MONTHLY REVIEW

OF

AGRICULTURAL AND BUSINESS CONDITIONS

IN THE

NINTH FEDERAL RESERVE DISTRICT

Vol. 8 (Serial No. 26) **Federal Reserve Bank, Minneapolis 2, Minn.** **February 29, 1944**

Business activity in the Northwest increased at a moderate rate according to the seasonally adjusted business indicators. Member bank deposits continue to rise from the high levels reached in January. The twenty-city banks reported deposits of $1.3 billions by the middle of the month. Bank earnings **in 1943 as a percentage of total capital were slightly above 1942.**

BUSINESS

The volume of business in the Ninth District continued to rise moderately during the month of January. Bank debits which constitute primarily checks drawn against depositors' accounts in payment for goods, services, debts, etc., have continued to mount and are now 2¼ times the 1935-1939 average.

The large farm incomes, in many instances, have been devoted to the retirement of mortgages. During 1943 by far the largest volume of payments were made on the principal of loans in the history of the St. Paul Land Bank. With such a substantial reduction in indebtedness, the farm owner now enjoys a degree of economic security which is surpassed by few individuals in other occupations. On the other hand, the large incomes and the debt retirement during the past few years have created funds and credit that have begun to be used to bid up the price of farm land. There is evidence that some purchases of farms are made almost entirely on the basis of the large crops harvested during the past few seasons and the favorable prices enjoyed by farmers for their products. During the last quarter of 1943 approximately four-fifths of the tracts of land sold have been purchased by farmers. This is an encouraging feature in the present land movement if it is deemed desirable to have tenant operators become farm owners.

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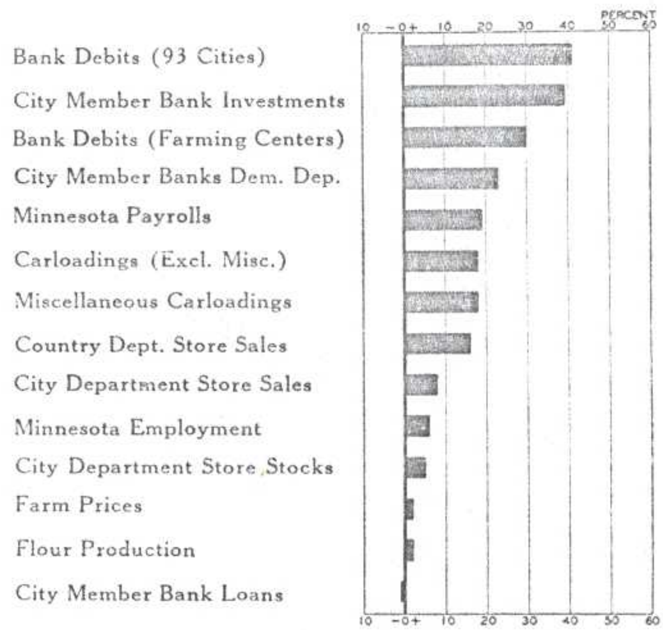
Business at a Glance

January 1944 Compared With January 1943



Northwest Business Indexes

Adjusted for Seasonal Variation—1935-39 = 100

	Jan. 1944	Dec. 1943	Jan. 1943	Jan. 1942
Bank debits—93 cities	225	195	160	151
Bank debits—farming centers	227	199	174	164
City department store sales	157	153	146	147
City department store stocks	142	132	135	131
Country department store sales	165	137	. 12	156
Country lumber sales	162	179	165	166
Miscellaneous carloadings	153	136	130	160
Total carloadings (excl. misc.)	104	104	88	111
Farm prices—Minn. (unadj.)	165	164	162	128
Employment—Minn. (unadj. 1936=100)	141	148	133	118
Payrolls—Minn. (unadj. 1936=100)	230	236	194	156

In spite of the shortages of many civilian goods, **the dollar volume of retail sales** has continued to mount. More than four-fifths of the department stores over the District reported an increase in sales during January as compared with the corresponding month of a year ago. The explanation for the continued rise in retail receipts is found primarily in a general rise of retail prices and a shift from the production of low-priced items to more expensive ones.

