



BUSINESS CONDITIONS



FEDERAL RESERVE BANK OF CHICAGO

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DISTRICT SUMMARY

FEW indications of improvement, other than in inventory position, or of a slowing-down in the rate of recession prevailing in the last quarter of 1937, appeared in the January 1938 data collected by this bank on business activity in the Seventh district. The preliminary information on hand for the first half of February shows little change in trend. In several industries, orders booked during January expanded over the December volumes, partly in accordance with seasonal expectation; however, output in most manufacturing phases continued to recede and was sharply under a year ago, as was new business. The majority of merchandising groups, both wholesale and retail, reported a greater-than-seasonal decline in sales for January from the preceding month and a noticeable widening of the spread from year-earlier volumes. Employment data for mid-January recorded even heavier losses in payrolls than in the number employed, thus reflecting a reduction in man-hours worked.

INDUSTRY

ACTIVITY in the steel industry remained at a level decidedly under that of the corresponding 1937 period, as consumers of steel have continued to curtail operations. Although steel casting foundries and stove, range, and furnace factories had heavier orders in January than in the preceding month, the volumes shipped showed large declines from both a month and a year earlier as did output of malleable castings. Schedules of automobile manufacturers continued to be reduced in January and production was considerably smaller than in the 1937 period. In building construction, there was a further sharp drop, with the volume less than half that of last January; the movement of building materials likewise was light. The gain in orders booked by furniture manufacturers in the district was much less than is usual and shipments fell off more than seasonally. Activity in the paper industry recorded some increase over December, but remained well below the year-ago level.

AGRICULTURAL PRODUCTS

AMONG favorable trends in food-producing groups may be noted a larger tonnage distribution of packing-house commodities, creamery butter, and American cheese this year than in January 1937. Inventories of these products continued substantially under a year ago, despite the fact that production of meats and butter was much heavier and cheese manufacture only slightly smaller than last January. There was, however, a considerable lessening in the decline from a year earlier in stocks of both meats and butter. The movement of wheat and corn at interior primary markets exceeded that of last January by a wide margin, and visible supplies of these grains totaled much larger than a year ago; export volumes have continued to increase.

TRADE

IN THE majority of wholesale trade lines in this district, recessions in January from the closing month of 1937 were greater than seasonal for the period and sales volumes aggregated much smaller than for last January. Similarly, declines in reporting retail groups, such as the department store, shoe, and furniture trades, were larger than usual, while losses from a year ago exceeded considerably those recorded in the last quarter of 1937. On the other hand, the situation with respect to inventories registered improvement in January; stocks of both wholesalers and retailers showed a marked reduction in margins over a year earlier or else totaled under that level.

CREDIT

EARNING assets of reporting member banks in the Seventh district were 22 million dollars higher on February 16 than four weeks previous; only slight changes were shown during the period in deposit liabilities of these banks. New financing by means of bankers' acceptances declined in January from December, while dealer sales of commercial paper increased in this comparison.

Credit and Finance

MEMBER BANK RESERVES

A DECLINE of 17 million dollars was recorded between January 19 and February 16 in Seventh district member bank reserve balances. This decrease resulted from a 69 million dollar excess of Treasury receipts over disbursements, which, however, was largely counteracted by inter-district movements of funds netting a gain of nearly 45 million dollars and by 7 million dollars added by other factors.

INTEREST RATES

NO WELL-DEFINED changes from mid-January to February appeared in the interest rates charged by the larger Chicago and Detroit banks. The rate earned during

January on total loans and discounts by these Chicago banks averaged 2.64 per cent—the same as for December and January 1937—while the average for the larger Detroit banks dropped to 2.53 per cent from the 2.60 and 2.65 per cent averaged a month and a year ago, respectively.

OPEN MARKET PAPER

BANKERS' acceptance statistics for January followed normal trends, on the whole. New financing by Seventh district accepting banks ran 12 per cent below December and purchases were 7 per cent less, but portfolios were 14 per cent larger at the end of the period. A considerable decrease in the amount of maturities explains this trend as well as the nominal increase in outstandings over December 31. All items showed declines from a year ago, ranging from 7 per cent in the case of new financing to 42 per cent in the banks' portfolios. Even greater differences are noted

in comparisons with the 1928-37 average for January, with declines generally around 70 per cent. Activity in the Chicago open bill market drifted below December's low level. New financing by several large Chicago banks during the first half of February showed a sharp decline from the corresponding January period and an even larger drop in the year-ago comparison.

Sales of commercial paper by Midwestern dealers during January and paper outstanding at the end of the month both improved their December positions. In each of these items the volumes were above both a year ago and the 1928-37 average for the date, although increases in sales were more pronounced, as is seasonally expected, than in outstandings; the former were nearly two thirds higher than in January 1937 and 26 per cent above the ten-year average. This improvement can be ascribed to stronger demand from both country and city banks coincidental with increased borrowings on commercial paper. During the first half of February, sales followed seasonal trends, dropping about one fifth below the corresponding January period.

SECURITIES MARKETS

THE Midwestern bond market during January and early February exhibited the same characteristics as did the country as a whole, the most noticeable of which was the decline in railroad obligations, even the best. Top grades of industrials and utilities, on the other hand, were quite stable. The abnormal spread which has prevailed for the last several months between the prices of the most conservative corporates and municipals and those of lower quality, continued through the current period. A slight improvement in general conditions witnessed during early January proved to be short-lived, and the market returned to its former inactive state. Institutional demand continued to be the mainstay of the market, and new issues were conspicuous by their absence.

