LOANS TO BUSINESS AND INDUSTRY

Who May Borrow?

From the wording of the Act, many people have gained the idea that the only eligible borrowers are factories; but this is not true. On the contrary, we have approved loans to almost every kind of business. Loans have been approved to general stores, clothing stores, music stores, drug stores, garages, gasoline distributors, lumber yards, feed mills, laundries, and machine shops.

Our loans to factories, both large and small, have covered an equally wide range. We have approved loans to firms manufacturing food products, machinery, clothing and textiles, furniture, chemicals, cosmetics, artificial limbs, fishing-tackle, and toys.

A large number of loans have also been approved for such industries and firms as contractors, printing plants, mines, restaurants, toll bridges, transfer companies, and public utilities.

The Chief Loan Conditions:

1. Maturity not to exceed five years.
2. For working capital.
3. To established businesses.
4. The loan must be made on a reasonable and sound basis.

Loans will be made in participation with the local bank or, in some circumstances, directly to the business.

DISTRICT SUMMARY OF BUSINESS

The level of business in the district apparently remained in May at the level of April, aside from seasonal variations. Some of our adjusted indexes rose and others fell, but there was no clearly defined trend. Increases occurred in the adjusted indexes of department store sales, country lumber sales, and country check clearings. Bank debits and less-than-carload freight carloadings showed very little change between April and May. Miscellaneous freight carloadings decreased sharply.

Northwestern Business Indexes
(Various base periods)

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Business in the district continued to run at higher levels than a year ago, according to latest available reports. The daily average of bank debits for May was 15 per cent higher than the volume in May last year. This increase continued during the first half of June. Country check clearings were 27 per cent larger in May than a year ago, and were larger during the first half of June than in the same period a year ago. Other increases over last year’s volume, according to the latest reports, occurred in electric power consumption, freight carloadings of coal, coke, and ore, building permits, residential building contracts, linseed product shipments, copper output, country lumber sales, and wholesale hardware sales. Decreases from last year’s volume occurred in the marketings of grains and live stock, butter production, carloadings of forest products, miscellaneous and less-than-carload merchandise, building contracts other than residential, flour shipments, wholesale shoe sales, and life insurance sales.

Retail trade in all sections of the district was in larger volume during May than a year ago, and city department store sales were larger in the first half of June than in the corresponding period last year.
As in earlier months of the year, the increase in retail trade was more pronounced in the rural sections of the district than in the larger cities. City department store sales during May were only 2 per cent larger than in May last year, whereas rural department store and general store sales were 9 per cent ahead of last year’s volume. The largest increases occurred in Montana, South Dakota, and central and northeastern Minnesota.

**DISTRICT SUMMARY OF BANKING**

Banking reports in recent weeks revealed a sharp increase in deposits at city member banks and a smaller increase in deposits at country member banks. The banks throughout the district continued to have a surplus of idle funds, but in the larger cities a seasonal increase in loans occurred.

City member banks experienced an increase of 33 million dollars in deposits during the four weeks ending June 12. On that date, the twenty reporting banks had 508 million dollars in deposits, which was the largest total in their history. The increase was partly in municipal deposits, resulting from real estate tax payments. Another part of the increase was in deposits of country banks, which probably arose indirectly from tax payments. However, more than half of the increase was in the checking accounts of commercial firms and individuals. During the same four weeks, there was an increase of 2 million dollars in the loans of these banks and a decrease of 5 million dollars in their investments. Their balances due from banks increased 36 million dollars to a new high level.

Country banks experienced an increase of 4 million dollars, or about 1 per cent, in their deposits between the daily average for April and the daily average for May. During May, their deposits were at the highest level since June, 1932, when there were many more banks in existence.

The surplus of idle funds in this district is well illustrated by the balances carried by member banks with this Federal Reserve Bank. During May, member banks carried excess reserves above legal requirements of 54 million dollars, about half of which was in the accounts of city banks and half in the accounts of country banks. In addition, city member banks on June 12 reported 119 million dollars due from correspondent banks. This was an increase of 23 million dollars over the amount carried a month earlier, and was the largest total in our records. Country banks carried 126 million dollars on deposit with city member banks in this district on June 12, which was about the same amount that they have carried for the past four months, but a substantial larger amount than it had been their practice to carry in earlier years.

**DISTRICT SUMMARY OF AGRICULTURE**

Farm income in the Northwest from seven important items was 2 per cent larger in May than in the same month last year. These estimates do not include government rental and benefit payments. The increase was due to larger income from the sale of dairy products and potatoes, which was not fully offset by decreases in the income from grains and hogs.

All northwestern farm product prices were higher in May than a year ago with the exception of rye, flax, lambs, and potatoes. Grain prices declined in May from the April level, especially the prices of barley, oats, rye, and durum wheat. The price of hens rose during May, a very unusual occurrence which has not happened since our records began in 1920. As a result, the May price of hens was the highest since 1930 for this time of year. Egg prices also rose in April and May. This is not quite as abnormal an occurrence as the increase in the price of hens, but nevertheless eggs sold at the highest May price since 1929.

