

MONTHLY REVIEW

OF
AGRICULTURAL AND BUSINESS CONDITIONS
IN THE
NINTH FEDERAL RESERVE DISTRICT

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LOANS TO BUSINESS AND INDUSTRY

(Under Section 13b of the Federal
Reserve Act)

How Are Industrial Loan Applications Handled?

When the Federal Reserve Bank learns of a prospective borrower, the following steps are taken:

1. A simple preliminary application blank is sent to the applicant.
2. When this form is returned to the Federal Reserve Bank, it is referred to an investigator who immediately determines whether the loan has features which bar it from being granted under the terms of the Law.
3. If not, final application blanks are furnished to the applicant and an experienced investigator makes a personal examination of the books and assets of the applicant and appraises the value of security offered.
4. The final application and the investigator's report are submitted to the Industrial Advisory Committee, composed of representative business men, who review the case and recommend whether or not the loan should be granted.
5. On the next business day, this recommendation, whether for or against the loan, is submitted to the Executive Committee of the Federal Reserve Bank, which also reviews the case and decides whether or not to make the loan, fixing the conditions as to security and repayment.
6. When the loan conditions have been met by the applicant, the proceeds of the loan are paid as agreed.

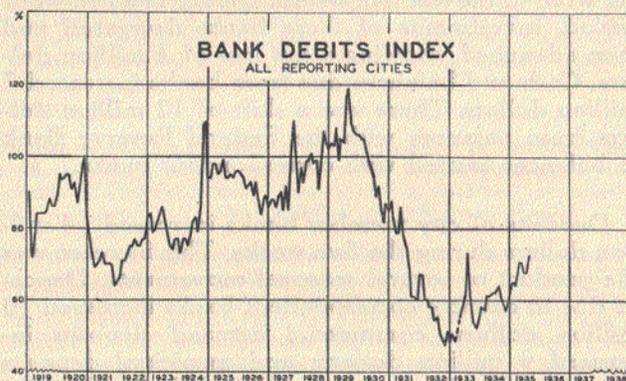
DISTRICT SUMMARY OF BUSINESS

The level of business in the district during August made a notable advance from the level of July, but apparently the level of August was not quite maintained in September. After eliminating seasonal factors, the bank debits index for August was the highest since July, 1933. Bank debits in agricultural communities were the highest since the summer of 1931. City retail trade and country lumber sales were both larger in August than in any previous month since 1931. Small increases occurred in the indexes of country check clearings and miscellaneous freight carloadings but the index of less-than-carlot freight loadings in August remained at the July level. On the basis of figures for the first part of September, the adjusted indexes of bank debits and country check clearings will be slightly below the indexes for August.

Northwestern Business Indexes

(Various base periods)

	August 1935	July 1935	August 1934	August 1933
Bank debits—94 cities.....	73	68	64	62
Bank debits, Farming centers	71	70	63	53
Country check clearings....	126.5	124.1	106.7	85.5
Department store sales.....	80	71	74	75
Country lumber sales.....	82	77	59	49
Carloadings—Miscellaneous..	69	67	64	54
Carloadings—L. C. L.....	60	60	61	64



Bank Debits Index for reporting cities in the Ninth Federal Reserve District, adjusted for seasonal variations.

Business in the district continued to run at a level considerably higher than a year ago. The daily average of bank debits in August and the first part of September was 14 per cent larger than in the corresponding periods last year. Country check clearings in August were 19 per cent larger than a year ago, and in the first fifteen days of September they were 17 per cent larger than a year ago. Other increases over last year's figures occurred in electric power consumption, freight carloadings, building permits and contracts, linseed product shipments, copper and iron ore output, grain marketings, butter production, life insurance sales, country lumber sales, and wholesale trade. Decreases from a year ago were reported for flour production and shipments and live stock receipts.

Retail trade, both at larger cities and in the small communities of the district, was larger in August than in the same month last year, but the percentages of increase were not as great as have been reported for earlier months. City department stores reported a dollar volume of sales 9 per cent larger than in August a year ago, and three hundred sixty-six rural stores reported an increase of 7 per cent. All portions of the district reported increases except the Dakotas. The greatest increases over last year's volume occurred in Montana, Minnesota, and northern Wisconsin and Michigan.

