MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

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DISTRICT SUMMARY OF BUSINESS

Continuing at the early July level during the latter part of the month, the volume of business in the Ninth Federal Reserve District during July, as measured by bank debits, was larger than in any month in more than five years. The adjusted index of bank debits at ninety-four cities rose from 79 in June to 86 in July which was by far the highest point since May, 1931. Our index for bank debits in the farming centers exclusively rose from 83 in June to 85 in July, the highest point since March, 1931. For the three weeks ending August 19, bank debits at seventeen cities were reported in a volume which, if continued during the remainder of the month, will raise the bank debits index for large and small cities combined to 90, another new high for the recovery period.

Our other adjusted indexes showed both increases and declines between June and July. Country check clearings rose one point to 147. L.C.L. carloadings also rose one point to 62 for the fifth time since January, 1934. On the other hand, department store sales decreased precipitously, as has happened in several recent years, and country lumber sales and miscellaneous carloadings declined to a lesser degree.

Northwestern Business Indexes

(Varying base periods)

	July 1936	June 1936	July 1935	July 1934
Bank Debits—94 cities	86	79	68	62
Bank Debits—Farming Centers	85	83	70	61
Country Check Clearings	147	146	124	99
Department Store Sales	81	88	71	61
Country Lumber Sales	86	88	77	51
Miscellaneous Carloadings	80	81	67	61
L. C. L. Carloadings	62	61	60	60

The July volume of business was materially higher than the volume in July a year ago. Bank debits for the district were up 27 per cent and country check clearings were 18 per cent larger than last year. Freight carloadings in July were 44 per cent larger than in July a year ago, with all classifications showing important increases. Livestock loadings were more than double those of a year ago because of shipments from drouth areas. Continued recovery in the heavy industries resulted in a further increase in ore loadings, the July total of 148 thousand cars being the largest in any month since August, 1930. Other records of business volume in the Northwest showing increases over 1935 included electric power consumption, copper output, building permits and contracts, real estate activity in Hennepin and Ramsey counties, flour production, flour and linseed product shipments, marketings of rye and flax, receipts of cattle, calves and hogs, wholesale trade, and life insurance sales. There were decreases in the volume of butter production, bread and durum wheat marketings and in receipts of sheep and lambs at South St. Paul.

Retail trade in the district continued to be larger than a year ago. Twenty city department stores reported a 12 per cent increase in July over the same month last year, and three hundred and seventy country stores reported a 13 per cent increase. There were only three sections of the rural Northwest that reported decreases in sales as compared with July last year. These sections were all in the drouth area of our district, South Dakota west of the Missouri River, Northwestern North Dakota, and Southeastern North Dakota. Northeastern Minnesota again reported the largest increase, July sales this year being 44 per cent larger than in July a year ago, doubtless because of the large increase in tourist and resort trade.

DISTRICT SUMMARY OF BANKING

During the latter part of July, total deposits at weekly reporting city banks in this district decreased nearly $20 million from the all time high of $563 million, but by August 19 had again increased to about $550 million. Temporary withdrawals by country correspondents were responsible for most of the deposit decline. Later, continual decreases in the volume of municipal deposits offset much of the increase when the country banks transferred balances back to their city correspondents. Government deposits, time deposits, and demand deposits of individuals, partnerships, and corporations were practically unchanged.

On the asset side of the combined city bank balance sheet, loans to customers increased a little each week between July 15 and August 19 and on the latter date were slightly higher than on the corresponding date a year ago. Other invested funds have also increased each week since July 15, except for a very small decline during the last week of the period under review, and on August 12 established a new all time record high at a little more than $246 million. The net effect of these balance sheet changes, decreases in deposits and increases in loans to customers and other invested funds, was a decline of about $30 million in cash and due from banks.

Interest rates charged by banks in Minneapolis at the middle of August were unchanged from those prevailing a month earlier, but were a little lower than at the middle of August last year.

City and country member bank reserve accounts at this Federal Reserve Bank increased further between mid-July and mid-August extending the period of continual weekly increases from June 17 to August 19. The small amount of member bank borrowings from this bank at the beginning of July was paid off during the first week of that month and no bills have been discounted for member banks since that time. The total of our outstanding industrial advances continued to decrease each week following a small increase on July 1, and on August 19 was smaller than at any time since late in 1934.

