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

Vol. 7 (Serial No. 283) Federal Reserve Bank, Minneapolis, Minn. July 28, 1938

Ninth District business volume declined in June. Bank deposits increased but earning assets showed little change. Bank reserves increased sharply. Indicated cash grain production was larger but indicated feed grain production was smaller than last year. Farmers' cash income and farm product prices were lower than a year ago.

BUSINESS

The volume of business as measured by our seasonally adjusted indexes was lower in June than in May but the decline was smaller in the country sections of the district. All of our indexes declined in June from the May level with the exception of city and country department store sales, which both rose, and city department store stocks which showed no change. The greater rise in the city department store sales index was occasioned in part by special sales promotions at some of the reporting stores. These sales resulted in an increase over the preceding month in the district total whereas the June volume of sales is usually a little below that of May. At country stores few special promotional activities were undertaken during June but nevertheless June sales in 13 of the 18 sections of the district were higher than in the preceding month. The miscellaneous carloadings index dropped to the lowest point since September 1933 and the L.C.L. index to the lowest point in our 17 year records.

Northwestern Business Indexes

(1929-1931=100)

	June 1938	May 1938	June 1937	June 1936
Bank debits—94 cities	77	88	88	87
Bank debits—farming centers	84	86	93	89
Country check clearings	135	140	155	151
City department store sales	92	82	97	91
City department store stocks	80p	80	85	76
Rural department store sales	91p	85	98	94
Country lumber sales	84	86	98	97
Miscellaneous carloadings	64	67	93	87
L.C.L. carloadings	60	63	69	65

p—preliminary.

Industrial production during the second quarter of 1938 as reported by 26 representative industrial firms averaged about 15 per cent lower than the second quarter of 1937 and **sales** were 12 per cent smaller. **Finished goods inventories** declined during the quarter to about 6 per cent below June 30 last year. **Raw material purchases** were down 15 per cent and **raw material inventories** declined to 10 per cent below the June 30, 1937 level. **Unfilled orders** on June 30 were as large as on the same date last year and the **number of employees,** 10 per cent smaller.

Daily average bank debits for June were smaller than in the same month last year in all of our subdivisions of the district with the exception of South St. Paul. **Country check clearings** also averaged smaller in June than in June last year but the June 1938 volume was larger than that of May in each of the states and part states in the district.

Department store sales in the district were 6 per cent smaller in June this year than in the same month a year ago but as indicated above, the June volume was larger than that of May at both the urban and rural groups of reporting stores. Minnesota led the other states with an increase of 6 per cent but was followed by increases of 4 per cent, 2 per cent and 1 per cent in South Dakota, Wisconsin and Michigan, and North Dakota respectively. Montana was the only state to report a smaller sales volume in June than in May and that decline was only 2 per cent. Preliminary reports from some of the reporting city department stores indicate that the volume of sales in the first half of July has more closely approached the volume in the comparable period one year earlier than was the case in June. Incomplete data for the entire United States also indicate a somewhat smaller decline in the first half of July than in June. Cumulative sales at 435 reporting country stores and at 21 reporting city stores for the first half of 1938 were each 4 per cent smaller than sales during the first 6 months of 1937.

