MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 11) **Federal Reserve Bank, Minneapolis, Minn.** **Nov. 30, 1942**

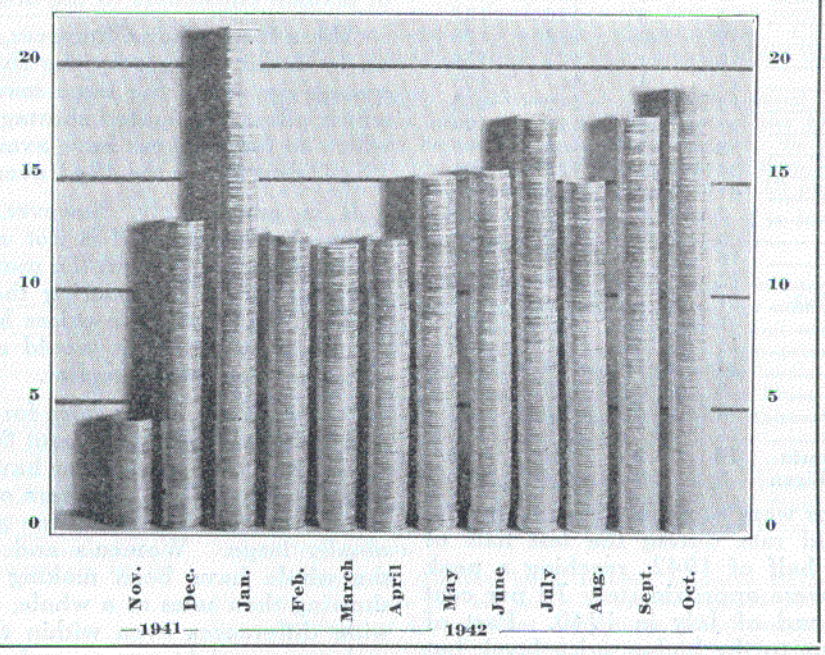
Total business volume in October was at a new all time high for that month. Department store sales advanced. Bank deposits and investments established new highs. Farm income was about one-third larger than the high 1941 level.

BUSINESS

Business activity in this district during October continued at the record level of recent months. Bank debits at the 94 leading cities in the district increased more than seasonally, but the index of debits in the farming centers declined slightly. Both indexes were at the highest point on record for the month, however. Department store sales increased during October. The index of city department store sales advanced 5 points to 131 per cent of the 1935-39 average, and the country department store sales index advanced 2 points to 138, each index being at the highest point on record for October. Employment and payrolls in Minnesota continued to rise, reaching a new all-time high. Building and construction continued at a high level, and new contracts let during October totaled $33 million, the largest for that month on record and more than four times as large as the October 1941 figures. Flour production increased more than usual during the month and was 7 per cent above October 1941. Shipments of linseed oil were the highest for October on record and 16 per cent above a year ago. The carloadings indexes declined slightly, but were the highest for any October since 1929. The volume of lumber cut, country retail lumber sales, and life insurance sales were all lower than one year earlier.

SALES OF SERIES "E" WAR BONDS IN THE NINTH FEDERAL RESERVE DISTRICT NOVEMBER 1941 - OCTOBER 1942

(In Millions of Dollars)



Iron ore shipments from upper lake ports during October totaled 11.4 million tons as compared to 11.8 million shipped during September and 9.6 million in October 1941. At the end of October a total of 83.8 million tons had moved out of upper lake ports to establish a new high record for a single season. With more than a month of open shipping yet to go, it now appeared that the requested tonnage of 95 million may be reached. Stocks at furnaces and at lower lake docks amounted to approximately 52 million tons, enough to keep blast furnaces operating seven months.

Department store sales in the Ninth District in October were 16 per cent larger than one year earlier. Country stores recorded an average increase of 20 per cent and city stores were up 14 per cent. Percentage changes in the various retail trade sections ranged from no change in the northeastern section of Minnesota to an increase of 42 per cent in north central North Dakota. Sales for the first ten months of 1942 were 8 per cent above the corresponding period of 1941.

