

*Miss Harbaugh*



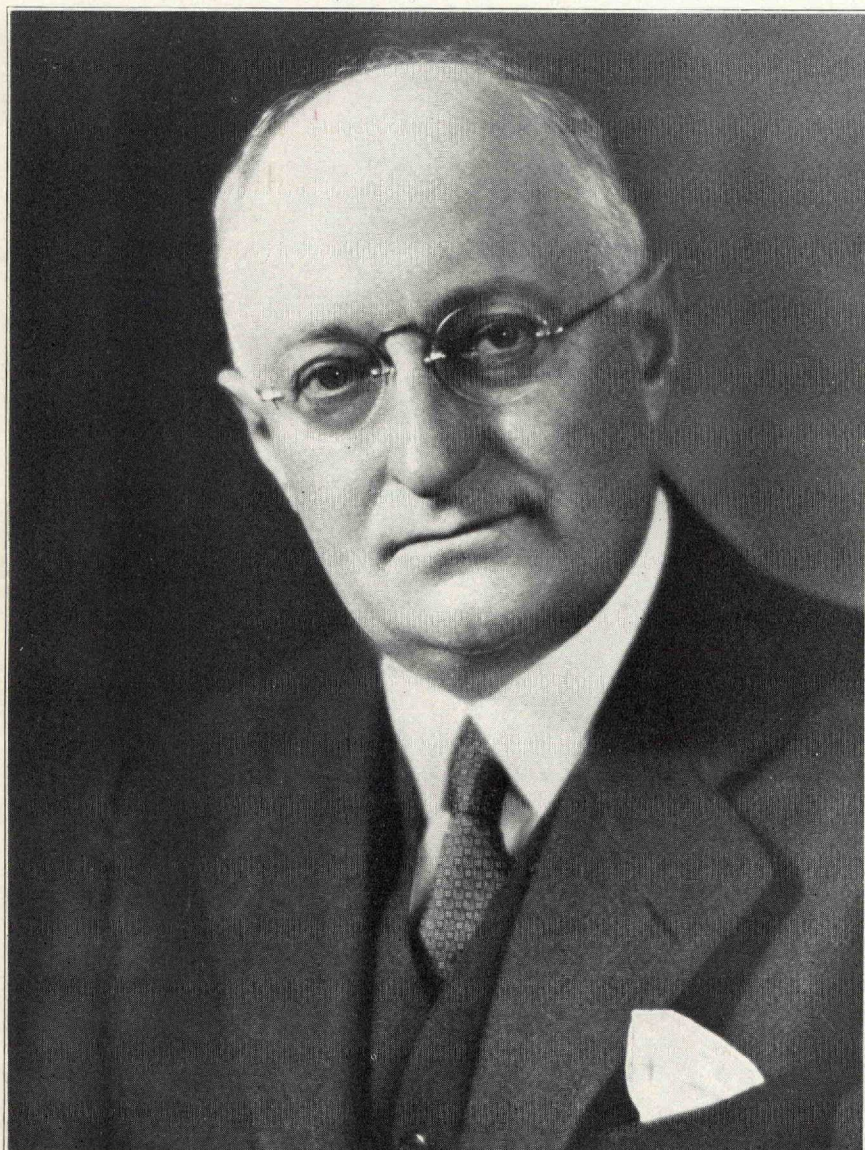
# BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Volume 23

AUGUST 1, 1940

Number 7



MAX W. BABB, CLASS B DIRECTOR

## THIS MONTH

---

District Summary

Industrial Activity

Employment and Payrolls

Merchandising Trends

The Agricultural Situation

Credit and Finance

Current Events

National Summary

The Currency Function

## **Max W. Babb, Class B Director**

Among its Class B directors, the Federal Reserve Bank of Chicago has a well known and important manufacturer of the Seventh district—Max W. Babb, president of the Allis-Chalmers Manufacturing Company of Milwaukee, Wisconsin. Class B directors on the respective Boards of the Federal Reserve banks represent the interests of commerce, agriculture, or industry in the various Reserve districts, and must be actively engaged in business; they are elected by the member banks. In addition to his being an established manufacturer, Mr. Babb is widely known as a lawyer.

Born in Mt. Pleasant, Iowa, Mr. Babb was graduated from Iowa Wesleyan College and then studied law at the University of Michigan, where he received his LL. B. degree. After leaving the University of Michigan, Mr. Babb moved to Chicago to become associated with the Allis-Chalmers Company as its attorney. He has continued with that company and its successor, the Allis-Chalmers Manufacturing Company, to the present time. From 1913 to 1932, Mr. Babb was sole vice president of the Allis-Chalmers Manufacturing Company, and in 1932 he became its president. This company is a large producer of heavy industrial machinery and electrical equipment, and also manufactures agricultural implements and equipment. It employs over 15,000 men, and its products are distributed internationally.

Mr. Babb is a director and member of the Executive Committee of the Allis-Chalmers Manufacturing Company and also is a trustee and member of the Executive Committee of The Northwestern Mutual Life Insurance Company. He is a director of Cutler-Hammer, Inc., and a trustee of Milwaukee-Downer College of Milwaukee, Wisconsin. Mr. Babb is a member of the American Bar Association and of the Wisconsin Bar Association, and has been a director of the Chamber of Commerce of the United States.

Indicative of the esteem in which the member banks hold Mr. Babb is the fact that this year he entered upon his fourth consecutive three-year term as a director of the Federal Reserve Bank of Chicago, his first term having begun in 1930.

---

## District Summary of Business Conditions

**D**ISTRICT industrial activity has continued at a high level. A few branches of production, such as automobiles, have slackened seasonally, but many heavy industries are operating at near capacity. The armament program is only beginning to have a direct effect on industrial output. Reflecting a sustained volume of employment and wage payments, consumer buying has been well maintained. Crop prospects continue better than last spring's expectations, and the higher July level of livestock prices has somewhat improved the general farm outlook.

**Industry**—Following advances over recent months in general business activity, there was a gain during June of one per cent in industrial employment and 2 per cent in wage payments. The trend from May to June is usually downward.

Operations at Chicago district steel mills continued high through July and by the fourth week of the month had reached 96½ per cent of capacity. Because of increased production facilities, this rate represents the highest output on record. Demand for steel has been good from almost all types of customers. District firms report that there has been considerable domestic buying for inventory purposes. Tractor manufacturers have been operating at near capacity and machine tool plants continue at practically capacity levels. At district steel casting firms there was a moderate expansion in output, as new business increased substantially, while at malleable casting plants orders increased somewhat, but shipments continued to decline. There was a seasonal fall-off in June in orders received by stove and furnace manufacturers.

By late July output of 1940 models by automobile manufacturers had been nearly completed. Automobile plants are carrying forward rapidly a somewhat earlier changeover to new models. The unexpectedly good June trends in retail automobile sales continued into July and reduced field stocks of new cars to more nearly normal proportions.

District furniture manufacturers slackened their operations seasonally during June, but shipments of furniture continued about one fourth heavier than last year. At paper mills, orders and production declined in June; shipments, however, advanced further. Although operations of district petroleum refineries remained at an unusually high level, unwieldy stocks of petroleum products were reduced somewhat as consumption rose seasonally. June production of soft coal decreased but was 50 per cent heavier than in the 1939 month.

There was a moderate decline in contracts awarded for construction work. Residential contracts, though less than in May, continued in good volume, being about one third higher than for last June.

