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

Vol. 7 (Serial No. 300) **Federal Reserve Bank, Minneapolis, Minn.** **December 28, 1939**

Business volume in November about equalled October and was the largest for the month since 1930. Member bank deposits remained at high levels and loans to customers rose slightly. Farm product prices averaged higher than a year ago.

BUSINESS

The volume of business in this district was about as large in November as in the preceding month but a little below the two year high volume of September. Our only index to show an important decline in November was farming center bank debits but this was offset by increases in bank debits at non-farming centers with the result that our 94 cities (including farming centers) bank debits index was unchanged. Most of our indexes were the highest for November in nine years.

Northwestern Business Indexes
(1929-1931=100)

	Nov. 1939	Oct. 1939	Nov. 1938	Nov. 1937
Bank debits—94 cities*	90	90	86	88
Bank debits—farming centers	95	101	91	89
Country check clearings	157	155	146	151
City department store sales*	94	97	93	92
City department store stocks	88	85	80	84
Rural department store sales*	99	100	98	98
Miscellaneous carloadings*	93	90	87	84
Total carloadings (excl. miscellaneous)	90	92	68	69
Employment Index (Minnesota)	108	108	101	106
Farm Price Index (Minnesota)	68	68	66	81

*Seasonal adjustments revised in 1939.

Building contracts awarded in November as reported by the F. W. Dodge Corporation were seasonally smaller than in the preceding month and smaller than a year ago despite a substantial increase in residential building over the previous month's volume and the amount awarded in November last year. Contracts for public utility construction reached a larger total than in any other month this year with the exception of September but public works contracts dropped to the smallest volume since last February. **Total construction** in the district totaled $7 million, a decrease of $2 million from the volume in October. The November volume was one-sixth smaller than November last year, but with that one exception, it was the largest for the month since 1929.

Building permits issued in November in 69 cities (including ten Minneapolis suburbs) were a little larger in valuation and much larger in number than in November a year ago as a result of a substantial rise in permits issued in the Minneapolis suburban areas. Increases were recorded in both new construction and repairs and alterations.

Department store sales in November for the district as a whole equalled the volume of November last year. They failed, however, to show the increase over the volume of the same month one year earlier that has been recorded in the preceding months this year with the exception of February and April. As a result, the eleven month total for the district dropped to only 5% above sales in the same period last year. Increases over November last year, however, were reported by eleven of the eighteen reporting sections of the district. The largest increases continued to be reported by those sections in North Dakota that enjoyed substantial increases in farmers' cash income, namely, the southwestern, northwestern and north central North Dakota sections. **Collections on accounts and notes** were relatively good in November, being larger than in any month since last January and somewhat larger than in November last year. **Receivables,** however, showed less than the usual seasonal decline and were well above the November 30, 1938 level.

City department store stocks increased by more than the seasonal amount during November, the amount of the increase being the largest in our eleven year records. **Rural department store stocks** which normally increase less in November than stocks of city stores increased by about 2% in November this year compared with a decline of 1% in November 1938. **Wholesalers' inventories,** in general, declined during November although some increases were reported in grocery, plumbing and heating and tobacco lines. Compared with November 30 last year, however, wholesalers' stocks were up more than 10%.

Warranty deeds recorded in Hennepin and Ramsey Counties decreased seasonally in November but were well above the volume in November last year. **Real estate mortgages** also declined seasonally but were 10% larger than in November 1938. **Mortgages accepted for insurance by the FHA** in October declined in both number and amount from the September level but continued larger than a year ago.

Business failures in November increased sharply in both number and amount to levels that were about half again as large as in November last year. **Non-farm real estate foreclosures** in October increased moderately but were slightly fewer in number than in October last year.

The volume of production in our district declined seasonally in November but despite a lower volume of flour production and shipments, remained well above the level of November 1938. Production of copper and silver increased sharply during November and employment at non-ferrous mines increased. The cut of lumber declined somewhat but was half

again as large as one year earlier. Lumber shipments declined seasonally and were about one-fourth larger than in November 1938.

Other business volume indicators that were higher in November 1939 than in November 1938 were new passenger car and truck sales; wholesales of hardware, plumbing and heating supplies and other miscellaneous lines; carloadings of coke, iron ore and merchandise; and net telephone installations in the Twin City area. Indicators that were lower in November than a year ago were wholesales of groceries, life insurance sales and carloadings of coal.

