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Corporate Liquidity, 1st Quarter of 1943

I am enclosing a brief memorandum on corporate liquidity in the 1st quarter of 1943. In about a month, I shall send you a somewhat more detailed memorandum covering the 2nd quarter of 1943. Similar reports will be available quarterly in the future one month to six weeks after the close of each quarter. The future reports will present more items, give additional industrial detail, forecast future trends, and analyse the implications of the results.

We are now working on a comprehensive analysis of the sources and uses of corporate funds in 1942 and in prior years. It is intended to make similar analyses in future years. These will be much more detailed than the quarterly analyses and will be available about six months after the end of each year, though preliminary results will be available earlier. The current annual analysis for 1942 has been considerably delayed because of personnel difficulties.

Corporate Liquidity

1st Quarter of 1943

There was a marked increase in the liquidity of non-financial corporations 1/ during the first quarter of 1943, as indicated in the attached tables. These tables show, for the 1st quarter of 1943 and for prior periods, selected items of current assets and liabilities which are available on a current basis.

In the first quarter of 1943, corporate cash and deposits and U.S. Government securities increased by \$3.6 billion, the largest on record. This was offset only in small part by a reduction of \$500 million in inventories. There was no significant change in tax liabilities. Consequently, so far as these items, which are the most variable of the current assets and liabilities, are concerned, corporations improved their current position by \$3.1 billion in this quarter.

The substantial rise in corporate cash and deposits and U.S. Government securities in the first quarter of 1943 and the decline in inventories represented a continuation of a trend which began in 1942 and which may be expected to continue throughout the war. Unlike 1942 and prior years of increasing tax rates, there was no increase in tax liabilities over the first quarter of 1943 as new tax liabilities were almost exactly offset by tax payments. This equality of tax liabilities and payments will probably exist for the rest of the war period. Apart

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1/ Corporations excluding banks and insurance companies.

from the drop in civilian inventories and the stabilization of taxes, the increasing liquidity of corporations and their improved current position reflected and will continue to reflect the high level of earnings and saving, the large war and post-war reserves, the growth of depreciation accruals and the decline in capital expenditures.

Thus the termination of the war should find corporations as a whole in the best liquid and current position which they have ever experienced. It is possible to estimate roughly the financial position of corporations at the end of the war, depending on assumptions made with respect to the duration of the war. This will be done in a future memorandum which will discuss the financial position of different groups of corporations at the end of the war and their need for short-term and long-term funds at that time, when they will be faced by problems of reconversion, reaccumulation of civilian inventories, needed replacement and expansion of plant and equipment, and purchase of Government plants. Consideration will also be given to whatever steps are necessary to insure an orderly flow of funds rather than inflationary or deflationary excesses.

CURRENT POSITION OF NON-FINANCIAL CORPORATIONS 1/

1940 - 1943

(Billions of dollars)

	1939	1940	1941	1942	1942				1943
					<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
Cash and Deposits									
Cash and Deposits	10.9	13.1	13.2	16.3	13.7	14.7	16.1	16.3	19.0
Change		+2.2	+ .1	+3.1	+ .5	+1.0	+1.3	+ .2	+2.7
U.S. Govt. Securities									
Tax Notes	--	--	2.3	5.7	2.3	2.8	3.8	5.7	5.7
Other	2.1	1.9	2.0	4.8	2.5	2.9	3.9	4.8	5.8
Total	2.1	1.9	4.3	10.5	4.8	5.7	7.7	10.5	11.4
Change		-.3	+2.5	+6.2	+ .5	+ .9	+2.0	+2.9	+ .9
Inventories									
Inventories	18.0	19.8	25.6	27.3	26.9	27.7	27.6	27.3	26.8
Change		+1.8	+5.8	+1.7	+1.3	+ .8	-.1	-.3	-.5
Federal Income Taxes									
Liabilities	1.2	2.5	7.1	11.9	8.0	9.2	10.6	11.9	11.9
Change		+1.2	+4.5	+4.9	+ .9	+1.2	+1.4	+1.4	--

Note: Figures are rounded and will not necessarily add to totals.

1/ Corporations excluding banks and insurance companies.

CASH AND DEPOSITS OF NON-FINANCIAL CORPORATIONS

1940 - 1943

(Billions of dollars)

	1939	1940	1941	1942	Q1	Q2	1942 Q3	Q4	1943 Q1
<u>Holdings at end of period</u>									
Manufacturing	4.6	5.8	5.8	8.0	6.4	7.2	8.1	8.0	10.1
Railroads	.6	.8	1.0	1.1	.9	1.0	1.1	1.1	1.2
Communications	.1	.3	.2	.1	.2	.2	.2	.1	.2
Other Pub. Utilities 1/	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Trade	1.5	1.7	1.6	2.5	1.5	1.6	1.9	2.5	2.6
All Other	3.0	3.6	3.6	3.6	3.6	3.7	3.6	3.6	3.7
Total	10.9	13.1	13.2	16.3	13.7	14.7	16.1	16.3	19.0
<u>Change in holdings</u>									
Manufacturing	+1.2	--	+2.2	+ .6 + .8 + .9 - .1					+2.2
Railroads	+ .1	+ .2	+ .1	- .1 + .1 + .2	--				+ .1
Communications	+ .1	- .1	- .1	--	--	--	- .1		+ .1
Other Pub. Utilities 1/	--	--	--	--	--	--	--		+ .1
Trade	+ .2	- .1	+ .8	- .1 + .1 + .3 + .5					+ .2
All Other	+ .5	--	--	--	--	--	- .1		+ .1
Total	+2.2	+ .1	+3.1	+ .5 +1.0 +1.3 + .2					+2.7

Note: Figures are rounded and will not necessarily add to totals.

1/ Includes transportation other than rail as well as electric, gas, and water utilities.

INVENTORIES OF NON-FINANCIAL CORPORATIONS

1940 - 1943

(Billions of dollars)

	1939	1940	1941	1942	1942 Q1	Q2	Q3	Q4	1943 Q1
<u>Inventories at end of period:</u>									
Manufacturing	11.1	12.5	16.4	18.4	17.2	17.9	18.2	18.4	18.1
Trade	5.3	5.6	7.1	6.7	7.5	7.6	7.2	6.7	6.5
Wholesale	2.7	2.9	3.6	3.1	3.8	3.6	3.3	3.1	3.1
Retail	2.6	2.8	3.5	3.6	3.8	4.0	4.0	3.6	3.4
All Other	1.6	1.7	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Total	18.0	19.8	25.6	27.3	26.9	27.7	27.6	27.3	26.8
<u>Change in inventories:</u>									
Manufacturing	+1.3	+4.0	+2.0	+ .8	+ .8	+ .3	+ .2	- .3	
Trade	+ .4	+1.5	- .4	+ .4	---	- .3	- .5	- .2	
Wholesale	+ .2	+ .7	- .5	+ .2	- .2	- .3	- .2	---	
Retail	+ .2	+ .7	+ .1	+ .3	+ .2	---	- .3	- .3	
All Other	+ .1	+ .4	+ .1	+ .1	---	---	---	---	---
Total	+1.8	+5.8	+1.7	+1.3	+ .8	- .1	- .3	- .5	

Note: Figures are rounded and will not necessarily add to totals.

Source: Estimates based on Bureau of Internal Revenue and Department of Commerce data.