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

Vol. 7 (Serial No. 302) Federal Reserve Bank, Minneapolis, Minn. February 28, 1940

January business volumes declined slightly from the December level but were the highest for the month since 1930. Country member bank deposits increased but city member bank deposits declined. Farm product prices and farmers' cash income (excluding government payments and loans) increased.

BUSINESS

The volume of business in this district in January was a little below the high level of December, according to our seasonally adjusted indexes, but was the largest for the month since 1930. City department store sales declined a little from the nine year high of 105 last December and the carloadings indexes were both one point lower than in December but with those exceptions, all of the January business volume indexes were the highest since the first half of 1930. Partly as a result of the improvement in farm income and partly because of the open January weather, the indexes of rural business volumes averaged higher than those for the district as a whole. Country department store sales climbed to 115, the highest point in our seven year records; country check clearings rose to 170, an all-time high; and country lumber sales eclipsed December's ten year record.

Northwestern Business Indexes

(1929-1931=100)

	Jan. 1940	Dec. 1939	Jan. 1939	Jan. 1938
Bank debits—94 cities	97	96	89	87
Bank debits—farming centers	103	102	95	88
Country check clearings	170	167	151	149
City department store sales	102	105	94	90
City department store stocks	83	85	79	79
Country department store sales	115	109	103	99
Country lumber sales	132	128	119	90
Miscellaneous carloadings	98	99	88	80
Total carloadings (excl. miscellaneous)	72	73	65	65
Employment—Minn. (1936=100)	100	109	95	96
Farm Prices—Minn. (1924-26=100)	69	64	69	80

Daily average bank debits declined seasonally in January from the nine year high of December but the average for January was the highest for that month since 1930. The increase over January in other recent years was quite general throughout the district, all cities and sections showing gains with the exception of the principal livestock packing center in the district which was unchanged from January 1939.

Total construction in the district in January as reported by the F. W. Dodge Corporation dropped to the lowest volume for the month since 1935 as a result of declines in each state and part state in our district with the exception of South Dakota where there were marked increases in contracts for public works and utilities and residential building. In the district as a whole **contracts awarded** for most classes of building were but a small fraction of the volume in January last year, although contracts for public buildings were nearly as large and for residential building two-thirds as large as in January 1939. Contracts for social and recreational building showed the only increase over last year's January volume. **Building permits** issued by 26 cities and towns in this district, including six of the ten Minneapolis suburbs, were in larger volume in January than a year earlier but declines at 39 other reporting centers resulted in a decline of 43% for the district as a whole. The largest increases, exclusive of Minneapolis suburbs, were reported by Duluth, Minnesota; Sioux Falls, South Dakota, and Eau Claire, Wisconsin. Edina and Richfield were the two Minneapolis suburbs that reported the largest increases.

Department store sales in January at country department and general stores were 12% higher than one year earlier compared with an increase of 8% at city department stores. Unusually large increases were reported by stores in several sections, the largest being in the Red River Valley section of Minnesota and the northwestern section of North Dakota, both reporting increases of 27%. A decrease in the volume of sales was reported by only one section in the entire district, western South Dakota, and only three sections reported increases as small as 5%.

Retailers' collections on accounts and notes receivable in January at 45 stores reporting this item were the largest in our six year records and reduced **receivables** sharply from the record volume reported December 31 to a level that was only 2% larger than at the end of January last year. **Wholesalers' collections** on outstandings were also better in January than in the same month last year.

City department store stocks decreased moderately in January but were the largest for that date since 1932. **Country department store stocks,** despite the larger than usual January sales volume, declined somewhat less than in January a year ago and at the end of the month were 5% larger than on the same date last year. Increased stocks were reported by all sections with the exception of the western section of South Dakota, the two western, the north central and the southeastern sections of North Dakota. **Wholesalers' inventories** increased sharply in January to a level nearly 20% larger than

at the end of January last year. While increases in January were reported by all of the reporting lines with the exception of plumbing and heating suppliers, the bulk of increase was reported by wholesalers of miscellaneous products.

Warranty deeds recorded in Hennepin and Ramsey Counties decreased sharply from the December level as usual, but were somewhat higher than in January of 1938 or 1939. **Real estate mortgages** also declined in January but were the largest for the month since 1936. **Mortgages accepted for FHA insurance** in December were about the same in number but were 9% larger in total amount than in December 1938. Practically all of the increase was in South Dakota.

