MONTHLY REVIEW
OF
AGRICULTURAL AND BUSINESS CONDITIONS
IN THE
NINTH FEDERAL RESERVE DISTRICT

Vol. 7 (Serial No. 298) **Federal Reserve Bank, Minneapolis, Minn.** **October 28, 1939**

Business volume in our district increased sharply in September. Iron ore shipments were largest in 10 years except during the 1937 season. Loans to customers rose each week and on October 18 were highest in 7 years. Deposits at country member banks rose to highest level since 1931 and at city banks set an all time "high." Farm income rose to the highest level in two years.

Business

The volume of business in our district, measured by our seasonally adjusted indexes, increased sharply in September to a level about equalling the high points in the fall of 1937 and two of our indexes were the highest since early 1931. Our 94 city bank debits index was higher than in any month since October 1937 and the highest for September since 1930. The city department store sales index was higher than in any month since February 1931 and both of the carloadings indexes were the highest they have been since the fall of 1937. The rural sections of our territory enjoyed a large volume of business as indicated by the rural department store sales index which was the highest in our records, which extend back to 1933. The country lumber sales index was the largest for any September since 1929 and the farming centers bank debits index was the highest since January 1931.

Northwestern Business Indexes
(1929-1931 = 100)

	Sept. 1939	Aug. 1939	Sept. 1938	Sept. 1937
Bank debits—94 cities	91	82	81	90
Bank debits—farming centers	98	93	89	95
Country check clearings	156	149	138	158
City department store sales	104	102	96	98
City department store stocks	86	86	81	90
Rural department store sales	111	101	96	106
Country lumber sales	111	104	91	91
Miscellaneous carloadings	89	83	78	95
Total carloadings (excl. miscellaneous)	79	73	58	90

Building contracts awarded (excluding public works and utilities) as reported by the F. W. Dodge Corporation increased during September to the largest total for that month since 1926. Commercial, industrial and educational building each contributed about equal amounts to the September rise. Commercial building contracts were the largest for September since 1930 and industrial building was larger in September than for any month since September 1937. Residential building declined seasonally but was larger than in any September since 1926. Public utility contracts increased for the second month but were only half as large as a year ago. Contracts for public works declined and were less than three-fourths the volume of September 1938.

Total construction (including public works and utilities) in September increased from the small August volume but was 18 percent smaller than September 1938. With the exception of 1938, however, it was the largest volume for that month since 1930.

Department store sales in September were 12 percent larger than in the same month last year for the district as a whole. Sales at country stores showed a gain of 15 percent and at city stores were 9 percent larger. Sales in every section of each state and part state were larger than one year earlier. Sales during the first three quarters of the year in each section were also as large or larger than in the same period in 1938, the total district showing a gain of 5 percent. **Accounts and notes receivable** as reported by 45 stores increased during the month to the highest end-of-September level in more than 5 years. **Collections** were good in September and were larger than in August for the first time in our 5 year records.

Sales at Department Stores

	No. of Stores	% Sept. 1939 of Sept. 1938	Cumulative % 1939 of 1938
Mpls., St. Paul, Duluth-Superior	21	109	105
Country Stores	423	115	106
Minnesota	144	114	106
Central Minnesota	27	105	106
Northeastern Minnesota	14	113	109
Red River Valley Minnesota	11	125	109
South Central Minnesota	34	114	104
Southeastern Minnesota	19	107	100
Southwestern Minnesota	39	122	109
Montana	46	116	110
Mountain	12	114	106
Plains	34	118	113
North Dakota	77	118	104
North Central North Dakota	13	116	104
Northwestern North Dakota	10	130	105
Red River Valley No. Dakota	25	107	102
Southeastern North Dakota	24	127	105
Southwestern North Dakota	5	159	114
Red River Valley—Minn., N. D.	36	111	103
South Dakota	81	114	106
Southeastern South Dakota	19	107	104
Other Eastern South Dakota	52	119	107
Western South Dakota	10	119	108
Wisconsin and Michigan	75	114	104
Northern Wis. and Mich.	39	118	106
West Central Wisconsin	36	111	102
Total District	444	112	105

City department store stocks increased seasonally during September and were the largest since November 1938. **Rural department store stocks** in the Ninth District as a whole increased more than usual and were about as large as on September 30 last year. **Wholesalers inventories** were well maintained in September despite the heavy consumer and retailer demand following the outbreak of war in Europe and were only slightly smaller than at the

end of August but were a little larger than at the end of September last year.

Building permits issued at 61 cities and the suburban areas surrounding Minneapolis in September were 60 percent larger than in the same month last year as a result of substantial increases in new building and repairs & alterations.

