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

Vol. 7 (Serial No. 308) Federal Reserve Bank, Minneapolis, Minn. August 28, 1940

Business volume increased only slightly during July but was at the highest level for that month in recent years. Farm income increased and was larger than a year ago. Farm prices increased moderately and were somewhat higher than in July 1939.

BUSINESS

The volume of business in July in this district as measured by our seasonally adjusted indexes partially recovered from the slight decline in June. Increases were nearly offset by declines but in general the July level was higher than in the same month in any other recent year. The adjusted index of bank debits at 94 cities declined for the second consecutive month due to a reaction from the unusually large debit volumes in preceding months at Minneapolis, St. Paul and Duluth. Bank debits in the balance of our district increased seasonally and were at the highest level since 1930. The country check clearings index advanced to the highest point on record. The city department store sales index advanced five points to the highest level for July since 1929. The index of country department store sales also increased and was eight points above a year ago. The country lumber sales index advanced to the highest point for July since 1929. The carloadings indexes declined one and two points but were the highest for the month since 1937. Employment in Minnesota during July advanced for the fifth consecutive month and was the largest for July since 1937.

Northwestern Business Indexes
(1929-1931=100)

	July 1940	June 1940	July 1939	July 1938
Bank debits—94 cities	88	92	89	81
Bank debits—farming centers	97	97	93	89
Country check clearings	160	159	147	142
City department store sales	103	97	97	95
City department store stocks	85	84	84	77
Country department store sales	106	104	98	95
Country lumber sales	118	109	103	90
Miscellaneous carloadings	88	89	83	73
Total carloadings (excl. miscellaneous)	88	90	70	54
Employment—Minn. (1936=100)	112	109	107	101
Farm prices—Minn. (1924-26=100)	66	65	61	73

Total building and construction contracts awarded in this district in July as reported by the F. W. Dodge Corporation declined somewhat from the large June volume and was one-quarter smaller than in July 1939. A large decline in public works and utilities contracts accounted for the major part of the reduction. Residential building declined seasonally but continued to be at the highest level for the month since 1925. Commercial and industrial building awards advanced during the month, were more than three times as large as in July 1939 and were the largest for the month since 1930. Contracts for construction of public buildings, hospitals, educational structures, etc., increased less than usual during July and were less than half the volume of recent years. **Building permits** issued in 71 cities in the district during July were more numerous than in July last year. Total valuation of those permits was 8% larger than a year ago. The volume of new building continued at a high rate as indicated by the fact that 84% of the total valuation was for new construction. Cities reporting increases were well distributed throughout the district, 44 of the 71 cities reporting increases.

Warranty deeds and mortgages recorded in Hennepin and Ramsey Counties increased after the unusual June decline and were the most numerous for the month since 1926 and 1929, respectively.

Business failures in July declined in both number and liabilities. The number of failures was the smallest for July since 1937 and the amount of liabilities involved was the smallest for any month in our 21 year records. **Non-farm real estate foreclosures** were less numerous in June than in May and were the smallest for June in our five year records.

Sales at Department Stores

	Number of Stores Showing Increase	Decrease	% July 1940 of July 1939	Cumulative % 1940 of 1939
Total District	264	124	107	105
Mpls., St. Paul, Dul.-Superior	12	9	107	104
Country Stores	252	115	108	107
Minnesota	102	32	111	108
Central Minnesota	21	6	111	110
Northeastern Minnesota	16	2	119	111
Red River Valley Minn.	6	4	99	106
South Central Minnesota	21	8	105	104
Southeastern Minnesota	15	3	110	106
Southwestern Minnesota	23	9	110	109
Montana	18	18	105	106
Mountain	7	2	111	108
Plains	11	16	101	104
North Dakota	31	29	101	107
North Central N. Dak.	6	5	95	103
Northwestern N. Dak.	5	3	101	108
Red River Valley N. Dak.	10	12	98	108
Southeastern North Dak.	9	8	109	108
Red River Valley—Minnesota and North Dakota	16	16	99	108
South Dakota	48	27	107	103
Southeastern S. Dakota	8	9	113	103
Other Eastern S. Dakota	34	13	104	104
Western South Dakota	6	5	97	104
Wisconsin and Michigan	53	9	110	108
Northern Wis. and Mich.	27	3	112	110
West Central Wisconsin	26	6	109	107

