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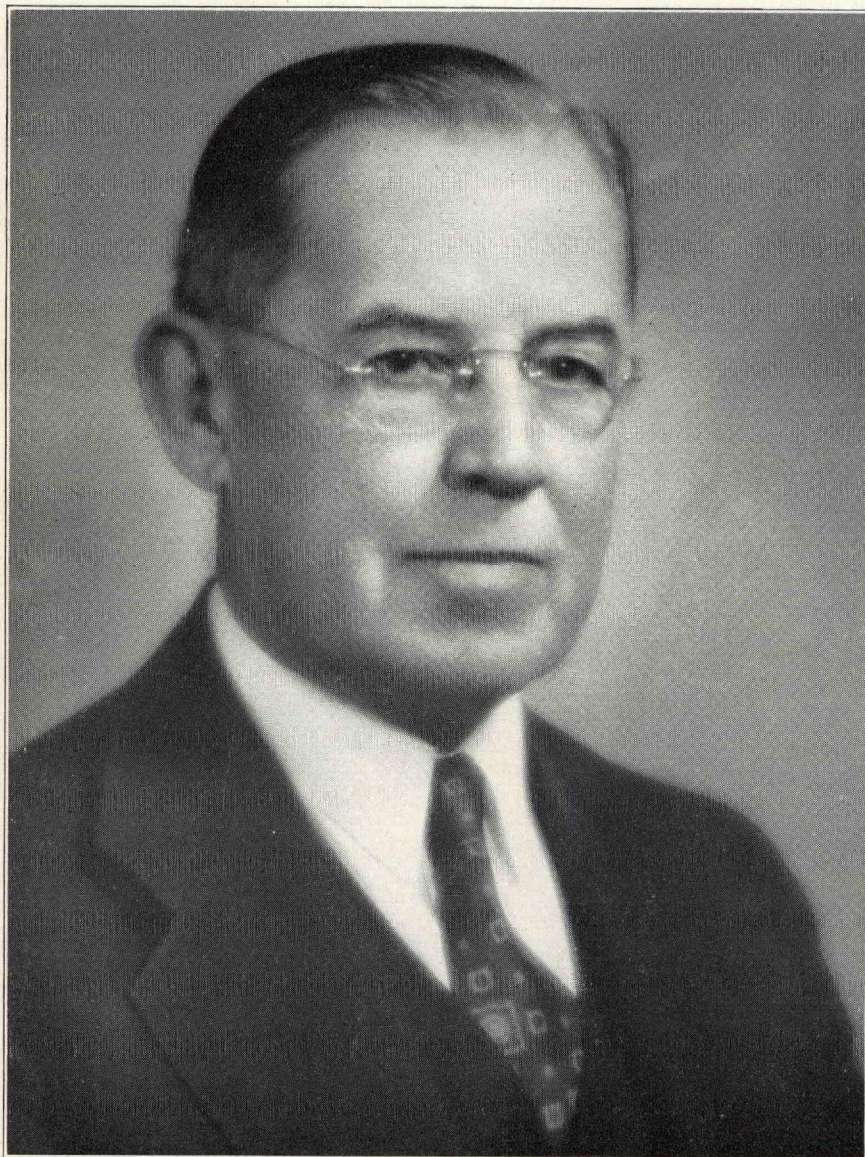
BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

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EDWARD R. ESTBERG, CLASS A DIRECTOR

THIS MONTH

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Edward R. Estberg, Class A Director

Distinguished by his many years of service to the banking and business world, as well as to civic affairs of his own community, Mr. Edward R. Estberg will complete his twelfth year as a Class A director of the Federal Reserve Bank of Chicago at the close of 1940. Mr. Estberg has served on the Board of Directors of this bank longer than any other member.

Mr. Estberg's career may be looked upon as perhaps typical of those who have made a notable success in the banking field. He has been in continuous service with The Waukesha National Bank of Waukesha, Wisconsin, since he started work in the bank as a messenger boy, following completion of his education in the public schools of that city. Advancing rapidly through the various positions of the bank—as bookkeeper, teller, assistant cashier, vice president—Mr. Estberg was elected president of this bank in 1919 and served in that position until January 11, 1938, since which time he has been Chairman of the Board.

Although perhaps best noted for his contributions to the business and civic life of his home community, Mr. Estberg has also been prominent in organizations of State and national scope. He has been particularly active in the Wisconsin Bankers Association and the American Bankers Association, having been on the Executive Council of both of these organizations. As a Class A director of the Federal Reserve Bank of Chicago since January 1929, he has represented the interests of the medium-sized member banks of the Seventh district, that is, those with capital and surplus ranging from \$200,000 to \$999,000.

From 1914 to 1919, Mr. Estberg was mayor of the City of Waukesha, and for many years was president of the local Board of Education. Likewise, during the late war he was county chairman of all the Liberty Loan drives in Waukesha County. For a time Mr. Estberg was president and director of the Waukesha Hospital Building Corporation. In addition to his many other duties, he serves at present as treasurer and director of the Waukesha Motor Company and of the Hein-Werner Motor Parts Corporation.

District Summary of Business Conditions

WITH the impact of the defense program added to seasonal fall expansion, operations in many industries of the district have been extended to near-capacity levels. In some cases, particularly where industries contribute directly to defense, additions to capacity are being made. Industrial employment has shown marked gains, and is now approaching the peak reached in 1937. Distribution of commodities to consumers is holding up well, but has, of course, not recorded the spectacular increases shown in manufacturing output. Prices of important district farm products, except for hogs, have been strong, and the district's major crop—corn—has turned out well, though lighter than last year's harvest.

Industry—There was a marked month-to-month expansion in employment in Seventh district industry during September. Number of workers increased 7 per cent and volume of wage payments 8½ per cent over August; this reflected mainly seasonally higher activity in automobile production, as well as expanding output in other heavy industries, particularly those contributing to the National Defense Program. Since employment was also increasing substantially last year at this time, year-to-year comparisons remained practically unchanged from August, but the manufacturing group as a whole was up 11 per cent in employment and 18 per cent in payrolls over September 1939.

In the primary steel industry almost all sections are operating at an unusually high level. Despite continued practical capacity operations—in steel ingot production, 98 per cent for Chicago mills in the fourth week of October—order backlogs have grown further as the tempo of incoming business increases. There has been a strong demand for all steel mill products except tin plate. Steel firms report considerable building-up of stock piles by steel users, but as yet they do not consider these inventories to be excessive. Machine tool companies, figuring prominently in the defense program, continue near-capacity operations, with deliveries greatly extended. Prices for finished steel as well as scrap are quite firm. Expansion was recorded in orders at steel and malleable casting firms and, although shipments of steel castings in September were 60 per cent greater than last year, volume of unfinished orders increased. Business at district furnace and stove plants rose seasonally further and production was 20 per cent greater than last year.