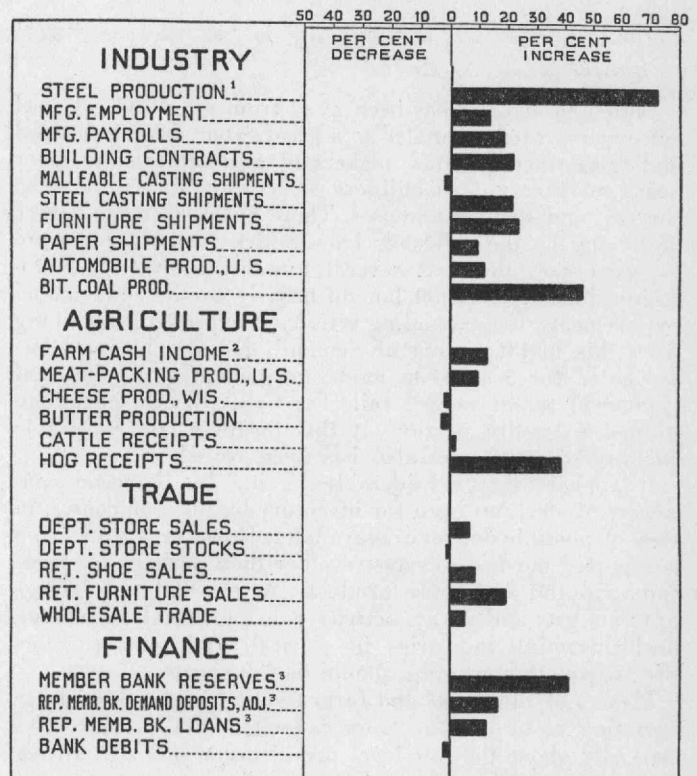
**Merchandising**—The June level of district department store trade continued 6 per cent heavier than last year and, on a seasonally adjusted basis, sales were the best for 1940 to date. The larger stores of the district reported trade in the first half of July as 8 per cent greater than in the 1939 period. Retail shoe sales expanded in June; furniture and housefurnishings sales at retail declined somewhat less than seasonally during the period, following four months of increasing business. Trade in most wholesale lines continued

better than last year. Retail inventories declined in June, and by the end of the month those of department stores were fractionally lower than in 1939.

**Agriculture**—Most district crops have made fair to good progress, and harvesting of small grains has come along nicely. Wheat prices are generally lower, but corn prices have been relatively firm since mid-June. The recent advance in livestock prices, particularly in hogs, has greatly improved feeding ratios. Meat-packing production has continued heavy, being about 10 per cent greater than last year in June, and inventories of meat products remain in large volume. June production of milk and dairy products was at a seasonally high level.

**Credit and Finance**—From mid-June to mid-July, demand deposits of weekly reporting member banks rose further to new record high levels. Commercial, industrial, and agricultural loans by these banks also increased, and reserve deposits were up substantially. Following a period of practically complete inactivity, there were several flotations of securities in the bond market in late June and in July. These new offerings had a favorable reception. Prices of high-grade bonds have been firm since mid-June.

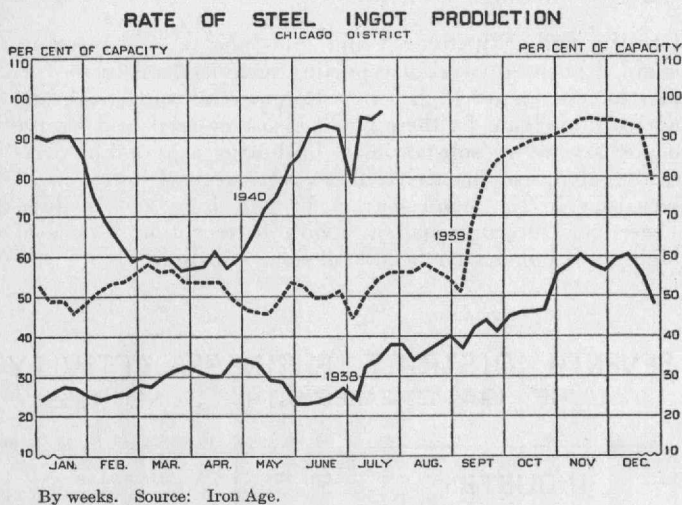
### SEVENTH DISTRICT BUSINESS ACTIVITY JUNE 1940 COMPARED WITH JUNE 1939



1. Ingot rate, Chicago district, for week ending July 27. 2. May data. 3. As of July 17.

## Industrial Activity

**Steel and Steel Products**—Chicago district steel mills have continued busy this past month working off the heavy tonnages of orders received in June as well as current volumes of incoming business. With the exception of the week containing the July 4 holiday, operations were maintained throughout July at levels approximating practical capacity; in the fourth week of the month, a rate of 96½ per cent was reached, which was the highest since 1929. Principally because of a decline in sheet specifications after the June 30 deadline on low-priced commitments, the aggregate volume of new business in July fell somewhat below that of June. However, orders for bars, structural shapes and plates, semi-finished steel, and manufacturers' wire were received at a heavy rate, in some cases in excess of shipping capacity and resulting in a further growth of backlogs.



Although demand has been good from all classes of steel consumers, it has emanated to a great extent from industrial and farm tractor plants, makers of agricultural and other heavy machinery, tank builders, structural fabricators, drop forgers, and steel warehouses. There has been some degree of buying by the railroads from which further orders are expected over the next several months. As yet the automobile industry has not bought heavily for its 1941 model requirements, but expanding activity is expected before long from this major source of demand. Foreign business has accounted for a small to moderate percentage of the total volume in recent weeks; rails for Great Britain have constituted a goodly portion of this business, and a sizable quantity of shell steel also has been rolled.

It appears that considerable buying by domestic consumers of steel has been for inventory-building purposes, in view of possible delivery delays later. However, such buying is reported not to be excessive other than perhaps in sheets and strip and warehouse products. As the national defense program gets under way, activity is being stimulated among steel-consuming industries in general, and further direct effects from this program should be felt shortly.

Makers of industrial and farm tractors in the district are operating at or not far from capacity, with current sales markedly above the low level prevailing a year ago at this time; the manufacture of farm implements also is well above last year. No great amount of business has as yet been received by this industry as a result of the United States armament program. Steel is being bought somewhat in advance of the normal production requirements. Domestic

bookings of machine tools have been augmented substantially of late by orders from the agricultural machinery industry. Inquiries for machine tools also have been numerous from Federal agencies and heavy industries preparing bids on tanks, armored scout cars, and the like. Despite the capacity level of production being maintained, deliveries of machine tools, for the most part, are far extended.

June pig iron shipments in the Illinois and Indiana area were well above May, and July shipments were even better than in June. In late June, scrap iron and steel prices were lowered, because of an increased supply and light trading, and with certain exceptions, this position remained unchanged through July.

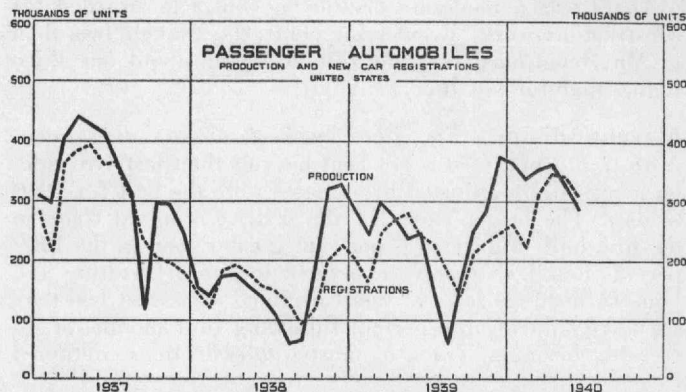
A generally higher level of activity prevailed during June at steel casting foundries of the Seventh district, as compared with both May and a year ago. After declining continuously in each month of 1940 subsequent to January, tonnage shipments and production expanded moderately in June, while incoming business showed a substantial increase for the third successive month. Output lagged behind the volume of new orders received.

At malleable casting foundries, shipments continued the declining trend begun last December, despite a further rise in orders booked, and the tonnage thereof was slightly under a year earlier. A small gain took place in production over the period. Shipments were considerably under the volume of new business, but production closely matched it.

### STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	June 1940 Per Cent Change from	
	May 1940	June 1939
<b>Steel Castings:</b>		
Orders booked (tons).....	+20.8	+55.0
Orders booked (dollars).....	+ 8.5	+44.0
Shipments (tons).....	+ 7.5	+21.1
Shipments (dollars).....	+ 2.8	+21.3
Production (tons).....	+ 6.0	+28.9
<b>Malleable Castings:</b>		
Orders booked (tons).....	+ 7.3	+52.4
Orders booked (dollars).....	+ 6.9	+54.5
Shipments (tons).....	-14.5	- 1.6
Shipments (dollars).....	-13.4	+ 1.0
Production (tons).....	+ 3.8	+13.8

**Automobiles**—By mid-July a number of automobile companies had finished production of 1940 cars and were preparing for the changeover to 1941 models. A few manufacturers began this action with the July 4 holiday and others followed it rapidly thereafter. It is believed that by the end of the month output of 1940 model automobiles will have virtually ceased. The changeover to 1941 cars is somewhat earlier than usual this year, partly due to the advanced dates of the annual shows this fall. June produc-



Number of new passenger automobiles produced and registered each month in the United States. June 1940 registrations estimated. Sources: Production, United States Department of Commerce; Registrations, R. L. Polk & Company.

tion of automobiles in the United States declined further; it recorded a continued though narrower margin of gain over a year ago. Output of passenger cars in June numbered 286,040 and that of trucks 58,596. These volumes represent respective decreases of 12 and 11 per cent from the preceding month, and an increase of 16 per cent in passenger automobiles but a decline of 7 per cent in trucks from the same 1939 period. Data for the first six months of 1940 indicate the assembly of 2,027,430 passenger cars—28 per cent more than in the first half of last year—and of 401,098 trucks, or a 6 per cent greater number than in the 1939 period. Production of automobiles was remarkably steady throughout the first half of this year.

Retail sales of passenger vehicles in the nation were unexpectedly good during June, especially in the latter part of the month, and continued so into July, stimulated in part by anticipated higher prices on the 1941 model automobiles. In consequence, the heavy field stocks of new cars have been reduced.

Seventh district automobile dealers reporting to this bank sold only slightly fewer new cars to consumers in June than in May and 35 per cent more than in the month last year. At the end of June their stocks of new automobiles numbered one fourth lighter than on May 31; these stocks, furthermore, were almost 10 per cent below those in 1939 at the same time, whereas a month previous they had been about one fifth heavier in a similar comparison. Used-car sales recorded just a moderate increase this June over last, and although the number of used cars on hand showed some further reduction in the period, stocks exceeded those of a year ago by close to 40 per cent.

Registrations of new automobiles in the States of Illinois and Indiana continued above the 1939 level in June, but those in Michigan fell slightly below it for the first time this year.

**Paper and Pulp**—New orders booked during June by Seventh district paper manufacturers declined from May, measured both in tons and in dollars, although the decrease in tonnage was the more noticeable. Shipments continued to expand against a receding volume of production, with the result that inventories diminished 14 per cent. Production of pulp likewise decreased during June.

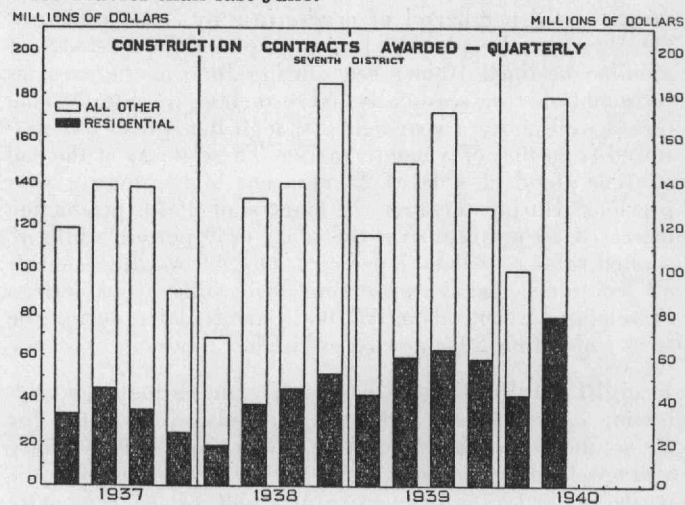
**PAPER AND PULP INDUSTRY  
SEVENTH DISTRICT**

	June 1940 Per Cent Change from	
	May 1940	June 1939
<b>Paper:</b>		
Orders booked (tons).....	-11.6	+18.9
Orders booked (dollars).....	- 8.6	+29.3
Shipments (tons).....	+ 6.6	+ 9.2
Shipments (dollars).....	+ 5.5	+18.6
Production (tons).....	- 8.2	+ 4.6
Stocks at end of month (tons).....	-14.0	+ 0.5
<b>Pulp:</b>		
Production (tons).....	- 5.0	+ 5.5
Stock at end of month (tons).....	+ 7.5	+13.7

**Furniture**—There was a considerable falling-off in June from the sizable volume of new business booked during May by the Seventh district furniture industry. Furthermore, orders were sharply lower than a year ago when the summer furniture marts were held in June rather than July as is customary. The decline in each comparison amounted to approximately 30 per cent. Shipments decreased 6 per cent this June, in accordance with seasonal trend; the favorable margin over a year earlier remained close to 25 per cent. Order backlogs decreased moderately over the current period, and at the end of June totaled about one fifth smaller than at the same time in 1939 because of the

forementioned expansion in business last June. Factory operations slackened somewhat to 68 per cent of capacity, which rate, however, was 4 points above that of a year ago.

**Building**—There was a moderate decline during June in the volume of contracts awarded for building and other construction work. This trend is not unusual for June when the May volume has shown continued seasonal expansion. Public works projects, as well as residential building, were responsible for the decrease; public fund expenditures fell off \$1,500,000 as against a \$3,000,000 curtailment in the support afforded by private funds. Despite the decline from a month earlier, residential contracts recorded a continued favorable margin of 33 per cent over a year ago, while non-residential building totaled about 15 per cent and public works and utilities over 20 per cent larger in this comparison. Both private and public fund expenditures were heavier than last June.



Source: F. W. Dodge Corporation.

A total of about \$280,000,000 represents the contracts awarded in the Seventh district during the first six months of 1940. While this amount is only a little higher than in the corresponding period of either last year or 1937, it exceeds considerably that for any previous year since 1930. Comparison with the first half of 1939 shows a gain of \$18,000,000 this year in residential building, all of which was in the construction of single-family dwellings, as the combined figure for other residential building registered a slight decline. Building for industrial and commercial purposes also aggregated about \$20,000,000 more this year than last. These increases, however, were largely offset by the declines in non-residential building, other than industrial and commercial, as well as by a sharp curtailment in public works and utilities. Publicly-financed construction in the first six months of 1940 totaled approximately one fourth less than in the same period of 1939.

**BUILDING CONTRACTS AWARDED  
SEVENTH FEDERAL RESERVE DISTRICT**

Period	Total Contracts	Residential Contracts
June 1940.....	\$ 56,767,000	\$ 24,158,000
Change from May 1940.....	- 7.2%	-14.3%
Change from June 1939.....	+21.3%	+32.8%
First six months of 1940.....	\$279,016,000	\$119,897,000
Change from same period in 1939.....	+ 5.4%	+18.2%

Data furnished by the F. W. Dodge Corporation.

There was some decline during June in the wholesale distribution of lumber, sales falling below those of a year ago and a month earlier as well. Retail yard sales increased

very slightly in line with usual seasonal trend, and they also totaled somewhat higher than last June, both in dollar and board-foot volumes. Cement shipments increased about seasonally and, according to preliminary reports, were 15 per cent above those in June 1939. Brick deliveries in the Chicago territory were as large in June as in May and one fifth heavier than a year ago; other sections of the district, however, recorded declines in the monthly and yearly comparisons. Prices of building materials as a whole, according to the U. S. Bureau of Labor Statistics wholesale price index, were one-half per cent higher the early part of July than a month previous and about 3½ per cent above the level shown at the same time in 1939.