Department store sales in this district during July were larger than one year earlier for the 16th consecutive month. Sales at city department stores were 7% larger than a year ago while country stores recorded an 8% gain. During the first seven months of this year, total sales at 388 reporting stores in the district were 5% larger than during the corresponding period of last year, city store sales being 4% larger and country stores showing a cumulative gain of 7%. The increase in retail sales volume was well distributed throughout the district with each state and part state reporting a larger volume of sales than one year earlier. Five of the eighteen retail trade sections in our district, however, experienced declines, most of which were minor.

Retailers' collections on accounts and notes receivable at 43 stores were 8% larger than a year ago but the percentage of June 30 receivables collected during July was the same as in June and also as in July last year. **Wholesalers' collections** in July as compiled by the Bureau of the Census were as large as in June despite the smaller volume of outstandings at the beginning of July. **City department store inventories** declined less than seasonally during July but were slightly larger on July 31 than one year earlier. **Country department store inventories** likewise declined but were 4% larger than on that date last year. **Wholesalers' inventories** according to the Bureau of the Census increased 4% during the month of July and were 8% larger than on July 31, 1939.

Iron mining activity as is indicated by iron ore shipments from the lake ports continued to increase during July and was 65% larger than in July 1939. Iron ore shipments during the month totaled 10.4 million tons, July and August 1937 being the only other two months since 1929 that shipments exceeded that amount. Consumption of iron ore increased further during July and was the largest for that month since 1929. Iron ore stocks at Lake Erie docks and furnaces increased more than usual during July due to the unusually large ore shipments but on July 31 were at about the usual level for that date. **Copper production** continued at the high level of June and was 76% larger than in July last year. **Silver production** was about 9% larger in July than in June and more than double the July 1939 production. **Gold production** declined 4% to a level slightly below a year ago.

The volume of manufacturing production in this district increased during July and was larger than one year earlier. Flour production and shipments increased sharply but were slightly smaller than one year earlier. Shipments of linseed oil were unchanged at a level nearly 2½ times as large as in July 1939 and the largest for the month since 1929. Shipments of linseed oil cake increased sharply and were nearly treble the volume of one year earlier. Slaughterings of cattle and calves were larger during the month and were somewhat larger than in July last year while hog slaughterings declined seasonally but were at a level nearly half again the July 1939 volume. Slaughterings of sheep increased as is usual at this season but were slightly smaller than a year ago. The cut of lumber declined seasonally during July but was more than one-quarter larger than a year ago. Lumber shipments expanded after a slight decline during June and were 4% larger than in July last year. The Minnesota index of manufacturing employment advanced from 106 in June to 112 in July compared to 106 in July last year. Electric power utilized during June in Minnesota, North and South Dakota increased seasonally and was 7% larger than a year earlier.