The 91-day Treasury bills dated February 23 sold at an average nominal discount of .092—the first week since mid-January in which the Treasury has not improved its terms of financing. Chicago stock prices, as reflected by the Chicago Journal of Commerce average of twenty leading stocks, continued to drift lower after their moderate upswing early in the year. The average price on February 21 was \$39.34, close to the 1938 low recorded on January 3.

Agricultural Products

GRAIN MARKETING

Wheat

RESHIPMENTS of wheat during January from interior primary markets in the United States showed a seasonal decline, but receipts at these centers were almost as heavy as in December. Wheat exports increased, although sales to foreign countries were below expectations until early February. Substantial offerings of Australian wheat in the United Kingdom and unsettled domestic and foreign financial markets were chief factors in the softness of wheat prices in late January; quotations for No. 2 hard winter wheat in cash positions at Chicago ended the month at \$.99¾ and \$1.02½. By February 9 the influence of continued drouth in the southwestern United States and better export sales had strengthened the market, but rains over much of the drouth area caused general liquidation and

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

	Change from		
	February 16 1938	January 19 1938	February 17 1937
Total bills and securities.....	\$283	\$ 0	\$ +5
Bills discounted.....	0	0	0
Bills bought.....	0	0	0
U. S. Government securities.....	282	0	+6
Total reserves.....	1,797	-19	+138
Member bank reserve deposits.....	1,017	-18	+103
All other deposits.....	62	+1	+22
Federal Reserve notes in circulation.....	966	-4	+17
Ratio of total reserves to deposit and Federal Reserve note liabilities combined.....	87.8%	0.0*	+0.7*

*Number of Points.

CONDITION OF LICENSED REPORTING MEMBER BANKS SEVENTH DISTRICT

	Change from		
	February 16 1938	January 19 1938	February 17 1937
ASSETS			
Loans and investments—total.....	\$2,978	\$ +22	\$ -151
Loans—total.....	953	+6	+49
Commercial, industrial, and agricultural loans:			
On securities.....	45	-4	..*
Otherwise secured and unsecured.....	530	+2	..*
Open-market paper.....	49	+1	..*
Loans to brokers and dealers in securities.....	47	+6	-3
Other loans for purchasing or carrying securities.....	85	-2	..*
Real estate loans.....	87	0	+13
Loans to banks.....	4	0	-4
Other loans:			
On securities.....	47	+2	..*
Otherwise secured and unsecured.....	59	+1	..*
U. S. Government direct obligations.....	1,443	+13	-212
Obligations fully guaranteed by U. S. Government.....	188	-1	+24
Other securities.....	394	+4	-12
LIABILITIES			
Demand deposits—adjusted.....	2,155	0	-119
Time deposits.....	884	+2	+30
Borrowings.....	0	0	0

*Not Available.

VOLUME OF PAYMENT BY CHECK, SEVENTH DISTRICT

	Per Cent of Increase or Decrease from		
	January 1938	December 1937	January 1937
Chicago.....	\$2,734	-16.8	-19.2
Detroit.....	823	-19.9	-18.5
Milwaukee.....	247	-16.1	-17.1
Indianapolis.....	191	-7.5	-9.8
Total four larger cities.....	\$3,995	-17.0	-18.5
37 smaller cities.....	716	-13.1	-11.3
Total 41 centers.....	\$4,711	-16.4	-17.5

TRANSIT OPERATIONS OF THE FEDERAL RESERVE BANK OF CHICAGO AND DETROIT BRANCH

(Exclusive of Treasury checks and of non-transit items drawn on own bank)

	January 1938	January 1937
Total country and city check clearings:		
Pieces.....	10,378,971	9,747,174
Amount.....	\$1,856,101,089	\$2,059,955,273
Daily average clearings:		
Total items cleared—		
Pieces.....	415,159	389,887
Amount.....	\$74,244,044	\$82,398,211
Items drawn on Chicago—		
Pieces.....	69,465	64,437
Amount.....	\$39,662,000	\$43,869,000
Items drawn on Detroit—		
Pieces.....	17,808	20,300
Amount.....	\$7,979,744	\$10,506,063

price weakness again in mid-February. On February 21, these prices stood at \$.98⁵/₈ and \$1.01⁷/₈. Visible supplies of wheat by February 19 had declined more than seasonally from a month earlier, and though still about 50 per cent higher than year-ago stocks, totaled 46 per cent less than the 1928-37 average for the date.

Corn and Oats

CORN receipts at interior centers of accumulation were lighter for January than in recent months, but reshipments of the grain were the largest since July 1933. Exports were also the highest in several years. Prices for No. 2 yellow corn for current delivery at Chicago displayed some easiness in the latter half of January, principally because of a quiet export demand and weakness in surrounding markets, standing at \$.58¹/₂ and \$.59⁵/₈ on January 31. They were steadied in the first three weeks of February by a revival in sales for export. Visible stocks of corn on February 19 were 6 per cent lighter than a month earlier but almost three times as large as in 1937 at the same time. The oats movement remained below average in January, although reshipments expanded counterseasonally over December. Exports of oats continued in fair volume; prices were mostly influenced by the action of other grains and were down about one cent on February 21 from a month earlier. Visible supplies of the grain remained practically unchanged and continued below a year ago and the ten-year average.

MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES

(In thousands of bushels)

	January 1938	December 1937	January 1937	January 1928-37 Av.
Wheat:				
Receipts.....	10,625	10,863	7,245	15,249
Shipments.....	13,156	16,492	8,257	11,097
Corn:				
Receipts.....	33,069	35,744	12,490	19,778
Shipments.....	21,179	16,310	4,834	10,721
Oats:				
Receipts.....	5,461	5,489	4,012	5,789
Shipments.....	4,739	4,206	7,076	5,352

MOVEMENT OF LIVESTOCK

A GREATER than seasonal expansion in cattle, hog, and lamb receipts took place in January over December at public stockyards in the United States, but marketings of calves declined counterseasonally to the lowest level since last February. Though continuing much under the 1928-37 average for the month, receipts of hogs increased over a year ago; on the other hand, those of other livestock decreased from last January and approximated the ten-year

LIVESTOCK SLAUGHTER

(In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
Yards in Seventh District,				
January 1938.....	219	841	328	77
Federally Inspected Slaughter, United States:				
January 1938.....	830	4,201	1,552	420
December 1937.....	859	3,958	1,403	452
January 1937.....	867	3,519	1,700	484

AVERAGE PRICES OF LIVESTOCK

(Per hundred pounds at Chicago)

	Week Ended Feb. 19 1938	Jan. 1938	Dec. 1937	Jan. 1937
Native Beef Steers (average).....	\$7.80	\$8.30	\$8.95	\$10.75
Fat Cows and Heifers.....	6.80	6.95	7.35	7.50
Calves.....	9.75	10.00	9.75	9.75
Hogs (bulk of sales).....	8.20	7.95	7.85	10.25
Lambs.....	7.45	8.35	8.90	10.35

average. The movement to inspected slaughter—inclusive of animals that did not pass through public stockyards—showed some divergence from the trend of market receipts: the slaughter supply of cattle declined in January from December but exceeded the 1928-37 January average as did the number of lambs and calves.

Cattle and calf reshipments to feed lots continued during January the seasonal decline prevailing since October, but those of lambs recorded a nonseasonal gain of one per cent over December. The movement of feeder cattle and calves exceeded that of January 1937 and the 1933-37 average for the period, while the number of lambs remained decidedly smaller in both comparisons.

LIVESTOCK ON FARMS

THE annual inventory, as estimated by the United States Department of Agriculture, shows that farm holdings of swine increased and those of most other livestock decreased on January 1, 1938, as compared with a year earlier. The extent of these changes is reflected in the following tabulation:

(In thousands)

	Five States Including Seventh District 1938	1937	United States 1938	1937
Number:				
Hogs and Pigs.....	16,935	15,788	44,418	42,948
Cows and Heifers, kept for milk*.....	6,407	6,453	24,902	24,991
Other Cattle and Calves.....	7,205	6,955	41,028	41,457
Lambs and Sheep.....	5,475	5,230	52,918	52,588
Horses and Colts.....	2,820	2,905	11,163	11,445
Mules and Mule Colts.....	249	262	4,477	4,571
Total Farm Value:				
Hogs and Pigs.....	\$225,584	\$226,563	\$498,025	\$510,504
Cows and Heifers, kept for milk*.....	400,036	369,519	1,355,926	1,259,207
Other Cattle and Calves.....	214,164	197,000	1,059,764	1,004,961
Lambs and Sheep.....	36,737	34,246	323,746	316,329
Horses and Colts.....	296,618	340,321	1,013,960	1,134,912
Mules and Mule Colts.....	28,483	32,456	548,121	593,898

*Two years old and over.

MEAT PACKING

FROM a level which in the first week of January was under a year earlier, activity at inspected slaughtering establishments in the United States expanded to such an extent that for the month as a whole it was higher than in the corresponding period of 1937. The production of packing-house commodities rose 4 and 12 per cent, respectively, over a month and year earlier and was within 3 per cent of the 1928-37 January average. Furthermore, the tonnage sold exceeded that of last January by 2 per cent, though falling more than seasonally under current production and being 2¹/₂ per cent lighter than in December as well as 10¹/₂ per cent smaller than in the ten-year average for the period. Inventories of these products in the United States had accumulated more than seasonally by February 1 over the beginning of the year, but totaled 16 per cent under the 1933-37 average for the date. Despite a decline in beef, barreled pork, lamb, and pork loins, the general price level of animal products was somewhat higher for January than during the closing month of 1937. It was, however, much below a year earlier. Dollar sales billed to domestic and foreign customers exceeded those of December by 7¹/₂ per cent and the 1928-37 January average by 5¹/₂ per cent, but showed a decrease of 11¹/₂ per cent as compared with the first month of 1937. Payrolls at the close of January registered increases over December of 7¹/₂ per cent in employes, 11 per cent in working hours, and 11¹/₂ per cent in wage

payments. Moreover, comparisons with a year ago became more favorable during the period, as wage payments increased 13½ per cent and hours worked and employes declined only 1½ and 4 per cent, respectively, from January 1937. In production, the margin of improvement over a year earlier had narrowed considerably by mid-February.