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% January 1944 of January 1943
Total District	185	39	110
Mpls., St. Paul, Dul.-Sup.	15	3	108
Country Stores	170	36	116
Minnesota	57	12	113
Central	7	1	125
Northeastern	4	2	97
Red River Valley	4	1	108
South Central	15	5	121
Southeastern	9	2	107
Southwestern	18	1	118
Montana	31	5	119
Montains	7	1	116
Plains	24	4	120
North Dakota	42	4	130
North Central	9	1	143
Northwestern	5	0	158
Red River Valley	14	2	123
Southeastern	12	1	117
Southwestern	*	*	....
Red Riv. Val.-Minn. & N. D.	18	3	119
South Dakota	17	5	112
Southeastern	1	2	87
Other Eastern	9	2	124
Western	7	1	109
Wisconsin and Michigan	23	10	107
Northern Wisconsin	9	4	106
West Central Wisconsin	10	3	114
Upper Penn. Michigan	4	3	97

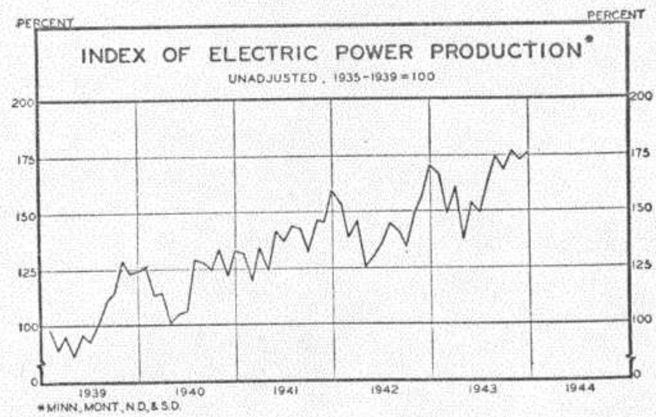
* Not shown, but included in totals. Insufficient number reporting.

Retail prices during the year have risen nearly 5 percent, which accounts for approximately one-half of the expansion in the receipts. Inventories have risen in the department stores over the District during the past year, and a smaller proportion of the high December volume of sales came out of inventories than in 1941 and 1942. The trend in production to the more expensive items has augmented the increase in dollar receipts but not the physical quantity of goods.

Freight shipments have decreased gradually from the peak reached last July but are still decidedly above those for the corresponding periods of the past two years. Livestock continued to move into the markets in large quantities. Grain and grain products are shipped in larger quantities as compared with the two previous years. The shipments of coal, on the contrary, have decreased markedly. The stocks of coal at the Duluth-Superior docks are lower than they have been for some time. At the beginning of this month the bituminous coal on hand was 14 per cent less, and the anthracite coal 48.2 per cent less than a year ago.

The iron ore shipments tend to exceed those of previous years. Extensive preparations are now under way for another large season. Areas are stripped for open pit mining; some shafts have been unwatered and will be brought into production next spring; and a large quantity of new equipment is being installed. The snowfall which is far below normal has afforded an opportunity to explore the lake beds for minerals. A recent report released by the U. S. Navy Branch Hydrographic Office indicates that ice conditions are such that ore shipments are in prospect at an early date.

Electric power production, as may be observed on the chart below, has risen at a significant rate since the beginning of the war. This industry has kept pace with the tremendous war demands and, at the same time, has given adequate civilian service. Even though the multiple-shift operations of many war plants have aided the electric power companies greatly in meeting the high load, the ability of the companies to expand production and distribution at such a pace has been rated as one of the outstanding features among war production achievements.



During the prewar years, figures on electric power production served as a barometer of industrial production. However, since 1941 there has been an ever-increasing divergence between the two series. Industrial production has increased at a more rapid rate than the former. The explanation is found in the nature of the war demand. Industries that are low users of electric power have been called upon to do most of the processing for the war machine. The producers of raw materials, such as pulp, stone, clay and glass, and the mineral-extractive industries —normally high consumers of power—have shown little gain in their output during the past year.

Flour shipments from Minneapolis during the previous month tended to equal those of a year ago. As a result of a lag in the shipping directions from government agencies, flour has been piling up in terminal centers. The Federal Surplus Commodities Corporation has postponed the purchase of flour until the latter part of this month. Data gathered from several sources indicate that reh bilitation requirements will be heavier than was believed formerly. Consequently, a larger demand for flour is anticipated in the future.

