MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 9 | JULY 30, 1949 | Serial No. 91

BUSINESS

Summer Business Equals Late Spring Volume

WITH production shifting to meet the changing consumer demand, basic adjustments have been taking place in the Ninth district economy, but, for the most part, they are not reflected in the business indicators.

The expected cut-back in steel production has not slowed down the shipments of iron ore from the Lake Superior district. Mining and processing of non-ferrous metals in the western part of this district are moving ahead close to last year's volume. Consumer purchases of merchandise, as measured by department store sales, continued at a fairly high volume. The construction industry was still operating close to full capacity.

On the other hand, liquidation of inventories was still holding down the orders for new merchandise from manufacturers. Consequently, the output of industrial concerns continued to lag.

The present business situation is constantly forcing more concerns to make some painful adjustments. With the return of the buyers' market, the consumer is again in a position to select the specific quality or brand that he likes best. As a result of this selective purchasing, manufacturers who have not been producing the consumer's first choice items have been faced with a rapidly declining demand for their products. To stay in business, such manufacturers must either change the design and quality of their products to meet the buyers' requirements or shift to the production of other articles.

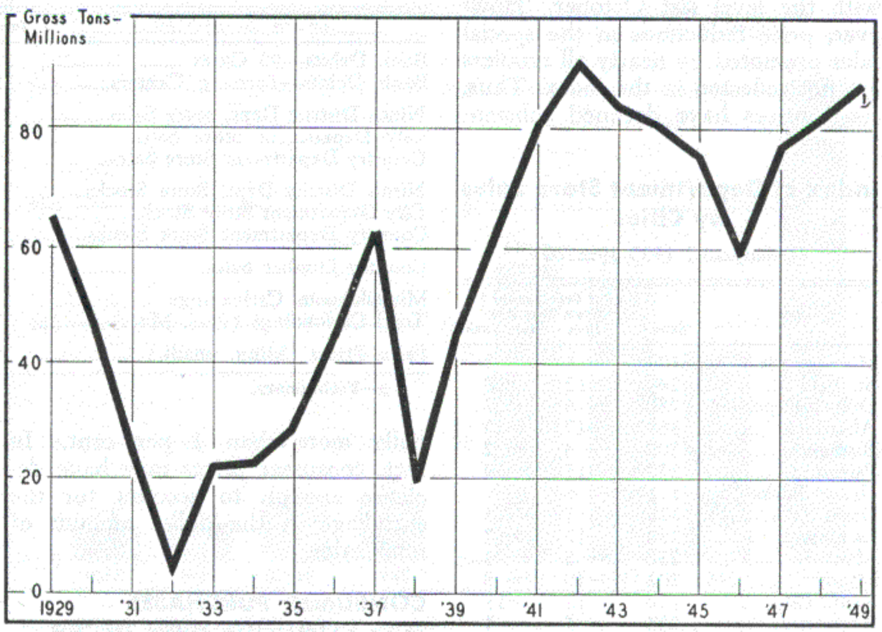
With the return of a buyers' market, some concerns inevitably face such an adjustment. Under these conditions, the consumer, in a market where he is free to choose what best satisfies his needs and tastes, will dictate what shall be produced. The problem of adjusting to consumer demands rests primarily with the executives of the respective firms; the federal government can do little to ease this difficult adjustment.

CONSUMER PURCHASES CLOSE TO 1948 LEVEL

Department store sales in this district continue moderately below the dollar amount of a year ago. June sales were 8 per cent less than last June, and preliminary figures indicate that July sales continued at about the same percentage below the corresponding month of 1948. The contraction in Ninth district sales has been greater than in the nation as a whole. United States department

- ***Consumers are again dictating type of production.***
- ***Iron ore shipments for first half of 1949 were at a record figure.***
- ***Department store sales for same period in physical volume were close to the 1948 level.***
- ***Consumer purchases may continue high through the latter half of 1949.***
- ***Manufacturing employment has expanded slightly.***

LAKE SUPERIOR DISTRICT IRON ORE SHIPMENTS BY BOAT, 1929-1949



IRON ORE production has been maintained at a high level in recent years by improved methods of mining and shipping.

[1] 1949 annual rate estimated on the basis of first five months.
Source: Skillings Mining Review.

store sales in June were only 4 per cent below a year ago.

The Ninth district index of department store sales for June stood at 266 per cent of the 1935 to 1939 base period, after adjusting for the seasonal fluctuation in sales. Last October, when the present recession began, the adjusted index reached a peak of 304 per cent. On the basis of these figures, the dollar sales have declined by 12 per cent over the past eight months.

This decrease has been slightly less among stores in larger centers than among stores in smaller communities serving primarily the rural population. Cash farm income in this district for the first four months was 17 per cent less than for the corresponding period of 1948. According to the information available, the non-agricultural income in this region has declined by a smaller percentage. This difference may account for the fact that department stores sales have held up somewhat better in the large cities.

