MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

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Business continued to advance during October and established new post-depression highs for that month in many lines. Bank deposits and loans advanced further to the highest level in recent years. Farmers' cash income declined seasonally but was above a year ago.

BUSINESS

The volume of business in the Ninth District advanced further in October as measured by our seasonally adjusted indexes. All of the indexes were the highest for October since 1937 and several were the highest since 1928 and 1929. The 94 cities bank debits' index advanced three points to 91% of the 1929-31 average, the highest October figure since 1937. The farming centers bank debits' index was the largest for any month since February 1930. Both department store sales indexes advanced and were the highest for October since 1936. Lumber sales in board feet at country yards in October were the largest for any month in our 20 year record. The carloadings indexes each advanced one point as a result of the highest October loadings since 1929. Employment as indicated by the Minnesota employment index declined seasonally from September but was at the highest October level in our seven-year record.

Northwestern Business Indexes

(1929-1931=100)

	Oct. 1940	Sept. 1940	Oct. 1939	Oct. 1938
Bank debits—94 cities	91	88	90	83
Bank debits—farming centers	108	105	101	90
Country check clearings	168	170	155	142
City department store sales	97	95	97	91
City department store stocks	84	85	84	79
Country department store sales	101	98	100	94
Country lumber sales	130	118	117	105
Miscellaneous carloadings	95	94	90	79
Total carloadings (excl. miscellaneous)	95	94	92	66
Employment—Minn. (1936=100)	113	115	108	101
Farm prices——Minn. (1924-26=100)	63	63	68	61

Total building and construction contracts awarded in this district in October declined somewhat from the large September volume because of a decline in public works contracts but totalled nearly $11 million. This was the largest amount of awards for October since 1919 with the exception of 1933 when contracts for nearly $9 million of public works were awarded. Contracts for public utility construction were slightly smaller than in September but were four times the October 1939 volume. Awards for industrial buildings continued at a high level and were the largest for October since 1927. Residential contracts increased somewhat and were the largest for the month since 1928. **Building permits** issued in 75 cities and towns in October in this district were nearly double the volume of October last year. One large permit granted for a defense industry plant, however, accounted for a large part of the increase. Excluding this unusually large item, building permits were 28% larger in amount and 14% larger in number than in October 1939, with each state and part state sharing in the gain.

Business failures were somewhat smaller in October than in September but were larger than in October 1939. **Non-farm real-estate foreclosures** increased during September but were the smallest for that month in our six-year records.

Department store sales in this district during October were at about the same level as one year earlier. Sales at city stores were slightly smaller than a year ago but country stores recorded a gain of 1% as a result of increases of 8% in Montana and 3% in North Dakota. Country stores in Minnesota, South Dakota and Northern Wisconsin & Michigan recorded small declines. Most retail trade sections in our territory, however, have shown an improvement for the year to date. Sales in each state and part state during the first ten months were larger than in the corresponding period last year. Montana and Northern Wisconsin & Michigan showed the greatest improvement in sales for this period with gains of 8% and 7% respectively. Sales for the total Ninth District during the first ten months were 3% larger than during the corresponding period of 1939. **City department store inventories** increased less than usual during October and were smaller on November 1 than on the same date one year earlier for the first time in 21 months. **Country department store inventories** increased as usual at that season of the year and on November 1 were 5% larger than one year earlier. **Wholesalers' inventories** according to the Bureau of the Census declined slightly during October and on November 1 were in about the same volume as on that date last year. **Retailers' collections** on accounts and notes receivable as reported by 43 stores increased seasonally during October and were the highest for the month in our six-year records. **Receivables** of these firms also increased seasonally and were at a six-year high. On November 1 they were 4% larger than on that date last year.

Sales at Department Stores

	Number of Stores Showing Increase	Decrease	% Oct. 1940 of Oct. 1939	Cumulative % 1940 of 1939
Total District	197	188	100	103
Mpls., St. Paul, Dul.-Sup.	8	12	99	101
Country Stores	189	176	101	105
Minnesota	67	64	99	106
Central Minn.	13	12	99	106
Northeastern Minnesota	13	4	101	109
Red River Valley Minnesota	4	6	95	102
South Central Minnesota	10	20	95	102
Southeastern Minnesota	6	11	98	106
Southwestern Minnesota	21	11	102	106
Montana	27	12	108	108
Mountains	7	3	111	109
Plains	20	9	106	107
North Dakota	32	29	103	103
North Central North Dakota	5	6	103	99
Northwestern North Dakota	5	3	103	104
Red River Valley N. Dak.	14	9	104	104
Southeastern North Dakota	7	10	99	104
Red River Valley—Minnesota and North Dakota	18	15	102	103
South Dakota	29	40	97	101
Southeastern South Dakota	6	8	97	105
Other Eastern So. Dakota	20	25	99	99
Western South Dakota	3	7	86	100
Wisconsin and Michigan	34	31	99	107
Northern Wis. and Mich.	18	15	99	109
West Central Wisconsin	16	16	99	106

