MONTHLY Review

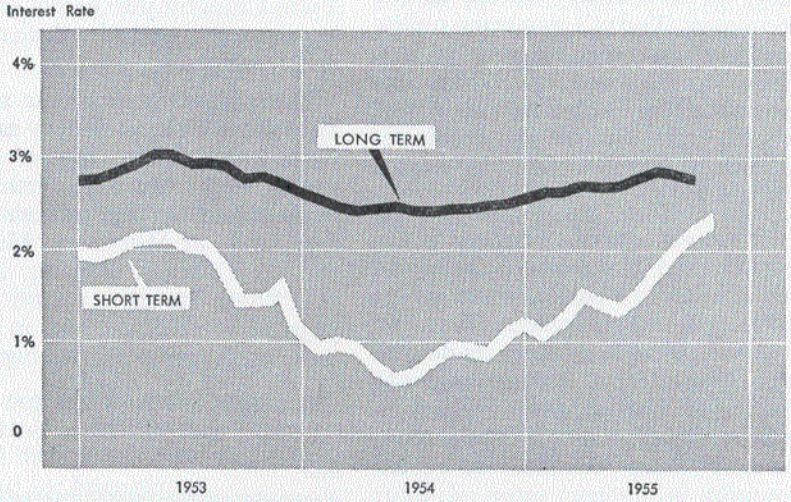
FEDERAL RESERVE BANK OF MINNEAPOLIS

SERIAL NO. 12 DECEMBER 31, 1955 VOL. 12

Current conditions . . . .

Strong start for 1956 indicated by end of year showing

INTEREST RATES ON GOVERNMENT SECURITIES



SINCE 1954, the yields on short-term debt instruments (represented by Treasury-bill yields above) have climbed to the highest level in more than 20 years; yields on long-term securities—while higher now than a year ago—remains substantially below the peaks established in 1953. The 'spread' between short and long-term yields has narrowed greatly in the past year.

THE FINAL PAGE in 1955's economic calendar is now history and even most optimists failed to anticipate that the record written during the year would be so spectacular.

Three major developments during the past 12-month period stand out as important factors in boosting the district's economy to near-peak levels for the year in spite of the troublesome farm price situation. First—and most important—is crop output, which was the second largest on record, with livestock marketings topping any year on record. Second, output from the district's mines and factories was unusually high—iron ore shipments through Lake Superior ports, for example, were some 40 percent larger compared with last year, which reflects the tremendous demand for steel. Third, total new construction has topped all previous performances.

The impressive economic record at the year's end, indicates that enough momentum has been generated to push the new year off to a strong start. Although the new year will get off to a strong beginning, there are present a number of uncertainties which may at least slow down the sharp upward trends of recent months.

There are the uncertainties associated with the steadily deteriorating farm price and farm income situation.

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Actually, farmers up to now have been maintaining purchases at a high level, in part by heavy borrowings on both long and short term security. The current rate of farm buying cannot be maintained indefinitely unless farm incomes stabilize or improve. If incomes decline further, farmers eventually must buy fewer goods and services.

There are uncertainties associated with the strength and likely duration of inflationary forces in the economy. Today's monetary policy seeks to hold these forces in line. New car sales and new home construction especially may soon feel the tighter pinch of the credit restraint program which was started in late 1954.

That some credit restraint is desirable and necessary is a logical conclusion in a period when almost all plants and equipment are in full use and prices and wages tending to rise. One effect of the current credit policy is illustrated by the chart on the first page, which shows the unusually sharp advance in recent months in interest rates on short term securities.

This much can be said about the year-end economic situation in the Ninth district, pending some of the final statistics that will not be fully available until early in 1956:

- Bank loans, mortgages and consumer credit . . . at a new peak of activity;
- Personal savings in banks and building and loan associations . . . establish a new high;
- Spending, as measured by bank debits and department store sales . . . above all previous levels;
- Electric energy output . . . at a new high;
- The labor market . . . extremely tight in spite of some seasonal layoffs in construction work;
- Inventories of grain and livestock . . . the highest ever in late 1955.

Current conditions . . . .

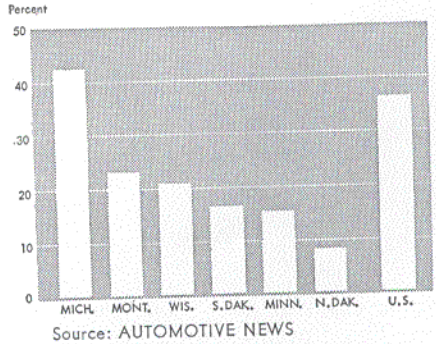
Following are summaries that highlight the current economic scene in the Ninth district:

New car sales improve

NEW PASSENGER-CAR sales picked up in the latter half of November from the relatively poor showing made in the first half of the month. In the latter period the number of new cars registered in the Twin Cities by purchasers (excluding those registered by dealers) was up 21 per cent.

In this district new car sales in 1955 did not rise as sharply as in the more industrialized regions of the nation. In the first ten months, sales, as measured by registrations in the four states of Minnesota, Montana, and the Dakotas, were up 16 percent from the same period of last year. In comparison, sales in the industrialized states of Michigan and

INCREASE IN CAR REGISTRATIONS
First 10 months 1955 as percent of first 10 months 1954



Source: AUTOMOTIVE NEWS

Wisconsin rose by 60 percent and 44 percent respectively. Sales in the nation rose over twice the district rate, or by 36 per cent.

It is of special interest to note that new car sales have risen significantly in this district as the year progressed. In North Dakota, for example, over twice as many cars were sold in September as in February. Sales in the first half of 1955 were actually below those for the first half of the preceding year. In the other district states, the trend was similar but not quite as pronounced.

Despite this rising sales trend, the near-record output of new cars by manufacturers is boosting dealers' stocks, although some rise in stocks normally takes place at this time of the year.

District retail sales trail nation

DEPARTMENT STORE sales in this district for November were running 4 percent ahead of last year's fall business. The increase for the first eleven months of 1955 was also about 4 percent.

In the first two weeks following the Thanksgiving holiday (November 24), district department store sales may not have maintained this year's typical margin over 1954 receipts. Twin Cities sales were only equal to or even slightly below 1954 receipts for the comparable weeks. Duluth and Superior sales were down slightly in the first week of this period and up only 2 percent in the second.