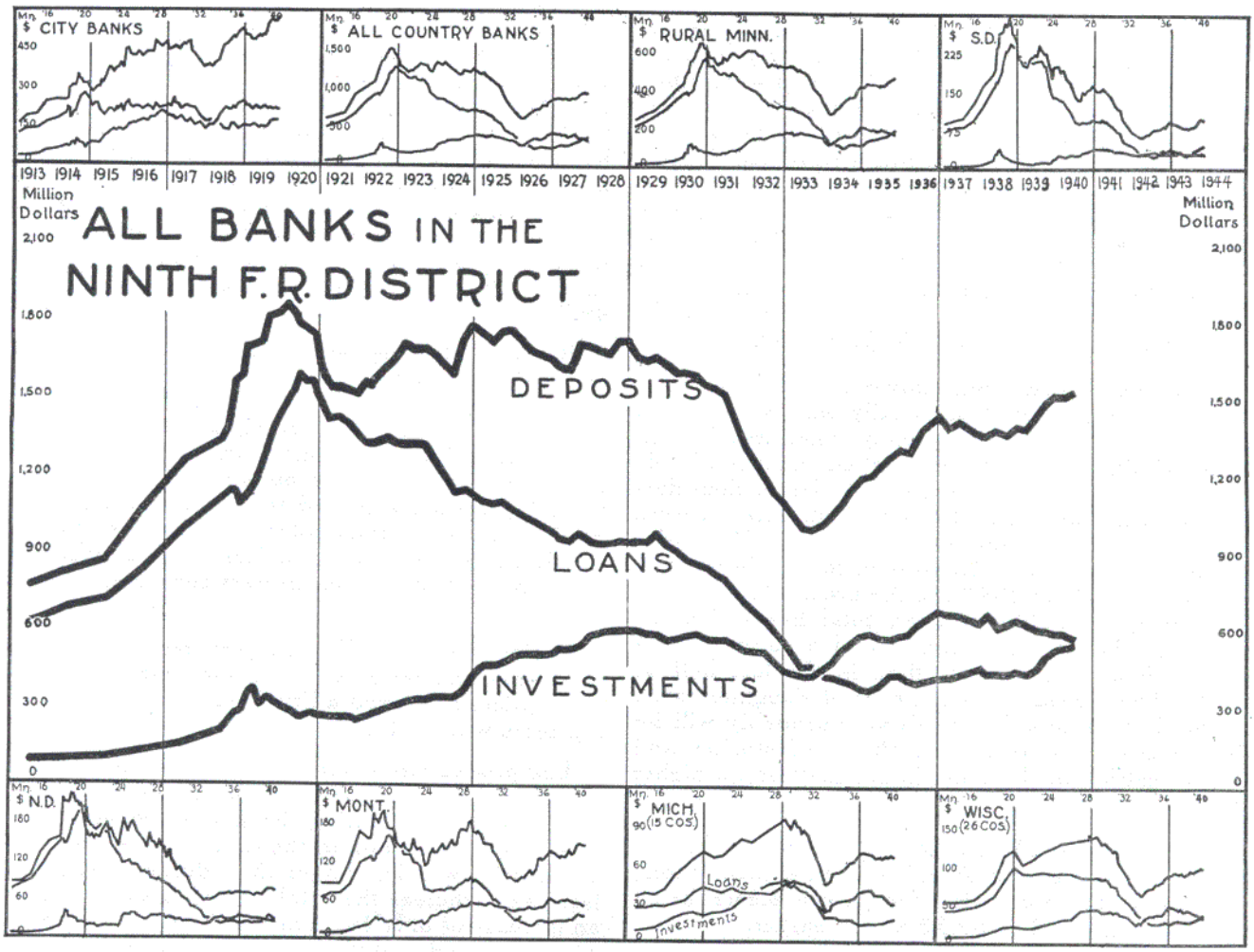
Other business activity indicators that were as high or higher in July than a year earlier were carloadings of coal, coke, forest products, livestock, and less-than-carload freight; new car and truck registrations in each of our four states; net telephone installations in the Twin City area; life insurance sales; and wholesales (compiled in part by the Bureau of the Census) of groceries, hardware and plumbing and heating supplies. Indicators that were lower than a year earlier were carloadings of grain and wholesales of automotive supplies, paper, tobacco and drugs & sundries.

BANKING

Deposits at all banks in the district rose to $1,526 million during the quarter ended June 29 and were nearly $100 million larger than on June 30, 1939. This is the largest volume of deposits since early in 1931. Loans to customers continued to increase and were $81 million larger than a year ago while investments declined to $40 million below June 30, 1939. Resources were about equally divided between (1) loans, (2) investments and (3) cash and reserves.

Country member bank deposits declined slightly between the latter half of June and the latter half of July. Earning assets, however, remained unchanged during the period, the entire amount of the deposit decline being met by reductions in balances due from correspondents and from us. Compared with one year earlier, deposits were $31 million larger, $10 million of which was in earning assets, $14 million on deposit with correspondent banks and $7 million in reserve accounts at this bank.

City member bank deposits during July declined about $11 million from the all-time peak of $623 million on July 3 but regained most of the decline during the first two weeks of August. Loans to customers held steady during July but declined about $7 million during the first week of August. Investments continued to decline and on August 14 were at the lowest level in more than a year. Balances with correspondent banks and reserves at this bank rose sharply, resulting in a corresponding increase in excess reserves.



