MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 9 | NOVEMBER 30, 1948 | Serial No. 83

Buying Power Changes Moderate in Postwar

Individuals Other Than Those on Fixed Incomes Enjoying High Standard of Living as District Per Capita Income Exceeds National Average

By Oscar F. Litterer

THE present business boom has not redistributed purchasing power as much as one might expect from the sharp rise in prices. In former periods of rapidly rising prices there occurred a noticeable redistribution of income among the economic classes in our society. Personal incomes increased at varying rates—that is, some lagged behind while others rose faster than the general advance in prices.

In past business booms, wages and salaries lagged behind the advance in prices. Consequently, wage and salary workers experienced a decline in their purchasing power.

Individuals most seriously affected by a rise in prices obviously are those on fixed money incomes; for example, pensioners, annuitants, and relief clients. Their purchasing power declines by an amount equal to the rise in prices.

On the other hand, a vast number of individuals generally are in a position to profit by an advance in prices. Proprietors of business concerns during such periods realize inventory profits which supplement their net incomes, for they usually enjoy favorable prices for their products. The high level of employment in urban centers creates a larger demand for food.

WAGES HAVE RISEN WITH PRICE ADVANCE

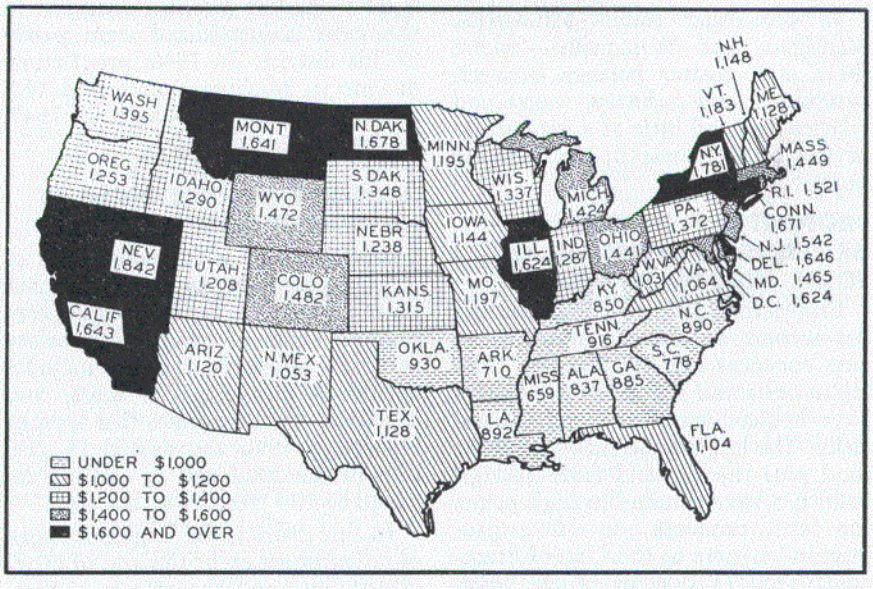
As compared with previous booms, wages have followed more closely the movement of prices. Between 1940 and August of this year, wholesale prices increased by 115 percent and consumer prices (formerly referred to as the cost of living) by 74 percent. In a period of rapidly rising prices, retail prices always lag behind the rise in wholesale prices.

According to the data compiled on wages by the U. S. Department of Labor, average hourly earnings in all types of manufacturing in August of this year were double those in 1940, a typical pre-war year. Over this same period, monthly wages paid on farms have risen by 230 percent and the hourly rates for common labor on road building by 126 percent. Construction wage rates have risen somewhat less, 98 percent for common labor and 57 percent for skilled labor. The railway wages on class I railroads have averaged an increase of 75 percent.

One can single out some groups of workers whose wages have not risen as fast as those in the above occupations. Nevertheless, for a majority of workers, wages have followed rather closely or exceeded the general rise in prices.

In the nation as a whole during the postwar years, wages and salaries constituted almost as large a proportion of the total income paid to in-

PER CAPITA INCOME PAYMENTS BY STATES FOR THE UNITED STATES, 1947



PER CAPITA income payments in the Ninth district, with the exception of Minnesota, are above the United States average.

Source: Department of Commerce.

dividuals as in 1940, according to the breakdown made by the U. S. Department of Commerce on income payment to individuals. In 1947 this form of income was 62.8 percent of the total and 61.9 percent in 1946 as compared with 63.3 percent of the total in 1940.

MORE FARM MECHANIZATION REDUCES WAGE INCOME

Wages and salaries as a proportion of total income have declined significantly during the postwar years in the three western states of this district; namely, Montana, North Dakota and South Dakota. As may be observed in the accompanying table, the largest drop occurred in North Dakota, where wages and salaries fell from 45 percent of the total in 1940 to 30 percent in 1947. Agriculture is the dominant industry in these states. In 1947, 58 percent of the total income in North Dakota was realized by farmers, whereas in the nation as a whole only 9.6 percent of the total was paid to farmers.

The smaller proportion of the total income going to wages and salaries is the result of a decline in farm labor and an increase in farm mechanization. The substitution of machines for labor has reduced the amount paid to farm help. Furthermore, the high prices of agricultural products have greatly augmented the farmers' income.

In the other states—Minnesota, Michigan, and Wisconsin — where there is a greater balance between agriculture and industry, wages and salaries declined little as a proportion of the total income in the postwar years.

PROPRIETORS' INCOME A GROWING PROPORTION OF TOTAL INCOME PAYMENTS

Proprietors' income comprises the net income of unincorporated business concerns and of farmers. The lag in costs and the inventory profits have boosted business income materially. The large domestic demand for food plus the demand from foreign countries have resulted in high prices for farm products. In 1940, proprietors' income in the United States constituted 15 percent of the total, while in 1947 it rose to 20.4 percent of the total.

