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

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May business volume dropped below the April level and was lowest in two years. Country bank deposit totals remained unchanged. Deposits at city banks increased sharply from mid-May to June 15. Total excess reserves reached new high in early May. Farm product marketings and income were above last year but prices were lower.

BUSINESS

The volume of business in May as measured by our seasonally adjusted indexes was a little lower than in April. Our index of city department store stocks rose sharply during May, offsetting the large decrease in April, and all of our other business volume indicators declined with the exception of the LCL carloadings index which was unchanged. Most of our indexes were lower than in May in any year since 1935 and lower than in any month since early in 1936.

Northwestern Business Indexes
(1929-1931=100)

	May 1938	April 1938	May 1937	May 1936
Bank debits—94 cities	88	90	97	86
Bank debits—farming centers	86	88	94	86
Country check clearings	140	143	156	144
City department store sales	82	88	91	89
City department store stocks	80	72	85	76
Rural department store sales	85	94	97	93
Country lumber sales	86	100	95	96
Miscellaneous carloadings	67	69	93	85
LCL carloadings	63	63	68	65

Daily average bank debits for May were smaller than a year ago throughout the entire district. **Country check clearings** also averaged smaller in May than in the same month last year in each of the states and part states in the district.

Department store sales in the district were 11 percent smaller in May than in the same month last year. The decline was partly because there were only four Saturdays in May this year, compared with a five-Saturday May in 1937. The decline was slightly greater at country stores than at city stores. All of the sections in all of the states and part states in the district showed decreases. Preliminary reports from some of the reporting city department stores indicate that sales during the first two weeks of June were nearly 10 percent below the volume in the same two weeks last year. Preliminary reports for the entire United States in the first half of June indicate a 16 percent smaller sales volume than in the same period a year ago.

Sales at Department Stores

	No. of Stores	% May 1938 of May 1937	Cumulative % 1938 of 1937
Mpls., St. Paul, Duluth-Superior	21	90	96
Country Stores	454	89	95
Minnesota	157	89	97
Central Minn.	30	92	99
Northeastern Minn.	18	83	92
Red River Valley Minn.	11	90	104
South Central Minn.	37	86	91
Southeastern Minn.	19	93	100
Southwestern Minn.	42	91	100
Montana	50	91	91
Mountain	13	93	90
Plains	37	90	92
North Dakota	85	91	99
North Central N. Dak.	14	87	97
Northwestern N. Dak.	13	86	90
Red River Valley N. Dak.	26	93	107
Southeastern N. Dak.	26	87	93
Southwestern N. Dak.	6	95	93
Red River Valley-Minn. & N. D.	37	92	106
South Dakota	84	87	98
Southeastern S. Dak.	17	89	101
Other Eastern S. Dak.	54	87	97
Western S. Dak.	13	84	88
Wisconsin and Mich.	78	87	92
Northern Wis. and Mich.	38	86	93
West Central Wis.	40	88	91
Total District	475	89	96

City department store stocks rose sharply during the month and on May 31 were slightly higher than the average for the first quarter of the current year.

Lumber sales in board feet at 482 country lumber yards in May were 19 percent larger than in April and were 9 percent smaller than in May last year. Lumber stocks on hand June 1 were 8 percent smaller than on that date last year.

Building permit data reported to us by cooperating officials in 49 cities throughout the district for which comparable figures are available indicated a volume of new construction in May that was only 5 percent lower in valuation than in May last year. There was a decrease of 39 percent in the valuation of permits for repairs and alterations. Total valuation was 16 percent smaller than in May a year ago, 17 cities reporting increases and 32 reporting decreases. Among the cities that have been reporting to us for several years, St. Paul, Winona, and Mankato, Minnesota, and Sioux Falls, South Dakota all showed substantial increases. The largest increase in total valuation at any of the cities recently added to our list was reported by Thief River Falls, Minnesota. Some of the other cities reporting increases were Detroit Lakes, Morris, and South St. Paul, Minnesota. Ironwood and Sault Ste. Marie, Michigan, Brookings, Milbank and Watertown, South Dakota, and Rhinelander, Wisconsin.

Building contracts awarded, excluding public works and public utilities, as reported by the F. W. Dodge Corporation for the Minneapolis territory were 70 percent larger than in the preceding month and 36 percent larger than in May last year. Residential contracts were largely responsible for the increase in the total although increases were also shown in contracts for educational, religious, memorial, social, and recreational buildings.

