MONTHLY REVIEW

Agricultural and Business Conditions

TENTH FEDERAL RESERVE DISTRICT

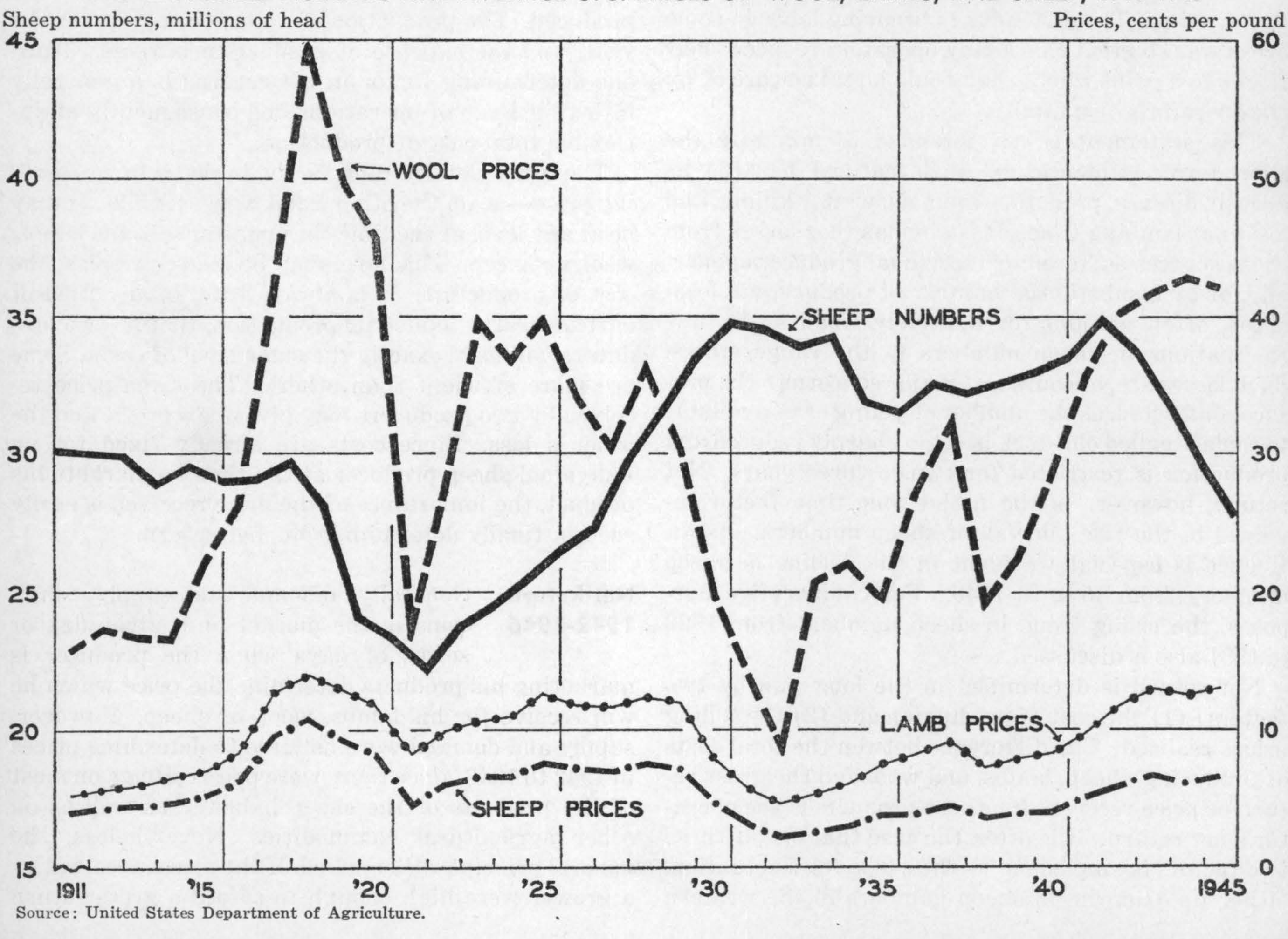
VOL. 31, No. 9 FEDERAL RESERVE BANK OF KANSAS CITY SEPTEMBER 30, 1946

DECLINING WESTERN SHEEP NUMBERS

Recent Liquidation Since 1942 there has been a continuous and rapid liquidation in the number of sheep and lambs on the farms and ranches of 10 western states and Texas, where about 70 per cent of the sheep industry of the United States is located. The 10 western states, in addition to Texas, include Montana, Wyoming, Colorado, New Mexico, Arizona, Utah, Idaho, Oregon, Nevada, and California. On January 1, 1942, it was estimated that there were 34.9 million head of sheep and lambs on the ranches and farms of these states. By January 1, 1946, numbers in these states had been reduced by 21 per cent to a figure of 27.5 million head. This is the lowest level since 1927. Indications early in 1946 were that a further drop would be recorded on January 1, 1947, when the Department of Agriculture makes its annual estimates.

With a vastly expanded war demand for meat and fiber, it seems almost incredible that the production of an important source of these products was sharply reduced in the period 1942 to 1946. Yet, in 1942, soon after the United States entered the war, there began

WESTERN SHEEP NUMBERS AND AVERAGE U. S. PRICES OF WOOL, LAMBS, AND SHEEP, 1911-1945



Source: United States Department of Agriculture.

a period of liquidation of sheep numbers in the range states, as well as in the entire United States, that is still in progress. The number of producing units in the western sheep industry decreased almost as much as the volume of production increased in many agricultural lines.

