MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 24) **Federal Reserve Bank, Minneapolis 2, Minn.** **December 28, 1943**

Business volume in November was about as high as in October. City member bank deposits declined $26 million. Country member bank deposits increased during the month by $33 million. Heavy livestock marketings held farm income to within 11% of high October level despite reduction of nearly one-half in crop income.

BUSINESS

Business activity in the Ninth Federal Reserve District in November was about equal to the high level of the previous month according to our seasonally adjusted indexes. City and country department store sales and carloadings showed increases, but bank debits at both city and country trade centers registered further declines. The Minnesota farm price index eased a bit in November and the Minnesota payroll index dropped 11 points, the sharpest drop in our ten-year records.

Northwest Business Indexes *

Adjusted for Seasonal Variation—1935-39 = 100

	Nov. 1943	Oct. 1943	Nov. 1942	Nov. 1941
Bank debits—94 cities	189	191	169	143
Bank debits—farming centers	183	192	175	151
City department store sales	178	149	142	121
City department store stocks	134	143	134	130
Country department store sales	164	146	137	123
Miscellaneous carloadings	135	111	132	149
Total carloadings (excl. misc.)	145	142	137	153
Farm prices—Minn. (unadj.)	170	173	154	121
Employment—Minn. (unadj. 1936=100)	147	147	135	124
Payrolls—Minn. (unadj. 1936=100)	230	241	200	154

* No November index figures of country lumber sales is available owing to accounting practices at many of the reporting yards which result in a variable number of days being included in the eleventh reporting period of the year.

Retail sales at 267 department stores in this District in November averaged nearly one-quarter higher than in November last year with average sales at 74 Minnesota country stores showing almost as large a percentage increase as that reported by stores in the Twin Cities and Twin Ports areas.

Iron ore shipments from upper lake ports between December 1 and the close of the shipping season, December 10, boosted the season's total to 84½ million tons. This total is about 2 million tons below the revised goal of 86½ million tons established by the WPB. The failure to reach the 1943 season's goal is not expected to affect steel production this winter as iron ore stocks at lower lake docks and yards are estimated to be more than adequate for the next four months. The carryover on April 15, however, will be somewhat smaller than usual, necessitating another big shipping season in 1944 if iron ore requirements are as great in the winter of 1944-45 as they have been since 1941. At the present time plans are being made on the basis that there will be no reduction in iron ore requirements next season. Mining companies and railroads are making repairs and purchasing new equipment and plans are being drawn for the utilization of the thousands of Great Lakes seamen on jobs that will aid war production this winter, but will not interfere with their returning to duty on the lakes early next spring. Iron ore shipments in the last three seasons have aggregated more than 256 million tons. The all-time high record was established in 1942 when a total of more than 92 million tons was shipped.

Coal receipts at Duluth and Superior during the season just closed were nearly 10 million tons. This total was well above the receipts in each of the two previous years when the season's total was about 8½ million tons.

Sales at Department Stores

November 1943 Compared to November 1942

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% Nov. 1943 of Nov. 1942	% Jan.-Nov. 1943 of Jan.-Nov. 1942
Total District	236	31	123	117
Mpls., St. Paul, Dul.-Sup.	20	2	125	116
Country Stores	216	29	120	119
Minnesota	67	7	124	119
Central	6	2	135	129
Northeastern	6	1	132	116
Red River Valley	5	0	125	123
South Central	19	2	125	124
Southeastern	13	1	120	112
Southwestern	18	1	119	117
Montana	32	6	119	118
Mountains	8	2	111	107
Plains	24	4	123	124
North Dakota	43	4	120	121
North Central	9	0	116	123
Northwestern	4	1	117	122
Red River Valley	17	0	123	119
Southeastern	11	3	118	119
Southwestern	*	*	....	....
R. R. V.—Minn. & N. D.	22	0	124	120
South Dakota	23	4	121	130
Southeastern	6	1	121	130
Other Eastern	11	2	118	127
Western	6	1	137	137
Wisconsin and Michigan	51	8	115	113
Northern Wisconsin	15	1	117	114
West Central Wisconsin	28	4	117	112
Upper Pen. Michigan	8	3	107	118

*Not shown, but included in totals. Insufficient number reporting.

