MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

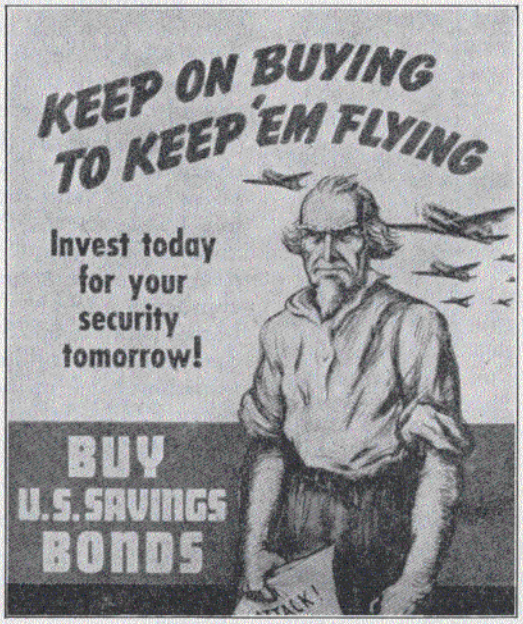
NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 2) **Federal Reserve Bank, Minneapolis, Minn.** **February 28, 1942**

Northwest business activity during January reached the highest January level on record. Department store sales were one-third larger than in January 1941. Bank deposits declined slightly from December. January farm cash income was the highest on record for that month.

BUSINESS

Business volume in the Northwest during January, as measured by our seasonally adjusted indexes, registered new gains from the high December level and appeared to have reached the highest January level on record. All of the indexes advanced from December with the largest increases occurring in the department store sales indexes of country and city stores, both of which reached new high levels of 164 and 152 respectively. In spite of the large January sales volume, the seasonally adjusted index of stocks at city department stores remained at 130 and was only slightly below the high point reached in 1929. The bank debits index at farming centers and the index of country check clearings both reached new high levels. The index of bank debits at 94 cities reached 151. This was the highest January on record but was 3 points below the all-time high registered in August 1929. The miscellaneous carloadings index advanced 3 points to 160, a new high. The Minnesota farm price index was up 8 points from December and was about equal to the previous high reached in January 1937.



Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	Jan. 1942	Dec. 1941	Jan. 1941	Jan. 1940
Bank Debits—94 cities	151	147	116	115
Bank Debits—farming centers	164	156	125	117
Country check clearings	168	158	125	118
City department store sales	152	127	115	111
City department store stocks	130	129	106	106
Country department store sales	164	140	122	123
Country lumber sales	141	134	135	137
Miscellaneous carloadings	160	157	133	115
Total carloadings (Excl. miscellaneous)	111	110	95	98
Employment—Minn. (Unadj. 1936=100)	118	126	107	100
Farm Prices—Minn. (1924-26=100)	105	97	78	69

The F. W. Dodge Corporation's report for January indicates a further decline in construction activity in the Northwest. Total contracts awarded for the month amounted to $1.9 million compared to $5.2 million last year and were the smallest January volume recorded since 1933. The largest decreases from last year occurred in non-residential building and in public works construction but all lines of building registered declines. Residential building was 34 per cent below the volume reported in January a year ago. The priorities system instituted last October 9 indicated that the 1942 construction program would be a controlled program. Even though estimates of construction during 1942 indicated a volume almost comparable to last year, most of the critical materials will be allocated to defense plant expansion and to expansion of military training bases.

Building permits issued in 93 cities and suburbs indicate approximately the same reduction in building activity in the Northwest. The value of permits issued in January was 40 per cent below last January with decreases occurring in all states and part states of the district.

January department store sales in the Ninth District were one-third larger than in January last year. This was the largest monthly percentage gain yet reported for department store sales in the Northwest. All retail trade areas shared in the increased sales volume. Country stores registered a gain of 35 per cent over last January while city store sales were up 31 per cent. Reporting stores in both North Dakota and the Michigan and Wisconsin area showed January gains of 42 per cent.

