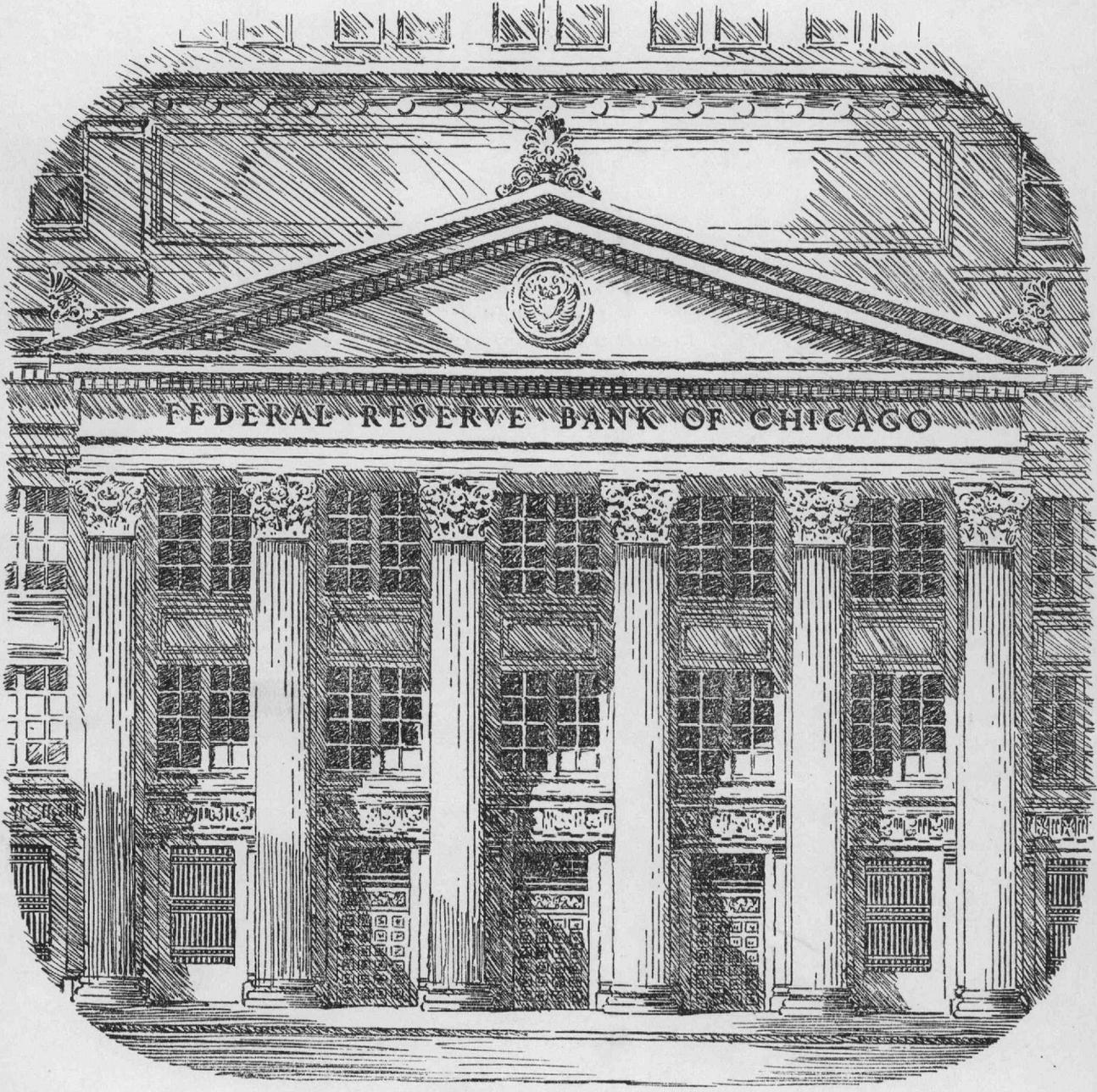




BUSINESS CONDITIONS

LIBRARY



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of the
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Review of Business Conditions During 1939 in the Seventh Federal Reserve District

THE year 1939 was characterized by a substantial upswing in industrial output during the last four months of the year. Business activity as a whole was on the upturn in the late summer, following minor declines earlier in the year as industrial concerns worked inventories to lower positions. The outbreak of major war in Europe furnished a marked stimulus, particularly to the heavy durable goods industries which generally experience the sharpest fluctuations, as buyers endeavored to replenish stocks in anticipation of price rises or delivery difficulties. There has been, however, little evidence up to this time of many actual large-scale war orders from abroad. One of the largest industries in the Seventh district—steel—enjoyed the heaviest quarterly output in history, and automobile production was at near-record levels for the fourth quarter. These and other substantial gains were reflected in marked increases in employment, there being a gain of nearly 350,000 workers employed at Seventh district manufacturing industries from July to December. At the close of the year and in early January, there was evidence of considerable slackening in the rate of incoming business in many district industries, particularly in the primary steel lines.

District building activity has declined considerably in recent months, although expansion in private residential construction kept the level for the entire year 1939 somewhat above that of 1938. There were moderate increases for the calendar year in retail and wholesale trade, and inventories increased in the latter part of 1939. Christmas department store trade in the district was in good volume, daily average sales for December showing a gain of 10 per cent over the 1938 month.

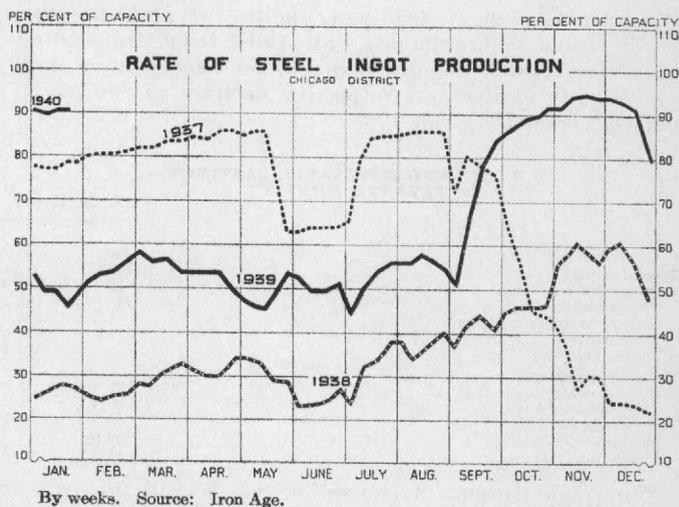
Cash income received by Seventh district farmers was only slightly higher for most of 1939 than in 1938. Small grain crops were below average but there was an excellent corn harvest. Prices of major farm products—with the important exception of hogs—strengthened considerably in the closing months of the year over the rather low levels hitherto prevailing.

Manufacturing

Steel and Steel Products—Operations of Chicago district steel mills through the first half of 1939 and up until early fall, though at all times well above the reduced 1938 levels, were only moderate in volume and considerably below the rates prevailing in 1936 and 1937. Demand for steel during this period remained comparatively light, with buying of rails and by the construction industry sustaining factors in the early part of the year; the automobile industry continued to specify on purchases made at the low prices prevailing in the fall of 1938. Following price concessions again made in May on sheets and strip, buying was stimulated to some degree, but specifications on such purchases did not reach sizable volume until late summer.