FOURTH WAR LOAN

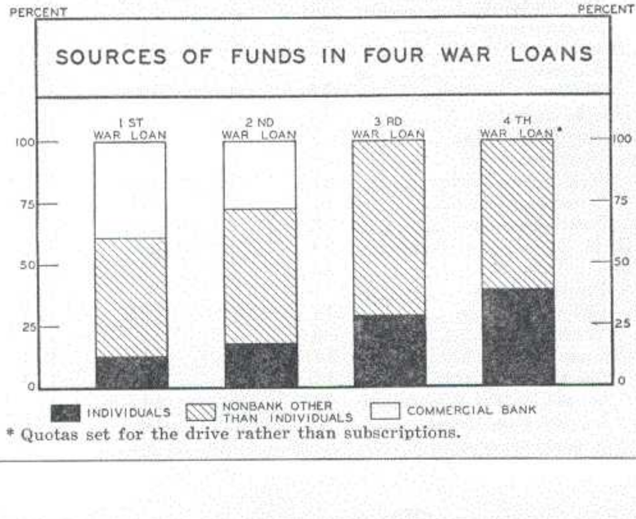
The goal of the Fourth War Loan, which will begin January 18, 1944 and run until February 15, 1944, has been set at $14 billion, according to an announcement by the Treasury Department on November 22. In the main, the securities to be offered are similar to those which were offered last fall and consist of: Series E, F and G Savings Bonds; Series C Savings Notes; 2½% Bonds of 1965-70; 2¼% Bonds of 1956-59 (these to replace the previous 2% bonds of slightly shorter maturity); and ⅞% Certificates of Indebtedness.

One innovation of the Fourth War Loan is that those commercial banks which accept savings deposits are permitted to purchase Series F and G savings bonds and 2½% and 2¼% bonds on and after January 1, 1944, up to the extent of 10% of their savings deposits as defined by Regulation Q, or $200,000, whichever is less. No commercial bank will, however, be allowed to hold more than $100,000 (issue price) of 1944 Series F and G savings bonds combined. None of these subscriptions received on this basis from the commercial banks will be permitted to count as part of the regular Fourth War Loan quotas.

As in the Third War Loan Drive last fall, the State War Finance Committees will have the responsibility for meeting the Fourth War Loan quotas in the various states. The state quotas for the four full states in the Ninth Federal Reserve District are listed below.

State	Total Quota	Individuals	Others
Minnesota	$200,000,000	$104,000,000	$ 96,000,000
North Dakota	24,000,000	17,000,000	7,000,000
South Dakota	28,000,000	17,000,000	11,000,000
Montana	31,000,000	20,000,000	11,000,000

The emphasis is again on borrowing from individuals and other nonbank investors. Of the total quota of $14 billion, about 39% or $5.5 billion is to be raised from individuals, and the remainder ($8.5 billion) from sources outside the commercial banks. It is the Treasury's policy to borrow funds from individuals and business rather than to borrow from commercial banks, which Treasury officials consider more inflationary. This arises out of the fact that when commercial banks take the bonds, deposits of individuals and businesses tend shortly thereafter to rise correspondingly as the Treasury pays out these new deposits with which the banks paid the Treasury for the bonds.



* Quotas set for the drive rather than subscriptions.

Subscriptions in the War Loans

(in billions of dollars)

Source	1st Loan (Dec. 1942)	2nd Loan (Apr. 1943)	3rd Loan (Sept. 1943)	4th Loan* (Jan.-Feb. 1944)
Individuals	$ 1.6	$ 3.3	$ 5.4	$ 5.5
Other non-bank investors	6.2	10.2	13.5	8.5
Commercial banks	5.1	5.1	....	....
Total	$12.9	$18.6	$18.9	$14.0

* Quotas set for the drive rather than subscriptions.

The table and chart indicate the success of this policy. In the First War Loan a year ago subscriptions by the commercial banks constituted almost 40% of the total amount sold—$5.1 billion out of total subscriptions of $12.9 billion. Of this total, individuals took $1.6 billion or about 12%. Nonbanking sources other than individuals (corporations, insurance companies, savings banks, etc.) subscribed to the remainder.

In the Second Loan last April, individual subscriptions were pushed up to $3.3 billion, about 18% of total subscriptions of $18.6 billion. Commercial bank subscriptions were held down to only $5.1 billion or about 27%. Their relative share compared with the first drive had declined by about one-third. Nonbank subscribers other than individuals again took the large share of $10.2 billion, about 55%.

