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

Vol. 8 (Serial No. 18) Federal Reserve Bank, Minneapolis, Minn. June 28, 1943

Business activity in May set a new high record for the month. Member bank deposits increased further; investments increased but loans to customers declined. Higher farm prices raised farm cash income to a high level.

BUSINESS

The volume of business in May in the Ninth District, according to our seasonally adjusted indexes, declined from the extremely high level attained earlier this year but was well above the usual May volume. Bank debits, country check clearings and city and country department store sales indexes were the highest on record for May. Since all of these indexes measure the dollar volume of business rather than physical quantities, they are, of course, affected by current higher prices. The unadjusted Minnesota farm price index at 177 was the highest on record. Our physical volume indexes, miscellaneous and total car loadings, were both lower than in May last year. The Minnesota employment and payrolls indexes climbed to the highest levels on record in May.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	May 1943	April 1943	May 1942	May 1941
Bank debits—94 cities	170	194	137	125
Bank debits—farming centers	167	197	135	123
Country check clearings	178	194	150	135
City department store sales	136	147	112	123
City department store stocks	124	115	160	105
Country department store sales	138	143	115	125
Country lumber sales	105	180	103	126
Miscellaneous carloadings	113	118	127	130
Total carloadings (excl. misc.)	138	110	151	152
Farm prices—Minn.	177	174	144	111
Employment—Minn. (unadj. 1936=100)	143	142	125	119
Payrolls—Minn. (unadj. 1936=100)	220	215	174	140

Iron ore shipments in May were a little smaller than the record-breaking May totals of 1941 and 1942 but with those exceptions were the largest May shipments on record. The 1943 season total, however, remains far below the total to June 1 last season because of the delay in the opening of interlake navigation this spring.

The 1943 goal has been reduced by the WPB to 91 million tons and, barring extremely unfavorable weather, it is expected that this goal will be reached. The "iron ore fleet" consists of a greater number of vessels now than it did a year ago and several additional Maritime Commission boats will be completed in time to take part in the iron ore movement this summer. In addition, the recent ODT reduction of space allocations for all commodities except ore and grain will expedite the movement of these two important items. Finally, completion of the new McArthur Lock, which is larger than either the Davis or Sabin Locks, will facilitate the movement of vessels at the Soo.

Retail sales at city and country department stores were one-fifth larger in May 1943 than in May last year. Only 34 stores reported a smaller volume of sales in May compared with 233 stores reporting increases. Merchandise stocks at city department stores increased more than seasonally during May and at the end of the month were the highest since last November. May 31 stocks, however, were far below the quantity of goods on hand on the same date last year. Much of the May increase in stocks was in piece goods and women's and children's clothing, including hosiery.

Country department store stocks declined slightly in May and were 20 per cent lower than on May 31 last year.

Sales at Department Stores

May 1943 Compared to May 1942

	Number of Stores Showing Increase	Number of Stores Showing Decrease	Percent May 1943 of May 1942	Percent Jan.-May 1943 of Jan.-May 1942
Total District	233	34	120	115
Mpls., St. Paul, Dul.-Sup.	21	1	121	115
Country Stores	212	33	120	114
Minnesota	63	7	117	112
Central	7	0	130	123
Northeastern	7	2	110	103
Red River Valley	5	0	125	123
South Central	17	1	121	119
Southeastern	11	1	110	109
Southwestern	16	3	119	112
Montana	37	4	123	120
Mountains	8	3	111	105
Plains	29	1	128	126
North Dakota	43	4	123	118
North Central	8	2	118	120
Northwestern	3	1	120	116
Red River Valley	17	0	121	117
Southeastern	13	1	130	117
R. R. V.-Minn. & N. Dak.	22	0	122	118
South Dakota	29	0	139	132
Southeastern	8	0	141	133
Other Eastern	13	0	136	128
Western	8	0	138	141
Wisconsin & Michigan	40	18	111	112
Northern Wisconsin	13	4	109	109
West Central Wisconsin	18	13	109	110
Upper Pen. Michigan	9	1	124	124

Furniture store stocks declined further in May and at the month-end were one-fourth smaller than a year ago. Sales in May were nearly as large as in April and were 22 per cent larger than in May 1942. Cash sales continued to show a much greater increase than credit sales. Collections were good in May, slightly larger than in April and nearly as large as in May last year despite a 40 per cent decline in total receivables.

