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

Vol. 7 (Serial No. 297) **Federal Reserve Bank, Minneapolis, Minn.** **September 28, 1939**

Business volume in our district in August about equalled that of July. City department store sales set 8 year record. Deposits at both city and country banks increased to record levels as loans to customers increased. Farm product prices were about steady but smaller marketings reduced farm income.

Following the outbreak of the war, farm product prices rose rapidly early in September.

Business

The volume of business in this district, measured by our seasonally adjusted indexes, was about as large in August as in July and was well above August last year. All of our indexes in August equalled or exceeded their July levels with the exception of our general business indicator, bank debits. Total bank debits in August are usually somewhat larger than in July but this year, owing to a very perceptible slowing up in the rate of turnover of deposits in the third week of the month, the monthly total only slightly exceeded July, resulting in a somewhat lower August index figure. The city department store index at 102 was the highest for any month since March 1931.

Northwestern Business Indexes
(1929-1931=100)

	Aug. 1939	July 1939	Aug. 1938	Aug. 1937
Bank debits—94 cities	82	89	81	91
Bank debits—farming centers	93	93	88	97
Country check clearings	149	147	144	161
City department store sales	102	97	93	91
City department store stocks	86	85	81	91
Rural department store sales	100	98	93	93
Country lumber sales	104	103	101	94
Miscellaneous carloadings	83	83	75	95
Total carloadings (excl. miscellaneous)	73	71	59	92

Building contracts awarded (excluding public works and utilities) as reported by the F. W. Dodge Corporation decreased sharply in August from the near-record volume of July and dropped below the level of the same month in the preceding year for the second time in the last 14 months. As was the case last February, August volume was about 10% smaller than in the same month one year earlier. August decreases from the July volume of contracts for educational and social & recreational buildings amounted to $3½ million. Residential building contracts also decreased in August from the relatively high level of July but were somewhat larger than in August last year. The volume of commercial and of industrial building increased sharply in August and was nearly twice as large as a year ago but the combined total was less than $1 million. Public utility contracts increased moderately to the largest volume since last October but August awards were still far below the volume of August last year. Contracts for public works decreased sharply in August and were only two-thirds as large as in August 1938. **Total construction** in this district in August declined from the highest level in more than two years in July to the smallest August volume since 1935.

Building permits issued in 59 cities and the suburban areas surrounding Minneapolis in August were 28% larger than in the same month last year as a result of increases in both new construction and repairs & alterations. Totals for each state and part state in the district were larger than one year earlier with the exception of Montana where the net change was a decrease of 44% despite a very substantial increase in new construction at Bozeman. Other areas reporting large increases over August 1938 were Minneapolis & Minneapolis suburban, Duluth & St. Paul, Minnesota, Fargo & Minot, North Dakota, and Eau Claire, Wisconsin.

Sales at Department Stores

	No. of Stores	% August 1939 of August 1938	Cumulative % 1939 of 1938
Mpls., St. Paul, Duluth-Superior	21	110	104
Country Stores	421	107	104
Minnesota	144	110	105
Central Minnesota	28	105	106
Northeastern Minnesota	17	114	107
Red River Valley Minnesota	10	115	107
South Central Minnesota	32	108	103
Southeastern Minnesota	19	103	99
Southwestern Minnesota	38	118	107
Montana	47	107	108
Mountain	13	108	105
Plains	34	105	111
North Dakota	77	104	101
North Central North Dakota	13	99	101
Northwestern North Dakota	11	113	101
Red River Valley No. Dakota	25	101	100
Southeastern North Dakota	23	106	102
Southwestern North Dakota	5	121	107
Red River Valley—Minn. & N.D.	35	104	101
South Dakota	82	108	105
Southeastern South Dakota	18	110	104
Other Eastern South Dakota	53	106	105
Western South Dakota	11	103	106
Wisconsin and Michigan	71	107	103
Northern Wis. and Mich.	36	112	106
West Central Wisconsin	35	103	100
Total District	442	109	104

Department store sales in August were 9% larger than in the same month last year with gains of 10% and 7% respectively at city and country stores. Sales in each state and part state in the district were larger than in August last year. The largest increases were reported by the southwestern North Dakota and southwestern Minnesota sections but every section in the district showed some increase with the exception of north central North Dakota which reported a 1 point decline. Department store sales in this district during the first 8 months of 1939 were 4% larger than in the same period last year, the increase being equally divided between city and country

stores. **Collections** as reported by 45 stores decreased by about the usual amount during August but were slightly better than in August last year. As a result of the sizable expansion in sales, **accounts and notes** increased by more than the customary amount and were the largest for the end of August in our 5-year records.