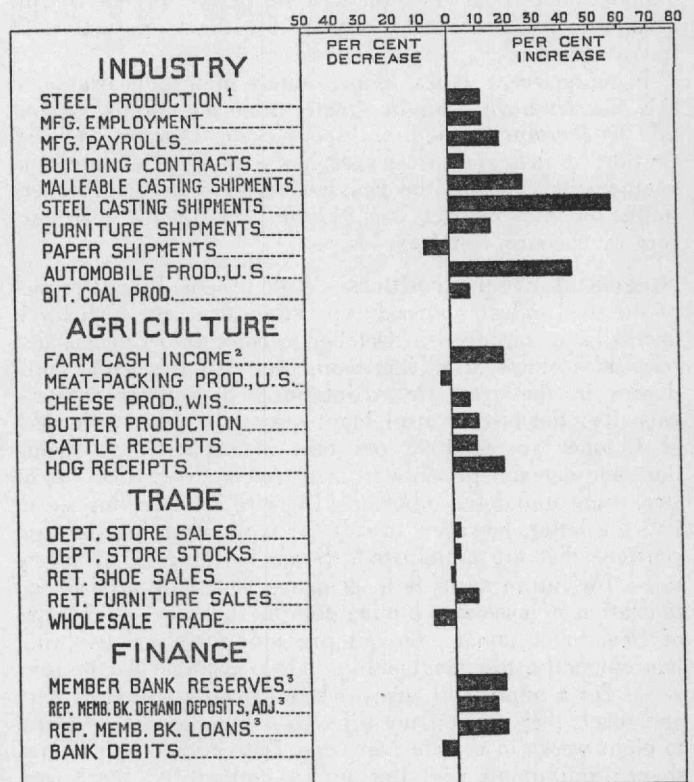
With apparently favorable retail sales trends, automobile companies have accelerated production of cars rapidly, so that output for October is estimated at a record level for the month. Both automobile makers and parts manufacturers are participating heavily in the defense program, accepting contracts for items such as ammunition components, engines, and trucks.

At district furniture factories, orders and shipments increased 13 per cent over August and backlogs rose further, while activity at paper mills decreased, falling below year-earlier levels for the first time since March. Daily average output of gasoline declined slightly in September, but gasoline stocks remained onerous, being about one fourth heavier than last year. September output of soft coal mines advanced less than seasonally, reflecting unusually high operations last summer. In the Chicago industrial area, daily average railroad carloadings during September were the highest in three years and 10 per cent greater than in September 1939.

Seventh district awards for construction contracts reached in September the highest monthly level since June 1930, and residential awards were the largest since July 1929. Recent expansion in construction has been activated chiefly by private building, as publicly-financed projects have declined substantially. Total construction contracts were up 5 per cent over September 1939, while residential building showed a gain of 94 per cent in the comparison, being augmented considerably by a large award for a U.S.H.A. project at Detroit. Residential awards for the first three quarters of 1940 were 31 per cent greater than for the period last year.

Trade—Although retail trade has held up well, it has failed to make the gains shown in industry this fall. Department stores in the Seventh district area showed September daily average sales 8 per cent higher than last year. Sales by larger stores for the first three weeks of October were 5 per cent above the 1939 period. Department store inventories at the end of September were only slightly higher than last year. Retail furniture sales expanded about one third over August and were 8 per cent higher than in September 1939, while sales of shoes at retail were one per cent lower than last year for the month. District wholesale trade was down 7 per cent in the aggregate from a year ago, part of the decrease reflecting the unusually heavy sales by grocery and other wholesale houses, following the outbreak of war in 1939.

SEVENTH DISTRICT BUSINESS ACTIVITY SEPTEMBER 1940 COMPARED WITH SEPTEMBER 1939



1. Ingot rate, Chicago district, week ending October 26. 2. August data. 3. As of October 16.

Agriculture—With almost perfect weather for ripening and harvesting the crop, the district corn crop has turned out much better than had been anticipated in August. Prices of most agricultural commodities—corn, wheat, cattle, and dairy products—have been strong, although hogs have declined from August highs. Production at meat-packing plants was 2 per cent lower than last September; while production and consumption of dairy products have been at or near record levels for the season.

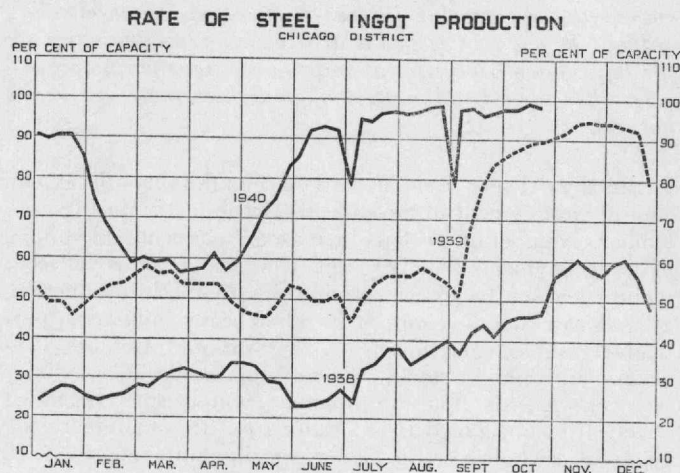
Credit and Finance—There has been a continued upward trend in the loan volume at weekly reporting member banks; by October 16 loans at these banks reached 1,025 million dollars. This represented a gain of 39 million dollars over the preceding four weeks and was within 38 million dollars of the 1937 peak. Investments of these banks declined 23 millions over the period. Bond prices have continued firm in September and October.

Industrial Activity

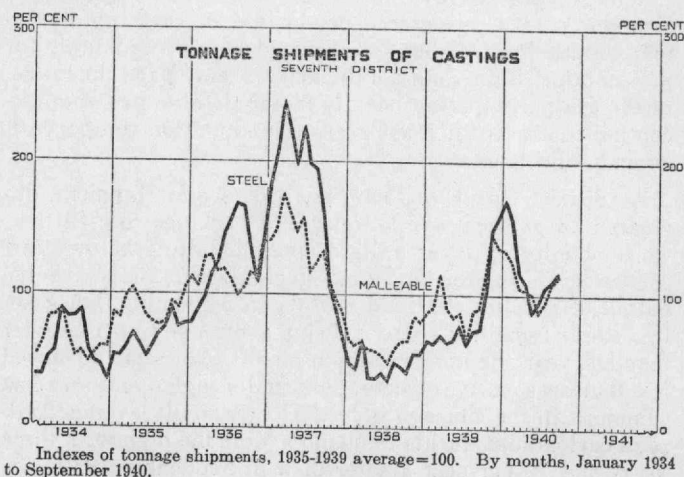
Defense Contracts—By the end of the third week in October, contracts had been awarded covering most of the funds currently appropriated by Congress under the National Defense Program. As a consequence, the volume of contracts awarded slackened somewhat from earlier levels. According to tabulations of the Office of Government Reports, awards to firms in the Seventh district prior to September 30 totaled more than \$500,000,000. Over 80 per cent of the dollar volume went for a relatively few items for whose production the specialized industrial capacity of the Seventh district is particularly suited, such as engines, trucks, tractors, ammunition components, etc. The largest individual order, \$81,000,000, was placed with the General Motors Corporation for the manufacture of machine guns and equipping plants for the production thereof. Orders for trucks and tractors total about the same dollar volume. Further, it is reported that the Government's truck purchasing program is still far from complete. According to current estimates, about 78,000 trucks are yet to be ordered. Purchases of these vehicles will involve an expenditure approximating \$175,000,000. Not all of this business will go to Seventh district manufacturers, but the logical assumption is that the bulk will be placed in the Detroit area, the world's foremost center for the manufacture of motor vehicles.

In more recent weeks, as previously indicated, awards in this district have been in greatly reduced volume—about \$30,000,000 during the first three weeks of October. A large portion of these recent awards has comprised ammunition components. One of the heaviest recent individual orders in the Seventh district was \$11,000,000 for the manufacture of chemicals and explosives.

Steel and Steel Products—With practically all phases of the steel industry already operating at a very high level, orders have continued in October to come into Chicago district sales offices at an increasing rate. Consequently, producers in the area are maintaining operations at peak capacity; the rate of steel ingot output in the fourth week of October averaged 98 per cent of capacity. A strong domestic demand prevails from a widely diversified list of steel users, and defense business likewise is expanding steadily; the latter, however, is still far from attaining the proportions that are anticipated. Some building-up of inventories for future needs is in evidence, but there appears no indication of excessive buying for this purpose. Deliveries of steel to customers, though presenting no serious problem currently, are lengthening. They average two to four weeks for a number of items, while for others such as bars and sheets they range from three to six weeks and even run to eight weeks in certain instances. Deliveries on structural shapes and plates are slowing up noticeably. Steel consumers working on defense orders are getting rather prompt delivery.



