LOANS TO BUSINESS AND INDUSTRY

What is a Commitment?

Under the Act any bank, whether a member bank or not, may advance funds to a business, protecting itself by first securing a commitment from the Federal Reserve Bank. The commitment binds the Federal Reserve bank—
1. To take over the loan at the request of the lending bank, and
2. To assume an agreed proportion of any loss, in no case exceeding 80 per cent of the loan.

Before the Federal Reserve Bank grants a commitment, it satisfies itself that the loan is desirable and meets the conditions of the law.

Advantages of a Commitment

1. Profit with safety. The lending bank earns the rate on the loan minus the commitment cost. At any time during the life of the commitment, the bank may turn the loan over to the Federal Reserve Bank, without recourse for more than the agreed share of the risk.

2. The Federal Reserve Bank makes its own investigation of the prospective borrower without cost to the lending bank.

3. The Comptroller of the Currency has indicated that current loans protected by a Federal Reserve Bank commitment are not classed as "slow" by examiners.

4. Excellent employment for idle funds because such loans can be converted into cash in full at the Federal Reserve Bank at any time without delay during the life of the commitment.

5. Commitments may be secured on small loans as well as large loans.

Cost of a Commitment

This Federal Reserve Bank now charges 1 per cent per annum for a commitment.

DISTRICT SUMMARY OF BUSINESS

The June level of business in the district was slightly below the level of May in a majority of our indexes. The bank debits index declined three points, due entirely to developments in the larger cities, for the agricultural centers reported a higher level of bank debits in June than in May. The indexes of country check clearings, miscellaneous freight carloadings, and country lumber sales also declined slightly from May to June. On the contrary, the index of city department store sales was two points higher in June than in May.

Northwestern Business Indexes

(Various base periods)

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Early indications are that the level of business in July will be about the same as the level in June. Estimating the adjusted indexes on the basis of the first half of July, there will be a slight increase in country check clearings and a slight decrease in bank debits as compared with June.

The volume of business in the district during June was larger than in June a year ago. Bank debits in...
creased 11 per cent, and country check clearings increased 25 per cent. The volume of building permits and contracts reported during June also exceeded the level of the same month last year. Other increases occurred in the latest figures for electric power consumption, lined product shipments, copper output, country lumber sales, life insurance sales, and wholesale trade. Decreases occurred in freight carloadings, flour production and shipments, butter production, and grain and live stock marketings.

Retail trade in June was materially larger than in June last year in spite of the fact that there was one less business day in June this year. City department store sales showed an increase of 10 per cent and rural department stores and general stores reported an increase of 15 per cent. Rural trade increased most in central Minnesota, the Red River Valley, eastern South Dakota, and eastern Montana, although every section of the district recorded an increase of 6 per cent or better.

**DISTRICT SUMMARY OF BANKING**

The latest call for condition reports affords an opportunity to survey changes in assets and liabilities of member banks during the four months ending with June. During this period, member bank deposits in this district increased 23 million dollars. The increase was largely in the checking accounts of business firms. Balances carried for correspondent banks decreased slightly. Both city and country member banks shared in the deposit increase.

Loans and investments of member banks in the district decreased 19 million dollars during the four-month period, the change occurring almost entirely in city banks. Loans to customers increased 8 million dollars during the period. This is the first increase in loans since the fall of 1933 and was entirely due to larger loans at country banks. Investment holdings at both city banks and country banks declined, the total decrease amounting to 27 million dollars.

Interesting shifts occurred in types of investments which member banks in this district are holding. There were decreases in the holdings of United States government securities and in general market securities, partly offset by increases in securities of institutions, fully guaranteed by the United States government. Country banks increased their holdings of commercial paper and brokers' loans by small amounts, whereas city banks decreased their holdings of these types of investments. As a result of the increase in deposits and the decrease in total earning assets, both city banks and country banks increased their balances due to banks (including the Federal Reserve Bank).

During the five weeks ending July 17, changes in the balance sheets of the city member banks which make weekly reports to this office have been chiefly caused by deposit insurance factors. In order to establish a satisfactory assessment base for computing the first semi-annual assessment due to the Federal Deposit Insurance Corporation under the proposed law, city banks have taken steps to reduce their balances due to correspondent banks. This has resulted in a considerable shifting of correspondent balances. For the weekly reporting banks in this district, these developments were the principal cause of a reduction of 20 million dollars in deposits due to banks and a 19 million dollar decrease in balances due from banks. Deposits of county treasurers and other government officials increased 6 million dollars during the five-week period; loans to customers increased 2 million dollars; and investments increased 3 million dollars.

