

MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank, Minneapolis, Minn.

July 28, 1941

Business activity during June, although lower than in May, was at the highest level for June since 1929. Bank loans on June 30 were the largest in nine years. Farmers' cash income during June was the largest for the month since 1929. Crop prospects were unusually favorable.

BUSINESS

June business volume in this district declined slightly from the high May level but was nevertheless the best June volume since 1929. Each of the Northwest business indexes for June was substantially higher than one year earlier. After adjusting for seasonal variation, the index of bank debits at 94 cities advanced from the May level reflecting the heavier movement of grain to terminals in June than in May. The indexes of bank debits at farming centers and country check clearings were unchanged from May but were at the highest June level since 1928. All of the indexes of sales declined from the May level but were nevertheless at the highest level for June since 1929. Both miscellaneous and other carloadings declined more than seasonally but were the largest June loadings since 1930. The index of Minnesota employment advanced to 121% of the 1936 average, the highest for any month since 1934 when the series originated. The Minnesota farm price index also advanced and was at the highest level since July, 1937.

Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

| | June 1941 | May 1941 | June 1940 | June 1939 |
|--|--------------|-------------|--------------|--------------|
| Bank debits—94 cities..... | 131 | 125 | 109 | 102 |
| Bank debits—farming centers..... | 133 | 133 | 110 | 101 |
| Country check clearings..... | 137 | 137 | 112 | 103 |
| City department store sales..... | 115 | 124 | 107 | 104 |
| City department store stocks..... | 116 | 109 | 104 | 102 |
| Country department store sales..... | 116 | 125 | 109 | 102 |
| Country lumber sales..... | 124 | 127 | 116 | 106 |
| Miscellaneous carloadings..... | 124 | 130 | 105 | 95 |
| Total carloadings (excl. miscellaneous)..... | 139 | 152 | 123 | 100 |
| Employment—Minn. (unadj. 1936=100)..... | 121 | 119 | 109 | 105 |
| Farm Price—Minn. (1924-26=100)..... | 91 | 89 | 65 | 63 |

Construction contracts awarded in June in this district declined more than usual from the May level but were 14% larger than in June, 1940. The F. W. Dodge Corporation reported contracts during June totalled \$11.5 million compared to \$10.1 million in June, 1940. During the first half of 1941, total contracts awarded totalled \$55 million, 46%

larger than during the first half of 1940 and the largest for that period since 1923. Residential contracts awarded declined seasonally in June but were 6% larger than one year earlier. During the first half of 1941, residential building was in the largest volume for that period since 1926. Industrial building volume during June was more than four times that of one year earlier and the largest for the month in our twenty-three year records. Contracts awarded for commercial, public and social buildings and hospitals were also considerably larger than in June 1940. Educational and religious building was smaller than a year ago. Public utility contracts were the smallest for the month since 1938 but public works contracts were the largest since 1932.

The valuation of building permits issued during June as well as during the first half of 1941 in 84 cities and towns in the Northwest was 11% larger than during the corresponding period in 1940. Cities in Upper Michigan, Montana, North Dakota, South Dakota and Northern Wisconsin issued a larger volume of permits in June than one year earlier but Minnesota cities recorded a slight decline.