Products in greatest demand include carbon and alloy bars (which have been prominent for some time and in which defense business is an important factor), sheets, and plates and billets. Wire producers are busy as are makers of structural shapes. Demand for tin plate is more than seasonally dull. Among the most active users of steel at present are the automobile companies, domestic appliance manufacturers, industrial tractor and agricultural implement firms, makers of road construction machinery, forgers and stampers, and machine tool companies. Buying of freight cars by the railroads has progressed well and demand for rails has been sizable. Steel warehouse business continues good. In the machine tool industry, a quite large portion of the heavy volume of new orders and inquiries being currently received can be traced directly or indirectly to the defense program. Deliveries have become a major problem in this industry; these now average between four and six months.



Although shipments from Seventh district casting foundries have been expanding steadily over recent months, they have lagged behind the volume of incoming business, and this trend continued through September. Production of steel castings was rather closely matched to the level of shipments, but that of malleable castings exceeded it, though totaling under the August tonnage produced. New orders booked by both steel and malleable casting foundries were heavier in the current period than a month previous; however, the gain over a year ago in steel castings was relatively small and malleable casting orders were lighter in this comparison because of the exceptionally large increases recorded last September. Levels of production and shipments remained much higher than in 1939.

**STEEL AND MALLEABLE CASTINGS
SEVENTH DISTRICT**

	September 1940 Per Cent Change from	
	August 1940	Sept. 1939
Steel Castings:		
Orders booked (tons).....	+15.9	+ 8.5
Orders booked (dollars).....	+10.0	+ 2.2
Shipments (tons).....	+ 6.3	+57.6
Shipments (dollars).....	+ 6.1	+62.1
Production (tons).....	- 6.6	+44.0
Malleable Castings:		
Orders booked (tons).....	+12.3	-24.7
Orders booked (dollars).....	+13.0	-24.3
Shipments (tons).....	+ 5.0	+26.7
Shipments (dollars).....	+ 3.6	+28.6
Production (tons).....	- 4.0	+25.2

* * *

The stove and furnace industry of the Seventh district continued seasonally active in September. New business booked during the period by reporting manufacturers rose sharply—by 64 per cent in the aggregate—over the volume of the preceding month, while shipments and production were accelerated 20 and 18 per cent, respectively. Comparisons with the corresponding 1939 level remained quite favorable: orders booked were 36 per cent heavier this October, and production increased 20 and shipments 15 per cent over the month last year.

Automobiles—Defense requirements figure more and more prominently in activity of the automobile industry, as further huge orders for trucks, automotive engines, ammunition components, and the like are placed with automobile and parts manufacturers in this district and over the country. Work already has been started on the Government tank arsenal to be operated by the Chrysler company and on the Ford plant for building airplane engines.

Each week since mid-August has shown an advance in the production of new-model automobiles, and by the third week of October output had attained the highest level of the year so far. During the calendar month of September, 224,470 passenger automobiles and 44,638 trucks were produced in the United States. These figures compare with August volumes of only 46,823 and 29,050, respectively, and represent increases over last September of 39 and 65 per cent. Passenger car assemblies numbered greater than for any September since 1929, and at current rates it is estimated that October production will exceed by far that for the month in any previous year. Field stocks of new cars were quite low as the 1941 model automobiles started arriving on the market. This factor together with the well sustained level of consumer purchasing power augurs a good demand for the new models, while hesitancy due to conscription possibilities and fairly large supplies of used cars are deterrent factors in the demand. Retail sales in the nation during the first nine months of 1940 are indicated as bettering those of a year ago by about 30 per cent, according to Department of Commerce indexes.

Largely because of the earlier receipt of new models than a year ago, reporting retail dealers in the Seventh district sold a considerably greater number of new cars this September than last and somewhat more than in the preceding month; aggregate increases amounted to 6 per cent in the monthly and 30 per cent in the yearly comparison. For the same reason, stocks of new cars in dealers' hands rose sharply and on September 30 were about 35 per cent heavier than on the same 1939 date. Sales of used cars fell off during September and numbered only 2 per cent more than in the corresponding year-earlier period. Used-car stocks at the end of September were at a level almost 25 per cent above that of a year ago.

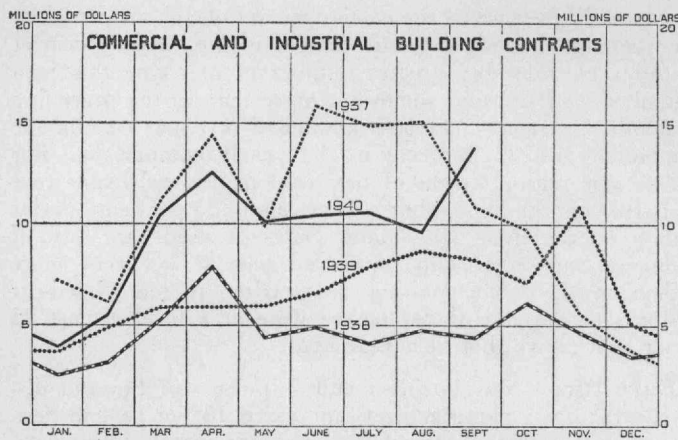
Furniture—New business and shipments of Seventh district furniture manufacturers increased 13 per cent in September over the volume of the preceding month. Shipments, however, remained smaller than orders booked, with the result that unfilled orders on hand also rose 13 per cent further over the period. Both new orders and shipments exceeded the September 1939 volumes by approximately 14 per cent; order backlogs were 30 per cent heavier than a year ago. Factory production rates were advanced 8 points during September to a level averaging 83 per cent of capacity, which is 5 points higher than for the month in 1939.

Paper and Pulp—Manufacture of paper in the Seventh district declined 12 per cent, on a tonnage basis, during September from August. After allowance, however, for the differing number of working days in the two months, the actual rate of operations declined but 4 per cent. Output fell below the same year-ago month for the first time since last March.

**PAPER AND PULP INDUSTRY
SEVENTH DISTRICT**

	September 1940 Per Cent Change from	
	August 1940	Sept. 1939
Paper:		
Orders booked (tons).....	- 6.3	-35.9
Orders booked (dollars).....	- 3.7	-24.2
Shipments (tons).....	- 9.2	- 8.7
Shipments (dollars).....	- 9.5	+ 1.5
Production (tons).....	-12.4	- 8.9
Stocks at end of month (tons).....	+ 1.4	+ 4.6
Pulp:		
Production (tons).....	-15.0	+ 3.3
Stock at end of month (tons).....	+ 0.5	+48.5

Building—Although construction awards in the Seventh district in various months over the past ten years have approached the September 1940 total, the current volume established a new high since June 1930. Residential awards were the largest since July 1929. Of more significance, however, is the composition of September awards. Totals approximating September 1940 in recent years have been inflated by contracts for public works, utilities, and other publicly-financed construction. This year, the September high has followed other months of large contract volume and has been motivated extensively by private ownership of construction. Industrial and commercial building, in particular, has been heavy compared with recent years and, as indicated on the accompanying chart, compares favorably with the near-boom levels for this type of building that prevailed in 1937. Industrial building, especially, has been stimulated considerably by the National Defense Program with its need for new factories and alterations. It is quite probable that there will be much further expansion in this line. Information available from sources other than current building statistics indicates that private financing can handle the bulk of the necessary plant expansion.



Data furnished by the F. W. Dodge Corporation for the Chicago and Southern Michigan territories which closely approximate the Seventh district area.

In other branches of the non-residential field, hospitals, schools, public buildings, etc., contracts have declined somewhat to levels roughly comparable with those prevailing early this year. Such projects are generally publicly financed. This trend is even more accentuated in the case of heavy engineering projects, which in September amounted to only one third of the same 1939 volume. Heavy engineering contracts in 1940 have been running below year-earlier levels, but the September decline was unusually sharp because the 1939 figures included \$18,000,000 in awards connected with the Chicago subway.