Following the increase of 50 per cent in reserve requirements of member banks which became effective after the close of business on August 15, according to a statement issued by the Board of Governors of the Federal Reserve System, aggregate required reserves of all member banks in the United States increased approximately $1,470 million during the week ended August 19 and excess reserves declined from approximately $3,170 million on August 12 to about $1,810 million on August 19. During this period, member bank reserve balances with the Federal Reserve banks increased by $113 million.

In this district, if country member bank deposits remained at approximately the same level during the first three weeks of August as in the last half of July as is indicated by a sample group of banks representing approximately one-fifth of the total of country member bank demand deposits, aggregate required reserves increased more than $25 million during that period. The increase in required reserves at reserve city banks (Minneapolis, St. Paul, and Helena) amounted to a little more than $15 million and at country banks to a little more than $10 million. During this period, country member bank reserve balances at this bank increased nearly $5 million while city member bank reserve balances increased a little more than $1 million, and both city and country member banks continued to be supplied with an excess over reserve requirements.

DISTRICT SUMMARY OF AGRICULTURE

Farm Income and Prices

Farmers' cash income in this district during June and July was considerably higher than a year ago, and continued at the highest level since 1930. Complete government estimates for June covering the four states of Minnesota, North Dakota, South Dakota, and Montana, show farm income of slightly more than $57 million, compared with a little over $31 million in June last year. There were increases in receipts from the sale of crops, of livestock and livestock products, and from government rental and benefit payments.

Estimates made in this office for farm income in this district from six important items totalled nearly $35 million during July, 1936, as compared with $26½ million in July a year ago. These figures do not include estimates of government rental and benefit payments. Income from the sale of hogs and flax during July was nearly twice as large as a year ago as a result of both heavier marketings and higher prices. The income from dairy products was 23 per cent larger in July than a year ago also as a result of both larger production and higher prices, but income from bread wheat and durum was a little smaller than in July last year because of large reductions in marketing volume.

July prices of the more important farm products showed mixed trends as compared with a year ago. All cattle prices, except calves, were lower in July this year, but prices for hogs, sheep, dairy products, and all of the grains were higher than in July last year. Egg prices were a little lower in July this year, and calf prices were unchanged. The farm product price index computed by the University of Minnesota soared from 78 in June to 86 in July, the highest July figure since 1929. The index figure in July last year was 74.

Livestock Marketings

Receipts of all kinds of livestock at South St. Paul during July were larger than in the preceding month. They were also much larger than in July last year with the exception of sheep and lambs. Acute drouth conditions prevailing throughout a large portion of the district were chiefly responsible for the large increase in marketings at South St. Paul. The rapid deterioration of ranges and pastures forced many thousand head of cattle and sheep marketward, and the very unsatisfactory prospects of corn for grain led to the disposal of many additional thousand head of hogs. Furthermore, the almost complete failure of corn for grain in nearby states in other Federal Reserve districts has greatly decreased the direct shipments of livestock from producers to feeders. For many years increasing numbers of young cattle, hogs, and lambs have been sold by farmers in the Ninth District to feeders in other Corn Belt states, but the number of these transactions has been drastically reduced this year, resulting in the receipt of a much larger percentage of the total marketings than usual at the principal livestock markets. About the middle of July, plans for governmental purchases of some of the drouth-forced marketings were completed. No purchases were made, however, until late in the month and in early August.

Prices of all classes of butcher cattle except cows were higher in July than in June but were lower than in July last year. Because of the greatly lessened demand and the increased supplies, feeder cattle prices dropped sharply from the June level and were much lower than in July last year. During the first three weeks of August receipts continued relatively large, but a fairly broad replacement demand for thin cows and low-grade heifers gave sufficient support to prevent any important price declines.

Shipments of stocker and feeder cattle during July from South St. Paul were much larger than in the preceding month and in July last year, partly because of the reduced volume of "direct feeder shipments" previously mentioned, but were far below the volume reached in the preceding drouth year 1934. The comparatively steady replacement demand continued throughout the first three weeks of August. During the third week of August, feeder cattle prices were at about the same level as in early July despite the large number of head that had been received in the meantime.

The dairy cow market at South St. Paul was somewhat unsettled during the first half of July because of decreased local demand and the extremely hot weather. About mid-month, however, the market firmed up in anticipation of the 35c per hundredweight increase in the basic price for milk in this area. During the last half of July and the first half of August, the price range held steady at $40 to $70. Owing to a little broader shipping demand during the third week in August, prices rose to $75 on selected animals, and dropped to $35 to local buyers on very plain kinds. At these prices, shipping orders continued broad with interest reported from sections as far distant as Maryland and California.

