

MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank, Minneapolis, Minn.

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Business continued its mid-summer recovery in September. Bank deposits and loans to customers reached 8 year highs in late September and early October. Farm income exceeded that of August and farm prices improved slightly.

BUSINESS

The volume of business in September in the Ninth District as measured by our seasonally adjusted indexes advanced further from the levels of July and August and, with the exception of department store sales, was higher than for September in any other recent year. The combination of factors that raised August department store sales to about the highest level in our 12-year records was largely responsible for the September decline. Other indexes of business volume, however, were only slightly lower than the high levels reached earlier in the year and our farming centers bank debits index was the highest since April 1929.

Northwestern Business Indexes

(1929-1931=100)

	Sept. 1940	Aug. 1940	Sept. 1939	Sept. 1938
Bank debits—94 cities.....	88	87	91	81
Bank debits—farming centers..	105	101	98	89
Country check clearings.....	170	165	156	138
City department store sales....	95	115	104	96
City department store stocks...	85	84	83	79
Country department store sales..	100	116	111	96
Country lumber sales.....	123	119	111	91
Miscellaneous carloadings	94	89	89	78
Total carloadings (Excl. Miscellaneous)	94	89	83	60
Employment—Minn. (1936=100)	115	114	109	104
Farm Prices—Minn. (1924-26=100)	63	61	68	62

Total building and construction contracts awarded in September in this district as reported by the F. W. Dodge Corporation were the largest for the year, were nearly half again as large as in September a year ago and were the largest for the month in our 22-year records. Contracts for industrial buildings exceeded a million dollars for the first time since December 1930. Residential building contracts did not decline as usual at this season and were 48% larger than a year ago. Contracts awarded for public utility construction increased sharply to the highest level since July 1937. Public works construction contracts also increased sharply and were nearly double one year earlier. Volume changes in other classes of building were relatively unimportant.

Building permits issued in 72 cities and towns in the district were 6% larger in amount and 10% larger in number than in September 1939.

Department store sales in this district in September were somewhat lower than a year earlier due largely to the same factors that caused August sales to rise substantially above the one-year earlier level. There were only four Saturdays in September 1940 compared with five in 1939. In addition, September this year did not include the pre-Labor Day Saturday nor did it include any shopping days in which pre-school purchases could be made, both of which are usually included in that month. We made no arbitrary adjustment in our index for this unusual situation but in an attempt to get a more accurate picture, we compared the sales of August and September combined in 1940 with total sales in the same two months last year. The two-month figure for the district showed a gain of 1%. Although each section in our district with one exception reported lower September sales than a year ago, sales for the first three quarters of the year, for every section, were higher than in the same period last year. The gain for the year to date in the entire district was 4%. City department store inventories increased

Sales at Department Stores

	Number of Stores Showing		% Sept. 1940 of Sept. 1939	Cumulative % 1940 of 1939
	Increase	Decrease		
Total District	77	306	92	104
Mpls., St. Paul, Dul.-Sup.	2	18	92	103
Country Stores	75	288	91	106
Minnesota	21	110	89	106
Central Minnesota	5	20	90	107
Northeastern Minnesota ...	3	14	91	110
Red River Valley Minnesota ..	2	8	82	102
South Central Minnesota...	4	27	86	103
Southeastern Minnesota ...	5	11	94	103
Southwestern Minnesota ..	2	30	86	107
Montana	13	25	98	108
Mountains	5	4	101	110
Plains	8	21	95	107
North Dakota	13	48	84	104
North Central North Dakota	2	9	74	99
Northwestern North Dakota	3	4	90	106
Red River Valley N. Dak...	3	19	85	104
Southeastern North Dakota	4	15	85	106
Red River Valley—Minnesota and North Dakota.....	5	27	84	103
South Dakota	15	53	92	103
Southeastern South Dakota	0	13	96	102
Other Eastern South Dakota	11	33	90	103
Western South Dakota....	4	7	89	102
Wisconsin and Michigan.....	13	52	93	107
Northern Wis. and Mich...	5	28	91	108
West Central Wisconsin...	8	24	94	106

seasonally and on September 30 were the largest on that date since 1937. Country department store inventories increased less than usual but also were the highest in recent years. Retailers' collections on accounts and notes receivable as reported by a group of forty-three stores declined more than usual during September but nevertheless were the largest for the month in our six-year records. Retailers' receivables increased less than usual reflecting the decline in sales volumes, but likewise were the largest in our six-year records for the end of September.