Residential building contracts, as previously noted, totaled the highest since 1929. The figure was augmented considerably by a large U.S.H.A. project, a contract for \$3,330,000 having been let for the S. James Herman Gardens housing project in Detroit. For the first eight months of 1940, one- and two-family dwellings constituted 90 per cent of all residential awards. In September, the proportion was only 70 per cent.

BUILDING CONTRACTS AWARDED SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
September 1940	\$69,156,000	\$34,252,000
Change from August 1940	+10.7%	+29.3%
Change from September 1939	+5.2%	+94.2%
First nine months of 1940	\$469,191,000	\$206,238,000
Change from same period in 1939	+6.4%	+30.6%

Data furnished by the F. W. Dodge Corporation.

Retail demand for building materials continued strong through September, rising more than seasonally above August. Movement of lumber from wholesale to retail distributors was about the same as a month earlier but markedly above a year ago. Cement shipments diminished in about the customary proportion, while brick deliveries expanded. A wide margin of increase in brick deliveries over September 1939 is explained by the unusually depressed level prevailing at that time. Building prices have been quite firm, those for lumber showing a marked advance in September.

Railroad Carloadings—Following a contraseasonal recession in August, the daily average number of revenue freight cars loaded by railroads in the Chicago industrial area expanded during September to the highest level reached in three years. On a seasonally adjusted basis, the current increase over the preceding month amounted to 6 per cent. Loadings this year have been generally above the 1939 level;

for the first nine months, the margin of gain has amounted to 12 per cent.

Coal Production—Due to the fact that operations over the previous few months had been at a high level, the percentage increase from August to September for Seventh district coal mines was not so great as usually occurs at this season. Furthermore, the margin of gain over 1939 in the amount of soft coal mined daily narrowed from 23 per cent in August to 7 per cent in September, as output last year increased more than seasonally over this period.

In mid-October, retail coal prices in the Chicago area were advanced from 5 to 70 cents per ton, depending on the grade. This was in conjunction with similar advances in other areas since the introduction of minimum F.O.B. mine prices for bituminous coal on October 1, under the Bituminous Coal Act of 1937. It was estimated that increases in retail quotations averaged about 35 cents per ton.

Petroleum Refining—Despite a small increase over August in the rate of Seventh district refinery operations, daily average gasoline output declined slightly during September, indicating somewhat further reductions in the gasoline yield per barrel of crude. Gasoline inventories continued extremely large at the end of the month, the heavy consumption season having failed to reduce stocks in the usual proportions.

Production of crude petroleum in the United States expanded considerably in September, but output in the Illinois fields, from whence comes a large proportion of the oil used by district refineries, through mid-October had shown little change in over a month. Prior to that time, output had been declining since June, which month appears to have been the peak production period for the Illinois fields.

Employment and Payrolls

With seasonal expansion in the automobile industry leading the way, the number of workers in the Seventh district and their total wage payments both rose sharply in September over August. In years prior to 1938, this key industry used to augment the August-September increases to a lesser

EMPLOYMENT AND PAYROLLS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of September 15, 1940			Per Cent Change from August 15, 1940	
	No. of Reporting Firms	No. of Employees	Wage Payments (000 Omitted)	No. of Employees	Wage Payments
DURABLE GOODS:					
Metals and Products ¹	1,768	478,576	\$15,079	+ 2.9	+ 4.0
Vehicles.....	400	366,115	13,446	+23.6	+23.2
Stone, Clay, and Glass.....	272	21,516	559	- 0.6	- 0.7
Wood Products.....	450	50,213	1,114	+ 3.5	+ 4.9
Total.....	2,890	916,420	30,198	+10.2	+11.7
NON-DURABLE GOODS:					
Textiles and Products.....	372	64,015	1,257	+ 2.9	+ 4.1
Food and Products.....	1,086	129,724	3,131	+ 5.9	+ 3.6
Chemical Products.....	302	35,226	1,054	+ 1.8	+ 1.6
Leather Products.....	170	27,249	586	+ 0.4	- 0.6
Rubber Products.....	33	20,900	649	+ 5.0	+33.0
Paper and Printing.....	692	78,099	2,288	- 1.1	+ 0.2
Total.....	2,655	355,213	8,965	+ 2.9	+ 3.9
Total Mfg., 10 Groups.....	5,545	1,271,633	39,163	+ 8.1	+ 9.8
Merchandising.....	5,232	141,913	3,172	+ 3.5	+ 4.4
Public Utilities.....	1,135	105,459	3,574	- 0.5	- 0.3
Coal Mining.....	50	7,995	202	+10.5	+14.7
Construction.....	741	13,134	460	- 2.5	+ 0.4
Total Non-Mfg., 4 Groups.....	7,158	268,501	7,408	+ 1.8	+ 2.1
Total, 14 Groups.....	12,703	1,540,134	46,571	+ 6.9	+ 8.5

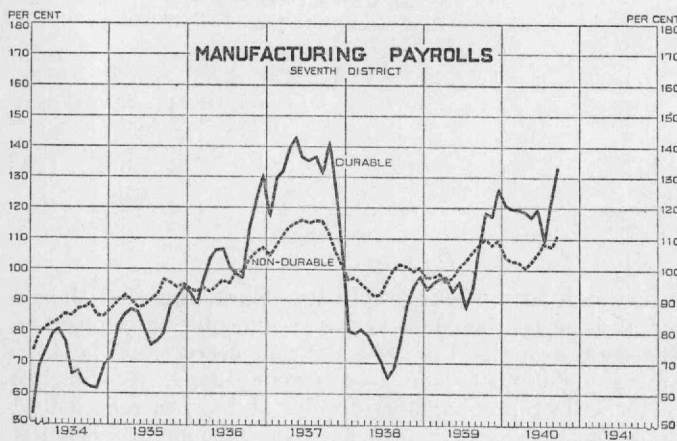
¹Other than vehicles.

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

extent than in recent years when the introduction of new models has been staged earlier in the fall. As yet, the influence of the National Defense Program on employment in the heavy industries is a matter of conjecture.

Employment and wage payments in the metals group, largely the steel industry, which had been expanding rapidly over the past few months, increased somewhat further. During September there were 20 per cent more wage earners receiving 30 per cent more in wages than a year earlier in this group. In addition to increases in the basic durable goods industries mentioned above, rising trends were noted in several of the nondurable groups, particularly food products, wearing apparel, chemicals, and rubber products. Leather goods, which had recorded steady gains over the preceding three months, showed little change during September from the high levels already attained; predominant in this group is the manufacture of boots and shoes. As production of paper declined, noted elsewhere in these pages, employment and payrolls in the paper and printing industries receded moderately. Similarly, declines were shown in the stone-clay-and-glass industries, influenced by lower volumes in the State of Indiana; other areas recorded some expansion. Among the non-manufacturing groups, a slight decrease in public utilities offset the small gain of a month earlier. Fewer workers were employed in the construction industry in September than in August, but total wage disbursements were unchanged. In the large merchandising group increases were the heaviest since last Christmas, while coal mines added to their working forces, as is seasonally anticipated.

In general, district employment and payroll volumes have been substantially higher this year than in 1939. Month-to-month fluctuations have followed much the same patterns during both years, minor changes between January and July being followed by large gains in August and September. The current year's level has not yet reached that of 1937, however, although such comparisons should favor the current year during the remaining 1940 months. This September, payrolls were 2 per cent above and employment 3 per cent below September 1937. The vehicles group has already surpassed the 1937 level.



Indexes based on 1935-1939 average as equal to 100. January 1934 to September 1940.

