MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 7 (Serial No. 315) **Federal Reserve Bank, Minneapolis, Minn.** **March 28, 1941**

Business volume continued to expand during February and was at the highest level since 1930. Bank loans increased during the month. Farmers' cash income in February was the largest for that month since 1930.

BUSINESS

February business volume in this district, aside from seasonal changes, continued to expand and was the largest for the month since 1930. During the last several years, business volume in agricultural trade centers has been expanding somewhat more rapidly than in other cities. An indication of this trend may be seen by comparing the February 1941 indexes with those for February 1939 in the table below. The index of bank debits at farming centers has advanced 33 points from 99 in February 1939 to 132 in February 1941 while the 94 cities bank debits index, which includes all the cities, farming centers as well as other, has increased only 21 points from 99 to 120. The index of sales at country department stores has advanced 23 points during the period from 102 to 125 while sales at city department stores increased only 14 points from 97 to 111.

During February, the indexes of rural business—bank debits at farming centers, country check clearings and country department store sales advanced 7, 12, and 3 points respectively while the index of lumber sales at country lumber yards declined slightly from the unusually high January level. On the other hand, the index of bank debits at 94 cities advanced only 4 points and city department store sales declined more than seasonally. All of the above mentioned indexes were at the highest February level since 1930 or earlier.

Northwestern Business Indexes

(1935-39=100)

	Feb. 1941	Jan. 1941	Feb. 1940	Feb. 1939
Bank debits—94 cities	120	116	113	99
Bank debits—farming centers	132	125	117	99
Country check clearings	137	125	121	102
City department store sales	111	115	107	97
City department store stocks	113	114	111	102
Country department store sales	125	122	123	102
Country lumber sales	129	136	121	110
Miscellaneous carloadings	122	133	103	95
Total carloadings (excl. miscellaneous)	100	95	95	87
Employment—Minn. (1936=100)	107	107	99	96
Farm Price—Minn. (1924-26=100)	76	78	69	70

Carloadings of miscellaneous freight declined more than seasonally during February but were the highest for February since 1930, while the index of other carloadings advanced to the highest level for the month since 1931. Commercial and industrial employment as indicated by the Minnesota employment index remained unchanged from January and was at the highest February level in our eight-year records.

Building and construction contracts awarded in this district as reported by the F. W. Dodge Corporation totalled $4.6 million in February and were nearly double the February 1940 volume. Contracts let for industrial building were larger than in January and were substantially larger than in any February since 1930. Contracts for public utility and commercial building were the largest for February since 1931. Residential building was about one-third larger than in February 1940 and the largest for that month since 1927. Hospital, public building and social & recreational building contracts were larger than in January and were the largest February total since 1938. The $1 million of contracts awarded for public works construction in February was nearly three times as large as one year earlier but was smaller than in February of both 1939 and 1938.

The valuation of building permits issued in seventy-nine cities and towns in this district in February was 2% larger than during February 1940. Cities from the Upper Peninsula of Michigan, Montana and South Dakota reported substantially larger valuations than one year earlier. Minnesota cities reported a gain of 5% but permits issued in reporting cities in North Dakota and Northern Wisconsin averaged well below February 1940. The valuation of permits issued during the first two months of 1941 averaged 32% larger than during the corresponding period of 1940 with Montana and Minnesota cities recording the largest gains.

Department store sales in this district in February were 3% larger than in the same month one year earlier. City department stores reported a gain of 4% over a year ago, and country store sales were 1% larger. Sales at both groups of stores were the largest for the month since 1930. Sales for the two months of January and February showed the same increase over the corresponding period last year as the month of February alone. Stores in Montana, South Dakota and northern Wisconsin and Michigan reported sales gains over February 1940 but Minnesota and North Dakota stores reported declines.

City department store inventories increased less than seasonally during February but were slightly larger than one year earlier on March 28. **Country department store inventories** increased as usual during February and were 3% larger than one year earlier.

Sales at Department Stores

	Number of Stores Showing Increase	Decrease	% Feb. 1941 of Feb. 1940	Cumulative % 1941 of 1940
Total District	125	152	103	103
Mpls., St. Paul, Dul.-Sup.	13	9	104	104
Country Stores	112	143	101	101
Minnesota	35	47	99	98
Central Minn.	6	4	106	99
Northeastern Minn.	5	4	99	97
Red River Valley Minn.	4	2	104	102
South Central Minn.	6	16	94	95
Southeastern Minn.	8	7	101	101
Southwestern Minn.	6	14	97	95
Montana	23	20	106	107
Mountains	8	5	110	109
Plains	15	15	104	106
North Dakota	14	29	96	91
North Central No. Dak.	1	8	92	90
Northwestern No. Dak.	4	2	102	92
Red River Valley No. Dak.	5	12	97	90
Southeastern No. Dak.	3	7	93	94
Red River Valley—Minnesota and North Dakota	9	14	99	93
South Dakota	18	17	104	106
Southeastern So. Dak.	6	3	106	109
Other Eastern So. Dak.	9	9	104	104
Western So. Dak.	3	5	96	97
Wisconsin and Michigan	22	30	101	101
Northern Wis. and Mich.	9	14	100	102
West Central Wis.	13	16	101	100