BANKING

City member bank deposits continued the upward trend of recent months, reaching $1.3 billion by the middle of this month. This was an increase of $292 million over mid-February 1943, and an increase of $59 million over January of this year. The latter increase occurred in spite of the usual tendency for these banks to show a seasonal decline in deposits from January to February. Most of these new funds available for earning assets were invested in U. S.

Government securities. Holdings of certificates of indebtedness increased by $15 million and Treasury bills and Treasury notes each by $13 million. These banks also added about $8 million to their holdings of U. S. bonds.

Loans to customers increased by $13 million during the month and were about $11 million above a year ago. Most of this increase ($10 million) occurred in loans for carrying securities with the remainder in commercial, industrial, and agricultural loans.

Commercial paper held by these banks rose $2 million during the month and was $5 million above a year ago.

Balances held with other banks in the U. S. were up $9 million over January and about $11 million above the previous year. Balances with the Federal Reserve Bank, on the other hand, had declined by $18 million during the month with excess reserves about the same as a month ago. The fact that excess reserves exhibited almost no change in spite of an increase in deposits together with a decline in their balances held with the Federal Reserve Bank is explained by two factors. The first is a shift from deposits of individuals and businesses, which require reserves, to war loan deposits of the U. S. Government during the Fourth War Loan, which do not require reserves. Data on the extent of this shift will be presented in the March Review. The second is the increase in balances held with other banks, these balances being deducted from total deposits before the computation of required reserves.

Country member bank deposits during the last half of January averaged $1,034 million, an increase from the previous month of $16 million and $224 million above a year ago. Reserves with the Federal Reserve Bank were up $2 million from the last half of December and $19 million above January a year ago. Funds available for earning assets increased $3 million during the month and were $138 million larger than during the corresponding period last year. Excess reserves averaged $35 million.

The daily average reserve position of all Ninth District member banks for the last half of January is indicated by data presented in the accompanying table.

Daily Average Reserve Position for All Ninth District Member Banks for the Sixteen-Day Period Ended January 31, 1944.

Type of Bank	Avg. Reserves Carried (000)	Avg. Reserves Required (000)	Avg. Excess Reserves (000)
Reserve City Banks	$150,221	$146,542	$ 3,679
Other City Banks	20,675	18,805	1,870
Total City Banks	170,896	165,347	5,549
Total Country Banks	124,101	89,561	34,540
Total Ninth District—1944	294,997	254,908	40,089
Total Ninth District—1943	276,743	227,865	48,878

1943 Operating Ratios for Ninth District Member Banks

Perhaps one of the more significant changes in the operating ratio report for 1943 (mailed this month to all member banks) is the fact that, for the first time, more banks were in the size group with total average deposits from one to two million dollars than were in any other size group. In previous years more banks had been centered in the size group with deposits ranging from $500,000 to $1,000,000.

There are two principal comparisons to be made in the operating ratio report. The first comparison is the pattern of these ratios relative to the ratios for previous years. To what extent have bank operations been changing over time? The second comparison is the pattern of these ratios in any given year with respect to the size of bank. To what extent do banks of different sizes differ?

With regard to a comparison of 1943 operating ratios with the ratios for previous years, it is significant that net current earnings after taxes as a percentage of total capital funds of most member banks have remained remarkably constant over the last four years (and were up in 1943 for all but the smaller size banks) in spite of a considerable shift from higher yielding loans and discounts to lower yielding securities, most of which are government bonds. This is largely explained by the fact that the funds available to the banks for earning assets have been increasing over the last four years.* In the Ninth District this increase arises primarily from two causes.

