MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 7 (Serial No. 262) **Federal Reserve Bank, Minneapolis, Minn.** **October 29, 1936**

DISTRICT SUMMARY OF BUSINESS

The grain crop failure and the flour mill and other strikes seriously curtailed certain lines of business in the district during September, but retail and wholesale trade were only slightly affected by these adverse factors. Country lumber yards reported the best single month's business since the spring of 1930. City department store sales on a seasonally adjusted basis equalled their previous recovery peak which was reached in June, 1936. Rural general stores and most wholesalers reported increases in business over last year's volume. On the other hand, the adjusted index of bank debits, which is especially sensitive to the volume of grain trade during the autumn months, dropped from 86 in August to 68 in September, and the country check clearings index dropped from 155 to 137. Smaller decreases occurred in the miscellaneous and l.c.l. carloadings indexes.

Northwestern Business Indexes

(Varying base periods)

	Sept. 1936	Aug. 1936	Sept. 1935	Sept. 1934
Bank Debits—94 Cities	68	86	70	61
Bank Debits—Farming Centers	84	90	75	64
Country Check Clearings	137	155	129	107
Department Store Sales	88	85	77	75
Country Lumber Sales	101	85	77	68
Miscellaneous Carloadings	83	85	73	65
L.C.L. Carloadings	60	65	60	60

As compared with September last year, the expected decrease occurred in marketings of grain. Only one-tenth as much bread wheat arrived at market as was received in September a year ago. Butter production was 9 per cent smaller in September than in the same month last year as a result of bad pasture conditions. On account of a strike, flour production was less than half as large as in September last year. Wholesale grocery sales were also reduced by strikes. Counteracting these decreases was a wide range of increases in business volume over last year. Increases reported were in electric power consumption, freight carloadings, real estate activity in Hennepin and Ramsey counties, copper and iron ore shipments, livestock marketings, country lumber sales, wholesale hardware trade, and retail trade as described below.

Building permits in September were 75 per cent above September last year, but building contracts were 13 per cent lower than a year ago due to a sharp reduction in public works contracts. Large gains over September last year were reported in commercial, industrial, religious, residential, and public utility contracts.

Retail trade, both in the larger cities and in the rural areas, was larger in September than a year ago. City department stores reported an increase of 13 per cent and three hundred and sixty-four country general stores reported an increase of 14 per cent. Central and northern Minnesota and western Montana experienced increases of one-fourth over last year's volume, and every other sub-division of the district reported an increase with the exception of north central North Dakota and western South Dakota, where minor decreases occurred.

Retail Trade		% September, 1936 of September, 1935
Mpls., St. Paul, Duluth-Superior	(21 stores)	113
Country Stores	(364 stores)	114
Minnesota—Central	(16 stores)	125
Minnesota—Northeastern	(7 stores)	126
Minnesota—Red River Valley	(9 stores)	125
Minnesota—South Central	(26 stores)	115
Minnesota—Southeastern	(19 stores)	114
Minnesota—Southwestern	(30 stores)	113
Montana—Mountain	(19 stores)	123
Montana—Plains	(34 stores)	110
North Dakota—North Central	(12 stores)	96
North Dakota—Northwestern	(3 stores)	111
North Dakota—Red River Val.	(25 stores)	105
North Dakota—Southeastern	(23 stores)	112
South Dakota—Southeastern	(15 stores)	109
South Dakota—Other Eastern	(49 stores)	117
South Dakota—West River	(9 stores)	99
Northern Wisconsin and Mich.	(32 stores)	113
West Central Wisconsin	(36 stores)	113
Ninth District	(385 stores)	113

DISTRICT SUMMARY OF BANKING

Loans to customers reported by city member banks continued their seasonal increase during the four weeks ending October 14, but on that date they were about 3 per cent smaller than a year ago at this time. Investment holdings of these banks rose slightly during the four weeks and were 20 per cent larger than a year ago. These increases in loans and investments were accompanied by an increase in deposits amounting to 9 million dollars for the four weeks and 37 million dollars for the year. Cash and balances due from banks showed very little change as compared with four weeks ago or a year ago.

Country member banks reported a slight decrease of less than 1 per cent in their deposits between the second half of August and the second half of September. This is contrary to the seasonal movement and can be explained by the absence of the usual cash inflow from the grain crop.

DISTRICT SUMMARY OF AGRICULTURE

Farmers' Cash Income

Farmers' cash income in the district was higher than a year ago during August but in September, due to the lack of small grain marketings, farm income fell far below the figures for the corresponding period last year. Complete government estimates for August show that the farm income in the four states was $58,773,000 including government rental and benefit payments. A year ago in August, the total was $50,919,000. This was an increase of 15 per cent for the four states with Minnesota gaining 44 per cent and South Dakota gaining 14 per cent, while Montana and North Dakota showed decreases.

