MONTHLY Review

FEDERAL RESERVE BANK OF MINNEAPOLIS

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Current conditions in the Ninth district . . . .

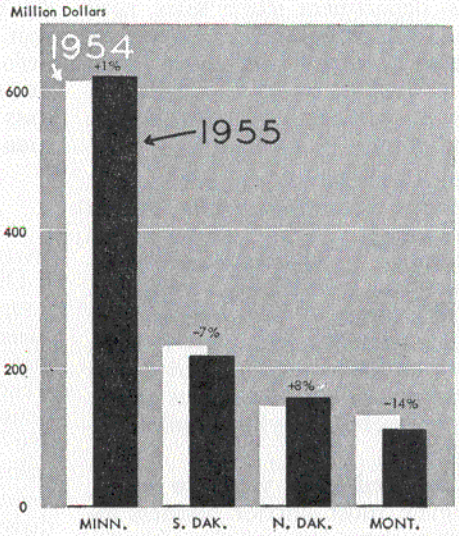
Business booms along; but corn crop, farm income disappointing

CONTINUED high-level business activity, plus a district crop output that promises to be the second largest since 1948, failed to mask sharp local disappointment over a badly shriveled corn crop in many communities of the Ninth district. Nor has the notably prosperous state of district business been entirely unaffected by the persistent decline of farm income.

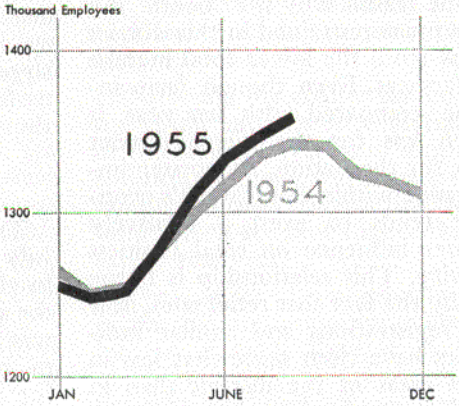
By September's end, local differences in farm crops and income were tracing discernible contrasts in the pattern of district economic conditions. Crop output in North Dakota, for instance, was a welcome improvement over the disappointing 1954 harvest in that state. South Dakota's experience was the reverse—dry weather hurt many areas that enjoyed favorable crop conditions a year ago. Even the moderate 2-percent decline in district farm income reported for the first half of the year included much greater income differences, both above and below last year, reported for individual states.

Such divergent trends serve as a reminder that conditions are seldom favorable in all areas at once, and that localized trouble spots can be of major significance even when the over-all economic picture is favorable.

Despite these local differences, however, a large total harvest of district crops is assured. This will have a bolstering effect on farm income (prices of several district crops are supported under the price support program, though mostly at lower levels than last year). It



Farm income for the first half of 1955, though down overall from the first half of 1954, reflects strong local variation through the state-by-state data shown above.



Employment, charted here as the Ninth district non-farm total (except counties in Wisconsin), reveals how strongly this year's job level has pressed ahead of last year's.

The farm specialist in banking . . . see page 4

assures adequate feed supplies for continued high-volume livestock production. It also means that marketing and transportation industries of the district will be busy handling raw farm products for processing and distribution.

In contrast to spotty crop conditions and lagging farm income, the general tone of the district business is notably favorable—almost without exception. New car registrations, department stores sales, new home building and employment have all been rolling along at levels that are robust to say the least, and in many cases at higher levels than ever before.

One of the bright spots in district economic activity was the rise in employment during August and September. In Minneapolis, for example, the number of employed persons during August was the highest on record for that month; unemployment was the lowest in 22 months. Most other areas of the district were enjoying similar activity.

Compared with year-ago levels, however, most district business indicators show less rise than for the nation as a whole. Thus, district prosperity has tended to follow rather than to lead national prosperity trends.

One reason why the "boom" is a little more restrained in this district stems from the lower total income of farmers. Even though farm income, compared with last year, is down less for the Ninth district than for the nation, its greater importance within this district's economy tends to exert a relatively greater influence on total business activity. This relationship is borne out by the fact that retail sales, new car registrations and similar indicators have risen somewhat less in rural areas of the district than in the larger cities.

