

*M. Hagedorn MA*



# BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

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DEPUTY CHAIRMAN OF THE BOARD

## THIS MONTH

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A Major Safeguard in  
Our Banking System



## **Frank J. Lewis, Deputy Chairman**

Equipped by years of experience in the fields of industry, finance and utilities, Frank J. Lewis, deputy chairman of the Board of the Federal Reserve Bank of Chicago, will celebrate his fourth anniversary as a director of the bank on July 9.

Mr. Lewis has shown an intense interest in the Federal Reserve System and from the time of his first appointment in 1936 has been one of the most active members of the board, delving into all phases of the bank's services to member banks and the public. He was re-appointed a Class C director on January 1, 1938, representing the public interest, and on January 1, 1940, when General Robert E. Wood was elevated to the chairmanship, Mr. Lewis was designated deputy chairman by the Board of Governors of the Federal Reserve System.

Mr. Lewis was born in a farmhouse at LaSalle and Adams Streets, heart of Chicago's financial district, and the site of the Federal Reserve Bank of Chicago a block away was once the pasture of his father's farm. He attended the public schools and he began his career as one of the late Victor F. Lawson's first newsboys in 1876, when that publisher started the Daily News, Chicago's first penny newspaper.

Fifty-two years ago, Mr. Lewis organized the F. J. Lewis Manufacturing Company, makers of coal tar products. From an initial plant, the business grew until the company had factories throughout the United States. He also holds large interests in other industrial corporations and in utilities.

Interested in human welfare, Mr. Lewis embarked upon a housing project for approximately 2,000 families of wage earners in the Calumet district of Chicago in 1925 at an estimated cost of \$10,000,000. For some years he was a member of the board of directors of the De Paul Educational Aid Society, owner of the downtown academic and administration building of De Paul University, and in 1928 the university awarded him an honorary degree of doctor of laws.

He founded in 1932 the Lewis Memorial Maternity Hospital in Chicago for families with small incomes and later built the Lewis Holy Name School of Aeronautics at Lockport, Illinois.

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## District Summary of Business Conditions

**S**UDDEN intensification of war in Europe has profoundly affected many phases of Seventh district business and agriculture. There has been a drastic reappraisal of values, with the most notable repercussions being felt in the grain and security markets. Available May data indicate that district industrial activity has advanced, particularly in the heavy industries such as steel. Automobile production reached its spring peak in April and has since declined moderately. Distribution of commodities at retail has held at fairly high levels, and apparently as yet the changed situation abroad has had little effect on consumer expenditures.

**Industry**—Reflecting generally increased demand and specifications on commitments made at low prices in April, district steel mill operations rose sharply in May. Since the spread of warfare, belligerents have greatly augmented their orders for steel in this country, but these so-called "war" orders are expected to affect this district only indirectly, as most finished steel for export is fabricated in the East. Steel firms in this area expect near-term developments in the European conflict to dominate trends in domestic steel business and, if intensified hostilities continue, there may be generated a rush on the part of domestic customers to buy steel, such as occurred last September.

Data collected by this bank show that new business of district steel and malleable castings firms increased sharply in April and that output of both types of castings was well over year-earlier levels. Orders and shipments of stove and furnace plants also rose substantially. New business of district furniture manufacturers remained steady and output was higher than last year. Sales by district paper mills increased substantially during April. Among the fuel industries, petroleum refineries failed to record their customary seasonal rise in operations, as gasoline stocks remained unusually heavy, while coal production showed a greater than seasonal decline.

During April there was a further sharp seasonal advance in contracts awarded for building construction, and for the first time this year total contracts were higher than the 1939 level, although comparisons for residential building have been for the most part favorable. Movement of building materials showed belated seasonal expansion, following a dull March.

With minor month-to-month declines, district employment continued its irregular downward trend in April. However, the totals for all reporting industrial groups showed an increase over April 1939 of 8 per cent in employment and 16 per cent in payrolls.

**Merchandising**—Department store sales increased 2 per cent in April and were 4 per cent heavier than in 1939, with Detroit stores making the best year-to-year showing. Data from larger district stores for the first three weeks of May showed even more favorable gains over last year. There is no indication, from department store sales at least, of any markedly unfavorable trends in retail distribution during the first full week of intensified warfare.

Retail shoe sales fell off in April and were lower than last year, but sales of furniture and household furnishings at retail increased much more than seasonally and were 22 per cent heavier than in April 1939. District wholesale business recovered from unfavorable March trends, showing a considerable advance in April, with sales 13 per cent

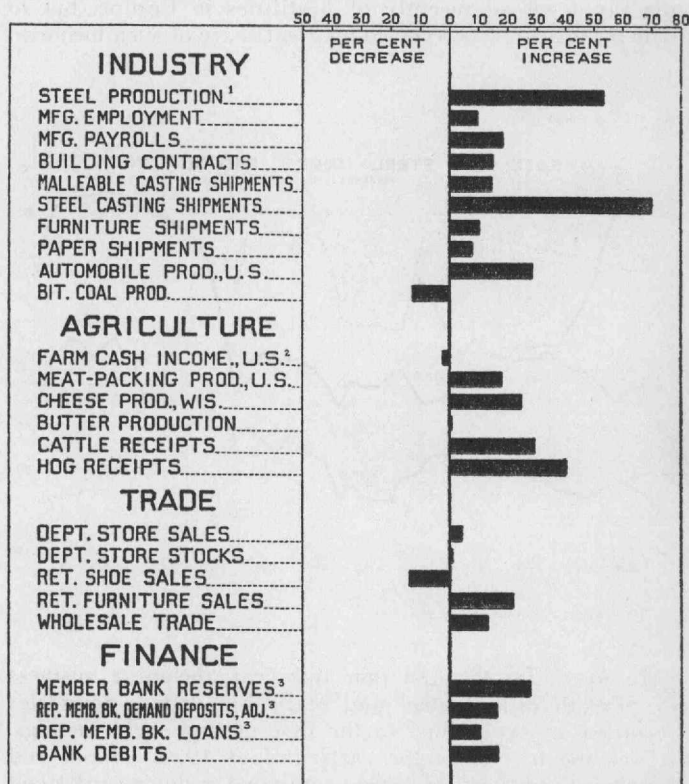
higher than last year. There was practically no change in the level of retail inventories over the month, and department store stocks were only one per cent larger than on April 30, 1939. Wholesale inventories declined in April but were 8 per cent heavier than a year ago at the end of the month.

**Agriculture**—Overshadowing other recent developments in district agriculture was the drastic mid-May decline in grain prices, particularly in wheat. Compared with grains, livestock quotations continued relatively firm. Butter production in April showed a less than seasonal advance, owing to poor pasture conditions, although cheese production had a full seasonal gain for the month. At meat-packing plants, inventories declined as tonnage sales were heavier than production. There was an increase of about 25 per cent in April over last year in tonnage sales of packing-house commodities but a gain of only 5 per cent in dollar sales. April export demand for meat products was disappointing.

Much needed rains have improved moisture conditions at district farms, but at the same time they delayed spring field work considerably.

**Credit and Finance**—The major recent development in financial markets has, of course, been the severe decline in securities prices. Although there was little liquidation evident in the bond market and practically none by larger weekly reporting member banks, bond prices declined sharply, erasing a considerable portion of the advance made since the low point of last September.

