

MONTHLY

REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

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Growth of Production Credit Associations in the Ninth district

Production Credit Associations (PCAs) located in the Ninth Federal Reserve district sustained a remarkable growth record during the 10-year period ended in 1964. Total PCA loan volume generated advanced from \$112.8 million during 1955 to \$392.2 million during 1964—up 347 per cent. This loan volume was accompanied by a doubling of the number of borrowers served in 1964 as compared with 1955, and an increase of 168 per cent in the average size of loan extended.

The farmer-owned PCAs, established by authorization of the Farm Credit Act of 1933, extend short-term credit for all types of farm and ranch operations. In 1964 PCA year-end outstandings to farmers amounted to just over 30 per cent of the farm loans outstanding in commercial banks, a figure which compares with a much less impressive 17 per cent in 1955. Another measure of the rapidity of PCA expansion can be seen in the difference in the rate of change in the year-end outstanding loans of both banks and PCAs. Banks in the four full district states expanded outstanding farm loan totals from \$328.5 million on December 31, 1955 to \$786.1 million at the same date in 1964—a gain of 139 per cent. The gain in outstanding loans for PCAs on the same comparison shows a change from \$54.7 million to \$235.5 million—up 352 per cent. A comparison of the district totals with those of the nation indicates roughly the same difference between banks and PCAs, although the rate of expansion for the entire country was somewhat less than that of the district for both banks and PCAs.

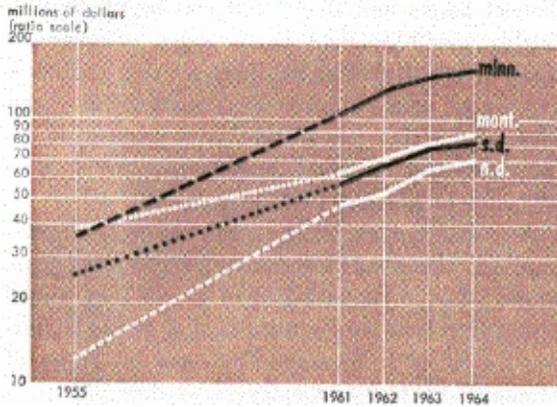
Much of the rapid growth in PCA lending occurred in the early part of the 10-year period. A more detailed review of the latter four years of the period, 1961-64, indicates some letup in the trend. For example, PCA year-end loans outstanding advanced 191 per cent between 1955 and 1961, an annual rate of about 32 per cent per year, while the total gain in the four years amounted to 47 per cent, an annual rate of about 14 per cent per year. Bank year-end outstandings, on the other hand, increased at about 8 per cent per year during the first six years of the period and at about 10 per cent per year in the latter four.

Growth in PCA lending operations

While total PCA lending in the district advanced markedly, there was a fairly wide range in growth patterns among district states. PCA annual loan volumes in North Dakota and Minnesota experienced the largest relative advances, especially during the period between 1955 and 1961 (Chart 1). PCA lending in South Dakota approximated that of Minnesota and North Dakota while that in Montana was distinctly lower. The rate of increase in loan volume during the last four years of the period was lower than that of the earlier years in Minnesota and South Dakota while the rate of increase in North Dakota was fairly consistent throughout the 10-year period. Montana has recently experienced a gain in the rate of increase.

The increase in annual loan volume reflects an expansion in both number of borrowers served and

Chart 1—Amount of loans made by PCAs, 1955 and 1961-64



in average size of loan (Charts 2 and 3). Again, North Dakota and Minnesota experienced the largest gains among the district states while the number of borrowers served in Montana remained virtually unchanged from 1955 until 1964 when a slight increase occurred. Little relative change occurred in the number of borrowers served in any state between 1961 and the end of 1964. The rapid increase in the number of borrowers served suggests that the PCAs were filling an unsatisfied demand for farm credit. That stability has been achieved to some degree in the past few years probably is a reflection of greater competition from other lenders and of the decline in the number of farms in the district.

The average size of loan extended by PCAs trended upward fairly consistently in each state throughout the period. This, of course, is a reflection of greater credit use on farms, particularly those farms of greater economic size. Little change occurred in the average size of loan in North Dakota during the first few years of the period although a rather sharp increase in average size during the latter four years brought the North Dakota figure more in line with those of the other states. It is somewhat surprising, however, that the average size of loan in North Dakota was lower

than that of Minnesota given the marked difference in the nature of agricultural production in those states.