DISTRICT SUMMARY OF BANKING

Loans to customers by city member banks in the district have made the greatest seasonal advance this summer since the very abnormal increase in 1929. However, the advance started from such a low level of loans that the most recent reported total is only slightly higher than a year ago at this time. From May of this year, when total customer's loans of these banks amounted to 135 million dollars, there has been an increase to 159 million dollars on September 18, a rise of 24 million dollars or 18 per cent. Fourteen million dollars of this increase has occurred in the last five weeks. During this five-week period, investments of these banks decreased and then advanced, showing a net loss of 4 million dollars. Cash and balances due from banks increased 7 million dollars. There was a shift of 12 million dollars from balances with the Federal Reserve Bank to balances carried with correspondent banks.

Deposits of city member banks increased 14 million dollars during the five weeks. This increase was the product of several seasonal movements. Deposits due to country correspondent banks increased 10 million dollars; commercial demand deposits increased 9 million dollars; and municipal deposits decreased 7 million dollars. United States Government deposits increased 3 million dollars, and there were minor changes in other classifications.

District Changes in Banking in the First Half of 1935

Complete called report returns reveal that the deposits of all member and non-member banks in the district were \$1,245,000,000 on June 29, 1935, an increase of 47 million dollars during the first half of the year. This is the highest deposit total since December, 1931, and represents an increase of 250 million dollars from the low point of the depression. In other words, deposits have recovered one-third of the way to the deposit level of the pre-depression years. Of the deposit increase during the first half of 1935, 31 million dollars was in rural banks and 16 million dollars was in city banks.

Loans of all banks in the district increased 10 million dollars during the half year period. This was the first report of increasing loans since the fall of 1933, when an increase of 2½ million dollars occurred. Previous to that, loans had declined continuously since October, 1929. The loan increase in the first half of 1935 was entirely in the rural banks, for city bank loans decreased 4 million dollars.

Investment holdings declined 9 million dollars during the half year but investments continued to be larger than loans in every state of the district.

Cash and balances due from banks increased 26 million dollars during the half year, with both city and country banks sharing in the increase. On June 29, the total of these funds was \$413,000,000, the highest total on record. For the six months' period, the banks of the district had more balances with correspondent banks than they had loans.

Bank Returns in the Ninth Federal Reserve District

(000's omitted, except in number of banks)

June 29, 1935

	Loans	Investments	Cash and Due from Banks	Deposits	Borrowings	No. of Banks
Minnesota						
City Banks*.....	\$136,753	\$215,055	\$166,903	\$ 482,260	\$ 0	13
Rural Minnesota.....	119,559	173,353	111,447	364,334	99	672
North Dakota.....	25,048	29,380	22,522	67,618	127	207
South Dakota.....	29,664	31,082	30,601	80,443	54	206
Montana.....	27,378	49,774	47,168	112,389	8	120
Michigan**.....	18,923	34,442	12,524	57,759	40	56
Wisconsin**.....	27,851	39,837	22,205	79,934	123	142
Total.....	\$385,176	\$572,923	\$413,370	\$1,244,737	\$451	1,416

December 31, 1934

	Loans	Investments	Cash and Due from Banks	Deposits	Borrowings	No. of Banks
Minnesota						
City Banks*.....	\$140,785	\$221,549	\$150,022	\$ 466,462	\$ 0	14
Rural Minnesota.....	113,052	169,742	106,353	343,658	0	675
North Dakota.....	22,900	32,047	24,517	68,399	145	211
South Dakota.....	26,745	34,972	28,821	79,118	24	212
Montana.....	25,007	53,177	46,925	111,796	15	123
Michigan**.....	19,229	32,815	12,077	55,458	66	55
Wisconsin**.....	27,670	37,545	18,392	72,827	81	142
Total.....	\$375,388	\$581,847	\$387,107	\$1,197,718	\$331	1,432

*Twin City national banks and Minnesota savings banks and trust companies.