### SEVENTH DISTRICT BUSINESS ACTIVITY APRIL 1940 COMPARED WITH APRIL 1939



1. Ingot rate, Chicago district, for week ending May 25. 2. March data. 3. As of May 15.

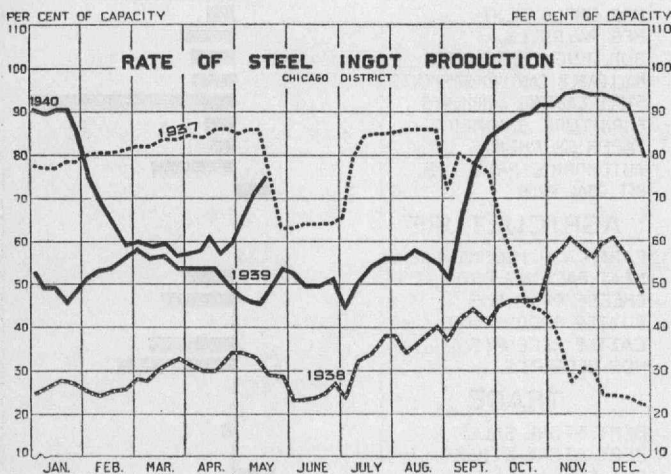


## Industrial Activity

**Steel and Steel Products**—From a level slightly under 60 per cent of capacity at the end of April, steel mill operations of the Chicago district rose rapidly in the following three weeks to 75 per cent of capacity—the highest rate since the early part of February this year—and it is expected that production will be accelerated further over the next few weeks. Responsible in large measure for this increased rate of output have been specifications on steel products on which the price was reduced \$4 per ton in the first part of April. Announcement was made late in April that restoration would be made May 1 of the prices which had been cut, the stipulation being made at the same time that low-priced business placed before May 1 was to be for shipment by June 30. This action, obviously, stimulated specifications on blanket commitments previously made. However, such business has not been entirely responsible for increased mill activity, as in recent weeks demand has expanded considerably from numerous miscellaneous sources and for a wide diversification of products. At present, mills are taking a much greater volume of orders than they are shipping.

Among the major industries now specifying rather heavily are the farm equipment manufacturers. The automobile industry has not yet begun to place orders for the next model year. There has been some buying from makers of railroad equipment, but business from this source remains relatively small. Products in good demand, in addition to sheets and strip, have been wire and wire products, bars, plates, alloy steel, and small structural shapes. Tin-plate mills are operating at near capacity. Machine tool plants likewise are quite busy and have heavy backlogs on certain items for export demand.

Export business has increased rather substantially since the rapid spread recently of hostilities in Europe, but to date this district has received no great share of such business.



By weeks. Source: Iron Age.

In April, for the first time this year, incoming business of Seventh district steel and malleable casting foundries recorded an expansion; in the case of malleable castings, it was the first since the early fall of 1939. Output and foundry operations, however, continued a downward trend during the period. Activity, in general, was above the year-earlier level. Although shipments and production have

been closely matched in recent months, they are still running considerably ahead of the volume of new orders booked.

### STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	April 1940 Per Cent Change from	
	March 1940	April 1939
<b>Steel Castings:</b>		
Orders booked (tons).....	+34.3	+ 1.0
Orders booked (dollars).....	+24.8	- 1.4
Shipments (tons).....	- 6.1	+70.0
Shipments (dollars).....	- 6.1	+59.0
Production (tons).....	- 4.2	+59.5
<b>Malleable Castings:</b>		
Orders booked (tons).....	+37.0	+ 1.8
Orders booked (dollars).....	+36.3	+ 6.6
Shipments (tons).....	- 2.2	+14.1
Shipments (dollars).....	- 0.5	+18.7
Production (tons).....	- 7.9	+ 9.9

\* \* \*

Data for April covering activity in the stove and furnace industry of this district show favorable trends. Not only did new orders and shipments expand over the preceding month, but also they were substantially heavier than in April 1939. Production increased moderately in each comparison. For the first four months of 1940, output from reporting stove and furnace factories of this area exceeded that for the same 1939 period by about one fourth.

**Automobiles**—Manufacturers of automobiles assembled a slightly greater number of vehicles in April than a month previous. The percentage of increase, however, was small compared with most years, as production was held closely in line with sales in order to avoid further building-up of the already heavy stocks in dealers' hands. Passenger car output in the United States amounted to 362,139 units during April, or to 3 per cent more than in March and 33 per cent above that of last April; there were 70,607 trucks produced, which number approximates the March volume and exceeds that of a year ago by 10 per cent. In the first half of May, weekly production of automobiles was at a somewhat lower rate, but it is estimated that total output for the month will not be much below that of April. Sales of new passenger automobiles in the nation were well maintained through April, and reports for the early days of May indicate a continued favorable trend.

Demand for automobiles in the Seventh district has remained very good. Sales of new cars at retail by reporting dealers increased further in April by close to 20 per cent and numbered half again as large as in the month last year when some falling-off in sales took place. Wholesale distribution of new automobiles also recorded gains over a month and a year previous. There was a small increase in dealers' stocks between the close of March and April 30, but they were no higher in number than at the end of April 1939. Despite moderately heavier sales of used cars during April than in March and substantially larger ones than a year ago, stocks of such cars expanded over the period and numbered about 30 per cent greater at the close of the month than in 1939 at the same time.

**Furniture**—The volume of new business booked during April by Seventh district furniture manufacturers was little changed from that of the preceding month, although ordinarily a moderate decline takes place in the period. A better than 25 per cent increase in orders over a year earlier was by far the largest in this comparison so far in 1940. Shipments followed the customary trend in April by receding 5



per cent from the March level, but aggregated 10 per cent heavier than in April 1939. They exceeded incoming business by a fair percentage and together with cancellations reduced unfilled orders almost 15 per cent between the end of March and April 30. However, business still on the books on the latter date totaled almost 30 per cent larger than a year ago at the same time. The rate of factory operations was down a few points in April from a month previous, but at 76 per cent of capacity was 8 points higher than in April 1939.

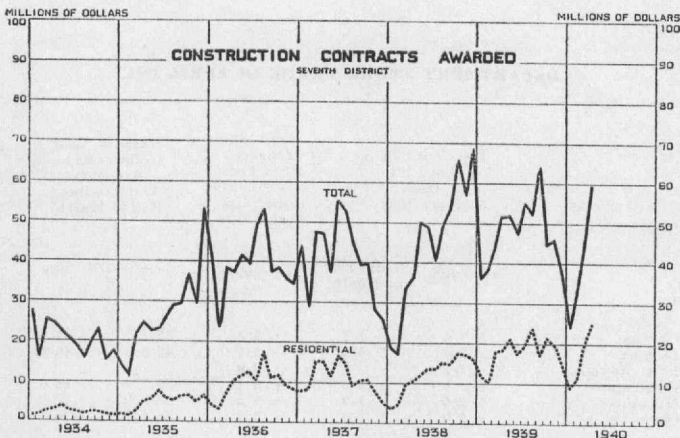
**Paper and Pulp**—Bolstered by news of the cutting-off of Scandinavian supplies, new orders at district paper mills increased substantially in April. Paper and pulp output showed little change but was above 1939 levels.