City department store stocks showed about the usual seasonal increase in August and at the end of the month were the largest for that date since 1931 with the exception of 1937. **Rural department store stocks** increased by less than the seasonal amount and on August 31 were 3% smaller than on that date last year. **Wholesalers' inventories** of automotive supplies, electrical goods, groceries, general hardware, plumbing & heating supplies and miscellaneous wholesale lines all decreased during August. At the end of the month they were all smaller in dollar amount than on the same date last year with the exception of electrical goods and miscellaneous which were a little larger than a year ago. Tobacco wholesalers' inventories were a little larger at the end of August than at the beginning of the month and on August 31 last year.

Warranty deeds recorded in Hennepin and Ramsey Counties increased during August, were half again as large as in the same month last year and were the largest for August since 1925. **Mortgages** recorded also increased and were the largest August recordings since 1934. **Mortgages accepted for insurance by the FHA** in our four complete states in July declined more than is customary for that month and were only two-thirds as large as in July 1938.

Business failures in August increased sharply both in number and amount and were the largest for August since 1934. **Non-farm real estate foreclosures** increased during July and were somewhat larger than in July 1938.

Iron mining activity as measured by carloadings and also by iron ore shipments from upper lake ports increased more than seasonally in August and was more than twice the rate in August 1938. Steel mill activity advanced during August and was at 70% of capacity at mid-September, the highest it has been since the fall of 1937. As a result, iron ore consumption by furnaces increased in August for the third consecutive month. Iron ore stocks on hand at furnaces and at Lake Erie docks on September 1 were far below the September 1, 1937 and 1938 levels but were larger than on September 1, 1936. **Copper and silver** production increased during August and were substantially larger than in August last year. **Gold** production remained unchanged and was in about the same volume as in August a year ago. **The number of employees** at copper, gold and silver mines on August 31 was slightly larger than one month earlier and 30% above August 31 last year.

The volume of production in our district as indicated by several unadjusted indicators advanced during August. **Flour production** in Minneapolis and at other northwestern mills and **flour shipments** increased more than seasonally and **the cut of lumber** in August increased more than is customary at this season but when compared to August 1938 all of these indicators were somewhat smaller. **Linseed product shipments** doubled the July volume and were more than twice as large as in August 1938. **Lumber shipments** increased and were well above August last year. **Electric power utilization** in July in the three states of Minnesota, North Dakota and South Dakota declined more than usual and in Montana was practically unchanged.

Other business volume indicators that were as high or higher in August than in the same month last year were total sales at country lumber yards; sales of new cars and trucks; net telephone installations in the Twin City area; wholesales of groceries, hardware, electrical goods and tobacco & tobacco products and carloadings of coal, coke and forest products. Decreases from last year were reported in life insurance sales and carloadings of livestock and grain & grain products.

BANKING

Country member bank deposits increased to $480 million, the highest point in our 32 month records, between the latter half of July and the latter half of August. Earning assets decreased $1 million and balances at other banks including this Reserve Bank were increased by the same amount as deposits plus the decrease in earning assets. Excess reserves again rose to nearly $20 million and were the highest since June 1937.

City member bank deposits increased $7 million during August and then gained another $20 million in the first half of September, raising total deposits to $604 million on September 13, a new all-time high record. Loans to customers increased $20 million in the six week period ended September 13, two-thirds of which occurred in the first half of September. Other invested funds were unchanged. Balances with other banks and with us increased about $7 million during the six week period under review. Compared with mid-September last year, deposits were $45 million larger, loans to customers and other invested funds were up $20 and $16 million respectively, and reserves with us increased $18 million, part of which was offset by a decline of $8 million in balances with other banks. Excess reserves in August climbed a little above the near-record levels of July and continued to rise during the first half of September but did not reach the record of more than $36 million established in June.

Bills discounted by this bank and current **industrial loans** both decreased a little between the middle of August and September 20 but holdings of **government securities** were increased about $9 million. **Federal Reserve notes** in actual circulation increased about $3 million and member bank reserve accounts were up a little over $2 million. On September 1 it was announced that this Federal Reserve Bank, as well as other Federal Reserve Banks, would at present lend to member and non-member banks on Treasury obligations at par and at current discount rates.

AGRICULTURE

Farmers' cash income from seven products (excluding government payments) increased seasonally in August but was 14 percent lower than in August

last year. Flax and potato incomes were well above their August 1938 levels but incomes from wheat, rye, dairy products and hogs were all lower.

Total farmers' cash income (including government payments) in the Ninth District for July amounted to $45 million compared with $49 million in June and $52 million in July last year. Government payments totaled nearly $3½ million this July compared with a little over $2 million in July last year but incomes from crops and from livestock and livestock products were smaller.