District furniture store sales for November showed no gain over a year ago. In spite of this neutral showing, sales were still up 7 percent for the first eleven months of the year.

For the nation, department store sales in November were running 9 percent ahead of a year ago and for the first eleven months of 1955, 7 percent. In most other Federal Reserve districts credit sales in these stores have risen much faster than in the Minneapolis district. For example, installment sales in the nation for October were 14 percent above the same period of last year, while in the Ninth district these sales were up only 2 percent. According to preliminary figures installment sales were down here in November.

Current conditions . . . .

Ten-month farm income down 2 percent

DESPITE lower prices from most farm products, high output and marketings from district farms has kept cash receipts from those marketings at least as high in two of four states during the first 10 months of 1955 as in the same 1954 period. For the district as a whole, farm income was down just 2 percent from the 1954 receipts during January-October, a slightly more favorable trend than the average 3-percent decline in cash receipts experienced by the nation's farmers generally.

For the 10-month period, North Dakota farmers received 9 percent more for their marketings than a year ago. Minnesota farmers received the same. But cash farm receipts were down 7 percent in Montana, and, down 11 percent in South Dakota.

Mainly responsible for the slightly more favorable showing of district farm income compared with the rest of the nation, is the 35-percent-larger wheat harvest this year compared with 1954. Most of this crop was high quality, high protein wheat, with some of it selling near enough to the support level to move for cash rather than into storage. Since support prices and market prices are only moderately below last year, this greatly increased volume has been a major factor in supporting district farm income.

Along with an unusually acute boxcar shortage this fall, the movement of wheat under price support during the early fall months was substantially ahead of last year—amounting to 46 million bushels through November 15, compared with 38 million bushels moving into storage by November 15 a year ago. This constitutes a movement 24 percent greater than a year ago.

Corn also has been moving into storage at a somewhat more rapid rate than last year, although specific November 15 comparisons for district states are not available.

Deposits: down in city banks, up in country banks

CITY MEMBER BANKS in the Ninth district experienced a loss of deposits during the 12-month period ended October 26, a loss that amounted to more than the deposit gain at country member banks. For this reason, total deposits at member banks in this district receded slightly at a time when deposits in the remainder of the nation continued to grow.

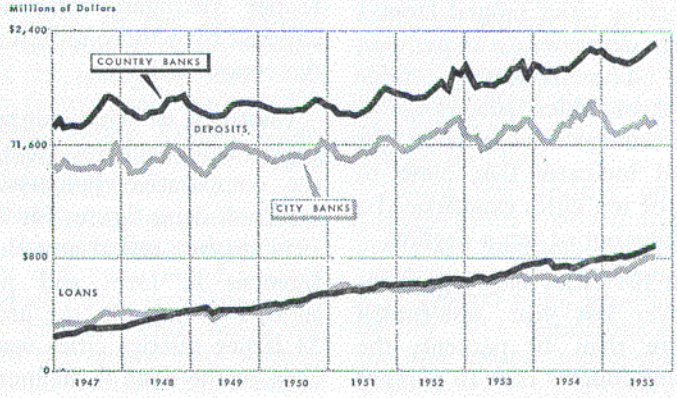
The bulk of the deposit loss at city member banks in the district represents withdrawals from balances owned by banks and by the U. S. government. Thus, total deposits fell by $70 million while deposits due the government and due to banks fell respectively by $19 million and $44 million. Meanwhile, at country banks, total deposits rose $55 million.

An increase of $108 million in the earning assets of country member banks reflected both the deposit gain and the liquidation of correspondent balances indicated above. Earning assets of the city banks declined slightly in the same period, additional loans having been financed by the liquidation of securities and by borrowings.

The reduction of correspondent balances and the heavy borrowing by banks—developments observed not only in this district but in most other districts as well—stem from efforts to satisfy the urgent demand for credit which confronts most banks and which has pushed short-term interest rates to the highest level in more than twenty years (see chart on page 1).

Particularly worthy of note in connection with the movement of deposits at district banks is the marked reduction in *time* deposit growth. In the past year, time deposits grew by $32 million; this is exactly half the amount of *time* deposit growth during the previous year. It's interesting to note that if

DEPOSITS AND LOANS AT MEMBER BANKS, NINTH DISTRICT



banks in Minnesota (these include the largest city banks in the district) are omitted from the data, the growth of deposits in the past year compares favorably with the national average. This is shown in the table. An encouraging sign suggested by these figures is the fact that declining farm income has failed to reverse the postwar growth of deposits at country banks.

MEMBER BANK DEPOSITS
(in millions)

	10-27-54	10-26-55	Percentage Change
Michigan*	$ 185	$ 192	+3.8%
Minnesota	2,494	2,439	—2.2%
Montana	575	591	+2.8%
North Dakota	284	284	0
South Dakota	388	402	+3.7%
Wisconsin*	206	207	+ .5%
Ninth District	4,132	4,117	— .3%
Nation	152,537	155,108	+1.7%

*Ninth district part only.

Bank debits show growth for most district cities

DURING the first eleven months of 1955 bank debits in the Ninth district increased 8 per cent over the similar 1954 period. Individual state increases ranged from 3 per cent in Michigan to 10 per cent in South Dakota. In North Dakota the percentage increase was 6, in Minnesota and Wisconsin 8 and in Montana 9.

Since the district and state figures are based on summations of local reports, it is evident that most localities shared in the general increase. Nevertheless, differences for the 142 reporting cities ranged from a 16 per cent decrease to a 28 per cent increase. The following table groups these cities according to their percentage change from last year, and indicates that close to nine out of ten cities experienced a rise and one out of ten a decline.

NINTH DISTRICT CITIES GROUPED BY PERCENTAGE CHANGE IN BANK DEBITS
First 11 Months, 1955 vs. 1954

	Number of cities	Percent of cities
greater than 10% increase	30	21
increase of 6 to 10%	52	36
increase of 1 to 5%	41	29
no change	5	4
decrease of 1 to 5%	11	8
decrease of 6 to 10%	0	0
greater than 10% decrease	3	2
TOTAL	142	100

Of the 123 cities showing an increase over last year, one-fourth rose more than 10 percent; the other three-fourths rose 10 percent or less. Of the 14 cities showing a decline, only three dropped more than 5 percent. Two of these, Calumet and Lake Linden, located in Upper Michigan, were adversely affected by a three-month strike in the copper industry.

