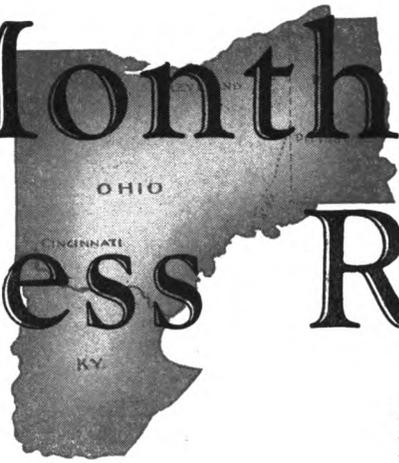


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FINANCIAL RECONVERSION

In the course of time, the Nation's industrial facilities will have been readapted to production for peacetime demand. When the machinery and equipment have been installed (or reinstalled and rearranged), raw material sources of supply reestablished, and civilian channels of distribution reopened, the physical aspects of wartime will have largely disappeared from the industrial scene.

On the other hand, reconversion in the field of finance will inevitably be a long-drawn-out procedure and, in a sense, may never be completed. The effects of war and its financial requirements will continue in evidence long after industrial reconversion has been consummated. Deposits, loans, investments, circulating currency, excess reserves, and other aspects of banking will not necessarily revert to their prewar status as peacetime production is slowly resumed.

Deposit Growth Foremost among the by-products of war finance is the tremendous growth of bank deposits throughout the country. At the close of hostilities in Europe last month, total deposits of all fourth district member banks were virtually 2½ times as large as in 1939—or 1929.

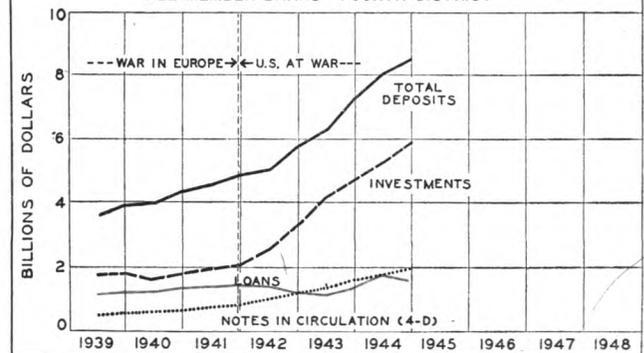
This record volume of deposits will not necessarily shrink contemporarily with a contraction in expenditures for war, nor in consequence of the anticipated transition to a peacetime economy, with perhaps a somewhat lower level of industrial production.

Instead of ushering in a period of declining deposits such as that of 1920 after World War I, the gradual industrial conversion to civilian pursuits may conceivably be accompanied by a further expansion in

deposit liabilities. The probabilities of the case hinge chiefly upon future developments with respect to loans, investments, gold movements, and the need—or demand—for hand-to-hand currency.

Of the roughly \$5,000,000,000 increase in fourth district member bank deposits in the past six years, it might be said that around 80 percent originated from the increase in member bank holdings of U. S. Government securities. If it be imagined that industrial reconversion will be paralleled by substantial sales of Government obligations by commercial banks to their depositors, then deposits would inevitably decline. Conversely, if additional quantities of Government securities are made available to commercial banks, because of the failure of individuals and non-banking enterprises to absorb the full cost of the Japanese war out of current income or accumulated funds, then the volume of deposit liabilities may expand for a long time after war production has passed its peak. There is also the possibility that perhaps, in later stages of reconversion when civilian products

FACTORS AFFECTING TOTAL DEPOSITS
ALL MEMBER BANKS - FOURTH DISTRICT



will become relatively abundant, redemption of Series E-type bonds might become sufficiently large to necessitate Treasury offerings of "refunding" securities eligible for commercial banks. In view of these potentialities, it is not likely that commercial banks will soon divest themselves of significant quantities of Government securities; and, if further acquisitions are made, reconversion of the deposit structure to prewar levels is far from imminent.

Loans Another factor in the deposit outlook is the future behavior of loans. If all loans of fourth district member banks were paid off in full by current borrowers and no new loans negotiated, the process would absorb only about one-fifth of the six-year expansion of deposits. However, total loans in this district have expanded only some 25 percent from a relatively low prewar level, all of which took place in the larger city banks. Loans of country member banks actually declined from 1939 to date.

Instead of anticipating a reduction from the present moderate figure, a considerable segment of the banking system expects a gradual revival in total loans because of industrial borrowing for reconversion, revival in residential construction, and perhaps a record volume of personal or consumer borrowing. If these hopes should materialize and bank loans expand rather than contract, deposits would move still further away from 1939, or prewar levels.

Gold Movements Future developments in the international gold movement are a third factor to be considered. During the six years of war, the net increase in the country's monetary gold stocks approximated \$4 billion (not to mention substantial imports prior to 1939), which automatically created an equivalent volume of commercial bank deposits, a proportionate amount of which gravitated to the fourth district.

However, the entire gain took place prior to 1942. For the past two years, gold has been flowing out again at a rate of \$1-\$1.5 billion per annum, chiefly to Latin American and neutral countries in payment for war-swollen imports of raw materials. Whether this tendency will continue during the course of industrial conversion is problematical. The direction of the flow of gold will depend largely upon future international financial and economic developments. It is not generally expected that gold exports will be of such volume as to have a noticeably deflationary effect upon fourth district deposits. Conceivably, the

termination of war in Europe may result in an easing of the recent rate of outflow.

Currency Demands A fourth factor which may prove instrumental, not in preventing a "reconversion" decline in deposits but in actually augmenting the prevailing total, is the future trend in circulating currency. During the past six years, fourth district banks paid out (net) in the neighborhood of \$1,500,000,000 in coin and currency. But for this persistent outflow of currency to the public, deposits of member banks of this district theoretically might have risen \$6 billion or more, instead of only \$5 billion. If industrial reconversion, in conjunction with perhaps other influences, should induce a definite reversal in that outward movement, bank deposits would tend to expand beyond the present aggregate. Currently, holdings of currency by the public are \$130 per capita *higher* than in 1939, which obviously is considerably in excess of day-to-day requirements.

In view of these several potentialities, total bank deposits are more likely to extend their wartime rise than to recede during the period of industrial reconversion. Resumption of civilian production presumably will engender no immediate or significant contraction in the record high level of deposits.

