

AUGUST, 1943



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Review of Seventh District Business

Military Victories Intensify War Production Demands

Total war output for the nation and the Seventh District improved during June and in July, but there is concern that production may have eased up because of overconfidence resulting from recent military victories. These successes, however, have actually increased the need for war materiel. While we are gaining in some phases of output, the rate of increase has been so small recently that the WPB says the American industrial front "faces a staggering job in the months ahead" to meet the over-all schedules for 1943.

STEEL OUTPUT NEAR CAPACITY

Steel ingot production in the Chicago area continues at near capacity levels. There is some fear that the influence of the recent coal strikes will be sharply felt when the resulting reduced output of pig iron is converted into finished steel products. There appears to be little possibility of additional steel allotments for civilian use this year, in spite of cutbacks and adjustments which have caused some contract cancellations. Other war needs have more than offset these reductions. While present inventories of iron and steel scrap will meet the requirements of the summer months, some dealers feel that the mills may face a shortage of scrap this winter because they have been cutting into inventories at a time when they should be accumulating reserves.

The further reduction of the Great Lakes ore shipment goal for the year from the previously downward revised figure of 91 million tons to 86.5 million tons is not expected to hinder next year's steel output, although it will lower reserves at the mills. Ore shipments on the lakes as of the week ending July 17, were 8.8 million tons behind 1942, but WPB officials indicate that the ore stockpile for next winter and early spring probably can be maintained at a safe level without diverting other ships which are now being used for coal, sulphur, and packaged goods.

Coal production losses resulting from work stoppages have further aggravated Great Lakes coal shipments which are now running nearly 4 million tons behind last year. It is considered practically impossible to meet by all-rail shipments the requirements of areas served by the coal docks on Lake Superior and upper Lake Michigan. Consequently, producers and forwarders are being urged to give precedence during this season to orders for lake-shipped coal over those received from industrial consumers who can use all-rail routes.

ALLOT NEW RAIL EQUIPMENT

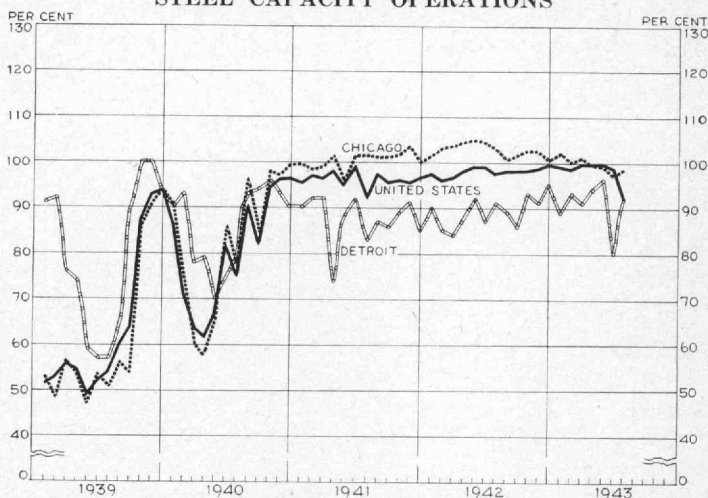
The WPB allocation of materials for five thousand new railroad box cars to become available during the closing months of this year and early 1944, and the possible construction of six thousand more will aid materially in relieving the current shortage of railroad equipment. To insure maximum service from existing equipment, shippers are now asked to make greater use of refrigerator cars on non-perishable traffic to the west in order to minimize the return of empty refrigerator cars to the Pacific coast. The railroads have also undertaken a national drive to have receivers of carload freight unload cars quickly and completely. This includes removal of debris to prevent loss of time and switching in sending cars to the railroad cleaning yards.

A significant shortage of motive power persists despite the 293 new locomotives put in service on the Class I roads of the nation during the first six months of the year. A spokesman for the Western Association of Railway Executives warns that western lines must obtain the motive power which has been promised them or face inevitable breakdowns in the movement of vital war materials to the West coast.

Revenue freight car loadings in the nation for the second quarter showed a decrease of 4.31 per cent over 1942. The 2.5 per cent increase predicted by the Regional Shippers' Advisory Boards was not fulfilled largely because of intermittent cessations of coal shipments during

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STEEL CAPACITY OPERATIONS



Shown are percentages of rated capacity for steel ingot operations by months, from January 1939 to July 1943. The chart indicates operations during the first week of each month.
Source: *Steel Magazine*.

The Livestock and Meat Situation

Rapid Growth — But Problems Multiply

Problems arising from the complexity of commodity markets under war strain have probably been nowhere as acutely brought out as have those arising in the field of livestock, meats and meat products. Stimulated by tremendous needs arising from the war, the livestock industry has undergone the most rapid and widest expansion in its history. This expansion has, in part at least, been the result of policies designed to bring about a desired output. Some of the results of policy have been somewhat different than those expected under the implementation used.

THE EXPANSION OF LIVESTOCK NUMBERS

Cattle. There has been much discussion in recent months of the record numbers of cattle on farms January 1, 1943. It has often been emphasized that the cattle cycle has been built up to an excessively high point. Although the total of all cattle was in excess of 78 million head this does not appear to be too much out of line when it is remembered that a peak of over 73 million head was reached in 1918, and that the human population now is 30 per cent larger than in 1918. However, a greater tonnage of meat is now produced from a given inventory of cattle than 25 years ago because weight gains are now made more rapidly, and also because cattle now yield a larger proportion of dressed meat than formerly. The expansion which has taken place between January 1, 1939, and the same date of 1943 has been roughly comparable to the change which occurred during World War I. This may be seen from the table given below.

The total of all cattle increased 23 per cent during World War I (1914 to 1918), as compared with 18 per cent for the present war (1939 to 1943). Milk cows showed an increase of eight per cent in the earlier period as compared with nine per cent during the last four years. The total for "other" cattle, mostly beef cattle, showed an increase of 24 per cent during the current war period while World War I rise to the peak in 1918 amounted to 30 per cent.

The geographical distribution of the increases in cattle numbers is of some interest. Greatest rates of expansion were shown for the North Central States, which include the five states of the Seventh District. The numbers in 1943 were 18 per cent greater than the 10 year, 1932-1941, average for the region, with the increase for the states of the District ranging from 14 to 19 per cent, during which time the United States' increase was 14

per cent. On milk cattle, using the same period for comparison, the Western States showed the greatest expansion, amounting to 15 per cent, the South Central States increased by 10 per cent while the North Central States increased by only six per cent. This also was the rate of rise for the United States' total. In the states of the District, Iowa, Illinois and Indiana increased by only three to four per cent while Michigan and Wisconsin showed rises of about 12 per cent.