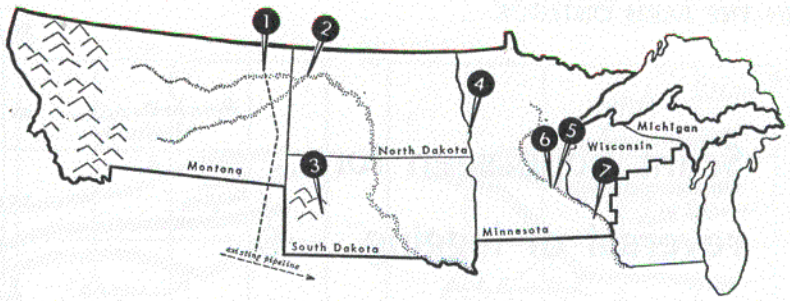
Contrary to what might be expected from declining farm income, the comparative January-November bank debit figures for 1955 and 1954 do not reveal any sharp differences in farm and non-farm areas. For example, the increase in 24 larger district cities was 8 percent, or the same as the increase for all 142 cities. At the same time, cities in South Dakota showed the largest relative increase over last year and only two of 30 cities in the Dakotas showed a drop in bank debits. Likewise, in Montana and northern Wisconsin—other strong agricultural areas—only three of 39 cities showed a decline and in no case did it exceed 3 per cent. While not conclusive, it does appear that the drop in farm income has not been reflected to date in decreased spending in farm areas as compared to 1954.

Although year-to-year percentage changes as presented above do not indicate absolute levels of economic activity, they do suggest the direction and extent of economic change in a locality.

In general it may be concluded that most localities in the district are sharing in the increased economic activity of 1955. The magnitude of increases over 1954, however, varies substantially and in a few cities economic activity, as reflected in bank debits, is smaller than a year earlier. END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1 - Butte pipeline completed

The Butte Pipeline Company finished construction in November on the first crude-oil line leading from the Montana portion of the Williston basin. Originating at Poplar, Montana, the new 452-mile pipeline joins existing carriers to transport the eastern Montana oilfield flow to refining centers at Chicago and Wood River, Illinois.

The pipeline company, owned by a number of major producing interests in eastern Montana, hopes this added transportation facility will increase both development and exploratory drilling in adjacent areas.

2 - Williston refinery reopens

Westland Oil Company of Minot, North Dakota has recently reopened the refinery at Williston of the bankrupt Williston Basin Oil Refinery Corporation. A successful bid of $150,000 bought the closed-down refinery, and improvements are expected to cost an additional $350,000. The 1,200-barrel-a-day refinery is scheduled to be in full-scale operation in from four to six months. The firm distributes through its own dealers and other retail outlets.

3 - Black Hills utility builds

The Black Hills Power and Light Company, with headquarters in Rapid City, South Dakota, is planning a $2.5 million construction program for 1956. This proposed sum is additional to the $3.5 million construction now under way at the firm's Kirk (South Dakota) plant.

The largest item on the new budget, over $1 million, is allocated for improvement and rebuilding of distribution systems throughout the company's territory and for building substations at Rapid City, Sturgis and Fort Meade.

Three new transmission lines, a new switching station (at Rapid City) and equipment are budgeted at $846,000.

Out of the general-use fund of $268,000, new office buildings are planned for Spearfish, Newcastle and Newell, and an addition to the Rapid City warehouse.

4 - Shopping center at Fargo

Suburban Fargo, North Dakota will have a shopping center partially open for business by February 1, 1956, with an initial 220-by-125-foot structure. Construction of the North Port shopping unit will proceed during the winter and the entire $750,000 center is expected to be in operation by next spring.

5 - In-city shopping center set

A 'suburban-type' shopping center will begin to rise in one of the older sections of South Minneapolis in the spring of 1956. The site is a former car barn of the Twin City Rapid Transit Company, adjacent to a heavily populated sector of the city.

Red Owl Stores, Inc., food chain, bought the site from the transit company and constructed a store there which was completed this summer. The new unit turned out to record the largest sales volume in the chain. Red Owl has sold the acreage to another firm and will continue its operation in the new center as a leaseholder.

6 - Hardware chain plans building

In January, Coast to Coast Stores will begin construction of a $2.5-$3 million, 400,000-square-foot building in suburban Minneapolis. Designed to serve as headquarters, warehouse and office for the firm, the building will be located on a 20-acre tract owned by the company and situated in the St. Louis Park-Hopkins industrial terminal locale.

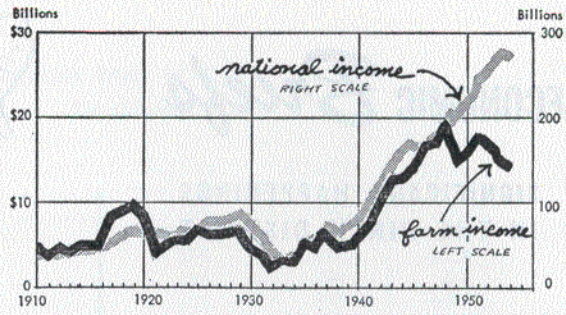
Coast to Coast Stores, which has over 350 employees at its home office, deals in hardware, plumbing and heating equipment, household goods and furniture. The firm, which has five retail outlets in the Minneapolis area, covers 16 states, from Michigan west to the Pacific and south through Kansas.

7 - Winona to erect college dorm

Winona State Teachers College is enlarging its campus facilities with the construction of an $800,000 men's dormitory and general student cafeteria to be ready for occupancy by 1957. The dormitory will house 200 men, and the cafeteria will afford dining facilities for 600 to 800 students in a single "L"-shaped building.

Given top priority among the improvements planned for Minnesota's five teachers colleges, initial construction is to be financed from a $3,200,000 bond issue authorized by the 1955 Minnesota legislature for the entire improvement program.

Scant hope seen for reversal of lagging agricultural trends



NET FARM INCOME has trended persistently downward since 1951—for the Ninth district as well as for the nation—at the same time that personal incomes for the nation as a whole have been moving steadily upward. These divergent trends highlight the current problems of agriculture, since rising national incomes and generally prosperous conditions for the economy as a whole have not been reflected in farm prices and incomes.

