

# BUSINESS CONDITIONS



A REVIEW BY THE  
FEDERAL RESERVE BANK OF CHICAGO

NOVEMBER, 1941

# Business Conditions in the Seventh Federal Reserve District

Although production, employment, and trade continued at a high level during September and the first half of October, there was a noticeable slackening in the upward sweep of business in the Seventh Federal Reserve District. This was brought about in part by the shifting of industry from civilian to defense production which is an engineering problem that involves more than just the utilization of machines. In the adaptation of machine tools to the production of specific defense items, questions of plant balance must be studied, if serious dislocations in the productive capacity are to be avoided. Although progress has been made in the solution of these technical problems, raw material shortages still exist, and lack of plant facilities in some industries and incomplete utilization in others continue to retard the production program. Employment and wage payments edged upward, and the cost of living in the principal cities of the district continued to advance.

Durable goods industries helped maintain a high level of productive activity. This was particularly true in steel which continued to operate above rated capacity throughout September although handicapped by the steel scrap situation which became tighter. Notwithstanding price adjustments which were made, the increases were not sufficient to overcome freight differentials and draw supplies of scrap from other districts. The pig iron industry established a new average daily production record of 34,852 tons, which is an increase over the previous high attained in August. Castings, both steel and malleable, were produced in tempo with the activity of the industry and were up over the previous month.

Maximum quotas set for automobile production were not attained, although the number of units coming off assembly lines exceeded the ten-year average, and weekly production rose from a September low of 33,000 to 77,000.

Reporting paper mills showed no gain, and pulp production was maintained at the levels recorded the month previous. Furniture, which is one of the important industries of the district, continued to operate at 97 per cent of capacity.

Although the new policy in building construction laid down by the Supply Priorities and Allocations Board was not in effect during September, contracts awarded declined from the high figure reached in August, with more than three-fourths of the loss being due to a smaller volume of public financing. Awards for industrial plant expansion which are financed through Government agencies fell off 28 million dollars, accounting for almost half of the total decrease. Contracts awarded for public works and public

utilities declined 20 million dollars from the preceding month, and residential building shared in the general curtailment, to the extent of 8 millions. Homes erected for rent or sale were affected more sharply by this decline than were those constructed for direct ownership.

Employment and payrolls resumed a rising trend by the middle of September, with the most substantial increases occurring in the transportation equipment industries, where there had been sharp curtailment during August. Reports of firms that are restricting schedules or reducing employment on account of a shortage of materials are becoming more frequent, but the effect upon total employment of these has not yet become serious.

Wage disbursements and the number of workers engaged in the production of consumers' goods continue to expand. Non-manufacturing industries—merchandising, public utilities, coal mining, and construction—showed continued gains. Margins in comparison with figures for the corresponding period a year ago have fallen off materially during recent months. This situation reflects the fact that from July through September of last year, employment and payrolls were rising at a rate considerably more rapid than has been the case this year. The current level of factory employment is 28 per cent higher than a year ago, and factory payrolls were up by 36 per cent.

A leveling-out process was evident in the retail distribution of commodities. Department store sales gained only 14 per cent over August, despite the heavy buying of luxury items which occurred in late September in anticipation of the excise taxes which went into effect October 1. This September gain is the smallest recorded in eighteen years for that month. Dollar volume of stocks on hand was up 15 per cent over August. Outstanding orders which in conjunction with stocks on hand reflect trade anticipation of sales were 17 per cent under August totals. Wholesale trade continued the upward movement which got under way in January 1939. Lumber and meat packing showed small sales increases for the month, each advancing about 2 per cent.

The steady gain in commercial, industrial, and agricultural loans of reporting member banks continued. These loans moved up 20 million dollars during September and the first four weeks of October. United States bonds held by reporting member banks increased 30 million dollars during the same period. Although holdings of Treasury bills declined 80 million dollars, total loans and investments increased 46 millions.

# Decline in Excess Reserves

Excess reserves of all member banks now amount to about half of their peak level. This decline is due in part to the increase in reserve requirements to the present statutory limit which became effective November 1, and in part to the persistent growth of currency in circulation, the higher level of Treasury deposits with Federal Reserve banks, and increased required reserves as a result of higher net demand deposits. The New York City central reserve city banks have felt the predominant portion of the continued decline in excess reserves since January because of the outward movement of funds to other parts of the country in the face of the sharply diminished gold inflow.

On October 29, three days before the increase in reserve requirements became effective, excess reserves of all member banks amounted to \$4,600 million. Given the present level and distribution of reserve balances and deposits, it is estimated that the higher reserve requirements increased required reserves and lowered excess reserves for member banks taken as a whole by about \$1,200 million. It is estimated, therefore, that on

November 1 excess reserves of all member banks were about \$3,400 million.

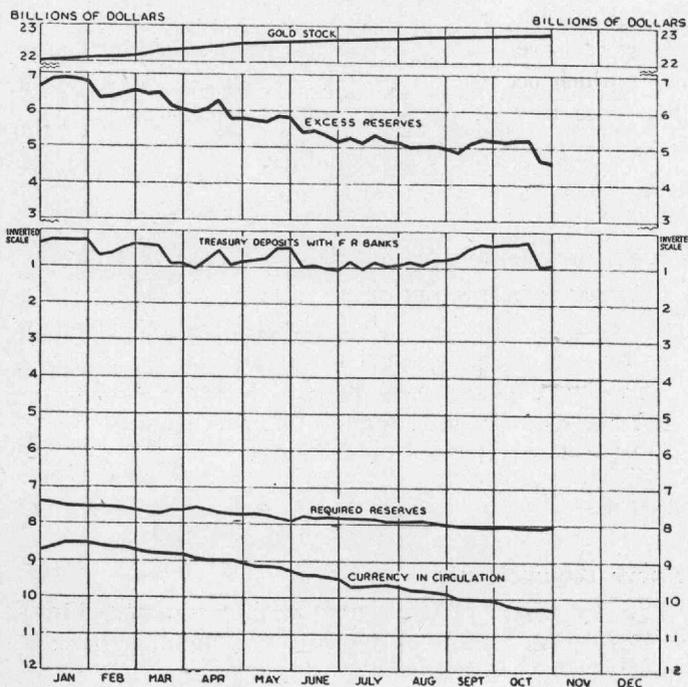
Excess reserves of all member banks reached a peak of \$6,940 million on October 23, 1940. Excess reserves amounted to almost as much, \$6,896 million, on January 15 of this year when member bank reserve balances reached their record high level.

The decline in excess reserves from January 15 to October 29 amounted to \$2,296 million. The chart shows the chief causes of the decline during that period. Currency in circulation, at a record high of \$10,307 million on October 29, increased \$1,765 million. Treasury deposits with Federal Reserve banks were \$678 million greater. Required reserves rose \$514 million from January 15 to October 29. These changes which caused excess reserves to decline were offset in part by an increase of \$730 million in the monetary gold stock.

