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1175 F2 FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

MONTHLY REPORT OF
CROP AND BUSINESS CONDITIONS

JOHN H. RICH
CHAIRMAN AND FEDERAL RESERVE AGENT
CURTIS L. MOSHER
ASSISTANT FEDERAL RESERVE AGENT
J. F. EBERSOLE
ASSISTANT FEDERAL RESERVE AGENT

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CROP RESULTS: The Ninth Federal Reserve District has produced the largest corn crop in its history, having an estimated production of more than 260 million bushels. The states of South Dakota and Montana have also the largest corn crop in their history, while the State of Minnesota has its second largest corn crop. The forecast for oats indicates a total production of about 287 million bushels which is about 80 million bushels better than last year. The combined corn and oats crops, totaling 547,180,000 bushels, are a more important factor in the agricultural prosperity of the Northwest than the total wheat crop which has an estimated production this year of only 148 million bushels. The corn crop for the whole United States is also known to be the largest in its history.

Government Bureaus also report that the four states of Minnesota, North Dakota, South Dakota, and Montana are expected to produce about 69,083,000 bushels of barley, 11,210,000 bushels of flax and 47,535,000 bushels of potatoes. South Dakota has had an excellent potato crop and the flax production has been larger than for several years.

Forage conditions are reported generally as being good; and with minor exceptions, conditions are reported as favorable for fall plowing and seeding.

GENERAL BUSINESS CONDITIONS: Grain is moving to market more rapidly than a month ago, and there is a larger movement of cattle with fairly even prices. Milling has shown no decline except locally in the Minneapolis mills. The efficiency of the railroads has improved considerably. Tonnage passing through the Soo Canal has remained unchanged except for a decrease in the western movement of coal. Otherwise reports on September business conditions have not been favorable. There were decreases in copper and iron production; in building permits, both for new construction and for repairs; in lumber production; in coal receipts at the head of the lakes; and in Postal savings deposits. Business failures were larger in liabilities in September than in August or one year ago. The demand for hand-to-hand money to move the crops has occasioned some withdrawals of deposits from member banks and reductions in their loans to customers and increases in their rediscounts. An increase of more than four millions in note issues by the Federal Reserve Bank was necessitated by this demand for hand-to-hand money. Borrowings of member banks in the whole Ninth District have increased and interest rates have remained firm.

The general situation both as to changes in the volume of business and in prices is clearly indicated by the debits to individual accounts of clearing house banks in the eleven most important cities for the five weeks ending October 1 when compared with the four weeks ending August 27. The average per week increased about 19 per cent in September over August, but this was not as large as the seasonal increase of about 24 per cent during the same periods last year. This shows a relative decline of about 5 per cent. As compared with a year ago the volume for the five weeks ending October 1 decreased more than 3 per cent. When comparison is made with September, 1919, all the cities showed declines except Aberdeen, Duluth, and Great Falls.

Wholesale produce prices for a selected list of 24 commodities in the Minneapolis market exhibited changes in the month of September in 11 commodities. Increases took place in butter, eggs, cheese, bananas, apples, onions and veal. Declines were registered in hens, potatoes, celery, and tomatoes. "Dun's Review" in quoting minimum prices for a selected list of commodities at wholesale in central national markets on October 2 as compared with September 3 manifested a pronounced downward tendency. Out of 18 selected basic commodities

entering into the manufacture of other articles as important raw materials, there were decreases in wheat, sugar, rubber, coke, cement, copper, spelter, lead, hogs, hides, and leather. There were no increases in the basic commodities. Out of three selected foodstuffs there was an increase in butter, a decrease in flour, and an unchanged price for potatoes. Out of three selected textiles there were decreases in serge and print cloths but an unchanged price for China silk.

The buying wave that was started by the recipients of extraordinary war profits, including therein the skilled and organized laborers, has passed. A more normal balance between buyers and sellers has followed. It is very important that business men and wage earners shall realize this fact and its industrial consequences in the form of more vigorous competition, requirements of increased efficiency, smaller profit margins, and greater personal and business economy.

