NOVEMBER, 1943

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Review of Seventh District Business

Growing Military, Civilian Demands Aggravate Shortages

War inspired shortages now mark virtually all phases of Seventh District business. Industrial activity is at its highest level on record, but over-all requirements continue above quantities being produced. Supplies of manpower and resources which in pre-war years would have constituted substantial surpluses now prove to be severely inadequate. The volume of war materiel flowing from the district to the battlefronts is evidence of the task being accomplished. Nevertheless, the next year will exact an even greater effort from the district and the nation.

The shift of more men and women into the armed forces and a greater proportion of industrial production to the armed forces promise to make some further adjustments necessary for civilians. Manpower shortages are now the chief obstacle to widespread resumption of manufacture of civilian goods even though war requirements for certain basic materials may possibly become relaxed. Limited supplies of carbon steel, essential for virtually all military and civilian production, also will impede any substantial increase in production of consumers goods in the immediate future. During October the WPB authorized some limited output of essential civilian goods such as radios, domestic ice refrigerators, and repair parts for household appliances. The aim is to maintain as far as possible the current stock of goods needed by civilians until fuller production of these items can be undertaken.

PAPER SHORTAGE BECOMES ACUTE

Growing demands for all paper and paper products while supplies continue to dwindle give rise currently to a paper shortage which threatens to become critical during 1944 unless the pulpwood situation can be improved. An especially tight supply situation now exists in paperboard including container board, newsprint, and wrapping paper.

The shortage originates primarily in cut wood for making woodpulp. Pulp and paper manufacturing facilities and supplies of standing timber are adequate, but forest manpower is very scarce. August pulpwood deliveries were above July, but substantially below 1941 and 1942 amounts. Victory pulpwood campaigns in the pulpwood producing states, notably Michigan and Wisconsin in the Seventh District, are expected to increase the supply of wood during the winter. All possible producers of pulpwood are being enlisted to meet the need, including farmers and owners of small timber tracts. Some state and federal mature timber lands in Wisconsin where cutting rights have been obtained will soon be used as a source of pulpwood.

The current salvage drive for waste paper as a supplementary source of wood pulp is meeting with only moderate success. About 35 per cent of the estimated available waste paper is being saved for re-use. One important reason why the campaign has not received wholehearted response is that during the similar campaign in 1941-1942 a greater supply was collected than paper mills using waste paper were able to absorb. WPB officials state that there is no possibility, at least in the near future, that a waste paper glut will again occur. The OPA is making a drive against "a serious black market in waste paper," caused by apparent violations of price ceilings which are unchanged from those used in bringing in the heavy tonnage during the 1941-1942 drive. Maximum re-use of all types of shipping containers is strongly urged.

Some Seventh District mills are turning to waste sources to compensate for their lack of pulp, but are finding that jobbers' stocks of waste paper are exceedingly low. At least one paper mill has been forced to shut down temporarily because of this situation. Waste paper is urgently needed.

MID-WEST CRUDE SUPPLIES TIGHT

The general shortage of crude petroleum in the Mid-West area is now causing increased concern among refiners and marketers, particularly the smaller, non-integrated refiners. Unused refinery capacity estimated at more than 200,000 barrels a day is currently reported to exist in the Middle West. Refineries in the Illinois, Indiana, Kentucky refining area are operating at about 85 per cent of capacity.

As demands for refined products have mounted, crude oil supply conditions have become less favorable. The armed forces alone now consume more than a third of all gasoline produced. The Petroleum Administration for War reported in October that all oil producing states and important producing areas in the nation were producing at or about maximum efficient capacity, except West Texas, which is producing as much oil as can be transported with present facilities. Illinois crude production, nevertheless, has been declining steadily for some time, aggravating the regional problem. Within and outside the industry there is widespread belief that a rise in crude oil prices, repeatedly denied by price stabilization authorities, would aid production materially by stimulating new drilling and maintaining stripper well output.

To balance gasoline consumption with available supplies, the OPA reduced Mid-West B and C ration coupons from 3 to 2 gallons per week, effective October 1, 1943. As a result, all B and C coupons now have a uniform value from the Rocky Mountains to the Atlantic Ocean. Trends in petroleum demand during October and November differed somewhat from the usual seasonal experience. Supplies of gasoline and other motor fuels remained very limited despite seasonally declining civilian

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Subsidy Fight Intensifies

Many Points Argued on Both Sides

War subsidies are the center of one of the most heated controversies which the public has faced during the war. Proposals to handle the food, price, and cost of living situations have generated a vigorous clash over policy. Much of the discussion has proceeded seemingly without full consideration of the factors to be weighed on each side of the controversy.

DUAL-PURPOSE SUBSIDIES

The subsidies which are the subject of the present controversy are designed by those who propose them to serve two specific purposes in fighting the war. One purpose is to stimulate additional production where such subsidies will attain this end. The other object is to aid price control, to assist in preventing an inflationary spiral of prices by removing some of the pressures for upward revision of price ceilings.

Subsidies may be divided roughly into two kinds, based primarily upon the extent to which they are applied. That is to say, they may be limited, or general. Where it is desired to bring into production a given amount of a particular good or service which cannot be produced under existing prices because of high costs of a few producers, a limited subsidy might be paid to the relatively few high-cost producers to get them into production without loss. To determine just which producers should be extended the limited subsidy involves a vast amount of investigation, an administrative burden which is precluded by the shortage of manpower and the pressure of more urgent work. However, this type has been employed during the war to increase the output of certain strategic metals, such as copper, lead, tin, zinc, and aluminum. An alternative to this limited subsidy might be to permit a rise in the price of the commodity or service in question sufficient to cover the costs of the high-cost producers. But this would result in "windfalls" to low-cost producers which are deemed to be undesirable during a war emergency and would tend to accelerate price rises. Another alternative is to pay a general subsidy "across the board" to all producers, thus obtaining the additional production. This does not eliminate the "windfalls" to low-cost producers, but it is credited with the merit of preventing prices from rising and thus necessitating price rises for other commodities, since prices to the buyer are usually his costs as a seller.

