MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 21) Federal Reserve Bank, Minneapolis, Minn. September 28, 1943

Business activity in the northwest in August remained at a high level. Bank deposits expanded further. Loans of city member banks expanded to reverse the trend of recent months. Northwest farm production and farm income remained at record levels.

BUSINESS

Northwest business activity in August, according to our seasonally adjusted indexes, showed no significant change from the high level that prevailed during the months of June and July. The indexes of bank debits and of country check clearings have averaged about 175 per cent of the 1935-39 base during each of the past three months. Similarly, the seasonally adjusted indexes of city department store sales have consistently exceeded the 1935-39 average by about 50 per cent. When compared to August 1942, these indexes reflected a volume of business about 20 per cent greater than a year ago.

Minnesota employment and Minnesota payrolls continued to rise. The employment index at 152 per cent of the 1936 average was 22 points higher than a year ago, while the payrolls index moved from 184 last year to 240 for August 1943. The Minnesota farm price index advanced 1 point to 173, only 5 points short of last June, the highest since 1920. Retail sales at country lumber yards were off from a month ago and were about one-third below August 1942. The index of total carloadings was off 10 points from last month but was 5 points higher than for August 1942.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	Aug. 1943	July 1943	Aug. 1942	Aug. 1941
Bank Debits—93 cities	174	175	140	131
Bank Debits—farming centers	181	172	159	146
Country check clearings	175	175	153	144
City department store sales	147	151	130	142
City department store stocks	158	158	171	119
Country department store sales	152	149	130	135
Country lumber sales	113	122	164	168
Miscellaneous carloadings	108	110	128	130
Total carloadings (excl. misc.)	136	146	131	132
Farm prices–Minn. (unadj.)	173	172	141	113
Employment–Minn. (unadj. 1936=100)	152	151	130	128
Payrolls–Minn. (unadj. 1936=100)	240	232	184	155

Iron ore shipments of 13,976,770 tons from upper lake ports and docks in August again established a new high record for any one month, exceeding the previous record set in July by almost one half million tons. With a slightly larger number of ore carriers now in commission, authorities estimate that shipments for the balance of 1943 may exceed those for the same months last year. They are confident the 1943 goal of 86.5 million tons can be achieved. Shipments last year totaled 92 million tons.

Stocks of ore at lower lake ports on September 1 were estimated at 39.2 million tons. This was only 4 million tons less than stocks on September 1942 despite the smaller 1943 ore movements to date. Ore movements through August this year were 8.2 million tons less than for the same months of 1942.

Sales at department stores in the district during August were maintained at a high volume, consistent with the trend of sales in the earlier months of 1943. August sales both at country stores and city stores were 17 per cent larger than in August 1942. For the first eight months of 1943 the dollar volume of sales at department stores in the district was 20 per cent greater than for the same months of 1942.

Sales at Department Stores

	Number of Stores Showing		% August 1943 of August 1942	% Jan.-Aug. 1943 of Jan.-Aug. 1942
	Increase	Decrease		
Total District	206	40	117	120
Mpls., St. Paul, Dul.-Sup.	16	3	117	120
Country Stores	190	37	117	120
Minnesota	55	8	115	117
Central	6	1	120	123
Northeastern	5	2	106	105
Red River Valley	4	1	113	124
South Central	17	1	126	127
Southeastern	8	3	108	110
Southwestern	15	0	123	123
Montana	34	4	116	120
Mountains	8	3	112	110
Plains	26	1	117	124
North Dakota	38	6	130	126
North Central	8	1	125	123
Northwestern	4	0	144	134
Red River Valley	15	1	133	125
Southeastern	9	4	118	122
Southwestern	*	*	—	—
R. R. V.—Minn. & N. D.	19	2	127	125
South Dakota	24	2	129	134
Southeastern	6	0	130	135
Other Eastern	11	2	128	133
Western	7	0	126	133
Wisconsin & Michigan	39	17	109	113
Northern Wisconsin	9	7	103	107
West Central Wisconsin	23	8	110	113
Upper Penn. Michigan	7	2	115	128

*Not shown but included in total. Insufficient number reporting.