Even though dollar sales have declined significantly, the quantity of merchandise purchased by consumers has decreased little, if at all. According to Fairchild Publications' retail price index, retail prices on July 1 were down 3 per cent as compared with the level last October. However, price reductions in the special sales promoted by nearly all retailers are not reflected in the index. Thus, retail prices have declined substantially more than 3 per cent. In fact, consumer prices may have declined enough to account for the shrinkage in the dollar amount of retail sales.

Index of Department Store Sales by Cities

(Unadjusted 1935-39=100)

	June [1]	Per Cent Change [2] From Year Ago June	Jan.-June
Minneapolis	277	— 5	— 3
St. Paul	240	—12	— 8
Duluth-Superior	280	— 6	— 2
Aberdeen	369	—17	—13
Bismarck	307	— 4	— 2
Fairmont	259	—15	— 9
Grand Forks	311	— 6	— 1
Great Falls	329	+ 5	+ 3
La Crosse	234	—12	— 7
Mankato	230	— 8	— 3
Minot	302	—10	— 8
Rapid City	330	—13	—11
Rochester	236	— 5	— 1
St. Cloud	272	—17	— 8
Sioux Falls	333	— 2	— 2
Valley City	212	—26	—12
Willmar	255	—10	— 3
Winona	242	— 4	— 4
Yankton	253	—13	—16

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.

Sales at Ninth District Department Stores [1]

	% June, 1949 of June, 1948	% Jan.-June, 1949 of Jan.-June, 1948	Number of Stores [2] Showing Increase	Decrease
Total District	92	95	62	189
Mpls., St. Paul, Dul.-Sup.	93	96	3	23
Country Stores	92	95	59	166
Minnesota (City and Country)	93	96	20	70
Minnesota (Country)	93	97	18	49
Central	88	92	2	6
Northeastern	91	100	0	4
Red River Valley	98	90	3	1
South Central	94	99	4	10
Southeastern	96	97	2	8
Southwestern	94	97	7	20
Montana	95	99	13	21
Mountains	90	97	2	9
Plains	98	101	11	12
North Dakota	91	94	15	33
North Central	93	95	4	6
Northwestern	90	91	3	3
Red River Valley	90	93	4	14
Southeastern	91	98	3	9
Southwestern	[3]	[3]	.....	.....
Red River Valley-Minn. & N. D.	91	93	7	15
South Dakota	91	92	9	36
Southeastern	96	96	4	10
Other Eastern	85	89	3	22
Western	94	94	2	4
Wisconsin and Michigan	87	92	4	27
Northern Wisconsin	93	98	1	4
West Central Wisconsin	88	92	3	13
Upper Peninsula Michigan	85	90	0	10

[1] Percentages are based on dollar volume of sales.
[2] June, 1949 compared with June, 1948.
[3] Not shown, but included in totals. Insufficient number reporting.

Northwest Business Indexes

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

	June '49	May '49	June '48	June '47
Bank Debits—93 Cities	322	324	342	297
Bank Debits—Farming Centers	394	407	417	341
Ninth District Dept. Store Sales	266	273	288	274
City Department Store Sales	279	289	299	284
Country Department Store Sales	252	258	278	265
Ninth District Dept. Store Stocks	302p	301	326	257
City Department Store Stocks	257	261	273	231
Country Department Store Stocks	338p	332	369	277
Country Lumber Sales	143p	148	150	119
Miscellaneous Carloadings	111	117	116	118
Total Carloadings (Excl. Misc.)	138	133	137	121
Farm Prices (Minn. unadj.)	236	232	304	262

p—Preliminary.

CONSUMER PURCHASES MAY CONTINUE HIGH IN '49

According to the annual survey on consumers' intentions of purchasing goods sponsored by the Board of Governors of the Federal Reserve system, consumer purchases of durable goods and houses may continue at the present high level during the coming months.

This survey was conducted mostly during the first two months of this year. At that time, consumers viewed the year with more tempered optimism than a year ago. Three out of five consumer spending units expected a moderate decline in prices. In many instances, there was a belief that incomes would remain at, or rise from, present levels, while prices would go down or remain unchanged.

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AGRICULTURE

Small Grain Production Lowest Since 1940

LOWER farm prices and prospects for a short, small grain crop indicate that district cash farm income in 1949 will be substantially reduced compared with the peak farm income year of 1948. During the first four months, cash farm income was down 17% from the same period last year.

Prices received by farmers are down approximately 5% since the beginning of the year, and they are off about 20% from the peak reached in January of 1948. Many competent observers believe that further declines in farm prices are in prospect this fall, within the limits of Federal price supports, as a record peacetime pig crop and potential near-record corn crop is marketed.

Most economic indicators continue to point toward further reductions in demand for farm products. Industrial output has been declining at the rate of about 3% a month since last February, unemployment continues to increase, and the recent large foreign demand for American farm products may weaken as the dollar becomes scarce and food becomes more plentiful all around the world.

FARMING COSTS REMAIN HIGH

In contrast to a declining demand and falling prices for farm products, the prices of industrial goods that farmers use in production have declined only a small amount, if any. As a result, farmers are feeling the adverse effects of the changing price-cost relationship, with the pressure likely to become even greater in the remaining months of 1949 should farm prices continue their downward adjustment.

