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

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February business activity in the Northwest declined from January but was at the highest February level on record. Department store sales continued well above a year ago. Farm cash income was also at a record level for the month.

BUSINESS

Business activity in the Northwest during February continued at a high level and according to our seasonally adjusted indexes, reached a new high for the month. Although a few of the seasonally corrected indexes declined slightly from the unusually high January peaks, most of the series were about 30 points above February 1941 which was considered the best February since 1930. The country department store sales index stood at 152, the highest February on record, and compared with 124 a year ago, while the index of city department store sales at 134 was 23 points over February last year. Even though the February sales volume was large the index of stocks at city department stores advanced 2 points to 132, the highest since 1929. All indexes of check payments continued at very high levels, the total carloadings index was the highest February since 1931, and the country lumber sales index also advanced sharply to 178, the highest since 1920.

Northwest Business Indexes
Adjusted for Seasonal Variation—1935-39 = 100

	Feb. 1942	Jan. 1942	Feb. 1941	Feb. 1940
Bank Debits—94 cities	151	151	120	113
Bank Debits—farming centers	160	164	132	117
Country check clearings	175	168	137	121
City department store sales	134	152	111	107
City department store stocks	132	130	106	104
Country department store sales	152	164	124	123
Country lumber sales	178	141	135	121
Miscellaneous carloadings	147	160	122	103
Total carloadings (Excl. miscellaneous)	114	111	100	95
Employment—Minn. (Unadj. 1936=100)	119	118	107	99
Farm Prices—Minn. (1924-26=100)	110	105	76	69

The volume of construction contracts awarded in the district during February, according to the F. W. Dodge Corporation, was more than three times the January volume, and was 38 per cent above February last year. The $6.4 million of contracts awarded last month was the largest February volume since 1923. Residential building, which increased from $1.5 million to $3.1 million, accounted for most of the increase over last year although public utilities construction and non-residential building also registered slight gains over a year ago. Because of the unusually small volume of total construction contracts awarded in January, the two month total for 1942 for this district was approximately 17 per cent below the corresponding period of 1941.

Reports received from 93 cities and suburbs in the district indicate the value of building permits issued in these centers during February was 15 per cent below February 1941. Cities in Michigan, Wisconsin and North Dakota reported increases over 1941 while Minnesota, Montana and South Dakota showed decreases from a year ago.

Sales at both city and country department stores continued in large volume during the month of February. All trade sections reported gains over February last year with the largest increases reported in North Dakota. Sales there were about one-third larger than a year ago while all country department stores in the district showed a dollar volume gain of 23 per cent over February 1941. City stores sales during February were 21 per cent larger than last year.

Manufacturing production in this district during February, when measured by the following indicators, was below the large January volume but was roughly 20 per cent larger than in February a year ago. Livestock slaughterings at South St. Paul

dropped about one-third from January but were still about 20 per cent over February 1941. Flour production, flour shipments and linseed oil and oil cake shipments were less than in January but all were approximately 20 per cent over last year. The Minnesota Division of Employment and Security reported the index of manufacturing employment in Minnesota rose 3 points to 125. This compared to 110 in February 1941. Electric power production in the four complete states of the district declined from January but was 16 per cent larger than in February a year ago.

Sales at Department Stores

	Number of Stores Showing Increase	Decrease	% Feb. 1942 of Feb. 1941	Cumulative % 1942 of 1941
Total District	342	53	122	128
Mpls., St. Paul, Dul.-Sup.	21	2	121	126
Country Stores	321	51	123	129
Minnesota	114	15	128	134
Central	20	4	147	150
Northeastern	16	2	122	129
Red River Valley	8	3	131	133
South Central	28	2	139	142
Southeastern	16	1	117	124
Southwestern	26	3	126	130
Montana	29	17	103	113
Mountains	7	5	102	114
Plains	22	12	103	112
North Dakota	55	5	133	139
North Central	11	0	156	156
Northwestern	6	1	122	139
Red River Valley	20	1	132	134
Southeastern	17	2	132	141
Red Riv. V.-Minn. & N. Dak.	28	4	131	134
South Dakota	57	7	122	127
Southeastern	14	2	122	125
Other Eastern	35	3	123	129
Western	8	2	120	126
Wisconsin & Michigan	66	7	130	135
Northern Wisconsin	21	1	131	132
West Central Wisconsin	31	4	131	139
Upper Peninsula Michigan	14	2	122	127

BANKING

City member bank loans to customers declined another $2 million during the four-week period ended March 11, 1942. Total loans amounted to $263 million on that date, $9 million less than the volume outstanding last December, which was the highest loan volume since 1930. A $6 million decrease in their holdings of treasury bills was offset by a $6 million increase in United States government bonds, maintaining total investments at the same level of $267 million. Total deposits increased to $728 million, only $5 million short of the all-time high reached last November. Reserve balances with us were increased and excess reserves of city member banks stood at $16.4 million compared to $48.7 million last year.