There was an 8 million dollar increase in the deposits of member banks with this Federal Reserve Bank during the five weeks ending July 17.

**DISTRICT SUMMARY OF AGRICULTURE**

**Crops**

The July 1 United States Department of Agriculture crop report estimated the combined acreage of the eight most important feed and cash crops in the four complete states in this district at slightly more than 61 million acres, 72 per cent larger than the combined acreage harvested last year and 5 per cent larger than the ten-year average. When compared with the ten-year average, the acreages of the eight crops showed little change with the exception of barley which was increased nearly 50 per cent and durum wheat which was reduced more than 30 per cent. The July 1 acreage estimates are preliminary and are subject to revision for the unusually heavy deterioration that has been reported by a number of reliable observers since July 1. Many reports of wheat rust and barley scab damage have been received, especially from North Dakota and Minnesota. The extent of damage has been estimated from 30 to 50 per cent.

The government crop production estimates for wheat, rye, and potatoes, based on conditions on July 1 for the four complete states in this district were much higher than the drought reduced output of 1934 and were more than 30 per cent higher than the ten-year average. Production of flax was estimated to be 13 per cent smaller than the ten-year average but nearly three times as large as the production actually harvested in 1934. The indicated production of the three feed crops, oats, barley, and all hay, was much larger than in 1934 and a little larger than the ten-year average. The indicated production of corn, while nearly double the actual production in 1934, was only three-fourths as large as the ten-year average. For the United States as a whole, the July 1 indicated production of corn was smaller than the total harvested in any year since 1901 with the exception of 1934. While tables showing individual crop estimates by states do not appear in this review, the figures are available at our office and will be furnished to any of our readers upon request.
Live Stock

Hog receipts at South St. Paul during June showed a seasonal decline from the very sub-normal marketings in May. The average weight of hogs during June was 229 pounds compared with 208 pounds in May and 203 pounds in June a year ago. Increased weights resulted from an unusually heavy proportion of packing sows received. Lightweight hogs and pigs became increasingly scarce during the month and at the end of June were not being received in sufficient quantities to establish definite quotations. The decreased receipts resulted in a further increase in prices to the highest level since September, 1930.

Sheep receipts during June were seasonally larger than in May and were slightly larger than in June of last year. The market for both ewes and lambs was steadier than in May, being a somewhat lower level for ewes but 10 per cent higher for fat lambs. The median fat lamb price for June this year was the same as in June a year ago, and was the only median live stock price which did not show a large increase over last year. Wool prices during June held the advance made in May. During the first half of July, prices remained unchanged.

Cattle receipts at South St. Paul continued to decrease during June and were much smaller than the abnormally large drought-forced marketings in June last year. The continued decrease in cattle receipts throughout the entire middle-west is largely responsible for the strength in cattle prices during the last few months. Butcher cattle prices declined a little further during June from the highs established in April but were still far above prices prevailing in June a year ago. On the other hand, feeder steer prices advanced sharply in June. Feeder steer prices have increased each month since last December, with one exception.

Hog receipts during the first three weeks of July were less than half as large as in the same three weeks of last year at South St. Paul and at the seven mid-western markets. Hog prices were somewhat unsettled during the first week in July but rose in the two succeeding weeks to a new high since September, 1930, of $10.50. During the first three weeks of July, receipts of feeder cattle have been about half as large as in the same three weeks of last year; prices of both butcher and feeder cattle recovered somewhat from the lows prevailing at the end of June. Sheep and lamb receipts were larger at South St. Paul during the first three weeks of July than a year ago, and the total at the mid-western markets was nearly as large as last year. Lamb prices continued to reflect the relatively large receipts and were at about the same level as a year ago.

Pig Crops

The 1935 spring pig crop in the four complete states in this district was 35 per cent smaller than the small pig crop of 1934 and less than half as large as crops of 1933 and 1932. The total number of pigs saved from the last two spring crops and the last two fall crops in Minnesota, Montana, North Dakota, and South Dakota was only 12,175,000, compared with 19,285,000 in the preceding two years. The number of sows to be bred for fall farrowing in 1935 was estimated to be larger than the number that farrowed last fall both in our four states and in the United States.

The following national summary is quoted from the government report:

"A decrease of 20 per cent in the spring pig crop of 1935 from the very small spring crop of 1934; a prospective increase of 19 per cent in the number of sows to farrow in the fall season of 1935 over the small farrowings in the fall of 1934; a decrease of 10 per cent in total farrowings in 1935 from the total of 1934; and a marked reduction in the number of hogs over 6 months old on June 1 this year from a year earlier are shown by the June 1 pig crop report of the U. S. Department of Agriculture."

