MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

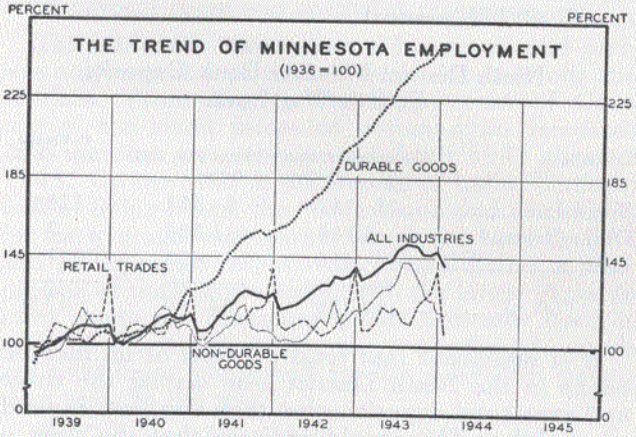
Vol. 8 (Serial No. 27) **Federal Reserve Bank, Minneapolis 2, Minn.** **March 31, 1944**

February index of city department store sales averaged 10 percent below a year ago. City member bank deposits declined $36 million from a month ago and deposits of country member banks rose by the same amount. February cash farm income in the Ninth District averaged 28 percent above a year ago and 34 percent higher than February average from 1940-44.

We wish to urge all Monthly Review subscribers who have not done so, to send us their address information as requested in the February issue.

Employment Trends

The trend of employment among the various industries since the war began provides an indication of the nature of the expansion in the economy. During January of this year, there were nearly 50 percent more individuals employed in Minnesota's urban areas than during the corresponding month of 1939. Most of the increase in employment, as may be observed from Chart I, has been concentrated in the durable goods industries, which are now producing the war materials. Over 80 percent more individuals were employed in concerns producing durable goods in January of this year as compared with the same month of 1939. The employment in the nondurable industries, on the contrary, has increased less than 25 percent. The expansion in the retail trades, in spite of the large increase in dollar volume, has been very small—only 7 percent. The differential expansion among the various industries provides a realistic picture of the present war economy and of the relocation necessary after the war is over to produce civilian goods and services.



With the cancellation of war contracts, the shortage of manpower has decreased. According to studies made by the War Manpower Commission, a surplus of labor exists in most Minnesota industrial areas. However, an increase in the rate of withdrawals from industry for the armed forces may deplete the surplus rapidly. In the past large numbers of workers from Minnesota as well as the surrounding states have been cleared through the United States Employment Service offices for war projects on the West Coast, in Alaska, in Canada and many other places. It is anticipated that this flow of workers out of the Ninth District will continue for some time, for there is still a substantial wage differential.

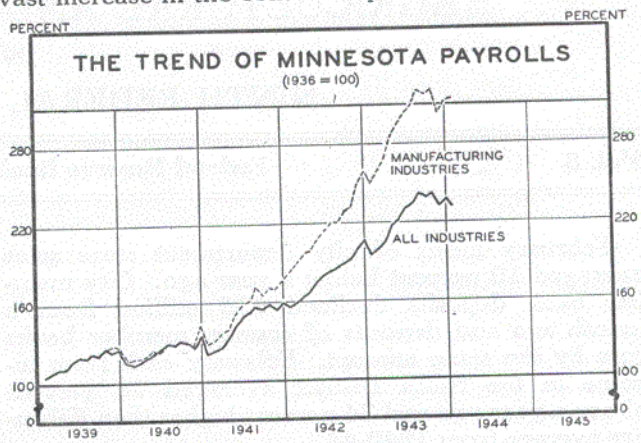
In the Twin City area, as well as over the State as a whole, the supply of labor, in terms of the number of employable individuals, tends to equal or exceed the anticipated demand for workers during the coming summer months. However, most of the available laborers are women whose skill is limited to tending automatic or semi-automatic machines, while the demand is primarily for men with special skills. Thus, in some instances industrial employers must change their job specifications to provide more openings for women if they wish to expand their labor force or even maintain their present force.

If a surplus of labor continues to exist in this area, the production of more civilian goods may be resumed. The War Production Board has adopted a measure which permits additional production of civilian goods in areas where a surplus of manpower exists over and above the needs of the war plants. However, large-scale reconversion to civilian production will not be permitted until Germany is defeated or near defeat.