Iron ore shipments are up

Many key industries, such as steel, are operating close to capacity. In September the production of steel was stepped up so that mills were operating at over 95 percent of capacity. In August mills were operating at 90 percent of capacity. During the summer unusual heat, floods, localized strikes and furnace repairs hampered production.

The large output of steel has increased the demand for Lake Superior iron ore, despite heavier imports from Venezuela and Labrador. By the end of August 55 million tons had been shipped from the lake region. It is estimated now that 80 million tons will be shipped before this season closes. Compare this estimated total with 61 million tons shipped in 1954 and 96 million tons in 1953, an all-time record.

Hot weather puts dip in store sales

District department store sales in August, on a seasonally adjusted basis, declined somewhat from the July volume. The unusually hot weather apparently caused many consumers to forego their customary shopping. In the four cities, Minneapolis, St. Paul, Duluth, and Superior, the adjusted sales were down 4 percent from the July dollar volume. In the other district cities and towns sales were down only 2 percent.

With the return of cooler weather in the last week of August, department store sales again picked up in volume. Sales in the four large cities in the first half of September averaged about 3 percent above those of a year ago.

Slump in car sales short-lived

Traditionally, after the 4th of July new and used car sales slump. In this district as in other regions the slump occurred this year but it was of short duration. According to preliminary information, sales for August rose substantially over those for July. In the Twin Cities metropolitan area, registrations of new cars exceeded the number registered in June.

However, district new car dealers have not enjoyed as large an increase in sales as those serving more industrialized areas. In the four states, Minnesota, Montana, North Dakota, and South Dakota, new car registrations for the first seven months of this year were 8½ percent above the total for the comparable period of last year, compared with a national increase of 27 percent.

Increases in new car sales this year have varied significantly among district states. Registrations in North Dakota were down slightly the first seven months.

More housing starts in August

Home building in this district, following a two months' decline in volume, expanded again in August. Building permits issued in more than 425 representative cities indicated that the number of new housekeeping units started in June was down 7 percent from the preceding month. In July the number declined a further 11 percent. However, in August the number of units begun was once more 6 percent higher than in July.

The volume of repairs and alterations began to rise in July. The number of permits issued for such projects was 18 percent higher in July than in June. In August the number rose by another 18 percent. Repairs and alterations are, however, a small part of the total building activity. In the recent summer months, for example, the valuations comprised less than 8 percent of the valuations for all types of new construction.

Employment has risen steadily

The steady upsurge in employment last spring and summer has carried nonfarm employment in most district states past the 1954 level. In a few states the rise has gone beyond formerly established records.

Montana — employment in August rose to 164,000 wage earners, 2,000 above the highest previous level.

South Dakota — employment reached a new all-time high. July employment of 126,600 workers

was 1,200 above the July, 1954 total —the former peak.

Minnesota — 880,000 workers were employed in August, an increase of 15,200 over the comparable month of 1954; 16,500 below the record set in September, 1953.

North Dakota—employment has failed to equal the 1954 level. The 117,400 at work in July remained 1.5 percent below the total for July, 1954. In this state, however, 1954 employment was at a record level—significantly higher than in 1953.

Upper Michigan Peninsula—employment has risen more slowly than in the other areas. Employment in July still trailed behind the total at work a year ago by 700 workers. Significant here is the fact that the number employed in 1954 was quite low compared with 1953.

Farm income varies; total down

District farm income for the first half of 1955—though down from a year ago — compared more favorably with 1954 than did the incomes of the nation's farmers generally. During the first six months of this year, total cash received by U. S. farmers for their marketings was down 4 percent from receipts of a year ago, according to the U. S. Department of Agriculture's estimates of farm income. Cash receipts of district farmers were also lower than a year ago, but were down only 2 percent.

State-by-state variations extended over a wider range. Farmers in North Dakota, for instance, received 8 percent more cash income during January-June than they had received a year ago. In Minnesota, cash receipts of farmers were up just 1 percent from last year. South Dakota receipts were down 7 percent from last year's relatively favorable first-half returns. And Montana farmers took in 14 percent less cash from marketings this year than they had received in the first six months of 1954.

District crop estimate high

Despite substantial reductions in corn crop expectations since August 1, district farmers are well on the way to harvesting another large total crop — probably the largest since the record 1948 output. That was the September 1 estimate of the USDA's crop reporting service. Total harvest for the district was indicated at around 1,284 million bushels of major crops on September 1. This is a substantial drop from the August 1 estimate of 1,345 million bushels.

