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

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Business volume in our district increased in July. January-July residential contracts were highest in 12 years. Bank deposits and reserves remained high as loans to customers declined. Farm product prices and farm income declined slightly.

BUSINESS

The volume of business in July in our district, measured by our seasonally adjusted indexes, resumed the upward swing that began last March after having been temporarily halted in June, and continued to be well above the volume of a year earlier. All of the indexes were a little higher in July than in the preceding month with the exception of total carloadings (excluding miscellaneous). Our index of lumber sales in board feet at country lumber yards was the highest for July since 1929. The indexes of bank debits and city department store sales were at the highest point since the fall of 1937.

Northwestern Business Indexes

(1929-1931=100)

	July 1939	June 1939	July 1938	July 1937
Bank debits—94 cities	92	85	84	95
Bank debits—farming centers	93	89	89	95
Country check clearings	147	145	142	154
City department store sales	97	95	95	100
City department store stocks	85	81	79	89
Rural department store sales	98	97	95	105
Country lumber sales	101	99	90	98
Miscellaneous carloadings	83	81	73	97
Total carloadings (excl. miscellaneous)	71	73	55	98

Building contracts awarded (excluding public works and utilities) as reported by the F. W. Dodge Corporation increased sharply during July after having declined in May and June, were larger than in any month since June 1937 and were the largest for July since 1928. Large increases in educational and social & recreational classifications accounted for most of the large rise. Residential building increased moderately but was about one-fourth larger than in July last year. During the first 7 months of this year, residential building contracts were one-fourth larger than during the same period of 1938 and the largest for that period since 1927. Public utility contracts declined slightly but public works expanded rapidly. As a result, total construction contracts (including public works and utilities) in July were half again as large as in June and were the largest in our records for July which begin with 1919.

Building permits issued in 59 cities in July were half again as large in dollar volume and 15% more numerous than in July last year. Practically all of the increase occurred in new construction. Unusually large increases in building when compared with a year ago were reported by Detroit Lakes, Little Falls & Rochester, Minnesota; Great Falls, Montana and Watertown, South Dakota.

Department store sales in July were 2% larger than in July last year for the district as a whole. Sales at country stores showed a gain of 3% but at city stores were only 2% larger. Sales in each state and part state in the district were at least as large as a year ago with the exception of South Dakota where stores reported a 2% decline. Sections of our district showing especially large gains were northeastern Minnesota, the mountain area of Montana, southwestern North Dakota and northern Wisconsin & Michigan. All the states and part states in our district reported sales for the first 7 months of 1939 as large or larger than during that period of 1938, the district as a whole showing a gain of 4%. **Collections** as reported by 45 stores declined during July but were somewhat larger than during July 1938. **Accounts & notes receivable** also declined with the seasonal decline in sales volume and were only 1% larger on July 31 than on that date last year.

Sales at Department Stores

	No. of Stores	% July 1939 of July 1938	Cumulative % 1939 of 1938
Mpls., St. Paul, Duluth-Superior	21	102	103
Country Stores	426	103	104
Minnesota	144	100	104
Central Minnesota	29	102	106
Northeastern Minnesota	17	108	107
Red River Valley Minnesota	11	106	105
South Central Minnesota	29	94	98
Southeastern Minnesota	16	93	100
Southwestern Minnesota	42	99	106
Montana	47	107	109
Mountain	13	109	104
Plains	34	106	112
North Dakota	78	104	100
North Central North Dakota	14	107	102
Northwestern North Dakota	10	96	98
Red River Valley No. Dakota	25	105	100
Southeastern North Dakota	24	102	101
Southwestern North Dakota	5	123	105
Red River Valley—Minn., N. D.	36	105	101
South Dakota	83	98	103
Southeastern South Dakota	19	100	103
Other Eastern South Dakota	53	96	104
Western South Dakota	11	98	105
Wisconsin and Michigan	74	103	102
Northern Wis. and Mich.	37	110	104
West Central Wisconsin	37	101	100
Total District	447	102	104

City department store stocks declined by less than the seasonal amount in July and at the end of the month were the highest for July 31 since 1931 with the exception of 1937. **Rural department store stocks in the Ninth District** as a whole declined seasonally but were slightly higher than at the end of July last year as a result of larger stocks at rural department stores in Minnesota and Montana. In North & South Dakota and in the portion of Wisconsin & Michigan in this district, stocks were lower at the end of July than on July 31 a year ago. **Wholesalers' inventories** of automotive supplies, electrical goods, hardware and tobacco & its products all increased during July and were larger at the end of the month than on the same date one year earlier but grocery wholesalers' stocks declined to a level a little below that of July 31 last year.

