BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

JULY 1942

Review of Seventh District Business

Economic life in the Seventh Federal Reserve District is now under the control of directives rather than the unhampered forces of a free economy; the flow of materials and equipment is being channelled by the War Production Board; the flow of labor is increasingly subject to the War Manpower Commission; and the flow of goods and services in trade is subject to the jurisdiction of the Office of Price Administration and War Production Board. Thus, total war has placed the functions of the price system in the hands of various governmental agencies as our economy is being mobilized for victory.

The overshadowing economic problem is production of a maximum of war goods for the armed forces and a residual as large as practicable for civilians. Steel, the backbone of the war production program, held to a high schedule during the month, although the total ingot production fell off slightly from the high May volume. Such decreases in production may be expected from time to time as the increased wear on furnace linings due to the high rate of operations begins to have effect. While steel shortages continue to be a serious problem, steel producers are maintaining a most enviable record and in spite of the serious scrap situation, production has not fallen below capacity since the week of Pearl Harbor. A vast tonnage of ore has been brought down from the Superior region and such shipments for the month of June reached a new record of 12½ million tons. It is interesting to note that shipments of ore for 1942 to date are greater than the annual total shipped in any one year from 1931-1935, inclusive.

COAL PRODUCTION INCREASES 23 PER CENT

Bituminous coal production in the mid-west area during the first six months of 1942 exceeded that of the same period last year by 23 per cent. The increase in consumption of coal this year over last has been relatively greater at retail yards than for industrial concerns, largely because the public has been stocking up early in order to avoid transportation difficulties later on.

Crude oil, another vital war necessity, has not been produced in the quantities that it was a year ago. The daily average volume of 280,700 barrels taken from the ground in Illinois during June reflects a decline of practically one-third from the output of last October. Runs of crude oil to stills in the Illinois-Indiana-Kentucky area exceed those of a year ago by a small margin, while production of gasoline has fallen below last year's volume. As sales of gasoline have been ahead of production since last March, stocks are showing considerable depletion and by the end of June were 6 per cent below those of a year ago.

Furniture shipments reported by 30 manufacturing plants within this District increased 28 per cent in dollar volume from a seasonal low in January to a peak in April, and for the year to date totaled 18 per cent larger than in the same period of 1941. Practically all of this latter increase can be accounted for by a rise in prices.

CONSTRUCTION AFFECTED BY WAR CONTROLS

One of the industries which has been profoundly affected by war controls has been construction. This industry, unlike others, was not shifted to new lines but the emphasis on the type of its output has turned from privately-financed projects for owner occupancy to housing for defense workers and governmentally-financed projects for industrial use. The dollar valuation of construction contracts awarded so far this year within the Seventh Federal Reserve District is higher than a year ago by 25 per cent, notwithstanding a temporary decline that followed the issuance of Conservation Order L-41 on April 9. A definite let-down has been apparent in residential contracts. Awards for homes for owner occupancy totaled 1¼ billion dollars this June, as against $17 million during the same month last year and there was also a decline from $15 million to $10 million in the awards for homes built for rent or sale. These losses in residential awards were more than compensated for by industrial plant expansion which moved up from a total of $9 million in June a year ago to $38 million in June this year.

Since the middle of March, there has been some increase in the total number of workers employed in manufacturing plants in the Seventh Federal Reserve District. The combined rise in the last three months amounts to little more than 2 per cent, and employment in manufacturing industries is now at a level 4 per cent lower than in June of last year and almost 7 per cent below the peak reached last September. As war producing industries have been steadily expanding, other industries have shown a loss in employment. While the war has brought no boom in total employment in this District, it has substantially increased the purchasing power of the workers. Higher wage rates and longer operating schedules have resulted in an increase of 13 per cent from a year ago in total wage payments by manufacturing industries.

Bank Credit in the War Economy

Member banks in the Seventh Federal Reserve District are making a significant contribution to the war effort through lending operations which finance the production and supply of war materials. Many loans which do not finance war activity nevertheless finance industries which are vital to civilian welfare and rank high in war-time importance. A surprising amount of loans has been made to retailers and wholesalers, perhaps to finance accumulation of inventories.

These conclusions are indicated by a comprehensive survey of new loans and renewals in the commercial and industrial loan category made from April 16 through May 15. The nature and coverage of the study was made possible by the splendid cooperation of Seventh District member banks. Similar surveys were made in the other Federal Reserve Districts, and the Board of Governors will release shortly a summary covering commercial and industrial loans of member banks throughout the nation.

The study came at a particularly timely juncture. Under the impetus of the defense program and the war effort, commercial and industrial loans in the Seventh District and in the nation had shown a long sustained advance from the middle of 1938 to March 1942. Such loans of Seventh District member banks almost doubled during that period. Industrial production has risen to a record level, hitherto unapproached. The Federal Reserve index of industrial production stood at 116 in May 1940, the month before the beginning of the defense program. The fact that it now stands at about 180 is a measure of the tremendous, unprecedented increase in the physical volume of industrial production as a result of the defense program and of the war. Inventories of manufacturers and wholesalers and retailers have risen to record levels. The physical volume as well as the dollar volume of retail and wholesale trade rose during 1941 and the first few months of 1942 to amounts far greater than ever before.

Regulation V was issued by the Board of Governors, effective April 6, to carry out the Executive Order of the President dated March 26. The basic purpose of the Executive Order was to put working capital financing on a war basis, to remove peace-time restrictions on banks and credit agencies which made it difficult for them to finance war production, although banks were anxious to use their resources for the prosecution of the war, and to facilitate the all-out participation of the nation's smaller businesses in war production. The objective of the Federal Reserve System in carrying out the purposes of the Executive Order is to facilitate and expedite war production, including the obtaining or conversion of facilities therefor, by arranging for the financing of contractors, sub-contractors and others engaged in businesses or operations deemed by the War Department, Navy Department, or Maritime Commission to be necessary, appropriate or convenient for the prosecution of the war.

