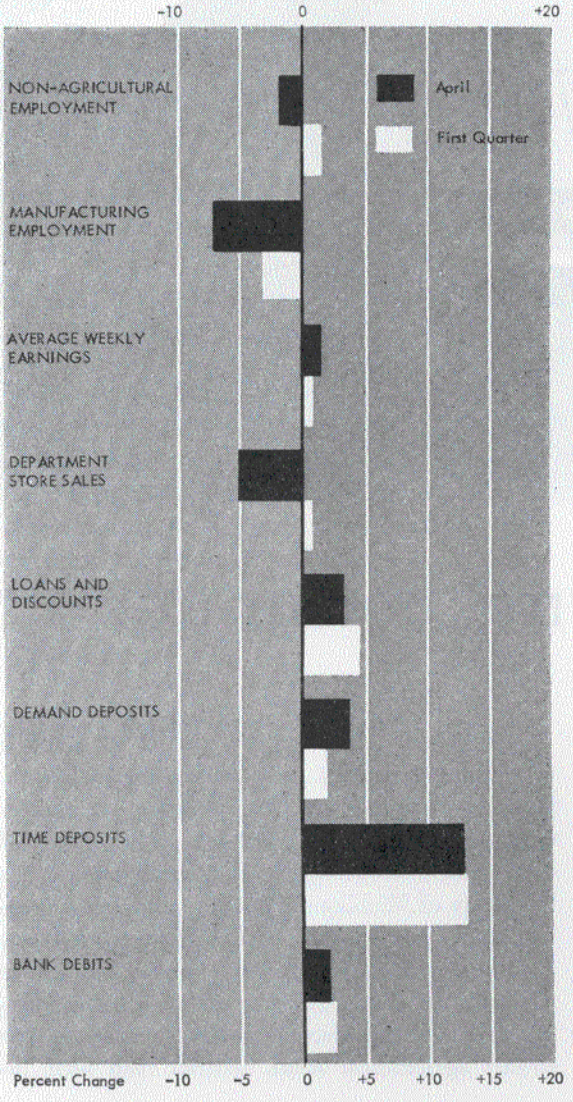
Unemployment has become a problem in local areas of the district. For example, iron ore operations are running about 40 percent of what they were a year earlier and as a result, unemployment in iron mining regions is increasingly being reflected in declining retail sales and bank debits as earnings and savings are reduced. Department store sales in Duluth-Superior for the week ended May 10 were a minus 15 percent compared with the same week a year ago. In the Minneapolis-St. Paul area sales were down only 3 percent.

April bank debits for the district as a whole were a plus 3 percent. By comparision, in Duluth, Hibbing, Virginia and Two Harbors, the figures were –14 percent, –12 percent, no change and –19 percent, respectively. For the entire Upper Peninsula of Michigan, where mining is so important, the decline in April bank debits was 7 percent.

In contrast to the economic pessimism in the mining areas and to a lesser extent in the lumbering areas of the district, optimism rules in the strictly agricultural areas. District cash farm in-

Construction and the recession
A discussion of the relationship between construction activity and the current economic recession . . . . . see page 8

Economic indicators for Ninth district April and first quarter, 1958



come during the first quarter of the year registered a plus 4 percent above year earlier figures. Reflecting this increase in income, total bank debits in North Dakota and South Dakota since the first of the year were up 12 percent and 8 percent, respectively, from first quarter 1957.

Although May has been on the dry side, a favorable outlook for all crops still prevails. Winter wheat prospects are particularly good with all crops rated a week to ten days ahead of normal in development. Subsoil moisture conditions are reported adequate except in some local areas. Surface moisture varied from excessive in some local areas to rather extreme dryness in north central and western North Dakota and in eastern Montana. Soaking rains will be needed soon to carry the crops through the normally drier and hotter months of July and August when crop moisture requirements are at peaks.

The banking picture in the Ninth district continues relatively strong with sharp advances in member bank investments in recent months. Loans are up only slightly from year ago levels. Total deposit growth during April, as in previous months this year, exceeded that of a year ago.

The relatively favorable agricultural situation in the district is, of course, an important factor in the favorable banking statistics. Higher farm prices and income are also reflected in farm machinery and equipment sales and in business activity generally. In fact, in the district as a whole the recession to date has not been as severe as it has for most other areas of the United States. This is true in spite of severe economic adjustments in some areas of the district.

The following selected topics describe particular aspects of the district's current economic scene:

DEPOSITS AND EARNING ASSETS GROW IN DISTRICT

Ninth district member banks experienced an $88 million increase in total deposits during the month of April. Both city and country banks shared in the deposit gains. Depositors added to their time deposits as well as to their demand deposits. These deposit changes reflected to some extent recent Federal Reserve credit easing and a favorable district agricultural situation.

As a result of deposit growth, district member banks were able to add significantly to their earning assets during April. Country banks added $30 million to their security holdings in April. City banks added $39 million. The recently issued 4 year 10 month Treasury Note was a popular addition to security portfolios in the district.