Chart 2—Number of borrowers served by PCAs, 1955 and 1961-64

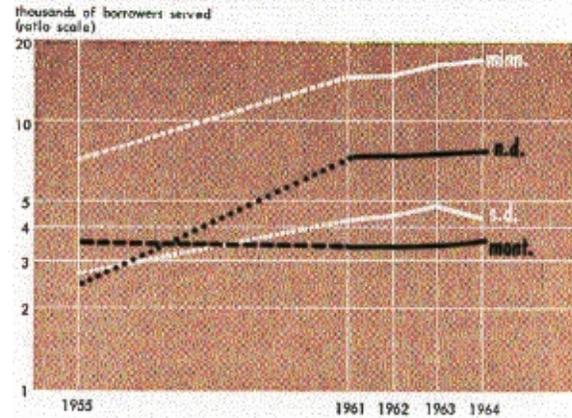
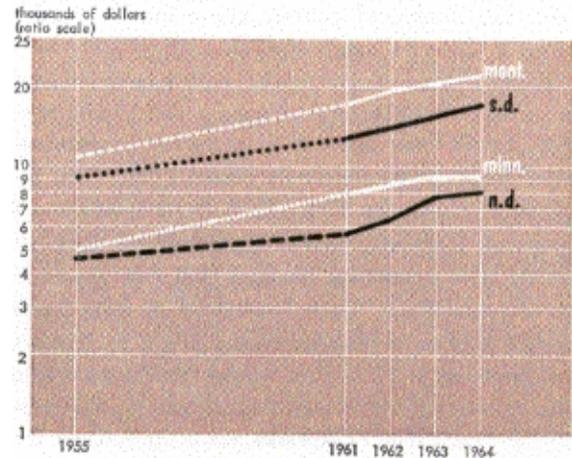


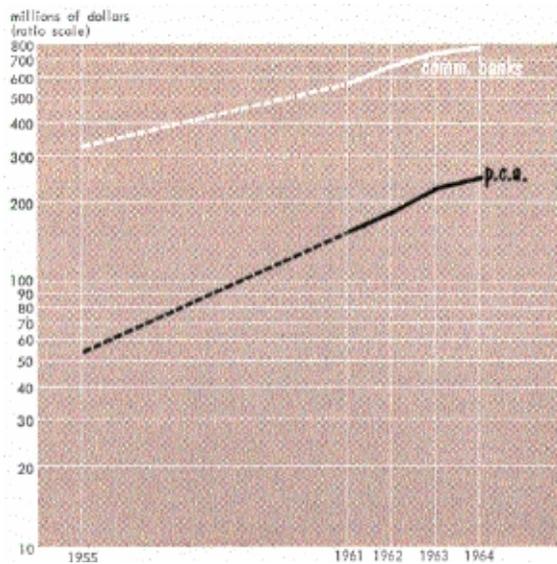
Chart 3—Average size of loans made by PCAs, 1955 and 1961-64



PCA-commercial bank comparison

A comparison of the lending activities of the PCAs and commercial banks is difficult to make due to the inherent differences between the two

Chart 4—Year-end amount of loans outstanding for 4 states, 1955 and 1961-64



institutions, their methods of classifying loans, and the data available upon which to make an analysis. Banks, of course, are a much broader type of financial institution than the highly specialized PCAs and, moreover, agricultural lending practices of banks are difficult to define and specify. Some bank loans to farmers for nonproduction items are undoubtedly classified in bank reports as consumer loans; and bank holdings of loans on farm machinery, depending on arrangements with equipment dealers, probably show up as business loans. Thus, bank data on farm loans would tend to understate total lending to farmers or, conversely, PCA data would tend to overstate the amount of credit used for production purposes to the extent that PCA loans are actually used for consumption or other purposes. Of course, the ultimate use of credit or the particular need for credit is difficult to specify even when the farmer states a given use of a loan. This merely recognizes the fact that a loan to cover farm operation expenses may be necessary because the borrower

used cash to purchase, say, a family car.

About the only meaningful comparison of Ninth district banks and PCAs that can be made with readily available data is in terms of year-end loans outstanding. For this analysis year-end bank call report data on loans to farmers (other than farm real estate loans and loans guaranteed by the Commodity Credit Corporation) were used to get some perspective of PCA growth.

