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

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Business volumes continued to increase in May. City department store sales were the largest for May since 1930. City member bank deposits made a new high record for 1940. Farm product prices were higher than in April.

BUSINESS

The volume of business in this district in May, as measured by our seasonally adjusted indexes, continued the advance that began in April. The 94 cities bank debits index rose sharply to the highest level since April 1930. Sales at city department stores were the largest for May since 1930. Both of our carloadings indexes advanced from their April levels and were the highest for May since 1937. Business in the rural sections of our territory about marked time at the high April level. The country check clearings index rose to the highest level in our eleven year records; the bank debits index at 67 farming centers remained at 99 and the index of country department store sales declined one point to 105. Both of the latter indexes were higher than in any May since 1930. Country lumber sales increased and were the largest for the month since 1929.

Northwestern Business Indexes

(1929-1931=100)

	May 1940	Apr. 1940	May 1939	May 1938
Bank debits—94 cities	106	98	87	85
Bank debits—farming centers	99	99	92	86
Country check clearings	171	161	153	140
City department store sales	100	101	94	85
City department store stocks	84	83	80	80
Country department store sales	105	106	99	88
Country lumber sales	118	110	113	88
Miscellaneous carloadings	86	85	83	71
Total carloadings (excl. miscellaneous)	86	71	71	55
Employment—Minn. (1936=100)	106	103	102	95
Farm prices—Minn. (1924-26=100)	72	69	68	74

Total construction in this district as reported by the F. W. Dodge Corporation increased during May and was about as large as in May 1939. Contracts for residential building increased sharply and were 40% larger than in May 1939. Public works contracts also increased and were a little larger than during May 1939. Contracts for most of the other major building classifications were larger than in April but were smaller than one year ago. **Building permits** issued by 67 cities and towns in this district during May were more numerous than a year ago but the total valuation was 5% smaller. Cities located in the Upper Peninsula of Michigan, North Dakota and Montana recorded increases over May 1939 but cities in Minnesota, South Dakota and Wisconsin showed declines. New construction accounted for 84% of the total compared to 86% in May last year.

Warranty deeds and **real estate mortgages** recorded in Hennepin and Ramsey Counties in May increased sharply and were the most numerous since the late 1920's. **Mortgages accepted for FHA insurance** during April increased and were 21% larger than in April 1939.

Business failures in May increased sharply in both number and amount to levels that were above those of May 1939. **Non-farm real estate foreclosures** were smaller in number than in any April in our five year records.

Department store sales in the district in May were larger than in May 1939 both at city and country stores. Cumulative sales for all stores for the first five months were 7% larger than during that period of 1939. Country stores recorded a 9% and city stores a 4% cumulative gain. Improvement in sales volume was evenly distributed throughout the district with each state and part state showing an increase over a year ago.

Sales at Department Stores

	No. of Stores	% May 1940 of May 1939	Cumulative % 1940 of 1939
Mpls., St. Paul, Duluth-Superior	21	106	104
Country Stores	426	106	109
Minnesota	147	106	108
Central Minnesota	28	108	110
Northeastern Minnesota	18	107	109
Red River Valley Minnesota	11	104	112
South Central Minnesota	29	102	105
Southeastern Minnesota	21	103	104
Southwestern Minnesota	40	107	111
Montana	48	110	109
Mountain	13	116	111
Plains	35	105	107
North Dakota	75	103	113
North Central North Dakota	13	99	107
Northwestern North Dakota	11	98	123
Red River Valley North Dakota	25	106	111
Southeastern North Dakota	21	103	110
Southwestern North Dakota	5	104	133
Red River Valley—Minn. & N. D.	36	105	111
South Dakota	83	103	104
Southeastern South Dakota	19	102	102
Other Eastern South Dakota	54	103	106
Western South Dakota	10	107	104
Wisconsin and Michigan	73	106	110
Northern Wisconsin & Michigan	38	104	113
West Central Wisconsin	35	107	108
Total District	447	106	107

Retailers' collections on accounts and notes receivable at 43 stores increased in May and were larger than one year earlier. While the May collection situation was the best since 1936, the larger volume of sales increased receivables outstanding

and at the end of the month they were at the highest level for May 31 in our six year records. **Wholesalers' collections** increased slightly during May but were a smaller proportion of outstandings at the beginning of the month than in May 1939.

City department store stocks increased more than usual during May after a sharp decline in April and on May 31 were the largest on that date since 1937. **Country department store stocks** likewise increased and on May 31 were 5% larger than a year earlier. **Wholesalers' inventories** increased during May and were somewhat larger than at the end of the month one year earlier.