GRAIN MOVEMENT AND GRAIN PRICES: It is estimated that the quantity of new crop which had moved from the farms by October 1 was 38½ per cent of the crop in South Dakota, 22 per cent in Montana, 21 per cent in Minnesota, and 20 per cent in North Dakota. The shipments from country elevators have improved because of better railroad conditions, the Northwest roads having secured a larger percentage of their box car ownership on September 1st than on August 1st. The percentages respectively are 86.6 per cent and 84.4 per cent. Also there has developed a greater willingness to expedite car movements by reducing delays in loading and shipping and by heavier loadings per car.

The grain receipts in Duluth during September were five times as large as during the month of August and when compared with a year ago the volume was more than double. Similar unusual increases were shown in the shipments.

The total grain movement from the Northwest may best be measured by considering the receipts at both Minneapolis and Duluth. When the receipts are thus combined, it will be noticed that the movement in September was about 2½ times that of August and 1¼ times the movement in September a year ago. The combined shipments in September were double those in August and double those of September, 1919. Although there is some duplication in the Duluth and Minneapolis figures owing to the movement of some durum wheat from Duluth to Minneapolis and a considerable quantity of rye from Minneapolis to Duluth, the amounts are not substantial as compared with the total. The number of cars estimated by the Minneapolis Traffic Association as moving from Minneapolis to Duluth under "rail and lake" rates was but 151 in August and 402 in September. This represents approximately 200,000 and 575,000 bushels respectively.

These figures indicate that there has been a very satisfactory movement of grain from the Northwest in the month of September, and considering the fact that a very large part of the Minneapolis receipts in August and September, 1919, were made up of southwestern winter wheat, the comparative showing for the northwestern states this year in the total movement for the season since August 1 is exceptionally favorable. The fact that some Canadian wheat has been received at Minneapolis does not alter these conclusions, for the amount has been relatively small. The highest estimate among grain men sets the amount at but one and a half million bushels between August 1 and September 30. An authority in the grain trade states that the bulk of the Canadian grain that has affected our prices has moved from Fort William down the Lakes to Buffalo.

MONEY AND CREDIT SITUATION: Interest rates have been firm and practically unchanged during September. Commercial paper sold at 8 per cent and customers paid 7½ per cent at banks. There was a slight decrease of about ¼ of 1 per cent in the rates on bankers' acceptances.

At the close of September this bank had granted accommodation to the Northwest exceeding that of one year ago by about 45 millions. This increase represents about 75 per cent of the total accommodation which was being given this district by this bank one year ago. The increase in estimated crop production, in actual grain movement, and the price situation do not warrant a substantial increase in the total accommodation above the present amount. The reserve position has changed so that we have today only about 38 per cent of our demand liabilities as compared with about 55 per cent a year ago.

The statement of condition for the 12 Federal Reserve Banks combined shows that there was an increase from September 3 to October 1 in bills discounted of 115 millions, a decrease in acceptances of 12 millions, and a decrease in notes secured by Government collateral of 150 millions, or a net decrease of accommodation amounting to over 55 millions. The total gold reserves increased nearly 41 millions, and the total member bank deposits declined about 54 millions. The total notes in circulation increased nearly 70 millions and the percentage of reserve held increased from 42.5 per cent to 43.7 per cent.

Reports received from 35 selected member banks in the largest cities of the Ninth District on October 1 as compared with September 3 indicated a decrease in demand deposits of 12 millions, but gains of 1½ millions in time deposits and 2 millions in government deposits, or a net loss of 8½ millions. This was met by using 2 millions of reserve deposits with the Federal Reserve Bank, by borrowing 3 millions from the Ninth Federal Reserve Bank, and by calling 2½ millions of customers' loans. In addition, United States securities were sold amounting to about 1 million; and vault cash was slightly strengthened.

