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

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Business volume in the Ninth District increased more than the usual seasonal amount in July but was smaller than in July last year. Despite larger grain and livestock marketings, farmers' cash income was smaller than a year ago. Grain marketings increased rapidly by mid-August and most farm product prices declined.

BUSINESS

The volume of business in July as measured by our seasonally adjusted indexes was well above the June level but was the smallest for July since 1935. Both city and country sections of the district shared in the advance over June as increases were recorded for every one of our indexes. One-third larger grain marketings and 10 per cent larger livestock loadings doubtless were responsible for most of the increase in urban and rural bank debits and country check collections.

Northwestern Business Indexes
(1929-1931=100)

	July 1938	June 1938	July 1937	July 1936
Bank debits—94 cities	84	77	95	93
Bank debits—farming centers	89	84	95	92
Country check clearings	142	135	154	152
City department store sales	96	92	102	92
City department store stocks	79	80	89	80
Rural department store sales	94p	91	103	96
Country lumber sales	89	84	98	94
Miscellaneous carloadings	69	64	93	86
L.C.L. carloadings	62	60	69	66

p—preliminary.

Daily average bank debits were higher in July than in June in each of our reporting groups, with the wheat-raising sections of the district showing the largest increases. Compared with July 1937, South St. Paul debits were higher this year, but debits in all other groups were lower. **Country check clearings,** like debits, were higher in July than in June, but lower than in July last year throughout the entire district.

Department store sales in the district declined by less than the seasonal amount during July and for the first seven months of the year were within 5 per cent of the January-July total last year. As was the case last month, city department store sales held up slightly better during July than sales at stores in the rural sections, although the difference was not large. However, in North Dakota, three of the five sections in that state reported larger sales in July this year than last, sufficient to raise the state total to within 3 per cent of last year's volume. The second highest state total was reported by South Dakota, 94 per cent of July 1937. Preliminary reports on sales from some of the reporting city department stores for the first half of August indicate a greater decline from last year than was the case a month ago.

Collections on accounts and notes receivable at the 45 department stores reporting that information were about as large as in the preceding month both in dollar amount and as a percentage of receivables at the beginning of the month. Total accounts and notes receivable at these 45 stores were lower on July 31 than on any month-end since March 1936.

Lumber sales at 484 country lumber yards also failed to show their usual July decline from the June volume and were nearly 12 million board feet compared with 13 million board feet in July last year. Stocks of lumber on hand declined 1 per cent during July. Total sales (including materials other than lumber) declined sharply, however, and were well below the July 1937 level. Receivables increased seasonally during July and at the end of the month were about as large as at the end of July last year.

Building contracts awarded, excluding public works and public utilities, were nearly 20 per cent larger than in July last year, although they were a little lower than last month as a result of a 10 per cent decline in the volume of residential contracts and a sharp decrease in social and recreational building contracts. Contracts for public works continued to mount in July but were still a little below last year's July volume. Public utility building contracts in this district were less than one-third as large as in July 1937.

Building permit data reported to us by cooperating officials in 53 cities in the Ninth District for which comparable figures are available indicated that the volume of new construction in July was about equal to the volume in July last year. Total valuation was 7 per cent smaller than in July last year as the result of a substantial decrease in the volume of repairs and alterations. Twenty-four cities reported increases and twenty-nine reported decreases in total valuation. The largest percentage increase in the district was reported by the City of Winona, Minnesota. Other Minnesota cities to report substantial increases were Minneapolis and St. Paul. Important increases were also reported by Malta, Montana; Fargo and Grand Forks, North Dakota; and Sioux Falls, South Dakota.

Iron ore mining activity in the Ninth District in July as measured by carloadings remained at the June level and was about one-fourth the 1937 volume although iron ore shipments from Great Lakes ports were 15 per cent larger in July than in June. Shipments for this season up to August 1 amounted to 7½ million tons compared to 34½ million tons

to the same date last year. Steel mill activity advanced by about 10 per cent of capacity during July. The increased iron ore consumption, however, had but little effect on iron mining activities in this district, as August 1 iron ore stocks at furnaces and Lake Erie docks were by far the largest for that date of any year in our 20 year record.

Other indicators of business volume that were lower in July than a year ago were new passenger car sales in Minnesota and North Dakota; sales of new trucks in Minnesota; wholesales of drugs and sundries, electrical goods, general hardware, groceries, plumbing and heating, and shoes; electric power consumption; all classes of freight carloadings except grains, grain products and livestock; warranty deeds and mortgages recorded in Hennepin and Ramsey Counties; lumber cut; and life insurance sales. Increases over July 1937 were recorded for flour production (both at mills in Minneapolis and at outlying mills) and sales of commercial cars in North Dakota.