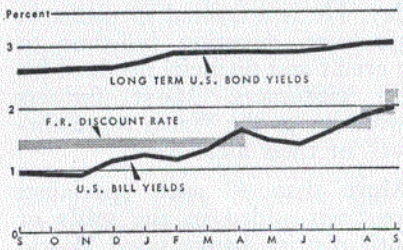
The over-all prospect is favorable but the corn crop was seriously hurt in many areas of South Dakota and southern Minnesota. The damage reduced the August estimate of 448 million bushels to 390 million by September 1. This would be the smallest corn crop since 1951, yet larger than the crops of 1949-51. Soybean and flax estimates were also reduced materially. Still, the expectation was for a much larger district harvest than the 1,193 bushels produced last year. The record 1948 harvest was 1,351 million bushels.

Discount rate raised to help curb inflation threat

IN recent weeks price markups for a wide variety of products have been announced. Various price indexes have been edging up. An economic environment favorable to these developments has been provided by record spending, accompanied by a high rate of debt formation.

Seldom in peacetime have the productive resources of our economy been utilized so intensively as at present. The condition of the labor force illustrates this. In the year preceding September, the number of employed workers in the United States increased by 3.2 million, while unemployment fell 1 million; the difference represents newcomers to the labor force. Little more than 3 percent of the nation's workers were out of work during August, in contrast to 5 percent a year earlier.

With unemployed resources now so scarce, the possibility of quickly enlarging production to satisfy the current high demands in the market place is less promising than formerly. The need for monetary restriction to overcome price-boosting "excess" demand is greater than formerly. Accordingly, the Federal Reserve has discouraged the creation of new bank reserves by raising the interest rate charged on loans to member banks. Also, the liquidation of treasury bills at Reserve banks has absorbed reserves.

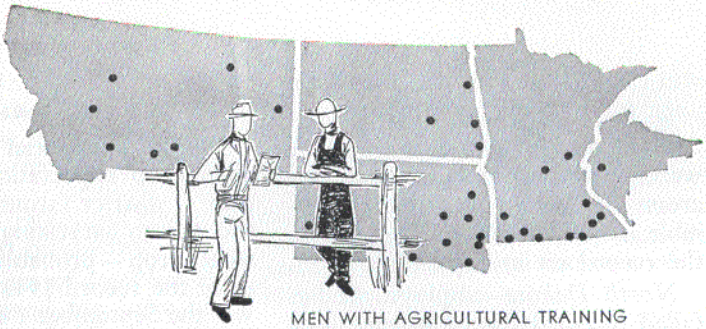


Selected interest rates, Sept. 1954 to Sept. 1955

Reflecting the greater demands for credit and the unwillingness of the Reserve System to supply additional funds, are interest rates on loans of various descriptions which are now higher than earlier this year.

The quarter of a percent raise in the discount rate announced by the Federal Reserve Bank of Minneapolis in September brought the cost of member-bank borrowing in this district to 2¼ percent; not since the mid-thirties has this rate been so high. The September increase followed on the heels of similar increases in August and in April.

FARM SPECIALISTS AUGMENT BANKING'S SERVICE TO AGRICULTURE



MEN WITH AGRICULTURAL TRAINING SERVE MANY NINTH DISTRICT BANKS

Most farmers know him as the "farm representative" of their local bank. He combines technical farm training with special attention to farm credit needs — to provide a new kind of banking service.

THERE'S A NEW kind of banker serving many farm communities today. He is a trained specialist in agriculture, devoting full-time to the credit and financial needs of his farm customers. Most farmers know him as the "farm representative" of their local bank.

More than 40 such specialists have been added to the staffs of Ninth district banks since World War II—most of them within the past few years. Across the nation more than a thousand such specialists are employed by banks, and the number is growing.

The hiring of farm specialists by no means overlooks the excellent service that most rural bankers have given their farm customers over the years — through personal interest, long experience and close attention to individual credit needs. Rather, it reflects the thinking of many leading bankers who see an increasing need for credit service as farming becomes more technical, more expensive and more complex.

The first farm departments were developed largely through trial and error. Much valuable experience has been gained, however, in the few years since most of these farm departments have been established. That experience is now mature; the contributions of the agricultural specialist to banking have been tested and proved.