Sales at Department Stores

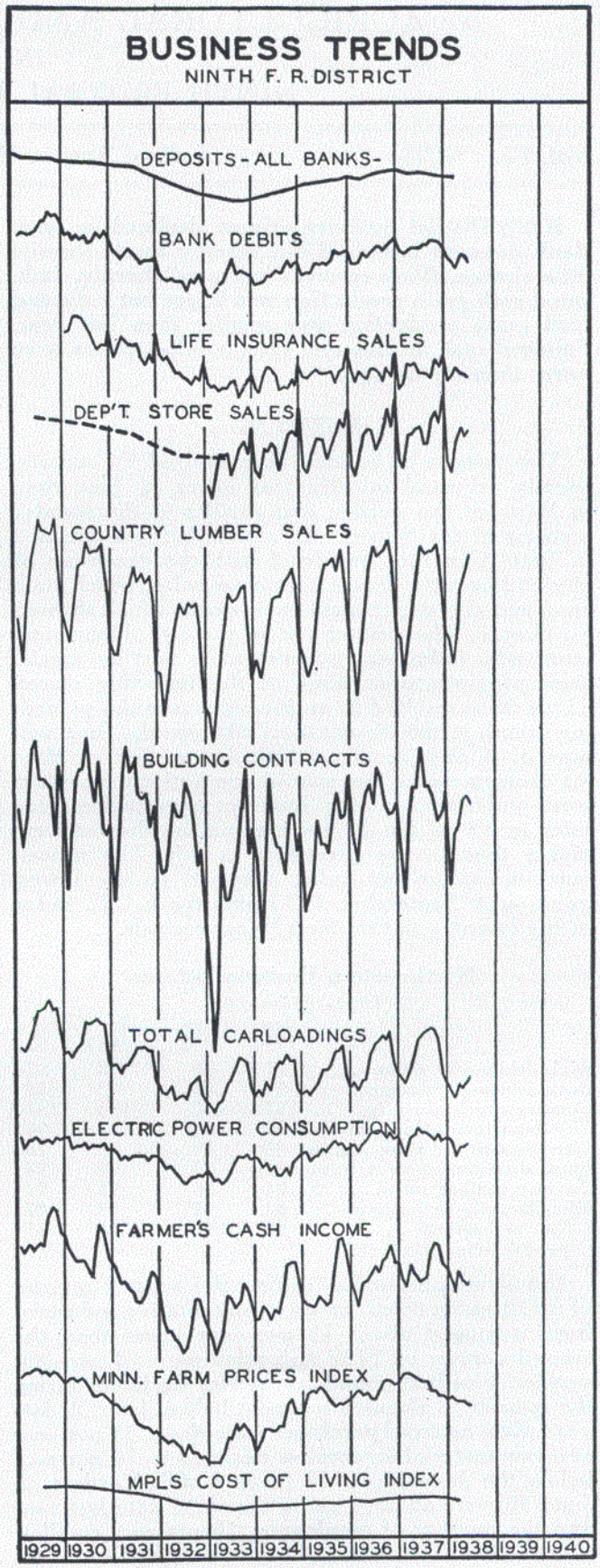
	No. of Stores	% June 1938 of June 1937	Cumulative % 1938 of 1937
Mpls., St. Paul, Duluth-Superior	21	95	96
Country Stores	435	93	96
Minnesota	156	95	97
Central Minn.	29	97	99
Northeastern Minn.	18	86	90
Red River Valley Minn.	11	96	102
South Central Minn.	34	92	94
Southeastern Minn.	18	99	100
Southwestern Minn.	46	100	101
Montana	34	92	93
Mountain	14	90	91
Plains	20	96	95
North Dakota	82	94	98
North Central N. Dak.	16	95	97
Northwestern N. Dak.	11	90	90
Red River Valley N. Dak.	26	99	105
Southeastern N. Dak.	24	86	92
Southwestern N. Dak.	5	96	95
Red River Valley–Minn. & N. D.	37	99	105
South Dakota	84	93	97
Southeastern S. Dak.	18	93	100
Other Eastern S. Dak.	55	93	96
Western S. Dak.	11	88	86
Wisconsin and Michigan	79	90	94
Northern Wis. and Mich.	39	88	99
West Central Wis.	40	91	91

Lumber sales at 484 country lumber yards in June rose to nearly 12 million board feet and were 23 per cent larger than in the preceding month although they were 15 per cent smaller than in June last year. Receivables also increased during June and on June 30 were nearly as large as on that date last year. Lumber stocks declined during June and at the end of the month were 8 per cent smaller than on the same date in 1937.

Building permit data reported to us by cooperating officials in 45 cities in the Ninth District for which comparable figures are available indicate a volume of new construction that was 35 per cent larger than in June last year. Total valuation, however, was only 17 per cent above June 1937 as the valuation of repairs and alterations was 24 per cent smaller than in June a year ago. Twenty-one cities reported increases and 24 reported decreases. In Minnesota, Minneapolis, Rochester, Hibbing, South St. Paul and St. Cloud all reported substantial increases with smaller gains at Winona, Morris and Montevideo. Marquette and Sault Ste. Marie, Michigan both recorded gains over June last year and also Butte and Livingston, Montana. Fargo and Valley City took the lead in North Dakota while Sioux Falls, Huron, Watertown and Yankton all contributed to the increase shown by South Dakota. Superior, Wisconsin showed a very substantial increase over June 1937.