NEW LOANS AND RENEWALS
WAR AND NON-WAR PURPOSES
(Amounts in thousands of dollars)

	New Loans and Renewals		Renewals		New Loans	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Total...	294,678	100.0	104,187	100.0	190,492	100.0
War....	134,849	45.8	40,290	38.7	94,558	49.6
Non-war	145,894	49.5	60.023	57.6	85,871	45.1
Mixed..	13,936	4.7	3,873	3.7	10,063	5.3

Early this year, however, commercial and industrial loans turned down. The high point in such advances of weekly reporting member banks in the Seventh District and in the nation was reached on March 18. To be sure, continued accumulation of inventories and accelerated financing of war activity pushed certain categories of commercial and industrial loans still higher. But other categories declined in greater measure, as a result of lessened production of civilian goods, particularly of consumers' durable goods. The survey of commercial and industrial loans came, therefore, at a turning point brought about by the uneven impact of the war effort.

This survey provides information which, for the first time, makes it possible to classify commercial and industrial loans of member banks according to business of borrower, size of borrower, and war or non-war purpose. On December 31, 1941, commercial and industrial loans constituted about one-half of the total loans outstanding of Seventh District member banks, and almost one-fifth of their total loans and investments.

The returns from 640 member banks reporting in the study were tabulated and analyzed. (In addition to these banks, 62 other member banks reported no new or renewed commercial and industrial loans made during the period, and the returns of 42 other member banks could not be used because of incomplete data or late reporting.) Commercial and industrial loans of the 640

War or Non-War Purpose	Class of Bank			
	All Reporting Banks	"A" Banks	"B" Banks	"C" Banks
	AMOUNTS (In thousands of dollars)			
Total	294,678	210,572	43,034	41,072
War	134,849	110,061	13,183	11,605
Non-War	145,894	88,259	28,983	28,652
Mixed	13,936	12,252	868	815
	PERCENTAGE DISTRIBUTION BY CLASS OF BANK			
Total	100.0	71.5	14.6	13.9
War	100.0	81.6	9.8	8.6
Non-War	100.0	60.5	19.9	19.6
Mixed	100.0	87.9	6.3	5.8
	PERCENTAGE DISTRIBUTION BY WAR OR NON-WAR PURPOSE			
Total	100.0	100.0	100.0	100.0
War	45.8	52.3	30.7	28.3
Non-War	49.5	41.9	67.3	69.7
Mixed	4.7	5.8	2.0	2.0

NEW LOANS AND RENEWALS
WAR OR NON-WAR PURPOSE AND CLASS OF BANK

member banks amounted to $1,098 million on December 31, 1941, or 98.3 per cent of such loans outstanding at all Seventh District member banks. Commercial and industrial loans outstanding of the 640 member banks amounted to $1,108 million on April 15 and $1,100 million on May 15 and thus showed a decline of about $7 million during that period.

The tables which follow relate only to the new loans and renewals made from April 16 through May 15 by the 640 member banks included in the study.

WAR AND NON-WAR PURPOSE

Almost half of the total advances made were for war purposes and a continuing shift is underway to a higher proportion of war loans. New loans and renewals for war purposes constituted 45.8 per cent of the dollar volume of all new loans and renewals made to commercial and industrial concerns. An additional 4.7 per cent was partly for this purpose. Non-war purposes accounted for 49.5 per cent of total new loans and renewals.

The proportion of war loans is increasing. This is indicated by a comparison of the proportion of new loans for war purposes with the proportion of renewals for war purposes. Advances to finance war activity constituted 49.6 per cent of new loans and 38.7 per cent of the renewals. Advances to finance non-war activity amounted to 45.1 per cent of new loans and 57.6 per cent of renewals.

The definition of "war loans" used in the study is a broad one. Instructions to the reporting member banks called for the inclusion "as defense loans all loans made directly or indirectly for national defense purposes, whether made to prime contractors or to subcontractors and whether or not secured by assigned Government contracts," and stated that "in the absence of information to the contrary, it may be assumed that if a borrower is engaged to a substantial extent directly or indirectly in providing facilities, supplies, or equipment for national defense, new loans to such a borrower may be considered as defense loans."

It must not be presumed that all "non-war loans" are for non-essential purposes. Many non-war loans, such as those to public utilities, transportation, communication, food processing, and petroleum companies, are vital to civilian welfare and rank high in war-time importance.

A special classification of member banks into three groups is useful in analysis of the returns in the commercial and industrial loan survey. Member banks which had $10,000,000 or more in commercial and industrial loans outstanding on December 31, 1941 are classed as "A" banks. The thirteen "A" banks are located in Chicago, Indianapolis, Des Moines, Detroit, and Milwaukee. Member banks having less than $10,000,000 in commercial and industrial loans outstanding on December 31, 1941, but located in cities of 100,000 population or over, are referred to as "B" banks. The sixty-six

"B" banks which reported in the study are located in Chicago and Peoria, Illinois; Fort Wayne, Gary, Indianapolis, and South Bend, Indiana; Des Moines, Iowa; Detroit, Flint, and Grand Rapids, Michigan; and Milwaukee, Wisconsin. All other member banks which reported in the loan study—reporting member banks located in cities of less than 100,000 population—are classed as "C" banks. The 561 "C" banks which reported in the study are located in all parts of the Seventh Federal Reserve District. Loans less than $5,000 made by "A" banks, loans less than $2,500 by "B" banks, and certain loans less than $1,000 by "C" banks were not individually reported.