Trade Trends

Department Stores—Because of one more trading day, and that a Saturday, in the month last year, the aggregate dollar volume sold this September by Seventh district department stores was only 2 per cent greater in the compar-

son. On a daily average basis, however, sales exceeded those of September 1939 by 8 per cent. Similarly, September department store trade expanded over August much less in the total than in the daily average—16½ against 33 per cent—with three more trading days a month earlier and one of them a Saturday. As is usual in the period, Detroit department store business rose over the preceding month to a considerably greater extent than trade in other cities, owing to the special promotional sales held regularly each September in that city.

Sales of the larger district department stores in the three weeks ended October 19 totaled 5 per cent greater than in the corresponding 1939 weeks. Increases in this comparison amounted to 4 per cent in Chicago, 11 per cent in Detroit, 4½ per cent in Indianapolis, and 2 per cent in Milwaukee.

Inventories, which at the end of August had about equaled those of a year earlier, were slightly higher on September 30 than on the same 1939 date. They increased seasonally by 8 per cent over a month previous. In the first three quarters of 1940, the rate of stock turnover numbered 3.38 times compared with 3.28 times for the corresponding nine months last year.

DEPARTMENT STORE TRADE IN SEPTEMBER 1940

Locality	Per Cent Change September 1940 from September 1939		Per Cent Change First Nine Months 1940 from Same Period 1939	Ratio of September Collections to Accounts Outstanding End of August	
	Net Sales	Stocks End of Month	Net Sales	1940	1939
Chicago.....	+1.8	- 1.5	+5.6	40.3	40.4
Detroit.....	+4.2	+ 2.9	+7.1	44.4	46.3
Fort Wayne.....	+0.2	.....	+7.8	.....	.....
Indianapolis.....	+9.4	+10.8	+8.1	34.4	33.5
Milwaukee.....	+2.9	+ 0.6	+6.2	35.5	36.1
Peoria.....	-7.9	.....	+3.8	.....	.....
Other Cities*.....	-5.3	+ 5.7	+5.4	29.6	29.7
7th District.....	+2.0	+ 1.4	+6.1	38.0	38.2

*Include Fort Wayne, and Peoria.

Retail Shoes—As was the case with department store trade, sales of shoes at retail rose less than is usual in September over the preceding month and they totaled one per cent smaller than in September a year ago, because of the fewer trading days in the current period. Department stores sold a 2 per cent larger dollar volume of shoes than last September, but dealer sales were 8 per cent lighter in the comparison and thus effected the decrease in the aggregate. The gain in the total over a month earlier amounted to close to 50 per cent. At the end of September, retail inventories of shoes had risen 4 per cent over August 31 but continued under the year-ago level by this same percentage.

Retail Furniture—The dollar volume of furniture and housefurnishings sold during September by reporting dealers and department stores increased seasonally by one third over that of the preceding month and exceeded the September 1939 volume by 8 per cent. This latter percentage increase was the smallest for any month this year since March. In the monthly comparison, department store sales of furniture and housefurnishings rose much more than did those by dealers, but no great difference in trend was noted in the yearly comparison. Little change took place in size of inventories between August 31 and the close of September when they were around 3 per cent heavier than in 1939 at the same time.

SALES OF INDEPENDENT RETAIL STORES

(As compiled by the Bureau of the Census)

	Per Cent Change Sept. 1940 from Sept. 1939				
	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total All Groups*	+ 0.5	+ 5.1	- 2.8	+ 5.3	+ 0.3
Apparel Group	- 0.2	+ 3.6	- 9.6	+ 6.1	- 6.1
Drug Stores	+ 3.1	- 1.2	+ 0.7	+ 3.7	+ 3.4
Eating and Drinking Places	- 2.7	+ 0.2	.....	+ 9.7	+ 2.1
Food Group	- 7.4	- 4.8	- 9.3	- 5.4	- 9.6
Furniture-Household-Radio Group	- 1.1	+10.4	- 3.0	+11.8	+ 0.4
Hardware Stores	+ 0.8	+ 5.6	- 2.2	+ 9.8	+ 3.1
Jewelry Stores	+ 6.5	+11.6	.....	.....	+12.9
Lumber and Building Materials	+ 8.6	+17.3	- 5.1	+20.8	+ 3.3
Motor Vehicle Dealers	+22.0	+13.5	+ 6.4	+33.0	+31.0

*Includes classifications other than those listed.

Wholesale Trade—Trends in the wholesale distribution of commodities in this district were not so favorable in September, with sales in the aggregate for all groups reporting to the Bureau of the Census up less than 2 per cent over August and down 7 per cent from September a year ago. Sales in the grocery group were markedly smaller than in the same 1939 month, while hardware was the only major line to show any sizable increase in the comparison. Inventories in the majority of lines remained heavier at the end of September than a year earlier and rose over August 31 this year.

WHOLESALE TRADE IN SEPTEMBER 1940

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries	+ 0.5	+ 1.9	+ 1.7	- 1.4
Electrical Goods	- 4.1	+ 4.1	+ 0.9	+ 5.5
Groceries	-18.6	+ 1.1	- 0.8	-11.6
Hardware	+ 8.8	+16.2	+15.8	+17.3
Meats and Meat Products	- 4.9	0.0	- 9.7	- 5.4
Paper and Its Products	- 1.6	+10.4	+ 2.0	+ 2.1
Tobacco and Its Products	- 6.9	+15.4	+ 1.3	+ 1.3
Miscellaneous	- 1.8	+ 4.9	+10.9	+ 6.0

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

The Agricultural Situation

Crops—While yield is very uneven as among areas, there will be practically no soft corn in the Seventh Reserve district this year. Corn quality is good and the total crop has turned out 27½ million bushels better than had been expected on September 1. Further growth of corn was checked late in September; since then the weather has been unusually favorable for drying out the crop, owing to an absence of killing frosts until late in October. On the other hand, the light frost which killed tender vegetation on September 25 to 27 reduced district soybean prospects 4½ million bushels and those of potatoes nearly 4 million bushels from the September 1 forecast. Dry weather in central and southern areas has tended somewhat to retard fall plowing and seeding and to delay germination of winter grains.

CROP PRODUCTION

Estimated by the United States Department of Agriculture on October 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	915,150	1,132,703	849,234	2,352,185	2,619,137	2,299,342
Oats	525,077	359,529	435,287	1,218,273	937,215	1,024,852
Barley	49,756a	47,199a	45,079a	308,021	276,298	225,486
Soybeans	63,539b	69,612b	21,514b	81,541	87,409	27,318
All Wheat	63,395	58,683	62,426	792,332	754,971	754,685
Potatoes (white)	43,522	46,211	50,703	389,091	364,016	366,949
Dry Edible Beans*	3,962c	4,529c	3,995c	14,977	13,962	13,086
Commercial Apples	10,508a	17,741a	12,291a†	115,162	143,085	121,755†
Tame Hay**	20,472	17,426	15,360	84,504	75,726	69,650

*In thousands of 100-lb. sacks. **In thousands of tons. †1934-38 average.
a—Five States including Seventh Federal Reserve district. b—Illinois, Indiana, and Iowa. c—Michigan and Wisconsin.

The Seventh district estimates for rye and sugar beets were unchanged from a month earlier.

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Grain Marketing—Since mid-August, domestic prices of wheat have advanced rather steadily, being checked only when they neared the loan level. No. 2 hard winter wheat at Chicago, at around 83 cents on September 23 for spot delivery, was up about 17 cents from August lows. Cash premiums were well maintained, and this advance reflected mainly the limited "free" supply. As prices in most markets were still not high enough to pay the Government loan and charges, many mills found great difficulty in getting immediately available supplies for milling needs. This tight situation was relieved somewhat in mid-October, as terminal elevators at Chicago and Kansas City sold wheat to make room for Government-owned corn. Current domestic prices are now greatly in excess of world wheat prices. Quotations at Buenos Aires have been running around 50 cents; it would require an export indemnity of about 26 cents to export wheat from Gulf ports to Europe.