In this district, proprietors' income, as a proportion of the total, has risen sharply since 1940. As may be observed in Table I, the largest increase occurred in North Dakota, where this form of income constituted 39.2 percent of the total in 1940, and 60 percent of the total in 1947.

The smallest increase occurred in the most industrialized state partly in this district. In 1940, proprietors' income in Michigan comprised 11.7 percent of the total and in 1947, 14.6 percent of the total.

PROPERTY INCOME DECLINES AS PROPORTION OF TOTAL

The increase in the proportion of total income going to proprietors was made more at the expense of property holders than of wage and salary earners. Property income includes dividends, interest, net rents, and royalties. In the nation, this type of income in 1940 constituted 15 percent of the total and in 1947 it declined to 10.5 percent of the total.

In this district, the large purchases of government securities and of other investments and the rise in savings accounts have increased this type of income so that it has maintained the pre-war proportion of the total. For instance, in South Dakota, property income in 1940 aggregated 8.3 percent of the total and 7.1 percent in 1947.

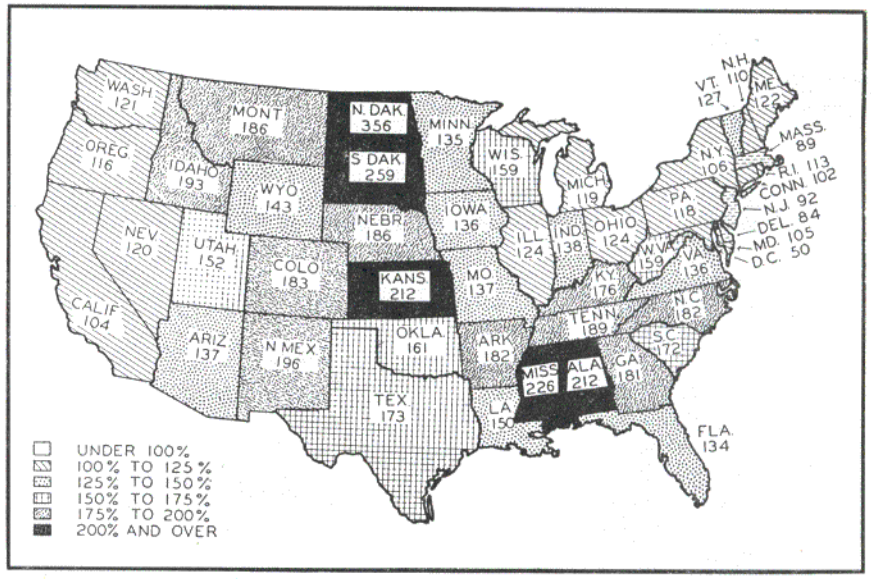
CORPORATE PROFITS IN LINE WITH OTHER INCOME

Property income includes only dividends or that part of corporate net income distributed to stockholders. Thus, to determine how corporations have fared in comparison with other groups in the economy, it is necessary to examine the net income of corporations.

Corporate profits have risen sharply as compared with the pre-war level, as have other types of income, but as a proportion of the total income they are not out of line. Corporate profits before taxes aggregated $9.3 billion in 1940 and $29.8 billion in 1947—an increase of 220 percent. Subtracting the taxes paid on these profits, the amount was reduced to $6.4 billion and $18.1 billion, respectively, for the two years.

As a percent of the total national income, corporate profits before taxes constituted 11.5 in 1940 and 14.7 in 1947, and after taxes they were reduced to 7.9 and 8.9, respectively. According to these percents, corporate profits have risen less as a

PERCENTAGE INCREASE IN PER CAPITA INCOME PAYMENTS, 1940-1947



INCOME payments for the Ninth district have, on the average, a larger percentage increase than other states in the nation.

Source: Department of Commerce.

proportion of the total income then has proprietors' income.

VETERANS' PAYMENTS OFFSET RELIEF PAYMENTS

The remaining types of individual incomes not covered in the above categories include numerous items: public assistance and other direct relief; labor income items such as work relief, government retirement payments, and social insurance benefits; mustering-out payment to discharged servicemen; family-allowance payments and voluntary allotments of pay to dependents of military personnel; enlisted men's cash terminal-leave payments and redemptions of terminal-leave bonds; and state government bonuses to veterans of World War II.

Although relief payments are small in a period of nearly full employment, the payments made to veterans have added significantly to this miscellaneous category. For the nation, this type of income in 1946 was a larger proportion of the total than in 1940.

In 1947, it again fell back to the pre-war ratio of slightly over six percent of the total.

In this district, the ratio of this type of income to the total has been lower in all states except Michigan and Minnesota than in the nation as a whole.

AGRICULTURAL INCOME BOOSTS DISTRICT TOTAL

The rise in income payments made to individuals during the war and postwar years has varied greatly among regions as well as among states within regions. In the United States, these payments from 1940 to 1947, inclusively, rose by 150 percent. Over the same period, the increase among the states in this district ranged from 142 percent in Minnesota to 283 percent in North Dakota.

The agricultural income varied significantly among the states in 1947.

Civilian Population Changes by States in 9th District

Percent Change 1940-1947

Michigan	15.5
Minnesota	3.4
Montana	—12.8
North Dakota	—15.7
South Dakota	—10.2
Wisconsin	3.5

State Income Payments in 9th District and United States, 1940 and 1947

(Thousands)