TABLE I

Operating Ratios of Ninth District Member Banks with Total Deposits Averaging from One to Two Million Dollars*

	1943	1942	1941	1940
Number of Banks	**140**	**105**	**78**	**76**
Percentage to Total Capital Accounts				
1. Profits after taxes	11.1%	10.0%	11.7%	11.3%
2. Cash dividends declared	3.2	3.7	4.2	3.3
Percentage of Total Earnings				
1. Interest and dividends on securities	31.3%	24.7%	25.3%	30.3%
2. Interest and discount on loans	42.0	50.7	52.4	48.1
3. Service charges on deposit accounts	4.9	4.9	5.1	4.9
4. All other earnings	21.8	19.7	17.2	16.7
Rates of Earnings on Loans and Securities				
1. Interest and dividends on securities	1.7%	2.3%	1.8%	3.0%
2. Interest and discount on loans	5.3	5.3	5.8	5.7
Percentage of Total Assets				
1. Government securities	39.3%	23.5%	33.1%	37.1%
2. Other securities	7.5	10.7		
3. Loans	22.1	33.0	36.0	33.3
4. Real estate assets	1.0	1.6	2.0	2.2
5. Cash assets	29.9	31.0	28.6	27.1
Ratio of Capital accounts to deposits	7.8%	9.8%	11.6%	11.5%

* Ratios are the simple averages of the ratios for all banks in the size group.

* Problems of the changing volume of bank deposits are discussed in a study just issued by the Minneapolis Federal Reserve Bank, "Factors Affecting Bank Deposits After the War," a copy of which can be obtained without charge by writing to the Department of Research and Statistics, Federal Reserve Bank, Minneapolis 2, Minnesota.

The first of these is the fact that the banks have been purchasing a considerable volume of U. S. securities from the Treasury and paying for them by creating a deposit liability on their books to the credit of the U. S. Treasury.

As these deposits were expended by the Treasury, mostly for war purposes, the deposits of individuals and businesses have risen accordingly. Second, agricultural incomes have risen relatively much more than national income in general, and for this reason the Ninth District, being essentially an agricultural region, has tended to draw funds from other areas. On both counts deposits of Ninth District banks, and therefore funds available for earning assets, have increased enough so that current earnings as a percentage of total capital have not declined even with a shift into lower yielding assets.

While it is true that the great percentage of total earning assets held by all Ninth District member banks is now U. S. Government securities, interest and discounts on loans still represent a substantial proportion of total earnings for all banks. In 1943, for the banks in Table I, income from loans and discounts amounted to 42 per cent of total earnings whereas interest and dividends on all securities amounted to only 31 per cent. In 1941 these figures were 52.4 per cent and 25.3 per cent respectively. Essentially the same trends are characteristic of the banks in the other size groups also. Service charges on deposits are still a comparatively minor part of total earnings, having been for the last four years about 5 per cent for banks of this size.

The gradual change in assets from loans and discounts to government securities was discussed briefly above. In 1943, on the average, government securities amounted to 39.3 per cent of total assets, increasing from 23.5 per cent in 1942. Loans and discounts on the other hand had declined to 22.1 per cent of total assets in 1943 from 33.0 per cent in the previous year.

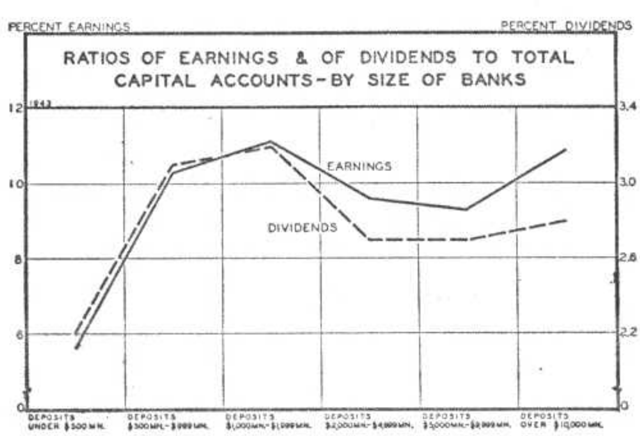
The average earnings rate on securities from 1943 continued the downward trend of previous years and averaged 1.7 per cent for the banks shown in Table I. This continued a fairly steady decline from about 3.0 per cent in 1940. The rate of earnings on loans on the other hand was 5.3 per cent in 1943, the same as for the previous year. In 1940 and 1941 this rate was 5.8 per cent and 5.7 per cent respectively.

The ratio of capital accounts to total deposits of these banks had declined to 7.8 per cent in 1943. This was again a continuation of a fairly steady decline from 1940 (at which time the ratio was 11.5 per cent) and is largely a result of the increase in total deposits discussed above.

