MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 7 (Serial No. 278) **Federal Reserve Bank, Minneapolis, Minn.** **February 28, 1938**

Most business indexes were lower than in January last year but rural retail trade and country check clearings indexes were slightly above a year ago. Bank loans and deposits decreased during the month. Farm income in this district was higher in January than a year ago.

BUSINESS

The volume of business in January as measured by our seasonally adjusted indexes was slightly lower than in the preceding month. The rural retail trade and country check clearings indexes were higher than in any other January in our records, but all of the other indexes were lower than in January last year. The department store stocks index declined for the fifth successive month. At the end of January it was lower than at any time since last April and lower than in January of the two preceding years.

Northwestern Business Indexes
(1929-1931=100)

	Jan. 1938	Dec. 1937	Jan. 1937	Jan. 1936
Bank debits—94 cities	88	84	94	81
Bank debits—farming centers	88	90	92	81
Country check clearings	149	149	148	133
Department store sales	87	94	89	83
Department store stocks	79p	81	81	81
Rural retail trade	95p	89	94	89
Country lumber sales	98	101	101	84
Miscellaneous carloadings	85	90	106	86
L.C.L. carloadings	65	67	70	64

Production in most of the manufacturing lines that are important in this district was a little higher during the last quarter of 1937 than in the same three months in 1936 with the exception of apparel and textile, and paper and printing industries according to reports received from 53 manufacturers. **Sales** during the same period were somewhat below the level of the last quarter of 1936, resulting in December 31, 1937 **finished goods inventories** that were well above those of one year earlier. **Purchases of raw materials** during the October-November-December 1937 period were reported by most industries to be smaller than in the same three months in 1936, but **raw material inventories** at the end of the year were still somewhat larger than on the same date one year earlier as a result of forward buying prior to the last quarter. The **number of employees** on December 31 showed little change from the number at the end of the preceding year.

Bank debits in the wheat and range, and southwestern beef and pork sections of our district and at the Great Lakes Ports averaged higher in January this year than in the same month last year, but the average was lower in all other sections. The district total was 7 per cent lower than in January 1937.

Country check clearings in the district averaged slightly higher during January than in the same month a year ago, the decreases in Michigan and Wisconsin being more than offset by increases in the other four states.

Retail trade in this district was slightly smaller in January than in the same month last year according to reports from 615 city and country stores. The country stores reported a small gain but it was more than offset by a decline at the city stores. The greatest increases were in the eastern half of South Dakota. Sales at the 67 reporting stores in the eastern sections of that state were 14 per cent larger than in January 1937. Preliminary reports from some of the reporting city department stores for the first two weeks of February indicate a somewhat larger decrease from the 1937 level than was experienced in January.

SALES AT DEPARTMENT STORES

	No. of Stores	% Jan. 1938 of Jan. 1937
Mpls., St. Paul, Duluth-Superior	21	98
Country Stores	594	101
Minnesota	207	102
Central Minn.	26	104
Northeastern Minn.	16	94
Red River Valley Minn.	11	112
South Central Minn.	36	102
Southeastern Minn.	19	98
Southwestern Minn.	39	105
Montana	85	100
Mountain	14	100
Plains	34	99
North Dakota	118	103
North Central N. D.	15	103
Northwestern N. D.	12	95
Red River Valley N. D.	24	118
Southeastern N. D.	27	95
Southwestern N. D.	6	90
Red River Valley—Minn. and N. D.	35	117
South Dakota	105	107
Southeastern S. D.	16	121
Other Eastern S. D.	51	108
Western S. D.	10	90
Wisconsin and Michigan	79	94
Northern Wis. and Mich.	40	93
West Central Wis.	39	94
Total District	615	99

Freight carloadings were 15 per cent smaller in January this year than in the same month a year ago. Loadings of agricultural products, especially grains, were well above the January 1937 level, but were more than offset by sharp decreases in other commodity classes.

Building permits issued in January at 18 cities in the district were much larger both in number and in valuation than in the same month last year. Cities in all sections of the district contributed to the increase with the exception of Minneapolis. The largest increases were at Aberdeen, South Dakota and Winona, Minnesota. Substantial increases were also reported by smaller cities in agricultural sections of the district which evidently are not included in the monthly surveys of the volume of building contracts awarded. **Building contracts awarded** were one-third smaller in January this year than in January a year ago. The volume of contracts for each class was far below the January 1937 level with the exception of construction for educational purposes.