Department store sales in the Northwest during the past 15 months have averaged well above any other similar period in history. There appeared to be a considerable volume of anticipatory buying during the last quarter of 1941 and the first quarter of 1942, but the seasonally adjusted indexes of department store sales following that period dropped be-

low one year earlier in May only and then again started to rise. During the four months, July through October, the sales indexes have averaged about four points above the corresponding period of 1941 and about 15 points above the corresponding period in 1929.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	Oct. 1942	Sept. 1942	Oct. 1941	Oct. 1940
Bank debits—94 cities	153	150	132	104
Bank debits—farming centers	159	163	148	123
Country check clearings	160	156	145	117
City department store sales	131	126	117	106
City department store stocks	144	153	129	103
Country department store sales	138	136	115	105
Country lumber sales	106	127	127	136
Miscellaneous carloadings	125	127	123	111
Total carloadings	133	136	129	129
Farm prices—Min (excl. miscellaneous)	151	138	118	86
Employment—Min (Unadj. 1936 = 100)	137P	135	125	113
Payrolls—Minn. (Unadj. 1936 = 100)	194P	188	156	130

P—preliminary.

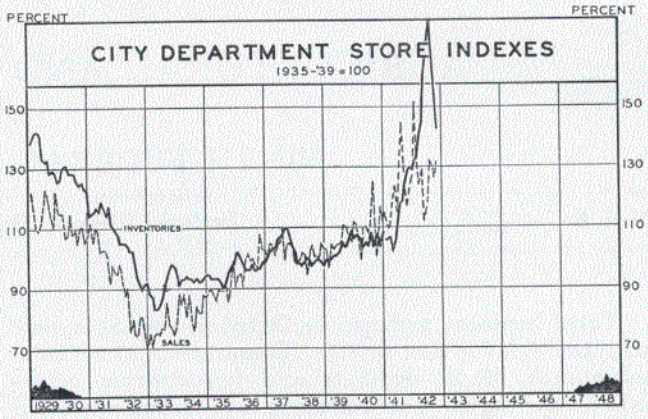
Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Oct. 1942 of Oct. 1941	Cumulative % 1942 of 1941
Total District	259	24	116	108
Mpls., St. Paul, Dul.-Sup.	20	2	114	107
Country Stores	239	22	120	109
Minnesota	66	9	118	109
Central	9	0	127	117
Northeastern	4	4	100	101
Red River Valley	5	0	138	123
South Central	18	1	127	116
Southeastern	13	1	117	105
Southwestern	17	3	119	108
Montana	32	6	116	99
Mountains	8	3	106	95
Plains	24	3	120	101
North Dakota	41	2	118	106
North Central	7	0	142	113
Northwestern	6	0	119	103
Red River Valley	16	1	112	106
Southeastern	12	1	118	107
R. R. Val.-Minn. & N. Dak.	21	1	116	109
South Dakota	47	1	133	115
Southeastern	15	0	131	113
Other eastern	24	1	138	114
Western	8	0	129	134
Wisconsin & Michigan	53	4	121	116
Northern Wisconsin	17	2	119	119
West Central Wisconsin	28	2	121	118
Upper Peninsula Michigan	8	0	124	107

Department stores were accumulating inventories at an unprecedented rate during the last half of 1941 and the first half of 1942, reaching a peak in July when they were approximately 70 per cent larger than at the end of July in 1940. Part of this increase was due to the higher price level, but there was also a substantial increase in the volume of goods on hand. In recent months inventories have been declining, and at the end of October were down to 40 per cent above October 31, 1940, and about 12 per cent above one year ago.

The volume of orders placed with manufacturers, but not yet filled, was about 18 per cent above one year earlier on November 1, reflecting in large part the slowing up in delivery schedules which has been taking place over the last several months.

During the early spring of 1942 retailers in this area expected sales in 1942 to be less than in 1941.



Several factors that were working toward a decline in retail volume were cited, the more important being: (1) growing shortages in the "hard" lines such as hardware, refrigerators, etc.; (2) anticipatory consumer buying during the last quarter of 1941 and the first part of 1942 due to fear of scarcity, lower quality, higher prices, and luxury taxes; (3) credit sales regulations; (4) purchases of War Savings Bonds; (5) anticipation of higher income tax payments; (6) price ceilings which had taken the speculative urge out of consumer buying; and (7) loss of civilian consumers to the armed forces.

These factors have, however, been more than offset in dollar volume by the sharp increase in consumers' incomes, the large inventory accumulation which offset anticipated shortages and higher prices which so far this year have averaged approximately 11 per cent above the 1941 average.