**PAPER AND PULP INDUSTRY  
SEVENTH DISTRICT**

	April 1940	
	Per Cent	Change
	1940	1939
<b>Paper:</b>		
Orders booked (tons).....	+27.9	+18.8
Orders booked (dollars).....	+26.7	+25.0
Shipments (tons).....	+0.5	+7.6
Shipments (dollars).....	-0.2	+17.7
Production (tons).....	+4.0	+9.3
Stocks at end of month (tons).....	+8.8	+16.1
<b>Pulp:</b>		
Production (tons).....	+2.6	+6.1
Stock at end of month (tons).....	+8.7	-5.4

**Building**—Reflecting rapidly developing seasonal influences, construction contract awards in the Seventh district rose during April to nearly 60 million dollars, a 37 per cent increase over the March volume. Such awards, after having run below year-earlier levels since last September, totaled 15 per cent higher than in April 1939. About 43 per cent of the allotted contracts were for residential units, almost exclusively one- and two-family dwellings, and residential contracts as a whole were at a post-1929 high. Although the impetus afforded a year ago by publicly-financed projects is now lessened, non-residential building also has felt the seasonal stimulation, increasing from about 14 millions in March to 24 millions during April.

The contract for a close to 5-million dollar building for Northwestern University brought a sharp increase in the schools and public buildings category. Awards for commercial and industrial buildings likewise expanded, reflecting contracts for a manufacturing plant and garage at Highland Park, Michigan, and an aeroplane factory group



By months, January 1934 through April 1940. Data furnished by F. W. Dodge Corporation.

at Speedway City, Indiana, each of which was for over one million dollars. Public works and utilities, largely governed by the outflow of public funds, increased somewhat but failed to achieve a volume comparable with April 1939.

Early reports for May indicate that construction was proceeding at a rate as rapid as that which prevailed throughout April. Residential awards for the first half of May were about one half as large as recorded for the entire month of April; non-residential contracts were sharply lower, with the greater part of the slack in this type of building taken up by a gain in contracts for public works and utilities.

**BUILDING CONTRACTS AWARDED  
SEVENTH FEDERAL RESERVE DISTRICT**

Period	Total Contracts	Residential Contracts
April 1940.....	\$59,594,000	\$24,950,000
Change from March 1940.....	+36.5%	+26.3%
Change from April 1939.....	+14.9%	+35.1%
First four months of 1940.....	\$160,023,000	\$65,166,000
Change from same period in 1939.....	-6.0%	+10.7%

Data furnished by the F. W. Dodge Corporation.

Building permits issued during April in 103 cities scattered throughout the Seventh district showed a dollar volume of proposed construction 35 to 40 per cent ahead of both March 1940 and April 1939. As in the case of contract awards, volume of these permits was favorably motivated by seasonal influences at this time of year. Indicated cost of projects in the City of Chicago failed by far to show as heavy a seasonal rise as did the district aggregate. The April total for the district's largest city, however, was nearly twice that of the corresponding 1939 month.

Sales and shipments of major building materials finally recorded seasonal expansion in April, after a rather dull March. Brick deliveries in this area were nearly three-quarters again as large as in March, while lumber sales showed an increase of nearly 50 per cent, measured in dollars. Cement shipments rose about 80 per cent, and for the first time this year exceeded the 1939 level—an unusually favorable record in view of reduced public works as well as lower foreign demand at exporting centers.

**Petroleum Refining**—Daily crude runs to refinery stills in the Midwestern area averaged somewhat lower during April than in March, although an increased rate of activity over this period has been customary in past years. Indicated consumption of gasoline showed the normal seasonal increase, but refinery operations were not stepped up accordingly, apparently because of the high level of gasoline stocks already on hand. Such inventories declined but slightly during April. Stocks of fuel oils rose somewhat, as is usual at this season. During the first two weeks of May, refinery operations were expanded in connection with increasing demand for gasoline, and stocks worked slightly lower.

Output of Illinois crude continued at a level which, though slightly below the peak rate established in March, was nevertheless heavy enough to maintain currently the State's third-ranking position, exceeded only by Texas and California.

**Coal Production**—Daily average April output of bituminous coal in the Middle Western fields declined somewhat more than ordinarily from the March rate and, for the first time this year, fell below the 1939 level. As renewal in May of labor contracts for the principal producing fields was



not impending as was the case a year ago, a strong incentive for building up fuel inventories against possible interruption of supplies failed to manifest itself during the current period.

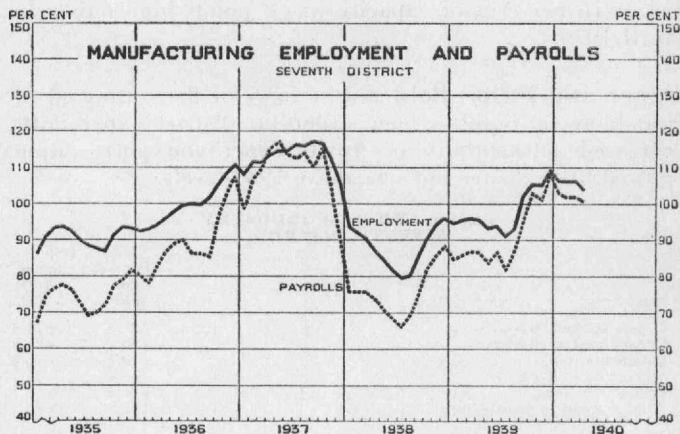
## Employment and Payrolls

Employment at district manufacturing industries resumed during April the slightly downward trend which, with the minor exception of March, has been evident since the peak in employment reached last December. The month-to-month decline affects about 23,000 workers, while the net loss in manufacturing employment since December has been about 85,000. Almost half of the decrease this year has been contributed by the metal industries group, which was operating at a high level at the end of 1939; the number of workers in the food products, vehicles, and wood products classifications has also fallen off substantially in the first four months of this year.

Since the employment level last December was the highest recorded since 1937, current indexes continued above those in 1938 or most of 1939. Comparisons with corresponding figures for April 1939 show substantial increases in the above four major groups; the year-to-year gain for district manufacturing industries as a whole amounted to about 10 per cent, or the equivalent of 150,000 workers. The only loss in this yearly comparison was a minor one reported for the leather products group.

In the current March-to-April period, the construction industry, as well as stone-clay-and-glass products, showed strong seasonal gains, while the customary curtailment in coal mining was reflected in a sharp decline in employment and payrolls. The net effect of the various changes within the non-manufacturing groups was a practically stable employment volume for the classification as a whole. As compared with a year ago, there also has been little change in the number of workers employed, the index number for the non-manufacturing classification showing a gain of less than 2 per cent.

Because of greater stability in the non-manufacturing industries, total industrial employment generally fluctuates considerably less than employment in the manufacturing industries alone. Current April employment in all reporting industry groups was 8 per cent higher than in the 1939 period, while the corresponding wage payment data recorded a 16 per cent gain.



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

## Merchandising Trends

**Department Store Trade**—April business of Seventh district department stores showed a small gain of 2 per cent over the March volume and totaled 4 per cent larger than a year ago. On a daily average basis, sales increased 4 and one per cent in the respective comparisons. Detroit, of the larger cities in the district, recorded the greatest improvement in trade over a year earlier; while Milwaukee store sales rose most over a month previous, owing to special promotional sales in the current period. In the three weeks ending May 18, sales of the larger department stores in this area ran 7 per cent in excess of the corresponding 1939 period.