Iron mining activity, as measured by ore carloadings and shipments from upper lake ports, increased during May to nearly double a year ago but was considerably below May 1937. Leaders in the industry expect at least a 60 million-ton season and even talk of a possible new all-time peak for the Lake Superior iron ore shipments in 1940. **Iron ore consumption** increased rapidly during May and the first two weeks of June as steel mill activity increased from 60% of capacity during the first week of May to 88% during the third week of June. **Iron ore stocks** at furnaces and Lake Erie docks on June 1 were the smallest since 1937 when steel mills had been operating at near capacity during the entire preceding winter and spring.

The volume of production in this district during May continued the upward trend started in April. Flour production and shipments were larger than in April and slightly larger than in May last year. Shipments of linseed oil increased more than usual and were more than double the May 1939 volume. Shipments of linseed oil cake declined less than seasonally and were nearly double one year earlier. Slaughterings of cattle and calves declined more than usual and were smaller than a year ago but hog and sheep slaughterings declined less than seasonally and were substantially larger than in May last year. The cut of lumber increased and was larger than a year earlier. Lumber manufacturers' shipments also increased but were in about the same volume as a year ago. Mine production of copper declined less than usual and was more than half again the May 1939 volume. The daily average amount of electric power utilized during April increased and was the largest for any April in history. The Minnesota employment index rose from 103 in April to 106 in May.

Other business activity indicators that were as high or higher in May than a year earlier were net telephone installations in the Twin City area; carloadings of forest products, coke, coal and miscellaneous freight; new car sales in Minnesota, Montana and North Dakota; life insurance sales in each of our four complete states; and wholesales of electrical goods, groceries, plumbing and heating supplies and tobacco. Indicators that were lower than a year earlier were carloadings of grain, livestock and LCL freight; new car sales in South Dakota; and wholesales of automotive supplies, paper and miscellaneous lines.

BANKING

Country member bank deposits increased slightly in May instead of showing the usual small decline but the average for the latter half of May was only a little lower than the record level reached in February and March. There was no appreciable change in **earning assets,** the deposit increase merely being redeposited with correspondent banks or with us, raising those totals and **excess reserves** to near record levels.

City member bank deposits showed the customary rapid increase in early May as the volume of personal and commercial deposits returned to normal after the May 1 tax date. There was a small additional increase during the first two weeks of June that carried the total to $618 million, a new high point for 1940 and as high or higher than any other total on record with the exception of one week last November. **Loans to customers** declined rather sharply in May but recovered some of the lost volume in the first two weeks in June. **Investment holdings** declined moderately in May and have continued to sag off in early June, the June 12 total being about the lowest in nearly two years. **Total cash reserves** increased by a record amount in the first week of May, from $179 million on May 1 to $246 million on May 8 and have increased by smaller amounts quite regularly since that date, resulting in a new all time high of $268 million on June 12. **Excess reserves** rose from the year's low of $12 million on May 1 to an all-time high of $49 million on May 8 but since that date have sagged off to $38 million on June 12.

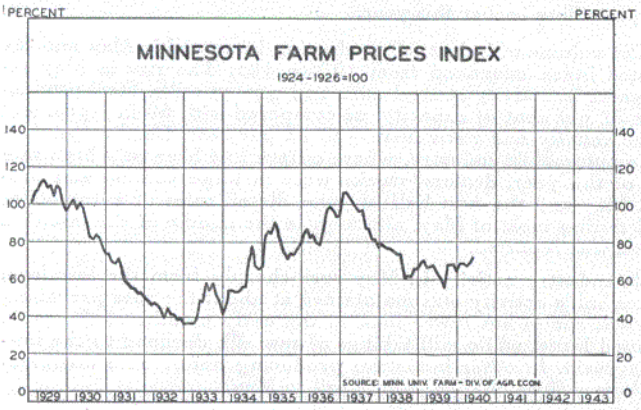
Bills discounted by this bank increased slightly during May and the first half of June which, in combination with further declines in current industrial advances, resulted in a slightly larger volume of our earning assets being in discounted bills than in industrial advances for the first time since October 1937. Our **total earning assets** on June 12 were the largest in about a year. **Member bank reserve deposits** rose sharply to an all time high of $177 million on May 8 but declined to only a little above the 1940 average by mid-June.

Short term commercial paper rates held steady in May at the slightly lower level established in April and there was a slight increase in the volume of commercial paper outstanding. While the volume outstanding continued to be much smaller than in pre-depression years, the May 31 total was the largest for that date since 1931.

AGRICULTURE

Farmers' cash income in May as computed from terminal receipts and prices of seven products (excluding government payments) decreased from the ten year record volume of April instead of showing the usual moderate increase, but the May total was the largest for the month since 1930. The income from each of the seven items in May was far above the level of May last year with the exception of dairy products which showed only a 5% increase.