Investment Policies In some other respects, however, the reconversion period may be accompanied by changes in the wartime trend of banking. The reconversion period may be characterized by some shifting of maturities in bank investment portfolios. The bulk of the six-year increase in member bank holdings of Treasury obligations consists of certificates of indebtedness and five to ten year maturities. Two years ago, 91-day Treasury bills had come to occupy a fairly important place in many bank investment programs, but subsequently and irregularly such securities have been permitted to run off until they currently represent only about five percent of holdings of direct obligations of the U. S. Government, in the case of fourth district member banks. The trend in the past year or so seems to have been toward some lengthening of maturities. Industrial reconversion may either accelerate that tendency or retard it, depending somewhat upon the experience of individual banks.

Excess Reserves Six years ago, excess reserves of all member banks stood at \$5 billion, domiciled largely in central reserve city banks. During the next 1½ years, excess reserves of fourth

district member banks more than doubled, rising to above \$500,000,000 during 1941. By 1944, such idle balances had dropped to a low of \$100,-\$150,000,000, nearly all of which were being held by country member banks. Excess reserves of reserve city banks have been virtually nonexistent for about two years. There is no certainty that excess reserves will reappear in substantial quantities during industrial reconversion, but the possibilities of further shrinkage have been virtually exhausted, except for country member banks. Reserve city banks' reserve requirements against net demand deposits at present are 20 percent, as against 17½ percent in 1939. Country banks' requirements remained unchanged. In terms of dollars, legal requirements of all fourth district member banks are roughly three times as large today as in prewar 1939.

Borrowings Unlike World War I, member banks have not become indebted to the reserve bank to any considerable extent during the past six years. However, there has been some expansion, and it is not inconceivable that rediscounts and advances will rise to higher levels in the future. Thus far, reserves have been replenished in the main by the sale of Treasury bills and certificates of indebtedness to the reserve banks. But, member banks' bill holdings have dropped to a comparatively low level and, if the demand for loans and investments should approach some of the more sanguine expectations, a further expansion of indebtedness to the reserve banks might develop during reconversion, particularly if the outflow of currency should continue.

Premises and Other Real Estate During the past six years, fourth district member banks reduced the book value of bank premises by 10-15 percent. Conceivably, the time is not too remote when some expansion in physical plant will take place. Member banks have also disposed of, or written off, virtually all holdings of foreclosed real estate.

Capital Requirements A final sector in which some degree of financial reconversion may take place is in the realm of bank capital. Concurrent with the 140 percent increase in deposit liabilities in six years, capital funds of reserve city banks of this district increased only 20 percent and of country banks by about 30 percent, in both cases chiefly out of retained earnings. It can scarcely be said that stockholders' equities have kept pace with the substantial increase in bank liabilities. It would be a salutary development if the period of industrial reconversion were to be accompanied by an appropriate amount of conversion of bank deposits into bank capital by the sale of additional stock.

SEVENTH WAR LOAN

The Seventh War Loan Drive is currently in its first phase, with major efforts being directed exclusively toward securing the greatest possible participation by individuals. The \$599 million quota assigned to the fourth district, for sales to individuals, is 27 percent larger than the \$471 million subscribed by

this group in the drive of last November-December. The \$357 million Series E quota for this district is 59 percent larger than in the Sixth Drive and 42 percent greater than actual Series E sales during that campaign.

These increased quotas for individuals appear to be realistic and justifiable, in terms of such criteria of purchasing power as income, savings deposits, and currency holdings.

Subscriptions by Individuals, Time Deposits, Note Circulation, and National Income
(In millions)

War Loan Drive	Fourth District			National Income Payments (U.S.)
	Subscriptions by Individuals	Time Deposits—41 Weekly Reporting Banks	Federal Reserve Notes in Circulation	
1	\$169	\$ 730	\$1,092	\$130,000
2	329	795	1,191	140,000
3	531	840	1,367	146,000
4	435	882	1,506	153,000
5	528	940	1,655	155,000
6	471	1,039	1,858	160,000
7	599*	1,123	1,982	164,000†

* Quota
† Estimated

On the basis of income alone, subscriptions by individuals should show an appreciable increase over the relatively high Fifth Drive total without necessitating extra sales effort; for, on a national basis, the public is receiving income in the form of wages, salaries, etc., at the rate of \$106 for each \$100 received a year ago. Meanwhile there have been no appreciable changes in the tax structure.

The potential purchasing power of accumulated funds, whether in the form of deposits at banks or as currency holdings, is greater now than in any previous drive. At weekly reporting member banks, time deposits have increased more than \$180 million in the past year. For all banks in this district the increment may be around \$375 million. It is, therefore, apparent that previous war drives have by no means exhausted this reservoir of funds, and the ability to buy from savings remains unimpaired.

On the eve of the Seventh Drive, the volume of Fourth Federal Reserve District notes in circulation was some \$325 million larger than last June, when the Fifth Drive was opened, and \$1,200,000,000 greater than at the time of Pearl Harbor. Successive war loan drives seem to have had virtually no deterring effect upon the continued expansion of currency holdings. A return of a portion of this currency to the banking system in exchange for war bonds would tend to moderate an important inflationary element in the economy.

Subscriptions through payroll plans, processed between April 9 and May 14, provided an initial impetus of roughly 16 percent toward the over-all quota for individuals and 23 percent toward the Series E goal. However, subsequent sales seem to indicate rather slow progress toward the large Series E quota. As of May 31, sales to individuals had reached only 41.5 percent of the Series E goal, and 42.1 percent of the total quota for individuals.

ABSORPTION OF EXPANDED STEEL CAPACITY

A National Problem The disposition of Government-owned steel plant and equipment is of prime importance to industry of the fourth district. However, this problem is but a part of a still greater issue—the absorption of expanded war-built steel producing capacity into the Nation's peacetime economy. Whereas Government-financed plants comprise less than 10 percent of the industry's capacity, total expansion since July 1, 1940, has approximated 17 percent. In terms of ingot tonnage, capacity has increased from 81,680,000 tons in 1940 to 95,505,000 tons on January 1, 1945.

The problem of absorbing this enormous expansion is illustrated by the fact that the highest five-year annual ingot production average in the history of the Nation, prior to 1941, was a little less than 60 million tons. This compares with the wartime annual production peak of approximately 90 million tons. Some studies have attempted to relate ingot production to industrial production and national income, with the idea that present capacity will be absorbed by the anticipated postwar levels of income and that only certain types of steel production will be in distress. However, the industry view is that the postwar problem will not be so much one of converting facility from military to civilian requirements, but rather of adjusting to a decreased rate of production.