Construction contracts awarded in this district during May, as reported by the F. W. Dodge Corporation, were little more than half as large as in May last year. Awards for public utilities showed some increase but this was more than offset by declines in residential and other building construction and public works.

Manufacturing employment in Minnesota set a new high record in May at 164 per cent of the 1936 base. Livestock slaughterings were a little higher than the low level of April but with the exception of hogs were far below the May 1942 volume. Hog slaughterings were up 31 per cent compared with May last year. Flour production and shipments from mills in the Ninth District were smaller in May than in April but a little larger than in May a year ago. Shipments of linseed oil continued to increase during May and exceeded 40 million pounds for the first time. Oil cake shipments, however, declined and were the smallest since last August. Lumber production in this district was about the same as in May last year.

BANKING

City member bank deposits continued to rise in May and reached a record peak on June 16 of $1,115 million, $5 million above the previous month and $353 million larger than a year ago. Investments in U. S. Government securities increased during the month ended June 16, 1943, to a total of $648 million, $402 million larger than a year earlier. Other investments were little changed from a month ago but were $3 million higher than a year ago. Loans to customers declined $5 million and were $55 million lower on June 16 than a year earlier. Most of the decline occurred in commercial, industrial and agricultural loans and "all other loans" which are largely consumer credit loans. Balances due from other banks on June 16 were $5 million lower than a month earlier and $50 million lower than a year ago. Reserve balances with the Federal Reserve Bank were $9 million higher on June 16 than a month earlier and $39 million higher than a year ago.

Country member bank deposits in the latter half of May were up $26 million over a month ago and $266 million above a year ago but earning assets were up only $3 million and $152 million respectively. Reserve balances during the last half of May averaged $101 million compared with $106 million for the last half of April and $74 million for the latter half of May 1942.

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

Daily Average Reserve Figures for Sixteen-Day Period Ending May 31, 1943

	Member Bank Reserve Deposits (000)	Required Reserves (000)	Excess Reserves (000)
Reserve City Banks	$125,747	$120,422	$ 5,325
Other City Banks	17,725	14,940	2,785
Total City Banks	143,472	135,362	8,110
Total Country Banks	101,048	69,297	31,751
Total Ninth District—1943	244,520	204,659	39,861
Total Ninth District—1942	171,154	102,552	68,602

AGRICULTURE

Farm cash income in the Ninth District during May continued at the same high level of recent months. Income from the sale of hogs in May, estimated to be $24 million, was about the same as for April, but was 65 per cent greater than in May a year ago. Dairy production, now approaching a seasonal peak, was about equal to that of a year ago. Even though the average production per cow was below May, 1942, the larger number of dairy cows on farms held dairy production at last year's level. However, higher dairy product prices boosted income from that source to a level 36 per cent above May 1942. The estimated income from the sale of nine important crop and livestock items was 37 per cent greater than a year ago, due principally to higher farm prices.

THE POSTWAR DAIRY INDUSTRY OF THE NORTHWEST

Many farmers engaged in agricultural pursuits today were also producing food to win the war in 1917 and 1918. There exists in their minds a very clear outline of developments during World War I when patriotic appeal and inflated farm prices stimulated farm output to new high levels. They remember also the collapse in 1920 that left many farmers insolvent or hopelessly in debt and which ushered in the unfavorable agricultural situation that pressed upon American farmers for most of two decades.

Farmers generally seek to avoid a recurrence of these developments. Yet, despite the danger of creating surplus farm productive capacity for the postwar period that may again raise havoc with the farm price structure, farmers have answered the call for greater production, and, in most instances, have satisfied the unprecedented war and civilian demands for farm foods.

Many individuals, farmers and non-farmers alike, now speculate on the probable agricultural developments following the present world conflict. Some observers unhesitatingly predict that our expanded farm program will create huge surpluses of farm products after the war that will again burden the American farmer. That we will have stocks of certain farm commodities in excess of domestic demands after the war is a foregone conclusion, but to view the postwar agricultural situation with utter despair fails to give proper consideration to international economic planning, which, we are told, is to be incorporated in the terms of the peace. It fails also to reflect the influence of the level of national income on the per capita consumption of farm products. Furthermore, such an attitude does not take cognizance of the differences between the agricultural expansion that occurred during World War I and World War II. Because the enormous quantities of foods purchased by the Government in times of war have a bullish effect on prices, the Government indirectly influences the type of products that farmers will produce. Large Government purchases of livestock and livestock products for the armed forces and for lend-lease in this war have served to stimulate a tremendous expansion of this type of farm output. This is in direct contrast to the situation that developed in World War I when "wheat would win the war." It is also true that the expansion of farm production in recent years has been obtained from existing farms, whereas in World War I thousands of acres of semi-arid prairie grazing lands were opened to crop production, much of which later proved unsuitable for this type of farming.

