# MONTHLY REVIEW

OF

## AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

## NINTH FEDERAL RESERVE DISTRICT

**Vol. 8 ( Serial No. 14 ) Federal Reserve Bank, Minneapolis, Minn. February 27, 1943**


**January business activity was about comparable to December but was slightly greater than in January 1942. Country member bank deposits expanded further while loans continued to decline. Farm income and farm prices continued to rise. Farm mortgage debt reached the lowest level in 30 years.**

## BUSINESS

**Business activity in the Northwest** during January as measured by our seasonally adjusted indexes showed divergent trends but indicated a business volume about comparable to December and somewhat greater than in January 1942. The indexes of carloadings declined both from December and from January a year ago, while the indexes of city bank debits and Minnesota employment and payrolls declined from December but exceeded the January 1942 level. The city department store sales index advanced one point from December but was 9 points below a year ago. The index measuring country check clearings continued to rise and reached a new all-time high.

### Northwest Business Indexes

**Adjusted for Seasonal Variation—1935-39 = 100**

| | Jan. 1943 | Dec. 1942 | Jan. 1942 | Jan. 1941 |
|---|---|---|---|---|
| Bank Debits—94 cities | 160 | 165 | 151 | 116 |
| Bank Debits—farming centers | 174 | 172 | 164 | 125 |
| Country check clearings | 182 | 174 | 168 | 125 |
| City department store sales | 143 | 142 | 152 | 115 |
| City department store stocks | 136 | 129 | 132 | 106 |
| Country department store sales | 162 | 153 | 164 | 122 |
| Miscellaneous carloadings | 130 | 136 | 160 | 133 |
| Total carloadings (Excl. misc.) | 88 | 98 | 111 | 110 |
| Farm Prices—Minn. | 162 | 159 | 128 | 98 |
| Employment—Minn. (Unadj. 1936=100) | 132 | 139 | 118 | 107 |
| Payrolls—Minn. (Unadj. 1936=100) | 193 | 206 | 156 | 120 |

**The F. W. Dodge Corporation** reported $3 million in construction contracts awarded in the Northwest during the month of January. This was 56 per cent larger than a year ago, due largely to increased non-residential building. Contracts awarded for residential building totaled but $82 thousand in January, the lowest for the month since 1934 and about 5 per cent of the volume awarded in that month in recent years. Public works contracts awarded in January were negligible, while public utilities awards were somewhat above a year ago.

**Retail sales at city department stores** in January were 5 per cent less than in January 1942, while sales at country stores were down 1 per cent from a year ago. Department stores in the Wisconsin and Michigan region reported a volume of sales 5 per cent greater than 1 year earlier while reporting stores in Minnesota, North and South Dakota experienced a decline in sales. This decline probably reflects a growing shortage of goods available for sale since practically all measures of income received in this area indicate that consumers have a greater purchasing power than in 1942.

### Sales at Department Stores

**January 1943 compared with January 1942**

| | Number of Stores Showing Increase | Number of Stores Showing Decrease | % Jan. 1943 of Jan. 1942 |
|---|---|---|---|
| Total District | 139 | 126 | 97 |
| Mpls., St. Paul, Dul.-Sup. | 14 | 8 | 95 |
| Country Stores | 125 | 118 | 99 |
| Minnesota | 39 | 32 | 96 |
| Montana | 21 | 18 | 100 |
| North Dakota | 22 | 24 | 93 |
| South Dakota | 20 | 10 | 97 |
| Wisconsin and Michigan | 23 | 34 | 105 |

**Manufacturing production** in the district showed mixed trends when compared to January a year ago. Slaughtering and processing of livestock for human consumption, which represents an important segment of manufacturing production in the Northwest, was off probably 30 per cent from January 1942. In contrast, flour production and the volume of flax processed was about 15 per cent greater than a year ago. The Minnesota Division of Employment and Security reports that the index of manufacturing employment in Minnesota advanced 1 point to 150 per cent of the 1936 average. Lumber production in January was 8 per cent greater than a year ago.