This rather unexpected liquidation of the western sheep industry, and of the remainder of the industry in the United States for that matter, in the face of wartime demands on agriculture for food and fiber, suggests an examination of the causes and principles which underlie the present trend.

Influence of Net Returns The most important factor in the trend of sheep numbers from year to year is the net return which sheep operators realize from a year's business. Whenever net returns are favorable, sheep numbers are increased. On the other hand, when returns are low or financial losses are incurred sheep numbers are reduced. The decline in numbers of sheep in the several western states and Texas from 1942 to the present has been caused to a large degree by action of this principle. A special factor, however, in this instance was the acute shortage of labor. The difficulty of securing labor in some areas was so great that many operators reduced their flocks to a point where they could be taken care of by the operator's own family.

This statement is not intended to minimize the short-term influences of such natural hazards as drouth, disease, predatory animals, winter killing, and losses at lambing time. It is obvious that losses from these sources suffered by individual producers generally, or by a substantial number of producers in local areas, often account for relatively small short-time fluctuations in sheep numbers in the range states. Such losses are, of course, of major concern to the producers affected, as the number of young ewes available to replace culled old stock is often sharply reduced and production is restricted for two to three years. Net return, however, is the major long-time factor involved in the rise and fall of sheep numbers. Its influence is especially evident in the decline in sheep numbers from 1942 to 1946. For comparative purposes, the rising trend in sheep numbers from 1923 to 1931 also is discussed.

Net return is determined in the long run by two factors: (1) the cost of production and (2) the selling prices realized. The difference betwen the total costs of producing sheep, lambs, and wool and the gross return or price received for these products is the operator's net return. It is often the case that one of these two factors is singled out as the cause for fluctuation, either up or down, in sheep numbers in the western states, with the result that only one side of the true picture is presented. Later discussion will point out the fallacy of citing higher or lower prices alone or higher or lower costs of production alone as being the cause of increases or decreases in sheep numbers. The two factors must be considered together in order to arrive at the net return, which is the controlling factor in the long-time trend of sheep numbers.

With respect to the costs of production in the sheep industry, it must be emphasized at the outset that the principal products of the industry—lambs and wool—are marketed when in marketable condition. Like most agricultural products, by their very nature sheep and lambs are not adapted to any extensive deferred marketing by producers but must be sold and utilized within a relatively short period of time. Thus, when these products are ready for market, they constitute an individual operator's entire production for that crop year against which the operator must allocate all of his costs of production. Unlike manufacturing, the individual operator has a certain number of lambs and a certain poundage of wool to sell at market time. The cost of producing them cannot be reduced for that year by increasing or decreasing the number of units produced. The production of units is complete for the year, and the expense of production is fixed. Thus, one determining factor in net returns is a generally inflexible scale of operations and consequently an inflexible total cost of production.

The other determining factor in net returns—selling price—is, on the other hand, very flexible. It may be at any level at the time the operator sells his lambs, wool, or sheep. This level may be above or below the cost of production. It is always true, in any field of agricultural or industrial production, that no two producers will have exactly the same level of costs. Some are more efficient than others. The same price received by two producers may give one a profit and the other a loss. Since costs are already fixed for an individual sheep producer at the time he markets his product, the importance of the price received is easily seen in finally determining his net return.

Net Returns, 1942-1946 Generally, demand and supply conditions in the market on a given day or series of days when the producer is marketing his products determine the price which he will receive for his lambs, wool, or sheep. However, supply and demand were not free to determine prices in 1942 to 1946, since there were price ceilings on most of the products of the sheep industry as well as on other agricultural commodities. Nevertheless, the general principle still applied. If the prices received by a grower were high enough to afford a gross return above production costs, a favorable net return was secured. If, however, as was many times the case from 1942 to 1946, the relatively stable prices of the period resulted in a gross return only as large as or lower than production costs, an unfavorable low net return or a loss was recorded. It is well to keep in mind that the latter situation has occurred many times in the history of the sheep industry, when no price ceilings existed on its products.

A study of production costs in the sheep industry of the western states made by the United States Tariff Commission for the five years, 1940 to 1944, shows that a favorable net return of 97 cents per head of sheep was obtained in 1941. In 1942, when the profit was $1.14 per head, western sheep numbers were at a peak. According to this study, there was a net operating deficit of 12 cents per head of sheep in 1943 and of $1.22 per head in 1944. As shown in the chart, western sheep numbers have been declining steadily since 1942. Dr. A. F. Vass of the University of Wyoming states that in 1945 the average grower produced wool and lambs at a loss of 61 cents per head. It is, as yet, too early to determine what results sheep operators will show in 1946 with respect to net returns. Information on numbers for the year points strongly to a further decline from the 1945 level, which suggests, at least, that net returns in the sheep business will not be wholly favorable for the year.

In addition to the income aspect of the situation that prevailed in the sheep industry in the years 1940 to 1945, there is another observation that is worthy of note. The statement is often made that high prices will bring high production. The chart shows that this statement is not necessarily true as it applies to the sheep industry, largely because it fails to consider the level of production costs at the time higher production is anticipated. In the face of higher average prices paid for sheep, lambs, and wool in the period 1940 to 1945, western sheep numbers actually declined. There was very little response of sheep and lamb production and numbers to higher prices in this period, with the possible exception of 1940 and 1941. In succeeding years, costs rose faster than prices, thus lowering or eliminating the net return and causing a reduction in numbers. A situation directly opposite to the one from 1940 to 1945 occurred in the period from 1925 to 1932. During those years the average prices producers received for sheep, lambs, and wool were generally declining, as is shown by the chart, while at the same time western sheep numbers were steadily increasing. It appears that production costs were sufficiently low to maintain generally favorable net returns in spite of lower prices, thus encouraging an expansion of sheep numbers.