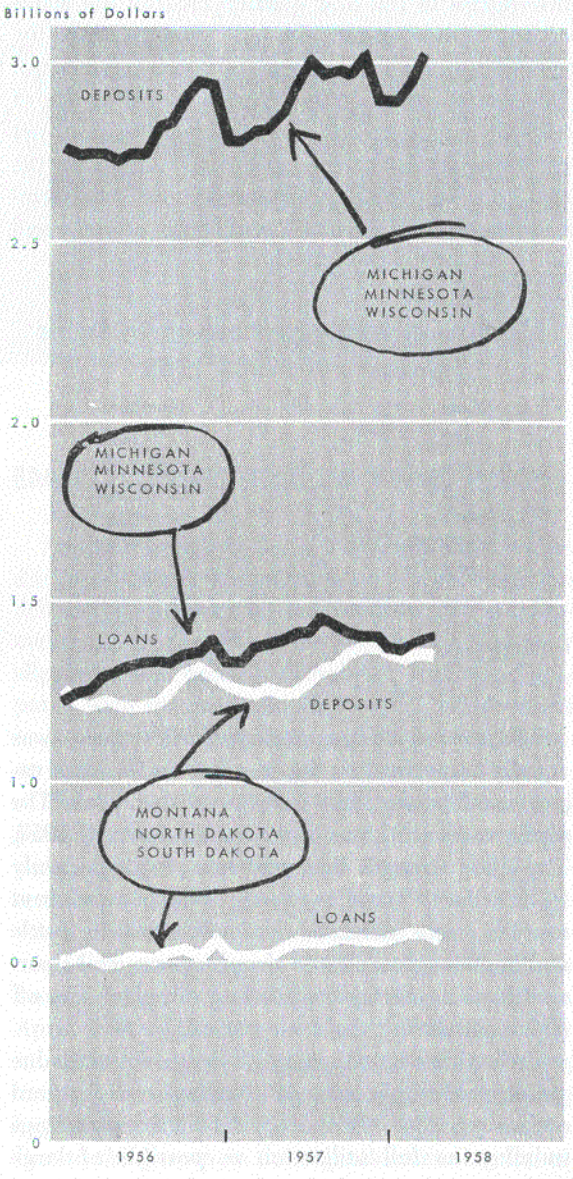
Country bank loans dropped $7 million in April but they continued to compare favorably with the record a year earlier. During the first four months of 1958, loans at country banks rose $20 million in contrast to only $13 million in the comparable period of 1957. On the other hand, loans at the weekly reporting city banks fell $18 million during the four-month period ended April 30. This parallels the experience last year when city banks reported a $20 million reduction in the equivalent period.

Member banks in all of the states in the district added to their investments during April, and all save those in Michigan experienced deposit growth. Loans increased in the three eastern states of the district—Michigan, Minnesota and Wisconsin. But they decreased in Montana and the Dakotas. In April a year earlier loans increased in all states but North Dakota. Changes in deposits and loans of member banks in the eastern and western sections of the Ninth district are recorded in the accompanying chart for the period since 1956.

FARM MARKETINGS UP 4 PERCENT

Ninth district cash receipts from farm marketings in the first quarter were 4 percent above a year ago yet the picture varies considerably by state. South Dakota farmers received 40 percent more from the sale of farm products in the first quarter, while Montana farmers' receipts were 12 percent over last year. During the January-March period, North Dakota and Minnesota farmers, respectively, received 7 percent and 5 percent less from farm product sales than they did in the similar period a year earlier.

Deposits and loans at member banks in the Ninth district, classified into eastern and western divisions by months, 1956-1958



Higher first quarter cash receipts may be explained principally by two factors. First, the inventory position of farmers in the district at year end 1957 was above the inventory position a year earlier. Thus, increased sales were possible out of inventories in the first quarter 1958 in the states of South Dakota and Montana. For example, the net change in per farm inventory position in South Dakota between 1956 and 1957 was an increase of $1,902; similarly in Montana there was a net per farm inventory increase of $789. During the same period, North Dakota and Minnesota farmers experienced inventory reductions of $639 and $487 per farm, respectively.

Number of cattle and calves on farms January 1, 1950 - 1958

Year	Number
1950	77,963,000
1951	82,083,000
1952	88,072,000
1953	94,241,000
1954	95,679,000
1955	96,592,000
1956	96,804,000
1957	94,502,000
1958[1]	93,967,000

[1]Preliminary

The second factor, higher farm prices, was equally important in the increase in incomes experienced in the first quarter of this year. The parity ratio at 87 was 6 percent above April 1957. The price strength this year has resulted mainly from reduced supplies. In the first quarter meat supplies were curtailed by reductions in cattle and hog slaughter; cattle slaughter was off 11 percent from a year ago, while hog slaughter was off 8 percent during the same period.