Warranty deeds and mortgages recorded in Hennepin and Ramsey counties declined seasonally during September but were the largest for that month in recent years. **Mortgages accepted for insurance by the FHA** increased during August but the number was about 12 percent, and the dollar amount 4 percent, below August 1938.

Business failures increased in September and were more numerous than a year ago. The amount of liabilities declined, however, and was smaller than in September 1938. **Non-farm real estate foreclosures** declined in number during August but were 12 percent larger than in August last year.

The volume of production in our district in September as indicated by several unadjusted indicators increased more than seasonally and was well above the level of September 1938. **Flour production** increased sharply and was substantially higher than a year ago both at Minneapolis and at other northwestern mills. The **cut of lumber** increased whereas a decline is usual at this season. **Lumber shipments** declined seasonally but were about one-fourth larger than in September last year. **Linseed product shipments** increased sharply and were nearly double September 1938. **Electric power utilization** in our four states increased in August and was the highest for that month on record. **The Minnesota employment index** rose 2 points in August to 108.7. The August index figure, as a result of advances in each month since last January, was 14 points higher than at the beginning of 1939 and the highest since October 1937.

Iron mining activity as measured by carloadings and shipments from upper lake ports increased during September, even though a decrease is usual at this season, to substantially more than twice the September 1938 volume. Leaders in the industry report that the industry will operate at capacity for the balance of the season. **Iron ore consumption** increased for the fourth consecutive month in September, a reflection of the sharp rise in steel mill activity from 63 percent of capacity on September 1 to 84 percent at the end of September. **Iron ore stocks** at furnaces and Lake Erie docks on October 1 were about the same as one year earlier, but somewhat smaller than on October 1, 1937. **Copper and silver production** increased sharply in September to more than double the volume in the same month last year but **gold production** declined.

Other business volume indicators that were higher in September than in the same month last year were total sales at country lumber yards; sales of new passenger cars and trucks in our four states; net telephone installations in the Twin City area; carloadings of grain & grain products, livestock, coal, coke and forest products; and wholesales of drugs, electrical goods, groceries, hardware, and plumbing & heating supplies. Decreases from last year were recorded in wholesales of tobacco & its products and ordinary life insurance sales.

Banking

Country member bank deposits increased more than usual between the latter half of August and the latter half of September to the highest level since 1931. About half of the increase in deposits was placed in earning assets and the remainder was about equally divided between reserves with us and deposits with other banks. Excess reserves increased to more than $20 million, the highest since June 1937.

City member bank deposits also rose during September and established another all time record at $600 million on October 4, but declined slightly in the following two weeks. Deposits of individuals, partnerships and corporations increased $18 million during the seven weeks, September 1 to October 18. **Loans to customers** have increased each week since the middle of August and on October 18 were the largest since 1932. **Investments** declined $4 million, reserve balances with us increased $4 million but balances with other banks declined $14 million in the seven weeks ended October 18.

Deposits at all member banks during the third quarter of 1939 increased sharply to the highest level on record. Loans at both city and country banks increased and city banks purchased $8 million of investments whereas country banks' investment holdings were reduced $5 million. Comparable figures for selected items from call reports of the two groups of banks are shown in the accompanying table.

Selected Items from October 2, 1939 and June 30, 1939 Call Reports, in Millions of Dollars

	20 City (weekly reporting) Banks			441 Country (non-weekly reporting) Banks		
	10-2 1939	6-30 1939	Change	10-2 1939	6-30 1939	Change
Total Loans and Discounts	$183	$162	$+21	$155	$145	$+10
U. S. Govt. Securities	173	168	+ 5	127	129	— 2
Sec. of States, Counties, Municipalities, etc.	28	24	+ 4	52	51	+ 1
"All Other" Securities	17	18	— 1	41	45	— 4
Total Earning Assets	$401	$372	$+29	$375	$370	$+ 5
Ind., Part. & Corp. (dem.)	$264	$243	$+21	$193	$168	$+25
Ind., Part. & Corp. (time)	119	118	+ 1	232	231	+ 1
U. S. Government	2	2	.....	3	3	.....
State Co. & Mun., Etc.	54	70	—16	44	55	—11
Due to Banks	151	129	+22	18	16	+ 2
"All Other" Deposits	7	9	— 2	5	5	.....
Total Deposits	$597	$571	$+26	$495	$478	$+17

Bills discounted by this bank for member banks nearly doubled between the middle of September and October 18. **Current industrial loans** increased a little but holdings of United States government securities declined $4.6 million. **Federal Reserve notes** in actual circulation increased seasonally and **member bank reserve accounts** increased $4.3 million.