States Type of Income	1940	Percent of Total	1947	Percent of Total	Percent Increase from 1940
Michigan					
Wages and Salaries	$ 2,477	72.3	$ 6,035	69.8	143.6
Proprietors' Income	402	11.7	1,261	14.6	213.7
Property Income	368	10.7	709	8.2	92.7
Other	178	5.2	636	7.4	257.3
Total	3,425	100.0	8,641	100.0	152.3
Minnesota					
Wages and Salaries	787	55.3	1,861	53.9	136.5
Proprietors' Income	357	25.1	1,062	30.8	197.5
Property Income	171	12.0	303	8.8	77.2
Other	109	7.7	224	6.5	105.5
Total	1,424	100.0	3,450	100.0	142.3
Montana					
Wages and Salaries	181	56.4	378	47.2	108.8
Proprietors' Income	84	26.2	324	40.4	285.7
Property Income	30	9.3	56	7.0	86.7
Other	26	8.1	43	5.4	65.4
Total	321	100.0	801	100.0	149.5
North Dakota					
Wages and Salaries	107	45.1	272	30.0	154.2
Proprietors' Income	93	39.2	545	60.0	486.0
Property Income	18	7.6	55	6.1	205.6
Other	19	8.1	36	4.0	89.5
Total	237	100.0	908	100.0	283.1
South Dakota					
Wages and Salaries	112	46.3	265	34.0	136.6
Proprietors' Income	89	36.8	422	54.2	374.2
Property Income	20	8.3	55	7.1	175.0
Other	21	8.7	37	4.7	76.2
Total	242	100.0	779	100.0	221.9
Wisconsin					
Wages and Salaries	1,021	62.9	2,610	60.1	155.6
Proprietors' Income	299	18.4	1,070	24.6	257.9
Property Income	193	11.9	447	10.3	131.6
Other	109	6.7	214	4.9	96.3
Total	1,622	100.0	4,341	100.0	167.6
United States					
Wages and Salaries	47,995	63.3	119,075	62.8	148.1
Proprietors' Income	11,848	15.6	38,709	20.4	226.7
Property Income	11,335	14.9	19,907	10.5	75.6
Other	4,674	6.2	12,043	6.3	157.7
Total	75,852	100.0	189,734	100.0	150.1

Source: U. S. Department of Commerce, Survey of Current Business, August, 1945, p. 13 and August, 1948, p. 21.

It added greatly to the larger total income in some states and relatively little in others. The wheat production in 1947, in terms of dollar amount, was nearly one and one-half times as large as in 1946. This substantially boosted the income of the wheat producing states of Montana, North Dakota, and South Dakota.

On the other hand, because of adverse weather conditions, the 1947 corn crop was reduced to three-quarters of the record crop in the previous year. Since corn is an important crop in the southern half of Minnesota, it materially reduced the total income in this state.

In contrast to the variation in farm income, the non-agricultural income has varied within narrow limits among the states in this district. Furthermore, since a small quantity of war materials was produced here, the closing of these industries has had little influence on this type of income.

Concluded on Page 635

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, NOVEMBER 30, 1948

INDUSTRIAL production increased somewhat in October. Value of department store sales showed less than the usual seasonal rise in October and the early part of November. Prices of foods and some other products declined, while prices of metal products advanced further. Growth of bank loans has slackened considerably since September, and in November sales of government bonds by non-bank investors declined sharply. Bond prices advanced somewhat in November, while common stock prices declined sharply.

INDUSTRIAL PRODUCTION—The Board's seasonally adjusted index of industrial production increased 3 points in October to a rate of 195 percent of the 1935-39 average, owing mainly to a substantial gain in output of durable goods.

Activity in durable goods industries in October was at a new high rate for the postwar period, reflecting in large part a record volume of iron and steel output. Steel mill activity advanced 4 percent in October to a rate of close to 100 percent of capacity, and operations continued at about this level during November. Output of automobiles likewise showed a significant increase in October and reached a new postwar peak rate. Production of copper and railroad freight cars declined. Activity in most other durable industries in October was somewhat above the September rate.

Output of nondurable goods showed a slight further gain in October. Production of petroleum products recovered to the August level, reflecting settlement of labor disputes at west coast refineries. Activity in the paper and publishing industries expanded moderately. Production of textile and leather products, on the other hand, declined in October, according to preliminary reports. Output of most other nondurable goods was maintained at about the September rate.

Minerals production recovered from the decline in September, which had reflected mainly a temporary curtailment of crude petroleum output. Bituminous coal production declined further in October and was 7 percent below the same month a year ago. Output of metals was maintained at about the September rate.

CONSTRUCTION — Construction contracts awarded, as reported by the F. W. Dodge Corporation, increased slightly in October, reflecting chiefly large awards for publicly-financed housing projects and hospitals. Awards for private residential building and public works and utilities continued to decline. The number of new housing units started, according to Department of Labor estimates, dropped further in October to 72,000. This compares with 81,000 in the preceding month and 94,000 in October of last year.

DISTRIBUTION — Department store sales in October and the early part of November were below the advanced level of the preceding six months, after allowance is made for the usual seasonal changes. Value of sales in the first three weeks of November was 8 percent less than during the corresponding period last year.

Shipments of most classes of railroad revenue freight in October and the early part of November were maintained at about the September level, after adjustment for seasonal changes. Total carloadings during this period were 4 percent below the same period a year ago, reflecting mainly a smaller volume of shipments of coal and manufactured goods.

COMMODITY PRICES — The general level of wholesale commodity prices decreased somewhat further from the middle of October to the third week of November, reflecting mainly additional marked declines in prices of meat and livestock. Prices of grains and cotton strengthened in this period. Further advances were reported in metal prices.

Decreases in retail food prices lowered the consumers' price index by one-half percent from September to mid-October. Retail prices of most other groups of items showed further small advances.

BANK CREDIT — Federal Reserve support purchases of long-term Treasury bonds from non-bank investors declined sharply in early November, following substantial purchases in October. In mid-November, as prices of Treasury bonds advanced somewhat, Reserve Bank holdings were reduced slightly. During October and the first three weeks of November the System sold a larger amount of short-term Government securities to banks and to other investors than it purchased of Treasury bonds, and total Government security holdings at the Reserve banks declined.

