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

Vol. 7 (Serial No. 286) **Federal Reserve Bank, Minneapolis, Minn.** **October 28, 1938**

Business volume in September in this district was about the same as in August. Bank deposits rose rapidly early in the month but later declined. Earning assets of member banks increased and excess reserves dropped to the lowest point in several months. Farm income decreased but prices averaged about the same as in August.

BUSINESS

Business recovery in this district, which had given some signs of slowing down in August, about stood still in September. The volume of business which had been increasing each month during the summer showed little change in September from that of August according to our seasonally adjusted indexes, half of which increased a little and half of which declined. The city department store sales index rose five points and was the highest for 12 months despite the rather unseasonable weather. The department store stocks index showed no change. The rural department store sales index remained at the August level but the country lumber sales index declined.

Northwestern Business Indexes
(1929-1931 = 100)

	Sept. 1938	Aug. 1938	Sept. 1937	Sept. 1936
Bank debits—94 cities	77	85	86	75
Bank debits—farming centers	89	88	95	91
Country check clearings	138	144	158	142
City department stores sales	98	93	101	93
City department store stocks	81	81	90	79
Rural department store sales	93	93	101	95
Country lumber sales	89	101	92	95
Miscellaneous carloadings	75	72	92	89
L. C. L. carloadings	63	62	68	64

Production during the third quarter of 1938 in the manufacturing lines that are important in this district averaged 9 percent lower than in the same quarter last year despite the relatively high production in the milling industry. The greatest declines were shown by the iron and steel group where production was about half as large as in the third quarter of last year. **Sales** in all lines were smaller than in the third quarter of 1937. The average was down 15 percent. Practically all reporting firms reported decreases in **raw material purchases,** resulting in a drop of 20 percent in the average and a 10 percent decline in **raw material inventories** on September 30. **Finished goods inventories** also averaged 10 percent lower despite substantial increases reported by the food and beverage and construction and building materials groups. **Unfilled orders** on September 30 were reported to be smaller than one year earlier by all of the ten reporting groups but in most groups at least one firm reported a larger volume of unfilled orders than on September 30 last year. All of the groups with the exception of milling and chemical and drug industries were employing less people than a year ago with the result that the **number employed** was 10 percent smaller than on September 30, 1937.

Daily average bank debits increased somewhat less than usual during September and were lower than in September last year in each of our reporting groups with the exception of South St. Paul where the much larger volume of hog marketings held bank debits about the same as a year ago. Only twenty-seven of the 109 cities reported larger September totals for 1938 than for 1937. **Country check clearings,** like debits, were higher in September than in August but were lower than in September last year in all sections of the district.

Building contracts awarded during September were 27 percent larger than in September a year ago, were the largest in any month since June of last year, and were the largest for September since 1930. Residential contracts were in smaller volume than during the summer months of 1938 but were the largest for September since 1928. Public utility contracts continued the sharp increase shown in the preceding month with the result that the August-September two month total far exceeded the total for the first seven months of the year. The September public utility contracts were more than five times as large as in September last year.

Building permits issued at 53 reporting cities in the Ninth District in September were nearly as great in number as in the same month last year but the total valuation was one-third smaller. Increases were reported by 22 cities. The largest percentage increases were reported by Little Falls and Faribault, Minnesota. Other Minnesota cities to report substantial increases were Red Wing and Winona. Important increases were also reported by Missoula and Bozeman, Montana; Minot, North Dakota; Sioux Falls, South Dakota; and Superior, Wisconsin. FHA mortgages in August in Minnesota, Montana, North and South Dakota totalled 363 in number and amounted to $1½ million compared to 270 for less than $1 million in August last year.

Lumber sales in board feet at 480 retail yards were smaller than in the preceding month and smaller than in September last year. Total sales in dollars, however, were 15 percent larger than in August but were 5 percent smaller than in September 1937. Receivables increased with dollar sales and at the end of the month were about as large as on the same date last year.

Department store sales were 6 percent smaller in dollar amount in September than in the same month last year but total sales for the first three-quarters of 1938 were only 4 percent below the volume for the first nine months last year. Country stores reported an 8 percent decrease whereas the decline at city department stores was only 3 percent. City department store stocks were 10 percent smaller than at the end of September last year, but were larger than at the end of any other September since 1931. For the first three-quarters of 1938, the Red River Valley sections of Minnesota and North Dakota and the southeastern section of South Dakota were the only sections of the district that did not report a smaller volume of sales than in the first nine months of last year.