In the Third War Loan last September commercial banks were completely excluded although immediately afterward the Treasury sold $3.2 billion of securities to the banks. Individuals subscribed to $5.4 billion or 29% of the Third Loan and nonbank investors, other than individuals, took the remainder of the $18.9 billion total—$13.5 billion or 71%.

The quota for individuals in the forthcoming Fourth Loan is $5.5 billion (39% of the total) with the remaining $8.5 billion to other nonbank investors.

These data indicate the increasing measure of response on the part of the people to the national policy of borrowing from the less inflationary sources. To emphasize the importance of sales to individuals in war financing, the Treasury from January 18 to February 1 (the first half of the drive) will report only sales to individuals although sales to other nonbank investors during this period will eventually be counted in the quotas.

This does not mean that no more government securities are going to the commercial banks. As indicated above, the commercial banks will be eligible for bonds in proportion to their savings deposits as defined by Regulation Q. After the Third Loan the commercial banks were sold about $3.2 billion of new government securities by the Treasury. The banks can still obtain these securities in the open market and did materially increase their holdings of largely short-term securities during the last drive.

BANKING

City member bank deposits on December 15 were $1,265 million, registering a decline from the corresponding period in November of about $26 million. This may have been partly occasioned by a conversion of deposits into currency incident to the customarily heavy Christmas buying. Their deposits were still, however, $306 million above the mid-December figure a year ago. Loans to customers also exhibited a decline of about $8 million relative to mid-November, and on December 15 were $191 million. About half of this decline occurred in loans for carrying securities with most of the remainder in agricultural loans. Holdings of commercial paper also registered a mild decline of about one-half million dollars. Investments of the city banks on December 15 aggregated $805 million, a decline from the previous month of $12 million, all of which occurred in bank holdings of government securities. During the month the twenty reporting city banks drew down their balances with other commercial banks in the United States by $9 million, and increased their reserves with the Federal Reserve Bank by $8 million. Excess reserves declined by $2 million. This decline in excess reserves in spite of a decline in the deposits of member banks arises out of two factors: war loan deposits declined from November by $70 million and balances held with other banks by $9 million. These two movements had the effect of increasing deposits subject to reserves in spite of the mild decline in total deposits.

Country member bank demand deposits during the last fifteen days of November averaged $721 million, and time deposits averaged $315 million, making a total for all country bank deposits of $1,036 million. This was an increase of $33 million in total deposits relative to the average for the last half of October, and an increase of $278 million over November 1942. Reserves held with the Federal Reserve Banks held at about the same level. Funds available for earning assets were up $53 million over October.

The reserve position as shown by the daily average reserve position for the fifteen day period ended November 30, 1943 is indicated by the table shown below:

Daily Average Reserve Position for All Ninth District Member Banks for the Fifteen Day Period Ended November 30, 1943.

Type of Bank	Average Reserves Carried (000)	Average Reserves Required (000)	Average Excess Reserves (000)
Reserve City Banks	$147,490	$144,696	$ 2,794
Other City Banks	20,262	18,659	1,603
Total City Banks	167,752	163,355	4,397
Total Country Banks	116,021	87,235	28,786
Total Ninth District–1943	283,773	250,590	33,183
Total Ninth District–1942	260,979	203,766	57,213

AGRICULTURE

Farmers' cash income in the Ninth District from the sale of nine important crop and livestock products in November, according to our estimates, dropped sharply from the high levels of September and October to $167 million. The November total, however, was one-third higher than the estimate for November last year, and with the exception of the preceding two months was the highest in our six-year records. Income from hogs was estimated at nearly $57 million, the largest on record for our District.

THE HOG MARKETING SITUATION

Hog receipts at South St. Paul overtaxed the killing capacity and storage facilities of packing plants located there in November and early December. As a result several embargos had to be imposed and as this is written further experiments in controlling the flow of hogs to that market are being attempted.

A number of factors contributed to the heavy marketings of hogs at this time but the basic reasons, of course, are the huge increase in the number of hogs produced in our District last spring and the fact that November and December are the usual peak marketing months. In earlier weeks when receipts at South St. Paul exceeded the killing capacity at that market, hogs were shipped to other packing centers for processing but currently that has not been possible because of surplus supplies of hogs at all major markets.

In anticipation of unprecedented hog marketings with the advent of colder weather, packing plants have attempted to increase their work forces by the addition of draft-deferred agricultural workers, but a shortage still exists.