Hog receipts at South St. Paul during July were larger than in any other month since December, 1934, and larger than in any other July since 1931. Despite the large increase in supplies, prices held about steady throughout July and then established a new high for the year during the last week of the month. In each of the first three weeks of August, receipts at South St. Paul were larger than in the preceding week. Hog receipts in the first three weeks of August totalled nearly 100 thousand head, compared with receipts of only 25 thousand head in the same period last year. However, receipts at the seven principal mid-west markets have been declining each week. As a result of the dwindling supplies at other markets, packing demand continued strong and on August 17 prices climbed to $11.30, the highest price since last September.

Sheep and lamb receipts at South St. Paul during July showed some increase over the preceding month but were little more than half as large as in July last year. Prices for both ewes and lambs declined during July but were well above the July, 1935, level. During the first three weeks of August, receipts increased seasonally both at South St. Paul and at the other principal mid-western markets, and prices declined slightly.

Production of shorn wool in 1936 was slightly smaller than in 1935, and total supplies of wool on hand in this country at the end of June were smaller than a year earlier. Mill consumption of wool in recent months has been at a considerably lower level than in the last three quarters of 1935.

Imports of Canadian cattle, 700 pounds and over (including dairy cows) during the first half of 1936 were more than twice as large as in the same six months last year despite declines in the number imported in each of the last three months of the period. Increases in imports of veal calves and other cattle weighing less than 700 pounds during June raised the January-June total to slightly more than double the number in the same period last year. Figures summarizing our Canadian cattle trade for the first half of this year and last appear in the following table, together with quota amounts and percentages of quotas imported during the first half of 1936:

	Jan.-June 1936	Jan.-June 1935	Annual Quota	% Jan.-June 1936 of Quota
Less than 175 lbs.	34,083	(1)	51,933 (2)	66
175 lbs. to 699 lbs.	10,396	(1)	(3)	(3)
Total under 700 lbs.	44,479	22,143		
Dairy cows over 700 lbs.	2,681	(1)	20,000	13
All other over 700 lbs.	110,855	(1)	155,799 (4)	71
Total over 700 lbs.	113,536	50,255	175,799	65
All Cattle and Calves	158,015	72,398	227,730	69

(1) Not available prior to January 1, 1936.
(2) ¼% of 1928-1932 average United States slaughter.
(3) Included with "All other over 700 lbs."
(4) ¾% of 1928-1932 average United States slaughter.

1936 Livestock Outlook

While the Department of Agriculture's midsummer livestock outlook reports recently released referred to the entire United States, many of the statements were also specifically applicable to this district. According to the reports, cattle numbers in the United States, although considerably smaller than two years ago, are still relatively large, but because of the drouth prevailing over a wide area will probably be smaller by the end of 1936 than at the end of 1935. Cattle slaughter during the remainder of 1936 is expected to be relatively large and larger than that in the corresponding period of 1935, most of the increase being in low-grade cows and heifers. Slaughter in 1937 probably will be less than that in 1936.

Cattle marketings this summer and fall will include a larger than usual proportion suitable for stockers and feeders, but because of the short supplies of feed as a result of the drouth and the unfavorable returns from cattle feeding this year, the demand for feeder cattle this fall will not be so strong as the unusually strong demand which prevailed a year earlier. The number of cattle placed on feed this coming fall and winter, therefore, is expected to be considerably smaller than the number fed a year earlier. Despite higher feed costs in the 1936-1937 feeding season, the outcome of feeding operations in that period is likely to be much more favorable than in the corresponding period of 1935-1936. Further improvement in consumer demand for meats is indicated during the remainder of 1936 and the first half of 1937.

The number of hogs for slaughter in the 1936-1937 marketing year, beginning next October, probably will be from 10 to 20 per cent larger than in

the marketing years 1935-1936 and 1934-1935, when the totals were the smallest in many years. The indicated supplies for the coming year, however, are from 20 to 25 per cent less than the average of the five years preceding 1934-1935. The total for market in 1936-1937 would have been further increased had not the 1936 drouth greatly curtailed feed grain production and thereby compelled many hog raisers to change their 1936 fall farrowing plans. Average weights probably will be lighter than usual and about the same as in 1934-1935.

The seasonal distribution of marketings during the 1936-1937 marketing year is likely to be much different from that of the present year. Current conditions indicate that hog slaughter during the three months, October to December, 1936, will represent a larger than usual proportion of both the marketing year total and the winter total (October to March). The entire winter supply will be a larger than average proportion of the year's supply.

