BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

OCTOBER, 1943

Review of Seventh District Business

Wartime Prices Show Smaller Rises in Recent Months

In the year ending October 3, 1943 — the first year of the Government's program of national economic stabilization — the advance of wartime prices was slowed but the goal of reestablishing wages, salaries, and farm prices at their September 15, 1942 levels remains as yet unrealized.

Estimated average weekly earnings in Seventh District manufactures increased about $5 per employee during the past year. Prices received by district farmers for principal agricultural commodities have risen on the whole approximately 8 per cent. Cost of living estimates for the district's largest cities prepared by the U. S. Bureau of Labor Statistics indicate an upward movement of between four and five per cent since September 15, 1942, with food items leading the gains.

In the twelve months preceding October 1942, when the President's Stabilization order was issued, average weekly earnings in Seventh District manufacturing plants increased $6 per employee; prices received by farmers advanced about 28 per cent; and cost of living gains in the largest cities varied from 7 to 18 per cent. During the 29 months from the outset of defense preparations in June 1940 to October 1942, average weekly manufacturing earnings gained $9, farm prices doubled, and cost of living increased about 17 per cent.

A greater than anticipated production of civilian goods and some over-all voluntary restraint on spending have assisted rationing and price control materially in limiting price rises. While some potential inflation has been averted thus far, there obviously is no assurance that prices will not yield further to inflationary pressures in the months ahead. The battle of inflation control will be a continuing one in the district and the nation throughout the war emergency.

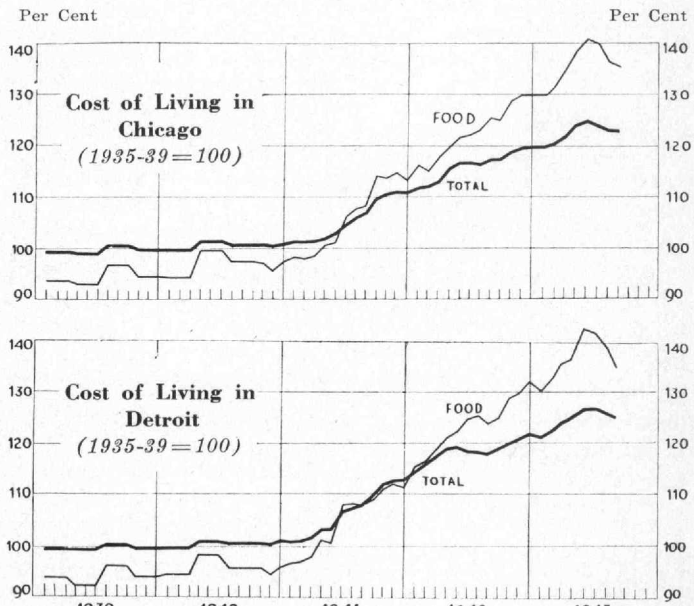
ACUTE SHORTAGES MOUNT

Closely related to the problem of restraining rising prices is the amount of manpower and materials available for production. Stringencies affecting the output of war goods obviously mean much greater limitation on civilian goods. Restricted supplies at a time when demand is unusually high bring about pressures which threaten to drive up existing prices. In September, Seventh District business activity was marked by the further aggravation of manpower and material shortages and by new efforts to conserve and utilize more effectively existing supplies. The shortages indicate that the district and the nation are engaged in a tremendous war production effort, but some vital demands remain unsatisfied, meaning output must be expanded.

Manpower remains the most critical shortage in the Seventh Federal Reserve District. Labor supply conditions in five industrial centers in the Seventh District became sufficiently limited during the month that the War Manpower Commission reclassified them on October 1 into Group I areas of "current acute labor shortage." Adrian and Monroe, Michigan, and Fort Wayne, Indianapolis, and South Bend. Indiana, are the cities which received the new designation by the WMC. Efforts to recruit women in these industrial communities to date have met with only partial success considering the extent of needs. Women not already in the labor force, constituting the bulk of the potential labor supply, are being strongly urged to accept employment so that production schedules vital to the national war effort can be fulfilled.

Service establishments, notably restaurants, laundries, and hotels, and virtually all classes of retail stores continue to report increasingly serious difficulty in maintaining their employee staffs because of Selective Service withdrawals and losses to war industries. Plans to reduce labor requirements are being introduced throughout the district. Serve-your-self is rapidly becoming a new byword in retail trade establishments where the practice was previously not used. Help wanted advertisements in some district newspapers have reached new lineage highs. Sex, age, inexperience, or minor physical

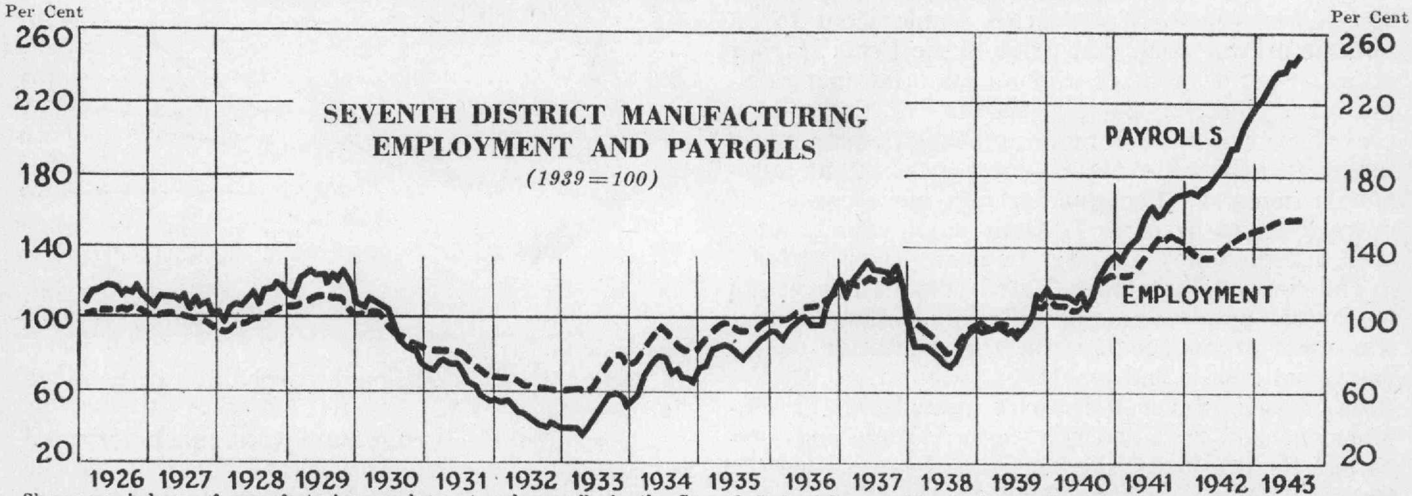
(Continued on Page 7)



Cost-of-living trends in Chicago and Detroit by months from January 1939 through August 1943. Data are taken from the monthly reports of the U. S. Bureau of Labor Statistics.

