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

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Northwest Victory Loan subscriptions were gratifying, especially bank participation. Business activity increased to a new all-time high for November. Bank deposits and investments continued to increase sharply. Farm income remained at record levels.

VICTORY LOAN

The Treasury's Victory Loan campaign to sell $9 billion of government securities during the first 23 days of December was the greatest drive for funds in history. This amount, together with tax revenues, is expected to cover government expenditures until March or April. In order that the funds of all investors could be attracted, a variety of issues was offered, having a range in maturities from 91 days to 26 years, and in interest rates from about .37 per cent to 2½ per cent.

Special emphasis was placed upon sale of government securities to investors other than banks. Only if maximum purchases of government offerings are made out of income and accumulated funds can an excessive expansion in bank deposits be avoided. Since deposits are a large part of the total money supply, it is important that they be kept as nearly as possible in line with the production of civilian goods and services. The war effort is actually enforcing a reduction in production of civilian goods and services and if bank deposits are permitted to expand unnecessarily, they may exert a strong upward force upon prices.

The Victory Fund Committees operating in each Federal Reserve District were given the job of selling that gigantic offering of securities with the exception of Series E War Bonds. Their success can be measured by the excellent results of the drive. Actually, more than $11 billion of the three principal issues of government securities were sold. In the Ninth District, which would normally be expected to absorb about $180 million of an issue of this size, actual subscriptions were $236 million and allotments were $192 million. Ninth District banks which have about 2.2 per cent of the nation's banking resources, subscribed for 4.0 per cent and were allotted 3.7 per cent of the 1¾ per cent Treasury bonds of 1948 and subscribed for 5.3 per cent and were allotted 3.5 per cent of the Certificates of Indebtedness sold to all banks in the nation. These two issues, together with Treasury bills, were the only issues which were eligible for banks to purchase.

War Loan Deposit Account Qualifications were met by 703 banks in the Ninth District during the first four weeks of December bringing the total number of banks qualified to 936. In addition, 55 of the 233 banks formerly having War Loan Deposit Accounts increased the amount for which they were qualified. By qualifying for a War Loan Deposit Account, a bank is permitted to purchase government securities either for its own account or for its customers, and make original payment by placing the funds in the U. S. Treasury's deposit on its books.

There are important advantages in being qualified for a War Loan Deposit Account. In the first place, the bank's reserves are not immediately affected by a large purchase of government securities and it becomes possible to make smaller and more orderly adjustments in idle funds as the Treasury draws down its balance. Secondly, as the government gradually draws down its balances at the commercial banks, it in turn spends that money which immediately returns to the banks in the form of commercial bank deposits. While this money does not come back to the individual bank, dollar for dollar, deposits of most banks have been rising either as a direct result of government expenditures in the community or indirectly through increased farm income. As a result, a large portion of the Treasury's withdrawal would undoubtedly be offset by the increase in commercial deposits, thereby requiring little or no reserve adjustment.

BUSINESS

Business activity in this district during November increased sharply from the record levels of recent months and established a new all-time high for the month of November. The 94 cities' bank debits index jumped from 153 in October to 169 in November and the index of debits at farming centers increased 16 points to 175 per cent of the 1935-39 average. The index of country check clearings recorded a correspondingly large gain. Department store sales spurted in November as merchants reported a large volume of unusually early Christmas shopping. The index of sales at city stores was 144 per cent and the index of country department stores 148 per cent of the five-year average and about 40 per cent larger than in November 1939. The carloadings indexes advanced somewhat during November but continued lower than one year earlier principally because of a sharp reduction in the LCL and miscellaneous classifications.