Prices of corn and other feed grains have advanced slightly since late September. A major factor in sustaining corn and other feed grain prices this year has been the Government corn loan program. Of the record October 1 corn carry-over of around 701 million bushels, it was estimated that about 475 millions were sealed or held by the Government. The number of grain-consuming animal units is expected to be about 5 per cent below average, and the supply of feed grains per animal will be the highest on record. Total indicated corn supply as of October 1 is 3,053 million bushels.

Although from time to time cash corn prices have eased slightly with more liberal country marketings, producers have apparently been unwilling to sell corn below 65 cents, Chicago basis, and the bulk of receipts at primary markets has consisted of Government-owned corn for export under subsidy or for storage at terminals. The Department of Agriculture has announced that a loan rate of 61 cents is probable and that it should tend to maintain prices of corn during most of 1941. As is the case with wheat, domestic corn prices are greatly above export basis; in the Argentine, where an almost desperate situation has prevailed, corn futures went as low as 25 cents in October.

MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES

(In thousands of bushels)

	Sept. 1940	August 1940	Sept. 1939	Sept. 1930-39 Avg.
Wheat:				
Receipts	38,427	46,264	37,810	34,325
Shipments	17,494	19,962	24,633	21,283
Corn:				
Receipts	29,905	19,142	22,925	14,928
Shipments	12,472	11,968	11,652	8,061
Oats:				
Receipts	6,968	13,612	12,108	10,764
Shipments	5,941	7,018	10,082	6,079

Livestock and Meat Packing—Marketings and slaughter of hogs continued in heavy volume during September. However, as a result of an 8 per cent decrease in the 1940 spring pig crop and an approximate 12 per cent decline in the fall crop, slaughter supplies of hogs in the 1940-41 marketing year are expected to be substantially smaller than the 47,650,000 head slaughtered under Federal inspection over the entire marketing year October 1939 through September 1940. This was the largest slaughter since 1928-29. Marketings of cattle have also increased; the slaughter supply during 1941 is not expected, however, to be greatly different from that marketed in 1939 and 1940. Prices of hogs have declined since the peak reached in late August, but cattle prices have strengthened substantially.

LIVESTOCK SLAUGHTER

(In thousands)

	Cattle	Hogs	Lambs and Sheep	Calves
Yards in Seventh District:				
September 1940.....	195	517	221	56
September 1939.....	190	441	265	59
Federally Inspected Slaughter:				
United States:				
September 1940.....	812	3,168	1,469	417
August 1940.....	842	3,045	1,489	432
September 1939.....	880	2,885	1,635	427

AVERAGE PRICES OF LIVESTOCK

(Per hundred pounds at Chicago)

	Week Ended		Months of	
	Oct. 19, 1940	Sept. 1940	August 1940	Sept. 1939
Native Beef Steers (average).....	\$11.90	\$11.45	\$10.60	\$10.30
Fat Cows and Heifers.....	8.70	8.60	8.45	8.45
Calves.....	9.50	10.50	9.75	10.50
Hogs (bulk of sales).....	6.40	6.45	6.35	7.55
Lambs.....	9.10	9.10	9.30	9.55

September production of packing-house commodities in the United States remained somewhat under the quantity sold during the period and was 2 per cent lighter than a year earlier. Average daily volume of each item expanded slightly over a month previous but, owing to fewer working days in September, the aggregate for the month as a whole was smaller than in August. With the exception of a decline in quotations for lamb, lower grades of beef and veal, and of a few pork cuts, prices averaged somewhat higher during September than a month previous. Dollar sales, therefore, were greater than in August. Payrolls at the close of September and production in the first half of October were above the corresponding period of 1939. The major portion of shipments for export continued in September to move to Latin America.

MEAT PACKING—UNITED STATES

Per Cent Change in September 1940 from

	August 1940	September 1939	Sept. 1930-39 Avg.
Tonnage produced.....	- 2.1	- 1.8	+ 2.7
Tonnage sold.....	- 5.4	+ 1.8	+ 8.5
Dollar sales.....	+ 6.5	- 1.4	+14.0
Inventories.....	-16.9	+38.2	+ 7.7

Dairy Products—Though showing a full seasonal decline from a month earlier, production of milk per cow in the United States was 5 per cent larger on October 1 than a year ago and the highest for the date on record. September creamery butter output for the country as a whole was only a little above average, but totaled almost 9 per cent more than in the 1939 month and was above last year to an even greater extent in the first half of October. American cheese production in September was at a record high for the period, surpassing the month last year by as much as 10 per cent. Cold-storage stocks of butter are lower than a year ago, while those of cheese are higher than for any previous October. Prices of both cheese and butter have strengthened seasonally.

In the Seventh district, production of reporting creamery butter makers showed an increase of 10 per cent over September 1939, while sales were up by a smaller percentage. Manufacture of American cheese in Wisconsin was 6 per cent higher than a year earlier.

Credit and Finance

Weekly Reporting Member Banks—The most significant recent development in the current condition statistics for weekly reporting member banks in the Seventh district has been the continued uptrend in their loan volume. Loans

MONTHLY BUSINESS INDEXES

Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated.
1935-39 average = 100

	Sept. 1940	Aug. 1940	July 1940	Sept. 1939	Aug. 1939	July 1939
Manufacturing Industries:						
Durable Goods:						
Employment.....	117	108	102	102	89	88
Payrolls.....	133	122	109	106	94	87
Non-Durable Goods:						
Employment.....	107	104	103	102	101	97
Payrolls.....	111	108	108	108	106	103
Total:						
Employment.....	114	107	103	102	94	91
Payrolls.....	126	117	109	107	98	92
Pig Iron Production:*						
Illinois and Indiana.....	173	168	164	120	107	94
Automobile Production—(U. S.):						
Passenger Cars.....	86	18	65	62	24	58
Trucks.....	75	49	106	46	65	99
Casting Foundries Shipments:						
Steel—In Dollars.....	137	129	121	84	88	71
In Tons.....	116	109	105	74	73	63
Malleable—In Dollars.....	123	117	101	95	96	70
In Tons.....	114	108	93	90	88	66
Railroad Freight Carloadings:*						
Originating in Chicago Industrial Area....	125	109	118	114	101	98
Stoves and Furnaces:						
Shipments.....	168	134	103	152	100	68
Furniture Manufacturing:						
Orders in Dollars.....	159	140	144	140	119	88
Shipments in Dollars.....	142	124	96	126	123	89
Paper Manufacturing:*						
Tonnage Production.....	107	111	116	113	110	103
Petroleum Refining—(Indiana, Illinois, Kentucky area):*						
Crude Runs to Stills.....	146	146	146	126	119	118
Gasoline Production.....	139	141	143	129	119	116
Bituminous Coal Production:*						
Illinois, Indiana, Iowa, and Michigan.....	106	94	76	100	76	63
Building Contracts Awarded:						
Residential.....	297	229	222	153	218	170
Total.....	176	159	149	167	133	137
Meat Packing—(U. S.):						
Production.....	104	107	111	106	103	103
Sales Tonnage.....	117	124	117	115	116	108
Sales in Dollars.....	108	102	99	110	96	99
Dairy Products:*						
Creamery Butter Production.....	104	115	125	100	117	123
American Cheese Production—(Wisconsin).....	116	128	158	108	113	134
Department Store Net Sales:*						
Chicago.....	111	93	73	104	85	69
Detroit.....	157	87	71	143	74	67
Indianapolis.....	138	101	83	119	91	75
Milwaukee.....	126	98	76	116	86	72
Other Cities.....	115	100	74	112	87	71
Seventh District—Unadjusted.....	125	93	74	116	83	69
Adjusted.....	113	118	105	105	105	99

*Daily average basis.

increased 38 million dollars in the four weeks ended October 16 to a total of \$1,025,000,000, not far below the post-depression peak of \$1,063,000,000 established in September 1937. Since the first of the year, total loans of these banks have risen \$125,000,000, or by 14 per cent. They are \$150,000,000 above the corresponding year-ago level. During the four weeks in question, investments of reporting banks receded by 23 millions. Treasury bond holdings rose and notes declined, principally because of the Treasury refunding operations referred to elsewhere in these pages. However, portfolios of Government guaranteed obligations registered a net decline of 40 million dollars.