Iron mining activity in May measured by carloadings of ore increased somewhat from the low April level, but was only 16 percent of May 1937. Iron ore shipments from upper lake ports were 12 percent of May last year. Iron ore consumption by furnaces was the smallest in any May since 1933 and stocks of iron ore at Lake Erie ports and furnaces on June 1 were the largest for that date in our 15-year records. Copper production and silver output decreased during May and were only two-thirds as large as in May last year. Gold output was 86 percent of May 1937. Copper mining employment continued to decrease during May and on June 1 the number of employees was one-third smaller than on June 1, 1937.

Business failures in the Ninth District during May were a little smaller than in April, but were larger than in May last year. The number was about one-fourth larger and liabilities three-fourths larger than a year ago. **Non-farm real estate foreclosures** in the four complete states were smaller in April than in March and only a little more than half the April 1937 volume.

Other indicators of business volume that were lower in May than in the same month last year were new car and truck sales in North Dakota, freight car loadings of coal, coke and forest products, linseed product shipments from Minneapolis, lumber cut and lumber shipments from manufacturers, wholesales of groceries, hardware, drugs and sundries, electrical goods and tobacco products and life insurance sales. Increases over May 1937 were recorded in flour shipments from Minneapolis, flour production in the Ninth District, freight carloadings of grain and livestock and warranty deeds and mortgages recorded in Hennepin and Ramsey counties.

BANKING

Country member bank deposits averaged about the same in the latter half of May as in the latter half of April. Small increases at Montana and South Dakota banks were offset by small decreases at member banks in Michigan and Minnesota. Earning assets and reserve balances with us were each reduced $2 million to increase balances with other banks. At the end of May, country bank excess reserves were nearly $16 million, about $1 million below the high point that was reached in April as a result of the decrease in reserve requirements during that month.

City member bank deposits were $35 million higher at the middle of June than on May 18. There were substantial increases in the amount of both public and private deposits, and a smaller increase of $8 million in balances due to other banks. Despite the large increase in deposits, there was no increase in holdings of loans and securities; in fact, there was a very slight decline. All of the increase in gross demand deposits, with the exception of $3 million which was added to reserves with us, was redeposited with correspondent banks. On that account, there was no increase in "net" demand deposits and the $3 million increase in reserves with us merely raised excess reserves by that amount. On June 15, excess reserves of city member banks totaled nearly $17 million, the highest on record except for the first Wednesday in May when balances with us were abnormally large as a result of transfers in connection with the Minnesota May 1 money and credit tax date.

AGRICULTURE

Farmers' cash income in the Ninth District from the sale of seven farm products increased during May from the April volume and was a little larger than in May last year. Larger grain and hog marketings were responsible for the increase over April and increases in the income from the sale of bread wheat, rye and dairy products more than offset the decreased income from the sale of other farm commodities when compared with May last year.

The USDA's estimate of cash income received by farmers in this district during April was smaller than the estimates for March and for April 1937. Each of the states and part states in the district showed a decrease when compared with the preceding month and with the same month last year with the exception of South Dakota. While there was some increase in livestock and livestock products income, benefit payments in South Dakota during April this year were so much larger than in April 1937 that the total farmers' cash income in that state was estimated to be 20 percent greater.

Grain marketings at Minneapolis and Duluth-Superior in May were about twice as large as in the preceding month or in May last year. **The June 1 condition** of all spring wheat in the United States was 87 percent of normal compared with 69 percent on the same date last year and a 10-year average of 77 percent. The June 1 condition indicates a probable production of 260-285 million bushels for 1938. The June 1 indicated production of winter wheat in the United States was nearly 761 million bushels, making a total of 1,021 million bushels which, if realized, would be the largest wheat production on record. **Grain prices** were all a little lower in May than in April and with the exception of flax, were far below the May 1937 level.

Livestock prices in May, with the exception of ewes which declined sharply, held fairly steady when

compared with the preceding month, slight gains and small losses being recorded by various classes. Prices for all classes of livestock, however, were well below those of May 1937 with the exception of light and heavy feeders which were only 4 percent and 9 percent, respectively, lower than in May last year.

Other farm product prices were a little higher in May than in April except dairy products which were slightly lower. Poultry product prices were higher in May this year than in the same month last year, but prices for dairy products, wool and potatoes were all lower. The Minnesota farm price index dropped two points in May to 74, the lowest since late in 1935. The May 1937 index was 99.

