

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

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MONTHLY REPORT OF
CROP AND BUSINESS CONDITIONS

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No. 73

TO THE DIRECTORS:

"There was not enough change in business events during February to indicate the probable trend during the spring season, and in many lines there was a marked disposition to await developments. In some respects previous declines in the wholesale markets and important downward changes in raw material costs have tended to produce hesitation rather than new orders, due to the feeling that further recessions may possibly come. Both in business and banking circles there is divided opinion as to whether grains have touched bottom, although there is a feeling that a number of important raw materials are not likely, for the present at least, to go any lower. This is probably true of lumber, which is of prime importance from the standpoint of the hoped for revival of construction, but lumber alone cannot control the situation. Changes in brick, cement, steel, glass, and some of the other important items in the building list, do not place them in the same position as lumber, and for the present, the reduced cost of lumber that goes into building may not prove a sufficient factor to encourage building activity which is so greatly needed. The housing situation is bad at all of the centers, and there is promise of considerable rural building, involving both housing and farm construction. A notable feature of the price changes is their irregularity. This is apparent in both wholesale and retail markets and indicates that further adjustments are yet to come, although the drift is toward normalcy.

"The movement of grain during the month was encouraging, but does not necessarily represent liquidation, since much of the incoming grain is held on storage tickets. From a banking standpoint, agricultural liquidation has not yet appeared. Commercial liquidation has been pronounced, and has proceeded steadily since late November. During the last half of February it showed some tendency to slow down. The agricultural liquidation that has taken place comes to light in the evident ability of wholesale and jobbing firms and other distributors of goods and merchandise to liquidate their banking indebtedness at the centers, but does not appear in the course of country bank deposits or in the form of changes in their bills payable or rediscounted paper. In general, the tendency was for city banks to reduce their indebtedness with a very good degree of success, while country banks during the month showed a disposition to increase their borrowed money somewhat.

"The movement of grain and livestock from farms to terminals was considerably larger in February than a year ago and larger than the ten-year average. Mild weather and improved transportation have helped to bring about a more regular and orderly marketing than existed a year ago. Demand was sufficient in February to sustain wholesale

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livestock prices, there being as many advances as declines in the South St. Paul market. In fact, cattle prices were stronger at the end of the month with a much larger inquiry for stockers and feeders. Prices of grain in cash sales at Minneapolis sagged during the month with losses of about 10 cents per bushel in the median prices of flax, rye, wheat, and corn. These declines in grain prices have not been due to conditions in the Northwest. Receipts at Minneapolis and Duluth combined for all grains were but 14 million bushels in February as compared with over 18 million bushels in January, and February wheat receipts alone were about 9 million bushels as compared with over 11 million bushels in January. No important change has taken place in grain stocks in Northwestern terminals.

"The price declines which occurred in wholesale markets in November, December, and January are slowly reaching the consumer. In February much of the produce as well as the grains and some of the meats recorded further declines at wholesale. Retail prices of foods in Minneapolis are estimated to have declined about 7 per cent between December 1 and March 1.

"The Ninth Reserve Bank was able during February to pay off its indebtedness to other Federal reserve banks and secured a moderate amount of additional liquidation, which has improved its position. City banks handling the business of country banks and bankers report very slight reduction in credit extensions to the country, and there is still some doubt as to how the spring planting demands will be met, although the commercial liquidation that has occurred has improved the outlook somewhat. There is need of active liquidation in the country in order that lending institutions may be put in possession of funds which the agricultural interests will need at planting time.

"The market rate for money has not changed. The whole Federal reserve system realized collections in the three weeks ending February 24 of but 32 million dollars, or about one per cent of the total earning assets, although February is a "between-season" period of dullness. A year ago we were lending to other Federal reserve banks nearly nine millions of dollars. Our loans to our own member banks are now twelve millions greater than a year ago. The money demand for spring planting needs is but three weeks distant. Locally, some business firms are planning new financing which, coupled with the recent issues of industrial and European government bonds, have probably engaged considerable sums of local capital for investment purposes."

JOHN H. RICH