Business failures in September continued at a relatively low level both in number and amount of liabilities, although they did increase slightly from August. Non-farm real estate foreclosures in August increased somewhat from the record low in July but were only two-thirds the number in August 1939.

Iron mining activity in September as indicated by the 10 million tons of iron ore shipments from the upper lake ports was the largest on record for that month. Fully 48 million tons of ore were shipped before October 1 this season, more than in any complete season since 1929 with the exception of 1937, and more than a month of the season remains. Steel mill activity continued to operate at close to practical capacity throughout the month and as a result, iron ore consumption was at an all time high for September. Iron ore stocks at Lake Erie ports were somewhat larger than a year ago but were in about normal volume when the rate of consumption is considered. Copper production declined somewhat but was nearly one-fifth larger than in September 1939. During the first three-quarters of this year, copper production in our district has averaged 44% larger than in the corresponding period of 1939 and the largest for the period since 1937.

The volume of manufacturing production in this district as indicated by the following indicators advanced from August and was somewhat larger than in September last year. The Minnesota index of manufacturing employment rose slightly during September instead of recording the sharp decline that usually follows the closing of the canning season and was 7% higher than in September last year. Flour production increased but was not as large as the unusually large production of September last year when the outbreak of war in Europe created a mild inventory boom in food staples. Flour shipments also increased but were also smaller than a year earlier. Linseed oil and oil cake shipments again increased and reached a level higher than the unusually large volumes of a year ago. The cut of lumber declined less than seasonally and was larger than one year earlier. Slaughtering of all classes of live-stock were larger in September than in August. More cattle and hogs were butchered last month than in September 1939 but calf and sheep slaughtering were smaller. Electric power utilization increased further in August to the highest level on record.

Other business activity indicators in September are shown in the table below:

	% September 1940 of August 1940	% September 1940 of September 1939
Motor Vehicle Registrations		
Passenger Cars		
Minnesota	70	99
North Dakota	55	105
Trucks		
Minnesota	70	146
North Dakota	45	183
Life Insurance Sales		
Minnesota	89	119
Montana	92	125
North Dakota	91	114
South Dakota	109	111
4 States	91	118
Net Telephone Installations in the Twin City Area		
	159	101
N. W. District Carloadings		
Coal and Coke	111	94
L.C.L. Merchandise	90	93
*Wholesales		
Automotive Supplies	93	96
Beer	81	94
Drugs	104	101
Electrical Goods	95	85
Fresh Fruits	67	83
Groceries	94	79
Hardware	103	99
Paper	90	100
Plumbing and Heating Supplies	102	97
Tobacco	96	104
Miscellaneous	97	99

*Compiled by the Bureau of the Census, Washington, D. C.

BANKING

Country member bank deposits continued to increase in September and in the latter half of the month averaged the highest of the post-depression period. Most of the \$36 million increase in country bank deposits in the last year has been in demand deposits with the result that while they were smaller than the time deposit total prior to August 1939 they were \$34 million larger in September 1940. Earning assets at country banks rose \$9 million in September, the sharpest monthly increase in more than three years. Total reserves continued to increase in September but not as rapidly as reserve requirements with the result that excess reserves declined slightly from the near-record level of last month.

City member bank deposits increased during September and early October reaching an all time high of \$642 million on October 16. All of the increase was in deposits of individuals, partnerships and corporations, as there were slight declines in balances due to other banks and in public funds. Loans to customers have increased each week from August 7 through October 16 and on the latter date were the highest since March 1932. After reaching an all time high of nearly \$300 million on September 11 total reserves declined to \$271 million in early October.

The effect of these changes on city and country banks reserve positions are shown in the table below:

	Member Bank Reserve Deposits*	Required Reserves*	Excess Reserves*
Reserve City Banks	\$ 93,520,000	\$56,562,000	\$36,958,000
Country Banks	68,069,000	39,635,000	28,434,000
Total Ninth District	\$161,589,000	\$96,197,000	\$65,392,000

*Daily average for last half of September 1940.

AGRICULTURE

Farmers' cash income in September as computed from terminal receipts and prices of seven important products increased somewhat further from the relatively high August level, and was larger than in September 1938 or 1939. Wheat, flax, dairy product and hog incomes were all substantially larger than one year earlier while incomes from rye and potatoes were smaller.