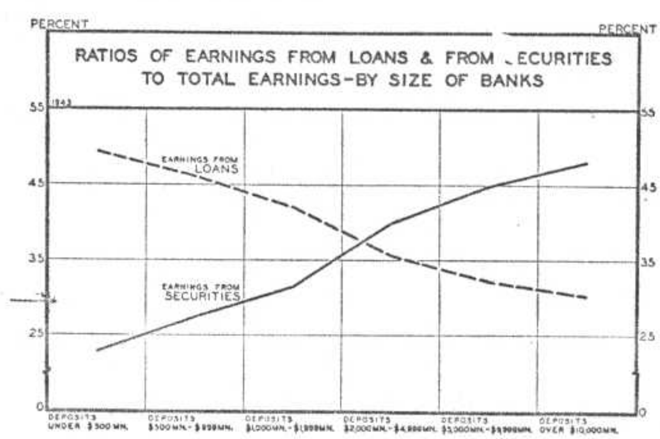
That the banks in 1943 added a fairly large volume of funds to their capital accounts is indicated by the fact that banks in all size groups declared cash dividends considerably below profits after taxes. For example, the banks in the Ninth District with total deposits between one and two million dollars made profits after taxes on an average equal to 11.1 per cent of their total capital accounts but paid out in cash dividends only 3.2 per cent.

The pattern of these ratios by size of banks continues similar to those in previous years. Net current earnings as a percentage of total capital accounts was highest for the banks in the size group with total deposits between one and two million dollars as has been the case for the last few years. These banks also paid out cash dividends which were a higher percentage of their total capital accounts than banks in any other size group.

The larger banks received relatively much more of their total earnings in interest and dividends on securities and much less in interest and discounts on loans than did the smaller banks. The smaller banks in our tabulation (those with deposits under $500,000) received in 1943 only 22.6 per cent of their earnings from interest on dividends and securities, whereas earnings from loans and discounts amounted to 49.4 per cent of their earnings. On the other hand, banks with total deposits over $10,000,000 received 48 per cent of their earnings from interest on dividends and securities but only 30.3 per cent of their total earnings came from loans and discounts. Service charges on deposit accounts were also relatively somewhat more important for the larger banks than for the smaller ones.



RATIOS OF EARNINGS & OF DIVIDENDS TO TOTAL CAPITAL ACCOUNTS—BY SIZE OF BANKS



RATIOS OF EARNINGS FROM LOANS & FROM SECURITIES TO TOTAL EARNINGS—BY SIZE OF BANKS

TABLE II

1943 Operating Ratios of Ninth District Member Banks by Size of Banks*

	Banks with Average Deposits of		
	Less Than $500,000	$1,000,000 to $2,000,000	Over $10,000,000
Percentage to Total Capital Accounts			
1. Net current earnings	5.6%	11.1%	10.9%
2. Profits after income taxes	6.9	11.1	10.7
3. Cash dividends declared	2.2	3.2	2.8
Percentage of Total Earnings			
1. Interest and dividends on securities	22.6%	31.3%	48.0%
2. Interest and discount on loans	49.4	42.0	30.3
3. Service charges on deposit accounts	5.3	4.9	7.0
4. All other earnings	22.7	21.8	14.7
Rates of Earnings on Loans and Securities			
1. Interest and dividends on securities	1.7%	1.7%	1.5%
2. Interest and discount on loans	6.2	5.3	4.2
Percentage of Total Assets			
1. Government securities	31.9%	39.3%	50.8%
2. Other securities	4.3	7.5	3.9
3. Loans	25.3	22.1	14.1
4. Real estate assets	1.4	1.0	.9
5. Cash assets	37.1	29.9	30.0
Ratio of Capital Accounts to Deposits	11.4%	7.8%	6.1%

* Ratios are simple averages of ratios for all banks in each of the three selected size groups in the table.

As might be expected, the interest rate earned on securities was somewhat higher for the smaller banks, indicating a tendency on the part of these banks to purchase longer term securities. The average interest rate earned on all loans was also somewhat higher for the smaller banks—6.2 per cent for those with deposits less than $500,000, declining to 4.2 per cent for banks with deposits over $10,000,000.