In order that the knowledge gained so far may be available to others, farm representatives themselves have contributed information for a bulletin summarizing the "concensus" of their views and experience in this field. This has been done under the auspices of the Upper Midwest Agricultural Credit Council—an association of agricultural representatives (and including several bank executives with a keen interest in agriculture) in banks in the Ninth Federal Reserve district and a few adjoining states. This article summarizes some of the highlights from this material.

Two-fold Benefits

The use of farm specialists in banking is a significant development. Both banking and agriculture benefit directly from the application of competent agricultural know-how to the important job of farm loan analysis and supervision.

When a lender has a thorough knowledge of farming—including a personal acquaintance with the operations of his farm customers based on visits to their farms—this more complete knowledge may often enable him to make some loans that he could not have made on the basis of limited knowledge, and with less risk and fewer losses.

The lender is not the only one who gains, however. The borrower also gains from the more careful tailoring of credit to his financial needs and opportunities. In time this gain can also enhance the economic growth of the community which the bank serves. Greater service to and development of their local communities is frequently cited by bankers as one of the important reasons for adding farm specialists to their banking staffs.

What Can the Agricultural Specialist Contribute to Banking?

Bankers point out that the contribution of the agricultural specialist comes in two ways. First, the specialized training and familarity with farming that he brings to banking are obviously helpful in analyzing farm loans and also in developing a closer relationship with farm customers.

Second, the full-time agricultural specialist is able to give more direct attention to the needs and service of farm customers than is ordinarily possible for those whose activities are less specialized. This definite allocation of time, effort and attention is an important part of the job.

Better Credit Information

More specifically, what are some of the services that a trained agricultural specialist can provide?

Probably the greatest need in farm lending is to get adequate credit information about the borrower. The agricultural specialist's technical knowledge should enable him to evaluate farm land, buildings and other permanent equipment accurately, and to appraise livestock, machinery and other operating assets. He will need to appraise these items not only as to their market value but also in relation to the particular farming operation involved.

Assets in themselves may provide security for a loan, but they will not produce the income to repay that loan unless they are effective in the kind of a farming operation for which they are being used. For instance, good land can be unproductive when used to grow crops for which it is poorly suited, or when crop practices are inadequate. Machinery and buildings may be in good condition, but their value may be limited if they do not do the job that the particular operation requires at a low cost per unit.

As agriculture develops and changes, analyzing the loan position of a farm borrower becomes more and more an analysis of management and of over-all operations. Men who have a thorough agricultural background, and who have time allocated to keeping up on agricultural matters, are in a good position to keep abreast of important changes in farm technology and in the other conditions affecting farm profits.

Better Service to Customers

Experienced farm lenders find that they seldom have to say "no" to a reasonable loan request. By talking over with the operator his most urgent needs, they can usually work out a sound loan arrangement. The final loan may be for less or for more money than was requested at first, and the terms may be adjusted. But the farmer's essential credit needs are met in such a way that they can be repaid out of income and still contribute to his financial progress.

To provide this service effectively requires a careful appraisal of management and of the technical aspects of farm production. Credit must be geared to the resources and income of the borrower, the risks he can afford to take, and the nature of his operations. Knowledge of market conditions, economic trends and similar factors can also offer an important service to customers.

Sounder Loan Policies

Changing economic conditions, changing technology on farms, and even the weather can influence lending policies of a bank—policies that set limits on the terms, the amounts loaned, and the security required for different loan uses. For example, a bank may want to be unusually conservative in making feeder cattle loans when conditions seem risky. When conditions are less risky, such loans can be made soundly with only normal precautions.

As agriculture becomes more complex, rule-of-thumb lending guides become less adequate; determining lending policies of a bank requires the best and most complete information available. The agricultural specialist, equipped with an intimate knowledge of agriculture and the changing conditions affecting it, can offer helpful information and counsel in setting these policies.

Public Relations Aid

It will be natural for the agricultural representative to take a working part in the agricultural activities of the community. (Not that many bankers do not already do this—but the agricultural representative is in an ideal position to do so.) It will be recognized that his participation represents the support of his bank in worthwhile community projects. In this working contact with farmers and farm leaders, a closer relationship between the bank and the agricultural community can be developed.