Sales at Department Stores

	No. of Stores	% Sept. 1938 of Sept. 1937	Cumulative % 1938 of 1937
Mpls., St. Paul, Duluth-Superior	21	97	97
Country Stores	440	92	95
Minnesota	154	93	96
Central Minnesota	29	100	98
Northeastern Minnesota	17	86	89
Red River Valley Minnesota	11	95	100
South Central Minnesota	36	89	93
Southeastern Minnesota	20	95	99
Southwestern Minnesota	41	94	98
Montana	51	90	91
Mountain	14	84	87
Plains	37	95	93
North Dakota	83	89	98
North Central North Dakota	16	83	95
Northwestern North Dakota	12	92	93
Red River Valley No. Dakota	25	92	103
Southeastern North Dakota	24	88	93
Southwestern North Dakota	5	87	95
Red River Valley-Minn. & N. D.	36	92	102
South Dakota	77	95	98
Southeastern South Dakota	12	91	100
Other Eastern South Dakota	55	99	98
Western South Dakota	10	87	87
Wisconsin and Michigan	75	91	93
Northern Wisconsin & Mich.	38	93	96
West Central Wisconsin	37	90	91
Total District	461	94	96

Iron mining activity in September in northern Minnesota and Wisconsin as measured by ore carloadings and iron ore shipments from upper lake ports was unchanged from August and remained at about one-third of the 1937 volume. Iron ore consumption increased in September for the third consecutive month as steel mill activity continued to advance. Iron ore stocks at furnaces and Lake Erie docks on October 1 were smaller than a year ago for the first time in sixteen months, but were larger than on any other October 1 since 1930.

Electric power consumption in Montana was larger in August than a year ago but was a little smaller in Minnesota, North Dakota and South Dakota.

Business failures were larger in number and in liabilities than in September 1937. The number of non-farm real estate foreclosures in August was one-fourth smaller than in August last year.

Other indicators of business volume that were higher in September than a year ago were the number of telephone installations in Minneapolis, mortgages recorded in Hennepin and Ramsey Counties, flour production both at mills in Minneapolis and at outside mills, flour shipments from Minneapolis, and creamery butter production. Decreases from September last year were recorded in life insurance sales; sales of new passenger cars and trucks in Minnesota and North Dakota; wholesales of drugs and sundries, electrical goods, hardware, groceries, plumbing and heating and shoes; new telephone installations in rural Minnesota; warranty deeds recorded in Hennepin and Ramsey Counties, linseed product shipments; lumber cut and lumber shipped.

BANKING

Country member bank demand deposits averaged a little higher in the last half of September than in the last half of August, slight increases being recorded for each of the states or part states in the district. There was no change in the time deposit total. Earning assets were increased by the amount of the deposit gains plus $1 million that had been on deposit with us. Compared with the last half of September 1937, earning assets were down $20 million, demand and time deposits were $9 million and $4 million lower respectively and balances with us were down $11 million but balances due from other banks and collection items were $8 million higher.

City member bank deposits declined between mid-September and mid-October largely as a result of a 10 percent drop from the September all time "high" in balances due to other banks. Public deposits also declined $4 million but this amount was about offset by a small increase in commercial and personal deposit balances. Holdings of United States government obligations increased $8 million and loans to customers increased slightly. In order to meet these various demands for funds, balances with other banks and collection items were lowered $20 million and balances with us, $3 million. Excess reserves declined to $21 million on October 12.

Bills discounted by this bank for member banks increased slightly between September 14 and October 12 to a level a little above that on the comparable date last year. **Industrial loans** and **commitments to make industrial advances** both decreased slightly. On October 8 the rate on advances to individuals, partnerships and corporations secured by direct obligations of the United States under Section 13 of the Federal Reserve Act was reduced from 4½ percent to 3 percent.

AGRICULTURE

Farmers' cash income in the Ninth District from the sale of seven farm products dropped $8 million during September to $46 million as a result of the sharp reduction in marketings of bread wheat and rye. Wheat marketings, both durum and bread wheat, were well above the level of September 1937

but low prices once more resulted in a smaller volume of income. Reflecting the larger 1938 spring pig crop and the larger supplies of feed grains, hog income in September this year was larger than in the same month last year, the much larger marketings and heavier average weight more than offsetting the decline in hog prices. Flax income in September was only a little lower than a year ago, the moderate increase in marketings being almost large enough to offset the relatively small decline in prices.