One of several things may happen to the new capacity. The expansion which was privately-financed may be absorbed as additional capacity; it may be used as replacement for obsolete units; or it may call for a general contraction of plant facility to meet uncertain peacetime requirements. Government-financed expansion of a "scrambled facility" character raises problems which closely resemble privately-financed expansion, inasmuch as present operators constitute, in general, the only feasible buyers. On the other hand, the disposition of Government-owned plants of a "grass roots" type may effect far-reaching changes in regional steel production and marketing. The problem in the fourth district is largely one of contraction or absorption of scrambled facility expansion, as contrasted with the relatively more serious problem involved in the grass roots expansion of the South and West. However, it seems probable that, after the wartime strains are removed, raw materials sources and market concentrations are likely to control steel plant location in approximately the same way that they did before the war.

Nationwide, the wartime expansion of steel has resulted in large public expenditures for plant and equipment (since July 1, 1940, the Government has expended \$1,340,000,000 on new steel production facilities, while steel producers provided another \$759,000,000), an estimated 70 percent of which are under the guidance of four of the largest producers in the industry. By its very nature, steel is an industry of giants, and the war has tended to emphasize this fact. The cost of the only completely-integrated mill built in the district by public funds (the Carnegie-

Illinois-operated Homestead Plant in Allegheny County, Pennsylvania, was built at an approximate cost of \$90 million for building and equipment) during the war period obviously is so high as to prohibit small-time operators from purchasing these facilities. The remainder of plant and equipment would be of use only to augment facilities of the mills for which they were originally constructed. However strong the desire to have small enterprisers share in the postwar operations of these mills, it would seem, at least in this district, impossible to make available to them a greater share of total capacity than they already operate.

Fourth District Problem Since approximately 47 percent of the capacity of the Nation's steel industry is concentrated in the fourth district, obviously the disposition of the capacity recently built in the South and West, areas long considered by the steel industry of the East as market, is awaited with considerable interest in this area. Aside from a possible "rearrangement" of the potential postwar market, the policy employed by the Government in disposal will reveal attitudes towards decentralization of the industry, possible operation by Government subsidy, and the strength of regional pressures which may exercise a substantial influence on the whole problem of plant disposal. The question of policies and methods awaits its "test case," and on the answer to this problem hinges, to a great extent, the part the steel industry will play in the re-establishment of a peace economy.

The character of steel facilities built in this district, unlike most other war-built industries in practically all sections of the country, does fit into the prewar pattern of the industry. As has been pointed out, major expenditures have been made for facilities to augment existing mills. (See the article, "Wartime Steel Facility Expansion" in the April 30, 1945, issue of the *Monthly Business Review*.) The net result, however, is that the geographical distribution of steel production, both in ingot and finishing capacity, at the end of the war will be substantially the same as before. The product made has been the same as the prewar product, for the most part, with the exception of the conversion of strip mills to steel plate production and the new facilities built to accommodate the tremendous expansion in plate and specialty steel capacity. The converted strip mills should offer no special problems in reconverting to peacetime production of thinner sheet steel. New plate facilities of the district, by far the largest being the Homestead Plant, offer special problems that will depend on factors which cannot be answered fully at this time. Some of the apparent excess capacity could be maintained in a "stand-by" condition; or it could be used to supply the demands of the export market, dismantled, or converted to the production of thinner sheet steel. This latter possibility would depend on the demands of the peacetime market. If carried through, it would require a large part of the \$200 million expenditure estimated by the American Iron

and Steel Institute as necessary to convert steel mills from military to civilian use.

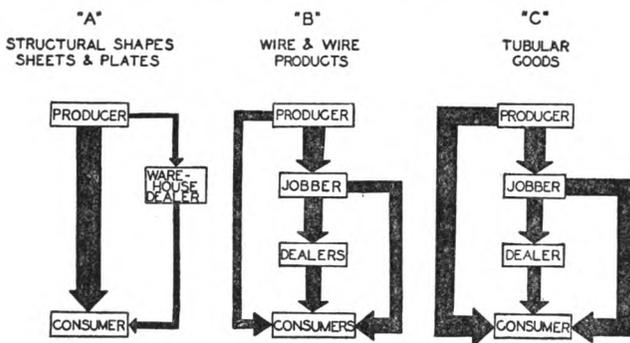
Location of the added facility is a factor of prime importance in a consideration of the new war-built steel plant. Within the district, new steel facilities have followed the prewar location of the industry. Ingot, pig, rolling mill, and related capacities have been added only in locations where prewar production has long since demonstrated the economic feasibility of operation. This new capacity has intensified the basic problem confronting the steel industry of the district, which has been a surplus producing area for many years. If the industry is to operate at near-capacity levels in the postwar period, it must continue to sell to markets outside its own area. However, a further extension of the multiple basing point system—or its possible abolition—in conjunction with possible commodity freight rate adjustments and expanded production in other areas, may, in time, greatly curtail shipments to outlying markets in this section of the country as well as to the more distant markets of the West and South.

The major problem of steel plant disposal in this district, then, is not one of conversion or reconversion, location of plant in relation to raw materials or market, or size of plant built by private funds. Rather, plant disposal depends on several important factors which will be examined in turn: (1) postwar demand for steel; (2) Government attitude toward decentralization of the industry; and (3) pricing, and related policies connected with Government-owned mills.

THE DEMAND FOR STEEL

The story of iron and steel in the United States turns about one central theme—the market for the products made from steel. The demand for iron and steel is a derived demand; i.e., the market for the products of the consumers of steel determines the rate of operation for the industry. Various classes of steel goods reach their market through the distributive channels portrayed in the following diagram. The pattern of distribution has not changed materially during the war period, but the relative tonnage of the different classes of steel has been drastically affected.

MARKETING CHANNELS FOR FINISHED ROLLED-STEEL PRODUCTS



Rolled steel products are consumed by a diversity of industries scattered throughout the United States. However, the largest quantity, approximately two-thirds, is consumed in the territory east of the Mississippi and north of the Ohio and Potomac rivers, the seat of greatest industrial activity and concentrated population. The trans-Mississippi Valley and western district consumes approximately one-fifth; the southern district, one-tenth; and the Pacific Coast states, notably California, more than one-twentieth. During the war, these latter areas have accelerated their slowly expanding prewar consumption trend. The increasing industrial activity of these sections, plus the location of new steel facilities in these areas, seems to assure them a larger proportion of total postwar steel consumption.

An analysis of the postwar market for the thousands of steel products is beyond the scope of this treatment. It seems probable, however, that consumption by individual industry groups will differ considerably from prewar distribution, especially after the initial rush to obtain materials for replacement and repair. This will be due, primarily, to technological changes and to variations in requirements at different national income levels. A brief summary of some of the factors which may affect leading postwar consuming markets will illustrate the general problem.