Agricultural product prices showed mixed trends in May, livestock and livestock product prices being generally higher and grain prices being generally lower than in April. Both grain and livestock prices, however, were mostly higher than in May last year. The Minnesota farm price index advanced by 3 points in May.



Crop conditions in the Ninth District continued favorable at mid-June, the effect of the smaller-than-normal amount of rain in May being greatly reduced by the absence of hot, dry winds. The possibility of a rapid and material reduction in the present excellent condition of practically all field crops was clearly shown by the effect of one hot windy day in the second week of June. Numerous reports were received from bankers, elevator men, and others that the "lush" growth of the grains resulted in a large amount of wilting in the grain field as a result of the near exhaustion of moisture supplies in the top soil but since the following days were again cooler-than-usual, the grain freshened up again and no damage was done. These reports were frequently followed by the comment that if there is no additional rainfall, a sustained period of hot dry winds would quickly reduce the condition percentage of the crop to far below, instead of far above, that of a year ago.

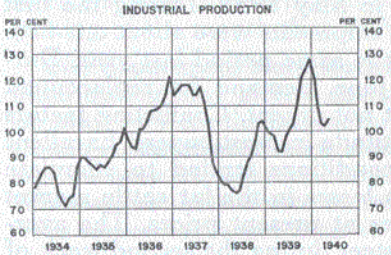
Receipts of cattle and calves at South St. Paul declined seasonally during May and were somewhat smaller than the unusually large receipts in May 1939. Even though the January 1 livestock population was larger than a year ago, cattle and calf receipts during the first five months of 1940 were 5% smaller than during that period of 1939 indicating the continued expansion of breeding herds. *The Livestock Situation* stated: "With relatively large marketings of fed cattle in prospect during the next few months, some weakness in the prices of the better grades of slaughter cattle may develop in the early summer. The stronger consumer demand for meats this summer than last, however, will be a supporting influence to prices of all kinds of slaughter cattle." During the first two weeks of June, cattle prices declined. At mid-June the top price for good quality butcher steers was $9.25, the same as one year earlier, but $2.00 below the peak reached in early May.

Shipments of stocker and feeder cattle from South St. Paul during May were slightly larger than in April but were substantially smaller than the unusually large shipments in May 1939. During the first five months of 1940, shipments were about one-fifth smaller than during the same period last year. During the first half of June, demand for replacement cattle was steady but not urgent. Conflicting factors created a cautious attitude in most buyers. Excellent pasture and range conditions tended to stimulate demand, while sharp losses in the fat cattle market discouraged purchases at present prices. The average cost of a feeder steer during the second week of June was $8.28 compared to $7.73 the corresponding week last year.

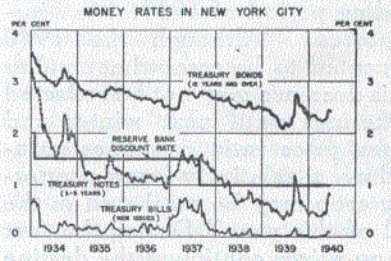
Hog receipts at South St. Paul declined seasonally during May but were one-third larger than in May 1939. During the first five months of this year hog receipts were more than half again as large as during the corresponding period of 1939. *The Livestock Situation* reported: "Although the 1940 spring pig crop is expected to be somewhat smaller than that of 1939, this decrease may not be reflected in smaller hog marketings until next winter and spring. If the hog-corn price ratio continues unfavorable for hog feeding, a relatively large proportion of the spring pig crop may be marketed in the late summer and fall of this year." During the first two weeks of June, hog prices continued the decline of the last half of May. At mid-June the top was $5.15 compared to $6.10 at mid-May and $6.30 one year earlier.

Receipts of sheep and lambs at South St. Paul declined seasonally during May but were slightly larger than during May last year. Sheep and lamb receipts during the first five months of 1940 were 8% larger than during the same period a year ago. *The Livestock Situation* stated: "Marketings of sheep and lambs for slaughter in the late spring and early summer are expected to be larger than a year earlier. This increase reflects chiefly the larger proportion of early lambs in slaughter condition this year than last and probable heavy movement of grass fat yearlings from Texas." During the first half of June, lamb prices were about $1.00 below the level of the last half of May. The top price for fed lambs at mid-June was $8.75 compared to $9.75 both one month and one year earlier.

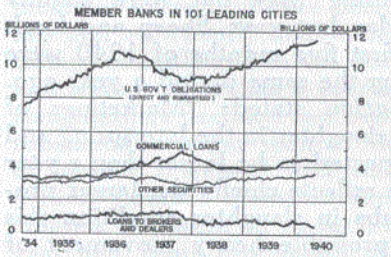
Cold storage holdings of butter increased less than seasonally during May and on June 1 were 23% below the five year median. Total butter holdings were less than one-third as large as on June 1, 1939. Eggs in cold storage increased more than seasonally and were somewhat larger than usual. Poultry stocks continued to remain well above normal chiefly because of large holdings of turkeys. Cold storage stocks of beef, pork and lamb & mutton declined less than usual during May and on June 1 were 4%, 18% and 77%, respectively, above the median. Lard holdings increased more than seasonally during May and on June 1 were more than double the June 1 five year median.