Reductions in supplies of livestock were due mainly to a withholding of breeding stock for herd expansion. Also, there were delays in marketings to allow as full utilization as possible of large feed crops—particularly where these crops were in danger of spoilage because of high moisture conditions. In cattle, the induced herd expansion, developing because of favorable prices and feed conditions, is ending a downward trend in cattle numbers which was first recorded on January 1, 1957. The January 1, 1958 inventory of cattle indicated a further decrease of .5 percent.

The U. S. Department of Agriculture suggests that cattle and calf slaughter may be sufficiently reduced in 1958 so the inventory number of January 1, 1959 will show a small gain over 1958. If this proves true, the cyclical reduction will have lasted only two years, the shortest on record.

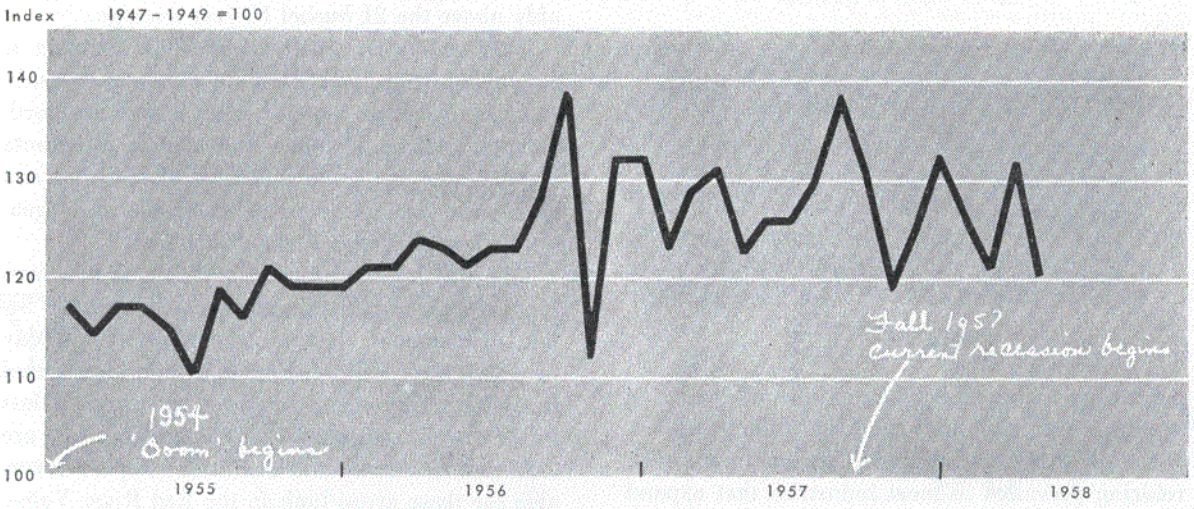
Unfavorable weather cut supplies of commercial vegetables and potatoes, making prices of these crops considerably higher than prices received in the first quarter of 1957. Prices of wheat, feed grain and oil-bearing crops, because of heavy supplies, were below a year ago.

The demand for food continues relatively strong despite the slight drop in consumer income. Unemployment compensation payments have provided a cushioning effect that have helped buoy up consumer spending. Even assuming that the demand for food is maintained near current levels, it is expected that farm price declines will develop later in the year. The excellent early crop prospects are expected to further swell the already large supplies of many crops. In addition, weakness is expected in the livestock markets; USDA estimates indicate that increased cattle and hog marketings are expected in the latter part of the year.

RETAIL SALES SLIDE OFF

District department store sales have declined since the third quarter of 1957, which marked the beginning of the current recession. The index as adjusted for seasonal variation in that quarter averaged 133 percent of the 1947-49 base period. In the fourth quarter of 1957 and in the first one of this year, the adjusted index declined to 125 percent and 126 percent, respectively. In April the adjusted index declined further to 120 percent.

Ninth district department store sales



Thus, sales in April were down 10 percent from the third quarter of 1957.

In the first two weeks of May, department store sales in the two metropolitan areas—Minneapolis-St. Paul and Duluth-Superior—averaged 3 percent above the corresponding weeks of last year. The trend of sales in these metropolitan areas, however, provides no clue to the possible trend of sales in the rest of the district.

Sales of new passenger cars have slipped sharply according to registration figures. In first quarter of this year registrations in the four full states of the district were down 13 percent from a year ago. The sales decline was mitigated in the Twin Cities metropolitan area in April when registration were down only 7 percent from a year ago. However, in the first half of May registrations again were down 16 percent from a year ago.

The downward trend in the sale of 'discretionary' items (those items purchased in department stores and new cars) suggests that effects of the cutbacks made in 'primary' industries of this district, especially in mining and durable manufacturing, is now being reflected in consumer purchases.