The beginning of war in Europe furnished a sharp impetus to the steel business in early September. Users of nearly all types of steel rushed to cover near-term requirements in anticipation of possible price advances or difficulty in obtaining deliveries. Also, the automobile industry had started specifying heavily on the low-priced steel commitments made in May. Mill books became so large that allocation of deliveries became necessary in many instances; pressure for deliveries was intensely strong. Among the most important sources of demand, in addition to the

automotive industry, were the railroads whose purchases, especially for new equipment, had been relatively light for some time. Operations rose rapidly and by early October the district rate of steel ingot output had passed the 1937 high point of 86 per cent of capacity. By late October the ingot rate represented the highest actual volume of output on record, in view of a 2-million ton increase in annual capacity of the Chicago district over the past ten years. A peak of 94½ per cent of capacity was attained in the latter part of November. Although new orders began to show some diminishment in October, pressure for deliveries continued strong and maintained operations at near capacity levels through the end of the year. Pig iron production in the Illinois and Indiana district followed the trend of steel output in 1939.



At the close of 1939 and in the first month of the new year, incoming business at district steel mills was in decidedly lower volume than at the fall peak, as consuming industries for the most part had satisfied their near-term and inventory requirements. This enabled steel producers to reduce backlogs rather rapidly, although in late January mills in the area continued to operate at around 90 per cent of capacity. Bookings have engaged capacity on certain finished steel products well into the first quarter, but normal delivery is now possible on nearly all items. Railroad buying this year to date has been light, tin plate activity is seasonally quiet, and the automobile industry has been specifying on last fall's purchases rather than placing many new orders. Heavy structural steel buying has been negligible. Makers of agricultural implements and tractors have been busy and in January were operating at a much higher rate than in the same 1938 period; they have been responsible for the heavy first-quarter bookings of merchant bars previously placed. No foreign business of any proportions has yet developed, although inquiries continue fair in volume.

The finished steel price situation with minor exceptions was quite firm in the early weeks of 1940. The firming tendency began in July last year, following the price concessions made in May and, subsequent to the heavy influx of new business in September, there was a complete cessation of concessions from list prices. Prices for the first quarter of 1940 were reaffirmed in late November. Scrap iron and steel also has shown some firmness recently. This

market displayed mixed trends after the strength developed in the early fall, and declined noticeably in the closing months of last year.

* * *

As in the steel and similarly allied industries, activity at casting foundries of the Seventh district recorded material improvement in 1939 over the low 1938 levels, but until the closing months of the year failed to equal the corresponding 1936 and 1937 volumes. In the late summer, there was a sharp expansion in orders for both steel and malleable castings and heavy buying by railroad car builders caused new business in steel castings to mount steadily through November. Although, as a consequence, output of both types of castings was accelerated considerably in the late fall months, that of steel castings had not by the end of the year attained the volume of incoming orders. Shipments from malleable castings foundries in the calendar year 1939 exceeded the 1938 tonnage by about 55 per cent, but were 25 and 15 per cent smaller, respectively, than the 1937 and 1936 volumes; while those from steel castings foundries showed a more than 80 per cent gain in 1939 over a year earlier and respective declines of 55 and 40 per cent from 1937 and 1936.

STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	December 1939 Per Cent Change from	
	Nov. 1939	Dec. 1938
Steel Castings:		
Orders booked (tons).....	-42.2	+250.0
Orders booked (dollars).....	-41.9	+194.5
Shipments (tons).....	+5.3	+189.9
Shipments (dollars).....	+4.3	+184.0
Production (tons).....	-5.5	+189.8
Malleable Castings:		
Orders booked (tons).....	-20.4	+27.0
Orders booked (dollars).....	-20.4	+28.7
Shipments (tons).....	-7.2	+69.2
Shipments (dollars).....	-6.0	+70.8
Production (tons).....	-11.9	+54.2

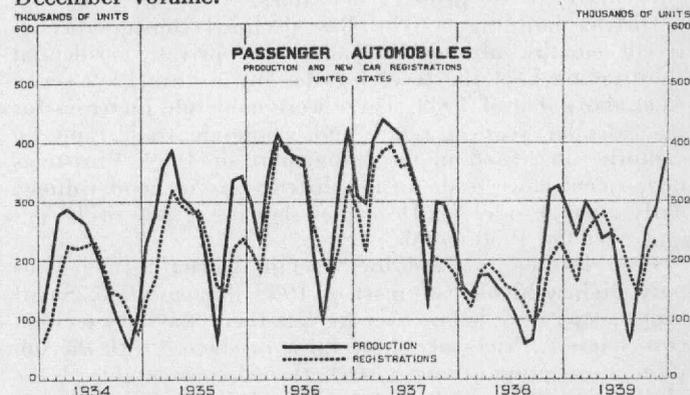
Stove and furnace factories of the Seventh district in most months of 1939 experienced considerably greater activity than in 1938 but a lesser amount than in the two preceding years. Shipments in the calendar year just past totaled 16 per cent more in dollar volume than a year earlier but 20 per cent lighter than in either 1937 or 1936. In December, as is usual, output was considerably curtailed from that of a month previous, and new orders continued to decline sharply. However, favorable, though much narrower, margins of gain continued to be recorded over corresponding 1938 levels.

Automobiles—Throughout 1939, with the exception of August and November, the automobile industry operated at a considerably higher level of activity than in 1938, when manufacturers were pursuing a policy of retrenchment owing to a light demand for the year's models and a consequently burdensome inventory situation. Although stocks of the 1939 models were built up to some extent in the spring months last year, a good demand reduced them rapidly, and at the end of the model year in August the industry was in excellent inventory position for the next model season. Introduction of the 1940 cars at an earlier fall date than a year previous brought about a sharp expansion in production schedules a month in advance of other recent years. The new models had a widespread acceptance, and most manufacturers carried over sizable banks of unfilled orders into the current year.

Automobile exports were somewhat lighter in the year just past than in 1938; passenger cars exported totaled moderately under the year-earlier volume in both number

and value, while truck exports increased slightly in number but were a little smaller in aggregate value. Export shipments of passenger vehicles in the closing months of 1939, curtailed by the war in Europe, were considerably less than in the same 1938 period, whereas shipments of commercial vehicles were heavier in the comparison.

Although a labor dispute with a major producer retarded aggregate production of automobiles through most of October and in November, a sharp rise in December, following settlement of the dispute, brought fourth-quarter output to a level higher than for the corresponding period in any year other than 1936 or 1925. During the entire year 1939 there were 2,866,724 passenger automobiles and 710,334 trucks manufactured in the United States, or 43 and 46 per cent more, respectively, than in 1938; however, output totaled smaller than in any of the three preceding years—1937, 1936, or 1935. Production in the closing month of 1939 numbered 373,755 passenger cars and 78,269 trucks, which figures represent respective gains of 31 and 18 per cent over November and of 15 and 26 per cent over a year earlier. Demand showed some seasonal falling-off at the close of 1939, but the heavy backlogs maintained production schedules at a high rate into January, in which month, it is estimated, output should closely approximate the heavy December volume.



Number of new passenger automobiles produced and registered each month in the United States. Latest figures: Production, December 1939; Registrations, November 1939. Sources: Production, United States Department of Commerce; Registrations, R. L. Polk & Company.

Seventh district demand for automobiles was much better during 1939 than in 1938, sales of new cars at retail by reporting dealers totaling about 30 per cent heavier in the comparison for the calendar year and wholesale distribution recording an even greater increase. Used-car sales in the past year exceeded those of 1938 by approximately 15 per cent. Stocks of new automobiles in dealers' hands averaged moderately larger in 1939 than the reduced inventories of a year earlier; those of used cars averaged somewhat smaller than in 1938. December data show sales of new cars at retail as slightly above the number of the preceding month and nearly one fifth greater than in the same 1938 period, while used-car sales were little changed in volume from November and almost one fourth heavier than a year previous. Although inventories of new cars were expanded sharply and used-car stocks to a lesser extent over the month, they each numbered lighter at the close of December than at the end of 1938.

