

MONTHLY REVIEW

OF
AGRICULTURAL AND BUSINESS CONDITIONS
 IN THE
NINTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank, Minneapolis, Minn.

June 28, 1937

May business volume was larger than in April and the highest May since 1931. Iron ore loadings set a new May record. Bank deposits at city and country member banks continued high. Loans to customers increased at city banks. Retail trade was higher but farmers' cash income lower than a year ago. General crop prospects in early June were better than in any year since 1932 in most sections.

DISTRICT SUMMARY OF BUSINESS

Bank debits at 94 cities in this district during May were higher than in any month since January 1931 and the highest for May since 1930. Country check clearings were higher than in any other May on record, but slightly lower than in March. Each of our other trade indexes was higher than in any other May of the recovery period.

Northwestern Business Indexes (Varying base periods)

	May 1937	April 1937	May 1936	May 1935
Bank debits—94 cities.....	88	86	78	71
Bank debits—farming centers...	87	86	80	69
Country check clearings.....	151	148	139	127
Department store sales.....	88	84	86	76
Country lumber sales.....	87	78	90	72
Miscellaneous carloadings.....	87	91	79	67
L.C.L. carloadings.....	64	66	61	59

Iron ore carloadings established a new all time record for May, being about 5% larger than the previous record established in 1929. Loadings of other commodities except grains and livestock were larger than a year ago, the district total being one-fourth greater than in May last year. Bank debits were substantially higher in each of our reporting sections with the exception of South St. Paul and the southwestern beef and pork section which were both adversely affected by the continued decrease in livestock marketings.

Retail trade in May continued to be larger than in the same month in the preceding year both at city and country department stores. Sales were larger than last year in each state or part state, despite moderate decreases in the drouth-damaged sections of the Dakotas and the Red River Valley. Cumulative sales in the entire district were 9 per cent larger than in the same period of 1936. The increase at city stores was 6 per cent and at country stores, 11 per cent.

Other indicators of business volume that showed increases over May last year were electric power consumption, residential contracts awarded, warranty deeds and mortgages recorded in Hennepin

and Ramsey counties, copper and silver production, and wholesale sales of groceries, hardware and shoes. The number and value of building permits in each of our reporting cities was smaller than a year ago, with the exception of Minneapolis, and also the volume of non-residential building contracts. There were continued decreases in grain marketings, butter production and in flour and linseed production and shipments. Gold production was a little smaller than a year ago.

DISTRICT SUMMARY OF BANKING

Slightly more than half of the banks in the Ninth Federal Reserve District have experienced an increased demand for loans during the first half of 1937 according to reports on banking, business and crop conditions recently received from nearly 450 member banks. In three sections of the district, all in Minnesota, the number of banks that reported increases greatly exceeded the number that reported no increase. In the drier sections of the district, eastern Montana and western North and South Dakota, the situation was reversed; less than one-third of the bankers reported any increase in loan demand.

Interest rates at two-thirds of the country banks have not changed recently but have decreased somewhat at nearly one-third of the banks. Eight of the replies received from banks located in Minneapolis, St. Paul, and Duluth reported no change in interest rates. Five reported decreases but two reported some increase. The trend of interest rates at metropolitan banks was the only difference between the reports of metropolitan and country banks.

A great majority of the reports from every section of the district indicated that the banks had had ample funds to care for the loan demand without borrowing or selling bonds. In central Minnesota one-third of the reporting banks have found it necessary to sell some of their bonds in order to procure funds to meet the local loan demand and at the same time maintain their reserve with us at the new level. In each of the other sections, a very small percentage of the banks reported that the demand for loans had been sufficiently large to require them to procure additional funds.

The agricultural situation was mentioned in the reports of 225 banks. A little more than half of them indicated that the crop outlook was "good," about one-quarter of them that the outlook was "poor" and the remainder said that it was "fair." The western part of the Dakotas and eastern Montana accounted for practically all of the "poor" reports although conditions, as usual, are spotted and

a few "poor" reports were also received from the eastern parts of the Dakotas. The agricultural situation was not reported as "poor" in any of the reports from Michigan, Wisconsin or any of the sections of Minnesota.