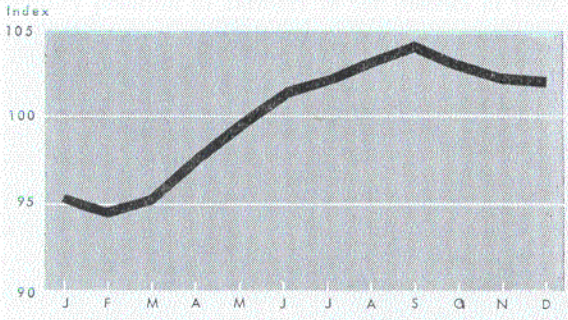
EMPLOYMENT BELOW YEAR AGO

Nonfarm employment in the Ninth district rose during April but this provides no evidence that the deflationary forces have subsided. In fact, employment during the first four months of this year slipped further below the level of a year ago. Compared with the same month in 1957, employment in January 1958 was down only 0.6 percent whereas in April it was down 2.2 percent.

The Ninth district has a pronounced seasonal pattern in employment. Following the first of each year, employment declines an average of 6.5 percent from the Christmas and New Year's holiday season. As may be observed on the chart, the seasonal low point occurs in February. Rehirings usually begin in the last week of February. From April 1 through June, outdoor work—especially in agriculture, construction, logging, lumbering and services—expands rapidly. Vegetable canning begins in June and extends through September. Due to the growth in the vegetable canning industry, in recent years seasonal employment has grown during the summer months. Following

Seasonal employment pattern

(four full states of district)



September, employment again falls off with the big drop occurring after the first of the year.

In April this year the usual seasonal pattern of rehiring prevailed in most industries that expand their operations at that time of year. However, at the same time, numerous layoffs occurred in manufacturing and rehirings were postponed, especially in iron ore mining. District employment in manufacturing during April was down 6 percent from a year ago, and in mining employment was down 20 percent.

CROP CONDITIONS CONTINUE FAVORABLE

Expectations of winter wheat production have again been revised upward. The prospects are for a total U. S. production of 1,010 million bushels of winter wheat; this estimate exceeds that of April 1 by 5 percent. The latest estimate places the crop as the third winter wheat crop to pass the billion bushel mark, and only slightly below the productions experienced in 1952 and 1947 which also both exceeded the billion mark. Anticipated per acre yields of winter wheat are at record highs. In Montana the winter wheat crop now is expected to yield 61.9 million bushels. This is an upward revision of 4 million bushels over the estimate of a month earlier. The indicated yield in Montana for 1958 is 27 bushels per acre, which is considerably above the 21 bushel 10-year average.

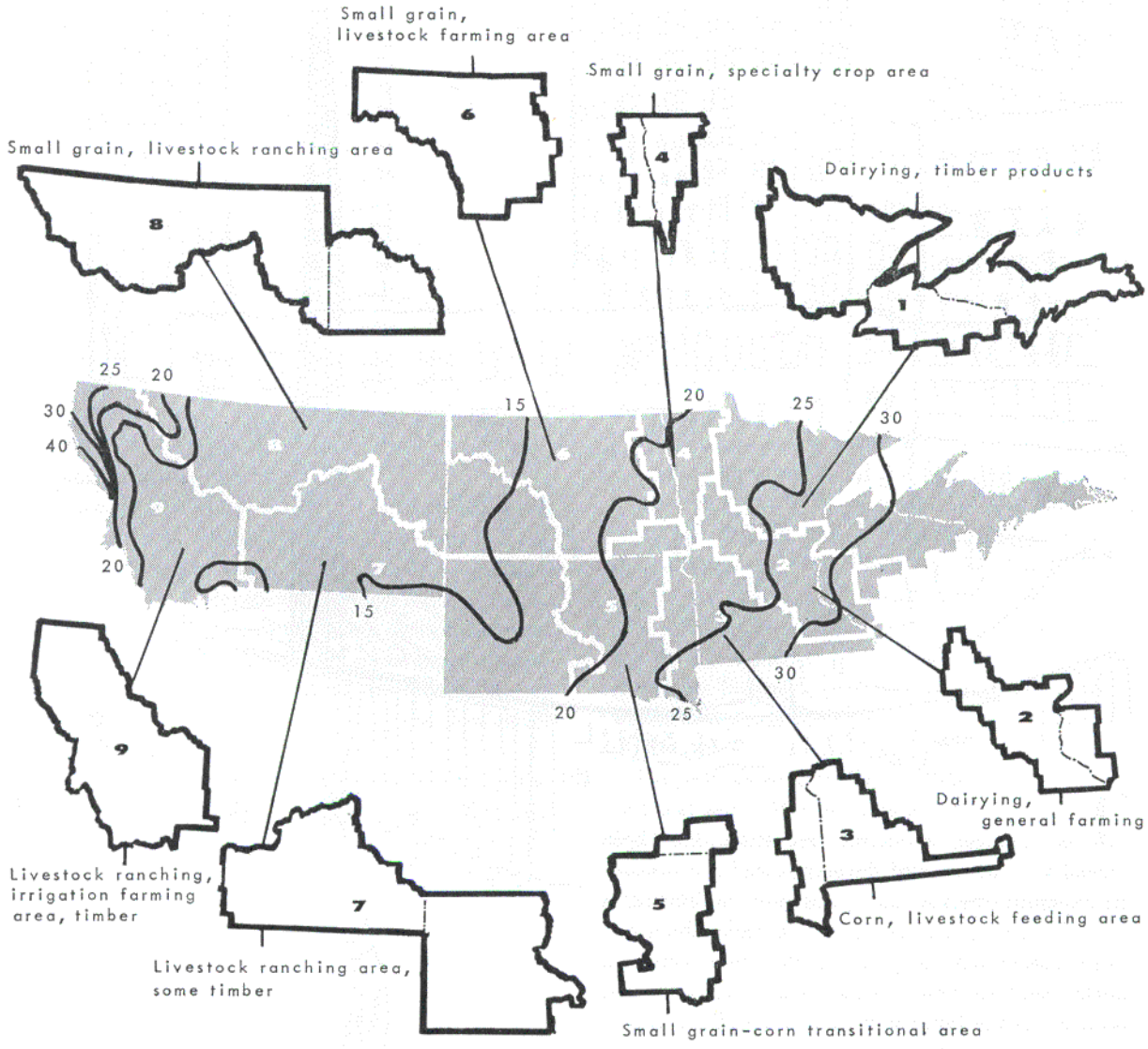
The seeding of small grain in the district is rapidly nearing completion. In most areas conditions are excellent. Isolated areas in western North Dakota, eastern Montana and central Minnesota are experiencing some shortages of moisture and emergence has not been as favorable as is generally true throughout the district.