As stated earlier, PCA growth in terms of year-end loan totals was much more rapid than bank growth during the first half of the 10-year period and that growth was similar to that of banks during the latter four years. With the exception of Montana, each state displays a similar pattern—relatively rapid growth of PCA lending compared with banks over the first six years and then more similarity in growth rates during the latter four (Table 1). The experience in Montana departs from that of the other states inasmuch as the pattern of PCA and bank growth in farm lending was similar throughout the period.

Another way of viewing the growth of PCAs relative to banks is in terms of the relationship of PCA loans outstanding to bank loans outstanding. The year-end data put PCA outstandings in the district states at 16.7 per cent of the bank figures with little difference existing among the Dakotas

TABLE 1—PER CENT INCREASES IN YEAR-END FARM LOANS OUTSTANDING

	1955-61	1961-64	1955-64
Minnesota			
Banks	36%	21%	97%
PCAs	287	30	403
North Dakota			
Banks	77	57	176
PCAs	327	58	579
South Dakota			
Banks	97	49	191
PCAs	155	59	306
Montana			
Banks	60	65	164
PCAs	71	66	181
4 States			
Banks	71	39	139
PCAs	191	47	352
United States			
Banks	70	33	127
PCAs	156	42	264

TABLE 2—AMOUNT OF FARM LOANS OUTSTANDING*, DECEMBER 31
(dollars in thousands)

	1955	1961	1962	1963	1964
Minnesota					
Bank	\$161,921	\$261,826	\$294,188	\$313,660	\$318,546
PCA	17,999	69,692	83,326	93,076	90,563
% PCA of bank	11.1	26.6	28.3	29.6	28.4
North Dakota					
Bank	46,956	82,516	93,359	109,856	129,749
PCA	7,026	30,019	33,806	43,606	47,686
% PCA of bank	15.0	36.4	36.2	39.7	36.8
South Dakota					
Bank	69,617	137,477	168,200	199,537	205,063
PCA	10,852	27,696	34,285	42,271	44,060
% PCA of bank	15.6	20.1	20.4	21.2	21.5
Montana					
Bank	50,026	80,204	94,979	112,803	132,254
PCA	18,858	32,259	36,082	44,827	53,153
% PCA of bank	37.7	40.2	38.0	39.7	40.2
4 States					
Bank	328,520	562,023	650,726	735,856	786,112
PCA	54,735	159,666	187,499	223,780	235,462
% PCA of bank	16.7	28.4	28.8	30.4	31.4
		(dollars in millions)			
United States					
Bank	2,934	4,991	5,316	5,980	6,652
PCA	578	1,480	1,640	1,839	2,105
% PCA of bank	19.7	29.6	30.8	30.8	31.6

*For all insured banks, figure excludes farm real estate loans and loans guaranteed by CCC.

and Minnesota (Table 2). The proportion of PCA outstandings in Montana at 37.7 per cent indicates that there was probably more competition among institutions in that state than in the other district states in the early 1950s. Little change occurred in Montana from 1955 with the percentage figure holding at 40.2 per cent in 1964. Major increases occurred in the proportion of PCA to bank outstandings in the other states, however, thus reflecting the growth of PCA lending activity. It is interesting to note that while PCA activity in the district, with the exception of Montana, was at a generally lower level than the 1955 national average, by 1964 district PCA activity was the same as or above the national level.

Changes in PCA character

The growth in PCA lending activity during the 10-year period had a marked influence on their institutional character. While the number of PCAs in the district remained fixed at 46 throughout the period, they grew into sizable lending institutions. PCAs in 1955 were for the most part small in terms

of lending volume or year-end loan outstanding figures; over one-half of the PCAs generated less than \$2 million in loans in that year and all but 9 per cent had year-end outstandings of less than \$2 million (Table 3). By 1964 none of the PCAs had a volume or outstanding figure of less than \$2 million and 85 per cent had achieved loan volumes of \$5 million or more.

TABLE 3—DISTRIBUTION OF PCAs BY SIZE;
4 STATES, 1955 and 1964

	1955	1964
Size by annual amount of loans		
	(per cent of total)	
less than \$1 million	11	0
\$1 to \$1.9 million	37	0
\$2 to \$4.9 million	43	15
\$5 to \$9.9 million	7	67
\$10 million or more	2	18
	100	100
Size by year-end outstandings		
less than \$.5 million	9	0
\$.5 to \$.9 million	45	0
\$1 to \$1.9 million	37	2
\$2 to \$4.9 million	9	67
\$5 to \$9.9 million	0	24
\$10 million or more	0	7
	100	100

Current conditions . . .