Furniture—Activity in the Seventh district furniture industry averaged about 25 per cent greater in 1939 than in the preceding year. Holding of the summer furniture marts in June last year rather than in July caused orders and shipments to show somewhat different trends for several

months following than were usual for the season. The year closed with incoming orders and output well above the last month of 1938, although the margin of gain over a year earlier in the former item was considerably smaller than in other recent months owing to the improvement shown toward the end of 1938. Much heavier shipments than new business reduced unfilled orders on hand substantially between November 30 and the end of the year, but they totaled nearly 80 per cent greater than at the close of 1938.

Reports on the furniture marts held in January this year indicate that sales compared quite favorably with those made at the same time last year. Attendance at the Chicago home furnishings shows was reported as breaking all records for a similar two weeks' period. Despite a substantial increase in prices, buying of floor coverings was active, and lamp sales were exceptionally good. Curtain and drapery sales and those of housewares and appliances also were heavy.

Paper and Pulp—There were sizable gains in activity at district pulp and paper mills during 1939, paper production for the year showing an increase of 14 per cent and shipments one of 18 per cent over 1938. During December there was further evidence of slackening in new business booked, which had been unusually heavy in September and October. Shipments likewise decreased further, though to a considerably lesser extent than new orders. District production of pulp during 1939 was up about 12 per cent over 1938.

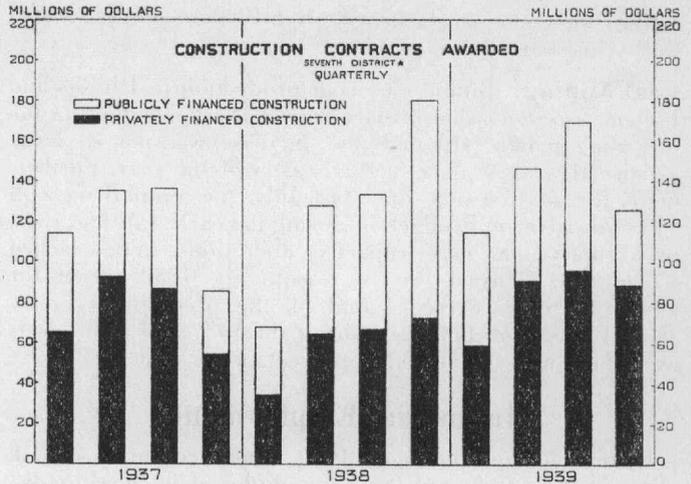
**PAPER AND PULP INDUSTRY
SEVENTH DISTRICT**

	December 1939 Per Cent Change from	
	Nov. 1939	Dec. 1938
Paper:		
Orders booked (tons).....	-28.5	-12.2
Orders booked (dollars).....	-27.8	-10.3
Shipments (tons).....	+4.6	+16.7
Shipments (dollars).....	-1.9	+22.3
Production (tons).....	-16.0	+12.5
Stocks at end of month (tons).....	-7.2	-0.1
Pulp:		
Production (tons).....	+4.6	+11.4
Stock at end of month (tons).....	+7.8	-8.0

Building

Construction contracts awarded during December in the Seventh district totaled considerably less than a month earlier. The decline was apparent not only in residential building, which is usually somewhat curtailed at this season of the year, but also in non-residential projects and in heavy engineering construction. December total contract volume was the lowest since last January and only slightly more than one half as large as in the closing month of 1938. The entire fourth quarter of 1939 was below the corresponding 1938 period in building activity, mainly reflecting a sharp decline in the amount of public funds employed for this purpose. Privately-financed projects continued relatively high throughout the year, contributing to a moderate net gain in total contracts for the year as a whole. Quarterly volume of privately- and publicly-financed projects may be noted in the accompanying chart.

The substantial expansion during 1939 in residential building, over 90 per cent of which represented an investment of private funds, together with a marked advance in construction of commercial and industrial plants, was sufficient to offset curtailments in such non-residential projects as educational institutions and public buildings, as well as in heavy engineering works which have depended largely on funds provided by the Government. Among the 1939



*Data furnished by the F. W. Dodge Corporation for the Chicago and Southern Michigan territories which closely approximate the Seventh district area. By quarterly periods, 1937 through 1939.

awards for this latter type of construction were those for the Chicago subway. Additions to construction volume by USHA projects were of minor importance in 1939, but funds carried over into 1940 by this agency may serve as a partially offsetting factor to a smaller amount of PWA and WPA projects. Prospects for continued gains in commercial and industrial construction are largely dependent on trends in general business and industrial activity. During the past year the FHA program evidently has been a considerable stimulus to private residential building.

**BUILDING CONTRACTS AWARDED
SEVENTH FEDERAL RESERVE DISTRICT**

Period	Total Contracts	Residential Contracts
December 1939.....	\$37,245,000	\$14,489,000
Change from November 1939.....	-18.7%	-25.6%
Change from December 1938.....	-45.9%	-9.5%
Calendar year 1939.....	\$568,845,000	\$213,556,000
Change from calendar year 1938.....	+5.2%	+43.8%

Data furnished by F. W. Dodge Corporation.

The December decline in construction activity was reflected in a definite falling-off in demand for building materials, most of which, however, was of a seasonal nature. Wholesale lumber dealers reported a sales decline of about one fourth and retail distributors a 20 per cent decrease from the November volumes. Cement shipments ranged from 40 to 50 per cent under those of the preceding month, while brick deliveries were maintained at a steady level in some sections but were markedly lower in others. Practically all reports indicate a gain in output over 1938, both in the December comparison and for the year as a whole. Wholesale prices of building materials in early 1940 were about 3 per cent higher than a year previously.

Fuel Industries

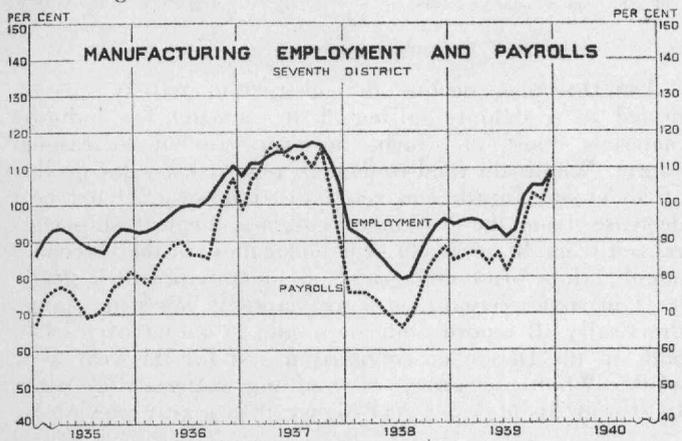
Petroleum Refining—Activity at petroleum refining plants in the Indiana, Illinois, and Kentucky area made large gains in 1939, total crude runs to stills being about 17 per cent heavier than in 1938. Much of the increase came in the later months of the year, and a substantial portion thereof can be attributed to expansion in refining capacity, particularly among smaller producers. Gasoline production showed similar though not quite such favorable trends for 1939 as did crude runs. In December daily average refining

activity in the area slackened slightly but continued well over year-earlier levels.

Coal Mining—Bituminous coal production in Illinois and Indiana was somewhat heavier during December than in the preceding month, although the increase was not so large as normally takes place at this season of the year. Furthermore, for the first time since last July, the comparison with 1938 was adverse. Production during the early fall had risen so abruptly that near capacity operations were reached sooner than is usual for the season. The 1939 output for these two States exceeded that of the preceding year by about 12 per cent, but was short of the 1937 and 1936 levels by approximately the same percentage.