Building contracts awarded excluding public works and public utilities as reported by the F. W. Dodge Corporation for June for the Minneapolis territory were 15 per cent smaller than in the preceding month and about 40 per cent smaller than in June last year. Social and recreational building was the only class to show any substantial increase over the May volume, although there was a small increase in factory contracts. There was a decline of 20 per cent in residential building contracts between May and June this year, reducing the June volume to less than half of the June 1937 total. Early in July, striking lumber mill workers in Minneapolis returned to their jobs after halting work on a majority of the residential construction jobs within the city for 6 weeks and by the middle of the month the home building situation was again approaching normal. Contracts for public works in June were well above the volume of the preceding month but were less than two-thirds as large as in June last year.

Iron mining activity in the northern Minnesota iron ranges increased somewhat in June but remained at about one-fourth the 1937 volume. Iron ore shipments during the current season to July 1 amounted to about 4¼ million tons compared with 24 million tons to the same date in 1937. No new developments have occurred that would greatly brighten the prospects for the remainder of the current shipping season. Steel mill activity has advanced steadily during the past six weeks from the year's low of early June but the advances have been too small to be of much significance insofar as ore consumption is concerned.



Production of copper and silver declined sharply in June to a level far below that of June 1937. Gold production increased a little during the month but was smaller than in June last year. The number of employees at the end of the month was about half as large as at the end of June a year ago.

Business failures in the Ninth District during June were larger than in May and in June 1937. The number of failures was about one-fourth and the amount of liabilities about one-third larger than a year ago. **Non-farm real estate foreclosures** in the four complete states were smaller in May than in April and only a little more than half the May 1937 volume.

Other indicators of business volume that were lower in June than in the same month last year were new car and truck sales in North Dakota; freight carloadings of coal, coke, forest products, ore; warranty deeds and mortgages recorded in Hennepin and Ramsey Counties; linseed product shipments; lumber cut and lumber shipped by lumber manufacturers; wholesales of groceries, hardware, drugs, electrical goods and tobacco products; and life insurance sales. Increases over June 1937 were recorded in flour shipments from Minneapolis, flour production in Minneapolis, and in N. W. mills outside Minneapolis, freight carloadings of livestock and grain and grain products.

BANKING

City member bank deposits were higher on July 13 than on any other reporting date this year and were within $1 million of the highest total in the last 18 months. Loans to customers increased $3 million between the middle of June and July 13 but the amount of other invested funds decreased $8 million, most of which was in United States Government securities. Reserves with us increased $11 million in the four week period, raising excess reserves of the 20 weekly reporting city member banks to an 18 month high of nearly $26 million and raising the total of cash, due from banks and reserves to an all-time high of $240 million. Compared with the middle of July last year, deposits were up $7 million but loans to customers and other invested funds were down $33 million; balances due from other banks were up $46 million which was partly the result of a $6 million decline in balances with us.

Country member bank deposits averaged a little higher during the latter half of June than in the latter half of May as the result of a substantial increase in demand deposits at Minnesota banks. Most of the increase was redeposited with city correspondents, resulting in only a very small increase in "net demand deposits." The portion of the increased deposits that was redeposited with us was more than sufficient to provide the additional reserves required for the deposit increase, resulting in a small increase in country member banks' excess reserves.

Deposits at all member banks in the district increased seasonally to $1,009 million between the call dates of March 7 and June 30, largely as a result of the usual mid-year increases in public deposits (other than United States). At city member banks, in addition to the gain in public deposits, there was a moderate increase in individual and commercial deposits whereas at country member banks, that class of deposits showed a small decline. **Loans and investments** at all member banks declined $34 million to $721 million as a result of decreases in all three sub-groups of earning assets, loans and discounts, government securities and other securities. **Holdings of United States Government obligations** showed the greatest decrease with reserve city and other weekly reporting city banks showing declines about three times as great as at country banks. There was but little change in the proportional holdings of bonds with long and short maturities at country banks but there was a marked shift at city banks, especially at reserve city banks where direct government bonds maturing after 1949 decreased $10 million. Treasury bills have all been liquidated by city banks and amounted to less than a quarter of a million at country banks on June 30. The sharp increase in holdings of securities other than United States Government that occurred during the first quarter of the year was retained during the second quarter, the June 30 figures showing a reduction of only $1 million.