Hogs. The expansion in numbers of hogs on farms January 1, has been much greater in the current four year period than it was in the 1914-1918 period. During the last war the numbers on farms expanded from nearly 53 million on January 1, 1914, to almost 63 million for 1918. This was an increase of approximately 20 per cent and the numbers continued to expand to well over 64 million for the first of 1919. In the present period there was an expansion of well over 40 per cent to above 73 million in 1943 from the 50 million in 1939. It appears now that the numbers will continue to expand for the 1944 figure. The Department of Agriculture estimates a total of 85 million head for January 1, 1944. The geographical location of the increases (comparing 1943 with the 10 year average, 1932-1941) showed varying rates of expansion for different parts of the country. Compared with a 41 per cent increase for the entire country, the Corn Belt increase was 48 per cent, an increase of a little over 40 per cent is shown by the Eastern Corn Belt, and a rise of somewhat over 50 per cent occurred in the Western Corn Belt (which includes Iowa, Minnesota, and Missouri and the states west). The Western States show a rise of nearly two-thirds during this period, the South Central States about one-third while the Atlantic States increased about one-fifth.

FACTORS IN EXPANSION

The Stimulation. To most observers the reasons for this tremendous expansion in livestock numbers need little elaboration. Rising prices and vigorous demands have been about all that was necessary to stimulate a considerable expansion. In the case of hogs the hog-corn ratio has been very favorable to hog production during most of the last six years. Except for the calendar year 1940 the ratio has been above 12 bushels throughout the period. From July, 1941 through March of this year the ratio has ranged from 15 to 17 bushels, a relationship extremely favorable to hog expansion.

Prices received by farmers for beef cattle have like-

**APPARENT CIVILIAN CONSUMPTION OF MEATS, 1935-39
AVERAGE, 1941, 1942, AND 1943 (PRELIMINARY)**

	1935-39	1941	1942	1943
	Lb.	Lb.	Lb.	Lb.
Meat (dressed weight)				
Beef and veal.....	63.1	69.0	68.2	58
Lamb and mutton.....	6.7	6.9	7.0	6
Pork (excluding lard)....	56.5	67.3	59.3	60
Total meat.....	126.3	143.2	134.5	124

Source: "The National Food Situation" July, 1943, Bureau of Agricultural Economics.

wise risen fairly steadily since 1938 and particularly so in the past two years. While costs have been rising during this period they have tended to lag, leaving a sufficiently wide gap to encourage production.

The stimulation arising from the demand for meats has been previously reviewed in many quarters, and only brief mention is necessary here. The government has been a heavy buyer of meats. The buying has been particularly heavy for pork for shipment on lend-lease account. In the year ending June 30, 1942, 13 per cent of the nation's total supplies of pork was exported on this account. Shipments since that date have been taking a smaller per cent of total supplies although still large in aggregate volume. The exports of beef and veal under lend-lease are relatively minor, amounting to less than one per cent of the total supplies. Government purchases for the military services have been a very substantial factor in demand and have been particularly effective in the case of beef.

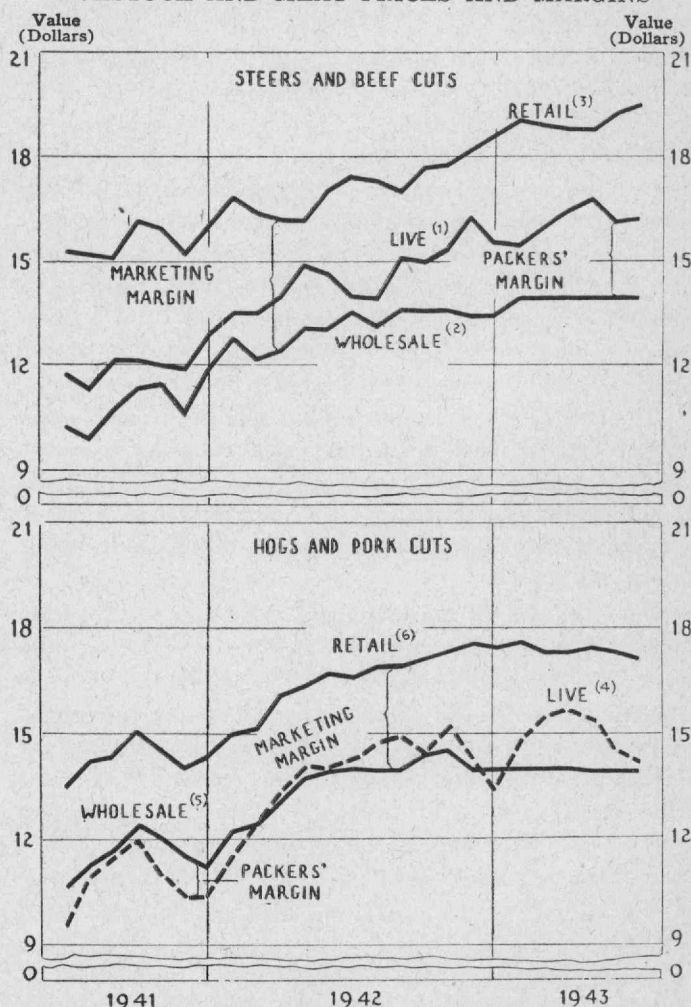
On the side of civilian demand the magnitude of increased domestic consumption may be seen from the table showing the estimated per capita consumption. In spite of heavy demands for meats for military and lend-lease uses civilians in 1943 are eating substantially the same amount of meat as the average consumed for the five years, 1935-39. Per capita consumption in 1941 and 1942 was considerably above this average, indicating the strong civilian demand for meat before war necessities resulted in rationing to limit civilian consumption.

Livestock Policy and Implementation. Not all of the expansion in livestock numbers has been "natural." It has been a part of national food policy to encourage the production of hogs. Price supports for hogs at Chicago have been announced at various times. The most recent price support was announced in April by the Food Administrator and promised that the government would stand ready to purchase 240 to 270 pound good to choice hogs at Chicago at \$13.75 through September, 1944, and for 200 to 240 pound hogs through March 31, 1944. This was an increase of 50 cents from the previously an-

nounced support of the Secretary of Agriculture last fall.