With Chicago and Milwaukee firms carrying lighter inventories on April 30 than at the same time in 1939, district department store stocks totaled only one per cent above the year-ago level. Inventory volumes were practically the same at the end of April as on March 31. So far this year, the rate of stock turnover has approximated that in 1939.

### EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of April 15, 1940			Change from March 15, 1940	
	Reporting Firms No.	Wage Earners No.	Earnings (000 Omitted) \$	Wage Earners %	Earnings %
<b>DURABLE GOODS:</b>					
Metals and Products <sup>1</sup> .....	1,762	439,640	12,968	- 0.8	- 0.2
Vehicles.....	398	365,229	13,124	- 2.6	- 1.5
Stone, Clay, and Glass.....	280	18,303	448	+ 4.2	+ 8.0
Wood Products.....	455	44,836	975	- 1.8	- 2.0
Total.....	2,895	868,008	27,515	- 1.5	- 0.8
<b>NON-DURABLE GOODS:</b>					
Textiles and Products.....	388	64,784	1,212	- 1.5	- 6.9
Food and Products.....	1,051	101,119	2,686	- 1.7	- 0.5
Chemical Products.....	304	35,139	1,061	+ 1.0	+ 0.8
Leather Products.....	173	25,877	501	- 3.8	- 8.7
Rubber Products.....	32	15,661	459	+ 0.3	+ 4.1
Paper and Printing.....	728	74,098	2,107	- 0.1	+ 0.1
Total.....	2,676	316,678	8,026	- 1.1	- 1.5
<b>Total Mfg., 10 Groups.....</b>	<b>5,571</b>	<b>1,184,686</b>	<b>35,541</b>	<b>- 1.4</b>	<b>- 0.9</b>
Merchandising.....	5,417	140,894	3,118	- 0.6	- 0.6
Public Utilities.....	1,000	100,132	3,404	+ 0.9	+ 1.3
Coal Mining.....	51	7,768	171	-14.1	-25.2
Construction.....	748	9,548	303	+11.9	+15.3
<b>Total Non-Mfg., 4 Groups.....</b>	<b>7,216</b>	<b>258,342</b>	<b>6,996</b>	<b>- 0.1</b>	<b>+ 0.1</b>
<b>Total, 14 Groups.....</b>	<b>12,787</b>	<b>1,443,028</b>	<b>42,537</b>	<b>- 1.2</b>	<b>- 0.8</b>

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

### DEPARTMENT STORE TRADE IN APRIL 1940

Locality	Per Cent Change April 1940 from April 1939		Per Cent Change First Four Months 1940 from Same Period 1939	Ratio of April Collections to Accounts Outstanding End of March	
	Net Sales	Stocks End of Month		1940	1939
Chicago.....	+ 3.6	- 3.7	+ 5.4	42.1	41.2
Detroit.....	+ 6.9	+ 5.5	+ 8.1	46.9	45.0
Fort Wayne.....	+ 4.2	.....	+10.9	.....	.....
Indianapolis.....	+ 2.6	+13.6	+ 5.8	39.4	38.0
Milwaukee.....	+ 2.6	- 1.9	+ 4.2	38.0	37.2
Other Cities*.....	+ 3.0	+ 8.2	+ 5.8	36.1	34.9
<b>7th District.....</b>	<b>+ 4.1</b>	<b>+ 0.8</b>	<b>+ 5.9</b>	<b>41.5</b>	<b>40.2</b>

\*Include Fort Wayne.



**Retail Shoes**—Subsequent to the favorable showing made in March by the retail shoe trade of the Seventh district, sales fell off 15 per cent in April and totaled 13 per cent smaller than last April when Easter buying continued to exert an effect in the first week of the period. The declines in shoe sales by department stores were much less than those recorded by retail dealers in both the monthly and yearly comparisons. For the cumulative period through April this year, the dollar volume of shoes sold by dealers and department stores aggregated 2 per cent in excess of the same 1939 period. Little change took place between the close of March and April 30 in shoe inventories, and they were 9 per cent heavier on the latter date than a year ago at the same time.

**Retail Furniture**—Sales of furniture and housefurnishings by dealers and department stores in this district rose 25 per cent during April over the preceding month, which increase is much better than usual for the period. Furthermore, such sales were 22 per cent larger than in April a year ago, although dealer sales recorded a gain of but 7 per cent in this comparison. At the end of April, inventories of furniture and housefurnishings totaled only 3 per cent heavier than at the close of the 1939 month; they were at practically the same level as a month previous.

#### SALES OF INDEPENDENT RETAIL STORES

(As compiled by the Bureau of the Census)

	Per Cent Change April 1940 from April 1939				
	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total All Groups*.....	+10.7	+ 2.4	+ 1.1	+ 5.9	+ 1.2
Apparel Group.....	-12.3	-14.3	-15.5	- 0.4	- 9.6
Drug Stores.....	+ 3.2	+ 5.2	- 2.2	- 3.3	- 4.1
Food Group.....	+ 1.3	- 0.4	- 3.0	- 1.6	- 6.3
Furniture and Appliances.....	+16.1	+13.4	+ 9.9	+27.8	+19.8
Hardware Stores.....	+21.6	+18.2	+16.0	+ 9.2	+12.1
Jewelry Stores.....	+15.6	+ 3.4	+ 0.7	+10.5	+ 9.7
Lumber and Building Materials.....	+25.7	+12.6	- 3.7	+ 7.0	+ 9.7
Motor Vehicle Dealers.....	+37.7	+ 4.5	+26.2	+35.2	+15.0

\*Includes classifications other than those listed.

**Wholesale Trade**—For the most part the wholesale distribution of commodities in the Seventh district was greater in April than in the preceding month when trends had been generally unfavorable. Comparisons with a year earlier were quite good, dollar sales of all groups reporting to the Department of Commerce totaling 13 per cent larger than in April 1939. Wholesale inventories, in the aggregate, were, at the close of April, slightly under the level of a month previous but 8 per cent heavier than a year ago.

#### WHOLESALE TRADE IN APRIL 1940

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries.....	+ 6.7	- 2.3	+ 0.7	+ 0.4
Electrical Goods.....	+21.4	+15.6	+14.4	+22.9
Groceries.....	+11.2	+ 1.1	+ 1.7	+ 7.7
Hardware.....	+16.1	+11.7	+ 9.3	+14.1
Meats and Meat Products.....	+15.6	+ 2.5	+18.5	+24.7
Paper and Its Products.....	+ 6.6	+ 3.8	- 0.4	- 3.5
Tobacco and Its Products.....	+12.2	+11.8	+ 8.9	+15.3
Miscellaneous.....	+ 9.2	+ 8.6	+ 4.8	+ 3.3

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

### The Agricultural Situation

**Crops**—There was further improvement in subsoil moisture and growing conditions at Seventh district farms during the first half of May, following frequent rains over most of the district. However, some areas still show a deficiency in subsoil moisture. Spring work was considerably delayed by the rains.

As of May 1, pastures and hay fields were in better than average condition, though worse than last year; subsequently, both showed great improvement and by mid-May pastures were long enough for livestock grazing.

Abandonment of winter wheat has been lighter than last year, and good progress in the growing crop was made through mid-May; however, a reduction in acreage is expected to bring a shorter harvest this year. Oats and other spring grains were in fair to good stand and somewhat further advanced than in 1939.

Corn planting was even later this spring than in 1939, up to May 14. Thereafter, however, rapid progress was made. An offsetting factor to the lateness in the planting season is the even higher percentage of hybrid seed used this year.