AGRICULTURE

Farmers' cash income in the Ninth District from the sale of 7 farm products increased during June and was 6 per cent larger than in May. The June volume, however, was 12 per cent smaller than in June last year. Butter production in May (upon which June income is computed) continued to increase and with a very slight rise in dairy product prices, June dairy income was well above that of the preceding month and only 8 per cent smaller than in June last year.

The USDA's estimate of cash income received by farmers in this district during May was 4 per cent smaller than the estimates for April and for May 1937. The Minnesota estimate for May was 4 per cent larger than in the preceding month and in May last year and the May estimates for the portions of Michigan and Wisconsin that are in this district were larger than those for April but the combined increase was not large enough to offset the declines in Montana, North Dakota and South Dakota.

Grain marketings at terminals during June declined seasonally from the May level but were nearly half again as large as in June last year, largely the result of greater bread wheat marketings. Grain prices rose rather sharply during the first half of June but later sagged and, with the exception of wheat, June medians were lower than in May. All grain prices in June were substantially below the June 1937 medians.

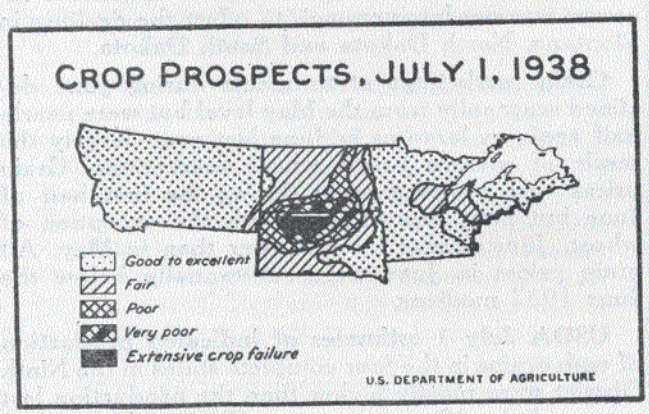
USDA July 1 estimates of indicated production of cash grains in the four complete states in the Ninth District were mostly higher than the production last year and the 10-year average. The combined pro-

duction estimate for corn, oats and barley, however, was about 4 per cent smaller than the 1937 harvest and only 3 per cent larger than the 1928-1937 average. Production of tame hay was estimated to be nearly 10 per cent larger than last year and 20 per cent larger than the 10-year average. Relative crop conditions and prospects on July 1 are shown graphically on the accompanying map which was prepared by the USDA from data furnished by crop correspondents on "all crops."

Acreages planted to the 8 major crops in the Ninth District for 1938 harvest were all much larger than the acreages harvested last fall. The 1938 wheat and rye acreages were estimated to be larger than the 10-year averages for those crops. The 1938 8 crop total was a little more than 50 million acres, nearly 12 per cent larger than the number of acres harvested in 1937 and slightly larger than the 10-year average. The 1938 total, however, was 14 per cent smaller than the 58 million acre total for 1932. Compared with the "March 1 intentions to plant" estimates, the July 1 total was 3½ million acres smaller. Wheat and rye acreages each showed a decrease of about 1 million and there were smaller decreases for corn, oats, barley, flax and tame hay. The July 1 potato acreage estimate was slightly larger than the March 1 intentions figure.

Livestock prices in June showed mixed trends when compared with the preceding month but were all lower than in June last year. Prices of butcher cattle and hogs showed further strength during June and were a little higher than in May but feeder cattle and ewes and lambs declined slightly. Veal calves held steady throughout the month but the June "top" was lower than the "top" in May.

Other farm product prices. The June price of milk rose slightly and butter prices held steady when compared with May but they were both well below the June 1937 level. Poultry prices declined but egg prices strengthened a little during June and both were higher than in June last year. Potato prices rose during June but did not reach the level of June 1937. Wool prices declined to 17 cents per pound and were far below the 30 cent price of June last year.