Sales at Department Stores

	No. of Stores	% Jan. 1940 of Jan. 1939
Mpls., St. Paul, Duluth-Superior	21	108
Country Stores	414	112
Minnesota	143	117
Central Minnesota	26	119
Northeastern Minnesota	17	123
Red River Valley Minnesota	11	127
South Central Minnesota	35	111
Southeastern Minnesota	18	104
Southwestern Minnesota	36	124
Montana	48	105
Mountain	14	107
Plains	34	104
North Dakota	73	119
North Central North Dakota	13	121
Northwestern North Dakota	11	127
Red River Valley North Dakota	24	117
Southeastern North Dakota	20	114
Southwestern North Dakota	5	121
Red River Valley—Minn. and N. Dak.	35	119
South Dakota	78	107
Southeastern South Dakota	16	105
Other Eastern South Dakota	51	110
Western South Dakota	11	99
Wisconsin and Michigan	72	113
Northern Wisconsin and Michigan	40	116
West Central Wisconsin	32	111
Total District	435	110

Business failures in January were the smallest in number for the month since 1920 but the amount of liabilities was somewhat larger than in January last year.

The volume of production in our district as shown by several unadjusted indicators continued at a relatively high rate in January. Flour milling was in larger volume than in the preceding month and as large as in January last year with production at mills outside of Minneapolis showing the larger increase over a year ago and Minneapolis mills recording the larger increase over December. Shipments of linseed oil and cake were both a little larger than in December, were well above the January level in any recent year and were the largest for the month since 1929. Slaughterings of cattle and calves were in larger volume in January than in the preceding month but were smaller than in January last year. Hog and sheep slaughterings declined slightly in January but were substantially higher than in the same month in 1939. The cut of lumber declined seasonally but was larger than in the same month in the preceding year for the fourth consecutive month. Shipments of forest products increased seasonally in January and closely approached the volumes of January 1936 and 1937, the only two higher months since 1931. Mine production of copper increased a little in January and was one-fourth larger than in the same month last year. Production of silver and gold was reported to be a little smaller in January than in December but remained well above the January 1939 volume. There was a slight reduction in the number of employees of reporting lumber and mining companies but the total was 7% higher than on January 31 last year. The Minnesota employment index dropped from 109 in December to 100.5 in January, the highest for that month since 1937. Electric power utilization in December was greater than in any other month in our twenty year records.

Other business activity indicators that were higher in January than a year earlier were new car and truck sales in Minnesota and North Dakota; carloadings of grain and grain products, coal, coke, ore and LCL merchandise; net telephone installations in the Twin City area; and wholesales of automotive supplies, groceries, hardware, plumbing and heating supplies, paper, tobacco products and miscellaneous lines. Indicators that were lower in January than a year earlier were new car sales in Montana and life insurance sales which were sharply lower than a year ago, when the volume was abnormally large as a result of rate changes that were effective that month.

BANKING

Country member bank deposits rose moderately during January as a result of a general increase in time deposits to the highest level in recent years. **Earning assets** also increased during the month but at a slower rate than deposits, resulting in somewhat larger reserve balances with us, which raised **excess reserves** to nearly $22½ million, the largest total since February 1937. Balances with other banks were unchanged. Compared with the end of January last year, deposits were up $34 million; earning assets had been increased $10 million and $24 million was left on deposit with other banks, one-third of which had been added to reserve balances with us.

City member bank deposits declined steadily throughout January to less than $600 million for the first time in several months. Funds to meet the shrinkage in deposits were obtained from balances with other banks, augmented to a small degree by decreases in **loans and investments.** Most of the deposit decline was in public demand deposits which dropped more than the usual seasonal amount to the lowest level in four years. During the first half of February, investments increased sharply as banks acquired supplies of 90 day Treasury bills in antici-

pation of the May 1 money and credits tax date. Balances with other banks and reserves with us were drawn down sharply to the lowest levels since last spring with the result that **excess reserves** dropped to $17 million, less than half as large as a few weeks earlier.

Bills discounted by this bank for members banks declined moderately during January and early February and substantial repayments late in January resulted in a sharp drop in the volume of **current industrial loans** outstanding. The volume of **Federal Reserve notes** in actual circulation declined seasonally in January but this decline was largely offset by an increase in the volume of **silver certificates** paid out by this bank. January decreases in reporting city bank balances were offset by increases in country bank reserve balances, but as a result of the sharp decrease in city bank balances early in February, **member bank reserves** dropped to $138 million, the smallest total since last July.