Because of frosts and lateness in blossoming, fruit prospects are as yet uncertain. However, the peach crop is expected to be unusually small.

#### CROP PRODUCTION

Estimated by the United States Department of Agriculture on May 1 Condition  
(In thousands of bushels)

	Five States Including Seventh District			United States		
	Forecast 1940	Final 1939	Average 1929-38	Forecast 1940	Final 1939	Average 1929-38
Winter Wheat.....	79,191	87,529	89,420	459,691	563,431	571,067
Rye.....	7,058	7,644	8,324	36,476	39,249	38,095

**Grain Marketing**—After advancing in April to the highest levels since 1937, domestic wheat prices declined precipitately in mid-May. Ignoring almost completely the ordinary developments which usually affect prices and which were for the most part constructive, the wheat market reacted violently following the invasion of Holland and Belgium and the widening of war activity into France. Wheat futures were off as much as 34 cents for the movement, declining the limit of 10 cents on three different days.

Corn and oats prices also declined, but not so sharply as did wheat. Cash corn held relatively firm, reflecting a continued holding attitude on the part of farmers, and furnished some support to futures prices.

At the request of the Secretary of Agriculture, directors of all United States grain exchanges set minimum quotations on grain futures trading. The low prices set were closing quotations of May 18, which at Chicago were 78½ cents for July wheat and 59 cents for July corn. Following setting of these pegs, grain prices advanced somewhat above the support level.

The Government crop report indicated a winter wheat crop of 459 million bushels, an advance of 33 millions over the April 1 estimate, but still substantially lower than last year's or average harvests. The spring wheat crop has made an excellent start.

#### MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES

(In thousands of bushels)

	April 1940	March 1940	April 1939	April 1930-39 Avg.
<b>Wheat:</b>				
Receipts.....	29,424	21,984	16,316	12,178
Shipments.....	8,890	8,639	11,225	11,471
<b>Corn:</b>				
Receipts.....	11,953	11,923	12,635	15,232
Shipments.....	10,019	6,029	8,849	11,412
<b>Oats:</b>				
Receipts.....	4,257	4,781	4,442	5,396
Shipments.....	4,430	4,450	5,808	6,961

**Livestock and Meat Packing**—Livestock shipments to public stockyards in the United States increased during April over March with the notable exception of hogs,



receipts of which declined seasonally. Cattle marketings expanded 15 per cent above March, although little change has been shown over this period on the average in past years.

Federally inspected slaughter of hogs declined seasonally, but that of other livestock increased. All types of slaughter exceeded the levels of last year. Steer prices rose during April, but later maintained moderate stability. Hog quotations at Chicago decreased about 50 cents per hundredweight in the third week of May.

Sales in the meat-packing industry exceeded current production in April, with consequent reduction of inventories. These sales were about 3 per cent higher than in March, while production registered a decline of about the same proportion. The sales increase was particularly encouraging in view of continued diminishment in export business, which trade was confined principally to Latin America. Comparisons with April 1939 reveal a sharp difference between tonnage and dollar sales. The increase in the latter amounted to but 5 per cent, while tonnage sales were 25 per cent higher. Sharply reduced prices obtainable for most animal products offers the explanation for this wide discrepancy.

Prices of most packing-house commodities advanced through April and the first half of May. Exceptions to the trend in May were some hog products, notably lard. In line with reduced production during April, payroll costs of the meat-packing industry declined from March, though continuing well above 1939 levels.

#### MEAT PACKING—UNITED STATES

	Per Cent Change in April 1940 from		
	March 1940	April 1939	April 1939-39 Avg.
Tonnage produced.....	- 3.3	+18.0	+13.2
Tonnage sold.....	+ 3.0	+24.9	+17.2
Dollar sales.....	+ 2.5	+ 4.8	+11.9
Inventories.....	- 6.0	+36.3	+15.3

As previously mentioned, most of the April export volume went to Latin America. Belligerents took practically no American packing-house products, while shipments to Belgium (a neutral in April) and to Switzerland were at best considered moderate. Unavailability of Danish supplies to the Allies has had no effect on American exports, and little demand from this source is anticipated in the near future; England and Canada apparently retain heavy supplies of meat products. Even the trade with Latin America has been on a very conservative basis, with little evident desire to build up storage stocks. Prices realized in foreign markets were on a parity with Chicago levels. Reports indicate that

#### LIVESTOCK SLAUGHTER

(In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
Yards in Seventh District,				
April 1940.....	221	635	261	93
April 1939.....	166	471	240	92
Federally Inspected Slaughter, United States:				
April 1940.....	774	3,610	1,355	480
March 1940.....	721	3,981	1,266	440
April 1939.....	677	2,931	1,224	457

#### AVERAGE PRICES OF LIVESTOCK

(Per hundred pounds at Chicago)

	Week Ended		Months of	
	May 18, 1940	April 1940	March 1940	April 1939
Native Beef Steers (average).....	\$ 9.80	\$ 9.40	\$ 9.30	\$10.20
Fat Cows and Heifers.....	8.35	7.90	7.70	8.30
Calves.....	10.50	9.25	10.00	9.25
Hogs (bulk of sales).....	5.80	5.40	5.10	6.95
Lambs.....	9.70	10.15	10.10	10.00

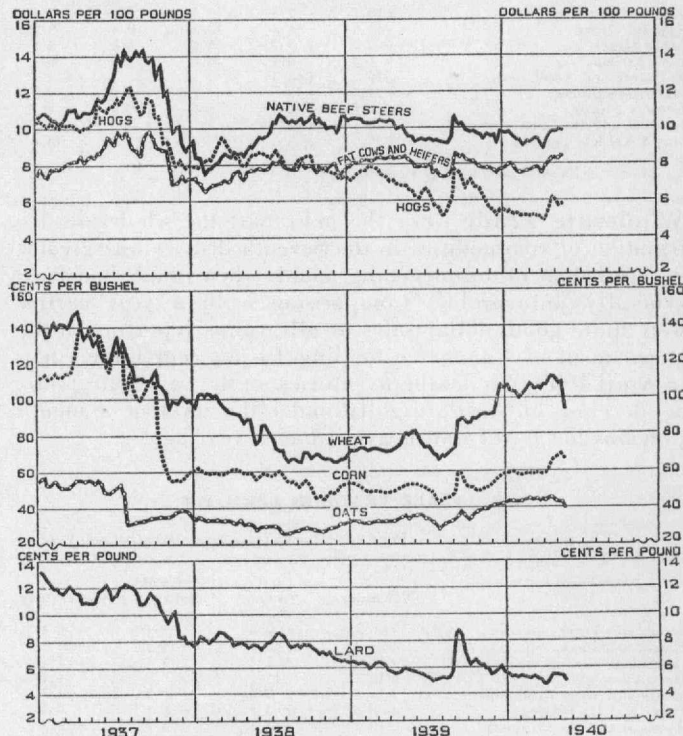
April shipments of animal products into the United States from foreign countries showed a moderate increase over March.

**Dairy Products**—With pastures making an unusually slow spring start, milk production per cow increased less rapidly than usual in April. However, in most of the important dairy States of the Great Lakes region, as well as in Iowa, milk production on May 1 was 4 per cent or more above the ten-year average, and with the improvement of pastures in May, production increased substantially.