Developing New Business

As the agricultural man becomes known and recognized in the community, the bank which has this kind of technically-trained specialist on its staff will undoubtedly get favorable attention from new customers seeking agricultural service.

Developing new business need not be limited to the attraction of new customers alone, however. It can also be developed through encouraging more effective use of credit by present customers. Many farmers could increase their earnings by expanding certain enterprises (through credit) that are not yet fully exploited from the standpoint of profits. Many agricultural specialists have helped them do so.

Banks that have employed full-time agricultural men have found that new business is attracted to the bank as a result of the additional contacts made and the additional services that are offered under this program.

Setting Up a Farm Department

Every bank, every community is different. In setting up a farm department in a commercial bank, all of the special conditions that may exist in a given community must be carefully considered—including:

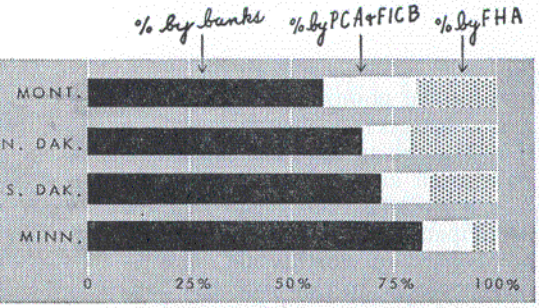
- The community—its resources and needs
- The bank—its operations and staff

Start with the Community

To be effective, the new department must relate itself realistically to the bank's trade area and to the community that it serves.

How large a trade area does the bank serve?

The area that a bank serves may be larger or smaller than the trade



NON-REAL ESTATE LOANS to farmers are shown above by type of lender, as of January 1, 1955. Those by FHA (Farmers Home Administration) are mainly emergency and other loans to borrowers who do not qualify for credit from regular sources, and thus are not entirely comparable to commercial loans extended by banks and PCA's.

area for the community itself. Even different services of the bank may extend to slightly different areas. For instance, the area served in its deposit and checking account function may be larger or smaller than the area it serves in making farm loans.

How important is agriculture within this trade area?

The role of the new farm department will depend not only on the importance of agriculture within the bank's trade area, but also on the type of agriculture involved. Is the farming predominately dairying, cash-crop farming, beef feeding, beef raising, hog raising, diversified farming?

What type of credit service is required?

A strictly cash-crop operation may need only short-term seasonal loans, with perhaps some longer-term credit for machinery and equipment. Lending for livestock purposes will differ with the type of livestock and with the program followed. Terms and repayment procedures are usually geared to the nature of farming operations.

The stability and complexity of farming operations in a particular community will help determine the emphasis given the new agricultural department — whether to improve the quality of loans, to expand services to borrowers, to increase loan volume, to improve customer relations or merely to continue routine credit services.

What other credit agencies operate within this same trade area?

The presence of other lending agencies, whether competing or complementary to the bank's services, will also help determine the department's function.

The Bank and Its Operations

The planning of an agricultural department must be related to certain objectives and needs of the bank itself.

How does the bank's present farm loan volume compare with the potential within its trade area?

If farmers in the community need more credit service than they are now getting, there would be an immediate opportunity to expand loans and income through the activities of a farm department. If farm credit needs are being adequately served, there may be other important reasons for establishing the farm department—such as more careful supervision of present loan operations.

What are the bank's present and past relationships with farmers in the community?

Setting up a farm department is an important step in improving relationships between the bank and farmers in the community. This can come in two ways—(1) the bank can learn to understand the needs of its customers better, and (2) it can help its customers understand the bank's services and operations better. Development of the agricultural department should not disturb or attempt to change overnight the normal role of the bank in its community. Rather, it should build upon that role and extend it.

What is the objective of the new department?

The particular role that the agricultural representative is expected to perform should be clearly defined and outlined by the management of the bank. What additional services is the new department expected to provide—to the bank, to farm customers, and to the community? When hired, the new farm representative will also want to have the benefit of this careful evaluation that has been made of the community, its needs, and the intended role of the bank within it.

How will the new department fit in with present bank operations and staff?

If the bank has been active in handling farm loans and serving other farm needs, then it may be a fairly easy matter to fit the farm department into the normal operations of the bank. If, on the other hand, the bank has not previously been as active as it expects to be in its agricultural business, careful adjustments may be required—both in the routine operations of the bank and in the thinking of the members of its staff.