About one-quarter of the reports stated that the banks had been making some installment and auto loans. A great majority of them said the volume of such loans was substantial, but a few indicated that loans of that type were made only occasionally. A few banks reported that they had been making loans for residential and other private building and others stated that they had been purchasing FHA mortgages.

A tabulation of all reports received is presented below and excerpts from typical replies are shown under sectional headings.

MICHIGAN

Business conditions are picking up . . . Considerable ore is being shipped from the mines . . . Stores are enjoying an increase in business . . . Our wholesalers have been increasing their inventories . . . Employment is on the up-grade and almost any man who really wants to work can do so . . . Banking conditions in this vicinity are somewhat improved . . . If local demand from desirable people continues, it may be necessary to liquidate some of our securities . . . General public is of the opinion that our town is "over-banked" . . . Increased labor and material costs are going to slow up new house construction which is very badly needed . . .

MINNESOTA—CENTRAL

Crop situation looks excellent . . . General increase along all lines of business . . . We are located in a resort-vacation territory and much of our income is derived from that source. Our community is looking forward to one of its busiest and best seasons . . . With considerable competition and the Minnesota mortgage moratorium law plus a rather limited demand, good loans are difficult to obtain . . . There has been some new building of homes . . . Installment credit seems to be the popular plan . . . There are less people finding fault and everybody seems to be of a more friendly nature than they have been . . .

MINNESOTA—NORTHERN

Farmers are more optimistic . . . Many are opening up new land . . . Fine condition for a big crop . . . also for a big tourist trade . . . Merchants have increased their inventories and are doing more business . . . On the Range, payrolls are larger than for eight years . . . No appreciable change in local loan rates . . . Too many banks for the size of the town . . . The majority, it seems to me, learned little from the depression and are extending themselves rather freely in installment buying . . .

MINNESOTA—SOUTHERN

It looks like we will harvest a big crop . . . All lines of business here are better . . . Active demand for new cars . . . Farmers have purchased a large amount of machinery . . . are more careful about going into debt . . . Tendency of business men to increase their inventories . . . Business at our bank continues to be very good . . . If we have another good crop and prices, we won't have any loans left . . . Consequences of pledging future income on a large scale may give us a headache some day . . .

MONTANA—EASTERN

We do not have the business activity here that other sections are having . . . Inventory increases, expanding sales of automobiles, machinery and other merchandise are not factors here . . . We have been getting along up to the present time, making a little money, but the future does not look very promising . . . Very little moisture during the winter, no spring moisture whatever . . . Stockmen are having a very hard time during the lambing season which is under full sway . . . Both farmers and stockmen are feeding hay and oil cake at the present time . . . Some demand for loans from farmers . . . We are in a comfortable cash position and intend to remain so . . . We have four "Mormon cricket spots" in the county and will have to help fight that menace. The grasshopper situation is still with us, although to a lesser degree than last spring . . .

MONTANA—WESTERN

Outlook for crop and range is very good . . . We are enjoying much industrial activity and the future is promising . . . Payrolls are at the highest point in the past six years . . . Caution is necessary in evaluating commodities and property for collateral purposes . . . Too many goods have been and are being sold on the installment plan, at too low rates of interest and on too long time . . .

NORTH DAKOTA—EASTERN EXCLUDING RED RIVER VALLEY

Crop conditions over this district are the best they have been since 1932 . . . Considerable demand for loans, principally from farmers, to finance seeding, purchase of livestock and other worthwhile activities and from purchasers of automobiles, washing machines, and other electrical equipment bought on the installment plan . . . Our farmers are not very anxious to borrow money to purchase farm equipment . . . A large number of farmers that now carry their loans with the RACC would like to make a change . . . We have a large amount of idle money . . .