Farmers are in need of year-round workers. There was a shortage of such workers last year and the shortage still prevails. With the reduction in the production of war materials (for example, some munition plants already are being shut down), the farm labor force may be augmented by industrial

workers. According to the Department of Agriculture, an effort will be made to encourage experienced farm workers to return to the farms as they are laid off in war plants. Furthermore, with the recruiting of part-time workers and under-age youths during the summer months, it is estimated that the 1944 production goals can be achieved.

With the increase in employment, payrolls have doubled and tripled since the beginning of the war. The total payroll in Minnesota industries during January of this year, as may be observed on Chart II, was 120 percent larger than during the first month of 1939. In the manufacturing industries with the rapid expansion in employment, the higher wage rates and much time and one-half paid for overtime has more than tripled the payrolls of such concerns. This is one of the major sources of the vast increase in the consumer purchasing power.



Fourth War Loan

The record of the Fourth War Loan can on the whole justifiably be a source of satisfaction to those participating in the drive for funds. This is particularly true in the Ninth Federal Reserve District where the four full states were among the first six in the entire country to achieve their quotas. Final tabulations showed that subscriptions from all investors in the country amounted to $16,734 million, 20 percent over the quota of $14 billion.

Subscriptions from corporations and other nonindividual investors accounted for $11.4 billion or 68.5 percent of the total of all subscriptions. Their relative participation in the Fourth War Loan was thus somewhat below that of the last drive when these nonindividual subscribers accounted for about 71 percent of total subscriptions.

Individuals on the other hand took 31.5 percent of total subscriptions compared with 29 percent in the Third War Loan. For Series E War Savings Bonds the total quota set was $3 billion and subscriptions amounted to $3,202 million, 6 percent above the quota. This is particularly significant because these are the bonds which tend to be purchased by consumers in the middle and lower income groups where the bulk of the aggregate dollar increase in consumers' income is presumed to have occurred during the war. To the extent that consumers purchase these bonds they tend to remove some of the pressure of this excess purchasing power competing for goods and at the same time improve their financial position for contingencies which may arise in the future.

Series E War Savings Bonds
Fourth War Loan

	Quota	Sales	% Sales to Quota
	(Millions of Dollars)		
U. S. Total	$3,000	$3,187	106%
Minnesota	64	72	113
Montana	12	17	142
North Dakota	11	20	181
South Dakota	12	17	144

The record for the States in the Ninth District was above that for the nation as a whole as is indicated by the accompanying tables. All four States went over their quotas for total subscriptions and for subscriptions to Series E Savings Bonds by a substantially larger proportion than was true for the nation as a whole. North Dakota with an over-subscription of 53 percent by all investors was exceeded by only one other State (Mississippi) in the proportionate amount by which it went over its quota, and it exceeded its Series E War Savings Bond quota by 81 percent, topping the entire country.

The most important effect of the Fourth War Loan on Ninth District member banks was the large increase in the war loan accounts of the U. S. Government with the commercial banks which accompanies each drive. At the beginning of the Fourth War Loan on January 17, these deposits were $157 million at all member banks in the district. By February 15, the end of the Fourth War Loan except for Series E War Savings Bonds, these deposits had expanded to $357 million, an increase during the month of 128 percent.

Ninth District Member Bank Deposits
Fourth War Loan

Deposits	January 17, 1944	February 15, 1944	% Change 1-17 - 2-15
	(Millions of Dollars)		
War Loan	$ 157	$ 357	128%
Other Demand	1,768	1,884	7
Time	455	459	1
TOTAL	$2,380	$2,700	13%

It is significant that total deposits of all member banks in the Ninth District rose during the drive, and even total deposits other than war loan expanded slightly. This would indicate that the flow of funds into these banks from elsewhere plus the increase of deposits by lending to customers more than compensated for the shift of funds from

accounts of individuals and businesses to the Treasury's war loan accounts.

Banks were not allowed directly to participate in the drive although they were allowed to purchase small amounts of certain securities not counted as part of Fourth War Loan quotas. The reporting city banks in this District did add to their portfolios about $47 million of securities, 90 percent of which were certificates of indebtedness, Treasury bills, and Treasury notes in about equal amounts. Loans extended by these banks for carrying securities also increased more during the month of the drive than for any corresponding period, including the Third War Loan. The absolute dollar amount of the increase ($10 million) was still not large.