Agricultural product prices showed mixed trends in August. Durum wheat prices soared to the highest level in more than a year and prices of butter, milk, eggs, barley and light butcher steers also advanced. Prices of flax, hogs, sheep and prime heavy butcher steers all declined and the hard spring wheat price was the lowest in six years with the exception of last October and November.

The September 1 indicated production figures for each of the eight principal crops in this district were a little higher than the August 1 estimates with the exception of potatoes which was slightly lower. According to the September 1 figures, the 1939 production of flax, potatoes, corn, oats and barley will be larger and the production of wheat, rye and hay smaller than last year and the production of all of our principal crops except potatoes will be larger than the 10-year average.

Receipts of cattle at South St. Paul increased less than usual during August and were 10 percent smaller than one year earlier. Calf receipts declined seasonally and were smaller than in any August since 1930. During the first eight months of 1938, about the same number of cattle and calves were marketed as during the same eight months last year. In this period, about 20 thousand more feeders and stockers were shipped back to the country than last year which, in combination with the 4 percent larger number of cattle on farms last January 1, indicates that the number of cattle on farms on September 1 in this district was larger than one year earlier. Marketings of heavy, well finished cattle increased throughout the month with the result that finished yearlings and lightweight cattle enjoyed the best demand.

During the first week of September, cattle receipts were smaller than usual and prices recorded large gains. Despite sharp increases in receipts during the second week, prices recorded only moderate declines. At mid-September the "top" was $11, fully $1.50 higher than during the last week of August.

Shipments of stocker and feeder cattle increased during August and were about 13 percent larger than in August 1938. Good fall pastures as well as abundant feed supplies sharpened the interest in this class of cattle and a broad demand prevailed throughout August.

During the first two weeks of September, feeder and stocker shipments were the heaviest in the current season and the average price paid by country buyers for steers during the second week was $8.40 compared to $7.30 during the last week of August and $6.90 during the same week one year earlier.

Dairy cow trade during August remained steady for good quality cows, chiefly because of small supplies and a good shipper demand. Low grade cow prices sagged somewhat in sympathy with butcher cow prices. The August price range was $40-$85.

During the first week in September, the dairy cow trade was checked by the upsurge in butcher cow prices, but during the second week, butcher cow prices underwent a downward revision and the dairy cow trade returned to normal. The price range for the second week in September was $45-$85.

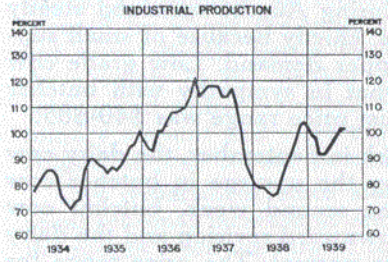
Hog receipts at South St. Paul declined during August and were smaller than in the same month one year earlier for the first time since last January. January-August hog receipts were 13% larger than during that period last year and the largest since 1933. *The Livestock Situation* reports: "Hog marketings are expected to increase seasonally during the next several months as the movement of spring pigs gets under way in large volume." Hog prices reached a five year low at mid-August but advanced when dressed pork prices strengthened during the latter part of the month.

During the week following the outbreak of the European war, hog receipts dwindled to about half the normal amount and prices experienced the sharpest rise on record, advancing from a "top" of $6.50 to $9.00. During the second week of September, normal marketing was resumed and the "top" declined to $7.75.

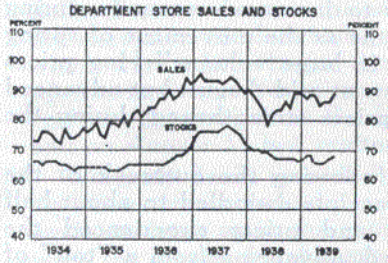
Receipts of sheep and lambs increased seasonally in August and were about one-fifth larger than in August 1938. During the first eight months of this year, sheep receipts were 5% larger than during that period last year and were the largest for that period since 1933. *The Livestock Situation* states: "The situation in early August indicated that the shipments of lambs and sheep from the 13 western sheep states during the five months, August to December, would be larger this year than last and that the proportion of lambs in feeder condition would be larger this year than last."

During the first week of September, receipts declined and prices rose to a "top" of $10.25 on the news of the outbreak of war in Europe but during the second week of the month, normal marketings were resumed and top prices of fat lambs declined to $9.25.