Butter production in this district during April was 35 million pounds, as compared with 41 million pounds in April last year. However, the price received was 9c per pound higher this year than a year ago, and cream checks (which were of course distributed during May) were 20 per cent larger than last year. Figures are not yet available showing the output of butter during May, but national butter output was large enough to increase cold storage holdings of butter to about the average amount held on June 1 in past years. This resulted in a sharp decrease in butter prices from 301/2c paid for April production to 221/4c paid for May production. The price paid for butter produced in May was one and one-half cents higher than the price paid a year ago.

Cattle receipts at South St. Paul continued to decline during May as they have each month since last December, and were much smaller than in May last year. A somewhat larger than usual proportion of total cattle receipts consisted of beef steers, which numbered about seven thousand more than in May a year ago. Prices for the various classes of cattle fluctuated irregularly during May. Increased steer receipts resulted in declines in prime heavy butcher steer prices while lightweight butcher steers and heavy feeder steers scored small advances, and light feeder steer prices rose 121/2 per cent. The veal calf price rose 16 per cent. Cattle prices as a whole during April and May were the highest since 1930.

Since June 1, cattle receipts have increased somewhat when compared with the corresponding weeks last year both at South St. Paul and at the six other important mid-western markets. These increased receipts, together with a somewhat reduced retail demand as a result of eastern meat boycotts, caused sharp reductions in butcher cattle prices. On the other hand, the small number of suitable feeder steers and calves has resulted in the establishment of new "highs" for both of these classes during the first half of June. The number of feeder steers shipped during the first half of the month was less than one-third as large as the number shipped in the first half of June last year.
Hog receipts at South St. Paul during May continued to be less than half as large as in the same month a year earlier. During the first two weeks of May, prices softened somewhat, but quickly firmed, resulting in a price level for the month that was a little higher than that of April. The top price for the month was $9.70, which has only been exceeded once since September, 1930. During the first half of June, hog prices have remained firm at only slightly below the high level prevailing at the end of May, and the average cost per hundredweight to packers, shippers, and feeders was only slightly below the five-year record of late February and early March.

Sheep receipts during May showed a sharp seasonal reduction from April, and were in about the same volume as a year ago. About the middle of May, price quotations were shifted to a shorn basis, whereas the shift was made in the first week of May in 1934. Consequently, a comparison of May prices this year and last for ewes is difficult but it appears that ewe prices were a little lower this year than last. Lamb prices fluctuated widely during May, but were generally lower in May than in April and nearly 15 per cent lower than in May last year. During the first half of June, prices for both fat ewes and spring lambs declined rapidly, but prices remained strong on old crop fat lambs.

Wool prices strengthened somewhat during the month of May, largely because of larger mill purchases. During the first half of June, wool prices held about steady.

The cold storage report for June 1 revealed abnormal decreases during May in stocks of meats and lard, and an increase in stocks of butter of slightly more than the usual amount. The decrease in meat stocks amounted to 83 million pounds or 12 per cent. Pork stocks were the largest factor in the decline, although both beef and lamb and mutton also showed decreases of more than seasonal proportions. Holdings of poultry also declined by more than the usual amount during May, and stocks of eggs increased by less than the usual amount. On June 1, stocks of poultry, beef, and lamb and mutton were above the five-year average for that date, while stocks of butter, cheese, eggs, pork, and lard were below the average.

Crops

The crop situation in the Ninth Federal Reserve District as it existed on June 1, for both winter and spring sown crops, was much better than last year on the same date, and in general, a little better than the average for the ten years, 1923-1932. On the other hand, pastures and hay lands still showed the effect of the extreme drought of previous seasons despite the almost normal rainfall so far this year, and on June 1 were still somewhat below the average condition for the ten years, 1923-1932.

The condition of crops in the Ninth Federal Reserve District continued to improve during May, which resulted in larger government forecasts for both winter wheat and rye on June 1 than on May 1. The improvement was quite general throughout the district. On June 1, the government forecast winter wheat production in Minnesota, Montana, and South Dakota at 16,646,000 bushels, as compared with a production of 9,778,000 bushels a year ago and a ten-year average of about 13,000,000 bushels. The rye crop in Minnesota, Montana, North Dakota, and South Dakota was forecast on June 1 at 21,158,000 bushels, as compared with 4,042,000 bushels produced last year and a ten-year average of 19,000,000 bushels.

For the entire United States, the winter wheat crop was forecast on June 1 at 441,000,000 bushels, as compared with 405,000,000 bushels produced last year and a ten-year average of 540,000,000 bushels. The United States rye crop was forecast on June 1 at 44,000,000 bushels, as compared with 16,000,000 bushels produced last year and a ten-year average of 35,000,000 bushels.