Foreign Trade

SHIPMENTS of packing-house products for export aggregated less in January than for December, owing to a slackening in European demand and because of the adverse influence of the maritime strike in Porto Rico. After opening the month in good volume, British demand for United States lard diminished by mid-January, while sales to Czechoslovakia declined because of a reduction in import quotas. Trade with Cuba continued satisfactory. English demand for American bacon remained relatively good, but that for hams tended to decrease in the closing weeks of the month. Prices of United States lard in the United Kingdom were below Chicago parity in the last half of January, and ham quotations were under the Chicago basis all month. February 1 inventories of United States packing-house commodities in foreign markets—including those in transit—nearly equaled the January 1 level. Imports of animal products into the United States declined in January from December.

DAIRY PRODUCTS

CREAMERY butter manufacture in the Seventh district totaled for January seasonally one per cent above the December amount and 8 per cent more than in January 1937, but remained 12 per cent less than in the average for the period in the preceding ten years. Again seasonally heavier than current production, the tonnage sold aggregated 3½ per cent more than in December, 18½ per cent above the year-ago level, and 1½ per cent greater than the 1928-37 average for January. Production of butter in the United States, in contrast to the Seventh district trend, was slightly below the volume of a month earlier and showed only a minor increase over a year ago. United States inventories of the commodity declined much less than is seasonally expected between January 1 and February 1, and on the latter date were within 4½ million pounds of the 1933-37 average for February 1. Sizable imports of butter continued, as did a heavy production of competitive substitutes. After holding steady in the second half of January, butter prices declined about 3 cents in the first three weeks of February.

A nonseasonal recession of 4 per cent was shown in January from December in the manufacture of American cheese in Wisconsin, and the volume produced was 2 per cent below the January 1937 amount but totaled 3 per cent heavier than in the 1928-37 average for the month. Distribution of the commodity from primary markets in the State gained 16 per cent over a month previous and rose to a level 3 per cent above a year ago; it was, however, 8 per cent smaller than the 1928-37 January average. Inventories of cheese in the United States diminished about seasonally, much of the decline taking place in Wisconsin, and the margin over the average for five years previous had widened slightly by February 1. Cheese prices exhibited a continued softening tendency throughout January and the first three weeks of February.

Industrial Employment Conditions

SEVENTH district industries were operating with smaller forces and on shorter time schedules by the middle of January than a month earlier. The decline in man-hours of work was reflected with fairly close accuracy in the reported payroll figures, as adjustments in wage rates were minor during this period and exerted little influence as a whole. Some disparity, however, may be due to the fact that in times of recession the skilled and more highly paid worker is generally retained longer than the unskilled laborer. The current decline of 17½ per cent in industrial payrolls, following the extensive recessions in this item during the two preceding months, brought aggregate wage payments 24 per cent below those of a year earlier. Employment decreased 12½ per cent from mid-December and totaled 18 per cent lower than in January 1937.

None of the fourteen main industrial divisions into which the data are classified, escaped the general reduction in either employment or payrolls. All of the States that include the Seventh Federal Reserve district shared substantially in the recessions, with Michigan and Indiana the heaviest contributors. Payrolls in the former State decreased 30 per cent and in the latter close to 20 per cent from a month earlier. The iron and steel industries sharply curtailed employment and payrolls, blast furnaces and rolling mills operating at a very low rate of capacity as did also machine shops and foundries. The automobile and transportation equipment industries showed reductions of 20 per cent in number of workers employed and 30 per cent in wage payments. Manufacturing classifications registering the smallest payroll declines in the month were textiles, food products, leather products, and the paper and printing industries. Of the non-manufacturing groups, public utilities showed a moderate decrease in wage payments, while losses in the merchandising and construction industries were more pronounced than usual for the period.

EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of January 15, 1938			Change from December 15, 1937	
	Reporting Firms	Wage Earners	Earnings (000 Omitted)	Wage Earners %	Earnings %
	No.	No.	\$		
DURABLE GOODS:					
Metals and Products¹..	1,721	390,172	9,191	-11.6	-19.3
Vehicles.....	427	283,767	6,965	-20.4	-30.5
Stone, Clay, and Glass..	264	15,551	322	-16.2	-21.2
Wood Products.....	464	38,164	698	-10.3	-17.2
Total.....	2,876	727,654	17,176	-15.3	-24.2
NON-DURABLE GOODS:					
Textiles and Products..	384	55,666	953	-6.0	-2.2
Food and Products....	963	99,993	2,650	-4.9	-3.6
Chemical Products.....	286	34,067	1,022	-10.6	-10.2
Leather Products.....	164	21,067	414	-4.2	-3.2
Rubber Products.....	31	14,234	293	-22.6	-29.7
Paper and Printing....	703	74,033	2,063	-4.4	-3.4
Total.....	2,531	299,060	7,395	-6.6	-5.7
Total Mfg., 10 Groups...	5,407	1,026,714	24,571	-12.9	-19.5
Merchandising².....	4,822	123,430	2,768	-18.1	-15.3
Public Utilities.....	983	101,850	3,395	-0.5	-1.0
Coal Mining.....	26	4,714	118	-0.3	-19.4
Construction.....	348	6,931	191	-22.1	-24.2
Total Non-Mfg., 4 Groups	6,179	236,925	6,472	-11.2	-8.8
Total, 14 Groups.....	11,586	1,263,639	31,043	-12.6	-17.5

¹Other than Vehicles.

²Illinois, Indiana, and Wisconsin.

Petroleum Refining

PETROLEUM refineries located in the Indiana, Illinois, and Kentucky area, were operating at 89 per cent of capacity in the week ended February 12, or at a rate somewhat higher than that prevailing in January. Daily average crude runs to stills during January in this territory were the lowest since early 1937, and the margin of gain over the comparable year-ago average was reduced to 1½ per cent. Crude runs in the United States showed a similar trend.