The USDA's estimate of cash income received from the sale of crops, livestock and livestock products in August by farmers in the Ninth District was larger than the estimate for July but smaller than in August last year. Wisconsin was the only state or part state in the district for which the August estimate was smaller than July and Montana was the only state or part state for which the August 1938 estimate was larger than in August 1937.

The Minnesota farm price index rose for the first time since July 1937 in September to 62, two points higher than in August. Most grain prices were as high or higher in September than in August but all grain prices were much lower than a year ago. Livestock prices in September were about as high as in August, the declines being about offset by the gains, but all livestock prices were lower than in September last year except veal calves which were unchanged. Dairy product prices were about the same in September as in August but were one-fifth lower than in September last year. Poultry prices declined slightly during September and continued to be much lower than in the same month in the preceding year but egg prices advanced sharply and at the end of the month were higher than at the end of any month since December 1936. Potato prices rose 2 cents per bushel in September to 53 cents, slightly above the September 1937 level. Wool prices also rose slightly in September but were far below the price in September last year.

Receipts of cattle at South St. Paul increased less than usual during September as a result of the tendency to rebuild cattle herds and also to delay marketings in order to feed cattle to somewhat heavier weights than in other recent years. Consequently grain finished cattle were very scarce and total cattle receipts in September were only about three-fourths as large as a year ago, the smallest of any September since 1935. Smaller September receipts lowered the total for the first nine months of 1938 to below the total for the same period last year. Calf receipts declined during September and remained substantially below a year ago. During the first three quarters of 1938, calf receipts were one-quarter less than during that period of 1937, partly because of the restocking tendency mentioned above and partly because of decreased Canadian calf imports. During the first half of October cattle and calf receipts continued small and prices remained firm.

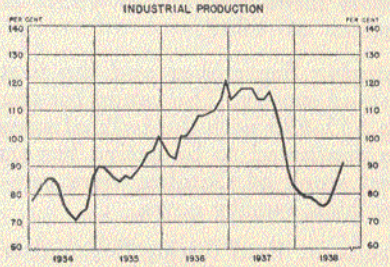
Shipments of feeder cattle increased seasonally during September but were one-fifth smaller than a year ago. About 12 percent less feeder cattle and only about one-half as many feeder calves were shipped during the first three-quarters of 1938 as during the same period of 1937.

Dairy cow trade during September and the first half of October remained steady. The range for the month and a half was $35-$95 with the bulk of sales at $50-$70. Shippers continued to be active buyers and during the second week of October were paying from $75-$85 for high quality cows.

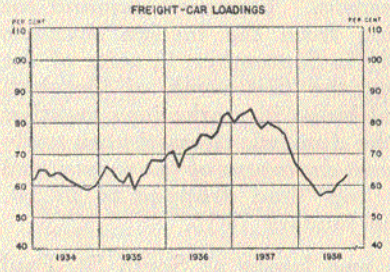
Hog receipts at South St. Paul during September increased seasonally and remained nearly twice as large as a year ago, making the 1938 nine month total 1,213 thousand head compared to 956 thousand during the same period in 1937. According to **The Hog Situation** published by the USDA, "Market supplies of hogs in the current marketing year, which began October 1, will be materially larger than in the present season." Increased demand for dressed pork resulting from the foreign situation kept hog prices steady in September, in spite of the large receipts. During the first week of October, however, the seasonal bulge in marketings together with a weakening in the domestic dressed pork trade precipitated the sharpest downturn of the season and by mid-October the "top" had dropped to $7.50, the lowest "top" since January 1935.

Receipts of sheep and lambs at South St. Paul increased seasonally during September but were the smallest for September since 1928. Total sheep receipts during the first three-quarters of 1938, however, were slightly larger than during that period last year. The persistent decline in dressed lamb prices coupled with unsatisfactory dressing percentages was the largest factor in the weakness of sheep and lamb prices.

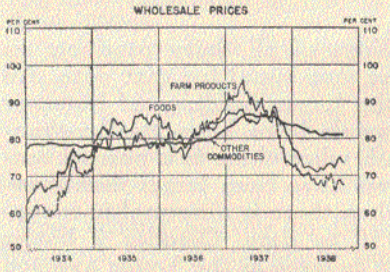
Cold storage holdings of all dairy products on October 1 were larger than usual for that date. An important factor in the larger holdings of butter is the fact that withdrawals have been smaller-than-average in each month when there is a normal outmovement and storings have been larger-than-average in each month when there is a normal in-movement throughout 1938 to date. October 1 butter stocks were half again as large as the 5-year average and nearly double those of a year ago. Poultry holdings on October 1 were about normal but the smaller-than-usual storings of eggs during the spring and summer followed by normal withdrawals during August and September have reduced stocks of eggs to below normal and on October 1 they were the smallest for that date since 1932. Holdings of beef increased less than usual during September and on October 1 were only three-fifths of the 5-year average. Pork holdings declined less than seasonally and on October 1 were about two-thirds of the 5-year average. Reflecting the larger-than-average slaughterings, lamb and mutton stocks increased by more than the usual amount during September resulting in slightly above normal October 1 holdings. Like pork, stocks of lard decreased less than the usual September amount and remained below normal but somewhat larger than a year ago.