Employment in Minnesota continued to rise during November, reaching the highest level on record, and payrolls continued to advance at an even more rapid rate. Flour production in this area was about 6 per cent larger than one year earlier. Linseed oil shipments were 62 per cent above a year ago and the highest for November on record. The volume of construction contracts awarded during November declined sharply to the lowest level for that month on record. Building activity, however, remained very active since more than $200 million in contracts have been awarded in this area during the past 6

months. Residential building during the same period has totaled only $12 million, the smallest for any similar period since 1937.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39=100

	Nov. 1942	Oct. 1942	Nov. 1941	Nov. 1940
Bank debits—94 cities	169	153	143	116
Bank debits—farming centers	175	159	151	126
Country check clearings	178	160	151	120
City department store sales	144	131	123	117
City department store stocks	140	144	130	103
Country department store sales	148	138	128	120
Miscellaneous carloadings	133	125	149	121
Total carloadings (excl. misc.)	138	133	153	125
Farm prices—Minn.	154	151	121	86
Employment—Minn. (Unadj. 1936=100)	135	134	124	113
Payrolls—Minn. (Unadj. 1936=100)	200	191	154	126

Iron ore shipments from upper lake ports during November and the first week of December totaled 8.2 million tons. The 1942 season closed on December 7 after more than 92 million tons had been shipped from upper lake ports. This is by far the largest volume for any year in history, comparing with 81 million tons shipped in 1941 and the earlier all-time high of 65 million tons in 1929. Of the 6 port and dock cities from which ore is loaded, Escanaba, Two Harbors, Duluth and Superior shipped more ore than in 1941 but shipments from Marquette and Ashland were smaller than a year ago.

Iron ore consumption has been increasing steadily during the last two years as increased blast furnace capacity has become available. Consumption during the last 6 months has averaged 7.2 million tons per month. The iron ore stocks at furnaces and lower lake ports totaled approximately 53 million tons, enough to keep blast furnaces operating for 7 months. It is apparent that the 1942 ore movement was highly satisfactory.

Sales at Department Stores

November 1942 Compared to November 1941

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Nov. '42 of Nov. '41	% Jan.-Nov. '42 of Jan.-Nov. '41
Total District	241	35	116	109
Mpls., St. Paul, Dul.-Sup.	17	3	116	108
Country Stores	224	32	116	110
Minnesota	56	11	107	109
Central	7	2	118	117
Northeastern	4	5	92	102
Red River Valley	5	0	122	123
South Central	17	0	115	113
Southeastern	12	1	104	101
Southwestern	11	3	112	113
Montana	33	6	117	101
Mountains	8	4	105	97
Plains	25	2	125	103
North Dakota	39	5	115	107
North Central	6	1	118	114
Northwestern	5	0	107	99
Red River Valley	15	2	116	108
Southeastern	12	2	119	107
R. R. Val.-Minn. & N. D.	20	2	117	111
South Dakota	46	4	131	118
Southeastern	12	2	127	118
Other Eastern	26	1	133	116
Western	8	1	146	135
Wisconsin & Michigan	50	6	113	116
Northern Wisconsin	16	1	108	117
West Central Wisconsin	26	5	111	117
Upper Peninsula Michigan	8	0	125	109

Department store sales in the Ninth District during November were 16 per cent larger than one year earlier in spite of the shortages which have developed in certain lines. Country stores reported a similar increase with every section of the district, with the exception of northeastern Minnesota, showing a gain over a year ago. Sales during the first 11 months of 1942 were 9 per cent greater than during the corresponding period of 1941, city stores recording a gain of 8 per cent and country stores a gain of 10 per cent.

BANKING

City member bank deposits crossed the $1 billion mark for the first time in history on December 16. During the last year, deposits at these reporting banks have increased approximately 40 per cent. About half of this increase has taken place in deposits of individuals, partnerships and corporations. U. S. Government deposits were also considerably larger than one year earlier because of the expanded use of War Loan Deposit Accounts. Deposits of local governments increased somewhat and balances due to other banks increased from $194 million to $261 million. While deposits were increasing at this phenomenal rate, loans to customers declined 24 per cent. Investment holdings more than doubled during the last 12 months, the entire amount of the increase being in government securities, the bulk of which had short maturities. Idle funds were about $38 million larger than one year earlier, $10 million of the increase being in the form of excess reserves and $28 million in cash and balances due from commercial banks.