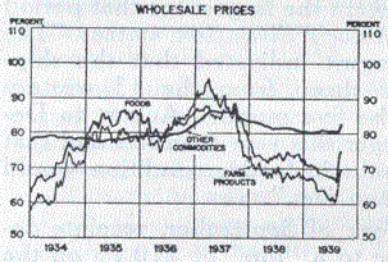
Cold storage holdings of butter during August increased less than seasonally for the fifth consecutive month. Commercial stocks of butter were 5% below the September 1 five year average but total stocks including the DPMA, FSCC and relief holdings were about one-fifth larger than average. Stocks of cheese were about normal. Supplies of eggs continued to be slightly below average but poultry stocks were one-fifth larger than usual at this season despite an August decline. Holdings of beef, pork, miscellaneous meats and lard also declined during August but stocks of lamb and mutton increased three times the seasonal amount and were about one-quarter larger than the September 1 five-year average.



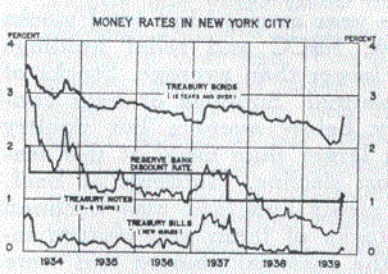
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1939.



Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to August 1939.



Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ended September 16, 1939.



For weeks ended January 6, 1934 to September 16, 1939.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, SEPTEMBER 16, 1939

Industrial activity, which had increased substantially during the summer, showed a sharp advance in the first half of September after the outbreak of the war in Europe. Prices of basic commodities and equity securities rose sharply while prices of high-grade bonds declined.

PRODUCTION: In August, the Board's seasonally adjusted index of industrial production was at 102 percent of the 1923-1925 average as compared with 101 percent reached in July. The volume of manufacturing production increased further, but mineral production declined, owing to a temporary curtailment in output of crude petroleum. In the iron and steel industry output increased somewhat further in August and rose sharply in the first half of September, steel ingot production reaching a rate of 70 percent of capacity in the week ended September 16 as compared with about 63 percent at the beginning of the month. Automobile production showed about the usual sharp seasonal changes in this period as the shift to new model production was being made. Output of plate glass increased sharply. Production of non-durable manufactures advanced in August, reflecting chiefly increased activity at cotton and woolen textile mills. At meat packing establishments activity declined less than seasonally, while at flour mills, where output has been at a high rate in recent months, there was not the usual large seasonal increase. Shoe production advanced seasonally. At coal mines output increased by about the usual seasonal amount and shipments of iron ore were at the highest rate of this season. Petroleum production declined sharply during the latter half of August, reflecting shutdowns of wells in most of the principal oil producing states, but increased rapidly in the first half of September when the wells were reopened.

The value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in August, owing to larger awards for publicly-financed projects, including several large dams and an increased volume of United States Housing Administration projects. Private residential building showed little change, although there is usually some seasonal decline. Other private construction, which in July had been the highest for any month in two years, declined in August.

DISTRIBUTION: Department store sales increased more than seasonally from July to August. The Board's adjusted index advanced from 86 to 89 percent of the 1923-1925 average and was at about the level reached in the latter part of last year. Sales at variety stores showed little change in August. Freight carloadings rose somewhat further in August, reflecting chiefly continued increases in shipments of coal and miscellaneous freight.

COMMODITY PRICES: Prices of most basic foodstuffs and industrial materials advanced sharply in the first half of September. Prices of wheat, corn, sugar, cocoa, and vegetable oils as well as of hides, rubber, wool, zinc, and tin showed the largest increases. The general level of wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 3.1 points and in the week ended September 9 was at 78.4 percent of the 1926 average, about the same level as a year ago.

AGRICULTURE: Crop prospects showed some improvement on September 1 over a month earlier, according to the Department of Agriculture. Indications are that production of all leading crops except cotton will be average or above average in volume. A cotton crop of 12,380,000 bales, about 10 percent below the 1928-1937 average, is forecast. This compares with a crop of 11,940,000 bales in 1938 and an estimated world consumption of 11,265,000 bales of American cotton during the past season.

GOVERNMENT SECURITY MARKET: Average yields on long-term Treasury bonds, which had advanced fractionally since last June, increased sharply by about ½ of 1 percent in the latter half of August and early September. In pursuance of the System's policy of endeavoring to maintain orderly conditions in the money market, the Federal Reserve banks during the first half of September increased their holdings of government securities by about $400 million. On September 1 the Board of Governors of the Federal Reserve System announced that the Federal Reserve banks are prepared at this time to make advances on government obligations to members and nonmember banks at par and at the same rate of discount.

BANK CREDIT: Total investments held by reporting member banks in 101 leading cities declined during the first half of September. At New York City banks the decline represented the redemption at maturity of Federal Farm Mortgage Corporation Bonds and at banks in other leading cities it represented the sale of Treasury bills and bonds. Commercial loans of city banks showed a susbtantial growth during August and the first half of September.