Excess reserves of central reserve New York City banks declined from \$3,545 million on January 15 to \$1,345 million on October 29. It is estimated that the increase in reserve requirements caused a further decrease to about \$825 million.

The sharp diminution in the gold inflow since January has deprived the New York City banks of a major source of increase in reserves. At the same time, reserves of New York City banks have been absorbed by an outward movement of funds to other parts of the country. Treasury receipts from new securities, as well as tax collections in the New York District, have exceeded Treasury disbursements in that area. Commercial and financial transactions, other than Treasury transactions and movement of bankers' balances, have caused New York City banks to lose reserves. From January to the middle of October, there was little change in the balances of out-of-town banks held with banks in New York City. Domestic interbank deposits of New York reporting banks, however, declined \$163 million in the week ending October 22 and \$65 million in the week ending October 29.

**EXCESS RESERVES AND PRINCIPAL DETERMINANTS  
JANUARY - OCTOBER 1941.**



October 29 latest date shown.

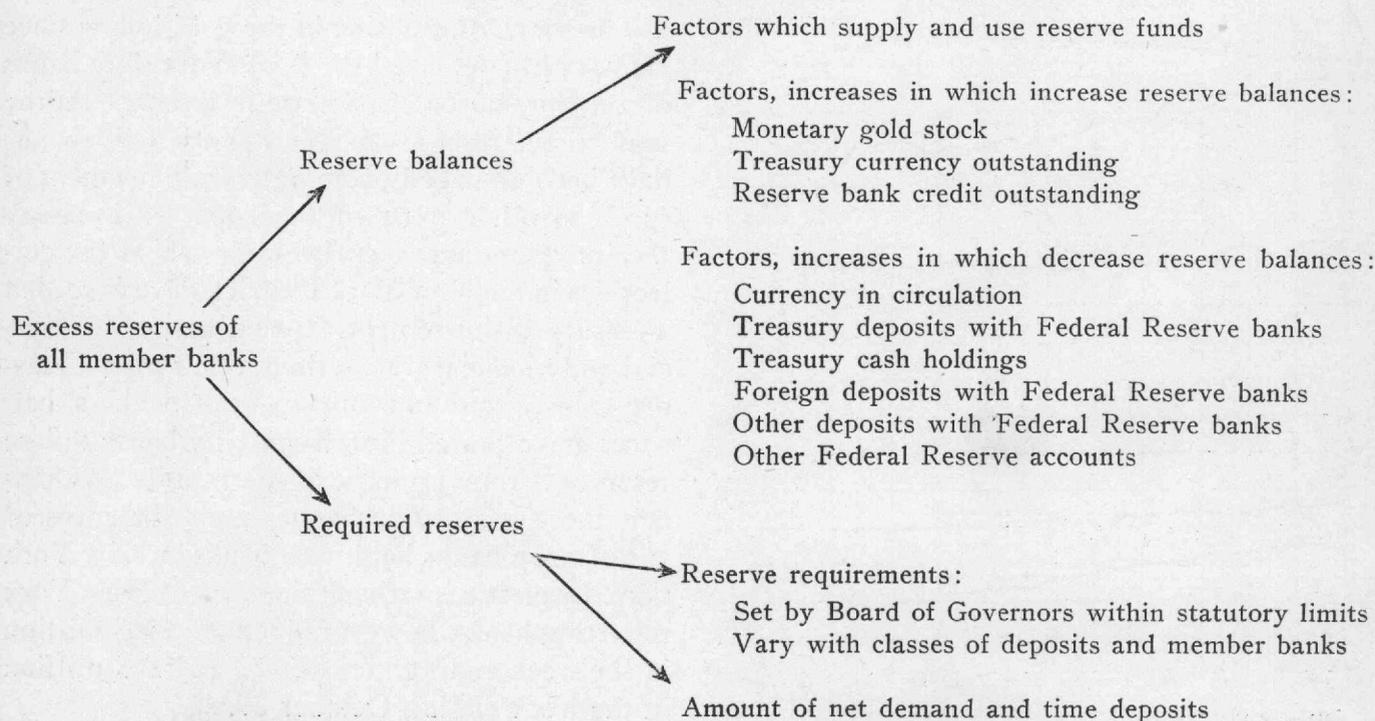
On November 1, Chicago central reserve city banks carried reserve balances of \$1,173 million. On that date required reserves amounted to \$734 million on the old basis, and \$841 million on the new basis. Excess reserves of Chicago central reserve city banks, therefore, declined from \$439 million to \$333 million as a result of the higher reserve requirements. It is estimated that the increased reserve requirements caused excess reserves of member banks in the Seventh Federal Reserve District to decline from about \$800 million to about \$630 million.

In consideration of the reserve position of member banks, attention must be given to balances of correspondent banks and balances due to banks, as well as to excess reserves. To some extent, banks are adjusting their reserve positions by withdrawing balances held with correspondent banks in New York City, Chicago, and other cities. Further adjustments may take place during November, for until December 1 penalties for deficient reserves will be based upon the old reserve requirements. Withdrawal of balances due to banks will cause further declines in excess reserves of correspondent banks. On October 29, weekly reporting member banks in

RESERVE BALANCES, REQUIRED RESERVES, AND EXCESS RESERVES OF ALL MEMBER BANKS JANUARY 15 — OCTOBER 29, 1941 (In millions of dollars)					
	Jan. 15	Oct. 15	Oct. 22	Oct. 29	Change from Jan. 15 to Oct. 29
<b>FACTORS, INCREASES IN WHICH INCREASE RESERVE BALANCES:</b>					
Reserve bank credit outstanding.....	2,254	2,313	2,291	2,250	-4
Gold stock.....	22,066	22,778	22,786	22,796	+730
Treasury currency.....	3,092	3,207	3,214	3,219	+127
<b>FACTORS, INCREASES IN WHICH DECREASE RESERVE BALANCES:</b>					
Currency in circulation.....	8,542	10,283	10,278	10,307	+1,765
Treasury cash holdings.....	2,195	2,222	2,195	2,209	+14
Treasury deposits with Federal Reserve banks.....	237	259	977	915	+678
Foreign deposits.....	1,230	1,188	1,141	1,189	-41
Other deposits.....	512	732	659	721	+209
Other Federal Reserve accounts.....	283	292	292	292	+9
<b>MEMBER BANK RESERVE BALANCES.....</b>					
REQUIRED RESERVES.....	14,414	13,321	12,749	12,632	-1,782
EXCESS RESERVES.....	7,518	8,091	8,089	8,032	+514
	6,896	5,230	4,660	4,600	-2,296

New York City and Chicago had domestic interbank deposits of, respectively, \$3,747 million and \$1,050 million. A survey of the reserve position of individual member banks, made by the Board of Governors and the Federal Reserve banks for the week ending June 25, 1941, showed, however, that at that time about three-fourths of the member banks had excess reserves more than sufficient to meet the present increase in reserve requirements.

