

MONTHLY

REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

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The rise and fall of persistent unemployment

... this Nation will not countenance the suffering, frustration and injustice of unemployment, or let the vast potential of the world's leading economy run to waste in idle manpower, silent machinery, and empty plants.¹

—John F. Kennedy

In recent years unemployment in the American economy has reached such a magnitude that it has been a point of serious concern to many. Why should there not be, it is frequently asked, an adequate number and type of jobs for all persons who seek employment in a prosperous nation? Why have unemployment rates, for example, been above 4 per cent in 12 of the 16 years since 1948?

These questions elude simple answers. A major difficulty is that there are so many types, classifications, and definitions of unemployment, and that they frequently overlap when it comes to actual measurement. But although a recent paper prepared for the Joint Economic Committee of Congress lists some 70 different unemployment terms and classifications, types of unemployment can be, in general, listed under three headings. Unemployment is *structural* if joblessness appears fairly permanent because unemployed workers lack the necessary skills, locations, race, sex, etc., to fill available job openings. Unemployment can be labeled *demand shortage* if total expenditures are

insufficient to create enough jobs to lower unemployment to some acceptable level (unless held above that level by structural rigidities).² Unemployment is *frictional* if it represents the minimum level that can be achieved in view of the temporary movement of workers from job to job.

Structural and demand shortage unemployment merit discussion because of different policy implications associated with them.³ If present high unemployment rates stem from a shortage of total demand for goods and services in the U.S. economy (demand shortage), then the remedy would be to augment total demand. This can be done through traditional monetary and fiscal stabilization policies, for example, by an enlargement of the money supply, or by reducing tax rates. If, however, the problem is structural, such stabilization actions (or remedies) may not be enough to "solve" the problem. From the structuralists' viewpoint, such things as manpower retraining programs and expansion of vocational education are also needed.

In the current period of "watchful waiting" to appraise the effects of tax reduction on the economy, two leading questions of observers are: Can

² The Council of Economic Advisors regarded a 4 per cent unemployment rate as temporarily "acceptable." *Economic Report of the President, 1964*, p. 169.

³ The relative importance of frictional unemployment is not at issue. The concept relevant here is that of a floor below which the unemployment rate cannot fall and not that of a source of recent gains in unemployment.

¹ *Economic Report of the President, 1962*, p. 3.

expansion of total demand through the tax cut lower unemployment to an acceptable level? If not, has the importance of structural unemployment been underestimated or the potency of the tax cut overestimated? Although some preliminary information is now available upon which to assess post-tax cut economic developments (the information also contains results not directly attributable to the tax cut), definite answers to these questions are not now and may never be possible even when more information becomes available. This, as previously indicated, is principally because classifications and definitions overlap. Certain partial answers, nevertheless, can be identified.

Recent unemployment rates

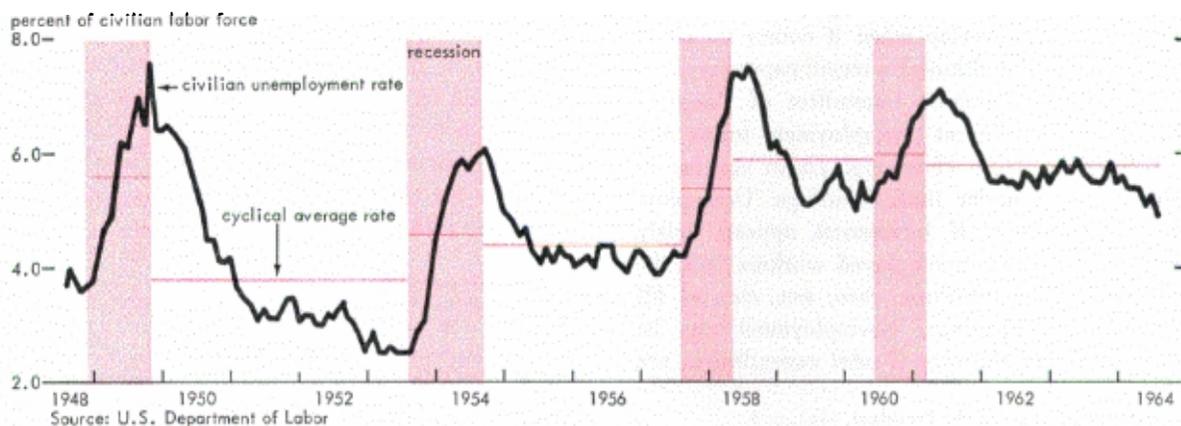
Since 1948 four business cycles have occurred in the United States. The behavior of seasonally adjusted unemployment rates during these cycles, and over the entire period from 1948 to July 1964, is shown in Chart 1 where it may be observed that unemployment rates moved in fairly close step with over-all business developments. In 1948, on the tail of considerable price inflation, a recession developed. In the summer of 1949 unemployment rose substantially driving the seasonally adjusted unemployment rate to 7.6 per cent in October. Throughout the 1948-1949 recession, unemploy-

ment averaged 5.6 per cent of the civilian labor force. Other recessions occurred during 1953-1954, 1957-1958, and 1960-1961, sending unemployment to successive monthly peaks of 6.0 per cent, 7.4 per cent, and 6.9 per cent. During each of these three recessions, average unemployment advanced.