AGRICULTURE

Farmers' cash income from seven products (excluding government payments) was substantially larger in July than in June, chiefly because of heavy wool marketings, and was 15% larger than in July 1939. Because of smaller terminal marketings, income from grains was smaller than a year ago but the increase in income from hogs, wool and dairy products much more than offset the decline in grain income. We estimate that farmers in our district received more than $15 million from their 1940 clip of wool compared to less than $11 million last year. Wool income this year was the largest since 1928 and 1929, when it was approximately $16 million.

Total farmers' cash income (including government payments) in our four states as estimated by the USDA was 3% smaller in June than in May and also in June 1939. Income from the marketings of crops, livestock and livestock products declined from the May level in spite of an increase at that season in other recent years but was, nevertheless, 6% larger than in June 1939. Government payments in June, as in May, were only a fraction of one year earlier, reducing total cash income to below a year ago.

Crop estimates for small grains in our district were higher on August 1 than one month earlier as the result of unusually favorable small grain weather during July. The corn crop, however, deteriorated somewhat, both in Minnesota and South Dakota. It was estimated that the production of all grains, with the exception of rye, would be substantially larger than the 1929-38 10-year averages.

August 1, 1940 Production Forecasts for Minnesota, Montana, North Dakota and South Dakota with Comparisons

(Thousands of bushels, except hay)

	Aug. 1 1940	July 1, 1940	1939	10-yr. Avg.
Bread Spring Wheat	130,566	127,161	122,430	101,418
Durum Wheat	34,179	34,954	34,360	29,620
Winter Wheat	24,647	24,165	25,412	14,297
Rye	19,209	18,828	19,628	19,306
Flax	22,010	21,819	16,143	9,936
Potatoes	39,809	37,935	38,270	37,045
Corn	212,332	225,802	270,407	204,360
Oats	243,696	235,264	238,880	206,390
Barley	113,138	114,234	120,147	95,977
All Hay (1,000 Tons)	12,005	12,162	12,256	11,168

Agricultural product prices in general were moderately higher in July than in June and were somewhat higher than in July 1939. Grain prices declined during the month and were at about the

same level as in July last year. Livestock prices, on the other hand, advanced. Butcher steer prices advanced about 75 cents per hundred and were more than $1.00 above July 1939. Feeder and stocker steer prices declined but continued to be a little higher than a year ago. Hog prices increased sharply but were still somewhat below July 1939 while sheep and lamb prices rose slightly to last July's level. Butter and milk prices advanced and were at the highest July level since 1937. Egg prices were slightly higher than in June but were at the lowest July level since 1934. Heavy hen prices were a little lower but were the same as in July 1939.

Receipts of cattle and calves at South St. Paul during July increased seasonally and were about 20% larger than the unusually small receipts in July, 1939. During the first seven months of this year, receipts of cattle were slightly larger than during the same period of 1939 but calf receipts were 6% smaller. According to *The Livestock Situation*, "The most important features in the cattle outlook for the last half of 1940 are the prospects for about the same, or slightly smaller, total live weight of cattle marketed for slaughter and a stronger consumer demand for meats than in the last half of 1939. The general level of prices of slaughter cattle in the last six months of this year probably will be higher than a year earlier. Prices of stocker and feeder cattle, on the other hand, may be no higher than those of last year."

During the first half of August, the slaughter cattle market was strong. At mid-month a healthy tone prevailed, the top price for choice steers being $12.00 compared to $9.50 a year earlier.

Shipments of feeder and stocker cattle and calves increased sharply in July and were nearly half again as large as in July, 1939. During the first seven months of 1940, however, shipments were somewhat smaller than during that period last year. The *Agricultural Marketing Service* stated: "Three per cent less cattle for market were on feed in the Corn Belt States on August 1 this year than a year earlier. . . . Contributing causes apparently have been the scarcity and relatively high price of free corn in some areas, the relatively high prices of feeder cattle, and the rather poor prospects for the corn crop in some states." Minnesota had 5% more cattle on feed on August 1 than one year earlier. In South Dakota the number was the same as on August 1 last year.