This price-cost squeeze in agriculture will tend to reduce district net farm income in relation to cash income from marketings. This trend is illustrated by national estimates of cash and net farm income.

For the U. S. as a whole, cash farm income in the first half of 1949 was down an estimated 6% compared with 1948. Net farm income is estimated to have been off 10% or more.

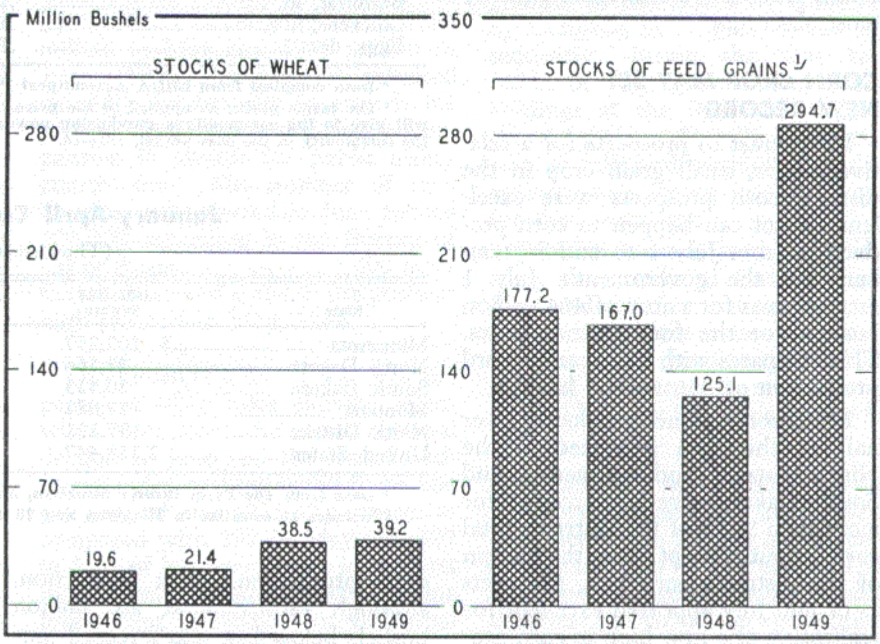
The relation of costs of farming to prices received by farmers for the things they sell is considerably less favorable now compared with most of the war years and recent postwar years, but it is still favorable compared with the pre-war situation. The parity ratio (ratio of prices received by farmers to prices paid, 1910-14 = 100), was at 103 in mid-June, compared with 133 at the peak in October of 1946. However, it was only 84 for the 1935-39 average and it was in the lower 50's during the depression of the early 1930's.

WHEAT CROP SMALLEST SINCE 1940

District wheat production this year may total about 241 million bushels, according to July 1 government statistics. This is 55 million bushels less than last year's crop. It would be the smallest since 1940. Lack of subsoil moisture and weather in general thus far brings back memories of the 1930 drouth period. (Cont.)

- ***Smaller crops and declining farm prices point to substantial reduction in farm income.***
- ***Net farm income may face continued down trend as costs stay high.***
- ***Drouth conditions have been particularly severe in eastern and northern Montana and western Dakotas.***
- ***Corn prospects in mid-July were never better.***
- ***Stocks of feed grains are 2½ times those in recent postwar years.***

JULY 1 STOCKS OF WHEAT AND FEED GRAINS ON DISTRICT FARMS REACH POSTWAR HIGH*



FARM GRANARIES contain large amounts of feed grains, particularly corn, for this time of year. Western granaries also had a larger than usual supply of last year's wheat on hand as of July 1.

* Source: **Crop Production, U.S.D.A.**—for the four states: Minnesota, Montana, North Dakota, and South Dakota.

[1] Corn, oats, barley, rye. Barley and rye are June 1 stocks.

Since July 1, further crop deterioration apparently has occurred, since moisture up to the middle of the month has been of a showery nature. Final wheat outturn may be even less than the July 1 estimates have indicated.

Northern and eastern Montana and the western part of the Dakotas have been particularly hard hit with dry weather this spring and early summer. Wheat production in Montana may be only about half of last year's total production, and it may be slightly below an average crop.

The North Dakota wheat crop is now placed at 134 million bushels compared with the 1948 crop of 137 million bushels and the 10-year (1938-47) average of 127 million bushels. However, the wheat acreage in North Dakota this year is 18% above the 10-year average and 8% more than last year.

Crop conditions for durum wheat over North Dakota still remain favorable, as sufficient moisture has been received in the durum-growing sections.

Wheat and other small grain prospects in western and north-central South Dakota are also rated poor by most observers.

CORN CROP MAY SET NEW RECORD

In contrast to prospects for a relatively poor, small grain crop in the district, corn prospects were excellent. A lot can happen to corn production from July 1 to mid-September, but the government's July 1 estimate was for a crop of 464 million bushels for the four district states. This compares with last year's record production of 436 million bushels.