Warranty deeds recorded in Hennepin and Ramsey Counties increased during July and were the largest for that month since 1928. **Mortgages** recorded declined somewhat during the month but nevertheless were the largest number recorded in July since 1936. **Mortgages accepted for insurance by the FHA** in June increased for the sixth consecutive month and were about 12% larger than June last year. During the first half of 1939, the number of mortgages accepted was 15% larger and the dollar volume was 17% larger than for the first half of 1938.

Business failures in July were smaller in both number and amount than in June. The number, however, was somewhat larger than in July 1938 but the liabilities were only about half as large. **Non-farm real estate foreclosures** in our four states declined in June and were the smallest for that month in recent years.

Iron mining activity as measured by carloadings increased seasonally in July to twice the July 1938 volume and iron ore shipments from upper lake ports were nearly double those of one year earlier. Steel mill activity has increased from about 50 percent of capacity in May to 62 percent at mid-August. As a result, iron ore consumption by furnaces increased sharply in June and a further increase was reported in July. Iron ore stocks on hand at furnaces and Lake Erie docks on August 1 were about the usual size on that date. **Copper and gold** production declined but **silver** production increased slightly during July. Production of all three of these metals, however, was substantially larger than a year ago. **The number of employees** at copper, gold and silver mines, on July 31 was unchanged from one month earlier and was about a third larger than on that date last year.

The volume of production in our district in July as indicated by several unadjusted indicators declined less than seasonally. **Flour production** at Minneapolis declined a little but production at other northwestern mills was higher. **Flour** and **linseed product shipments** from Minneapolis declined somewhat. The **cut of lumber** in July declined sharply. Compared with July 1938, all of these indicators were slightly smaller. **Lumber shipments** declined slightly in July and were one-fifth larger than in July last year. **Electric power utilization** in the three states of Minnesota, North Dakota and South Dakota increased during June and was greater than in any month in our 20-year record. Montana utilization increased to the highest point in the current year and was 14 percent larger than in June 1938. The Minnesota **employment index** rose 2.8 points to 104.7 in June. The index has advanced each month since last January when it was 94.7 and is now the highest for any month since November 1937.

Other business volume indicators that were as high or higher in July than in the same month last year were total sales at country lumber yards; sales of new passenger cars and trucks in Minnesota, Montana & North Dakota; net telephone installations in the Twin City area; wholesales of hardware, automotive supplies, electrical goods and tobacco & its products, and carloadings of forest products, coke, coal & livestock. Decreases from last year were reported in life insurance sales, wholesales of groceries, and carloadings of grain & grain products.

BANKING

Country member bank deposits changed but little in July and remained close to the highest level since November 1937. Earning assets decreased very slightly as did reserves with us, resulting in a small increase in deposits with other banks. Excess reserves remained unchanged at $18 million, the highest since June 1937 with the exception of last month.

City member bank deposits were higher at the end of July than at the beginning of the month but were a little lower than the all-time high of $580 million that was reached on July 12. Deposits of individuals, partnerships & corporations and of other banks both showed sizable increases but they were partly offset by declines in public deposits. Most of this increase was invested in government bonds although there was some increase in balances with other banks and with us. Loans to customers declined slightly. Excess reserves continued to be well below the all-time high reached early in June, but throughout July averaged higher than in any other month in our records.

Compared with the end of July last year, deposits were $41 million higher, capital accounts had been increased $2 million, earning assets were up $23 million and the remaining $20 million consisted of balances with other banks and with us.

During the first half of August, deposits increased slightly and earning assets declined by about the same amount; balances with us were unchanged, re-

sulting in a small increase in balances with other banks.

Bills discounted by this bank for member banks increased seasonally between mid-July and mid-August but the total remained very low, reflecting the small demand for grain harvest funds at banks in this district. **Current industrial loans** and **industrial loan commitments** both declined a little in the four-week period ended August 16. **Federal Reserve notes** in circulation continued to decline during the latter half of July and on July 26 were a little less than $131 million, the lowest since early November 1937. In the first three weeks of August, Federal Reserve notes in circulation increased slightly.