BANKING

City member bank deposits continued the rising trend of the recent past and achieved a new high by the middle of September of $1,236 million. This peak was $95 million above the level achieved during the middle of the previous month and was $390 million above total deposits for the same period a year ago. City member bank holdings of U. S. Government securities rose to $696 million by September 15, 1943, an increase of $20.3 million above the amount held by these same banks in the middle of August. About one-third of this increase, or $7.2 million, occurred in United States Treasury bills with the rest of the increase about evenly split among U. S. Certificates of Indebtedness, $3.7 million; U. S. Government bonds, $4.0 million; and obligations guaranteed by U. S. Government, $3.7 million. The remainder of the increase of $1.7 million occurred in U. S. Treasury notes. Miscellaneous investments increased by slightly over $8 million during the month so that total city member bank investments were up by $28.5 million.

Loans to customers were up slightly and hit a level of $195 million, about $21 million above the previous month, but $20.8 million below a year ago. Commercial, industrial and agricultural loans increased $10 million; loans for carrying securities increased $7.2 million; and all other loans increased by about $4.3 million. Real estate loans declined about $200,000 from the previous month and were about $1.1 million below the same period a year ago. Commercial paper increased by $2.0 million during the month. Total loans and discounts and investments were therefore up to a level of $943 million, $52 million above the mid-August level and $348 million above the level of a year ago.

Balances with other banks in the United States increased during the month by $9 million but were $19 million below last year. Reserves carried with the Federal Reserve Bank were also up by $14 million and were $43 million above September of last year. Excess reserves increased by $11 million during the month, but were $2.0 million below last year.

Country member bank demand deposits averaged $614.4 million during the last two weeks of August, an increase of $6 million over the same period in July; time deposits increased by $7 million, averaging $299.3 million for the last two weeks in August. Total demand and time deposits of these banks during the latter half of August were $270 million above one year ago. Reserves with the Federal Reserve Bank averaged $114.6 million, an increase of $8 million over the last two weeks in July and an increase of $38 million over the last half of August, 1942. Excess reserves continued relatively large, averaging during the latter part of August about $35.5 million. Earning assets were up $26 million over the previous month and $207 million over a year ago.

Some indication of the impact of wartime increases in purchasing power and incomes on the finances of state and local governments in the Ninth Federal Reserve District can be obtained from June 30 call report data compared with similar data for June, 1941, the last June call report prior to the entry of the United States in the war. During this two-year period, demand deposits of state and local governments held in member banks of this District increased from $129 million to $171 million, an increase of $42 million or 32 per cent. This increase percentagewise varied widely among the different states in the District. Montana, with a percentage increase of 67 per cent led the states. North Dakota, with a percentage increase of 22 per cent had the least relative rise. The largest dollar increase occurred in Minnesota, whose state and local government balances with member banks increased by $23 million or 26 per cent.

This does not include the fairly significant volume of demand deposits of local government units held in nonmember banks in the District. It should also be pointed out that to these increases in cash balances held should be added any retirement of securities and bonds occurring during the two-year period and any other securities purchased by nonmember banks in order to arrive at a more complete picture of the improvement in the financial condition of local and state governments.

Presumably most of this increase arises out of the inevitable increase in tax receipts which accompanies rising incomes combined with the automatic reduction of certain expenditures made necessary because of wartime shortages of manpower and materials.

Demand Deposits of State and Local Government Units Held in All Ninth District Member Banks

State	June, 1941 (000)	June, 1943 (000)	Change (000)	Per Cent Change
Michigan*	$ 4,365	$ 6,045	$ 1,680	38%
Minnesota	89,135	112,225	23,090	26%
Montana	12,982	21,641	8,659	67%
North Dakota	3,382	4,117	735	22%
South Dakota	14,593	20,972	6,379	44%
Wisconsin*	4,350	5,523	1,173	27%
Total	$128,807	$170,523	$ 41,716	32%

* Only those counties in these states which are in the Ninth Federal Reserve District are included here.