Sales and Quotas in Fourth War Loan

(DOLLARS IN MILLIONS)

	Individuals			Businesses			All Investors		
	Quota	Sales	% Sales to Quota	Quota	Sales	% Sales to Quota	Quota	Sales	% Sales to Quota
U. S. Total	$5,500	$5,324	97%	$8,500	$11,410	134%	$14,000	$16,734	120%
Minnesota	104	102	98	96	186	194	200	289	144
Montana	20	22	110	11	20	180	31	42	135
North Dakota	17	24	139	7	13	188	24	37	153
South Dakota	17	21	123	11	19	175	28	40	144

Consumer Expenditures, 1941-1943

With the rise in consumer income in the United States, expenditures have increased by a smaller, but nevertheless substantial, amount. The income paid individuals rose from $92.2 billion in 1941 to $141.9 billion in 1943. Expenditures for consumer goods and services rose from $74.6 billion to $90.9 billion over the same period.

A large share of the additional expenditures have been made for nondurable goods. During 1943 as compared with 1941, civilians spent 50 percent more for clothing, 41.7 percent more for food and beverages, and 27.3 percent more for tobacco. A marked decrease in consumer expenditures has occurred for durable goods due to the priority rating placed on some commodities and the limited supply of others on the market. For instance, the amount spent for automobiles and parts in 1943 was almost 85 percent less than in 1941.

The expenditures incurred for services over the same time have increased decidedly. As may be observed in the following table, 26.9 percent more was spent for transportation in 1943 than in 1941, 36.8 percent more was spent for recreation, etc.

The additional expenditures for goods and services only in part represent more consumer goods and services. According to the Department of Commerce, the retail prices of commodities increased 23.7 percent over the period from 1941 through 1943. On the basis of the Bureau of Labor Statistics cost of living index, the cost of food and of clothing for the average wage-earner family has risen by 30.8 and 22.0 percent respectively. Nevertheless, a comparison of these percentages with the larger expenditures made for consumer goods indicates that, in spite of the rise in prices, more nondurable goods are now being consumed by the American people than prior to the war.

An Office of Price Administration study on the distribution of income reveals that 66.6 percent of the total national income in 1942 was received by individuals with an actual money income of less than $5,000. A large share of the rise in national income has been enjoyed by individuals in the lower income brackets. Since many individuals with low incomes can now buy more food and clothing than before the war, there is less available for those accustomed to buying all they want. This situation alone has necessitated the rationing of some commodities to insure an equitable distribution. As a result, more families now enjoy a standard of living above a certain norm than was the case during the thirties.

Consumer Expenditures for Major Groups of Goods and Services*

	1941	1942	1943	Percent Change from 1941 to 1943
	(Billions of Dollars)			
Nondurable Goods:				
Food and beverages	$22.3	$27.6	$31.6	+41.7%
Clothing & related prod.	8.4	10.5	12.7	+50.0
Tobacco	2.2	2.5	2.8	+27.3
Gasoline and oil	2.4	2.0	1.6	—33.3
Other nondurables	4.7	5.4	6.5	+38.3
Total	40.1	48.0	55.2	+37.7
Durable Goods:				
Furniture, furnishings & equipment	$ 4.3	$ 4.1	$ 3.8	—11.6%
Automobiles and parts	3.3	.5	.5	—84.8
Other durables	1.5	1.8	2.2	+46.7
Total	9.1	6.4	6.5	—28.6
Services:				
Housing, excl. depreciation	$ 7.4	$ 7.8	$ 8.0	+ 8.1%
Home maintenance	1.5	1.8	1.9	+26.7
Household utilities	2.4	2.6	2.8	+16.7
Personal services	1.8	2.0	2.3	+27.8
Transportation	2.6	3.0	3.3	+26.9
Medical care	3.0	3.3	3.5	+16.7
Recreation	1.9	2.3	2.6	+36.8
Other services, incl. gifts	4.7	4.9	5.0	+ 6.4
Total	25.4	27.6	29.2	+15.0
Grand Total	74.6	82.0	90.9	+21.8

* *Source: U. S. Department of Commerce. Figures may not add to totals because of rounding.*

BUSINESS

The dollar volume of department store sales in the Ninth District for the first two months of this year averaged 3 percent above those for the corresponding months of a year ago. In February the sales fell slightly below the figure for last year with one more business day. The decline in sales over the previous year does not foreshadow a leveling-off or a downward trend in retail sales. February 1943 was an all-time peak for department store sales. In that month the announcement of shoe rationing touched off a strong buying wave, particularly in clothing, as a result of fears that rationing might be extended to other wearing apparel. The sales in the District were 82.3 percent above the 1935-39 average. They were also 26.8 percent above the preceding January and 28.5 percent above the following March after an adjustment was made for the normal monthly variation.