Following the increase in Reserve requirements in the latter part of September, total loans of all member banks showed little change in October. Loans to businesses increased further at banks in leading cities during October and the first three weeks of November, but the increase was considerably smaller than in the corresponding period last year. Holdings of short-term Government securities rose substantially over the period. Demand deposits at member banks increased sharply in October, as the result of Federal Reserve purchases of securities from non-bank investors, but declined somewhat early in November at banks in leading cities.

SECURITY MARKETS — Trading in Government bonds was in small volume in the first three weeks of November. Prices of high-grade corporate and municipal bonds advanced slightly. On November 16, the Treasury announced a one-year 1¼ percent certificate issue in exchange for issues maturing in December and January.

Common stock prices declined about 10 percent in early November, cancelling the advance that began in late September.

AGRICULTURE

Sources of Farm Income Well Diversified

THE sprawling Ninth Federal Reserve district stretches out over a 1,500-mile area of the Upper Midwest. Rainfall varies from 30-40 inches in the east to 12-17 inches in the west. Soils vary from predominantly glacial in origin to wind-blown deposits with all degrees of fertility, texture, and depth in between. The terrain is as level as a pool table in many areas and as rugged as the Swiss Alps in others.

In view of these wide ranges in climatic, soil, and topographic conditions, it is little wonder that farm enterprises are many and varied within the district. However, when it is all added up, there is a remarkable balance in farm income between major farm enterprises for the district as a whole.

From the best information available it appears that cattle, hogs, dairy, wheat, and feed crop enterprises each contributed approximately 14-17% to the total 1947 cash farm income. Poultry and eggs, including turkeys and broilers, added another 10%. The named items totaled approximately 87% of total farm income.

The balance of farm income came from such enterprises as sheep and lambs, government payments, potatoes, soybeans, fruits and vegetables, and specialty crops of one kind and another.

LIVESTOCK AND PRODUCTS PRODUCE THREE-FIFTHS OF CASH FARM INCOME

The sale of livestock and livestock products in the district in 1947 accounted for 61% of total cash farm receipts. The remainder, or 39%, came from the sale of crops.

The proportion of cash farm income derived from the sale of livestock and livestock products in 1947, and probably again in 1948, is less than it was for the pre-war average 1939-41. At that time livestock accounted for about 66%, or two-thirds, of the annual farm income. This reflects a tendency in recent years to produce crops for cash sale rather than for conversion into livestock and livestock products.

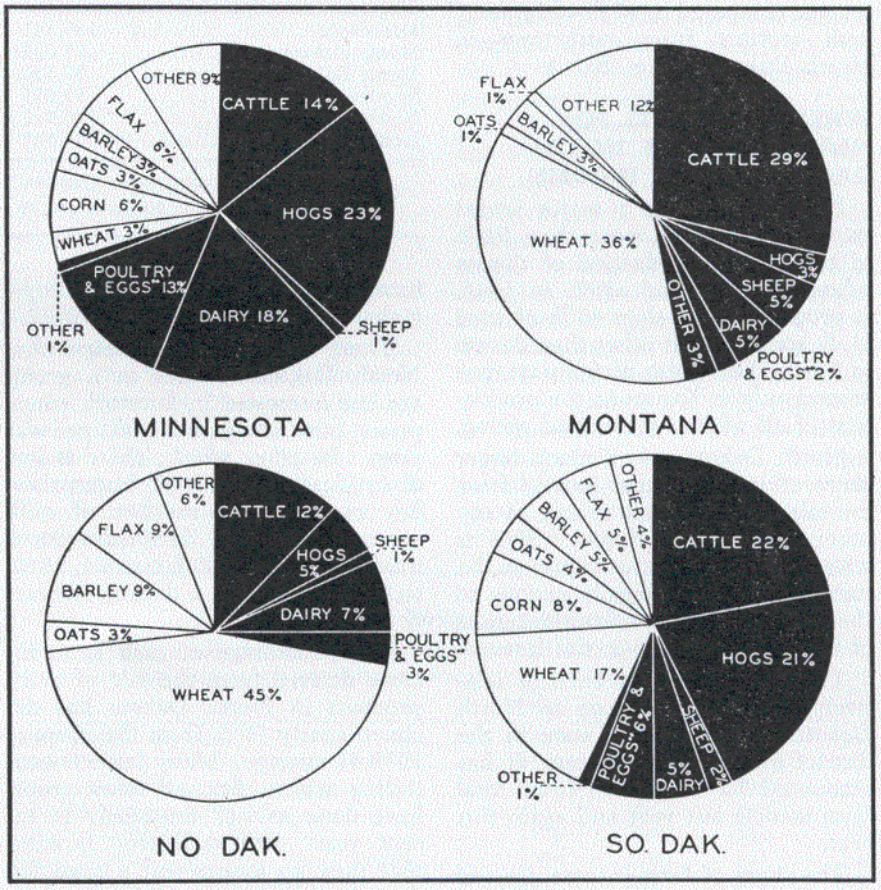
This trend is not likely to be reversed to any great extent until livestock feeding ratios are favorable over a one to two-year period or longer. Livestock numbers on Ninth district farms at the end of 1948 may be slightly smaller compared with last year. However, if another bumper feed crop comes along in 1949, livestock numbers may again show an upward trend during next year.

MINNESOTA GETS 70% OF FARM INCOME FROM LIVESTOCK AND PRODUCTS

Minnesota farmers are particularly well diversified in the different livestock enterprises. (See chart.) Hogs top the list with 23% of 1947 cash farm income. The share for dairy

- ***Sale of livestock and livestock products in 1947 accounted for 61% of total cash farm income.***
- ***Proportion of farm income from livestock enterprises is less compared with pre-war, reflecting a currently favorable cash crop situation.***

PROPORTION OF CASH FARM INCOME FROM DIFFERENT FARM PRODUCTS IN 9TH DISTRICT STATES, 1947



APPROXIMATELY three-fifths of the district cash farm income is derived from the sale of livestock and livestock products.

