MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions

FEDERAL RESERVE BANK OF MINNEAPOLIS

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Summary of Business Conditions

BUSINESS in the Ninth District continues active. Bank Debits declined less from December through January than normally but were smaller than in January 1944.

Department store sales since the beginning of the year exceed those of the same period of a year ago by nearly 20 per cent.

Inventories at the end of 1944 were approximately at the same level as at the end of 1943.

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Deposits of reporting city member banks declined by $51 million to $1,404 million by mid-February.

These banks have been liquidating substantial holdings of Treasury bills in order to meet this decline in deposits and a shift of funds from war loan accounts not subject to reserves to other deposits which do require reserves.

Deposits of country member banks rose slightly and averaged $1,292 million for the last half of January.

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Farmers' cash income in 1944 may somewhat exceed 1943.

Agricultural prices were slightly higher for the month ending January 15, and the highest since mid-1920.

Farm mortgage real estate debt in the Ninth District is the lowest since 1914.

Land values in the Ninth District continued to rise during 1944.

Business

BANK DEBITS for January indicate an upward trend in the volume of business transacted in the Ninth Federal Reserve District. The amount of checks debited to demand deposit accounts usually declines approximately 14 per cent in January as compared with the amount for December. The decline last month was noticeably less than the usual amount. Income tax payments which were due January 15 very likely had some influence. A decrease of only 11 per cent was reported. As a result of the smaller decrease, the index of bank debits for 93 cities, adjusted for the normal monthly variation, rose from 208 per cent for December to 215 per cent for January on the basis of the 1935-1939 average.

The contraction reported in debits from the farming centers was even less than for the other areas in the district. The January debits were only 7 per cent smaller than those for December. The amount of debits reported from the wheat and mixed farming areas in North and South Dakota were almost equal to the December amount. Only a slight decrease was reported from the beef and pork raising region located in the southwestern part of Minnesota and in the southeastern part of South Dakota. In the other farming regions in Minnesota the decrease which occurred was much less than is normal for January bank debits.

Department store sales provide more evidence of the expanding business activity in the Ninth District. For the four weeks ending February 10, the sales exceeded by 21 per cent those for the corresponding period of last year. This was the largest increase in dollar receipts reported by any of the 12 Federal Reserve Banks. The expansion over the United States as a whole was 15 per cent. On the basis of these percentages, retail business expanded somewhat faster in this area since the beginning of the year than in other regions of the nation.

For January, department store sales in the district exceeded by 18 per cent those for the same month of a year ago. The stores in the Twin Cities and Duluth-Superior areas reported a gain of 22 per cent while those located in other areas of the district reported a gain of only 11 per cent. Low winter temperatures may have had some influence on the volume of rural sales.

During all of 1944 the gain in sales reported by stores in North Dakota exceeded regularly those reported by stores in other states. However, for January the differential was reversed. North Dakota stores showed a gain of 8 per cent whereas South Dakota stores showed a gain of 18 per cent and Minnesota and Montana stores each 14 per cent. Again weather conditions may have had a bearing on the differential increase. Stores in Northwestern Wisconsin and in the Upper Peninsula of Michigan also reported a relatively small gain—5 per cent.

The present war has greatly accelerated the growth in department store sales. The trend of the sales from 1935 through 1944 for the district and for the states wholly within the district is presented on the accompanying charts.

Sales in the Ninth District rose significantly from 1935 through 1937. A material decline in the annual dollar volume occurred in 1938 as a result of the business recession. The growth was again resumed in the following year and was greatly accelerated in 1941 and in subsequent years. Larger farm income and to a lesser degree larger industrial income have brought about the upward trend in sales.

Nearly all of the rise in sales in the two states of North and South Dakota took place after 1938. In the latter state, sales in 1944 were almost 85 per cent above those in 1935. The expansion in retail trade has been greater in the eastern part of the state where department store sales approximately doubled since 1938. In the western part of the state sales have risen by a little over one-half of the former amount. In North Dakota the sales have increased more uniformly. A somewhat faster expansion occurred in the northwestern and north central parts of the state than in the other sections.

In Minnesota department store sales expanded during the latter Thirties as well as during the war years. The recession in 1938 was small. Only small differences are observed in the expansion among the different areas in the state.

Montana also shared in the expansion during the latter Thirties. The recession in 1938, however, was more severe as compared with Minnesota. The stores in the western part of the state have reported gains somewhat larger than those in the eastern part.