USDA July 1 Crop Forecast for Minnesota, North Dakota, South Dakota, and Montana with Comparisons

	1938 Indicated	1937	10 Year Average
(Thousand Bushels)			
Bread Spring Wheat	163,487	89,417	105,125
Durum Wheat	33,376	27,791	35,306
Winter Wheat	27,110	13,708	13,082
Rye	29,773	23,742	18,343
Oats	218,427	230,788	212,431
Barley	97,200	94,817	101,146
Flax	6,408	5,765	11,104
Corn	224,629	235,041	208,877
Potatoes	34,410	39,407	39,476
Tame Hay (tons)	8,523	7,903	7,164
(Thousand Acres Harvested)			
Bread Spring Wheat	14,706	10,931	11,224
Durum Wheat	3,508	2,756	3,379
Winter Wheat	1,393	969	932
Rye	2,097	1,767	1,570
Oats	7,258	7,236	7,762
Barley	4,934	4,776	5,369
Flax	873	802	1,929
Corn	9,059	8,990	10,028
Potatoes	405	400	528
Tame Hay	5,897	5,884	6,343

Receipts of cattle and calves at South St. Paul during June were slightly smaller than in May and about 8 per cent smaller than in June 1937. During the first six months of 1938, 660 thousand cattle and calves were received compared to 685 thousand during the first half of 1937. The Bureau of Agricultural Economics states that "Some seasonal decline in prices of the lower grades of slaughter cattle and in prices of stocker and feeder cattle is in prospect for the summer and early fall months." Butcher cattle prices strengthened during June, but remained well below a year ago. During the first half of July, cattle prices continued to rise and a "top" for the year of $11.65 was recorded, but consumer resistance and summer heat tended to take the edge off the market and prices declined. At mid-July the bulk of good and medium grade steers ranged from $8.25 to $10.25.

Importations of Canadian cattle and calves during June as well as during the first six months of 1938 were only about one-third as large as during the same period a year ago. The annual beef cattle quota was only one-seventh filled and the calf quota only one-half filled on June 30, whereas on the same date last year the beef cattle quota was more than three-fourths filled and the calf quota had been filled about two weeks.

Shipments of stocker and feeder cattle and calves in June were more than one-third larger than in May but were smaller than a year ago. About 10 per cent more stockers and feeders were shipped from South St. Paul during the first six months of 1938 than in the same period in 1937. Good grade feeder cattle were in demand throughout the month and prices remained steady. During the first half of July, supplies were limited and demand remained broad. Prices remained steady in spite of the drop in slaughter cattle prices.

Dairy cow prices at South St. Paul advanced during June. Supplies were very limited and shipper buyers maintained a strong demand for good quality cows but low grade cows were selling close to butcher prices. The price range for June was $90-$45.

Hog receipts at South St. Paul during June were larger than in May and 14 per cent larger than in June 1937. During the first six months of this year 818 thousand hogs were received compared to 720 thousand during the first half of 1937. The Hog Situation published June 18 by the USDA stated that "steady to higher prices for hogs are in prospect for the summer months. Marketings of hogs probably will be reduced seasonally during the next two months and storage stocks of pork and lard are relatively small." Hog prices advanced during June, but remained well below a year ago. During the first two weeks of July the demand was broad with shippers and packers competing keenly for offerings. A "top" of $9.90 was reached July 13 which was the highest price paid at South St. Paul since last October.

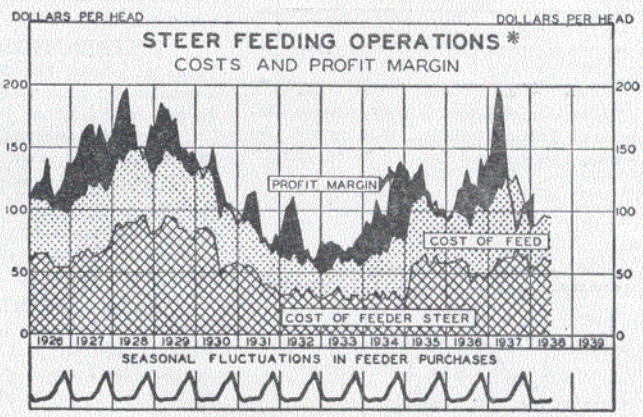
The 1938 spring pig crop in the Ninth District was estimated to be 5.9 million head compared with 4.9 million in 1937 and 5.9 million in 1936. The number of sows farrowed was larger than a year ago and with favorable weather, large supplies of feed and good care the number of pigs saved per litter was the largest in many years. Indications are that the number of sows farrowed this fall will be about the same as a year ago. The spring pig crop in the entire United States was estimated to be 13 per cent larger than last year but total farrowings, spring and fall, are indicated to be only 10 per cent larger than in 1937.