Industrial Employment

In the closing month of 1939 a marked increase took place in the number of workers employed in Seventh district industries. The aggregate rise in December was due largely to gains in the automobile industry, following settlement of a labor dispute at one large concern, which had caused some decline in November. More than four fifths of the total increase for the district reflected gains in the automobile industry of Michigan. The metal industries continued to expand employment, and the leather and paper and printing groups also registered further increases. Several industries that curtailed employment to some extent in the month recorded somewhat heavier wage payments. In general, wage disbursements increased more than did the number employed, reflecting mainly longer time schedules and also, in some instances, changes in wage rates. Apart from the manufacturing industries, increases were reported by the merchandising group, where a seasonal expansion brought employment in December to its peak volume for the year. The net result was a definite gain for the combined reporting groups of the district, bringing the total employment volume and wage payments in mid-December to levels 12 per cent and 20 per cent higher, respectively, than in the closing month of 1938.



Index numbers adjusted to Census of Manufactures through 1937. 1923-1925 average = 100.

For the manufacturing industries alone, the yearly comparison shows percentage increases somewhat larger than those reported for the combined groups. The trend in manufacturing employment in the district from December 1938 through last July recorded only minor fluctuations, but these were mainly downward, resulting in a net loss for that period of 7 per cent, which represented an approximate decrease of 120,000 workers at district factories. Since July employment volume has been increasing steadily, except for

the minor set-back in November. The 23 per cent expansion over the last five months of the year would indicate that about 350,000 workers had been added to manufacturing payrolls of the district and that, consequently, manufacturing employment this December exceeded that of a year earlier by about 230,000. All of the major manufacturing groups shared in this year-to-year expansion in varying degrees. The metals and vehicles industries contributed about four fifths of the increase, and durable goods industries, as a whole, accounted for fully 90 per cent of the total gain. Employment at wood products factories advanced close to 10 per cent, while there was only a fractional gain shown in the stone-clay-and-glass group. The non-durable goods industries, with a net rise of about 20,000 workers, accounted for less than 10 per cent of the aggregate increase in manufacturing industries, and about two thirds of this was in the food products and paper and printing groups. Increases in wage payments throughout the manufacturing industries have been considerably higher than those in employment, reflecting chiefly longer working schedules in the closing months of the year. December wage payments in reporting manufacturing groups were at a level 24 per cent higher than that of a year earlier.

EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

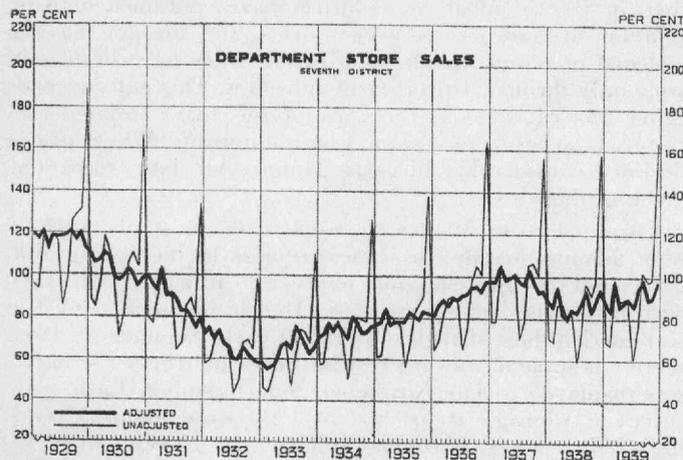
Industrial Group	Week of December 15, 1939			Change from November 15, 1938	
	Reporting Firms No.	Wage Earners No.	Earnings (000 Omitted) \$	Wage Earners %	Earnings %
DURABLE GOODS:					
Metals and Products ¹	1,745	452,595	13,791	+ 1.3	+ 2.1
Vehicles.....	378	390,253	13,800	+15.8	+22.9
Stone, Clay, and Glass.....	272	18,040	443	- 3.0	-10.0
Wood Products.....	458	48,102	1,074	- 1.9	- 2.3
Total.....	2,853	898,990	29,108	+ 6.5	+10.6
NON-DURABLE GOODS:					
Textiles and Products.....	384	66,724	1,290	- 1.9	+ 0.7
Food and Products.....	1,010	108,278	2,910	- 1.7	+ 2.3
Chemical Products.....	288	33,053	1,007	- 1.1	+ 0.9
Leather Products.....	172	27,660	601	+ 0.4	+ 2.6
Rubber Products.....	35	20,822	580	- 1.6	- 8.2
Paper and Printing.....	718	79,681	2,378	+ 1.2	+ 2.5
Total.....	2,607	336,218	8,766	- 0.8	+ 1.2
Total Mfg., 10 Groups.....	5,460	1,235,208	37,874	+ 4.4	+ 8.3
Merchandising.....	5,248	163,400	3,536	+13.9	+13.9
Public Utilities.....	1,088	98,069	3,305	- 1.4	- 1.7
Coal Mining.....	68	13,108	346	-11.1	- 9.6
Construction.....	788	11,071	351	-13.8	-12.9
Total Non-Mfg., 4 Groups.....	7,192	285,648	7,538	+ 5.6	+ 3.9
Total, 14 Groups.....	12,652	1,520,856	45,412	+ 4.7	+ 7.5

¹Other than vehicles.
Data furnished by State agencies of Illinois, Indiana, Michigan, and Wisconsin.

Merchandising

Retail Trade—Reporting phases of retail trade in the Seventh Federal Reserve district showed a moderate improvement during 1939 over the declining trends prevailing a year previous. Although department store trade in the first two months of the year recorded declines from 1938 levels, it exceeded them in each succeeding period, and net sales for the calendar year were 6 per cent heavier than in 1938. The dollar volume sold this past year was about this same percentage under that for 1937, but approximated the 1936 volume and was greater than in any of the other years since 1930. Detroit, of the larger cities in the district, made the most favorable showing over a year previous through the first three quarters of 1939, this city having recorded the heaviest losses during the same period in 1938. Gains in

Indianapolis trade also were larger in most months of 1939 than in either Chicago or Milwaukee. District department store sales this last December rose considerably more than seasonally over November to a level 6 per cent above that in 1938, and in the daily average were 10 per cent heavier than in December a year earlier, because of one less trading day in the 1939 month. In the first two weeks of January this year, sales of the larger department stores in this area totaled 6 per cent greater than in the same 1939 weeks.



Indexes of department store sales in the Seventh district, with and without adjustment for seasonal variation, 1923-1925 average = 100. By months, January 1929 through December 1939.

Through July last year, stocks carried by department stores were lighter than in the corresponding 1938 months, but thereafter showed a steadily expanding margin of gain over a year earlier through the end of November. In December, however, they were reduced more than usually to a point less than 4 per cent above that of a year previous, whereas in a similar comparison for November an increase of 9 per cent had been recorded. Stock turnover in 1939 was somewhat greater than a year earlier, the annual rate being 4.65 times as against 4.36 times for 1938.