In the Seventh District, a high proportion of the new loans and renewals made for the purpose of financing war activity was made by the member banks in the "A" category. The "A" member banks made 81.6 per cent of the dollar volume of new loans and renewals for war purposes made by all member banks which reported in the study, 60.5 per cent of new loans and renewals for non-war purposes, and 71.5 per cent of new loans and renewals for war and non-war purposes. This result is in line with the distribution of commercial and industrial loans outstanding, as shown in the call reports. On December 31, 1941, commercial and industrial loans of the thirteen banks in the "A" category amounted to about 80 per cent of commercial and industrial loans of all Seventh District member banks.

Advances to finance war activity constituted 52.3 per cent of new loans and renewals of "A" banks. Member banks in the "B" classification made 30.7 per cent of their new loans and renewals to finance war activity. War loans constituted 28.3 per cent of new loans and renewals of all other member banks which reported in the loan survey.

No loans are more vital to the war effort than the agricultural loans under the "Food for Freedom" program which are being made, in large part, by smaller banks in rural communities. Such loans are not included in commercial and industrial loans and were not covered in the present survey.

SIZE OF BORROWER

The loan study provides information which, for the first time, makes it possible to classify commercial and industrial loans of member banks according to size of borrower.

It has always been known, of course, that loans to large corporations accounted for the bulk of the total dollar volume of advances, and that the larger banks made the greater portion of all commercial and industrial loans. The present study, however, provides more accurate information than has thus far been available.

It is, therefore, interesting to note that 31.7 per cent of the $294,678,000 advanced from April 16 through May 15 by the 640 member banks included in the study went to firms with total assets of more than $5,000,000. An additional 33.2 per cent went to firms in the $500,000-$5,000,000 size group. Thus, about two-thirds of the dollar volume of new and renewed commercial and

NEW LOANS AND RENEWALS
CLASS OF BANK AND TOTAL ASSETS OF BORROWER

Class of Bank	Total Assets of Borrower				
	All Borrowers	Under $50,000	$50,000 to $500,000	$500,000 to $5,000,000	Over $5,000,000
	AMOUNTS (In thousands of dollars)				
All Reporting Banks	294,678	20,382	83,240	97,738	93,319
"A" Banks	210,572	2,200	36,521	83,860	87,992
"B" Banks	43,034	6,372	25,072	8,988	2,602
"C" Banks	41,072	11,810	21,647	4,891	2,725
	PERCENTAGE DISTRIBUTION BY SIZE OF BORROWER				
All Reporting Banks	100.0	6.9	28.2	33.2	31.7
"A" Banks	100.0	1.0	17.3	39.8	41.9
"B" Banks	100.0	14.8	58.3	20.9	6.0
"C" Banks	100.0	28.8	52.7	11.9	6.6
	PERCENTAGE DISTRIBUTION BY CLASS OF BANK				
All Reporting Banks	100.0	100.0	100.0	100.0	100.0
"A" Banks	71.5	10.8	43.9	85.8	94.3
"B" Banks	14.6	31.3	30.1	9.2	2.8
"C" Banks	13.9	57.9	26.0	5.0	2.9

industrial loans was advanced to firms with total assets of more than $500,000 each. The firms in the smallest category—those having total assets of less than $50,000—borrowed only 6.9 per cent, and the remaining 28.2 per cent went to firms with total assets ranging from $50,000 to $500,000.

When one analyzes the number of loans, as distinct from the dollar volume of advances, made by size of borrower, the reverse pattern is revealed. The firms in the smallest size group accounted for 42.8 per cent of the 16,115 individual advances classified in the study. Those firms in the second smallest size group received 40.8 per cent. Firms with total assets less than $500,000, therefore, account for five-sixths of the number of loans made but only one-third of the dollar volume of loans made. Firms with total assets from $500,000 to $5,000,000 received 13.8 per cent of the number of advances, and firms with total assets of more than $5,000,000, 2.6 per cent. Firms with total assets over $500,000, therefore, account for one-sixth of the number of advances made, but two-thirds of the dollar volume of new loans and renewals.

Certain rough comparisons may be made between these data and a classification of the 411,941 corporations submitting balance sheets with Federal income tax returns in 1938, the latest year for which this information is available. According to *Statistics of Income for 1938,* firms with total assets under $50,000 made 55.3 per cent of the total number of returns and accounted for 8.3 per cent of the gross sales of the 411,941 corporations. Firms with total assets from $50,000 to $500,000 submitted 35.1 per cent of the total number of returns and made 23.8 per cent of total sales. Firms with total assets from $500,000 to $5,000,000 made 8.3 per cent of the total number of returns and 25.2 per cent of total gross sales. Firms with total assets over $5,000,000 made 1.3 per cent of the total number of returns and 42.7 per cent of total gross sales.

The average dollar amount of individual new loans or renewals for all borrowers was $18,286. The average dollar amount of individual advances was $2,956 for firms with total assets under $50,000, $12,658 for firms with total assets from $50,000 to $500,000, $44,106 for firms with total assets from $500,000 to $5,000,000, and $217,526 for firms with total assets of over $5,000,000.

A larger portion of new loans and renewals to the larger firms was for war purposes than in the case of smaller firms. Firms with total assets from $500,000 to $5,000,000 made 53.5 per cent of the dollar volume of their new loans and renewals for purposes of financing war activity, and firms with total assets over $5,000,000 51.4 per cent. Firms with total assets from $50,000 to $500,000 used 37.9 per cent of their borrowings for war purposes, and firms with total assets under $50,000 made 14.9 per cent of their advances for war purposes.