AGRICULTURE

Farm cash income in the Ninth Federal Reserve District in August showed the usual seasonal increase from July and according to our estimate based upon nine important crop and livestock items, farm income in August was about 23 per cent greater than in August a year ago. Offsetting the decline in income from the sale of cattle and rye were substantially larger receipts from the sale of flax, wheat, eggs and dairy products. Flax, as a cash crop, has gained in prominence in recent years. It appears likely that farmers in the Ninth District will receive about $110 million for their 1943 flax crop.

Crop conditions in the northwest, according to the U. S. D. A. September 1 crop report, were further improved during the month of August.

Wheat production in North Dakota this year is expected to exceed 1942. The estimates of corn and flax production were again increased over the preceding month but the estimates for oats and barley were revised downward. Comparisons for 1942 and 1943 appear below.

Crop Production in the Ninth Federal Reserve District

(Thousands of Bushels)

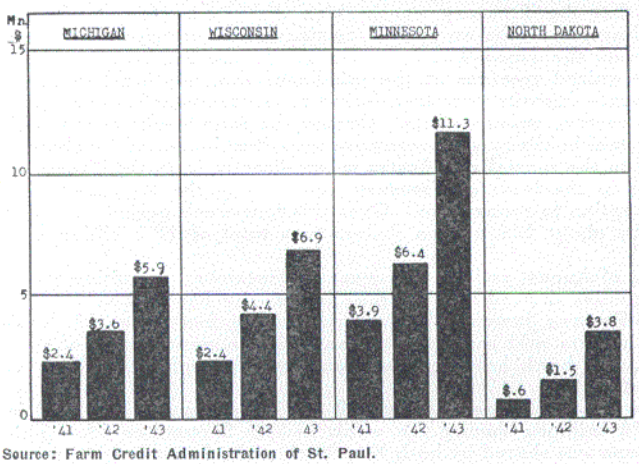
	1942	1943 *	% Change
Corn	360,806	364,141	+ 1
Wheat	292,868	274,916	— 6
Oats	390,377	329,457	— 16
Barley	192,903	146,748	— 24
Rye	34,359	13,848	— 60
Flax	31,226	42,386	+ 36
Potatoes	45,785	57,119	+ 25

* September 1 estimate.

Farm mortgage debt in the northwest, during the first half of 1943, based on a report from the Federal Land Bank in St. Paul and upon reports of member banks in the District, continued the decline begun in 1939. According to the St. Paul Bank, farmer borrowers with obligations outstanding to that institution retired during the first six months of 1943, by payments in full and by part payments, 8 per cent of the principal amount of farm mortgages outstanding on January 1. One highly significant fact relating to the repayment of farm mortgage loans was revealed by the St. Paul Bank in a study of the source of these funds. They indicate that probably as much as 92 per cent of the $28 million paid to them in the first half of 1943 on mortgage indebtedness, came out of cash savings or current income. The payments to the Land Bank, therefore, represent debt reduction and not a shift of obligations from one creditor to another. Additional proof of the over-all farm debt reduction is to be found in reports of condition of member banks. Between January 1 and June 30 of this year, the volume of farm mortgages held by member banks declined by 5 per cent.

PAYMENTS ON PRINCIPAL OF FEDERAL LAND BANK AND LAND BANK COMMISSIONER LOANS IN THE SIX MONTHS ENDED JUNE 30, 1941, 1942 AND 1943