Employment and Payrolls Surge Upward

Seventh District Manufactures Establish New All-Time Records



Shown are indexes of manufacturing employment and payrolls in the Seventh Federal Reserve District by months from January 1926 to August 1943 compiled from the employment and payroll releases of the five states included in whole or in part in the Seventh District.

Despite manpower losses to the armed services, Seventh District manufacturing firms are currently employing about 10 per cent more workers and paying over 40 per cent more in wages and salaries than at the time of Pearl Harbor. Except for comparatively short periods of plant conversion to war production in 1941-42, all-time records successively have been established and broken again since before the outbreak of hostilities. Some further gains are to be expected, depending chiefly upon the number of additional women accepting employment, and the future success of wage and salary stabilization programs.

Unprecedented industrial developments for war production outside of the district have brought about even greater gains in manufacturing employment and payrolls in the United States than in the Seventh District. The consistently sharper rise in payrolls than employment has been caused by numerous war inspired factors, notably upgrading, advancing wage rates and salaries, and premium overtime compensation.

In nonmanufacturing activities of the district such as trade, mining, public utilities, and construction, employment-payroll trends commonly have been down in recent months after reaching an overall peak late in 1942. The less spectacular rises and current declines in some of these nonmanufacturing industries reflect clearly the effect of war demands upon the use of available manpower and materials.

Within the Seventh District, the most substantial gains in manufacturing employment and payrolls clearly have occurred in the principal industrial centers. Since 1939, the proportion of employees of manufacturing establishments among all nonagricultural workers in the Seventh District has increased from 40 per cent to almost 50 per cent. Michigan and Illinois have gained the largest numbers of new manufacturing workers. Illinois' gains since 1939, however, have been proportionately less than those of the other district states with the result that Michigan, Indiana, and Wisconsin have increased their relative importance as manufacturing states in the district. Nonmanufacturing employment, including government, has increased significantly in Illinois during the war.

WAR CONTRACTS SPUR EMPLOYMENT

War supply and facilities contracts, amounting to 32 billion dollars or more than a fifth of the national total, awarded to Seventh District manufacturing firms since mid-1940, obviously have been responsible for most of the growth in district employment-payrolls. In addition a heavy volume of subcontracting work resulting from prime contracts awarded outside of the district has added materially to district war employment and production.

The first war contracts were placed in mid-1940 at a time when general business conditions in the district were unsettled because of the influence of the European war and the uncertainty surrounding prospects of this nation's participation as a supplier of war materiels and foodstuffs to the Allies. Nevertheless, employment and payrolls in 1940 were already above their 1939 positions and not far from the 1937 record high levels. Heavily industrialized, with nearly a fourth of the nation's manufacturing facilities, the Seventh District firms rapidly began to add new workers to their payrolls and production mounted sharply even by the close of 1940. This was particularly true in the established industrial centers which in many instances made very important gains prior to Pearl Harbor, whereas in some other centers significant gains were not made until after the war began.

Continued conversion of existing facilities and the growth of new and enlarged plants in many sections of the district carried employment to an all-time prewar peak just prior to the Pearl Harbor attack. Soon thereafter over-all manufacturing employment slumped sharply because of the sudden change-over of many remaining peacetime manufacturing facilities, including a large part of the automobile industry. The steadier and more persistent upward trend in payrolls than employment, however, reflected only slightly the changeover period.

The conversion setback lasted from a few weeks to several months among different industries, but was most pronounced in the transportation equipment, and metals and machinery industries. By the close of 1942, Seventh District manufacturing employment had regained conversion losses and surpassed its pre-Pearl Harbor peak by a noticeable margin. During the first eight months of 1943, district manufacturing employment has increased at a monthly rate of about one-half of one per cent as compared with an expansion in payrolls of more than one per cent per month.

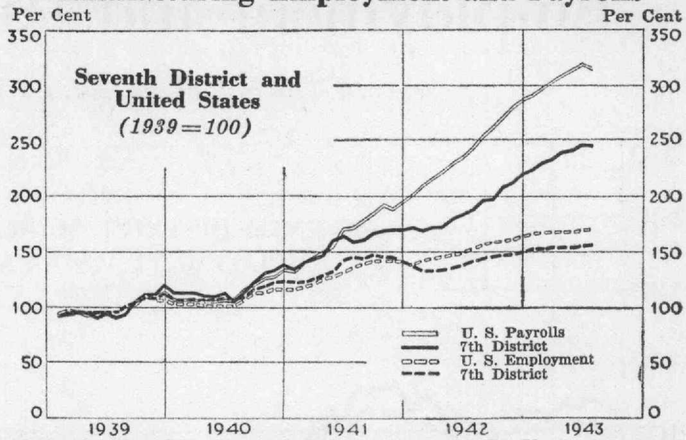
NATION OUTGAINS SEVENTH DISTRICT

In August, 1943, the Seventh District employment index, based upon 1939, stood at 158 while a comparable index for the United States reached 170, indicating the importance elsewhere of shipbuilding, aircraft assembly, and some other war industries not heavily concentrated in the Mid-West. Similarly based payroll indexes in August stood at 247 in the district and 316 for the nation as a whole. The marked divergence between employment and payroll trends and to some extent the greater spread in the United States employment-payroll figures than those of the Seventh District reflect upgrading of workers to higher paying jobs, longer work-days and work-weeks, time and one-half wage rates for overtime hours, rising wage rates and salary scales, and other similar factors especially in the "war boom" industries and communities.