The planting of corn and soybeans is progressing favorably, although this work is slightly behind the amount of planting completed mid-May of a year ago. Flax seeding as of mid-May varied from 20 to 70 percent completed at various points in the district. Sugar beet and potato plantings are also well underway and conditions appear favorable for these crops both in the Red River Valley and in Montana areas.

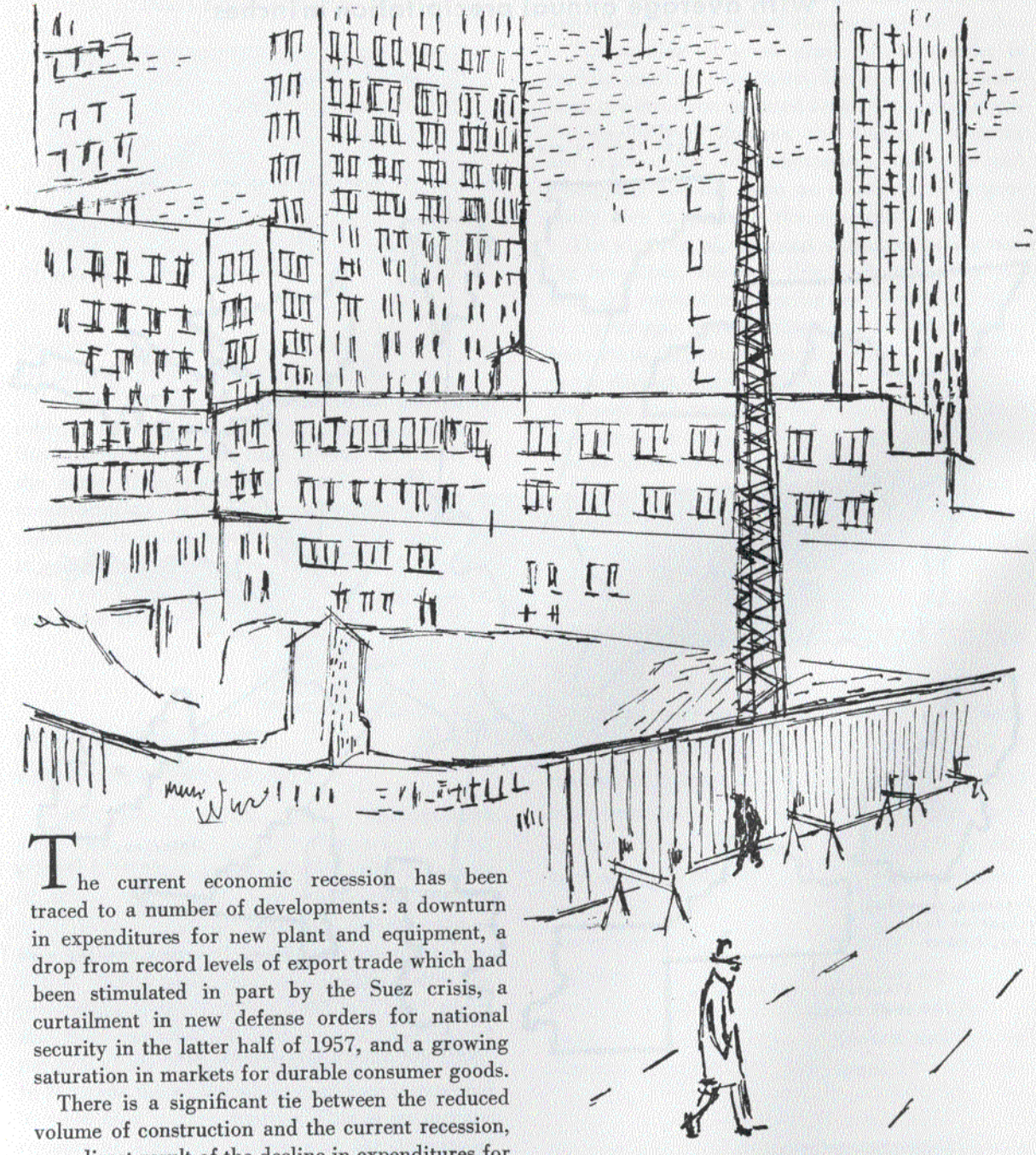
Damage from the late April frost was light; only scattered areas indicated the need for any appreciable reseeding, and this was largely restricted to flax seedings.