Until the current business expansion, cyclical average unemployment rates stood higher after each recovery. Unemployment averaged 3.8 per cent of the civilian labor force from 1949 to 1953 (the Korean conflict boom), 4.4 per cent in the 1954-1957 expansion, and almost 6 per cent during the 1958-1960 expansion. This trend now appears to be halted. Unemployment has averaged 5.8 per cent in the current expansion—down from 5.9 per cent to the 1958-1960 recovery. Although the unemployment rate was 5.1 per cent in August, it was 4.9 per cent in July—the lowest rate since February 1960, and before that, since October 1957.

In the past business recovery tended to reduce average unemployment rates from recessionary levels as did the recoveries following the 1948-1949 and 1953-1954 recessions. The 1958-1960 business expansion, however, failed to reduce average unemployment rates; and a troublesome dimension was then added to the unemployment problem, namely, *its persistence in the face of*

Chart 1—Unemployment rates, July 1948 to July 1964 (seasonally adjusted in percents)



economic expansion. But this development, too, appears to have reversed itself. The average unemployment rate of 5.8 per cent in the current recovery is down 0.2 per cent from the 1960-1961 recessionary average.

In sum, the over-all picture following the 1958 recession was first marked by incomplete recovery in the labor market. This was followed soon by another recession and another upturn in unemployment. At no other time since World War II was there such sustained high unemployment as was witnessed between 1958 and 1961. These developments now appear to be receding. The cyclical average unemployment rate in the current economic expansion is now slightly below both the 1960-1961 recessionary rate and the 1958-1960 recovery rate.

Locating structural unemployment

The Department of Labor publishes numerous statistics concerning the nation's labor force. Included are various breakdowns of total unemployment, by age, area, time, etc.⁴ These breakdowns of total unemployment permit the location of persistently high unemployment rates in particular labor force groups and thereby provide the basis for tentatively locating structural unemployment in the labor force (see box page 11). The vulnerability of selected groups to structural unemployment in the United States may be observed from Chart 2.

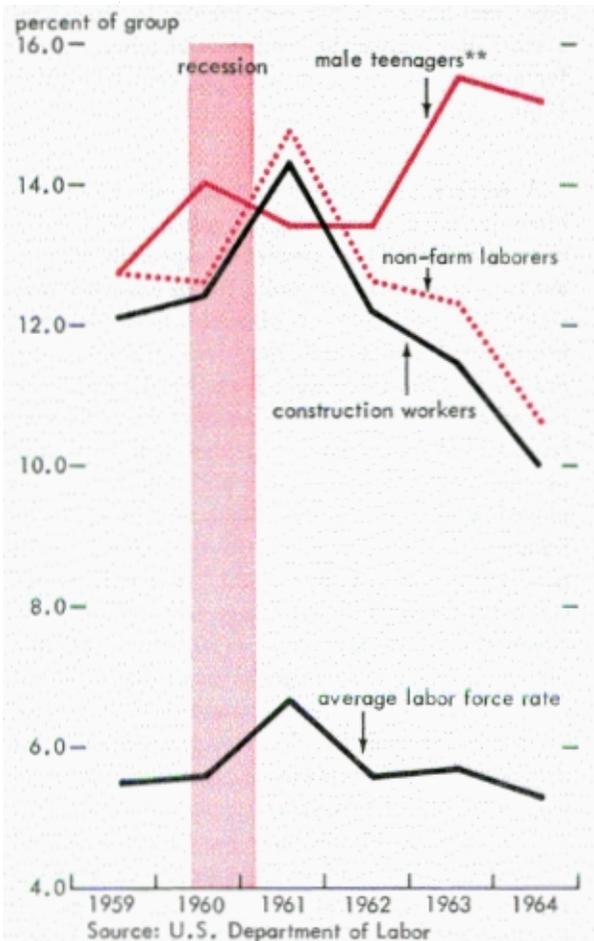
By age.