The average manufacturing worker in the Seventh District currently earns about $40 per week as compared with less than $26 in 1939. Employees in durable goods industries who now average about $43 per week received $27 in 1939. Average weekly earnings for manufacturing workers in the nation as a whole are now estimated to be in excess of $43, and for workers in durable goods industries, roughly $49, accounting in part for the greater rise in national payrolls than in the district.

Average annual salary-wages in all manufacturing employment, according to the U. S. Department of Commerce, were $2,043 per employee in 1942 as compared with $1,309 in 1939, a gain of 56 per cent. This upward movement has been sustained in recent months although probably at a much slower rate.

Manufacturing Employment and Payrolls



National index figures compiled from reports of the U. S. Bureau of Labor Statistics.

Among manufacturing employees, machinery and transportation equipment workers have received the largest increases in annual earnings, from $1,551 to $2,553, or 65 per cent, during the period. On the other hand, the smallest increase, 16 per cent, has occurred in the food and tobacco industries where workers averaged $1,616 during 1942. In general, textile and leather workers have continued to receive the lowest annual incomes among manufacturing groups, rising, however, from $943 in 1939 to $1,317 in 1942.

HEAVY MANUFACTURES DOMINATE

Many Seventh District industries which are essential in peacetime have formed the backbone of the district's industrial war effort. Motor vehicles, metals, and food processing, — the dominant manufacturing industries in the district — have been leaders in expanding employment and payrolls. More specifically the durable or "heavy" goods industries which include the principal war manufactures have led the field with employment-payrolls rising 50 per cent higher than in the nondurable goods industries.

The district transportation equipment industries, comprising chiefly motor vehicles, aircraft, and railroad equipment, have shown the largest employment-payroll increases in the 22 months since Pearl Harbor. Employment has expanded roughly 25 per cent and payrolls 65 per cent. These industries have not only undergone a substantial amount of conversion but also have greatly enlarged their manufacturing facilities and personnel to meet the critical war needs for their products.

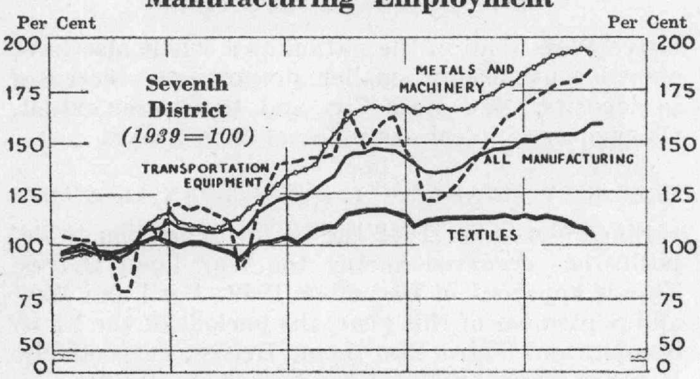
Employment in the metals and machinery industries of the district, including iron and steel, nonferrous metals, machine tools, and other heavy machinery and equipment, has grown almost 15 per cent since December, 1941. Payrolls have advanced more than 50 per cent. Conversion adjustments were also severe in these industries, and manpower shortages have remained acute. The high degree of skill required of workers has given rise to wage-rates well above prewar levels and those of the less skilled.

The wood products and stone-clay-glass industries, both associated with construction, reached their most recent employment peak just prior to Pearl Harbor. A reduced demand for many of their products and loss of workers to other war plants has lowered current employment in these industries to as much as 14 per cent below prewar numbers. Indicative of rising wage and salary trends, payrolls have continued to expand throughout the period of the emergency.

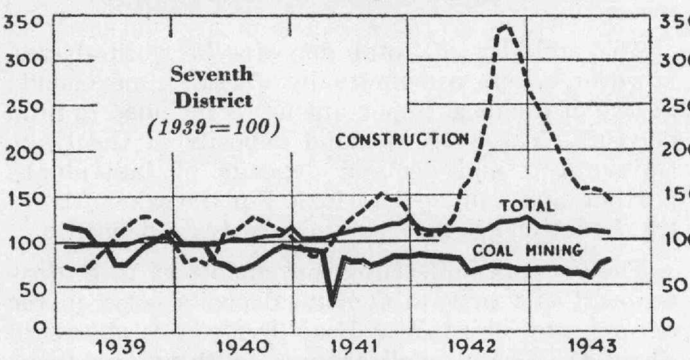
Among the leading district nondurable manufacturing industries, chemicals and food processing have experienced the largest gains in employment, 6 and 7 per cent respectively, since the beginning of the war. The chemical industry did not add many new workers for nearly a year after Pearl Harbor because of conversion adjustments and unfinished building programs. The usual seasonal pattern of heavy employment in the late summer and fall months has persisted as the food processing industry has expanded its work force.

Employment in the rubber goods industry slumped markedly after the outbreak of war because of the shortage of rubber, but has now nearly attained its prewar level as substitute materials have become available. Payrolls have followed the same general trend but at present are nearly 45 per cent above

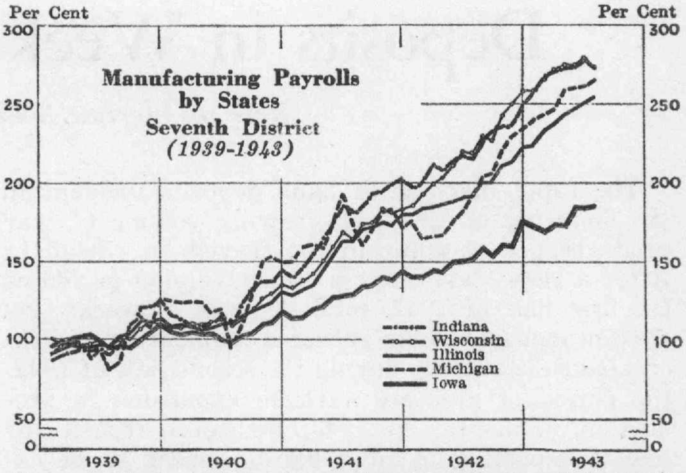
Manufacturing Employment



Non-Manufacturing Employment



The upper chart shows trends in manufacturing employment in the Seventh Federal Reserve District by months from January 1939 to August 1943. The lower chart shows trends in nonmanufacturing employment in the Seventh Federal Reserve District during the same period.