Iron mining activity as measured by iron ore shipments from the upper lake ports continued at a high rate. More than 10 million tons of ore were shipped during the month, setting a new high for October. The advance of steel mill operations to the highest level in more than a decade, resulted in a further increase in iron ore consumption during October to a point closely approaching an all time record. Iron ore stocks at Lake Erie docks and furnaces on November 1 were somewhat larger than on the same date in either of the last two years in line with the higher rate of consumption. **Copper production** increased somewhat during October and was 16% larger than in October last year. **Gold and silver production** advanced during October and were 14% and 11% respectively above a year ago. **Employment** in non-ferrous ore mines increased slightly and was 16% larger than in October 1939.

The volume of manufacturing production in this district as measured by the following indicators declined seasonally during October but continued well above the October 1939 level. The index of Minnesota manufacturing employment declined seasonally but was the highest in our seven-year records. Flour production and shipments declined and were somewhat smaller than the October 1939 volume. Linseed product shipments increased and were nearly half again as large as a year ago. The cut of lumber declined seasonally but was a little larger than a year ago. Slaughterings of all classes of livestock increased seasonally and were considerably larger than in October 1939. Electric power utilization declined slightly during September but was 5% larger than in September last year.

Other business activity indicators that were as high or higher in October than a year earlier were mortgages accepted for FHA insurance; new passenger and commercial car registrations; life insurance sales; wholesales of groceries, hardware, paper and tobacco products; carloadings of forest products, ore, livestock, grain and grain products, coke, miscellaneous and less-than-carload freight; warranty deeds and mortgages recorded in Hennepin and Ramsey counties and net telephone installations in the Twin City area. Carloadings of coal, however, were less numerous in October than one year earlier.

BANKING

Country member bank deposits continued to expand rapidly and during the latter half of October were at the highest level in our four-year records. Each of the four complete states in our district shared in the gain, with Montana experiencing the largest gain both on a percentage basis and in dollar volume. Earning assets recorded a larger increase between the latter half of September and the latter half of October than in any period of similar length in our records. Excess reserves declined as a result of larger reserve requirements due to the expansion in deposits. Deposits were $43 million larger than during the corresponding period last year. Over this period earning assets increased $21 million, reserve balances rose $6 million, and deposits with correspondent banks increased $16 million.

City member bank deposits continued to increase during October and early November establishing an all time high of $664 million on November 13. Earning assets also continued to expand during the period. Loans advanced sharply to an eight year high. Investments also recorded a moderate gain but continued to be close to the lowest level of any recent year. Balances at correspondent banks were unchanged but balances held with us increased, raising excess reserves of city banks to the highest level on record. During the last 12 months deposits have increased $44 million. Loans have increased $20 million but investments declined $5 million, resulting in a net increase in earning assets of $15 million. Reserve balances expanded by $23 million while cash and correspondent bank balances increased $8 million.

The reserve position of Ninth District member banks is shown in the table below:

	Member Bank Reserve Deposits*	Required Reserves*	Excess Reserves*
Reserve City Banks	$100,266,000	$ 60,881,000	$39,385,000
Country Banks	68,662,000	41,167,000	27,495,000
Total Ninth District (1940)	$168,928,000	$102,048,000	$66,880,000
Total Ninth District (1939)	149,775,000	94,631,000	55,144,000

*Daily average for last half of October.

AGRICULTURE

Farmers' cash income from seven important Ninth District products, based on terminal receipts and prices, declined seasonally during October but was 8% larger than in October 1939. Incomes from wheat, rye and flax declined sharply from September and were all smaller than one year earlier. Potato income increased more than seasonally and was

nearly double that of October 1939. North Dakota accounted for almost the entire increase in the potato income, as that state shipped more potatoes during October than in any month since October 1924. Income from hogs in our district also increased sharply and was substantially larger than one year earlier. Dairy products declined as usual at this season but continued to be well above October 1939.

The USDA estimate of farmers' cash income (including government payments) for this District in September was nearly $122 million, 27% above September 1939 and the largest for any month since September 1929. The entire increase was the result of greater income from farm product marketings, as government payments to farmers in our territory in September were a little more than $6 million compared to nearly $8 million one year earlier. Each state and part state in this District recorded a large gain over one year earlier with North Dakota showing the largest dollar as well as percentage increase.