ALWAYS an important part of the national economic picture, agriculture's status is particularly significant this year. Not only has agriculture failed conspicuously to share in the rising income and general prosperity so notable for the economy as a whole, but the persistent decline of farm prices and income in the face of strongly rising national income has become a focal point of concern.

Here in the Ninth district the decline of farm income since 1951 has been consistently more moderate than for the nation as a whole. Latest estimates show that farm income for the district was down 2 percent during the first 10 months of 1955 compared with the same period in 1954—in contrast to a 3-percent decline estimated for the nation.

But while crop and income conditions differ for individual states and for local areas, the general price-cost climate for Ninth district farmers consists largely of the same conditions affecting the nation's farmers generally. Agriculture itself is caught in the cross-currents of a booming national economy and over-expanded production of farm products. The same forces that have brought higher employment, prices and incomes to other segments of the economy have also kept farm production costs high, while high output of crops and livestock has been a major factor in pushing average commodity prices to lower and lower levels.

For the most part, these same economic forces which have been dominant in 1955 seem likely to continue so during 1956. This is the conclusion of U. S. Department of Agriculture economists, expressed at the USDA's annual outlook conference late in November. The following summary of major conditions affecting agriculture in the months ahead is based largely on their analyses and predictions.

Demand is robust

Clearly, the demand for farm products suffers from no lack of consumer income or spending. Both climbed to new high levels in 1954, and rose still more strongly in 1955. Consumer spending constitutes the major source of demand for farm products, since roughly 90 percent of all farm goods are consumed in this country. Foreign demand also is considered satisfactory for peacetime. Farm exports have increased in each of the past three years although still below the unusually high levels of 1951-52. Both domestic and foreign demand are expected to at least maintain present levels, and may rise further in 1956.

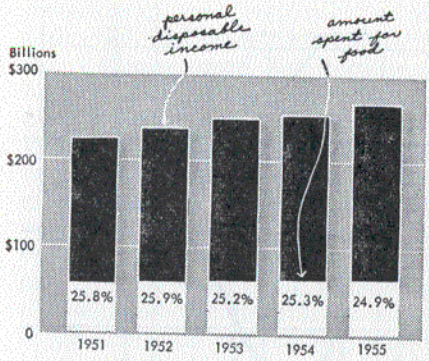
Along with increased purchases of home appliances, automobiles and other types of consumer goods —based partly on expanded consumer credit—consumers have increased their spending for food items as well. Consumers have spent roughly one-fourth of their disposable income for food each year since 1950, and the actual dollar spending for food has increased steadily each year.

Thus, none of the decline of farm prices and income can rightly be attributed to slack demand or purchasing power. Rather, it mainly reflects the high volume of farm production.

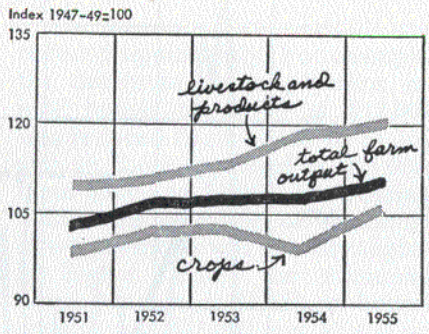
Production in high gear

Farmers in 1955 turned out the second largest crop in this nation's history. They marketed a record volume of beef and near-record quantities of hogs and dairy products. This was true in the Ninth district also. In 1955 American consumers enjoyed a per capita supply of 161 pounds of red meat per person—more than in any year since 1908.

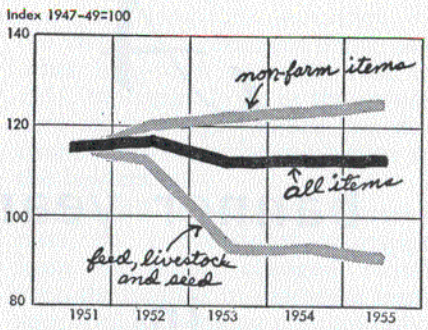
Looking ahead, USDA forecasters see no reason, barring widespread drouth, why farmers will not continue to produce large supplies of crops and livestock. Some cutbacks in the production of beef and hogs are deemed possible in 1956, but the large availability of feed grains suggests that any reductions would be moderate.



CONSUMERS HAVE SPENT more for food each year as the total of personal disposable incomes (after taxes) has risen to successive new highs. Thus, the demand for farm products has been well supported at the retail level by high consumer incomes and spending.



FARM OUTPUT has continued to rise. Livestock production has moved steadily upward in the past few years. Total crop output in 1955 was barely short of 1948's all-time record production. High output has become a general condition affecting prices of most farm commodities.



PRICES PAID BY FARMERS for equipment and operating supplies have held firm in the face of declining prices for commodities farmers sell—but prices of manufactured items have edged upward each year; lower prices for feed and livestock have kept the average stable.

Reflecting this large volume of marketings, prices of most livestock turned downward in 1955. Hogs were a dramatic example. Most crop prices too are lower than a year ago, reflecting larger supplies and lower support levels for those commodities eligible for price support. Market prices for commodities not moving under the support program are also lower than last year, in most cases.

Economists observe that the present depressed state of farm prices despite high consumer spending illustrates the known tendency for the demand for farm products to be *inelastic*—that is, reduced prices tend to have less effect in stimulating consumption than for most other commodities. This is especially true when supplies are already plentiful. Thus, when surpluses accumulate, prices may slump with relatively little response in the form of larger purchases.

Costs hold firm at high levels

With farm prices down, the other side of the squeeze on farm income stems from high farm operating costs, which have held steady at high levels. In fact, were it not for the sharply lower prices of replacement livestock, feed and some other farm-produced items, the average of prices the farmers pay for things used in production would be rising rather than stable. Prices of farm machinery, equipment and other manufactured supplies have been edging up in recent months—mainly because wage and material costs in these industries reflect business and industrial factors rather than farm prices or income.

Little change in these price-cost relationships is seen for 1956. Economists generally agree in that business will continue to expand during 1956, but at a more moderate rate. Further growth will be geared to limited additions to plant capacity and some increase in the labor force.