The most vulnerable group appears to be teenagers. The number of teenagers in recent years has increased greatly because of the marked rise in the birth rate following World War II. Unemployment

⁴ When unemployment is broken down on the basis of these characteristics there still is no information available on the strength of labor force attachment of these groups. While not directly a problem of measuring unemployment, the strength of labor force attachment may be important for policy considerations. If some of these groups are fringe workers, their inclusion in structural unemployment may be incorrect. Another problem is that labor force attachment typically increases cyclically during economic expansions and decreases cyclically during economic contractions.

rates of teenaged males (the picture is very similar for teenaged girls) have remained high despite insistent pressures of economic expansion. So far in 1964, the unemployment rate of teenaged males has averaged 15.3 per cent—down from 15.5 per cent in 1963. Unemployment rates among nonfarm

Chart 2—The vulnerability of selected groups to structural unemployment, 1959 to 1964* (annual average unemployment rates)



*rates for 1964 are estimates based upon the months January to July

**rate for 1959 based upon the months July to December

laborers and construction workers have declined in both 1962 and 1963.

By area.

Since 1957, in major U.S. labor markets, the number of distressed areas with "relatively substantial unemployment" has increased, both in periods of contraction (1958 and 1961) and expansion (1957, 1960, and 1964). But the rate of increase in periods of expansion has subsided. In July 1957 a total of 24 areas had substantial labor surplus. By May 1960 this statistic stood at 35 labor markets or 46 per cent higher. In June 1964 a total of 37 areas had substantial labor surplus for a much smaller gain of 6 per cent from May 1960.

By time.

A worker unemployed for over six months is often included in a category called "hard core" unemployment. This category is especially important from a welfare standpoint for its existence may signal the initiation of extended unemployment insurance benefits and improved training programs. In 1953 there were fewer hard core unemployed than in any other post-1948 year. As may be observed from Chart 3, in that year hard core unemployment accounted for not quite one unemployed worker in 20. But beginning in 1953 the number of hard core unemployed began to drift persistently upward until 1962. At that time two signs appeared, although they may be only cyclical, to indicate a reversal of direction: (1) the increase in hard core unemployment that occurred in the 1960-1961 recession was less than its two predecessors; and (2) hard core unemployment decreased as a percentage of total unemployment over a period of two years.

The duration of unemployment—the length of the current period of unemployment in weeks—reflects both structural and demand shortage unemployment. To illustrate: an iron ore miner may be structurally unemployed because he lacks skills that mesh with available job openings. On the other hand, retraining the miner may not neces-

sarily provide him with a job, or if it does, he may only displace another worker if his unemployment was demand shortage. Therefore, to the extent that the length of unemployment in weeks reflects the

TABLE 1—POCKETS OF UNEMPLOYMENT IN MAJOR U.S. LABOR MARKETS¹

	July 1957	April 1958 ²	May 1960	Feb. 1961 ³	June 1964
Total labor markets	149	149	149	150 ³	150 ³
Per cent of labor market unemployed:					
6.0 to 8.9	16	46	28	60	32
9.0 to 11.9	7	21	3	19	3
12.0 or more	1	11	4	10	2
	—	—	—	—	—
Surplus labor markets	24	78	35	89	37

¹ A major labor market consists of a central city or cities and the surrounding territory within a reasonable commuting distance. It is an economically integrated, primarily urban, geographic unit within which workers may readily change jobs without changing their place of residence. Major labor market areas usually have at least one central city with a population of 50,000 or more. These areas account for nearly 70 per cent of the nation's total nonagricultural wage and salary workers.

² Quarterly average figures.