In any event, it is obvious that in these two periods some factor other than the price was causing producers to expand sheep production and numbers in one instance and to contract them in the other. The study by the Tariff Commission, discussed earlier, shows fairly conclusively that the decline in sheep numbers from 1942 to 1946 is very closely associated with unfavorable net returns to producers. The question remains, then, whether this relationship between net returns and numbers has existed in other years.

Net Returns, 1923-1931 Between 1923 and 1931, sheep and lamb numbers on farms and ranches in the range states and in the United States showed the longest and most continuous increase of record. In 1923 there was an estimated 23.7 million head of sheep and lambs in the western states and Texas. Eight years later, by 1931, sheep numbers in these states had reached 34.8 million head, an increase of about 46 per cent.

It is abundantly clear, as previously mentioned, that it was not a rising price level for sheep, lambs, and wool which brought about this increase in numbers. In fact, with the exception of 1923 and 1924, average prices paid for the products of the sheep industry in this period were actually falling. In spite of this fact, it appears that net returns realized by western sheepmen were satisfactory and considerably more favorable than the returns in other livestock enterprises. Unfortunately, data on earnings similar to those published by the Tariff Commission for 1940 to 1944 are not available for earlier years. In the absence of exact figures on net returns in this period, perhaps the following comments from the United States Department of Agriculture Yearbooks will serve to show the influence of net returns on the sheep industry.

1924—Sheepmen are in a much more favorable position than cattle or hog producers.

1925—Sheepmen will close their books this year with a very favorable showing. This prosperity has naturally drawn to it many new producers, including some inexperienced sheep raisers.

1928—The high degree of prosperity which the sheep industry has enjoyed since 1922 continues.

1930—Sheep producers . . . marketed an increased number of animals in the first eight months of 1929. . . . Federally inspected slaughter increased about 6½ per cent. This increase was happily accompanied by an increase in the gross money return to producers.

1932—Production is at last being curtailed in the sheep industry, whose output expanded 43 per cent between 1922 and 1931. . . . Farm prices of lambs in July (1932) were lower than in any other July since 1911. Farm prices of sheep in July were the lowest for any month since records of farm prices were started in 1910.

Thus, there are at least two periods in the history of western sheep numbers where substantial evidence is available to support the premise that sheep numbers in these states follow almost directly the trend of net returns from the sheep business.

Costs of Production, 1940-1946 Labor costs comprise from 20 to 30 per cent of the total cost of production in the range states. Latest United States Department of Agriculture estimates indicate that farm wage rates in the mountain states in early 1946 had risen over 300 per cent above the annual average from 1935 to 1939. It is obvious that such an increase in one major element in the cost of production, occurring under the relatively stable ceiling prices on meat and wool, would materially reduce the net return realized.

Feed costs represent between 12 and 15 per cent of the total cost of production in the western sheep industry. There has been an almost constant increase in the cost of livestock feed since 1940. Hay, for example, in several mountain states moved from $7.88 per ton in 1940 to $16.80 per ton in 1946, an increase of 113 per cent. The price of corn rose from 75 cents per bushel in the several mountain states in 1940 to $1.42 per bushel in 1946, an increase of about 89 per cent. Again, the effect of higher costs on net returns is obvious when the operator sells sheep, lambs, and wool under relatively stable prices.

There are many other items that enter into the cost of producing sheep, lambs, and wool. Space limitations prohibit a detailed analysis of their price changes during the years 1940 to 1946. It will suffice, however, to point out the well-known fact that prices paid by farmers and ranchers for such necessary livestock materials as chemicals, drugs, shearing equipment, fencing materials, building materials, marketing and transportation costs, etc., increased substantially during that period. Needless to say, these many cost items, when taken in the aggregate, make up a sizable proportion of the production costs in the sheep industry.

The trend of two items, labor and feed, which together make up from 32 to 45 per cent of total production costs, was sharply upward during the period in question. Other production costs, not discussed in detail, also increased. Labor and feed costs rose well over 100 per cent, and other costs by greater or lesser amounts.

Selling Prices Realized, 1940-1946 A freeze order was placed on the price of wool on December 9, 1941, stabilizing wool prices as of that date. Later, under the Price Control Act, prices paid for wool on December 15, 1941, were selected as the base for ceilings on that product. Prices on that date averaged 37.1 cents per pound, grease basis. Average prices received for wool in several western states moved from 26.3 cents per pound in 1940 to about 39.9 cents per pound in 1946, an increase of 52 per cent.

A temporary price ceiling was placed on the price of dressed lamb in August, 1942, and a permanent ceiling was established on December 23, 1942, using carcass lamb prices paid July 27 to 31, inclusive, as a base. Permanent price ceilings were placed on mutton on December 23, 1942, based on prices existing from September 28 to October 2, 1942, plus three cents. These ceilings were on the dressed meat and not on the prices paid for live sheep and lambs. It was the theory that the ceilings on dressed meat would cause processors to pay prices for the live animals directly in proportion to what they could realize for the meat and meat products under the wholesale and retail ceilings. In June, 1943, retail and wholesale prices of lamb and mutton were reduced 2 cents per pound, and a subsidy payment plan was put into effect that paid processors and producers the equivalent of the 2-cent per pound reduction at the wholesale and retail level.