It is quite likely, however, that the physical volume of goods sold is not as large as in 1941. Dollar sales for the first ten months of 1942 were 8 per cent larger than during the corresponding period of 1941 but since prices have averaged about 11 per cent higher, it would appear that the unit sales were somewhat smaller.

Although the dollar sales for the first ten months of 1942 have averaged about 8 per cent above that period in 1941, many lines have experienced much larger gains while others were only a fraction of the 1941 volume. Sales of piece goods have been unusually large. Women's and Misses' clothing on the whole have been making a somewhat better showing than sales as a whole, but there have been wide differences even within this group. Hosiery, underwear, nightgowns, and infants' wear have been recording monthly gains as high as 30, 40, and 50 per cent while furs have recorded declines of from 30 to 60 per cent. Men's clothing sales have declined sharply while boys' clothing sales have recorded large gains. Sales of home furnishings have been smaller than a year earlier, probably reflecting limited supplies, credit restrictions and the reduced residential building activity.

Not only is the consuming public buying different types of merchandise than a year ago but its mode of payments has also changed considerably. Instalment sales in October in this area were 7 per

Departmental Sales of 18 Northwest Stores

Percentage Change from Corresponding Month One Year Earlier

	June	July	Aug.	Sept.
Total Sales	4	8	— 9	4
Main Store Only	3	8	—10	3
Piece Goods	42	55	14	15
Women's & Misses' Wear	11	19	— 6	12
Underwear, Nightgowns	5	4	— 7	30
Hosiery	21	15	—34	51
Furs	—63	—50	—31	—40
Infants' Wear	31	44	32	43
Men's & Boys' Wear	— 4	— 6	— 9	12
Men's Clothing	—29	—35	—30	—11
Boys' Clothing	14	54	0	40
Home Furnishings	—12	—10	—24	—16
Furniture	—24	—43	—31	—37
Household Appliances and Refrigerators	—53	—62	—69	—29
Linens and Bedding	— 6	— 7	—14	3
Small Wares, Jewelry, etc.	7	10	3	— 8
Basement Store Only	11	5	— 7	11

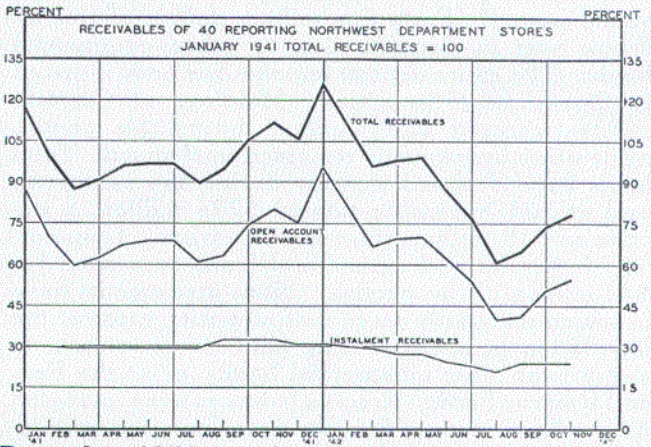
cent smaller than a year earlier, charge account sales were unchanged while cash sales experienced an increase of 49 per cent. Whereas a year ago consumers were purchasing 51 per cent of their merchandise on 30 day charge accounts, 42 per cent by cash and 7 per cent on instalment contracts, in October 43 per cent were charge sales, 52 per cent were by cash and 5 per cent on instalment contracts.

Some of the more important reasons for this marked change are: (1) the sharp increase in industrial payrolls and in farmers' cash income has supplied consumers with more cash than ever before and they can therefore more easily make cash payments; (2) Regulation W has discouraged the use of both instalment contracts and charge accounts by shortening terms and requiring down payments on instalment sales; and (3) the credit men of this area along with federal authorities, have been carrying on an educational campaign to discourage consumer debt at this time.

At the same time that cash sales are becoming a larger portion of total sales, collections on receivables have likewise been increasing, and for much the same reasons. Regulation W, which limited instalment contract maturities and prescribed minimum down payments, became effective September 1, 1941. Since that time, there has been a gradual increase in the collection ratio on instalment accounts, a normal resultant of shortened maturities.