NORTH DAKOTA—RED RIVER VALLEY

Present conditions in our community are better than for many years . . . Increased buying on the part of the local wholesalers and manufacturers has been principally as protection against rising markets, inflation, danger of strikes and the fear that there would be a shortage of merchandise . . . We are taking in a lot of automobile loans as well as farm paper . . . We have been forced to sell some securities because of increase in loans . . . While we have not been able to take care of the demand for loans throughout this territory, we have loaned considerable money during the past three or four months . . . Rates are about as they have been—ridiculously low . . . Darkest side of the picture at the present time is the depreciation in the bond market . . . Current business volume can be attributed to only one thing, the outside Federal money which has come into the territory. Sometime we will have to live on our own and a good crop generally will help us more quickly to get ourselves in that position . . .

	Michigan	Minnesota Central	Minnesota No. Eastern	Minnesota Red Riv. Val.	Minnesota Southern	Minnesota T. C. & Duluth	Montana Mountain	Montana Plains	North Dakota Eastern	North Dakota Western	South Dakota Eastern	South Dakota Western	Wisconsin	TOTAL
1. (a) Increased loan demand	15	29	17	8	52	9	11	10	20	1	27	7	16	222
(b) No increased demand	15	11	1	6	38	7	13	25	17	11	31	12	16	203
2.* (a) Ample funds for loans	30	27	15	12	80	11	27	27	34	13	52	15	30	373
(b) Bonds sold or funds borrowed	1	13	6	1	10	4	0	6	4	2	5	3	5	60
3. (a) Interest rates decreased	3	14	4	3	38	5	9	15	2	1	15	5	7	121
(b) No change in rate	24	23	12	9	47	8	11	21	32	9	35	12	22	265
(c) Interest rate increased	0	0	0	0	0	2	0	0	0	0	0	0	0	2
4. (a) Cash position good	32	33	16	14	85	12	22	34	39	13	53	17	32	402
(b) Cash reserves low	1	4	4	0	1	3	0	1	1	0	0	0	2	17
5. Employment and business conditions:														
Good	19	8	13	5	20	2	10	3	4	0	10	0	5	99
Fair	2	4	0	4	6	2	1	8	12	2	15	4	6	66
Poor	1	2	1	0	2	0	0	13	5	4	4	1	1	34
6. Agricultural outlook:														
Good	0	20	0	9	41	..	7	4	13	1	28	0	8	131
Fair	0	0	1	2	0	..	4	6	8	2	8	3	0	34
Poor	0	0	0	0	0	..	0	26	3	11	6	14	0	60
7. Building loans:														
Substantial	11	2	0	0	1	1	2	2	2	0	4	3	0	28
Not substantial	0	0	0	0	1	0	0	1	0	0	0	0	1	3
8. Installment and auto loans:														
Substantial	12	12	8	4	24	3	8	1	6	0	10	1	4	93
Not substantial	2	1	1	1	2	0	2	2	2	1	0	0	0	14

*The question was "Are funds available to take care of all lending requirements without the necessity of selling bonds or borrowing?"

NORTH DAKOTA—WESTERN

There are no inventory increases . . . Very little installment credit outside of automobile financing but conditions might be a great deal worse . . . Until we are again favored with a profitable cash crop, and sufficient feed for livestock, it will be pretty much a matter of marking time . . . Pastures are far from what they should be at this time of the year . . . Owners of livestock are becoming worried over the feed situation . . . During the fifty years I have lived here in western North Dakota, we have always come out of the reverses and depressions and I still have faith that we will do it again . . . We have sufficient cash on hand to pay our depositors at any time if we sell our Government bonds and other stocks and bonds . . .

SOUTH DAKOTA—EASTERN

Crop prospects are the best we have had for 6 years . . . Ground is well soaked with reserve water filling our lakes and sloughs . . . Small grain shows an even stand . . . Business, generally, in the city seems to be fairly good . . . Our wholesalers bought fairly heavily last winter to protect their dealers from price increases . . . I personally interviewed a hardware store, one department store, one dry goods store, two lumber yards, an automobile garage and a furniture store . . . Inventories are slightly higher . . . Sales are equal to last year's or slightly above . . . Proper kind of loans are difficult to get . . . There is an increased demand for loans . . . Large percentage of the farmers are unable to qualify . . . Farmers anxious to get their loans from the local bank . . . Substantial farmers who have a good rating are buying young stock . . . Surplus of idle money . . . Unusual expansion of installment credit . . .