Ninth district agriculture encompasses a wide range of farming activities. The land resource of the district spans a distance of approximately 1500 miles from east to west, and 600 miles from north to south. Since the district includes such a vast land area, there exist wide variations in topography, soils and climate. The diversity of environmental conditions in the Ninth district—both physical and economic—cause numerous agricultural production patterns to emerge. These agricultural production patterns can, in a general way, be delineated into type-of-farming areas. ►

TYPE OF FARMING AREAS
with average annual precipitation in inches



Construction and the recession



The current economic recession has been traced to a number of developments: a downturn in expenditures for new plant and equipment, a drop from record levels of export trade which had been stimulated in part by the Suez crisis, a curtailment in new defense orders for national security in the latter half of 1957, and a growing saturation in markets for durable consumer goods.

There is a significant tie between the reduced volume of construction and the current recession, as a direct result of the decline in expenditures for

new plant and equipment. This article discusses how the decline in construction activity has contributed to the recession and, conversely, what an anticipated expansion in this industry might do to alleviate the recession.

The crest of the latest boom occurred in the third quarter of 1957. At a seasonally adjusted annual rate, Gross National Product (the value of all goods and services produced and distributed) rose to $440 billion. In the fourth quarter of 1957, this adjusted figure declined to $433 billion and in the first quarter of 1958, to $424 billion.

In industrial construction the crest occurred in the second quarter of 1957, one quarter prior to the peak in the general economic boom. This volume of construction reached the record level in April and May 1957 of a seasonally adjusted annual rate of slightly more than $3.3 billion. Since that time, this type of building activity has fallen steadily. By April 1958 the annual rate had declined one-fourth from the peak of a year ago, or $840 million.

Since the fall of 1957 most types of private construction have declined, with public utility construction a major exception. Housing, which had experienced a moderate decline in 1956 and in the first half of 1957, began to show a definite upward trend in the latter half of 1957 when the recession commenced. Since the first of this year housing construction again has declined to the 'low' level of a year ago.

Public construction has changed little since the fall of 1957. Revised data now show a steady downward movement since last October through April in the value of total new construction put in place.

Construction contract figures, compiled by the F. W. Dodge Corporation, are an indication of the activity to come in the construction field, particularly in private nonresidential building. The value of contracts awarded in the nation during March for all types of construction was down 12 percent from a year ago. In both January and February, the aggregate valuation on the awards made was down 10 percent. A decline of this percentage is substantial and very likely will be reflected in a further decrease in the value of construction put in place in the coming months.

Anti-recession measures

With the volume of construction declining, it is significant to note that nearly all of the anti-recession programs undertaken by the federal government have been aimed directly or indirectly toward an expansion in public and private construction. Federal government action has centered around three broad fronts: first, speeding up the awarding of contracts to firms for which appropriations have been made by Congress in the past; second, securing larger Congressional appropriations for projects so the higher federal spending rate can be maintained in fiscal year 1959; and third, emergency housing legislation to stimulate residential building.

According to the latest estimate, federal government expenditures in the last quarter of fiscal 1958 will show a very sharp rise and they may reach an annual rate of $78 billion. In the first three quarters of this fiscal year total federal expenditures aggregated $53.3 billion—an annual rate of $71.2 billion. The rise in expenditures will not be an immediate burden on the taxpayer for it will be financed, partially at least, by a deficit which may reach as high as $3 billion by the end of the year.

Projections now made for federal expenditures in fiscal year 1959 point to a continuing increase. By the third quarter of 1959, expenditures may exceed an annual rate of $80 billion. The deficit for the next fiscal year may range from $8 billion to $10 billion.