On May 6, 1942, Regulation W was amended to include open charge accounts, and required that such accounts be paid in full by the 10th day of the second month following purchase. Prior to May, approximately 56 per cent of the open charge account receivables at the end of the month were collected during the following month. In May this ratio increased to 60 per cent and has increased each month since with the ratio being 85.2 per cent for October. Interpreted on a turnover basis, the average turnover of receivables is once every 35 days —even faster than that required by the Regulation.

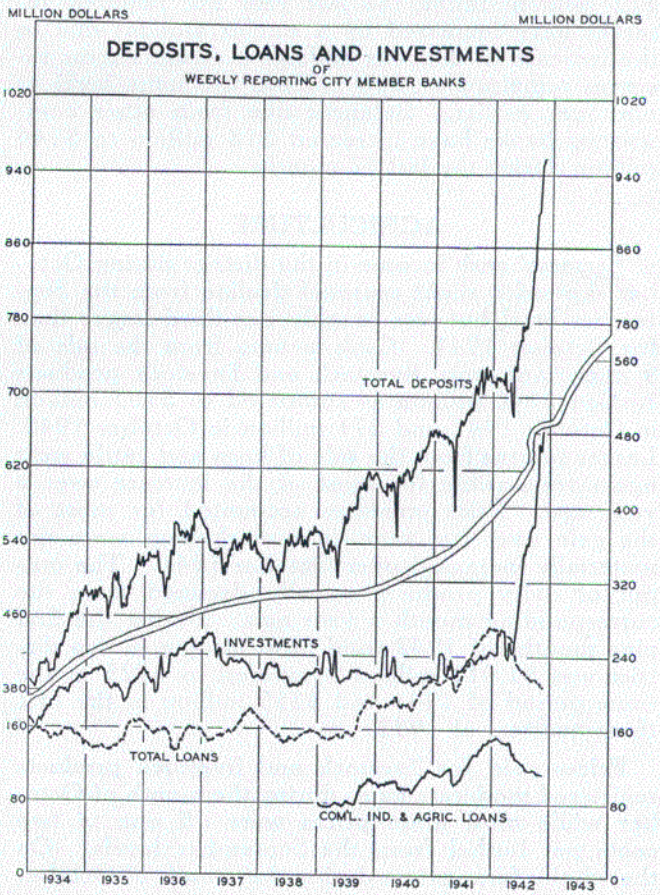
Corollary to the increased collection ratios and higher percentages of cash sales, is the sharp decline in receivables. Receivables declined sharply from



December 1941 to a low point at the end of July. Since July, receivables have increased seasonally along with sales but were, nevertheless, substantially lower than one year earlier. At the end of October, total receivables were 30 per cent below the same date in 1941. Open charge account receivables were down 31 per cent and instalment receivables 24 per cent.

BANKING

City member bank deposits, reflecting government expenditures and record farm incomes have experienced the sharpest rise in history during the past six months, reaching a new all-time high. Total deposits were $958 million at mid-November, $227 million higher than on May 6, when the current ad-



vance started. Forty-five million dollars of this increase was in deposits due to other commercial banks. The entire deposit increase has been invested in Government Securities. Holdings of Governments increased $241 million during this period, while other investments remained unchanged. Total loans have declined steadily during the past year, and at mid-November totaled $204 million, a decline of $59 million from a year earlier. Commercial, industrial and agricultural loans accounted for $33 million of this decline. Since investments have not risen materially more than deposits, most of the liquidation in loans is being held either in cash, in deposits at other commercial banks, or at the Federal Reserve Bank. Reserve balances have increased $41 million during the last year, but required reserves have increased even more and as a result, excess reserves totaled only $11 million during the last half of October, less than half as large as a year ago.

