MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 22) Federal Reserve Bank, Minneapolis 2, Minn. October 28, 1943

Northwest business activity in September expanded over August. Member bank deposits increased from the high August level despite the Third War Loan. Farm cash income increased further as another good crop moved to market.

BUSINESS

Business volume in September in the Northwest, according to our seasonally adjusted indexes, was somewhat greater than in the preceding month and was well above September a year ago. Reflecting the impact of the Third War Loan the indexes of bank debits both at city and country points were pushed to new all-time highs—more than twice the 1935-39 average. The index of check payments at 93 cities stood at 207 while bond purchases coupled with active rural trade pushed the country index to 204. Retail sales activity at country department stores was unusually brisk during September, causing the seasonal adjusted index to reach a new September high of 163, 20 points above a year ago. The index of sales at city department stores at 145 was off slightly from last month but was 16 points higher than in September 1942. Freight carloadings, after allowing for the usual increase from August to September, indicated a slightly increased business volume from a month ago due primarily to larger movements of livestock and coal. The Minnesota farm price index and the indexes of Minnesota employment and payrolls declined slightly from August.

Northwest Business Indexes

Adjusted for Seasonal Variation —1935-39 = 100

	Sept. 1943	Aug. 1943	Sept. 1942	Sept. 1941
Bank Debits—93 cities	207	174	150	132
Bank Debits—farming centers	204	181	163	144
City department store sales	145	153	129	127
City department store stocks	146	159	153	126
Country department store sales	149	145	143	124
Country lumber sales	123	115	127	143
Miscellaneous carloadings	114	109	127	126
Total carloadings (excl. misc.)	141	137	136	130
Farm prices—Minn. (unadj.)	169	173	138	120
Employment—Minn. (unadj. 1936=100)	151	152	135	126
Payrolls—Minn. (unadj. 1936=100)	238	240	188	154

Iron ore shipments from Upper Lake Ports during September aggregated 12.7 million tons. This was 1.2 million tons short of August but was almost 1 million tons ahead of September a year ago. Much unfavorable weather in September prevented attainment of the 13.0 million ton goal set for that month. The season total on October 1 was 65.1 million tons, 21.4 million tons short of the 1943 goal with slightly more than two months of favorable shipping weather yet to come.

Retail sales at department stores in the district in September were up 14 per cent from September a year ago with percentage increases at city and country stores about equal. Retail sales in the Dakotas still show the largest gains, but the September gains were more moderate than for the first half of the year. Retail sales at department stores in South Dakota in September were 22 per cent over September 1942, whereas sales for the first nine months of 1943 exceeded sales for the same months in 1942 by 33 per cent.

Sales at Department Stores

September 1943 Compared to September 1942

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Sept. 1943 of Sept. 1942	% Jan.-Sept. 1943 of Jan.-Sept. 1942
Total District	210	57	114	119
Mpls., St. Paul, Dul.-Sup.	16	3	113	119
Country Stores	194	54	114	119
Minnesota	62	13	112	116
Central	6	1	121	126
Northeastern	5	3	105	106
Red River Valley	5	0	122	124
South Central	16	4	117	125
Southeastern	13	2	110	112
Southwestern	17	3	110	117
Montana	29	11	112	121
Mountains	6	4	103	105
Plains	23	7	115	125
North Dakota	37	10	118	124
North Central	8	1	129	126
Northwestern	3	2	105	124
Red River Valley	15	1	127	125
Southeastern	9	6	107	119
Southwestern	*	*	.....	.....
R. R. V.—Minn. & N. D.	20	1	126	125
South Dakota	21	4	122	133
Southeastern	5	0	125	134
Other Eastern	10	2	118	130
Western	6	2	125	137
Wisconsin and Michigan	45	16	113	114
Northern Wisconsin	12	5	120	111
West Central Wisconsin	24	8	111	112
Upper Pen. Michigan	9	3	109	122

* Not reported separately—Insufficient number reporting.

BANKING

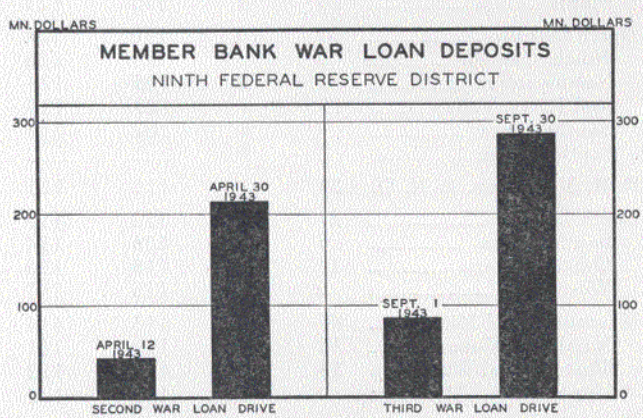
Third War Loan Drive

On October 19, 1918, the subscription period closed for the Fourth Liberty Loan Drive of World War I. The goal had been set at $6,000,000,000 of which $210,000,000 was allocated to the Ninth District. The country as a whole had oversubscribed this quota by slightly over 16% as did also this district. Total subscriptions for the nation were $6,989,047,000 and for this district $241,628,300.