Marketing takes more

Another important factor, marketing and processing costs, has put an additional pinch on the income squeeze for farmers. Charges for processing, marketing and transportation services have been going up too. Costs in these industries also are largely related to conditions in the industrial part of the economy and do not necessarily vary according to changes in the level of farm prices and income.

As a result, income received by farmers has been weakened further by these higher marketing costs.

Thus, the outlook for agriculture during the months ahead—to the extent that it is now foreseeable—indicates little change in the trends of high production, high costs and reduced prices. The returns to agriculture as a result are not expected to improve and may even decline further in 1956. Farmers who continue to stress efficient, low-cost-per-unit production will probably find this the best means of maintaining their financial position and profits during the year ahead.

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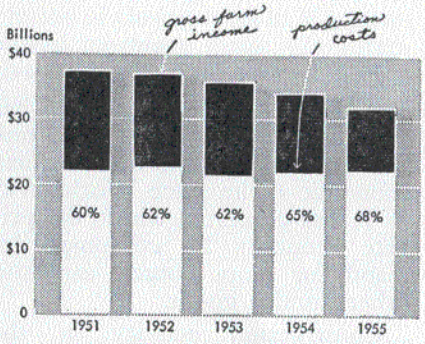
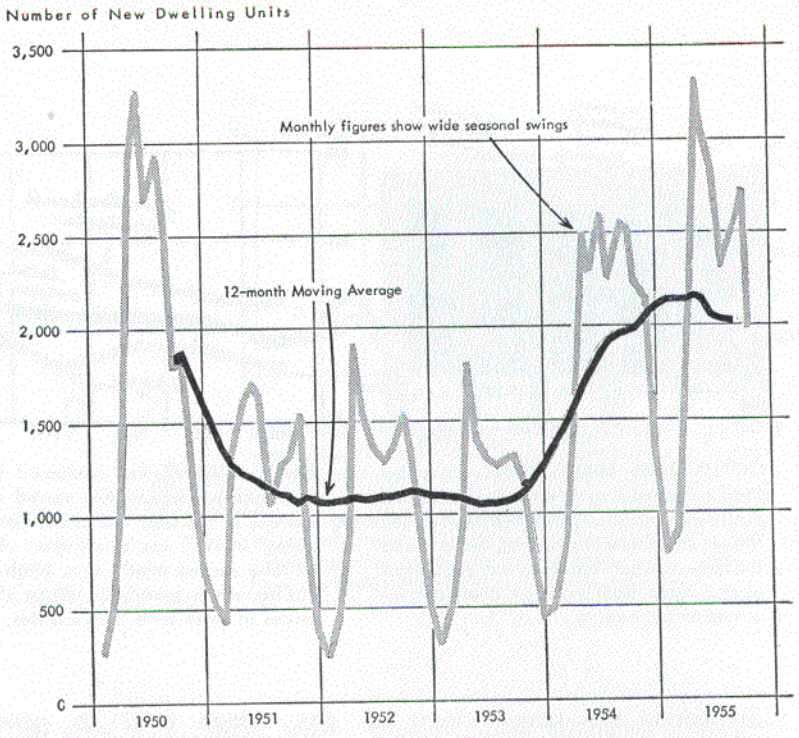


PRODUCTION EXPENSES have held steady at the same time that gross income has become smaller, with the result that expenses have become a larger proportion of total income; net income a smaller margin of the total. Only in 1932 were production expenses a higher proportion of gross farm income than currently, although the two periods are hardly comparable.

A banner year in construction



BUILDING PERMIT ACTIVITY BY MONTHS*
*Total of Minnesota, Montana, North and South Dakota

PERMITS authorizing the construction of new dwelling units continue at a very high general level in spite of a tendency to drop below year-ago figures in recent months. Actual construction generally follows the issuance of building permits by no more than a month or two.

EACH ECONOMIC boom has distinctive features. The one in 1955 was the first 'normal' economic boom since World War II. It was generated within the private economy by consumer demand for more houses, cars and other durable goods.

Construction activity in the Ninth district, as in the nation, contributed substantially to the boom. Mortgage terms were liberalized in 1954, especially in the larger cities, encouraging many to buy homes. As a result, the number of houses built in this district in 1955 exceeded the record set in 1950. Manufacturers and distributors were encouraged by the rising volume of business, and they expanded their facilities. This expansion was reflected in the growing volume of industrial and commercial building.

Largest increase in construction employment

Employment trends are important barometers of business conditions. In this district in 1955 the largest acceleration in employment occurred in the construction industry, despite completion of large public projects in the Missouri Basin development program.

Although construction workers account for only about 7 percent of the district's non-farm employment, one-third of the total rise in employment during the past year occurred in the construction industry. High employment in construction projects continued into the fourth quarter. In fact, the number of workers employed as of mid-October was even further above the year-ago total than was true in the third quarter. However, in November the activity in construction projects dropped sharply. Winter arrived from three to four weeks ahead of schedule in this region, causing many contractors to shut down.

Residential builders had another big year

Residential building in this district is subject to wide seasonal swings as may be observed on the chart above. In the winter housing starts are at a low point and in the spring they generally rise to a peak. Occasionally, as in 1954, starts, as measured by building permits, remain at a high level well into the summer. This year, however, housing starts in the district established a new high record in April of over 3,300 dwelling units begun. Since then the number of new starts has declined in the Ninth district (although, for the U. S., the number of starts in May and June was greater than in April).

In order to show the long-run trend in building permits, a 12-month *moving average* — which eliminates the seasonal swings— was plotted in the chart above. From this trend line it can be seen that this district experienced a much higher level of home building in 1954 and 1955 than in 1950.

Need for housing

The growth of households in the larger metropolitan centers has been due to the natural growth in population plus the migration to

these centers from rural areas on an unprecedented scale, thus maintaining a strong need for additional housing. Furthermore, the stock of existing houses in this district is old. When the 1950 Census of Housing was taken, more than half of the existing houses were over thirty years old. (National averages revealed 45 percent of all houses were over thirty years old.) Following the depression of the thirties many urban dwellers, as well as farmers in this area, rebuilt their businesses before tackling their residences. As a result many houses now are beyond repair. The demolition of an increasing number of old houses has contributed materially to the demand for new ones.