An important stimulus has been brought about also by the O.P.A. ceilings on cash corn equivalent to slightly less than \$1 at the farm in most cases. This has obviously resulted in plans for further expansion in the hog industry. The June 1 pig crop report indicates a total of 74 million pigs saved, an increase of 22 per cent over the 1942 crop. The expansion was general throughout the country and in all states, but the greatest relative increases were in regions outside of the Corn Belt. In the Corn Belt itself, a 20 per cent increase was indicated over last year, but the rate amounted to only 12 per cent in the Eastern Corn Belt and 25 per cent in the Western part. Fall intentions of farmers as to the number of sows to farrow cannot be counted on with too much certainty at present because of the present feed situation. The June 1 intentions for fall indicated an expected crop

LIVESTOCK AND MEAT PRICES AND MARGINS



- (1) Price at Chicago of good and choice steers, per 100 pounds.
- (2) New York wholesale price of wholesale cuts from 100 pounds of live steer.
- (3) New York composite retail price of retail cuts from 100 pounds of live steer.
- (4) Price of hogs at Chicago per 100 pounds.
- (5) New York wholesale price of wholesale cuts from 100 pounds of live hog.
- (6) New York composite retail price of retail cuts from 100 pounds of live hog.

Source: Bureau of Agricultural Economics.

25 per cent larger than the crop of 1942. This would be a total crop of 53 million pigs, which, when added to the spring crop, would be about 127 million pigs for 1943. While the hog-corn ratio has declined, it is still sufficiently favorable to encourage some expansion.

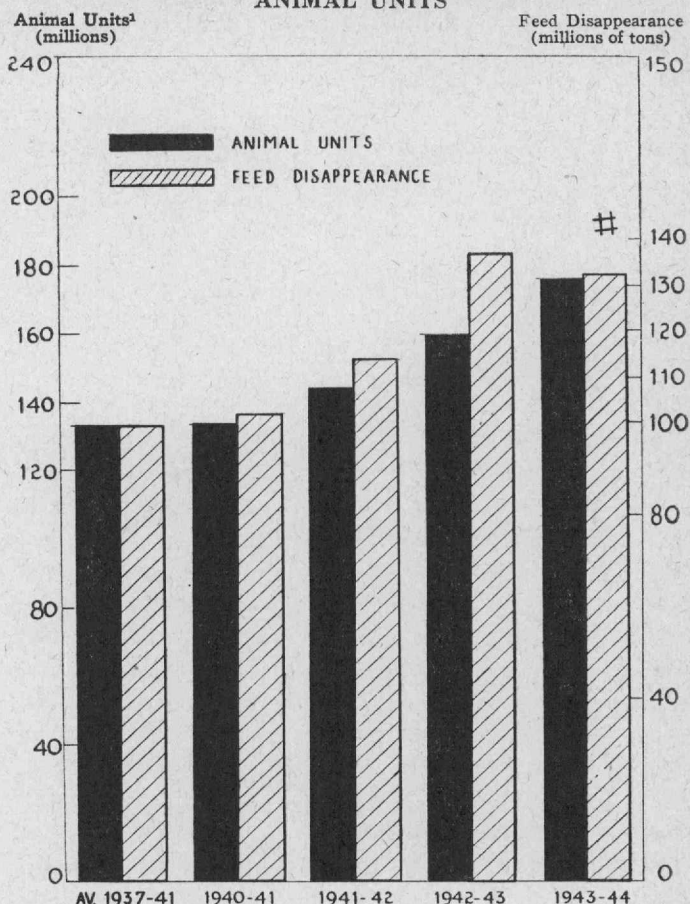
Cattle Difficulties. Cattle finishers are operating under less favorable conditions than prevail for hogs. For one thing, feed-lot operators find themselves pretty well hemmed in by high feeder costs on one hand and the upper limit to prices for finished animals resulting from the price ceilings on beef products on the other. These operators need a margin between the price of feeders and that of finished animals in addition to the gains in weight while in the lot, in order to break even. The heavy demands for beef of all kinds, especially for government purchase, have resulted in the bidding up of feeder prices to the highest level in many years, to a point where many operators no longer have a spread between feeder and finished animal prices. Feeder prices have been running at about \$14.50, while finished animals return around \$15.00 to \$15.50. Normally a \$2.50 to \$3.00 spread is considered necessary.

In addition to this price situation, operators are finding it difficult to procure feed. The prospect for the immediate future is that those who do not already have the necessary feed to carry their animals may find the going tough. Pasture conditions have given a favorable situation to grass feeders. It is expected that a large proportion of the cattle slaughtered during the coming year will be grass fattened.

The thought in some official quarters at present is that this is the time to stop the expansion of the cattle cycle. Because of the long time required to build up or to liquidate the beef enterprise beef producers are particularly exposed to large losses when prices decline. They are thus considered to be particularly exposed under the present expanded stage of the industry. It is further argued that cattle are inefficient users of feeds as compared with hogs. While there is some merit to this argument, it appears to overlook the efficiency of cattle in utilizing roughages not otherwise useful, and the importance of cattle as a complementary enterprise where they are followed by hogs in the feed-lot. Short-fed production of medium grade beef cattle is still a good use of feed. But because of the necessities of the present feed situation it is probable that feed policy will be shaped in terms of giving priorities to dairy production, poultry, and hogs, leaving the country to depend more upon range and grass fattening of cattle than it has in the past.

The Feed Problem. Although plans for 1944 call for some expansion in the output of feed grains, the heavy requirements anticipated for the coming 15 to 18 months

FEED DISAPPEARANCE AND GRAIN-CONSUMING ANIMAL UNITS



#Preliminary, based on July 1 crop reports.

¹January 1 livestock numbers converted to animal units on the basis of relative feed requirements.

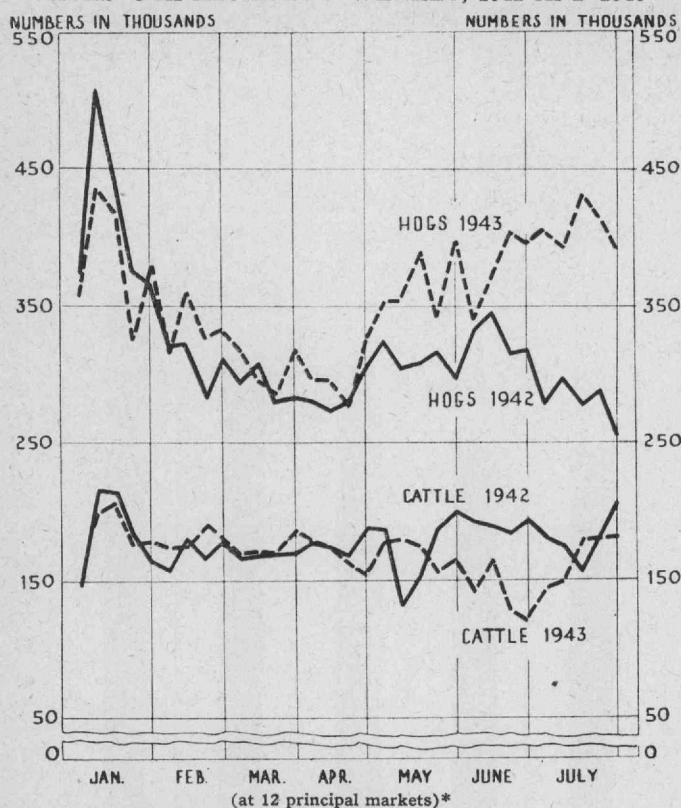
Source: Bureau of Agricultural Economics.