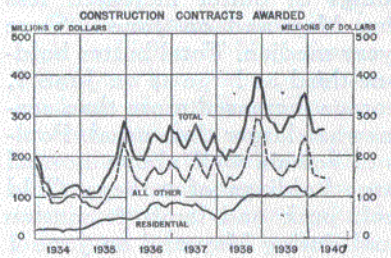
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to May 1940.



For weeks ended January 6, 1934 to June 15, 1940.



Wednesday figures, September 5, 1934 to June 12, 1940. Commercial loans based on new classification beginning May 19, 1937.



Three-month moving averages of F. W. Dodge Corporation data for value of contracts awarded in 37 Eastern States, adjusted for seasonal variation.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 19, 1940

Industrial activity increased considerably in May and the first half of June, while prices of commodities and securities declined sharply in the middle of May and fluctuated near the lower levels after that time. Distribution of commodities to consumers was maintained at levels prevailing earlier this year.

PRODUCTION: The volume of industrial production increased in May and the Board's seasonally adjusted index advanced from 102 to 105. The rise in May reflected chiefly sharp increases in activity at steel mills and woolen mills. Steel production in May was at about 71 per cent of capacity, as compared with 60 in April, and by the third week of June activity had risen further to 88 per cent. Lumber production also increased. In the automobile industry, where output had been at a high rate in the first four months of the year, dealers' stocks were in large volume and production was curtailed in May and the first half of June. Retail sales of automobiles continued at a high level during most of May, although in the middle of the month a temporary sharp reduction was reported.

In the woolen textile industry activity in May rose sharply from the low level reached in April. At cotton mills activity was maintained at about the rate prevailing in March and April and was somewhat lower than in the early months of the year. Rayon production continued large, while mill takings of raw silk declined to the lowest level in nearly twenty years. In other industries producing nondurable manufactures activity generally showed little change from April to May.

Coal production in May continued at a high level for this time of the year, reflecting in part increased exports and unusually large shipments of coal to Upper Lake ports. Iron ore shipments down the Lakes were also large for this season. Petroleum production in May declined somewhat from the high rate maintained in March and April.

The value of construction contract awards increased further in May, according to figures of the F. W. Dodge Corporation, reflecting principally continued growth of private building. Private residential contracts rose to the highest level in the past 10 years. Awards for commercial building advanced somewhat further while those for factory construction continued at about the level reached in April. Both were considerably larger than a year ago. Contracts for public construction increased slightly in May but were about one-sixth lower than a year earlier.

DISTRIBUTION: Department store sales in May declined from the level prevailing in the past three months, while sales at variety stores and mail-order houses were largely maintained at earlier levels. In the first week of June department store sales increased considerably.

The volume of railroad freight traffic increased in May, reflecting larger shipments of miscellaneous merchandise, coal, and forest products. Loadings of grains declined.

FOREIGN TRADE: Total exports of United States merchandise showed little change from April to May. Increases were reported in shipments to Canada and Australia and to Italy and Finland, while exports to other European nations showed declines. Exports of industrial machinery in May declined somewhat from the high level reached in April, while exports of steel, copper, chemicals, and commercial vehicles increased, following declines in the previous month. Coal shipments, largely to Canada, rose to the highest level in recent years. Cotton exports continued to decline from the high level of last winter.

The monetary gold stock of the United States increased by $439,000,000 in May and by $250,000,000 in the first two weeks of June.

COMMODITY PRICES: Following a general decline in basic commodity prices around the middle of May, prices of industrial materials, particularly steel scrap, zinc, tin, and wool, advanced and by the middle of June were in some instances above the levels of early May. Raw cotton prices also increased, and in the second week of June prices of cotton gray goods likewise advanced as sales of these goods were in exceptionally large volume. Prices of a number of foodstuffs continued to decline.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities showed little net change during the four weeks ended June 5. Holdings of United States Government obligations increased further at New York City banks, while loans to security brokers and dealers declined considerably. Deposits and reserves of member banks continued to increase sharply as a result mainly of heavy gold imports.

GOVERNMENT SECURITY MARKET: Prices of Government securities held relatively steady during the latter part of May and the first part of June, after a reaction at the time of the invasion of Belgium and Holland. Subsequently prices increased sharply, and on June 15 the yield on the 1960-1965 bonds was 2.40 per cent, compared with 2.52 per cent on June 10 and 2.26 per cent at this year's peak in prices on April 2.