**Includes broilers and turkeys.

Source: "June-July 1948, Farm Income Situation."

products was 18%, with beef cattle and poultry enterprises contributing 14 and 13% respectively.

Income from sheep and lambs, which made up 2% of farm income before the war, was down to 1% in 1947, indicating the decline in popularity of the sheep enterprise in Minnesota.

Minnesota farmers convert most of their feed grains into livestock and livestock products, so that the sale of feed grains for cash was relatively small. (See chart.)

Flax was an important cash crop to Minnesota farmers in 1947, and the same may be said for 1948. Sale of flaxseed last year made up 6% of total farm cash income. The $6.00 support on flaxseed has been an important factor in stimulating flax production.

Wheat, as a cash crop, is relatively unimportant in Minnesota. Last year it contributed only 3% to farmers' income compared to 45% of farmers' cash receipts from marketings in North Dakota. (See chart.)

WHEAT ACCOUNTS FOR NEARLY HALF OF NORTH DAKOTA'S FARM INCOME

North Dakota is a major wheat state. It produced more than 91% of total U. S. production of durum wheat in 1947 and again in 1948. It produced more than 40% of total U. S. spring wheat other than durum in 1947. This great plains state was second only to Kansas in the production of all wheat, winter and spring.

North Dakota gets a much larger share of its cash farm income from the sale of wheat than is true of any other state in the union. This is why a drouth and crop failure in the state would be extremely serious to the business and banking interests of the state as well as to the farmers.

The sale of flax has been of relatively greater importance to North Dakota than any other state in the district in the past 10 years. It has accounted for nearly 10% of total farm income last year and again this year.

The share of farm income derived from the sale of livestock and livestock products and crops in North Dakota is almost exactly the reverse of the situation in Minnesota. In North Dakota the sale of livestock brings in only 28% of the total farm income, while total cash grain crops, including wheat, nets 71%.

There is statistical evidence that North Dakota farmers as a group are less interested in livestock enterprises now compared with pre-war years. In other words, there is less diversification of farm enterprises. For example, the number of milk cows in the state declined from a total of over 620,000 January 1, 1940, to 444,000 in 1948, a decline of nearly 30%.

The percentage of cash farm income derived from the sale of dairy products in North Dakota has declined nearly 50% from the pre-war 1939-41 average. Many farmers producing wheat, flax, or other crops, have done so well financially in recent years with cash crop farming that they no longer feel a need for the monthly cream check. In fact, there are many farms that have no livestock at all.

More and more farmers either commute from a nearby town residence to the farm or they reside only part of the year on the farm and go west or south for the winter season.

INCOME FROM BEEF CATTLE IMPORTANT IN SOUTH DAKOTA AND MONTANA

Montana and South Dakota both have extensive range and pasture areas. It is not surprising, therefore, that income from beef cattle made up nearly a fourth of total cash farm income in these two states in 1947.

On the other hand, hog sales brought in nearly 21 cents out of every dollar of farm income in South Dakota during 1947, but only 3 cents in Montana. (See chart.)

Dairying brought in only 5 cents of every dollar of farm income in each of these two states in 1947. This is considerably less compared with pre-war. In South Dakota it is less than half of the pre-war figure.

Wheat sales accounted for 36 cents of the farm income dollar in Montana during 1947, but it was only 17 cents in South Dakota.

Concluded on Page 635

Average Prices Received by Farmers in Ninth District[1]

Commodity and Unit	October 15 1937-1941 Avg.	October 15 1947	October 15 1948	Parity Prices [2] United States October 15, 1948
Crops				
Wheat, bushel	$0.69	$2.78	$1.98	$2.20
Corn, bushel	.43	2.11	1.24	1.60
Oats, bushel	.24	1.04	.60	.994
Potatoes, bushel	.40	1.36	1.27	1.84
Livestock and Livestock Products				
Hogs, 100 lbs.	7.80	27.57	24.16	18.10
Beef Cattle, 100 lbs.	7.41	19.75	21.14	13.50
Veal Calves, 100 lbs.	9.09	22.72	25.42	16.80
Lambs, 100 lbs.	7.99	20.27	21.78	14.60
Wool, lb.	.28	.43	.53	.456
Milk, wholesale, 100 lbs.	1.66	3.93	3.85	4.25
Butterfat, lb.	.31	.80	.73	.676
Chickens, live, lb.	.125	213	.254	.284
Eggs, doz.	.221	.467	.459	.621

[1] Data compiled from "October 29, 1948—Agricultural Prices"—USDA.

[2] The term 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, 1910-1914.

January-September Cash Farm Income[1]

(Thousands of Dollars)

State	1935-39 Average	1947	1948	1948 in Percent of 1947
Minnesota	$ 247,481	$ 933,508	$ 990,984	106%
North Dakota	77,025	470,782	493,030	105
South Dakota	77,530	490,920	471,066	96
Montana	57,857	232,723	264,038	113
Ninth District [2]	516,913	2,312,327	2,430,310	105
United States	5,684,905	20,290,140	21,278,297	105

[1] Data from "The Farm Income Situation," dated October 1948.

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

BUSINESS

October Business Reflected Mixed Trends

- ***Non-agricultural employment remains above a year ago.***
- ***November department store sales fell below last year's dollar volume.***
- ***Consumer expenditures were still low in relation to total income.***

THE contraction in general business activity in recent weeks followed in part the usual seasonal pattern. Employment in non-agricultural industries has declined from the September peak. The canning industry has completed its pack, many construction projects have been finished, and in mining districts some mines have closed down.

However, non-agricultural employment is still significantly above the level of a year ago. With the large number of individuals employed and earnings in most industries higher than last year, payrolls remain at an unprecedented figure for this time of year.

DEPARTMENT STORE SALES DECLINE IN NOVEMBER

Department store sales in the past few weeks have not shown the customary pattern of increase which is characteristic of the approaching holiday season. In this district, November sales are generally 13 percent above October sales. Since the first of November, however, sales actually have fallen off, in comparison with the volume in the preceding year.