make the overall feed situation a rather tight one. The chart presents graphically the prospect for the 1943-1944 season in terms of total animal units and estimated feed grain disappearance. In terms of disappearance per animal unit about the same situation is the prospect for the coming season as existed on the average for 1937-1941.

In addition to the feed grain situation the essential protein concentrates have been short and are expected to continue to be inadequate to the livestock needs.

The Squeeze on Packers. An important factor in the livestock and meat situation is the meat packing industry. Under the meat price ceilings the margins between the price paid for live animals and the returns to packers from the wholesale cuts have been severely narrowed, resulting in operations at a loss to packers on beef in recent months and a part of the time on hogs. The chart shows the trend of these margins during the past two years. It should be pointed out that in the case of beef it is normal for the wholesale cuts from 100 pounds of carcass to sell for a total value less than the price per

LIVESTOCK RECEIPTS — WEEKLY, 1942 AND 1943



*After June 30, 1943 total includes Buffalo and excludes Peoria.
Source: Food Distribution Administration.

100 pounds paid for the live animal. Normally this apparent loss is covered in the returns from by-products.

Transportation. One of the serious problems confronting the livestock industry in the current year is the question of how all the livestock expected to be moved to market can be handled. The railroad car situation is very tight with more cars badly needed. Present estimates of cars to be allocated to livestock are considerably short of the expected requirements. In truck transportation a number of limiting factors make the situation difficult. Truck drivers are becoming scarcer, trucks are wearing out rapidly under the strain, and some parts are getting more difficult to obtain. If a bottleneck in livestock transportation is to be avoided very careful planning and co-ordination will be necessary.

Black Markets. One of the more serious problems which has plagued the livestock and meat industries in recent months has been the extent of black markets in meats. The activities in this sphere have been an obstacle to the proper functioning of normal market channels and have greatly interfered with the government's acquisition program for the armed services, especially in beef and veal. Not only does the black market prevent the fair and equitable distribution of meats among the various claimant groups, but also the operations in such markets result in the loss of badly needed products, such as

medicinal and surgical materials and various critical by-products. In addition to this, probably some of the hides are lost to the market and others come in in damaged condition. Such operations result in light volume for packers, raising their costs per unit and causing operation at a loss.

A rough measure of the activity in black markets is afforded by the figures on the total hides moving "into sight." For the first six months of this year the movement of cattle hides from federally inspected slaughtering houses decreased 13 per cent from the corresponding period of last year while the movement from uninspected sources increased by over 16 per cent. Although not necessarily a quantitative measure, this would seem to indicate a rather substantial amount of black market slaughter of cattle.

RECENT DEVELOPMENTS

Rising Markets. On the whole market receipts of hogs at the 12 principal markets have been running somewhat heavier during the first half of this year than they did in 1942. Hog receipts have increased materially since the middle of April and cattle receipts have increased since the temporary decline in May and June. In the case of cattle, the introduction of the subsidy to be paid to packers to offset the "roll-back" of beef prices resulted in some uncertainties. Packers had not been notified as to the amount and details of the subsidy at the time the "roll-back" became effective. To protect their position there was some lowered bidding for cattle, which resulted in the greatly reduced marketings shown for recent weeks on the chart. The heavy marketings of hogs are largely the arrival of last fall's heavy pig crop.

Recently the situation has eased materially. Total meat production in federally inspected plants has increased substantially and, although beef production is not yet up to expectations, the situation has improved enough to permit military procurement officers to obtain their full beef requirements for the first time in weeks.

In general, it is expected that the fall season will see a heavy run of hogs and cattle. Livestock producers will doubtless continue to find the situation full of uncertainties as to feed supplies and prices, but it would appear now that hogs will continue to be a relatively profitable venture, especially if they are marketed before they reach heavy weights at which gains may prove costly. The prospect is less promising to cattle feeders, who, it appears now, will find range and grass producers having a competitive advantage, and their costs for stockers for their feed-lots coming pretty high. Short-feeding for medium to low-good finish appears to be in order.

The Current Tax Payment Act of 1943

Individual Taxpayers Placed on Current Basis

The current Tax Payment Act of 1943, commonly referred to as the pay-as-you-go plan, provides for the current collection of income taxes which have already been imposed on individuals by the Internal Revenue laws. Strictly speaking, it is not a tax but a method of collecting a tax. No new taxes are imposed and none is repealed. The benefits of the Act are limited to natural persons and do not extend to corporations, trusts, or estates. The law will effect the collection of income taxes as income is earned, thus doing away with the practice of collecting income taxes in the year following receipt of income as has been done since 1913.

It is estimated that the Act will increase the Government's revenues approximately 5 billion dollars in the fiscal year ending June 30, 1944. The bulk of the increase results from the shift to a current payment basis, since taxable income for 1943 is considerably in excess of taxable income for 1942. A part is also attributable to certain windfall provisions and the payment on March 15, 1944 of one-half of the unforgiven tax liability. The effects of the Act on the budget for the fiscal year ending June 30, 1944, are shown in the table, where the latest budget estimate is compared with the January estimate, made before the Act was passed, and the actual results for the fiscal year ending June 30, 1943.

The 5 billion dollars increase in tax revenues is not all of a non-inflationary nature, since it will tend to reduce voluntary saving which otherwise might be made. However, the Act assures that any further increases in income will be reflected much more promptly than here-

tofore in increased tax payments. Thus, the effectiveness of the income tax as an instrument of inflation control has been greatly increased. Likewise, if we should at any time in the future suffer a sharp decrease in income, the economy will not be subject to the deflationary effects of large receipts from taxes based on prior years' income.

The benefits which the Act bestows, and the duties it imposes, may be considered under five major headings: (1) forgiveness of taxes, (2) collection of taxes at the source, (3) current payment of taxes not collected at the source, (4) duties imposed on employers, and (5) duties of authorized depositaries.