Country member bank deposits increased $43 million between the latter half of October and the latter half of November bringing the total to $758 million, $154 million larger than one year earlier. Earning assets have increased $96 million during the same period with the result that cash and balances due from banks have increased $36 million and balances with this bank have increased $22 million. However, because of the rise in reserve requirements due to the sharp rise in deposits, excess reserves were only $10 million larger than one year earlier.

AGRICULTURE

Farm cash income in the district during November remained at the high October level and according to our estimates the income from the sale of nine important crop, livestock and livestock product items was $125 million, an increase of 50 per cent over November 1941. Larger hog marketings and generally higher farm prices were responsible for most of the gain over 1941, although income from the sale of sheep and lambs was also substantially above a year ago.

The U. S. D. A. commenting on agricultural income for the nation as a whole, estimated that farm income from crops for the current year advanced 31 per cent over 1941, whereas livestock and livestock products returns were up 40 per cent. They estimate the average net income, excluding farm perquisites,

received by each person engaged in agriculture during 1942 to be $1,052 as against $742 in 1941 and a 1932-41 ten-year average of $473. This was an increase of 122 per cent over the ten-year average, as compared to a 57 per cent increase in wages for industrial employees. When compared to a common base period 1910-1914, the average income per worker for both groups had increased about threefold.

Stocker and feeder cattle moved into the Corn Belt States in record volume during November, at the highest level of prices in at least 22 years, according to the U. S. D. A. The heavy November movement brought the total for the months of July through November this year 10 per cent above the corresponding period of 1941, but was still somewhat below the 1939 and 1940 levels. Movement of feeder cattle to Corn Belt farms this season has been later than usual, probably occasioned to some extent by the confused price situation and the short labor supply on farms busy harvesting the bumper corn crop. As these conditions improved later in the fall, cattle feeders became more optimistic and the demand for feeder cattle strengthened. Although prices of feeder cattle are extremely high, with good feeder steers selling at $11.00 to $13.00 at South St. Paul, it appears that feeding operation should be profitable for the good manager. Based on present prices of farm feeds and farm labor, it will cost on most farms about $13.00 to $15.00 to produce 100 pounds of gain in weight. Since the selling price of good steers now average about $13.00 to $15.00 per hundredweight, most of the profit would accrue from the increase in the value of the original purchased weight, about $2.00 per hundredweight.

Farm prices were generally lower during the month of November. With the exception of lamb prices, all livestock prices declined from the October levels but were from two to four dollars over November 1941. In contrast to livestock prices, livestock product prices registered moderate gains. Grain prices showed no significant change from a month ago.

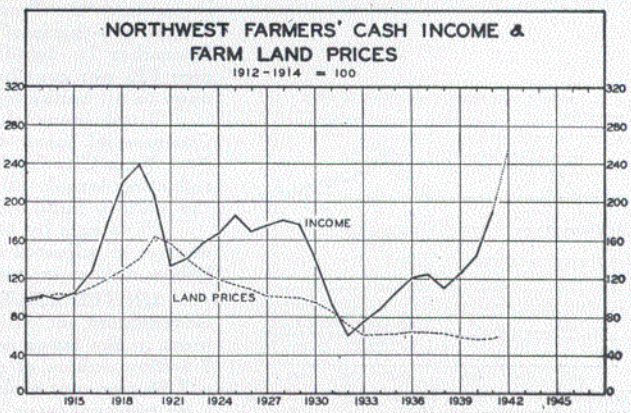
Milk production per cow in the Northwest, despite relatively good late-fall pastures and ample winter feed supplies, has dropped below the level of production of a year ago. However, the larger number of cows on farms this year than last, raised total milk production 1 per cent above a year ago. The U. S. D. A. reports that farmers are milking a smaller percentage of their cows than usual. High beef prices and labor shortages have probably encouraged some farmers to permit calves to nurse the cows, particularly in dual purpose herds, and also to discontinue milking cows earlier than usual as they approach the end of their lactation period. While milk production for 1942 has exceeded 1941, butter production for the first 10 months of this year, due to increased consumption of fluid milk and increased production of dry milk products, has declined 5 per cent from the corresponding period of 1941. Storage stocks of butter on December 1, amounting to 46 million pounds were less than one-third the stocks a year ago and were at the lowest level in 10 years. During the early months of 1942, cheese production was extremely large, but during recent months the high fluid milk consumption, increased output of dry milk products and higher butter prices, have diverted milk from cheese factories and for the month of November output had declined roughly 10 per cent from November 1941. Holdings of cheese have declined sharply in recent months and were 19 per cent below the high level a year ago, but were still 14 per cent above the 5-year average for December 1.