Minnesota alone produces over half of the corn produced in the Ninth district, and Minnesota and South Dakota together account for more than 90% of the district's total corn output. Except along the margin of the district's corn belt, prospects as of mid-July appeared excellent for realization of a new high in corn production this year. The crop appears far advanced over what it was the last two years at this time and, for the most part, moisture reserves are normal.

Oats, barley, rye, and flax are all indicated to be substantially under last year's production. (See table on grain production.) Flax production, although estimated at six million bushels below last year's record output, may yet be the third largest production on record for the district. It is uniformly good, except for the western drouth areas. More rain is needed generally to insure a good crop. Flax acreage is high this year, with a considerable amount of late plantings in North Dakota.

Grain Production—Four Northwest States*

(Thousands of Bushels)

	Wheat	Corn	Oats	Barley	Rye	Flax	Total
1935-39 Avg.	141,102	208,096	220,275	101,791	23,191	9,192	703,647
1940	203,936	250,727	279,503	118,003	22,298	23,097	897,564
1941	268,500	273,251	245,139	133,548	24,580	22,590	967,608
1942	292,071	341,088	363,211	189,475	34,019	31,129	1,250,993
1943	283,363	323,743	302,135	138,813	11,178	39,608	1,098,840
1944	295,930	432,881	346,148	115,907	8,027	18,095	1,216,988
1945	282,615	354,803	481,606	112,105	7,656	29,879	1,268,664
1946	282,989	388,788	371,382	114,781	6,550	18,214	1,182,704
1947	285,990	293,833	333,672	127,372	12,347	34,073	1,087,287
1948	296,027	436,688	384,548	148,790	13,231	42,857	1,322,141
1949 July Est.	241,304	464,346	310,788	91,012	8,024	36,954	1,152,428

* Minnesota, Montana, North Dakota, and South Dakota.

Source: Crop Production—Annual Summaries from 1935 to 1949.

Average Prices Received by Farmers in the Ninth District*

Commodity and Unit	June 15, 1937-41 Avg.	June 15, 1948	June 15, 1949	Parity Prices[1] United States June 15, 1949
Crops				
Wheat, bushel	$0.76	$2.25	$1.93	$2.17
Corn, bushel	.61	2.03	1.09	1.57
Oats, bushel	.30	1.03	.52	.978
Potatoes, bushel	.61	1.63	1.55	1.80
Livestock and Livestock Products				
Hogs, 100 lbs.	7.51	22.13	17.93	17.80
Beef Cattle, 100 lbs.	7.30	24.41	20.56	13.30
Veal Calves, 100 lbs.	8.36	26.05	24.13	16.50
Lambs, 100 lbs.	8.00	22.82	22.92	14.40
Wool, lb.	.26	.51	.49	.448
Milk, wholesale, 100 lbs.	1.44	4.06	2.93	3.92
Butterfat, lb.	.29	.87	.62	.644
Chickens, live, lb.	.124	.236	.212	.279
Eggs, doz.	.156	.379	.393	.527

* Data compiled from USDA Agricultural Prices—June 29, 1949.

[1] The terms parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

January-April Cash Farm Income*

(Thousands of Dollars)

State	1935-1939 Average	1948	1949	1949 in Per Cent of 1948
Minnesota	$ 102,257	$ 407,756	$ 362,880	89%
North Dakota	23,566	177,027	108,375	61
South Dakota	30,533	182,592	158,304	87
Montana	17,082	84,229	71,217	85
Ninth District[1]	197,391	936,334	772,684	83
United States	2,238,447	8,277,046	7,903,637	95

* Data from The Farm Income Situation, May, 1949.

[1] Includes 15 counties in Michigan and 26 counties in Wisconsin.

STOCKS OF WHEAT AND FEED GRAINS AT POSTWAR PEAK

Wheat stocks on Ninth district farms, July 1, were slightly above last year's high level and about twice to 2½ times other recent postwar years. (See chart.)

Stocks of feed grains on district farms, including corn, oats, barley, and rye, are more than double sup-

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BANKING

City Bank Business Loans Show Gain in June

COMMERCIAL, industrial, and agricultural loans in Ninth district city banks registered a $9 million increase during June and the first two weeks in July, partially erasing the sharp decline of the previous two and a half months.

Nationally, during June, commercial loans in member banks of leading cities showed a $447 million decline—adding another four weeks to the unbroken downhill trend of the past six months.

While Ninth district commercial loans in city banks rose this month in contrast with the national decline, it should be noted that, from mid-March through May, Ninth district business loans were not only declining but fell at a rate twice as fast as that for the nation as a whole.

These divergent trends are somewhat ironed out if a longer period—say the first half of this year—is considered. From December 29, 1948, to June 29, 1949, commercial loans in the Ninth district 20 city banks dropped 12%; in the weekly reporting member banks in leading U. S. cities, the decline was 15%.

Observers of the national scene attribute the declining trend in commercial loans to the lower level of prices, inventories, and capital expenditures, and the downward drift of business activity generally.