By coincidence the Third War Loan Drive of World War II closed almost exactly a quarter of a century later, in 1943. This time the national goal was $15,000,000,000, 250% of the goal in World War I Fourth Liberty Loan Drive. While final results for the ninth district have not been released, the entire nation went over the quota by $3,943,000,000 or 26%. This compares well with the 16% oversubscription of the World War I Fourth Liberty Loan Drive just twenty-five years ago.

While no subscriptions in the Third War Loan Drive were allowed from banks, the heavy purchases of bonds by the nonbanking public have definitely affected the banks. According to legislation enacted by Congress in April of this year, proceeds from the sale of bonds that are deposited in qualified banks to the credit of the U. S. Government War Loan account are not subject to reserve requirements. The funds are withdrawn from these accounts as the Treasury needs them.

The Third War Loan Drive has greatly expanded these War Loan deposits in the Ninth District member banks. On September 1, before the drive began, total U. S. Government deposits were $86 million, most of which was in war loan accounts. By September 30, shortly before the war loan drive ended, U. S. Government deposits had expanded by $201 million to a level of $287 million, a 120% increase. Essentially all of this increase grew out of the expansion of war loan deposits. Since the banks did not participate in the drive directly, much of this increase arises out of a shift from other deposits to war loan accounts although this movement is somewhat swamped by the increase in total deposits arising out of a movement of funds into this district. The table and chart indicate these various changes.



Those data do not, of course, tell the whole story. The two dates do not include the entire bond drive and therefore much of the impact on the banks did not show up in this table.

It seems evident, however, that the Third War Loan Drive will affect the banks very much as the Second War Loan Drive. Immediately there will be a tendency toward a shift of existing balances to war loan deposits, with perhaps a slight increase in total deposits. The shift of existing balances from deposit accounts of firms and individuals to the U. S. Government war loan accounts in the commercial banks explains how heavy payments for the purchase of bonds during the Third War Loan Drive can have so little influence on total deposits. The change is more in the character of deposits rather than in the total so long as the bonds are sold to the nonbanking public—as they were in the Third War Loan Drive. Because of an increase in total deposits, however, other demand and time deposits did not decline to the full extent of the increase in the war loan balances.

To the extent that balances are shifted into war loan deposits, reserve requirements will decline and excess reserves will tend to rise. As the Treasury withdraws these funds from war loan deposits and spends them, they return to the banks as nongovernmental deposits and required reserves will tend to rise.

The Third War Loan Drive and Ninth District Member Banks

State and Date	U. S. Gov't Deposits (000)	Other Demand Deposits (000)	Time Deposits (000)	Total Deposits (000)
Michigan (15 counties)				
9- 1-43	$ 2,135	$ 41,782	$ 43,880	$ 87,797
9-30-43	5,038	41,506	43,765	90,309
Minnesota				
9- 1-43	65,849	1,077,567	260,959	1,404,375
9-30-43	233,534	1,003,070	261,861	1,498,465
Montana				
9- 1-43	6,084	178,344	38,063	222,491
9-30-43	19,324	183,702	37,783	240,809
North Dakota				
9- 1-43	3,247	80,095	23,006	106,348
9-30-43	7,578	84,235	23,199	115,012
South Dakota				
9- 1-43	5,218	126,188	26,362	157,768
9-30-43	13,618	122,611	26,489	162,718
Wisconsin (26 counties)				
9- 1-43	2,996	53,615	36,076	92,687
9-30-43	8,173	50,282	35,950	94,405
Total Ninth District				
9- 1-43	85,529	1,557,591	428,346	2,071,466
9-30-43	287,265	1,485,406	429,047	2,201,718

City member bank deposits continued their increase of recent months and achieved a level of $1,274 million on October 13, a rise of $38 million over the previous month and an increase of $373 million or 41% over the same period a year ago.

City member bank investments were up about $43 million to a level of $787 million. About half of this increase, or $21 million, arose out of increased holdings of U. S. Treasury Certificates of Indebtedness. The remainder of the increase was essentially divided between increased holdings of U. S. Government Bonds of $12 million and U. S. Treasury Bills of $9 million. Miscellaneous other investments were up about $1 million.