Shown graphically are index figures of manufacturing payrolls by months from January 1939 to August 1943 for the five states included in whole or in part in the Seventh Federal Reserve District.

their prewar peak.

NONMANUFACTURING INDUSTRIES LAG

Seventh District nonmanufacturing industries, comprising principally construction, merchandising, public utilities, and mining, on the whole now have fewer employees than at the time of Pearl Harbor, but aggregate payrolls are slightly larger. Construction activities reached an all-time record peak in October 1942 when employment reached two and one-half times, and payrolls, four times, the December 1941 levels. While employment-payroll trends have been steadily downward in recent months, current levels are still ahead of those at the beginning of the war. Merchandising, marked by its distinct year-end seasonal upward swing, has had a very marked loss in employment and smaller loss in payrolls since Pearl Harbor. Public utilities employment has slackened while earnings have advanced fractionally. Despite the urgent need for coal, the mines have steadily lost workers throughout the emergency until current employment is nearly 10 per cent below the immediate prewar level. Payrolls nevertheless have shown substantial gains.

ALL STATES MAKE IMPORTANT GAINS

Since the outbreak of war, Wisconsin manufacturing firms have increased their employment more than 17 per cent, the largest proportional gain among the five district states, but Michigan has had the greatest payroll expansion, 55 per cent. Michigan, Illinois, and Indiana employment-payroll records reveal clearly the adverse effect of the conversion-to-war period in these states, but in all cases employment and payrolls have now risen appreciably above prewar levels.

Of the principal industrial centers of the district, Indianapolis has made the most striking proportional growth in employment-payrolls, followed by Milwaukee, Chicago, and Detroit. Aggregate employment and payrolls in Detroit and Chicago, however, far surpass those of the other industrial cities.

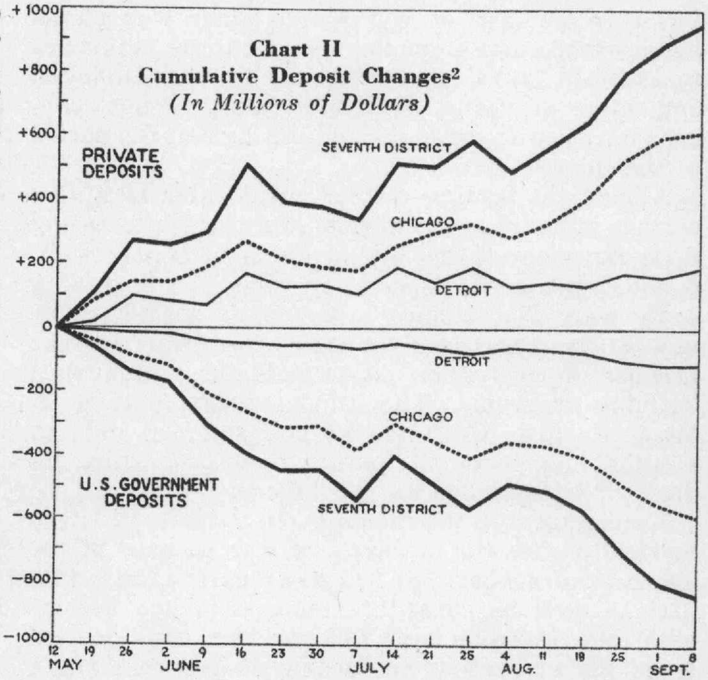
Deposits in Weekly Reporting Banks

Rate of Increase Shows Signs of Diminishing

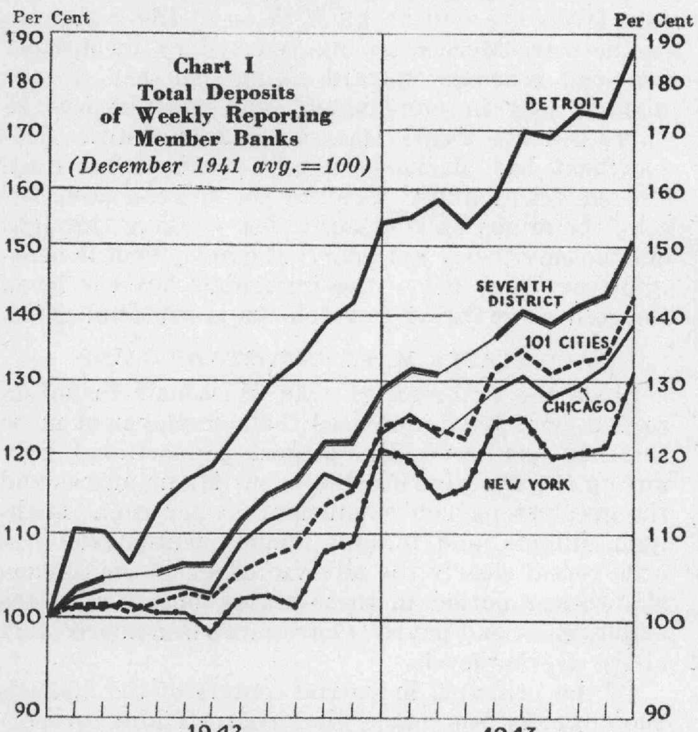
The rapid increase of bank deposits incident to the financing of the ever growing volume of war production is graphically portrayed in Chart I.[1] After a slow start during the conversion period of the first half of 1942, total deposits of weekly reporting member banks gathered momentum and increased substantially during the second half of 1942, the period of greatest wartime expansion in production. Thus far in 1943, the total deposits of weekly reporting member banks appear to be expanding at a less rapid rate than was the case during the second half of 1942.

The largest percentage increases in deposits have accrued to those areas most stimulated by war production. In the Seventh District, Detroit is the outstanding example of such a war stimulated area, and since December, 1941, deposits of the weekly reporting member banks in Detroit have increased twice as much percentagewise as those of all the weekly reporting banks in the United States and considerably more than the Seventh District as a whole.