Comparable information is not available as to the distribution of prime contracts and sub-contracts by size of borrower or by Federal Reserve Districts. The War Production Board, however, has stated (*Victory,* Official Weekly Bulletin of the Agencies in the Office for Emergency Management, May 18, 1942, page 5) that the 100 corporations to whom the largest volume of primary supply contracts has been awarded had at the end of February 1942 about 76 per cent of the dollar volume of supply contracts of $50,000 or more let by the War and Navy Departments and the Maritime Commission since June 1940.

Borrowings of the larger firms in the Seventh District were concentrated to a great extent in "A" banks with commercial and industrial loans outstanding of more than $10,000,000 on December 31, 1941. Firms with total assets over $5,000,000 received 94.3 per cent of their advances in dollar volume from "A" banks, and firms with total assets from $500,000 to $5,000,000 made 85.8 per cent of their borrowings at class "A" banks. Of advances to firms with total assets from $50,000 to

NEW LOA
BUSINESS OF BORROWER

Business of Borrower	Total
Wholesale and retail trade, including commodity dealers	87,149
Sales finance and personal loan companies	27,664
Services: Hotels, restaurants, amusements, repair shops, professional services, etc.	6,911
Manufacturing and Mining:	
Metal mining, refining, and smelting	2,470
Metal products, including transportation equipment, shipbuilding, ordnance and munitions	53,720
Petroleum and petroleum products	4,861
Chemicals, drugs, rubber and products	6,451
Textiles, apparel, leather and products	14,925
Food, liquor, and tobacco	24,049
All other manufacturing and mining	17,686
Total manufacturing and mining	124,162
Public utilities, transportation, and communication	6,828
Building and construction operations	24,520
All other	17,443
Total	294,678

[1]Less than one-half of one per cent.

$500,000, 43.9 per cent was by "A" banks, 30.1 per cent by "B" banks, and 26 per cent by "C" banks. Firms with total assets under $50,000 received the largest portion of their borrowings, 57.9 per cent, from class "C" banks.

Of new loans and renewals made by class "A" banks, 39.8 per cent was to firms with total assets from $500,000 to $5,000,000, and 41.9 per cent to firms with total assets over $5,000,000. Class "B" banks made 58.3 per cent of their new loans and renewals to firms with total assets from $50,000 to $500,000, and 20.9 per cent to firms with total assets from $500,000 to $5,000,000. Class "C" banks made 52.7 per cent of their total advances to borrowers with total assets from $50,000 to $500,000, and 28.8 per cent to firms with total assets less than $50,000.

BUSINESS OF BORROWER

New loans and renewals covered in the loan study were classified by business of borrower. The major categories in this classification are wholesale and retail trade; sales finance and personal loan companies; service enterprises; manufacturing and mining; public utilities, transportation, and communication; building and construction operations; and all other. The manufacturing and mining group, in turn, was divided into seven subclasses.

Manufacturing and mining concerns received 42.1 per cent of new loans and renewals made from April 16 through May 15 by the 640 member banks included in the study. Wholesalers and retailers received 29.6 per cent of total advances; sales finance and personal loan companies, 9.4 per cent; and building and construction firms, 8.3 per cent.

Advances to manufacturing and mining enterprises for war purposes constituted 65.1 per cent of all war loans. Metal products industries alone, including transportation equipment, ship building, ordnance, and munitions, received 37 per cent of total advances to finance war activity.

Wholesalers and retailers received 42.2 per cent of new loans and renewals for non-war purposes. Non-war loans to manufacturing and mining concerns constituted 21.2 per cent, and to sales finance and personal loan companies 18.9 per cent of all non-defense advances.

Marked differences are revealed by the percentage distribution by war or non-war purpose of the advances to borrowers in various lines of business activity. Of advances to the metal products group, 93 per cent was for war purposes. From two-thirds to three-fourths of advances to the metal mining, refining, and smelting group; petroleum and petroleum products; chemicals, drugs, rubber and products; public utilities, transportation, and communication; and building and construction operations financed war activity.

Virtually all loans to sales finance and personal loan companies were for non-war purposes. Non-war advances made up 70.7 per cent of loans to wholesale and retail trade enterprises and 56.8 per cent of advances to service enterprises.

BANK CREDIT AND WAR PRODUCTION

The fact that 70.7 per cent of new loans and renewals of manufacturing and mining concerns was for war purposes gives some indication of the extent of conversion of Seventh District manufacturing and mining enterprises to war production.

Comparison may be made with the analysis of industrial production under war conditions which appears in the July 1942 *Federal Reserve Bulletin.* The Federal Reserve index of industrial production, with the 1935-39 average as 100, measures the physical volume of production of American factories and mines. "It is estimated that in June close to 50 per cent of industrial output—in terms of the Board's production index about 88 points out of 180—represented production for war purposes.