The following shows the distribution of finished steel shipments during 1940 and 1944, by industries.

Finished Steel Shipments to Consuming Industries

	Percentage of Total Shipments	
	1940	1944
Shipbuilding.....	2.1	17.0
Automotive, Aircraft.....	15.8	3.4
Construction.....	10.8	7.4
Railroads.....	8.2	9.0
Containers.....	6.5	6.1
Machinery, Tools.....	4.1	4.1
Agricultural Equipment, Etc.....	2.0	1.8
Oil, Mining, Gas.....	2.5	2.5
Pressing, Stamping.....	4.7	4.8
Converters (Wire, Nuts, Forgings, Etc.).....	6.4	9.3
Jobbers and Dealers.....	14.6	19.3
Miscellaneous and Export.....	22.3	21.3

Source: American Iron and Steel Institute.

By 1940, of course, war demands had introduced some changes into "normal" consumption patterns, but prewar consumer classifications and wartime security reasons prohibit item by item comparisons. The distribution in 1940, however, was still quite similar to prewar experience. The following estimates of peacetime prospects for some of the steel industry's largest customers are based, in part, on this experience, and partly represent a composite of current opinion regarding outlook for steel consumption trends after the war.

Agriculture—The agricultural industry entered the war liberally supplied with good equipment. Heavy usage during the war, however, has not been offset by wartime implement production. Continued heavy demand for food and the possible industrial usage of agricultural raw materials, when coupled with high purchasing power and the desire for low cost production, should augur well for expanded consumption of

SOURCE: BREYER'S "COMMODITY MARKETING"

steel. In addition to implements, silos, bins, and other farm buildings and equipment may be made from steel.

Automotive—Few industries have had more speculation concerning postwar prospects than the automotive. The style, weight, and material of postwar automobiles are matters of great importance to the iron and steel industry. On one point, however, there is substantial agreement: the demand for automobiles will be great in postwar years. Although sales may reach new high levels, prospects seem favorable for a reduction in average weight as well as an increased substitution of plastics and lighter metals for some parts now made from steel. Although it is frequently suggested that aluminum and magnesium will make heavy inroads on steel markets, comparisons should be avoided which relate light metals and steel capacity or consumption on a tonnage basis. While it is possible, of course, that over-all steel tonnage requirements for the automotive industry will not keep pace with sales, there may be a substantial increase in the use of the more profitable specialty steels.

Construction—Steel requirements for construction of all kinds may expand considerably in postwar years. Conditions are believed to be favorable for the use of steel in the prefabricated housing industry postwar. It is now anticipated, however, that the greatest residential demand for steel will be in reinforcement, lathing, windows, and kitchens. Aside from the possibilities of this market, the accumulated demand for highway construction with its attendant need for steel reinforcements, the demand for steel products in the repair and replacement of facilities in both farm and urban housing, and the many projects planned by governmental divisions for postwar years hold promise for the steel industry.

Containers—New methods and new materials have entered this market to affect postwar consumption. Glass and paper offer real competition to steel for small containers in postwar years. The use of glass containers, for high quality fruits especially, is a means of attaining the goal of many grade-conscious consumers who long have wanted "windows in tin cans." In the larger sizes, the market is relatively untouched, for substitute materials in the main have been unsatisfactory. In the food container field, steel requirements may also be affected by an expanded use of frozen food equipment.

Petroleum—Large diameter lines may have proved their feasibility during the war. If so, they may be used to replace much of the present pipeline system which has developed somewhat illogically. A shift in supply sources also will call for additional pipe. On the other hand, a reduction or technical improvement in drilling, and the use of better qualities of line pipe, will tend to reduce the steel requirements.

Railroads—Deferred maintenance of road-bed, rolling stock, and terminal facilities may require large steel tonnage during the transition and early postwar years. However, railroad steel requirements generally vary directly with the expected volume of business. Thus, steel requirements are uncertain except for

railroad rehabilitation, and even here the lighter metals and special alloy steels may reduce steel tonnage required for rolling stock. A factor which would indicate an increase in consumption of steel by railroads is the increased speed and length of modern trains which demand heavier rails and possibly steel ties. In the absence of authoritative projections of postwar railroad operations, this industry remains one of the great question marks in the future steel market.

Shipbuilding, aircraft, and ordnance—Prewar consumption of steel in these fields was slightly more than two percent of total tonnage. A subsidized merchant marine, in conjunction with an alert naval building program to avert obsolescence, would call for a heavier steel tonnage than that required in prewar years. Aircraft and ordnance can be expected to take larger tonnage than before the war because of technological necessities and the size of the peacetime air force and army at home and abroad. Tonnage requirements will be small as measured by wartime standards.

Exports—Foreign steel makers, whose facilities have been aimed at filling a large export market, usually have been able to sell abroad at lower delivered prices than American producers. In consequence, United States peacetime exports of steel customarily have been in the field of specialties. The average annual tonnage exported in the decade starting with 1930 equaled 1.7 million tons. In 1940, largely because of the war requirements of the United Nations, exports totaled 8.7 million tons. The steel industry anticipates that exports in the first two years after the war will equal at least the tonnage shipped in 1940 and 1941. The questions of foreign exchange, cartels, tariffs, and other phases of export operations, however, make predictions in this field very uncertain. War damage to the steel-producing facilities in Europe is impossible to predict. That there has been devastation it is freely admitted, but it is also known that operating capacity has been expanded, repaired, and rebuilt in varying degrees. In the long run, this country may well expect to lose part of its newly expanded export market to prewar steel producing areas as well as to new mills, such as those in Brazil and South Africa.

New products—It would be impossible to predict the new uses for steel that may develop after the war. The wartime pressure on industry has been fruitful in introducing new uses for steel as well as new methods of manufacture. Undoubtedly, the ingenuity that has met the challenge of war has created new peacetime uses for steel as a by-product of war requirements. The pressure of peacetime competition may be expected to call forth additional uses and techniques.

A Postwar Summary The postwar markets for steel will be indirectly related to levels of gross national income and directly related to the activity of steel-consuming industries. The market for highly finished and specialized products seems to be more promising than for rougher products. This may have a bearing on the estimates by the American Iron and Steel Institute, which indicate an anticipated

operating rate of between 70 and 75 percent of capacity for the industry postwar. This suggests a range of 65 to 70 million ingot tons in "good years" after the high wartime demand that may extend for a year or two following the end of war. From a national standpoint, such an operating rate is not as serious as it sounds, because the industry has usually operated considerably below theoretical capacity. Much more serious is the likelihood that certain areas, notably the "surplus" areas, may experience a more pronounced decline than some other producing centers.

