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

Vol. 7 (Serial No. 303) **Federal Reserve Bank, Minneapolis, Minn.** **March 28, 1940**

Business volumes in country sections in February equalled those of January but were a little smaller in larger cities. Country member bank deposits reached the highest level in recent years. Member bank reserve accounts rose to highest total on record. Farmers' cash income declined seasonally but farm prices were steady.

BUSINESS

The volume of business in this district in February was a little lower than in December and January according to our seasonally adjusted indexes but was the largest for the month since 1931. In February, business volume in the country sections of the district continued to be a little better than in the larger cities. The index of bank debits at farming centers remained at 103, the highest point since the middle of 1930; the country check clearings index remained at 170, the highest point in our 20 year records; and the index of country lumber sales was at the highest level for February since 1930. Our carloading indexes were both lower than in January but were higher than in February in the two preceding years.

Northwestern Business Indexes
(1929-1931=100)

	Feb. 1940	Jan. 1940	Feb. 1939	Feb. 1938
Bank debits—94 cities	95	97	83	84
Bank debits—farming centers	103	103	87	88
Country check clearings	170	170	140	146
City department store sales	97	102	87	89
City department store stocks	88	86	81	80
Country department store sales	113	116	96	95
Country lumber sales	128	129	117	103
Miscellaneous carloadings	88	98	81	74
Total carloadings (excl. miscellaneous)	70	72	64	65
Employment—Minn. (1936=100)	99	100	96	94
Farm Prices—Minn. (1924-26=100)	69	69	70	77

Total construction in the district decreased further in February to the lowest level since January 1935 despite the largest February volume of residential contracts in thirteen years. There were also increases in contracts for commercial and industrial building and for several of the public and semi-public classes of construction but because of an almost complete cessation of public works and utility construction, the total for the district declined. Contracts for public utility construction totalled nearly a million dollars in January, but amounted to only $68 thousand in February. **Building permits** issued by 43 cities and towns were in larger volume than in February 1939, resulting in a total for the 71 reporting cities and towns that was nearly twice as large as a year ago. Increases were reported for each of the states and part states in the district with the exception of the upper peninsula of Michigan.

Department store sales in February at country points were sharply higher than in the same month last year. The percentage of increase was 21, the largest gain in our 6 year records for this group of stores, even when adjusted for the additional day in February this year. As shown in the accompanying table, all of the sections of the district reported a much larger volume of sales in February, the smallest increase being 9% in western South Dakota. Combining January and February sales at the 415 country stores from which reports have been received, the 1940 total was one-sixth larger than in the same 2 months last year. City department store sales were also well above the February 1939 total even when the extra day is taken into consideration and the total for the first 2 months of the year was 10% above sales in the same 2 months last year.

Sales at Department Stores

	No. of Stores	% Feb. 1940 of Feb. 1939	% 1940 of 1939
Mpls., St. Paul, Duluth-Superior	18	112	110
Country Stores	415	121	117
Minnesota	146	124	120
Central Minnesota	27	125	121
Northeastern Minnesota	16	117	120
Red River Valley Minnesota	11	147	136
South Central Minnesota	35	118	115
Southeastern Minnesota	19	116	110
Southwestern Minnesota	38	135	127
Montana	36	114	111
Mountain	12	115	116
Plains	34	113	108
North Dakota	76	140	128
North Central North Dakota	13	130	125
Northwestern North Dakota	12	162	141
Red River Valley North Dakota	24	133	124
Southeastern North Dakota	22	137	124
Southwestern North Dakota	5	190	152
Red River Valley—Minn. & N. D.	35	136	127
South Dakota	82	121	115
Southeastern South Dakota	16	119	112
Other Eastern South Dakota	53	124	117
Western South Dakota	13	109	104
Wisconsin and Michigan	75	115	114
Northern Wisconsin & Michigan	41	116	116
West Central Wisconsin	34	115	113
Total District	433	116	113

Retailers' collections on accounts and notes receivable in February at 39 stores were somewhat better than usual but **receivables** continued to be larger than on the same date one year earlier. **Wholesalers' collections** on outstandings were better in February than in January and were above last year. Reflecting the increased sales volume of wholesalers, **accounts and notes receivable** also increased and were larger than a year ago.