Sales at Department Stores

	Number of Stores shewing Increase	Decrease	% Feb. 1944 of Feb. 1943	% Jan.-Feb. 1944 of Jan.-Feb. 1943
Total District	180	111	98	103
Mpls., St. Paul, Dul.-Sup.	6	15	93	99
Country Stores	174	96	104	108
Minnesota	50	22	105	108
Central	7	2	115	118
Northeastern	4	3	98	97
Red River Valley	5	0	119	113
South Central	9	9	104	111
Southeastern	8	5	100	101
Southwestern	17	3	104	110
Montana	25	15	102	106
Mountains	6	4	96	96
Plains	19	11	105	111
North Dakota	42	7	117	122
North Central	9	1	114	127
Northwestern	4	1	114	128
Red River Valley	15	2	119	119
Southeastern	12	3	116	121
Southwestern	*	*	–	–
R. Riv. Val.-Minn. & N. D.	20	2	119	118
South Dakota	18	30	102	110
Southeastern	5	8	100	106
Other Eastern	11	16	106	114
Western	2	6	96	106
Wisconsin and Michigan	39	22	100	102
Northern Wisconsin	11	6	110	107
West Central Wisconsin	22	10	102	105
Upper Penn. Michigan	6	6	88	91

* Not shown, but included in totals. Insufficient number reporting.

Retail trade, as measured by department store sales, tends to fluctuate significantly among different areas. For the first two months of this year the department store sales in North Dakota averaged 22 percent above those of a year ago, while the sales in Wisconsin and Michigan were only 2 percent above the former year's receipts. The States of South Dakota, Minnesota and Montana fall in between the extremes with increases of 10, 8 and 6 percent respectively. The urban areas of Minneapolis, St. Paul, Duluth and Superior were below the average for the District, while the country stores reported a gain above the former average. The differential rise in consumer incomes among the different areas and migration of workers no doubt accounts for much of the fluctuation in retail sales.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	Feb. 1944	Jan. 1944	Feb. 1943	Feb. 1942
Bank debits—93 cities	229	225	175	151
Bank debits—farming centers	235	227	184	160
City department store sales	172	155	192	139
City department store stocks	134	148	121	133
Country department store sales	152	166	172	146
Country lumber sales	214	169	196	194
Miscellaneous carloadings	150	153	135	147
Total carloadings (excl. misc.)	110	104	96	114
Farm prices—Minn. (unadj.)	165	165	163	130
Employment—Minn. (unadj. 1936=100)	140	141	135	119
Payrolls—Minn. (unadj. 1936=100)	231	230	199	159

BANKING

City member bank deposits in the Ninth District declined $36 million during the month relative to the middle of February. On March 15 their total deposits were $1,266 million as compared with $1,302 million a month earlier and $1,030 million a year ago. The decline in deposits during the month was matched by a corresponding decline in holdings of government securities and other investments of $14 million, loans to customers (largely commercial, industrial, and agricultural loans) of $10 million and a decline in balances held with other banks of $7 million.

Reserves carried with the Federal Reserve Bank rose by $4 million during the month and excess reserves declined by $1.3 million. The explanation for a decline in excess reserves with a decline in total deposits and an increase in reserves carried at the Federal Reserve Bank (two movements which would normally increase excess reserves) arises out of two factors. First, war loan accounts, which during the month of the Fourth War Loan increased $145 million at these banks, declined by $56 million as the Treasury drew out these funds for federal expenditures. As these funds were drawn out from war loan accounts and were returned to the banks as deposits of individuals and businesses, they were in effect transferred from deposit balances which do not require reserves (war loan accounts) to deposit balances which do require reserves (accounts of individuals and businesses). Second, a decline of balances held with other banks results generally in larger required reserves since these balances are deducted from total deposits before calculating reserve requirements. The movements in war loan balances, so long as the war continues and Treasury financing operations are of necessity large, will be important in determining the volume of excess reserves.

Country member bank deposits averaged $1,070 million during the last half of February, $36 million above the previous month's average. This average for the last half of February was $246 million above total deposits for a year ago. Reserves held with the Federal Reserve Bank remained at the same level as a month ago and excess reserves were about $2 million higher. Funds available for earning assets were down by $9 million but were still $118 million above a year ago.