The status of capacity not needed to meet such requirements is, however, the concern of the industry, because, at present cost-price relationships, operation at below 80 percent would be unprofitable for many producers. Obsolescence should eliminate a portion of the oldest equipment. For the newly-built facility that will not be needed there are several alternatives. It could be operated for the export market, dismantled, or treated as standby equipment. The factor which should decide whether a plant is to operate is strictly one of economical operation, according to industry standards. The unprofitable or marginal units which have been operating solely to accommodate the tremendous needs of the war machine could not run without Government subsidy, arising either through a low private purchasing price or adjusted operating costs. On this possibility depends, to a large degree, the caution of some steel interests towards acquiring Government-financed facilities which they now operate.

The competition that new mills in the West will offer in the postwar steel market in that section of the country is problematical. Situated as it is far from potential manufacturing centers, the Geneva mill in Utah may be at a disadvantage, unless drastic revision of freight rates is made. The Fontanna mill in California is located 65 miles inland from water shipping and eventually must depend on sources of iron ore (as it already does for coking coal) that will necessitate extensive rail shipping. The mills in the East and South long have dominated this market by means of cheap shipping through the Panama Canal. Of a total of approximately 1,400,000 net tons of steel shipped through the Panama Canal to the West Coast in 1940, approximately one-half originated in Baltimore, 16 percent in Mobile, 12 percent in Philadelphia, 8 percent in New York, and 5 percent in New Orleans. The traditional suppliers of this western market anticipate meeting on a price basis any competition that can be offered for most steel sizes by the new mills.

Both of the new mills in the West have extensive facilities for the production of plates used in the wartime shipbuilding program. A conversion to meet the demand for the food packing industry of the West may be a logical outlet for part of their production. Sectional competition, which may develop postwar, points toward rivalry between the mills of the East Coast and South against the Western mills. That the new Western mills will operate seems to be certain. The Fontanna Plant in California was built by the Kaiser interests with funds obtained from the RFC.

Its postwar operation seems assured. Bids on the DPC-built Geneva plant in Utah have already been received, indicating its postwar operation. Financing and valuation programs for the two mills should be so adjusted as to provide equality of opportunity to both plants. The most pressing immediate need of these mills seems to be an adjustment of freight rates.

OBSERVATIONS ON GOVERNMENT POLICY

Decentralization of Industry It has been stated that policy with respect to disposition of Government-owned plant and equipment must be concerned with broad policies of employment, shifts in population, stranded communities, regional development, anti-monopoly considerations, and other factors. Opposed to this is the belief that comparative cost factors alone should determine the operation of expanded plant capacity in postwar years. Without touching on the merits of either belief, it might be helpful to examine some of the laws, regulations, or agencies of the Government as they apply to the disposal of new plant facility to discover, if possible, tendencies of legislation or action toward either possibility.

The inclination of current legislation toward encouragement of small enterprise has been marked. The Department of Justice may oppose war plant sale to selected large operators or companies which have monopoly or restraint charges pending against them. The Smaller War Plants Corporation has as its purpose the preservation and the fostering of small business. It has advocated "multiple tenancy" as the solution to a part of the problem of large industrial plant disposal. It seems impossible, however, for the expanded steel facilities to be used in this way. The "scrambled facilities" growth of fourth district steel, as has been stated, would be of use only to the mills for which it was built, despite the fact that such disposition would increase the holdings of the largest operators in the business. "Multiple tenancy" in this area would seem to find a more fruitful field in the large plants built to house fabricating equipment, aircraft, machines, small parts, and perhaps shell-loading plants.

Leases and Options Another factor which must be considered in any discussion of the disposition of war plants is the matter of purchase or lease rights on the part of operators. Practically all leases held by private operators of plants built by DPC provide an option for purchase or lease by the operator except for the following groups: aluminum, magnesium, synthetic rubber, pipelines, and a group of miscellaneous plants which includes the steel plant at Geneva, Utah. The largest steel plant additions in this district have been financed by DPC, as well as the greatest percentage of all other publicly-financed steel facilities built during the war period. Practically all these DPC contracts carry option provisions.

The extent to which these options may be exercised is difficult to appraise. If facilities are acquired by

anyone, it would seem logical that present operators would exercise options rather than permit possible competitive interests to enter. However, most of the Government-financed steel facilities were built under conditions of high cost, both for materials and labor. In general, options may be exercised for only the entire plant and equipment covered by the lease. These two factors may make disposition of the largest steel units built in the area difficult. Indications point toward the exercise of lease rights by many of the companies now operating smaller Government-built units rather than outright purchase. If the lease contract is flexible enough, it will permit the Nation to enjoy additional steel production when needed and, at the same time, will provide the Government a stand-by facility in light production years.

The provisions of the Surplus Property Act of 1944 also shed some light on the attitude of Government toward plant disposal. No plant costing more than \$5,000,000 can be sold without approval of Congress. What effect this will have on the exercise of option rights is not clear. The evident purpose of the Act was to prevent a "windfall" policy in pricing plants and equipment and to safeguard interests of small business. In addition to slowing down plant disposal, the law may result in the operation of uneconomic units to prevent monopoly or to reflect almost any other objective of the current legislature, including further efforts toward decentralization of industry. A statement also is required of the Justice Department concerning the proposed disposition of any facility costing over \$1,000,000 at the beginning of negotiations, according to the Surplus Property Act. During the last several years, the Department of Justice has indicted the principal producers of steel in at least two cases charging price fixing and elimination of competition within the trade. What a carry-over of this attitude might mean in plant disposition remains to be seen.

Pricing Policy One of the most difficult problems facing the Government and industry as plants and equipment become surplus is the matter of pricing policy. If present operators holding option privileges elect to lease facilities, the problem of fixing appropriate rentals will be no less difficult. The value of a highly specialized plant, such as steel, is more often determined by the demand for its products rather than the cost of its construction. This would seem to be especially true of the plant facility built during the war. Under pressure of the needs of a Nation at war, high cost construction was justified on the grounds of expediency. As the industry prepares for the return of peace, prospects for demand indicate a decline in value of much of the newly-added plant facility. The present policy of the Surplus Property Board seems to be one of setting appraisals in terms of "normal" values.