Agriculture

Farmers' cash income from seven products (excluding government payments) increased seasonally in September and was higher than in any month

since September 1937. Bread wheat, potato and hog incomes all increased but were smaller than a year ago. Dairy product income declined seasonally and was about as large as one year earlier. Rye income declined seasonally. Larger-than-normal marketings of durum wheat and flax, coupled with higher prices, accounted for larger incomes from these items that more than offset the smaller incomes from the other products, and lifted the total above September 1938.

Total farmers' cash income (including government payments) in this district in August this year increased seasonally but was slightly below August 1938. Crop and livestock & livestock product income was about 10 percent smaller than one year earlier but a $5 million increase in government payments almost offset the decline in cash sales.

Agricultural product prices rose sharply during September. With few exceptions, prices rose sharply during the first ten days and then sagged off during the remainder of the month, but remained well above August and higher than in September 1938. All of the grains with the exception of flax and barley were at the highest level for any month in more than a year. Oat prices were the highest in any month since July 1937 and potatoes were at the highest September level since 1936. Butter was higher than in any month since March 1938, eggs the highest since last January and wool the highest since December 1937. All classes of butcher cattle sold at higher prices than at any time since the summer and fall of 1937, and stocker and feeder steers, at an average price of $8.20, were the highest since May 1930. Hog prices rose sharply in the first part of the month but later declined more than other items and averaged about $1.25 below September 1938. The Minnesota farm price index rose 13 points to 68 compared with 62 in September last year.

Crop conditions in the Ninth District continued to improve in September and the preliminary estimates as of October 1 for all grains were higher than one month earlier. The October 1 indicated production for corn was 10 million bushels higher than that of September 1, raising the total for this district to more than 260 million bushels. The October 1 indicated production for potatoes was slightly smaller than one month earlier but was larger than the production last year.

Receipts of cattle and calves at South St. Paul in September increased seasonally and were in about the same volume as in September last year but were substantially smaller than in other recent years. During the first nine months of this year, the number of cattle received was almost identical with that during the same period of 1938. Grass fattened cattle predominated throughout the month and since the bulk of these were classed as stockers and feeders, at times there was an actual scarcity of slaughter cattle, resulting in firm prices throughout the month.

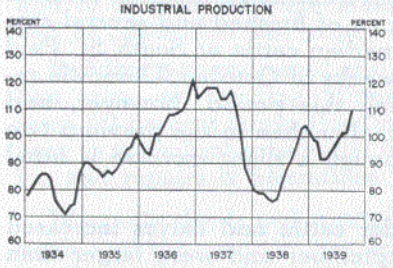
The fourth quarter quota for cattle importations opened on October 1, and the reduced tariff together with an attractive exchange situation resulted in the arrival of 75 cars of finished and several cars of grass fattened Canadian cattle at South St. Paul during the first two weeks of October. Domestic receipts declined during this period, however, and total receipts were smaller than in the previous two week period even though a slight increase is usual at this season.

Shipments of feeder cattle and calves increased seasonally during September and were larger than a year ago. More than one-fifth more cattle and one-fourth more calves were shipped as feeders during the first nine months of 1939 than during the same period of 1938. The unusually large supplies during the first part of October enabled buyers to force prices down somewhat, even though a broad demand existed and shipments continued large.

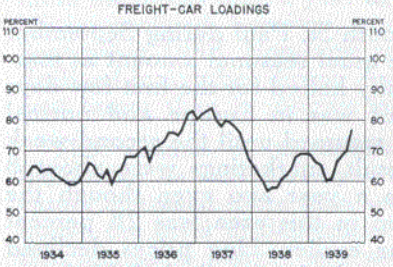
Hog receipts at South St. Paul during September failed to increase the usual seasonal amount as marketings were practically halted for the first few days after the outbreak of war in Europe and normal marketings were not resumed until the second week of the war. As a result, marketings were about 8 percent smaller than a year ago even though the 1939 spring pig crop in this area was 28 percent larger than one year earlier. Hog prices declined steadily after having reached a "top" of $9.00 during the first week of September and at mid-October the "top" was $6.95. According to *The Livestock Situation,* "a fairly large seasonal increase in hog marketings is expected during the next several months as spring pigs reach market weights in considerable numbers."

Receipts of sheep and lambs at South St. Paul declined during September instead of recording the customary increase and were about one-fourth smaller than in September 1938. During the first nine months of this year total sheep receipts were 4 percent smaller than during the same period of 1938. Fat lamb prices rose to a "top" of $10.25 during the first week of September and then declined later in the month, but remained higher than in August and well above September 1938. According to *The Livestock Situation,* "Marketings of sheep from western states this fall are expected to be larger than a year earlier."