In this district as well as in the entire nation, October sales averaged about 10 percent above last year's dollar volume, while in the four weeks ending November 20 sales averaged three percent below those of a year ago.

The decline in November department store sales may be due to several causes. First, October sales were high as compared with preceding months. The index for this district, adjusted for seasonal variation, rose to 312 percent of the 1935 to 1939 base period. During the summer months, the index averaged 292 percent of the base. Allowing for the typical seasonal variation, October sales topped those of the summer months by 6 percent.

Second, the weather has been very mild for this time of year. With no snow during the first half of November, many people may have found it difficult to get into the Christmas shopping spirit. Also, heavy winter clothing and galoshes have not been a necessity until very recently.

Lastly, the decline in some farm product prices, noticeably grains, may have led consumers to anticipate a drop in the prices of other merchandise.

STOCKS LEVELING OFF

The high volume of October sales in all probability contributed to the decline in department store stocks. After an adjustment was made for the customary rise in stocks, the index decreased six points during October—to 310 percent of the 1935 to 1939 average.

All of the decline in stocks was concentrated among the stores located in the towns and smaller cities. In fact, a slight increase was reported by the stores located in the Twin Cities and Twin Ports.

Although a few items are still in scarce supply, the physical volume of inventories has almost ceased to increase in recent months, according to figures compiled by the U. S. Department of Commerce. The leveling off in inventories provides some evidence that the business pipelines may be quite well-filled.

LEVEL OF CONSTRUCTION ABOVE YEAR AGO

Construction activity is tapering off for the winter season, but it remains above the level of a year ago. Construction employment has remained high. As compared with October 1947, such employment in Minnesota was one percent larger this year, and preliminary figures for Montana reflect a larger percentage increase.

The dollar valuation of building permits issued in 79 cities of this district during October was six percent higher than last year. In contrast to the amount of permits granted, the amount of contracts awarded fell off in this territory. The total amount awarded in October, as reported by the F. W. Dodge Corporation, was six percent less than in 1947. However, the amount awarded in September was exceptionally large—29 percent above the 1947 figure.

According to bank debits, general business activity was high during October, as compared with preceding months. The adjusted index for October was 367 percent of the 1935 to 1939 base period. This was 14 points higher than for September, when quarterly income tax payments were an important item in the total dollar amount of checks drawn. The adjusted index for the summer months averaged approximately 325 percent of the pre-war base.

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-1939 = 100)

	Oct. 1948	Sept. 1948	Oct. 1947	Oct. 1946
Bank Debits—93 Cities	367	353	363	275
Bank Debits—Farming Centers	417	417	389	307
Ninth District Dept. Store Sales	312p	291	275	254
City Department Store Sales	326	296	290	264
Country Department Store Sales	297p	286	261	244
Ninth District Department Store Stocks	309p	316	251	244
City Department Store Stocks	264	261	223	240
Country Department Store Stocks	346p	360	273	247
Country Lumber Sales	156p	168	161	92
Miscellaneous Carloadings	126	123	127	127
Total Carloadings (excl. Misc.)	127	125	133	135
Farm Prices (Minn. unadj.)	266	274	300	253

p—preliminary.

CONSUMER EXPENDITURES LOW IN RELATION TO TOTAL PERSONAL INCOME

High consumer expenditures are an important factor in the large volume of business transacted. Personal incomes in the United States during August were at an adjusted annual rate of $215.1 billion. Approximately 84 percent of this amount is being spent by consumers for merchandise and services, exclusive of the amount invested in housing. About six percent is saved and the remainder, 10 percent, is paid in federal, state, and local taxes. Personal incomes in the Ninth district most likely would reveal a similar breakdown if the data were available.

The proportion of the total personal income spent by consumers has increased since the end of hostilities. For instance, in 1946, expenditures constituted 81 percent of the total, and during the war they were as low as 67 percent.

Even though consumers are now spending a larger proportion of their total income than immediately following the war, it is still low in comparison with the proportion spent during the pre-war years. During the Twenties and Thirties, consumer expenditures were well over 90 percent of their total personal income. In 1933, which was in the trough of the depression, expenditures aggregated over 99 percent of the total income. Since consumer expenditures are still low in relation to total personal income, savings remain relatively high.

Despite the substantial volume of savings accumulated out of current earnings, the steady rise in prices has forced many families to draw on their past savings. In fact, consumer purchasing power which is derived primarily from current earnings has been supplemented by the liquidation of past savings.

According to the survey of consumer finances conducted by the Board of Governors of the Federal Reserve System, the proportion of spending units holding U. S. Government bonds was reduced from 56 to 48 percent during 1947. The proportion of spending units holding savings accounts was reduced from 47 to 46 percent. Shortly after the first of the year when the survey was made, less than three-fourths of the spending units reported liquid assets of any kind.

Consumer purchasing power has also been augmented by the rapid expansion in consumer credit. Since the first of the year, the amount of consumer credit outstanding has risen by almost one percent per month, and the amount of instalment credit by nearly three percent per month.

The large rise in consumer credit outstanding is traced principally to the fluctuations in instalment credit. Consequently, this type of credit in September was again subjected to Regulation W, while the other types of credit consisting of single payment loans, charge accounts and service credit were allowed to go unregulated.

The purpose of the instalment credit regulation is to reduce the rate of credit expansion. With industry operating close to full capacity, and practically the entire labor force employed, a further expansion in such credit cannot increase output and, therefore, will only raise prices.

INSTALMENT CREDIT EXPANDS FURTHER

The amount of instalment credit outstanding in the financial institutions of this district in October continued to rise at a rate comparable to that observed in previous months. In commercial banks, the increase was nearly one percent; in industrial loan companies and federal credit unions, it was one percent; and in state credit unions, it was two percent. In small loan companies the amount outstanding declined by one percent.