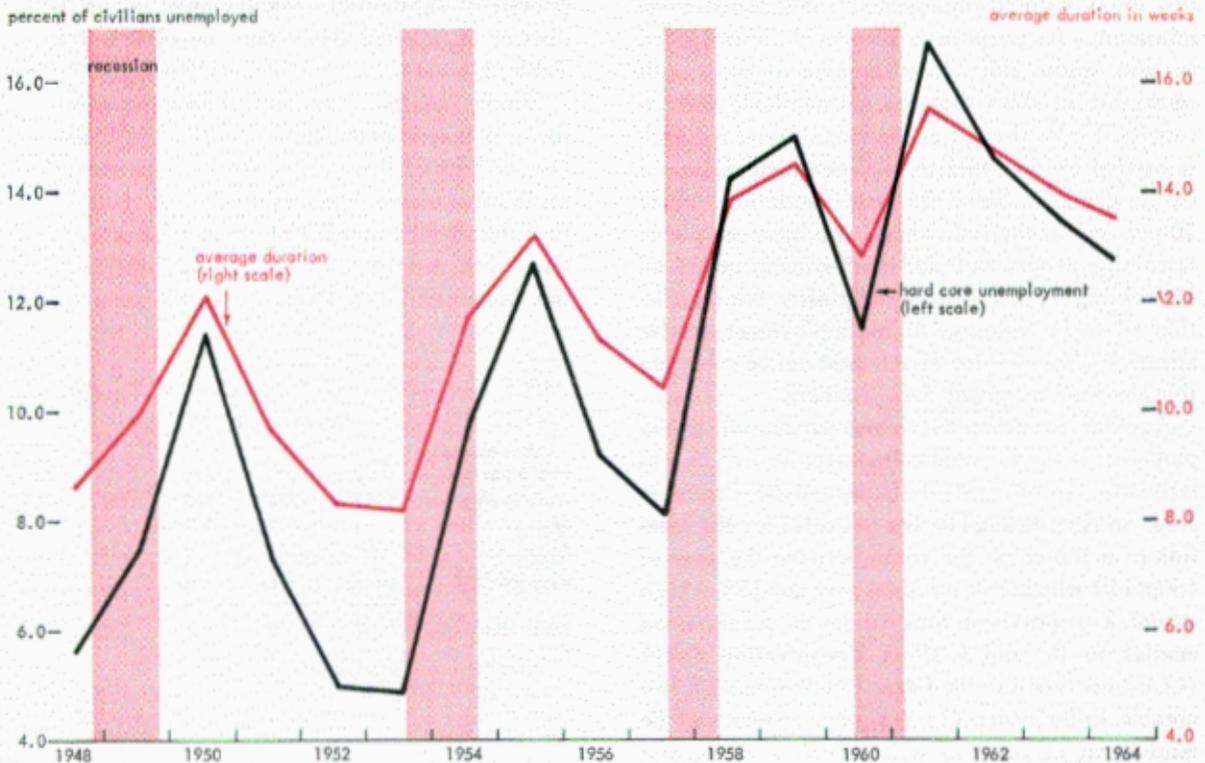
³ Not completely comparable with earlier periods because of changes in the definition of labor markets.

Source: Bimonthly Summary of Labor Market Developments in Major Areas and Area Labor Market Trends.

fact that adjustments in the labor force have been slowed by considerable rigidity it can serve as a convenient summary of recent trends in structural unemployment.

Like hard core unemployment, the average number of weeks a worker was unemployed between jobs reached its low point in 1953—the terminal year of the Korean conflict and of the 1949-1953 economic expansion. By 1957, the end of the next period of expansion, the average duration was over ten weeks—up over two weeks from the 1953 low. With the onset of the 1960-1961 recession, the average duration had increased over two weeks from 1957. But 1963 brought a change. In that year average duration was up but one week (hard core unemployment as a per cent of total unemployment declined absolutely) from 1960 to record

Chart 3—Long term unemployment in the U.S., 1948 to 1964* (average annual rates)



Source: U.S. Department of Labor

*estimates for 1964 are based upon the months January to July

a deceleration in the increases that had occurred in the past two recoveries.

Mitigating structural unemployment: three programs

Action against structural unemployment has been initiated in several ways by the federal government. Three programs deserve special mention: the Area Redevelopment Act of 1961, the Manpower Development and Training Act of 1962, and the Economic Opportunity Act of 1964. The Area Redevelopment Act enables the federal government to cooperate with states and local groups to plan and finance a program aimed at economic development if they either have "substantial and

persistent unemployment" (roughly a 6 per cent or higher unemployment rate), or if they have low incomes and serious underemployment. The program is carried on primarily through loans and grants and worker retraining programs in local communities. During fiscal year 1963, a total of \$126 million of loans and grants were approved under the program along with 306 retraining projects covering 13,314 people in 180 redevelopment areas.⁵

The Manpower Development and Training Act is broader in scope than the Area Redevelopment

⁵ U.S., Area Redevelopment Administration, Annual Report, *Economic Growth in American Communities*, 1963, p. 30.

Act for it applies to any part of the country, not just areas with unemployment rates above some minimum. Its purpose is to provide unemployed persons whose skills have become obsolete with retraining in skills that can fill available job vacancies. Under the Act occupational trend research is carried out in order to project which skills will be in demand. Since its implementation nearly 70 per cent of the individuals who have completed retraining programs found employment, nearly all in training-related jobs, shortly after the completion of their training. State employment service agencies accounted for about eight out of every ten job placements among these trainees.