City department store stocks increased more than seasonally during February to the largest total at the end of February since 1931. **Country department store stocks** also increased in February but by a more moderate amount. **Wholesalers' inventories**

increased slightly during February and on March 1 were 14% higher than on that date in 1939.

Warranty deeds recorded in Hennepin and Ramsey Counties increased sharply in February to the largest total since 1927. **Real estate mortgages,** on the other hand, declined seasonally but were the largest for the month since 1931. **Mortgages accepted for FHA insurance** in our four states in January declined seasonally but were the largest for that month in our four year records.

Business failures in February were half again as large as in the preceding month both in number and amount, and liabilities were twice as large as in the same month last year. **Non-farm real estate foreclosures** in January were seasonally smaller than in the preceding month but were larger than in January 1939 as a result of substantial increases in both Minnesota and North Dakota.

The volume of production in our district as shown by several unadjusted indicators continued at a relatively high rate in February. While flour shipments were a little lower than in February last year, flour production was somewhat larger. Shipments of linseed products were two and one-half times as large and the largest for the month since 1929. Slaughterings of cattle approximated the volume of the preceding month and were a little larger than in February last year. Hog slaughter was only three-fourths as large as in the longer month of January but was nearly double that of February 1939. Slaughters of sheep and lambs and of calves were smaller than in the same month last year. The cut of lumber was nearly as large in February as in January and was one-third larger than in February last year. Shipments of forest products were about as large as in the preceding month, were more than half again as large as in February last year and were the largest for February since 1931. Mine production of copper and silver declined slightly from January but was about one-third larger than in February 1939. Production of gold declined and was 10% smaller than in the same month last year. The number of employees of reporting mining companies on February 29 was unchanged from a month earlier but was 13% larger than on that date last year. The Minnesota employment index dropped from 100 in January to 99 in February, the highest for that month since 1937. The daily average amount of electric power utilized in January was larger than in the preceding month and the largest in our twenty year records.

Other business activity indicators that were as high or higher in February than a year earlier were net telephone installations in the Twin City area; wholesales of automotive supplies, groceries, hardware, paper and its products, tobacco, and miscellaneous lines; carloadings of grain and grain products, livestock, coke, ore, LCL merchandise and miscellaneous freight; and new passenger car sales in Minnesota, Montana, North Dakota and South Dakota. As a result of the record carloadings of coal in January, the volume in February was somewhat lower than in February last year. Life insurance sales were also smaller than in February 1939.

BANKING

Country member bank deposits increased to the highest point in recent years in February as a result of sharp increases in both gross demand and time deposits. There was no change in **earning assets** during the month, however, the increased funds being left with city correspondents or with us. Country member bank reserve balances rose to more than $55 million for the first time since June 1937. **Excess reserves** rose to more than $23 million, the largest total in the last three years. Compared with the latter half of February 1939, gross demand and time deposits were up $32 and $8 million respectively but earning assets had been increased only $8 million, the balance of the increase having been left on deposit with other banks, about one-third having been added to reserve accounts at the Federal.

City member bank deposits increased in February, the larger volume of public funds more than offsetting the decline in privately owned balances. Loans receded slightly in February but holdings of Treasury bills and other government obligations increased $32 million, resulting in sharp declines in balances with correspondent banks and a smaller decrease in balances with us. During the first half of March, loans increased about $2 million but investments dropped $33 million, there being a net decline of that amount in government and government guaranteed obligations. Reserve balances with us which had declined steadily since the end of last year were increased sharply by the sale of $29 million Treasury bills to banks outside of the district, increasing **excess reserves** to nearly $48 million, the highest total on record.