END

Sales at Ninth District Department Stores[1]

	% Oct. 1948 of Oct. 1947	% Jan.-Oct. 1948 of Jan.-Oct. 1947	Number of Stores [2] Showing Increase	Decrease
Total District	108	107	189	74
Mpls., St. Paul, Duluth-Superior	108	107	24	11
Country Stores	109	107	165	63
Minnesota	113	108	51	13
Central	112	107	6	2
Northeastern	117	110	4	0
Red River Valley	103	97	3	1
South Central	115	111	13	1
Southeastern	113	112	10	5
Southwestern	112	106	15	4
Montana	108	110	27	12
Mountains	108	111	8	5
Plains	108	110	19	7
North Dakota	108	106	41	7
North Central	109	101	9	1
Northwestern	107	104	5	1
Red River Valley	106	106	15	2
Southeastern	109	108	9	3
Southwestern	120	119	3	0
Red River Valley—Minn. & N. D.	106	105	18	3
South Dakota	111	108	16	6
Southeastern	115	113	5	2
Other Eastern	106	103	8	2
Western	117	107	3	2
Wisconsin and Michigan	106	104	30	25
Northern Wisconsin	108	107	10	6
West Central Wisconsin	103	103	12	17
Upper Peninsula Michigan	115	105	8	2

[1] Percentages are based on dollar volume of sales.
[2] October 1948 compared with October 1947.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	Oct. [1]	Percent Change [2] from Year Ago Oct.	Jan.-Oct.
Minneapolis	+372	+ 8	+ 8
St. Paul	+304	+ 5	+ 4
Duluth-Superior	+336	+20	+13
Aberdeen	+600	+ 5	+ 4
Bismarck	+476	+10	+13
Grand Forks	+508	+12	+ 5
Great Falls	+405	+18	+ 9
La Crosse	+309	+13	+ 5
Mankato	+349	+12	+14
Minot	+469	+ 8	+ 4
Rochester	+271	+ 9	+ 9
Sioux Falls	+467	+19	+12
Valley City	+348	— 5	— 6
Willmar	+363	+ 3	+ 5
Winona	+320	+18	+14
Yankton	+370	+ 1	+ 3

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

BANKING

Deposits and Loans Continued to Rise

- ***October increase of 1% in demand deposits falls short of September advance.***
- ***Deposit turnover in 1948 reflects increased rate of spending.***
- ***October loan expansion concentrated in country areas.***

DEPOSITS and loans in all Ninth district member banks continued upward during October, although at a slackened pace compared with the record advances of the preceding month.

Total deposits in all member banks of this district increased $10 million during October. This increase was the net result of divergent changes in the various classes of deposits.

Demand deposits, other than due to banks, rose $29 million. The increase, which occurred largely in country banks, was about 30 percent as large as last month's advance. For the most part, this reduced rate of deposit growth reflected the seasonal leveling out of crop marketings and the consequent dampening effect on the inflow of funds into this area.

An additional factor was the concurrent slowing down in loan expansion which, of course, lies behind the creation of deposits.

The increase in "other" demand deposits this month was partly offset, however, by a decline in due-to-bank balances of $21 million. Since the larger city banks do the bulk of correspondent banking business, this decline was concentrated in reserve city banks.

Thus on balance total demand deposits in all Ninth district member banks during October rose $8 million. Combined with the $2 million increase which took place in time deposits, this carried the total deposit figure to $3,546 million by the end of the month.

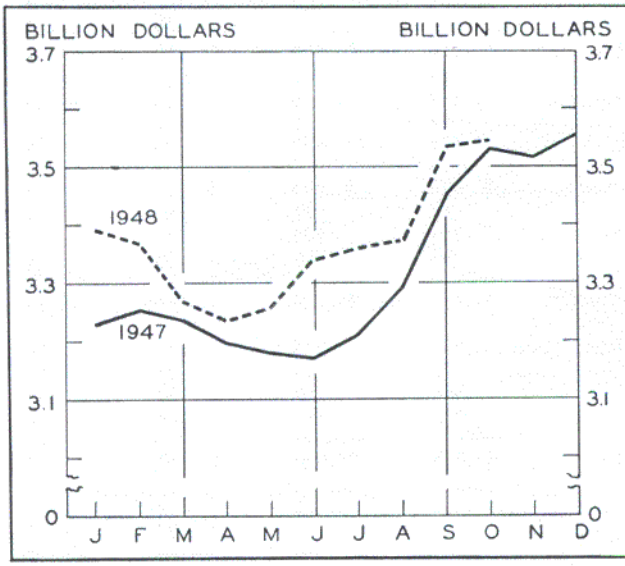
TOTAL DEPOSITS, DEPOSIT TURNOVER RISE IN 1948

In Section I of the accompanying chart, total deposits in all member banks of this district during 1947 and 1948 are pictured. It is evident that the volume of total deposits during the current year has consistently been higher than in the corresponding months of 1947.

Moreover, as shown in Section II of the accompanying chart, the rate of turnover of total deposits has also been greater during 1948—with the exception of October—than in the corresponding months of 1947. (The data for the rate of turnover represent 109 selected banks holding about 60% of the total deposits in the Ninth district.)