Manufacturing

AUTOMOBILE PRODUCTION AND DISTRIBUTION

A RELATIVELY small number of automobiles was produced during January in the United States, and February output is indicated as running even lower. Declines of 36 per cent and 50 per cent from the preceding month and a year ago, respectively, are represented in the aggregate of 156,387 passenger cars produced this January, while truck output numbering 54,063 vehicles was 34 per cent less than in December and 23 per cent smaller than in January 1937. Comparisons with last year would have been even more unfavorable, had not the strike in General Motors plants affected operations to a considerable extent in the early part of 1937.

No improvement can be noted in the January data collected by this bank on distribution of new automobiles in the Seventh district. Sales of both wholesale distributors and retail dealers continued to decline and to total far below the year-ago volumes; stocks, though showing little change in number from the end of December, remained much heavier than a year previous. On the other hand, sales of used cars rose substantially over those of December and were only moderately smaller than last January. Used cars in dealers' hands at the close of January numbered but slightly greater than on December 31 and somewhat less than a year earlier.

MIDWEST DISTRIBUTION OF AUTOMOBILES

	January 1938 Per Cent Change from		Companies Included
	December 1937	January 1937	
New Cars:			
Wholesale—			
Number Sold.....	-41.1	-70.9	15
Value.....	-39.7	-65.2	15
Retail—			
Number Sold.....	-22.1	-47.0	32
Value.....	-20.2	-38.7	32
On Hand End of Month—			
Number.....	-0.2	+79.3	32
Value.....	-3.2	+84.8	32
Used Cars:			
Number Sold.....	+27.0	-8.3	32
Salable on Hand—			
Number.....	+1.0	-7.9	32
Value.....	-1.9	+4.3	32

IRON AND STEEL PRODUCTS

TRENDS in the steel industry have remained practically unchanged in recent weeks. Operations in the Chicago district have fluctuated slightly up or down as among the various producers, the rate of steel ingot output averaging 25 per cent of capacity in the middle of February as compared with a rate of around 27 per cent a month previous. A year ago in February, production was above 80 per cent and rising despite flood and strike conditions. Buying so far in 1938 has been for immediate requirements only and

from miscellaneous sources, although some tonnages have been placed by the railroads for track repairs. Pig iron production during January in the Illinois and Indiana district was the lowest for the month since 1934. The scrap iron and steel market has been inactive, with prices nominal.

After a steady decline during the entire last quarter of 1937, incoming orders for steel castings at Seventh district foundries rose sharply in January, by 45 per cent in dollar units and 73 per cent in tonnage. Malleable castings, which showed a slight rise in the volume of orders booked during December, resumed a downward trend in January with losses of 7 and 9 per cent, respectively, in the two units of measurement. Both types of castings continued in small demand as compared with a year ago; orders for steel castings amounted to only 15 per cent and those for malleable castings to 42 per cent of the respective tonnages reported for January 1937. Shipments and production declined appreciably during the current month—the losses were even heavier than recorded for December, ranging between 24 and 29 per cent. Decreases in these items from a year earlier totaled larger than in recent months, the tonnages produced and shipped declining by a little over one half in malleable castings and by as much as three fourths in steel castings.

Orders for stoves and furnaces were more than one half again as heavy in January as in the preceding month and 50 per cent below those of a year ago as against a decline of 75 per cent recorded in the yearly comparison for December. Shipments and production were about one half as large as in January 1937. The former item continued a downward trend that has prevailed since last September; the latter showed an upturn of 14 per cent, thus slightly counteracting the decline prevailing in the preceding quarter.

PAPER AND PULP

OUTPUT of Seventh district paper and pulp mills increased in January over the low December volume, but remained well below year-ago levels. Inventories of paper showed some tendency to decline, and the large margin of increase in stocks over the comparable year-earlier date narrowed somewhat. The paper industry operated at about 80 per cent of capacity during the month, or 8 points above December but 16 points lower than during January 1937, while the pulp industry operated at about 20 points less than last year.

PAPER AND PULP INDUSTRY SEVENTH DISTRICT

	January 1938 Per Cent of Increase or Decrease from	
	December 1937	January 1937
Paper:		
New orders booked (tons).....	+7.3	-30.2
New orders booked (dollars).....	+11.0	-15.5
Total shipments (tons).....	+16.6	-17.2
Total shipments (dollars).....	+14.6	-10.5
Total production (tons).....	+10.2	-22.4
Stocks on hand at close of month (tons).....	-13.8	+35.2
Pulp:		
Pulp produced (tons).....	+3.1	-18.5
Stock on hand at close of month (tons).....	+1.4	+53.7

FURNITURE

DATA covering activity in the first month of the current year revealed little or no evidence of improvement in the furniture industry of the Seventh district. Although new orders of reporting companies rose 75 per cent over the December volume, because of business booked at the usual

furniture mart held in January, they increased to a much lesser extent than is customary. Furthermore, the 27 per cent decline recorded in January shipments from the preceding month was noticeably greater than seasonal. Both items were considerably smaller than a year earlier or the 1928-37 average January volumes. Unfilled orders on the books at the end of January amounted to less than new orders received during the month, and continued to total only about half as large as a year ago at the same time. The production rate is currently under 50 per cent of theoretical capacity and 30 points lower than in the early part of 1937.