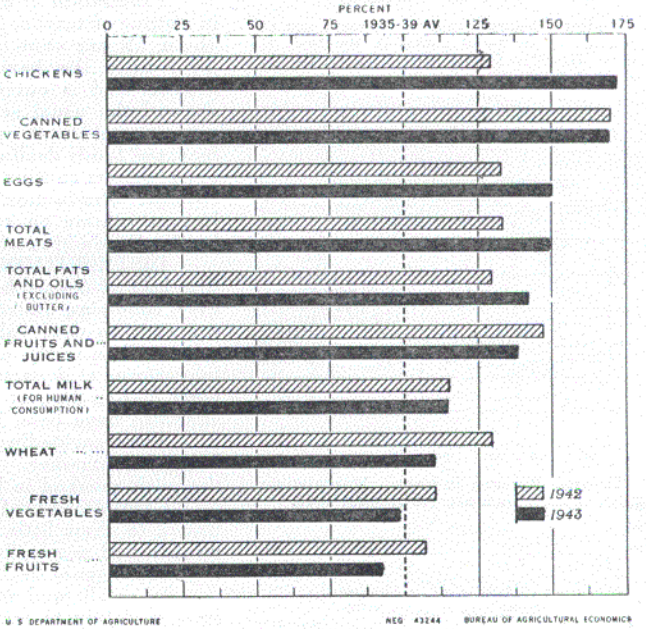
PAYMENTS ON PRINCIPAL INCLUDE PART PAYMENTS AND PAYMENTS IN FULL



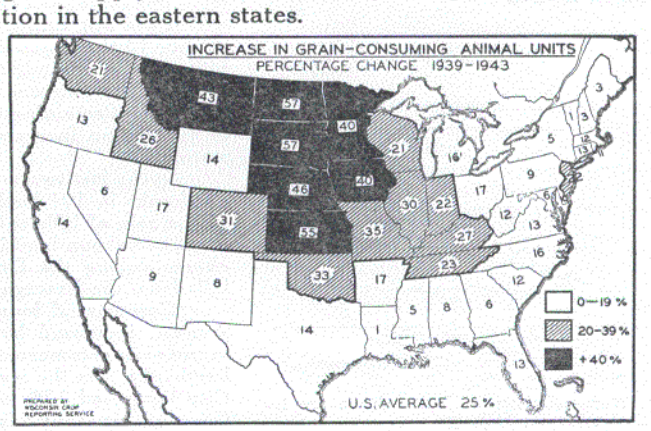
Source: Farm Credit Administration of St. Paul.

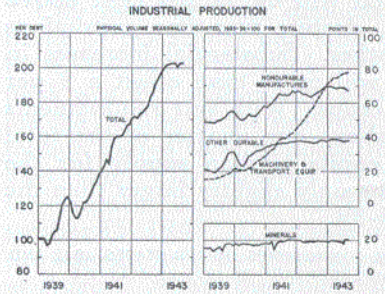
According to the United States Department of Agriculture, "Total food production this year is expected to exceed last year's record high production by 5 per cent and will be 32 per cent above the pre-war average, despite war-time restrictions and unfavorable weather. Substantial increases in livestock production will more than offset a 9 per cent decline in food crops. With war requirements expected to absorb about one quarter of the total production, the per capita civilian supply for the year as a whole will be only slightly larger than the consumption in 1935-39."

PRODUCTION OF MAJOR FOOD COMMODITIES, UNITED STATES 1942 AND ESTIMATED 1943 AS A PERCENTAGE OF 1935-39 AVERAGE

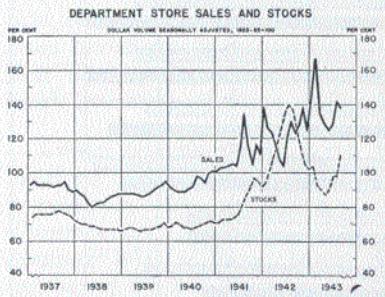


One of the important war-time developments in agriculture has been the phenomenal growth in the number of grain consuming animals on farms in the United States. This tremendous growth in grain consuming livestock on midwest farms has been largely responsible for the difficult feed situation that has developed throughout the United States, despite the record production of feed grains in 1942. The accompanying map illustrates the increases that have occurred in the nation since 1939. This means more grain will be retained for livestock feeding on farms where it was produced, thus lessening the grain supply available for dairy and poultry production in the eastern states.



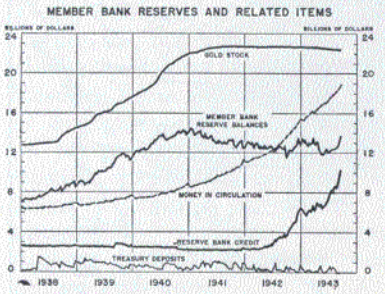


Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for August 1943.



Federal Reserve indexes. Monthly figures, latest shown are for August 1943.

Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for September 15, 1943.