EXTENSION OF CCC THE FOCUS

The current controversy revolves about the bill before Congress to extend the life of the Commodity Credit Corporation but forbidding it to engage in subsidy operations. Presumably without subsidies banned CCC would be empowered and financed as an agent of the Federal government to deal in subsidies for two purposes. One of these purposes is to continue the policy of supporting prices of agricultural commodities at levels high enough to attain the output of specific products needed during the war. The other is to "hold the line" of the price level by paying subsidies to prevent an increase in prices which would otherwise appear inevitable. These two purposes are closely related and many of the subsidies paid to date and proposed for the future are designed to serve both purposes. It is contended by supporters of the subsidy programs that the price line cannot be held and additional production be attained without their use.

THE PRESENT SUBSIDIES

A number of subsidies are already in existence. The ceilings on the retail price of meats were lowered some months ago. In order to prevent these from rolling back on the producer and discouraging production or squeezing processors and distributors, a subsidy program was instituted to compensate for the narrower margins or spreads between farm and retail prices. Butter consumption has been similarly subsidized. Bread has recently been added to the list. A program is now in operation calling for subsidies of 30 to 50 cents per hundredweight for milk and 4 to 6 cents per pound of butterfat to enable dairymen to meet higher feed costs without a higher retail price of milk.

A program is in operation to roll back the retail price of peanut butter, with some of the squeeze on margins absorbed by a subsidy of 4½ cents per pound. In addition to these illustrations the government has for several months paid out large sums to support prices of agricultural products needed for war purposes and ranging from soy beans through a long list of dozens of items to canned vegetables. Most of these support prices were instituted specifically to encourage the production of the particular commodities thus supported without necessitating an increase in prices.

It is estimated that the 1943 subsidy programs for support of prices and equalization payments to reduce the price of meat and butter will involve a total cost of 800 million dollars. Of this total, 350 million dollars represents the loss on resale of commodities by Commodity Credit Corporation resulting from the price support programs. The estimated cost of the "consumer" subsidy on meats and butter is placed at approximately 450 million dollars.

ARGUMENTS FOR AND AGAINST SUBSIDIES

Proponents of the subsidy programs argue: that subsidies will get added production without runaway prices; that they will control the cost of living and thus reduce the cost of the war; that they are fair and equitable to those groups in the population whose wages have not risen or kept up with the rise

in the cost of living; that "holding the line" by subsidies is essential from the standpoint of civilian morale in order to prevent panic from the fear of inflation; and that they will facilitate a more equitable distribution of scarce food supplies as between the heavy-producing and the heavy-consuming areas.

Opponents of the subsidy program argue: that the program is inflationary; that the burden of the subsidies is passed on to the future generations; that they are not needed in view of the wage increases; that they will actually reduce production; that they will result in regimentation of the economy.

ARE SUBSIDIES INFLATIONARY?

As to the inflationary aspects, the opponents argue that the amount of the subsidy will be added to the purchasing power of consumers by giving them funds with which to put inflationary pressure on various parts of the price structure. It is further argued that these subsidy funds are borrowed money, part or most of which comes from banks, and are thus highly inflationary, and that they thus add to the cost of the war. Supporters of the subsidy program say that the subsidies would break the price spiral since by "holding the line" the justification for higher wages and thus higher prices is removed. It is further stated that holding down prices by the subsidy program will reduce the cost of the war because it will mean lower dollar prices for goods used in fighting the war, and that this will mean less borrowing rather than more.

In this connection it is argued that if, say, 2 billion dollars are spent to subsidize the consumer this will save him from 4 to 6 billion dollars on the cost of living. The basis for this argument would appear to be the expectation that amounts in excess of the subsidy are to be squeezed out of the middleman's margins as prices are rolled back. For example, under the program for peanut butter a subsidy of 4½ cents per pound is scheduled to result in a reduction of 7 cents per pound to the consumer. It seems also to assume, probably correctly, that price increases in the absence of subsidies would be magnified because of the customary practice in the various trades of pricing retail goods on the basis of a percentage mark-up. There are possible complications, of course, from such subsidies as that to dairymen, to the extent that subsidies are used to bid up the price of feeds, thus necessitating further increases in the subsidies or increasing the problem of holding feed costs in line.

IS "BURDEN" PASSED ON?

In answer to the charge that the burden of the "consumer" subsidy is passed on to "future generations," it is argued that while it is true that taxes must be levied to retire bonds sold to finance the subsidy, these bonds are also passed on to "future generations". It is further contended that the burden of the war passed on to the future will be less in terms of dollars if prices are held down than if they are allowed to rise.

SUBSIDIES AS AN AID TO EQUITABLE SHARING OF FOODS

An important consideration in determining the scope of subsidy programs is the situation that prevails in certain foods as to the advantages which the consumers in surplus-producing areas have over consumers in deficit, heavy-consuming areas. Such advantages arise, in part at least, from the fact that under price ceilings the additional cost of transportation to deficit areas puts a premium on sales in the surplus areas. Subsidies to the extent of absorbing transportation differentials by the government have been proposed to equalize these advantages and thus achieve a more equitable distribution of limited supplies.

The argument is made that the subsidies reduce farm production. The basis of this point is the assumption that the amount of the subsidy will not be sufficient to cover the losses of producers, or that uncertainty about how a producer will come out prevents him from going ahead with production. Proponents argue that this would be true also under "free" prices.

Opponents of the subsidy, especially processors, object to the programs on the ground that in some cases the receipt of the payments is made contingent upon their compliance with regulations irrelevant to the purposes of the subsidy. To the extent that this is true it is of course a legitimate complaint, but moreso against the way subsidies are administered than against the subsidy program by itself.