Receipts of cattle at South St. Paul during May were smaller than in April but were about one-fourth larger than in May a year ago. Calf receipts were smaller than in April and about four-fifths as large as in May 1937. During the first five months of 1938, 12 percent more cattle were received than during the same period in 1937, but calf receipts were about 18 percent less. Importations of Canadian cattle and calves during the first five months of the year were about one-third as large as in the same five months a year ago. According to the Beef Cattle Situation, published by the USDA, "present indications are that marketings of well-finished, grain-fed cattle during the next three or four months will continue to increase seasonally, and will be considerably larger in the summer and fall months than in corresponding months of 1937." During the first two weeks of June, prices for live cattle began to widen as premiums were offered for choice offerings but poorer grades and grassers were selling as low as at any time this season. Choice fed steers brought a top of $9.75 at mid-June.

Shipments of stocker and feeder cattle in May were slightly smaller than in April and in about the same volume as in May 1937. Despite a well sustained, broad demand, cattle arrived at South St. Paul in limited numbers throughout the month, resulting in a rapid absorption of all offerings. During the first five months of 1938 about one-fifth more feeders and stockers were shipped than during the same period last year. May prices were practically unchanged from April, continuing the narrow margin between feeder and butcher cattle prices.

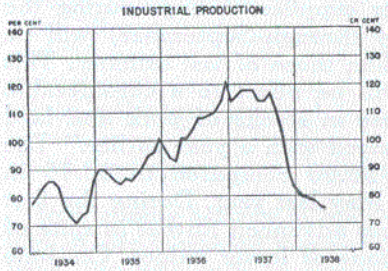
The dairy cow market at South St. Paul was firm throughout May as the result of a strong shipper demand. High quality dairy cows were scarce and high priced but poorer grades were weak and sold for little more than slaughter stock. The May price range was $85—$40.

Hog receipts at South St. Paul failed to show the usual seasonal decline from the April level in May, and were 7 percent larger than in May last year. During the first five months of 1938 hog receipts were 14 percent larger than in the same period last year. The Hog Situation, published by the USDA, stated that "slaughter supplies of hogs during the summer season (May through September) will be considerably larger than those of last summer. This increase, however, will be offset to a considerable extent by the decrease in stocks of pork and lard now in storage compared with a year earlier." The May hog price was $8.00 compared to $8.15 in April and $10.20 in May last year. During the first half of June, hog prices advanced further in spite of most buyers' predictions of lower values. On June 16, a top of $9.20 was established, the highest since last November with the exception of the temporary spurt in early March.

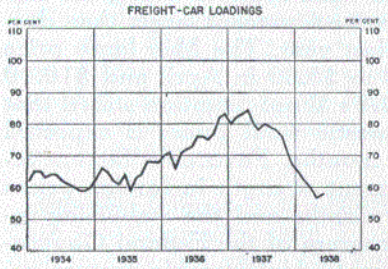
Receipts of sheep and lambs declined seasonally during May but were 16 percent larger than in May a year ago. Sheep and lamb receipts during the first five months of 1938 were 6 percent larger than during the same period last year. The May lamb price was $7.75 compared to $8.00 in April and $10.10 a year ago. The USDA's Wool Situation stated that "little change in domestic wool prices is expected during the next few months. Favorable factors reported were the apparent strength in foreign prices during the past two months and the stabilizing influence of the loan program of the Federal Government for domestic wools. Unfavorable factors reported were relatively large supplies of wool in this country and foreign countries, the current low rate of domestic mill consumption, and a relatively small volume of unfilled orders held by mills." The wool price rose 1 cent during May to 18 cents compared to 32 cents in May 1937.

Commercial hatchings of chickens in the West North Central states during May were 36 percent larger than a year ago according to reports received by the USDA from 80 hatching plants. On account of the cold, wet weather, bookings for chicks for delivery June 1 or later were 45 percent larger than a year ago. On June 1 the number of chicks and young chickens per farm flock in the West North Central states was 19 percent larger than on that date last year. There was an increase of only 12 percent in the entire United States.