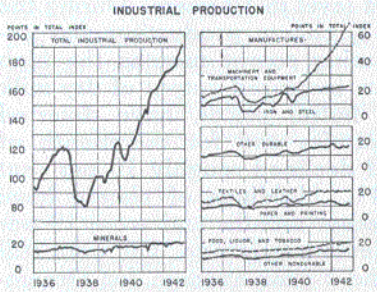
Farm land values in the Northwest during and immediately following World War I rose sharply. The index of farm land values advanced from 103 in 1916 to a high of 164 in 1920. In Minnesota alone the index moved from 122 to 213, but increases in Montana, 26 points, and North Dakota, 45 points, were comparatively moderate. The subsequent break in farm product prices was followed by a collapse in farm real estate values that brought acute financial distress to many farmers and to most credit agencies, which during the boom, had lent money to farmers on the basis of inflated values of farm real estate and farm products. In view of this history it is important to follow the trends of farm land values and related factors during World War II.

During the period 1939-1942, the index of Northwest land values, based on the 1912-14 average, moved from 59 to 61, whereas cash farm income for the same period more than doubled.

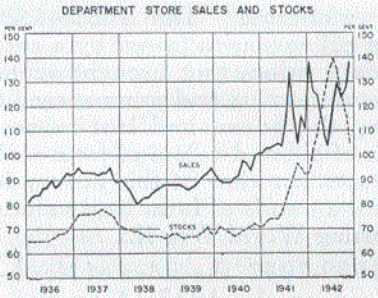
Because the disastrous boom in farm values during and following World War I was due in part to overlending to agriculture, the principal farm real estate lenders agreed upon and have maintained normal value appraisals and an educational program to impress upon borrowers the wisdom of reducing the farm debt load during periods of high farm prices. This policy is sound and has had a stabilizing effect on farm real estate values during the early years of World War II. Probably even more effective have been the short farm labor supply, the lack of farm equipment, increased tax payments, and price ceilings on farm products.

Below is presented a chart showing the trend in farm cash income and in farm real estate values during World War I and World War II.

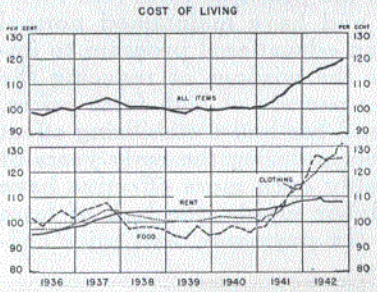




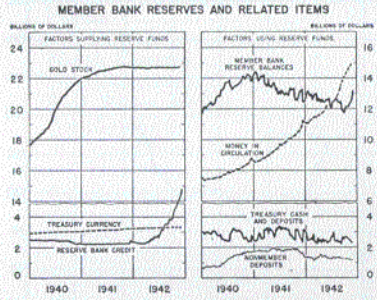
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Subgroups shown are expressed in terms of points in the total index. Latest figures shown are for November 1942.



Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. Latest figures shown are for November 1942.



Bureau of Labor Statistics' indexes, 1935-39 average=100. Fifteenth of month figures, Last month in each calendar quarter through September 1940, monthly thereafter. Latest figures shown are for November 1942.



Wednesday figures. Latest figures shown are for December 10, 1942.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DECEMBER 22, 1942

Aggregate industrial production in November was maintained close to the October level, reflecting a continued growth of output in war industries and a seasonal decline in production of civilian goods. Distribution of commodities to consumers rose further in November and the first half of December, reducing somewhat the large volume of stocks on hand. Retail food prices continued to advance.