### FACTORS WHICH DETERMINE EXCESS RESERVES OF ALL MEMBER BANKS



## CONVERSION OF GUARANTEED ISSUES INTO TREASURY BONDS

The Treasury has adopted a policy of converting guaranteed obligations of Federal agencies into direct Treasury obligations. The retirement of the maturing United States Housing Authority notes on November 1 and the exchange of one per cent Treasury notes, dated November 1, 1941 and due March 15, 1946, for the maturing Reconstruction Finance Corporation notes and the maturing Commodity Credit Corporation notes are in keeping with this policy. "In order to reduce the number of financing operations in the market in behalf of the Government and to simplify the financing program," the Treasury announced, "it is contemplated that all of the Government guaranteed issues now outstanding in the hands of the public will eventually be converted into Treasury issues, so that the market will ultimately be dealing with the one class of Government obligations." In the future, new money needed by Federal agencies will be borrowed from the Treasury, and will result in an increase in direct Treasury obligations rather than in guaranteed issues.

The maturity schedule of securities guaranteed by the United States shows the extent to which the public debt may be expected to rise as a result of the conversion of guaranteed issues into Treasury issues. In the calendar year 1942, fixed-maturity guaranteed issues amounting to \$906 million become due, and callable guaranteed issues amounting to \$1,214 million are first callable. The entire amount of guaranteed securities becomes due or is callable within the next four calendar years.

## BALANCING THE HOG-CORN SCALES

Ups and downs in the numbers and production of livestock in the United States are familiar to everyone who is acquainted with agriculture. These changes have come to be referred to as cycles of production.

### The Hog Cycle

Such cycles occur in the production of hogs. One may start at any place in the hog cycle and trace the processes of expansion and contraction. If one starts at the low point or "trough" of production, the numbers on farms are found to be relatively small. At this point, hog prices are usually favorable, especially in relation to the price of corn, the principal hog feed. That is, hogs will be "high" and corn "cheap" when hogs are relatively scarce. With fewer hogs being fed, corn is relatively abundant. Producers facing this situation will then begin to increase their hog breeding and farrowings, eventually marketing cheap corn in the form of high-priced hogs. As this expansion proceeds, the relationship between corn prices and hog prices changes to a less favorable one. The increased production of hogs calls for more feed—more corn. This increased demand raises the price of corn. When the increased numbers of hogs come on the market, the increased supplies of pork relative to consumer demand for pork and pork products result in lower hog prices. In time, a situation is reached where hogs have become relatively cheap and corn prices relatively high. When corn is dear and hogs are cheap, many producers can no longer continue to feed at the same rate and remain liquid. Corn as a cash crop has be-

Description of Security <sup>2</sup>	Fixed Maturity Issues (Classified by year in which due)	Callable Issues (Classified by year in which issues are first callable)	Cumulative Total
<b>1942</b>			
7% RFC Notes R—1/15/42....	310		
3% FFMC Bonds—1/15/42-47...		236	
2 3/4% FFMC Bonds—3/1/42-47....		103	
1% RFC Notes S—7/1/42....	276		
2 1/2% HOLC Bonds G—7/1/42-44....		875	
7/8% RFC Notes U—10/15/42....	320		
Total.....	906	1,214	2,120
<b>1943</b>			
3 1/2% CCC Notes F—5/1/43....	289		
1 3/8% RFC Notes V—7/15/43....	324		
Total.....	613	—	2,733
<b>1944</b>			
1 3/4% USHA Notes B—2/1/44....	114		
3 1/4% FFMC Bonds—3/15/44-64....		95	
1% RFC Notes W—4/15/44....	571		
3% HOLC Bonds A—5/1/44-52....		779	
3% FFMC Bonds—5/15/44-49....		835	
Total.....	685	1,709	5,127
<b>1945</b>			
1 3/8% CCC Notes G—2/15/45....	412		
1 3/8% HOLC Bonds M—6/1/45-47....		755	
Total.....	412	755	6,294

<sup>1</sup>Excludes Federal Housing Administration debentures.

<sup>2</sup>The abbreviations refer to the following corporations: Home Owners' Loan Corporation, Reconstruction Finance Corporation, Commodity Credit Corporation, Federal Farm Mortgage Corporation, and United States Housing Authority.

Source: *Bulletin of the Treasury Department*, September 1941, Page 38.

come more attractive to them, hogs less attractive. At the time that they begin to shift their productive enterprise from hogs to corn, or to other enterprises, a peak is reached in the hog cycle. There then follows a period of readjustment in which production of hogs is reduced relative to the production of corn. This process continues until a new "bottom" is reached in hog numbers.

The cycles do not have exact lengths in time, such as the exact mathematical timing for the pendulum of a clock. They do have an approximately regular rhythm, sometimes long, sometimes short. The hog cycles tend to run about five years in length. The expanding side with rising numbers usually runs about three years, while the contracting side with falling numbers

runs about two years. The cycle is subject to many influences in the economic world other than just the relationship between corn prices and hog prices. Corn must compete with other grains. Pork and hogs must compete with beef, veal, lamb, and poultry. The drouths of 1934 and 1936 upset the cycles because of the destruction to standing crops and the forced sale of breeding stock. Present governmental policies of supporting pork and corn prices will alter the cycle from the pattern it otherwise would have followed.

### The Hog-Corn Ratio

The hog-corn ratio is a measure of the phase of the hog cycle existing at any given time. The ratio is obtained by dividing the price of 100