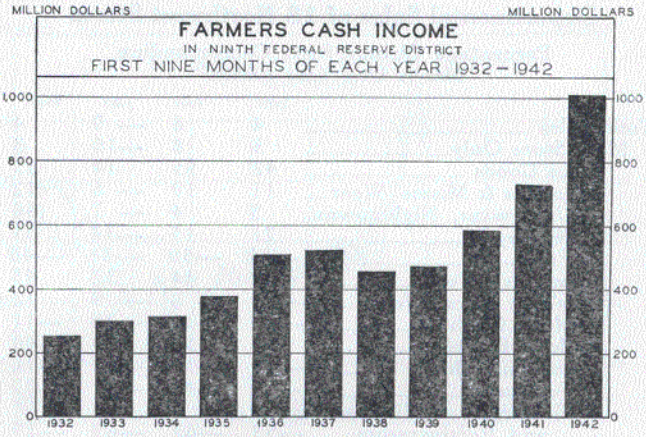
Country member bank deposits for the third successive month increased sharply over one month earlier. During the three months' period ended October 31, total deposits held by country member banks increased $91 million from $623 million to $714 million, a new all-time high. A year ago, total deposits were $589 million or $125 million less than the present level. Demand deposits increased $115 million, while time deposits were up $10 million from a year ago.

Reserve balances with this bank have increased $22 million during the last year but required reserves have increased by a similar amount due to the increase in deposits and, as a result, excess reserves remained at $26 million, the same level as one year earlier. Balances due from other commercial banks have increased $18 million to $144 million during the last 12 months.

AGRICULTURE

Farmers' cash income in the district during October showed a slight seasonal decline from the September level but was roughly one-third larger than for October 1941. Cash income from the sale of 9 important crop, livestock and livestock products totaled $146 million as compared to $105 million in October 1941 and $71 million in October 1940. Larger returns from the sale of hogs and cattle were again responsible for most of the increase over a year ago. Price increases accounted for most of the gain over last year since marketings were not materially increased over October 1941. The output of dairy products actually declined from the corresponding month a year ago. During the first nine months of 1942 total farm income in this district was $1,011 million compared to $725 in the same period of 1941 and $255 million in the first three-quarters of 1932.

Prices paid for livestock and livestock products registered moderate gains during the month of October while most grain prices were off one to two cents per bushel from the September levels. On the whole, farm prices during the month of October



averaged about 20 per cent above prices of one year ago.

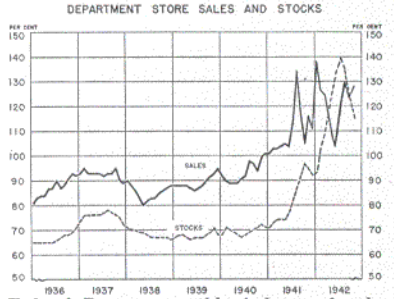
Feeding cattle and calves continued to be purchased in large numbers by corn belt farmers during October. Shipments of feeder cattle and feeder calves from South St. Paul in October totaled 88 thousand head, which was 33 per cent over October 1941. According to the U. S. D. A. the number of feeder cattle received in the corn belt states during the past 4 months has exceeded receipts for that period in 1941 by about 8 per cent but is still below the high 1939 and 1940 levels. Although the number of cattle available for feeding is relatively large, there is still some uncertainty as to the number that will be fed to market this winter and as to the kind of feeding operations that will be carried on.

Egg production in this district during October, although seasonally below September, exceeded the production in October a year ago by 28 per cent. Most of the increase was due to larger laying flocks on farms since the level of production per 100 hens was only slightly above 1941. Production for the first 10 months of 1942 averaged 24 per cent over that period a year ago and was at the highest level on record. Egg prices during 1942 have also averaged well above the 1941 levels so that cash farm income from the sale of eggs has been more than double that of a year ago.

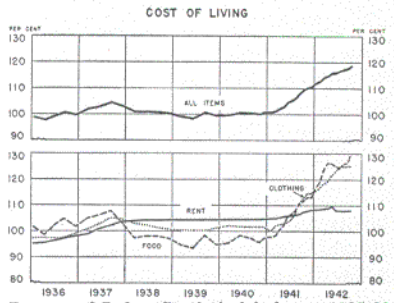
Cold storage stocks of butter, pork and lard in the United States on November 1 were considerably below holdings a year ago and were also less than the five-year median holdings for that date. On the other hand, stocks of cheese, poultry, beef, lamb and mutton were larger than a year ago.

A new hemp production program was announced by the U. S. D. A. on November 12 which is expected to yield approximately 150 thousand tons of hemp fiber in 1943. They plan to establish 71 processing plants throughout the Midwest which shall include southern Wisconsin and southern Minnesota. Each plant will service approximately four thousand acres of hemp. Seed will be provided for the growers and the special machinery needed for harvesting the crop will be supplied to farmers on a rental basis. Details on the proposed plan are to be announced at a later date.