AGRICULTURE

Farmers' cash income in this district from the sale of seven products (excluding government payments) increased in January by more than the usual seasonal amount. The January estimate was more than $34 million, the largest January total since 1931, and, excluding the fall months when grain marketings are heavy, the largest for any month since April 1931 with the exception of March 1936.

The USDA estimates of annual cash income (including government payments and proceeds from loans) for the last few years have been revised upward as shown in the table below. These figures should be substituted for those shown on page 216 of our January 28 issue.

Farmers' Cash Income

(000's omitted)

	1936	1937	1938	1939
Ninth District	$757,944	$789,718	$706,710	$789,270
Michigan (15 co.)	12,028	13,207	11,240	11,648
Minnesota	356,974	379,880	341,907	359,365
Montana	88,996	92,791	77,298	96,023
North Dakota	107,664	125,362	102,559	138,160
South Dakota	121,460	105,644	109,373	123,959
Wisconsin (26 co.)	70,822	72,834	64,333	60,115

Agricultural product prices averaged a little higher in January than in December, the generally higher grain and livestock product prices more than offsetting the small declines in prices of livestock. Compared with January last year, grain, potato and all livestock product prices except fluid milk were higher but practically all livestock prices were lower, the average for all farm product prices being about the same in January this year and last.

Grain stocks on farms January 1 in the four complete states in this district were substantially larger than in any other recent year as a result of exceptionally large supplies of corn. Stocks of oats were larger than on the same date in the three preceding years but smaller than in 1936 and 1933. Wheat stocks were a little smaller than one year earlier but with the exception of January 1, 1939, were the largest since 1933.

January 1 Stocks of Grain on Farms

(Minnesota, Montana, North and South Dakota)

(thousands of bushels)

	Wheat	Corn	Oats
1940	93,741	176,490	168,567
1939	95,932	124,450	156,234
1938	49,678	106,380	149,131
1937	32,597	32,482	92,402
1936	54,816	98,492	205,883
1935	32,265	33,758	66,267
1934	64,921	83,259	97,642
1933	117,365	112,807	193,374
1929-38 Avg.	64,914	81,067	139,719

USDA January 1 livestock inventory estimates for the four complete states in this district reflected the expansion in livestock holdings that appeared quite probable last year as ample feed and forage supplies became assured. Hog holdings showed the greatest increase. There were substantial increases in the hog population in each of the four states, resulting in the sharpest annual increase in our 13 year records. As a result, the number of hogs on farms in Minnesota, Montana, North Dakota and South Dakota on January 1, 1940 was nearly as large as on January 1, 1934. This year's inventory figure, however, was a third smaller than the number on January 1, 1931. Increases in dairy cows and heifers and in young heifers were quite moderate in 1939, most of the increase in cattle holdings being in the "other cattle" classification which consists largely of beef cattle. In line with earlier information, the estimates indicated substantial increases in the number of stock sheep and lambs in Montana and South Dakota, but the total for those two states was far below the numbers held at the beginning of 1935 and 1936. The number of horses and colts in our four states decreased sharply during 1939 but at a somewhat slower rate than in the United States as a whole.

Livestock on Farms January 1

(Minnesota, Montana, North and South Dakota)

(thousands of head)

	1940	1939	1938	1929-38 Avg.
Dairy Cows and Heifers	2,911	2,885	2,879	3,063
Dairy Heifers (1-2 years)	627	613	576	631
Other Cattle (mostly beef)	3,877	3,621	3,451	4,016
Swine (including pigs)	5,237	4,166	3,532	5,378
Stock Sheep and Lambs	6,411	6,051	5,659	6,462
Horses and Colts	1,648	1,671	1,721	2,173

Receipts of cattle and calves at South St. Paul during January were larger than in December although receipts usually decline at that season of the year. The total of 104 thousand head was 13 thousand head smaller than in January 1939 but domestic marketings were down only 4 thousand head from the year ago level, a reduction in Canadian importations accounting for the balance. *The Live-*

stock Situation reported: "The total number of cattle on feed at the beginning of 1940 for the entire country was the largest in recent years . . . Consumer demand for meats in the first half of this year is expected to be stronger than a year earlier, and this will be a supporting influence to prices of all kinds of slaughter cattle. On the other hand, total beef supplies may be as large as those of last year, and because of larger hog slaughter, pork and total meat supplies will be increased. Prices of grain-fed cattle also will be affected adversely by the relatively large proportion of such cattle in the total cattle supplies."