Consumers Prefer Certain Foods

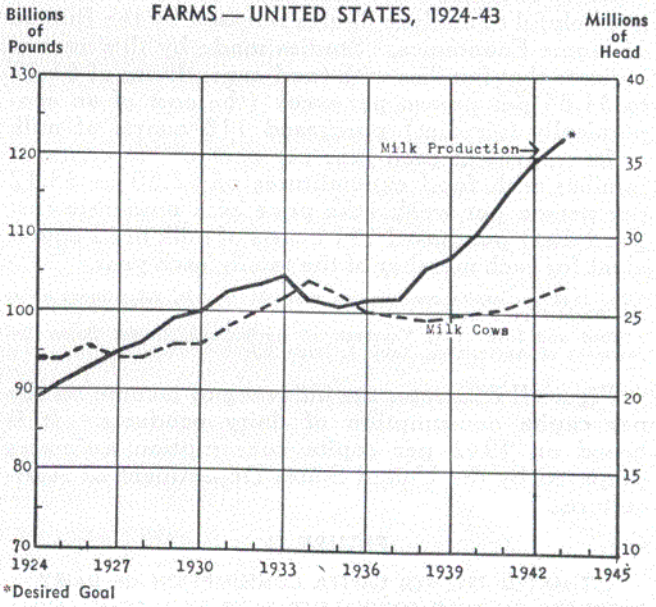
It is generally recognized that certain classes of foods possess "preference ratings" in the minds of most consumers. When funds are available to pay the higher price asked for butter, the housewife may replace lard with butter, even though lard is cheaper. Consumers moving up the income scale, as occurred in 1941 and 1942, increase their consumption of those foods that hold higher preference ratings—such as dairy products, beef, eggs and poultry, and citrus fruits. To illustrate the influence the level of national income may have on the nation's capacity to utilize products of the farm, this article deals with the dairy industry, since it is of greatest importance in Northwest agriculture.

Dairy Production Now at High Level

According to statistics released by the United States Department of Agriculture, the number of dairy cows on farms on January 1, 1943, totaled 26.9 million head, the largest number of dairy cows ever reported on farms in the United States. In addition to the secular growth in the number and size of dairy herds on farms in the United States, in the past the number of dairy cows on farms has tended to swing up and down in rhythmic cycles that reach a peak every twelve to fifteen years, the last peak in 1934. Since 1938 dairy herds have expanded steadily and we may soon reach the top of another cycle. In addition to the gradual increase in the number of cows milked, the average production per cow has steadily increased over a period of years so that total milk production is now at the highest level in history. In 1942 dairy farmers produced 119 billion pounds of milk and the 1943 goal calls for an output of 122 billion pounds. The trends of total milk production on farms and the number of dairy cows are illustrated in Figure I.

FIGURE I

NUMBER OF MILK COWS AND TOTAL MILK PRODUCTION ON FARMS — UNITED STATES, 1924-43



*Desired Goal

Some observers view these statistics on dairy production with alarm and predict that present dairy product prices, which have stimulated output to record levels, cannot be maintained in the postwar period and will collapse when war demands for dairy products no longer exist. They reason that at prevailing prices less dairy products will be taken by the civilian population, and when the Government is no longer a factor in the market, surpluses will accumulate to force prices downward. In this connection it is of interest to review the long-time trends of the per capita consumption of dairy products in the United States, and also to note the effect of the level of the national income upon the per capita consumption of these foods to determine how these factors may influence domestic consumption of dairy products. Reliable statistics are not available to show the per capita consumption of dairy products during World War I, but those estimates that are available plus a survey of such statistical series as milk production per cow, number of dairy cows on farms, and the total population in the United States, suggests that the per capita consumption of dairy products in the United States during the year 1917-21 averaged

about 780 pounds. The United States Department of Agriculture has prepared estimates of the per capita consumption of all dairy products on a milk equivalent basis from 1924 up to the present time. They estimated such per capita consumption during the years 1924-29 to have been about 807 pounds, or 3.5 per cent greater than the 1917-21 level. With slight variations this level of consumption prevailed through the middle thirties, but since 1938 there has been a tendency for the per capita consumption of dairy products to edge upward.