**Portion of state in the Ninth Federal Reserve District.

DISTRICT SUMMARY OF AGRICULTURE

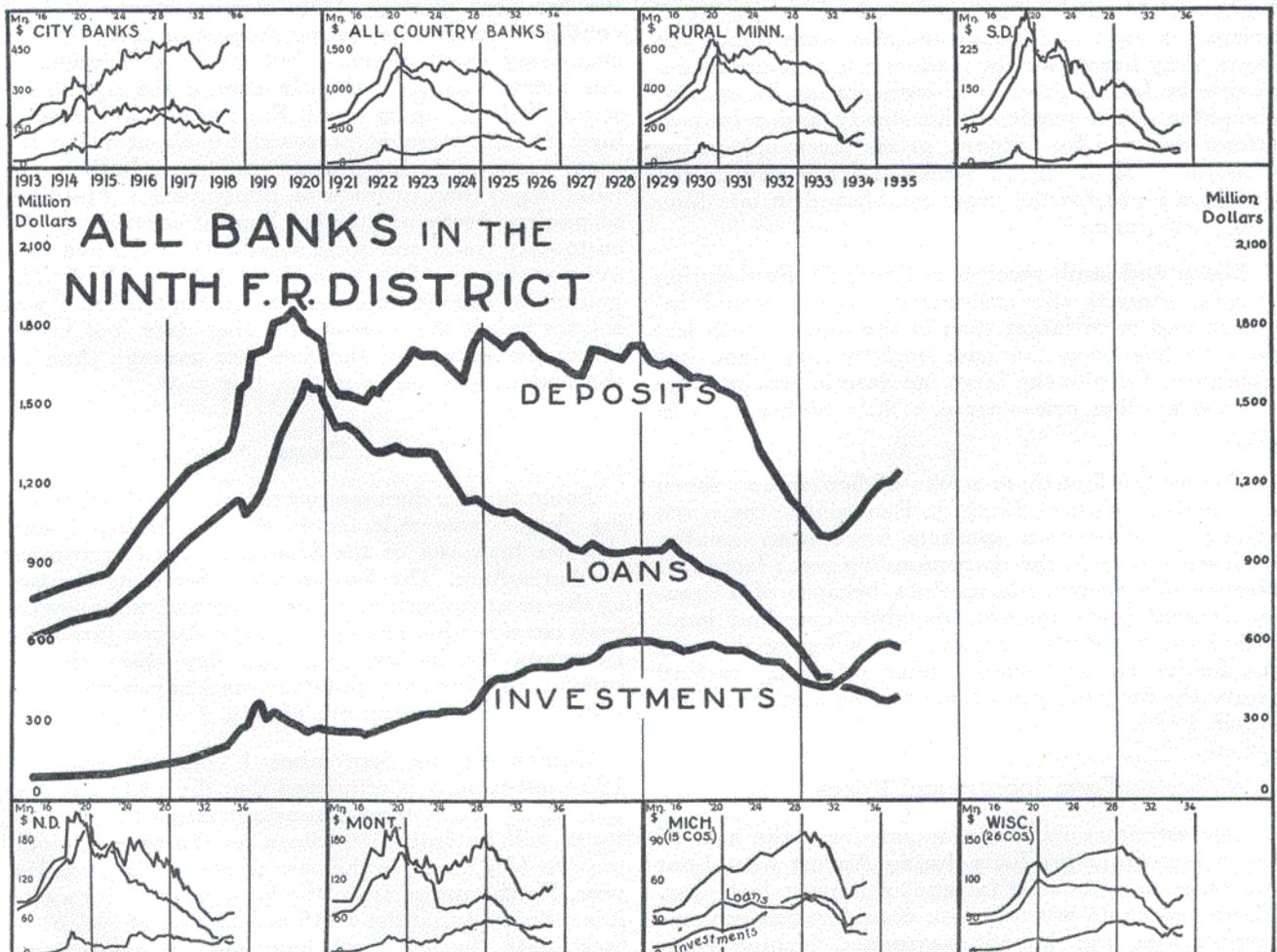
Live Stock

Hog receipts at South St. Paul during August were seasonally smaller than in July and were less than half as large as in August, 1934. The decrease in receipts early in the month resulted in rapid gains in prices, which reached \$12.00 on August 14, the highest butcher hog price since September, 1928. During the last half of the month, prices were erratic but continued at a sufficiently high level to establish a median of \$11.00 for the entire month. Because of rapid depletion of reserve stocks of lard, "heavy hogs" (over 300 lbs.) scored greater gains than "all hogs" and were \$1.65 per hundredweight higher than in July and \$5.50 a hundredweight higher than in August last year.

During the first three weeks of September hog re-

ceipts at South St. Paul and at the other principal midwestern markets were less than one-third and one-half, respectively, of the receipts during the same three weeks a year ago. Prices held steady at about the same levels as in August, the only change being a strengthening of the demand for feeders and light weights that pushed feeder pig prices up to \$12.35, the highest feeder pig price since August, 1929.

Cattle receipts at South St. Paul during August were slightly larger than the "commercial" receipts in the same month last year but only about 40 per cent as large as commercial and government drouth relief purchases combined. Prices of all classes of cattle were moderately higher than in July with the exception of butcher steers. Steers of ordinary quality predominated in the heavy butcher steer class



and were in little demand, the August median being \$1.25 below that of July. Ordinary light weight butcher steer prices declined slightly, but both light weight and heavy weight butcher steers were about 50 per cent higher than in August last year. Prices of all other classes of live stock were also much higher than in August last year.