MONTHLY HOG-CORN RATIOS 1934-41

		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Mthly. Avg.
Illinois	1934.....	7.4	9.5	9.4	8.6	7.4	7.2	7.7	7.2	8.5	7.3	6.9	6.0	7.8
	1935.....	8.4	9.1	11.3	10.4	10.6	11.4	11.5	14.1	14.7	13.5	16.6	18.8	12.5
	1936.....	19.0	19.6	19.6	19.2	15.8	16.2	12.2	10.2	9.6	10.2	9.5	9.9	14.3
	1937.....	9.7	9.3	9.2	7.5	8.0	9.0	9.7	12.5	11.7	20.8	20.2	17.3	12.1
	1938.....	16.0	17.2	19.3	16.9	15.7	17.1	18.4	18.2	19.5	20.5	20.0	16.7	18.0
	1939.....	16.1	18.6	18.5	17.0	15.0	13.9	15.6	14.5	14.5	16.0	14.5	10.9	15.4
	1940.....	10.6	9.8	9.6	9.2	9.2	8.1	10.1	10.2	10.8	10.3	10.2	11.2	9.9
1941.....	14.3	13.9	13.2	13.6	12.7	13.7	15.5	15.7	16.4	.....	.....	.....	.....	
Indiana	1934.....	8.3	10.5	10.0	8.3	7.6	7.7	8.1	7.5	8.7	7.9	7.6	6.6	8.2
	1935.....	9.2	9.9	11.6	10.7	11.0	11.8	12.0	14.5	15.2	13.9	18.2	20.2	13.2
	1936.....	20.7	21.4	21.3	21.0	17.2	19.0	12.5	10.7	10.1	10.5	10.7	10.7	15.5
	1937.....	10.2	9.8	9.7	7.9	8.3	9.3	10.0	12.6	12.3	19.8	22.6	18.4	12.6
	1938.....	17.4	18.7	20.9	18.0	16.6	19.1	18.0	17.8	18.7	20.6	20.8	17.0	18.6
	1939.....	16.7	18.1	17.2	15.5	14.6	12.7	15.2	13.7	14.0	16.8	14.2	10.4	14.9
	1940.....	10.8	10.2	9.6	9.1	9.3	8.0	10.1	9.8	10.0	10.0	10.5	10.4	9.8
1941.....	13.6	13.3	12.9	12.6	12.3	12.9	14.8	14.8	15.5	.....	.....	.....	.....	
Iowa	1934.....	7.7	10.6	10.3	9.4	7.9	7.7	7.8	7.2	8.7	7.2	6.8	5.7	8.0
	1935.....	8.3	9.0	10.8	9.9	10.2	11.4	11.6	14.3	14.7	14.1	17.7	19.1	12.6
	1936.....	19.4	19.8	19.2	20.2	17.1	17.8	12.0	9.6	9.3	9.3	8.7	8.9	14.3
	1937.....	8.8	8.5	8.6	7.5	8.0	9.2	9.4	12.2	12.8	21.1	19.5	17.2	11.9
	1938.....	16.0	17.1	20.0	17.7	16.8	18.6	18.9	20.0	19.8	21.5	21.2	17.6	18.8
	1939.....	17.4	20.9	20.3	18.3	16.7	14.8	16.9	14.4	14.8	16.9	14.2	11.0	16.4
	1940.....	10.9	10.4	10.0	9.6	9.5	8.3	10.5	10.7	11.5	11.3	11.0	11.9	10.5
1941.....	16.1	15.1	14.7	15.1	14.4	15.2	16.8	16.7	17.8	.....	.....	.....	.....	
Michigan	1934.....	6.6	8.2	8.0	7.1	6.5	6.0	6.8	6.3	7.4	7.0	6.7	6.1	6.9
	1935.....	8.4	9.1	10.6	10.4	10.3	10.9	10.9	13.5	14.0	13.2	15.4	18.0	12.1
	1936.....	17.7	18.5	18.5	18.7	17.0	17.7	12.8	10.2	10.1	9.8	9.4	9.6	14.2
	1937.....	9.9	8.6	9.5	7.9	8.1	8.7	9.3	11.2	10.9	13.9	15.6	14.5	10.7
	1938.....	13.9	14.8	16.3	15.0	14.3	15.3	15.4	15.2	16.2	15.0	16.2	15.2	15.2
	1939.....	15.7	16.5	16.0	14.4	13.7	12.0	14.0	12.8	13.1	12.9	12.0	9.6	13.6
	1940.....	10.0	9.4	9.4	9.2	8.9	8.2	9.8	9.5	10.0	9.7	9.1	8.9	9.3
1941.....	11.6	11.8	11.7	12.2	12.2	12.8	14.3	14.2	14.4	.....	.....	.....	.....	
Wisconsin	1934.....	6.4	8.3	8.0	7.4	6.5	5.8	6.4	6.3	8.2	6.8	6.9	6.0	6.9
	1935.....	8.5	9.0	10.8	10.3	10.7	10.9	11.0	13.2	13.5	13.0	13.9	15.5	11.7
	1936.....	15.9	16.3	15.1	15.3	13.9	14.3	11.3	9.1	8.6	8.5	8.3	8.5	12.1
	1937.....	8.6	8.3	8.3	7.1	7.4	8.2	8.7	11.1	10.6	13.6	14.8	13.7	10.1
	1938.....	12.9	13.4	14.6	13.3	13.0	14.3	14.2	13.8	15.0	14.1	15.9	14.8	14.1
	1939.....	14.5	15.7	15.7	13.8	12.8	11.4	12.4	11.5	12.3	12.4	12.1	9.3	12.8
	1940.....	9.4	8.9	8.7	8.4	8.5	7.5	9.2	9.2	9.7	9.7	9.0	10.0	9.0
1941.....	13.1	12.9	12.7	13.8	13.1	13.8	15.0	14.9	15.5	.....	.....	.....	.....	

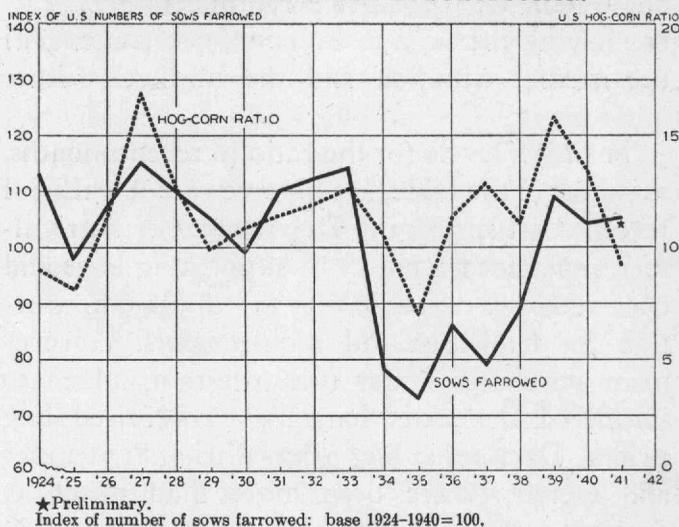
pounds of live hog by the price per bushel of corn. The resulting quotient indicates the number of bushels of corn which 100 pounds of live hog will buy at the prices used. The corn required to finish a hog for market is, in general, a fairly constant physical quantity. The ratio is said to be favorable to current feeding operations when over approximately twelve bushels, and unfavorable when under this figure. The production cycle tends to swing upward toward a peak of expansion as long as the ratio is rising, and to swing downward toward the lowest point as long as the ratio is falling. Since the ratio expresses a proportional relationship between prices of hogs and corn, it does not depend upon actual prices for its favorable or unfavorable showing, but does depend entirely on the relationship between two prices. Ignoring other costs, the ratio is just as favorable to feeding when hogs are \$6.00 and corn is 45 cents as when hogs are \$12.00 and corn 90 cents.

In the accompanying tables, the hog-corn ratios for the five states lying in whole or in part within the Seventh Federal Reserve District are given by months from January 1934 to October 1941. In calculating these ratios, average prices received by farmers in each state for hogs and corn were used. The importance of a series of ratios such as these lies not so much in the absolute number of bushels shown by the ratio for any one month, but rather in the direction in which the measure is moving; that is, whether the ratio is becoming more, or less favorable.