On the other hand, areas which have had significant absolute industrial gains in wartime but relatively less than in the nation as a whole also have shown considerably smaller proportional increases in deposits. New York City and, to a lesser extent, Chicago are typical examples of such areas.



[2]Private and Governmental Deposits of weekly reporting member Banks in the Seventh Federal Reserve District



Note: Equal vertical distances on the chart represent equal *rates* of change.

[1]Figures are based on the last report date in each month. The March figures for Chicago and the Seventh District are omitted since the personal property tax in Illinois occasions wide gyrations of a temporary nature in the deposits of Illinois banks around the April 1 tax date.

TREASURY FINANCING AND WAR LOAN ACCOUNTS

Since November 1942 the major expansion in deposits has occurred during the War Loan Drives. This is apparent in December 1942, April and May, and September of this year, the periods of the First, Second, and Third War Loan Drives, respectively. Between drives there is a tendency for total deposits to remain relatively constant for the country as a whole.

The stability of total deposits between drives, however, covers wide mutually offsetting movements in two of the most important items included in total deposits. These are demand deposits of the U. S. Government and demand deposits of individuals, partnerships and corporations. For the sake of brevity the latter are referred to as private deposits.

The generally offsetting movements of U. S. Government and private demand deposits between the Second and Third War Loan Drives are shown in Chart II. The over-all changes in these two items between and during the drives since December 30, 1943 are shown in the table.

During the War Loan Drives private deposits show a decided decrease as nonbanking investors draw on their deposits to purchase securities offered during the drives. At the same time U. S. Government deposits show a sharp increase as banks make payment for their depositors' checks by crediting the war loan account of the U. S. Treasury. The increase in deposits of the U. S. Government exceeds substantially the decrease in private deposits, and it is this fact which accounts for the increase in total deposits during the drives.

This disparity between the increase in U. S. Government deposits and the decrease in private deposits results from two factors. First, when banks purchase Treasury securities for their own account they credit the Treasury directly in so far as they make payment through the War Loan Account procedure. Immediately this has no effect on private deposits but does increase deposits of the U. S. Government. Secondly, during the drives banks purchase from nonbanking investors securities outstanding previous to the drives. While this does not affect U. S. Government deposits, it does moderate the decline in private deposits since the banks' purchases are paid for by crediting the deposits of the nonbanking investors from whom the securities are purchased.

RETURN OF WAR LOAN ACCOUNTS

The manner in which treasury withdrawals of war loan accounts are returned to the banking system in the form of private deposits is graphically portrayed in Chart II. In general, decreases in U. S. Government deposits are approximately offset by increases in private deposits. This general pattern is interrupted from time to time by temporary factors. For example, the influence of the second quarter's income tax payments on private deposits is clearly discernible during the period from June 23 through July 7. Also in the weeks ending July 14 and August 4 the general trend was interrupted by small amounts of interim Treasury financing.

In contrast with the period from May 12 to September 8, when the return of private deposits exceeded the loss of U. S. Government deposits in the Sventh District, the period from December 30, 1942 to April 14, 1943 was marked by an excess loss of U. S. Government deposits over gains from private deposits. However, this net loss of deposits was not general throughout the district. The losses were concentrated in Chicago and Detroit, with reporting banks in other cities of the district showing a substantial net gain in deposits.

This diverse movement in the period following the First War Loan Drive is probably to be explained by the fact that the use of the war loan account procedure was not so widespread among outlying areas in this and other districts as it has since become. Consequently, the larger cities acquired a larger share of the total war loan balances of the Treasury than their proportionate share of Treasury expenditures. When these war loan accounts were withdrawn, the larger cities thus tended to get back a smaller amount of private deposits than they lost through war loan withdrawals, while the reverse was true for outlying centers. Since the end of the Second War Loan Drive, however, it would appear that within the Seventh District the geographical distribution of war loan accounts has been in approximately the same proportion as the distribution of Treasury expenditures.

PRIVATE[a] AND U. S. GOVERNMENT DEMAND DEPOSITS

Weekly Reporting Member Banks in the Seventh Federal Reserve District

(In millions of dollars)

	Seventh District		Chicago		Detroit		Other	
Date	Private	U. S. Govt.	Private	U. S. Govt.	Private	U. S. Govt.	Private	U. S. Govt.
December 30, 1942	4,253	894	2,627	660	944	149	681	85
April 14, 1943	4,810	272	3,013	159	994	66	802	47
Change	+557	—622	+386	—501	+50	—83	+121	—38
April 14, 1943	4,810	272	3,013	159	994	66	802	47
May 5, 1943	4,357	1,102	2,711	735	929	172	717	195
Change	—453	+830	—302	+576	—65	+106	—85	+148
May 12, 1943	4,521	1,244	2,817	821	965	198	739	226
September 8, 1943	5,474	395	3,423	231	1,153	79	898	84
Change	+953	—849	+606	—590	+188	—119	+159	—142
September 8, 1943	5,474	395	3,423	231	1,153	79	898	84
October 6, 1943	4,603	1,713	2,783	1,101	1,054	291	766	321
Change	—871	+1.318	—640	+870	—99	+212	—132	+237

[a]Demand deposits of Individuals, Partnerships, and Corporations

Live Ceilings Scramble Hog Markets

Receipts Fall Off Pending Clarification

A temporary famine of hog supplies on the markets was caused by the changes brought about in the pricing of hogs resulting from the ceiling on live hogs effective October 4. The first reaction of producers under the ceilings was to curtail their marketings, presumably to mark time while the situation could be clarified and some of the uncertainties removed.

At the time of this writing 10 full marketing days have passed since the order became effective. Comparing Chicago receipts of hogs during this period with the receipts for the last 10 full days previous to the ceiling furnishes an interesting, if crude, measure of the partial paralysis of the market. For the period before the ceiling, marketings were running somewhat heavier at Chicago and at the 12 principal markets of the nation than in the corresponding period of last year. This is a period of the year when marketings tend to increase seasonally. For the 10 days before the price ceiling became effective Chicago receipts were 99 thousand head compared with 87 thousand for the corresponding 1942 interval, an increase of 12 per cent for this year over last. Since the order became effective, an estimated total of 61 thousand head has been received at Chicago compared with 99 thousand head for the corresponding period of 1942. This is a decrease of 38 per cent. If the rate of increase shown for the pre-ceiling period had held throughout the brief marketing period since the ceiling, it might be expected that a total of about 120 thousand head would have been marketed, contrasted with the 61 thousand head actually received.