A number of suggestions have been made for a solution to the whole problem, which is constantly becoming more and more complex. Recent changes in the hog floor prices at the smaller markets in the Ninth and in other Federal Reserve Districts have tended to improve the hog buyers' position at those markets, but on the other hand, farmers to whom large and small markets are equally accessible have shipped to South St. Paul where they could obtain higher guaranteed prices. A miracle in the manpower situation within packing plants might raise their killing capacity to a high enough level to take care of daily receipts, but there would still remain the question of storage of dressed pork. Many suggestions point to the relief that would result from a more rapid movement of pork at retail. This could probably be stimulated to a considerable degree by a reduction in the number of ration points required per pound, a temporary suspension of rationing control on sales of pork, or authorization of the use of "spare" ration stamps for pork purchases, as was done for the December 22 to January 2 period. Since storage facilities the country over are in about the same overloaded condition, any change in rationing control could well be made on a national basis. To control any inflationary consumer demand for beef that might result from the possession of "saved" ration coupons by millions of householders, it has been suggested that ration point requirements on beef be raised during the period that the requirements on pork are lowered. On the other hand, a suggestion that is gaining support, especially from independent packers, is the elimination of point requirements on all meats for a short period in order to quickly relieve the meat storage situation.

The number of hogs received in November exceeded the half million mark for the third time in the history of the South St. Paul market. An all-time record of 583 thousand head was received in December 1924 and 534 thousand head were received in September 1933 during the peak of the hog reduction program. November 1943 receipts totaled nearly 511 thousand head.

AGRICULTURAL INCOME AND FARM REAL ESTATE PRICES

The improved situation in agriculture's income since 1939 raises new problems for agriculture in the Ninth Federal Reserve District. These problems are new because they are the problems of prosperity—not those of depression. In depression the problem may be how to make income suffice. In prosperous times the problem is how wisely to use the greatly increased incomes agriculture is enjoying.

Farmers' cash income in this world war period, that is since 1939, has increased more than it increased from 1914 to the peak year of 1919 in the last war period. Though the number of farm families in the United States has actually declined slightly since the last war, from 6,400,000 to 6,100,000, cash farm income will have increased by more than $11 billion to a total of $20 billion. In the 1919 peak their total cash income was less than 15 billion dollars. In the Ninth Federal Reserve District the increase in farmers' cash income has been from $800 million in 1939 to an estimated $2,100 million this year.

The new economic problem of agriculture therefore can be stated: How can agriculture wisely administer its increased income secured from its great "victory production" sold at prices that now stand at an index of 193 in comparison with the peak of 228 in 1919? (The period 1909-1914 is 100.)

Agricultural and farm leaders have given their own answer to this question. It is (1) to clean up all current indebtedness to be in the "clear" for future contingencies, (2) to purchase war bonds regularly to cover depreciation of equipment and to provide reserves out of which to purchase civilian goods when they are again available to further improve farm living, (3) to reduce mortgage debt, and (4) not to enlarge farm holdings beyond a size necessary for efficient operation.

Such a prudent use of increased income will serve two valuable purposes:

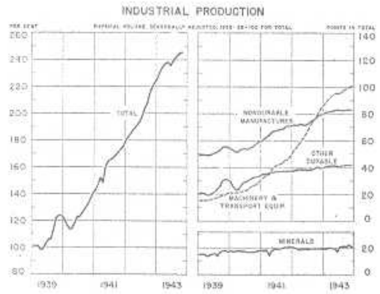
First, agriculture will be able to share in the buying of many civilian goods after the war, especially the now almost non-existent durable goods. In this way agriculture will help industry after reconversion to provide the large number of jobs that is in turn the fundamental requirement for good markets and fair prices for things the farmer has to sell.

Second, agriculture, and all private lenders as well, through avoiding participation in a land boom accompanied by rising farm mortgage indebtedness will be keeping its own financial house in order to weather any contingencies that it may face after the war.

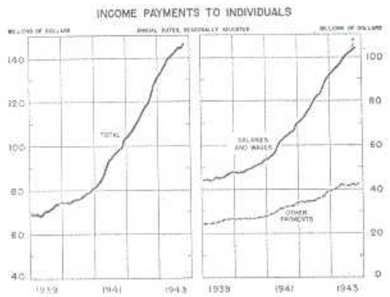
In this effort to achieve these goals local bankers can join with agriculture to continue to serve their country well to maintain after the war the freedom that is the banner under which we now all fight. Without the wise administration of income during the war by agriculture, and all others as well, neither agriculture nor industry can have that robust economic health that we all want after the war.