Average prices received for lambs in several mountain states moved from $7.92 per hundredweight in 1940 to $14.00 per hundredweight in June, 1946, an increase of about 77 per cent over the six years. Average prices received for sheep in these several western states rose from $3.96 per hundredweight in 1940 to $6.99 per hundredweight in June, 1946, a similar increase of 77 per cent.

The trend of prices for the products of the sheep industry was definitely upward during the period 1940 to 1946. The amount of the rise, however, is clearly not as much as that which occurred in costs.

The study of costs by the United States Tariff Commission, previously discussed, provides substantial evidence that actual losses were incurred for most of this period. It may be concluded, then, that greatly increased costs of production from 1940 to 1946, with a simultaneous but smaller increase in prices received for meat and wool brought generally unfavorable net returns to sheep producers in the 10 western states and Texas. The result, with some aid from other sources, such as labor shortages, was a severe liquidation in sheep numbers.

Consequences of Liquidation So far, the liquidation in western sheep population from 1942 to 1946 has been referred to in terms of the reduction in total numbers of sheep and lambs in the 10 western states and Texas. Some discussion as to the effects of this total reduction on the individual sheepmen will point to several dislocations that have taken place in the industry since 1942.

The liquidation of sheep numbers, resulting from unfavorable net returns, has simply meant that the number of breeding units maintained by individual producers, large and small alike, has been reduced steadily from 1942 to date. In fact, many small producers who experienced one year of loss in the business sold their holdings entirely and found employment elsewhere. A substantial number of the medium and large sized operators soon followed the same course, increasingly so in subsequent years. This migration of former sheepmen out of the sheep industry brings up the question as to the type of business they chose as an alternative to the sheep industry.

Practically all of the western range land, with the exception of the irrigated valleys, is by and large suited only to the production of cattle and sheep. Discounting the production of horses as a source of range income, the sheep operator who left the sheep business from 1942 to 1946 had one of three choices of employment: (1) going into the cattle business, (2) going to work in the city or industry, or (3) going to work for another sheep operator.

The number of former sheepmen who have migrated into each of these three categories is largely a matter of speculation. However, in connection with the first alternative, it is interesting to note that while cattle numbers in the country as a whole have been declining steadily since 1943, the total number of cattle in the 10 western states and Texas has increased steadily since 1942, when sheep numbers began their decline. The total number of cattle in these states was 18.9 million head in 1942 and had risen to 20.6 million head by 1946, an increase of 9 per cent. This fact suggests very strongly that the cattle industry was relatively more profitable in the range states during this period than was the sheep industry. The increase in total cattle numbers in these states could have been brought about either by an increase in the number of cattle in the herds of regular cattle operators, or by the entry of new operators into the field of cattle production. There is considerable evidence to indicate that the latter situation prevailed.

The prospect for an upward turn in sheep numbers appears to depend fundamentally upon an improvement in the relationship between costs of production and prices received for sheep, lambs, and wool—or net returns. Growers who remain active in the industry will have to show a favorable net return in years to come before former operators now in other fields will return to sheep production, before current operators will see an advantage in expanding their present sheep numbers, and before new and inexperienced persons will be attracted to the business by the apparent profit available.

BUSINESS AND AGRICULTURAL CONDITIONS

FINANCE

Member Bank Credit During the 5-week period from August 14 to September 18, total Government security holdings of the District weekly reporting member banks declined by 70 million dollars, largely as a result of a contraction of 45 million dollars in Treasury certificates and of 22 million dollars in Treasury bills. The reduction in holdings of Treasury certificates was a consequence of the Treasury financing operation in which approximately 2 billion dollars of Treasury certificates of indebtedness which matured September 1, 1946, were retired for cash, the remaining 2,336 million dollars of the issue being exchanged for Series H-1947 certificates of indebtedness. Commercial banks held about 45 per cent of the maturing certificates.

The volume of Treasury certificates held by the District reporting banks on September 18 was substantially the same as 12 months earlier. During the year, Treasury note holdings declined by 193 million dollars, as a result of the retirement of Treasury notes during that period. This group of banks increased its Treasury bonds by 86 million dollars during the year and decreased its Treasury bills by 35 million dollars.

Principal items of condition of 50 member banks:

	Sept. 18 1946	Change from Aug. 14 1946	Change from Sept. 19 1945
	(In thousands of dollars)		
Loans and investments—total	2,279,874	−48,658	+20,966
Loans—total	499,151	+19,516	+131,009
Coml., indust., agric.	307,650	+17,962	+80,435
To security brokers and dealers	6,666	−519	−666
Other to purchase or carry secur.	39,727	−3,374	+6,735
Real estate loans	54,592	+1,939	+16,937
Loans to banks	106	+102	−444
All other loans	90,410	+3,406	+28,012
Investments—total	1,780,723	−68,174	−110,043
U. S. Govt. securities—total	1,614,256	−69,814	−141,837
Bills	39,567	−21,704	−34,951
Certificates of indebtedness	440,729	−45,079	+185
Notes	269,523	−2,093	−193,123
Bonds	864,135	−949	+86,148
Guaranteed obligations	302	+11	−96
Other securities	166,467	+1,640	+31,794
Reserves with F. R. Bank	458,737	+1,309	−340
Balances "due from" banks—net	266,410	−18,415	−22,797
Demand deposits—adjusted	1,528,467	+20,176	+117,088
Time deposits	315,806	+1,011	+39,306
U. S. Govt. deposits	184,567	−36,828	−56,045
Deposits "due to" banks—net	844,088	−58,537	−109,999
Borrowings	11,000	+6,000	−6,750