SOUTH DAKOTA—WESTERN

Much of our farm land which ordinarily would have been in small grain was not seeded . . . The picture is far from bright . . . Business people are following a course of retrenchment . . . Most of the business of this community is dependent upon livestock . . . There has not been any particular call for loans . . . We are in a very critical stage as far as the livestock industry is concerned . . .

WISCONSIN

Splendid outlook for good crops this year . . . Farmers have purchased more farm machinery this spring than for past four or five years . . . Heavy local sale of automobiles and trucks . . . This community, like others, needs one good crop in the mows, silos and granaries . . . Outlook for banking in this community is much brighter than it has been for six or seven years . . . We are not passing up any chance of making good loans . . . Our loans are very near to the maximum we have set . . . Labor situation seems to be very satisfactory here . . .

City Member Banks. Demand deposits at city member banks continued to rise during the last half of May and in a 5-week period ending June 16 increased \$15 million. Loans to customers increased \$6 million during that period and there was a net increase of \$2 million in investments. Cash and due from banks increased about \$10 million, partly the result of a decrease of \$2 million in reserve balances with us.

Country Member Banks. Deposits at country member banks during the latter part of May were about the same as in the latter part of April, \$20-25 million larger than a year ago, despite the decrease in number of banks. During May, balances due from other banks decreased \$6 million largely as a result of increases in reserves with us.

DISTRICT SUMMARY OF AGRICULTURE

Farm Income and Prices

Farmers' cash income in the Ninth District as estimated in this office for May was 16 per cent smaller than in May a year ago because of reductions in marketings. These estimates do not include government payments.

Receipts from the sale of farm products and government payments during April as estimated by the USDA were 6 per cent larger than in April last year because of much larger government payments.

Income from the sale of farm products was estimated to be nearly 20 per cent smaller than in April 1936.

Prices of all of the important farm products were much higher in May than in the same month last year with the single exception of heavy hens which averaged only 14 cents during May this year and were 16½ cents in May a year ago.

The farm price index of the University of Minnesota decreased from 101 in April to 99 in May. The index was 79 in April 1936.

Livestock and Livestock Products

Livestock receipts at South St. Paul were smaller in May than in the preceding month and smaller than in May last year with the exception of calves and sheep. Canadian calves accounted for a large part of the increase in calf receipts, but imports of Canadian cattle were only one-third as large as in May last year. Despite the May decrease, cumulative receipts of hogs, sheep and calves continued to be larger than in the corresponding period last year.

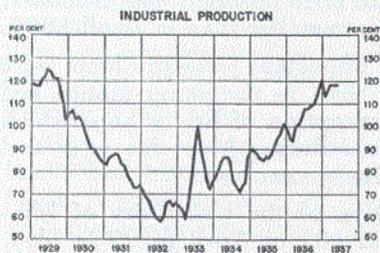
Livestock prices during May were mostly higher than in April and were all higher than in May last year. Heavy cattle, both butcher stock and feeders, declined somewhat from the relatively high levels of recent months. Heavy hog prices increased more rapidly than the median for all hogs and were the highest since September 1935. Dairy cow prices declined steadily during May and the first half of June largely because of a decrease in shipping demand.

Cold storage stocks of butter and cheese increased by less than the seasonal amount during May. June 1 butter holdings were one-fifth below the 5-year average for that date and cheese holdings were about two-fifths larger. Stocks of eggs increased by slightly more than the seasonal amount during May and poultry holdings decreased by a little more than the seasonal amount. A sharp decrease in hog slaughterings resulted in the largest withdrawals of pork since September 1934, 92 million pounds, which reduced pork holdings to 109 per cent of the 5-year average. Withdrawals of beef, lamb and mutton and miscellaneous meats all greatly exceeded the average.

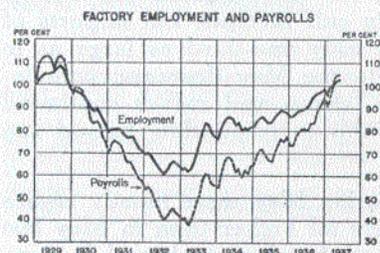
Crops

The winter wheat crop in Montana suffered so severely from drouth and wind damage in May that the June 1 estimate for the Ninth district was 10 per cent smaller than one month earlier. North Dakota rye was also damaged, but substantial increases in the South Dakota and Minnesota estimates resulted in a 7 per cent larger estimate for the district.