For that very small portion of steel facilities built in this district where private interests have borrowed directly from the Government, there is, of course, no problem of pricing. These private interests are responsible for the financial obligations of their plants. The Defense Plant Corporation facilities, in contrast,

are owned by the Government and merely operated by private interests. The major problem of pricing steel facilities in this district is concerned with these properties.

To date, there have been no major sales of DPC-owned plants, which, if examined, might indicate disposal pricing policy. Operators of the "scrambled" steel facilities built in this district have indicated an interest in leasing equipment for postwar operation, with an option to purchase these facilities after their value has been determined by peacetime demand for production. If, however, the operator does not purchase the property, the Government is faced with a problem which would be relatively simple for detached facilities, but perplexing if the equipment and plant are mixed up with the operator's property.

There are many policies that might be used in pricing Government facilities. These range from costless-depreciation to a sliding scale purchase, where price is fixed by the earnings of the plant in peacetime operation. The scope of leasing arrangements could be as broad. The dual obligation, protection of public interests and the return of industry to peacetime operation as speedily as possible, makes the solution of this phase of the disposal problem difficult. The answer will affect the speed of reconversion and readjustment of industry to the needs of the postwar economy.

THE INDUSTRIAL SUMMARY

With the termination of the European war, the problems and difficulties of reconversion, along with the necessity for the increased production of certain lines of munitions, pose a long anticipated paradox for the Nation's industry. An initial start on the reconstruction of a peacetime economy must be made without interruption or impairment of the supply lines that have furnished so well the tools of victory for over three years. Cutbacks and cancelations of military contracts have increased and restrictions against the resumption of civilian goods production have been lifted. Yet, a rapid flow of consumer products cannot follow while current supplies of strategic raw materials still are being absorbed by orders for the armed services. Only in areas of manufacture where materials are procurable does the removal of controls and restrictions have meaning. To date, cutbacks in military orders have been smaller than were generally anticipated and, as a result, resumption of civilian manufacture has been somewhat slower. However, it is generally expected that this rate will accelerate rapidly during the next few months.

Principal fourth district industries have no reconversion problem, in the main. Currently, their problems still are manpower and materials. Few steel orders have as yet been canceled. The industry expects that they will increase rapidly, however, before July. Deliveries are running far behind orders, and the industry's operations continue at approximately 93 percent capacity, being limited by the lack of manpower. Ingot production for April totaled 7,308,579 net tons. Steel scrap dropped slightly below ceiling price for the first time since last

fall in anticipation of an eventual decline in mill production, despite the fact that indications point toward a high rate of operation for some time.

Consumption of bituminous coal continues to exceed production, and inventories in the hands of consumers are estimated at 44,000,000 tons. Production, to date this year, is approximately 8.2 percent under last year's output. April production in the fourth district fields dropped sharply to 16,178,000 tons due to labor difficulties early in the month during the period of contract negotiations. National production during the same month totaled 43,350,000 tons, a decline of 9,010,000 tons from the previous month's output.

Many fourth district manufacturers continue production at reduced levels due to manpower and raw material shortages. Shoe production for civilian use is expected to total at least nine percent under last year's output. Lining fabrics, eyelets, and laces, as well as leather, are in short supply, and little hope is offered for any sizable increase in output in the near future.

Production and shipments of glass containers for the first quarter of this year have held at high levels, but slightly under the output for the same period last year.

Soap manufacturers report an increasing shortage of usable fats for soap production allocated to civilian consumption. Granulated and flaked soaps are not in adequate supply in retail markets, and this condition is expected to hold for some time.

Shortages of carbon black and tire cord currently limit the production of heavy duty truck tires, and it is anticipated that they will remain scarce throughout the year, regardless of the military situation. Crude rubber is now listed as the most serious shortage facing the Nation. The stockpile of crude rubber has dwindled to below 60,000 tons.

It is evident that, as yet, it is too early for the slight easement in manpower which has occurred generally on a nationwide basis to be reflected in production schedules. Raw material shortages have been the result of a gradual decline in the work force over a period of several years, and these shortages occur all along the line. Obviously, it will take time before they can be corrected, just as it will require time for the war emergency measures adopted to control manpower supply to be relinquished.

AGRICULTURE

Crop Planting Intentions and Conditions

The "March summer" provided an early momentum to 1945 crop planting intentions and prospects.

However, early reports of near-record crop planting intentions are subject to change because of weather conditions, price changes, labor supply, financial conditions, and agricultural needs as related to war. This year, the cold and rainy weather during April and the first half of May whittled down the long lead which farmers had on field work, until over-all progress throughout the district is

probably behind usual operating schedules. The delay has concentrated farm work, and many necessary activities must now compete for the scant supply of farm labor.

Fruit, early vegetables, and gardens in many areas have been dealt a severe blow. Prospects of fruit production in the fourth district are not promising. Some crops, such as alfalfa and clover, have been set back by April freezes and repeated frosts. Excessive rains and floods have caused some crop damage and loss of acreage, while cool weather retarded plant growth and germination of spring-sown grains. Moisture reserves have, nonetheless, been built up, and a quick recovery in field crops can be made with the return of warm, dry, sunny weather.

Crop Increases and Reductions

A near-record acreage of principal crops, about equal to the acreage planted last season, is to be expected this year if the weather permits farmers to carry out planting intentions. Substantial reductions in crop acreage are reported in southern areas, whereas small increases are indicated for the Pacific Coast and northern or central areas, where wet weather and floods reduced plantings last year. Present indications are that the really productive land will be fully utilized in all fourth district States. Throughout the country, war demand heralded an increase in flax planting by more than a third, or from about 3 million to more than 4 million acres. Farmers also planned to increase sugar beet acreage by about 20 percent and tobacco by 4 percent. The May 15 survey of the Agricultural Adjustment Administration indicates that actual plantings of both commodities will not reach these figures.

Among anticipated crop reductions, corn acreage will be down 3,000,000 acres or 3 percent, unless inability to plant oats causes an increase in actual corn planting above intentions. Other major crop planting intentions reflect a reduction of 14 percent in barley and 10 percent in sorghum. Decreases planned for less important crops include: dry peas, 41 percent; dry beans, 12 percent; cow peas, 10 percent; potatoes, 4 percent; soybean and spring wheat, 2 percent. The primary cause of reduced plantings is inadequate manpower, but war needs, plus farm management changes, also cause progressive shifts of acreage plantings from one crop to another.