## BANKING

**City member bank deposits,** after reaching an all-time high of $1041 million last month, contracted slightly each succeeding week and on February 10 totaled $1004 million. Since January 1 these banks have increased their holdings of government securities by $30 million, to reach a new high of $521 million, an amount $329 million greater than were held one year earlier. United States Treasury certificates, Treasury bills and notes aggregated $231 million of the $329 million increase in government securities. The volume of loans at $190 million was $77 million less than one year ago. Excess reserves, which for the most part have averaged around $25 million in recent years, almost vanished for the week ending February 3, when they dwindled to $1.8 million. Reserve balances were replenished the following week, and excess reserves of city member banks on February 10 totaled $8.4 million.

**Country member bank deposits** grew another $16 million the past month to reach a new high of $810 million. Most of the $213 million increase in deposits from January 1942 occurred in demand balances. However, savings deposits expanded $25 million during the past year. Increases in reserve balances of country member banks have been more than proportionate to the expansion that occurred in deposits, so that excess reserves of these banks are now about $10 million greater than one year earlier.

**Operating ratios of member banks** in the Ninth Federal Reserve District, which have been computed each year since 1937, are of special interest this year because of the huge government financing load being carried by banks. Average ratios yielding information on earnings, expenses, distribution of earnings, assets, and many other factors were computed for various bank size groups and are available in circular form. Ratios for a typical group of banks, with deposits of $500 thousand to $1 million, representing slightly more than one-third of the banks in the district, are presented in the table below:

**Average Operating Ratios of Ninth District Member Banks Holding Total Deposits of $500 Thousand Through $999 Thousand.**

| | 1942 | 1941 | 1940 | 1939 |
|---|---|---|---|---|
| **Number of Banks†** | 163 | 147 | 137 | 122 |
| Percentage of Total Assets | | | | |
| Loans | 34.1 | 39.0 | 36.8 | 32.7 |
| Government Securities | 21.8 | 28.6 | 31.7 | 38.3 |
| Other Securities | 9.4 | | | |
| Cash Assets | 32.9 | 30.0 | 28.9 | 26.0 |
| Other Assets | 1.8 | 2.4 | 2.6 | 3.0 |
| Percentage of Tot. Cap. Acc'ts | | | | |
| Net Current Earnings | 9.7 | 11.3 | 11.1 | 10.5 |
| Net Profits | 8.8 | 11.1 | 8.3 | 7.7 |
| Cash Dividends Declared | 3.6 | 4.2 | 3.9 | 3.4 |
| Percentage of Tot. Earnings | | | | |
| Total Expenses | 78.8 | 73.8 | 74.3 | 74.4 |
| Net Current Earnings | 21.2 | 26.2 | 25.7 | 25.6 |
| Net Charge-offs | + 2.1* | + .6* | 6.5 | 6.5 |
| Net Profits | 23.3 | 26.8 | 19.2 | 19.1 |
| % Int. Rec'd—Loans | 5.9 | 6.0 | 6.1 | 6.2 |
| % Int. Rec'd—Sec. | 2.4 | 3.0 | 3.1 | 3.3 |
| % Int. Paid—Time Dep. | 1.7 | 1.8 | 1.8 | 1.8 |

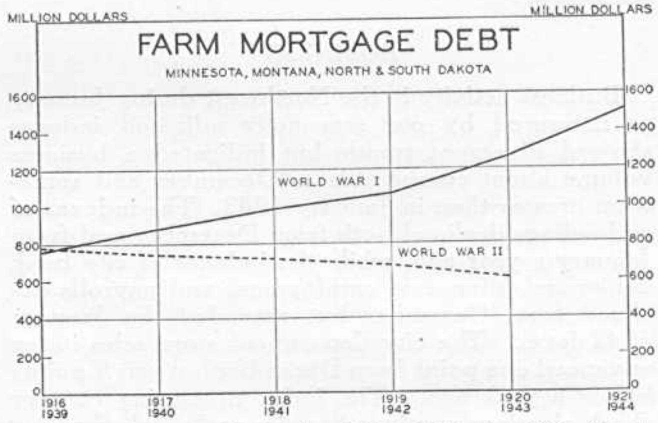
† These are not the same banks for all years. With the growth of deposits many banks have moved out of this size group and smaller banks have advanced into this group.

* Excess of recoveries over charge-offs and depreciation.

Significant trends for this group of banks, which are quite typical of the average ratios for all size groups, show a decline in the proportion of loans to total assets, lower interest rates earned on loans and investments, a decline in net earnings, and a lower ratio of cash dividends declared to capital accounts. In most instances, recoveries on loans previously charged off exceeded current losses on loans, thereby adding to gross income.