Agricultural product prices in October showed mixed trends and on the whole were at about the same level as one month earlier and somewhat lower than in October 1939. Wheat, oats, barley, rye and potato prices advanced during October but corn and flax prices declined slightly. Butcher steer prices continued the advance started last June and were at the highest level in three years. Feeder & stocker steer, butcher cow & heifer and calf prices declined slightly. Hogs declined sharply to below the $6.00 level while lamb and ewe prices advanced somewhat. Dairy products and egg prices advanced seasonally, fat hens declined and wool was unchanged. The Minnesota farm price index was unchanged at 63% of the 1924-26 average.

Cattle and calf receipts at South St. Paul increased seasonally during October and were 5% larger than in October 1939. During the first ten months of 1940, receipts of cattle were 3% larger but calf receipts were 5% smaller than during the corresponding period of 1939. *The Livestock Situation* stated: "Barring severe drought, the upward trend in cattle numbers probably will continue during the next two or three years. . . . Thus, over a period of the next five years a material increase in the production of beef and veal is probable. If hog slaughter continues near the level of the past two years, this will mean a substantial increase in total meat production. Under these conditions, considerable improvement in consumer demand for meats in this country will be necessary if a sharp down-trend in cattle prices is to be avoided."

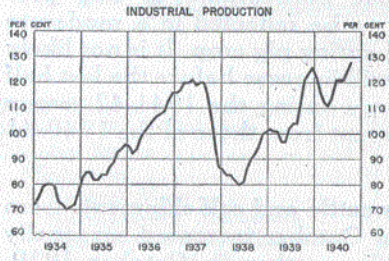
Hog receipts at South St. Paul increased seasonally during October, were substantially larger than the relatively light marketings in October 1939, and were the largest for the month since 1931. During the first ten months of 1940, hog receipts were 42% larger than during the corresponding period last year. *The Livestock Situation* reported: "The ratio of hog prices to corn prices in late 1940 and early 1941 may be a little higher than a year earlier, but it probably will continue unfavorable to hog producers. This is likely to be reflected in a moderate reduction in the 1941 spring pig crop. It is not likely that hog production will increase before the last half of 1941 and marketings during the 1941-42 season may not be much different from those of the 1940-41 season."

Stocker and feeder cattle and calf shipments from South St. Paul during October increased seasonally and were somewhat larger than in October 1939. During the period July-October 1940, shipments have been somewhat larger than during the corresponding period last year. *The Livestock Situation* stated: "With higher prices for feeder cattle this fall and also higher corn prices, cash costs of cattle feeding, including the cost of feed and the cost of feeder animals, may be higher this season than last. Higher prices for grain-fed cattle in 1941 than in 1940, therefore, will be necessary for favorable returns from cattle feeding operations this season."

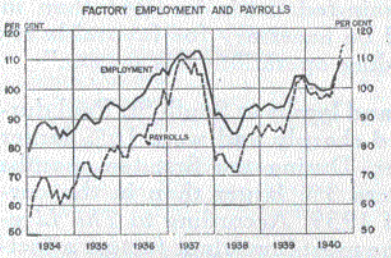
Receipts of sheep and lambs at South St. Paul during October increased sharply and were 16% larger than one year earlier. During the first ten months of 1940, receipts were 3% larger than in the corresponding period of 1939. According to *The Livestock Situation*: "The most important factors affecting lamb prices in recent years have been (1) slaughter supplies of lambs (2) domestic demand conditions and (3) wool prices. The outlook for these three factors is mostly favorable for a higher level of sheep and lamb prices in 1941 than in 1940."

Turkey production in 1940 in our four states as estimated by the Agricultural Marketing Service was 5% larger than the large 1939 production and more than one-fourth larger than the 1932-36 average. In the United States, production increased 1% over last year and was 44% above the average for the five years 1932-36. The number of turkeys frozen to death in the storm in early November has not been officially estimated but in view of the large 1940 crop and the larger than usual cold storage holdings of turkey it would not appear that a shortage is likely.

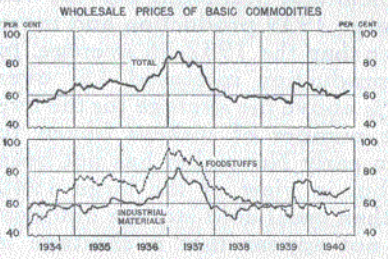
Cold storage holdings of butter declined seasonally during October and on November 1 were 13% below the five-year median. Egg stocks declined seasonally but continued to be somewhat above normal while poultry holdings continued to increase and were nearly half again as large as the median. As a result of larger-than-usual cattle slaughterings during October, the amount of beef in cold storage increased for the second month but on November 1 was at about a normal level. In spite of heavy hog slaughterings, pork holdings declined more than usual but continued to be somewhat above average. Lamb & mutton supplies increased seasonally continuing to be about one-quarter larger than the median. Lard in cold storage declined less than seasonally and on November 1 was more than three times as large as the November 1 five-year median.