Sales at Department Stores

	No. of Stores	% Nov. 1939 of Nov. 1938	Cumulative % 1939 of 1938
Mpls., St. Paul, Duluth-Superior	21	100	105
Country Stores	408	101	105
Minnesota	141	98	104
Central Minnesota	25	96	104
Northeastern Minnesota	16	100	105
Red River Valley Minnesota	11	95	108
South Central Minnesota	33	96	99
Southeastern Minnesota	18	96	100
Southwestern Minnesota	38	103	108
Montana	44	99	108
Mountain	12	101	107
Plains	32	98	109
North Dakota	70	106	105
North Central North Dakota	13	106	104
Northwestern North Dakota	10	111	107
Red River Valley No. Dakota	23	103	103
Southeastern North Dakota	21	106	107
Southwestern North Dakota	3	119	120
Red River Valley—Minn., N. D.	34	101	104
South Dakota	81	99	104
Southeastern South Dakota	18	100	103
Other Eastern South Dakota	53	99	105
Western South Dakota	10	97	106
Wisconsin and Michigan	72	104	103
Northern Wis. and Mich.	39	106	108
West Central Wisconsin	33	102	99
Total District	429	100	105

BANKING

Country member bank deposits increased for the fourth successive month in November and averaged $504 million for the latter half of the month. Earning assets increased about $4 million and more than $6 million was deposited with city correspondents. Balances with us increased slightly, raising excess reserves above the $21 million level for the first time since February 1937.

City member bank deposits rose rapidly during the first half of November to a new all-time high of $620 million on November 15 but declined during the latter half of the month to a little lower than one month earlier. During the first half of December, increases in individual and commercial deposits and balances due from correspondents more than offset the declines in public deposits, again raising the total to near-record heights. On December 13, "other demand deposits" (which are largely deposits of individuals, partnerships and corporations) at the twenty weekly reporting banks in our district totaled $287 million, the largest total in our fourteen year records. **Loans to customers** continued to increase in early November but after climbing to $191 million on November 15, receded slightly. The total on December 13 was a little below the high point of mid-November when sixteen weekly increases culminated in a seven year "high." Investment holdings declined slightly between early November and mid-December. Balances with us increased a little during that six week period and there was a substantial increase in balances with other banks which, in combination with a small seasonal increase in cash holdings, raised the total of cash, due from banks and reserves to $261 million on December 13 which was also the highest in our fourteen year records. **Excess reserves** reached an all-time high of over $38 million on December 6 but declined to $37 million the following week. Compared with the middle of December last year, deposits were up $55 million despite a decline of $10 million in the volume of public funds held by these twenty banks; loans were up $33 million and balances due from banks, including reserve balances with us, were up $29 million; holdings of direct government obligations were down $14 million, largely offset by an increase of $9 million in government guaranteed securities; and there was a $2 million increase in capital accounts.

AGRICULTURE

Farmers' cash income from the sale of seven products (excluding government payments) dropped by more than the seasonal amount in November largely as a result of smaller-than-usual grain and hog marketings. Income from hogs was a little larger in November than in October but was one-fifth smaller than in November last year. Income from each of the other six items was smaller in November than in October but, with the exception of bread wheat and potatoes, was larger than in November last year.

The USDA estimate of total farmers' cash income (including government payments and CCC loans) for this district in October was about as large as in September and was one-fourth larger than in October last year. October 1939 income was larger in each state and part state in the Ninth District than in October 1938 with the exception of Wisconsin which was only slightly lower.

Agricultural product prices showed little change between October and November but there were more declines than increases. Most of the declines were small and relatively unimportant with the exception of hogs. Hog prices dropped rather sharply in November and have dropped even more rapidly in the first half of December to the lowest level in 5½ years. While most of the other livestock prices also declined in November (the only increase was in the prices of heavy stocker and feeder steers), cattle prices in general were higher than in November last year. Prices for bread wheat, corn and oats were a little higher in November than in October and all grain prices, with the exception of flax, were higher than in November 1938.

Potato prices increased seasonally in November and marketings appeared to be in about normal volume although somewhat smaller than in November last year. In view of the improved business outlook and the smaller-than-average potato crop in our district, an unusually large number of requests regarding the outlook for potato prices have been received. In the first place, the 1939 United States crop

was of about average size and national potato production is the greatest single factor in the determination of potato prices throughout the marketing season. Secondly, potato consumption is affected but little by business conditions. However, potato prices do tend to increase during the marketing season, which increase is frequently large enough to cover storage, shrinkage and sometimes other miscellaneous costs. Potato prices during the most important potato marketing months of the last marketing seasons are shown in the table below, together with September and October prices for the 1939 crop.