Further improvement in consumer demand for meats in this country is in prospect but little change in the foreign outlet for American hog products seems likely. A relatively strong storage demand for hog products during the coming winter is to be expected in view of the small supplies of hogs likely to be available for slaughter next summer. Hog prices during the 1936-1937 year probably will average about the same as in 1935-1936.

Slaughter supplies of lambs in the remainder of 1936 probably will increase more than usual and some decline in slaughter lamb prices is likely in this period. Supplies of feeder lambs also will be relatively large and reduced feed supplies may adversely affect the demand for such lambs. It is expected, therefore, that the spread between prices of feeder lambs and prices of slaughter lambs this fall will be wider than usual. Prices of lambs next winter and spring will depend to a considerable extent upon the number of lambs fed next winter, which is now very uncertain because of the reduction in feed supplies on account of the drouth. The improvement in consumer demand and the small slaughter supplies of other livestock in prospect in early 1937 will then be strengthening factors to prices of fed lambs. The 1936 lamb crop was about 9 per cent larger than that of a year earlier, with all of the increase occurring in the western sheep states. The market movement of new crop lambs thus far this year has been delayed considerably by unfavorable weather and poor feed and pasture conditions. This delay in marketings, combined with the larger lamb crop, probably will cause lamb marketings in the remainder of 1936 to be materially larger than in the same period of 1935.

Cold Storage

While the movement of foodstuffs into cold storage to some extent reflected the increased marketings of livestock and livestock products, cold storage holdings of nearly all commodities on August 1 were well below the five year average. Cheese stocks were still a little larger than the average, but a smaller than usual increase during July materially improved the situation in regard to that commodity. Poultry was the only other item with August 1 holdings exceeding the average for that date. Whereas a small decline in poultry holdings is customary during July, stocks increased more than 15 per cent in July this year, resulting in the largest August 1 holdings of poultry in recent years. Because of the much larger marketings of hogs, cold storage holdings of pork and lard increased somewhat more than seasonally, but the August 1 stocks were still much smaller than the average for that date.

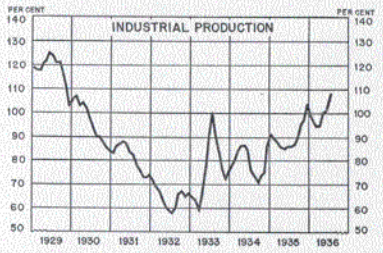
Crops

Reflecting the effect of temperatures of 100 degrees or more for twenty-five consecutive days and the far below normal amount of rainfall in July, the August 1 estimates for the eight principal crops in this district were all much lower than those of July 1 with the single exception of rye. The August 1 rye estimate for this district was 5 per cent larger than the July 1 forecast as a result of higher than anticipated actual threshing returns in South Dakota which more than offset the small additional declines in the North Dakota and Montana estimates. Corn was damaged most by the July heat and drouth, the July 1 forecast of 190 million bushels being reduced 50 per cent to only 95 million bushels. The August 1 corn estimate for our four states combined was the smallest on record. Crop production in this district will apparently be a little larger than in 1934, but smaller than in any other recent year.

August 1, 1936, Estimated Production of Selected Crops in Minnesota, Montana, North Dakota, and South Dakota with Comparisons (Thousand bushels except hay)

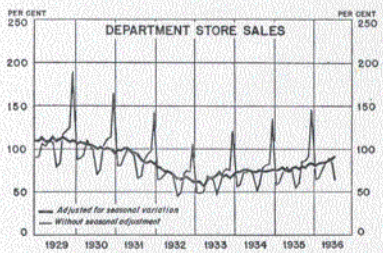
	Aug. 1, 1936	July 1, 1936	1935	% 8-1-36 of 1935	10-yr. Average	% 8-1-36 of 10-yr. Average
Spring Wheat	46,218	56,306	95,235	49	121,600	38
Durum Wheat	9,031	9,610	22,957	39	43,711	21
Winter Wheat	8,810	10,600	17,185	51	13,969	63
Rye	10,343	9,834	31,404	33	20,426	51
Flax	5,131	8,221	12,827	40	14,305	36
Potatoes	17,261	26,516	47,985	36	42,594	41
Corn	95,008	189,666	221,788	43	228,744	42
Oats	113,655	128,940	306,753	37	223,180	51
Barley	42,170	51,627	144,436	29	104,864	40
All Hay*	8,631	8,918	12,388	64	11,911	72

*Thousand tons.