Inventories are now of prime importance.

The volume of retail sales depends largely on the amount of income consumers have at their disposal. According to a study made by the United States Department of Commerce, over the 20-year period from 1922 through 1941 the annual volume of retail sales followed closely the amount of income consumers had to spend. On the basis of this analysis, individuals tend to spend in retail stores a definite share of their income which depends on the total at their disposal regardless of general business conditions.

Beginning with 1942, retail sales began to cease rising as rapidly as consumer income. The wartime shortages of merchandise and the restrictions placed on purchases through rationing and priorities account almost entirely for the smaller rise in retail sales. If consumers had spent the customary share of their total income in retail stores, the annual sales in the United States might have exceeded those actually made by 13 billion dollars in 1942, by 17 billion dollars in 1943, and by almost 20 billion dollars in 1944. Thus, for the war period extending up to the first of this year retail sales have been nearly 50 billion dollars less than the volume estimated on the basis of the amount of income consumers have had at their disposal. Since there is now an ample supply of purchasing power, the supply of merchandise is the factor limiting the volume of sales.

At the end of December, retail stores in the Ninth District had approximately the same or a slightly larger amount of stock on hand as at the end of 1943. As may be observed from the accompanying table, stores in some states reported slightly larger stocks. Stores in South Dakota reported an increase of 11 per cent in the amount of stock on hand as compared with the end of 1943. Stores in North Dakota, Montana, and Northwestern Wisconsin reported similar increases of 9, 7, and 2 per cent respectively. On the other hand, stores in the Upper Peninsula of Michigan reported a decrease of 8 per cent. An increase in stock was reported in Minnesota among the stores in the rural areas, but it was offset by the decline in stock among those in the Twin Cities and Duluth areas.

Due to the shortage of merchandise, city department stores have not been able to maintain their stock in all departments. In the men's and boys' wear and in the small wares departments the stocks at the end of 1944 were actually larger by 14 and 10 per cent, respectively, as compared with the end of the preceding year. In all other departments the stocks were smaller at the end of last year: miscellaneous merchandise 17 per cent less; home furnishings 10 per cent less; piece goods 9 per cent less; and women's and misses' wear 3 per cent less. The smaller stocks, no doubt, will tend to limit the volume of sales during the present year.

Retail lumber dealers in the Ninth District reported a 21 per cent increase in the stock of lumber on hand at the close of December, 1944, as compared with the amount on hand at the same time of the preceding year. Manufacturers, on the contrary, reported a decrease of 4 per cent in their stock of lumber.