BUILDING AND LUMBER: Building operations during the month of September showed declines in number of permits, in total valuation, and in the average size of projects as compared with the preceding month, and also as compared with a year ago. The decline was greatest in the valuation of permits granted, the valuation for September being 68.7 per cent of August and but 55.7 per cent of a year ago. The valuation for new construction declined from \$2,487,000 to about \$1,700,000 and the valuation for repairs and alterations declined from about \$783,000 to about \$455,000 in September as compared with August. All the important cities in this District exhibit declines in the valuation of permits, except Fargo and Grand Forks. However, all of the cities show an increase in the number of permits except the three large cities of Minneapolis, St. Paul and Superior. The average valuation of each permit has declined from \$5,320 in July and from \$2,439 in August to \$1,770 in September.

This decline in permits for building construction has brought about a decrease in lumber shipments and sales, and has been due very largely to the unusual competition for investment capital and its relative shortage when compared with the demand. Offerings of European securities at prices to yield more than 8 per cent and prices on Liberty Bonds to net the investor more than 6 per cent have reduced the available supply of capital for the purchase of mortgages or for investment in building equities. The wage earners, whose savings finance a large part of the construction of homes, have been unwilling to save and are left now with little capital to invest in homes. The high costs of construction have also doubtless caused some to hesitate in pushing new building ventures on a large scale. Building material prices are greater than in March with the exception of lumber.

Declines merely in the price of lumber will not solve the building cost problem. The labor costs of construction are much more important than the lumber costs. It is reliably estimated that the cost of lumber and mill work entering into an average home represents not more than 35 per cent of the total cost, and that the labor costs average about 47 per cent. As much of the cost of lumber is due to the labor involved in its production, the percentage of labor cost in building will average much greater than this 47 per cent.

FUEL SHORTAGE: We may now conclude that the total movement of coal to the head of the lakes this year will not equal that of last year. The average tonnage received per day at Duluth-Superior harbor during the month of September, 1920, was 39,243 tons. To equal the tonnage received during 1919 would require an average of 60,639 tons per day to November 30, 1920, and to equal the total yearly average during the past five years would require an average of 76,642 tons per day up to November 30, 1920, according to the reports of Lt. Col. Pope of the United States Engineer's Office at Duluth. Another factor to be considered in this connection is the much larger stocks of coal on the docks at the opening of the season of 1919 than at the opening of the season of 1920. If the Northwest is to receive enough bituminous coal the railroads will have to bring it. By establishing through trains of gondolas with through crews, it may be possible for the railroads to do this if the industries of the Northwest should not require more bituminous coal than a year ago.

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LIVE STOCK: During the month of September there were heavy runs of grass cattle of mediocre quality, a depressed meat outlet, and a large depression in hide values. Early in the month cattle were moving to the country in large numbers, but later this outlet diminished in importance and stockers and feeders moved much less freely. The demand for stockers and feeders should improve as good cattle are now available at the lowest prices of the year, and corn and other feed are plentiful in this district. The hog runs have increased slightly but are still considered light. Sheep and lamb runs are showing the usual seasonal increase. The total September movement as measured in cars exhibited an increase of 40 per cent over August, but a decrease of 5 per cent under a year ago. Cumulative receipts from January 1 to September 30 are but 93 per cent of a year ago and shipments but 55.7 per cent of a year ago.

Prices at the South Saint Paul Stock Yards in September as compared with August exhibited mixed tendencies. There were declines in butcher cows and heifers and spring lambs; increases in hogs, veal calves, stock and feeder steers, and butcher steers; and unchanged prices for lambs.

MILLING AND FLOUR MOVEMENT: The production of flour mills in this district for the four weeks ending September 25 was substantially the same as during the four weeks ending August 28. However, the Minneapolis mills exhibited a decrease of 10 per cent. The total production in the four weeks ending September 25 was less than two-thirds of the production during the same period a year ago. Flour shipments indicate precisely the same condition.