**Petroleum Refining**—Crude petroleum runs to refinery stills in the Middle Western area continued during June at about the same high level which had prevailed in May. Daily average gasoline production, reflecting a somewhat greater yield per barrel of crude, rose by 2 per cent over the May rate. Despite the larger output, refinery stocks of gasoline declined 10 per cent during June in the area, as consumption rose seasonally. Nevertheless, inventories continued well above a year ago, although the spread was narrowed from that of a month earlier. These stocks at the end of June stood at a level 23 per cent higher than a year previous. During the first six months of 1940, production increased 20 per cent over the same 1939 period, while indicated sales rose but 17 per cent. Output of Illinois crude oil continued heavy, averaging, according to American Petroleum Institute data, 517,000 barrels daily during the week ended June 29, a new record high.

**Freight Carloadings**—Railway freight carloadings originating in the Chicago industrial area advanced in June for the second successive month. As was the case in May, daily average loadings, excluding 1937, were the best for the period since 1930. An average of about 17 per cent more cars was loaded daily in this area during June than in the same 1939 month.

## Employment and Payrolls

Reflecting somewhat belatedly the general rise in industrial activity in recent months, employment in Seventh district industries increased one per cent and weekly wage payments two per cent during June over May. The metal industries, apart from the vehicles group, added about 18,000 men to their working forces and expanded wage payments by approximately \$600,000. The vehicles group maintained payrolls at practically the same level as a month earlier but showed a reduction of nearly 10,000 in the number of men employed.

Stone-clay-and-glass and wood products recorded a definitely rising employment trend, as did also most of the non-durable goods industries. A 7 per cent expansion took place in the food products group. The chemicals group, which had shown considerable increases over the preceding three months, registered a slight curtailment in the current period. Within the non-manufacturing industrial classification, coal mining continued a seasonal decline and the construction industries a seasonal rise, the two trends practically offsetting one another. Aggregate non-manufacturing employment rose, however, owing mainly to the merchandising group which added a substantial number of workers and increased payrolls correspondingly.

The change from May to June in total industrial employment and payrolls may be considered especially favorable,

as the trend in previous years for which records are available has generally been slightly downward. The aggregate level remained above that of a year ago by practically the same percentage as was shown a month earlier—11 per cent in number of workers and 17 per cent in wage payments. Throughout the year to date, employment and payrolls in the district have been substantially higher than in either 1939 or 1938 but considerably below the level prevailing in 1937.

### EMPLOYMENT AND PAYROLLS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of June 15, 1940			Per Cent Change from May 15, 1940	
	No. of Reporting Firms	No. of Employees	Wage Payments ('000 Omitted)	No. of Employees	Wage Payments
<b>DURABLE GOODS:</b>					
Metals and Products <sup>1</sup> .....	1,761	445,513	\$13,542	+ 3.1	+ 3.5
Vehicles.....	399	347,271	12,068	- 2.8	+ 0.2
Stone, Clay, and Glass.....	277	21,697	558	+ 3.9	+ 5.9
Wood Products.....	452	44,278	960	+ 1.0	+ 2.4
Total.....	2,889	858,759	27,128	+ 0.5	+ 2.1
<b>NON-DURABLE GOODS:</b>					
Textiles and Products.....	387	63,434	1,179	- 1.4	+ 2.0
Food and Products.....	1,045	110,161	2,939	+ 7.0	+ 7.0
Chemical Products.....	305	38,777	1,185	- 0.0	- 1.8
Leather Products.....	175	26,109	540	+ 2.0	+ 5.4
Rubber Products.....	33	17,954	516	+ 4.1	- 2.1
Paper and Printing.....	711	76,496	2,239	+ 0.1	- 0.3
Total.....	2,656	332,931	8,598	+ 2.3	+ 2.4
<b>Total Mfg., 10 Groups.....</b>	<b>5,545</b>	<b>1,191,690</b>	<b>35,726</b>	<b>+ 1.0</b>	<b>+ 2.1</b>
Merchandising.....	5,367	141,065	3,175	+ 1.2	+ 1.6
Public Utilities.....	1,091	103,926	3,496	+ 1.3	- 0.1
Coal Mining.....	54	6,215	146	-10.7	- 7.6
Construction.....	741	12,378	414	+ 6.3	+ 8.5
<b>Total Non-Mfg., 4 Groups.....</b>	<b>7,253</b>	<b>263,584</b>	<b>7,231</b>	<b>+ 1.1</b>	<b>+ 0.9</b>
<b>Total, 14 Groups.....</b>	<b>12,798</b>	<b>1,455,274</b>	<b>42,957</b>	<b>+ 1.0</b>	<b>+ 1.9</b>

<sup>1</sup>Other than vehicles.

Data furnished by State agencies of Illinois, Indiana, Michigan, and Wisconsin.

## Merchandising Trends

**Department Store Trade**—Although preliminary estimates based on weekly data of the larger department stores in the Seventh Federal Reserve district had indicated that June business would exceed that of the corresponding 1939 period by a noticeably greater percentage than in May, final June figures for all reporting firms in this area recorded the same increase as a month previous—6 per cent. Difference in the dates of holding special sales this year than last accounted to a considerable extent for this fact; as did a small variance in trading days, daily average sales bettering those of June 1939 by 9 per cent. Favorable trends as compared with a year ago continued through the first half of July; in that period, business of the larger district department stores totaled 8 per cent above the first half of July last year.

Comparisons for June with the preceding month show slightly smaller aggregate sales in the current period, but on a daily average basis sales were one per cent above the May volume. Furthermore, the seasonally adjusted index of Seventh district department store trade indicates that June was the best month of 1940 so far. June sales of stores in the City of Chicago increased 3 per cent in the total over a month earlier, and Milwaukee trade was a little greater, while other cities of the district recorded declines from May.

Department store inventories, which at the end of May were still 2 per cent above a year ago, at the close of June totaled fractionally lower than in 1939 at the same time.

Stock turnover for the first half of 1940 was at a very little higher rate than in the 1939 period, averaging 2.29 times as compared with 2.25 times a year earlier.

#### DEPARTMENT STORE TRADE IN JUNE 1940

Locality	Per Cent Change June 1940 from June 1939		Per Cent Change First Six Months 1940 from Same Period 1939	Ratio of June Collections to Accounts Outstanding End of May	
	Net Sales	Stocks End of Month		1940	1939
Chicago.....	+ 3.1	- 3.7	+ 5.0	43.4	42.0
Detroit.....	+ 7.1	+ 2.8	+ 8.0	46.5	46.3
Fort Wayne.....	+ 8.6	.....	+ 8.2	.....	.....
Indianapolis.....	+11.8	+14.6	+ 6.4	38.1	38.5
Milwaukee.....	+ 7.5	- 1.3	+ 5.1	41.0	44.6
Other Cities*.....	+11.2	+ 4.3	+ 7.7	32.7	31.7
7th District.....	+ 6.0	- 0.2	+ 6.1	41.2	40.6

\*Include Fort Wayne.

**Retail Shoes**—As in other recent years, sales of shoes by reporting district retail dealers expanded sharply in June over May. Consequently, despite a small decline over the period in such sales by department stores, the total dollar volume of shoes sold through these channels exceeded that of the preceding month by 12 per cent. The margin of gain over a year ago was widened from only 3 per cent in May to 8 per cent in June, both dealers and department stores sharing in this improvement. The retail shoe business for the first half of 1940 was 4 per cent better than for the same 1939 period. Although retail stocks of shoes were reduced 15 per cent between May 31 and the close of June, they remained approximately 3 per cent larger than a year earlier.

**Retail Furniture**—The usual downward trend was noted during June in the retail furniture trade of the Seventh district, following seasonal expansion in the four preceding months. However, the decline of 15 per cent from May in aggregate sales of furniture and housefurnishings by dealers and department stores was less than customarily is shown in the period, and the volume of business continued to exceed that of a year ago by as much as 19 per cent. Retail inventories of furniture and housefurnishings diminished further through June, but at the end of the month they were still heavier by 6 per cent than in 1939 at the same time.