Space and facilities within the bank will be needed, of course, for consultation with farm customers and for other duties. But more than physical facilities must be provided. There must also be a clear understanding by the bank's management and by other members of the staff of the intended role and operation of the new department.

Qualifications and Training

There are two ways for banks to acquire men with agricultural knowledge. A bank can take a man with a commercial banking background and train him in the field of agriculture. Or it can train an agricultural man in the field of commercial banking. Experience suggests that either method may be practical under some conditions. However, most persons with experience in this field believe it more practical to start with a man who has the technical knowledge and

background in agriculture and then give him the necessary training in banking operations.

The job of the agricultural specialist combines several talents—all of them important. To work effectively he must have a sound technical knowledge and background in agriculture. He should be familiar with the type of agriculture in the community. It will be helpful for him to have formal training in agricultural sciences at an agricultural college, including work related to farm management and farm credit.

Not only must he be familiar with production practices but he must also have the background to appraise farming as a business, applying farm management principles in the analysis of financial risks and credit use.

He should know values and be able to evaluate market factors and business trends, and help to interpret their meaning to his bank and to his customers. If his customers depend on him for personal consultation, he must be both accurate and discreet in giving advice.

He will need the judgment and understanding to consider fairly the human factor in making and collecting loans.

Finally, he must be competent in public relations; he must know how to present his views diplomatically, yet firmly enough to get compliance when necessary.

Most of the men hired for this type of work have had at least a few years experience as a county agent, vocational agriculture instructor, or something similar, so that the bank has some knowledge of his character, judgment, and ability to work effectively with people.

Provide Training in Bank Operations

To provide the farm representative with a basic knowledge of banking operations, many banks have set up a definite educational program — some over a period as long as two years. (A man qualified for the job ought to be able to grasp the fundamentals of bank operations within this time.) Many banks have arranged this educational program on a part-time basis, so that some time can also be spent in the country visiting with farm customers, making loan inspections and developing the intended agricultural program.

This program of familiarizing the agricultural specialist with banking operations is considered extremely important by men experienced in this type of work. They stress the need for being generally familiar with all banking operations —since the bank's customers will look upon him as representing the entire bank, not just one phase of its operations.

Expect Duties to Change

The new farm representative is apt to spend considerable time out of the bank getting acquainted with farm customers and becoming familiar with their farming operations firsthand. As he becomes better acquainted it usually follows that he is able to do more of his business with farm customers when they come into the bank. Being already familiar with their operations, he can make routine loans with a minimum of checking and appraisal of assets.

Because of this and of his in-the-bank training, the manner in which the farm representative performs his service is likely to change considerably during the first year or two. Frequent review and reappraisal of the department's services is desirable during this training and development stage.

Should Have Authority to Make Loans

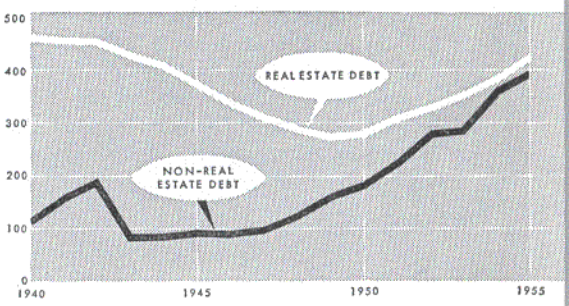
Most agricultural representatives emphasize that the farm man can work more effectively for his bank if he is given the authority to make routine farm loans just as soon as he is familiar enough with the bank's operations to do so. If he is not qualified to take on this responsibility (after adequate familiarization with the bank and with the community) then he probably is not the man for the job.

While there may be many acceptable variations in the authority which a farm specialist carries, the farm representatives emphasize this point: the bank's customers expect the agricultural man to make routine loans; they are not likely to accept him or be willing to discuss their financial problems freely with him if they find that he has not been entrusted with the authority to make such decisions.

The contribution of farm specialists in banking is indicated by the fact that in several Ninth district banks men who started as farm representatives have already been moved up into positions of greater responsibility. Here they continue their interest in the needs and progress of their farm customers, exerting a larger influence on bank policy while delegating the direct contact work with farm customers to new agriculturally-trained credit specialists.