The chart gives a graphic idea of the relationship between the ratio and the production cycle. In this chart, the average United States hog-corn ratio for each year has been plotted with the number of sows farrowed in the United States in the spring and fall of the succeeding year. For example, the monthly average ratio for 1939 was 13.4 bushels. This is plotted on the chart with the index of 1940 farrowings. Throughout the chart the ratio is plotted with the farrowings of the following year, since obviously it is the ratio up to and at breeding time, rather than at farrowing time, that influences the producer's decisions.

The ratio thus may be said to serve as a rough

THE HOG-CORN RATIO AND HOG PRODUCTION.



sort of barometer for the hog industry. At this point, question may be raised as to why, if this measure is of any use as a guide, does not the producer follow the guide and stop expanding before price relationships have gone so far as to make retrenchment necessary. There are a number of valid reasons why producers do not behave in this fashion. After a producer makes a decision to expand, time is required to put the decision into effect. That is, sows must be bred, following which time is required for gestation. Before the pigs are ready to market, the feed situation may turn to a less favorable one, and, when the pigs are marketed, they serve to aggravate a situation already turned bad. If the timing of the cycle in prices were accurate, it would, of course, be possible for the producer to forecast accurately just when the peak would be reached and when to curtail his expansion. But the timing is an irregular thing at best, and the most that the producer can do is to make a rather rough guess as to when the peak will be reached (or the bottom). Another limitation on the possibility of evening out the cycle is the fact that production must take place in indivisible units. The producer might decide that the price situation is favorable and calls for an expansion of 10 per cent. But many producers are small-scale operators, and must breed all their sows in order to make a living. Another difficulty is that a large proportion of the hogs produced comes from farms where hogs are not the major enterprise and are produced and sold by producers who do

not watch the basic price relationships closely, not having the time to become close students of the market situation and the market's future outlook.

The high levels for the ratio in recent months, as shown in the table, are to some extent artificial levels. Last spring the Department of Agriculture announced a policy of supporting hogs and corn at 85 per cent of parity to stimulate production for lend-lease aid requirements. Government purchases under this program, added to improved domestic demand, have raised hog prices. Declines in hog prices during September and October have been more than offset by declines in corn prices, leaving the ratio highly favorable.

Hog-corn ratios for the five states shown in the table will be carried currently hereafter in the statistical section.

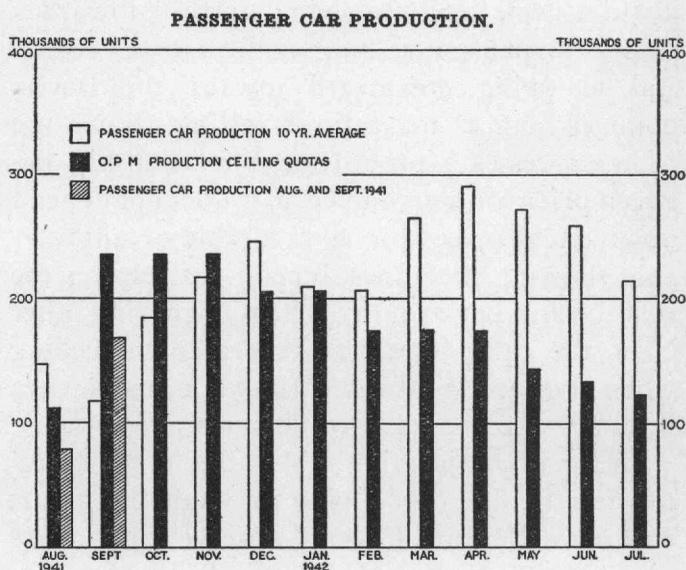
### PASSENGER CAR PRODUCTION AND SALES

Production of passenger cars in the United States was 78,529 units during August and 167,790 units during September. This is a substantial volume, considering the problems encountered in this year's changeover to new models which required unusual mechanical revisions due to the use of substitute materials not earmarked for defense purposes. The OPM passenger car quota was 111,429 units for August and 235,124 units for September, actual production being about 70 per cent of these quotas for both months.

It was inevitable that certain materials used in the manufacture of passenger cars would be diverted to defense production. Automobile engineers have done an efficient job on the 1942 models, eliminating and conserving these critical materials and maintaining the customary excellence of their product. As armament production continues to expand in the months to come, the number of passenger cars to be produced will be determined by the labor and materials available.

Weekly production data for passenger cars are not available. The combined total for passenger cars and trucks in the United States and Canada, however, has shown a steady increase from 33,-

000 units reported for the week ending September 6 to 92,000 units for the week ending October 25. During the twelve-week period beginning the first week in August, 730,000 passenger cars and trucks were assembled. This volume was exceeded only twice in any similar period of the last ten years. Material scarcity is reported to be retarding automobile production somewhat.



### New Passenger Car Sales Decline

The current decline in new passenger car sales is attributed by dealers to various causes. News of future trends expected in the automobile industry was responsible for an unprecedented wave of purchasing during the spring and summer months of this year, satisfying the demands of customers, many of whom ordinarily would have awaited the 1942 model cars. The current prices on fully equipped and delivered 1942 passenger cars are considerably higher than most prospective purchasers anticipated. Lower predetermined book values are being quoted by dealers on cars offered for trade-in, with practically no dealer discounts in evidence. The actual dollar difference between present used-car allowances and the total equipped and delivered price, including taxes, has widened sufficiently so that many buyers are postponing their purchases. The excessive appraisals previously allowed by dealers for automobiles offered by customers for trade-in have caused purchasers to

expect higher allowances than could possibly be realized by dealers in the used-car market. Where trade-ins were not involved, a discount from the delivered price was requested and often received by the purchaser. Dealers' profits consequently were reduced.

There is little evidence of pressure salesmanship or extensive advertising. The elaborate pamphlets containing automobile specifications and colored pictures of the new models, so prominently displayed in other years, are frequently omitted. Fewer demonstration cars are available, and unless a dealer is quite certain that the prospect will buy, demonstration rides are seldom offered. Due to curtailed production schedules at factories, dealers believe that they will have ample demand for all the automobiles they will receive, and that while the volume of new car sales might remain low, a greater profit will be realized on each car sold.

The regulation of consumer credit issued by the Board of Governors of the Federal Reserve System, effective September 1, limits the credit value of a new or used automobile to 66⅔ per cent of its fully equipped and delivered price. It is not yet possible to know to what extent the regulation has influenced the volume of automobile sales. Occasionally a customer wishing to trade-in a used car whose value is not equal to the required one-third down-payment is reluctant to add the necessary cash to cover the initial payment. These instances are few, as the value of most popular makes of automobiles which have not received more than one to three years' service is usually more than sufficient to cover the down-payment now required to purchase a new automobile. Financing the balance in eighteen equal monthly installments is considered constructive regulation.