Sales at Department Stores

| | Number of Stores Showing Increase Decrease | | % June 1941 of June 1940 | Cumulative % 1941 of 1940 |
|----------------------------------|--|-----|--------------------------------|---------------------------------|
| Total District..... | 187 | 101 | 107 | 108 |
| Mpls., St. Paul, Dul.-Sup..... | 16 | 5 | 108 | 109 |
| Country Stores..... | 171 | 96 | 106 | 107 |
| Minnesota..... | 57 | 27 | 104 | 106 |
| Central..... | 8 | 1 | 106 | 107 |
| Northeastern..... | 8 | 1 | 102 | 107 |
| Red River Valley..... | 5 | 1 | 106 | 106 |
| South Central..... | 17 | 7 | 107 | 105 |
| Southeastern..... | 6 | 8 | 100 | 106 |
| Southwestern..... | 13 | 9 | 104 | 106 |
| Montana..... | 19 | 24 | 103 | 105 |
| Mountains..... | 6 | 7 | 104 | 107 |
| Plains..... | 13 | 17 | 102 | 104 |
| North Dakota..... | 29 | 17 | 106 | 104 |
| North Central..... | 6 | 2 | 108 | 104 |
| Northwestern..... | 4 | 1 | 116 | 116 |
| Red River Valley..... | 11 | 8 | 100 | 99 |
| Southeastern..... | 8 | 5 | 110 | 105 |
| Red River Val.-Minn. & N. D..... | 16 | 9 | 101 | 100 |
| South Dakota..... | 19 | 14 | 109 | 111 |
| Southeastern..... | 7 | 2 | 114 | 114 |
| Other Eastern..... | 8 | 7 | 105 | 108 |
| Western..... | 4 | 5 | 96 | 97 |
| Northern Wis. & Mich..... | 47 | 14 | 110 | 109 |
| Northern Wisconsin..... | 17 | 5 | 109 | 109 |
| West Central Wisconsin..... | 24 | 5 | 112 | 110 |
| Upper Peninsula, Michigan..... | 6 | 4 | 101 | 104 |

Department store sales in this district in June were 7% larger than in June, 1940 and were in the largest June volume since 1929. City stores reported a gain of 8% over one year earlier and country stores' sales increased 6%. Each state and part state participated in the increase. During the first half of 1941, total district sales were 8% larger than during the corresponding period of 1940.

City department store inventories failed to decline as usual during June and on June 30 were about 12% above one year earlier and the highest for that date since 1931. Country department store inventories also declined less than seasonally and on June 30 were 8% larger than on that date last year.

Manufacturing production in this district in June, as measured by the following indicators, advanced further from the May level. The index of Minnesota manufacturing employment increased to 123% of the 1936 average. This is 16% higher than in June 1940 and the highest for any month in our eight-year records. Electric power production declined less than seasonally during June but was 30% above June 1940. The cut of lumber increased and was 14% above one year earlier. Linseed oil shipments increased seasonally to a level nearly half again as large as in June 1940 and to the highest level for the month in our twenty-two year records. Flour production declined seasonally and was in about the same volume as in recent years. Slaughtering of cattle, calves and sheep were larger than in June 1940 but hog slaughtering continued to be smaller than a year earlier.

Iron ore shipments down the Great Lakes during June totalled 10.8 million tons, setting a new all-time record for the month. April and May shipments also established new records for each of those months. Iron ore consumption by furnaces during June continued to be a little more than 6 million tons as steel mills operated at close to capacity. Iron ore consumption during the twelve months ended June 30 totalled about 72 million tons, 18 million more than in the calendar year 1937 and 8 million more than in 1929. Iron ore stocks at lower lake ports on June 30 were somewhat larger than one year earlier, but about equal to the 1936-40 average for that date.

Other business activity indicators for this district that were as high or higher in June than a year earlier were new car registrations; mortgages accepted for FHA insurance; copper, silver and gold production; carloadings of coke, coal, ore, forest products, grain, and less-than-carload freight; life insurance sales; net telephone installations in the Twin City area and, as reported by the Bureau of the Census, wholesales of automotive supplies, electrical goods, groceries and hardware. Business failures during June were the smallest in number for that month since 1919.

BANKING

Deposits at all member banks increased somewhat during the first half of 1941 to \$1,227 million on June 30, setting a new all time record. Loans increased \$11 million to \$428 million and were at the highest level since the spring of 1932. Loans have risen \$122 million during the last two years, a percentage increase of about 40%. Investment holdings also increased during the first half of 1940, and on June 30 totalled \$425 million. Holdings of U. S. Government bonds increased \$20 million but other investments declined about \$10 million.