These credit dampers characterize the Ninth district city areas as well. In the Northwest, however, loan demand is normally buoyed up during the summer and early fall months by the movement of grain to the market. The beginning of grain marketings in June, plus the fact that grain dealers previously paid their loans down to very low levels, explains, in part at least, the current rise in city bank commercial loans.

In country member banks, total loans rose $8 million during June—partly reflecting the rush of CCC corn loans made prior to June 30, when the option for such loans ended.

▶ *Rise in this district's commercial loans halted the declining trend of the past 10 weeks. Nationally, such loans in city banks continued downward in June for the sixth consecutive month.*

▶ *Revision in Federal Reserve System Open Market policy permitted sharp advances in bond prices.*

▶ *Increases in accounts of states, counties, and municipalities boosted demand deposits in Ninth district city banks.*

▶ *U. S. Treasury announced a deficit of $1.8 billion for the fiscal year ended June 30, 1949.*

RESERVE SYSTEM MODIFIES OPEN MARKET POLICY

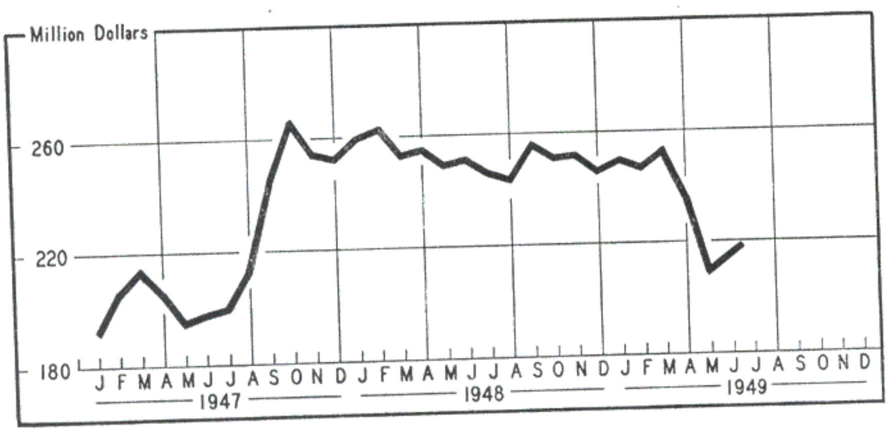
Government security holdings increased $8 million in city banks in June and $1 million in country member banks. City bankers juggled their portfolios considerably during the month, buying certificates and bonds while liquidating bills and notes.

The figures for June, however, do not as yet reflect a development of major significance which occurred in the money market this month—that is, the announcement of a shift in Federal Reserve policy away from a relatively fixed interest rate pattern on government securities. A statement to the press issued on June 29 read:

> "The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the committee to direct purchases, sales, and exchanges of government securities by the Federal Reserve banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the government security market and the confidence of investors in government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased."

Reflecting the change in open market policy, security prices made immediate and sharp gains (yields declined). In the first two weeks of July, bank-eligible 2½s of September 1967-72 rallied to a peak of 105.9—up 1½ points; the Victory Loan 2½s of December 1967-72 rose to 102.24—up almost 2 points. Long-term bonds, generally, advanced to price levels which had not been touched since late fall of 1947. Yields

COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS OF 20 WEEKLY REPORTING NINTH DISTRICT CITY BANKS, 1947-49



THE SHARP DECLINE in commercial loans during the first half of this year, reflecting curtailed business expenditures, carried loan volume noticeably below the high level of 1948.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	May 25, 1949	June 29, 1949	July 13, 1949	$ Change May 25-June 29
Assets				
Comm., Ind., and Ag. Loans	$ 209	$ 215	$ 218	+ 6
Real Estate Loans	64	65	65	+ 1
Loans on Securities	13	14	15	+ 1
Other (largely consumer) Loans	119	123	126	+ 4
Total Gross Loans and Discounts	$ 405	$ 417	$ 424	+ 12
Less Reserves	6	6	6	....
Total Net Loans and Discounts	$ 399	$ 411	$ 418	+ 12
U. S. Treasury Bills	45	26	33	— 19
U. S. Treasury C. of I.'s	131	148	168	+ 17
U. S. Treasury Notes	27	20	19	— 7
U. S. Government Bonds	445	462	465	+ 17
Total U. S. Gov't Securities	$ 648	$ 656	$ 685	+ 8
Other Investments	93	99	103	+ 6
Cash and Due from Banks	442	432	456	— 10
Miscellaneous Assets	16	15	15	— 1
Total Assets	$1,598	$1,613	$1,677	+ 15
Liabilities				
Due to Banks	$ 267	$ 266	$ 304	— 1
Demand Deposits, Ind., Par., Corp.	745	742	763	— 3
Demand Deposits, U. S. Gov't	22	20	12	— 2
Other Demand Deposits	194	216	228	+ 22
Total Demand Deposits	$1,228	$1,244	$1,307	+ 16
Time Deposits	255	254	254	— 1
Total Deposits	$1,483	$1,498	$1,561	+ 15
Borrowings	1	....	1	— 1
Miscellaneous Liabilities	15	15	15	....
Capital Funds	99	100	100	+ 1
Total Liabilities and Capital	$1,598	$1,613	$1,677	+ 15