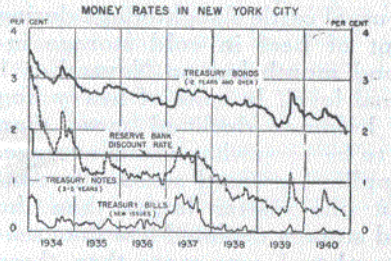
Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. By months, January 1934 to October 1940.



Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average=100. By months, January 1934 to October 1940.



Federal Reserve groupings of Bureau of Labor Statistics data. Thursday figures, January 4, 1934 to November 7, 1940.



For weeks ended January 6, 1934 to November 16, 1940.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, NOVEMBER 18, 1940

Industrial output rose sharply in October and the first half of November and prices of basic commodities advanced further. New orders both for defense purposes and for civilian needs continued in large volume.

PRODUCTION: The volume of industrial production, as measured by the Board's seasonally adjusted index, rose further in October to about 128 per cent of the 1935-1939 average as compared with 125 in September and 126 at the peak reached last December.

Increases in output were marked in the automobile and textile industries. In the rayon industry, where production in September had been curtailed by a strike, activity increased considerably and cotton textile mills were also more active. Mill sales of cotton goods have been large since the middle of August, reflecting increased civilian and military demand, and have been in excess of production during most of this period. At wool textile mills, where activity had risen sharply in September, there was a further increase in October. Backlogs of orders in this industry are now of considerable size owing to a large volume of orders received during the past two months, particularly from the Government. Automobile production rose to about 500,000 cars and trucks, the largest monthly total since the spring of 1937, and retail sales of both new and used automobiles were reported to be large for this time of year.

In the steel and machinery industries activity continued at a high rate in October. In the first half of November steel ingot production advanced slightly further and was at about 96 per cent of capacity. This high rate of output is expected to be maintained for some time to come, according to trade reports, as new orders for steel have continued large. Lumber production, which had risen sharply since mid-summer, declined less than seasonally in October. New orders for lumber were somewhat below the high rate of August and September but remained above production, reflecting in part continued Government demands.

Bituminous coal production declined sharply in October but in the first half of November showed some increase. In this industry output had been maintained in large volume during the summer owing in part to considerable stocking of coal in anticipation of higher prices. Anthracite production also declined in the first half of October but rose sharply in the latter part of the month owing in part to seasonal influences. Crude petroleum production, which had been curtailed during most of the summer, increased further in October.

Value of construction contract awards increased in October, following a decline in the previous month, according to figures of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Changes in the amount of contract awards in recent months have reflected principally fluctuations in contracts for public projects. Awards for private construction have shown about the usual seasonal changes, following a sharp rise in July and August.

DISTRIBUTION: In October department store sales declined considerably from the advanced level of the two preceding months, while sales at variety stores, which also had been large in August and September, increased seasonally. In the early part of November department store sales increased somewhat.

Total loadings of revenue freight in October were maintained at about the level reached in September. Shipments of miscellaneous merchandise increased further, while loadings of coal showed a sharp decrease. In the first week of November freight-car loadings declined by less than the usual seasonal amount.

WHOLESALE COMMODITY PRICES: Prices of basic commodities continued to advance from the middle of October to the middle of November, with the chief increases in industrial materials, particularly lead, hides, wool and textile yarns. The general index of wholesale commodity prices rose further by about 1 per cent in this period, reflecting increases in prices of some finished goods as well as of materials.

BANK CREDIT: Total loans and investments at reporting member banks in 101 leading cities have increased substantially since the end of September. Commercial loans showed sizable increases both in New York City and in other leading cities. Following reductions during August and September, holdings of United States Government obligations at these banks also increased. Federal Reserve System holdings of Government obligations were reduced by $180,000,000 between September 25 and November 13.

UNITED STATES GOVERNMENT SECURITY PRICES: After rising moderately during the latter part of October prices of United States Government securities advanced sharply in the early part of November. The quotation on the 1960-65 bonds reached a new high level at about 110¼, and the yield on this issue declined to 2.12 per cent compared with 2.25 per cent in October and 2.26 per cent in June 1939 and again in April 1940. The average yield on 3 to 5 year Treasury notes declined to less than ⅜ of 1 per cent.