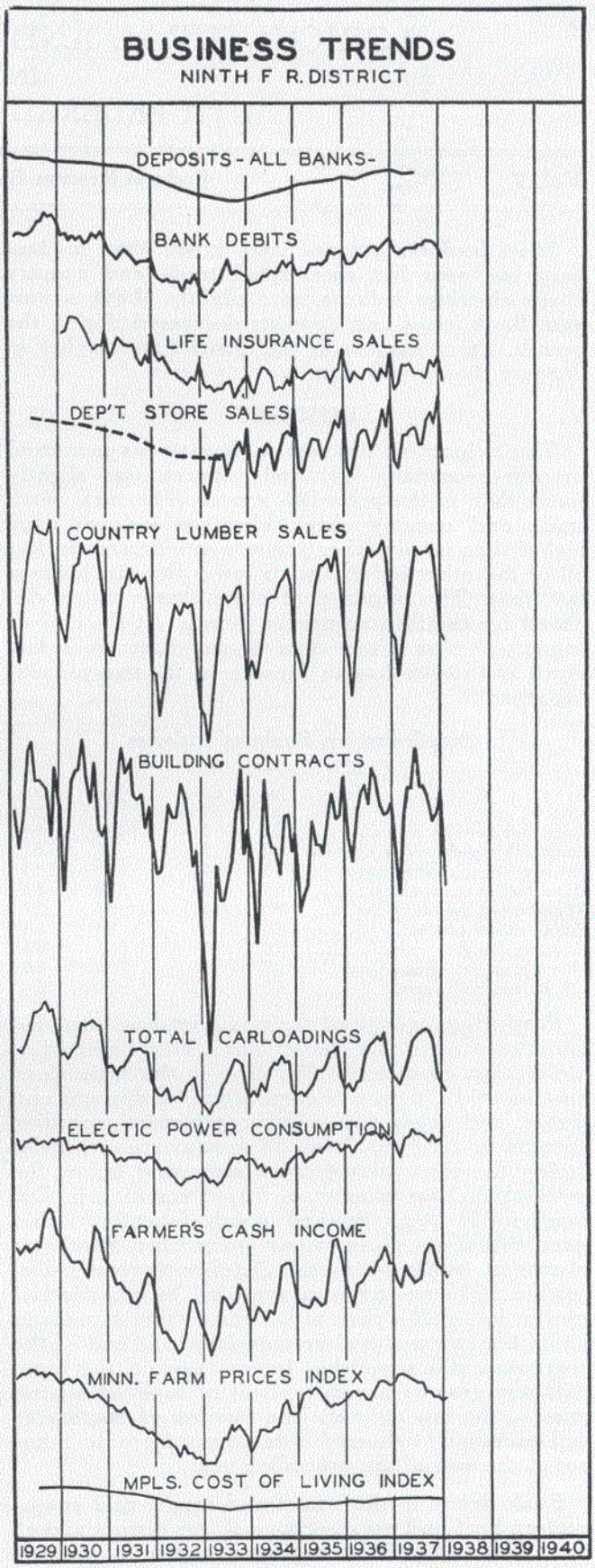
Business failures in this district in January were only slightly larger in number than a year earlier, but total liabilities were more than twice as large as in January 1937.

Other indicators of business volume that were higher in January this year than in the same month a year ago were sales of electrical goods at wholesale, electric power consumption in Minnesota and the Dakotas, copper, silver and gold production and marketings of bread and durum wheat, rye and flax. Decreases were recorded in electric power consumption in Montana, warranty deeds and mortgages in Hennepin and Ramsey Counties, shipments of flour and linseed products, country lumber sales and wholesale sales of shoes, drugs, groceries, hardware and plumbing and heating supplies.

BANKING

Country member bank deposits decreased $6 million between the latter half of December and the latter half of January. Each of the states in the district showed some decline. There were small decreases in earning assets, reserve balances with us and balances due from other banks. Excess reserves decreased from $16 million to $14 million. Compared with the latter half of January 1937, demand deposits were down $16 million as a result of decreases of $5 million each at Minnesota and South Dakota member banks, $3 million at member banks in both Montana and North Dakota and minor changes in Michigan and Wisconsin. Time deposits showed an increase of $4 million, mostly at Minnesota banks. Earning assets were down slightly, reserves with us showed a $3 million decrease and $8 million was withdrawn from balances with other banks.