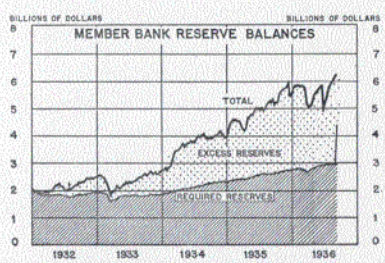


Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January, 1929, to July, 1936.

Index of number employed, adjusted for seasonal variation, 1923-1925 average = 100. By months January, 1929, to July, 1936.



Indexes of value of sales, 1923-1925 average = 100. By months, January, 1929, to July, 1936.



Wednesday figures of total member bank reserve balances at Federal Reserve Banks, with estimates of required and excess reserves, January 6, 1932, to August 19, 1936.

Summary of National Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUGUST 26, 1936

Production, employment, and trade increased further in July, when allowance is made for the usual seasonal changes, and commodity prices continued to advance. Money remained at extremely low levels.

PRODUCTION AND EMPLOYMENT: Industrial production, which usually declines considerably in July, was maintained at the level of the preceding three months, and the Board's seasonally adjusted index advanced to 108 per cent of the 1923-1925 average as compared with 103 per cent in June. Output of steel continued at about the June rate, although a sharp decrease is usual, and automobile production declined by less than the usual amount. In the first three weeks of August there was little change in activity at steel mills, while at automobile factories output was curtailed as preparations were made for the production of 1937 models. Output of non-durable products was larger in July than in June, reflecting chiefly a sharp rise in activity at cotton mills and greater than seasonal increases in production at shoe factories, silk mills, and flour mills. At coal mines output increased and crude petroleum continued to be produced in large volume.

Factory employment increased further in July, contrary to seasonal tendency. The number of workers was larger than in June at steel mills, foundry and machine shops, and furniture factories, while at railroad repair shops there was a decline. Among the non-durable goods industries, employment increased at textile mills and meat packing plants, and declined less than seasonally at establishments producing wearing apparel. Factory payrolls decreased by a smaller amount than is usual in July.

The value of construction contracts awarded increased considerably from June to July, according to the F. W. Dodge Corporation, with large increases reported for both publicly-financed and privately-financed work.

AGRICULTURE: Crop prospects declined during July as a result of continued drouth. On the basis of August 1 conditions, the corn crop was estimated by the Department of Agriculture at 1,439,000,000 bushels, a reduction of 37 per cent from last season, and estimates for spring wheat, hay, and potatoes were also considerably under the harvests of a year ago. The cotton crop was forecast at 12,481,000 bales as compared with 10,638,000 bales last year and an average of 14,667,000 bales during the five years 1928-1932.

DISTRIBUTION: Retail trade was sustained in July at a higher level than is usual in that month. The Board's adjusted index of department store sales, which allows for a considerable seasonal decline, increased from 88 per cent of the 1923-1925 average in June to 91 per cent in July and mail order and variety store sales also showed smaller decreases than are usual for the season. Freight carloadings increased in July.

COMMODITY PRICES: Wholesale commodity prices continued to advance between the middle of July and the middle of August. Prices of wheat, flour, feed grains, and dairy products rose considerably, owing primarily to the drouth and livestock prices also advanced while cotton declined. There was a considerable increase in the price of steel scrap.

BANK CREDIT: Excess reserves of member banks decreased from $2,290,000,000 on July 15 to $1,810,000,000 on August 19. About $1,470,000,000 of excess reserves were absorbed by the increase of 50 per cent in reserve requirements of member banks, which went into effect August 15. This decrease was offset in part by a growth of $360,000,000 in total reserve balances, reflecting principally large disbursements by the Treasury from its funds held on deposit with Federal Reserve banks. After the increase in reserve requirements, there remained a large amount of excess reserves widely distributed among member banks. The money market was not affected by the action, and interest rates remained at extremely low levels. In the week ending August 19 a few scattered banks borrowed at the reserve banks, but the total amount borrowed was negligible and some banks drew upon their balances with other banks in order to meet the increase in requirements. Deposits of domestic banks with reporting member banks in leading cities declined by $210,000,000 in the week.

Between July 15 and August 19 loans and investments of reporting member banks in leading cities declined by $260,000,000, reflecting reductions of $130,000,000 in loans on securities and of $160,000,000 in holdings of United States Government direct obligations, partly offset by an increase of $60,000,000 in other loans to customers. Adjusted demand deposits, which increased to a new high level on July 22, were slightly smaller on August 19.