DEPARTMENT STORE TRADE IN DECEMBER 1939

Locality	Per Cent Change December 1939 from December 1938		Per Cent Change Calendar Year 1939 from Calendar Year 1938	Ratio of December Collections to Accounts Outstanding End of November	
	Net Sales	Stocks End of Month		1939	1938
	Chicago.....	+ 7.1	+ 1.3	+ 3.9	46.7
Detroit.....	+ 3.9	+ 6.4	+10.2	46.8	45.4
Fort Wayne.....	+14.7		+ 8.8		
Indianapolis.....	+ 9.1	+12.5	+ 8.5	41.3	41.2
Milwaukee.....	+ 6.4	+ 2.1	+ 4.8	39.3	41.7
Peoria.....	+ 4.2		+ 1.2		
Other Cities*.....	+ 7.4	+ 7.5	+ 6.2	36.7	35.3
7th District.....	+ 6.4	+ 3.7	+ 5.8	49.2	45.3

*Include Fort Wayne and Peoria.

Trends in the retail shoe trade varied during 1939, with some months making a favorable showing and others recording a rather unfavorable experience. However, for the year as a whole sales of shoes by dealers and department stores totaled 2 per cent in excess of the dollar volume sold in 1938. December sales this past year showed a much better than seasonal expansion over November and a 4 per cent gain in the aggregate over a year earlier. At the end of 1939 retail inventories of shoes were at a level 5 per cent above that at the same time in 1938, the first

noticeable increase in this comparison being recorded in August and continuing in each succeeding month.

Sales of furniture and housefurnishings at retail in 1939 were 10 per cent heavier in dollar volume than in the preceding calendar year, with such sales by dealers recording a larger increase than did those by department stores. In the closing month of 1939, an increase of 8 per cent was recorded over the same 1938 period, or a noticeably smaller one than in other recent months. However, in December a year earlier the retail furniture business had begun to show definite improvement over the less favorable levels that had prevailed for some time previously. As in other retail phases, stocks of furniture and housefurnishings showed increases over the 1938 level beginning in August, and at the end of 1939 they were 5 per cent heavier than a year earlier.

Combined total sales of the two major mail-order companies located in Chicago were the highest on record in the calendar year 1939, exceeding by 14 per cent the previous record volume in 1937. As compared with 1938, sales of these firms aggregated 19 per cent heavier in the year just past.

Wholesale Trade—With the exception of July and December, when only small increases were shown, wholesale distribution of commodities in the Seventh district was moderately to substantially greater in the aggregate during the past year than in the corresponding 1938 months. Sales of all groups reporting to the United States Department of Commerce totaled 8 per cent heavier in the calendar year 1939 than a year previous, the electrical goods, hardware, paper, and meat trades, among the major lines, recording the largest gains in the comparison. December sales were off 2 per cent in the total from November and 3 per cent heavier than in the same 1938 month. Beginning in June wholesale inventories increased over year-earlier levels and at the close of 1939 exceeded those at the end of 1938 by 8 per cent, which percentage, however, was somewhat smaller than the 12 per cent gain recorded in the yearly comparison for November.

WHOLESALE TRADE IN DECEMBER 1939

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries.....	- 5.9	+11.5	- 1.5	- 1.5
Electrical Goods.....	+48.5	+15.4	+37.5	+31.5
Groceries.....	- 4.1	+ 7.9	+ 1.1	- 4.1
Hardware.....	+ 8.2	+12.7	+ 9.9	+ 8.7
Meats and Meat Products.....	- 0.7	+15.8	+17.5	+ 1.3
Paper and Its Products.....	+ 9.1	+ 8.1	+20.0	+28.8
Tobacco and Its Products.....	+ 5.9	+ 7.2	+11.1	+12.1
Miscellaneous.....	+ 5.5	+ 3.1	+15.1	+ 9.0

Data furnished by Bureau of the Census, United States Department of Commerce

Agriculture

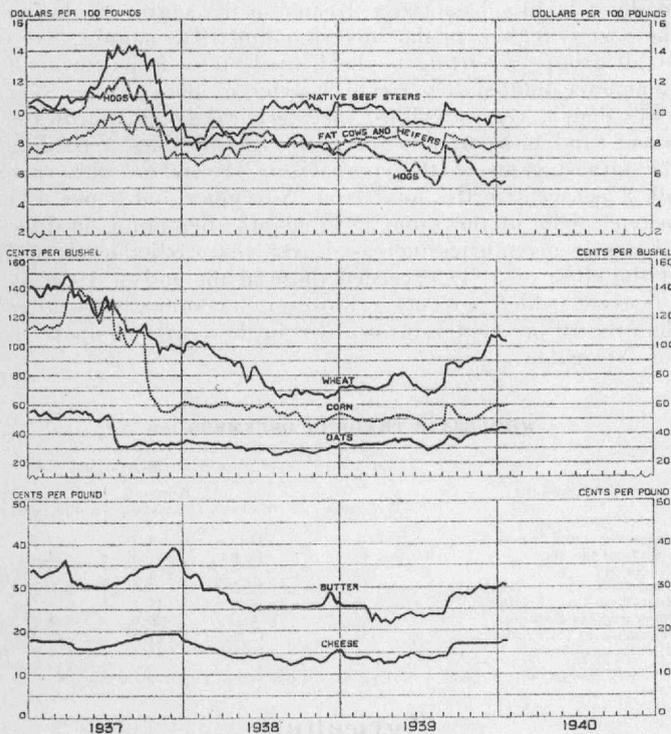
Farm cash income of the five States including the Seventh Reserve district totaled about 3½ per cent greater during the first eleven months of 1939 than in the corresponding period of 1938. This improvement was due entirely to increased Government benefit payments, as a substantial gain in income from crop marketings was somewhat more than offset by a 3 per cent decline in returns from livestock and livestock products.

The production of small grains in the Seventh district was much lighter than the 1938 or average crops, reflecting reduced acreage as well as adverse weather conditions throughout the germination and growing period. Output of potatoes and early vegetables was somewhat reduced by

dryness and heat in mid-summer. However, the production of sugar beets was considerably larger than usual. Production of hay on district farms during 1939 was well above the average for the past ten years, though slightly under 1938. Despite the decreased acreage planted, district corn production in 1939 was in exceptionally heavy volume, largely due to favorable weather for the maturing crop and extensive use of hybrid seed corn. The 1939 crop was about 7 per cent greater than a year earlier and one third larger than the 1928-37 average. A further increase in acreage raised the production of soy beans about two fifths above the previous record production in 1938.

There was an unusually large number of pigs raised in 1939; the combined spring and autumn pig crop in the five States including the district was about 17 per cent greater than a year earlier. This increased number of pigs on farms contributed to the continuance of heavy hog marketings, so that hog prices late in the year fell to a level below the corn equivalent and markedly under parity with cattle prices. With large supplies of corn available for feeding purposes, about 15 per cent more beef cattle were being fed on district farms at the beginning of 1940 than a year previously.

PRICES OF AGRICULTURAL COMMODITIES AT CHICAGO



By weeks, 1937 through January 20, 1940.

Grain Marketing—During most of the first three quarters of 1939, the general trend of wheat and corn prices was one of continued weakness. Low wheat prices over the period reflected in the main a burdensome world supply situation; in the spring of the year there was a temporary upward bulge in wheat quotations as some apprehension was felt over unsettled foreign conditions and prospects of damage to the North American 1939 crop. Beginning in August, and sharply accentuated by the outbreak of war in September, there was a substantial rise in domestic prices. Later in the fall some downward readjustment took place, but in early December prices again increased markedly,

chiefly as the result of an intensification of the serious drought in the American winter wheat area, as well as of large-scale export sales of Canadian wheat and reduced crop prospects in Argentina. The Government report showed the condition of winter wheat on December 1 to be the lowest on record and indicated a possible winter wheat crop of only 399 million bushels, or 164 millions less than last year. However, an increase in spring wheat acreage is expected and the prospective July 1 carryover will be greater than in 1939. United States prices have continued high in relation to those in other countries, the margin having widened in recent months, and export sales have been possible only through Government subsidies. This subsidy program was canceled at the turn of the year; it later was restored, however, on Pacific Coast shipments. Wheat prices declined considerably in early January but later recovered much of their loss.