City member bank deposits dropped $9 million in the 5-week period ended February 16, as customers reduced their indebtedness to the weekly reporting banks by that amount. Holdings of government securities increased about $12 million, half of which was withdrawn from reserve accounts with us and half from balances with correspondent banks. Excess reserves of city member banks were estimated to be nearly $5 million compared with about $9 million 5 weeks earlier.



AGRICULTURE

Farm Income and Prices

Ninth District farmers' cash income from the sale of 7 important agricultural products during January was estimated to be nearly $30 million which was greater than in any January since 1931. Potato income was the largest for January since 1929 chiefly because of the unusually heavy marketings which established an 11-year record for that month. Dairy product income was larger than in any January since 1930 as a result of a larger-than-usual volume of butter production, especially in Minnesota. Estimates of income from the sale of rye, durum wheat and hogs were below the January 1937 level, but the estimates for all other items were higher than a year ago. Our estimates do not include government payments.

Total farmers' cash income in this district for 1937 was estimated by the USDA to be $728 million, the largest total for any year since 1930. This includes an estimate of $60 million for December. The South Dakota estimate was a little smaller than in 1936 and the Montana estimate about 14 per cent below 1935, but the Minnesota and North Dakota 1937 estimates were both the largest in the last 7 years.

Prices of all grains were higher in January than in the preceding month but were far below the "scarcity prices" prevailing in January last year except flax which was only a little lower than in January 1937. Prices of dairy products, eggs, potatoes and wool declined in January but there was a slight increase in the price of fat hens.

The University of Minnesota farm price index rose from 77 in December to 80 in January but at that level was the lowest since January 1936 with the exception of the preceding month. The index was 106 in January 1937.

Livestock and Livestock Products

Receipts of cattle and calves at South St. Paul declined seasonally during January. Receipts of domestic cattle were considerably larger than during the first month of 1937 but Canadian imports were only about one-fifth as large, resulting in total receipts that were 7 per cent smaller for the month. Cattle prices declined during January for the fifth consecutive month. Prices of all classes of cattle with the exception of stocker and feeder steers were lower than in January 1937. Top quality butcher steers were $8.25 in January compared to $9.75 in December and the 1937 high of $17.25 in August. Top quality cattle suffered the sharpest price declines as a result of increased receipts and reduced consumer demand. Decreased receipts of medium grade cattle kept prices for that class from declining materially from their December level.

During the first three weeks of February, market factors and prices were practically unchanged from January.

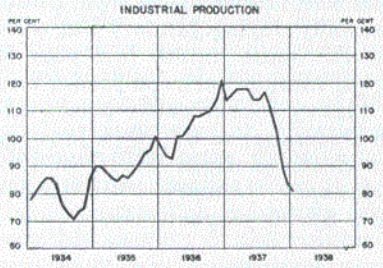
Shipments of stocker and feeder cattle from South St. Paul declined seasonally during January but were a little larger than in the same month last year in spite of a much narrower margin between feeder and butcher cattle prices. Heavy feeder cattle prices advanced from $6.25 in December to $7.00 in January whereas light feeders declined from $6.10 in December to $5.85 in January. January 1937 feeder prices were $6.00 and $5.00 respectively.

The dairy cow market at South St. Paul was steady to slightly stronger during January. Low feed costs together with fairly satisfactory prices for dairy products were major factors in holding prices steady. The price range for January was $85-$40.

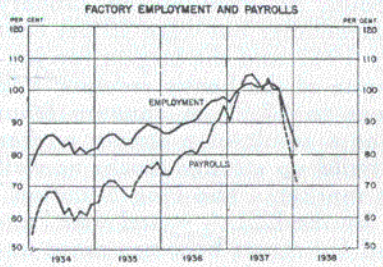
Hog receipts at South St. Paul during January were smaller than in December but were 38 per cent larger than in January 1937 and the largest for January since 1934. In spite of the heavy receipts, hog prices firmed and rose to $7.90 in January from $7.75 in December as a result of a strong packer demand for hogs to build up storage stocks as well as for the fresh meat market. "The Hog Situation" published in January by the USDA stated that "unless consumer demand for meats becomes more unfavorable than is now expected, some seasonal advance in hog prices is likely to occur within the next few months." During the first three weeks of February hog prices became stronger and on February 17 reached a top of $8.75, the highest since the latter part of November. However, with an 11-pound increase in the average weight of hogs and an increase in lard holdings twice as large as the average for January, demand for heavy hogs declined and prices dropped to the lowest level since December 1934.