Total deposits held by country member banks were not materially changed from a month ago but when compared to a year ago, demand deposits had increased $58 million and time deposits declined $8 million. Smaller inter-bank balances caused excess reserves to be lowered by about $1 million. Reserve balances with us remained at the same level as one month earlier.

The reserve position of Ninth District member banks as indicated by the daily average of deposits and reserves for the last half of February was as follows:

	Member Bank Reserve Deposits	Required Reserves	Excess Reserves
	(Thousands of Dollars)		
Country Banks	$ 70,148	$ 48,226	$ 21,922
City Banks	108,833	98,911	9,922
Ninth District (1942)	$178,981	$147,137	$ 31,844
Ninth District (1941)	$169,976	$107,779	$ 62,197

Operating ratios for Ninth District member banks for the year 1941 are presented below. These ratios include information on earning capacity, charge-off program, distribution of assets and many other factors affecting the successful operation of banks. Average ratios have been computed for various bank size-groups and are available for distribution in circular form. An average bank-size-group, quite typical of the operations of all banks, was selected and a few of the important ratios presented in the table below.

Average Operating Ratios of Ninth District Member Banks Holding Total Deposits of $500 Thousand to $999 Thousand

	1939	1940	1941
Number of Banks	122	137	147
Percentage of Total Capital Accounts			
Net current earnings	10.5	11.1	11.3
Net profits	7.7	8.3	11.1
Cash dividends declared	3.4	3.9	4.2
Percentage of Total Assets			
Total earnings	4.2	4.1	4.3
Total expenses	3.1	3.0	3.2
Net current earnings	1.1	1.1	1.1
Percentage of Total Earnings			
Interest and discount on loans	47.3	53.0	55.9
Interest and dividends on securities	31.9	25.1	22.0
All other earnings	20.8	21.9	22.1
Total earnings	100.0	100.0	100.0
Salaries and wages	28.6	29.0	29.9
Interest on time deposits	22.0	20.6	18.9
Taxes other than real estate	3.3	4.0	3.8
All other expenses	20.5	20.7	21.2
Total expenses	74.4	74.3	73.8
Net current earnings	25.6	25.7	26.2
Net charge-offs	6.5	6.5	+.6*
Net profits	19.1	19.2	26.8
Per cent interest rec'd on loans	6.2	6.1	6.0
Per cent interest rec'd on securities	3.3	3.1	3.0
Per cent interest paid on time dep.	1.8	1.8	1.8

*Excess of recoveries over charge-offs and depreciation.

For this group of banks, whose trend of operations was typical of all size groups, the per cent that net current earnings were of total capital accounts increased from 11.1 per cent in 1940 to 11.3 per cent in 1941. The average interest rate on loans and discounts dropped from 6.1 per cent to 6.0 per cent while the return on securities declined from 3.1 to 3.0 per cent. Because loans to customers increased, the interest on loans and discounts during 1941 represented 55.9 per cent of total earnings as compared to 53 per cent in 1940 and 47 per cent in 1939. Returns from securities showed almost a corresponding decrease. Net current earnings were not materially above last year but the percentage of total earnings that was realized as net profits increased sharply from last year because charge-offs, which had been 6.5 per cent the past two years, were more than offset by recoveries, thereby increasing profits from 19.1 per cent of total earnings to 26.8 per cent. (Charge-offs were very small in all size-groups of member banks.) Cash dividends as a percentage of capital accounts increased from 3.9 per cent in 1940 to 4.2 per cent in 1941.

AGRICULTURE

Cash farm income from the sale of important livestock and livestock product items declined from January due principally to smaller marketings of hogs and cattle. However, when compared to February 1941, cash income from the sale of cattle, hogs, sheep and lambs, eggs and dairy products was approximately 54 per cent over last year. Income from the sale of hogs again accounted for much of the increase over last year although income from the sale of dairy products was also substantially above a year ago. For the month of January 1942, the USDA estimated cash farm income from marketings and Government payments to be approximately 50 per cent above a year earlier.