FORGIVENESS OF TAXES

In order to avoid the payment of both 1942 and 1943 taxes during 1943, the Act provides for the forgiveness of part of the 1942 individual income tax liability and for spreading the unforgiven portion over the following two years. The 1942 tax liability for individuals is forgiven entirely if the amount of tax was not in excess of fifty dollars. If the 1942 tax bill was in excess of fifty dollars, the forgiveness amounts to seventy-five per cent of the total amount, or fifty dollars, whichever is larger. The 25 per cent unforgiven portion is payable in equal annual installments on March 15, 1944 and March 15, 1945. In order to prevent "windfalls," the Act further provides that if the 1942 tax bill was larger than the 1943 tax bill then the forgiveness applies to 1943 and the amount due is the 1942 tax plus 25 per cent of the 1943 tax. Moreover, if a taxpayer had a surtax net income of more than \$20,000 for 1942 or 1943, and this was substantially in excess of his prewar income, his 1943 tax may be increased further. No taxes are forgiven the estate of a taxpayer who died during 1942.

A special allowance of \$1,500 is allowed to all members of the armed forces. This \$1,500 is excluded from gross income and is in addition to the credit for personal exemptions and dependents. The Act also provides for cancellation and refund of tax of a member of the armed forces if he dies while in active service. In the case of any individual who dies on or after December 7, 1941, while in the active service of any military or naval forces of the United Nations and prior to the termination of the present war, the income tax will not apply to the taxable year in which death occurs. Any tax unpaid at the date of death will not be assessed and any tax already paid will be refunded.

Many taxpayers sustained a sharp reduction in income

BUDGET RECEIPTS AND EXPENDITURES
(In Millions of Dollars)

	Fiscal 1943 Actual	Fiscal 1944	
		Estimate of 1/11/43	Estimate of 7/31/43
Receipts:			
Direct taxes on individuals . . .	7,077	13,751	18,795
Direct taxes on corporations . . .	9,996	14,915	14,080
Other—net	4,999	4,415	5,273
Net Receipts	22,072	33,081	38,148
Expenditures:			
War	72,109	97,000	97,000
Interest on debt	1,808	3,000	2,700
Other	4,265	4,129	4,341
Total	78,182	104,129	104,041
Budget deficit	56,111	71,048	65,893

when they joined the armed forces. If the general rule were applied to these taxpayers, the forgiveness would apply to 1943 and they would be required to pay the full tax on 1942 income. Therefore, to allow relief for these persons, the Act provides that a taxpayer who is a member of the armed forces at any time during either 1942 or 1943 may exclude all earned income in computing his 1942 tax. The tax on 1942 income, as well as that on 1943 income, will thus be quite small in most cases. The taxpayer will then pay the larger of the two taxes, increased by 25 per cent of the smaller of the two.

COLLECTION AT SOURCE

With the exception of agricultural workers, domestic service employes, and some other groups, all persons who receive salaries or wages will have withheld twenty per cent of such wages or salaries in excess of withholding exemptions to apply on taxes due under the Internal Revenue laws. Deductions started with the first pay period beginning on or after July 1, 1943. The twenty per cent withholding provision does not repeal either the income or Victory tax, but provides for their current collection. The new withholding absorbs the five per cent Victory tax which is still effective but is no longer collected separately.

PAYMENT OF TAXES NOT COLLECTED AT THE SOURCE

The law is aimed at putting all individuals on a current basis. Thus, taxpayers not subject to withholding must file an estimated 1943 income and Victory tax return on September 15 if their gross income from all sources for the preceding or current year is in excess of \$500 for single taxpayers and \$1,200 for married taxpayers. At that time they will be required to pay one-half of the amount by which the estimated tax exceeds the amount paid in March and June. In addition persons subject to withholding must file an estimated 1943 income and Victory tax return on September 15 if their gross income from wages and salaries exceeds \$2,700 in the case of individuals, or \$3,500 in the case of married persons. On September 15, they will pay one-half of the amount by which the estimated tax exceeds the sum of the installments paid in March and June and the estimated amount to be withheld for income and Victory taxes during the entire year. The remainder of the difference must be paid December 15, 1943. The unforgiven portion of the 1942 tax must be paid in equal installments on March 15, 1944 and March 15, 1945. Finally on March 15, 1944, the taxpayer must file a final tax return on 1943 income and pay any additional tax that may be due. Likewise any overpayments will be eligible for refund on that date.

On March 15, 1944, the taxpayer will also file an estimated return for 1944. The requirements for filing will

be the same as those for the filing on September 15, 1943 of the estimated income tax liability for 1943. The taxpayer will compute his estimated income and Victory tax on 1944 income. From this he will deduct the estimated amounts, if any, to be withheld against his wage or salary during the year 1944. The balance he will pay in equal quarterly installments on March 15, June 15, September 15, and December 15, respectively. Provision is made for the quarterly revision of estimates if the taxpayer's income should increase or decrease unexpectedly. On March 15, 1945, a final return will be made covering liability on actual 1944 income. Any additional tax due on 1944 income must be paid at that time and any overpayments will be eligible for refund or for application against installments then due.

DUTIES IMPOSED ON EMPLOYERS

The duties imposed on employers by the current Tax Payment Act of 1943 are numerous and exacting. With the exceptions noted previously, all employers are required to deduct and withhold a tax upon the wages and salaries of their employes, beginning July 1, 1943. This is a tax of twenty per cent of the excess of each wage payment over the withholding exemption. Instead of making an exact computation, employers may elect to withhold specified amounts determined in accordance with schedules prepared by the United States Treasury.

All employers who withhold more than \$100 during the month must pay the amounts withheld to a depository authorized by the Secretary of the Treasury. These payments must be made within ten days after the close of each calendar month.

Quarterly returns must be made by employers to the Collector of Internal Revenue showing the aggregate amount of taxes withheld during the quarter. These returns must be made on or before the last day of the month following the close of each quarter, and must be accompanied by depository receipts for the full amount of the tax withheld, or by depository receipts for the first two months of the quarterly period together with a direct remittance for the amount withheld during the last month of the quarterly period. In other words, an employer who withholds more than \$100 a month must deposit such withheld taxes with an authorized depository during the first and second months of each quarterly period, but may remit direct to the Collector of Internal Revenue the withheld tax during the third month of the quarterly period.

With the final return for the calendar year, employers must send to the Collector a reconciliation of quarterly returns with statements to employes of taxes withheld.