City member bank loans increased about \$8 million during the first half of 1941 and on June 30 totalled \$224 million, \$35 million larger than one year earlier and \$62 million larger than on June 30, 1939. Investments advanced to \$220 million, an increase of \$10 million over holdings on December 31, 1940. U. S. Government holdings rose \$13 million but other investment holdings declined somewhat. Total deposits continued to expand and reached an all time high of \$674 million on June 30. Time deposits, however, continued the gradual decline started in 1932 and were the lowest on June 30 since 1926.

Country member banks loans increased moderately during the first half of 1941 to \$204 million, \$28 million higher than one year earlier and \$59 million higher than on June 30, 1939. U. S. Government security holdings increased \$7 million but other investments declined by a corresponding amount. Deposits increased slightly to \$553 million during the first half of 1941 and were about \$40 million larger on June 30 than one year earlier.

The reserve position of Ninth District member banks as indicated by the daily average of deposits and reserves for the last half of June was as follows:

| | Member Bank Reserve Deposits | Required Reserves | Excess Reserves |
|-----------------------|---------------------------------|----------------------|--------------------|
| Country Banks | \$ 58,801,000 | \$ 34,930,000 | \$23,871,000 |
| City Banks | 106,349,000 | 69,980,000 | 36,369,000 |
| 9th Dist. (1941)..... | \$165,150,000 | \$104,910,000 | \$60,240,000 |
| 9th Dist. (1940).... | 154,872,000 | 93,836,000 | 61,036,000 |

AGRICULTURE

Farmers' cash income from marketings of seven important items in June as estimated by us was substantially larger than one year earlier and was the largest for the month since 1929. Large increases in income from dairy products, hogs and flax accounted for most of the gain. According to estimates made by the United States Department of Agriculture, farm income from total marketings during the first five months of 1941 was 7% larger than in the corresponding period last year and was larger than in any similar period since 1930. Government payments, having been made last fall, were much smaller than during the first five months of 1940. Total income during the five months, how-

ever, was about the same as during the corresponding period last year.

Livestock movement during June showed mixed trends when compared with one year earlier. Cattle receipts at South St. Paul increased during June instead of declining as usual and as a result were 17% larger than in June 1940. Receipts of calves, hogs and sheep, however, were smaller than one year earlier. During the first half of 1941, cattle receipts were 7% and sheep receipts 15% larger than in the corresponding period of 1940 but calf receipts were 1% and hog receipts 19% smaller. Shipments of feeder and stocker cattle and calves from South St. Paul were smaller than in June 1940. According to the Agricultural Marketing Service, the number of stocker and feeder cattle received in the corn belt states during June was substantially smaller than one year earlier but receipts during the first half of 1941 totalled 528 thousand head compared to 458 thousand in the first half of 1940.

Agricultural product prices advanced in June for the third consecutive month and were at the highest level since July 1937. Prices on all classes of cattle increased moderately to a level about 15% above one year earlier and the highest for the month since June 1937. South St. Paul hog prices averaged \$9.80 in June compared to \$8.85 in May and \$5.00 in June 1940. Sheep and lamb prices declined slightly but were above a year earlier. Wheat and corn prices rose slightly but other grain prices declined somewhat. All classes of grain, however, were higher than one year earlier. The butter price remained unchanged at 33 cents per pound, the highest June price since 1929. Egg and poultry prices advanced sharply and were also at the highest June level since 1929. Wool rose 1 cent to 35 cents, the highest level for any month since April 1929.

Northwest crop prospects on July 1 were improved over a month earlier and were the best for that date in many years. Weather conditions were practically ideal during the first three weeks of July and as a result crop conditions did not deteriorate during that period. With the exception of a few isolated areas that have had hail damage, every section of our district had at least a fair crop prospect. The USDA July 1 indicated production of wheat for the four complete states in the district was 238 million bushels, about 27 million larger than the 1940 production. If present prospects materialize they will produce the largest yield per acre since 1924. Actual bushels produced, however, would be smaller than in several other years because the 1941 wheat acreage is much smaller than in any large production year since 1924. Indicated productions of rye, oats and barley were also larger than the 1940 productions but corn and flaxseed were slightly smaller.