The Building Industry

CONSTRUCTION

CONSTRUCTION work in this district fell off sharply further in January, as contracts awarded dropped to the lowest level in approximately three years and were close to 60 per cent under the January 1937 volume which, however, had recorded a substantial increase over the closing month of 1936. All types of construction, including residential and non-residential building, and public works and utilities, showed declines of 50 per cent or better this January from a year ago. The downward trend in the comparison with the preceding month was to a considerable extent seasonal. About 20 per cent of total contracts in the current period were for residential building, which ratio is a little higher than either a month or a year earlier.

BUILDING CONTRACTS AWARDED* SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
January 1938.....	\$18,943,000	\$3,721,000
Change from December 1937.....	-27.0%	-20.7%
Change from January 1937.....	-57.0%	-52.7%

*Data furnished by F. W. Dodge Corporation.

Some slight reversal of trend took place during January in data on permits issued in 100 cities of the Seventh district, the estimated cost of such permits amounting to 5 per cent more than in December. The rise was effected through gains in Chicago, Indianapolis, and Des Moines, and the totals for the smaller cities of Illinois and Michigan. As compared with a year earlier, the value of permits aggregated almost 30 per cent lower in the current period; however, a similar comparison for the closing month of 1937 showed a difference of over 50 per cent.

MATERIALS

JANUARY was as usual a dull month in the manufacture and sale of building materials throughout the Seventh district. Lumber distribution at wholesale was slightly below the level of a month earlier, this trend being somewhat less favorable than for January in the past ten years the average for which shows no change in dollar amounts and a rise of 2½ per cent in board-foot measurement. At retail, lumber sales declined less than seasonally for the period. In comparison with the corresponding volumes of a year ago, lumber sales were considerably lower this January, especially in the wholesale trade, although the differences were somewhat less marked than a month earlier. Outstanding accounts were reduced from both a month and a year previous, but their ratio to sales was higher in all except the monthly comparison for wholesale trade.

Total dollar sales at reporting retail yards, which are affected largely by the demand for coal at this time of the year, decreased from December by considerably more than the 8 per cent recorded in the 1928-37 average for January. Preliminary reports from cement plants within the district indicate that shipments in January totaled about the same as in December and 25 per cent below those in the month last year, while stocks were heavier in both comparisons. Brick deliveries declined from the preceding period but continued approximately 40 per cent under the level of a year earlier, and inventories were somewhat larger than at the end of January 1937. Prices of building materials, according to the wholesale price index of the United States Bureau of Labor Statistics, were in general about one per cent lower in the first week of February than in the corresponding week of January.

LUMBER AND BUILDING MATERIALS TRADE

Class of Trade	January 1938 Per Cent Change from		Number of Firms or Yards
	December 1937	January 1937	
Wholesale Lumber:			
Sales in Dollars.....	-1.5	-38.5	9
Sales in Board Feet.....	-5.3	-47.9	7
Accounts Outstanding ¹	-1.6	-27.7	9
Retail Building Materials:			
Total Sales in Dollars.....	-17.2	-6.9	140
Lumber Sales in Dollars.....	-16.2	-10.5	105
Lumber Sales in Board Feet.....	-3.4	-0.4	72
Accounts Outstanding ¹	-9.1	-3.5	139
	Ratio of Accounts Outstanding ¹ to Total Dollar Sales during Month		
	January 1938	December 1937	January 1937
Wholesale Trade.....	173.4	173.6	147.5
Retail Trade.....	287.8	261.6	276.5

¹End of Month.

Merchandising

WHOLESALE TRADE

ACCORDING to data now being furnished this bank by the United States Department of Commerce, wholesale trade in the Seventh Federal Reserve district followed the usual downward trend in January, with recessions for the most part greater than seasonal. Declines in the dollar volume sold amounted to 9 per cent in groceries, 17 per cent in drugs, 28 per cent in hardware, and to 30 per cent in electrical goods; the miscellaneous group, however, showed an 11 per cent increase over a month earlier. In the majority of lines, sales this January were substantially below those of a year ago. Inventories in the aggregate for all groups showed little change on January 31 from a month previous and were slightly under those for the same date in 1937.

WHOLESALE TRADE IN JANUARY 1938*

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Groceries.....	-14.3	-8.6	-10.9	-10.1
Hardware.....	-23.1	-5.5	-8.5	-19.3
Drugs.....	-8.4	+4.2	-0.9	-6.8
Electrical Goods.....	-4.4	+9.0	+8.7	-8.4
Miscellaneous.....	-4.3	-4.6	-15.3	+0.9

*Data furnished by Bureau of Foreign and Domestic Commerce, United States Department of Commerce. Additional information on wholesale trade may be obtained through the Bureau in Washington, D. C.

RETAIL TRADE

ALTHOUGH department store trade in this district fell off little more than seasonally in January this year from the closing month of 1937, declining 55 per cent, it reached a level 10 per cent below that of a year earlier, and in the first half of February sales were registering even greater losses from a year ago. Business of Chicago and Detroit stores has been showing larger declines in the yearly comparison than has that in other cities of the district. Inventory position has improved noticeably in recent months. By the end of January 1938, the dollar volume of stocks at selling price had been reduced to a point one per cent under that of a year earlier and was 8 per cent, or more than seasonally, lower than a month previous.