United States Potato Production and Average Potato Price per Bushel Received by United States Farmers

	1939-1940	1938-1939	1937-1938	1936-1937	1935-1936	4 Yr. Avg.
Potato Production (in million bu.)	362	372	391	332	386	
Potato Price (bu.)						
September	$.69	$.48	$.54	$1.14	$.48	$.66
October	.66	.51	.49	.98	.46	.61
November		.55	.51	.98	.62	.67
December		.61	.53	1.06	.64	.71
January		.64	.54	1.22	.65	.76
February		.65	.54	1.30	.68	.79
March		.65	.56	1.31	.72	.81
April		.75	.54	1.19	.81	.82

Receipts of cattle and calves at South St. Paul declined seasonally during November and were smaller than in any November since 1932. While the number of cattle and calves on farms in our four states on January 1, 1939 was about 250 thousand head larger than on January 1, 1938, total receipts of cattle and calves during the first eleven months of 1939 were about 60 thousand less than during that period of 1938. *The Livestock Situation* published by the USDA reported that "cattle numbers are expected to be about 2 million head larger on January 1, 1940 than a year earlier. Most of the increase during 1939 has taken place in Minnesota, Iowa and Missouri, and in states east of the Mississippi River . . . Cattle prices may average slightly higher in 1940 than in 1939, since the domestic demand for meats is expected to be stronger and the total live weight of cattle marketed probably will be slightly less than in 1939. Relatively high prices for hides also will be a factor tending to support cattle prices."

During the first two weeks of December, receipts continued to be small and prices were somewhat lower. Unusually low pork prices coupled with the approaching holiday season dampened the demand for beef products, which was immediately reflected in live cattle prices.

Shipments of feeder cattle and calves from South St. Paul declined seasonally during November as receipts of range cattle from Montana and the Dakotas dwindled, bringing to a close one of the largest feeder and stocker shipping seasons in many years. The USDA recently reported that "the total movement for the five month period, July through November, from stockyards and direct was the largest in fifteen years." Shipments from South St. Paul during that period was 17% larger than during the same period in 1938.

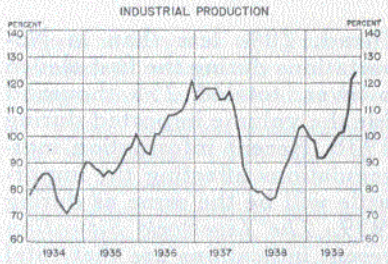
Importations of Canadian beef cattle and calves into the United States during November totaled about 16 thousand head, 20% less than in November last year. Importations during the first eleven months of 1939, however, totaled 255 thousand head, more than double the volume imported during the same period of 1938. Recent information indicates that the 1940 regulations affecting the importation of Canadian cattle will be the same as during the latter part of 1939. *The Livestock Situation* stated, however: "Present indications are that total imports of live cattle in 1940 will be smaller than the 1939 imports . . . In Canada, there are indications of a tendency to rebuild the drought-reduced herds in the western Provinces, and of a reduction in the number of cattle available for export in 1940."

Hog receipts at South St. Paul increased less than seasonally during November and were smaller than one year earlier for the fourth consecutive month even though the number of hogs in our district available for marketing was substantially larger than a year ago. During the first eleven months of 1939, hog receipts were only 70 thousand head (4%) larger than during the same period last year. On January 1, 1939 there were 450 thousand more hogs on northwest farms than one year earlier and the 1939 spring pig crop was nearly 2 million head larger than the spring crop of 1938. *The Livestock Situation* stated: "The effects on hog prices of the prospective improvement in domestic and foreign demand probably will be offset largely, if not wholly, by the increase in the supplies of hogs for slaughter during 1939-40. Present indications are that prices for hogs will average lower than a year earlier in the first half of the 1939-40 marketing year and higher than a year earlier in the last half of the year."

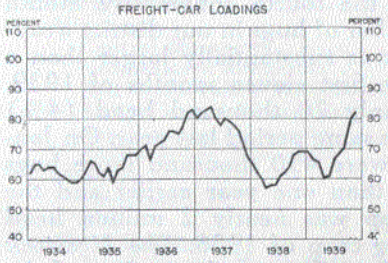
During the first two weeks of December, hog receipts increased sharply and prices declined to a "top" of $5.15 at mid-month.

Sheep and lamb receipts at South St. Paul declined seasonally during November and were the smallest in any November since 1927. Receipts during the first eleven months of 1939 were smaller than during the same period in any recent year. According to *The Livestock Situation,* "Prices of lambs in the 1939-40 fed-lamb marketing season (December-April) may average higher than in the 1938-39 season."