Even though January retail sales were large, the dollar volume of stocks at city department stores on February 1 was 21 per cent and at country stores 16 per cent above February 1 last year.

Manufacturing production for January in the district as measured by the following indicators, increased from the December level and was substantially above January last year. Flour shipments and linseed oil and oil cake shipments were about one-

fourth larger than a year ago while flour production was 30 per cent above last January. Linseed oil and oil cake shipments of 74 million pounds were the largest for any single month on record. Slaughterings of all livestock at South St. Paul during January were approximately one-third larger than in that month last year. Hog slaughterings showed an increase of 52 per cent over last January. Electric power production in Minnesota, North and South Dakota and Montana was slightly below December but was 17 per cent over January last year. The January cut of lumber was 12 per cent greater than a year ago. Manufacturing employment in Minnesota declined from December but was 118 per cent of the 1936 average as compared to 107 in January 1941.

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Jan. 1942 of Jan. 1941
Total District	278	14	132
Mpls., St. Paul, Dul.-Sup.	23	0	131
Country Stores	255	14	135
Minnesota	72	2	137
Central	9	0	140
Northeastern	8	0	136
Red River Valley	6	0	148
South Central	21	1	146
Southeastern	12	0	128
Southwestern	16	1	134
Montana	34	6	121
Mountains	10	3	126
Plains	24	3	118
North Dakota	46	1	142
North Central	7	0	148
Northwestern	7	0	152
Red River Valley	17	0	134
Southeastern	15	0	152
Red Riv. V.-Minn. & N. Dak.	23	0	137
South Dakota	45	3	132
Southeastern	13	0	128
Other Eastern	25	2	139
Western	7	1	123
Wisconsin & Michigan	58	2	142
Northern Wisconsin	18	2	133
West Central Wisconsin	30	0	147
Upper Peninsula Michigan	10	0	138

BANKING

City member banks increased their earning assets by $22 million during the four-week period ended February 11, 1942. However, practically all of the increase was due to larger holdings of Treasury Bills which yield a low rate of return. Only moderate changes occurred in the holdings of Treasury notes, Government bonds and guaranteed items, while loans to customers declined $2 million. Even though total deposits at banks and the reserve balances with us registered no material change, excess reserves of city member banks again declined. Smaller cash balances with correspondent banks resulted in smaller subtractions from gross demand deposits, thus leaving larger balances against which to compute required reserves. These larger reserve requirements reduced excess reserves of city member banks to $6 million on February 4, the lowest level since April 1939.

Country member bank deposits in the last half of January had declined slightly from the December high but were still $43 million above last January. Balances of country member banks held by correspondent banks have been increased as well as reserve balances with us. As a result the amount of excess reserves of country member banks has shown only a moderate decline from last year whereas city member banks have materially reduced their excess reserve balances. Earning assets of country member banks declined seasonally from December but were approximately $37 million above last January.

The reserve position of Ninth District member banks as indicated by the daily average of deposits and reserves for the last half of January, was as follows:

	Member Bank Reserve Deposits	Required Reserves	Excess Reserves
	Thousands of Dollars		
Country Banks	$ 70,330	$ 47,297	$ 23,033
City Banks	116,466	96,203	20,263
Ninth District (1942)	$186,796	$143,500	$ 43,296
Ninth District (1941)	$182,878	$104,033	$ 78,845

Sales of Series E Defense Bonds in the Ninth District for the first 19 days of February declined sharply from the volume of sales reported for the corresponding period in January. However, payroll allotment plans for the purchase of defense bonds have made progress and on February 9 there were 46,432 employees at 591 firms in Minneapolis who were allotting each month $385 thousand to the purchase of defense bonds.