Manufacturing production in this district in February, as measured by the following indicators was at the highest level for the month in recent years. Electric power production declined seasonally but was the largest February output on record. The index of Minnesota manufacturing employment advanced slightly from January to a level of 10% above a year earlier and the highest in our eight-year records. Shipments of linseed oil increased somewhat and were the largest for February in our 22-year records. Flour production declined seasonally to slightly below February 1940, when flour production was the largest for that month since 1936. More lumber was cut in this area in February than in January, and it was the largest February cut since 1931.

BANKING

Country member bank earning assets increased $5 million to $405 million between the latter half of January and the latter half of February after having declined slightly during December and January. During the last half of February, earning assets averaged $22 million higher than during the corresponding period of 1940. Investments at country banks have declined during the past year so the entire increase in country member bank credit has resulted from a brisk upswing in loans. Deposits also increased about $5 million during the month and while being at the highest February level since 1931 were slightly lower than the $551 million peak reached in November 1940. Balances at correspondent banks continued to be at or near the all time high reached last November.

City member bank loans increased $2 million during February. Loans at the end of February totalled $214 million, $26 million larger than one year earlier. During the year "Commercial, Industrial and Agricultural Loans" increased $12 million, "Real Estate Loans" $2 million and "Other Loans" which are primarily installment and other consumer loans increased $12 million. Investments increased during February as banks purchased the usual supply of Treasury bills and notes in anticipation of their customers demand for those securities at this season. Deposits increased slightly during the month and at the end of February were about $51 million larger than one year earlier and the largest on record for that date.

The reserve position of Ninth District member banks as indicated by the daily average of deposits and reserves for the last half of February is shown in the table below:

	Member Bank Reserve Deposits	Required Reserves	Excess Reserves
Country Banks	$ 59,530,000	$ 34,547,000	$24,983,000
City Banks	110,446,000	73,232,000	37,214,000
Total Ninth District (1941)	$169,976,000	$107,779,000	$62,197,000
Total Ninth District (1940)	145,560,000	98,363,000	47,197,000

AGRICULTURE

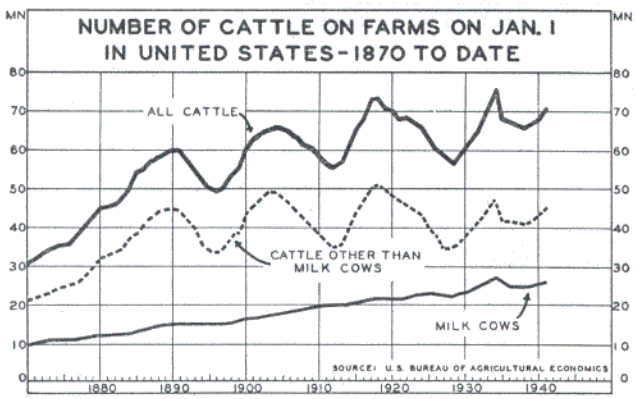
Farmers' cash income in this district from seven important products, based on terminal receipts and prices, declined seasonally in February but was the largest for the month since 1931. Income from dairy products increased to the highest February level since 1929, and income from hogs declined much less than usual and was the largest for February since 1931. As a result of a sharp increase in potato marketings and a moderate increase in prices, income from potatoes in February was the largest since 1937. Marketings of both bread and durum wheat as well as rye were unusually small and income from these items was well below one year earlier but flax marketings were large, resulting in the largest February flax income since 1929.

Agricultural product prices at terminal markets in this district declined slightly during February but with the exception of January, were on the whole, the highest for any month since February 1938. Prices of all classes of cattle declined moderately but were nevertheless at the highest February level since 1930. Hog prices also declined somewhat but were well above one year earlier. Lambs and ewes advanced slightly to the highest February level since 1930. All the grains declined during February and with the exception of corn were well below one year earlier. Prices of potatoes, butter and chickens advanced moderately but eggs declined and wool remained unchanged at 31c, the highest it has been since May 1937.