**Wholesale Trade**—A large majority of wholesale trade groups in the Seventh district continued in June to record favorable sales comparisons with a year ago. However, the percentage increases were smaller in some instances than a month previous and a few lines did less business than in the 1939 month, so that the gain in aggregate sales of all groups reporting to the Department of Commerce was reduced further from 7 per cent in May to 5 per cent in the current period. Experience varied in the month-to-month

#### WHOLESALE TRADE IN JUNE 1940

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries.....	- 3.4	+ 3.8	0.0	+ 4.7
Electrical Goods.....	+11.7	- 1.6	+17.7	+15.2
Groceries.....	+ 1.4	+ 4.2	+ 3.7	+ 3.2
Hardware.....	+ 8.9	+ 9.7	+ 7.7	+ 5.6
Meats and Meat Products.....	-10.3	+10.0	+14.6	-10.0
Paper and Its Products.....	+ 3.9	+ 7.1	- 1.2	+ 3.3
Tobacco and Its Products.....	+14.0	-13.4	+12.6	+14.3
Miscellaneous.....	+ 6.9	+10.0	+ 4.4	- 0.8

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

trend; in the total for all lines sales were off one per cent in June from May. Wholesale inventories, with little change in the aggregate between May 31 and the close of June, continued above the 1939 level by around 7 per cent.

### The Agricultural Situation

**Crops**—Seventh district corn was much less advanced in the third week of July than at the corresponding time last season and was about ten days behind the average for the past three years. Principal causes for this backwardness were lateness in planting and the lack of adequate rainfall and warm weather. In general, the crop was still of good color; the dry weather has promoted a good root growth, but soaking rains were needed before mid-August to prevent deterioration. Chinch bugs have caused some damage in spots. Early corn is beginning to tassel on shorter than usual stands.

Soy bean prospects are fair to good. Threshing of winter grains is well advanced in central areas and progressing in the north; yields in the soft wheat areas are running below earlier expectations, but those of hard wheat are better than had been anticipated. Shock threshing of oats has begun; the crop is of good to excellent quality, except for some chinch bug damage, principally in Iowa. A satisfactory crop of early hay was cut under favorable weather conditions, but prospects for late hay and pastures are now declining. July weather conditions have been adverse for garden truck, although prospects are for fairly good crops. Early potatoes are nearly ready for market, the canning of early peas is about completed, and a fair to good condition prevails for other vegetables.

The Seventh district crop of spring pigs was about 3 per cent smaller than a year ago but 13 per cent above the 1929-38 average; the national crop showed a larger decline from last year and a smaller increase over the ten-year average than did that of the Seventh district.

#### CROP PRODUCTION

Estimated by the United States Department of Agriculture on July 1 Condition (In thousands of bushels, unless otherwise specified)

	Seventh District			United States		
	Forecast 1940	Final 1939	Average 1929-38	Forecast 1940	Final 1939	Average 1929-38
Corn.....	938,220	1,132,703	849,234	2,415,998	2,619,137	2,299,342
Oats.....	412,987	359,529	435,287	1,031,622	937,215	1,024,852
Barley.....	40,894a	47,199a	45,079a	287,377	276,298	225,486
All Wheat.....	58,263	58,683	62,426	728,644	754,971	754,685
Rye.....	6,705a	7,644a	8,324a	36,848	39,249	38,095
Potatoes (White)...	44,959	46,211	50,703	371,623	364,016	366,949
Beans (dry edible) <sup>1</sup> ...	3,804b	4,529b	3,995b	14,111	13,962	13,086
Sugar Beets <sup>2</sup> .....	885c	1,033c	792c	10,019	10,773	8,937
Peaches.....	2,031d	5,048d	3,608d	52,436	60,822	52,723
Pears.....	2,595d	2,688d	2,036d	31,240	31,047	26,333
Canning Crops:						
Snap Beans <sup>2</sup> .....	20e	20e	17e	102	94	82
Green Peas <sup>2</sup> .....	108a	72a	98a	285	198	204
Tame Hay <sup>2</sup> .....	20,806	17,426	15,360	85,301	75,726	69,650

<sup>1</sup>Thousands of 100-lb. sacks. <sup>2</sup>Thousands of tons.

a—Five States including Seventh Federal Reserve district. b—Michigan and Wisconsin. c—Michigan. d—Michigan, Illinois, Indiana, and Iowa. e—Wisconsin, Michigan, and Indiana.

**Grain Marketing**—Though rallying temporarily in late June and early July, domestic wheat prices have trended gradually lower since May. June declines reflected chiefly increased crop prospects, the June 1 outlook for both winter and spring wheat being raised from May expectations. Through most of July, the wheat market was a rather dull affair, interest at times being hardly sufficient to absorb small hedging sales, and prices declined further.

In spite of some reduction in late June in the condition of spring wheat, the crop as a whole made a record recovery from the poor prospects indicated early in the year. Late declines in the spring wheat outlook were offset by

gains in winter wheat, and, whereas a crop considerably below domestic requirements had been earlier expected, the Government July 1 forecast indicates a total outturn of 729 million bushels, which is more than 50 million bushels greater than normal domestic disappearance.

Exports of wheat this year have been greatly reduced, as a result of the European military and political situation, as well as the continuance of a domestic price level considerably above the export parity. Europe is harvesting an unusually small crop this summer; the Department of Agriculture has estimated Europe's wheat harvest to be the smallest in over a decade, though only about 10 per cent below an average crop. The normal degree of self-sufficiency in wheat varies greatly among European countries. The United Kingdom, Belgium, Holland, Switzerland, Norway, and Ireland are usually heavily dependent on imports, while the Danube basin area, Russia, Turkey, and North Africa normally have a surplus of wheat. Most of the other European countries generally produce the bulk of their own requirements. Unknown factors in the European food situation are stocks and reserves of wheat and future availability of imports.

**MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS  
IN THE UNITED STATES**  
(In thousands of bushels)

	June 1940	May 1940	June 1939	May 1930-39 Avg.
<b>Wheat:</b>				
Receipts.....	15,309	28,275	45,925	23,104
Shipments.....	13,436	19,267	14,830	15,954
<b>Corn:</b>				
Receipts.....	24,162	12,417	17,432	17,326
Shipments.....	13,960	17,276	17,462	12,973
<b>Oats:</b>				
Receipts.....	1,873	2,966	4,577	5,035
Shipments.....	2,651	4,391	5,266	5,343

Not so sensitive to changes in the foreign situation, corn prices have not declined to the same extent as have those of wheat in the past two months, and cash prices for corn held relatively firm from mid-June through late July. Domestic demand for corn has been supported by large numbers of livestock on farms, and the Government loan program has resulted in the sealing of a large amount of the grain. Declining prices for hogs in June brought the hog-corn ratio to the lowest in over three years, but by mid-July there was a sharp improvement in the ratio, reflecting the increase of over one dollar in hog prices.

Stocks of corn are at record levels; as of July 1 there were 862 million bushels on farms, equal to 36½ per cent of last year's production of corn for grain. Farm disappearance during the second quarter was indicated at 423 million bushels, about 14 per cent greater than average.

**Livestock and Meat Packing**—There was a notable rise in prices of hogs in late June and the first half of July, and cattle prices firmed somewhat. Average prices for hogs at Chicago had fallen as low as \$4.90 in June, which level, except for a few days in early April, was the lowest since 1934; by the second week of July these prices had risen to \$6.20. Receipts and slaughter of hogs have continued unusually heavy.

Substantially smaller slaughter supplies of hogs have been forecast by the Department of Agriculture for the marketing year beginning next October 1. This prospective decline—around 10 per cent—is due to the decrease in the 1940 spring pig crop and an expected lighter fall crop. Supplies of slaughter cattle are also expected to be smaller, but those of sheep and lambs larger.