Some areas in the United States have reported sharp reductions in time deposits at banks as defense bond sales increased. Time deposits at member banks in the Ninth District have steadily declined throughout the past year and the rate of decrease has not been materially changed since December 1, 1941. Time deposits held by member banks totaled $373 million in February 1941, were decreased $6 million by December 1, 1941 and an additional $4 million drop had occurred by February 1942. Series E defense bond sales by months were as follows:

	Amount (Thousands of Dollars) (Sale Price)	No. of Bonds
May	$ 1,641	12,059
June	1,456	11,462
July	2,261	17,096
August	1,902	16,103
September	2,072	18,306
October	2,687	24,371
November	2,550	25,319
December	8,857	114,503
January	16,512	191,251
February 1-19	6,309	84,191

Farm Credit: During the period 1933-35 a large volume of agricultural credit, both short term and long term loans, was made available to farmers by various Federal Agencies. These Federal Agencies have steadily increased their volume of loans during the past seven years and on January 1, 1941 the Federal Land Bank, holding 36 per cent of the farm mortgage debt, was the largest single lender in the farm mortgage field. Short term loans available to farmers through Federal Agencies are made largely by the Farm Security Administration, Emergency Crop and Feed Loan Office and the Production Credit Associations.

Since many of the Farm Security loans and the Emergency Crop and Feed Loans probably are not

of "bankable" quality, and since most of the loans made by the Production Credit Association would be acceptable to banks, an analysis of the loan volume of banks and of production credit associations was made to determine the importance of these two lenders in the field of short term agricultural credit. Complete data for all states in the Ninth Federal Reserve District were not available. Therefore, the comparisons were restricted to the states of Minnesota and South Dakota only.

The following table shows the volume of short term agricultural loans held by Insured Commercial Banks and by Production Credit Associations in Minnesota and South Dakota on January 1 for each of the past seven years.

	Total	Prod. Credit Assoc.		Ins. Com'l Banks	
	(Thousand)	Amount (Thousand)	Per Cent	Amount (Thousand)	Per Cent
1935					
Minnesota	$ 34,616	$ 2,263	7	$ 32,353	93
So. Dakota	13,426	766	6	12,660	94
Total	48,042	3,029	6	45,031	94
1936*					
Minnesota	$ 36,871	$ 4,734	13	$ 32,137	87
So. Dakota	17,332	2,831	16	14,501	84
Total	54,203	7,565	14	46,638	86
1937					
Minnesota	$ 35,552	$ 4,686	13	$ 30,866	87
So. Dakota	15,591	2,197	14	13,394	86
Total	51,143	6,883	13	44,260	87
1938					
Minnesota	$ 45,880	$ 5,948	13	$ 39,932	87
So. Dakota	18,364	2,536	14	15,828	86
Total	64,244	8,484	13	55,760	87
1939					
Minnesota	$ 54,775	$ 5,767	11	$ 49,008	89
So. Dakota	19,060	2,731	14	16,329	86
Total	73,835	8,498	11	65,337	87
1940					
Minnesota	$ 67,317	$ 5,634	8	$ 61,683	92
So. Dakota	24,324	2,990	12	21,334	88
Total	91,641	8,624	9	83,017	91
1941					
Minnesota	$ 87,896	$ 6,233	7	$ 81,663	93
So. Dakota	30,090	3,247	11	26,843	89
Total	117,986	9,480	8	108,506	92
1942					
Minnesota	$ 87,157	$ 6,157	7	$ 81,000E	93
So. Dakota	36,928	3,928	11	33,000E	89
Total	124,085	10,085	8	114,000E	92

*July 1 figures. E—Based on member bank reports.