Bills discounted by this bank decreased sharply between the middle of February and the middle of March, at which time they totalled only $69 thousand. The volume of **current industrial loans** showed little change during the four weeks under review. **Member bank reserve accounts** on March 13 totalled $171 million, the largest total ever recorded.

AGRICULTURE

Farmers' cash income in this district in February from the sale of seven products (excluding government payments) declined seasonally from the high level of January but was larger than in any other February since 1931. The February total was nearly $32 million. February incomes from the sale of durum wheat, potatoes and dairy products were larger than in January but bread wheat, rye, flax and hog incomes were all sharply lower with the exception of bread wheat which was only slightly lower.

Agricultural product prices held about steady in February with those of the preceding month, the increases and declines in grain, livestock and livestock product prices about offsetting each other. Grain prices were substantially higher than in February last year but livestock prices were generally lower. Prices for lambs and ewes were higher in February than a year earlier. Butter fat and milk prices declined somewhat but continued to be above one year earlier. Egg prices failed to record the usual seasonal decline and were 16% higher than a year

ago. The price of fat hens advanced but was about 10% below the February 1939 price.

March 1 prospective plantings of the eight principal cash and feed crops in Montana, North Dakota and South Dakota exceeded the acreages of these crops harvested in 1939 by substantial amounts but showed no change in Minnesota. The 1940 four state total was up 10% compared to a 7% increase in these eight crops in the entire United States.

Receipts of cattle and calves at South St. Paul declined seasonally during February but were slightly larger than in February 1939 due to a small increase in domestic marketings. Receipts of Canadian cattle were practically identical with February 1939 importations. Competition from large supplies of low priced pork coupled with the approaching Lenten season tended toward the weakening of dressed beef prices. The live cattle market reflected these conditions somewhat, but on the average price changes from January were minor. *The Livestock Situation* stated: "Although the stronger consumer demand for meats in 1940 than in 1939 will be a strengthening influence to prices on all kinds of slaughter cattle, the effects of this upon cattle prices will be offset or more than offset by the larger total meat supplies."

During the first half of March, the usual spring increase in marketings of finished cattle got well under way. Receipts were large but the market was dull and it was not until offerings were sharply curtailed by the heavy snowfall during the second week that a clearance was made possible.

Shipments of stocker and feeder cattle from South St. Paul increased during February and were about 10% larger than in February 1939. Little, however, can be determined from the movement of stocker and feeder cattle at this season of the year, since the volume is so small that any one of a number of relatively insignificant factors might result in a large percentage change. *The Livestock Situation* reported: "An important strengthening factor for the prices of lower grades of slaughter cattle in the past year has been the strong demand for stocker and feeder cattle. This demand may not be so strong in 1940 as in 1939. Feed prices are generally higher than last year and returns from cattle feeding operations will be less favorable in the first half of 1940 than in the first half of 1939."

During the first half of March, shipments were about as large as a year ago and country demand increased because of favorable current prospects for grass growth later in the season. The average cost of a feeder steer during the second week of the month was $7.50 compared to $7.00 four weeks earlier and $8.30 in the same week last year.

Receipts of sheep and lambs at South St. Paul declined seasonally during February but were about 6% larger than a year ago. Dressed lamb prices advanced sharply during February and sheep and lamb prices rose accordingly. Ewes and feeding lambs were scarce. According to *The Livestock Situation,* "Marketings of sheep and lambs during the remainder of the fed-lamb marketing season, which ends about May 1, may be no larger than in the corresponding period last year."

During the first two weeks of March, receipts increased but prices also rose to $10.35, a new high on old crop lambs since October 1937. At mid-month the "top" for choice lambs was $10.00 compared with $9.25 at mid-February and $9.00 a year earlier.