Less fortunate are certain used-car dealers whose sales had been financed by loaning agencies willing to offer longer terms and accept little or no down payments from customers who otherwise could not afford to purchase an automobile. These dealers are certain to lose sales, as all finance companies are now required to abide by the terms outlined in the regulation.

### BUILDING CONTRACTS AWARDED SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
September 1941.....	\$61,107,000	\$27,312,000
Change from August 1941.....	-49%	-22%
Change from September 1940.....	-12%	-20%
First nine months of 1941.....	\$724,013,000	\$267,024,000
Change from same period of 1940.....	+54%	+29%

Data furnished by the F. W. Dodge Corporation.

### PERCENTAGE CHANGE FROM AUGUST 15, 1941 TO SEPTEMBER 15, 1941 IN THE COST OF GOODS PURCHASED BY WAGE EARNERS AND LOWER-SALARIED WORKERS, BY GROUPS OF ITEMS

City	All Items	Food	Clothing	Rent	Fuel, Electricity, and Ice	House Furnishings	Miscellaneous
Average: Large Cities in the United States.....	+1.8	+2.6	+3.6	+0.5	+0.5	+2.8	+1.0
Chicago.....	+2.6	+5.7	+3.8	+0.3	+0.1	+1.6	+0.6
Detroit.....	+2.0	+1.7	+3.9	+2.0	+0.6	+1.5	+1.9

### INDEXES OF THE COST OF GOODS PURCHASED BY WAGE EARNERS AND LOWER-SALARIED WORKERS, BY GROUPS OF ITEMS, SEPTEMBER 15, 1941 (Average 1935-39=100)

City	All Items	Food	Clothing	Rent	Fuel, Electricity, and Ice	House Furnishings	Miscellaneous
Average: Large Cities in the United States.....	108.1	110.8	110.8	106.8	103.7	112.0	105.0
Chicago.....	109.6	114.3	108.5	111.0	102.6	110.1	104.2
Detroit.....	109.6	108.9	110.7	114.7	104.8	112.0	107.2

Data furnished by the Bureau of Labor Statistics.

### MONTHLY BUSINESS INDEXES

Data refer to Seventh District and are not adjusted for seasonal variation unless otherwise indicated. 1935-39 average=100	Sept. 1941	Aug. 1941	July 1941	Sept. 1940	Aug. 1940	July 1940
	<b>Manufacturing Industries:</b>					
Durable Goods:						
Employment.....	156	153	155	117	108	102
Payrolls.....	186	179	179	133	122	109
Non-Durable Goods:						
Employment.....	125	123	121	107	104	103
Payrolls.....	142	139	134	111	108	108
Total:						
Employment.....	146	143	143	114	107	103
Payrolls.....	172	167	165	126	117	109
<b>Pig Iron Production:*</b>						
Illinois and Indiana.....	211	204	202	179	173	169
<b>Automobile Production—(U. S. and Canada):</b>						
Passenger Cars and Trucks.....	74	49	140	85	27	73
<b>Casting Foundries Shipments:</b>						
Steel—In Dollars.....	413	311	281	137	129	121
In Tons.....	231	199	198	116	109	105
Malleable—In Dollars.....	199	180	202	123	117	101
In Tons.....	169	157	175	114	108	93
<b>Stoves and Furnaces:</b>						
Shipments.....	205	173	148	162	134	103
<b>Furniture Manufacturing:</b>						
Orders in Dollars.....	203	183	257	157	141	145
Shipments in Dollars.....	206	190	168	143	124	97
<b>Paper Manufacturing:*</b>						
Tonnage Production.....	137	135	132	107	111	116
<b>Petroleum Refining—(Indiana, Illinois, Kentucky Area):*</b>						
Crude Runs to Stills.....	168	161	163	147	146	146
Gasoline Production.....	166	152	156	140	141	143
<b>Bituminous Coal Production:*</b>						
Illinois, Indiana, Iowa, and Michigan.....	116	116	123	110	94	77
<b>Building Contracts Awarded:</b>						
Residential.....	237	303	307	297	229	222
Total.....	155	302	243	176	159	149
<b>Department Store Net Sales:*</b>						
Chicago.....	132	115	86	112	92	75
Detroit.....	195	126	97	159	86	73
Indianapolis.....	162	140	106	139	99	86
Milwaukee.....	154	126	98	126	93	77
Other Cities.....	142	130	93	115	100	74
Seventh District—Unadjusted.....	151	122	92	125	92	75
Adjusted.....	137	154	131	114	117	107

\*Daily average basis.

**STEEL AND MALLEABLE CASTINGS  
SEVENTH FEDERAL RESERVE DISTRICT**

	Per Cent Change from September 1941	
	August 1941	September 1940
	STEEL CASTINGS:	
Orders booked (tons).....	+28	+74
Orders booked (dollars).....	+72	+264
Shipments (tons).....	+16	+99
Shipments (dollars).....	+33	+202
Production (tons).....	+ 5	+96
MALLEABLE CASTINGS:		
Orders booked (tons).....	+30	+53
Orders booked (dollars).....	+30	+61
Shipments (tons).....	+ 7	+50
Shipments (dollars).....	+ 9	+66
Production (tons).....	+ 6	+41

**DEPARTMENT AND APPAREL STORE TRADE  
SEVENTH FEDERAL RESERVE DISTRICT**

Locality	Net Sales			Stock on Hand (End of Month)	
	Per Cent Change September 1941 from		Per Cent Change Jan.-Sept. 1941 from Jan.-Sept. 1940	Per Cent Change September 1941 from	
	August 1941	September 1940		August 1941	September 1940
	Chicago.....	+ 8	+22	+11	+16
Peoria.....	- 3	+22	+15	+30	+26
Fort Wayne.....	- 7	+32	+28	+35	+23
Indianapolis.....	+10	+22	+20	.....	.....
Des Moines.....	+ 6	+22	+12	.....	.....
Sioux City.....	+11	+37	+14	.....	.....
Detroit.....	+44	+29	+25	+16	+21
Flint.....	- 8	+10	+26	.....	.....
Grand Rapids.....	+15	+25	+17	+15	+50
Lansing.....	+ 5	+27	+30	.....	.....
Milwaukee.....	+15	+28	+21	+ 8	+40
Other Cities.....	- 1	+27	+24	+14	+24
Total.....	+14	+25	+18	+15	+26
Apparel Stores....	+19	+35	+18	+ 9	+20

**SALES OF INDEPENDENT RETAIL STORES  
SEVENTH FEDERAL RESERVE DISTRICT**

	Per Cent Change September 1940 to September 1941				
	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total All Groups*	+20	+21	+24	+26	+26
Apparel Group.....	+33	+26	+33	+28	+28
Drug Stores.....	+14	+19	+13	+24	+14
Eating and Drinking Places.....	+11	+17	+ 7	+23	+20
Food Group.....	+14	+17	+14	+18	+16
Furniture-Household-Radio Group.....	+33	+22	+20	+23	+47
Hardware Stores.....	+27	+31	+16	+27	+32
Jewelry Stores.....	+91	+81	+68	+65	+98
Lumber and Building Materials.....	+17	+16	+ 3	.....	.....
Motor Vehicle Dealers.....	-21	-20	- 8	.....	.....