The September estimates of this office covering cash income in the district from the sale of seven items totaled about $32,000,000 as compared with $58,000,000 from the same sources in September last year. This was a decrease of almost one-half, due entirely to reduced marketings of wheat, rye, and flax. The income from hogs was more than twice as large in September as a year ago, and the income from dairy products and potatoes also showed an increase. These figures do not include estimates of government rental and benefit payments. It is probable that when the final government figures for September are issued, they will not show as great a decrease as our estimates which are based on a limited number of products. High prices for grains have caused the marketing of an unusually large proportion of the feed crops, notably barley. Many elevators in central Minnesota have had the experience of receiving more barley this year than in any other year during the last twenty.

The farm price index of the University of Minnesota rose 2 points during the month ending September 15 and stood at 99 (1924-5-6=100). A year ago the index was 74.

Crops

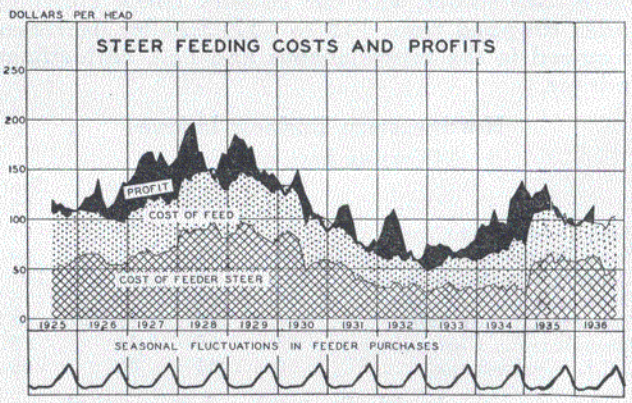
October 1 crop estimates for the Ninth Federal Reserve District were practically unchanged from those of a month earlier except for a 5 per cent increase in the potato estimate because of unusually favorable September weather and a 5 per cent decrease in the spring wheat estimates as a result of more complete information in regard to the drouth and hopper damage. Corn prospects were also improved by the favorable weather and the October 1 estimate was 2½ per cent larger than that of September 1, but was only 46 per cent as large as the 1935 production.

LIVESTOCK AND LIVESTOCK PRODUCTS

Receipts of cattle and calves at South St. Paul during September were more nearly normal owing to a large decrease in the volume of drouth-forced marketings and an increased local feeder and stocker demand as a result of the improvement in next year's outlook for grass. Prices for all classes of cattle and calves recovered from the low level of August but, with the exception of butcher cows and heifers, and heavy butcher steers, were lower than in September last year. During the first half of October receipts of cattle continued at about the same level as in September but the decline in the average condition and quality of receipts resulted in lowering price ranges.

Shipments of feeder cattle from South St. Paul increased seasonally during September but were smaller than in the same month last year. Demand for stocker and feeder cattle was rather broad throughout the month because of the better than average quality of this class of cattle. During the first half of October, the condition of feeder cattle declined but a fairly dependable country demand prevented serious decrease in prices.

Profits from steer feeding operations entered into last fall were seriously curtailed by the relatively high cost of feeder cattle and the sharply lower prices paid for prime butcher steers in the early months of 1936. This is shown graphically by the accompanying chart.*



Steer Feeding Costs and Profits in the Northwest, based on Market Prices of Livestock and Feed.

During recent months, the cost of feeder steers has been lower than last April but the costs of grain and feed stuffs have increased so sharply that the combined steer and feed cost, based on September prices, was higher than in any other month this year. In the 1934-1935 feeding and marketing season, prime butcher steer prices dropped from $9 in September to $8 for the final quarter of the year but then rose to new post-depression highs in each of the first four months in 1935. However, that was the only heavy feeding season since 1927 during

*In constructing this chart the cost of a 900 pound feeder steer and the cost of sufficient feed to increase its weight to 1,200 pounds in a 150-day feeding period are shown currently and receipts from the sale of a 1,200 pound prime butcher steer are shown with a lag of 5 months. For example, the cost of feeder steers last April is shown to have been nearly $62 per head and the cost of feed about $37, a total cost of a little less than $100 per head. In September, 150 days later, our median prime butcher steer price was $9.90 per hundredweight or a gross income per head of nearly $119, indicating a profit of about $20 per head as is shown by the solid black on the chart.

which prime butcher steer prices did not decline materially between September-October and the following March-April.