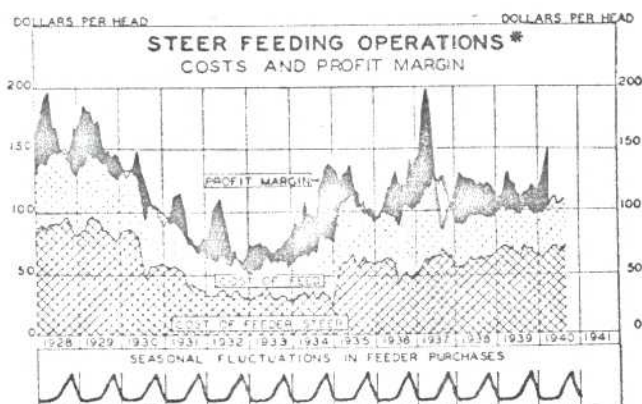
The USDA estimate of farmers' cash income (including government payments) for August in this district was nearly \$80 million compared with \$69 million in August last year. All of the increase over a year ago resulted from marketings of agricultural products as conservation payments were somewhat smaller than in August last year. Each state and part state in the district recorded a gain with North and South Dakota showing the largest percentage gains.

Agricultural product prices in September showed mixed trends but on the whole advanced slightly. All of the grains advanced with the exception of flax which was slightly lower than in August. Dairy products, eggs and hens all advanced seasonally. Butcher steers, stocker and feeder steers and calves all advanced in price during the month but butcher cows and heifers, hogs and ewes declined. Lambs were unchanged. The Minnesota farm price index advanced moderately in September.

Cattle receipts at South St. Paul increased seasonally during September, but were only 4% larger than in September 1939. Calf receipts increased slightly but continued to be smaller than one year earlier. During the first three quarters of 1940, cattle receipts were 3% larger but calf receipts were 6% smaller than in the same period last year. *The Livestock Situation* recently stated: "The total slaughter supply of cattle and calves marketed during 1941 is not expected to be greatly different from the supply marketed in each of the past 2 years . . . Domestic consumer demand for meats during the remainder of 1940 and the first part of 1941 is expected to be a little stronger than in the corresponding period a year earlier. It seems likely, therefore, that the general level of cattle prices will be a little higher in 1941 than in 1940."

Hog receipts at South St. Paul increased seasonally during September but were only 13% larger than a year earlier, the smallest increase over the same month one year earlier since November 1939. During the first nine months of this year, hog receipts were 45% larger than during the corresponding period of 1939. *The Livestock Situation* stated: "With prospects for a substantial reduction in hog supplies in the coming year and further improvement in the domestic consumer demand for meats, present indications are that the level of hog prices in 1940-41 will be materially higher than in 1939-40."

The trends of steer feeding operators' profit margins during recent years are indicated by the black portions of the chart below. The cost of feeder steers has been relatively steady in recent years and feed costs have been practically constant with the result that any increase in finished steer prices has widened the profit margin. Finished cattle sold in January 1939 netted the operator less than \$8 per head but the gradual improvement in finished cattle prices has widened that margin considerably.



*In constructing this chart the cost of a 900 pound feeder steer and the cost of sufficient feed to increase its weight to 1,200 pounds in a 150-day feeding period are shown currently and receipts from the sale of a 1,200 pound prime butcher steer are shown with a lag of five months. For example, the cost of feeder steers last April is shown to have been nearly \$68 per head and the cost of feed about \$36, a total cost of about \$104 per head. In September, 150 days later, our weighted medium prime butcher steer price was \$12.54 per hundredweight providing a gross income per head of nearly \$150, indicating a profit margin of about \$46 per head as is shown by the solid black on the chart.

Sheep and lamb receipts increased sharply during September and were 9% larger than a year ago. During the first three quarters of 1940, however, sheep and lamb receipts have been slightly smaller than during that period of 1939. According to *The Livestock Situation*: "Slaughter supplies of sheep and lambs during the remainder of the spring lamb marketing season (to December 1) may be a little larger than a year earlier. The effect of any increase in marketings over a year earlier upon lamb prices this fall will be offset or more than offset by stronger consumer demand for meats."

Cold storage holdings of butter declined seasonally during September and on October 1 were 14% smaller than the five-year median. Stocks of cheese increased for the sixth successive month and were more than one-fourth larger than usual. Egg holdings declined seasonally but poultry stocks increased more than seasonally and were nearly half again as large as normal. The amount of beef in cold storage increased in spite of reduced slaughterings. Pork holdings, on the other hand, declined in spite of hog slaughterings that were one-third larger than usual. Supplies of lard declined but were three times as large as normal. Lamb and mutton in cold storage increased less than seasonally but continued to be well above the October 1 five-year median.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 17, 1940

The volume of industrial production increased sharply in September, owing mainly to a continued rise in output of durable manufactured products, and a month further increase is indicated. Prices of basic industrial materials advanced in September and the first half of October.