MORE THAN ECONOMICS INVOLVED

This whole controversy over subsidies, like a great many current "economic" questions, lies more in the realm of politics and social questions than it does in the field of economics. Many of the conflicts over the issue are the result of attempts by various groups to jockey for positions of relative advantage in shifting the burden of the war and in getting the questionable gains which might arise from changes in the price level. The principal protagonists are the agricultural producers on the one hand, and organized labor on the other. The irony in this situation is that on the whole these are the two groups in the economy which the statistics seem to indicate have fared not too badly as a result of rising prices. The average weekly earnings in all manufacturing, according to the Bureau of Labor Statistics averages, increased by nearly two-thirds from 1939 to 1943, increasing from about $25 to nearly $43. According to this same agency the cost of living has risen about 25 per cent during that time. Meanwhile net income to farmers (after expenses) has increased from $4.4 billion in 1939 to an estimated 12.5 billion dollars for 1943. There appears to be real danger that the various groups on the two sides of the struggle will continue the fight to the point where great harm will be done not only to other groups but ultimately to themselves as well.

Deposit Growth and Business Needs

Slower Deposit Growth a Possibility

During the war, bank deposits have increased enormously as the Treasury has found it necessary to finance a large part of its deficit by the sale of securities to the banking system. The most striking increase has been in demand deposits of individuals, partnerships, and corporations. Because of the large excess of consumers' disposable income over consumers' spending, it has sometimes been assumed that individuals as consumers hold a large part of the increase in deposits of individuals, partnerships, and corporations that has occurred since the outbreak of hostilities. Further, since the outlook is for a continued growth in the excess of consumers' disposable income over spending, it has generally been assumed that deposits will continue to increase for the duration of the war.

It should be emphasized that this reasoning is based on the assumption that a large part of the increase in deposits since the beginning of the war has accrued to individual consumers rather than to business firms. The Federal Reserve System's study of deposit ownership throws considerable doubt on the validity of this assumption, and tends to corroborate other evidence which is at variance with it. (Detailed results of the deposit study are given in the October issue of the *Federal Reserve Bulletin.*) Therefore, it is necessary to re-examine the factual evidence bearing on this assumption and to modify the conclusions as to the future growth in deposits.

CONSUMERS' DEPOSIT INCREASE NOMINAL

First, the general assumption that individual consumers have added large amounts to their deposit holdings is not in accord with the general impressions of the public. Many consumers, while admitting that their incomes have increased, assert that they have not added large amounts to their demand deposit holdings.

Second, but of much greater significance, the conclusions drawn from the Federal Reserve System's survey of deposit ownership indicate that personal demand deposits, excluding deposits of unincorporated business firms, did not increase between the end of 1941 and the end of July 1943 by much more than 4 or 5 billion dollars. The remainder of the increase, or some 13-14 billion dollars, accrued to business firms both incorporated and unincorporated. It should be noted that this 4 or 5 billion dollars added to the demand deposit holdings of individuals includes additions to the deposit holdings of farmers. Perhaps a good share of the increase in deposits of farmers represents deposits held for purposes closely associated with farm production rather than the consumption activity of farmers.

Time deposits of individuals, partnerships, and corporations have increased much less both percentage-wise and in terms of dollars than the increase in demand deposits of individuals, partnerships, and corporations. While demand deposits of individuals, partnerships and corporations increased from 25.7 billion dollars on June 30, 1939 to 54.3 billion dollars on June 30, 1943, or by well over 100 per cent; time deposits of individuals, partnerships, and corporations increased from 25.1 billion dollars to 28.4 billion dollars, or by only about 13 percent. If individuals as consumers had added appreciably to their holdings of idle deposits, we would expect time deposits to have risen substantially. This has obviously not been the case. Money in circulation, most of which is held by individuals, has, of course, increased considerably during the war.

BUSINESS DEPOSIT REQUIREMENTS

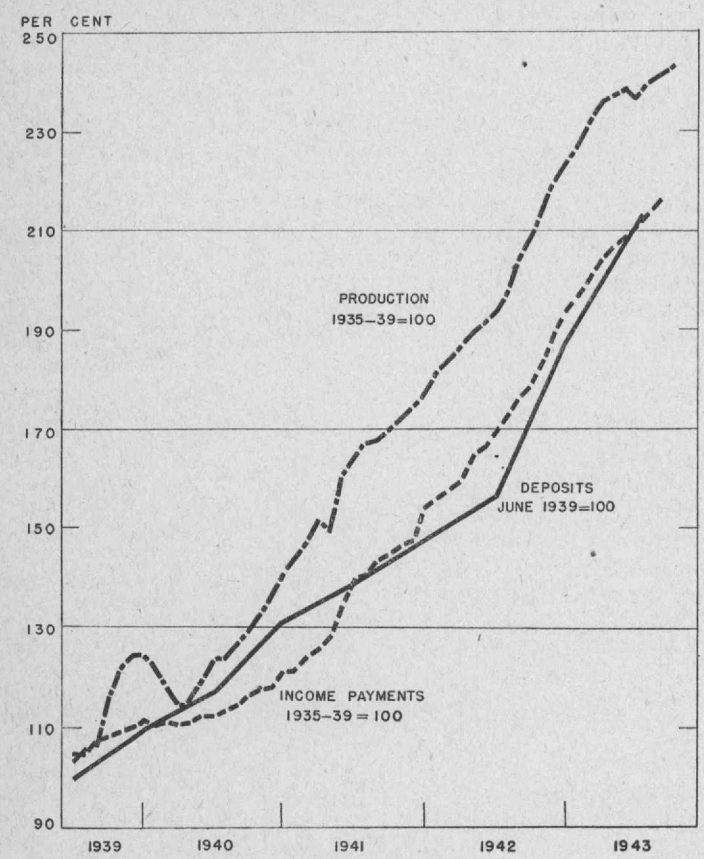
Thus it is business firms and farmers rather than individuals as consumers who have accounted for by far the largest part of the increase in deposits of individuals, partnerships, and corporations. Although it is possible that there has been a great increase in the idle deposits in war centers, from data on the geographical distribution of percentage increases of demand deposits it would appear that the bulk of the increase in deposits has resulted from an increased need for money by business firms and farmers to meet the sharply expanded volume of transactions which has resulted from the war. For example, while adjusted demand deposits of weekly reporting banks in Detroit—where activity has been greatly stimulated by the war—increased 40 percent between July 1, 1942 and October 6, 1943, adjusted demand deposits of weekly reporting banks in New York city—the center in which idle balances are typically held and where activity has not been greatly stimulated by the war—increased less than 8 percent. Moreover, the amount of increase in deposits in Detroit was more than 1/3 as large as the amount of the increase in New York city, despite the fact that deposits in New York city are well over ten times as large as in Detroit.