The number of cattle and calves on farms and ranches in our four states increased 520 thousand head during 1940 and nearly 3 million head in the United States, completing the third year in the upswing of the cattle production cycle. In spite of the sharp rise in livestock population, slaughterings both in South St. Paul and in the nation were slightly larger in 1940 than in 1939 and this increase over

one year earlier continued during the first two months of 1941, indicating that the point in cattle numbers has been reached where cattle slaughter can increase at the same time that numbers on farms are also increasing. The increase in slaughterings resulted in cold storage holdings of beef on March 1 being one-third larger than the five-year median and one-quarter larger than one year earlier. Also on January 1 there were 11% more cattle being fattened for market in the United States than one year earlier. Beef cattle prices declined somewhat in February but in spite of the larger supplies than one year earlier, prices were about $1.50 per hundred higher than in February 1940, chiefly because of the increase in consumer demand which has occurred during the last year as a result of the sharp increase in industrial activity.

The cattle outlook as reported by the USDA in *The Livestock Situation* is as follows: "Cattle numbers are expected to increase further during the next two years at least . . . The total live weight of cattle marketed for slaughter during 1941 as a whole is expected to be greater than in 1940, but the effect of this increase upon the average price received by farmers for cattle will be more than offset by stronger domestic demand conditions this year than last . . . Present indications are that cattle prices will not advance as much throughout the year as they did in 1940, and that they will be higher relative to a year earlier in the first half than in the last half of the year."



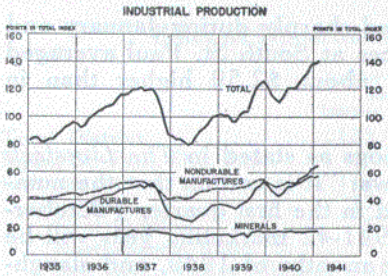
The number of hogs raised in the United States during 1940 was 77 million head compared to about 86 million in 1939. As a result of the smaller crop and the unusually heavy fall slaughterings the number of hogs on farms on January 1 was only 53 million head compared with 60 million one year earlier. The hog-corn price ratio was unfavorable to hog producers throughout 1940 and in consequence the breeding intentions reported by farmers about December 1 indicated that in 1941 the spring pig crop would again be reduced. Cold storage holdings of pork on March 1 reflected the heavy fall slaughterings and were more than one-third larger than usual. Since December, however, hog marketings have declined more than seasonally and were smaller than in the corresponding period of 1940. Prices advanced sharply during January and in February hog prices at South St. Paul averaged $7.30 per hundred, about $2.50 higher than in February 1940.

The outlook for hogs as stated in *The Livestock Situation* is as follows: "It is certain that the number of hogs marketed in the first quarter (October-December) of the 1941-42 marketing year will be smaller than in those months of 1940, and slaughter for the entire calendar year of 1941 will be much smaller than in 1940. With the outlook for continued improvement in domestic consumer demand conditions in 1941 and smaller marketings of hogs than in 1940, hog prices are expected to average materially higher this year than in 1940."

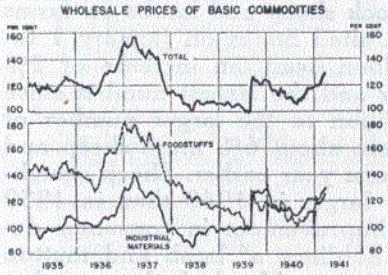
The number of stock sheep and lambs on farms and ranches in the United States on January 1 totalled nearly 50 million head, an increase of 2% over one year earlier and the largest number since about 1885. In addition to the larger number of stock sheep there were about 6% more sheep and lambs on feed than one year earlier. Sheep slaughterings were slightly larger in 1940 than in 1939 but because of the improvement in consumer demand, cold storage holdings of lamb and mutton were about 2% smaller on March 1 than on that date last year. The effect of larger sheep numbers and slaughterings on prices, however, has been more than offset by stronger demand for meats and higher wool prices than one year earlier. Lamb prices were favorable throughout 1940 and advanced during January and February to $10.50 per hundred, $1.00 higher than in February 1940.

Wool production in 1940 in the United States totaled 450 million pounds, was slightly larger than in 1939, and the largest on record. Apparel wool imports for consumption in 1940 totalled 223 million pounds, 125 million pounds larger than in 1939 and the largest since 1923. In spite of these larger supplies, total wool stocks (excluding wool afloat) on December 31, 1940 were about equal to those of a year earlier and were much smaller than the December 31 stocks in the years 1935-1938. Beginning in the spring of 1940, wool consumption increased sharply and in the final quarter of 1940 was larger than at any time since 1918 and thus in spite of the small consumption during the first part of 1940, the total for the year was larger than in 1939. During January 1941, wool consumption was 36% larger than in January 1940. As a result of this heavy demand, which arises in part from rearmament contracts, wool prices have been strong and averaged 31c for February in this area.