Much as a government can do to relieve agricultural and other forms of distress, that relief increases the measure of control and decreases the extent of freedom we as a people possess. For agriculture there probably is no distress as serious as a land boom and its aftermath. Every effort must be made to avoid it. In a democracy each and every one of us has his part to play in such an effort of planning wisely and taking careful forethought for the future.

(A somewhat broader discussion of the above has been published in a short pamphlet, a copy of which will be sent to any of our readers on request.)

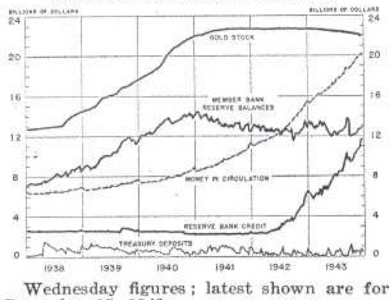


Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures; latest shown are for November 1943.



Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates; latest shown are for October 1943.

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 December 15, 1943.



Wednesday figures; latest shown are for December 15, 1943.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, DECEMBER 27, 1943

Industrial activity was maintained at a high level in November and the early part of December. Value of retail sales during the Christmas buying season has been larger than last year's record sales.

INDUSTRIAL PRODUCTION: Industrial production in November was at 247 per cent of the 1935-39 average, the same as in October and 2 points higher than in September according to the Board's seasonally adjusted index. Further increases in munitions production in November were offset in the total index by smaller output of coal and steel.

The reduction in steel output from the high October rate was small and reflected partly a decline in war orders for some types of steel products. Activity in the machinery and transportation equipment industries continued to rise in November. The Board's machinery index, which had been stable from April to August, advanced 5 per cent in the past 3 months as a result of increases in output of electrical equipment and other machinery, which includes aircraft engines.

Total output of nondurable goods in November continued at the level of recent months. Activity in woolen mills showed little change as increased production of civilian fabrics, resulting from the lifting of restrictions on the use of wool, offset reduced output of military fabrics. Production of manufactured food products continued at a high level. Federally inspected meat production in November was one-fourth larger than a year ago. Newsprint consumption in November declined to a level 15 per cent below the same month last year. Output in the rubber products and petroleum refining industries continued to increase.

Coal production increased sharply in the latter part of November but for the month as a whole bituminous coal output was down 9 per cent from October and anthracite 19 per cent. In the early part of December output of bituminous coal was at the highest rate in many years.

DISTRIBUTION: Notwithstanding a reduced selection of merchandise, department store sales in November were about 10 per cent greater than the large volume of sales in November 1942, and in the first three weeks of December sales were about the same as a year ago. Value of department store stocks at the end of October was reported to be 9 per cent smaller than a year ago and it is estimated that, contrary to the usual seasonal movement, stocks declined in November.

Freight carloadings were maintained in large volume in November and in the first half of December. Loadings of coal during the four weeks ended December 11 were at the highest rate in many years, following a sharp drop in the first half of November. Shipments of grain and livestock were in unusually large volume for this time of year.

COMMODITY PRICES: Grain prices continued to advance from mid-November to mid-December and reached levels more than one-fourth higher than a year ago. Wholesale prices of other farm and food products showed little change, while prices of various industrial commodities, including coal, were increased somewhat.

The cost of living, which had increased .4 per cent in October, declined .2 per cent in November, according to the Bureau of Labor Statistics index.

BANK CREDIT: Excess reserves at all member banks fluctuated around one billion dollars in November and December, maintaining an average level slightly below that which prevailed during the previous month. During the five weeks ended December 22, reserve funds were absorbed by a pre-holiday rise in money in circulation of about 800 million dollars, and required reserves continued to increase as Treasury expenditures transferred funds from Government accounts to private deposits. Needed reserves were supplied to member banks through an increase of 1.7 billion dollars in Government security holdings at the Reserve Banks. Additions to Treasury bill holdings accounted for the larger part of the increase, but certificate holdings also rose substantially.

During November and the first half of December, loans and investments at reporting member banks in 101 leading cities declined by around 2½ billion dollars, after increasing by 6¼ billion in September and October. Holdings of all types of Government securities decreased. Bill holdings, mainly because of sales to the Reserve Banks, showed the largest decline. Loans for purchasing or carrying securities continued to decline over the period.