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FEDERAL RESERVE BANK OF MINNEAPOLIS

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NINTH DISTRICT

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MONTHLY REPORT OF
CROP AND BUSINESS CONDITIONS

No. 63

MAY.

The steadily accumulating evidence of the month indicates that the peak of high prices has been reached, and that a general break has occurred. Retail trade has slowed down perceptibly, and the slowing down process has been marked by increased efforts to move goods, accompanied by price reductions and widely advertised sales. There seems to be good reason to believe that the steady advance in retail prices, which has continued since the early months of the war, has come to an end. While there will still be advances in certain lines and on certain classes of goods due to shortages, difficulties in securing delivery, and maintaining stocks, and while it will be some time before price adjustments have become sufficiently pronounced to alter the cost of living, the drift is in the right direction, and substantial changes are in progress. Several factors have contributed in an important way to the changes during the month. There has been a growing rebellion on the part of the public against excessive prices, and a gradual spread of the determination not to buy high priced goods or submit to further profiteering. This has resulted in part from gradual increases in money rates and in part from the lower quotations in Government securities, which have served to call the attention of the general public to the fact that a general readjustment is under way. Another factor of great importance is the breakdown of transportation, which is more serious than anything business has experienced in the United States at any previous time. The movement of all goods is abnormally delayed, and there has been, during the month, a slowing down of production in some lines as a direct result of inability to obtain materials. Most of the larger manufacturing concerns have scouts on the road endeavoring to trace and expedite the movement of materials which are essential to maintain current production.

The efforts to improve the transportation situation in the Northwest, which have been given unrelenting attention since December 15th, were amply aided during the month by the development of conditions elsewhere in the United States, which have resulted in co-operative action by business men and the Interstate Commerce Commission, not only to clear up the congestion at the gateways of traffic, but to redistribute the car supply of the United States in such a way as to give the Northwest the grain cars it needs, and to send the supply of open top cars in this territory into sections where they can be made more useful, and to inaugurate at once a program that will at least relieve the railroads so far as their temporary equipment needs are concerned. Many months will probably pass before the railroad situation is normal. The developments of the last thirty days promise an improvement at least, and we may look for a somewhat better movement of traffic.

The slowing down in trade and the price changes of the month have not affected the price of food stuffs to any extent, but have left an imprint upon many lines of retail trade. There has been a noticeable reduction in prices on certain classes of women's wear, shoes, and a considerable range of the higher priced goods. Price changes on medium grade articles are not yet so apparent. There is an inclination on the part of the public to buy conservatively, and retailers outside of the larger centers are cautious in accumulating stocks. They are working on a hand to mouth policy and ordering to fill current requirements only, and many have cancelled outstanding orders.

There is a general reluctance to buy on what they believe to be a falling market or to stock up beyond immediate needs until the future price situation becomes clearer. Very cool spring weather has had some influence on trade and has held back the normal movement of spring and summer goods.

Banking conditions have not changed materially. The demand from the country is very heavy owing to a considerable increase in the cost of spring planting, including machinery, material and farm labor. Rates retain the same levels as a month ago, and are very firm. Banks generally are encouraging their customers to restrict their borrowings to those that are necessary for the support of current business activities and agriculture, and to avoid speculative operations. Loans of commercial banks and at the reserve bank are much higher than normal and are likely to continue high throughout the summer because of the serious impairment of the ability of the railroads to move traffic and consequent delay in liquidation.

The changes that occurred during the month are free from any elements that should cause apprehension. It has been evident for some time that there must be a shift to a more conservative basis, and this is being accomplished without undue strain or undue dislocation of the ordinary processes of trade. Banks have been the leaders in the movement and have been insistent during the month in a reduction of new loans to a basis representing only the extension of credit necessary to maintain current business and agricultural activities. Customers have been encouraged to pursue a cautious policy and prepare themselves for the changes which business experience naturally suggests must come after a long continued period of rising prices.

The strain upon all banks in this district has been heavy due to the double burden imposed by carrying the remainder of the last crop and the demands arising out of spring planting operations. Due to the policy of conservatism and prudence, the banking situation has recently shown some slight signs of improvement, and there is nothing unfavorable in the present outlook other than the fact that it may be necessary to carry the present burden for some time in order to take advantage of the prospective liquidation.