Between June 30, 1942 and June 30, 1943, demand deposits of individuals, partnerships, and corporations in all banks in the United States increased from 39,983 million dollars to 54,287 million dollars, or by 14,304 million dollars. In this same period demand deposits of individuals, partnerships, and corporations of New York central reserve city banks increased from 12,014 million dollars to 14,001 million dollars, or by 1,987 million dollars. Thus, although on June 30, 1942 New York central reserve city member banks held about 30% of the demand deposits of individuals, partnerships, and corporations in all banks in the United States, they accounted for only 14% of the dollar increase in demand deposits of individuals, partnerships, and corporations between June 30, 1942 and June 30, 1943.

Not only have deposits increased rapidly in centers where the volume of production activity has been stimulated by the war, but they have also shown a great relative rise in predominantly farming areas, where activity has also been greatly expanded during the war. For example, during 1942 demand deposits of individuals, partnerships, and corporations of all member banks in the United States increased 26 percent. On the other hand, deposits of country member banks increased 41 percent. In the Kansas City Federal Reserve district, where farm activity has increased greatly, country member banks' demand deposits of individuals, partnerships, and corporations showed an increase of 61 percent. This latter increase was greater than that for country member banks in any other Federal Reserve district, with the sole exception of the San Francisco district.

Thus, since deposits have increased most in those areas where the physical volume and dollar value of transactions have increased most and have increased least where the volume and value of transactions have increased least, it would appear that deposits have risen because of an increased need for "working balances" rather than from any desire to build up large "idle balances." This evidence is further supported by the general close relationship between increases in deposits and increases in the volume of industrial production and the value of income payments to individuals as depicted in the chart.

PRODUCTION, DEPOSITS AND INCOME PAYMENTS



The line in the chart for deposits represents demand deposits of individuals, partnerships, and corporations of all active banks in the United States and possessions on June and December call dates shown in the reports of the Comptroller of Currency. They are shown in index number form, with June 30, 1939 equal to 100, for purposes of comparison with the production and income payments series.

The series for industrial production represents the revised Federal Reserve index of industrial production as shown in the October *Federal Reserve Bulletin*. The series for income payments is the Department of Commerce series of income payments to individuals.

It will be noted that deposits have not increased as rapidly as the volume of industrial production. This is to be expected since trade and service industries have not expanded nearly so rapidly as has industrial production. Consequently, the volume of total transactions has not increased as rapidly as has the volume of industrial production. However, the index of industrial production gives no weight to the fact that prices generally have increased since 1939 and that consequently the value of transactions has increased more than has the physical volume.

A measure of the value of productive transactions is the Department of Commerce series on income payments. It will be noted that this shows extremely close correlation with the deposit series.

Summarizing the arguments thus far, it would appear from the evidence that business firms and individuals may not have been building up a large amount of idle funds in the form of demand deposits. Business firms and farmers appear to have been mainly responsible for the growth in deposits, and to a great extent have added to their deposit holdings because of an increased need to meet the enlarged demand for working balances resulting from the tremendous increase in their operations during the war. It would appear that many business firms and individuals have used idle funds to retire debt and to purchase Government securities as the opportunity presents itself.

FUTURE GROWTH OF DEPOSITS

It would seem then that, for the duration of the war at least, any further growth in deposits will depend in large part on whether the volume and value of transactions continue to increase. It is generally believed that the ceiling of our productive capacity is being reached and that therefore the volume of transactions may show only a slow and gradual rise. Moreover, if "holding the line" on the price and wage front is reasonably successful the total value of transactions will probably only rise gradually. Consequently, the need for additional working balances will probably cease to rise as rapidly as it has in the past. As a result, business firms and others will probably be willing to invest in Government securities the bulk of the funds they gain. This in turn may make it possible for the Treasury to finance a larger part of its deficit than in the past

through the sale of securities to investors other than banks. In this event the need for financing the budget deficit through the banks will decrease and deposits may cease to rise as rapidly as they have to date. However, it should be emphasized that this conclusion will not be true if there are substantial price and wage increases.

Some slowing down is already evident in the rate at which deposits are increasing. For example, in the period from June 1, 1942 to December 30, 1942, which approximated the end of the First War Loan Drive, adjusted demand deposits of weekly reporting banks in 100 cities outside New York increased from 15.1 to 17.5 billion dollars, an increase of 2.4 billion dollars or 15.8 percent. It is interesting to note in this connection that the volume of industrial production over a comparable period increased by 15.4 percent and income payments increased 13.9 percent. In the period from December 30, 1942 to October 6, 1943—which approximates the period from the end of the First War Loan Drive to the end of the Third War Loan Drive—adjusted demand deposits in 100 cities increased by only 1.6 billion dollars or 9.3 percent, despite the fact that the period was some three months longer than in the period from July 1, 1942 to the end of the First War Loan Drive.