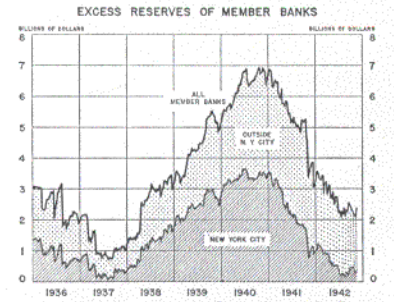
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for October 1942.



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



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 October 1942.



Wednesday figures, partly estimated. Latest figures shown are for November 11, 1942.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, NOVEMBER 23, 1942

Industrial output expanded further in October and the first half of November. Retail food prices continued to advance while prices of other commodities generally showed little change. Distribution of commodities to consumers was maintained in large volume.

PRODUCTION: Industrial production continued to advance in October and the Board's seasonally adjusted index rose 3 points to 188 per cent of the 1935-1939 average. Gains in armament production accounted for most of the increase, and it is estimated that currently well over 50 per cent of total industrial output is for war purposes. In lines producing durable manufactures, approximately 80 per cent of output now consists of products essential to the war effort.

Steel output reached a new high level in October as production expanded to 100 per cent of rated capacity. In the first half of November output declined slightly to around 99 per cent, reflecting some shutdowns for furnace repairs, according to trade reports. Activity in industries producing nondurable goods declined less than seasonally in October. Production of foods, especially canning, was unusually large for this time of year and output of textiles continued at a high level. Mineral production, which usually increases in October, declined slightly this year owing chiefly to a decrease in coal production which had been maintained in large volume throughout the summer.

Value of construction contracts awarded in October increased somewhat over that of September, according to reports of the F. W. Dodge Corporation. Publicly-financed projects continued to account for over 90 per cent of total awards.

The Department of Commerce estimates that, in the third quarter of 1942, expenditures for new construction amounted to 4.2 billion dollars, of which 3.5 billion came from public funds. For the first nine months of this year the corresponding figures were 10.2 and 7.7 billion dollars. Construction of military and naval facilities and of industrial buildings accounted for the bulk of the expenditures.

DISTRIBUTION: Department store sales increased in October and the Board's seasonally adjusted index rose to 129 per cent of the 1923-1925 average as compared with 123 in September and 130 in August. In the first half of November sales increased further and were 17 per cent larger than in the corresponding period last year, reflecting in part price advances of about 10 per cent.

Railroad shipments of freight were maintained in large volume during October and declined seasonally in the first half of November.

COMMODITY PRICES: Retail food prices continued to advance sharply from the middle of September to the middle of October and further increases are indicated in November. Prices of most other goods and services increased slightly in this period. In the early part of October maximum price controls were established for a number of additional foods. Maximum price levels for many other food products have been raised, however, and the Office of Price Administration reports on the basis of a recent survey that in numerous instances sellers are not complying fully with the regulations now in effect.

BANK CREDIT: Excess reserves of member banks were 2.5 billion dollars in the middle of November, a somewhat higher level than generally prevailed in the preceding four months. At New York City banks excess reserves amounted to about 500 million dollars.

Additions to member bank reserve balances during the four weeks ending November 18 were the net result of an increase of 500 million dollars in Reserve Bank holdings of Government obligations, which approximately covered the continued heavy currency drain, and a decrease of 200 million in Treasury balances at the Reserve Banks.

Holdings of Government securities by reporting banks in 101 cities increased by 1.9 billion dollars to 24 billion during the four weeks ending November 11. Almost half of the increase occurred at New York City banks. There were substantial increases in holdings of Treasury notes, bonds, and certificates, and a smaller increase in Treasury bills, while holdings of guaranteed obligations declined. These changes reflected new offerings and retirements by the Treasury during the period.

Commercial and industrial loans at reporting member banks in leading cities increased somewhat during the first two weeks of November. Brokers' loans in New York City increased around Government financing dates, but subsequently declined.

UNITED STATES GOVERNMENT SECURITY PRICES: Prices of United States Government securities were steady in the four weeks ending November 18. Long-term taxable bonds yielded 2.32 per cent, and 3-month Treasury bills sold at a yield of 0.37 per cent.