**LIVESTOCK SLAUGHTER**  
(In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
<b>Yards in Seventh District:</b>				
June 1940.....	177	729	169	64
June 1939.....	175	504	164	72
<b>Federally Inspected Slaughter, United States:</b>				
June 1940.....	738	3,886	1,378	437
May 1940.....	796	3,890	1,420	501
June 1939.....	778	3,185	1,401	448

**AVERAGE PRICES OF LIVESTOCK**  
(Per hundred pounds at Chicago)

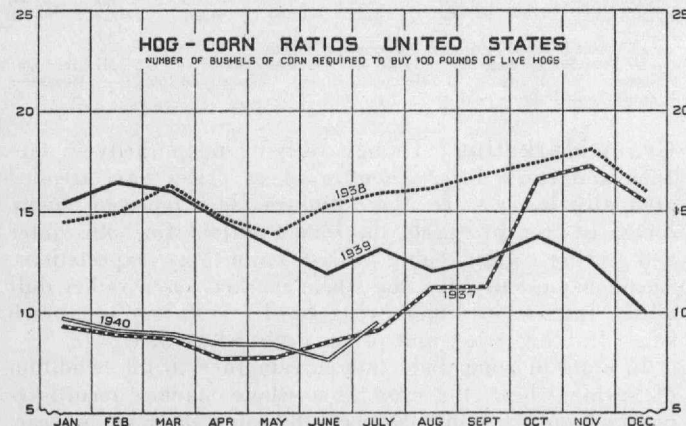
	Week Ended July 20, 1940	June 1940	May 1940	June 1939
<b>Native Beef Steers (average).....</b>	\$10.00	\$ 9.70	\$ 9.80	\$ 9.30
Fat Cows and Heifers.....	7.95	8.05	8.30	7.80
Calves.....	9.75	8.75	10.25	9.15
Hogs (bulk of sales).....	6.05	5.00	5.65	6.35
Lambs.....	9.10	10.60	9.65	9.60

Activities of slaughtering establishments in the United States continued through June and the first half of July at a level substantially above both a year earlier and the 1930-39 average for the month. Though showing some decline in the aggregate from a month earlier, June production was slightly greater on an average daily basis than in May. The tonnage sold remained in large volume but fell slightly under current production. Shipments for export showed little change from the restricted tonnage of a month earlier, although heavier tonnages were forwarded to Latin America. Notwithstanding some further purchases by the F.S.C.C., inventories of lard and pork in the United States continued to increase. Owing to lower prices obtaining than a year ago, dollar sales of packing-house commodities aggregated slightly less this June than during the corresponding month of 1939. Quotations for most packing-house products eased in June from May, but some grades of beef advanced. Production trended downward in the first half of July and prices firmed somewhat.

**MEAT PACKING—UNITED STATES**

	Per Cent Change in June 1940 from		
	May 1940	June 1939	June 1930-39 Avg.
Tonnage produced.....	- 0.8	+ 9.8	+14.9
Tonnage sold.....	- 4.2	+ 6.7	+11.3
Dollar sales.....	- 3.0	- 0.8	+ 9.1
Inventories.....	+ 2.1	+37.7	+21.9

The British Ministry of Food placed a contract for 20,000,000 pounds of lard, but otherwise trade with Europe was negligible in June; sales to Canada were also light. Trade with Cuba improved during the month; Porto Rican demand was steady until toward the close of the period at which time there was a slackening in lard purchases. New business with other Latin American nations fell off in June because of difficulty in obtaining exchange for settlements.



Number of bushels of corn equal in value to 100 pounds of hog live weight at local markets. July 1940 estimated. Source: United States Department of Agriculture.



Imports of animal products into the United States decreased in June from May, according to the preliminary figures.

**Dairy Products**—With pasture conditions particularly good over the entire Seventh district area except in parts of eastern Iowa, June production of milk on district farms was unusually high. By July 1 the flush period of early June had been passed, but total milk production per cow in the United States averaged the highest for the date in more than ten years. Reflecting the heavy June milk flow, national output of manufactured dairy products in that month was estimated at about 3 per cent higher than in June 1939. United States production of butter showed a similar gain of 2 per cent and that of American cheese one of 7 per cent. July 1 cold-storage holdings of butter were unusually light for the period, but those of cheese and evaporated milk were heavy. Prices of dairy products have not changed much recently, except that cheese prices have been raised.

Manufacture of butter by district creameries advanced seasonally in June and continued close to last year's level. Wisconsin production of American cheese did not show a full seasonal increase and was at about the 1939 level, after having been substantially higher than a year ago for several months.

### MONTHLY BUSINESS INDEXES

Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated.  
1923-1925 average = 100

	June 1940	May 1940	April 1940	June 1939	May 1939	April 1939
<b>Manufacturing Industries:</b>						
<b>Durable Goods:</b>						
Employment.....	107	106	107	92	91	95
Payrolls.....	106	104	105	85	83	87
<b>Non-Durable Goods:</b>						
Employment.....	105	102	102	101	99	98
Payrolls.....	102	100	98	98	95	94
<b>Total:</b>						
Employment.....	107	106	106	95	94	96
Payrolls.....	105	103	104	89	86	89
<b>Pig Iron Production:</b>						
Illinois and Indiana.....	134	111	97	76	61	79
<b>Automobile Production—(U. S.):</b>						
Passenger Cars.....	98	111	124	84	81	93
Trucks.....	156	174	187	167	158	170
<b>Casting Foundries Shipments:</b>						
Steel—In Dollars.....	59	57	70	47	41	40
In Tons.....	48	43	60	38	32	31
Malleable—In Dollars.....	49	56	58	48	46	49
In Tons.....	60	70	71	60	57	62
<b>Stoves and Furnaces:</b>						
Shipments.....	165	203	174	151	150	134
<b>Furniture Manufacturing:</b>						
Orders in Dollars.....	60	84	64	86	66	49
Shipments in Dollars.....	68	73	72	56	59	65
<b>Building Contracts Awarded:</b>						
Residential.....	82	96	87	62	75	65
Total.....	83	89	89	68	76	73
<b>Meat Packing—(U. S.):</b>						
Production.....	100	101	96	91	95	81
Sales Tonnage.....	98	103	101	92	95	80
Sales in Dollars.....	87	90	87	88	89	83
<b>Department Store Net Sales:</b>						
Chicago.....	90	87	83	89	84	82
Detroit.....	100	105	106	94	98	101
Indianapolis.....	107	109	108	97	107	107
Milwaukee.....	92	93	100	86	88	98
Other Cities.....	85	92	87	80	88	84
Seventh District—Unadjusted.....	92	93	91	89	89	89
Adjusted.....	94	92	92	91	88	86

### Credit and Finance

**Weekly Reporting Member Banks**—During the four weeks ended July 17, total earning assets of Seventh district weekly reporting member banks increased 56 million dollars to a total of \$3,407,000,000. Of this rise, 19 millions was in the loan classification, largely commercial, industrial, and agricultural loans, which have been gradually expanding since mid-March. A 26-million dollar increase in

### Selected Seventh District Banking Data

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

(Amounts in millions)

	July 17, 1940	June 19, 1940	July 19, 1939	Change from 1940
Total bills and securities.....	\$ 260	\$ —11	\$ —12	
U. S. Government securities direct and guaranteed:				
Bills.....	0	0	—46	
Notes.....	120	—	—8	
Bonds.....	140	—7	+42	
Total Government securities.....	260	—11	—12	
Total reserves.....	2,874	+103	+649	
Member bank reserve deposits.....	1,833	+54	+530	
All other deposits.....	131	+13	—29	
Federal Reserve notes in circulation.....	1,138	+24	+140	
Ratio of total reserves to deposit and Federal Reserve note liability combined.....	92.6%	+0.6*	+2.2*	

\*Number of Points.

#### CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

(Amounts in millions)

Assets	July 17, 1940	June 19, 1940	July 19, 1939	Change from 1940
	Loans and investments—total.....	\$3,407	\$ +56	\$ +158
Loans—total.....	979	+19	+103	
Commercial, industrial, and agricultural loans.....	607	+16	+102	
Open-market paper.....	39	+1	+6	
Loans to brokers and dealers in securities.....	30	+2	—7	
Other loans for purchasing or carrying securities.....	69	—4	—13	
Real estate loans.....	120	+1	+17	
Loans to banks.....	0	0	0	
Other loans.....	114	+3	—2	
U. S. Treasury bills.....	286	+9	+23	
U. S. Treasury notes.....	308	—	—122	
U. S. Treasury bonds.....	1,015	+5	—91	
Obligations fully guaranteed by U. S. Government.....	293	+26	+26	
Other securities.....	526	+5	+37	
Cash reserves, other than items in process of collection.....	2,165	+22	+547	
<b>LIABILITIES</b>				
Demand deposits—adjusted.....	2,877	+91	+402	
Time deposits.....	971	+5	+44	
Inter-bank deposits.....	1,278	+15	+261	
U. S. Government deposits.....	105	—30	—3	
Turnover velocity of demand deposits (annual rate)....	July 17, 1940 18.32	June 19, 1940 18.19	July 19, 1939 19.47	

#### BANK DEBITS, SEVENTH DISTRICT

(Amounts in millions)

	June 1940	Per Cent Change from June 1939	First Six Months of 1940	Per Cent Change from Same Period of 1939
Chicago.....	\$2,914	—10.9	\$18,399	+9.0
Des Moines.....	91	+3.3	580	+2.8
Detroit.....	960	+16.3	5,938	+17.9
Fort Wayne.....	34	+8.5	195	+8.5
Grand Rapids.....	56	+8.5	348	+18.0
Indianapolis.....	210	+8.1	1,266	+11.4
Milwaukee.....	275	+8.5	1,638	+9.6
Peoria.....	64	+14.6	358	+12.5
South Bend.....	46	+22.4	262	+23.6
32 smaller cities.....	536	+9.7	3,095	+12.4
Total 41 cities.....	5,186	—2.1	32,079	+11.1

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

ITEMS HANDLED	Average for Each Banking Day during	
	June 1940	June 1939
Commercial checks.....	492,000	497,000
Non-cash collections (Bills, notes, bonds, coupons, etc.)..	2,169	2,241
Paper currency received and counted.....	937,000	1,097,000
Coins received and counted.....	344,000	375,000
Wire and other transfers of funds (Inter- and intra-district).....	463	484
Securities in and out of safekeeping.....	774	1,316
Coupons cut from securities in safekeeping.....	3,083	2,983
<b>DOLLAR AMOUNTS</b>		
Commercial checks.....	95,126,000	87,887,000
Non-cash collections (Bills, notes, bonds, coupons, etc.)..	1,936,000	2,774,000
Paper currency received and counted.....	4,415,000	4,622,000
Coins received and counted.....	56,524	47,945
Wire and other transfers of funds (Inter- and intra-district).....	64,151,000	61,409,000
Securities in and out of safekeeping.....	3,355,000	12,638,000
Value of securities held in safekeeping at end of month....	982,344,000	1,031,603,000

holdings of Government guaranteed securities constituted the most important change in the security portfolios of these banks during the four-week period. Demand deposits (adjusted to exclude Government and inter-bank deposits and items in process of collection) rose irregularly from \$2,786 millions on June 19 to a new record high level of \$2,877 millions; this was over \$400,000,000 above that of a year ago.

**Member Bank Reserves**—Reserve balances held by member banks at the Federal Reserve Bank of Chicago advanced irregularly over the preceding four weeks to a new all-time high record by July 17. Principally instrumental in this increase was a continued influx of commercial and financial funds from other districts. This heavy inflow—135 millions during the four weeks under review—resulted principally from large shifts in funds from New York and in all probability reflected American imports of monetary gold.

Partially offsetting this factor were a seasonal increase in currency circulation, prior to the July 4 holiday, and Treasury operations, which included war-loan withdrawals and an excess of new Treasury bills sold over redemptions of weekly maturities. The above-mentioned increase in currency circulation included a rise of 24 million dollars in this bank's outstanding Federal Reserve notes, which on July 17 were nearly \$1,138,000,000, or even more than at the 1933 peak of about \$1,115,000,000. There has been a steady increase in note circulation over the past few years.

has been independent of any corresponding movement in stock quotations, which moved in a horizontal direction during the first three weeks of July on an extremely small volume of trading.

Short-term Treasury securities have been firm, pricewise, as have high-grade corporates, since early June. Long-term bonds, however, have registered little change since the latter part of June. During July, the Treasury made its first 1940 offering of bonds for cash subscription. The new bonds, callable in 1954 and maturing June 15, 1956, offered in volume of \$600,000,000, were dated July 22, 1940, and bore a 2¼ coupon. The purpose of the issue was to replenish the Treasury's working balance. Subscribers received an allotment of 9 per cent on subscriptions, except for those who specified delivery of bonds in registered form in 90 days. Such subscriptions, limited to a maximum of \$5,000, were allotted in full.

## Current Events

### Nine Additional State Member Banks

Between June 23 and July 23, nine new members have entered the Federal Reserve System in the Seventh district. These new banks raised the total of State banks now enjoying the benefits of Federal Reserve membership to 287 and the entire district membership to 827. The nine banks are: The First State Bank of Decatur, Indiana; Farmers Trust Company, in Franklin, Indiana; Shelby Loan & Trust Company, in Shelbyville, Illinois; Plymouth United Savings Bank, in Plymouth, Michigan; People's Trust Company, in Brookville, Indiana; State Bank, in Gladbrook, Iowa; the Fairmount State Bank, in Fairmount, Indiana; the Exchange Bank, Warren, Indiana; and the State Bank of Carthage, Indiana.

As previously indicated, six of the new members are located in Indiana, raising the total of Seventh district State members in that State to thirty-eight.

### Bulletin Reprints Made Available

Reprints of several special articles appearing in recent issues of the Federal Reserve Bulletin have been made available in pamphlet form. These articles are believed to be of particular current interest:

The Gold Problem Today, by E. A. Goldenweiser—4 pages, January 1940.

The Par Collection System of the Federal Reserve Banks, by George B. Vest—8 pages, February 1940.

The Banks and Idle Money, by Woodlief Thomas—9 pages, March 1940.

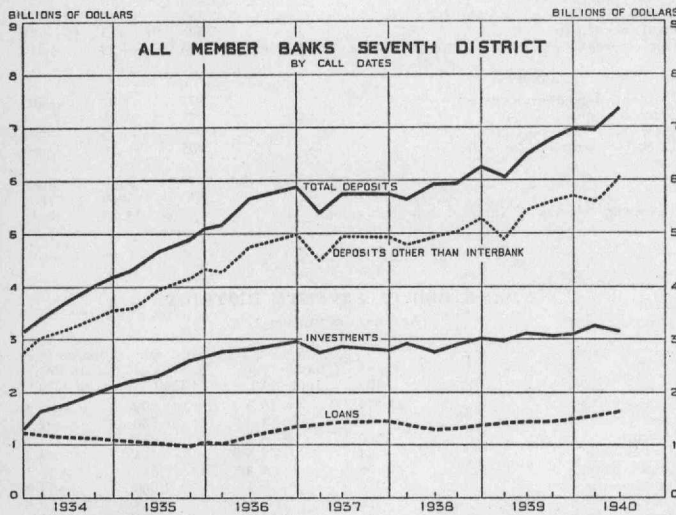
Cheap Money and the Federal Reserve System, by E. A. Goldenweiser—5 pages, May 1940.

Ownership and Utilization of the Monetary Gold Stock—3 pages, May and June 1940.

Copies of the above pamphlets may be obtained without charge from this bank or from the Board of Governors of the Federal Reserve System, Washington, D. C.

### New Examiners Added to Staff

Mr. Herschel R. Johnson and Mr. Harold J. Newman have recently accepted positions as senior examiners in the Bank Examination Department of the Federal Reserve Bank of Chicago. Mr. Johnson formerly was an examiner for the Department of Financial Institutions of Indiana. Mr. Newman, who will not begin his new duties until August 5, has been with the Board of Governors of the Federal Reserve System as a Federal Reserve Examiner.

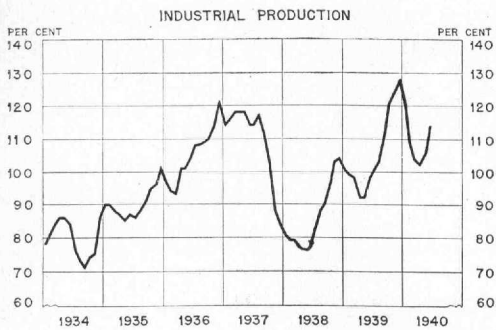


Selected items of condition by call dates from December 30, 1933, through June 29, 1940.