On September 18, loans and investments of the District weekly reporting banks aggregated 21 million dollars more than a year earlier. The decline of 142 million dollars in Government security holdings during the year was more than offset by increases of 131

BANK DEBITS

	Aug. 1946	8 Mos. 1946	Change from '45 Aug.	8 Mos.
	(Thousand dollars)		(Per cent)	
Colo. Springs, Colo.	31,490	242,978	+32	+28
Denver, Colo.	410,885	2,926,720	+38	+20
Gr. Junction, Colo.	9,516	74,862	+46	+36
Greeley, Colo.	14,685	101,149	+55	+26
Pueblo, Colo.	29,374	216,592	+24	+20
Atchison, Kans.	9,694	72,604	+45	+33
Emporia, Kans.	7,739	64,351	+19	+21
Hutchinson, Kans.	31,285	266,537	−18	+11
Independence, Kans.	5,851	46,049	+30	+32
Kansas City, Kans.	50,223	383,347	+34	+20
Lawrence, Kans.	8,178	64,651	+4	−2
Parsons, Kans.	6,772	48,173	+25	+1
Pittsburg, Kans.	9,106	66,708	+46	+27
Salina, Kans.	33,673	229,949	+6	+21
Topeka, Kans.	67,600	545,903	+10	+12
Wichita, Kans.	146,470	1,322,054	−29	−25
Joplin, Mo.	23,595	186,884	+33	+37
Kansas City, Mo.	844,277	5,951,842	+16	+6
St. Joseph, Mo.	70,871	495,578	+20	+10
Fremont, Nebr.	10,405	69,523	+51	+24
Grand Island, Nebr.	17,380	129,330	+27	+16
Lincoln, Nebr.	61,909	486,506	+20	+19
Omaha, Nebr.	398,480	2,961,998	+11	+7
Albuquerque, N.Mex.	55,542	431,947	+27	+43
Bartlesville, Okla.	51,828	384,518	+13	+7
Enid, Okla.	28,124	242,358	−12	+4
Guthrie, Okla.	3,364	26,379	+36	+20
Muskogee, Okla.	18,983	142,217	+16	+13
Okla. City, Okla.	238,016	1,761,295	+36	+13
Okmulgee, Okla.	4,989	40,354	+5	+25
Tulsa, Okla.	298,335	2,174,985	+11	−4
Casper, Wyo.	15,932	116,614	+32	+28
Cheyenne, Wyo.	22,728	171,769	+34	+16
District, 33 cities	3,037,299	22,446,724	+16	+7
U. S., 334 cities	82,728,000	684,910,000	+13	+7

million dollars in the total loan volume and of 32 million dollars in other investments. During the 5-week period ended September 18, loans expanded by 20 million dollars, chiefly because of increases of 18 million dollars in "commercial, industrial, and agricultural" loans, 2 million dollars in real estate loans, and 3 million dollars in the "all other" loans category, which includes consumer loans. The principal decrease was in loans to brokers and dealers.

During the 5-week period ended September 18, total deposits of the District reporting banks were reduced by 74 million dollars, as a net result of increases of 20 million dollars in private demand deposits and of 1 million dollars in time deposits and of decreases of 37 million dollars in Government deposits and of 59 million dollars in interbank deposits. Although time deposits have continued to increase since the end of the war, the rate of increase recently has been less than during 1945 and the early part of 1946.

DEPARTMENT STORE TRADE

Dollar volume of department store sales in this District in August was 40 per cent greater than a year ago, owing in part to one or two more shopping days this year than last. In most cities stores were closed one day in August last year, and in some cities two days, in celebration of the Japanese surrender. In the first three weeks of September, sales showed a gain of 34 per cent over the corresponding period a year ago. Sales increased more than is usual from July to August, and the seasonally adjusted index of daily average sales rose from 281 per cent of the 1935-39 average in July to 300 per cent in August. This was a new peak, exceeding by a considerable margin the previous high of 289 per cent reached last May.

Department store inventories declined more than is usual during August, and the seasonally adjusted index of stocks dropped from 206 per cent of the 1935-39 average at the end of July to 200 per cent at the end of August, recording a further decline from the high point of 212 per cent last June. Outstanding orders decreased somewhat during August from the record level reached at the end of July. On August 31, department store stocks were 33 per cent larger, and outstanding orders 42 per cent larger, in value than a year ago. In terms of the prewar relationship between sales and stocks, however, current inventories are still low.

Department store sales and stocks in leading cities:

	No. of Stores	SALES Aug.'46 comp. to Aug.'45	8 Mos.'46 comp. to 8 Mos.'45	STOCKS Aug. 31,'46 comp. to Aug. 31,'45
		(Per cent increase or decrease)		
Denver	7	+43	+34	+20
Pueblo	3	+25	+14	+21
Hutchinson	3	+40	+20	+61
Topeka	3	+32	+20	*
Wichita	4	+30	+18	+36
Kansas City	8	+42	+25	+43
St. Joseph	3	+36	+35	*
Omaha	4	+52	+33	*
Oklahoma City	6	+33	+19	+27
Tulsa	3	+43	+20	*
Other cities	32	+42	+31	+25
District	76	+40	+27	+33

* Not shown separately but included in District total.