Almost all of the Ninth district economic indicator series for the first half of 1965 tally up satisfactorily compared with the same period a year earlier. Employment was up; weekly earnings and hours worked per week in manufacturing were higher; insured unemployment and "initial claims" for unemployment insurance were substantially reduced (16 and 12 per cent respectively); retail sales were better—especially for new cars; the industrial use of electric power was up more than 6 per cent; farm incomes were pointed upward as prices received improved; and total district personal income was about 5 per cent above the first half of 1964. The chief laggards were construction contract awards, new building permits, and lumber sales.

The district's economic tempo since mid-year apparently has heightened still further. The July employment figures were up from June and they were substantially above July 1964. Preliminary electric power consumption data indicate that industrial production continued high in all major lines through July.

An August survey of bankers' opinions on business conditions around the district indicates an unusual amount of optimism concerning business prospects. This may be partially associated with the Department of Agriculture's August 1 crop report for the region which forecasts a 20 per cent or more increase in each of the region's major grain crops in 1965, except for barley with a 10

per cent increase forecast. Furthermore, production of each of the seven major crops is estimated to exceed by wide margins that of the 1959-63 average. Better prices for farm products, particularly livestock, along with increased agricultural output will tend to strengthen farm incomes in the second half of 1965.

District bank deposits expanded during the first half of 1965 in line with improvement in business conditions, with increases in time deposits continuing to outpace those of demand deposits. The demand for commercial, industrial, and agricultural loans was strong during the first half of 1965, but apparently has slackened a bit since mid-year.

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

Cash farm receipts increase

District farm income continued to improve through the first half of 1965 on the strength of favorable commodity prices. At the end of June total district cash farm receipts were 2 per cent over those of the same period of 1964. As shown in the table, all of the gain was attributable to livestock receipts: crop receipts failed to achieve last year's levels. The half-year gain in district receipts, however, fell far short of the relative gain experienced throughout the U.S.

DISTRICT CASH FARM RECEIPTS, JANUARY-JUNE
(millions)

	1964	1965	% change 1964 to 1965
Minnesota			
Crops	\$175	\$171	- 2.0
Livestock	523	552	+ 5.6
Total	698	723	+ 3.7
North Dakota			
Crops	132	140	+ 6.3
Livestock	92	92	0
Total	224	232	+ 3.7
South Dakota			
Crops	63	43	-31.8
Livestock	239	254	+ 6.1
Total	302	297	- 1.8
Montana			
Crops	63	57	- 9.6
Livestock	60	61	+ 1.1
Total	123	118	- 4.4
4 States			
Crops	433	412	- 4.9
Livestock	914	959	+ 4.9
Total	1,347	1,370	+ 1.7
United States			
Crops	5,765	5,877	+ 1.9
Livestock	9,453	9,973	+ 5.5
Total	15,218	15,830	+ 4.2

June receipts in the district totaled \$209 million, up almost 8 per cent from those of a year earlier. Again, livestock receipts accounted for the entire gain and were sufficient in each of the district states to offset a sizable decline in crop receipts. Gains in total receipts for June 1965 as compared with June 1964 ranged from 12 per cent in Minnesota and North Dakota to 10 per cent in South Dakota and 5 per cent in Montana.

**Crop estimates
up markedly**

The August 1 crop report issued by the U.S. Department of Agriculture indicates that district grain output will far exceed that of a year earlier. Based on growing conditions as of that date, the final harvest estimate of each of the major grains except barley is 20 per cent or more above that of a year earlier. District production is also expected