Employers must furnish to each employe from whose wages they withhold taxes a written statement showing the wages paid and the amount of tax withheld during

the calendar year. This statement must be given to the employe on or before January 31 of the succeeding year. If employment ends before the close of the year, the statement must be furnished on the day on which the last payment of wages is made. In the case of intermittent employment, when at the end of any employment it is not expected that the employe will be reemployed, then a statement must be furnished him for the amount of tax withheld from payments made during the period of employment.

With respect to the calendar year 1943, only one statement is required. It should cover the five per cent Victory tax withheld during the first six months of 1943, and the twenty per cent tax withheld beginning July 1. Employers must transmit to the Collector a duplicate of each statement to employes with their final return for the fourth quarter of the calendar year.

The Act further provides that every employer required to withhold taxes must keep such records as will indicate the number of persons employed during the year subject to withholding provisions, the periods of employment, the amounts paid, and the dates of employment.

EXEMPTION CERTIFICATES

Every employe must furnish his employer a signed withholding exemption certificate relating to his status for the purpose of computing the withholding exemption. The employer is required to request a withholding exemption certificate from each employe, but if the employe fails to comply with such request, the tax is withheld against his entire gross income. The certificate must be retained by the employer as a supporting record of the withholding exemption allowed.

REQUIREMENTS OF DEPOSITARIES

Incorporated banks insured by the Federal Deposit Insurance Corporation may qualify as depositaries for withheld taxes. Any bank which desires to qualify as a depositary should apply for qualification through the Federal Reserve Bank of the district in which the bank is located.

ACCOUNTS, FORMS, AND PROCEDURES

Each depositary must open and maintain on its books a special account entitled "Withheld Taxes" in the name of the Federal Reserve Bank of the district in which the depositary is located. To this special account on the books of the depositary should be credited all withheld taxes received by the depositary from employers.

Deposits in the special account may accumulate until a balance of \$5,000 is reached, at which time the depositary must remit, not later than the following business day, the entire balance to the Federal Reserve bank for credit to the account of the Treasurer of the United States. Remittances to the Federal Reserve Bank are

not required to be made more frequently than once each day. The entire balance in the special account on the last business day in each month, regardless of the size of the balance, must be remitted to the Federal Reserve Bank not later than the following business day. Each remittance must be accompanied by copies of the depositary receipts issued to employers for withheld taxes. All remittances must be made in funds immediately available at the Federal Reserve Bank.

Depositaries will be expected to maintain such arrangements of their files of copies of receipts as will provide a convenient source of reference to individual payments by employers in relation to remittances made by the depositaries to Federal Reserve Banks. Duplicate receipts will be issued only by the Federal Reserve Banks upon application by the employers concerned and the submission of required evidence to the appropriate Federal Reserve Bank.

Depositaries will accept payments from employers irrespective of dates and amounts of such payments in relation to the liability or duty of the employer and requirements of law or regulations relative to such payments. Depositaries will not be held responsible for determining that employers who make payments through them have complied with the law or regulations relating to funds withheld by them as taxes.

METHOD OF COMPENSATING DEPOSITARIES

Duly qualified depositaries will be permitted to purchase special 2 per cent depositary bonds of the Government, either with their own funds or with funds deposited with them by the Treasury. The amount of bonds purchasable by any depositary will depend upon the monthly average amount and number of receipts issued to employers. The amount of the initial purchase will be calculated on the basis of the business transacted during the first full calendar month following the date of qualification. Adjustments will be made at the close of the three month period of operations after the initial allotment is established, and thereafter appropriate adjustments will be made at the close of each six month period ending June 30 and December 31.

The 2 per cent depositary bonds will be registered in the name of the Federal Reserve Bank as Fiscal Agent of the United States in trust for the depositary and will be held by such Federal Reserve Bank in safekeeping while the depositary is qualified for receiving payments of withheld taxes. The Secretary of the Treasury may terminate the qualification of any depositary and the depositary may terminate its qualification upon thirty days' notice. Upon such termination the amount of 2 per cent depositary bonds purchased will be redeemed on not less than thirty days' nor more than sixty days' notice by the Secretary of the Treasury.

REVIEW OF SEVENTH DISTRICT BUSINESS

(Continued from inside front cover)

the quarter. The Advisory Boards' estimate a third quarter increase of 1.5 per cent over the third quarter of 1942, with allowance for some anticipated stoppages. In the Mid-West the local Regional Shippers' Advisory Board forecasts an over-all increase of freight car loadings of 8 per cent for the third quarter of 1943, with large increases expected in petroleum and fertilizer shipments and substantial additions in fresh fruits, fresh vegetables, coal and coke, and machinery and boilers.

Under a joint action agreement announced July 26, thirty-three firms handling motor freight shipments in the Chicago area will pool their traffic and equipment according to a plan which may become a model for other important shipping centers. By use of a centralized dispatching system the carriers expect to save four million truck miles annually, with corresponding savings in trucks, tires, gasoline, repairs, and manpower.

In spite of some contract cancellations and cut-backs in schedules, war production in the automobile industry, nevertheless, climbed to 725 million dollars in June, an increase of nearly 20 million dollars over May and nearly twice the figure for June 1942.

"BIG INCH" PIPELINE COMPLETED

Completion of the final section of the "Big Inch" pipeline from Norris City, Illinois, to the Atlantic coast on July 14 increased the flow of crude oil to the East and freed a number of tank cars which have been making the run from Norris City to East coast points. The Middle West, however, cannot expect any immediate improvement in supply conditions since the 25 hundred cars released were immediately put into service to haul crude oil from more distant points to the East. The district actually faces a severe stringency of petroleum supplies which already has reduced some civilian ration allotments. Present stocks of gasoline are comparatively low at a time when essential demand is mounting because of war successes.

Electrical energy output for the week ending July 24 for the nation was nearly 4.2 billion kilowatt hours, according to the Edison Electric Institute. This represented a new peak for the industry and a gain of 15.7 per cent over the corresponding week last year. In the Central Industrial Region, which includes most of the Seventh District and also Ohio, output of electrical energy for the week ending July 24 rose 13.6 per cent over 1942.