INDUSTRIAL PRODUCTION

Meat Packing In spite of the relatively heavy receipts of most classes of livestock in early August, the volume of cattle slaughtered for the entire month at leading District markets was 11 per cent under the high level in July. The volume of hog slaughter was down 42 per cent and sheep slaughter was 23 per cent below the July level. The flow of finished cattle into slaughter channels was retarded somewhat toward the middle of August when producers became inclined to withhold marketable stock pending the outcome of livestock price control measures then under consideration. Even with the rush of cattle to market after August 20 and before the return of ceiling prices on September 1, marketings were not sufficient to provide a volume of cattle slaughter equal to that of July. A shortage of railroad cars at many outlying shipping points undoubtedly held receipts at terminal markets below the point which they would have reached had there been a plentiful supply of cattle cars available. The drying up of finished cattle receipts after September 1 at principal markets in the District has been variously attributed to the belief that a substantial portion of the finished or near-finished cattle normally available at this time of year was marketed earlier than usual in the months of July and August. Furthermore, the light receipts of all types of livestock since September 1 indicate that producers generally are reluctant to market such finished stock as they do have at the level of prices prevailing under the new livestock price ceiling.

Leading meat-packing concerns in the District point out that they are again faced with the same livestock procurement problem in the central markets that was plaguing them prior to the expiration of the OPA Maximum Price Regulation on June 30. Cattle buyers for the packing concerns are calling attention to their inability in most cases to match the bids of order buyers who purchase killing cattle for eastern packing companies, stating that to submit and have accepted bids comparable to those of order buyers would force the local companies beyond OPA compliance margins. In one market during early September local packing companies were able to purchase only around 30 per cent of the total receipts of the killing classes of cattle sold on the market that day. The balance of the receipts, it is reported, was purchased by order buyers.

Flour Milling Flour milling operations in the Southwestern territory averaged about 96 per cent of full-time capacity for the month of August. This was about 4 per cent above the level of operations in July and was fully 6 per cent above operations in August, 1945. The large volume of licensed export flour continues to be a leading factor in maintaining a high level of milling operations in the District. Operations during the first part of September declined to around 82 per cent of capacity, mainly because of uncertainty with regard to new price ceilings that were scheduled on domestic family flour. In addition, the strike of maritime workers brought about a railroad embargo on many commodities moving toward export, including flour. This caused heavy export mills to curtail operations somewhat in the first part of September until such time as the maritime strike was settled and the backlog of exports liquidated.

Sales by Southwestern mills during August were somewhat erratic, ranging from over 140 per cent of capacity to as low as 27 per cent. By the early part of September, however, flour sales were running around 65 per cent, about one third of which was attributed to export sales.

Further price relief was granted the milling industry in early September when the OPA allowed an increase of 20 cents per hundred pounds in the sale price of all flour. This was in addition to the increase of 7 cents which was granted on August 23 to comply with parity price requirements. It was stated that the price increase was to cover increased costs of flour sacks, shorter extraction rate, and the lower level of production to which mills are limited under the 85 per cent restriction.

The Commodity Credit Corporation late in August issued a statement setting forth a new wheat buying policy in which it is committed to open market purchases at the going market price. Formerly the organization held its purchase offers to the level of the old price ceilings, plus the allowable markups for merchandising and storage. By virtue of the new policy, the Commodity Credit Corporation will be a price factor in the wheat market until such time as the foreign export commitments are filled, even though its stated policy is to remain a nonaggressive buyer.

Employment The upward trend in nonagricultural employment in the Tenth District continued in June, the latest month for which figures are available. The level reached in June was 1 per cent above that reported for the previous month, but was 5 per cent below that prevailing in the District in June, 1945. Six of the District states showed gains from May to June, and nonagricultural employment in two states, Colorado and New Mexico, was even greater in June than in the corresponding month of 1945.

Manufacturing employment in the Tenth District gained 1 per cent from May to June, and reached the highest level reported since September, 1945. Although manufacturing employment in June in the District as a whole was 26 per cent below June of last year, two District states, New Mexico and Wyoming, showed more manufacturing employment than they had reported in June, 1945.

In the United States as a whole, total nonagricultural employment in June increased 1 per cent over May and showed a similar gain over June of last year. Manufacturing employment in June also advanced 1 per cent, compared with the previous month, but was 11 per cent below that reported for June, 1945.

Preliminary estimates for July show a further rise in the total nonagricultural employment in the nation. This increase in July was caused primarily by expanding employment in manufacturing and construction, while lesser gains were reported in transportation and public utilities and in mining.

Unemployment in the country as a whole continued downward and decreased by approximately a quarter of a million from July to August. The number of veterans reported unemployed in August was approximately 10 per cent smaller than in July. As in July, however, veterans continued to account for approximately 41 per cent of the total reported unemployed.