During the first half of February, cattle receipts were larger than usual at this season and prices declined slightly. Packer buyers were bearish, citing the wide spread between fresh pork retail prices and those of beef.

Shipments of stocker and feeder cattle from South St. Paul declined seasonally during January and were only three-fourths as large as in January 1939. Declining butcher cattle prices contributed to the usual January lull in the stocker and feeder market. *The Livestock Situation* stated: "An important strengthening factor to prices of the lower grades of slaughter cattle in the past year has been the strong demand for stocker and feeder cattle. This demand may not be so strong in 1940 as in 1939. Feed prices are generally higher than last year, and returns from cattle feeding operations will be less favorable in the first half of 1940 than in the first half of 1939."

During the first half of February, demand continued to be dull but shipments were somewhat larger than a year earlier. During the second week of February, the average cost of replacement steers was $7.00 compared with $7.70 in the same week of 1939.

Hog receipts at South St. Paul increased in January in spite of the usual decline during that month, were half again as large as in January 1939 and were the largest for the month since 1932. During the first few months of the current marketing season, receipts were actually smaller than a year earlier although the spring pig crop was nearly one-third larger than in 1938. During December and January, however, receipts increased sharply and total receipts for the first five months of this marketing season were 14% larger than during the same period in 1938-39. According to *The Livestock Situation* "The upward trend in hog production which began in early 1938 apparently will be checked in 1940 . . . In view of the prospects for an unfavorable hog-corn price ratio during most of 1940, it now seems probable that both the spring pig crop and the fall pig crop of 1940 will be smaller than the crops of 1939."

During the first two weeks of February, receipts continued large, prices were about the same as in January, and the "top" at mid-month was $5.30.

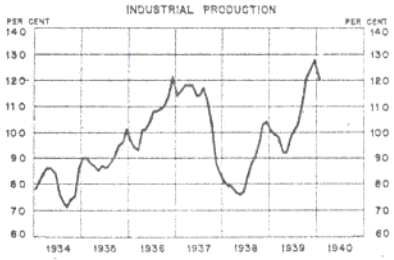
Receipts of sheep and lambs at South St. Paul during January declined less than seasonally and were about 7% larger than in January 1939. Demand for replacement lambs was strong and occasionally exceeded the supply. Prices remained steady throughout the month. Higher wool and pelt prices have supported the fat lamb market substantially. In January, the raw wool price was 29 cents a pound compared to 19 cents a year ago and pelts were quoted in Chicago at $1.35 compared to 75 cents in January 1939. *The Livestock Situation* stated: "During the remainder of the fed lamb marketing season (through April) consumer demand for meats is expected to continue stronger and wool prices will continue higher than last year. Thus, even if slaughter supplies of sheep and lambs should be larger than a year earlier, prices of lambs in the next 3 or 4 months probably will continue about the same as or a little higher than in the corresponding months of 1939. The average price of good and choice slaughter lambs at Chicago from February through April 1939 was about $9.30."

During the first half of February, fat lamb prices increased and at mid-month the "top" price was $9.25 compared with $8.65 at mid-February in 1939.

The dairy cow market at South St. Paul was quiet throughout January, as is usual during that month. Demand was steady for the limited number of cows offered. Shippers paid from $60-$80 for good quality cows, the extreme range for the month being $45-90, averaging about $5 above January 1939.

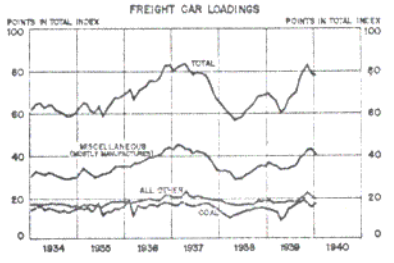
The poultry and egg situation did not change materially during January. Egg consumption apparently continued to be unusually high; the larger-than-average flocks maintained production at record levels; and a larger-than-average out-of-storage movement reduced cold storage supplies on February 1 to 11% below the five year average. Receipts of dressed poultry at the four principal markets during January continued to be unusually large and on February 1 cold storage holdings were 28% above the five year average. The USDA reported indications are that chick hatchings during January were substantially lower than the record hatchings of January 1939 but will be close to a normal level for January when measured by the average January output of recent years.