\*Includes classifications other than those listed.  
Data furnished by Bureau of the Census, United States Department of Commerce.

**WHOLESALE TRADE  
SEVENTH FEDERAL RESERVE DISTRICT**

Commodity	Per Cent Change September 1940 to September 1941			
	Net Sales	Stocks	Accounts Outstanding	Collections
	Drugs and Drug Sundries.....	+28	+ 7	+26
Electrical Goods.....	+96	+29	+74	+85
Groceries.....	+25	+22	+20	+24
Hardware.....	+31	+36	+25	+30
Jewelry.....	+35	+ 2	+19	+74
Meats and Meat Products.....	+35	+ 2	+18	+34
Paper and Its Products.....	+36	- 3	+11	+32
Tobacco and Its Products.....	+17	+15	+14	+18
Miscellaneous.....	+43	+ 7	+32	+46
Total.....	+36	+20	+27	+36

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

**EMPLOYMENT AND PAYROLLS  
SEVENTH FEDERAL RESERVE DISTRICT**

Industrial Group	Week of September 15, 1941			Per Cent Change from August 15, 1941	
	Number of Reporting Firms	Number of Employees	Wage Payments (In thousands of dollars)	Number of Employees	Wage Payments
DURABLE GOODS:					
Metals and Products <sup>1</sup> .....	1,858	612,411	22,406	+0.6	+1.5
Transportation Equipment.....	401	397,341	17,020	+5.4	+9.2
Stone, Clay, and Glass.....	269	25,679	767	+0.2	+0.0
Wood Products.....	450	63,074	1,708	-0.9	+2.4
Total.....	2,978	1,098,505	41,901	+2.2	+4.5
NON-DURABLE GOODS:					
Textiles and Products.....	419	77,832	1,744	+0.2	+1.8
Food and Products.....	999	144,412	4,044	+4.4	+6.3
Chemical Products.....	306	41,035	1,406	+2.1	+3.5
Leather Products.....	177	35,442	903	-0.3	+0.8
Rubber Products.....	35	24,550	790	-1.0	-9.6
Paper and Printing.....	704	91,347	2,940	-1.5	-1.6
Total.....	2,640	414,618	11,827	+1.3	+1.7
Total Mfg., 10 Groups.....	5,618	1,513,123	53,728	+2.0	+3.9
Merchandising.....	5,195	159,173	3,750	+4.2	+2.3
Public Utilities.....	1,000	100,579	3,495	+0.5	+0.6
Coal Mining.....	45	7,652	251	+5.3	+2.8
Construction.....	441	9,127	392	+4.8	+2.9
Total Non-Mfg., 4 Groups.....	6,681	276,531	7,888	+2.8	+1.6
Total, 14 Groups.....	12,299	1,789,654	61,616	+2.1	+3.6

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

**BANK DEBITS  
Debits to deposit accounts, except interbank accounts**

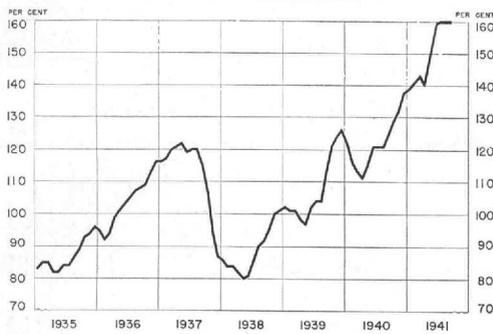
	(In thousands of dollars)			Per Cent Change September 1941 from	
	Sept. 1941	Aug. 1941	Sept. 1940	Aug. 1941	Sept. 1940
	ILLINOIS				
Aurora.....	15,631	15,514	11,409	-1	+37
Bloomington.....	14,703	14,328	13,198	+3	+11
Champaign-Urbana.....	16,681	16,264	14,163	+3	+18
Chicago.....	3,772,362	3,700,695	2,674,049	+2	+41
Danville.....	13,371	12,570	9,545	+6	+40
Decatur.....	22,622	25,191	17,677	-10	+28
Elgin.....	10,307	9,942	8,236	+4	+25
Moline.....	11,176	11,154	9,343	*	+20
Peoria.....	83,027	80,556	59,581	+3	+39
Rockford.....	40,174	38,644	26,918	+4	+49
Springfield.....	30,550	28,756	26,181	+6	+17
INDIANA					
Fort Wayne.....	41,920	43,167	30,981	-3	+35
Gary.....	23,058	22,777	17,304	+1	+33
Hammond.....	11,490	11,039	8,473	+4	+36
Indianapolis.....	278,135	260,768	198,764	+7	+40
South Bend.....	52,529	50,548	40,090	+4	+31
Terre Haute.....	29,467	29,245	22,976	+1	+28
IOWA					
Cedar Rapids.....	35,095	34,292	24,853	+2	+41
Clinton.....	7,564	7,488	6,180	+1	+22
Davenport.....	25,955	26,404	21,092	-2	+23
Des Moines.....	109,433	102,441	95,022	+7	+15
Dubuque.....	12,535	12,029	9,752	+4	+29
Mason City.....	11,958	12,654	9,558	-6	+25
Muscatine.....	4,487	4,360	3,708	+3	+21
Sioux City.....	54,134	51,487	42,248	+5	+28
Waterloo.....	24,621	24,463	18,519	+1	+33
MICHIGAN					
Adrian.....	5,232	5,251	3,991	**	+31
Battle Creek.....	18,343	19,880	12,133	-8	+51
Bay City.....	16,140	15,124	11,870	+7	+36
Detroit.....	1,337,019	1,339,803	946,600	**	+41
Flint.....	32,968	33,646	26,900	-2	+23
Grand Rapids.....	72,469	75,642	55,945	-4	+30
Jackson.....	21,897	21,323	14,948	+3	+46
Kalamazoo.....	32,403	30,494	23,161	+6	+40
Lansing.....	30,751	29,673	23,211	+4	+32
Saginaw.....	30,415	29,992	21,538	+1	+41
WISCONSIN					
Green Bay.....	20,913	20,342	15,173	-2	+31
Manitowoc.....	9,537	9,192	6,689	+4	+43
Milwaukee.....	333,006	342,700	241,682	-3	+38
Oshkosh.....	11,166	11,255	8,621	-1	+30
Sheboygan.....	24,130	24,265	15,908	-1	+52
SEVENTH DISTRICT					
41 Cities.....	6,749,274	6,655,258	4,848,190	+1	+39
UNITED STATES					
274 Cities.....	43,870,000	42,847,000	33,812,000	+2	+30

\*Increase of less than one per cent.  
\*\*Decrease of less than one per cent.