RENEWALS
AR OR NON-WAR PURPOSE

Amounts (...ands of dollars)		Percentage Distribution by Business of Borrower				Percentage Distribution by War or Non-War Purpose			
Non-War	Mixed	Total	War	Non-War	Mixed	Total	War	Non-War	Mixed
61,595	7,028	29.6	13.7	42.2	50.4	100.0	21.2	70.7	8.1
27,629	0	9.4	[1]	18.9	.0	100.0	.1	99.9	.0
3,928	900	2.3	1.5	2.7	6.4	100.0	30.2	56.8	13.0
840	50	.8	1.2	.6	.4	100.0	64.0	34.0	2.0
2,486	1,286	18.2	37.1	1.7	9.2	100.0	93.0	4.6	2.4
950	637	1.7	2.4	.7	4.6	100.0	67.4	19.5	13.1
1,427	63	2.2	3.7	1.0	.5	100.0	76.9	22.1	1.0
6,646	1,086	5.1	5.3	4.5	7.8	100.0	48.2	44.5	7.3
10,353	1,611	8.2	9.0	7.1	11.6	100.0	50.3	43.0	6.7
8,269	619	6.0	6.5	5.7	4.4	100.0	49.7	46.8	3.5
30,971	5,352	42.1	65.1	21.2	38.4	100.0	70.7	24.9	4.3
2,107	6	2.3	3.5	1.4	[1]	100.0	69.1	30.8	.1
5,847	194	8.3	13.7	4.0	1.4	100.0	75.4	23.8	.8
13,816	457	5.9	2.4	9.5	3.3	100.0	18.2	79.2	2.6
145,894	13,936	100.0	100.0	100.0	100.0	100.0	45.8	49.5	4.7

Part of this production was in the manufacture of finished implements of war, such as airplanes, ships, guns, and ammunition; part represented manufacture of clothing and other supplies for the armed forces; part was in the making of equipment for war plants; and part was in the output of basic materials to be used directly or indirectly for war purposes. The great bulk of this war production was for the armed forces of the United States, but for some items production for Lend-Lease aid was substantial. A year ago, when the index was 159, about 32 points, or 20 per cent of the total, represented war production. Thus, the war component has nearly trebled, rising from 32 to 88 points, while industrial output for civilians has declined from 127 points in the total to 92 or thereabouts."

It is estimated that in June 1942 production of durable manufactures was about 70 per cent for war, while 25 per cent of output of non-durable manufactures was for war. The classification of loans for war and non-war purposes by business of borrower in the present loan study reflects the greater conversion of durable manufactures to war production than that of non-durable manufactures. The high proportion of war loans to new loans and renewals, 93 per cent, in the metal products group, including transportation equipment, ship building, ordnance, and munitions, contrasts with the lower proportions of war loans to total advances, about 50 per cent, in the textiles, apparel, and leather group and the food, liquor, and tobacco group.

BANK CREDIT AND INVENTORY ACCUMULATION

The high proportion of total advances, about 30 per cent, which went to retailers and wholesalers is striking. Retail and wholesale enterprises are normally large borrowers at commercial banks. Moreover, inventories of retail and wholesale enterprises have increased greatly since the beginning of 1941. The results of the loan survey provide reason to suppose that bank loans have been an important source of inventory financing.

The value of Seventh District department store inventories at the end of March 1942 was 42 per cent greater than a year ago, and at the end of May was 65 per cent greater than at the end of May 1941. From March to May of this year, department store stocks in the Seventh District rose about 18 per cent.

Inventories of wholesalers in the Seventh Federal Reserve District were 21 per cent larger in dollar amount at the end of March this year than at the end of March last year, according to the Bureau of the Census. During April and May, however, wholesale inventories in the Seventh District declined somewhat.

NEW LOANS AND RENEWALS
WAR OR NON-WAR PURPOSE AND TOTAL ASSETS OF BORROWER

War or Non-War Purpose	Total Assets of Borrower				
	All Borrowers	Under $50,000	$50,000 to $500,000	$500,000 to $5,000,000	Over $5,000,000
	AMOUNTS (In thousands of dollars)				
Total	294,678	20,382	83,240	97,738	93,319
War	134,849	3,044	31,510	52,285	48,009
Non-War	145,894	17,200	49,725	38,023	40,946
Mixed	13,936	138	2,004	7,430	4,364
	PERCENTAGE DISTRIBUTION BY SIZE OF BORROWER				
Total	100.0	6.9	28.2	33.2	31.7
War	100.0	2.3	23.4	38.8	35.5
Non-War	100.0	11.8	34.1	26.1	28.0
Mixed	100.0	1.0	14.4	53.3	31.3
	PERCENTAGE DISTRIBUTION BY WAR OR NON-WAR PURPOSE				
Total	100.0	100.0	100.0	100.0	100.0
War	45.8	14.9	37.9	53.5	51.4
Non-War	49.5	84.4	59.7	38.9	43.9
Mixed	4.7	0.7	2.4	7.6	4.7
	NUMBER OF ADVANCES AND AVERAGE DOLLAR AMOUNT BY SIZE OF BORROWER				
Number of Advances	16,115	6,894	6,576	2,216	429
Per Cent of Number of Advances	100.0	42.8	40.8	13.8	2.6
Average Dollar Amount of Individual Advance	18,286	2,956	12,658	44,106	217,526

On June 17, the Board of Governors sent the following letter to all banks and other financial institutions in the United States to enlist their aid in discouraging increased purchasing and inventory accumulations of consumer goods.

"To All Banks and Other
Financing Institutions:

"Recently a meeting was held for the purpose of discussing the use of credit in connection with the accumulation of inventories of consumer goods. Among those present were the following: Mr. Morgenthau, the Secretary of the Treasury; Mr. Jones, the Secretary of Commerce; Mr. Nelson, the Chairman of the War Production Board; Mr. Henderson, the Administrator of the Office of Price Administration; Mr. Purcell, the Chairman of the Securities and Exchange Commission; and myself.

"There was complete agreement that in the present situation, when all possible production must be diverted to military purposes, accumulation of inventories of civilian consumer goods should be discouraged. We are sure that it is clear to you why this is desirable from the standpoint of avoiding inflationary developments as well as of endeavoring to assure fair treatment of the needs of all dealers and all consumers.