BANKING

Country member bank deposits declined slightly between the latter half of June and the latter half of July as a result of a $3 million decline in gross demand deposits at Minnesota banks which was not quite offset by the small increases recorded for the other states and part states in the district. Earning assets at country banks were reduced $2 million and there were minor shifts in reserve balances with us and balances with other banks, resulting in a reduction of excess reserves to a little below the $16 million level.

City member bank deposits declined a little from the rather high point they reached on July 13 and on August 17 were $11 million lower. Loans to customers decreased $2 million during the five week period but there was no change in other invested funds except that holdings of direct government obligations increased $1 million and holdings of government guaranteed obligations decreased by the same amount. Cash and due from banks decreased $10 million, part of which was converted to reserve balances with us, increasing them by $2 million and resulting in an increase in excess reserves to a little over $28 million. On August 10 excess reserves were the highest they have been since late in 1936, $30 million.

At the middle of August, city member banks were in a much more liquid position than at the same time last year. While total deposits were up $7 million, total cash and due from banks including reserve balances were up $51 million. Loans to customers and holdings of direct United States government obligations were each down nearly $20 million and there were smaller declines in holdings of commercial paper and other stocks, bonds and securities.

AGRICULTURE

Farmers' cash income in the Ninth District from the sale of six farm products increased during July and was 13 per cent larger than in June. The July total, however, was smaller than in July last year. Bread wheat, rye, dairy product and hog incomes all were larger in July than in June, and hog and durum wheat incomes were larger than in July last year. The Ninth District 1938 wool income has been estimated to be only $9 million compared with $15 million in 1937.

The USDA's estimate of cash income received during June by farmers in the Ninth District was 3 per cent higher than in May, but 7 per cent smaller than in June last year. Increases in June in the Montana and North and South Dakota estimates more than offset the small decreases from May in the estimate for the other three states. Estimates for each of the states and part states in the district were lower in June this year than in June 1937.

Grain marketings at terminals increased seasonally in July and as a result of the larger production this year were larger than in July last year. During the first 18 days of August, marketings of grain have continued to increase. Wheat receipts at Minneapolis were nearly half again as large as in the same 18 days last year. Grain prices dropped rather sharply during July with the exception of corn and flax, and at the end of the month most grain prices were lower than at any time for several years. During the first half of August, prices have declined further.

Livestock prices were generally a little higher in July than in June, but were not up to the July 1937 level. Calf, sheep and lamb prices were practically the same in July as in June. Prime, heavy butcher steers sold as high as $12 per cwt. in July for the first time since last November. **Other farm product prices** were about the same in July as in June, but lower than in July last year. There was no change in the price of dairy products during July, but poultry product prices declined slightly. Wool prices advanced a little, but the July price of 19 cents was far below the 30 cent price for July 1937. The Minnesota farm price index remained at 73 in July, the lowest figure since August 1936. The July 1937 index was 97.

August 1, 1938 Production Forecasts for Minnesota, Montana, North Dakota and South Dakota with Comparisons

(Thousands of bushels, except hay)

	Aug. 1 1938	July 1 1938	1937	10-Year Average
Bread Spring Wheat	171,868	163,487	89,417	105,125
Durum Wheat	41,148	33,376	27,791	35,306
Winter Wheat	27,522	27,110	13,708	13,082
Rye	30,766	29,773	23,742	18,343
Flax	6,863	6,408	5,765	11,104
Potatoes	38,110	34,410	39,407	39,476
Corn	232,750	224,629	235,041	208,877
Oats	218,333	218,427	230,788	212,431
Barley	105,634	97,200	94,817	101,146
All Hay (thousand tons)	13,639	13,089	12,189	11,218

Ninth District spring sown grain crop prospects improved quite generally during July. While yields were reduced to some extent in certain areas by drouth, hail, army worms, grasshoppers, diseases,

etc., the damage this year was limited, largely, to localities rather than spreading over state-wide areas as has been so common in other years.

August 1 estimates for the entire United States were larger than the amounts harvested in 1937, with the exception of oats and potatoes, and larger than the 10 year average for all crops except flax and oats.