Since the per capita consumption advanced rather sharply in 1941 and 1942,[1] this abrupt change suggests that new forces are now affecting the nation's capacity to utilize dairy products. In this connection it is helpful to analyze figures released by the Bureau of Home Economics. Studies made by this agency indicate that families with food expenditure of $1.25 to $1.85 per person per week (the cost of an economically fair diet) purchased 118 quarts of milk or its equivalent each year per person. In contrast, families with food expenditures of $2.50 to $3.12 per person per week (the price of a moderate-cost good diet) purchased 191 quarts of milk or its equivalent for each member of the family each year.[2]

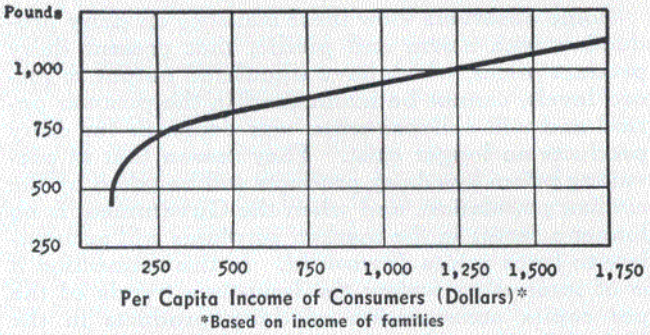
[1] The 1942 per capita consumption was 852 pounds, 9.2 percent above the World War I level.

[2] "Food and Life" 1939 Yearbook of Agriculture, United States Department of Agriculture, Table 5, Page 313.

Figure II illustrates the influence of income on the per capita consumption of dairy products. It is based on 1942 per capita consumption estimates prepared by the United States Department of Agriculture.

FIGURE II

ESTIMATED 1942 PER CAPITA CONSUMPTION OF DAIRY PRODUCTS ON MILK EQUIVALENT BASIS BY INCOME LEVELS



High Level of National Income Expands Consumption of Dairy Products

Since families apparently consume more dairy products as their incomes rise, a higher level of national income will create a greater national demand for dairy products. Since individuals in the low-income groups tend to move to higher income brackets as the national income expands, food expenditures will be increased and more protective foods, including dairy products, will be added to their diets.

A detailed study of 1935-36 consumer incomes in the United States by the National Resources Planning Board revealed a heavy concentration of wage earners in the low income brackets. One-third of the families and single individuals at that time received an annual wage of less than $780. For the year 1942 the Office of Price Administration prepared a similar frequency distribution of wage earners by income levels. A comparison of the 1935-36 and the 1942 distributions indicates a marked shift from the low brackets to higher levels of income. This means that more consumers are now included in those income classes that utilize, per capita, larger quantities of dairy products. This largely explains the sudden increase in the average per capita consumption of dairy products in the United States in recent years.

If we assume that families moved from the low income groups to higher levels of income adopt, on the average, the same habits of spending as those individuals already in that income group (which is not an unrealistic assumption—"keeping up with the Joneses"), the shift that occurred from 1935-36 to 1942 computed on the same number of consumers would have expanded the demand for dairy products by approximately 10 to 14 per cent. This increase was due solely to the expansion of the level of national income, which moved consumers into higher levels of income enabling them to purchase larger quantities of dairy products.

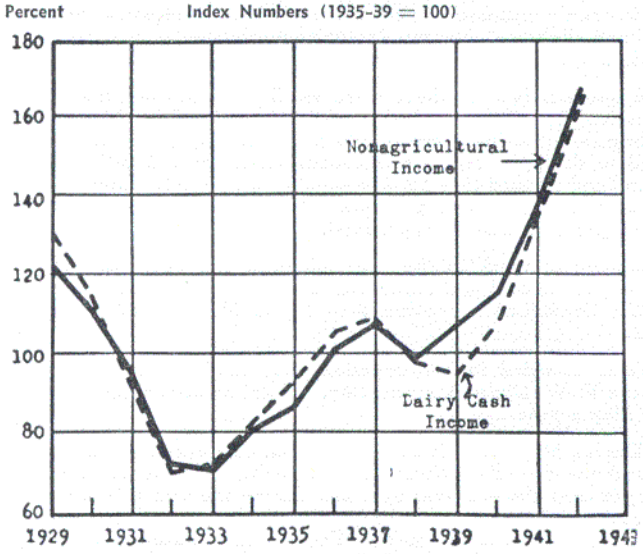
Nutrition Experts Recommend More Dairy Products