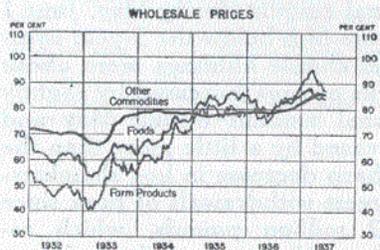
Since June 1, most of the drouth sections of the Dakotas and Montana have had one or more heavy rains which improved soil conditions so greatly that some drouth-killed fields of flax, corn and millet were reseeded. Scattered reports of mormon cricket and grasshopper infestations have been received.



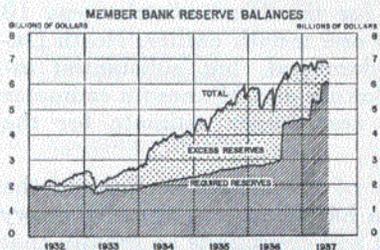
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January, 1929, to May, 1937.



Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average = 100. By months, January, 1929, to May, 1937. Indexes compiled by the United States Bureau of Labor Statistics.



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1932 to date. Latest figure is for week ending June 19, 1937.



Wednesday figures of total member bank reserve balances at Federal Reserve banks, with estimates of required reserves, January 6, 1932, to June 23, 1937.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 25, 1937

Volume of industrial production in May continued at the level of the two preceding months. Commodity prices declined slightly in May and the first three weeks of June.

PRODUCTION, EMPLOYMENT, AND TRADE: In May the Board's seasonally adjusted index of industrial production remained unchanged at 118 per cent of the 1923-1925 average. Output of iron, steel, automobiles, and lumber increased further. At cotton and woolen mills and at shoe factories activity continued at a high level, while at silk mills, meat packing establishments, and sugar refineries there were considerable decreases. Crude petroleum production continued to rise and output of bituminous coal increased somewhat, following a sharp decline in April. Shipments of iron ore in May were larger than in the corresponding month of any previous year. In the first three weeks of June automobile production declined seasonally and, largely owing to labor disturbances, steel output was reduced to 77 per cent of capacity as compared with 90 per cent in May.

Value of construction contracts awarded in May was smaller than in April, according to figures of the F. W. Dodge Corporation. There were declines in awards for residential and other private projects, while contracts for public projects increased. In the first half of June, awards for both private and public work were at a somewhat higher rate than in May.

Factory employment, which usually declines at this season, showed little change from April to May and the Board's adjusted index advanced somewhat further. Employment in the durable goods industries continued to increase while employment in other lines declined seasonally. Factory payrolls remained at the April level, following sharp increases in earlier months.

Distribution of commodities to consumers continued in May at the level of other recent months. Sales at department stores and at variety stores showed a seasonal rise and mail-order sales were maintained.

COMMODITY PRICES: Between the middle of May and the third week of June prices of grains, except spring wheat, declined considerably. There were smaller declines in cotton, cotton goods, wool, rubber, and steel scrap, while prices of most other commodities showed little change.

BANK CREDIT: Excess reserves of member banks, which had been about \$900,000,000 after the May 1 increase in reserve requirements, declined by about \$180,000,000 during the week ending June 16, in connection with Treasury operations, but increased in subsequent days and on June 23 were at a level of \$810,000,000.

At reporting member banks in leading cities holdings of United States government obligations, after several weeks of little change, increased sharply during the week ending June 16, reflecting purchases of the new issues of Treasury notes.

Commercial loans at member banks continued to increase in the four weeks ending June 16. This increase was largely at banks in New York City, which also showed a growth in loans to other New York banks and to brokers and dealers in securities.

MONEY RATES: The open market rate on 90-day bankers' acceptances, which had been reduced from 9/16 to 1/2 of one per cent on May 7, was further reduced to 7/16 of one per cent on June 22. Other money rates have shown little change in recent weeks.