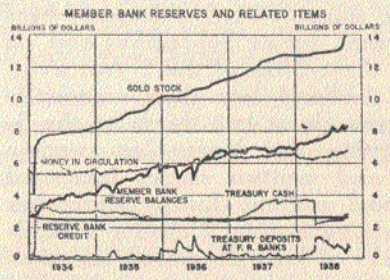
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to September 1938.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to September 1938.



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ended October 15, 1938.



Wednesday figures, January 3, 1934 to October 19, 1938.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 26, 1938

In September industrial production and employment continued to advance and there was also an increase in the volume of retail trade. Building activity continued at the increased level reached in August, reflecting a large volume of awards for publicly-financed projects.

PRODUCTION: The volume of industrial production increased further in September and the Board's seasonally adjusted index advanced to 90 percent of the 1923-1925 average as compared with 88 percent in August. There was a substantial rise in pig iron production and output of steel ingots continued to increase, averaging 45 percent of capacity. In the first three weeks of October, activity at steel mills showed a further increase and was at a rate of about 50 percent of capacity. Plate glass production continued to advance rapidly in September. Output of lumber and cement was maintained, although at this season activity in these industries usually declines. Automobile production in September remained at about the same low rate as in August. In October, however, output increased rapidly as most manufacturers began the assembly of new model cars. In the non-durable goods industries there were substantial increases in activity at meat-packing establishments, sugar refineries, and tire factories. Output of shoes declined somewhat. Textile production, which had been rising sharply since spring, showed little change in September, although an increase is usual. Activity increased further at silk mills but at woolen mills there was a decline, and at cotton mills output did not show the usual seasonal rise.

At mines, coal production increased considerably in September and there was also an increase in output of copper. Crude petroleum output declined as wells in Texas were shut down on both Saturdays and Sundays whereas in August only Sunday shutdowns had been in effect.

The value of construction contracts awarded, which had increased considerably in August, showed little change in September, according to figures of the F. W. Dodge Corporation. Awards for private residential building continued at the advanced level prevailing since early summer and contracts for public residential projects were also maintained following a rise in the previous month. Other public projects continued in substantial volume.

EMPLOYMENT: Employment and payrolls increased further between the middle of August and the middle of September, reflecting, principally, increases at manufacturing concerns. Employment rose sharply at automobile factories and increased moderately in other durable goods industries. At factories producing non-durable goods there was slightly more than the usual seasonal rise in the number employed.

DISTRIBUTION: Distribution of commodities to consumers showed a more than seasonal rise in September. There were increases in sales at department and variety stores and mail order sales also increased. Department store sales for the first three weeks of October showed somewhat less than the usual seasonal rise.

Freight carloadings continued to increase in September and the first half of October, reflecting chiefly a further rise in shipments of coal and miscellaneous freight.

COMMODITY PRICES: Prices of a number of industrial raw materials, particularly hides and copper, advanced from the middle of September to the third week of October. Crude oil and gasoline prices, on the other hand, were reduced. Livestock and meat prices showed large seasonal declines in this period. In the first half of October there were sales of many finished steel products at prices below those announced for the fourth quarter, but in the third week of the month it was reported that prices had been restored to former levels.

BANK CREDIT: During the four weeks ended October 19 there were further substantial increases in the gold stock of this country. Largely as a result of these gold acquisitions and of net expenditures by the Treasury from its deposits with the Reserve banks, excess reserves of member banks increased to a total of $3,270 million on October 19.

Demand deposits at reporting member banks in 101 leading cities were also increased by the inward gold movement and on October 19 amounted to $15,750 million, the largest volume ever reported by these banks. Following substantial increases during September, reflecting purchases of new issues of United States government obligations, total loans and investments at reporting banks showed little change during October.

MONEY RATES AND BOND YIELDS: The average yield on long-term Treasury bonds declined from 2.48 percent on Septemper 27 to 2.28 on October 21. Yields on Treasury notes and Treasury bills also declined in the period.