Butcher cattle receipts during the first three weeks of September were slightly below receipts in the same three weeks last year at South St. Paul, and at the seven midwestern markets were much smaller. Short supplies and a stronger dressed trade market resulted in firm and rising prices for live cattle. During the third week of September an increasing proportion of receipts were "grassy" and not so desirable for killing purposes. Because of this, prices for "grassers" declined a little although prices of "grain-fed" held steady.

Supplies of feeder cattle were fairly large during August and the first three weeks of September, and were rapidly absorbed by a broadening demand. Light weight cattle were preferred, although "top" prices for light and heavy weights were about the same. Any heavy weight feeders not considered desirable by feeder purchasers were readily bought for slaughter. As a result of the steady and relatively strong demand for feeders, prices increased during a majority of the seven weeks under review to the previous highs for the year, established in late May and early June.

Sheep and lamb receipts at South St. Paul during August showed the customary large seasonal increase and were larger than in the same month last year as has been the case each month since last February. Despite the large increase in receipts, the August median prices were a little higher than in July.

During the first three weeks of September, sheep and lamb receipts at South St. Paul and at the seven principal midwestern markets have been smaller each week than in the corresponding week last year. Despite this decrease in receipts, because of a draggy dressed trade market, slaughter ewe and lamb prices showed little increase, but a heavy demand for feeder lambs firmed feeder prices up to and above the fat lamb price level for the first time since April, 1930.

Farm Income and Prices

Our estimates of farm income from the sale of seven important products during August was about the same as estimated income in August last year. These figures do not take into consideration government rental and benefit payments. Income from bread wheat, flax, potatoes, and dairy products was slightly larger than a year ago, and there were decreases in the income from durum wheat, rye, and hogs.

Prices of wheat, feeder steers, hogs, lambs, butter, hens, eggs, and potatoes were higher in August than in July. Feed grain prices declined, and butcher cattle prices showed mixed trends. All live stock prices, as well as bread, corn, potatoes, hens and eggs, were higher than a year ago, whereas the prices of durum wheat, feed grains, butter, and milk were lower than a year ago. The composite farm price index of the University of Minnesota declined from 73.9 in July to 70.8 in August. The August index was lower than the index for August last year, which was 72.4.

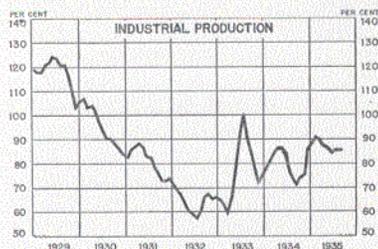
Cold Storage Holdings

Important increases in the prices of pork and lard, due to small receipts and far below normal cold storage holdings, caused a sharp decline in consumption during August. As a result, the August decreases in cold storage holdings of pork and lard were less than half as large as in the same month last year, and but little more than half as large as the five-year average. Cold storage stocks of beef continued to decline during August in contrast to a customary small increase, but stocks of miscellaneous meats increased slightly during the month instead of declining as usual. Butter and cheese holdings in cold storage increased by about twice the usual amount during August and were both somewhat larger than average on September 1. Holdings of poultry decreased during August contrary to the customary trend and were smaller than the five-year average for the first time since July 1, 1934. The volume of eggs in cold storage on September 1 was a little below the average for that date, but was a larger percentage of the five-year average than on the first of any other month this year.

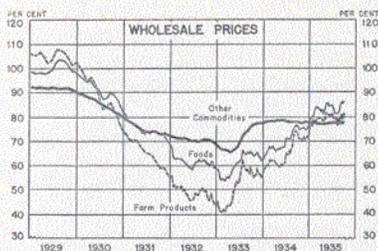
Crops

Some further damage to crops in our district during August was reflected in the September 1 production forecasts of the United States Department of Agriculture. The September 1 forecasts for two of the most important crops, corn and wheat, were both considerably smaller than the August forecasts. Forecasts for barley, rye, and flax were slightly smaller and for oats, potatoes, and hay were somewhat larger than a month earlier.