"Various ways by which this purpose might be accomplished were canvassed. It was agreed that, whether or not other steps may be necessary under the authority of legislation or executive orders, it is of the utmost importance to enlist your voluntary cooperation and that of your customers in helping to achieve this objective. To this end, it is hoped that you will use your influence in your community to discourage all unnecessary purchases of civilian goods and that you will scrutinize carefully every application which might enable a borrower to carry a greater supply of goods than his minimum requirements.

"This general credit policy would not apply in special situations such as the need for supplying fuel for heating purposes next winter, or accommodating manufacturers and dealers having stocks that must be held because of freezing or rationing orders.

"The Board of Governors of the Federal Reserve System is writing this letter to you at the request of the group mentioned at the beginning. You have already rendered and are rendering great service in connection with the financing of the war program, and this additional responsibility is one which it is believed you will be glad to undertake in the general public interest. We feel sure that we can rely upon your cooperation.

Sincerely yours,

MARRINER S. ECCLES,
Chairman."

On June 25 a letter was sent to the staffs of the Federal bank supervisory agencies for the guidance of examiners. That letter which appears in full in the July 1942 *Federal Reserve Bulletin* stated in part:

"The Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors have agreed that the examiners for the three supervisory agencies should be instructed to ascertain during the course of their examinations of banks what is being done by the banks to comply with the request contained in the letter and, wherever necessary, to urge compliance.

"It is requested, therefore, that examiners make special inquiry during the course of each examination as to the consideration given by the bank to the Board's letter, the action taken by the bank in connection with it, and the bank's policy with respect to loans for the purpose of carrying civilian consumer goods inventories. Whenever it appears that the bank does not understand the reasons for the letter or the need for carrying out the suggestions contained therein, the examiner should discuss the matter with the appropriate officer of the bank and urge full cooperation. The reports of examination should include in each case comments relating to the extent to which the bank is cooperating and the examiner's views as to the effectiveness of any actions taken in reducing credit extended by the bank for what would be regarded, in the light of the Board's letter, as unwarranted accumulations of inventories of civilian consumer goods."

Unrestrained and unnecessary accumulation of inventories is clearly undesirable. It leads to maldistribution of stocks, by groups of commodities, by types of stores, by size of stores, and by geographic areas. It hastens the necessity for rationing and complicates such programs when they are needed.

INTEREST RATES

Comparison may be made between interest rates paid by classes of borrowers and charged by classes of banks in terms of average interest rates weighted by the dollar amount of the advances.

The average size of advance to large borrowers was much greater than to smaller borrowers, and as expected, interest rates charged small borrowers were higher than interest rates charged large borrowers. The average rates charged borrowers in the four size categories were 5.2 per cent for firms with total assets less than $50,000, 4.1 per cent for borrowers with total assets from $50,000 to $500,000, 2.8 per cent for borrowers in the $500,000-$5,000,000 category, and 2.0 per cent to very large borrowers.

The weighted average interest rate charged by "A" banks was 2.6 per cent, by "B" banks 4 per cent, and by "C" banks 4.6 per cent. The differential in interest rates by size of borrower and the concentration of advances to large borrowers at large banks are chiefly responsible for the different average rates of the three classes of banks. There were relatively slight differences in rates among "A" banks, "B" banks, and "C" banks to borrowers in the same size group.

RECEIPTS AND SHIPMENTS OF GRAIN

At Interior Primary Markets in the United States
(In thousands of bushels)

	June 1942	June 1941	Per Cent Change June 1942 from June 1941	Ten-Year Average 1932-1941	Per Cent Change June 1942 from Ten-Year Average
Wheat					
Receipts	25,051	50,413	−50	24,654	+ 2
Shipments	12,827	27,395	−53	14,867	−14
Corn:					
Receipts	24,548	18,692	+31	18,471	+33
Shipments	17,581	18,766	− 6	13,587	+29
Oats:					
Receipts	4,746	3,479	+36	4,350	+ 9
Shipments	4,055	3,230	+25	4,513	−10
Soybeans:					
Receipts	1,204	1,292	− 7	*	*
Shipments	531	747	−29	*	*

Source: Chicago Board of Trade.
*Not available.

UNITED STATES FEDERALLY INSPECTED LIVESTOCK SLAUGHTER

(In thousands)

	June 1942	June 1941	Five-Year Average June 1937-41	Per Cent Change June 1941 to June 1942	Per Cent Change June 1942 from Five-Year Average
Hogs	4,554	3,336	3,010	+37	+51
Cattle	1,039	867	808	+20	+29
Calves	475	440	476	+ 8	0
Lambs and Sheep	1,481	1,378	1,414	+ 7	+ 5

Source: Agricultural Marketing Administration, United States Department of Agriculture.

HOG-CORN RATIOS

	June 1942	May 1942	June 1941	June 1940
Illinois	17.2	17.2	13.7	8.1
Indiana	16.8	16.6	12.9	8.0
Iowa	18.1	18.2	15.2	8.3
Michigan	16.0	15.7	12.8	8.2
Wisconsin	16.2	16.0	13.8	7.5
United States	16.3	16.3	13.4	7.5

Source: Bureau of Agricultural Economics, United States Department of Agriculture.

WHOLESALE TRADE

Seventh Federal Reserve District

Commodity	Per Cent Change June 1941 to June 1942			
	Net Sales	Stocks	Accounts Outstanding	Collections
Drugs and Drug Sundries	+15.3	+20.9	+ 4.9	+19.8
Electrical Goods	−27.1	− 8.6	− 7.1	− 8.6
Groceries	+ 8.3	+ 7.6	+ 0.8	+ 9.1
Hardware	− 3.3	−13.1	− 1.4	+17.8
Jewelry	− 1.9	+18.5	−28.3	+11.9
Meats and Meat Products	+58.9	+ 7.9	+70.9	+101.8
Paper and Its Products	− 7.0	+34.1	− 2.5	− 7.1
Tobacco and Its Products	+14.3	+ 5.9	+ 5.2	+14.5
Miscellaneous	+ 1.7	+13.8	− 1.4	+13.9
Total	+ 6.1	+ 1.8	*	+18.9

Source: Bureau of the Census, United States Department of Commerce.
*Increase of less than one per cent.