* * *

Sales of shoes, as reported by dealers and department stores, recorded a slightly greater than usual recession in January from the preceding month, with a dollar volume 55 per cent lower as against a decline of 52 per cent in the 1928-37 average for the period. Furthermore, the loss in the yearly comparison amounted to 14 per cent, whereas in the last three months of 1937 the decreases had been but 2 per cent or less. On January 31 this year, stocks totaled only 3 per cent above the same date of 1937, the margin of excess over a year earlier thus having been brought down from almost 25 per cent at the end of August.

DEPARTMENT STORE TRADE IN JANUARY 1938

Locality	Per Cent Change January 1938 from January 1937		Ratio of January Collections to Accounts Outstanding End of December	
	Net Sales	Stocks End of Month	1938	1937
Chicago.....	-10.0	-1.6	33.4	37.0
Detroit.....	-16.7	-0.3	46.3	50.1
Indianapolis.....	+1.8	40.1	42.4
Milwaukee.....	-5.1	-5.2	35.5	32.0
Other Cities.....	-4.8	+0.3		
7th District.....	-9.7	-1.4	39.2	41.0

In the retail furniture trade, declines in January from a month and a year previous aggregated, respectively, 44 and 16 per cent. The decrease in the former comparison was noticeably larger than the 36 per cent shown in the 1928-37 January average; the loss in the latter represented a widening of the spread begun in the last quarter of 1937 and amounting to 13 per cent in the closing month of the year. Inventories of furniture and housefurnishings, which at the end of 1937 were 14 per cent heavier than a year earlier, declined 9 per cent during the current period to only 3 per cent above the January 1, 1937 level; stocks of dealers were under those of a year ago, but those of department stores remained larger.

MONTHLY BUSINESS INDEXES COMPUTED BY FEDERAL RESERVE BANK OF CHICAGO

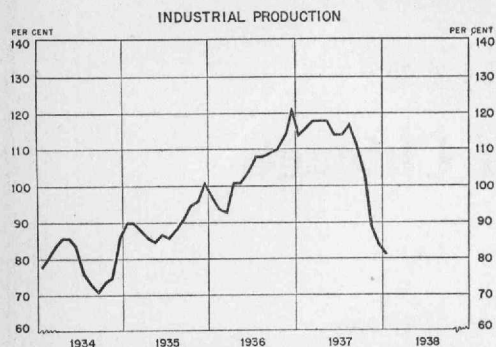
(Index numbers express a comparison of unit or dollar volume for the months indicated, using the monthly average for 1923-24-25 as a base, unless otherwise indicated. Where figures for latest month shown are partly estimated on basis of returns received to date, revisions will be given the following month. Data refer to the Seventh Federal Reserve district unless otherwise noted.)

	No. of Firms	Jan. 1938	Dec. 1937	Nov. 1937	Oct. 1937	Sept. 1937	Aug. 1937	Jan. 1937	Dec. 1936	Nov. 1936	Oct. 1936	Sept. 1936	Aug. 1936
Meat Packing—(U. S.)—													
Sales (in dollars).....	45	89	83	86	100	100	98	101	96	93	99	97	94
Casting Foundries—													
Shipments:													
Steel—In Dollars.....	12	33	47	58	70	96	115	95	73	57	74	85	86
In Tons.....	12	25	37	47	58	86	107	102	77	59	76	94	96
Malleable—In Dollars.....	21	38	49	55	64	76	71	69	66	55	56	50	48
In Tons.....	21	46	60	67	77	92	85	98	96	80	80	73	69
Stoves and Furnaces—													
Shipments (in dollars).....	13	52	124	166	241	245	175	97	214	205	288	219	154
Furniture—													
Orders (in dollars).....	34	65	37	53	65	77	81	111	67	81	84	89	89
Shipments (in dollars).....	34	37	51	68	81	87	84	67	81	75	91	79	72
Output of Butter by Creameries—													
Production.....	59	78	78	75	86	92	111	72	77	88	104	103	101
Sales.....	61	101	98	101	101	122	126	85	93	94	106	104	98
Wholesale Trade—													
Net Sales (in dollars):													
Groceries.....	27	57	64	66	72	81	72	65	70	65	73	72	75
Hardware.....	11	52	75	88	116	115	101	64	93	85	108	96	84
Drugs.....	13	76	89	88	94	91	79	85	90	80	89	83	73
Retail Trade (Dept. Stores)—													
Net Sales (in dollars):													
Chicago.....	29	69	148	95	98	91	75	78	157	98	98	86	72
Detroit.....	6	74	180	117	123	151	87	88	194	117	117	139	84
Milwaukee.....	5	73	159	102	118	104	78	77	160	105	118	94	77
Other Cities.....	44	68	151	97	107	99	78	68	156	94	103	89	74
Seventh District—Unadjusted.....	84	70	155	100	106	105	78	78	164	101	104	97	75
Adjusted.....	84	88	93	92	96	102	95	97	98	93	95	95	91
Automobile Production—(U. S.)—													
Passenger Cars.....		53	83	101	102	41	106	106	145	116	65	31	72
Trucks.....		144	217	172	83	139	220	187	195	143	91	120	164
Building Construction—													
Contracts Awarded (in dollars):													
Residential.....		13	16	26	37	34	32	27	28	32	40	39	59
Total.....		28	38	41	58	57	65	64	50	52	56	54	77
Pig Iron Production*—													
Illinois and Indiana.....		49	53	68	98	134	134	120	117	109	108	103	97

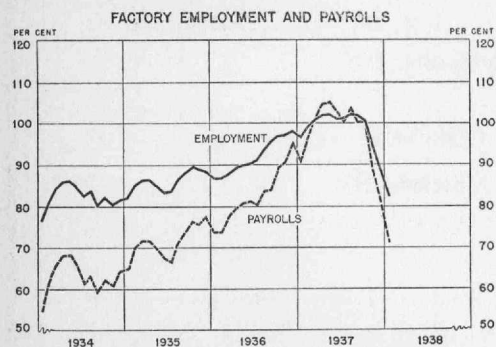
*Average daily production.