Corn prices in 1939 were weak over most of the first nine months, except for some firmness in the spring due to temporary apprehension over crop prospects. In July corn prices reached a 6-year low. Demand generated by the war carried them sharply upward in early September; later there was some downward readjustment, but further strength was displayed in late November and December. Cash corn prices at Chicago at the end of 1939 were about 5 cents higher than a year earlier and more than 17 cents over the July lows. Corn exports during 1939 were substantially under those of a year previous; however, there has been an active foreign demand in recent months. The withholding of corn from market recently has been an important factor; receipts of corn at primary markets during 1939 were much lower than in 1938 and a substantial amount of farm corn was under Government seal. Farm stocks, as of January 1, 1940, in the United States totaled 1,931 million bushels, the highest on record and equal to 82 per cent of the 1939 crop. Stocks were unusually heavy in the corn belt, where large supplies were carried over from the 1938 crop; in Iowa, January 1 farm stocks were 3 per cent higher than total 1939 corn production. However, there was indicated an excellent farm disappearance of corn during the last quarter of the year, reflecting movement of 1938 corn taken out of Government seal and increased feeding to livestock.

Oats prices during 1939 were affected by fluctuations in the other grains, but the general trend for the year was one of strength because of an unusually small crop. Cash oats prices at the end of December were about 10 cents above a year earlier and the highest since July 1937. Shorter oats supplies this season have resulted in some imports of the grain, though not in substantial amounts.

Livestock and Meat Packing—Although there were slight declines in marketings of cattle, lambs, and calves during 1939, receipts of hogs at public stockyards rose markedly during the year, the total being about 13 per cent higher than in 1938. In the closing months of the year, hog marketings increased substantially, reflecting a larger pig crop, in addition to ample supplies of feed. December receipts and inspected slaughter of hogs were the highest for any month since January 1934.

There was an increase of about 7 per cent in tonnage of packing-house commodities produced and sold during 1939 at slaughtering establishments in the United States; dollar sales increased only 1½ per cent, owing to a somewhat lower general price level over the year. Production totals rose steadily from July to the year-end and those for December were so much enlarged by the heavy marketings of

hogs that more than 17 per cent of the volume from current slaughter moved into storage. January 1 inventories, therefore, increased substantially and were close to the 1929-38 average for the date, most of the increase coming in pork and lard stocks. Prices of lard and better quality beef firmed somewhat in December but quotations on most other animal products were lower. Payrolls in the industry at the close of December were about 18 per cent higher than a year earlier, both employment and wage payments having increased considerably in recent months. During the first two weeks of January, production at weekly reporting inspected centers totaled about 20 per cent heavier than in the same 1939 period.

MEAT PACKING—UNITED STATES

	Per Cent Change in			December 1939 from 1929-38 Avg.
	Nov. 1939	Dec. 1938	Dec. 1939	
Tonnage produced.....	+ 9.6	+14.8	+14.8	
Tonnage sold.....	- 0.9	+12.0	+11.4	
Dollar sales.....	+ 2.7	+ 2.8	+14.6	
Inventories.....	+43.5	+20.1	- 1.9	

Exports of meat-packing products were in better volume during the first three quarters of 1939 than in the same 1938 period but dropped off considerably following the outbreak of war in Europe; imports into the United States declined to an even greater extent after September. Demand was fair during December from the United Kingdom but very conservative from Porto Rico and in decreasing volume from European neutrals and Venezuela. There was some expansion in trade with other nearby Latin American countries but, in general, difficulties were met in obtaining sufficient exchange to permit much increase in trade with South America. No war orders were reported during this period. Realizations on lard in the United Kingdom remained under Chicago parity in December; the raising of maximum prices permitted in the United Kingdom and the softening in United States quotations brought British prices on a number of items closer to the Chicago basis. In early January the British ministry inaugurated even greater control over domestic and import phases of the packing industry than that obtaining during the early months of the war.

Dairy Products—For the year 1939 as a whole, the manufacture of creamery butter in the Seventh district ruled slightly—about one per cent—under the record levels of 1938, but except for that year, 1939 butter production was the highest on record. In the spring, butter prices declined to 5-year lows, following cessation of the Government stabilization program in March. In September, however, they rose with the abrupt increase in commodity prices and there was seasonal strength in quotations in later months, so that by the end of the year prices were the highest since early 1938. Prices showed further firmness in early January, but the advance was checked by offerings from the DPMA. By January 1 stocks of butter, which had been at unusually onerous levels since the fall of 1938, were reduced to below average for the date. Seventh district December production of butter advanced about 4 per cent over November, but totaled 4 per cent lower than a year earlier. December sales by district butter firms were 16 per cent heavier than last year. United States production showed a close to seasonal increase for the month.

The annual production of American cheese by Wisconsin factories was about one per cent lower in 1939 than in 1938, but sales totaled 4½ per cent higher. Although cheese stocks earlier in the year just past were unusually heavy for the season, they did not constitute so serious a problem as did butter supplies and by the end of the year had been

reduced to about normal levels. During December, Wisconsin production of American cheese declined seasonally but was about 4 per cent heavier than a year earlier, while sales declined less than seasonally. Cheese prices have been remarkably steady since late September and in January were even firmer, reflecting improved demand and strength in butter markets.

MONTHLY BUSINESS INDEXES

	Dec.	Nov.	Oct.	Dec.	Nov.	Oct.
	1939	1939	1939	1938	1938	1938
Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated. 1923-1925 average = 100						
Manufacturing Industries:						
Employment.....	95	91	92	83	81	77
Payrolls.....	102	94	96	83	80	76
Fig Iron Production:						
Illinois and Indiana.....	137	139	130	80	83	68
Automobile Production—(U. S.):						
Passenger Cars.....	128	97	86	111	109	64
Trucks.....	208	177	163	165	138	58
Casting Foundries Shipments:						
Steel—In Dollars.....	95	85	60	33	34	28
In Tons.....	87	77	50	27	30	22
Malleable—In Dollars.....	74	79	64	43	44	37
In Tons.....	93	101	81	55	58	45
Stoves and Furnaces:						
Shipments.....	139	210	254	129	168	214
Furniture Manufacturing:						
Orders in Dollars.....	53	78	96	49	62	66
Shipments in Dollars.....	81	90	93	63	64	73
Building Contracts Awarded:						
Residential.....	49	67	73	55	59	59
Total.....	54	67	65	101	84	96
Meat Packing—(U. S.):						
Production.....	119	109	98	104	99	91
Sales Tonnage.....	98	99	100	88	93	94
Sales in Dollars.....	88	86	95	86	85	95
Department Store Net Sales:						
Chicago.....	156	92	93	148	90	84
Detroit.....	183	113	102	181	111	99
Indianapolis.....	197	120	127	182	112	113
Milwaukee.....	165	99	105	160	99	102
Other Cities.....	158	96	94	148	92	87
Seventh District—Unadjusted.....	164	99	98	157	96	91
Adjusted.....	98	90	89	94	88	82