Condition percentages on June 1 for all of the more important spring sown small grains were not only very much higher than the record-breaking low percentages of a year ago, but in each of the four complete states in the Ninth District were higher than the average of the ten years, 1923-1932.

Stocks of barley and rye on farms on June 1 were greatly reduced from those of a year earlier. In the four states completely within this district, stocks of barley on June 1 were only 5,487,000 bushels, and stocks of rye were only 835,000 bushels.

The condition of tame and wild hay and pastures in our district was less satisfactory on June 1 than that of the sown grains. In Minnesota and Montana tame hay condition percentages were slightly higher than the 1923-1932 averages, but in both North Dakota and South Dakota they were lower. The condition of alfalfa and wild hay was lower than the ten-year average in each of our four states. The condition of pastures in Minnesota was estimated to be a little better, and in Montana about equal to the ten-year average. In South Dakota, pastures were somewhat below the ten-year average condition on June 1, and in North Dakota, much lower.

Heavy rainfall in this district continued in May and June. Precipitation was greater than in the same period last year, approaching normal amounts on the average for the district, and even exceeding it in a few instances. Of the forty-nine towns in the district, from which daily rainfall reports are received, forty-eight reported a much larger total for the two months, April and May, than in the corresponding period last year. One town in the Red River Valley, which received much more moisture in 1934 than most of the other parts of the district, reported a slightly smaller amount in 1935 than last year.
**Summary of National Business Conditions**

(Compiled June 24 by the Federal Reserve Board)

There was a further slight decline in industrial production in May, and factory employment and payrolls also showed a decrease. Activity in residential construction continued to be above the level of a year ago.

**PRODUCTION AND EMPLOYMENT:** The volume of industrial production, as measured by the Board’s seasonally adjusted index, declined from 86 per cent of the 1923-25 average in April to 85 per cent in May, which was the fourth consecutive month of gradual decline from the recent high level of 90 in January. At steel mills, output declined somewhat in May and the first three weeks of June, as is usual at this season. In the automobile industry, spring sales have been at a level substantially higher than in other recent years, production showed a marked decline in May, reflecting in part the effects of a strike. At cotton mills, there was little change in activity, while at woolen mills production increased further, contrary to seasonal tendency. Production of shoes declined seasonally. Output of coal which has fluctuated widely in recent months, reflecting partly developments in the labor situation, showed a marked increase during May and the early part of June.

Factory employment and payrolls declined between the middle of April and the middle of May. Decreases in employment were reported for the automobile, radio, lumber, clothing, cotton, silk, and shoe industries, while at woolen mills employment increased and in many other lines little change was reported.

The value of construction contracts awarded, as reported by the F. W. Dodge Corporation, was about the same in May as in April. Residential work continued in excess of a year ago, while the volume of contracts for public projects was smaller than in the corresponding month of 1934.

Department of Agriculture estimates based on June 1 reports indicate that conditions for wheat, oats, barley, rye, hay, and pastures were at the ten-year average for 1923-32, in contrast with conditions a year ago which were unusually poor as a consequence of a prolonged drought. The winter wheat crop this year is estimated to be somewhat larger than last year and, with a considerable increase indicated for spring wheat, present conditions, according to the Department of Agriculture, suggest a total crop of about 670,000,000 bushels, as compared with 496,000,000 bushels last season and a ten-year average of 828,000,000 bushels. Domestic stocks of wheat have been materially reduced this season.

**DISTRIBUTION:** The total volume of freight car loadings increased in May by about the usual seasonal amount. Coal shipments showed a marked increase, while loadings of miscellaneous freight declined. Department store sales, as measured by the Board’s seasonally adjusted index, increased from 73 per cent of the 1923-25 average in April to 76 per cent in May and were at approximately the same level as a year ago.

**COMMODITY PRICES:** The general level of wholesale prices, which was 80.3 per cent of the 1926 average at the end of April and also in the week ending May 27, had declined to 79.8 per cent by the week ending June 15, according to the index of the Bureau of Labor Statistics. Wholesale prices decreased considerably during May and the first half of June. Cotton prices, after a sharp decline at the end of May and a subsequent increase, also were lower in the middle of June than at the beginning of May. Prices of commodities other than farm products and foods as a group, advanced slightly during this period.

**BANK CREDIT:** During the five weeks ending June 19, reserve balances of member banks increased by $175,000,000 as a result of gold imports, offset in part by an increase in Treasury cash and deposits with the Reserve banks. Excess reserves of member banks on June 12 were above $2,500,000,000 for the first time, but declined somewhat in the following week.

At reporting member banks in leading cities, there was an increase of $540,000,000 in net demand deposits in the four weeks ending June 12, due in part to gold imports. Time deposits declined by $150,000,000 of which $70,000,000 represented a decline at New York City banks consequent upon a ruling of the New York Clearing House in May prohibiting the payment of interest on new time deposits maturing in less than six months. Total loans and investments of reporting banks showed no important changes.

Short-term open market interest rates continued at low levels in May and the first half of June.