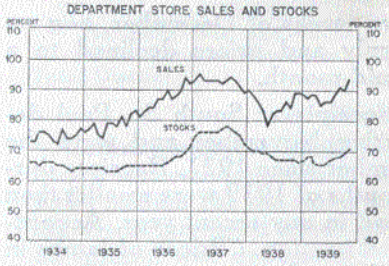
United States cold storage holdings of butter on December 1 were 4% below the five year average, the first time total butter stocks have been below the average since February 1, 1938. Eggs continued to move out of storage faster than usual in spite of heavy egg production and stored supplies declined to 11% below the five year average on December 1. Poultry holdings increased more than seasonally and were 12% above average. Beef in cold storage increased more than usual, even though slaughterings were below average, raising the December 1 stocks to 70% of the five year average for that date. Unusually heavy hog slaughter during November on a national basis resulted in a larger than average into-storage movement of pork and lard. Pork supplies were 88% and lard holdings 123% of the five year average on December 1. Holdings of lamb and mutton were about normal.



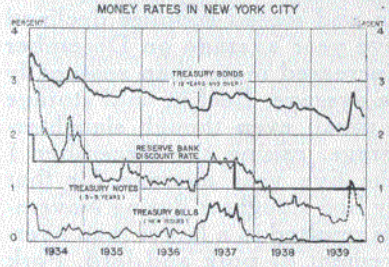
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to November 1939.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to November 1939.



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



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

National Summary of Business Conditions

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

Following a rapid rise after the outbreak of the European war industrial activity continued at a high level in November and the first half of December. There was a considerable increase in distribution of commodities to consumers while prices of basic commodities, which had been steady during November, rose somewhat in the first two weeks of December.

PRODUCTION: The Board's seasonally adjusted index of industrial production advanced from 121 to 124 per cent in November, reflecting sustained activity at a period of the year when a decline is usual. Production of durable goods, which had advanced rapidly for several months, showed a further expansion. Record production of steel ingots continued in November and was followed by a less than seasonal decline in the first half of December. Automobile production increased in November, notwithstanding the fact that plants of one important company remained closed pending settlement of an industrial dispute. After this was settled at the end of November assemblies rose sharply. Retail sales of new automobiles were in large volume in November and at the end of the month dealers' stocks of new cars apparently were smaller than at the corresponding time in other recent years. Lumber production declined less than seasonally in November but plate glass production, which had reached a high level in October, showed a reduction.

Output of non-durable goods continued at a high level in November. At cotton and woolen mills activity increased somewhat further and was close to the record levels reached three years ago. Rayon production advanced to new high levels but at silk mills there was a sharp decline following substantial increases earlier this fall. Output of flour and sugar declined further from the levels reached in September while changes in activity at shoe factories and meat-packing establishments were largely seasonal in character.

Coal production in November declined somewhat from the high level reached in October. Output of crude petroleum increased further and iron ore shipments continued in exceptionally large volume until the Great Lakes' shipping season closed in the latter part of the month.

The value of construction contracts, as reported by the F. W. Dodge Corporation, increased in November following a sharp decline in October. In both months changes in total awards reflected principally fluctuations in the volume of contracts for public construction. Private residential awards declined somewhat less than seasonally in November, while awards for other private projects showed little change. Contracts for private work, both residential and non-residential, were larger than a year ago, while those for public projects were below the high level of last year when contracts under the Public Works Administration program were being awarded in large volume.

EMPLOYMENT: Factory employment and pay rolls continued to increase in November, reflecting chiefly further sharp advances in industries producing steel, machinery, and other durable goods.

DISTRIBUTION: In November, distribution of commodities to consumers increased considerably. The Board's seasonally adjusted index of department store sales, which had been around 90 in the three preceding months, advanced to 94, a level about the same as at the peak in 1937 when prices of commodities sold at department stores were generally somewhat higher than at present.

Freight carloadings showed less than the usual seasonal decrease from October to November and the Board's adjusted index increased from 80 to 82, which was only slightly under the recovery peak reached in the early part of 1937. Shipments of ore and miscellaneous freight declined less than is usual in November, while loadings of coal decreased more than seasonally from the relatively high October level.

COMMODITY PRICES: Prices of both industrial materials and foodstuffs advanced from the latter part of November to the middle of December. Wheat and silk prices rose considerably and there were smaller increases in cotton and hides. Prices of steel scrap and non-ferrous metals, on the other hand, showed declines.

GOVERNMENT SECURITY MARKET: Prices of United States Treasury bonds advanced sharply during the last half of November to a level not far below the all-time high point of last June and remained steady during the first half of December.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities rose substantially during November and the first half of December, reflecting largely purchases of new United States Government securities. Commercial loans, which had been increasing since August, continued to rise until the third week in November. Deposits increased further.