The October 1 report on the cattle feeding situation indicated a large decrease when compared with last year in the number of cattle to be fed during the approaching fall and winter feeding period. The principal cause of the decrease was the very small corn production and the consequent high price for corn. In addition, hog holdings are relatively high this fall when compared with available feed supplies, causing cattle feeders to reduce rather than expand their feeding operations. Despite shipments of stockers and feeders into Corn Belt States in a larger volume than in the previous year during July, August, and September as a result of drouth-forced marketings, the total for the first nine months of this year was smaller than in the same period a year ago. Furthermore, reports indicate that a larger than usual proportion will be "roughed" over this winter and not fattened until later next year.

The dairy cow market at South St. Paul gained support from both local buyers and shippers during September, but demand was confined principally to the better-grade animals. Prices ranged the same as in the preceding month, $80-$35. During the first half of October, shipping demand decreased somewhat resulting in a lowering of top prices, but shippers again entered the market about mid-month and increased the price range to $80-$35.

Imports of Canadian cattle over 700 pounds between mid-September and mid-October continued at about the same rate as in the preceding month raising the total imports from January 1 to October 15 to nearly 150 thousand head. The 1936 quota is a little more than 175 thousand head. Imports of dairy cows, included in the figures above, were only slightly over 10 thousand head, approximately one-half of the dairy cow quota, and about equal to the imports of dairy cows in the same period last year. Imports of calves (less than 175 pounds) totaled a little more than 50 thousand head compared with the annual quota of slightly less than 52 thousand head.

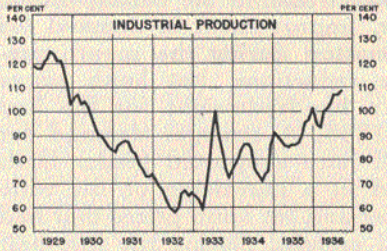
Receipts of hogs at South St. Paul continued to increase during September as they have done every month since last April. Hog receipts in September totaled more than 167 thousand head, the largest monthly receipts since December, 1934. Coincident with the increased receipts, shipping demand was greatly curtailed and dressed pork prices dropped, resulting in material declines in prices from the year's high established late in August. During the first half of October, receipts continued to increase as lightweight spring pigs were marketed and despite a somewhat broadened demand, prices continued on their downward trend. Average weights of hogs declined from 248 pounds during the first week of September to 207 pounds in the second week of October.

Receipts of sheep and lambs also continued to increase during September and for the first time since last February were larger than in the corresponding month a year earlier. Improvement in demand for dressed lamb and mutton during the month prevented drastic price reductions, but lamb prices dropped below $9 a hundredweight for the first time since August, 1935. A stronger demand for feeders after the fall rains supported feeder lamb prices which resulted in a narrowing of the wide spread between feeder and fat lamb prices that had prevailed for several months. During the first half of October, fat lamb prices showed little change but fat ewe and feeder lamb prices scored small increases.

The report on the lamb feeding situation on October 1, based primarily on in-shipments of stocker and feeder lambs in the Corn Belt States indicated that a larger number of lambs will be fed this winter than last although the number is not expected to be as large as in the 1934-35 season. Large increases in the number of lambs shipped into Minnesota and other northern Corn Belt States from the drouth sections of the Dakotas and Montana were largely responsible for the increase.

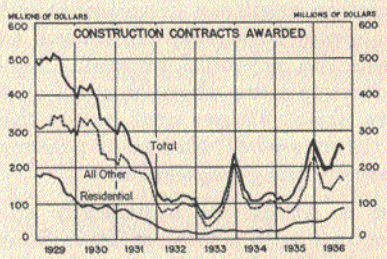
Cold storage holdings of meat and meat products excepting pork continued to exceed average stocks on October 1. Beef stocks increased 19 million pounds during September whereas the average September increase is only 3 million pounds. The net decrease in pork for the month was much smaller than the average for September. Changes in cold storage holdings of butter during the month reflected the increased dairy production resulting from improved pastures. Stocks of cheese, however, continued to increase by more than the seasonal amount. September withdrawals of eggs were about normal and October 1 stocks were about 10 per cent below the average on that date. Stocks of all classes of poultry except turkeys increased during September.