Wednesday figures, latest shown are for September 15, 1943.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, SEPTEMBER 22, 1943

Industrial activity and war expenditures were maintained in August at a high level. Commodity prices showed little change. Retail trade continued in large volume.

INDUSTRIAL PRODUCTION—Output of manufactures and minerals showed little change in August and the Board's seasonally adjusted total index of industrial production remained at the July level. Production of durable manufactures increased. Output of iron and steel continued to advance and reached the peak levels achieved earlier this year. There were further slight increases in activity at war plants in the transportation equipment industries. Output of other durable products showed little change.

Production of nondurable goods declined in August, reflecting further decreases in output of textile, leather, and food products. Cotton consumption in August was about 15 per cent lower than the same period a year ago and was at the lowest level since the beginning of 1941. Leather output has also declined in recent months and is currently close to prewar levels. Activity at meatpacking plants showed the usual seasonal decline in August but preliminary figures indicate that output was about one-fifth larger than a year ago. Output of most other manufactured foods declined somewhat further. Production of petroleum, coke, and rubber products continued to advance in August while chemical production showed little change. Production of crude petroleum continued to rise and in August was in the largest volume on record. Lake shipments of iron ore likewise reached a record level. Production of coal and metals was maintained in large volume.

DISTRIBUTION—Department store sales continued large in August and the first half of September. Increases during this period were less than seasonal, however, following maintenance of sales at a comparatively high level during July. For the year to date value of sales at department stores has been about 13 per cent greater than in the corresponding period last year, reflecting in part price increases. Inventories at department stores have increased in recent months and are now somewhat higher than at the beginning of this year, indicating that receipts of new merchandise have been in excess of the value of goods sold.

Total carloadings were maintained in large volume during August and the first half of September. Shipments of grain showed a less than seasonal decline from the peak reached in July and were one-fifth larger than August a year ago.

COMMODITY PRICES—The general level of wholesale commodity prices continued to show little change in August and the early part of September. Prices of lumber and newsprint were increased, while prices of fruits and vegetables showed further seasonal declines.

In retail food markets prices of apples and fresh vegetables decreased further from mid-July to mid-August. The Bureau of Labor Statistics cost of living index declined one-half of one per cent as decreases in foods were partly offset by small increases in retail prices of other goods and services.

AGRICULTURE—General crop prospects declined slightly in August according to official reports. The forecast for corn production was raised by 3 per cent to almost 3 billion bushels, while prospects for other feed crops declined. Production of cotton indicated on September 1 was 11.7 million bales as compared with a crop of 12.8 million last season. Milk production in August was estimated to be 2 per cent smaller than output a year ago, while marketings of most other livestock products continued in larger volume than last year.

BANK CREDIT—In mid-September excess reserves of member banks rose sharply to about 2 billion dollars from the average level of about 1.1 billion which had prevailed in the latter part of August and early in September. This increase was due in part to the fact that the Treasury was making disbursements out of temporary borrowing from Reserve Banks on special certificates in anticipation of tax collections and receipts from the Third War Loan Drive. It also reflected in part a substantial decrease in required reserves at the middle of the month when funds from individual and corporate deposits were transferred to Government loan accounts which are not subject to reserve requirements. During the four weeks ended September 15 the Reserve System holdings of Government securities increased by about 1 billion dollars in addition to the special certificates taken directly from the Treasury. Most of the increase was in the form of Treasury bills sold to the Reserve Banks with sellers retaining the option to repurchase. Over this four-week period currency in circulation increased by about 560 million dollars to a total of 18.8 billion outstanding.

In the last two weeks of August and the first week of September, reporting member banks in 101 leading cities showed a net decline in security holdings as a result of the sale of bills to the Reserve System. In the week ending September 15, however, some non-banking holders sold securities to the banks in anticipation of purchases during the Drive, and bank holdings also increased through repurchase of bills from the Reserve System.

Commercial loans, which had expanded by 100 million dollars in July and in August, increased by 250 millions during the week ending September 15. This increase in commercial loans was shared by both New York and other reporting member banks. In the week ending the 15th, loans to brokers and dealers in New York City increased 370 million dollars, most of which was for purchasing and carrying Government securities, and there was also an increase in loans on securities to others.