Income and credit control housing demand

Rising employment and advancing weekly earnings have enabled an increasing number of families to qualify for mortgage loans. In a number of district cities average weekly earnings last fall set new records. Both overtime work and increased hourly rates have contributed to the high earnings.

Liberal terms on mortgage loans were granted in 1954 as a large supply of credit became available to financial institutions. Moreover, terms of FHA-insured mortgage loans were liberalized in the Housing Act of 1954.

The down payment schedule was reduced significantly. For example, the minimum down payment on new houses appraised at $12,000 was reduced from $2,400 to $1,200 and on those appraised at $15,000, from $3000 to $1,950. On existing houses the schedule of minimum down payments was set only slightly higher. Thus, the minimum down payment is $1,650 on houses appraised at $12,000 and $2,400 on those appraised at $15,000.

The maximum maturity on new houses was increased from 25 to 30 years and on existing houses from 20 to 30 years. On the latter the maturity cannot exceed three-fourths of the remaining life of the structure as estimated by the FHA.

Mortgages on these terms were readily available far into 1955. As economic activity increased following the 1953-54 recession, supply as well as demand for credit expanded sharply this year to unusually high levels. The relatively greater increase in the demand for credit, however, caused lenders to gradually tighten terms on mortgage loans.

Large investors in mortgages, such as insurance companies, attempt to maintain a minimum differential between the net yield on Federally underwritten mortgages and those on government bonds and other long-term securities. As the yield on government bonds and other long-term securities rose in 1955, mortgage loans in the secondary market began to sell at a discount to increase the net return to the holders.

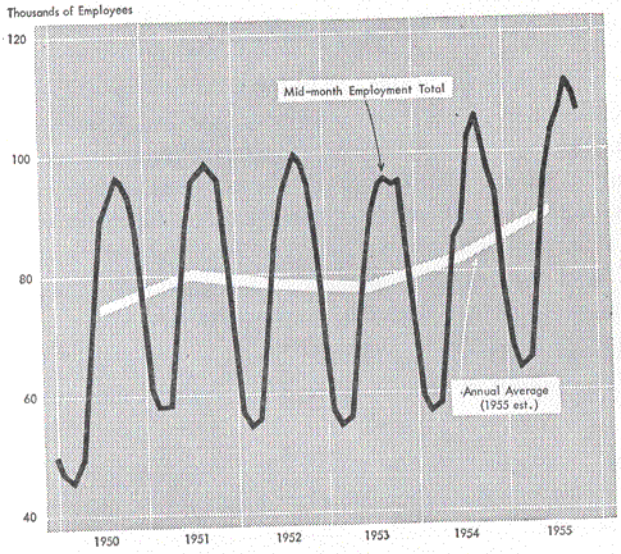
In small communities interest rates on conventional mortgage loans are seldom changed. However, the number of mortgage loans approved is changing continuously. For instance, when a local bank or a savings and loan association wishes to hold down the investment in mortgages, it limits such loans by becoming more selective with applicants.

A number of other restrictive measures were adopted in 1955 which pertain directly to mortgage loans: (1) In April the Veterans Administration prohibited the inclusion of closing costs in VA guaranteed mortgage loans; (2) Effective August 1, the Federal Housing Administration and VA raised minimum down payments on mortgage loans by two percentage points and shortened maturities from 30 to 25 years; (3) On September 7 the Federal Home Loan Bank System informed its member savings and loan associations that credit would no longer be available for commitments or any new loans made thereafter. In effect this limited the amount of new mortgage loans to the volume of new savings and repayments on loans.

The latter measure was particularly effective in tightening mortgage credit. Some savings and loan associations in this district changed their mortgage lending policies immediately. In a few instances commitments outstanding made to accept mortgages were turned over to commercial banks.

More recently steps were taken to ease slightly the above restrictions on mortgage lending. In November FHA officials removed the additional 2 percent down-payment requirement on loans to servicemen and on houses included in urban renewal programs or used to relocate persons displaced by such projects. In addition the maximum maturity

CONSTRUCTION EMPLOYMENT IN THE NINTH DISTRICT*



*Except counties in Wisconsin

WINTERTIME employment in the construction industry has usually fallen to half that of summer. The average level of employment during 1955 has been the highest on record.

was increased to thirty years on the two latter types of loans. In December the directors of the Federal Home Loan Banks restored to their member savings and loan associations permission to borrow an amount equal to 5 percent of their share holdings, provided the total loans outstanding do not exceed 10 percent of the shares.

It remains to be seen how much the restoration of a *line of credit* to savings and loan associations will increase the granting of mortgage credit by the associations. The curtailment in mortgage credit extended that followed the September directive was traced to psychological factors, as well as to a shortage of funds. Managers of many associations began to carry larger cash reserves for emergencies instead of relying on credit from the Federal Home Loan Bank.

Non-residential construction at high level

Aggregate non-residential construction exceeded by a substantial margin the volume of residential building. In the first 10 months of 1955 the amount of contracts awarded in this classification was two-thirds more than for residential building. (Of course, contracts are not awarded for all houses built. . . . A few owners do their own contracting or do part of the work themselves, and in such cases generally no formal contract is let.)

The amount of contracts awarded in the first 10 months of 1955 in the Ninth district exceeded the amount awarded in the entire year of 1954 by 2 percent. Among the larger projects have been industrial plants, additions to existing plants, grain elevators, warehouses, shopping centers, and bank and office buildings.

A rapidly growing school population has maintained the boom in the construction of public and private educational buildings—elementary, secondary, and college. Projections for future school enrollment indicate such construction will likely continue at a high figure.

END

How tighter money and credit affect farmers

On several occasions recently we have been asked whether the restrictive monetary policies of the Federal Reserve System might not result in higher costs to farmers. The reasoning is that tighter credit might make it necessary for lenders to charge higher interest rates on production loans to farmers, increasing interest costs for those who borrow money.

We think most bankers would reply to this by saying that monetary restraints (along with other factors) have not yet had any substantial effect on rates charged farmers for short-term borrowing at banks. Risk, and the services provided in connection with such loans to farmers, are much more important cost factors.