Moreover, a breakdown of the period between the First and Third War Loan Drives into the two subperiods between the First and Second, and the Second and Third War Loan Drives, respectively, indicates a slowing down in the rate of increase in deposits within this period. For example, in the period from December 30, 1942 to May 5, 1943 adjusted demand deposits of weekly reporting banks in the 100 cities increased from 17.5 to 18.4 billion dollars, an increase of 900 million dollars or 5.1 percent. In this period industrial production showed an increase of 5.6 percent and income payments rose about 6.7 percent. On the other hand, in the period from May 5 to October 6, 1943, adjusted demand deposits of the weekly reporting banks in 100 cities rose by only 750 million dollars, or 4 percent, despite the fact that the period was about one month longer than the period between the Second and Third War Loan Drives. Although data on income payments are not yet available for this latter period, industrial production showed a rise of 2.9 per cent.

It will be noted that dates corresponding to the end of each War Loan drive have been selected for comparison. This was done in order to indicate that although private deposits have expanded rapidly between War Loan drives, a successively larger proportion of this increase has been drawn upon by nonbank investors to purchase Government securities during each successive War Loan drive. That is, as private deposits have been built up between War Loan drives, a successively smaller proportion of the increase has been required for transactions purposes. This reflects the fact that the rate of increase in the value of productive transactions has tended to level off. Consequently, nonbanking investors have been able to purchase a successively larger volume of Government securities in each War Loan drive.

The Treasury's working balance reached a peak on October 16 of more than 20 billion dollars, the bulk of which was in its war loan account with commercial banks. As these funds are withdrawn from the commercial banks and are spent by the Treasury, they will reappear as private deposits. If the value of productive transactions does not increase appreciably in the next few months, the bulk of this addition to private deposits will represent idle deposits not required for business purposes. A large part of these deposits will then be available for the purchase of Government securities in the next War Loan drive. Consequently, the Treasury may not need to call upon the banking system to purchase securities in substantial volume, unless it wishes to continue to build up a larger and larger working balance at the close of each successive War Loan drive.

DEMAND DEPOSITS OF INDIVIDUALS, PARTNERSHIPS AND CORPORATIONS

June 30, 1939 — June 30, 1943

(In Millions of Dollars)

Dates	United States				Seventh Federal Reserve District			
	All Member Banks	New York City Central Reserve Member Banks	Reserve City Member Banks	Country Member Banks	All Member Banks	Chicago Central Reserve City Member Banks	Reserve City Member Banks	Country Member Banks
June 30, 1939	22,448	8,281	7,331	5,272	3,048	1,565	836	647
Dec. 30, 1939	24,604	9,030	8,002	5,896	3,305	1,676	904	725
June 29, 1940	26,397	10,283	8,372	5,960	3,492	1,782	972	738
Dec. 31, 1940	29,576	11,357	9,468	6,846	3,896	1,905	1,132	859
June 30, 1941	31,429	11,895	10,142	7,282	4,274	2,109	1,246	919
Dec. 31, 1941	33,061	11,282	11,126	8,500	4,600	2,152	1,357	1,091
June 30, 1942	35,646	12,014	12,199	9,141	5,045	2,292	1,577	1,176
Dec. 31, 1942	42,139	12,501	15,061	11,989	6,199	2,588	2,033	1,578
June 30, 1943	47,863	14,001	17,276	13,604	7,076	2,981	2,324	1,771

Manpower Shortages Dominate Problems

Detroit Illustrates Situation in Acute Shortage Area

Shortages of manpower continue as the major problem affecting wartime production within the Seventh Federal Reserve District and the nation. Earlier stringencies have been aggravated by increased production demands, continued losses of men to the armed forces, inadequate facilities for workers and new in-migrants to industrial areas, and rapid turnover among the employed.

The current situation in Detroit illustrates the problems of acute shortage areas and imminent shortage areas, classified as Groups I and II respectively by the War Manpower Commission. At present within the district, Anderson, Detroit, Fort Wayne, Gary, Indianapolis, South Bend, Muskegon, and Sturgeon Bay are listed in Group I. Chicago and Milwaukee now in Group II appear to be approaching Group I status. Effective December 1, 1943 Chicago employees, with some exemptions, were placed on a 48-hour work week by the WMC.

DETROIT TURNOVER RATE HIGH

Detroit's rate of labor turnover is largely typical of most active war production areas. Data gathered primarily from "essential" establishments within the city indicate that during the six months preceeding September 1 it was necessary for Detroit employers to hire eight workers to make a net gain of one. Data for July and August indicate that fourteen workers were necessary to make this same net gain. The quit rates in most major industries averaged approximately five per cent. Between industries, however, the degree of variation from this figure has been rather large. Discharges, military withdrawals, and other factors have brought the total separation rate to possibly seven per cent. Within the Seventh District, Detroit's rate of turnover ranks among the highest, but the situation in this area has not reached the extremes found in some other Group I cities of the nation.

Obviously numerous separations impede production because such turnover involves not only actual time lost on the production lines but also decreased efficiency with the use of new people who commonly are not familiar with the techniques of their new assignments. Definite efforts by employers and the government have been made to reduce the number of transfers by regulations necessitating formal release certificates from previous employers or the USES before reemployment is possible. Although the program has not yet become fully effective, it may prove to be progressively more helpful in promoting greater stability in employment.

Increased demand for labor has been to a considerable extent due to higher production quotas and more specialized operations within industry. The pressure continues, and the Michigan office of the WMC anticipates a demand for 95,000 additional workers in Detroit war industries before March 1, 1944. With increased industrial activity, many service establishments, retail trade groups, and other commercial enterprises, mainly classified as "other than essential" have experienced added needs for labor at a time when they have had extreme difficulty getting and keeping workers. However, these organizations in general are not included in the WMC estimates of demand for labor. The local supply available for the six-month period ending March 1, 1944 is estimated to number roughly 56,000 with probably only 52,000 actually to be utilized. The workers available include approximately 40,000 women, possibly 5,000 persons who are transferring from seasonal or construction activities, 9,000 who are reentering the labor force or entering it for the first time, and a small number of individuals who have been unemployed. The logical solution would appear to be to draw supplementary labor from outside the area, but lack of sufficient housing makes any further volume of in-migration improbable, and inadequate transportation discourages commuters.