Cold Storage

The cold storage holdings of pork declined further in June, and on July 1 were only 62 per cent of the five-year average. While a decline in cold storage holdings is normal during June, the decline this year was six and one-half times as large as the five-year average. For the last five years, lard stocks have averaged an increase of 22 million pounds during the month of June. Because of the greatly reduced slaughter of hogs during June of this year, however, lard stocks showed a reduction of 5 million pounds during the month. The decrease of 8 million pounds in cold storage holdings of beef was much larger than the normal decline during June. Stocks of butter in cold storage increased more than seasonally during June. July 1 butter stocks were larger than the five-year average for the first time since last November. Seasonal changes occurred in cold storage stocks of cream, cheese, eggs, and poultry.

Farm Income and Prices

Northwestern farm income from seven important items is estimated to have been about as large in June as in the same month last year. Increases occurred in the income from durum wheat, potatoes, and dairy products, offset by decreases in the income from the marketing of bread wheat, rye, flax, and hogs. No account is taken of government rental and benefit payments. Farm product prices moved downward in June with the exception of hogs, feeder steers, and lambs which are mentioned elsewhere in this review. The sharpest decreases occurred in the grains and in poultry. After giving effect to these changes, grain prices were generally lower in June than a year ago while live stock, poultry, and dairy product prices were higher than a year ago. The farm price index of the University of Minnesota was 79.3 in June, as compared with 86.1 in May and 56.1 in June last year.
Summary of National Business Conditions
(Compiled July 25 by the Federal Reserve Board)

Factory production declined seasonally in June, while output of mines increased. Employment and payrolls at factories showed more than seasonal declines. There was little change in the average level of wholesale prices, and a decrease in retail food prices.

PRODUCTION AND EMPLOYMENT: Daily average output at factories, according to the Federal Reserve Board's production index, declined by about the usual seasonal amount during June. Output of mines increased, and the Board's combined index of industrial production, which is adjusted for usual seasonal changes, advanced from 85 per cent of the 1923-1925 average in May to 86 per cent in June. Daily average output of automobiles and lumber increased in June, while activity at cotton mills, shoe factories, and meat packing establishments declined. Activity at steel mills declined seasonally during June, but, according to trade reports, increased after the first week of July. There were sharp increases in the production of anthracite and bituminous coal during June and output of crude petroleum was also larger than in May.

Factory employment and payrolls decreased between the middle of May and the middle of June. More than seasonal declines in employment were reported by producers of automobiles, clothing, shoes, and cotton fabrics, and employment at lumber mills also decreased, while the number of workers at wooden mills increased. In most other manufacturing industries, changes in employment from May to June were largely seasonal in character. Employment and payrolls at mines increased considerably.

Daily average construction contracts awarded, according to reports of the F. W. Dodge Corporation, were larger in value in June and the first half of July than in May. Awards of residential building contracts were twice as large as a year ago, while contracts for public projects continued smaller than last year.

The Department of Agriculture July 1 estimates forecast corn and wheat crops larger than a year ago, but smaller than the five-year average for 1928-1932. Acreage of cotton in cultivation on July 1 was reported as about 5 per cent larger than at the same time last year.

DISTRIBUTION: Daily average loadings of freight on railroads increased during June, reflecting larger shipments of coal. Daily average value of department store sales showed little change from May to June, when a decline is usual, and the Board's seasonally adjusted index advanced from 76 per cent of the 1923-1925 average to 80 per cent.

COMMODITY PRICES: Wholesale prices of farm products and foods declined during June, while the prices of other commodities as a group showed little change. Retail prices of foods, which have increased sharply in the two years ending last April, according to the index of the Bureau of Labor Statistics, declined somewhat in May and June.

BANK CREDIT: Member bank reserve balances with the Federal Reserve Banks and excess reserves showed declines for the four weeks ending July 17, reflecting in large measure an increase in the balance of the Treasury with the Federal Reserve Banks following a sale of Treasury notes.

Total loans and investments of reporting banks in leading cities increased by $260,000,000 during the five-week period ending July 17. Subscriptions by reporting banks to new security offerings by the Treasury exceeded retirement of bonds held by these banks, and consequently their holdings of direct obligations of the United States increased by $200,000,000. Holdings of other securities increased by $125,000,000, and loans declined by $60,000,000. Government deposits with these banks were reduced by over $200,000,000, while other deposits, exclusive of interbank balances, showed an increase of a similar amount.

Yields on government securities declined slightly during this period, while other short-term open market money rates remained at low levels.