Receipts of cattle at South St. Paul increased seasonally during July and were as large as a year ago. Calf receipts, however, showed their usual decrease and were the smallest since February 1936. During the first seven months of 1938 cattle receipts were about one-tenth larger than during the same period in 1937, but calf receipts were one-fifth smaller. Cattle prices were firm throughout July and averaged somewhat higher than in June, but were much lower than in July last year. According to the USDA the seasonal advance in prices of the better grades of slaughter cattle during the remainder of the summer and early fall may be greater than was expected earlier, although supplies of well-finished cattle will be larger and consumer income smaller during this period than a year ago. During the first 18 days of August, prices declined sharply, because of numerous declines in dressed beef prices and continued hot weather in the eastern states that curtailed consumption. "Top" price at mid-August for choice fed steers was $11.25.

Shipments of stocker and feeder cattle in July were seasonally larger than in June, but less than in July a year ago. A strong demand existed throughout the month, but the marketward movement was smaller than a year ago. Shipments during the first 7 months of 1938, however, were slightly larger than during the same period in 1937 and according to the USDA, "The demand for stocker and feeder cattle probably will continue relatively strong during the next several months if conditions for feed crops and pastures in the Corn Belt and other important feeding areas remain favorable." Prices of stocker and feeder cattle did not advance during July, resulting in a little wider spread between butcher and feeder cattle prices. During the first two weeks of August feeder cattle prices remained steady, but at mid-month prices declined in sympathy with beef prices. The average cost of stocker and feeder steers at mid-August was $6.90 compared to $7.75 at that time last year.

Dairy cow prices during July reflected the broad demand for good quality cows. Shipper demand was the chief support to the market and good cows moved readily. Poorer grades were being sold at close to butcher prices. The July price range was $90-$45 with the bulk of the cows selling for $75-$55.

Hog receipts at South St. Paul were larger in July than in June and about two-fifths larger than in July 1937. During the first 7 months of this year 933 thousand head were received compared to 801 thousand in that period last year. The July demand for hogs was very broad, and in spite of the large receipts hog prices advanced sharply, reaching a top of $10.10, the highest since last October. Unusually small cold storage holdings coupled with a large increase in pork exports thus far this year have given a good undertone to the market in spite of the sluggish domestic dressed pork trade. "The Hog Situation" published by the USDA states, "Slaughter supplies of hogs during the remainder of the present marketing year will be larger than those of a year earlier" and "supplies for market in the 1938-39 marketing year, which begins in October, will be considerably larger than those of the present marketing year, but the effects of these larger supplies upon hog prices will be offset, at least in part, by improvement in consumer demand for meats." The first ten days of August experienced a sharp break in hog prices bringing the "top" down to $8.50, but by mid-August there was a slight recovery. Receipts fell off sharply and with packers competing for hogs in order to keep their crews working, part of the previous week's losses were regained.

Sheep and lamb receipts increased seasonally during July and were the largest for that month since 1935. About 10 per cent more lambs were received at South St. Paul during the first 7 months of this year than were received in the same period a year ago. Lamb prices during July were dominated by Washington lambs, which sold at $8.50 to $9, whereas native lamb prices averaged around $7.50. **The 1938 lamb crop** was the largest on record and the USDA reports that "slaughter supplies of sheep and lambs during the late summer and early fall are likely to be larger than in the corresponding period a year ago." Butcher lamb prices declined further during the first three weeks of August as marketings continued very heavy. A firm demand prevailed for feeder lambs, however, and prices remained steady.

The poultry situation has changed considerably during the past few months, as the small farm flocks of last spring have now been replenished by the large 1938 hatch. Inasmuch as the large supplies of eggs that were in cold storage last spring have been reduced to below normal, according to the USDA, "The outlook for poultry and egg prices until early 1939 on the basis of present data is (1) for a more-than-seasonal decline in chicken prices, and (2) for a more-than-seasonal advance in egg prices."

Cold storage holdings of cream, butter and cheese increased seasonally during July and continued to be well above normal on August 1. Supplies of poultry were about normal, but egg holdings were 15 per cent below the 5 year average. Cold storage holdings of beef increased slightly more than usual during July as a result of larger-than-average beef cattle slaughterings but on August 1 were only three-fourths of the 5 year average. Cold storage holdings of pork and lard decreased further as hog slaughterings continued to be less-than-average for the fifth consecutive month. Supplies of lamb and mutton remained above normal, largely as a result of larger-than-usual sheep slaughterings for the past 8 months.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUGUST 24, 1938

Industrial activity increased in July, when there is usually a considerable decline, and rose somewhat further in the first three weeks of August.

PRODUCTION: The volume of industrial production increased from 77 per cent of the 1923-25 average in June to 83 per cent in July, according to the Board's index, which is adjusted for changes in the number of working days and for usual seasonal variations.