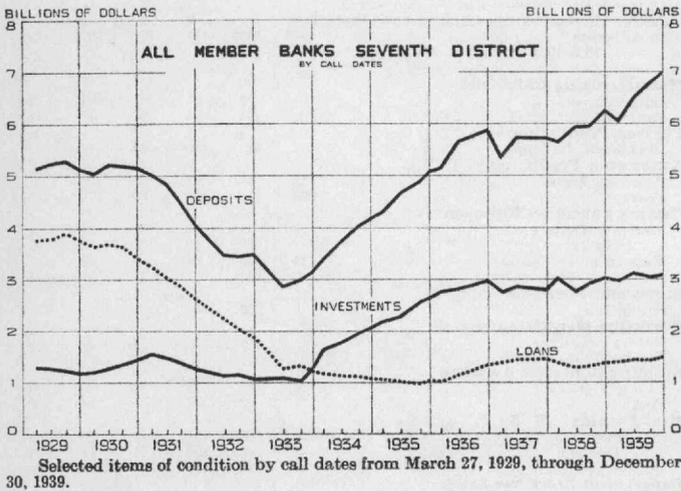
Credit and Finance

Weekly Reporting Member Banks—Total loans of Seventh district weekly reporting member banks declined 23 million dollars between December 13, 1939 and January 17 this year. This drop was due to a reduction in the volume of loans to brokers and dealers in securities, following a temporary rise earlier in December. The 301-million dollar increase in investments over this period resulted from heavy acquisitions of Treasury bills in late December and in January, reflecting in large part the building-up of bill portfolios prior to the April 1 Illinois personal property tax date. Demand deposits registered a net decline of 20 million dollars over the five-week period.

Between December 28, 1938 and December 27, 1939, investments of these banks rose 90 millions, principally owing to a growth in holdings of Government-guaranteed obligations. Loans increased 60 millions, largely after September 1. The most notable rise was in the commercial, industrial, and agricultural classification, although a steady increase throughout the year brought real estate loans to a level 17 million dollars higher on December 27, 1939 than a year earlier. Demand deposits adjusted rose irregularly throughout 1939, recording a net increase of 266 millions, while the volume of time deposits expanded by 61 million dollars.

Member Bank Reserves—Reserve balances of member banks held at the Federal Reserve Bank of Chicago stood at a level 229 million dollars higher at the end of 1939 than a year earlier. Commercial and financial funds continued to flow in large volume into the Seventh district from other districts throughout the year. This inflow was particularly

heavy during September, as investors were selling Government bonds to the Federal Reserve banks at that time, and payment for the securities came largely from New York. The effect of this net inflow of funds on member bank reserves was partially counteracted by a continued excess of Treasury receipts over disbursements during 1939 and a steady increase throughout the year in currency circulation. For the period December 13 to January 17, reserves declined 240 millions, largely owing to purchases of new Treasury bills.



Securities Markets—New long-term corporate bond issues during 1939 totaled in somewhat smaller volume than in the preceding year; the proportion representing new capital was only 15 per cent of the total, as compared with about 40 per cent in 1938. Institutional investors absorbed the major part of the new offerings, taking many of the issues direct from the borrowers with resultant elimination of the customary underwriting channels. Banks from time to time entered the market for short-term, high-grade bonds, but on the whole this demand was a minor factor, as was that of individual investors. Bond prices generally continued firm throughout the year, with the exception of the sharp decline in quotations during the few weeks following the outbreak of war abroad. This decline was soon halted and quotations by the end of the year had about recovered all of their September losses. All markets, however, continued rather thin.

For the current period—late December and the first half of January—bond prices remained firm, after which some uncertainty developed, attributed partially by Chicago bond houses to apprehension over possible spreading or intensification of the European conflict. Up to January 19, however, prices had declined but little. The first new issue of any consequence during 1940, a Midwestern industrial refunding, received a favorable reception from investors.

Sales of the first four weekly issues of Treasury bills in 1940 were on a no-yield and, in some cases, a negative-yield basis, due chiefly to special demands for tax purposes in this area.

Commercial Failures—The number of commercial failures during 1939 in the Seventh district was but slightly under the corresponding figure for the preceding year. Total liability involved, however, was about one sixth less than in 1938. Only in the month of October was the total liability substantially in excess of 1938.

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

(Amounts in thousands)

	Jan. 17, 1940	Dec. 13, 1939	Change from Jan. 17, 1939
Total bills and securities	\$267,989	\$-9,050	\$-13,409
Bills discounted	638	-102	+564
Bills bought	0	0	-69
U. S. Government securities direct and guaranteed:			
Bills	0	0	-56,203
Notes	122,148	-13,330	-10,357
Bonds	144,372	+4,372	+52,780
Total Government securities	267,020	-8,958	-13,780
Total reserves	2,495,954	-143,827	+368,085
Member bank reserve deposits	1,461,293	-239,912	+289,609
All other deposits	184,988	+90,426	-37,951
Federal Reserve notes in circulation	1,066,741	-3,459	+85,142
Ratio of total reserves to deposit and Federal Reserve note liability combined	92.0%	-0.1*	+2.5*

*Number of Points.

CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

(Amounts in millions)

	Jan. 17, 1940	Dec. 13, 1939	Change from Jan. 13, 1939
ASSETS			
Loans and investments—total	\$3,415	\$+278	\$+264
Loans—total	908	-23	+63
Commercial, industrial, and agricultural loans	530	-1	+54
Open-market paper	36	+2	+4
Loans to brokers and dealers in securities	40	-22	+3
Other loans for purchasing or carrying securities	74	-2	-4
Real estate loans	113	+1	+16
Loans to banks	0	0	-4
Other loans	115	-1	-6
U. S. Treasury bills	363	+316	
U. S. Treasury notes	306	-106	+87
U. S. Treasury bonds	1,038	+94	
Obligations fully guaranteed by U. S. Government	308	0	+80
Other securities	492	-3	+34
LIABILITIES			
Demand deposits—adjusted*	2,630	-20	+301
Time deposits	944	-3	+55
Borrowings	0	0	0

*The annual velocity of demand deposits (unadjusted) in the five weeks ended January 17 was 24.23 times, as compared with 20.54 times in the preceding four weeks and with 25.20 times in the corresponding period of 1938-39.

BANK DEBITS, SEVENTH DISTRICT

(Amounts in millions)

	Dec. 1939	Nov. 1939	Dec. 1938	Per Cent of Increase or Decrease from Calendar Year 1939	Per Cent of Increase over Calendar Year 1938
Chicago	\$3,802	+37.1	+7.2	\$34,966	+6.7
Des Moines	102	+16.2	-8.1	1,125	+4.1
Detroit	1,093	+17.6	+10.2	10,439	+17.3
Fort Wayne	38	+15.1	+11.6	377	+3.3
Grand Rapids	63	+12.1	+8.4	637	+14.9
Indianapolis	252	+23.4	+18.8	2,402	+9.8
Milwaukee	326	+36.6	+14.4	3,108	+6.9
Peoria	62	-3.6	-0.7	668	+1.2
South Bend	46	+25.1	+19.7	442	+13.4
32 smaller cities	571	+12.0	+8.0	5,791	+8.6
Total 41 cities	6,355	+28.8	+8.3	59,955	+8.7

ANNUAL VOLUME OF PRINCIPAL OPERATIONS OF THE FEDERAL RESERVE BANK OF CHICAGO (HEAD OFFICE AND DETROIT BRANCH COMBINED)