WOMEN AUGMENT LABOR FORCE

Under the impetus of wartime demands, the number of women in the labor force has already been increased extensively and will undoubtedly continue to rise. Between March 1 and September 1, 1943 the addition of 50,000 women to Detroit's total employment served to offset a decline of 15,000 men and at the same time to provide a net gain of 35,000 workers. Prior to the war, women constituted roughly 24.3 per cent of the working population of Detroit. The recent additions brought the proportion to 27.9 per cent for this industrial area in September, with the expectation that the further gain before March 1, 1944 will raise the percentage to about 31.

The WMC has predicted an increase of 16,000 men during the six months beginning September 1, 1943. This gain seems unlikely in as much as it follows a decline of approximately 15,000 in the preceding six-month period.

Current predictions by the WMC indicate expectations of growth in total employment, but the figures are substantially below earlier predictions for the same period. The reduction in anticipated increases is due to a levelling in the expansion of labor requirements, more conservative labor demand estimates by employers, and a greater awareness of the limitations of the labor market. At the present time, Detroit's hope of relieving the strain of manpower shortages lies in solutions that are also appropriate for acute shortage areas throughout the Seventh District and the nation. Main factors include the transfer of production to other areas, greater utilization of available manpower, and specifically more effective programs for the reduction of turnover, absenteeism, and similar obstacles to production.

District Summary

(Continued from inside cover)

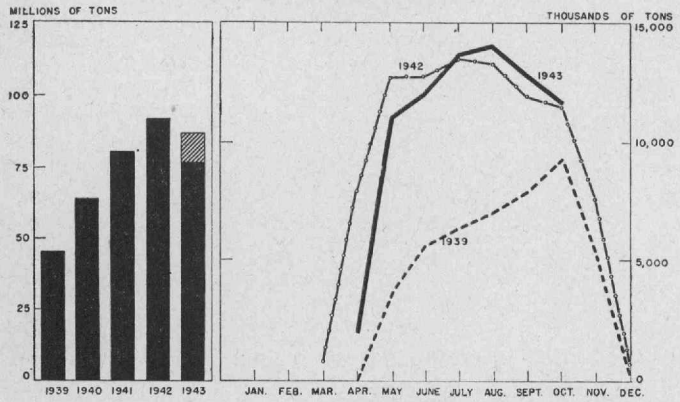
demand and tightened rationing control, reflecting growing military requirements. Higher temperatures during the autumn period than in 1942, on the other hand, eased somewhat the demand for domestic heating oils, causing light fuel oil stocks in the area to increase to their highest level since December 1942. These stocks, however, are substantially below comparable 1942 levels and falling temperatures quickly increased the market tension. Industrial fuel oil supplies in the district appear to be more adequate, with East Coast demand declining during the period.

RAILROADS AWAIT NEW EQUIPMENT

For the first time since the start of the war the railroads of the Seventh District and the nation face the operating handicaps of winter with virtually no margin of unused capacity. The supply of every type of car is "tight" or worse, and deliveries are still awaited on some 1942 orders for locomotives and new rail. With no let-up expected in coal, petroleum, and ore movements, and the growth of traffic in farm products and feed, the Office of Defense Transportation is calling for an even greater efficiency in the use of existing equipment. Shippers and carriers meeting with the ODT have formed a new National War Transportation Committee and a campaign is under way to step up the utilization of existing rail equipment by at least 10 per cent to meet the demands of the critical months ahead. There is a general feeling that the next six months will probably prove to be the most difficult of the war for transportation. If this period can be passed without a breakdown, the currently more liberal policy toward releasing materials for railroad use may provide the margin necessary to meet future requirements.

Special air freight facilities between Chicago, New York, and California became available to Seventh District firms with the inauguration on October 16 of a flying freight car service. Three planes completely converted to freight use carry approximately 6,000 pounds each, as compared with the 1,400 pounds carried by the usual passenger-cargo airliners. The new service promises to aid in providing additional space for the record volume of wartime mail and express. This development is receiving widespread attention because of probable expansion in the post-war period.

IRON ORE SHIPMENTS



Monthly shipment data compiled by the Lake Superior Iron Ore Association. Shown graphically are annual totals 1939-1943, and monthly totals for each navigation season, 1943 partially estimated.

Shipments of iron ore on the Great Lakes totaled 11.6 million tons in October, the highest volume on record for the month. Persistent bad weather, however, delayed shipping during the month, causing ore movements to decline from the September amount of 12.7 million tons. Cumulative 1943 shipments at the end of October were 76.7 million tons, or 7.1 million below the comparable 1942 level. To meet the already downwardly revised goal for 1943, ore boats will have to carry almost ten million additional tons before winter navigation hazards close the ore movement season. Last year, after November 1, only 8.2 million tons were shipped. The Office of Defense Transportation released ore boats to haul 15 million bushels of grain east during the first half of November. Approximately 50 million bushels still have to be shipped before the end of the navigation season to meet the season quota. If current rates of grain shipments can be maintained well into December, there is some possibility that the grain quota will be exceeded.

COAL PRODUCTION RESUMED

Bituminous and anthracite coal miners returned to work after roughly a week's strike at the beginning of November. War Labor Board (WLB) approval of an agreement reached by John L. Lewis and Secretary of the Interior Ickes preceded the resumption of coal mining. The agreement, based on the Illinois pact, provides for a daily wage of $8.50, for an 8½-hour portal-to-portal day, and a cut of fifteen minutes in the former half-hour lunch period, as compared with the $7 for a 7-hour productive day provided in the former contract. The $1.50 increase in the daily wage was submitted earlier in the Illinois pact but denied by the WLB who offered $1.12½ as the maximum. The additional 37½ cent increase was permitted at this time in accordance with the reduction in the lunch period. Portal-to-portal pay, previously designated by the WLB as a matter for law suit or out-of-court settlement, was approved in substantially the same form as the agreement between Illinois miners and operators. Provisions for payment of tonnage workers or piece workers remain to be completed. Increases may be justified on the basis that higher pay will be for additional production.