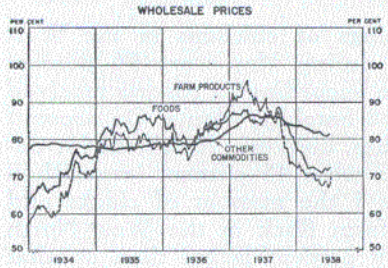
Cold storage stocks of butter and cream on June 1 were twice as large and cheese holdings about one-third larger than the 5-year average. Cold storage stocks of eggs were below the five-year average for the first time since March 1, 1937, but poultry holdings were about normal. Cold storage holdings of beef decreased seasonally and continued to be about two-thirds of the 5-year average. As a result of smaller-than-usual pork slaughterings, pork holdings decreased to 77 percent of normal during May and holdings of lard to 91 percent of the 5-year average. Supplies of lamb and mutton were a little above normal, as sheep slaughterings during May were 12 percent larger than the 5-year average.



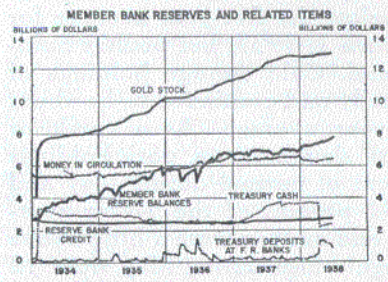
Index of physical volume of production, adjusted for seasonal variation, 1923-25 average=100. By months, January 1934 to May 1938.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-25 average=100. By months, January 1934 to May 1938.



Indexes compiled by the United States Bureau of Labor Statistics, 1926=100. By weeks, 1934 to week ending June 18, 1938.



Wednesday figures, January 3, 1934, to June 15, 1938.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JUNE 23, 1938

In May and the first three weeks of June, industrial activity showed little change from the April level. Wholesale commodity prices generally declined further but in June, wheat and cotton prices advanced and at the end of the period some other staple commodities showed increases.

Production: In May the Board's seasonally adjusted index of industrial production was at 76 percent of the 1923-1925 average as compared with 77 in April and an average of 79 in the first quarter of the year. Steel ingot production, which in March and April had been at a rate of 33 percent of capacity, averaged about 31 percent in May and automobile output also showed a decrease. Textile production increased in May. Activity at woolen mills rose sharply and there was some increase at cotton mills, while silk mills showed a decline. Changes in output in most other manufacturing industries were largely seasonal in character. Output of crude petroleum was curtailed sharply in May, and bituminous coal production declined somewhat while anthracite production increased considerably. Lake shipments of iron ore were in very small volume, reflecting both the low rate of activity in the iron and steel industry and the large supply of ore remaining from the previous season.

In the first three weeks of June, output of steel and petroleum increased somewhat, but the rate of activity in these industries remained below the average for May. Automobile production showed a further decline and continued below sales, so that stocks of new cars were further reduced.

The value of construction contracts awarded, as reported by the F. W. Dodge Corporation, showed a substantial increase in May, reflecting chiefly a marked rise in awards for publicly-financed projects. Contracts for residential building increased moderately and were in about the same amount as in May a year ago. Other privately-financed work remained in small volume.

Employment: Factory employment and payrolls continued to decline from the middle of April to the middle of May. There were further decreases in employment in the machinery, steel, and automobile industries and a sharp decrease in the number employed in the men's clothing industry. In most other manufacturing lines changes in employment were small in amount. The number employed at mines and on the railroads continued to decline.

Distribution: Department store sales declined considerably in May and the Board's seasonally adjusted index was at 79 percent of the 1923-1925 average as compared with 83 in April. Sales at variety stores and by mail order houses also decreased from April to May. Reports for the first half of June indicate about the usual seasonal decline in department store sales.

The volume of railroad freight traffic showed little change in May following sharp declines in previous months.

Commodity Prices: Prices of both agricultural and industrial commodities decreased in the latter part of May. In the first three weeks of June, wheat and cotton prices advanced, while prices of industrial products generally continued to decline.

Bank Credit: Reserves of member banks continued to increase in May and June, largely as the result of Treasury disbursements from its deposits with the Reserve banks. Excess reserves increased chiefly at city banks, reflecting retirement of Treasury bills and further expansion of bankers' balances.

Demand deposits at reporting member banks in 101 leading cities increased further during the first half of June, and total loans and investments, which had declined in May, also increased, reflecting substantial purchases of United States Government obligations by New York City banks.

Money Rates: Yields on Treasury bonds declined further in the four weeks ended June 18, and those on Treasury notes reached new low levels. Rates on open-market commercial paper declined somewhat about the middle of June.