Farm prices last month showed no material change from the high levels reached in January but were substantially higher than the levels prevailing in February last year. Most grain prices were approximately 50 per cent above prices a year ago, but livestock prices registered smaller gains. One notable exception was the median price of hogs which moved from $7.50 last February to $12.40 this year.

February livestock receipts at South St. Paul, as in January, were larger than receipts for the same month a year ago. Cattle receipts were 23 per cent, and hog receipts 21 per cent above February 1941. However, sheep receipts for February were 13 per cent less than in the same month a year ago. Shipments of feeder cattle from South St. Paul, although not large at this season of the year, were 14 per cent above shipments last February.

All classes of productive livestock on farms in this district on January 1 were much larger than a year earlier. There were 20.6 per cent more hogs and 15.5 per cent more chickens on northwest farms than on January 1, 1941. These two classes of livestock can be readily increased when the demand for pork and eggs increases but more time is required to add materially to the number of cattle and sheep on farms. Since the number of milk cows increased only 3 per cent over 1941, in order to meet the 8 per cent increase in milk production requested by the Department of Agriculture, farmers must increase the average production per cow roughly 5 per cent. This will require more grain feeding not only during the winter months but during the pasture season as well. The large increases in the number of hogs and chickens indicates the 1942 production goals for pork and eggs will probably be met or even exceeded. The egg production per 100 laying hens on farms in the West North Central states during February was 10 per cent above February 1941 and resulted in the highest February egg production on record.

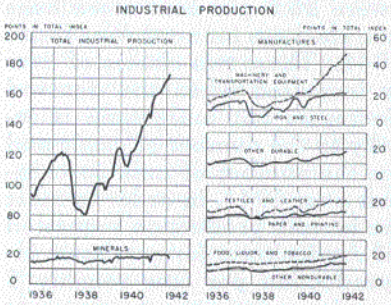
Livestock on Ninth District Farms—January 1

	1941 (Thous.)	1942 (Thous.)	District % Change	U. S. % Change
All Cattle and Calves	9,123	9,636	5.6	4.4
Milk Cows*	3,645	3,760	3.2	3.2
Stock Sheep	7,705	8,175	6.1	2.9
Hogs (includes pigs)	5,492	6,626	20.6	11.6
Chickens	39,480	45,586	15.5	12.1
Turkeys	1,150	1,239	7.7	6.3
Horses and Mules	1,756	1,697	—3.4	—3.3

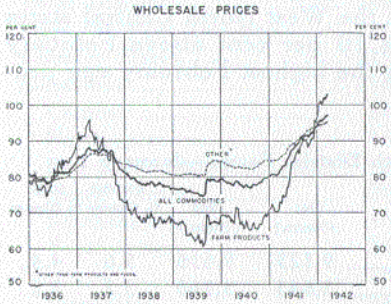
*Includes heifers 2 years old and over kept for milk.

Wool production is expected to be slightly larger than the record production of 1941. Because the number of stock sheep on northwest farms on January 1 showed a larger increase than for the nation as a whole, wool production in this area in 1942 is also likely to show a larger increase. In the United States during 1941 we consumed 977 million pounds of wool, about twice our domestic production. The Department of Agriculture reports that the shortage of ocean shipping is likely to increase our wool imports from South American countries and diminish shipments from Australia and New Zealand. They also report the new wool clip is being contracted in Western states at prices about 5c per pound over last year.

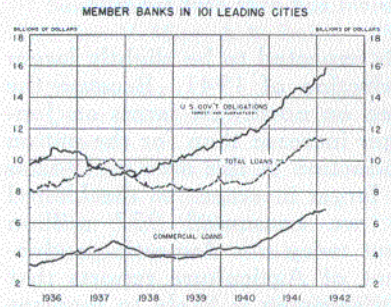
Cold storage stocks of most perishable food products in the United States on March 1 were considerably larger than those on hand one year earlier. Butter in storage totaled 64 million pounds compared to 16 million pounds last year, holdings of cheese increased from 119 million pounds last March to 160 million pounds this year. Storage holdings of lard on March 1 were below last year but were still 10 per cent larger than the median holdings for that date. Pork supplies were also down from a year ago but all other meat supplies were larger than on last March 1.



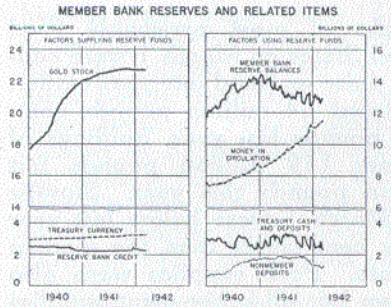
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. Latest figures shown are for February, 1942.