Another program to reduce structural unemployment is the Economic Opportunity Act (popularly, the Anti-Poverty bill) signed by President Johnson August 20. The law provides for the creation of a job corps for youth between the ages of 16 and 21 whether or not they have completed high school. This provision thus creates an organization similar to the old Civilian Conservation Corps (CCC) operative in the Great Depression with two notable differences: (1) training centers will be established in rural as well as urban areas, and (2) both women as well as men will be eligible to attend. The Act provides for a work-training program to provide part-time jobs to high school youngsters to keep them in school or to help them get back in school if they left due to a lack of money. Another provision aims at providing jobs for needy college students. Assistance will cover both undergraduate and graduate students. Yet another provision will grant federal aid to numerous programs of community or private nonprofit organizations that promise to aid illiterates or to offer jobs to needy persons (those with family incomes of \$3,000 a year or less, or individual incomes of \$1,500 a year or less).

Ninth district picture

Bases for generalizations on localized unemployment for the Ninth district can be compiled from state by state data published by the U.S.

Department of Labor. The number of areas with pockets of substantial unemployment in the Ninth district at selected dates may be observed from Table 2.

Minneapolis-St. Paul and Duluth-Superior are the only major labor markets in the Ninth district. One or both of these areas experienced unemployment rates above 6 per cent on each date shown in Table 2. The number of smaller labor areas in the Ninth district with substantial labor surplus has increased since 1957. As in the nation, this

TABLE 2—POCKETS OF UNEMPLOYMENT IN NINTH DISTRICT LABOR MARKETS

Labor markets with 6 per cent or more unemployed	July 1957	April 1958 ¹	May 1960	Feb. 1961 ¹	June 1964
Major	1	2	1	1	1
Smaller ²	1	6	5	9	6
Very small ³	n.a.	n.a.	n.a.	n.a.	43
Total Ninth district	2	8	6	10	50

¹ Quarterly average figures.

² A work force of at least 15,000 and estimated nonagricultural wage and salary employment of at least 8,000.

³ A work force of less than 15,000.

n.a. not available.

Source: Bimonthly Summary of Labor Market Developments in Major Areas and Area Labor Market Trends.

rate of advance has diminished. Whereas the number of smaller labor markets in the district with substantial unemployment increased by four from July 1957 to May 1960, it increased but one from May 1960 to June 1964. In June 1964 the Ninth district had 43 very small labor areas with substantial unemployment.

The withdrawal of an industry often leads to a buildup of excess unemployment in a small labor market. For example, as a result of a change during the winter of 1963 in the loading of iron ore, 200 people were laid off in one northeastern Minnesota community.⁶ In this community unemploy-

⁶ The Minnesota Department of Employment Security requested that the name of this community not be released.

ment rose from an annual average of 410 workers in 1962 to 590 in 1963 driving unemployment rates from 7.8 per cent to 13.0 per cent. To eliminate its localized unemployment, community leaders undertook immediate action to help themselves and to seek help elsewhere. The mayor of the city requested that on the basis of "substantial and persistent unemployment" the area be declared distressed under provisions of the Area Redevelopment Act (previously it had been declared a distressed area on the ground of low income). His request was granted and the county received a loan to develop a recreational facility and a grant to investigate the feasibility of bringing in other industry. An Industrial Development Council was established by local citizens and \$100,000 was raised to attract industry to the area. In mid-1964 a new industry began operations. It will provide employment for 100 people, 16 of whom were trained under provisions of the Manpower Development and Training Act. While this example may not be "typical," it does illustrate how vigorous action can curb a buildup of localized unemployment.

Information on the number of vacant jobs in the Ninth district for which a suitable applicant cannot be found is not available. A cursory glance, however, at the help wanted page of metropolitan newspapers exemplifies the enigma of local joblessness with job vacancies in the Ninth district. A skill survey conducted by the Minnesota Department of Employment Security, by providing information on the extent and location of manpower shortages in the Minneapolis-St. Paul metropolitan area, illustrates unemployment amid vacant jobs in one Ninth district area.⁷

The uninflated number of job vacancies reported in the skill survey amounted to 1,117 in 1963, as shown in Table 3. Meanwhile, the unemployment rate averaged 3.5 per cent in the Minneapolis-St. Paul area. One-half of all reported job vacancies occurred in professional and kindred occupations

⁷ Research and Planning Section, Minnesota Department of Employment Security, *Twin Cities Skill Survey, 1964*.

—jobs which very likely demanded extensive training and skill.

Vacancies varied considerably by occupation. In general, the vacancy rate tended to increase with the level of skill required. For example, while the survey covered the employment of 127 chemical engineers, vacancies were available for the employment of nine more. In contrast, while 1,007 employed telephone operators were reported in the study, openings existed for only two more.

The labor market in Minneapolis and St. Paul is not saturated. Employment gains can still occur, and the bulk of these will be met by growth in the labor force. Almost 15 per cent more workers will be required in the firms cooperating in the survey by 1965; and almost one-third more by 1968 to replace retiring workers, to fill the available job vacancies at the time of the survey, and to allow for anticipated business expansion.