Government securities for the larger banks represented 50.8 per cent of total earning assets and only 31.9 per cent of the total earning assets for the smaller banks, whereas loans and discounts represented 14.1 per cent of total assets for the larger banks and 25.3 per cent for the smaller ones.

The ratio of capital accounts to deposits for the larger banks in 1943 averaged 6.1 per cent and for the smaller banks 11.4 per cent.

AGRICULTURE

Farmers' cash income in the Ninth District during the month of January was 28 per cent above the corresponding month a year ago and was slightly higher than for December. Normally farmers' cash income in this area exhibits a seasonal decline from December to January. Most of the current increase arose out of a record income from marketing of hogs—40 per cent above income received from this source in January a year ago and about 8 per cent above December 1943. The largest relative increase, however, occurred in the marketing of cattle and calves, income from this source rising 50 per cent above the level for the corresponding month a year ago. Income from all sources was up over a year ago with the single exception of dairy products which just about held steady at the level achieved in January last year.

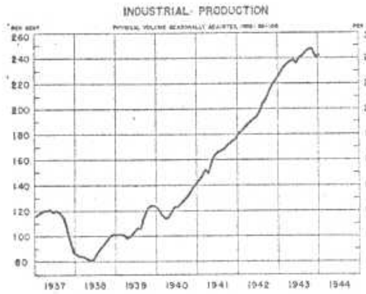
Hog marketing was believed to have reached its peak at South St. Paul, with slaughterings at federally-inspected plants 40 per cent above the same month last year. The permission-to-market plan, under which shippers must obtain a permit from commission agents before sending hogs to market, was working satisfactorily, receipts well in line with daily quotas. Prices held steady at support levels which were expanded to include all hogs between 200 and 330 pounds. Feeder pig demand was strengthening as farmers with feed available appeared ready to assume the risk of future price movements.

Private surveys of the corn belt region of the Ninth District indicate a reduction of perhaps 25 per cent in spring pig production. Although the reduction may not be that large because some producers may gamble on the shorter supply, some reduction is considered likely as the result of shorter feed supplies, reduced support price effective October 1, and difficulties encountered in marketing the 1943 crop. The corn-hog ratio remains favorable for regular producers, although not as favorable as a year ago.

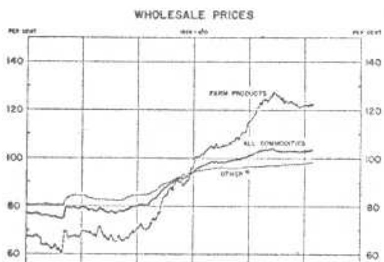
Cattle slaughter during January was about 60 per cent above the same month last year and slaughter of sheep and lambs was about 50 per cent above last year.

Outlook for feed remained about unchanged, with prospects for a smaller amount of feed per animal unit than in previous years. Protein feeds continued to be the most serious problem, producers of livestock being urged to depend largely on protein pastures. To encourage production of legume and grass seeds during 1944, the AAA (Agricultural Adjustment Administration) is offering farmers conservation payments of $3.50 an acre to harvest alfalfa, red clover, alsike, sweet clover, brome grass, Reed's canary grass and white clover seed, this credit to be limited to 25 acres per farm.

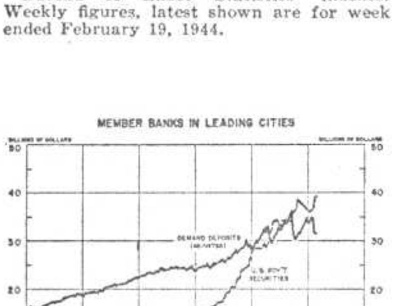
Cold storage holdings of both meats and dairy products were considerably higher on February 1 of this year than a year ago, according to the Bureau of Agricultural Economics of the U. S. Department of Agriculture. The largest relative increase occurred in the case of butter. A year ago (February 1, 1943) only 15,600,000 pounds of butter were in cold storage; on the first of this month cold storage supplies had risen to 130,000,000 pounds. Stocks of cheese were about 47 per cent above a year ago but down somewhat from last month. All types of meats were up with an overall increase of 33 per cent in number of pounds held as compared with the corresponding figure for 1943. The largest increase in meat stocks since last year has occurred in the case of beef, an increase from 127,000,000 pounds in February, 1943, to 240,700,000 pounds the first of the current month.