Receipts of sheep and lambs increased sharply during June and were nearly half again as large as a year ago. "Present indications are that the lamb crop in the native sheep states, Idaho and the Pacific Coast States, which supply most of the lambs for summer slaughter, is larger this year than last; hence, the marketings of new crop lambs this summer probably will be larger than in the summer of 1937" according to the USDA. Sheep and lamb prices declined during June, remaining well below a year ago. During the first 14 days of July receipts continued large, but prices remained steady as shippers became very active. "Top" price for fat lambs was $9 and for ewes $3.25 at mid-July.

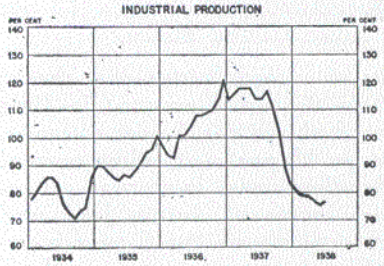
Commercial hatchings of chicks in the West North Central states during June were double those of June last year according to reports received by the USDA from 78 hatching plants. Twenty Minnesota plants reported June hatchings and egg settings of about 2½ times those of June last year. In the West North Central states, July 1 bookings of chicks for July or later delivery were 18 per cent larger than on July 1, 1937. The number of eggs set during June was 81 per cent larger than in June 1937. On July 1 the number of chicks and young chickens per farm flock in the West North Central states was 23 per cent larger than a year ago compared to only a 13 per cent increase for the entire United States.

Cold storage stocks of cream, butter and cheese all increased more than the usual amount in June and on July 1 were well above the 5-year average. July 1 egg holdings were 13 per cent below normal as a result of a smaller-than-usual in-storage movement. Poultry holdings increased during June and on July 1 were 6 per cent above the 5-year average. Cold storage holdings of all meats on July 1 were only about three-fourths as large as the 5-year average. Cold storage holdings of beef were only 69 per cent of normal. Smaller-than-normal slaughterings of hogs have more than offset reduced consumer demand resulting in a steady decrease in pork and lard holdings during the past four months. Supplies of pork are 27 per cent and lard 17 per cent below normal. Holdings of lamb and mutton were about one-fifth larger than usual as a result of the larger-than-usual sheep slaughterings during the past 7 months.

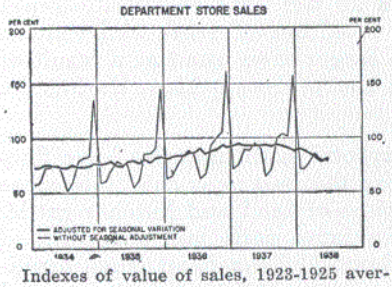
Steer feeding operators' profit margins have fluctuated violently during the past year chiefly because of wide swings in prices of feed and butcher cattle. Feeding operations initiated early last year yielded a profit margin of about $78 per head when terminated late last summer but with increasing costs and decreasing gross returns all margin was rapidly wiped out and substantial losses per head developed. Losses mounted to nearly $45 per head on operations begun in August last year but with the return of a more normal spread between feeder and butcher cattle prices, together with a marked decline in feed costs, a small profit margin was again available in April which gradually widened during the two succeeding months to $26 per head on prime fat steers sold in June.



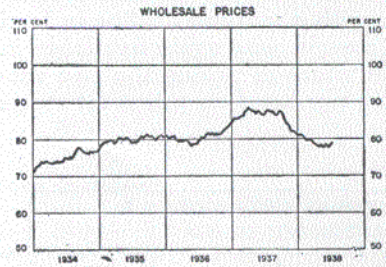
*In constructing this chart the cost of a 900 pound feeder steer and the cost of sufficient feed to increase its weight to 1,200 pounds in a 150-day feeding period are shown currently and receipts from the sale of a 1,200 pound prime butcher steer are shown with a lag of 5 months. For example, the cost of feeder steers last January is shown to have been nearly $56 per head and the cost of feed about $33, a total cost of about $90 per head. In June, 150 days later, our weighted medium prime butcher steer price was $9.58 per hundredweight providing a gross income per head of nearly $115, indicating a profit margin of about $26 per head as is shown by the solid black on the chart.



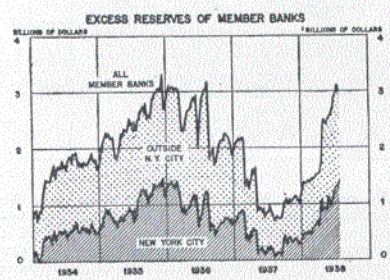
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to June 1938.