TABLE 3—JOBS AND JOB VACANCIES IN METROPOLITAN MINNEAPOLIS AND ST. PAUL, 1963

	Em- ployment	Vacancies	New Workers Needed	
			1963-65	1965-68
Professional and kindred	37,704	565	6,634	7,094
Clerical and sales	38,998	371	5,688	8,179
Skilled, semi-skilled and service	34,610	181	4,079	4,818
Total	111,312	1,117	16,401	20,091

Source: Minnesota Department of Employment Security, Research and Planning Section, *Twin Cities Skill Survey, 1964*.

Demand shortage and the tax cut

Adequate demand from the buying public for goods and services can spark an economy just like a good set of spark plugs can rev an automobile engine to greater speed and power. Demand, if it can be controlled, constitutes a powerful lever to alter production and employment. The use of this lever is complicated because many diverse groups (individuals, corporations, state and local govern-

ments, as well as the federal government) make expenditures for goods and services. Unlike the training necessary to curb structural unemployment, which requires a relatively lengthy period of time, total demand in an economy can be increased quickly to mitigate demand shortage unemployment. Walter W. Heller, Chairman of the President's Council of Economic Advisors, attributed the bulk of recent unemployment to a shortage of aggregate demand.

When one looks behind these figures [unemployment] to get a grasp of the economic conditions that produced them, the most notable difference between the pre-1957 and post-1957 periods is found in the strength of market demand. In the first postwar decade, markets were strong. Backlogs of consumer demand had to be worked off. The demands of the Korean conflict had to be met. Outmoded plant and equipment had to be replaced or modernized, and capacity had to be enlarged.

But 1957 marked a watershed. In the ensuing period, demand has slackened at a time when our labor force growth has been accelerating . . .⁸

The \$11.5 billion tax cut effective March 5 represents an attempt to boost employment by elimination of this alleged demand inadequacy. The central idea is that if consumption expenditures increased from an enlarged spendable income, previously unused resources of capital and manpower would be available to produce the goods necessary to meet the new demand.

Post-tax cut developments

Since enactment of the tax cut enough time has elapsed to provide three months of statistical information on its probable impact. This information, although preliminary and hence subject to revision, forms a basis for tentative appraisal of its economic effects.

Disposable personal income advanced \$11.9 billion from the first to the second quarters of 1964 — the largest quarterly gain ever recorded. In response to this unprecedented gain, personal

consumption expenditures advanced \$6.0 billion while personal saving advanced \$5.9 billion. Thus, about one-half of the total gain in disposable personal income was spent for consumption — far below the 93 per cent rate that characterized the last few years. The reduction, however, does not warrant a conclusion that the 93 per cent rate will be altered in the near future. At least one study indicates that the percentage of personal income expended on consumption will not return immediately to earlier levels in response to changed income.⁹

Regrettably, comprehensive information on disposable personal income and its division between consumption expenditures and saving is not available for the Ninth district. However, some indication of post-tax cut developments in the district can be derived from figures on nonfarm personal income before taxes and on total retail sales.

Agricultural income in the district, because it fluctuates widely, tends to mask the "true" impact of the tax cut on district personal income. Hence, total personal income after deduction of farm income — so called nonfarm income — is the better measure. Nonfarm personal income increased 1.3 per cent in the district from February to June 1964. In 1963 the similar statistic was 1.4 per cent while in 1962 it was 1.7 per cent. Nonfarm personal income in the district has thus increased less in the time period after enactment of the tax cut than in the similar time period the last two years. Upon comparing the district to the nation, nonfarm personal income increased 0.7 per cent more rapidly in the nation than in the district from February to June 1963. This difference was reduced to 0.5 per cent in 1964.

Percentage gains in district retail sales, contrary to personal income, have exceeded U.S. gains since enactment of the tax cut. This is all the more surprising since, due to a decline in farm income sufficiently large to offset much of the gain in non-

⁸ Economic Report of the President, 1964, p. 170.

⁹ Milton Friedman, *A Theory of the Consumption Function*, a study by the National Bureau of Economic Research (Princeton, N. J.: Princeton University Press), 1957.

farm income, total personal income in the district has increased only 0.8 per cent from February to June. From February to April 1964, total retail sales in the Ninth district increased about 19 per cent compared to a national gain of 13 per cent. If total retail sales, therefore, mirror total consumption expenditures reasonably accurately, Ninth district residents have spent a larger share of their slightly enlarged personal incomes than U.S. residents.