Another factor which may further stimulate the demand for milk and milk products grows from the recommendation of nutritional authorities. The relatively high 1942 per capita consumption of dairy products is below the level of consumption recommended by them, and in order to include adequate amounts of dairy products in "nutritionally good" diets of all consumers in the United States, they recommend that we consume on the average 10 to 20 per cent more dairy products than we consumed in 1942. If we project even the moderate 1942 level of consumption into some postwar year, say 1946, and assume a normal growth in population, we would then require an annual milk production of approximately 125 billion pounds to adequately meet domestic needs. However, the 1943 national income will exceed that of 1942 by 15 to 20 per cent. If this 1943 level of income were sustained through 1946, the demand for dairy products would be even higher. It therefore appears that the present level of milk production is short of the potential postwar domestic demands for these products, and that a level of production of something like 125 to 130 billion pounds will be required, provided, of course, that a high level of national income can be maintained. This proviso is extremely important and is clearly illustrated in Figure III where the indexes of non-agricultural income and the farmers' cash return from the sale of dairy products have been plotted.

The close correlation of the two series suggests that if city consumers' incomes can be stabilized at a high level, the dairy farmers' income will also attain some semblance of stability at a high level.

FIGURE III

INCOMES OF CITY PEOPLE[1] AND FARMERS' CASH INCOME FROM THE SALE OF DAIRY PRODUCTS[2]
UNITED STATES, 1929-42



[1]Index of total nonagricultural income—Survey of Current Business
[2]United States Department of Agriculture

Too Little Milk and Too Much Wheat

The existing concentration of the dairy industry in the Northwest suggests that a further expansion of this farm enterprise might profitably be undertaken by farm operators in this area. Farmers, instead of devoting their resources solely to the production of wheat to add to the chronic surpluses that normally exist, can well consider increasing their output of milk to satisfy the potential active demand for dairy products that is associated with a prosperous economy. Although there may be an outlet for our huge domestic production of wheat under war conditions, it has yet to be proved that wheat can compete economically with other carbonaceous grains as a commercial product after the war. Since it is obvious that our present domestic supply of milk is inadequate to meet the potential active demand resulting from a high level of national income, farmers in the Northwest might now be encouraged, wherever practicable, to diversify their farming operations, combining into a single plan of action a solution to the surplus wheat problem and the deficient supply of dairy products.

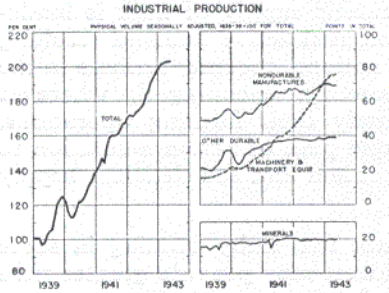
There is little doubt that dairy farming in some sections of the Northwest may provide greater risks than confront the dairy farmers in Minnesota and Wisconsin, but practically any type of farming is bound to be more hazardous in regions subject to drought than in those regions where rains occur regularly. Assuming then, that a risk is now involved in wheat farming in the Dakotas and Montana just as there would be with dairy farming proposed for the future, it resolves itself to a choice of alternatives for farmers operating in this area. Do farmers in this region wish to continue to grow a product not readily utilized by consumers in the United States, or would it be to their advantage to produce a product demanded by consumers that is not now provided in sufficient amounts to make available nutritionally good diets for our people? In the long run the latter may be expected to yield the most satisfactory solution of the problem, requiring more ingenuity and greater resourcefulness on the part of the farm operator.

Summary

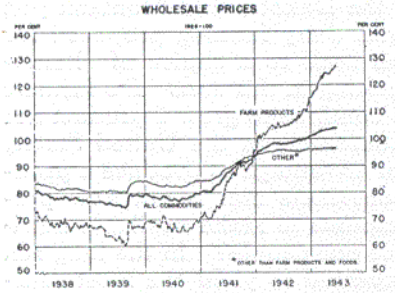
1. There exists an elastic demand for dairy products—consumers' purchases of milk, butter, cheese, etc., increase as their incomes rise.

2. A flourishing dairy industry in the Northwest is conditioned upon adequate consumer buying power. Farmers cannot be prosperous unless the people who buy their products are also prosperous.

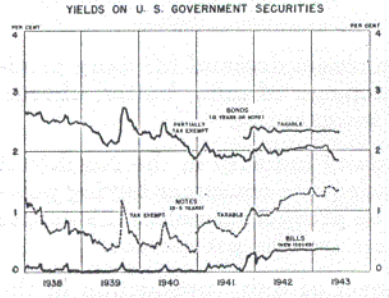
3. The present level of dairy production in the United States is inadequate to satisfy the active domestic demand created by a high level of national income.