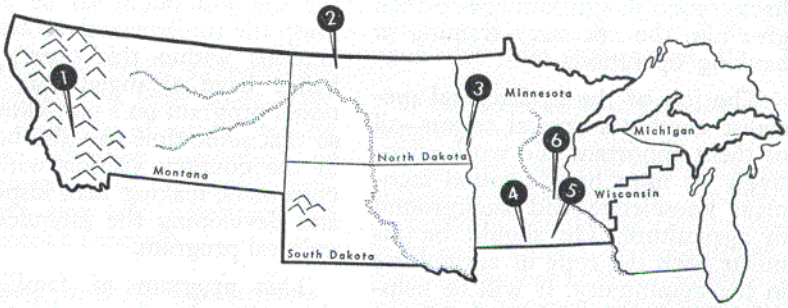
Obviously, not every bank is going to hire a farm specialist to work full-time with its farm customers. Many are providing the same kind of service with their present staffs. But the trend has a significance far beyond the number of banks now involved. The hiring of farm specialists clearly indicates greater attention to farm credit needs. These specialists provide farmers with an informed financial and credit service—and do a fine job for banking, too. END

THE TREND OF real estate and non-real estate loans extended to Ninth district farmers by major lending institutions (shown in the chart below in millions of dollars) illustrates the growing relative importance of short-term credit in agriculture today.



ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT



1-Expand Copper Output at Butte

The Anaconda Company has announced a program to "greatly increase" production from its Butte copper mines through the use of large new hoists capable of handling ores present at greater depths. Daily, 15,000 tons of nonferrous ore are now hoisted from the Kelley Shaft, one of the largest U. S. vertical mine openings—38 ft. long and 9 ft. wide. A planned new shaft would reach down below the Kelley Shaft depth to the higher-copper-content ore of the lower levels.

Anaconda officials say the Butte Hill mines will be producing copper for another 50 years or more. The cheaper mining methods now available also hold out hopes of reviving mining in the large but low-grade zinc deposits of the Alice and the Black Rock Mines at Butte. The underground methods the company would use in this mining operation are similar to those used at the Kelley Mine.

2-Significant N. D. Oil Find

An apparent major oil discovery was made late in August in North Dakota. Located well off the oil producer's "beaten path" in the state — 30 miles west of the Bottineau area and 65 miles east of the Nesson anticline—the discovery by Sohio Petroleum Company seems good for 300 to 400 barrels of water-free oil daily. Initial flows came from a 20 ft. interval of the Charles formation at a depth of about 4,500 ft.

3-Creamery Builds at Fargo

Construction is underway in Fargo on a million-dollar plant to house the Cass Clay Creamery Association, formerly located in Moorhead. Annual volume of the association, which draws its milk supply from an area of some 60 miles radius, has been $4.5 million, although the company now anticipates a substantial increase in business volume.

Completion of the new concrete and brick building (282 ft. by 258 ft.) is scheduled for early 1956. About 130 workers are employed by the association.

4-3M Expansion at Fairmont

In November the Minnesota Mining and Manufacturing Company is scheduled to begin construction at Fairmont, Minnesota, of an additional ribbon-manufacturing plant which will nearly triple existing facilities in Fairmont. The present plant has 52,000 sq. ft. of floor space available and employs approximately 150 workers. Cost of the program is estimated at $1.5 million.

5-Wilson boosts Albert Lea output

Albert Lea, Minnesota, will feel the impact of accelerated slaughtering operations in their Wilson & Company plant. This "Big Four" meat packer has announced abandonment of its Chicago pork slaughtering and transfer of those operations to its Albert Lea, Cedar Rapids and Omaha plants, all of which are closer to the sources of live hog supply. (The reduction of operations in Chicago will affect some 2500 workers there.) Decentralization has been a general trend among meat-packers since World War II.

Present production plans at Albert Lea call for expanded operations primarily through a longer work week, with a possible slight increase in employment.

6-New Shopping Centers

Two more suburban shopping centers near Minneapolis opened formally during the last week of August. The Knollwood Plaza in St. Louis Park, built at cost of $7 million (and with an estimated annual payroll of $3 million) opened August 24. The Crystal Shopping Center in Crystal, built at a cost of $3 million and consisting of 25 store and shop units, opened August 30.