Similar, but less pronounced changes have occurred relative to the 12 principal markets of the country. For the 10 days before the ceiling, receipts at the 12 markets were 31 per cent greater than last year, 620 thousand this year compared with 471 thousand for 1942. For the 10 days since the ceiling, receipts at these markets have been 8 per cent below the corresponding days of 1942, 464 thousand compared with 505 thousand for last year. Had receipts at these markets continued at the rate of increase shown by the 12 markets before the ceilings, it would be expected that the receipts would have been over 660 thousand head, or about 43 per cent larger than they were.

A number of reasons have been given by various observers to explain the relative decline in marketings. Some have argued that it was simply due to the fact that farmers were temporarily extremely busy with other work. Others feel that much of the relative decline shown by the above figures was due to the fact that farmers, who knew in advance that the ceilings were to be placed upon hogs, hastened their hogs to market to get them in before the ceilings were operative. From this standpoint the figures given above are of some interest. The receipts at the 12 markets for the 20 marketing days referred to above totalled approximately 975 thousand head a year ago. Receipts for the 20 days of this year were 1,084 thousand head, an increase of 11 per cent over last year. However, receipts at Chicago were 161 thousand head for the 20 days of this year compared with 186 thousand head for last year, a decline of about 13 per cent.

There is little doubt among observers, however, that there are sufficiently large numbers of hogs still to be marketed this season to present a very real problem by way of taxing transportation and slaughtering facilities. It is possible that the heavy runs yet to come will bring prices down to somewhere near the floor prices. Lower prices might tend to postpone marketings till beyond the first of the year provided this factor is not counteracted by a lower feed ratio and feed shortages. Trucking facilities will possibly be greatly taxed at the peak, and labor shortages at killing plants may be a further bottleneck. Some observers feel that it may be necessary for a short time at the peak of marketings to allocate hog supplies to markets and plants where they can be handled.

The ceiling at $14.75 has been the price for practically all classes of hogs. The normal differentials for weight and class differences have largely disappeared. A few classifications, such as lightweight gilts and barrows, medium grade heavy sows, and slaughter pigs have diverged some from the $14.75 figure, but not even these classifications have shown the usual divergence from the average price.

It is generally believed that this identity of prices for virtually all classifications at or near the ceiling is only a temporary development, with producers taking advantage of the situation to cull out their less marketable stock, and that when the runs become heavier, prices will fall below the ceiling and somewhat more normal price differentials will prevail.

District Summary

(Continued from inside cover)

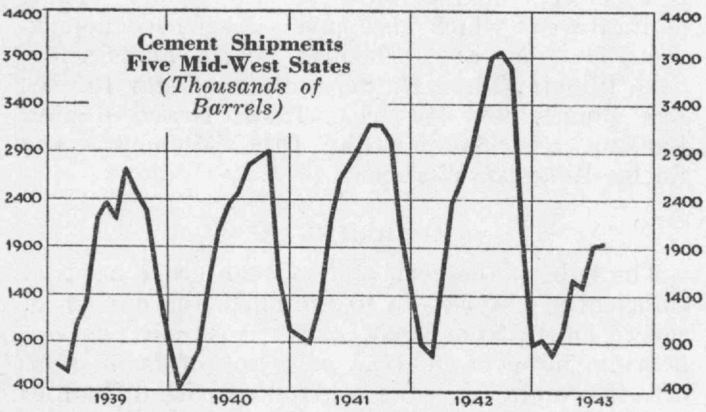
handicaps are no longer important barriers to employment.

NEWSPRINT CONSUMPTION CUT

Effective October 1, newspapers' consumption of newsprint was reduced another five per cent and publishers have been told by the War Production Board that "a further, perhaps far deeper", curtailment may be inevitable next year. The cut is actually on a sliding scale with larger papers taking a proportionately greater share of the curtailment. Allotments are based upon net paid circulation. Already many newspapers have begun to budget their consumption to provide for a gradual adjustment to reduced supplies rather than to expend reserves now and face a sharp cut later. In some instances, certain classified advertising lineage has been cut, new subscriptions refused or limited, and out-of-town circulation restricted.

Behind the newsprint shortage lies a decline in production caused chiefly by inadequate manpower in Canadian forests which supply most of the pulp wood from which newsprint is made. Receipts of wood by United States newsprint mills during the first half of 1943 were 38 per cent less than receipts during the same period in 1942. Pulp wood inventories have dropped considerably since the beginning of the year.

The growing shortage of crude oil and the heavy movement of gasoline from the Seventh District to the East Coast for use by the armed forces and to equalize gasoline supplies east of the Rocky Mountains have made district refining and marketing increasingly complex. All grades of gasoline are in heavy demand, and some problems are reportedly arising over insufficient quantities of burning oil. Seasonal requirements of agriculture have been large. Assuming no further increase in shipments to the East Coast, the Mid-West petroleum supply situation may improve somewhat by the end of the year as agricultural needs decline, and reduced coupon values restrict consumption, but a high refinery output must be maintained.



Figures taken from the reports of the Minerals Statistics Division of the U. S. Bureau of Mines showing cement shipments in five Mid-West states: Illinois, Indiana, Michigan, Wisconsin, and Kentucky, by months, January 1939 through July 1943.

An all-out drive to replenish the nation's fast diminishing stockpiles of scrap iron and steel, vital in war production, began October 1 and will continue through November 15. The present over-all scrap inventory is estimated by the WPB at less than a two-months' supply. Many regular sources of scrap normally flowing to the steel mills have been drying up, and many scrap dealers have been confronted with severe manpower difficulties. Battlefield scrap has not yet developed into an important source. There is no specific tonnage goal set for the "Victory Scrap Bank" campaign, but the objective is to establish community stockpiles from which reserve the consuming mills can draw scrap supplies as needed.