Securities Markets—Quoted bond prices continued firm through September and the first three weeks of October. A very slight recession in prices of medium grades during the second week of the latter month was in sympathy with a similar trend in the stock market. This minor reaction, however, was subsequently corrected. Municipals and top-grade corporates are now at all time highs, pricewise, having exceeded the peak levels of 1939 and of early April 1940. Medium grades are likewise well above the peaks of recent years.

During September, new issues of long-term corporate securities fell somewhat below the preceding month's volume, while those of municipals declined for the third successive

month. However, that portion of the corporate issues which was for new capital purposes, though small compared with the volumes of past years, represented the largest monthly total since the latter part of 1938. About 40 per cent was made up of nine railroad equipment trust issues and the balance of utility and industrial bonds. The issues of both new corporates and municipal bonds in October had by the eighteenth of the month already exceeded the September figure. The October totals were augmented by the \$108,000,000 Southern California Edison refunding and by the \$60,000,000 New York City Water Supply issue. The Southern California Edison issue, purchased at a rather full price in competition with a group insurance company proposal, moved fairly well in spite of lack of support in some quarters, but by October 18 the issue had not been entirely distributed.

The United States Treasury issued \$725,000,000 of 2 per cent bonds dated October 7, 1940, and maturing June 15, 1955, callable in 1953. This issue was for the purpose of refunding the 1½ per cent Treasury notes maturing December 15. Over \$100,000,000 of the exchanges occurred in the Seventh district.

Current Events

New State Members

Several more State banks in the Seventh district have joined the Federal Reserve System since the last publication of this review. New members not previously reported in these pages include:

The Battle Ground State Bank, Battle Ground, Indiana
 First State Bank of Porter, Porter, Indiana
 Clear Lake Bank and Trust Company, Clear Lake, Iowa
 The Brazil Trust Company of Brazil, Indiana
 The Bank of Montpelier, Montpelier, Indiana
 River Rouge Savings Bank, River Rouge, Michigan
 The Gaylord State Savings Bank, Gaylord, Michigan
 Farmers Trust Company, Van Buren, Indiana
 State Savings Bank, Frankfort, Mich.
 The Etna Bank, Etna Green, Indiana

The new members have total resources of over \$8,500,000 and raise to 302 the number of State member banks in the Seventh district.

Ibach Joins Reserve Examination Staff

Mr. Herbert F. Ibach, formerly Commissioner of Banking for the State of Wisconsin, has been appointed by the Board of Governors of the Federal Reserve System as an examiner for the Federal Reserve Bank of Chicago. Mr. Ibach assumed his duties with this bank on October 15.

President Schaller Addresses Bankers

At a meeting of bankers at the Union League Club of Chicago on October 16, Mr. George J. Schaller, President of the Federal Reserve Bank of Chicago, gave an informal talk on present day conditions as they affect the Federal Reserve System. About 40 bankers from Chicago and the surrounding vicinity were present.

Kiwanis Club Hears Dunn

Mr. Charles B. Dunn, General Counsel of the Federal Reserve Bank of Chicago, made an address on behalf of the bank before the Kiwanis Club of Lansing, Michigan, on October 24. Mr. Dunn's subject was "The Organization and Functions of the Federal Reserve System."

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

	Change from		
	Oct. 16, 1940	Sept. 18, 1940	Oct. 18, 1939
Total bills and securities.....	\$ 270	\$+11	\$-31
U. S. Government securities direct and guaranteed:			
Bills.....	0	0	-20
Notes.....	111	-7	-25
Bonds.....	158	+18	+14
Total Government securities.....	269	+11	-31
Total reserves.....	3,102	+158	+591
Member bank reserve deposits.....	1,935	+84	+280
All other deposits.....	231	+68	+149
Federal Reserve notes in circulation.....	1,180	+19	+137
Ratio of total reserves to deposit and Federal Reserve note liability combined.....	92.7%	0*	+2.4*

*Number of Points.

CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

ASSETS	Change from		
	Oct. 16, 1940	Sept. 18, 1940	Oct. 18, 1939
Loans and investments—total.....	\$3,450	\$+15	\$+283
Loans—total.....	1,025	+38	+150
Commercial, industrial, and agricultural loans.....	623	+27	+111
Open-market paper.....	43	+1	+8
Loans to brokers and dealers in securities.....	33	+5	+4
Other loans for purchasing or carrying securities.....	68	0	-8
Real estate loans.....	126	+1	+17
Loans to banks.....	0	0	0
Other loans.....	132	+4	+18
U. S. Treasury bills.....	249	-21	+111
U. S. Treasury notes.....	257	-46	-177
U. S. Treasury bonds.....	1,092	+74	+152
Obligations fully guaranteed by U. S. Government.....	272	-40	-19
Other securities.....	555	+10	+66
Cash reserves, other than items in process of collection.....	2,348	+109	+345
LIABILITIES			
Demand deposits—adjusted.....	2,961	+86	+353
Time deposits.....	977	+5	+38
Inter-bank deposits.....	1,371	+27	+203
U. S. Government deposits.....	138	0	+27
Turnover velocity of demand deposits (annual rate)...	Oct. 1-16, 1940 20.38	Sept. 1940 17.72	Oct. 1939 24.23

BANK DEBITS, SEVENTH DISTRICT

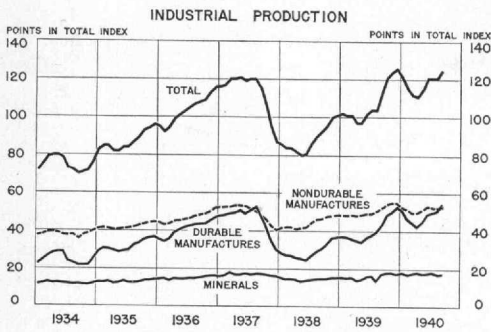
	Per Cent Change from		First Nine Months of 1940	Per Cent Change from Same Period of 1939
	Sept. 1940	Sept. 1939		
Chicago.....	\$2,674	-12.7	\$26,775	+ 4.7
Des Moines.....	95	- 4.0	863	+ 2.9
Detroit.....	947	+13.1	8,797	+17.6
Fort Wayne.....	31	+ 0.8	293	+ 7.8
Grand Rapids.....	56	- 2.4	519	+13.2
Indianapolis.....	199	+ 2.1	1,904	+ 9.9
Milwaukee.....	242	- 4.2	2,411	+ 6.1
Peoria.....	59	+ 2.5	538	+11.8
South Bend.....	40	+11.7	386	+21.2
32 smaller cities.....	505	+ 2.3	4,659	+11.6
Total 41 cities.....	4,848	- 5.3	47,145	+ 8.1

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS FEDERAL RESERVE BANK OF CHICAGO