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	May 25, 1949	June 29, 1949	May 25, 1949 June 29, 1949	June 30, 1948 June 29, 1949
Assets				
Loans and Discounts	$ 837	$ 857	+ 20	+ 45
U. S. Government Obligations	1,603	1,612	+ 9	— 57
Other Securities	212	218	+ 6	+ 21
Cash and Due from Banks and Res.	848	833	— 15	— 9
Other Assets	31	30	— 1	+ 5
Total Assets	$3,531	$3,550	+ 19	+ 5
Liabilities and Capital				
Due to Banks	$ 300	$ 300	....	— 30
Other Demand Deposits	2,068	2,089	+ 21	+ 7
Total Demand Deposits	$2,368	$2,389	+ 21	— 23
Time Deposits	935	933	— 2	+ 9
Total Deposits	$3,303	$3,322	+ 19	— 14
Borrowings	1	1	....	+ 1
Other Liabilities	21	20	— 1	+ 4
Capital Funds	206	207	+ 1	+ 14
Total Liabilities and Capital	$3,531	$3,550	+ 19	+ 5

at the "short end" of the market also declined in adjustment to the changed situation.

In addition, this month, reserve requirements for member banks were reduced with the expiration on June 30 of the Board's emergency authority to increase reserve percentages. Required reserves are now reestablished at their June 1948 level—against net demand deposits: 24 per cent for central reserve city banks, 20 per cent for reserve city banks, and 14 per cent for other member banks; against time deposits: 6 per cent for all classes of member banks. Consumer credit controls also expired on June 30.

Clearly, Federal Reserve policy is being tailored to a deflation economy; the overriding aim of central bank authorities is that downward pressures should not be aggravated by tight credit conditions.

PRIVATE DEPOSITS REFLECT TREASURY OPERATIONS

Demand deposits, other than interbank, in Ninth district member banks increased $21 million during June—$17 million in city banks, $4 million in country banks.

Deposits of states, counties, and municipalities boasted the lion's share of the increase in city banks. This reflected mainly the inflow of state income tax receipts.

Deposits of individuals, partnerships, and corporations in city banks were at about the same level at the end of June as a month ago. Throughout June, however, there was a substantial ebb and flow of funds in private accounts. Income tax payments due on June 15 created a drain on deposits. Concurrently funds flowed into private accounts from heavy Treasury disbursements to meet current operating expenses, June 15 interest payments on the national debt, and the redemption of unexchanged

*This table in part estimated. Data on loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing reserves.

Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

CI's and bonds maturing in June.

On the other side of the coin, this ebb and flow of funds through the Treasurer's accounts caught the U. S. Treasury in a tight squeeze for funds over the 15th of June.

The Treasury drew heavily on its deposits with Reserve banks. Moreover, in order to bridge the gap between June 15 expenditures and the clearing of June 15 tax receipts, the Treasury found it necessary to sell a special issue of CI's to the Reserve banks. As the Treasury cash position eased in the subsequent few days, the special issue was redeemed.

This action coincided with the announcement by Secretary Snyder that the U. S. government ended the 1949 fiscal year "in the red" by over $1,811 million — the first Treasury deficit in three years. (The Treasury did not make use of the authority granted by the Eightieth Congress to apply $3 billion from the record surplus of 1948 to the costs of European cooperation.) A continued Treasury deficit in fiscal 1950 appears now to be a certainty. This fact may weigh heavily in the future trend of bank deposits, if the Treasury sells securities to banks, thus creating bank credit. END

SMALL GRAIN PRODUCTION LOWEST SINCE 1940

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plies of last year at this same time. (See chart.) Most of the increase in feed grains is in corn stocks, which represent last year's bumper corn crop.

For the U. S. as a whole, about 1¼ billion bushels of corn were held back in the country as of July 1. This compares with only 423 million bushels a year earlier and a recent 10-year average of 708 million bushels.

RANGES AND PASTURES CRITICAL IN SOME AREAS

Pasture and range conditions in the western Dakotas and eastern and northern Montana have declined materially in recent weeks. Unless general rains come soon, the ranges will not produce sufficient feed for late fall and winter grazing.

The movement of range cattle from the drouth sections has already begun. It appears that cattlemen in the dry areas are beginning to cull their herds, and this process will go much deeper unless general rains revive pastures and provide late summer feed.

INSECT HAZARDS REDUCE CROP YIELDS

Grasshoppers and green aphids have added to the farmer's problems this year. The grasshopper plague is particularly severe in eastern Montana, and large areas have been covered with poison bait to reduce this hazard. Much of this bait has been spread by airplanes.

The usual cost of spreading poison bait is borne about one-half by federal funds, one-fourth from state funds, 15% by the county, and 10% by the individual farmer. About 500 cars of poison bran already have been purchased for use in Wyoming and Montana, according to a reliable source of information.