The production credit associations have expanded their loaning activities considerably since they began operation in 1934. However, in spite of their increase in loan volume from $3.0 million on January 1, 1935 to $10.1 million on January 1, 1942, the production credit associations still hold relatively small amounts of agricultural loans when compared to the holdings of commercial banks. During this same 7-year period, banks increased their agricultural loans from $45 million to an estimated $114 million. Furthermore, the increase in production credit loans in the past three years has been very nominal while commercial banks during that three-year period added approximately $49 million of agricultural loans to their earning assets. Some of the increase in agricultural loans of commercial banks was, of course, due to commodity loans underwritten by the Commodity Credit Corporation. However, a complete classification of agricultural loans held by insured banks in South Dakota and Minnesota in July 1940, indicated that roughly 10 per cent of the loans to farmers were secured by warehouse receipts. These commodity loans were not available to the production credit associations prior to 1941.

AGRICULTURE

Farmer's cash income for the second consecutive month failed to make the usual seasonal decline from the preceding month and according to our estimates the January cash farm income in the Ninth District was 71 per cent above that month last year and was the highest January income on record. Higher hog prices and larger shipments of hogs were responsible for most of the increase over last year since only moderate increases in returns from other products occurred. Income from the sale of eggs was up sharply from last year but egg receipts represent a small per cent of the total cash farm income in January.

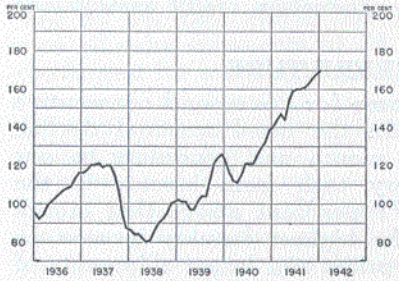
Agricultural product prices during January advanced further from the high December levels to reach the highest January prices since the late 20's. For the third consecutive month all grain prices showed gains of from 3 to 11 cents per bushel while flax advanced 27 cents to $2.26 per bushel. Most cattle prices registered slight gains while veal advanced to $13.00 per hundredweight, the highest price since 1930. The median hog price was $11.20 compared to $7.75 in January last year and a price of $2.80 paid in January 1933. The January hog price was slightly below the high peak reached last August and in the late summer of 1937 but was the highest January price since 1927. Wholesale prices of milk, butter and eggs showed no material change from December levels.

Cattle receipts at South St. Paul during January totaled 89 thousand head. This was 32 per cent greater than receipts a year ago and was the largest January total on record. For the months October through January, cattle receipts were 28 per cent larger than for the corresponding period a year earlier. Calf receipts were also larger than a year ago.

Hog receipts in January, also very large, were 44 per cent above last year and were the largest January receipts since 1932. The large number of pigs farrowed on Northwest farms during the past summer and fall is expected to hold hog marketings well above the 1941 levels. However, the greater demand resulting from more employment and direct government purchases of pork and lard will probably absorb readily the increased marketings of hogs during 1942. Sheep receipts were also large for January and the total number of head of all slaughter animals received at South St. Paul for the month was 32 per cent above January last year.

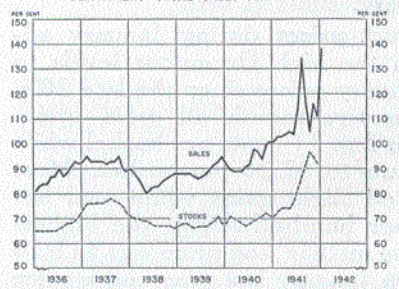
Egg production in the district during January was 40 per cent above 1941 and was the highest January production on record. Although there were more laying hens on farms in 1928, the rate of lay in January this year was so much higher that total egg production far exceeded any other year. Egg prices were also much higher than last year and farm cash income from the sale of eggs in January was estimated at $6.8 million compared to $2.5 million last year.

INDUSTRIAL PRODUCTION



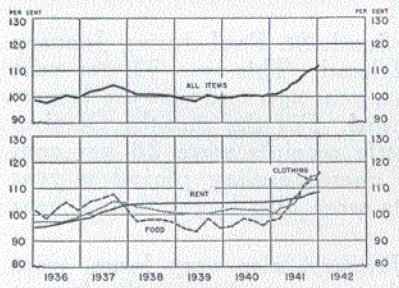
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for January 1942.