In view of the general progress to date, and with favorable weather for farm work from now on, no great difficulties in planting the remainder of the acreage intended for this year's crops should be experienced. Tractor power, with its ability to prepare and plant large acreage quickly, partially counterbalances bad planting weather. The use of better seed, which often results in more rapidly maturing crops, also tends to offset late plantings. Perhaps the crop most affected by bad planting weather throughout the district is oats, in which an increased acreage had been predicted. Even here, fewer livestock and an easier feed supply have allowed farmers to hedge towards oats, with a chance to plant corn if weather did not permit the full seeding of oats.

Bright Spots The most substantial note of optimism in the general picture is the wheat crop. Total winter wheat forecast, as of May 1, called for 835 million bushels. Since growing conditions have not changed materially since that time, 1945 should be another billion bushel wheat year. The position of the fourth district, which produces a little less than ten percent of this product, parallels the good conditions reported for the Nation. In view of the increasing importance of wheat as an animal feed and for alcohol manufacture—not to mention basic food and export needs—this is something for which the country can be truly thankful. If an approximate 3 billion bushel corn crop can be achieved, total grain tonnage should be adequate for all crucial needs.

Other bright spots in the fourth district crop picture include tobacco and the condition of pastures. Tobacco plants are good sized and, by mid-May, a considerable acreage had been set out. The cold weather caused some plants to have a yellow center, while blue mold has been reported in many beds. More settled weather should see rapid strides in planting progress to match expanded acreage intentions. An additional promising

food prospect is provided by the fine condition of pastures, which has resulted in a higher than seasonal increase in milk production. This has permitted considerable relaxation of the pressure on fluid milk, but has not existed over a long enough period of time to allow for any substantial diversion to other milk product production.

In general, the 1945 crop prospects with regard to food and feed are encouraging in spite of delays to date. Crop conditions at this time of year are almost always on a "touch and go" basis. The war-increased demand for food has provided a relatively new experience to consumers as one food becomes scarce and throws additional demand to a substitute. This type of "creeping" pressure on the Nation's food supply—going from one kind of meat to another, etc.—has illustrated the delicacy of balance in the wartime food economy. An unsatisfied demand for one type of food shows up in reflected pressure on another. It has also emphasized the fact that inflexible price controls on foods no longer available through regular channels are a poor offset to serious deficiencies in the physical supply of food.

DEPARTMENT STORE TRADE

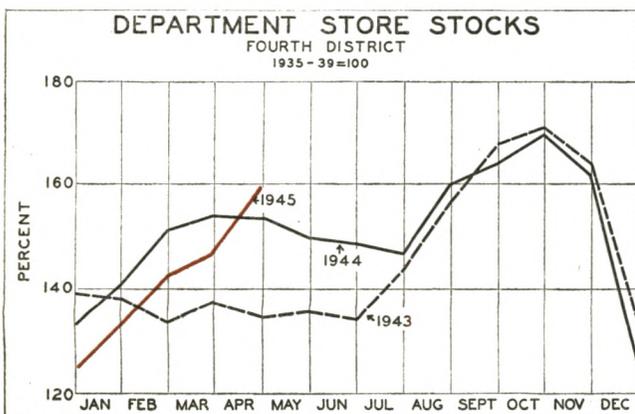
Sales Fourth district department store sales during April showed a sharp decline from the exceptionally high level of the previous month, both on a seasonally adjusted and unadjusted basis. Total dollar sales were down 26 percent from March, and the seasonally adjusted index dropped to the lowest point since mid-1944. There were several factors that contributed to this sharp decline in total sales, including the following: (1) the earlier date of Easter this year; (2) the fact that April had fewer trading days; and (3) unusually favorable weather in March in contrast to that which prevailed last month. Nevertheless, April sales this year were only fractionally less than the all-time high for that month experienced last year. The year-to-year decreases in sales reported by stores in Erie, Pittsburgh, Springfield, and Toledo were offset by small gains in Akron, Cincinnati, Columbus, and Wheeling. Cleveland sales were at the 1944 level.

While customers reduced their purchases of many apparel items last month, certain of the housefurnishings departments experienced sizable gains in

their business this April over last. Sales of furniture and housewares were up 27 percent, lamps 32 percent, and draperies 18 percent. Departments selling floor coverings experienced the only decrease in sales among the various housefurnishings categories, reflecting the continued scarcity of this type of merchandise. Boys' wear departments sold 42 percent less merchandise, while sales of men's clothing dropped only nine percent from April 1944, and men's furnishings two percent. Women's ready-to-wear and accessories departments reported a decrease of five percent in their dollar volume, although fur sales last month were three times greater than they were during April a year ago.

During May, merchants in this area continued to experience the leveling-off in sales that was evident the previous month. Apparently cutbacks in war production, both current and anticipated, already have affected purchases of department store merchandise to some degree. Then, too, certain consumers may be anticipating that better quality merchandise or goods long absent from department store shelves will again be for sale within a few months. During the three weeks ended May 19, dollar sales in the fourth district were up only one percent compared with the similar period of 1944.

Stocks An interesting current development in fourth district department store trade has been the increase in merchandise stocks since the first of this year. At that time, many merchants were fearful of the future in regard to their inventory situation, especially since the volume of goods on hand was the lowest since July 31, 1941. However, during the first four months of 1945, inventories were increased 28 percent, despite an all-time high in sales for that period. The long-term average increase in stocks for these months, based on the usual seasonal



pattern, is only 14 percent. Total store inventories as of April 30, 1945, were 4 percent larger than they were on the same date last year and up 19 percent from two years ago. This was the first time in several months that fourth district stores, in the aggregate, reported a year-to-year gain in dollar stocks.

While there has been some improvement in the current inventory situation of department stores, in comparison with last year and the first of this year, this condition is spotty among individual stores. Many retailers are continuing to experience great difficulty in securing goods, and stocks of some items are far from adequate to meet consumer demand. Moreover, there was considerable variation among the

leading cities of the district in regard to their inventories this April 30 compared with last. Dollar stocks at Erie and Toledo department stores were actually smaller, while units in other cities reported increases, ranging up to eleven percent in Columbus. Stocks in Cleveland were up two percent, Pittsburgh four percent, and Cincinnati five percent. Merchants throughout this area are continuing to make a large volume of commitments for new merchandise, and orders outstanding at fourth district stores at the end of last month were up 63 percent compared with April 30, 1945. Buyers are finding it necessary to exercise a greater degree of caution in the volume and type of merchandise they order, since it is reported that consumers are becoming more selective in their purchases.