Poor pasture conditions exerted their influence on the April butter make; reports from district creameries show a less than seasonal advance of 7 per cent for the month. Creamery butter production for the entire country likewise recorded smaller than usual gains; both district and national production figures were at approximately year-earlier levels. Butter prices declined seasonally in April and May.

In contrast to trends in butter manufacture, cheese production in April made full seasonal gains. Manufacture of American cheese in the United States was about 14 per cent heavier than last year, while in Wisconsin, which produces one half to one third of the nation's cheddar type cheese, production was almost one fourth greater than in April 1939. Cheese prices were steady in May, after declining slightly a month previous.

#### PRICES OF FARM PRODUCTS AT CHICAGO



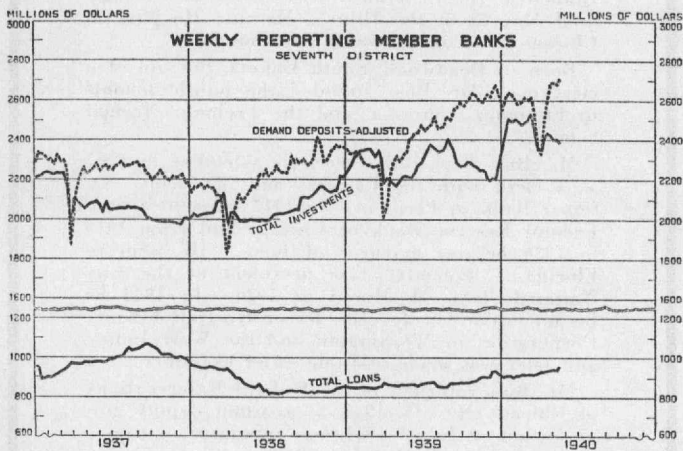
By weeks, 1937 through May 18, 1940.

#### Credit and Finance

**Weekly Reporting Member Banks**—Loans of weekly reporting member banks in the Seventh district expanded further during the four weeks ended May 15, standing by the end of that period at the highest level in over two years. Most of the increase fell in the commercial, industrial, and agricultural loan classification. However, holdings of all



types of Government securities were reduced, particularly of Treasury bills, with the result that total earning assets showed a slight decline. Demand deposits adjusted, after receding sharply around April 1, in connection with tax operations, rose steadily and stood on May 15 at the record high level of \$2,710,000,000.



Wednesday figures for reporting member banks in leading cities of the Seventh district, January 6, 1937, to May 15, 1940.

**Member Bank Reserves**—Reserves maintained against their own deposit liability by district member banks at the Federal Reserve Bank of Chicago increased sharply during the four weeks ended May 15. On that date these reserves totaled in excess of 1,700 million dollars, having risen 110 millions during the period indicated. Largely instrumental in the increase were redemptions of maturing Treasury bills held by district investors. Such redemptions, in gross volume of over 120 millions, exceeded district purchases of newly issued bills by nearly 90 million dollars. Routine commercial and financial transactions with other districts continued to add to local reserves, the current inflow amounting to 56 million dollars. Currency circulation, as measured by the excess of this bank's outgoing payments over incoming receipts, expanded 11 millions. The effect of this last-mentioned operation, obviously, tended to reduce reserves by that amount.

Note circulation of the Federal Reserve Bank of Chicago on May 15 totaled 1,093 millions. This was a record high except for a brief period in March 1933, when such outstandings reached a level in excess of 1,100 millions and then rapidly declined to around 800 millions in the ensuing two months.

**Securities Markets**—As in many other fields of the national economy, recent developments in the bond market have been dominated by intensification of warfare abroad. Bond quotations dropped sharply thereafter, all grades being affected, although the market was for the most part orderly. The showing of high-grade utility liens was perhaps the least adverse of any major groups. However, those familiar with the bond market in this area agree that little actual liquidation occurred and that the lower quotations resulted from a small volume of trading in all bonds, including Governments.

The \$75,000,000 United States Steel Corporation serial refunding issue in mid-May, brought out shortly after the German invasion of the Lowlands, met with a reasonably

## Selected Seventh District Banking Data

### FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

(Amounts in thousands)

	May 15, 1940	Change from April 17, 1940	Change from May 17, 1939
Total bills and securities.....	\$271,208	+\$699	\$-16,570
Bills discounted.....	163	-34	+40
Bills bought.....	0	0	-71
U. S. Government securities direct and guaranteed:			
Bills.....	0	0	-53,395
Notes.....	123,558	-32	-8,147
Bonds.....	147,150	+765	+45,123
Total Government securities.....	270,708	+733	-16,419
Total reserves.....	2,648,234	+80,513	+358,886
Member bank reserve deposits.....	1,700,064	+109,882	+371,351
All other deposits.....	90,760	-39,454	-129,942
Federal Reserve notes in circulation.....	1,092,557	+8,357	+101,271
Ratio of total reserves to deposit and Federal Reserve note liability combined.....	91.8%	+0.3*	+1.8*

\*Number of Points.

### CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

(Amounts in millions)

	May 15, 1940	Change from April 17, 1940	Change from May 17, 1939
<b>ASSETS</b>			
Loans and investments—total.....	\$3,339	\$-30	+\$263
Loans—total.....	953	+17	+90
Commercial, industrial, and agricultural loans...	574	+12	+73
Open-market paper.....	39	0	+9
Loans to brokers and dealers in securities.....	39	+4	0
Other loans for purchasing or carrying securities.....	75	0	-4
Real estate loans.....	118	+4	+17
Loans to banks.....	0	0	-3
Other loans.....	108	-3	-2
U. S. Treasury bills.....	262	-38	+118
U. S. Treasury notes.....	288	-2	-104
U. S. Treasury bonds.....	1,033	-14	+110
Obligations fully guaranteed by U. S. Government.....	271	-5	+8
Other securities.....	532	+12	+41
<b>LIABILITIES</b>			
Demand deposits—adjusted*.....	2,710	+101	+373
Time deposits.....	967	+3	+54
Borrowings.....	0	0	0

\*The annual velocity of demand deposits (unadjusted) in the four weeks ended May 15 was 19.20 times, as compared with 22.93 times in the preceding four weeks and with 20.14 times in the corresponding period of 1939.

### BANK DEBITS, SEVENTH DISTRICT

(Amounts in millions)

	April 1940	Per Cent Change from April 1939	First Four Months of 1940	Per Cent Change from Same Period of 1939
Chicago.....	\$3,146	+15.1	\$12,396	+14.5
Des Moines.....	106	+15.0	393	+13.9
Detroit.....	1,005	+22.4	3,964	+19.1
Fort Wayne.....	33	+8.5	127	+10.1
Grand Rapids.....	59	+22.2	232	+20.8
Indianapolis.....	211	+13.6	846	+13.0
Milwaukee.....	261	+11.7	1,090	+9.0
Peoria.....	63	+15.7	232	+13.4
South Bend.....	46	+17.9	166	+19.6
32 smaller cities.....	519	+13.7	2,030	+13.3
Total 41 cities.....	5,449	+16.1	21,476	+14.7

### VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS FEDERAL RESERVE BANK OF CHICAGO

ITEMS HANDLED	Average for Each Banking Day during	
	April 1940	April 1939
Commercial checks.....	487,000	491,000
Non-cash collections (Drafts, coupons, and securities)....	2,005	2,106
Paper currency received and counted.....	1,039,000	1,005,000
Coins received and counted.....	430,000	490,000
Wire and other transfers of funds (Inter- and intra-district).....	473	473
Securities in and out of safekeeping.....	1,057	1,095
Coupons cut from securities in safekeeping.....	1,773	1,926
<b>DOLLAR AMOUNTS</b>		
Commercial checks.....	\$94,870,000	\$86,068,000
Non-cash collections (Drafts, coupons, and securities)....	2,852,000	2,640,000
Paper currency received and counted.....	4,372,000	4,246,000
Coins received and counted.....	56,175	51,839
Wire and other transfers of funds (Inter- and intra-district).....	71,711,000	62,920,000
Securities in and out of safekeeping.....	23,230,000	13,545,000
Value of securities held in safekeeping at end of month....	964,182,000	862,537,000

favorable reception under prevailing conditions. As of about May 20 a few bonds still remained in the hands of the underwriters, but distribution was reported as being largely complete. Banks, however, took many less bonds than anticipated, making it difficult to dispose of the remainder of the issue after the large institutional investors had filled their requirements. By contrast the \$81,600,000 Union Pacific issue, representing the largest piece of railroad financing in several years, which was offered a little earlier in the month, moved very readily. The bonds soon sold at an appreciable premium in spite of the comparative preference among investors for other types of securities and the somewhat longer than customary maturity of the bonds.

The most important immediate effect of recent foreign developments has been the postponement of virtually all contemplated new financing; all substantial issues which were in registration have been deferred. Chicago bond men refuse to hazard an opinion as to the ultimate status of these issues, most of them stating that their business is on a day-to-day basis.

Although interest in April data is overshadowed by more recent developments, new corporate bond issues during that month totaled substantially higher than in March, and also exceeded the April 1939 total.

Stock prices, as is generally known, have declined drastically. The Chicago Journal of Commerce average of 20 Chicago stocks receded from around \$51.00 in early May to \$36.38 on May 21.

## Ralph H. Buss—1890-1940

Ralph H. Buss, managing director of the Detroit Branch of the Federal Reserve Bank of Chicago, died May 26 at the Illinois Masonic Hospital in Chicago after an illness of two months.

Born in Deadwood, South Dakota, the son of a clergyman, Mr. Buss attended the public schools in Fremont, Nebraska, and the Fremont Normal School.

Mr. Buss began his career as a banker in 1907 as a clerk with the Farmers and Merchants National Bank in Fremont. In 1917 he came to the Federal Reserve Bank of Chicago and from 1919 to 1926 he was manager of loans. He went to Florida as executive vice president of the City National Bank of Miami in 1926. In 1932 he became examiner for the Reconstruction Finance Corporation in Washington and the West Indies, and later was made assistant chief examiner.

Mr. Buss returned to the Federal Reserve Bank of Chicago May 15, 1933, as assistant deputy governor and on July 1, 1934, was appointed managing director of the Detroit branch.

## Current Events

### Two Additional Member Banks

Admissions to membership in the Federal Reserve System of the Ludington State Bank, of Ludington, Michigan, and the Elston Bank & Trust Company, of Crawfordsville, Indiana, were announced on May 17 and May 24, respectively. The two new members are the eighth and ninth State banks in this district to join the Reserve System since January 1.

The others are the First Bank of Berne, Indiana; Roachdale Bank and Trust Company, of Roachdale, Indiana; Linden State Bank, of Linden, Indiana; The Farmers and Merchants State Bank, of Oldenburg, Indiana; The State Bank of Caledonia, Caledonia, Michigan; The Morrice State Bank, of Morrice, Michigan; and The Pendleton Banking Co., of Pendleton, Indiana. A tenth, The State Bank of Lincoln, Illinois, became a member when it was converted into a national bank. It is now known as the State National Bank of Lincoln.

The Ludington State Bank has total deposits of \$1,363,000, and Mr. Joseph Sahlmark is president of the institution. The Crawfordsville bank has deposits of approximately \$2,250,000; John C. Snyder is chief executive officer of the bank.

### President Schaller Invites Visitors

President George J. Schaller has issued an invitation to banking groups, student bodies, and business organizations to visit the Federal Reserve Bank of Chicago to witness at first hand how the Chicago Reserve bank serves its more than 800 member banks and their customers.

Groups wishing to make arrangements for personally conducted tours of the bank may do so by addressing Louis G. Meyer, assistant cashier in charge of the bank's personnel department. Since January 1 more than 2,000 persons have visited the bank and inspected its major operations.

## MONTHLY BUSINESS INDEXES

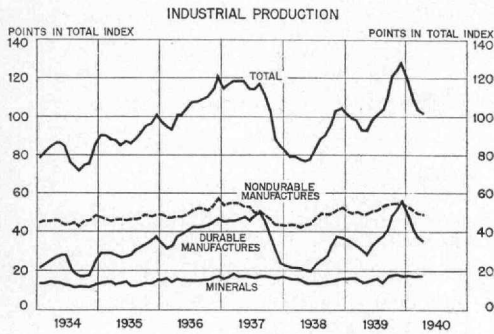
Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated. 1923-1925 average = 100	Apr. 1940	Mar. 1940	Feb. 1940	Apr. 1939	Mar. 1939	Feb. 1939
<b>Manufacturing Industries:*</b>						
Durable Goods:						
Employment.....	107	108	108	95	95	94
Payrolls.....	105	106	106	87	86	85
Non-Durable Goods:						
Employment.....	102	103	103	98	99	99
Payrolls.....	98	100	100	94	96	95
Total:						
Employment.....	106	107	107	96	97	96
Payrolls.....	104	105	105	89	89	88
<b>Pig Iron Production:</b>						
Illinois and Indiana.....	97	98	115	79	85	76
<b>Automobile Production—(U. S.):</b>						
Passenger Cars.....	124	121	115	93	102	83
Trucks.....	187	188	176	170	192	160
<b>Casting Foundries Shipments:</b>						
Steel—In Dollars.....	70	75	93	40	41	39
In Tons.....	60	65	87	31	32	31
Malleable—In Dollars.....	58	59	67	49	61	47
In Tons.....	71	73	85	62	79	63
<b>Stoves and Furnaces:</b>						
Shipments.....	166	136	119	134	130	96
<b>Furniture Manufacturing:</b>						
Orders in Dollars.....	64	65	65	49	64	63
Shipments in Dollars.....	72	76	70	65	76	60
<b>Building Contracts Awarded:</b>						
Residential.....	85	67	39	63	62	35
Total.....	87	64	47	76	64	56
<b>Meat Packing—(U. S.):</b>						
Production.....	95	98	102	81	90	78
Sales Tonnage.....	100	97	92	80	92	79
Sales in Dollars.....	87	85	83	83	85	85
<b>Department Store Net Sales:</b>						
Chicago.....	84	85	71	82	89	64
Detroit.....	106	105	84	101	102	74
Indianapolis.....	108	116	83	107	105	75
Milwaukee.....	100	95	73	98	97	68
Other Cities.....	87	87	69	84	83	63
Seventh District—Unadjusted.....	91	92	74	89	92	67
Adjusted.....	92	94	92	86	98	84

\*New index series adjusted to Census of Manufactures through 1937.