SALES OF INDEPENDENT RETAIL STORES

Seventh Federal Reserve District

	Per Cent Change June 1941 to June 1942				
	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total All Groups*	− 1	+ 1	− 5	− 4	− 1
Apparel Group	+ 8	+23	+16	+15	+11
Drug Stores	+13	+19	+16	+18	+18
Eating and Drinking Places	+18	+11	+ 6	+18	+23
Food Group	+20	+30	+15	+22	+21
Furniture-Household-Radio Group	−15	−17	−22	−19	−26
Hardware Stores	+ 5	+10	− 8	− 1	− 3
Jewelry Stores	+ 7	+ 5	+11	− 4	+11
Lumber and Building Materials	− 7	+ 5	− 9	− 9	**
Motor Vehicle Dealers	−79	−70	−68	−73	−72

*Includes classifications other than those listed.
**Increase of less than one per cent.

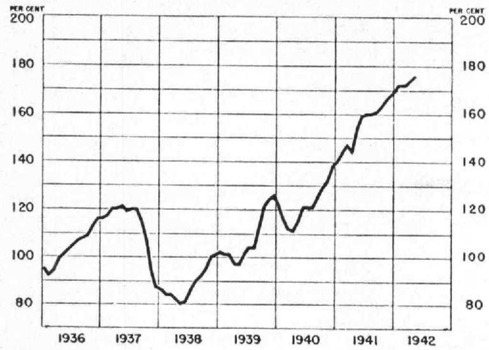
BANK DEBITS

Debits to deposit accounts, except interbank accounts

	(In thousands of dollars)			Per Cent Change June 1942 from	
	June 1942	May 1942	June 1941	May 1942	June 1941
Illinois:					
Aurora	$ 17,387	$ 16,639	$ 15,816	+ 4	+10
Bloomington	18,854	16,662	14,371	+13	+31
Champaign-Urbana	18,136	17,398	17,162	+ 4	+ 6
Chicago	4,332,095	4,194,048	3,812,178	+ 3	+14
Danville	15,618	13,430	14,951	+16	+ 7
Decatur	30,474	26,084	26,490	+17	+15
Elgin	11,387	9,185	11,090	+24	+ 3
†Joliet	34,204	31,177	....	+10	....
Moline	12,908	13,071	12,022	− 1	+ 7
Peoria	81,190	73,433	80,420	+11	+ 1
Rockford	48,416	43,954	38,997	+10	+24
Springfield	36,059	31,564	31,061	+14	+16
Indiana:					
Fort Wayne	53,087	51,508	42,558	+ 3	+25
Gary	25,250	24,422	23,494	+ 3	+ 7
Hammond	13,225	12,562	11,967	+ 5	+11
Indianapolis	340,460	337,192	272,786	+ 1	+25
†Lafayette	15,194	13,481	....	+13	....
†Muncie	20,477	20,257	....	+ 1	....
South Bend	61,799	58,821	57,449	+ 5	+ 8
Terre Haute	32,393	30,438	30,368	+ 6	+ 7
Iowa:					
†Burlington	12,867	13,199	....	− 3	....
Cedar Rapids	37,317	35,829	32,889	+ 4	+13
Clinton	8,698	8,416	7,403	+ 3	+17
Davenport	27,722	27,779	26,163	*	+ 6
Des Moines	123,037	124,615	103,278	− 1	+19
Dubuque	12,956	12,383	12,294	+ 5	+ 5
Mason City	12,880	13,983	12,612	− 8	+ 2
Muscatine	4,877	4,841	4,346	+ 1	+12
†Ottumwa	17,261	15,655	....	+10	....
Sioux City	74,837	61,672	48,783	+21	+53
Waterloo	29,221	25,911	23,649	+13	+24
Michigan:					
Adrian	6,332	5,798	5,517	+ 9	+15
Battle Creek	20,331	20,157	17,330	+ 1	+17
Bay City	18,410	16,097	15,012	+14	+23
Detroit	1,639,757	1,529,379	1,479,756	+ 7	+11
Flint	37,734	36,010	37,442	+ 5	+ 1
Grand Rapids	76,142	69,679	70,084	+ 9	+ 9
Jackson	23,679	23,343	19,952	+ 1	+19
Kalamazoo	34,451	29,403	30,650	+17	+12
Lansing	40,411	38,771	32,267	+ 4	+25
†Muskegon	27,558	26,792	....	+ 3	....
†Port Huron	13,671	12,646	....	+ 8	....
Saginaw	30,797	29,076	32,336	+ 6	− 5
Wisconsin:					
Green Bay	22,024	20,167	19,606	+ 9	+12
†Madison	46,067	42,994	....	+ 7	....
Manitowoc	11,581	10,499	9,286	+10	+25
Milwaukee	425,251	376,437	339,623	+13	+25
Oshkosh	12,180	11,157	11,269	+ 9	+ 8
†Racine	26,334	24,417	....	+ 8	....
Sheboygan	31,440	28,554‡	23,875	+10	+32
Total 41 Centers	7,910,803	7,530,367‡	6,928,242	+ 5	+14
Total 50 Centers	8,485,462	8,080,195‡	....	+ 5	....
United States: 274 Centers	50,110,000	48,357,000‡	45,937,000	+ 4	+ 9

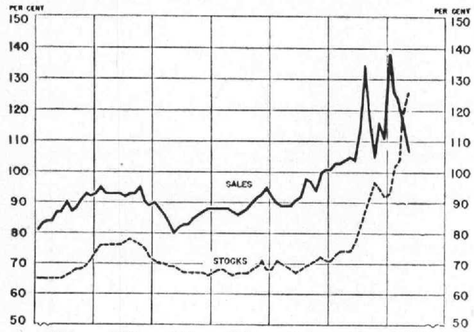
†New reporting centers for which figures were not collected before May 1942.
*Decrease of less than one per cent. ‡Revised.