Crop conditions are promising. The seeding of spring wheat which represents the bulk of the Northwest's production has progressed rapidly and is completed with the exception of some of the poorer lands and fields that have been too wet. The acreage will be approximately 15 per cent less than a year ago, owing to the shortage of farm labor, the high price of seed, the lateness of the season, and the shrinkage that is inevitable after the intensified production of the war period. The reduction in acreage will not be important if the present favorable crop conditions continue, and a good average yield in the acreage seeded will give a very satisfactory total production. The shortage of acreage will be largely overcome by increased seeding of flax, barley and oats. Corn shows indications of being an unusually large crop this year. Winter wheat, which is less important from the standpoint of its proportion to the total production, is making slow progress owing to cool weather and unusual rains. Different estimates indicate that from 75 to 90 percent went through the winter without damage.

Live stock conditions are improving under the influence of spring rains which have been general over the entire territory, and which have overcome the impairment of pasturage due to the drouth last year. In the western half of the district much stock is still on feed. It is estimated that the carrying of live stock since last fall represented in this district an expenditure of \$60,000,000 for feed, chiefly in Montana, and western North Dakota, of which 80 percent was shipped into the territory owing to the acute shortage of local supplies. The herds are in much poorer condition than this time a year ago, and in the western end of the district good pastures cannot be expected until the middle of June. This year's shipments of cattle will likely be much less than normal as cattlemen wish to build up their herds and cover losses during the winter.

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Receipts at the South St. Paul Stockyards during April showed a substantial decrease in cattle and sheep, but a large increase in calves and hogs. For the first four months of the year cattle receipts fell off 33,956, and sheep receipts decreased 22,849. Calves increased 50,048, hogs 17,739, and horses 1,919.

Lake transportation conditions are very unsatisfactory, although the lakes opened a month ago. Railroad strikes and strikes at the lower lake ports have severely hampered vessel owners and have so reduced the available fuel coal that many boats are tied up and have discharged their crews. Ore shipments down the lakes are reduced to about half of normal, and receipts of coal at Duluth and Superior are not more than 20 percent of what they were at this time a year ago. On May 1st last year the Duluth and Superior coal docks held 2,300,000 tons of coal. On May 1 this year there were only between 200,000 and 300,000 tons on the docks. Northern Minnesota iron mines are working at from 75 to 80 percent of capacity, but stripping operations at the open pit mines have been reduced to 20 percent of normal to conserve fuel. Iron ore shipped from Duluth and Superior Harbor during April totaled 224,850 gross tons as compared with 781,337 tons a year ago. Northern Michigan iron mines are affected by much the same conditions. The capacity that is in operation is approximately 86 percent. Mines are affected equally by labor shortage and conditions in the ore market. Mining companies in the Black Hills are marking time in the hope that Congress will pass the bill to provide a premium on gold production by taxing the consumption of that metal for other than monetary purposes.

The Minneapolis flour mills report for five weeks ending May 1st an output equal to 41 percent of capacity as compared with 71 percent a year ago. Other mills in the Ninth District report in the same weeks about 29 percent of capacity as compared with 65 percent a year ago. The problem of securing sufficient transportation equipment is a contributory cause to this decline.

Postal savings deposits continue to show a decline in the 24 leading cities of this district, the decline being 2.7 percent in March and 2.4 percent in April.

Dun's reports of commercial failures in this district show a smaller number in April as compared with a year ago, but an increase in liabilities of about 450 percent, total liabilities amounting to \$681,000 for 16 concerns.

In the lumber industry, the reports indicate that the demand for home building has decreased and wholesalers of building material report that the tonnage moved is under that of an average year. This appears to be the result of reluctance on the part of the public to go ahead with the more important building plans on account of high material prices and high labor rates. The building trade is affected by strikes at a number of points.

April building statistics from nine representative cities of the district indicate, as compared with last month, an increase in the number of permits from 1,109 to 2,008, and an increase in valuation from \$3,272,610 to \$4,410,351, or an increase of over 30 percent. This increase is not as significant as it appears at first glance because there is a marked tendency to confine operations to petty projects, such as garages, and the average size permit has accordingly decreased from \$2,950 to \$2,196. Of the new building projects in eight of these cities, 1,188 were reported for new construction and 690 for repairing and alterations. The valuation of the new construction totals \$3,223,733 and the repairing and alterations \$744,224. The comparison with last year in eight of the cities shows a decrease in the number of permits from 1,990 to 1,986, and a slight increase in the valuation from \$3,917,490 to \$4,300,951. Having regard to the increased prices of materials, there is obviously a decline as compared with a year ago.