Civilian employment in the United States has advanced steadily since enactment of the tax cut with the notable exception of a decline from July to August. Total civilian employment was at 71.5

million in August — up 3.5 million from February. The number of jobless workers declined over 150,000 in August following a July decline of 900,000. In August there were about 300,000 fewer unemployed civilian Americans than in August 1963.

Ninth district employment has increased since February. Nonagricultural employment in the district increased twice as rapidly in the period from February to July 1964 as in the similar time period last year. The largest percentage gain in district employment occurred in services.

It is one thing to point out that substantial economic gains have occurred since the tax cut became effective, and quite another to separate that part of the total gain directly attributable to the measure. cursory statistical evidence, however, is available that indicates the tax cut has probably stimulated the district and U.S. economies. At the national level, disposable personal income recorded its largest quarterly gain from March to June. In response to this record gain, consumption expenditures swelled. Information on the labor force in July points to further reductions in the number unemployed. In the Ninth district, retail sales, nonfarm personal income, and employment in non-agricultural establishments have advanced since February.

Why measurement of structural unemployment is difficult

Structural unemployment does not lend itself to direct and accurate measurement. It is a summary concept of theoretical nature and somewhat void of empirical content. Some of the reasons for the difficulty of measurement are:

Changes in an industry may have effects in areas removed from the site of innovation. For example, a plant in Mississippi may automate and deteriorate the marketing position of other firms that could not automate. In this case the technological change took place in Mississippi but a good part of the resulting unemployment may occur in other areas.

Displacement caused by changes in the composition of labor demand may be neutralized by expansion in other areas of the economy. Here, the measurement of structural unemployment would involve the rates of labor displacement in declining sectors, the rates of growth in expanding industries, and the ease with which workers change jobs.

It is difficult to differentiate between structural unemployment and cyclical shifts in the demand for labor especially when the economy is rebounding from recession. At any time part of what appears to be structural unemployment could disappear under the impetus of sustained growth in the economy.

For these reasons and others, structural unemployment is most often measured by associating it with unemployment in particular subgroupings of the labor force that tend to persist above the average labor force rate (assuming stability in the composition of labor demand). Viewed in this way, only a feeling for the extent and location of structural unemployment is obtained.

Summary

A partial listing of labor force measures that have improved in the current expansion includes: a cyclical average unemployment rate lower in the current recovery than in either the last recession or recovery; a civilian unemployment rate lower in July than any month since February 1960, and before that, since October 1957; a decelerated rate of increase in localized unemployment; and the prospect of declines in hard core unemployment — if it declines in 1964 as preliminary information portends — for three consecutive years. Persistent unemployment thus appears to be receding under the insistent pressures of economic expansion.

Localized unemployment increases in the district have been retarded in the current recovery. While the extent of job openings, amid unemployment, in the Ninth district is not known, evidence from a skill survey of metropolitan Minneapolis and St. Paul exemplifies its occurrence. Nonagricultural employment in the district advanced at twice its 1963 rate in 1964.

The tax cut, in conjunction with other measures specifically aimed at attacking the structural unemployment problem, emphasized that the assault against the rise of persistent unemployment in the national economy from 1958 to 1961 may have prompted its fall. Information on Ninth district employment also indicates improvement.

—RICHARD F. BUDOLFSON

Current conditions . . .

Ninth district business activity since mid-year has been moderately brisk. Nonagricultural employment has increased, particularly in construction and in manufacturing firms producing durable products. Unemployment is not quite as high as a year earlier. The district series on bank debits and department store sales has recorded gains in recent weeks.

The index of the industrial use of electrical power advanced sharply in June with a further increase registered for July, thus indicating a general expansion in district industrial output. Improvement in this season's shipments of iron ore from Lake Superior ports has helped boost economic activity in the iron ore producing regions of the northeastern Ninth district.

Current 1964 agricultural output prospects appear reasonably good in spite of severe drought in

some areas. Paradoxically, the drought areas this year were located mostly in the eastern areas of the district rather than in the west. Western Wisconsin and many southeastern and central Minnesota counties were particularly hard hit.

Generally, wheat and other small grain production has been very good with North Dakota and Montana, respectively, reporting the second and third best wheat crops in the past ten years. Production of late crops such as corn and soybeans have been reduced by drought. Pastures and late feed crops were in unsatisfactory condition in many parts of the district in late August.

Lower wheat prices received by farmers in recent months was an important factor in reducing cash farm incomes early this summer. This occurred as adjustment to the new method of wheat supports took place. In fact, lower cash farm in-

comes during the first half of 1964 just about offset personal income gains in the nonagricultural parts of the district economy.