RECORD STEEL OUTPUT ESTABLISHED

Since mid-August Chicago steel mills have been operating at 99 per cent of capacity or above. During the second week of October operations reached 102 per cent which was higher than any previous period during 1943. Detroit steel mill operations fluctuated between 96 and 104 per cent of capacity during September and October. Steel ingot output in the nation during September set a new wartime

30-day record of 7.5 million net tons or an average of 1.7 million per week. During September 1942 seven million tons of ingots were produced, or a weekly average of 1.6 million tons. Because steel operations are at or near capacity the effect of the coal strike is likely to be felt for some time in the steel industry nationally. Production lost on account of the strike cannot be retrieved. District steel mills, however, were not forced to shut down as a result of coal shortage because the Chicago area in particular appears to have been somewhat better stocked with coal than other areas.

DEPARTMENT STORE SALES MOUNT

Department store sales in the Seventh District were higher in September than for the same month of any previous year on record, and substantially above the previous peak levels in 1937 and 1929. Since January 1943, sales have been continuously ahead of a year ago, and at the end of September cumulative sales were 10 per cent above the 1942 level.

The Seventh District department store index stood at 158.5 for September, as compared with 154.9 in September 1942 and 149.4 during the same month in 1929. Indianapolis department stores continue to show the largest gains with sales more than 25 per cent above a year ago. Other large district cities with important gains were Milwaukee 11 per cent, Chicago 9 per cent, and Detroit 5 per cent ahead of September 1942. Several other cities in the district reported even larger department store sales increases, particularly Sioux City and Des Moines, Iowa, and Flint and Grand Rapids, Michigan.

A breakdown of department store sales reveals that the gains have been fairly general among sales items except for goods whose production has been stopped or severely limited. Women's and misses' apparel and accessory goods have shown outstanding sales increases during the past year. Neckwear and scarfs, furs, and coats, suits, and dresses figured largely in the gains. There has also been a heavy demand for yard goods, infants' wear, books and magazines, luggage and candy. Goods whose sales have lagged behind 1942 volumes include major household appliances, musical instruments, radios and phonographs, shoes (basement store), furniture, and silverware.

Under the impetus of early Christmas shopping for members of the armed forces overseas, department store sales began an upsurge in September reaching the year's largest weekly volume to date during October 18-23. Pre-December shopping may tend somewhat to level out sales during the regular Christmas buying period, but a heavy volume of business is anticipated despite shortages of goods and manpower.

SHOE PRODUCTION DROPS

Shoe manufacturers in the Seventh District continue to produce somewhat less than one-tenth of the nation's total shoe output. September production numbered 3.2 million pairs in the district and 37.5 million pairs in the United States. Both production levels were under August when manufacturers rushed to complete substantial volumes of non-rationed types of shoes prior to quota restrictions effective September 1. Preliminary estimates indicate that 1943 annual shoe output will reach 40 and 460 million pairs in the district and nation respectively, in both instances under 1942. Members of the shoe industry are evidencing concern over the limited number of hides available for footwear use. This situation has arisen as a result of several months of reduced cattle slaughtering, especially during the early part of 1943. Some improvement can be expected.

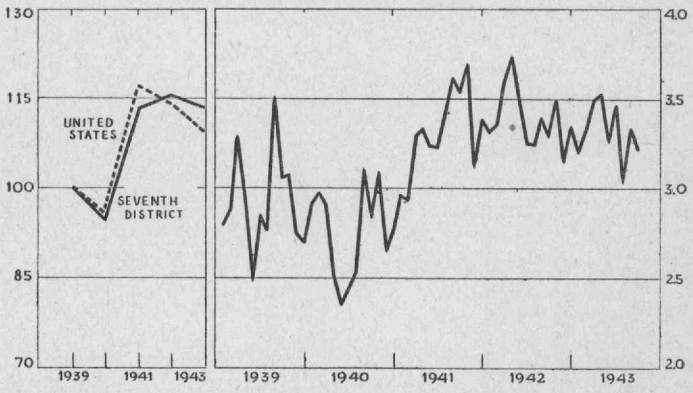
DEVELOPMENTS IN AGRICULTURE

Production goals for the nation's agriculture in 1944 were announced in October. The objectives are the result of consultation with regional and state leaders in state conferences. A total crop acreage of 380 million is proposed, an increase of 16 million acres over 1943. Principal increases asked are in wheat, corn, soybeans, peanuts, tame hay, and sugar beets. Decreases are asked for in acreages planted to oats, barley, sorghums, and rye. The goals for sows to farrow in 1944 call for a reduction of 17 per cent from numbers farrowed in 1943.

Crop reports on the 1943 season show yields and acreages resulted in the second best output in ten years, exceeded only by the performance in 1942. A corn crop of well over 3 billion bushels was reported. The total of feed grain crops was considered rather satisfactory in view of unfavorable expectations earlier in the season. Tonnage of feed grains produced was at a near-record level, although somewhat below the phenomenal record established in 1942.

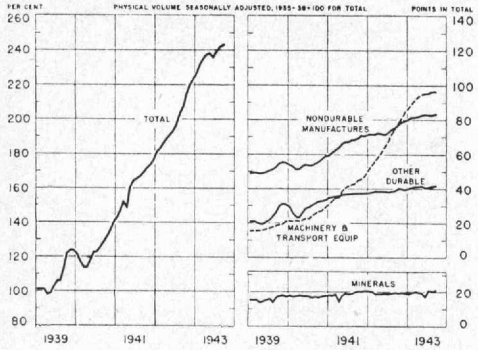
Heavy runs of cattle and hogs at principal markets have occurred during recent weeks. Some concern is expressed in well-informed quarters over the ability of marketing and processing facilities to handle the load expected at the peak of the hog marketing season.