Steel output rose sharply, lumber production also increased, and output of cement and glass was maintained. Automobile production declined somewhat further. In the first three weeks of August, activity at steel mills was at a rate of around 40 per cent of capacity as compared with an average of 35 per cent in July, while in the automobile industry there was more than the usual seasonal reduction in output as producers closed plants somewhat earlier than in other recent years to prepare for the shift to new model production.

At textile mills, activity in July showed a further rise, marked increases being reported in mill consumption of cotton and wool and in shipments of rayon yarn. Shoe production also increased substantially, following a decline in June.

Bituminous coal production advanced somewhat in July, and output of crude petroleum was at a much higher rate, reflecting chiefly a return to production on a six-day week basis in Texas. Anthracite production decreased sharply following a considerable volume of output during May and June.

The value of construction contracts awarded in 37 eastern states showed little change from June to July, according to figures of the F. W. Dodge Corporation. Contracts for residential building continued to increase, and there was an increase also in commercial building, reflecting the award of a contract for a large office building. Factory construction remained at a low level and declines were reported in most other types of construction.

EMPLOYMENT: Factory employment and payrolls, which usually decline at this season, increased somewhat from the middle of June to the middle of July. There were substantial increases in the number employed at textile mills, clothing establishments and shoe factories. At railroad repair shops there was a slight increase. In the machinery and automobile industries employment declined somewhat further. In non-manufacturing industries the principal changes in employment were a decrease at mines and an increase on the railroads.

AGRICULTURE: A domestic cotton crop of 12 million bales was indicated on August 1, according to the USDA. Last season the crop was 19 million bales, and, with world consumption of American cotton about 11 million bales, the carryover increased sharply to 13½ million bales. The wheat crop was forecast at 956 million bushels, as compared with 874 million bushels harvested last year and usual domestic consumption of about 670 million bushels. Production estimates for most other major crops were slightly under the large harvests of a year ago. Preliminary estimates by the USDA indicate that cash farm income, including government payments, will total $7½ billion for the calendar year 1938, a decline of 12 per cent from last year, which was the highest since 1929.

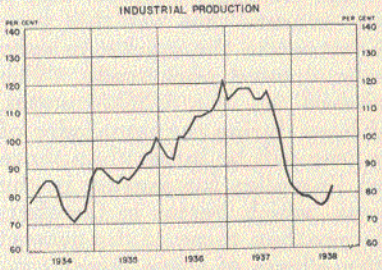
DISTRIBUTION: In July, department store sales declined by less than the usual seasonal amount, while sales at variety stores and mail-order houses decreased seasonally. Retail sales of automobiles increased somewhat, although there is ordinarily a decline in July. In the first half of August, sales at department stores showed less than the usual seasonal rise.

Freight carloadings increased from June to July, reflecting, chiefly, larger shipments of grain, coal, and miscellaneous freight.

COMMODITY PRICES: Prices of grains, cotton, livestock, and meats were lower in the third week of August than in the middle of July, while prices of most industrial commodities were unchanged. Steel scrap advanced further in July, then declined somewhat in the first half of August. Cotton gray goods also declined in the early part of August, while prices of copper and rubber were maintained, following increases in the latter part of July.

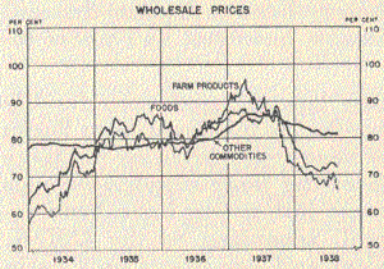
BANK CREDIT: Excess reserves of member banks declined by about $230 million in the five weeks ended August 17 to a total of $2,930 million, following a steady growth from the middle of April to a peak on July 13. The decline in reserves was largely the result of an increase in Treasury deposits with the Reserve banks, reflecting receipts from weekly Treasury bill offerings in excess of maturities and a sale of Reconstruction Finance Corporation Notes. Most of the decrease in excess reserves was at city banks.

Following substantial declines since the autumn of last year, commercial loans and brokers' loans at reporting member banks in 101 leading cities increased somewhat during the first half of August. Member banks in leading cities added about $170 million to their holdings of investments in the middle of July, mainly United States government guaranteed obligations, but their holdings showed little change thereafter.

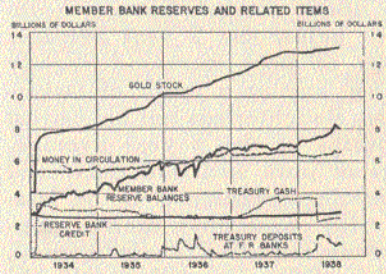


Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to July 1938.

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 June and July and estimate for August.



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending August 20, 1938.



Wednesday figures, January 3, 1934 to August 17, 1938.