Loans to customers continued to advance mildly and were about $14 million higher on October 13 than on that date in September, reaching a level of $209 million. Commercial, industrial and agricultural loans accounted for $8 million of the increase and miscellaneous loans about $5 million, the remainder of the increase occurring in real estate loans and those made for carrying securities. The volume of commercial paper remained unchanged at just under $4 million. Total loans, discounts and investments were just short of one billion dollars, $57 million above last month.

Balances with other banks in the United States declined from $96 million in mid-September to $91 million this month. Reserves carried with the Federal Reserve Bank were $165 million, $10 million below the previous month. Excess reserves were approximately $11 million, about $4 million below the previous month.

Country member bank demand deposits averaged $641 million during the fifteen-day period comprising the last half of September, $27 million above the last two weeks in August. Time deposits rose by $4 million over August; and total demand and time deposits achieved a new high of $944 million, about 40% above a year ago. Reserves carried with the Federal Reserve Bank increased by about $3 million during the month. Total funds available for earning assets are up by $6 million relative to August and are about $180 million above the level one year ago.

The reserve position for all member banks in the district, as indicated by the daily average reserve figures for the fifteen-day period ending September 30, is indicated by the table below:

Daily Average Reserve Position of Ninth District Member Banks for Fifteen-Day Period Ending September 30, 1943

Type of Bank	Average Reserves Carried (000)	Average Reserves Required (000)	Average Excess Reserves (000)
Reserve City Banks	$136,570	$131,314	$ 5,256
Other City Banks	20,813	16,574	4,239
Total City Banks	157,383	147,888	9,495
Total Country Banks	116,125	79,768	36,357
Total Ninth District—1943	273,508	227,656	45,852
Total Ninth District—1942	227,212	174,176	53,036

AGRICULTURE

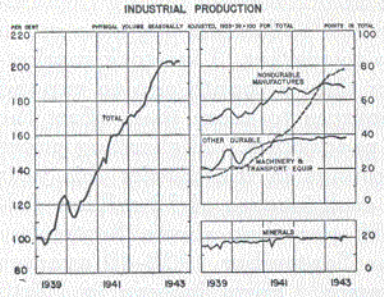
Farm cash income in the district during September increased over August as farmers began to move their large 1943 crop to market. Livestock marketings were also greater than a month ago to expand income from those sources to more than offset the seasonal low in dairy production. Higher hog prices plus the larger marketings in the district this year yielded an estimated cash income of 32 million dollars in September, 50 per cent above September 1942 and 4 times the September 1938-40 average income from that source. Farm income in North Dakota is unusually high compared to the 1935-39 average, due primarily to another exceptionally good wheat crop now moving to market at satisfactory prices. The September farm cash income in the district was estimated to be 30 per cent greater than in September a year ago.

Farm product prices in September were generally stronger than in August and were considerably higher than in September a year ago. All grain prices on the farm were much higher than a year ago—oats increased from 35 to 62 cents, barley from 49 to 93 cents, rye from 47 to 82 cents and wheat from 95 cents to $1.21. Livestock prices were only slightly above a year ago but the prices of livestock products, butterfat, milk and eggs, have registered significant gains during the past year.

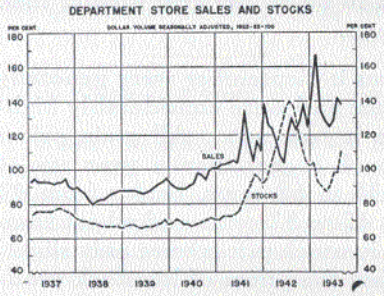
Livestock receipts at South St. Paul during September showed about the usual increase from August. Hog and sheep marketings continued ahead of last year, while markets of cattle and calves at South St. Paul for the year to date were off 23 and 17 per cent respectively. Hog marketings at South St. Paul during the first nine months of 1943 totaled 204 million head, 17 per cent more than in the same months of 1942.

Cattle feeding operations during the coming winter may be on a volume reduced from 1942. According to the October 1 report of the U.S.D.A. the rather sharply increased movement of feeder cattle to Corn Belt States in September failed to offset the small July and August shipments. However, the large shipments of unfinished cattle currently reaching market may further depress feeder cattle prices, which in turn may encourage farmers to place cattle in their feed lots.

Food authorities recommend that farmers feed a minimum grain ration to beef cattle and rely, in so far as practicable, upon roughages to produce gains on cattle that will grade medium to good. Grain supplies should be conserved if we are to hold livestock numbers and feed supplies in balance. Margins for cattle feeders were improved during the past three months as corn and finished cattle prices held steady while feeder cattle prices declined from about $13.00 in July to about $11.00 in mid-October.