The middle part of the Dakotas had a serious infestation of green aphids in mid-June, but the hot, dry weather in recent weeks appears to be reducing the toll from this insect to some extent. END

SUMMER BUSINESS EQUALS LATE SPRING VOLUME

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Under these circumstances, approximately as many consumers as in early 1948 planned to buy automobiles, other durable goods, and houses. A breakdown of the buying intentions indicated that somewhat more consumer units expected to buy automobiles during the coming 12 months than had expressed similar intentions for the year 1948, while a somewhat smaller number expected to purchase selected durable goods other than television sets.

About the same number indicated intentions of buying houses during 1949 as in 1948, provided that houses of satisfactory design and price will be available. From this respective sample of consumers included in the survey it was estimated that over one million individuals were planning to buy new houses. This number is more than will be completed for owner-occupancy during the year.

Unless incomes and consumer attitudes on the economic outlook have changed materially since the beginning of the year, or should change significantly in the coming months, consumer purchases of durable goods and houses undoubtedly will continue on a high level.

INVENTORIES DECLINING BUT STILL HIGH

Whereas, only a short time ago when merchandise was still scarce, retailers frequently turned in orders with double and triple the amount they expected to receive from their suppliers, they have now adopted a very cautious policy in their buying. In fact, a large number of them have adopted a hand-to-mouth policy. For instance, in major household appliances, floor samples constitute the small dealer's only inventory.

According to a survey conducted by the National Association of Purchasing Agents, concerns in the "hand-to-mouth to 30-day" commitment range rose from 62 per cent in May to 69 per cent in June. This is another record for short-term buying policy. A conclusion drawn from these figures is that some buyers are running the risk of being out of stock rather than be caught with supplies of high-cost merchandise. A cautious buying policy is expected to continue until prices again stabilize and markets strengthen.

The Ninth district index of department store stocks in June stood at 304 per cent of the 1935 to 1939 base period, after adjusting for the seasonal fluctuation in stocks held at the end of the month. Last September, the adjusted index reached a high point of 336 per cent. Although stocks have been reduced materially, they still appear quite high in relation to sales, especially in the smaller communities.

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MANUFACTURING EMPLOYMENT HOLDS STEADY

The usual summer expansion in manufacturing has leveled off the trend in manufacturing employment. In the Twin Cities area, the number of factory workers employed in June was approximately the same as the number employed in the preceding month. In the state of Minnesota, factory workers from May to June increased slightly over 1 per cent. In Montana, such employment is still rising; the number employed in June was 3 per cent larger than in May. Montana—in common with adjoining mountain states—thus far has experienced no contraction in its industrial activity.

IRON ORE MINES OPERATE AT HIGH CAPACITY

The much discussed cut-back in steel production in this district directs attention to iron ore mining operations.

Raw steel production in 1948 hit a peace-time record of 88.5 million tons. In the first quarter of this year, production was at an even higher figure; steel mills were operating at over 100 per cent of capacity. The downturn began in April and, thus far, production reached a low point in the week including the fourth of July holiday. Since that time, steel output has again expanded.

The high volume of steel production during the first quarter hastened the return of the buyers' market, as the output exceeded consumer demand. Production during the second quarter was cut due to the decrease in new orders from both domestic and foreign users of steel. Steel production in all of the European countries is rising.

To keep steel mills operating at the fast pace set during the first quarter would have required approximately 100 million tons of iron ore for this year.

Last year the Lake Superior district, which includes the Mesabi, Vermilion, Cuyana, and the Fillmore county ranges of Minnesota, the Gogebic range of Wisconsin and Michigan, and the Marquette-Menominee range of Michigan, shipped almost 83 million tons of iron ore. This was 6 per cent above the previous year and only 10 per cent below the all-time high recorded in 1942. The 1948 tonnage might have been greater had not shipping facilities been limited; Great Lakes ships were used to full capacity.

Eighteen foreign countries shipped iron ore aggregating over 6 million gross tons to the United States in 1948. Among these countries, Chile ranked first and Sweden second.

1949 ORE SHIPMENTS MAY SET PEACETIME RECORD

Iron ore shipments from the Lake Superior district this year may exceed those of 1948, provided the cut in steel production does not reduce the demand for iron ore too much. This year, for the second time in history, the Great Lakes shipping lanes were opened in March. The construction of new ships also has expanded shipping capacity.

By the end of May, iron ore shipments were 9 per cent above the corresponding period of last year and only 1½ per cent below the 1942 peak.

Lake Superior mines continue to dominate the iron ore market in spite of the dwindling resources of high quality ore and the distance of over 1,000 miles to the nearest steel producing center.

The iron content of the ore has dropped substantially since the early days of mining in this region. The average iron content was 55½ per cent in 1902 and 51¾ per cent in 1910. Since that time, the purity of the iron ore has been maintained by beneficiating the lower grades of ore. The iron content of the ore shipped in 1948 was 50½ per cent.

The cost of mining has been reduced through mechanization—for example, electrically operated shovels that scoop up as much as 28,000 pounds in one bite. Research on the beneficiation of taconite is in process. Heretofore, taconite was a waste product because of its low iron content. Shipping costs have been lowered by the use of faster ore boats and improved methods of loading and unloading.