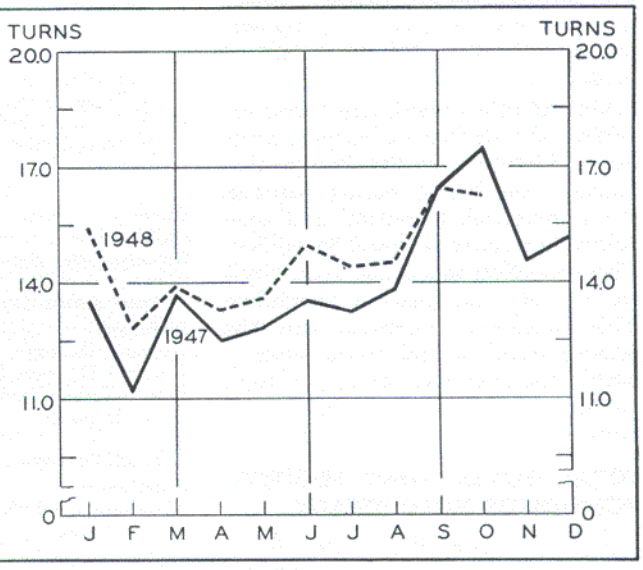
During the present year, total deposits, on a monthly basis, have been running on an average of about 3% above last year. At the same time these deposits have been turning over at an average rate of approximately 14½ times per year as against an annual rate of close to 13¾ times

TOTAL DEPOSITS IN ALL NINTH DISTRICT MEMBER BANKS DURING 1947, 1948



ANNUAL RATE OF TURNOVER OF TOTAL DEPOSITS, 1947 AND 1948

In 109 Selected 9th District Member Banks



DURING 1948 the money supply has been a double-barrelled source of inflationary pressure: both total deposits and the rate of turnover of deposits have been higher this year than in corresponding months of 1947.

last year. This increase in the rate of money use is characteristic of the country as a whole as well as of the Ninth district.

What is the significance of the speeded-up activity in deposit balances? First of all, it might be well to note how the rate of turnover is calculated. Bank debits—that is, the amount of checks written against demand deposit accounts and withdrawals from time deposits—divided by the average amount of total deposits during a month equals the rate of turnover. This reveals the velocity of deposit circulation. A higher rate of turnover indicates that the average deposit dollar is changing hands more frequently—that there is an increased rate of spending.

Thus during 1948 the money supply has been a double-barrelled source of inflationary pressure; demand for goods has been made effective not only by a higher level of total deposits but by a faster rate of turnover of these deposits as well.

LOANS EDGE UPWARD DURING OCTOBER

Loans at the end of October in all Ninth district member banks totalled $861 million—up $5 million from the end of September. This represented an increase of less than one percent compared with a rise of 3½ percent in the previous month. For the most part, loan expansion in October was concentrated in the country banks, where increased lending to farmers reflected the seasonal movement of feeder cattle.

On the other hand, city banks experienced a decline in business loans during October. In the 20 reporting banks of the Ninth district, loans in the commercial, industrial and agricultural category declined $5 million. This was offset to a slight extent by a rise in real estate loans of $1 million. This increase is consistent with the present trend in real estate lending, which for over two years has been moving upward slowly but persistently.

TOTAL GOVERNMENT SECURITY PORTFOLIOS HOLD STEADY

Total government securities in all Ninth district member banks remained constant during October, amounting to $1,699 million at the end of this month—the same as at the end of September. This over-all stability obscures, however, the changes which took place in the make-up of government security portfolios.

Assets and Liabilities of All Ninth District Member Banks[1]
(In Million Dollars)

	Sept. 29, 1948	Oct. 27, 1948	$ Change Sept. 29, 1948-Oct. 27, 1948	$ Change Oct. 29, 1947-Oct. 27, 1948
Assets				
Loans and Discounts	$ 856	$ 861	+ 5	+102
U. S. Government Obligations	1,699	1,699	.....	—165
Other Securities	201	200	— 1	+ 22
Cash and Due from Banks	961	972	+11	+ 48
Other Assets	34	30	— 4	— 2
Total Assets	$3,751	$3,762	+11	+ 5
Liabilities and Capital				
Due to Banks	$ 380	$ 359	—21	— 59
Other Demand Deposits	2,229	2,258	+29	+ 73
Total Demand Deposits	$2,609	$2,617	+ 8	+ 14
Time Deposits	927	929	+ 2	+ 3
Total Deposits	$3,536	$3,546	+10	+ 17
Borrowings	.....	.....	.....	— 14
Other Liabilities	17	17	.....	— 3
Capital Funds	198	199	+ 1	+ 5
Total Liabilities and Capital	$3,751	$3,762	+11	+ 5

[1] This table is 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.

Assets and Liabilities of Twenty Reporting Banks
(In Million Dollars)

	Sept. 29, 1948	Oct. 27, 1948	Nov. 17, 1948	$ Change Sept. 29-Oct. 27
Assets				
Comm., Ind., and Ag. Loans	$ 256	$ 251	$ 251	— 5
Real Estate Loans	61	62	61	+ 1
Loans on Securities	15	15	15	.....
Other (Largely Consumer Loans)	110	110	112	.....
Total Gross Loans and Discounts	$ 442	$ 438	$ 439	— 4
Less Reserves	—3	—4	—4	— 1
Total Net Loans and Discounts	$ 439	$ 434	$ 435	— 5
U. S. Treasury Bills	45	48	61	+ 3
U. S. Treasury Cert. of Indebt	114	139	132	+ 25
U. S. Treasury Notes	59	31	35	— 28
U. S. Government Bonds	455	459	446	+ 4
Total U. S. Govt. Securities	$ 673	$ 677	$ 674	+ 4
Other Investments	81	77	80	— 4
Cash and Due from Banks	504	506	504	+ 2
Miscellaneous Assets	20	16	16	— 4
Total Assets	$1,717	$1,710	$1,709	— 7
Liabilities				
Demand Deposits, Ind., Part., Corp.	788	818	814	+ 30
Demand Deposits U. S. Govt.	36	24	28	— 12
Due to Other Banks	341	316	330	— 25
Other Deposits	443	442	426	— 1
Total Deposits	$1,608	$1,600	$1,598	— 8
Borrowings	.....	.....	.....	.....
Miscellaneous Liabilities	12	12	14	.....
Capital Funds	97	98	97	+ 1
Total Liabilities and Capital	$1,717	$1,710	$1,709	— 7

On the basis of the experience of the 20 reporting city banks, the major change presumably was the switch-