AGRICULTURE

Farmers' cash income from 7 products (excluding government payments) was a little smaller in July than in June and slightly smaller than in July last year. The 7 products included are bread wheat, durum wheat, rye, flax, dairy products, hogs and wool. Hog and dairy product incomes were somewhat larger in July than in the preceding month but the cash grain income was much smaller than in June. As a result of larger marketings, which more than offset the lower price, the income from wheat, both bread and durum, was larger this July than last but all other income items with the exception of wool were below July 1938. The income from wool was one-fifth larger than in July last year as a result of the higher price paid for a little larger clip.

Total farmers' cash income (including government payments) in this district in June this year was about equal to that in June a year ago but was much smaller than in May whereas there is generally a seasonal increase from May to June. Government payments accounted for most of the decline from the May level but there was also a sharp decrease in income from the sale of crops. Total income for the first half of the year was estimated at $314 million, nearly 6% larger than in the first half of 1938. In 1937 and 1938, 44% of the calendar year's income was received by farmers in the first half of the year.

Agricultural product prices in general were moderately lower in July than in June. All of the grain prices declined during the first three weeks of the month but were a little higher at the close of the month than ten days earlier. Cattle prices sagged off slightly during July with the exception of prime butcher steers which showed some gains. Stocker and feeder steers showed the greatest decrease. Hog prices strengthened about mid-July and climbed to a "top" of $7.10 but later slumped again. Ewe prices rose a little from the three-year low established in June and equalled the July 1938 price. The Ninth District wool price held steady at the high for the year, 21 cents. The Minnesota farm price index again declined in July to 61, twelve points lower than in July last year.

Ninth District early sown spring grain crop estimates were all higher on August 1 than one month earlier as a result of a less-than-usual amount of unfavorable July weather for maturing crops. Winter grain prospects, however, deteriorated to some extent, the August 1 production estimates for both winter wheat and rye being lower than on July 1. The absence of rainfall in July, however, damaged corn and late potato prospects materially which was reflected in lower August 1 estimates for these two crops. If the August 1 estimates are obtained, the 1939 wheat and rye crops will be much smaller than in 1938 but all of the other important crops in this district, including hay, will be larger. Compared with the 10-year average, the 1939 durum wheat and potato harvest will both be smaller, reflecting the acreage reductions in those two crops that have occurred in the last ten years but the 1939 production of each of the other crops will be larger.

Numerous reports from bankers, grain dealers, elevators and railroads received since August 1 quite uniformly comment on higher yields and better quality than was anticipated two or three weeks ago for the combined and early threshed grains. That is not true of late sown crops but in large areas of our district where the heat and drouth in May appeared to have permanently handicapped the early sown grains so that only a "fair" crop could be expected, actual threshing returns indicate that a "good" crop has been obtained although yields apparently will average somewhat lower than in 1938.

August 1, 1939 Production Forecasts for Minnesota, Montana, North Dakota and South Dakota with Comparisons

(Thousands of bushels, except hay)

	Aug. 1, 1939	July 1, 1939	1938	10-Year Average
Bread Spring Wheat	114,720	114,323	148,828	105,125
Durum Wheat	31,382	30,890	40,445	35,306
Winter Wheat	24,355	26,150	29,640	13,082
Rye	20,669	21,182	33,588	18,343
Flax	12,435	12,150	6,838	11,104
Potatoes	37,580	39,005	36,014	39,476
Corn	233,511	237,663	211,749	208,877
Oats	220,046	198,857	214,976	212,431
Barley	105,094	96,340	102,096	101,146
All Hay (1,000 tons)	11,693	11,317	13,285	11,218

Receipts of cattle at South St. Paul during July increased less than is customary in that month and were the smallest July receipts since 1935. Calf receipts declined more than seasonally and were the smallest for the month since 1921. Pastures that were revived by abundant June rains remained good during early July and many cattle that would ordi-

narily have been marketed because of short range were held for larger gains in weight. During the first seven months of this year, total receipts of domestic cattle and calves were a little smaller than during the same period last year but total receipts were 1% larger because of Canadian importations that were nearly three times as large as in the first seven months of 1938. *The Livestock Situation* states: "Total beef production during the remainder of 1939 may not be greatly different from that in the corresponding period of 1938 but the demand for meats probably will continue somewhat stronger than a year ago."