Estimates of total nonagricultural employment as reported by the Bureau of Labor Statistics:

	June 1946	Aver. 6 Mos. 1946	Change from '45 June	Change from '45 6 Mos.
	(Number)		(Per cent)	
Colorado	269,000	259,300	+2	0
Kansas	336,000	332,000	−13	−16
Missouri	913,000	887,700	−3	−6
Nebraska	243,000	240,700	−6	−7
New Mexico	85,300	82,700	+4	+4
Oklahoma	347,000	339,200	−6	−10
Wyoming	60,600	61,300	−2	+1
Seven states	2,253,900	2,202,900	−5	−7
United States	39,044,000	37,795,000	+1	−1

AGRICULTURE

Crops The United States produced a record wheat crop of 1,160,000,000 bushels this year. Winter wheat production in all states in the Tenth District approached record proportions with the exception of New Mexico. Kansas produced her second largest winter wheat crop, having turned in an estimated 216,631,000 bushel crop for 1946. The hot, dry weather which extended throughout most of the month of August caused a further decline in the condition of most field crops and pastures in the District. General rains occurring the last week in August and in the forepart of September brought relief from this drouth condition. The cotton crop in Oklahoma was materially benefitted by this moisture but boll weevils remained a serious threat to the crop in the eastern two thirds of the state. The seeding of winter wheat progressed rapidly in the latter part of August and early in September, although in scattered areas it was delayed by lack of sufficient moisture for plowing and seed bed preparation. Reports indicate that the corn crop in Nebraska, particularly in many localities of the western two thirds of the state, was seriously damaged by the August drouth conditions. Much corn that was damaged beyond recovery in parts of western Nebraska and in northwest Kansas was harvested early for forage. The corn crop throughout the District generally was adversely affected by the hot, dry weather that extended through July and August, and yields as estimated by the Department of Agriculture were reduced accordingly. Some late corn was revived by the August rainfall but is generally not expected to yield a normal crop.

Movement of new crop wheat from production areas of the District to terminal markets has not been as rapid as was expected in some quarters earlier in the crop year. Receipts of wheat at leading grain markets in the District during August were 45 per cent below those in August of last year. However, receipts at these markets during the first eight months of this year totaled only 3 per cent under the volume moved in the first eight months of 1945. The shortage of box cars and price uncertainties have been two important factors in maintaining a lower rate of shipment from country points than might otherwise be expected in a record crop year.

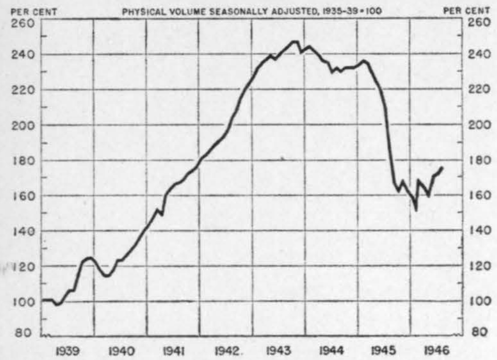
Livestock The top price of grain fed steers at Kansas City reached a high of $27.00 per hundredweight on August 24. Sales of feeder cattle were subject to spotty demand from Corn Belt feeders during August, but a high price of $21.50 was reached in spite of the uncertainties of future price ceilings then scheduled to become effective September 1. Following the return of ceiling prices on livestock, except on sheep and lambs, prices of the limited receipts of slaughter cattle, calves, and hogs at most principal markets in the District remain at or close to the OPA price ceilings.

Top carlot livestock prices at Kansas City:

	Sept.23 1946	Aug. 1946	July 1946	Aug. 1945	Aug. 1944	Aug. 1943
	(In dollars per hundredweight)					
Beef steers	19.90	27.00	25.50	17.65	17.50	16.10
Stocker cattle	17.85	17.25	17.75	14.25	13.75	13.90
Feeder cattle	18.00	21.50	20.75	15.00	15.15	14.25
Calves	17.75	18.00	18.50	14.25	14.00	14.00
Hogs	15.95	24.25	22.00	14.50	14.50	14.75
Lambs	19.00	22.00	21.00	14.75	15.00	14.85
Slaughter ewes	8.75	9.00	10.25	7.50	5.25	7.50

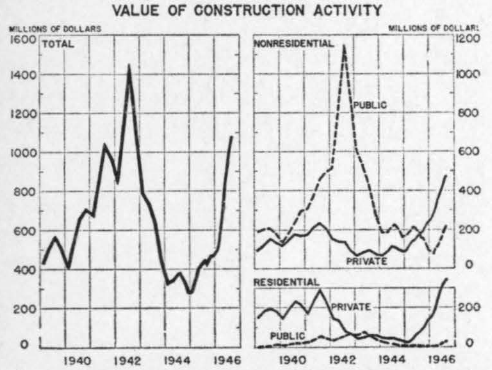
The shipments of stocker and feeder cattle from leading District markets for the first eight months of 1946 were 21 per cent greater than in the first eight months of 1945. In fact, during August, they were 91 per cent greater than in the same month last year, and in the first half of September receipts and shipments of this class of cattle at principal markets were at about the normal rate for the month. Many sources agree that before August 1 cattle feeders in the Corn Belt states were reluctant to absorb normal supplies of feeder cattle because of the uncertainties that existed in future price levels. While the number of cattle on feed in the Corn Belt states on August 1 was estimated to be 45 per cent under August 1, 1945, the volume of shipments of stocker and feeder cattle from the several river markets in August and September suggests the possibility that this deficiency of cattle on feed might well have been largely made up. There are some reports, however, that a substantial proportion of these cattle being received in feeding areas will be fed only a very short time before moving on to slaughter. Long-term feeding operations still appear to be on a greatly reduced scale.