National Summary of Business Conditions

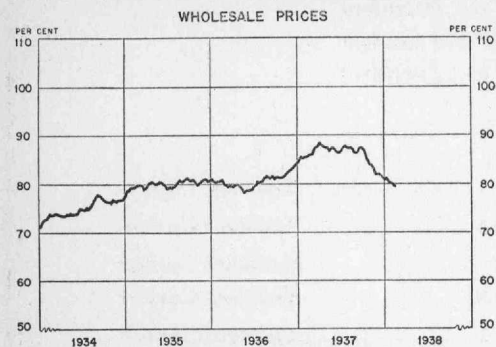
(By the Board of Governors of the Federal Reserve System)



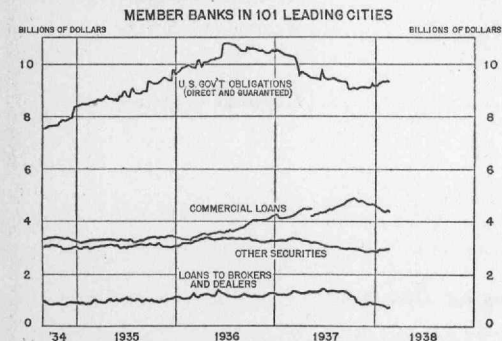
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to January 1938.



Indexes of number employed and payrolls, without adjustment for seasonal variation, 1923-1925 average = 100. By months, January 1934 to January 1938. Indexes compiled by the United States Bureau of Labor Statistics.



Index compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending February 19, 1938.



Member banks in 101 leading cities, September 5, 1934, to February 16, 1938. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

THE decline in business activity, which had been rapid during the last quarter of 1937, continued in January but at a slower rate.

PRODUCTION

VOLUME of industrial production, as measured by the Board's seasonally adjusted index, was at 81 per cent of the 1923-1925 average in January as compared with 84 per cent in December. Output of durable goods continued to decline, reflecting chiefly considerable decreases in production of automobiles and plate glass and a further decline in output of lumber. Steel ingot production increased somewhat, the output for January averaging 30 per cent of capacity. In the first three weeks of February, activity at steel mills showed little change at about 31 per cent of capacity, while production of automobiles was at a lower rate than in January.

In the textile industries, activity at silk and rayon mills in January showed a sharp rise from the low levels reached in December. At cotton mills, however, there was less than the usual seasonal increase and output of woolen products continued in small volume. Shoe production, which also had been at a low rate in December, increased considerably in January, and activity at meat-packing establishments rose somewhat further. Output of tobacco products remained at a high level, while sugar meltings declined. At mines, bituminous coal production was considerably smaller than in December, and there was also a reduction in output of nonferrous metals. Petroleum production continued at the high level of other recent months.

Value of construction contracts awarded in January was smaller than in December and somewhat below the level maintained during the last four months of 1937, according to figures of the F. W. Dodge Corporation. Contracts awarded for public projects increased somewhat further, while awards for private work continued to decline, reflecting a further decrease in residential building and a sharp reduction in awards for factory construction. In the first half of February awards for private projects were at about the same rate as in January, while those for public work showed a sharp decline.

EMPLOYMENT

FACTORY employment and payrolls declined substantially further between the middle of December and the middle of January. In the durable goods industries, decreases in employment were general and were particularly large at factories producing automobiles, steel, and machinery. Employment in nondurable goods industries showed a somewhat smaller decline than in previous months. There was some increase in the number employed at shoe factories and little change in the food industries as a group, but in other nondurable goods industries employment continued to decrease. Employment on the railroads, in mining, and in the construction industry also declined.

DISTRIBUTION

DEPARTMENT store sales showed a seasonal decrease from December to January, while sales at variety stores and mail order sales declined by more than the usual seasonal amount.

Freight-car loadings continued to decline in January, reflecting principally a reduction in shipments of coal.

COMMODITY PRICES

PRICES of steel scrap and nonferrous metals declined from the middle of January to the third week of February, following some advance in December and the early part of January. There were further decreases in some other basic commodities, while prices of cotton and silk advanced. Livestock products continued downward and a number of finished industrial products declined further. Prices of pig iron and most finished steel products have been reaffirmed for second quarter delivery.

BANK CREDIT

DURING the first three weeks of February excess reserves of member banks were little changed from the level of \$1,400,000,000 reached at the end of January following the post-holiday return of currency from circulation.

During January there were substantial reductions in commercial loans and brokers' loans and moderate increases in investments at reporting member banks in 101 leading cities. In the first three weeks of February loans and investments of these banks showed little change.

MONEY RATES

RATES on Treasury bills and yields on Treasury notes and bonds continued in February at the low levels reached in the latter part of January.

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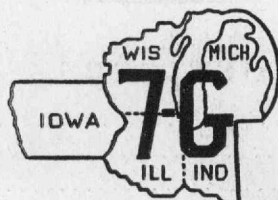
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