Dairy cow prices during July reflected the steady demand for good quality cows and were unchanged from June. Both local and shipper demand was steady, especially for better grade cows. The bulk of the cows sold from $60-$75, the range for the month being $35-$90.

Hog receipts at South St Paul declined less than usual during July and were 42% larger than in July, 1939. During the first seven months of this year, 1,642 thousand head were received compared to 1,085 thousand in 1939, an increase of 51%. These were the largest marketings for that period since 1928. *The Livestock Situation* stated: "A seasonal decline in hog prices is expected after August or September as marketings increase. Storage demand, however, will be stronger next fall and winter than a year earlier. . . . With prospects for consumer demand for hog products to be well maintained in 1940-41 and for a material decrease in hog marketings, prices of hogs in the 1940-41 marketing year should average substantially higher than in 1939-40."

Receipts of sheep and lambs at South St. Paul increased seasonally during July and were in about the same volume as in July, 1939. During the first seven months of 1940, receipts were 7% larger than during that period last year. According to *The Livestock Situation*, "Although marketings of lambs for slaughter are expected to be larger than a year earlier during the remainder of 1940, the effect of the larger supplies upon prices will be offset, or more than offset, by the stronger consumer demand for meats."

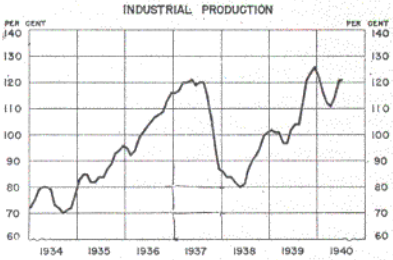
During the first half of August, receipts declined somewhat and were less than one year earlier. Fat lamb prices advanced a little and at mid-month the top price was $9.40.

Egg production in our four states declined seasonally during July but continued to be about 6% larger than a year ago. During the first seven months of 1940, egg production in the four complete states in our district was 7% larger than during that period last year, whereas the total United States recorded an increase of only 1%. *The Poultry and Egg Situation* reported, "With smaller egg production and larger consumer incomes than a year earlier indicated for the remainder of 1940, egg prices may tend to rise during coming months relative to last year's prices. . . . Smaller supplies of chickens, higher consumers' incomes and the apparent generally favorable chicken storage deal of the past season will tend to bring about higher chicken prices in the last half of this year compared with the last six months of 1939."

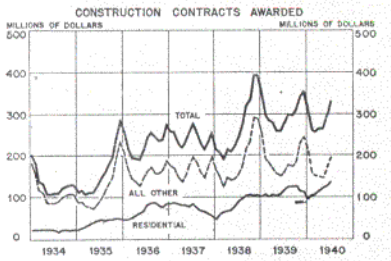
Cold storage supplies of eggs and butter increased seasonally during July and on August 1 egg holdings were 10% larger than the five year median, but butter stocks were 17% smaller. Cold storage holdings of poultry were the same as on July 1 and were again 50% larger than usual for August 1 chiefly because turkey holdings were more than double last year. Cold storage supplies of beef declined more than usual during July and were at about the usual level on August 1. Pork holdings also declined but remained one-fourth larger than the five year median. Lard stocks were unchanged and continued to be more than twice the customary volume at that season. Lamb and mutton holdings increased and were 79% larger than the August 1 five year median. All classes of meat in cold storage on August 1 were larger than one year earlier.

National Summary of Business Conditions

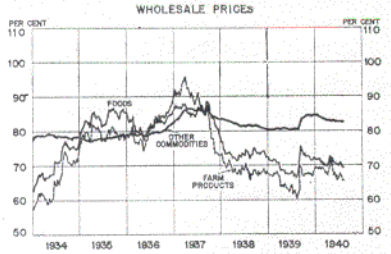
COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AUGUST 19, 1940



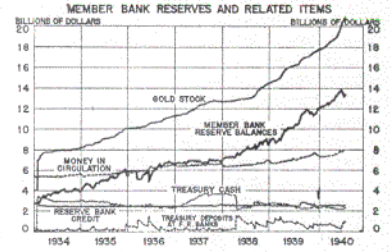
Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January 1934 to July 1940.