The reserve position of all Ninth District member banks for the last half of February is indicated by the following table:

Daily Average Reserve Position for All Ninth District Member Banks for the Fourteen-Day Period Ending February 29, 1944

Type of Bank	Avg. Reserves Carried (000)	Avg. Reserves Required (000)	Avg. Excess Reserves (000)
Reserve City Banks	$138,851	$135,118	$ 3,733
Other City Banks	19,993	18,261	1,732
Total City Banks	158,844	153,379	5,465
Total Country Banks	124,100	87,825	36,275
Total Ninth District–1944	282,944	241,204	41,740
Total Ninth District–1943	266,033	226,769	39,264

AGRICULTURE

Farmers' cash income in the Ninth District during the month of February was 28 percent higher than the corresponding month a year earlier and it was about 34 percent higher than the February five-year average (1940-44). Cash income from hogs registered the largest increase—68 percent more than in February 1943. This is a result primarily of increased sales of hogs. Sales of sheep and lambs, dairy products and rye were less than a year earlier and consequently cash income from these commodities was lower than a year earlier.

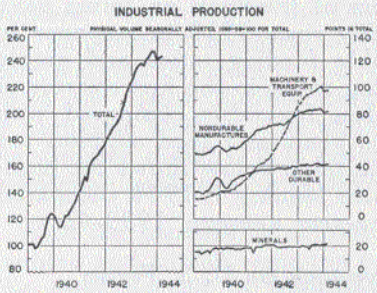
Prices received by farmers in the United States in mid-February were reported by the U. S. Department of Agriculture at 195 percent of the August 1909-July 1914 average. This "prices-received" index is eleven points higher than a year earlier but is about one point below the previous month. The meat animal price index was reported to be five points higher than in mid-January despite slightly lower prices for milk, chickens, eggs and wool. The crop price index was slightly lower in February.

The number of livestock on farms increased again in 1943 and was at an all time peak, according to information furnished by the U. S. Department of Agriculture. Numbers of livestock on farms have been increasing steadily since 1938 in response to higher prices, favorable feeding ratios and ample feed supplies. Feeding ratios in the first quarter of 1944 are generally less favorable compared with the past two or three years and feed supplies are relatively scarce. The table below shows the number of livestock on farms January 1, 1944, compared with 1943 and the ten-year average, 1933-42.

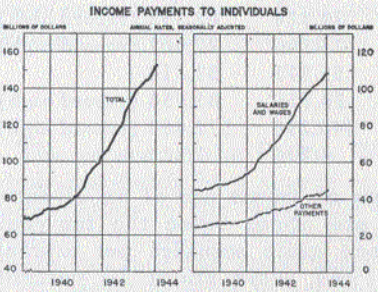
Number of Livestock on U. S. Farms on January 1

Class	1933-42 Average	1943 (Thousands of Head)	1944
Horses	11,133	9,675	9,330
Mules	4,409	3,704	3,559
Cattle (All)	69,354	79,114	82,192 (record high)
Milk Cows	25,466	27,106	27,607 (record high)
Sheep	52,669	55,775	51,718
Hogs	51,616	73,736	83,756 (record high)
Chickens	424,011	540,798	572,460 (record high)
Turkeys	6,678	6,704	7,520

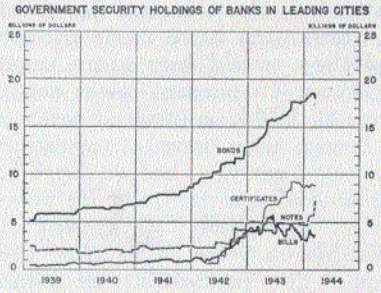
Beef cattle numbers on farms are at an all-time high. Cattle prices are about twice the ten-year prewar average. Feed grain supplies per animal unit on January 1, 1944, were about 20 percent less than a year earlier and were below that of any year since 1938. Some liquidation of cattle numbers are in prospect during 1944 with the extent of liquidation depending upon feed production and pasture conditions this summer. As is evidenced by the need of meat rationing, the demand for beef exceeds the supply. Consumers have more money than ever before and they would buy more meat if it were available. About 16 percent fewer cattle were on feed January 1, 1944, compared with a year earlier and a larger than usual proportion are expected to be marketed early, or before April 1. Beef slaughter in the second quarter may be relatively small. Prices of practically all grades of slaughter cattle in mid-March were at or near the practical price ceilings. The probability of some cattle liquidation this fall plus the usual seasonal increase in marketings will tend to ease the beef supply situation to some extent during the third and fourth quarters this year. Reducing indebtedness, shaping up the ages of the cow herd, and culling out old and undesirable types of cows are desirable this year for two reasons: first, to furnish more beef this year; and second, to establish a more normal relationship between livestock numbers and the feed supply. The seasonal high price for cull stock, stockers and feeders and the common grades of slaughter cattle usually comes in the spring of the year.