It is now estimated that expenditures for public works alone in fiscal year 1958 may show an increase of $1.2 billion from fiscal 1957. The revised public works spending program for fiscal 1959 points to another increase of $1.8 billion. Thus, if the present schedule of expenditures is carried out, the impressive total of $3 billion

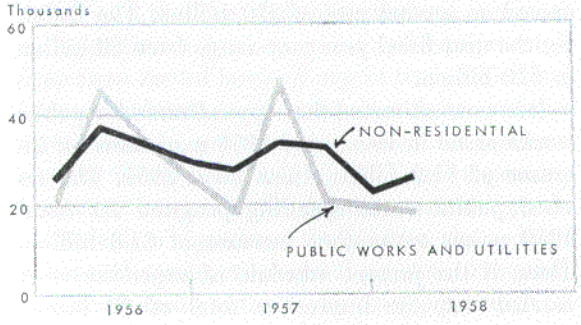
more will be spent on public works in fiscal years 1958 and 1959 than were spent in fiscal 1957.

The economic effect of these expenditures will begin to be felt in the economy in the first half of the fiscal year beginning July 1958. Highways are by far the fastest growing federal public works program in the nation. From an expenditure of $953 million in fiscal 1957, it is expected to rise to $2,675 million in fiscal 1959. Federal funds for housing have also been expanded sharply. This expenditure is expected to rise from $89 million in fiscal 1957 to $897 million in fiscal 1959. Smaller increases have been posted for water resources development under the direction of the Army Corps of Engineers and the Bureau of Reclamation.

Construction in the district

In the Ninth district, as in the nation, the volume of nonresidential building declined during 1957. The valuation of contracts awarded in the district fluctuated sharply from month to month due to large project awards made from time to time, but over a six months interval a definite trend emerged. In comparison with the same period of one year prior, the value of contracts awarded for nonresidential building in the first half of 1957 was down 3 percent and in the second half of the year, by 13 percent. In the first two months of 1958 the value of the awards again was down, 5 percent from a year ago. The value of contracts awarded for heavy engineering projects—public works and utilities—followed a similar trend.

Construction contracts awarded in Ninth district, 1956-1958



The prospects at this time do not point to any expansion in industrial and commercial building. Many business firms have completed their capital expansion plans and others have revised or postponed any building activity during the present recession lull. This is particularly true of manufacturing firms and to a lesser extent of retail and wholesale distributors.

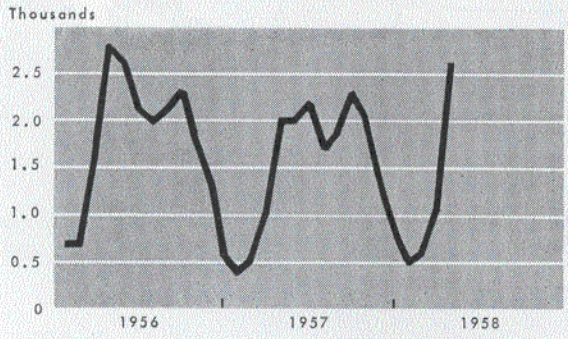
On the other hand, continued expansion in public building is necessary as a result of the increase in population. The many children born in the first few post World War II years are now approaching junior and senior high school age and more schools are needed to accommodate them. Taxpayers generally are cooperative with school boards in approving bond sales for new schools and additions. Also, the need persists for more churches and hospitals to accommodate the growing population.

Home building

As in the nation, housing starts in the district began to show a definite upward trend in the latter half of 1957. In fact, the number of new units authorized by permit was substantially above a year ago in the fourth quarter of 1957. Furthermore, the number of units authorized by permit has held up well in the first four months of this year as contrasted to the national trend in which housing starts again have sunk to the low level of early 1957. This information is revealed by building permit reports received from approximately 475 cities and towns in the district.

In housing, as in other durable consumer goods, the growing stock of existing houses has become a factor in the market, especially in the large metropolitan centers. In all states and parts of states in the Ninth district, with the exception of northwestern Wisconsin, the number of new dwelling units authorized by permit in the first four months

New dwelling units authorized in Ninth district, by months



of this year was above a year ago. South Dakota had by far the largest percentage increase in the district.

In the Twin Cities metropolitan area home building has slowed down in relation to population growth.[1] In the period from 1950 to 1956, inclusively, housing starts averaged 8.8 per 1,000 population. In 1956 the starts declined to 7.6 per 1,000 population. As compared with 75 standard metropolitan areas in the nation, the housing market in the Twin Cities area has reached about the average degree of saturation; the market is neither over nor under built as related to over-all economic growth.

Mortgage credit

The Emergency Housing Act enacted in April 1958 to encourage new residential construction has opened the housing market to families with little savings. On mortgage loans insured by FHA the required down payment has been reduced. For example, on a house appraised by FHA at $12,000 the required down payment has been reduced from $600 to $360, a decrease of $240. In price brackets ranging from $13,500 to $21,000 the required down payment has been decreased by $420. Of course, the lending institutions may request more than the minimum required payment.

[1]See **75 Housing Areas, A Housing Market Analysis,** Housing Securities Inc., 250 Park Avenue, New York, N. Y.