# National Summary of Business Conditions

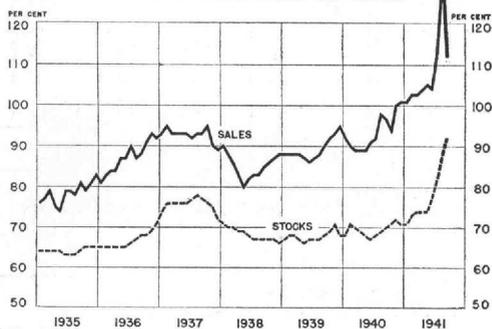
(By the Board of Governors of the Federal Reserve System)

## INDUSTRIAL PRODUCTION



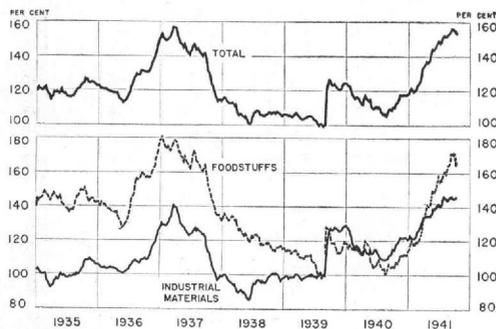
Federal Reserve index of physical volume of production adjusted for seasonal variation, 1935-39 average = 100. By months, January 1935 to September 1941.

## DEPARTMENT STORE SALES AND STOCKS



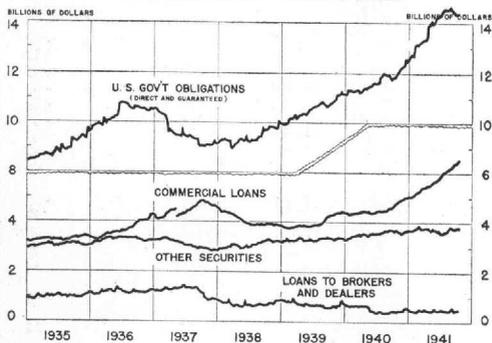
Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. By months, January 1935 to September 1941.

## WHOLESALE PRICES OF BASIC COMMODITIES



Bureau of Labor Statistics' indexes based on 12 foodstuffs and 16 industrial materials, August 1939 = 100. Thursday figures, January 3, 1935 to October 9, 1941.

## MEMBER BANKS IN 101 LEADING CITIES



Wednesday figures, January 2, 1935 to October 8, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported.

**INDUSTRIAL** activity continued at a high rate in September and the first half of October. Further advances in the output of defense products were accompanied by curtailment in some lines of civilian goods, particularly automobiles, rubber, and silk. Prices of industrial products increased further but agricultural prices declined after the middle of September, and on October 16 dropped sharply in response to international developments.

**Production**—Industrial output increased by about the usual seasonal amount in September and the Board's adjusted index remained at 160 per cent of the 1935-1939 average, the same as in July and August. Continued increases in activity were reported in the machinery, aircraft, and shipbuilding industries. At steel mills, activity in September and the first half of October was maintained at about 97 per cent of capacity. Output and deliveries of nonferrous metals likewise remained at about capacity levels, while lumber production declined somewhat from the high August rate. Automobile production increased less than seasonally in September, following the changeover to new models, and, according to preliminary estimates, output in September was considerably below the maximum quota that had been authorized by the Government.

In the textile industry, activity declined somewhat in September, reflecting mainly a further sharp reduction at silk mills. Activity at wool mills rose to a new high level, while at cotton mills there was little change from a rate slightly below the peak reached last May. Shoe production continued in large volume, and output of manufactured food products was maintained near the peak August level. Output of chemicals likewise continued at earlier high rates, but at rubber plants activity was considerably below the level of last summer, owing to curtailment programs ordered by the Government.

Coal production, which during the summer months had been unusually large, increased less than seasonally in September, owing in part to temporary work stoppages at some bituminous and anthracite mines. Crude petroleum production advanced to record levels in September and the first half of October, and output of metals and shipments of iron ore down the Lakes continued at about capacity.

Value of construction contract awards declined in September, according to figures of the F. W. Dodge Corporation, reflecting chiefly decreases in awards for public projects which had been exceptionally large in August. Awards for private residential building also declined, while contracts for other private work increased somewhat further. Total awards in September, as in August, were 80 per cent larger than in the corresponding period last year. This higher level reflected mainly a greater amount of public construction, which was nearly three times as large as a year ago, compared with an increase of about 10 per cent for private construction.

On October 9, the Supply Priorities and Allocations Board announced that, effective immediately, no public or private construction projects which use critical materials could be started during the emergency unless these projects were either necessary for direct national defense or essential to the health and safety of the nation.

**Distribution**—Distribution of general merchandise showed less than the customary seasonal rise in September, following an unusually large volume of sales in August. During the past three months, sales have been larger than in the corresponding period of any previous year. In the first half of October, sales at department stores declined from the peak reached in late September when there were considerable consumer purchases, particularly of articles subject to higher taxes on October 1.

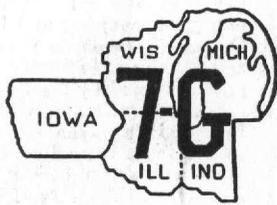
Loadings of revenue freight in September increased less than seasonally, particularly those of miscellaneous freight, which have been high in recent months, and loadings of coal, which were curtailed during part of the month by work stoppages at some mines. Shipments of forest products declined considerably from the high August level.

**Commodity Prices**—Prices of industrial products continued to advance in September and the first half of October, and Federal price ceilings were announced for additional commodities, including leading types of lumber, coke, wastepaper, paperboard, acetic acid, alcohols, and carded cotton yarns. In some cases these ceilings were below previously existing market quotations. Price advances were permitted, however, for some other commodities under Federal control. Prices of cotton and of foodstuffs increased further in the first half of September, but subsequently declined, owing partly to seasonal influences. On Thursday, October 16, prices of these commodities dropped sharply.

**Bank Credit**—Commercial loans at member banks continued to rise during September and the first half of October, reflecting in part defense demands. Increases were substantial both in New York and in other leading cities. Holdings of United States Government obligations decreased, mainly at banks in leading cities outside of New York. Excess reserves of member banks showed little change in this period.

**United States Government Security Market**—Following a slight decline in the first half of September, prices of long-term Treasury partially tax-exempt bonds increased during the latter half of September and in the first part of October. The yield on the 2¾ per cent bonds of 1960-65 reached a new record low of 2.01 per cent in October. Prices of taxable bonds moved within a relatively narrow range during the period with yields slightly above previous low levels.

**SEVENTH FEDERAL**



**RESERVE DISTRICT**