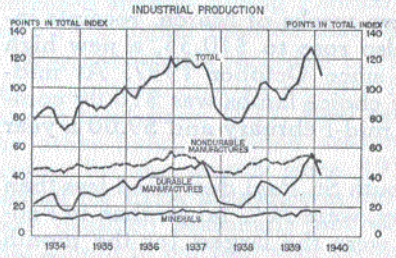
Hog receipts at South St. Paul decreased less than usual during February, were 70% larger than in February last year and were the largest for the month since 1932. Hog prices declined further during February and averaged only $5.00, the lowest since July 1934. *The Livestock Situation* stated: "For the entire year 1940 incomes of consumers are expected to average higher than in 1939. This will mean a stronger consumer demand for meats and lard. The effects of the improvement in consumer demand upon hog prices, however, will offset only partly the effects of the increase in supplies of hogs."

During the first half of March, receipts continued to be large. Prices again approached a new low for more than five years but the heavy snowfall curtailed receipts and prices strengthened. At mid-March the "top" was $5.30 compared to $5.40 four weeks earlier and $7.50 a year ago.

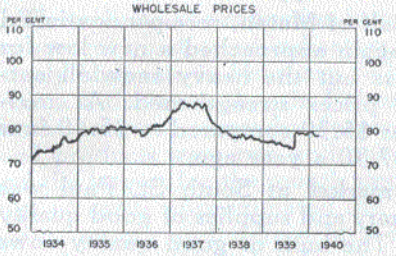
The dairy cow market at South St. Paul was steady during February and supplies of good quality cows were limited. The bulk of good quality cows sold at $55-$75, common grades at $45-$55, the extreme range for all sales being $45-$85.

Commercial hatching of chicks in the United States during January were considerably smaller than the unusually large hatch of one year earlier, and according to *The Poultry and Egg Situation,* "Present indications point to a total hatch during the 1940 hatching season somewhat smaller than in 1939." **Turkey** producers are apparently planning to raise between 4 and 5% more turkeys in 1940 than in 1939, according to February returns received by the Agricultural Marketing Service from 4,550 growers. Our west north central states, which produce approximately one-third of the turkeys of the nation, expected an increase of about 5%.

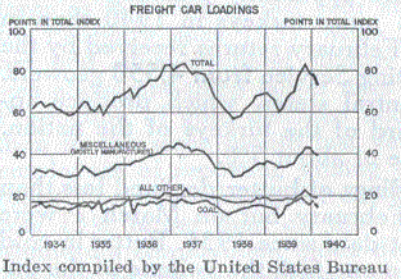
Cold storage holdings of butter declined less than seasonally during February but on March 1 were the smallest for that date since 1936. Butter in cold storage was less than one-fifth the volume of the unusually large supplies one year earlier. Total meat supplies increased sharply and were 6% more than the average holdings on March 1 in recent years. Beef stocks declined less than usual and were 20% below the 5-year average. Pork and lard holdings increased sharply as the result of large hog slaughterings, and pork supplies were somewhat above average while stocks of lard were more than double the usual amount and exceeded those of any period on record. Supplies of lamb and mutton and miscellaneous meats increased in February, whereas they normally decline. Eggs in cold storage declined more than seasonally, reflecting the unusually large drop in egg production since January 1, and on March 1 were considerably below the usual amount in storage on that date. Poultry declined seasonally and remained 28% above the March 1 5-year average.



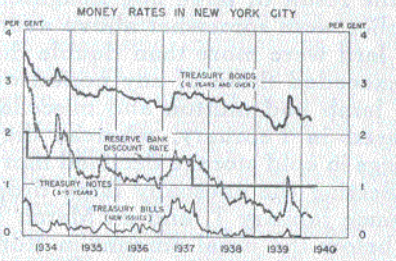
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. Durable manufacturers, nondurable manufacturers, and minerals expressed in terms of points in the total index. By months, January 1934 to February 1940.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average=100. Miscellaneous, coal, and all other expressed in terms of points in the total index. By months, January 1934 to February 1940.