PRODUCTION: The Board's seasonally adjusted index of industrial production, which for three months had been at a level of 121 per cent of the 1935 average, advanced to about 125 per cent in September. In the durable goods industries increases in output were general. Steel production rose to 93 per cent of capacity, and in the first half of October the rate was slightly higher as new orders continued in large volume both from domestic and foreign sources. Steel exports amounted to about 20 per cent of ingot-producing capacity in August, the last month for which data are available, with nearly three-quarters of these shipments going to the United Kingdom and Canada. Activity in the machinery, aircraft, and shipbuilding industries advanced further in September following considerable increases in August, and automobile output increased sharply as volume production of new model cars was rapidly attained. Plants producing railroad cars and locomotives also showed an expansion in activity. Lumber production continued to rise under the impetus of a growing volume of demand for defense program purposes.

Changes in output of nondurable manufactured goods and minerals in September were mixed. At wool textile mills activity advanced sharply further to near the peak reached last autumn, reflecting in part expanding production on Government orders. At cotton mills, however, activity showed less than the usual seasonal rise following a sharp increase in August, and rayon deliveries declined somewhat owing partly to a strike at plants of one large producer. Shoe production also declined in September. Paper production remained in reduced volume following a high rate of output during the early summer accompanying some inventory accumulation at that time. Output of most metals continued large during September. Crude petroleum production, which had been curtailed sharply during the summer, rose considerably, but coal production, which for several months had been maintained at high levels, showed a smaller increase than is usual at this season.

Value of new construction work started in September was lower than in July and August, according to reports of the F. W. Dodge Corporation and the San Francisco Federal Reserve Bank. The decline occurred chiefly in contracts for defense projects which had been large in the previous two months. Awards for private residential building showed little change from recent high levels. Awards for other private work declined somewhat but continued considerably above the level of a year ago.

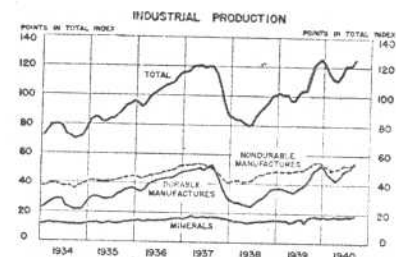
DISTRIBUTION: In September and the early part of October department store sales showed somewhat less than the usual seasonal increase from the exceptionally high level reached in August.

Freight-car loadings rose somewhat more than seasonally in September, reflecting to a large extent increased shipments of miscellaneous freight. Loadings of coal, which have been large in recent months, showed less than the usual seasonal rise.

COMMODITY PRICES: Prices of most industrial materials, particularly lumber, steel scrap, non-ferrous metals, hides, and wool, continued to advance from the middle of September to the middle of October, there were also increases in some manufactured products, notably cotton and woolen goods. Wheat prices were higher while prices of most other foodstuffs showed little change.

BANK CREDIT: Commercial loans at reporting member banks in New York and 100 other leading cities continued to increase during the four weeks ended October 9, reflecting in part seasonal demands. Holdings of United States Government obligations decreased further with the result that total loans and investments of these banks showed little change.

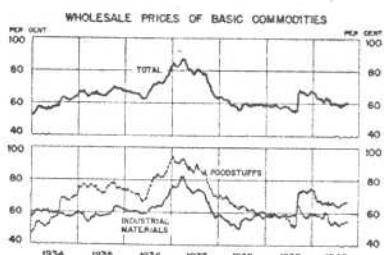
UNITED STATES GOVERNMENT SECURITY PRICES: Prices of United States Government securities advanced in the second half of September and the first week in October, rising close to the high level of the year reached early last April.



Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. Durable manufacturers, non-durable manufacturers, and minerals expressed in terms of points in the total index.



U. S. Department of Commerce estimates of the amount of income payments to individuals adjusted for seasonal variation. By months, January 1934 to September 1940.



Federal Reserve groupings of Bureau of Labor Statistics data. Thursday figures, January 4, 1934 to October 10, 1940.



Wednesday figures, September 5, 1934 to October 16, 1940. Commercial loans based on new classification beginning May 19, 1937.