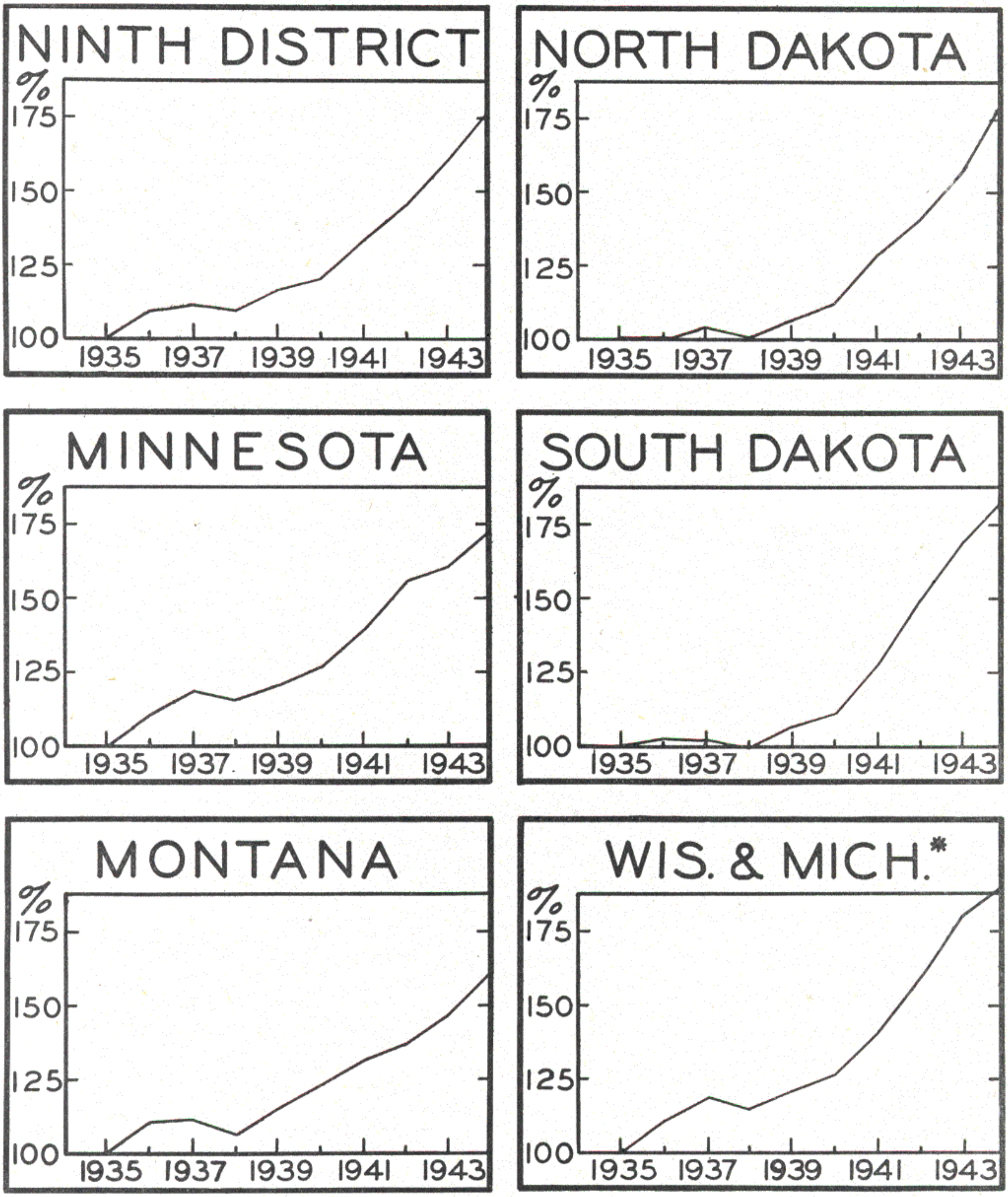
Wholesale grocers over the district reported a marked decline in their stocks. At the end of 1944 their inventory was 12 per cent less than at the close of the preceding year.

Stocks in Retail Stores Over the Ninth Federal Reserve District

State or Area	% December 1944 of December 1943
Michigan—Upper Peninsula	92
Minnesota	100
Montana	107
North Dakota	109
South Dakota	111
Wisconsin—Northwestern Part	102
Minneapolis, St. Paul, Duluth, Superior Stores	99
All other Stores	104
Ninth District	101

Inventories of wholesalers over the United States, in terms of cost values, at the end of 1944 were almost equal to those at the end of 1943, according to figures compiled by the United States Bureau of the Census. However, some significant changes occurred among the trades. Wholesalers of beer reported a gain of 30 per cent in inventory while wholesalers of shoes and other footwear reported a decrease of 31 per cent. Substantial increases in stocks were reported for a number of trades: leather

Department Store Sales from 1935 to 1944



* *The Ninth District includes 26 Northwest counties of Wisconsin and the Upper Peninsula of Michigan.*

24 per cent; optical goods, wines and liquors each 22 per cent; automotive goods 19 per cent; electrical goods 15 per cent. A slight increase of 2 per cent was reported by hardware wholesalers. On the other hand, substantial decreases in stocks were reported in other lines: tobacco and its products 23 per cent; farm supplies 13 per cent; clothing and furnishings 9 per cent; and groceries and foods 7 per cent.

The changes which have taken place in inventories, in a large measure, are indicative of the trend in the supply of civilian merchandise.

Sales at Department Stores

	Number of Stores showing Increase	Number of Stores showing Decrease	% January 1945 of January 1944
Total District	193	49	118
Mpls., St. Paul, Dul.-Sup.	20	0	122
Country Stores	173	49	111
Minnesota	54	14	114
Central	7	1	121
Northeastern	5	1	108
Red River Valley	5	0	123
South Central	14	4	123
Southeastern	8	5	109
Southwestern	15	3	108
Montana	26	5	114
Mountains	5	2	120
Plains	21	3	112
North Dakota	30	15	108
North Central	6	3	99
Northwestern	3	1	106
Red River Valley	13	4	113
Southeastern	8	5	103
Southwestern	*	*	....
Red River Valley-Minn. & N. D.	18	4	115
South Dakota	21	2	118
Southeastern	4	0	111
Other Eastern	9	1	124
Western	8	1	117
Wisconsin and Michigan	42	13	105
Northern Wisconsin	13	3	108
West Central Wisconsin	22	9	104
Upper Peninsula Michigan	7	1	104