STEEL CAPACITY EXPANDS

The annual capacity of the nation's steel industry is now rated at 90,881,000 tons, more than one-fifth of which lies within the Seventh District. When the present expansion program is completed in 1944 total capacity is expected to reach 96 million tons. Blast furnace capacity, about 85 million tons, has increased substantially since 1940. Open-hearth furnaces can now produce about 80 million tons and electric furnaces about 5 million tons annually. Bessemer capacity, now about 6 million tons annually, has declined somewhat during the war because of the greater use of Bessemer converters for production of partially refined pig iron which ultimately is made into steel in open hearth furnaces.

Steel mills in the Seventh District and the nation closed the month of September with operations at about 100 per cent of capacity. Final production figures may show that average weekly output of ingots was the highest on record or at least close to the all-time peak of March 1943. Under the Controlled Materials Plan 95 per cent or more of delivery promises are reportedly being met by the steel mills. New orders are currently exceeding shipments and order backlogs are at unprecedented levels.

Shipments of machine tools continue to drop. August shipments in the nation were valued at about 88 million dollars, 10 per cent below the July total, and one-third less than in December 1942, the record month. The backlog of accumulated orders at the end of August was valued at 387 million dollars, or about 65 per cent less than the all-time peak level of orders in July 1942. District trends for the most part closely parallel those of the nation.

Illinois monthly coal production is now considerably above 1942 levels. August output amounted to 6.3 million tons, higher than any month in recent years except March 1943 when production reached 6.5 million tons. Output for the first eight months of 1943 was more than 6 million tons larger than during the comparable period in 1942. The general demand for coal has also been rising, and more so since the added requirements for shipments overseas. Need for conservation of coal during the coming winter is now being stressed by industry leaders. Thirty-eight coal executives including several from the district have received Office of Price Administration appointments to advisory groups to assist in the development and administration of coal rationing programs which may be required before next spring. To date, coal rationing has only been applied to anthracite consumers in 12 northeastern states and the District of Columbia. This anthracite rationing program administered by OPA was authorized by the WPB after the Solid Fuels Administration had determined that limited distribution was essential from September through November 1943.

The volume of district construction activity in August was six per cent above July, but about one-seventh the amount in August, 1942. Only private housing has shown a very slight tendency to increase. Military construction, war housing and community facilities, and government financed industrial facilities have all continued to decline. Cement shipments in the five district states in July were 1.9 million barrels, and less than half the amount of cement shipped in September 1942 when the wartime peak was reached. Increasing overseas military and lend-lease demands will require volume production of construction machinery such as bulldozers, tractors, and excavating shovels for many months. About 90 per cent of the 1943 output will be for military purposes which range from pulling artillery to filling bomb-pocked airfield runways.

RAILROAD CAR DEMANDS RISE

During the fourth quarter of 1943 car loading requirements in the Great Lakes region are expected to increase more than three per cent over the same quarter last year. Larger coal, coke, grain, and ore shipments will account for most of the added car loading needs. Decreased shipments are expected in cement, petroleum, and lumber.

In the Chicago area a new co-operating suburban carriers' group has been established with the approval of the Office of Defense Transportation. Twenty motor carrier companies are participating in a program to conserve manpower, tires, and equipment of motor common carriers. The extensive terminal and interchange freight yard set up under the plan is the first facility of its kind in the nation.

The quota of new passenger cars for rationing in the Seventh District states during October has been set at about 5,900, about 20 per cent less than the September total. The OPA has restricted eligibility for new passenger tires (Grade I) to "C" book holders with mileage of 601 or more per month. The October tire quota for the five states is slightly more than 300,000, but also about 20 per cent fewer than previously available.

WAR CONTRACT AWARDS GROW

During the three years ending June 1943, the Seventh District states have received major war supply and facilities contracts valued at 32.5 billion dollars, or 23.1 per cent of the national total of 141 billion dollars. Michigan has the largest volume of war contracts of any state in the nation, amounting to 14.8 billion dollars, or nearly half of the district total, and more than 10 per cent of all contracts awarded. Illinois with 7.8 billion dollars and Indiana with 5.5 billion dollars in war contracts rank seventh and eighth nationally among the states. A very high proportion of Seventh District war contracts is for production of war materiel other than aircraft and ships.

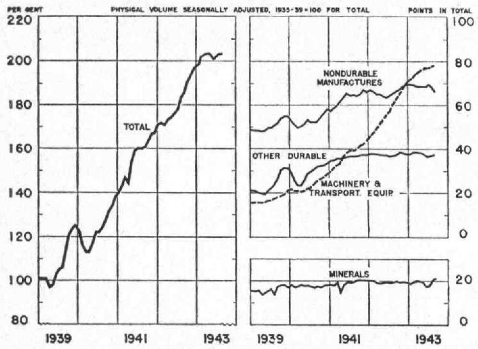
In the twelve months since June 1942, total war contracts in the district states have more than doubled, and each state has increased its proportion of the national total of contracts awarded. The Seventh District as a whole consequently has made important relative as well as absolute gains during the past year.

Preliminary estimates of the civilian population on March 1, 1943 made by the U. S. Bureau of the Census show in detail that the war has caused extensive migration of civilians. Since April 1940, among the 22 Seventh District metropolitan county areas nine have gained population while 12 have lost population and only one, Decatur, Illinois, has remained virtually unchanged. Indianapolis and Detroit have had the largest numbers of in-migrants. Other metropolitan areas which have shown increases are: Rockford, Illinois; Fort Wayne and South Bend, Indiana; Davenport, Iowa; Kalamazoo, Michigan; and Madison and Milwaukee, Wisconsin. The largest proportional loss of civilian population in the district and the nation has occurred in Sioux City, Iowa, which reportedly has had a decline of 28.9 per cent during the three year period. Metropolitan areas which also have experienced population reductions are: Chicago, Peoria, and Springfield, Illinois; Terre Haute, Indiana; Cedar Rapids, Des Moines, and Waterloo, Iowa; Grand Rapids, Lansing, and Saginaw-Bay City, Michigan; and Racine-Kenosha, Wisconsin.