	1939	1938
Number of Pieces Handled:		
Bills discounted	168	248
Currency received and counted	326,966,000	295,850,000
Coin received and counted	142,593,000	162,604,000
Checks handled	170,065,000	155,496,000
Collection items handled:		
U. S. Government coupons paid	3,156,000	3,352,000
All other	661,000	726,000
U. S. securities—issues, redemptions, and exchanges, Fiscal Agency Department	970,000	780,000
Transfer of funds	145,000	143,000
Amounts Handled:		
Bills discounted	\$ 2,205,000	\$ 8,319,000
Currency received and counted	1,358,385,000	1,236,137,000
Coin received and counted	17,938,000	18,957,000
Checks handled	34,116,599,000	29,572,112,000
Collection items handled:		
U. S. Government coupons paid	75,246,000	80,455,000
All other	841,208,000	808,957,000
U. S. securities—issues, redemptions, and exchanges, Fiscal Agency Department	4,212,386,000	2,664,344,000
Transfer of funds	18,329,035,000	16,567,196,000

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C. A. PHILLIPS. <i>Economic Adviser</i>	J. L. SWEET. <i>Statistical Adviser</i>

DETROIT BRANCH

DIRECTORS

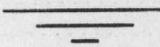
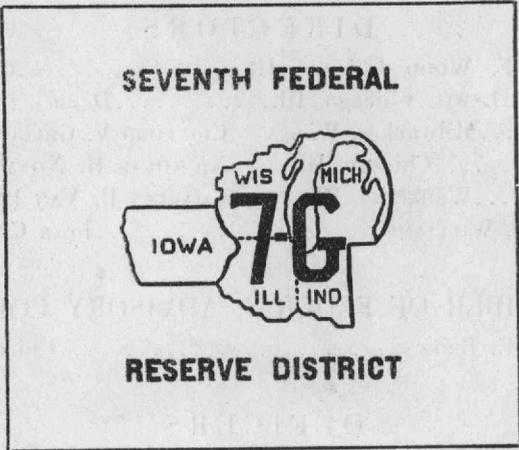
R. H. BUSS. Detroit, Mich.	A. C. MARSHALL. Detroit, Mich.
JAMES E. DAVIDSON. Bay City, Mich.	WALTER S. McLUCAS. Detroit, Mich.
JOSEPH M. DODGE. Detroit, Mich.	HARRY L. PIERSON. Detroit, Mich.
L. WHITNEY WATKINS. Manchester, Mich.	

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R. H. BUSS. *Managing Director*

H. J. CHALFONT. <i>Cashier</i>	H. L. DIEHL. <i>Assistant Cashier</i>
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Federal Reserve Bank of Chicago



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DETROIT BRANCH

DIRECTORS

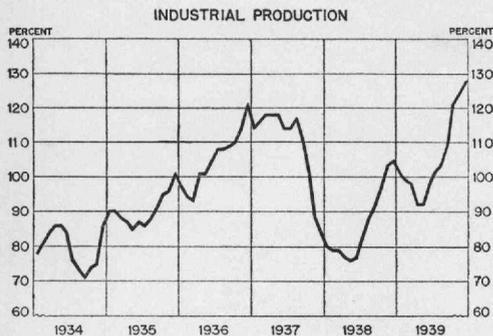
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OFFICERS

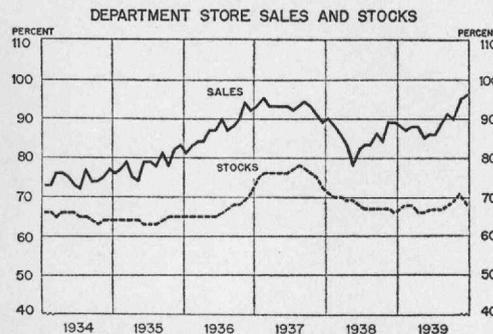
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National Summary of Business Conditions

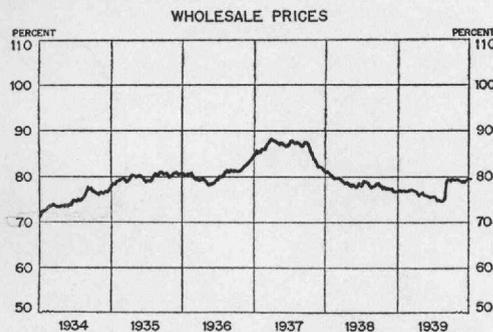
(By the Board of Governors of the Federal Reserve System)



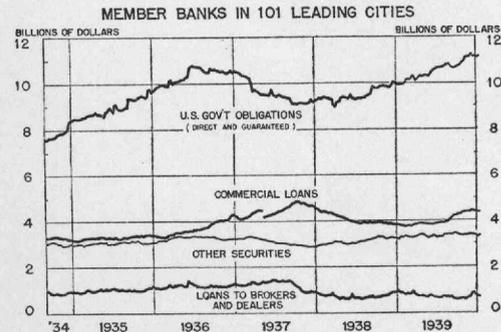
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to December 1939.



Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to December 1939.



Index compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending January 13, 1940.



Wednesday figures for reporting member banks in 101 leading cities, September 5, 1934, to January 10, 1940. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported.

INDUSTRIAL activity, after a rapid rise in recent months, declined less than seasonally in December. In the first half of January activity did not show the usual seasonal increase. Distribution of commodities to consumers was maintained in large volume.

Production—Industrial output decreased in December, but by a smaller amount than is usual at this season, with the consequence that the Board's index, which allows for usual seasonal variations, advanced further from 124 to 128 per cent of the 1923-1925 average. As in other recent months, the rise in the index continued to reflect mainly increased activity in industries producing durable goods. Automobile production rose sharply in December owing to the reopening of plants of one large producer which had been closed for almost two months. Plate glass production also increased. At steel mills activity was maintained near the high level that prevailed in October and November; fourth quarter production of steel ingots was greater than in any other three-month period on record. Output of zinc and deliveries of tin continued to increase in December, and lumber production declined less than seasonally.

In the nondurable goods industries, where production had been at high levels throughout the autumn, changes in output in December were largely seasonal in character. At woolen textile mills, however, there was a considerable reduction in activity, and activity at silk mills declined to a low level, reflecting in part continued high prices of raw silk. Output of crude petroleum continued at a high rate in December, while coal production was reduced, following a large volume of output in the two preceding months.

In the first half of January steel ingot production was at a somewhat lower level than in December, while automobile assemblies were maintained at about the same high rate as in the previous month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased further in December, owing to the inclusion in the December figures of a large amount for a dam under construction by the Tennessee Valley Authority. Contracts for private building, both residential and nonresidential, declined seasonally.

Employment—According to reports from leading industrial States, factory employment decreased less than seasonally in December and payrolls showed a further advance.

Distribution—Distribution of commodities to consumers increased further in December. Sales at variety stores showed about the usual sharp rise and sales at department stores and mail-order houses increased more than seasonally.

Freight-car loadings declined by more than the usual seasonal amount from November to December, reflecting chiefly a further reduction in coal shipments and a decrease in loadings of ore, which had been at a high level in the previous month.

Commodity Prices—Prices of wheat, which had advanced sharply early in December and continued at the higher level during the rest of the month, declined considerably in the first half of January. Smaller decreases occurred in some other commodities, including hides, tin, and zinc. Prices of most other basic commodities, such as cotton, wool, lead and steel scrap, showed little change.

Government Security Market—Prices of United States Government securities continued to advance during December and were steady during the first two weeks of January.

Bank Credit—Total loans and investments of reporting member banks in 101 leading cities declined in the four weeks ending January 10, following an increase during the first half of December. These changes reflected largely a temporary rise and a subsequent decline in loans to security brokers and dealers in connection with the Government's flotation of a new issue of bonds. Total holdings of United States Government obligations at city banks showed little net change during the period.

As a result chiefly of further increases in gold stock as well as the post-holiday return of currency from circulation, excess reserves of member banks increased sharply in the four weeks ending January 10.