PRODUCTION: Maintenance of industrial production in November when the seasonal tendency is downward was reflected in a rise of the Board's seasonally adjusted index from 189 to 191 per cent of the 1935-1939 average. This rise was largely accounted for by a further advance in output of durable manufactures. Nondurable manufactures declined seasonally, while output of minerals showed less than the usual seasonal decrease. In all groups of products the proportion of output for war purposes was considerably larger than a year ago.

The increase reported for durable manufactures from October to November was in finished munitions and industrial equipment for new plants which will be completed in large number over the next few months. Steel production, at 98 per cent of capacity in November and the first three weeks of December, was down slightly from the October peak, but the reduction appeared temporary as the scrap supply situation had been relieved and as further progress was being made on construction of additional iron and steel capacity. Supplies of iron ore on hand are regarded as sufficient for operations at capacity until movement of ore down the lakes is resumed in the spring. Shipments from Upper Lake ports this year totaled 92 million tons, and were 15 per cent above the record established in 1941.

At cotton textile mills activity was maintained at a high level in November and at shoe factories production declined less than is usual at this season. Output of manufactured foodstuffs showed a seasonal decline.

Construction contract awards in November were 10 per cent below the level of the three preceding months, according to data of the F. W. Dodge Corporation, but were still about forty per cent higher than in November of last year. As in other recent months, publicly-financed work accounted for over 90 per cent of all awards.

DISTRIBUTION: Distribution of commodities to consumers increased further in November and December with active Christmas buying. At department stores, variety stores, and mail-order houses serving rural areas, sales in November expanded more than seasonally. In the first half of December department store sales continued to rise sharply and were considerably larger than a year ago.

Freight-car loadings in November declined about 7 per cent from their peak levels in September and October but on a seasonally adjusted basis rose slightly over the October level. Coal loadings rose somewhat although a decline is usual in November. Shipments of other commodities declined seasonally.

COMMODITY PRICES: Grain prices advanced from the middle of November to the middle of December, while most other wholesale commodity prices showed little change.

Retail food prices increased further by 1 per cent in the five weeks ending November 17 to a level 16 per cent higher than in November 1941. Prices of such fresh foods as are uncontrolled—fruits, vegetables, and fish—showed the largest advances from October to November, but price increases in controlled items contributed about two-fifths of the total rise.

BANK CREDIT: During the period of large-scale Treasury financing in December, total excess reserves of member banks were generally above 2.5 billion dollars. Substantial purchases of Government securities for the Federal Reserve System offset the effect of drains on reserves by the continued heavy currency outflow and further increases in required reserves resulting from a rapid growth in bank deposits.

Reserve Bank holdings of Government securities showed an increase of 850 million dollars in the four weeks and reached a total of 5.5 billion on December 16.

At reporting member banks in 101 leading cities, holdings of United States Government securities increased by 800 million dollars in the four weeks ending December 9. Treasury bills accounted for practically the entire increase, with almost two-thirds of the amount going to New York City banks. In the week ending December 16, bond holdings rose sharply as banks received their allotments of the new 1¾ per cent bonds subscribed on November 30-December 2; allotments of this issue to all banks totaled 2 billion dollars, representing 85 per cent of subscriptions.

Total loans showed little change over the four weeks ending December 9. Commercial loans declined by 200 million dollars, with about half the decline at New York City banks, while loans to brokers and dealers increased over the period, reflecting largely advances made to security dealers in New York in connection with the Victory Fund drive.

Payments by bank depositors for new Government security issues resulted in a decline of adjusted demand deposits and a rise of U. S. Government deposits to 5.8 billion dollars in mid-December, the largest total on record.

UNITED STATES GOVERNMENT SECURITY PRICES: Prices of United States Government securities have been steady in the past three weeks following an adjustment in the latter part of November when the Treasury announced the drive to sell 9 billion dollars of securities in December. Long-term taxable bonds are selling on a 2.36 per cent yield basis on the average and long partially tax-exempt bonds on a 2.09 per cent basis.