Generating capacity for the country continues at nearly 48 million kilowatts, or about 6 per cent greater than last year. Plans just announced call for expanding the nation's power capacity approximately one-half mil-

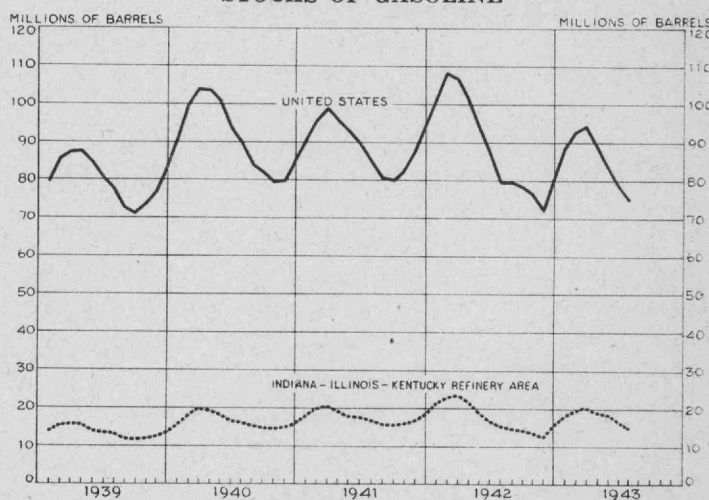
lion kilowatts for 1945 operation. This will be the smallest annual increase since the beginning of the war. The Office of War Utilities emphasizes, however, that although relatively small amounts of additional capacity will henceforth be necessary to meet the requirements of the war program this does not mean that conservation in the use of electric power is unnecessary. The Federal Government and the electric power systems of the country are proceeding with plans for an intensive nationwide, voluntary conservation program in power use to save manpower, and coal, oil, natural gas, tungsten, steel, copper, and other critical materials and equipment.

An intensive production drive began August 1 to meet current shortages of pulpwood for paper making. Newspaper publishers have been required to make further cuts in their consumption during the third quarter and, in addition, must reduce inventories from 75 to 50 days' supplies. Results from the recently launched campaign to collect corrugated and other brown colored paper to meet the greatly increased demands for paper board have been disappointing. The mixed collection of newspaper and brown papers may be permitted to stimulate interest among housewives and others not able to accumulate the present minimum of 50 pounds of brown paper in a short space of time. The lumber situation continues to be critical. Most hardwoods and all one-inch boards are now included by WPB in the group of materials considered "insufficient for essential war and industry needs."

AGRICULTURAL EMPLOYMENT GAINS

Agricultural employment, following the usual seasonal pattern, increased 1.1 million workers between May and June. The United States Department of Commerce points out that such a sharp increase was made possible

STOCKS OF GASOLINE



Figures taken from the U. S. Bureau of Mines reports showing total gasoline stocks held by refining companies. Chart shows stocks held at the end of the month, from January 1939 through July 1943.

CIVILIAN POPULATION ESTIMATES MARCH 1, 1943

	Estimated Civilian Population March 1, 1943	Estimated Civilian Population April 1, 1940	Estimated Change in Civilian Population Between April 1, 1940 and March 1, 1943	
			Number	Per Cent
Illinois.....	7,643,350	7,882,054	- 238,704	-3.0
Indiana.....	3,406,257	3,424,319	- 18,062	-0.5
Iowa.....	2,294,184	2,537,008	- 242,824	-9.6
Michigan.....	5,269,416	5,250,636	+ 18,780	+0.4
Wisconsin.....	2,967,973	3,137,104	- 169,131	-5.4
Five States Total	21,581,180	22,231,121	- 649,941	-2.9
United States Total.....	128,231,363	131,323,136	-3,091,773	-2.4

Source: U. S. Bureau of the Census.

by the deferment of many agricultural workers, coupled with the exceptional number of women and young people of both sexes now working on the land. Since worker productivity has probably decreased as a result of the changed age and sex composition of the agricultural labor force, the stated increase in agricultural employment is not considered necessarily sufficient to meet current production goals.

The War Manpower Commission in July classified four more areas in the nation in its Group I as having acute labor shortages. In the Seventh Federal Reserve District, Racine, Wisconsin, which is no longer listed with Kenosha, became the ninth labor market area in the Group I classification. There are now 46 critical shortage areas in the country as a whole. Only 74 of the 291 labor market areas investigated by the War Manpower Commission had sufficient labor to meet all known requirements. Fourteen of these 74 areas are in the Seventh Federal Reserve District.

The Bureau of the Census estimated on March 1 that civilian population in the United States had decreased nearly 3.1 million persons over April 1, 1940, and in the five Seventh District states by 650 thousand persons. These figures are based on an analysis of the number of registrations for War Ration Book Two. The decline is accounted for in the nation by the excess of withdrawals to the armed forces over the natural increase in population. In most of the Seventh District these losses are further accentuated by the migration of war workers from agricultural regions to industrial centers. Only Michigan, with its greatly accelerated industrial development, especially in Detroit, is included among the twelve states in the country which show an increase in population from 1940 to 1943.

Iowa and Illinois, the two most predominantly agricul-

tural states of the District, had the greatest losses among the five states.

A drop in the retail prices of fresh vegetables and butter from May 15 to June 15 contributed to the first reduction in the cost of living for the nation, 0.2 per cent, since a year before Pearl Harbor. Detroit and Chicago had a decline of 0.4 and 0.3 per cent, respectively. Food prices as a whole, which make up over 40 per cent of the cost-of-living index, were 0.8 per cent lower nationally. In addition to the decline in the price of fresh vegetables and butter, prices of canned fruits and vegetables declined 0.5 per cent by virtue of the establishment in May of local dollar price ceilings in many large cities. Over-all food prices, however, were still 45 per cent above January, 1941 and over 16 per cent above May, 1942. Only Indianapolis among the District's major cities failed to show a decrease in retail food prices during the month, having an increase of 0.1 per cent.

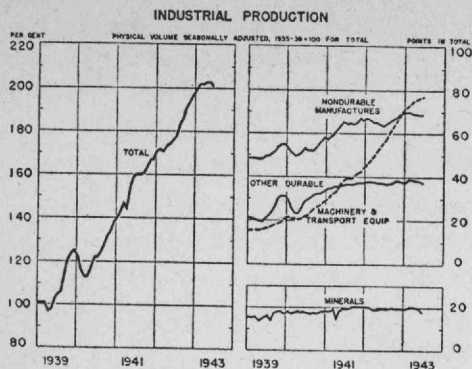
The upward trend in the United States Bureau of Labor Statistics index of prices of wholesale commodities was halted in mid-July under the influence of decreases in the wholesale price of grains, livestock and poultry, and cattle feed. The average prices for farm products dropped during the week ending July 24 to the lowest level since May.