INDUSTRIAL PRODUCTION



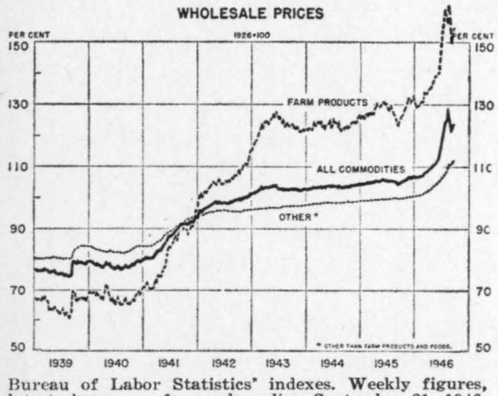
Federal Reserve index. Monthly figures, latest shown is for August, 1946.

VALUE OF CONSTRUCTION ACTIVITY



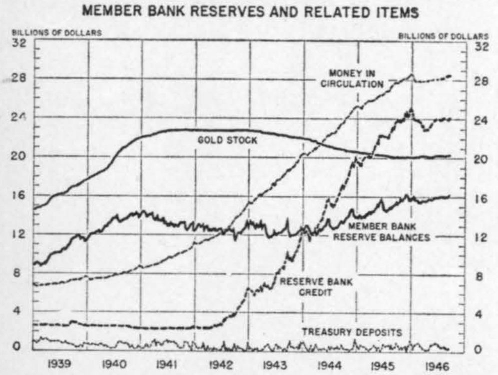
Figures beginning in 1944 are joint estimates of the Departments of Commerce and Labor; earlier figures estimated by Commerce. Data exclude repair and maintenance work. Monthly averages of quarterly data prior to July, 1944; monthly data, thereafter. Latest figures shown are for August, 1946.

WHOLESALE PRICES



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending September 21, 1946.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for September 18, 1946.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

Production and employment at factories continued to expand in August. The value of retail trade reached new record levels, reflecting partly further advances in prices for goods. In the early part of September prices of agricultural commodities were reduced considerably by Federal action.

Industrial Production

Industrial production rose further in August to a new peacetime peak and, according to the Board's seasonally adjusted index, the level of output was 176 per cent of the 1935-39 average as compared with 172 in July.

Production of durable manufactures continued to gain, reflecting further advances in output of metals and metal products. Activity at steel mills averaged 88 per cent of capacity in August as compared with 85 per cent in July and operations in September have been maintained at about the August rate. Output of copper continued to advance in August and exceeded the pre-strike rate in January. Activity in the machinery and automobile industries increased in August. Output of passenger cars rose 10 per cent, and trucks 13 per cent; production of trucks totalled 105,500 units, which was the highest monthly rate on record.

Production of nondurable goods as a group advanced in August to the same level as in June, 162 per cent of the 1935-39 average, after a large decline in July due chiefly to vacations in the textile, leather, paper, and tobacco products industries. Output of paperboard rose in August to a level slightly above the previous peak and continued at about this rate during the first three weeks of September. Federally inspected meat production in August, after allowance for seasonal changes, was 16 per cent below the high July rate, and a sharp further curtailment occurred in September. Output of flour and bakery products showed further large gains in August, reflecting improved wheat supplies. Production of most other nondurable goods increased slightly from July to August.

Minerals production declined two per cent in August, reflecting slight decreases in output of coal and crude petroleum. Output of metals showed little change.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined somewhat further in August, reflecting a drop of one fourth in nonresidential building awards. Residential building awards increased slightly in August following large decreases in June and July. Value of new construction activity continued to rise in August but preliminary figures indicate that activity showed little change in September.

Employment

Nonagricultural employment increased by about 550,000 from July to August to a level more than 1½ million above August, 1945. Over 300,000 workers were added in manufacturing, and employment in most other industries continued to increase. The number of persons unemployed declined by 230,000 in August.

Distribution

Department store sales in August reached a new high of 289 per cent of the 1935-39 average as compared with 273 in July and an average level of 254 in the first half of the year, according to the Board's seasonally adjusted index. Sales during the first three weeks of September continued at a high level. Value of department store inventories, after allowing for seasonal changes, increased from 222 per cent of the 1935-39 average at the end of July to 225 at the end of August.

Commodity Prices

Prices of livestock and meats were reduced sharply at the beginning of September by the reestablishment of Federal price ceilings over these commodities. Reflecting mainly that action, the general index of wholesale prices declined 4 per cent from the middle of August to the latter part of September, following an advance of 13 per cent in the preceding 6 weeks after the lapse of Federal price control. Prices of dairy products and some other agricultural and industrial commodities have advanced further in recent weeks.

Bank Credit

Treasury withdrawals from its deposits at banks to retire public debt, together with an increase in currency in circulation, in August and early September resulted in moderate pressure on member bank reserves, and banks sold short-term Government securities to the Reserve Banks. In the first half of September deposits of businesses and individuals increased considerably, and required reserves rose by about 200 million dollars. There was some decline in the following week, largely the result of income tax payments.

Commercial and industrial loans at member banks in 101 leading cities showed a further sharp increase during August and the first three weeks of September, and have risen by about 1.5 billion dollars since June. Real estate and consumer loans also continued to increase. Loans for purchasing and carrying securities declined by over 500 million. Holdings of Treasury certificates declined by about 2 billion, reflecting primarily Treasury debt retirement operations, while holdings of Government bonds increased slightly further.

Security Prices

Prices of common stocks declined sharply during the first three weeks of September. Bond yields rose somewhat in August and September, while short-term interest rates showed little change.