Hatchings of chickens in the United States during June by commercial hatcheries was the largest for

that month on record, the United States Department of Agriculture reported. More than 130 million chicks were hatched compared to 77 million in June, 1940. In the West North Central area 56 million were hatched in June 1941 compared to 32 million in 1940, 25 million in 1939 and 22 million in 1938. During the first six months of 1941, the West North Central area and the United States as a whole both recorded a 24% increase in production over the corresponding period of 1940.

The 1941 spring pig crop in the Ninth District was estimated by the Agricultural Marketing Service to be 7.8 million head compared with 7.6 million in 1940. This is an increase of approximately 2% which is slightly more than the increase for the United States as a whole. According to the Marketing Service, farmers in the Ninth District expect to keep 435 thousand sows to farrow in the fall of 1941 as compared to 325 thousand in the fall of 1940. This is an increase of 34% compared with a 13% increase for all farmers in the United States.

Higher hog prices, resulting from improved consumer demand, smaller supplies and the Government guarantee of minimum pork prices, have been largely responsible for the increase in production.

Storage holdings of both pork and lard continued to be large on July 1. The total pork in storage on July 1 was 705.1 million pounds compared to 598.5 million pounds a year ago. Lard in storage was 367.9 million pounds compared to 306.8 million pounds on July 1 of 1940. Included in these storage holdings were 40 million pounds of lard and 3 million pounds of pork owned by the Federal Surplus Commodities Corporation.

The annual consumption of pork has increased steadily during the last five years from a low of 45 pounds per capita in 1935 to approximately 73 pounds per capita in 1940. The 1940 per capita pork consumption was the highest since 1924.

Between April 3 and May 31 the Department of Agriculture had purchased 123 million pounds of pork and 96 million pounds of lard. Government purchases during the first fifteen days of June, however, were only 7 million pounds of pork and 17 million pounds of lard. Figures showing the disposal of these purchases were not available.

United States cold storage holdings of butter increased seasonally during June and on July 1 were nearly half again as large as the July 1 five-year median. Cheese holdings also increased and were about one-third larger than usual. Supplies of eggs continued to be about normal but poultry holdings were 27% above average. Total meat supplies declined more than usual but were 42% larger than the July 1 five-year median. Cold storage holdings of beef declined less than seasonally and were 66% larger than normal. Pork and lamb & mutton supplies declined more than usual but were 42% and 69% respectively above the July 1 median. Lard in cold storage was more than double the usual holdings.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, JULY 20, 1941

Industrial production increased further in June, continuing the rapid advance that began about a year ago. Commodity prices, both in retail and in wholesale markets, rose considerably between the early part of June and the third week of July.

PRODUCTION: Reflecting the continued advance in industrial activity at a time when output ordinarily declines, the Board's adjusted index advanced from 150 per cent of the 1935-1939 average in May to 156 in June and preliminary estimates indicate a further rise in July. The current level compares with 104 before the start of the European war and 111 in the spring of 1940, when the current advance in industrial activity began.

Further increases in output were reported in June for a considerable number of industries, particularly those associated closely with the defense program, and there were no important declines. As in other recent months, activity in the aircraft, shipbuilding, machinery, and railroad equipment industries rose sharply. Automobile production was maintained at the high level of May, owing mostly to unusually large retail sales. Output of iron and steel and nonferrous metals, already close to capacity, did not show an increase to correspond with the rise in output of finished metal products and official statements indicated growing concern over shortages of numerous materials. Steel ingot production remained close to 99 per cent of capacity during June, but the rate in the middle of July was slightly lower. For the year to date output of steel has averaged 98 per cent of the rated capacity as of December 1940.

Output of textiles and most other nondurable manufactures in June continued at recent advanced levels, which in some instances represent capacity production. Output of chemicals continued to increase rapidly. Also, there was a sharp rise in rubber consumption, reflecting continued heavy demand for rubber products and the fact that June was the last month before curtailment of rubber consumption by industry was to go into effect and was the month to be used in apportioning July consumption among various manufacturers.