Indexes of value of sales, 1923-1925 average = 100. By months, January 1934 to June 1938.



Index compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ended July 16, 1938.



Wednesday figures of estimated excess reserves for all member banks and for selected New York City banks, January 3, 1934 to July 20, 1938.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JULY 22, 1938

Industrial activity showed little change in June and increased in the first three weeks of July, although there is usually a considerable decline at this season. Prices of most staple commodities advanced sharply in the latter part of June and early July and there were substantial increases in prices of stocks and lower-grade bonds.

PRODUCTION: The volume of industrial production, as measured by the Board's seasonally adjusted index, was at 77 per cent of the 1923-1925 average in June as compared with 76 in May and an average of 79 in the first quarter of the year. Available data indicate that in July the index will show a considerable rise.

In June, activity in the textile industry increased, reflecting chiefly a further rise at woolen mills. Output at cotton and silk mills, which usually declines at this season, showed little change. Shoe production declined, following a considerable increase earlier in the year.

Automobile output decreased further in June. Sales of new cars continued in excess of production, however, and stocks were further reduced. Steel production declined seasonally in June, and lumber production showed little change, although some increase is usual. Output of plate glass rose sharply from an exceptionally low level. Coal production remained in small volume in June, while output of crude petroleum, which had been sharply reduced in May, declined somewhat further.

In the first three weeks of July, activity at steel mills increased, although there is usually a decline in that period, and in the third week of the month ingot production was estimated at 36 per cent of capacity as compared with an average rate of 28 per cent in June. Crude petroleum output also rose sharply, reflecting chiefly a return of production to a six-day week basis in Texas. Automobile production declined seasonally.

The value of construction contracts awarded, as reported by the F. W. Dodge corporation, showed a decline in June, following a considerable increase in May. Changes in both months reflected chiefly fluctuations in awards for publicly-financed construction. Awards for private residential building were maintained in June at about the same daily rate as in May, although there is usually some decline at this season, and were in slightly larger volume than a year ago. Other private construction work remained at recent low levels.

EMPLOYMENT: Factory employment and payrolls decreased further from the middle of May to the middle of June. Employment in the automobile, steel, machinery, and clothing industries continued to decline, while at woolen mills there was an increase and in most other manufacturing lines changes were small. In trade employment was reduced, while in other non-manufacturing industries changes in the number employed were largely seasonal.

AGRICULTURE: A total wheat crop of 967 million bushels was indicated by July 1 conditions, according to the Department of Agriculture. A crop of this size would be considerably larger than average and a government program was announced for loans at close to current market prices. Cotton acreage on July 1 was estimated at 26,900 thousand acres as compared with 34,500 thousand acres last year when, with exceptionally high yield per acre, a record crop was harvested. Production estimates for most other major crops were slightly under the large harvests of last season.

DISTRIBUTION: Distribution of commodities to consumers was maintained in June at about the May level, although a decline is usual at this season. Sales at department and variety stores showed little change and mail order sales increased. In the first half of July, department store sales decreased less than seasonally.

Freight carloadings showed little change from May to June and were slightly above the low level of April.

COMMODITY PRICES: Prices of industrial materials, particularly rubber, hides, non-ferrous metals, and steel scrap, showed advances from the middle of June to the third week of July, and there were also increases in prices of livestock and products. Wheat prices declined, following a rise early in June. Prices of iron and steel were reduced and there were also declines in some other industrial products.

BANK CREDIT: Excess reserves of member banks increased substantially in June and the first half of July, rising to above $3,000 million, as compared with $1,730 million just prior to the reduction in reserve requirements the middle of April. The largest gain in excess reserves occurred at city banks through the retirement of Treasury bills and the continued growth of bankers' balances.

Total loans and investments of reporting member banks in 101 leading cities, which had increased sharply in the first week of June, declined during the remainder of June, reflecting largely redemption of Treasury bills held by New York City banks and a decrease in loans to security brokers and dealers. During the first three weeks of July, total loans and investments at reporting banks showed little net change.

MONEY RATES: Rates on Treasury bills and notes were slightly firmer in July but continued at exceedingly low levels. Yields on Treasury bonds showed little change.