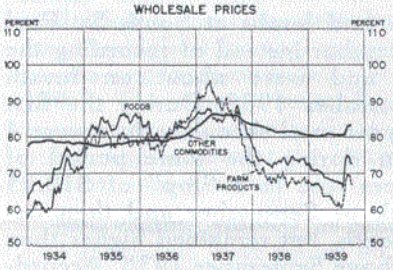
Cold storage holdings of butter declined more than seasonally during September. October 1 commercial stocks were 10 percent less than the 5-year average but total stocks including the DPMA, FSCC and relief holdings were about 10 percent larger than average. Stocks of cheese were slightly below normal. Supplies of eggs declined seasonally and remained about 5 percent below the usual amount. Poultry holdings increased less than customary and as a result were only 6 per cent above the 5-year average. A smaller-than-normal increase in beef and a larger-than-usual decrease in pork holdings more than offset the increase in supplies of lamb and mutton and as a result, total meats declined from 89 to 85 percent of normal. Lard holdings declined for the third consecutive month and were 10 percent below the October 1, 5-year average.



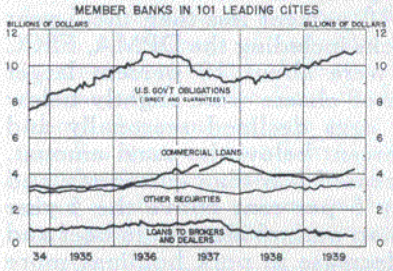
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to September 1939.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to September 1939.



Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ended October 14, 1939.



Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934 to October 14, 1939. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 19, 1939

The volume of industrial production, which had turned up sharply last summer, advanced still more rapidly in the six weeks after the outbreak of war. Employment also increased but at a less rapid rate. Consumption of goods by industry and by individuals has not expanded as rapidly as production and orders. Buying of basic commodities, after a burst of activity in early September, has slackened considerably, but orders for many semi-finished goods and for finished products, particularly machinery and railroad equipment, have continued in large volume. Most orders have come from domestic sources. Prices of basic commodities advanced sharply in the early part of September, but in recent weeks prices of foodstuffs have declined while prices of industrial materials in most instances have been maintained. Prices of finished goods have shown a much smaller advance.

PRODUCTION: In September the Board's seasonally adjusted index of industrial production advanced to 110 per cent of the 1923-1925 average as compared with 103 in August and 92 last spring. Increases in output of iron and steel, flour, sugar, meat products, and petroleum were particularly marked in September. In the steel industry ingot production rose from an average rate of 61 per cent of capacity in August to 71 in September. In the first three weeks of October the rate advanced further to 90 per cent and actual volume of output was at the highest level on record. Flour production rose to near record levels and at meat-packing establishments, activity was at the highest rate reached in several years. The sharp increase in output of crude petroleum followed a considerable reduction in the previous month and current production is at about the high rate prevailing before wells were closed in the latter half of August.

In other industries, increases in activity, though quite general, were not so marked. Automobile production showed a sharp seasonal rise as volume production of new model cars was begun at most plants, and in related lines, such as plate glass, activity also increased. Textile production increased somewhat further from the high level reached earlier. Shoe production, however, which had been in large volume in the first eight months of the year, decreased in September. Mineral production advanced generally and iron ore shipment schedules were expanded to build up stocks at lower lake ports before the close of the shipping season.

Value of construction contracts, as reported by the F. W. Dodge Corporation, rose further in September, reflecting a contraseasonal increase in private residential building. Other private construction showed little change and there was some reduction in the volume of new public projects, both residential and non-residential.

DISTRIBUTION: In September and the early part of October, department store sales increased considerably. Carloadings also advanced sharply, with the most marked increases reported in shipments of coal and of miscellaneous freight, which includes most manufactured products.

COMMODITY PRICES: Wholesale prices of foodstuffs declined after the middle of September, following sharp advances earlier in the month. Prices of industrial commodities, which rose considerably until the third week in September, subsequently were generally maintained, although prices of some materials, such as steel scrap, hides, and rubber, declined from earlier peak levels.

BANK CREDIT: Following reductions during the early part of September, Government security holdings by member banks in 101 leading cities increased somewhat during the three weeks ended October 11, reflecting largely the purchase of Treasury bills. Commercial loans continued to increase, but at a less rapid rate than in late August and early September. The volume of demand deposits at city banks also increased further.

Excess reserves, which had increased sharply at member banks during the first half of September, showed further moderate increases during the four weeks ended October 11.

MONEY RATES AND BOND YIELDS: Prices of United States Government securities increased in the latter part of September and the first half of October, following sharp declines early in September. Average yields on long-term Treasury bonds declined from 2.79 per cent on September 21 to 2.62 per cent on October 16. Yields on Treasury notes declined from 1.30 per cent early in September to 0.78 per cent.