Mineral production increased in June, with a marked rise in output of anthracite, some further increase in output of bituminous coal, and a continued advance in crude petroleum production to a new high level.

Value of construction contract awards in June continued at the high level reached in May and was nearly two-thirds above a year ago, according to figures of the F. W. Dodge Corporation. Awards for public construction again increased sharply, reflecting continued expansion in the volume of defense construction projects. Private residential building contracts declined somewhat more than seasonally, following an increase in May.

DISTRIBUTION: Sales of general merchandise showed little change from May to June. Department store sales decreased more than seasonally, while rural retail and variety store sales remained at the May level, although a decline is usual at this time of the year. In the early part of July sales at department stores rose somewhat and were 24 per cent higher than a year ago.

Loadings of revenue freight increased further in June, reflecting continued expansion in shipments of coal and miscellaneous merchandise, and by the end of the month were in larger volume than at any time during the seasonal peak last autumn.

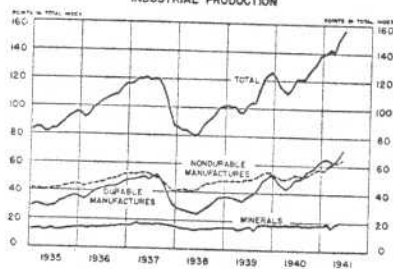
COMMODITY PRICES: Wholesale prices of most groups of commodities continued to advance from the early part of June to the middle of July. Prices of foodstuffs showed large increases and there were substantial advances in prices of a number of industrial raw materials and finished products. Following earlier marked advances, prices of hides and cotton gray goods were reduced by Governmental action. Retail prices for foods and many other commodities have been rising and in June the cost of living was about 4 per cent higher than four months earlier. Preliminary figures indicate further advances in July.

BANK CREDIT: Holdings of United States Government securities by member banks in 101 leading cities increased further during June and early July, reflecting in part new offerings by the Treasury. Commercial loans continued to rise sharply.

Notwithstanding the greater volume of bank loans and investments, deposits of city banks declined somewhat over the period, reflecting mainly a growing demand for currency and a building up of Treasury deposits at the Reserve Banks. These developments also resulted in a decrease in the volume of excess reserves, which amounted to about \$5.3 billion on July 16, compared with \$6.9 billion a year earlier.

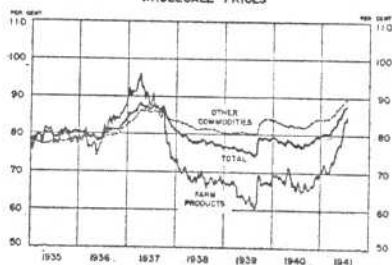
UNITED STATES GOVERNMENT SECURITY PRICES: United States Government securities advanced further during the latter part of June. Partially tax-exempt 1960-65 bonds on June 26 were at an all-time peak, on a 2.02 yield basis. Since that time they have declined slightly. Taxable bonds generally continued to advance to successive new high levels. Yields on Treasury notes showed little change during the latter part of June and the first half of July.

INDUSTRIAL PRODUCTION



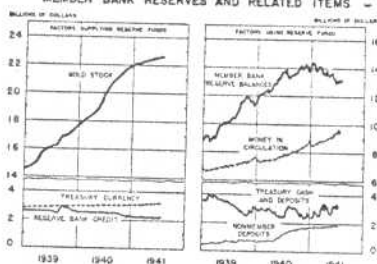
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to June 1941.

WHOLESALE PRICES



Bureau of Labor Statistics' index, 1926 = 100. "Other" includes commodities other than farm products and foods. By weeks, January 5, 1935, to week ended July 12, 1941.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, January 4, 1939, to July 23, 1941.

MEMBER BANK RESERVES



Wednesday figures, January 2, 1935, to July 23, 1941. Required and excess reserves, but not the total, are partly estimated.