*Not shown, but included in totals. Insufficient number reporting.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-1939 = 100

	Jan. 1945	Dec. 1944	Jan. 1944	Jan. 1943
Bank debits—93 cities	215	208	225	160
Bank debits—farming centers	240	221	228	174
City department store sales	183	186	155	146
City department store stocks	146	135	148	135
Country department store sales	177	163	166	142
Country lumber sales	145	159	169	165
Miscellaneous carloadings	156	150	153	130
Total carloadings (excl. misc.)	92	97	104	88
Farm prices—Minn. (unadj.)	168	172	165	162
Employment—Minn. (unadj. 1936=100)	*	140	141	133
Payrolls—Minn. (unadj. 1936=100)	*	238	231	194

* Data not available.

Correction: In the January number the 1935-1939 average of electric power production (kwh) for Montana was stated as 139,296,000. It should have been 1,392,960,000.

Banking

CHANGES in the banking picture continue to be dominated substantially by the effects of the Sixth War Loan concluded in December. During the Sixth War Loan there was a considerable transfer of deposits from accounts of individuals and businesses to war loan accounts of the U. S. Treasury, thus reducing the volume of deposits subject to reserve requirements. As a result of this movement, banks were temporarily in possession of excess reserves. Normally, under these circumstances, they purchase short-term government securities (usually bills) in order to keep these funds invested in earning assets. As the Treasury transfers war loan deposits to the Federal Reserve Banks in order to meet payments for war expenses and normal governmental financing requirements, the volume of deposits subject to reserves rises and the commercial banks are required either to borrow from the Federal Reserve Bank or to liquidate their holdings of earning assets in an amount necessary to meet the increasing reserve requirements.

All of these movements have been clearly evident in the condition statements from the reporting city banks during the past four weeks. Government deposits (largely war loan accounts) have declined by $31 million, and this $31 million decline has been met almost entirely by a corresponding liquidation in holdings of U. S. Treasury bills (most of which presumably were sold to the Federal Reserve Banks). On January 17, banks held $45 million of bills, and by February 14 their holdings had been reduced by $29 million or by about 65 per cent. The sale of Treasury bills would have been quite sufficient to meet the transfer of deposits to those requiring reserves except that there was a net transfer of funds out of these banks during the same period. Total deposits actually declined $51 million. These banks met this decline, over and above what was possible by a liquidation of Treasury bills, through borrowing at the Federal Reserve Bank and through a reduction in holdings of cash and deposits due from other banks, including Federal Reserve Bank.

While total deposits (even those subject to reserves) declined, and reserves were thus freed, excess reserves actually declined during the period largely as a result of the transfer of funds out of these banks.

Deposits of country member banks during the last half of January averaged $1,292 million, just perceptibly above the average for the last two weeks of December. The largest proportion of the increase was centered in demand deposits. Reserves with the Federal Reserve Bank, which during the last half of January averaged $141 million, actually declined over the period, resulting in a roughly corresponding decline in the volume of excess reserves to slightly under $32 million. Funds available for earning assets were $22 million above the corre-

Assets and Liabilities of Selected City Banks

(In million dollars)

Assets	2/14/45	1/17/45	Change
Cash and due from banks	$ 324	$ 341	$ —17
Loans	213	216	— 3
U. S. Treasury bills	16	45	—29
Certificates of indebtedness	186	209	—23
Other U. S. Government securities	698	675	+23
Total U. S. Government securities	900	929	—29
Other investments	43	41	+ 2
Other assets	15	14	+ 1
Total Assets	1495	1541	—46
Liabilities			
U. S. Government deposits	$ 271	$ 302	$ —31
Deposits of individuals, partnerships, and corporations	791	791	0
Other deposits	342	362	—20
Total deposits	1404	1455	—51
Borrowings	4	0	+ 4
Other liabilities	7	7	0
Capital accounts	80	79	+ 1
Total Liabilities & Capital	1495	1541	—46
Excess reserves	2	6	— 4

sponding period for December and $183 million above the last two weeks of January last year.