SHOE PRODUCTION



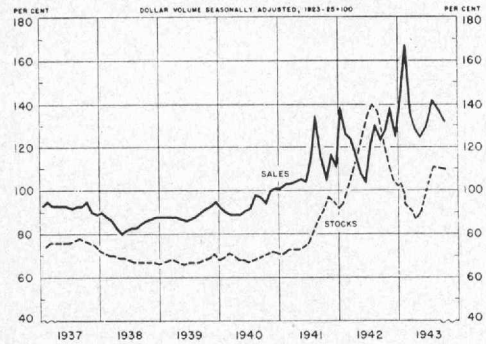
Basic data compiled by the U. S. Department of Commerce with adjustment for Seventh District area by the Board of Governors of the Federal Reserve System. Annual indexes with 1935-39=100. Monthly figures cover the period from January 1939 through September 1943.

INDUSTRIAL PRODUCTION



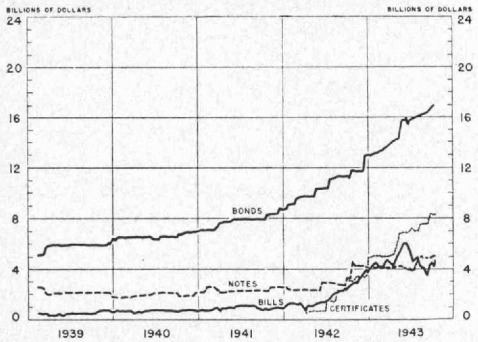
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for September, 1943.

DEPARTMENT STORE SALES AND STOCKS



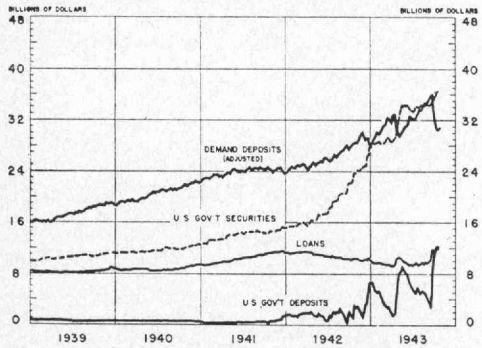
Federal Reserve indexes. Monthly figures, latest shown are for September, 1943.

GOVERNMENT SECURITY HOLDINGS OF BANKS IN LEADING CITIES



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for October 13, 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 October 13, 1943.

NATIONAL SUMMARY OF CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial activity showed little change in September and in the first half of October. Distribution of commodities continued in large volume and prices remained steady.

Industrial production — Physical volume of industrial production as measured by the Board's seasonally adjusted index, as recently revised, was 243 per cent of the 1935-39 average in September, compared with 242 in August and 239 in July.

There were increases in output in the iron and steel and transportation equipment industries while activity in other durable goods industries showed little change or declined slightly. Open hearth and Bessemer steel production exceeded its previous peak level, reached in March of this year, and output of pig iron likewise established a new record. In the machinery industry as a whole activity was maintained at the level of recent months although there was some further curtailment of output of machine tools and machine tool accessories.

Total output of nondurable manufacturers continued at the August level. Cotton consumption, which had been declining since May, rose 6 per cent from August to September, but was 9 per cent below the high level of a year ago. Shoe production was maintained at the level of recent months and was slightly larger than a year ago. The output of manufactured food products rose seasonally.

Petroleum refining continued to rise in September and was at a rate about double the 1935-39 average. The Board's index of this industry is substantially higher than the old index because greater weight is given to aviation gasoline and other special war products. Output in the chemical industry as a whole declined in August, as some further expansion in industrial chemicals was more than offset in the total by reductions elsewhere, reflecting readjustment of the war program. Newsprint consumption rose less than is usual at this season, in the face of increasing supply difficulties, and a further 5 per cent cut in permitted consumption of newsprint was ordered beginning October 1.

Crude petroleum production continued to rise in September, reflecting further improvement of transportation facilities for petroleum products. Output of crude petroleum in August and September exceeded the earlier peak reached in December, 1941 and January, 1942. Coal production continued at a high level.

In September the value of construction contracts awarded in 37 Eastern states was at about the same level as in July, according to reports of the F. W. Dodge Corporation, and was considerably smaller than in August when there was a temporary increase because one exceptionally large contract was placed in that month.

Distribution — Department store sales increased less than seasonally in September, following an unusually large volume of sales in July and August, and the Board's seasonally adjusted index declined from 142 to 131. During the first half of October sales showed a gain over September although usually there is some decline at this season.

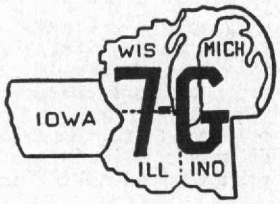
Railroad freight traffic in September and the first part of October was maintained at the high level of previous months. Coal shipments exceeded the record movement of last July and loadings of grain and livestock were 10 per cent higher than a year ago.

Commodity prices — Prices of grains advanced from the middle of September to the middle of October. Livestock prices were slightly lower, reflecting partly the establishment of Federal maximum prices for live hogs and sharply increased marketings of cattle. Wholesale prices of most other commodities continued to show little change.

Agriculture — Crop prospects showed little change during September, according to official reports. There was a further small improvement in prospects for the corn and potato crops, while the previous forecast for cotton production was lowered slightly. Aggregate crop production is expected to be 7 per cent below the peak volume of last season but higher than in any other previous year.

Bank credit — During the five weeks ending October 13, Government security holdings at reporting banks in 101 leading cities increased by about 2.5 billion dollars reflecting substantial open-market purchases during the Drive, and also, some purchases of bills on subscription from the Treasury. Loans showed a net increase of 2.2 billion dollars over the same period. Over two-thirds of the total amount represented loans to brokers, dealers, and customers for purchasing or carrying securities; in the last week of the period there were some declines, however, as repayments were made on the liquidation of the securities. Commercial loans, which have been increasing steadily since June, rose further by 540 million over the five weeks.

SEVENTH FEDERAL



RESERVE DISTRICT