On mortgage loans guaranteed by the Veterans Administration the maximum rate of interest lenders may charge was raised from 4½ percent to 4¾ percent. At the new rate lenders again may become interested in these loans. Furthermore, an additional $350 million has been made available to the Veterans Administration for direct home loans to veterans.

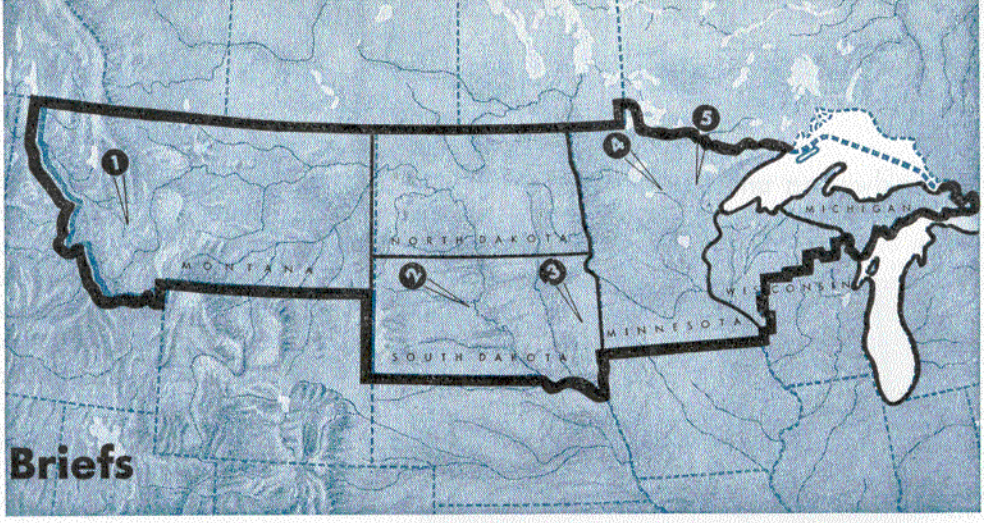
The Federal National Mortgage Association was authorized to use an additional $1.5 billion to buy VA and FHA mortgages in the market which should provide greater encouragement to lenders to grant these loans to their customers.

On the basis of mortgage recordings, the activity in mortgage lending in Ninth district states declined to a relatively low level in 1957 but began to rise in the first quarter of this year. In some states the recordings in February exceeded the number of a year ago. The number of mortgages accepted by FHA for insurance in Minnesota and Montana during the first four months of this year was significantly above the number accepted in the same period of last year. Following the enactment of the new legislation on April 1, local VA offices in this region again received applications for appraisals on new houses. The applications for FHA insurance have increased sharply.

The easier monetary policy pursued by the Federal Reserve System since last November and legislation enacted by Congress to encourage new residential construction have increased the supply of funds for mortgage loans. It now remains to be seen how much the demand for mortgage credit at more liberal terms will be. The Survey of Consumer Finances shows fewer consumers this year with plans to purchase new and existing houses than in the three years from 1955 to 1957, but somewhat more than in early 1954.

In a general review of the construction picture, it is important that the long-term perspective is not lost. Although the construction activity has declined during the current recession, the volume is still large by comparison with most of the other post World War II years.

Economic Briefs



1. Montana to ship 5,000 cars of phosphate

Five thousand carloads of phosphate ore will be shipped from Phosphate and Avon, Montana to British Columbia this summer. Loading will aggregate 350,000 tons of phosphate from the two stations. To start the shipping, 26 cars a day will be loaded at Phosphate, 5 a day at Avon. In June loading will begin from ore stockpiles totaling 99,000 tons.

2. Closure set for Oahe dam

Closure of the Oahe dam in South Dakota is scheduled for mid-summer this year. The Missouri river will be diverted through several flood control tunnels. Work is also scheduled to begin on several other projects at the Oahe structure, including construction of upstream flood control tunnels at a cost of $13,600,000 and installation of seven power generators costing $9,700,000.

3. Milk drying plant planned at Madison

A milk drying plant costing about $250,000 will be built in Madison, South Dakota. The new plant, with a production capacity of 200,000 pounds of powdered skim milk a day, is scheduled for completion this fall. Employment at the plant would reach about 10 to 15 persons at full capacity. This new industry will serve to expand the market for milk produced in the area.

4. Minnesota paper plant addition

Construction of a $1.5 million addition to the Blandin Paper Company mill at Grand Rapids, Minnesota is scheduled to begin this summer. The new addition will house a coating machine enabling the firm to coat its products with a clay compound. Blandin produces about 200 tons of magazine paper a day. The addition is expected to require an increase of 15 persons to the payroll; the firm now employs 350 persons. Completion of the structure is set for early next year.

5. Taconite plant set for future

The United States Steel Corporation recently indicated its intention to build a full scale commercial taconite plant in northern Minnesota, in the Mountain Iron area. U. S. Steel has already invested about $40 million in pilot and experimental taconite work in Minnesota. Construction of such a plant may be undertaken at any time between 1960 and 1968 depending on economic considerations.