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. Latest figures shown are for January 1942.

COST OF LIVING



Bureau of Labor Statistics' indexes, 1935-39 average = 100. Fifteenth of month figures. Last month in each calendar quarter through September 1940, monthly thereafter. Latest figures shown are for January 1942.

MEMBER BANKS IN 101 LEADING CITIES

Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported. Latest figures shown are for February 11, 1942.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 21, 1942

Industrial activity rose further in January and the first half of February, reflecting continued sharp advances in output of military products. Retail trade was unusually active and prices, particularly of unregulated commodities, advanced.

PRODUCTION: Volume of industrial production increased in January, although usually there is some decline at this season, and the Board's adjusted index rose further to 170 per cent of the 1935-39 average. Continued rapid increases in activity were reported in the machinery and armament industries and production of chemicals likewise rose sharply. Activity at cotton textile mills reached a new high level, following some decline in December. In the meatpacking industry, where activity had risen to record levels in December, there was a further advance in January and output of most other manufactured food products was maintained in large volume for this time of year.

Production of steel and nonferrous metals continued near capacity in January and lumber production, which usually declines at this season, was sustained. In the automobile industry output of passenger cars and light trucks continued at about the December rate; in February, however, production of cars and trucks for civilian use was halted and the plants were shut down for conversion to armament production. Coal production increased in January, following a decline in December when demand was curtailed somewhat by unusually warm weather, and output of crude petroleum was maintained at record levels.

Value of construction contracts awarded in January was some two-fifths below the level of the last quarter of 1941, according to figures of the F. W. Dodge Corporation. Declines were reported in all classes of construction; the decrease in residential building being usual at this season.

Total awards in January were slightly larger than last year, but public projects accounted for a much larger proportion of the total than a year ago.

DISTRIBUTION: In January retail trade was stimulated considerably by widespread anticipatory buying of many products resulting from announcements that distribution of new tires and tubes, new automobiles, and sugar would henceforth be rationed and that the amount of materials available for use in various other goods would be restricted. Sales at department stores, variety stores, and general merchandise stores declined much less than is usual after the Christmas season, while sales of tires and tubes were restricted to essential uses and sales of automobiles ceased pending the establishment of a rationing system. In the first half of February department store sales decreased somewhat from the high level reached in mid-January.

Total carloadings of revenue freight, which usually decline in January, showed little change this year and the Board's seasonally adjusted index advanced from 137 to 140 per cent of the 1935-39 average. Loadings of grain and forest products rose to unusually high levels for this time of year and coal shipments also increased, following a decline in December. Shipments of miscellaneous freight, which include most manufactured products, declined less than seasonally.

COMMODITY PRICES: Prices of commodities and services continued to advance sharply in January and the first half of February. The Emergency Price Control Act of 1942 became a law on January 30 and former Federal maximum price schedules—approximately 100 in number—remained in effect under its terms. About one-half of these schedules were issued following the United States' entry into the war. In this period, price controls were extended to a number of finished consumers' goods and covered mainly items for which output for civilian use had been sharply curtailed or prohibited by Federal order. Retail prices of foods and textile products, which are not subject to direct control, showed exceptionally large increases from December 15 to January 15 and, according to preliminary indications, have continued to advance since that time.

BANK CREDIT: Since the beginning of the year loans and investments at banks in leading cities have increased, reflecting purchases of Government securities by city banks outside New York and increases in commercial loans by banks in New York. Demand deposits and currency in circulation have risen sharply. Member bank reserves have shown little change in recent weeks, and excess reserves have continued close to 3½ billion dollars.

UNITED STATES GOVERNMENT SECURITY PRICES: Prices of United States Government bonds declined somewhat in the first half of February, following little change during the previous month, while prices of short-term securities, which had risen in January, were steady.