During the first half of August, receipts continued to be smaller than usual but prices worked lower. Prices for steers weighing over 1,000 pounds showed the greatest decline. Average quality long yearlings and medium weight beeves proved scarce and topped the market at $9.75, fully 50 cents higher than choice heavy cattle.

Shipments of feeder cattle increased seasonally during July but for the first time since last October were smaller than in the corresponding month one year earlier. During the first 11 months of the 1938-1939 shipping year, total shipments were about 8% larger than during that period in the preceding shipping year. The result of the long continued increase in shipments and smaller domestic butcher cattle receipts was a large increase in cattle on feed in the corn belt states which the USDA estimated to be 16% on August 1.

During the first 17 days of August, demand was broad and shipments continued to expand seasonally. With the practical completion of the small grain harvest in a large part of our district, more farmers had time to give attention to cattle as a possible outlet for an abundant crop of feed materials. Because of the strong demand, prices remained steady in spite of the weakness in finished cattle prices.

Dairy cow prices during July reflected the steady demand for good quality cows and worked about $5.00 higher. Shippers were active and good quality cows easily earned from $70 up. The July price range was $45-$85. During the first half of August, prices worked unevenly lower in sympathy with butcher cow values, despite some strength in dairy product prices.

Hog receipts at South St. Paul declined seasonally during July but were about 10% larger than in July 1938. During the first 7 months of this year, 1,085 thousand head were received compared to 933 thousand in 1938 and 801 thousand in 1937. *The Livestock Situation* states: "Supplies of hogs for market in the 1939-40 marketing year which begins October 1 will be materially larger than in the present marketing year . . . Inspected hog slaughter in 1939-40 probably will be 15 to 20% larger than in 1938-39."

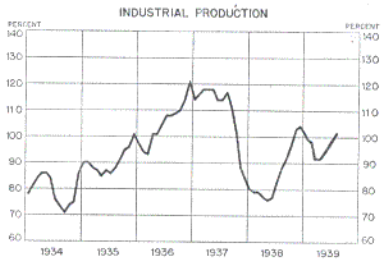
During the first half of August, hog receipts did not increase in accordance with expectations of the trade but prices continued to decline instead of strengthening as they frequently do at this season of the year. The mid-month "top" on choice hogs was $5.75, the lowest since early December 1934.

Sheep and lamb receipts at South St. Paul increased sharply during July and were two-fifths larger than in July last year as large numbers of Washington springers arrived throughout the month. About the same number of lambs was received during the first 7 months of 1939 as during that period one year earlier, and according to *The Livestock Situation,* "Slaughter supplies of sheep and lambs during the remainder of the grass lamb marketing season up to December 1 probably will be no larger and may be smaller than in the corresponding period last year." **The 1939 lamb crop** in the United States was about 1% smaller than the record crop of 1938 but larger than in any other year. The crop in our four states was slightly larger than in 1938.

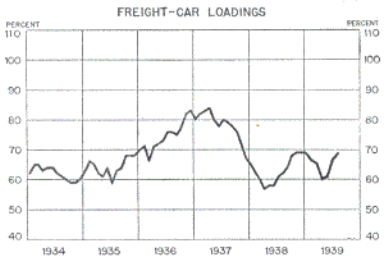
During the first half of August, lamb receipts continued to increase sharply as native supplies began to arrive more freely and supplemented the heavy Washington receipts. Prices were weak at mid-month. The "top" was $8.00, a decline of about $1.50 since July 1.

Egg production in the United States in July according to *The Poultry and Egg Situation* was about 2% above both last year and the 10-year average and may continue larger than last year during the fall of 1939 because of the larger number of hens in farm flocks. The same report called attention to the fact that these larger laying flocks are to be culled this fall and therefore market receipts of poultry during the remainder of 1939 and early 1940 will continue larger than in the corresponding weeks of the 1938-39 marketing season. A substantial increase in **turkey** numbers of perhaps 30% over 1938 was also indicated.