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



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ended August 10, 1940.



Wednesday figures, January 3, 1934 to August 14, 1940.

Volume of industrial output was steady during July and the first half of August, after a rapid expansion in May and June. Employment continued to increase. Reflecting mainly awards for national defense projects, construction contracts rose to the highest level in ten years. Prices of basic commodities declined somewhat further.

PRODUCTION: In July the Board's revised index of industrial production stood at 121 per cent of the 1935-39 average, according to preliminary data. This is the same as in June and 17 points above the level prevailing a year ago before the outbreak of war. In most lines activity was maintained at the levels reached in June or increased further.

Steel production in July was at about 85 per cent of capacity and in the first half of August there was an increase to about 90 per cent. Production of pig iron and coke and output of nonferrous metals were also in large volume. In the machinery, shipbuilding, and aircraft industries, where new orders had been large during the first half of the year and a considerable backlog of unfilled orders had accumulated, activity was maintained at high levels in July, although ordinarily there are declines at this season. Lumber production declined sharply early in July but has subsequently increased accompanying a considerable rise in new orders.

In the automobile industry output declined sharply in July and the first half of August as plants were closed to prepare for the shift to new model production. The decline was greater than at this season in other recent years, reflecting the fact that production had been at high levels during the first half of 1940 and large stocks had accumulated. These stocks were reduced considerably in July as production was curtailed and retail sales continued large.

Textile production increased considerably further in July, reflecting chiefly a marked rise in activity at woolen mills where output is still below the levels of a year ago. Production of cotton and rayon textiles was maintained in July and was in larger volume than last summer, while activity at silk mills increased somewhat from the exceptionally low level reached in June. Shoe production increased seasonally, while output of manufactured foods, which in June had been unusually large for that time of year, showed less than the customary increase in July.

Coal production has risen further and shipments of iron ore down the Lakes have continued at near-capacity rates. Petroleum production has been curtailed sharply, however, reflecting partly a continued high level of stocks of petroleum products.

Value of new construction work undertaken increased sharply in July, owing mainly to a further rise in public construction, and was at the highest level in the past decade, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Awards for both residential and nonresidential private building increased somewhat, although some decline is usual at this season.

Increases were most pronounced in the Atlantic, Gulf, and Pacific Coast States, reflecting awards of additional contracts for naval air station and shipyard construction. In the central portions of the country there were generally small increases, although in some areas awards were lower.

DISTRIBUTION: Distribution of commodities to consumers was sustained in July at about the levels prevailing in the first half of the year. Sales at department stores declined more than seasonally, while sales at variety stores showed little change, although a decline is usual in July.

Total freight-car loadings increased seasonally in July. Shipments of grain showed a considerable rise and loadings of coal and coke continued to advance, while shipments of miscellaneous freight, which include most manufactured products, declined by somewhat more than the usual seasonal amount.

COMMODITY PRICES: Prices of basic commodities declined somewhat further from the middle of July to the middle of August, with decreases chiefly in prices of commodities influenced by foreign supplies, such as lead, rubber, cocoa, and coffee. Prices of steel scrap and zinc, on the other hand, advanced somewhat in this period.

AGRICULTURE: Prospects for most crops showed little change in July, according to the Department of Agriculture. Production this year is expected to approximate the 1929-38 average and, considering carryovers, supplies of most crops will be large. Conditions for wheat and oats improved during July, while the corn crop showed some deterioration. A cotton crop of 11.4 million bales was indicated for this season as compared with 11.8 million bales last season.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities increased substantially during the five weeks ended August 14, owing mainly to purchases of direct and guaranteed securities newly issued by the United States Government. Sale of these securities caused a large increase in Treasury balances with the Federal Reserve Banks. As a result of this temporary development, excess reserves declined by $450 million in this period despite an increase of over $500 million in monetary gold stock.

GOVERNMENT SECURITY MARKET: Prices of United States Government securities were relatively steady during July and the early part of August but declined slightly around the middle of August accompanying news of intensification of European warfare. The yield on the 1960-65 bonds increased to 2.39 per cent on August 14 compared with 2.34 per cent on July 1 and 2.26 per cent on April 2 at the year's peak in prices.