Furthermore, credit restraints at the national level are almost certain to benefit farmers at this time. Present monetary policies are designed to help restrain inflationary price rises—among them increases which affect the costs of things farmers use in production. Recently, extremely strong demand has been pushing prices of many industrial products upward. The demand for steel and other critical materials is now so great that plants have been unable to satisfy current demand even though operating at full capacity. Wage rates have also been rising, reflecting this same high level of business activity. If money and credit were allowed to expand freely, prices and wages could and very probably would rise further.

Since prices of most equipment and manufactured supplies that farmers buy are directly affected by these price and wage trends, it follows that anything which restrains price increases helps to hold farm costs in line. Thus, the present policy of active restraint in the money market helps to hold farm costs in line. Such costs would in most cases have a more direct effect on farm profits than do interest rates on short-term farm loans.

Flow of Funds Book Available

Flow of Funds in the United States, 1939-1953, is now available from the Board of Governors of the Federal Reserve System, Washington 25, D. C. The book presents and explains a new accounting record designed to picture the flow of funds through the national economy. In the flow-of-funds system of national accounts, data on transactions made with the use of money or credit are grouped into statements of sources and uses of funds for the major 'sectors' of the economy. (Sample 'sectors': consumers, corporate business, banking system.)

The first chapter of the book, containing summary tables and a general description, appeared in the October 1955 **Federal Reserve Bulletin.**

Those interested in studying our economy may find the flow-of-funds system a useful tool for evaluating transfers of credit or money. The price of the book is $2.75.

INDEX FOR THE YEAR 1955

Each month's Current Events section has been introduced with a discussion which gives a composite picture of the Ninth district economic outlook. Since the summary of the month discusses that month's current situation, reported in the topics, these summaries have not been indexed.

The entries below indicate for each article the month of issue and the page on which it appeared. For example, Ja:2 refers to the January issue page 2.

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Agriculture

Crops

*REVIEW OF 1954 NINTH DISTRICT CONDITIONS - - Ja: 2
District forecasts - - - - - - - - Jl: 7; Ag: 6; S: 3
Ninth district feed stocks increase - - - - - - Ag: 6
*MILLION DOLLAR WILD RICE CROP - - - - - Ag: 7
Weather conditions - - - - - - - - - - Je: 7

Wheat

Marketing quotas vote - - - - - - Ap: 6; My: 6
Legislation to exempt feed wheat from quota penalties My: 6
No durum restriction in 1955 - - - - - My: 6
Durum comeback - - - - - - - - - N: 3

Farm Income and Prices

Trends - - - - - - - - - - Ja: 7; S: 3; N: 2
*LOWER FARM INCOME IN 1954 - - - - - - Mr: 3, 4
*FARM INCOME PATTERN - - - - - - - O: 6, 7
*FARM OUTLOOK SURVEY, 1955 - - - - - - D: 6, 7
Farm income pattern for 10 months - - - - - - D: 3

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Emergency loans declared - - - - - - - - Ja: 7
Crop loans in Ninth district - - - - - - - - F: 7
Farm loans - - - - - - - - - F: 6; Ag: 6; N: 4
Fertilizer loans - - - - - - - - - - Ap: 7, 8
*RISING ROLE OF CREDIT IN TODAY'S AGRICULTURE - Je: 1-4
*FARM SPECIALIST IN BANKING - - - - - - S: 4-7
Crop loans - - - - - - - - - - - D: 3
Effect of tighter money on farmers - - - - - - D: 10

Livestock and Livestock Products

Cattle receipts up - - - - - - - - - - Ja: 7
*LIVESTOCK NUMBERS INCREASE - - - - - - F: 2
Cattle on feed - - - - - - - - Ap: 6; Jl: 7; O: 3
Demand for dairy cows active - - - - - - - Je: 7
Pig production increase - - - - - - - O: 3; N: 3

Poultry

*MINNESOTA BECOMES TOP TURKEY PRODUCER - - N: 4, 5

**Asterisk denotes feature articles.*

Banking and Finance

Conditions

*REVIEW OF 1954 NINTH DISTRICT CONDITIONS - Ja: 5, 6
*EARNINGS OF MEMBER BANKS, 1953-54 COMPARISON - F: 1
February banking developments - - - - - - Mr: 6, 7
*OPERATING RATIOS, NINTH DISTRICT - - - - Ap: 1-4
Discount rate raised - - - Ap: 5; Ag: 5; S: 3; N: 2, 3
*BANK PROFITS FOR FIRST-HALF 1955 - - - - - O: 4, 5
Trends in city and country bank balances - - - D: 3, 4

Credits and Loans

Emergency loans for North Dakota - - - - - - Ja: 7
*FERTILIZER LOANS - - - - - - - - - Ap: 7, 8
Consumers use more credit - - - - - - - - My: 6
Loans and deposits at district banks - - My: 7; O: 2; N: 3
*STRONG LOAN DEMANDS - - - - - - My: 7; N: 3
Crop loans - - - - - - - - - - - D: 3
*FARM SPECIALISTS IN BANKING - - - - - - S: 4-7

Debits

Comments - - - - - - - - - - - - F: 7
Bank debits, local variations - - - - - - - D: 4

Deposits

Time deposits fall in early 1955 - - - - - - Je: 6
*INTEREST RATES ON TIME DEPOSITS - - - - - N: 6, 7

Monetary Policy

Discount rate increased - - - Ap: 5; Ag: 5; S: 3; N: 2, 3
Home mortgage terms tightened - - - - - - Ag: 6
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Business and Commerce

Conditions

*REVIEW OF 1954 NINTH DISTRICT CONDITIONS - - Ja: 1-6
Trends in district - - - - - - - - - Ja: 7; S: 1, 2
*NATIONAL AND NINTH DISTRICT ECONOMIC ACTIVITY HIGH - - - - - - - - - Jl: 1-4

Construction

*GROWTH IN TWIN CITY SHOPPING CENTERS - - - F: 5
*BUILDING OUTLOOK FOR 1955 FAVORABLE - - - Mr: 1-3
New records in construction - - - - - Ap: 5; Jl: 7; N: 2
*HOUSING MARKET REMAINS BOUYANT - - - - Ag: 1-4
Home building expands during August - - - - - S: 2