**Farm mortgage debt** in the states of Minnesota, Montana, North and South Dakota on January 1, 1916 aggregated $760 million. During the succeeding four years, notwithstanding the very high incomes received by farmers, the farm mortgage debt in these states increased by almost $500 million. By the end of 1920, farmers in the Northwest had $1,258 million of mortgage debt against their farms, which later proved a very heavy load to carry.

In contrast to the situation that developed during the World War I boom, farmers in this war have acted to reduce their debts, both farm mortgage debt and short term loans made to them for productive purposes. In 1939 the farm mortgage debt in the four complete states in this district totaled $781 million. Since that time, the amount has been steadily lowered, and on January 1, 1943 was estimated to be $615 million. This was a reduction of 21 per cent during the four-year period ended January 1, 1943. The divergent trends for the two war periods are plotted on the chart below.




According to the Federal Land Bank of St. Paul, farmers in Minnesota and in North Dakota who obtained mortgage loans from this agency retired in 1942, 10.2% and 7.7% respectively of the principal amount of the mortgage loans outstanding at the beginning of the year. In these same two states, 2,650 second mortgage commissioner loans amounting to $4.2 million were retired in full in 1942, and an additional $15.9 million was paid to retire portions of principal on land bank loans owing to the St. Paul bank. The volume of land bank and land commissioner loans outstanding in the state of Montana were reduced 13.4% during the past year, while in the state of South Dakota, the principal amount of these types of mortgage loans were reduced 8.7%. Since these two types of loans aggregated approximately 40% of the total farm mortgage indebtedness outstanding in the Northwest, it is obvious that farmers generally are using their high net incomes to pay off debts. Further evidence to support this conclusion comes from reports of member banks. Farm mortgage loans held by member banks shrank 10.2% during 1942. The limited available supply of farm machinery and other durable consumers' goods such as automobiles, refrigerators, and washing machines has been an important factor encouraging farmers to use their high earnings to lower their debts.

**Short term agricultural loans** held by 454 member banks in the Ninth Federal Reserve District totaled $105 million on January 1, 1942, and one year later had declined to $99.5 million. In the states of Montana, North and South Dakota, non-real estate agricultural loans were expanded during the year 1942, but expansion of bank credit of this character in these three states was more than offset by the substantial decline that occurred in agricultural loans held by member banks in Minnesota.

From detailed information on agricultural loans included in the December 31, 1942, reports of condition, it is possible to determine to some extent the character of the $99.5 million of non-real estate agricultural loans held by member banks in the Ninth Federal Reserve District. Loans secured by agricultural commodities and guaranteed by the Commodity Credit Corporation totaled $56 million and represented 77% of the total short term agricultural loans outstanding. The proportion of commodity loans varied considerably between states. In North Dakota, where the proportion was the greatest, 84% of the non-real estate agricultural loans were of this type, while in the upper peninsula of Michigan and the portion of Wisconsin included in this district, the proportion was 1% and 2% respectively. In Montana the proportion of commodity loans was also quite high.

The volume of agricultural loans for all member banks in the district is presented in the table below:

**Agricultural Loans Held by Member Banks in the Ninth Federal Reserve District January 1, 1943**

**(Thousands of Dollars)**

| State | No. Banks | Non-Real Estate Loans Total | Secured By Agr. Commod. Amount | Secured By Agr. Commod. % Total | Other Amount | Other % Total | Loans Secured By Farm Land |
|---|---|---|---|---|---|---|---|
| Michigan (15 Counties) | 41 | $ 281 | $ 2 | 1 | $ 279 | 99 | $ 141 |
| Minnesota | 209 | 30,142 | 12,639 | 42 | 17,503 | 58 | 6,278 |
| Montana | 67 | 23,377 | 15,505 | 66 | 7,862 | 34 | 476 |
| North Dakota | 43 | 20,364 | 17,180 | 84 | 3,184 | 16 | 348 |
| South Dakota | 60 | 23,758 | 10,804 | 45 | 12,954 | 55 | 1,121 |
| Wisconsin (26 Counties) | 34 | 1,543 | 28 | 2 | 1,515 | 98 | 1,023 |
| Ninth District | 454 | $99,455 | $56,158 | 77 | $43,297 | 23 | $ 9,387 |