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



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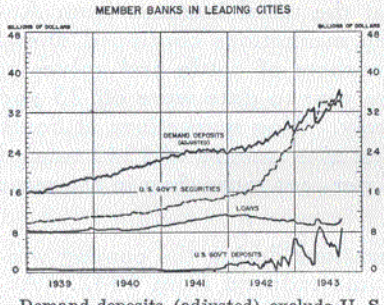
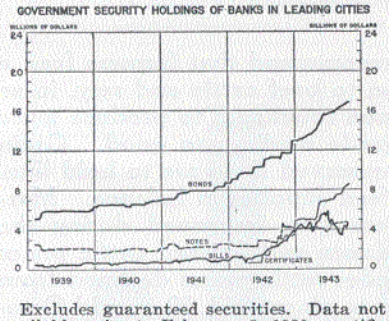


Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for September 15, 1943.



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for October 13, 1943.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, OCTOBER 26, 1943

Industrial activity showed little change in September and in the first half of October. Distribution of commodities continued in large volume and prices remained steady.

INDUSTRIAL PRODUCTION: Physical volume of industrial production as measured by the Board's seasonally adjusted index, as recently revised, was 243 per cent of the 1935-39 average in September, compared with 242 in August and 239 in July.

There were increases in output in the iron and steel and transportation equipment industries while activity in other durable goods industries showed little change or declined slightly. Open hearth and Bessemer steel production exceeded its previous peak level, reached in March of this year, and output of pig iron likewise established a new record. In the machinery industry as a whole, activity was maintained at the level of recent months although there was some further curtailment of output of machine tools and machine tool accessories.

Total output of nondurable manufactures continued at the August level. Cotton consumption, which had been declining since May, rose 6 per cent from August to September, but was 9 per cent below the high level of a year ago. Shoe production was maintained at the level of recent months and was slightly larger than a year ago. The output of manufactured food products rose seasonally.

Petroleum refining continued to rise in September and was at a rate about double the 1935-39 average. The Board's index of this industry is substantially higher than the old index because greater weight is given to aviation gasoline and other special war products. Output in the chemical industry as a whole declined in August, as some further expansion in industrial chemicals was more than offset in the total by reductions elsewhere, reflecting readjustment of the war program. Newsprint consumption rose less than is usual at this season, in the face of increasing supply difficulties, and a further 5 per cent cut in permitted consumption of newsprint was ordered, beginning October 1.

Crude petroleum production continued to rise in September, reflecting further improvement of transportation facilities for petroleum products. Output of crude petroleum in August and September exceeded the earlier peak levels reached in December 1941 and January 1942. Coal production continued at a high level.

In September the value of construction contracts awarded in 37 Eastern states was at about the same low level as in July, according to reports of the F. W. Dodge Corporation, and was considerably smaller than in August when there was a temporary increase because one exceptionally large contract was placed in that month.

DISTRIBUTION: Department store sales increased less than seasonally in September, following an unusually large volume of sales in July and August, and the Board's seasonally adjusted index declined from 142 to 131. During the first half of October, sales showed a gain over September although usually there is some decline at this season.

Railroad freight traffic in September and the first part of October was maintained at the high level of previous months. Coal shipments exceeded the record movement of last July and loadings of grain and livestock were 10 per cent higher than a year ago.

COMMODITY PRICES: Prices of grains advanced from the middle of September to the middle of October. Livestock prices were slightly lower, reflecting partly the establishment of Federal maximum prices for live hogs and sharply increased marketings of cattle. Wholesale prices of most other commodities continued to show little change.

AGRICULTURE: Crop prospects showed little change during September, according to official reports. There was a further small improvement in prospects for the corn and potato crops, while the previous forecast for cotton production was lowered slightly. Aggregate crop production is expected to be 7 per cent below the peak volume of last season but higher than in any other previous year.

BANK CREDIT: During the five weeks ending October 13, Government security holdings at reporting banks in 101 leading cities increased by about 2.5 billion dollars reflecting substantial open-market purchases during the Drive, and also, some purchases of bills on subscription from the Treasury. Loans showed a net increase of 2.2 billion dollars over the same period. Over two-thirds of the total amount represented loans to brokers, dealers, and customers for purchasing or carrying securities; in the last week of the period there were some declines, however, as repayments were made on the liquidation of the securities. Commercial loans, which have been increasing steadily since June, rose further by 540 milllion over the five weeks.

Holdings of Government securities by the Federal Reserve System showed little change from the end of September to the third statement date of October, but there were some shifts among the kinds of securities held. Treasury bills held under option declined by 200 million dollars between September 30 and October 20, while holdings of certificates of indebtedness and of Treasury bills outside of the option accounts increased by about 200 million. Total holdings of United States Government securities by the Reserve System on October 20 were 8.9 billion dollars.