INDUSTRIAL PRODUCTION



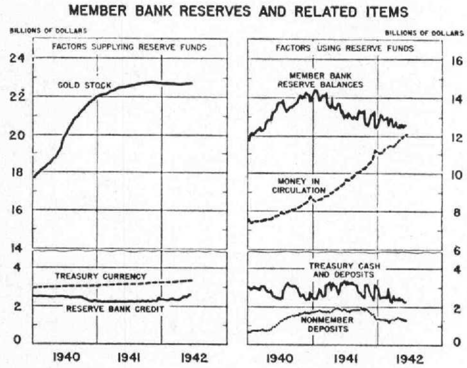
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for May, 1942. Latest figure 176.

DEPARTMENT STORE SALES AND STOCKS



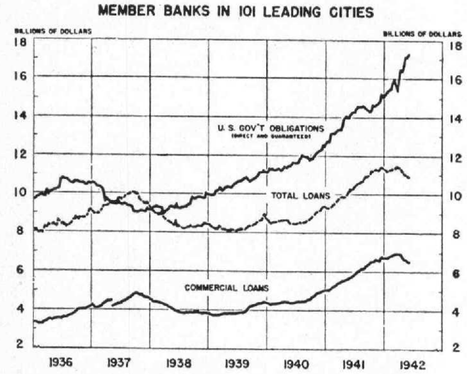
Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. Latest figures shown are for May, 1942.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures. Latest figures shown are for June 10, 1942.

MEMBER BANKS IN 101 LEADING CITIES



Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported. Latest figures shown are for June 10, 1942.

National Summary of Business Conditions

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

Industrial activity continued to advance in May and the first half of June. Commodity prices showed little change after the middle of May when the general maximum price regulation went into effect. Retail trade declined further in May but increased somewhat in the first half of June.

Production—Volume of industrial production increased in May and the Board's seasonally adjusted index advanced to 176 per cent of the 1935-39 average, as compared with 173 in April and 171 during the first quarter of this year. Output of manufactured products continued to increase, reflecting chiefly further growth in production of war materials, while mineral production showed a seasonal rise.

The largest increases in May, as in other recent months, were in the machinery and transportation equipment industries which are now making products chiefly for military purposes. The amount of copper smelted rose sharply and output of chemicals continued to advance. Activity in the automobile industry, which since January had been retarded during the conversion of plants for armament production, showed an increase in May.

Steel production was maintained at about 98 per cent of capacity in May and the first half of June. Lumber production increased seasonally and activity at furniture factories, which usually declines at this time of year, was sustained at a high rate. In industries manufacturing textiles and food products, output continued large in May. Gasoline production declined further, however, reflecting the effects of transportation difficulties. There was a further marked decrease in paperboard production which, according to trade reports, reflected a slackening in demand.

Coal production was sustained at a high rate in May and output of crude petroleum increased somewhat, following considerable declines in March and April. Copper production and iron ore shipments rose sharply to new record levels.

Value of construction contract awards increased sharply in May, following a decline in the previous month. and was close to the record high level reached last August, according to figures of the F. W. Dodge Corporation. Awards for publicly financed work increased in May and, as in other recent months, constituted around three quarters of the total. Awards for residential building continued to decline.

Distribution—Retail trade declined further in May. Department store sales were about 7 per cent smaller than in April and sales by mail-order houses showed a similar decrease. In the first half of June department store sales increased somewhat.

Carloadings of revenue freight increased in May by about the usual seasonal amount. There was a further substantial decline in the number of cars loaded with merchandise in less than carload lots, reflecting the effect of Federal orders raising the minimum weights for such loadings. Increases were reported in shipments of most other classes of freight, particularly coal, ore, and miscellaneous freight.

Commodity Prices—Prices of most commodities both at wholesale and retail showed little change after the general maximum price regulation went into effect around the middle of May. Declines occurred in prices of cotton and some other agricultural commodities, and prices of some industrial commodities were reduced to conform with the general order that prices should not exceed the highest levels reached in March. Action was taken to exempt most military products from the general regulation and to allow for special treatment of women's coats and dresses and a few other nonmilitary items.

Bank Credit—During May and the first half of June, the Federal Reserve Banks purchased about 200 million dollars of United States Government securities. Additions to member banks' reserves from this source, however, were offset by continued withdrawals of currency by the public. Excess reserves fluctuated around 2,700 million dollars during the six-week period.

Reporting member bank holdings of United States Government securities increased by nearly a billion dollars during the period. Two-thirds of the increase came in the week ending May 20 with delivery of new Treasury 2 per cent 1949-51 bonds, and the balance represented mainly increased bill holdings. Loans declined somewhat in the period. Adjusted demand deposits continued to increase, while United States Government deposits were reduced.

United States Government Security Prices—Prices of taxable United States Government bonds, which declined by about ½ point at the time of the early May financing, subsequently regained that loss and during the first half of June remained steady.

SEVENTH FEDERAL

RESERVE DISTRICT