OUTPUT OF NON-FERROUS METALS UP IN 1948

The mining of non-ferrous metals in the western part of this district, like iron ore mining, has been at a high level. The rise in price of these metals (except gold) and larger 1948 production raised the total value of the production of Montana mines to almost the 1942 peak. The shortage of manpower limited total output which otherwise would have been larger.

The output of copper and gold was down in 1948, but the expansion in the output of zinc, lead and silver was sufficient to offset the decrease in the former. A large copper shaft was opened this spring near Butte, Montana, which undoubtedly will boost total production this year.

Such a high degree of mechanization has been achieved in mining operation of this region that only a small proportion of the total labor force is employed in this type of work. Labor in Minnesota mines accounts for only 2 per cent of total non-agricultural employment; in Wisconsin, 3.7 per cent; in Montana over 8 per cent; and on the Upper Peninsula of Michigan, almost 15 per cent. Moreover, the work in the mines is now so arranged that seasonal layoffs have been substantially reduced. END

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JULY 27, 1949

INDUSTRIAL output declined further in June. Department store sales declined somewhat more than usual in this period, while sales of automobiles were maintained in record volume. Construction contract awards increased further. Prices of basic commodities showed some recovery from mid-June to mid-July; the average level of all wholesale commodity prices showed little change.

INDUSTRIAL PRODUCTION — The Board's seasonally adjusted index of industrial production in June was 169 per cent of the 1935-39 average—3 per cent lower than in May and 13 per cent below the postwar peak level reached in October and November, 1948. The decline in June reflected mainly further curtailment of output in most durable goods industries and a marked decline in activity in the coal mining industry. Production of nondurable goods as a group was maintained at the reduced levels prevailing in April and May.

Iron and steel production decreased sharply in June and declined further by mid-July. Output of open hearth steel in June was at 85 per cent of capacity, while electric steel output, following a decline of one-third from the reduced May level, was at 39 per cent of capacity. Activity in most machinery industries was curtailed further in June. Production of lumber and of stone, clay and glass products remained about 11 per cent below last year's level. Output of passenger automobiles, which had been reduced in May by a labor dispute at the plants of a major producer, increased considerably in June and was at a new high rate in mid-July.

Activity in the textile industries increased somewhat in June from the very low levels reached in May. Output of apparel wool textiles showed a further recovery from the April low point. Production of manufactured foods rose slightly in June. Newsprint consumption, however, decreased from the record May rate, and activity at Petroleum refineries and chemical plants also declined somewhat.

Minerals production decreased in June, reflecting largely a marked reduction in coal output as a result of a work stoppage and the beginning of the annual vacation period. Coal output remained at a low level in July with most mines operating three days a week. Production of crude petroleum was curtailed slightly in June and somewhat more in early July.

CONSTRUCTION — Value of construction contracts awarded in June, according to the F. W. Dodge Corporation, increased further to $946 million as compared with $880 million in May and $935 million in June, 1948. The increase reflected chiefly a further rise in awards for private residential work and an expansion in awards for public utility construction. The number of new housing units started in June totaled 100,000, according to the Bureau of Labor Statistics. This was 5,000 more than in May and equal to the postwar high reached in May, 1948.

DISTRIBUTION — Value of department store sales showed somewhat more than the usual seasonal decline in June and the Board's adjusted index was estimated to be 284 per cent of the 1935-39 average, as compared with 292 in May and 307 in June of last year. Sales in the first half of July remained near the June level, after allowance for the usual seasonal changes.

Railroad revenue freight shipments decreased further from May to mid-July. In addition to marked reductions in the volume of coal loadings, shipments of various other industrial goods were in smaller volume than in earlier months.

COMMODITY PRICES — Prices of nonferrous metals and some other industrial materials advanced from mid-June to mid-July, following sharp declines in recent months. Steel scrap prices, however, decreased further by 5 per cent. Prices of hogs and pork showed marked seasonal increases in this period, while prices of worsted fabrics, paints, and some other finished products were reduced.

The average level of consumers' prices increased slightly in June as small advances in prices of foods were partly offset by further declines in clothing and housefurnishings.

BANK CREDIT — Required reserves of all member banks were reduced by about $800 million on June 30 with the expiration of the temporary reserve requirement authority granted to the Board of Governors by Congress in August, 1948. Subsequently, during the first three weeks of July, government security holdings at the Reserve banks declined by about $1 billion, reflecting sales of bills and certificates made in response to a strong market demand for these securities.

Business loans at banks in leading cities were reduced further during June and the first half of July, but the declines were somewhat smaller than in other recent months. Holdings of government securities increased by over $1 billion in the first half of July.

SECURITY MARKETS — Shortly before the reduction in reserve requirements, the System announced a change in Open Market policy. These developments were reflected in sharp declines in yields on government securities early in July. System sales of bills and certificates checked this decline, but the resulting yields were still substantially below previous levels.

Prices of other securities—bonds and common stocks—advanced steadily in the first three weeks of July.