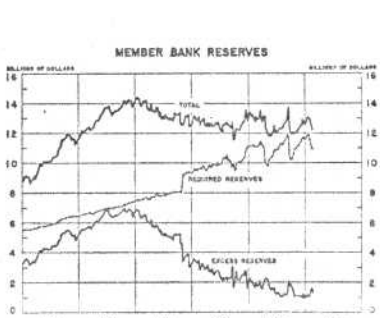
Federal Reserve index. Monthly figures, latest shown is for January 1944.



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ended February 19, 1944.



Demand deposits (adjusted) exclude U. S. Government and inter-bank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for February 16, 1944.



Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown are for February 16, 1944.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEBRUARY 26, 1944

Industrial activity was maintained in January following a decline from November to December. Commodity prices were steady and retail sales continued in large volume in January and the first three weeks of February.

INDUSTRIAL PRODUCTION: In January the Board's seasonally adjusted index of industrial production stood at 242 per cent of the 1935-39 average as compared with the peak level of 247 in October and November 1943.

Steel production increased 4 per cent in January and continued to rise in the first three weeks of February, reflecting large military requirements for landing craft and other invasion equipment as well as increasing use of steel for farm machinery and railroad equipment. Aluminum production was curtailed in January from the peak rate in the last quarter of 1943.

Activity in the transportation equipment group was 5 per cent lower in January than at the peak in November. The largest decline occurred in commercial shipyards, many of which were changing from the production of Liberty ships to Victory and other types of ships. In the automobile industry production of 3,000 trucks was reported during the month under the greatly enlarged civilian truck program for 1944 which calls for the production of 92,000 mediumweight and 31,500 heavy trucks during the year.

Output of textiles, shoes, and manufactured foods rose slightly in January, following small declines in December. Chemicals production continued to decline, reflecting a further curtailment of small arms ammunition output. Output of petroleum and rubber products showed little change.

Production of coal increased and crude petroleum output continued at a high level in January and the early part of February. Sunday work was instituted in anthracite mines during February as a measure to increase production, and output for the week ended February 12 was 13 per cent higher than the preceding week.

The value of construction contracts awarded in January, according to reports of the F. W. Dodge Corporation, declined to the lowest level for the month since 1935.

DISTRIBUTION: Value of department store sales in January and the first three weeks of February was maintained at a high level for this season of the year. Sales in January exceeded the large volume of a year ago by about 6 per cent but in February sales were somewhat smaller than last year when a buying wave developed following the announcement of shoe rationing.

Freight carloadings declined less than usual in January and the first half of February, owing chiefly to the heavy volume of coal shipments. Movement of grain continued at the high level of last fall and livestock and lumber shipments were in large volume.

COMMODITY PRICES: Wholesale prices of most commodities continued to show little change in January and the early part of February. Maximum prices for coke, wood pulp, furniture, and certain other products were increased moderately.

The cost of living index of the Bureau of Labor Statistics declined from 124.4 per cent of the 1935-39 average in December to 124.1 in January.

BANK CREDIT: Purchases of securities in the Fourth War Loan Drive by corporations and individuals resulted in a release of required reserves of member banks because funds were drawn from private deposit accounts, which require reserves, to the Government war loan accounts, which are exempt from reserve requirements. As a consequence, member banks repurchased bills from the Reserve Banks, and the latter's holdings of Government securities declined by 520 million dollars.

At reporting member banks in 101 leading cities, adjusted demand deposits decreased by 3.4 billion dollars in the four weeks ended February 16, while U. S. Government deposits increased by 6.9 billion, reflecting purchases of Government securities by bank customers during the war loan drive. Government security holdings at reporting member banks increased 2.8 billion dollars over the four weeks.

Loans to brokers and dealers increased by 320 million during the drive which was substantially less than in either of the two previous campaigns. Loans to others for purchasing or carrying Government securities rose by about 610 million, two-thirds of which was at New York City banks. Commercial loans, which had increased substantially during the Third War Loan Drive, showed little increase during the current period.