Index compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ended March 9, 1940.



For weeks ended January 6, 1934 to March 16, 1940.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MARCH 19, 1940

Industrial activity showed a further sharp decline in February and a less marked reduction in the first half of March. Wholesale commodity prices generally were steady, following some decline in January and early February.

PRODUCTION: In February, the Board's seasonally adjusted index of industrial production was 109 per cent of the 1923-1925 average as compared with 119 in January and 128 in December. A further decline at a slower rate is indicated for March on the basis of data now available. In August 1939, the month prior to the outbreak of war, the index was 103.

Steel production, which had risen sharply in the latter part of 1939 and then decreased considerably in January, showed a further marked reduction in February to 69 per cent of capacity. In the first half of March, output was steady at a rate of about 65 per cent. Plate glass production declined further in February and output of lumber, which had dropped sharply in January, showed less than the usual seasonal rise. Automobile production in February was maintained at the high level prevailing in January. Dealers' stocks of new cars rose to high levels in this period, notwithstanding the fact that retail sales of cars were in large volume for this time of the year. In the first half of March, output of automobiles showed less than the customary sharp increase. In some industries not included directly in the Board's production index, particularly the machinery, aircraft, and rayon industries, activity continued at high levels.

Changes in output of nondurable goods were largely seasonal in February except at textile mills and sugar refineries. At cotton textile mills activity declined somewhat from the high levels prevailing since early last autumn. Activity at woolen mills, which had decreased considerably in December and January, declined further in February and output of silk products was reduced to an exceptionally low level. Sugar refining showed less than the sharp rise usual at this season.

Mineral production declined in February, owing chiefly to a considerable reduction in output of anthracite. Bituminous coal production declined somewhat, following a rise in January, while output of crude petroleum increased to new high levels.

The value of construction contract awards in February showed little change from the January total, reflecting a further decrease in contracts for public construction and a contraseasonal increase in private contracts, according to figures of the F. W. Dodge Corporation. The increase in private residential awards nearly equalled the decline that occurred in the previous month when severe storms curtailed building operations in many areas.

DISTRIBUTION: Retail distribution of general merchandise showed little change from January to February and remained somewhat below the high level of the latter part of last year, with due allowance for seasonal changes. Sales at variety stores and mail-order houses showed about the usual seasonal rise in February, while at department stores, where some increase is also usual at this time of year, sales remained at about the January level.

Freight-car loadings declined considerably from January to February, reflecting for the most part a sharp reduction in coal shipments and some further decrease in loadings of miscellaneous freight.

FOREIGN TRADE: Exports of United States merchandise in February declined less than seasonally from the high levels reached in December and January. The principal decreases were in shipments of cotton, copper, and aircraft, which had been exceptionally large in previous months. Exports to Japan fell sharply and there were declines also in shipments to the United Kingdom, the Netherlands, and Russia, while exports to Belgium and the Scandinavian countries increased.

There has been little change in the rate of gold inflow. The monetary gold stock increased by $246 million in February and by $109 million in the first two weeks of March.

COMMODITY PRICES: Prices of nonferrous metals advanced from the middle of February to the middle of March, while steel scrap and textile materials declined somewhat further. Most other commodities showed little change and in the week ended March 9 the general index of the Bureau of Labor Statistics was at 78.3 per cent of the 1926 average as compared with 78.5 a month earlier.

GOVERNMENT SECURITY MARKET: Following a relatively steady market during February, prices of long-term Treasury bonds increased sharply after the announcement by the Treasury early in March that its operations during that month would be limited to the issuance of a five-year note to refund a note maturing next June.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities rose during the six weeks ended March 13, largely as a result of increases in investments at New York City banks. Following a reduction during January, commercial loans increased, mostly at banks in cities outside New York. Bank reserves and deposits continued to increase during the period.