Receipts of sheep and lambs at South St. Paul in January were one-fifth smaller than the all-time January record in 1937. Low dressed lamb prices, together with low yields and poor allowances for pelts, contributed to the decline in fat lamb prices from $8.25 in December to $7.65 in January, the lowest since October 1936. Ewe prices rose to $4.00 in January, recovering the preceding month's loss. Both ewe and lamb prices were well below the January 1937 level.

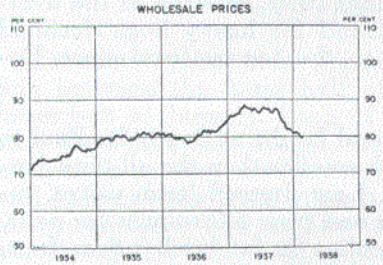
Cold storage holdings of butter, poultry, and all classes of meat were below the 5-year average on February 1. Egg holdings were nearly twice the usual amount. Butter stocks decreased by less than the average amount during January but totaled only 31 million pounds on February 1. Holdings of pork and miscellaneous meats increased more than the normal amount during January as a result of larger-than-average pork slaughterings but cattle and calf slaughterings were smaller than usual. Cold storage supplies of beef decreased less than usual during the month but on February 1 were only 57 per cent of the 5-year average. Withdrawals of cheese were about average in January and on February 1, stocks were still well above normal.



Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1938.



Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1938. Indexes compiled by the United States Bureau of Labor Statistics.



Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ended February 19, 1938.

Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934 to February 16, 1938. Commercial loans, which include industrial and agricultural loans, represent, prior to May 19, 1937, so-called "Other loans," as then reported.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 25, 1938

The decline in business activity, which had been rapid during the last quarter of 1937, continued in January but at a slower rate.

Production: Volume of industrial production, as measured by the Board's seasonally adjusted index, was at 81 percent of the 1923-1925 average in January as compared with 84 percent in December. Output of durable goods continued to decline, reflecting chiefly considerable decreases in production of automobiles and plate glass and a further decline in output of lumber. Steel ingot production increased somewhat, the output for January averaging 30 percent of capacity. In the first three weeks of February, activity at steel mills showed little change at about 31 percent of capacity, while production of automobiles was at a lower rate than in January.

In the textile industries, activity at silk and rayon mills in January showed a sharp rise from the low levels reached in December. At cotton mills, however, there was less than the usual seasonal increase and output of woolen products continued in small volume. Shoe production, which also had been at a low rate in December, increased considerably in January. Activity at meat-packing establishments rose somewhat further. Output of tobacco products remained at a high level, while sugar meltings declined. At mines, bituminous coal production was considerably smaller than in December, and there was also a reduction in output of non-ferrous metals. Petroleum production continued at the high level of other recent months.

The value of construction contracts awarded in January was smaller than in December and somewhat below the level maintained during the last four months of 1937, according to figures of the F. W. Dodge Corporation. Contracts awarded for public projects increased somewhat further, while awards for private work continued to decline, reflecting a further decrease in residential building and a sharp reduction in awards for factory construction. In the first half of February, awards for private projects were at about the same rate as in January, while those for public work showed a sharp decline.

Employment: Factory employment and payrolls declined substantially between the middle of December and the middle of January. In the durable goods industries, decreases in employment were general and were particularly large at factories producing automobiles, steel, and machinery. Employment in non-durable goods industries showed a somewhat smaller decline than in previous months. There was some increase in the number employed at shoe factories, little change in employment in the food industries as a group, but in other non-durable goods industries the number of employees continued to decrease. Employment on the railroads, in mining, and in the construction industry also declined.

Distribution: Department store sales showed a seasonal decrease from December to January, while sales at variety stores and mail order sales declined by more than the usual seasonal amount.

Freight carloadings continued to decline in January, reflecting principally a reduction in shipments of coal.

Commodity Prices: Prices of steel scrap and non-ferrous metals declined from the middle of January to the third week of February, following some advance in December and the early part of January. There were further decreases in some other basic commodities, while prices of cotton and silk advanced. Livestock products continued downward and a number of finished industrial products declined further. Prices of pig iron and most finished steel products have been reaffirmed for second quarter delivery.

Bank Credit: During the first three weeks of February excess reserves of member banks were little changed from the level of $1,400 million reached at the end of January following the post-holiday return of currency from circulation.

During January there were substantial reductions in commercial loans and brokers' loans and moderate increases in investments at reporting member banks in 101 leading cities. In the first three weeks of February loans and investments of these banks showed little change.

Money Rates: Rates on Treasury bills and yields on Treasury notes and bonds continued in February at the low levels reached in the latter part of January.