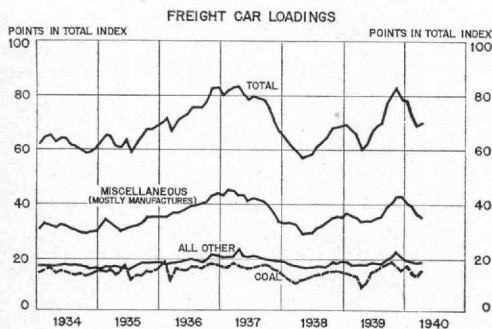


# National Summary of Business Conditions

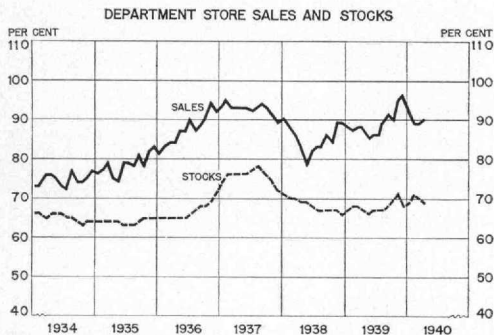
(By the Board of Governors of the Federal Reserve System)



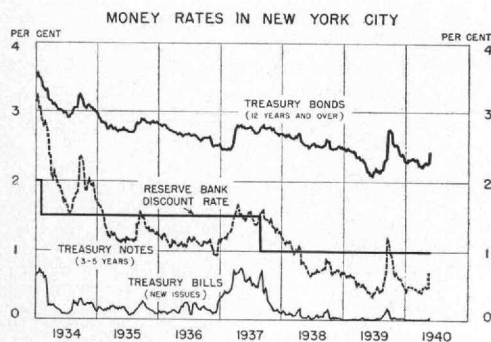
Index of physical volume of production, adjusted for seasonal variation, 1923-25 average = 100. Durable manufactures, nondurable manufactures, and minerals expressed in terms of points in the total index. By months, January 1934 to April 1940.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. Miscellaneous, coal, and all other expressed in terms of points in the total index. By months, January 1934 to April 1940.



Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to April 1940.



For weeks ending January 6, 1934, to May 18, 1940.

**INDUSTRIAL** activity was steady during April after three months of sharp decline and in the first half of May increases appeared in some lines, particularly steel. Prices of basic commodities showed mixed changes toward the middle of May, accompanying the extension of active warfare in Europe, while stock prices declined sharply.

**Production**—The Board's seasonally adjusted index of industrial production for the month of April was 102, compared with 104 for March and 109 for February. Steel ingot production was steady during April at slightly over 60 per cent of capacity as compared with an average rate of 64 per cent in March; in the first half of May output rose sharply and currently is scheduled at about 70 per cent of capacity. Automobile production in April continued at about the March rate, although ordinarily there is an increase at this season, and in early May declined somewhat. Retail sales of new cars approximated production in April and dealers' stocks of both new and used cars remained at earlier high levels. Output of plate glass, used largely by the automobile industry, declined considerably in April, and lumber production showed somewhat less than the usual seasonal increase. In the machinery, aircraft, and shipbuilding industries activity continued at the high rate of other recent months.

In the textile industry activity at cotton and woolen mills declined somewhat further in April, following considerable reductions in March. At silk mills activity remained at a low level, while rayon production was maintained at a high rate. Output at meat-packing establishments continued in large volume. There was some further curtailment in shoe production in April; in most other industries producing nondurable goods changes in output were largely seasonal in character.

Coal production, which usually declines sharply in April, showed only a small decrease this year. Output of crude petroleum, which had reached record high levels in March, was largely maintained in April and the first half of May, although stocks of crude oil were increasing and gasoline stocks were unusually large.

Value of construction contract awards increased further in April, reflecting principally a rise in contracts for private building, according to figures of the F. W. Dodge Corporation. Awards for private residential building were in somewhat larger volume than a year ago. Private nonresidential building was about one third greater than at this season last year and was near the previous peak level reached in mid-1937. Awards for public construction, however, were considerably below the level of last spring.

**Distribution**—Distribution of commodities to consumers showed little change in April and the first half of May. The Board's seasonally adjusted index of department store sales was 90 per cent of the 1923-1925 average in April, about the level that has prevailed since the first of the year but below the peak of 96 reached last December.

Total freight-car loadings in April were in about the same volume as in March. Shipments of coal declined less than seasonally, while loadings of miscellaneous freight, which include most manufactured products, showed less than the sharp rise that is customary at this season. In the early part of May increases were reported in shipments of most classes of freight.

**Foreign Trade**—Exports of United States merchandise, which have been at a high level since last December, declined somewhat in April. A large part of the decrease in April was accounted for by the complete cessation of shipments to northern European countries after outbreak of hostilities there, but declines were also reported in shipments to most other countries. Exports to Canada, the Union of South Africa, and France, however, increased.

Shipments of commercial vehicles declined sharply, following a considerable rise in March, and exports of iron and steel products, which had been increasing steadily since last summer, also showed a decline. Exports of cotton and copper decreased further from earlier high levels, while machinery and aircraft shipments continued in large volume.

During April, the monetary gold stock of the United States increased by \$337,000,000, the largest increase since August 1939. Acquisitions of gold in the first two weeks of May totaled \$169,000,000.

**Commodity Prices**—Prices of a number of basic commodities, which had been declining after a rise in April, advanced from May 10 to May 14. Increases in this period were particularly marked for imported materials, such as rubber, tin, and silk. Grain prices rose at first but subsequently showed sharp declines. Price changes for other commodities were mixed; steel scrap advanced, while cotton declined considerably. Prices of certain steel products, which had been reduced early in April, were restored to earlier levels on May 1, and producers announced that steel purchased at the lower prices must be taken by the buyers on or before June 30.

**Government Security Market**—Prices of United States Government securities declined sharply from May 10 to May 14, accompanying the further spread of war in Europe. Prices of long-term Treasury bonds on May 14 were  $3\frac{3}{4}$  points below the high point reached on April 2. The yield on the 1960-65  $2\frac{3}{4}$  per cent bonds rose from 2.26 per cent on April 2 to 2.48 per cent on May 14.

**Bank Credit**—Total loans and investments at reporting member banks in 101 leading cities increased during the four weeks ending May 8. Most of this increase was at New York City banks and reflected purchases of United States Government obligations. Deposits and reserves of banks in leading cities continued at record high levels.

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## **A Major Safeguard in Our Banking System**

In times of emergency, the ability of a bank to convert its assets into ready funds is a prime requisite to a sound banking system. Past experience has amply shown that, in periods of stress, banks cannot successfully provide liquidity by sale of assets at distress values or by collection of loans.

Through membership in the Federal Reserve System, a bank has available a medium whereby it can obtain ready funds without resort to forced collection of loans or liquidation of securities in unfavorable markets. The Reserve banks also stand ready at all times to assist a member bank in meeting peak seasonal credit needs of its commercial and agricultural customers.

A member bank may avail itself of credit at the Reserve bank by—

Rediscounting eligible notes of commercial, industrial, and agricultural borrowers, or customers' notes secured by obligations of the United States.

Borrowing on its own note secured by eligible paper, by obligations of the United States, or by certain obligations of Governmental agencies.

Borrowing on its note secured by any asset satisfactory to the Federal Reserve Bank. Under this arrangement, the collateral may be *any sound asset* owned by the member bank.

This liberalized loaning ability on the part of Reserve banks affords the member banks a strong safeguard in these times of swift change.