Turkey production in 1936 has apparently exceeded all previous records with a total of 20 million or more according to the October 15 report by the United States Department of Agriculture. While turkeys are grown in all sections of the United States, production in our portion of the North Central group of states is about as great as in any other similar area. With reference to recent changes in turkey marketing practices, the report states: "Increased receipts of turkey meat at the central markets will probably be considerably less than the increase in the number of turkeys raised might suggest. Knowledge by many producers of the shift during recent years in the market demand toward smaller birds, coupled with the present unfavorable relation of turkey prices to feed prices, and the absolute shortage of feed in some important turkey producing areas, will tend toward disposal of birds at earlier ages and lighter weights than usual. When the turkey crop is large, there is a tendency toward a relatively greater gain in consumption in the main producing areas because the price to local consumers tends to be relatively as well as absolutely lower than in the distant urban markets."

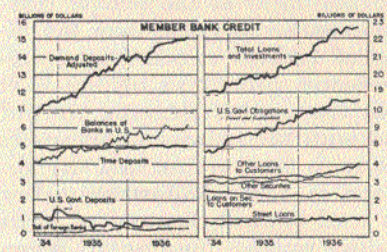


Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average=100. By months, January, 1929 to September, 1936.

Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January, 1929 to September, 1936. Indexes compiled by the United States Bureau of Labor Statistics.



Three-month moving averages of F. W. Dodge data for value of contracts awarded in 37 Eastern States, adjusted for seasonal variation. Latest figures based on data for August and September and estimate for October.



Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934 to October 14, 1936. Loans on real estate, loans to banks, and acceptances and commercial paper bought included in total loans and investments but not shown separately.

Summary of National Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 26, 1936

The volume of industrial production was maintained in September and employment at factories increased seasonally. Distribution of commodities to consumers increased. Commercial loans of city banks showed further growth.

PRODUCTION AND EMPLOYMENT: Industrial output in September, as measured by the Board's seasonally adjusted index, was 109 per cent of the 1923-1925 average, approximately the level of the two preceding months. Output of steel was about the same as in August and in the first three weeks of October the rate of activity rose to a higher level than at any time since 1930. Automobile production showed a sharp seasonal decline in September and a considerable seasonal advance in the first three weeks of October. Production of lumber and cement showed a further rise and increases in activity were also reported at meat-packing establishments and at cotton and silk textile factories. At woolen mills there was little change in production although an increase is usual in September. Output of coal increased more than seasonally, and crude petroleum production continued in large volume.

Factory employment increased seasonally in September and payrolls were maintained at the August level. The number employed in most industries producing durable goods continued to increase, while at automobile factories there was a seasonal decline. Employment decreased at woolen mills and showed a smaller increase than is usual at this season at cotton mills and at establishments producing women's clothing.

The value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat further in September from the relatively high level reached in the middle of the year. There was a decrease in awards for residential building, reflecting chiefly a smaller volume of contracts for apartment construction which in August had included several large publicly-financed projects. Awards for non-residential work declined, partly as a result of a reduction in contracts for public works and utilities which have been in large volume during recent months.

AGRICULTURE: Crop conditions improved somewhat from September 1 to October 1, according to the Department of Agriculture, but estimates for corn and many other crops are still considerably below the harvests of last year. The cotton crop is estimated at 11,600,000 bales, an increase of 500,000 bales from the estimate made a month earlier and of 1,000,000 bales from the 1935 crop. Total cash farm income, including all government payments, is estimated by the Department of Agriculture at $7,850,000,000 for the calendar year 1936 as compared with $7,090,000,000 in 1935.

DISTRIBUTION: Distribution of commodities to consumers increased by more than the usual amount in September, following a less than seasonal rise between July and August. Sales at department and variety stores and by mail order houses serving rural areas were in larger volume in September.

Volume of freight carried by railroads increased, reflecting larger shipments of coal, ore, and miscellaneous freight and a decline in loadings of grain.

COMMODITY PRICES: The general level of wholesale commodity prices has shown little change in the last two months. From the middle of September to the third week in October, sugar and butter prices declined, and there were decreases also in prices of hogs and pork, as is usual at this season. Price advances were reported for leather and coke and higher prices for some finished and semi-finished steel products became effective on October 1.

BANK CREDIT: Loans of reporting member banks in leading cities, other than loans on securities, continued to increase in September and the first half of October. On October 14 the volume of these loans was more than $400,000,000 larger than on July 29. About half of this increase was at New York City banks and the remainder principally at banks in western and southern cities. Holdings of United States government obligations have declined in recent weeks at New York City banks and have increased somewhat at other banks. Deposits of reporting banks have continued to increase.

Excess reserves of member banks increased by $410,000,000 in the five weeks ending October 21, reflecting a reduction of $300,000,000 in Treasury holdings of cash and balances at the reserve banks and an increase of $250,000,000 in monetary gold stock, the effects of which were partially offset by a seasonal increase in money in circulation and a further growth in required reserves.