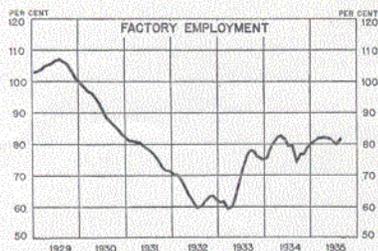
Comparing the September 1 forecasts with the 1934 out-turn, it is estimated that the 1935 production of the eight most important crops in our four states will be from 1½ times, in the case of potatoes, to 6½ times, in the case of rye, as large as last year. Furthermore, from the September 1 forecasts, it is estimated that the 1935 production of rye, potatoes, oats, barley, and hay will be appreciably larger than the average production in the years 1924-1933; corn will be only slightly smaller and flax and wheat will be about 13 and 27 per cent smaller, respectively, than the ten-year average.



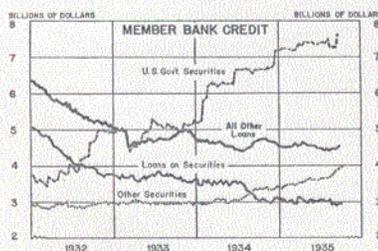
Index number of industrial production, adjusted for seasonal variation (1923-1925 average=100).



Indexes of the United States Bureau of Labor Statistics (1926=100). By months 1929 to 1931; by weeks 1932 to date.



Index of factory employment, adjusted for seasonal variation (1923-1925 average=100).



Wednesday figures for reporting member banks in 91 leading cities (latest figures are for September 18, 1935).

Summary of National Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM SEPTEMBER 24, 1935

The total volume of industrial production increased in August by about the usual seasonal amount. Steel output increased more than seasonally, while the output of automobile and anthracite declined sharply. Factory employment and pay rolls increased. Wholesale prices of farm products and metals advanced during August and the first two weeks of September. The prices of wheat and metals increased further in the third week of the month.

PRODUCTION AND EMPLOYMENT: Industrial production increased seasonally in August and the Board's index, which is adjusted to allow for usual seasonal variations, remained unchanged at 86 per cent of the 1923-1925 average. Activity at steel mills showed a considerable increase from July to August, and in the first three weeks of September was at a level higher than in any other month since February. Automobile assemblies declined by about 30 per cent in August and showed a further sharp reduction in the early part of September, reflecting in part preparations for early introduction of new models. At lumber mills output continued to increase in August. Cotton consumption by domestic mills increased slightly from recent relatively low levels, and activity at woolen mills was maintained at a high rate. At mines, output of anthracite decreased sharply in August, while output of bituminous coal showed an increase.

Factory employment and payrolls increased between the middle of July and the middle of August by more than the usual seasonal amount. Marked increases in employment were reported for the steel, machinery, lumber, silk, and clothing industries, while at automobile factories employment declined somewhat. The number of wage earners engaged in the production of durable manufactures in August was 6 per cent larger than a year earlier, while the volume of employment in other manufacturing industries as a group showed little change. Total factory employment was 3 per cent larger than in August, 1934.

Daily average value of construction contracts, as reported by the F. W. Dodge Corporation, showed little change in August and the first half of September. Contracts for residential building, which earlier in the year had increased considerably, showed a decrease for this period, while the volume of public projects increased.

Department of Agriculture estimates based on September 1 conditions indicate a cotton crop of 11,489,000 bales, as compared with the unusually small crop of 9,636,000 bales last year. The indicated crops of corn, wheat, and other grains are considerably larger than last year, when drought conditions prevailed, and the condition of pastures is above the ten-year average.

DISTRIBUTION: Freight carloadings increased considerably in August and the first half of September, partly as a consequence of seasonal factors. Department store sales increased slightly less than seasonally from July to August.

COMMODITY PRICES: The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, advanced from 79.6 per cent of the 1926 average at the beginning of August to 80.8 per cent in the second week of September and prices of many leading commodities, including wheat, silk, copper, lead, and zinc, advanced further in the third week of the month. Cotton prices declined considerably in August and showed relatively little change in the first three weeks of September.

BANK CREDIT: Excess reserves of member banks declined in the five-week period ended September 18, reflecting a temporary increase in the Treasury's total holdings of cash and deposits at Federal Reserve Banks and a seasonal increase of money in circulation, which was partly offset by an inflow of gold from abroad.

Total loans and investments of reporting banks in leading cities increased by \$610,000,000 during the five weeks ended September 18. Loans increased by \$100,000,000, holdings of United States Government direct obligations by \$390,000,000, holdings of United States guaranteed securities by \$70,000,000, and holdings of other securities by \$50,000,000. Adjusted demand deposits of these banks; that is, demand deposits other than government and bank deposits, adjusted for collection items, increased by \$140,000,000, United States Government deposits by \$160,000,000, and balances due to banks by \$270,000,000.

Yields on government securities rose somewhat further during this period, while other short-term open market money rates remained at previous low levels.