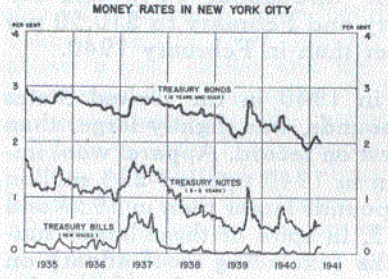
The outlook for wool included in *The Wool Situation* is as follows: "The relatively small carry-over of wool in this country and prospects for a large mill consumption of wool in 1941 will be strong supporting factors to domestic wool prices, but wool supplies available for shipment from foreign countries to the United States are relatively large, and any advance in domestic prices from present levels is likely to be moderate."



Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to February 1941.



Bureau of Labor Statistics' indexes based on 12 foodstuffs and 16 industrial materials, August 1939=100. Thursday figures, January 3, 1935 to March 13, 1941.



Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury notes, Treasury bonds callable after 12 years, and average discount on new issues of Treasury bills offered within week. For weeks ending January 5, 1935 to March 15, 1941.

Wednesday figures, January 2, 1935 to March 12, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MARCH 19, 1941

Industrial activity and employment increased further in February and the first half of March. Buying by producers and consumers continued in large volume and wholesale commodity prices, particularly of imports, advanced.

PRODUCTION: In February volume of industrial output, on a daily average basis, rose more than seasonally, and the Board's adjusted index advanced from 139 to 141 per cent of the 1935-39 average.

Increases in February, as in other recent months, were largest in the durable goods industries where a large proportion of defense program orders have been placed. Activity continued to rise sharply at machinery plants, aircraft factories, shipyards, and in the railroad equipment industries. Steel production fluctuated around 96 per cent of capacity in January and February and rose to 99 per cent in the first half of March. New orders for steel continued large and, despite the high rate of output, unfilled orders increased further. Many orders have been placed for delivery in the second half of this year, reflecting the prospect of heavy consumption and some uncertainty on the part of steel users regarding future availability of supplies. Output of pig iron, coke, and nonferrous metals was likewise at near capacity rates in February and unfilled orders for these products, too, were at exceptionally high levels. Demand for lumber continued large owing to a high rate of construction activity and output was sustained in large volume for this time of year. Automobile production increased in February and the first half of March to about the peak rate attained last November. Retail sales of new and used cars advanced to unusually high levels.

In industries manufacturing nondurable goods, activity continued at the record levels reached in the latter part of 1940. There were further increases in the cotton textile, rubber, and chemical industries and activity at woolen mills also increased, following a temporary reduction in January. In most other lines activity was maintained at the high levels of other recent months.

Coal production rose less than seasonally in February but increased considerably in the first half of March when, according to trade reports, there was some inventory accumulation in anticipation of a possible shutdown on April 1 at the expiration of the present contract between the mine operators and the miners' union. Copper and zinc production increased in February and recently domestic supplies of copper have begun to be supplemented by imports from South America. Output of crude petroleum continued at about the rate that had prevailed during the three preceding months.

Value of construction contract awards in February declined somewhat more than seasonally, reflecting decreases in both public and private work, according to reports of the F. W. Dodge Corporation. Awards for public construction, although sharply reduced from the high levels reached in the latter half of 1940, were somewhat above those of a year ago, and awards for private construction were nearly half again as large as in February of last year.

DISTRIBUTION: Distribution of commodities to consumers increased more than seasonally from January to February. Sales at variety stores and by mail-order houses were the largest on record, making allowance for usual seasonal changes, and department store sales were also at a high level.

Freight-car loadings increased by about the usual seasonal amount. Shipments of miscellaneous freight, consisting mostly of manufactured products, showed an increase while loadings of forest products rose less than seasonally and grain shipments declined.

WHOLESALE COMMODITY PRICES: Prices of a number of basic imports rose sharply from the early part of February to the middle of March. Cotton yarns and gray goods and nonferrous metal scrap showed further increases in this period and there were also advances in prices of some other domestic commodities, including lead, wheat, cotton, and oils and fats.

BANK CREDIT: Commercial loans continued to increase at member banks in 101 leading cities in February and the first half of March and these banks also purchased additional Treasury notes and bills issued in connection with the defense program. As a result of the increase in loans and investments, bank deposits showed a further marked advance.

UNITED STATES GOVERNMENT SECURITY PRICES: Prices of Government securities increased after February 15, following a sharp decline in the preceding ten weeks. The 1960-65 bonds on March 15 were about 3⅛ points above their price on February 15 and about 1¼ points below the all-time peak of December 10. The yield on this issue, which increased from 2.03 per cent at the peak in prices on December 10 to 2.30 per cent on February 15, had declined to 2.14 per cent on March 15.