Cold storage holdings of butter declined more than usual during January for the fifth consecutive month and were 35% below average on February 1. Stocks of all classes of meat increased more than usual during January with the exception of lamb and mutton which declined to somewhat below the average. Beef supplies increased about 1.5 million pounds whereas usually there is a decline at that season. Pork holdings increased more than seasonally, and lard stocks also increased as a result of increased hog slaughter. Lard in cold storage on February 1 was 168% of the February 1 five year average.

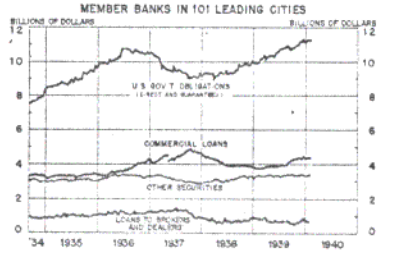


Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1940.

Index of number employed, adjusted for seasonal variation, 1923-1925 average=100. By months, January 1934 to January 1940.



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



Wednesday figures, September 5, 1934 to February 7, 1940. Commercial loans based on new classification beginning May 19, 1937.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 17, 1940

In January and the first half of February industrial activity declined from the high level reached in the latter part of 1939. Retail trade, which had been in large volume, decreased more than seasonally, while merchandise exports were maintained.

PRODUCTION: Volume of industrial production declined somewhat from December to January, and consequently the Board's index, which allows for a considerable seasonal increase, dropped sharply from the high level of 128 reached in December to 120 in January. Data available for the first half of February indicate a further sharp reduction in the index.

Steel ingot production, which had been above 90 per cent of capacity during most of the fourth quarter of 1939, has declined steadily since the turn of the year and by the middle of February was at about 69 per cent of capacity. Plate glass production, which also had reached high levels in the latter part of 1939, was reduced in January and lumber production showed a considerable decrease owing in part to unusually cold weather in the Southern regions. Automobile production in January was larger than is usual at this season. In the latter part of the month, however, and in the first half of February, as retail sales of new cars declined seasonally and dealers' stocks, which had been lower than usual at the beginning of the year, rose rapidly, the output of cars declined. In the machinery industries, activity was generally sustained at the advanced levels reached in December.

Output of cotton textiles in January continued at about the high rate of other recent months but production of woolen textiles declined further from the peak levels of October and November and output of silk products remained in small volume. Activity at meat-packing establishments was maintained in January at the high level prevailing for several months. Coal production rose sharply, following a marked reduction in December, and was at about the high level reached last October. Output of crude petroleum continued in large volume.

Value of contracts awarded for both public and private construction declined considerably in January, according to reports of the F. W. Dodge Corporation. Awards for private residential building showed a greater than seasonal reduction and were lower than the level prevailing a year ago. Contracts for other private work declined somewhat but remained in larger volume than in the corresponding period last year.

EMPLOYMENT: Factory employment and pay rolls, which had risen sharply during the latter half of 1939, declined by somewhat more than the usual seasonal amount from the middle of December to the middle of January, according to reports from leading industrial States.

DISTRIBUTION: Sales at department stores, variety stores, and mail-order houses in January declined more than seasonally from the high level of December. Total freight carloadings showed a seasonal decline; shipments of miscellaneous freight and grain decreased, while coal loadings increased considerably.

FOREIGN TRADE: Exports of United States merchandise, which usually decline in January, were maintained this year at the high level reached in December. Shipments of cotton, which have been large in recent months, rose further, while exports of many industrial products declined. Exports to the United Kingdom increased sharply, owing mainly to larger cotton shipments.

Reflecting principally acquisitions of foreign gold, the country's monetary gold stock increased by $287 million during January and by $132 million in the first two weeks of February.

COMMODITY PRICES: Prices of copper, lead, and silk showed marked declines from the middle of January to the middle of February and there were smaller decreases in prices of some other basic industrial materials, such as steel scrap, wool, and textile yarns. Prices of foodstuffs, on the other hand, showed little change in this period.

GOVERNMENT SECURITY MARKET: Prices of United States Government securities declined slightly during the latter half of January from the recovery peak reached early in the month but regained part of these losses during the first half of February.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities rose during the five weeks ending February 7 as a result of increases in holdings of Government securities at New York City banks. Loans to security brokers and dealers and commercial loans declined. Demand deposits continued to increase during the period.