AGRICULTURE

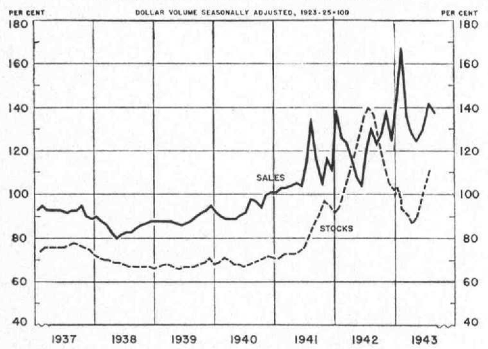
The bulk of the corn and soybean crops has now sufficiently matured as to minimize the danger of severe losses from frost. Bottlenecks are now appearing, however, in transportation of farm products. Farmers are being confronted with difficulties in marketing their crops or getting them under cover. The OPA set the Chicago hog price ceiling at $14.75 per hundredweight on October 4.

INDUSTRIAL PRODUCTION



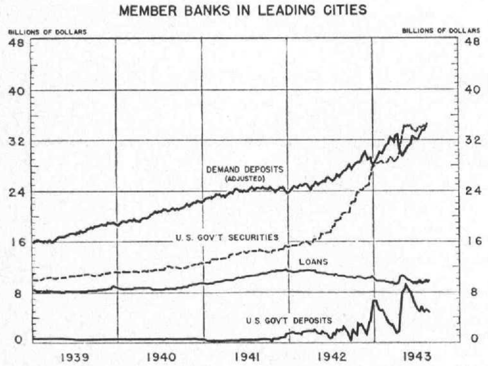
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for August, 1943.

DEPARTMENT STORE SALES AND STOCKS



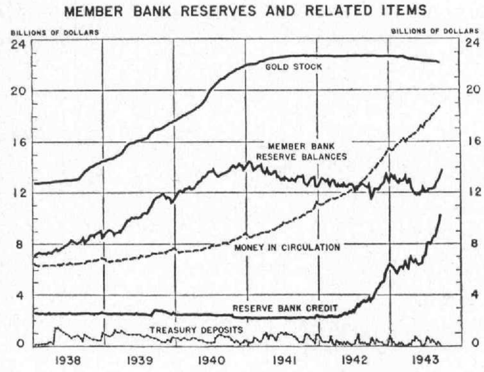
Federal Reserve indexes. Monthly figures, latest shown are for July, 1943.

MEMBER BANKS IN LEADING CITIES



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for September 15, 1943.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for September 15, 1943.

NATIONAL SUMMARY OF CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial activity and war expenditures were maintained in August at a high level. Commodity prices showed little change. Retail trade continued in large volume.

Industrial production — Output of manufactures and minerals showed little change in August and the Board's seasonally adjusted total index of industrial production remained at the July level. Production of durable manufactures increased. Output of iron and steel continued to advance and reached the peak levels achieved earlier this year. There were further slight increases in activity at war plants in the transportation equipment industries. Output of other durable products showed little change.

Production of nondurable goods declined in August, reflecting further decreases in output of textile, leather, and food products. Cotton consumption in August was about 15 per cent lower than the same period a year ago and was at the lowest level since the beginning of 1941. Leather output has also declined in recent months and is currently close to prewar levels. Activity at meatpacking plants showed the usual seasonal decline in August but preliminary figures indicate that output was about one-fifth larger than a year ago. Output of most other manufactured foods declined somewhat further. Production of petroleum, coke, and rubber products continued to advance in August while chemical production showed little change. Production of crude petroleum continued to rise and in August was in the largest volume on record. Lake shipments of iron ore likewise reached a record level. Production of coal and metals was maintained in large volume.

Distribution — Department store sales continued large in August and the first half of September. Increases during this period were less than seasonal, however, following maintenance of sales at a comparatively high level during July. For the year to date value of sales at department stores has been about 13 per cent greater than in the corresponding period last year, reflecting in part price increases. Inventories at department stores have increased in recent months and are now somewhat higher than at the beginning of this year, indicating that receipts of new merchandise have been in excess of the value of goods sold.

Commodity prices — The general level of wholesale commodity prices continued to show little change in August and the early part of September. Prices of lumber and newsprint were increased, while prices of fruits and vegetables showed further seasonal declines.

In retail food markets prices of apples and fresh vegetables declined further from mid-July to mid-August. The Bureau of Labor Statistics cost of living index declined one-half of one per cent as decreases in foods were partly offset by small increases in retail prices of other goods and services.

Agriculture — General crop prospects declined slightly in August according to official reports. The forecast for corn production was raised by 3 per cent to almost 3 billion bushels, while prospects for other feed crops declined. Production of cotton indicated on September 1 was 11.7 million bales as compared with a crop of 12.8 million last season.

Bank credit — In mid-September excess reserves of member banks rose sharply to about 2 billion dollars from the average level of about 1.1 billion which had prevailed in the latter part of August and early in September. This increase was due in part to the fact that the Treasury was making disbursements out of temporary borrowing from Reserve Banks on special certificates in anticipation of tax collections and receipts from the Third War Loan Drive. It also reflected in part a substantial decrease in required reserves at the middle of the month when funds from individual and corporate deposits were transferred to Government loan accounts which are not subject to reserve requirements. During the four weeks ended September 15 the Reserve System holdings of Government securities increased by about 1 billion dollars in addition to the special certificates taken directly from the Treasury. Most of the increase was in the form of Treasury bills sold to the Reserve Banks with sellers retaining the option to purchase. Over this four-week period currency in circulation increased by about 560 million dollars to a total of 18.8 billion outstanding.

In the last two weeks of August and the first week of September, reporting member banks in 101 leading cities showed a net decline in security holdings as a result of the sale of bills to the Reserve System. In the week ending September 15, however, some non-banking holders sold securities to the banks in anticipation of purchases during the Drive, and bank holdings also increased through repurchase of bills from the Reserve System.

Commercial loans, which had expanded by 100 million dollars in July and in August, increased by 250 millions during the week ending September 15. This increase in commercial loans was shared by both New York and other reporting member banks. In the week ending the 15th, loans to brokers and dealers in New York City increased 370 million dollars, most of which was for purchasing and carrying Government securities, and there was also an increase in loans on securities to others.

SEVENTH FEDERAL

RESERVE DISTRICT