ITEMS HANDLED	Average for Each Banking Day during	
	Sept. 1940	Sept. 1939
Commercial checks.....	504,000	484,000
Non-cash collections (Bills, notes, bonds, coupons, etc.)..	2,081	2,097
Paper currency received and counted.....	1,293,000	1,052,000
Coins received and counted.....	259,000	331,000
Wire and other transfers of funds (Inter-and intra-district)	455	454
Securities in and out of safekeeping.....	964	1,022
Coupons cut from securities in safekeeping.....	1,871	1,928
DOLLAR AMOUNTS		
Commercial checks.....	102,046,000	94,279,000
Non-cash collections (Bills, notes, bonds, coupons, etc.)..	2,224,000	2,692,000
Paper currency received and counted.....	5,083,000	4,439,000
Coins received and counted.....	60,298	61,600
Wire and other transfers of funds (Inter-and intra-district)	66,991,000	59,658,000
Securities in and out of safekeeping.....	19,549,000	26,639,000
Value of securities held in safekeeping at end of month....	887,000,000	949,000,000

National Summary of Business Conditions

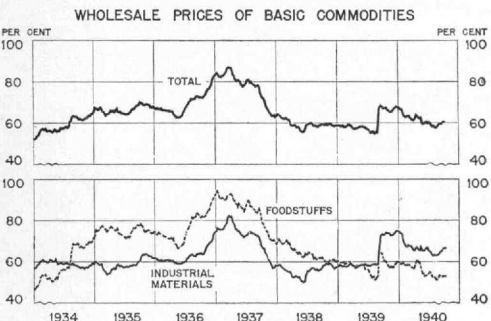
(By the Board of Governors of the Federal Reserve System)



Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average=100. Durable manufactures, non-durable manufactures, and minerals expressed in terms of points in the total index. By months, January 1934 to September 1940.



U. S. Department of Commerce estimates of the amount of income payments to individuals, adjusted for seasonal variation. By months, January 1934 to September 1940.



Federal Reserve groupings of Bureau of Labor Statistics' data. Thursday figures, January 4, 1934, to October 10, 1940.



Wednesday figures, September 5, 1934, to October 9, 1940. Commercial loans based on new classification beginning May 19, 1937.

VOLUME of industrial production increased sharply in September, owing mainly to a continued rise in output of durable manufactured products, and this month a further increase is indicated. Prices of basic industrial materials advanced in September and the first half of October.

Production—The Board's seasonally adjusted index of industrial production, which for three months had been at a level of 121 per cent of the 1935-39 average, advanced to about 125 per cent in September. In the durable goods industries increases in output were general. Steel production rose to 93 per cent of capacity, and in the first half of October the rate was slightly higher as new orders continued in large volume both from domestic and foreign sources. Steel exports amounted to about 20 per cent of ingot-producing capacity in August, the latest month for which data are available, with nearly three quarters of these shipments going to the United Kingdom and Canada. Activity in the machinery, aircraft, and shipbuilding industries advanced further in September following considerable increases in August, and automobile output increased sharply as volume production of new model cars was rapidly attained. Plants producing railroad cars and locomotives also showed an expansion in activity. Lumber production continued to rise under the impetus of a growing volume of demand for defense program purposes.

Changes in output of nondurable manufactured goods and minerals in September were mixed. At wool textile mills activity advanced sharply further to near the peak reached last autumn, reflecting in part expanding production on Government orders. At cotton mills, however, activity showed less than the usual seasonal rise, following a sharp increase in August, and rayon deliveries declined somewhat owing partly to a strike at plants of one large producer. Shoe production also declined in September. Paper production remained in reduced volume following a high rate of output during the early summer accompanying some inventory accumulation at that time. Output of most metals continued large during September. Crude petroleum production, which had been curtailed sharply during the summer, rose considerably, but coal production, which for several months had been maintained at high levels, showed a smaller increase than is usual at this season.

Value of new construction work started in September was lower than in July and August, according to reports of the F. W. Dodge Corporation and the San Francisco Federal Reserve Bank. The decline occurred chiefly in contracts for defense projects which had been large in the previous two months. Awards for private residential building showed little change from recent high levels. Awards for other private work declined somewhat but continued considerably above the level of a year ago.

Distribution—In September and the early part of October department store sales showed somewhat less than the usual seasonal increase from the exceptionally high level reached in August.

Freight-car loadings rose somewhat more than seasonally in September, reflecting to a large extent increased shipments of miscellaneous freight. Loadings of coal, which have been large in recent months, showed less than the usual seasonal rise.

Commodity Prices—Prices of most industrial materials, particularly lumber, steel scrap, nonferrous metals, hides, and wool, continued to advance from the middle of September to the middle of October, and there were also increases in some manufactured products, notably cotton and woolen goods. Wheat prices were higher while prices of most other foodstuffs showed little change.

Bank Credit—Commercial loans at reporting member banks in New York and 100 other leading cities continued to increase during the four weeks ending October 9, reflecting in part seasonal demands. Holdings of United States Government obligations decreased further with the result that total loans and investments of these banks showed little change.

United States Government Security Prices—Prices of United States Government securities advanced in the second half of September and the first week in October, rising close to the high level of the year reached early last April.

To All Banks in the Seventh Federal Reserve District:

BANK CREDIT AVAILABLE FOR DEFENSE PURPOSES

An opportunity to cooperate in the national defense program has been offered to commercial banks of the United States. The National Defense Advisory Commission has prepared a form of contract whereby the Federal Government agrees to reimburse manufacturers who have Government contracts to furnish military supplies, for expenditures made in acquiring additional plant facilities and equipment necessary for the completion of these contracts. Such reimbursement is to be made by the Government in 60 equal monthly installments. Recent legislation permits the assignment of claims against the Government; consequently, manufacturers may assign to banks as security for loans the amounts payable under these Government contracts.

According to a test survey conducted by the Federal Reserve System for the National Defense Advisory Commission, commercial banks throughout the country have expressed their willingness to loan at least \$3,000,000,000 for emergency defense plant construction.

The Federal Reserve Bank of Chicago has available copies of the draft of the contract known as "Emergency Plant Facilities Contract," which will be furnished on request to any banks interested in contracts of this type. Any further available information will be furnished by this bank upon request.

There is quoted below the text of the "Assignment of Claims Act of 1940," which was recently passed by Congress and signed by the President.

GEORGE J. SCHALLER,

President.

AN ACT

To assist in the national-defense program by amending sections 3477 and 3737 of the Revised Statutes to permit the assignment of claims under public contracts.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That sections 3477 and 3737 of the Revised Statutes be amended by adding at the end of each such section the following new paragraph:

"The provisions of the preceding paragraph shall not apply in any case in which the moneys due or to become due from the United States or from any agency or department thereof, under a contract providing for payments aggregating \$1,000 or more, are assigned to a bank, trust company, or other financing institution, including any Federal lending agency: *Provided,*

"1. That in the case of any contract entered into prior to the date of approval of the Assignment of Claims Act of 1940, no claim shall be assigned without the consent of the head of the department or agency concerned;

"2. That in the case of any contract entered into after the date of approval of the Assignment of Claims Act of 1940, no claim shall be assigned if it arises under a contract which forbids such assignment;

"3. That unless otherwise expressly permitted by such contract any such assignment shall cover all amounts payable under such contract and not already paid, shall not be made to more than one party, and shall not be subject to further assignment, except that any such assignment may be made to one party as agent or trustee for two or more parties participating in such financing;

"4. That in the event of any such assignment, the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with—

"(a) the General Accounting Office,

"(b) the contracting officer or the head of his department or agency,

"(c) the surety or sureties upon the bond or bonds, if any, in connection with such contract, and

"(d) the disbursing officer, if any, designated in such contract to make payment.

Notwithstanding any law to the contrary governing the validity of assignments, any assignment pursuant to the Assignment of Claims Act of 1940 shall constitute a valid assignment for all purposes."

Any contract entered into by the War Department or the Navy Department may provide that payments to an assignee of any claim arising under such contract shall not be subject to reduction or set-off, and if it is so provided in such contract, such payments shall not be subject to reduction or set-off for any indebtedness of the assignor to the United States arising independently of such contract.

SEC. 2. This Act may be cited as the "Assignment of Claims Act of 1940".

Approved, October 9, 1940.