Dollar volume of department store sales during the first four weeks in July in the Seventh District continued well ahead of last year, ranging from an 11 per cent increase in the smaller cities to a 28 per cent increase in Indianapolis. With inventories still being depleted at a rapid rate, retailers are becoming so desperate that they are forwarding blank orders to the large marketing centers of the district with the request that these orders be turned over to any firm that can fill all or any part of an order. This practice is the result of retailers failing to find substitute sources of supply when their regular wholesalers are unable to furnish the goods needed.

State retailers' occupational tax figures for Chicago and the remainder of Cook County indicate a loss of 10,000 reporting concerns, or approximately one out of seven since Pearl Harbor. A high percentage of the mortality has occurred among retailers of consumers' durable goods, e.g., automobiles, radios, refrigerators, and electrical household appliances. Manpower shortages and lack of goods to sell have been the chief contributory reasons. The decline in number of business establishments is, of course, due not only to an accelerated rate of stores going out of business but also, perhaps equally important, to a marked reduction in the number of new firms entering business.

General Business and Financial Conditions in the United States

(Summarized by the Board of Governors of the Federal Reserve System)



Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for June, 1943.

Manufacturing activity was maintained at a high level in June while mineral production declined reflecting mainly reduced output of coal. In the early part of July coal production was resumed in large volume. The value of retail trade continued large.

Industrial Production—The Board's seasonally adjusted index of total industrial production declined slightly in June from the high level of other recent months. Activity continued to increase at plants producing war products in the chemical, rubber, and transportation equipment industries. These increases were more than offset by a sharp drop in coal production and a temporary reduction in output of coke, pig iron, and steel.

Finished aircraft production, in terms of airframe weight, was 3 per cent higher in June than in May. Delivery of supplies for the Army ground forces rose 1 per cent over May. Tonnage of cargo vessels delivered from merchant shipyards was not up to the record May level; it was, however, higher than in any other month.

In industries manufacturing nondurable goods output as a whole showed little change from May to June. Activity at cotton mills declined—consumption of 917,000 bales of cotton was 50,000 less than in June, 1942.

Output at coal mines in June was 30 per cent below May due to the work stoppages, but early in July both anthracite and bituminous coal production recovered to above the levels prevailing a year ago. Crude petroleum production was maintained in June and moved upward in July partly in anticipation of the completion of the pipeline from Texas to the East Coast. Lake shipments of iron ore in June were 6 per cent below the same month last year due to unfavorable weather conditions.

The volume of construction contracts awarded in June was about the same as in May. The value of awards in June was at the lowest level for this month since 1936, according to the F. W. Dodge Corporation.

Distribution—Value of consumer nondurable goods sold at retail was in near-record volume in June and the early part of July, while sales of durable goods, many of which are becoming increasingly scarce, were generally below previous peak levels.

Car loadings of revenue freight declined in June, reflecting the drop in coal shipments. Loadings of grain showed the usual increase at this season and the movement of most other commodities was maintained in large volume.

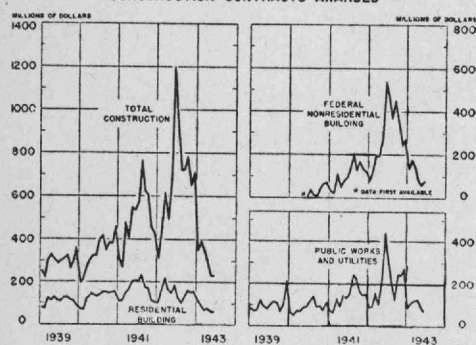
Commodity Prices—Wholesale prices of most commodities showed little change in the early part of July, following a decline during June of 1 per cent in the general index. This decline reflected chiefly reductions ordered in maximum prices of butter and meat and seasonal decreases in prices of fresh fruits and vegetables.

Agriculture—Aggregate crop production this year is expected to be 10 per cent smaller than last year but 5 per cent above the average of the preceding 5 years, according to the July 1 official report. Of the major crops, production prospects for grains are the lowest compared with last season, while there are indications of considerably larger harvests for dry beans and peas, flaxseed, and potatoes. Output of livestock products has continued in larger volume than a year ago.

Bank Credit—During June and the first three weeks of July there was an increase of about 1.4 billion dollars in Reserve Bank holdings of United States Government securities. Continued currency outflow, and increase in required reserves due to the growth of deposits, were reflected in the increased demand for Reserve Bank credit. The expansion in Reserve Bank credit was in the form of Treasury bills sold by member banks to the Federal Reserve Banks under options to repurchase. Holdings of bills showed wide fluctuations during the period as member banks adjusted their reserve positions through sales and repurchases. A large part of the Treasury bills came from New York City banks where excess reserves continued to be low. Total loans and investments of New York City banks have declined recently. Other reporting member banks have shown a continued growth in deposits and U. S. Government securities.

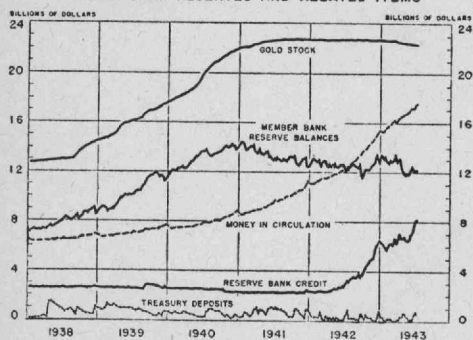
The quarterly report of customer rates at commercial banks for the middle of June showed a further rise in rates charged on loans by large banks throughout the country.

CONSTRUCTION CONTRACTS AWARDED



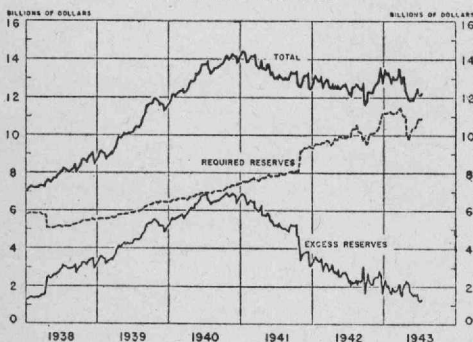
F. W. Dodge data for 37 Eastern states, total includes state and local government and private nonresidential building not shown separately. Monthly figures, latest shown are for June, 1943.

MEMBER BANK RESERVES AND RELATED ITEMS



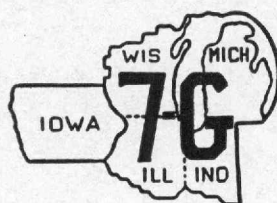
Wednesday figures, latest shown are for July 14, 1943.

MEMBER BANK RESERVES



Breakdown between required and excess reserves partly estimated. Wednesday figures, latest shown are for July 14, 1943.

SEVENTH FEDERAL



RESERVE DISTRICT