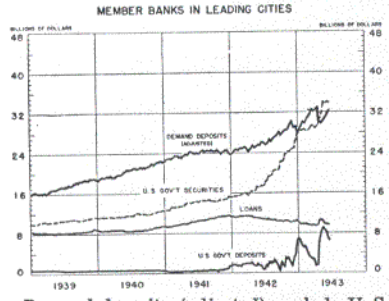
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for May 1943.



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending June 12, 1943.



Averages of daily yields on notes and bonds and average discount on bills offered. Bills are tax-exempt prior to March 1941, taxable thereafter. Weekly figures, latest shown are for week ending June 19, 1943.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for June 16, 1943.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 23, 1943

Industrial activity and retail trade were maintained in large volume during May and the early part of June. Retail prices, particularly foods, increased further in May.

PRODUCTION: Total volume of industrial production, as measured by the Board's seasonally adjusted index, remained in May at the level reached in April. Activity in munitions industries continued to rise, while production of some industrial materials and foods declined slightly. Aircraft factories established a new record in producing 7,000 planes in May.

In most nondurable goods industries there were small increases or little change in activity. Meat production, however, reached a record high level for May reflecting a sharp advance in hog slaughtering. Seasonally adjusted output of other manufactured foods continued to decline. Newsprint consumption showed little change, and publishers' stocks declined further to a 50-day supply on May 31. Consumption for the first five months of 1943 was only 5 per cent below the same period in 1941, whereas a reduction of 10 per cent had been planned.

The temporary stoppage of work in the coal mines at the beginning of May brought production of bituminous coal and anthracite down somewhat for the month. Iron ore shipments on the Great Lakes continued to lag in May behind the corresponding month of 1942.

The value of contracts awarded for construction continued to decline in May, according to reports of the F. W. Dodge Corporation. Total awards were about 65 per cent smaller than in May a year ago.

DISTRIBUTION: During May the value of sales at department stores decreased more than seasonally, and the Board's adjusted index declined 5 per cent. Sales, however, were about 15 per cent above a year ago, and during the first five months of this year showed an increase of 13 per cent over last year. In general, the greatest percentage increases in sales have occurred in the Western and Southern sections of the country where increases in income payments have been sharper than elsewhere.

Freight-car loadings advanced seasonally in May but declined sharply in the first week in June, as coal shipments dropped 75 per cent from their previous level, and then recovered in the second week of June as coal production was resumed.

COMMODITY PRICES: Prices of farm products, particularly fruits and vegetables, advanced during May and the early part of June, while wholesale prices of most other commodities showed little change.

Retail food prices showed further advances from the middle of April to the middle of May. On June 10 maximum prices for butter were reduced by 10 per cent and on the 21st of the month retail prices of meats were similarly reduced, with Federal subsidy payments being made to processors.

AGRICULTURE: Prospects for major crops, according to the Department of Agriculture, declined during May while output of livestock products continued in large volume, as compared with earlier years. Indications are that acreage of crops may not be much below last year but that yields per acre will be reduced from the unusually high level of last season.

BANK CREDIT: Excess reserves at all member banks declined from 2 billion dollars in early May to 1.5 billion in the latter part of the month and remained at that general level through the first half of June. As the Treasury expended funds out of war loan accounts which require no reserves, the volume of deposits subject to reserve requirements increased and the level of required reserves rose by 600 million dollars in the four weeks ending June 16, while continued growth of money in circulation resulted in a drain on bank reserves of 400 million dollars. These reserve needs were met in part by Treasury expenditures from balances at the Reserve Banks and in part by Federal Reserve purchases of Treasury bills. Reserve Banks continued to reduce their holdings of Treasury bonds and notes in response to a market demand for these issues.

During the four weeks ending June 16, Treasury bill holdings at member banks in 101 leading cities fluctuated widely, reflecting primarily sales and repurchases on option account by New York City banks in adjusting their reserve positions. Holdings of bonds and notes declined somewhat while certificate holdings increased. Loans to brokers and dealers in securities declined sharply during the period, as repayments were made on funds advanced for purchasing or carrying Government securities during the April War Loan Drive. Commercial loans continued to decline.

Government security prices advanced during May following the close of the Second War Loan Drive, but in the early part of June there were small declines.