Debits to Individual Accounts
(Thousands of Dollars)

	April 1945		Jan.-Apr. 1945		Jan.-Apr. 1944	
	% change from 1944		% change from 1944		% change from 1944	
Akron.....	+22.3	207,431	+11.4	789,405	+25.5	708,938
Butler.....	+41.8	24,114	+5.9	86,095	+5.6	68,576
Canton.....	+6.1	83,559	+3.2	329,868	+1.9	311,438
Cincinnati.....	+9.8	619,055	+1.7	2,523,536	+0.5	2,390,251
Cleveland.....	+2.7	1,298,032	+10.7	5,141,701	+2.8	4,983,567
Columbus.....	+21.5	364,217	+2.8	1,266,645	+1.7	1,291,492
Covington-Newport.....	+7.2	24,667	+0.5	98,530	+1.7	96,855
Dayton.....	+5.1	148,698	+0.5	579,625	-10.7	582,306
Erie.....	+0.3	62,281	-2.8	226,073	-1.9	253,260
Franklin.....	-3.6	6,049	-2.8	23,454	-1.9	24,141
Greensburg.....	+7.0	12,447	+9.3	47,344	+2.8	48,285
Hamilton.....	+13.6	22,293	+9.3	86,536	+2.8	79,177
Homestead.....	+13.4	5,107	+35.2	19,555	+14.1	19,031
Lexington.....	+26.1	32,723	+1.2	244,353	+1.2	180,796
Lima.....	+9.1	28,085	+13.5	119,279	+13.5	104,537
Lorain.....	+4.1	8,607	+13.5	34,584	+13.5	34,988
Mansfield.....	+15.7	23,332	+5.4	89,476	+5.4	78,816
Middletown.....	-3.0	18,718	+9.5	76,550	+9.5	80,911
Oil City.....	+12.1	17,133	+0.3	66,631	+5.0	60,844
Pittsburgh.....	+7.9	1,313,627	-0.3	5,209,269	+5.0	5,224,067
Portsmouth.....	+2.7	11,603	+5.0	45,895	+2.5	43,721
Sharon.....	-3.1	16,761	-2.5	65,018	-2.5	66,666
Springfield.....	-1.0	31,110	-1.0	128,557	-1.0	131,195
Steubenville.....	+19.6	15,741	+16.2	61,135	+16.2	52,610
Toledo.....	+9.2	234,036	+9.6	950,572	+9.6	1,051,957
Warren.....	+6.5	25,603	+6.3	98,229	+6.3	92,442
Wheeling.....	+16.5	43,544	+1.8	161,714	+1.8	158,818
Youngstown.....	+4.3	87,058	+2.6	335,594	+2.6	332,219
Zanesville.....	+16.0	13,525	+1.0	51,531	+1.0	50,246
Total.....	+5.6	4,799,156	+1.9	18,956,754	+1.9	18,602,150

Wholesale and Retail Trade
(1945 compared with 1944)

	Percentage Increase or Decrease		
	SALES SALES STOCKS		
	April 1945	first 4 months	April 1945
DEPARTMENT STORES (97)			
Akron.....	+1	+16	+3
Canton.....	-2	+13	a
Cincinnati.....	+2	+18	+5
Cleveland.....	-0	+14	+2
Columbus.....	+4	+19	+11
Dayton.....	-2	+10	-4
Erie.....	-2	+14	+4
Pittsburgh.....	-8	+9	a
Springfield.....	-2	+15	-1
Toledo.....	+6	+22	+3
Wheeling.....	+3	+20	a
Youngstown.....	-5	+11	+7
Other Cities.....	-0	+15	+4
District.....	-6	+13	+3
WEARING APPAREL (16)			
Canton.....	-6	+15	a
Cincinnati.....	-10	+17	+13
Cleveland.....	-19	+9	+10
Pittsburgh.....	-9	+11	+26
Other Cities.....	-10	+13	+12
District.....	+22	+7	+14
FURNITURE (74)			
Canton.....	+17	+18	-0
Cincinnati.....	+12	+9	+11
Cleveland.....	-0	-2	-10
Columbus.....	+10	+6	a
Dayton.....	+2	+9	a
Pittsburgh.....	+9	+18	a
Allegheny County.....	+5	+6	a
Toledo.....	+17	+10	+6
Other Cities.....	+11	+9	+9
District.....	-2	+2	a
CHAIN STORES*			
Drugs—District (5).....	+2	+11	a
Groceries—District (4).....	-2	+2	a
WHOLESALE TRADE**			
Automotive Supplies (6).....	+33	+27	+32
Beer (6).....	-2	-4	a
Clothing and Furnishings (4).....	-15	a	a
Confectionery (5).....	+27	+24	-8
Dry Goods (3).....	+4	a	-41
Electrical Goods (6).....	+15	+4	a
Fresh Fruits and Vegetables (8).....	+33	+15	+6
Furniture and House Furnishings (3).....	-9	a	a
Grocery Group (39).....	+1	+3	-10
Total Hardware Group (25).....	+17	+8	-1
General Hardware (7).....	+22	a	-2
Industrial Supplies (9).....	+9	-3	-8
Plumbing and Heating Supplies (9).....	+15	+8	+12
Jewelry (10).....	-4	-3	+5
Lumber and Building Materials (6).....	+3	-2	-11
Machinery, Equip. & Sup. (Except Elect.) (3).....	+1	+17	+18
Metals (3).....	-38	a	a
Paints and Varnishes (4).....	+12	a	a
Paper and its Products (6).....	+30	+8	a
Tobacco and Its Products (13).....	-3	-5	-38
Miscellaneous (14).....	+2	-4	-28
District—All Wholesale Trade (168).....	+3	+3	-15

* Per individual unit operated.

**Wholesale data compiled by U. S. Department of Commerce, Bureau of the Census.

a Not available.

Figures in parentheses indicate number of firms reporting sales.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

SALES:	Without Seasonal Adjustment			Adjusted for Seasonal Variation		
	Apr. 1945	Mar. 1945	Apr. 1944	Apr. 1945	Mar. 1945	Apr. 1944
	Akron (6).....	201	248	200	203	261
Canton (5).....	217	264	220	235	294	229
Cincinnati (9).....	177	219	174	192	221	181
Cleveland (10).....	162	203	162	151	212	147
Columbus (5).....	200	250	191	224	248	205
Erie (3).....	189	239	191	194	257	190
Pittsburgh (8).....	155	195	158	163	199	160
Springfield (3).....	195	263	211	209	263	213
Toledo (6).....	174	221	178	175	226	173
Wheeling (6).....	164	199	154	182	206	161
Youngstown (3).....	189	242	183	201	242	183
District (97).....	171	214	172	174	222	166

STOCKS:

District (51).....	159	147	153	153	142*	147
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* Revised