District banking developments since mid-year included a fairly heavy outflow of demand deposits in July followed by a more normal trend in August. The usual mid-summer slump in loan demand was observed, with total bank investment portfolios declining at somewhat above seasonal rates for the month of July. Data for August indicated some reversal of this trend as loan demand strengthened and deposits increased. Large city banks continued to be purchasers rather than sellers of federal funds in July and August. Borrowings at the Federal Reserve bank have continued nominal since mid-year.

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

Cash farm receipts fall behind 1963 pace

Cash receipts from the marketing of district farm output during the first six months of this year fell behind the pace set in 1963. As indicated in the table, total district farm receipts, as estimated by the U.S. Department of Agriculture, for that period were 3 per cent under a year earlier. All of the deficit is due to a decline in crop receipts while livestock receipts were virtually unchanged.

The only district state to show improvement in terms of half-year cash farm receipts was Minnesota. In that state the January-June total exceeded the 1963 figure by 5 per cent, reflecting an increase in both crop and livestock receipts. An increase in crop receipts in South Dakota was offset by a drop in livestock receipts resulting in a total about equal to that for the first half of 1963.

Both crop and livestock receipts were down for the first half-year in Montana as compared with 1963. In North Dakota the impact of much lower crop receipts reduced the total figure 28 per cent below last year.

DISTRICT CASH FARM RECEIPTS, JANUARY-JUNE

	1963	1964	% change
	(millions)		1963 to 1964
Minnesota			
Crops	\$ 157	\$ 185	+ 18
Livestock	522	530	+ 2
Total	679	715	+ 5
Montana			
Crops	72	68	— 6
Livestock	52	50	— 4
Total	124	118	— 5
North Dakota			
Crops	166	103	— 38
Livestock	88	83	— 5
Total	254	187	— 27
South Dakota			
Crops	52	57	+ 10
Livestock	234	228	— 3
Total	286	285	0
Ninth District*			
Crops	457	424	— 7
Livestock	1,018	1,018	0
Total	1,474	1,443	— 3
United States			
Crops	5,642	5,808	+ 3
Livestock	9,584	9,555	0
Total	15,226	15,363	+ 1

*Includes 26 counties in Wisconsin and Upper Michigan.

The explanation for the reduced crop receipts in the western district states lies primarily in the reduction in wheat price due to the transition to the new wheat program in July. The average farm price received for all wheat dropped consistently in all district states during the first six months of 1964. In North Dakota the average price received fell from \$2.03 per bushel in January to \$1.58 in June. The January to June comparison in Montana reflected a 54 cent drop from \$1.91 per bushel to \$1.37 per bushel.

Soybean prices also tended to weaken throughout the period. Minnesota farmers received an average of \$2.60 per bushel in January and \$2.33 in June. A similar decline in soybean prices affected South Dakota farmers. Corn prices, on the other hand, tended to improve during the first few months of 1964 only to level off in May and June.

Comparing farm prices with those of 1963: soybean prices were higher than those of a year earlier during the first four months, but fell below 1963 in May and June. Corn prices were typically higher than year earlier levels throughout the first half of the year, while wheat prices were generally under year ago levels.

Beef cattle prices were under those of a year earlier during the entire period and moved quite irregularly. Some price strength was evident in cattle prices at the mid-year point except for calf prices which exhibited a downward trend throughout the period. Hog prices, while generally below those of a year earlier, strengthened considerably through the spring months of this year.

Bank loans undergo \$16 million drop

The usual mid-summer slump in outstanding loans at district member banks was again in evidence during July. The \$16 million drop in the current July, ending five consecutive months of loan expansion, was somewhat larger than the usual July decline of \$5 million. Loans at country banks were down \$15 million compared to the average \$7 million drop for the period. This accounted for most of the reduction within the district. The virtually unchanged level of outstanding loans at city banks was not significantly different

from the very slight increases of prior Julys.

Investment portfolios held by district banks also declined at above seasonal rates during July. Whereas the average decline in investment holdings during the month in preceding years was almost imperceptible, the drop this year amounted to \$14 million. Again, as in the case of outstanding loans, the decline in securities holdings at country banks accounted for most of the district's investment contraction—the \$5 million contra-seasonal decline this July standing in contrast to the usual \$7 million advance. As a result of higher than average reductions in both outstanding loans and investments, total credit at district banks fell \$30 million during July, compared to a \$24 million drop last July, and a \$6 million average contraction.

District banks suffered unusually heavy deposit losses during July as daily average deposits fell \$122 million from the level at the end of the preceding month. This was nearly twice as great as the \$63 million deposit outflow in July 1963. An above seasonal contraction in gross demand deposits explains the entire drop in total deposits because time deposits continued to grow at seasonal rates. Deposit losses were three times as great at city banks as at country banks, but country bank deposits also fell at considerably above seasonal rates.



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