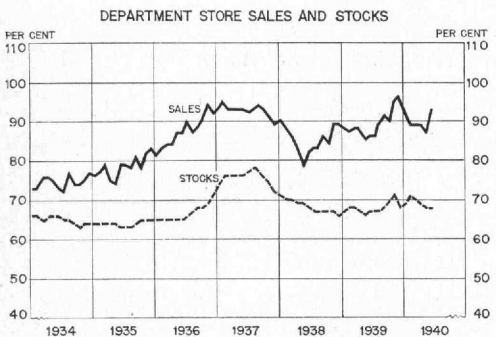
**Securities Markets**—A more optimistic atmosphere has prevailed in the bond market since June 15 than at any time since intensification of the European war this spring. June flotations of new long-term corporate bonds totaled approximately \$100,000,000, most of the financing occurring in the latter part of the month. Several additional offerings, mostly refundings, appeared in the first three weeks of July. In most cases, the reception accorded such flotations has been described by underwriters as satisfactory. Banks in this area appear to be showing some interest in bond investments, following a few months of almost complete inactivity in this respect. Exchange quotations for bonds have been firm since early June, particularly those for medium-grade liens which had previously been depressed along with the stock market in May. However, the upward trend in speculative bond prices over recent weeks

# National Summary of Business Conditions

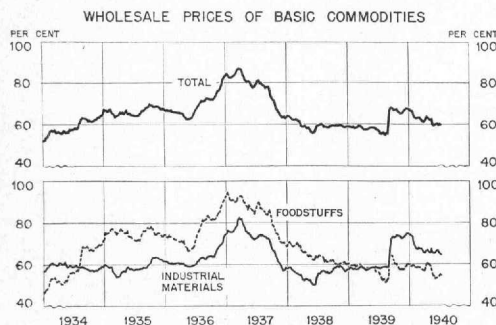
(By the Board of Governors of the Federal Reserve System)



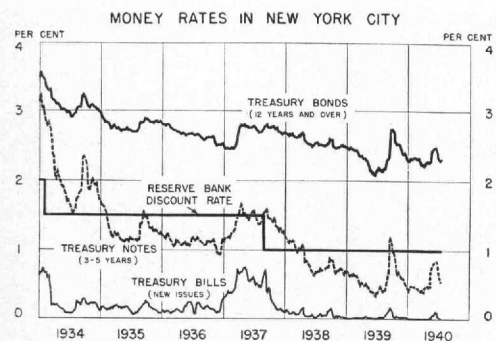
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to June 1940.



Indexes of value of sales and stocks, adjusted for seasonal variation, 1923-1925 average = 100.



Federal Reserve groupings of Bureau of Labor Statistics' data. Thursday figures, January 4, 1934, to July 11, 1940.



For weeks ending January 6, 1934, to July 13, 1940

**VOLUME** of industrial production increased rapidly during June and rose somewhat further in the first half of July. Distribution of commodities through retail and wholesale markets and by rail continued active.

**Production**—The Board's seasonally adjusted index of industrial production advanced from 106 in May to 114 in June. In that month, as in May, increases in activity were most marked in the iron and steel and textile industries where declines earlier in the year had been greatest.

Steel ingot production rose from 60 per cent of capacity at the beginning of May to 87 per cent in the latter part of June and was maintained at about that level in the first three weeks of July. Production of coke and pig iron showed similar sharp increases and iron ore shipments down the Lakes were at near-capacity levels. Demand for steel was general as most domestic steel-consuming industries were operating at high rates. Exports of steel, which had declined in April, rose to earlier high levels in May and June, amounting to about 10 per cent of steel-producing capacity.

Automobile production, which had begun to decline in May, continued to decrease in June and the first half of July reflecting in large part seasonal influences. Retail sales of automobiles were in large volume and dealers' stocks of new and used cars declined from the high levels prevailing earlier.

In the textile industry there was a further sharp advance in activity at woolen mills, and at cotton mills output was reduced less than seasonally. Rayon production was maintained at earlier high levels while at silk mills activity remained near the unusually low rate reached in May.

Coal production continued in large volume during June, but output of crude petroleum declined in the latter part of the month, owing to reduced production in Texas fields.

Value of construction contract awards showed little change from May to June, according to F. W. Dodge Corporation figures for 37 Eastern States. Awards for private residential building decreased more than seasonally, following a sharp rise in May, and contracts for private nonresidential building also declined. Contracts for public construction increased further in June, owing in part to expansion in the construction of Army and Navy air bases.

**Distribution**—Department store sales in June were maintained at the May level, although usually there is a considerable decline, and the Board's seasonally adjusted index advanced to 93 as compared with 87 in May and a level of about 89 earlier in the year. Sales at variety stores showed little change from May to June, continuing at the advanced level that has prevailed since the beginning of the year. In the early part of July department store sales declined seasonally from the June level.

Freight-car loadings increased further in June. Shipments of coal and miscellaneous merchandise continued to expand and loadings of coke, which usually decline at this season, showed a substantial rise.

**Commodity Prices**—Prices of a number of industrial materials, particularly steel scrap, copper, rubber, and silk, declined from the middle of June to the middle of July. Wheat prices also showed decreases in this period, while prices of livestock and products advanced owing partly to seasonal influences.

**Agriculture**—Production of major crops this season, according to the July 1 report of the Department of Agriculture, may be slightly lower than last season. Tobacco production will be sharply reduced from last year, when the crop was unusually large. Domestic supplies of wheat and other field crops as well as of vegetables and fruit are expected to show little change from last season. Indicated hog production this year will be about 10 per cent smaller than last year.

**Bank Credit**—Total loans and investments at reporting member banks in 101 leading cities increased during the five weeks ending July 10, chiefly as a result of increases in holdings of short-term United States Government obligations and in commercial loans. Holdings of United States Government bonds and loans to security brokers and dealers declined.

The monetary gold stock increased by \$885,000,000 in this five-week period, the largest gold acquisition for any corresponding period on record. This inflow of gold was reflected in a growth of \$310,000,000 in foreign bank balances with the Federal Reserve banks and in increased deposits and reserves of member banks. On July 10, excess reserves of member banks amounted to \$6,833,000,000.

**Government Security Market**—Prices of Government securities, which had advanced sharply in June, showed further increases after July 8 when the Treasury announced a new bond issue for cash subscription. Between June 10 and July 15 the price of the 1960-65 bonds rose about 3 points, and the yield on this issue declined from 2.52 per cent to 2.34 per cent as compared with 2.26 per cent at the year's peak in prices on April 2.

7-31

## The Currency Function

A major purpose in the creation of the Federal Reserve banks was to furnish an elastic currency for the use of the American public. The amount of circulating currency is determined by public demand and currency is always being paid out or deposited at the Reserve banks, the volume of payments or receipts fluctuating with changes in the public need for a circulating medium.

At the Federal Reserve Bank of Chicago, the Cash Department carries out this function of supplying an elastic currency to meet the needs of Seventh district business and agriculture. This department is in effect the receiving and distributing center of coin and paper money for the entire Seventh Federal Reserve district. It furnishes currency, silver, and minor coin in all available denominations to member banks for the needs of their customers, and when the money is no longer needed in circulation, it is sent back to the Reserve bank. The Cash Department sorts all used paper money by issues and culls out notes no longer fit for circulation. These unfit notes are cancelled and shipped to the United States Treasury for redemption. Cash Department employes, expert in the detection of counterfeits, are constantly on the alert for fraudulent currency.

The principal kind of money now in circulation is Federal Reserve notes, which are issued by the Federal Reserve banks. United States notes, silver certificates, and coin, which the Reserve banks also distribute, are issued exclusively by the United States Treasury.

During the month of June, the Cash Department received and counted an average of \$4,472,000 on every banking day and paid out to member banks an even greater amount. Expenses of all postage, expressage, and insurance on shipments of currency and coin to and from member banks are absorbed by the Federal Reserve Bank of Chicago.