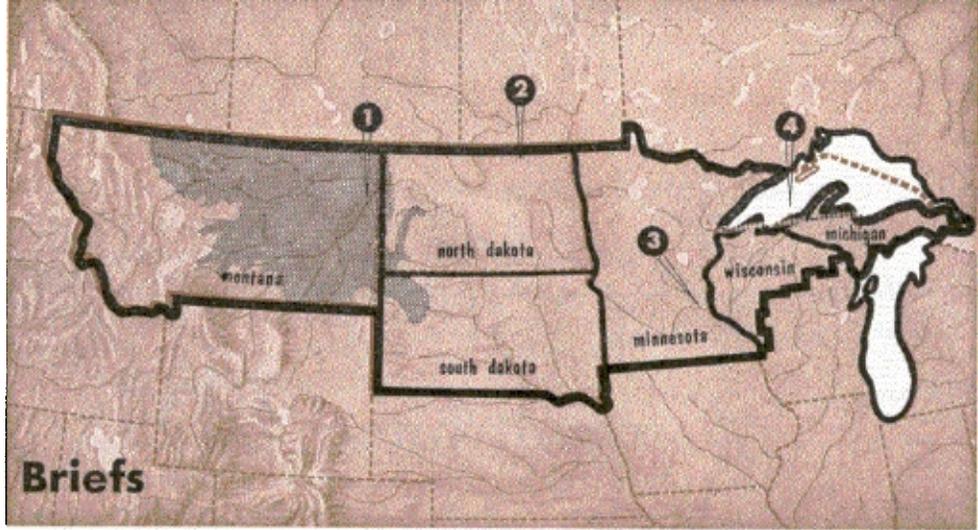
to be generally above that of the 1959-65 average and well above the figure for the total U.S. crop.

Total wheat production for the district is estimated at 365 million bushels for 1965, 65 million bushels more than a year ago and 120 million bushels above the average. Spring wheat production, estimated at 220 million bushels, is expected to better that of last year by 32 per cent with output in each of the Dakotas up 42 per cent. A 25 per cent increase in Montana winter wheat more than offset reductions in the other district states as total winter wheat output is expected to be up 9 per cent from 1964. Durum production is estimated at 8 per cent over a year ago. In sum, each of the district states is expected to produce more total wheat than last year with the largest increase, 30 per cent, anticipated in North Dakota, followed by gains of 17 per cent in Montana, 6 per cent in South Dakota, and 4 per cent in Minnesota. Comparing the 1965 production with the five-year average emphasizes the estimated size of this year's crop. On that basis, total wheat production gains are put at 70 per cent in North Dakota, 40 per cent in Montana, and 28 per cent in South Dakota. Minnesota's 1965 wheat output is not expected to change from the five-year average.

The production of other small grains is also expected to exceed that of recent years. Barley output is likely to be down slightly from a year ago in Montana but that decline is expected to be offset by gains in the other states.

District corn production, estimated at 433 million bushels, is 21 per cent over a year ago and just about equal to the five-year average. An increase in corn production of 56 per cent over 1964 is expected in South Dakota while Minnesota's crop is expected to exceed that of last year by 10 per cent. Soybean production will continue its long-term trend as the 1965 crop is estimated at 81 million bushels, up 27 per cent from 1964 and 56 per cent over the average. The soybean crop in Minnesota is predicted at 70 million bushels, up 25 per cent from 1964 and 48 per cent from average.

Economic Briefs



1. Texas firm builds pipeline

A 165-mile pipeline to transport oil products is being built between Wolsey, South Dakota and Jamestown, North Dakota. The 6-in. diameter line, to be completed this year, will be part of the 1,000-mile midwestern pipeline system owned and operated by Kaneb Pipe Line Co. of Houston, Texas.

2. Job Corps camps announced

Four Federal Job Corps conservation camps have been announced for Minnesota. One, to be operated by the Bureau of Indian Affairs, will utilize the old Chippewa Ranch camp site on the White Earth Indian reservation in Mahnomon county; a second, to be operated by the Fish and Wildlife service of the Department of the Interior, will be in the Tamarac National Wild Life refuge in Becker county. Two others will be operated by the U. S. Forest Service: one in Cass county in the

Chippewa National Forest and another in Lake county in the Superior National Forest.

3. Brookdale Center being expanded

Construction which will double the size of Brookdale Shopping center is underway at Brooklyn Center, Minnesota. The project includes a three-level department store and increased parking capacity. Estimated cost: \$4.2 million.

4. New taconite handling facility

Great Northern Railway is constructing a taconite pellet handling and storage facility at its Allouez ore docks at Superior, Wisconsin. The facility will handle pellet production of Hanna Mining Co.'s Nashwauk and Keewatin plants now being built on the Mesabi iron range. The taconite dock will have an initial capacity of 2¼ million tons.