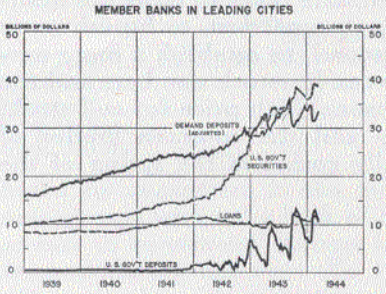
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for February 1944.



Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for February 1944.



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for March 15, 1944.



Demand deposits (adjusted) exclude U. S. Government and inter-bank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for March 15, 1944.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MARCH 25, 1944

Industrial activity was maintained at a high level in February and the early part of March. Commodity prices and retail sales showed little change.

INDUSTRIAL PRODUCTION: Output at factories and mines was at about the same rate in February as in January and the Board's seasonally adjusted index advanced 1 point to 243 per cent of the 1935-39 average.

Steel production continued to advance in February and in the first three weeks of March. Output of nonferrous metals showed little change as curtailment of aluminum production offset increases in output of other metals. Magnesium production was ordered curtailed, beginning in March, by approximately 3,000,000 pounds per month or 7 per cent of January output. Activity in the machinery, transportation equipment and other durable goods industries showed little change from January to February.

Output of textile products was maintained at the January level and production of most manufactured food products declined less than is usual at this season. Butter and cheese production continued to increase seasonally in February. The volume of hogs slaughtered under Federal inspection declined 6 per cent from the exceptionally high January level; a much larger decline is usual in this month. Chemical production continued to decline as output of small arms ammunition and explosives was further curtailed.

Fuel production rose slightly in February to a level 10 per cent above the same month last year. Output of bituminous coal and crude petroleum was maintained at a high level, and anthracite coal production increased 19 per cent as a result of a seven-day work week in effect for the month of February.

DISTRIBUTION: Total retail sales in February continued about as large as in January and exceeded somewhat the volume of a year ago. At department stores, sales in February were about 10 per cent smaller than last year when there was a buying wave in clothing. During the first three weeks of March department store sales exceeded the volume of a year ago, reflecting in part the earlier date of Easter this year.

Freight carloadings, after allowance for seasonal changes, were maintained during February and the first two weeks in March in the unusually large volume reached in December and January.

COMMODITY PRICES: Prices of cotton and livestock increased somewhat from the middle of February to the middle of March while most other wholesale commodity prices showed little change.

Retail food prices declined 1 per cent from mid-January to mid-February owing chiefly to seasonal decreases in prices of eggs and citrus fruit. Retail prices of most other goods and services advanced slightly.

BANK CREDIT: During the latter part of February and the first half of March the average level of excess reserves at all member banks fluctuated around one billion dollars. Member bank reserve requirements increased by about 400 million dollars as the result of private deposit expansion which, in turn, was the result of Treasury disbursements from war loan accounts which require no reserves. Money in circulation increased 400 millions and the gold stock declined by 130 millions. Funds to meet these demands were supplied by additions to Reserve Bank security holdings and a temporary decline in Treasury deposits at the Reserve Banks. In the four weeks ended March 15, Government security holdings of the Federal Reserve Banks rose by 720 million dollars, reflecting mainly substantial increases in bill holdings under repurchase option; note and certificate holdings also increased.

At reporting member banks in 101 leading cities Government security holdings declined by 540 million dollars during the four weeks ended March 15. Holdings of notes rose by 1.5 billion dollars while bonds and guaranteed obligations declined as the result of an exchange of maturing and redeemable issues for a new 1½ per cent note issue. Holdings of bills also declined, reflecting principally sales to the Reserve Banks. Loans to brokers, dealers, and others for purchasing or carrying Government securities, which had increased moderately during the Fourth War Loan Drive, fell by 340 million dollars in the following four weeks. Commercial loans also declined somewhat.

Adjusted demand deposits rose by 1.9 billion dollars during the four weeks ended March 15, representing a gain of more than half of the funds withdrawn from such accounts during the drive. Government deposits at these banks fell by 2.6 billion dollars in the month following the drive.