*SUMMARY OF CONSTRUCTION FOR 1955 - - - D: 8-10

Consumer Finances

Rise in consumer credit, Ninth district - - - - - O: 2

Sales

Comments on sales - F: 7; Ap: 6; My: 5; Je: 6; S: 2; N: 2; D: 2
Sales strong in 1955 - - - - - F: 7; Ag: 5; O: 2, 3
*GROWTH IN TWIN CITY SHOPPING CENTERS - - - F: 5
Furniture sales - - - - - - - - - - - F: 7
New car registrations - - - - Ja: 7; Je: 6; S: 2; D: 2

Employment

Iron mining employment down - - - - - - Mr: 5, 6
*NINTH DISTRICT SITUATION - - - - - - My: 1-4
District employment trends - - - Je: 5; S: 2; O: 3; N: 2
Nonfarm jobs above last year - - - - - - - Jl: 7
Rise in factory jobs, early 1955 - - - - - - - Jl: 7
Sharp rise in payrolls - - - - - - - - N: 2

Industry and Mining

Decrease in car loadings - - - - - - - - Ja: 6
*ELECTRIC POWER CAPACITY GROWTH - - - - F: 3, 4
*SOUTHEAST MINNESOTA IRON ORES - - - Mr: 7, 8
*REVIEW OF OIL PROGRESS IN NINTH DISTRICT - - Jl: 5, 6
Increase in iron-ore shippings - - - - - - - S: 2

Real Estate

*ANNUAL SURVEY OF MPLS. AREA HOUSING PRICES - Ag: 1-4
Home mortgage terms tighten - - - - - - - Ag: 6

The following events were summarized in Economics Briefs:

Commercial Construction

Asbury Hospital to be built in Mpls. suburb - - - My: 8
Columbia Heights to have shopping center - - - O: 8
Fargo, N. Dakota shopping center - - - - - D: 5
Frozen foods expansion in Waseca, Minnesota - - - O: 8
Great Falls shopping center - - - - - - - Mr: 8
Hardware chain builds in Mpls. - - - - - - D: 5
J. C. Penney plans Mpls. office, store - - - - N: 8
Large food center at Butte, Montana - - - - Ap: 8
May Bros. grocery firm builds - - - - - - - Jl: 8
Minneapolis shopping center - - - - - - - D: 5
New apartment building at Great Falls, Montana - - Ja: 8
New insurance building at Fargo, N. Dakota - - - N: 8
New insurance building at Helena, Montana - - - Ja: 8
New shopping center, Brooklyn Center (Mpls.) - - Ag: 8
New shopping center, Knollwood (Mpls.) - - - - S: 8
New shopping center, Roseville (St. Paul) - - - My: 8
St. Paul stores construct parking ramp - - - - Ag: 8
Standard Oil office building set - - - - - - Je: 8

Government Finance

Roseville (St. Paul) votes school bonds - - - - F: 8

Industry

Addition to Trane Co. at La Crosse - - - - Mr: 8
Atomic research pool formed - - - - - - - Je: 8
Baker-Lull of Bloomington (Mpls.) closes - - - Ja: 8
Black Hills pulpwood tested - - - - - - - - O: 8
Black Hills utility builds - - - - - - - - D: 5
Dairyland Power expands - - - - - - - Mr: 8
Engineering Research, St. Paul, expands - - - Ap: 8
General Mills expands balloon output - - - - O: 8
General Mills expands research - - - - Jl: 8; O: 8
Great Northern builds 1000 boxcars - - - - My: 8
Great Northern builds $6.5 million freight yard - - Ja: 8
New ammonia plant near St. Paul - - - - - F: 8
New cement plant at Trident, Montana - - - - Je: 8
New creamery built at Fargo, N. Dakota - - - S: 8
Northwest Airlines expansion - - - - - - - Je: 8
Ore dock planned at Rapid River, Michigan - - - N: 8
Pacific Power & Light builds near Libby, Montana - My: 8
Pioneer Engineering enlarges plant - - - - - N: 8
3M expansion at Fairmont, Minnesota - - - - S: 8
Utility builds office, Rapid City, S. Dakota - - - O: 8
Wilson Co. boosts Albert Lea, Minnesota slaughtering - S: 8

Mining and Petroleum

Anaconda dedicates new aluminum plant - - - Ag: 8
Anaconda expands copper output - - - - - - S: 8
Billings, Montana oil refinery expansion - - - - Jl: 8
Black Hills to get uranium mill - - - - - - Ap: 8
Montana crude oil pipeline completed - - - - D: 5
Calumet and Hecla labor dispute - - - - - Je: 8
Cleveland-Cliffs Iron builds ore-pellet unit - - - Ja: 8
Crude line from Montana to Wyoming set - - - F: 8
Gas import OK'd for Montana - - - - - - Je: 8
Key oil test plugged in Montana - - - - - Je: 8
Lithium corporation closes S. Dakota operations - - N: 8
Montana phosphate output expands - - - - N: 8
New oil well in Bottineau county, N. Dakota - - - F: 8
New oil field near Baker, Montana - - - - - Je: 8
New pipeline for Montana - - - - - - - Jl: 8
New refinery process at Billings, Montana - - - Mr: 8
New uranium plant at Edgemont, S. Dakota - - - Jl: 8
North Dakota oil find - - - - - - - - S: 8
Oil strike in Montana - - - - - - - - Je: 8
S. Dakota uranium deposits explored - - - - My: 8
Taconite plant opens at Silver Bay, Minnesota - - O: 8
Trans-state pipeline plans abandoned - - - - My: 8
Upper Michigan ore to be processed - - - - Ap: 8
White Pine, Michigan smelter operation - - - F: 8
Williston, N. Dakota refinery reopens - - - - D: 5

Public Works: Federal

Air force builds jet air base in Michigan - - - - F: 8
Gavin's Point dam closure (Yankton, S. Dakota) - - Ag: 8
New air force base at Minot, N. Dakota - - - - Mr: 8
New court building for Minneapolis - - - - - Ag: 8

Public Works: State and Municipal

Construction begun on new Mpls. sports stadium - - Jl: 8
Minneapolis granted slum clearance aid - - - Ap: 8
Minot, N. Dakota to build new school, city hall - - O: 8
Robbinsdale (Mpls.) high school begun - - - My: 8
Sewer project at Crystal (Mpls.) - - - - - Ja: 8
Winona college builds - - - - - - - - D: 5