The reserve position of all Ninth District member banks during the last two weeks of January is indicated by the following table.

Daily Average Reserve Position for All Ninth District Member Banks for the 16-Day Period Ending January 31, 1945

Type of Bank	Average Reserves Carried (000)	Average Reserves Required (000)	Average Excess Reserves (000)
Reserve City Banks	$148,437	$145,565	$ 2,872
Other City Banks	23,239	20,608	2,631
Total City Banks	171,676	166,173	5,503
Total Country Banks	164,476	129,853	34,623
Total Ninth District—1945	336,152	296,026	40,126
Total Ninth District—1944	294,997	254,908	40,089

Agriculture

FARMERS' CASH INCOME in the Ninth District during the first 11 months of 1944 was only slightly higher compared with a similar period a year earlier but almost three times as high as the 1935-1939 average. Cash farm income during 1944 is likely to be less in Minnesota compared with a year earlier but higher in the other states of the district (see accompanying table).

The Bureau of Agricultural Economics reports November farm income in the West North Central* region 32 per cent larger than in November, 1943. The increase was due to marketings of bumper wheat and corn crops at or near ceiling prices. Income from livestock and livestock products during November was reported 9 per cent below last year, chiefly because of reduced hog receipts.

*Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas.

January-November Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1943	1944	1944 in per cent of 1943
Minnesota	$ 312,762	$ 768,493	$ 739,268	96
North Dakota	104,468	373,079	380,300	102
South Dakota	100,442	299,001	312,406	104
Montana	84,425	211,519	218,418	103
Ninth District[2]	656,283	1,819,729	1,830,908	101
United States	7,525,852	17,311,949	18,530,728	107

[1] Data from "The Farm Income Situation", United States Department of Agriculture.

[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

Prices received by farmers in the Ninth District in mid-January averaged slightly higher compared with a month earlier and were approximately twice the 1910-1914 average. Farm prices were also a few points above a year earlier and the highest since mid-1920.

Prices paid by farmers for things used in production and family maintenance, including interest and taxes, also increased a little from the previous month. The prices paid index was at 172 for the entire United States compared with 168 a year earlier. The parity ratio (prices received index divided by prices paid index) was at 117, the same as a year earlier.

Hogs and cattle prices advanced seasonally in recent weeks. Lamb, poultry, and egg prices were down slightly. Corn prices in Minnesota, and in North and South Dakota were 21 cents a bushel below the average for the country as a whole, which reflects lower quality due to a high moisture content at frost time. Prices of farm products in the Ninth District usually average slightly below United States farm prices. This is because the area produces a large surplus of agricultural products which must be transported considerable distances to markets.

What will be the trend of agricultural prices in 1945? Much will depend, of course, on the course of the war and the weather. So long as the war lasts, huge quantities of food will be used for lend-lease or military purposes (nearly a fourth was used this way in 1944). For about eight years food production has been high with a record production last year. Adverse weather in 1945 could easily cut food supplies far below expected demand. The Bureau of Agricultural Economics in a recent report stated that, assuming average weather conditions and regardless of the course of the war, the demand for farm products, at ceiling prices, may continue to exceed supplies in 1945.

The report states that prices for meat animals in the first half of 1945 will be near the maximum levels permitted by wholesale meat ceilings and ceilings on live animals. Total meat production in 1945 is estimated much below 1944. Civilian meat supplies are likely to be about 15 per cent smaller than last year according to the report. The demand for poultry meats will be affected by the reduced supplies of other meats.

Since the Commodity Credit Corporation has agreed to purchase the entire domestic product of wool in 1945 on the same basis as in 1944, prices to domestic wool growers will remain the same except for changes resulting from variations in quality and shrinkage. Wheat and other grain prices will be subject to crop prospects and production in 1945. Government programs supporting wheat prices would likely prevent more than a 10 per cent decline at the most for wheat.