Bureau of Labor Statistics' indexes, 1926=100. "Other" includes commodities other than farm products and foods. By weeks, January 5, 1936 to week ended March 2, 1942.



Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported. Latest figures shown are for March 11, 1942.



Wednesday figures, January 4, 1940 to March 11, 1942.

National Summary of Business Conditions

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

Industrial activity increased further in February and the first half of March. Retail trade was sustained at high levels and commodity prices continued to advance.

PRODUCTION: In February the Board's seasonally adjusted index of industrial production rose from 171 to 173 per cent of the 1935-39 average. As in other recent months, activity in the durable goods manufacturing industries, where the majority of military products are made, continued to advance, while in industries making nondurable goods and at mines activity was maintained at about the levels reached last autumn.

Steel production rose to 96 per cent of capacity in February and increased further to 98 per cent in the third week of March—which corresponded to an annual rate of nearly 87 million net tons. Lumber production also increased, following less than the usual seasonal decline during the previous two months. In the machinery and transportation equipment industries, now engaged mainly in armament production, activity continued to advance rapidly as plant utilization increased and capacity expanded. Conversion to armament production in the automobile industry, where output of civilian products was discontinued in early February, is apparently being effected much more rapidly than had been anticipated earlier.

There were further increases in output at cotton textile mills and at chemical factories, reflecting an increasing amount of work on military orders. At meat-packing establishments activity was maintained near the high rate reached in January. Shoe production increased by less than the usual seasonal amount. Anthracite production rose sharply in February and bituminous coal production was maintained near the high rate of other recent months. Output of crude petroleum, which had been at record levels in December and January, declined somewhat in the latter part of February and in the first half of March, reflecting transportation difficulties.

CONSTRUCTION: Value of construction contract awards increased considerably in February, according to figures of the F. W. Dodge Corporation, owing mainly to a sharp rise in awards for public projects. Total awards in February were half again as large as last year, and public awards were about three times as large.

In nonresidential building, awards for public projects increased materially, while those for private projects continued to decline. There was a slight rise in awards for public utility construction.

In residential building, contracts for private work changed little from January, while those for publicly-financed projects increased sharply and amounted to about half of the total for the first time on record. For the past six months there has been a noticeable shift in privately-financed housing activity from building for owner-occupancy to building for sale or rent; in February, awards for the former constituted only about one-fifth of the small-homes total. This shift is attributable mainly to the activity in defense areas and to legislation enacted last spring making possible the insurance of mortgages taken out by builders.

DISTRIBUTION: Value of retail trade continued large in February. Sales at general merchandise stores and variety stores increased more than seasonally, while sales at department stores declined. In the first half of March department store sales increased by about the usual seasonal amount.

Freight-car loadings, which in January had been unusually large for this time of year, declined somewhat in February owing to smaller shipments of coal, grain, and miscellaneous freight.

COMMODITY PRICES: Wholesale prices continued to advance from the middle of February to the middle of March, particularly those for finished consumer goods such as meats, fruits and vegetables, shoes, clothing, and household items. Temporary maximum price orders were issued covering wholesale prices of some of these products, including pork, canned fruits and vegetables, finished cotton and rayon fabrics, cotton rugs, and bedding equipment. These orders, according to statute, used as maximums the prices prevailing within five days prior to issuance. They are effective for only 60 days and may be replaced by regular schedules.

TREASURY FINANCING AND BANK CREDIT: In March income tax receipts by the Treasury for the first time reflected the higher schedule of rates. The effect of these receipts on the money market was largely offset by redemption of Treasury bills previously issued to mature during the tax collection period, by tax-anticipation notes turned in on payment of taxes, and by continued heavy Treasury expenditures. As a consequence a record volume of Treasury operations was effected with little influence on conditions in the market. Excess reserves of member banks showed no large change and on March 18 amounted to about $3.2 billion.

United States Government obligations held by member banks in leading cities showed little change during the first three weeks of March following a sharp rise in February. Commercial loans increased further.

UNITED STATES GOVERNMENT SECURITY PRICES: Prices of United States Government bonds advanced steadily from the middle of February to the middle of March. Long-term taxable bonds yielded 2.35 per cent compared with an average of 2.39 per cent in February. Prices of short-term securities have held steady since the first of the year, with Treasury bills selling at around .20 per cent.