Cold storage supplies of butter and eggs during July, as in the previous few months, increased at less than the average rate. As a result, egg holdings were a little below the 5-year average and commercial stocks of butter were well below normal. Total butter supplies, including holdings of the Federal Surplus Commodity Corporation and the Dairy Producers Marketing Association, were about one-fourth larger than the August 1 5-year average. Poultry supplies declined more than usual but still remained well above normal. Supplies of beef declined and continued to be about two-thirds of normal. Pork and lard both declined more than usual during July and were about as large as the 5-year average on August 1.



Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to July 1939.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to July 1939.

Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ended August 12, 1939.

Wednesday figures of total member bank reserve balances at Federal Reserve banks, with estimates of required and excess reserves, January 3, 1934 to August 16, 1939.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AUGUST 17, 1939

In July industrial activity, seasonally adjusted, rose sharply and was close to the level reached last December. Prices of some industrial materials increased in recent weeks while those for agricultural products continued to decline.

PRODUCTION: The Board's index of industrial production, according to preliminary returns, advanced to 102 percent of the 1923-1925 average in July as compared with 98 in June and 92 in April and May. The advance in July reflected chiefly a considerable further increase in output of iron and steel, which usually declines at this season. Steel ingot production rose from an average rate of 52 percent of capacity in June to 57 percent in July and in the first three weeks of August was maintained around 60 percent which for the month would represent about the usual seasonal increase. Lumber production showed little change in July, although a decline is usual. In the automobile industry output showed a sharp seasonal curtailment during July and the first half of August, reflecting preparations for the shift to new model production which will be made about a month earlier this year than in other recent years. Retail sales of new cars continued in excess of production and dealers' stocks were greatly reduced. Plate glass production declined sharply in July, following a substantial increase in June.

Changes in output of non-durable manufactures in July were largely of a seasonal nature. At cotton textile mills and meat-packing establishments activity showed somewhat less than the usual declines and at sugar refineries output increased from the low level reached in June. Flour production continued in substantial volume.

Mineral production expanded further in July as output of bituminous coal continued to increase and petroleum production, which had been reduced in June, rose sharply. On August 14 the Texas Railroad Commission ordered a shut-down of most Texas oil wells for 15 days, beginning August 15, and subsequently similar shut-downs were ordered in several other important oil producing states.

The value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in July, owing principally to a small rise in contracts for public projects. Awards for residential work, both public and private, were practically unchanged from the June total.

EMPLOYMENT: Factory employment, which usually declines in July, was maintained this year at about the June level and payrolls showed a less than seasonal decrease, according to reports from a number of leading industrial states.

DISTRIBUTION: Sales at department and variety stores in July showed about the customary seasonal decline. In the first half of August department store sales increased.

Freight carloadings increased further from June to July. Loadings of coal continued to expand and the shipments of miscellaneous freight, which usually decline at this season, showed little change.

COMMODITY PRICES: Prices of most farm products and foods declined from the beginning of July to the middle of August. Some industrial materials, principally steel scrap, nonferrous metals, and textile fabrics, showed advances in this period, while crude petroleum prices were reduced.

AGRICULTURE: On August 1 prospcts for major crops were about the same as a month earlier, according to the Department of Agriculture. The first official estimate on cotton indicated a crop of 11,400,000 bales, somewhat smaller than last year's crop and 2,400,000 bales less than the 1928-37 average. World carry-over of American cotton, however, was estimated to have been somewhat larger on August 1 than the record volume of a year ago.

BANK CREDIT: Total loans and investments of member banks in 101 leading cities increased substantially during the first four weeks ended August 9, reflecting chiefly increases in holdings of United States government obligations and the purchase by New York banks of a large share of a new issue of New York state short-term notes. Commercial loans continued to increase at New York banks but declined at banks in 100 other leading cities as corn and cotton loans that were approaching maturity were taken over by the Commodity Credit Corporation in accordance with a standing agreement. Deposits at reporting banks remained at high levels.

Excess reserves of member banks increased further to new high levels in the latter part of July and the first half of August, owing principally to gold imports and net treasury disbursements, partly offset by a reduction in Federal Reserve Bank holdings of treasury bills.

MONEY RATES: The average rate on new issues of 90-day treasury bills has increased slightly in recent weeks and on August 16 was 0.032 percent. Prices of treasury bonds showed little change from the middle of July to the middle of August.