Average Prices Received by Farmers[1]

Commodity and Unit	Ninth District Jan. 15 1937-1941 Avg.	Ninth District Dec. 15 1944	Ninth District Jan. 15 1945	Parity Prices[2] United States Jan. 15, 1945
Crops				
Wheat, bushel	$ .85	$ 1.40	$ 1.40	$ 1.52
Corn, bushel	.56	.88	.86	1.10
Oats, bushel	.31	.59	.64	.686
Potatoes, bushel	.61	1.29	1.35	1.25
Livestock and Livestock Products				
Hogs, 100 lbs.	7.18	13.27	13.67	12.50
Beef cattle, 100 lbs.	6.84	11.07	11.27	9.32
Veal calves, 100 lbs.	8.49	12.59	12.76	11.60
Lambs, 100 lbs.	7.67	11.70	12.61	10.10
Wool, lb.	.26	.43	.42	.315
Milk, wholesale, 100 lbs.	1.63	2.77	2.72	2.91
Butterfat, lb.	.32	.52	.52	.47
Chickens, live, lb.	.115	.215	.214	.196
Eggs, dozen	.175	.372	.35	.374

[1] Data compiled from "Agricultural Prices", United States Department of Agriculture.
[2] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

Farm mortgage real estate debt has been decreasing steadily in the Ninth District since the peak in 1923. At that time it was about 1.8 billion dollars. By 1940 it was reduced to 856 million dollars and by January 1, 1944, to 733 million dollars. On January 1, 1944, the debt was the lowest since 1914. During 1944 the volume of recorded farm mortgages was higher than in any of the five previous years in the northern Great Plains area, but increased payment of outstanding principal on farm mortgage debt has considerably exceeded the amount of new mortgages, according to a recent report from the Bureau of Agricultural Economics.

Farm debt reduction during 1944, although large, probably was not as large as it was in 1943. For the United States as a whole, preliminary estimates indicate slightly over a third of a billion dollar decrease in 1944 compared with about a half billion dollar decrease in 1943. It is interesting to observe that in recent years practically all of the debt reduction has been accomplished by payments on principal. This is in contrast with the depression years, when much debt reduction was due to foreclosures.

Farm mortgage debt has been reduced more in this district from the peak in 1923 and since 1940 than was true for the country as a whole (see accompanying table). In Montana, for example, the debt was reduced 79 per cent since 1923 and 40 per cent since 1940. The Dakotas also reduced

Total Farm Mortgage Debt[1]

(Thousands of Dollars)

State	1923	1940	1944	1944 in per cent of 1940	1944 in per cent of 1923
Michigan	$ 35,233	$ 24,403	$ 21,064	86	60
Minnesota	606,134	375,990	364,768	97	60
Montana	192,092	66,118	39,876	60	21
North Dakota	312,870	141,230	105,047	74	34
South Dakota	451,281	127,706	105,042	82	23
Wisconsin	193,748	121,358	97,754	81	50
Ninth District[2]	1,791,358	856,805	733,551	85	41
United States	10,785,621	6,586,399	5,634,772	86	52

[1] Data from United States Department of Agriculture as of January 1 each year.
[2] Includes only the portion of Wisconsin and Michigan in the Ninth District.

the farm real estate debt substantially since the peak in 1923. Wheat growing areas in the Ninth District have been in a particularly favorable financial position in recent years, with excellent crops and relatively high prices.

The volume of farm real estate financing has been increasing in recent months as evidenced by a larger volume of Federal Land Bank and commissioner loans made in 1944 than in any year since 1936.

On the other hand, there are several important factors indicating that land values may not repeat the inflationary performance following World War I: First, it is doubtful if agricultural prices and farm income can be maintained at wartime levels for any considerable length of time. Labor and other costs may be higher, which would tend to reduce the net farm income. Second, people in general and credit agencies in particular remember the disastrous consequences of the land boom in 1920. The tremendous educational programs of the Department of Agriculture, agricultural colleges, and others bring this to public attention. Third, the agricultural plant is geared to produce probably a fourth more products than before the war because of technological developments such as hybrids, new machinery, and increased use of fertilizer. It may be most difficult to dispose of the large volume of agricultural surpluses over a long period of time except at considerably lower prices that will move these products into consumption.

In World War I the greatest increase in land values occurred during the 15 to 16 months after the Armistice. So far in this war, land values have closely paralleled those of the other war. Some of the factors indicating further increases are: First, the prospect of relatively high farm prices, at least for a short period while there is a continuing high domestic demand, and while government price support programs are in effect. Second, an expansion in the demand for farms as veterans and war workers return. Third, large savings of individuals and ample credit at low rates of interest. And fourth, ample farm equipment and an easing labor market may make farm investments more attractive. Of course, government programs to remove agricultural surpluses, nutritional programs, and possible expansion of world trade will have a bullish effect on values.