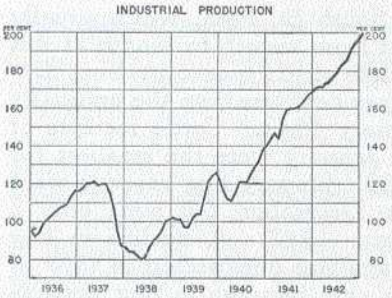
## AGRICULTURE

**Farm cash income** in the Northwest in January registered the usual seasonal decline from December, but remained at a level estimated to be 22 per cent greater than in January 1942. Cash income from the sale of cattle was off 23 per cent from December and was 27 per cent less than for January a year ago. Offsetting this decline in receipts from the sale of cattle was a 50 per cent increase in return from hogs, a 20 per cent increase in cash income from the sale of dairy products, a 22 per cent increase in returns from crops, and a 46 per cent increase in cash income from the sale of eggs. Cash receipts from egg sales usually represent a rather small item in cash farm income during the winter months. However, with larger laying flocks on farms and a high level of production combined with high egg prices, the income from this source in January was about 5 times greater than the average return during the late 30's. We estimate that Northwest farmers received $10 million from the sale of eggs during the month of January. This compares to egg receipts of $1.9 million in January 1940.

**Cattle receipts** at South St. Paul, which usually remain fairly constant from month to month at this season of the year, fell off 27 per cent from December and were 41 per cent less than the unusually large receipts of January 1942. Cattle receipts of 53 thousand head in January were the smallest for that month since 1933. January hog receipts were off 23 per cent from December, but were only 2 per cent below January 1942. A decline in hog receipts from a year ago was unexpected in view of the estimated 24 per cent increase in hog production for 1942. Hogs marketed at South St. Paul averaged 235 pounds in January, which was 7 pounds heavier than the average one year earlier.

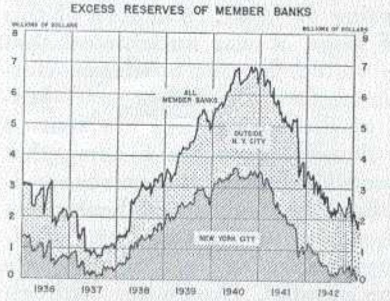
**Farm product prices** in the Northwest on January 15 were generally higher than for the month preceding, and according to the United States Department of Agriculture, the index of farm prices for the United States advanced 4 points to 182, only 18 points short of the level that prevailed at the close of World War I. The cost of goods which the farmer must buy, both for home consumption and for productive purposes, has also risen. This index stood at 160, 2 points above December. Since January 1941, the index of prices received by farmers has advanced 78 points, while the index measuring the cost of goods purchased by farmers has moved upward 37 points. This shift in the ratio of prices received to prices paid has improved the financial position of the farmer and has greatly expanded his net income.

**The 1942 spring pig crop,** according to the United States estimate prepared by the Bureau of Agricultural Economics, was 62 million head or 25 per cent larger than for the spring of 1941. Because of this record production of hogs, it was anticipated that slaughtering facilities would be overburdened during the months of November, December, and January, when the bulk of the spring pigs are sent to market. Although slaughterings were somewhat larger during these months than in the corresponding period a year earlier, the anticipated heavy run at the principal markets did not materialize. Federally inspected slaughterings at leading markets during the past three months, November through January, totaled 17.2 million head, which was only 7 per cent larger than for the same period one year earlier and leaves a substantial portion of the estimated 1942 spring crop yet to be accounted for. Part of the deficiency is explained by the 2.3 million increase in the number of sows to farrow this spring, but if there was a 12.3 million increase over 1941, there are 8 to 10 million hogs now on farms that are about to be marketed or which may have been disposed of through other channels. The heavier average weight of hogs marketed shows a tendency to delay marketing somewhat. Also, the expanded hog program on farms has forced some farmers to adjust the time of farrowing to make the most of their limited supply of labor. A combination of these factors, along with a probable increased consumption of pork on farms, may pretty well balance up the whole situation.

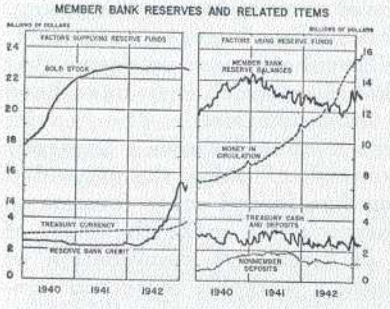



Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for January 1943.


Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. Latest figures shown are for January 1943.




Wednesday figures. Latest figures shown are for February 17, 1943.




Wednesday figures, partly estimated. Latest figures shown are for February 17, 1943.

# National Summary of Business Conditions

### COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 25, 1943

**Industrial activity rose further in January and the first half of February. Retail sales continued in large volume in January and were at an exceptionally high level early in February.**

**PRODUCTION**—Volume of industrial production showed another marked gain in January reaching a level of 200 per cent of the 1935-1939 average, according to the Board's adjusted index, compared with 197 in December. The increase reflected largely a growth in activity in the munitions industries, including production of chemicals for war purposes.

Activity at shipyards and in aircraft and machinery plants continued to expand sharply. Deliveries of completed merchant ships in January were somewhat less than in December but were still at the high level of over 1 million deadweight tons. Total iron and steel production rose to the level of last November, but was still slightly below the October peak, and electric steel output, important for munitions manufacturing, reached a record level 5½ times as large as in the 1935-1939 period. Operations at steel mills were near capacity during the first three weeks of February.

Nondurable manufactures, as a group, continued to show little change. Production of meats under Federal inspection, except beef, declined sharply from the high level in December. Output of most other foods was maintained; production for military and lend-lease needs, particularly of highly processed foods, rose further and there was a corresponding decline in output of these products for civilians. Newsprint consumption declined in January as a result partly of a Federal order restricting newsprint use.

Mineral production declined slightly in January, reflecting a small reduction in output of crude petroleum. Output at coal and metal mines showed little change. Anthracite production in the first half of January was reduced by an industrial dispute, but for the month of January as a whole, output was only 3 per cent lower than in December.

Value of construction contracts awarded, according to figures of the F. W. Dodge Corporation, was much smaller in January than in other recent months, but was still slightly higher than a year ago. Reductions occurred in all types of public awards, which now account for most of the total. A decline has been indicated for some time as a result of actions of the War Production Board designed to limit construction activity to projects that are essential. On October 23, 1942, it had established a committee to review proposals for new construction; through February 12, work on projects estimated to cost 1.3 billion dollars was stopped either by the War Production Board or by the Government agencies initiating them.

**DISTRIBUTION:** Distribution of commodities to consumers was in large volume in January and the first half of February. Retail sales of merchandise declined less than seasonally in January and rose sharply in the first half of February when a buying wave developed, particularly in clothing. At department stores, sales increased considerably in the first week of February and then reached an exceptionally high level during the second week, stimulated partly by the announcement of shoe rationing.

Freight carloadings declined somewhat less than seasonally in January and the adjusted index increased 1 per cent. Miscellaneous loadings accounted for most of the rise. Substantial increases in loadings of most types of commodities occurred in the first two weeks of February.

**COMMODITY PRICES:** The average level of wholesale commodity prices continued to advance in January and the early part of February. Prices of most farm products showed further increases. Maximum wholesale and retail prices were raised for a number of miscellaneous commodities including coal, while reductions were effected in maximum prices for some items like rayon tops and waste.

Retail prices of foods continued to rise from mid-December to mid-January with increases largely in meats, dairy products, and processed fruits and vegetables.

**BANK CREDIT:** Excess reserves of member banks declined from an average level of about 2.2 billion dollars in the last half of January to 1.6 billion early in February, but increased somewhat around the middle of the month. Increases in currency in circulation continued to be the major factor responsible for the decline, although substantial fluctuations occurred in Treasury balances and Reserve Bank credit. Most of the decline in excess funds was at banks in New York City and Chicago, where reserves have recently been close to legal minimum requirements. Over the five-week period ending February 17, the currency drain amounted to 520 million dollars, bringing total currency in circulation to 15.8 billion on February 17.

Holdings of Government obligations at reporting banks in leading cities outside New York and Chicago increased by 640 million dollars over the five-week period ending February 17. At banks in New York and Chicago, holdings of Government securities declined by 360 million, principally through sales to the Reserve Banks for the purpose of restoring reserves. Government deposits at banks were reduced in the period, while other deposits increased.

**UNITED STATES GOVERNMENT SECURITY PRICES:** Following a rise in the first half of January, prices of United States Government securities have been steady.