JANUARY, 1944

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Fourth War Loan Drive

Two Billion Dollar Quota for Seventh District States

A goal of 14 billion dollars has been set for the Fourth War Loan drive which for market issues began on January 18 and will continue through February 15. Because of the shorter period between the Third and Fourth War Loan drives than between the Second and Third War Loan drives, potential investors have had less time to accumulate funds than was the case at the opening of the Third War Loan drive. Consequently, the total goal of the Fourth War Loan drive, January 18-February 15, is lower than the 15 billion dollar goal of the Third War Loan drive which was oversubscribed by 3.3 billion dollars. However, it is expected that the drive will be highly successful, due in no small measure to the active preparations of the War Finance Committees to contact as many potential investors as possible.

Major emphasis in the drive is being placed on sales to individuals. In order to concentrate the sales effort of the War Finance Committees on obtaining individual subscriptions, only sales to individuals will be recorded up to February 1, although subscriptions from other nonbank investors will be accepted throughout the drive. All subscriptions for Savings Notes and Series E, F, and G Savings Bonds, including sales under regular payroll deduction plans, processed through the Federal Reserve Banks during January and February will be counted toward the drive. Reflecting the increased emphasis to be placed on sales to individuals, quotas fixed for individual subscriptions are generally higher than either the sales or quotas for individuals in the Third War Loan drive, despite the fact that the total quota for the Fourth War Loan drive is below both the actual sales and the quota for the Third War Loan drive.

The securities offered during the Fourth War Loan drive are similar to those offered in the Third War Loan drive with the exception of a 2¼ per cent bond of 1956-59 in place of the 2 per cent bond of 1951-53. A feature of the 2½ per cent and 2¼ per cent bonds is that they are redeemable at par and accrued interest at time of death of the owner for the sole purpose of paying Federal estate taxes. Series G Savings Bonds are also redeemable at par in the event of the owner's death. These 12 year nonmarketable bonds pay interest semi-annually at the rate of 2½ per cent per annum and except in the event of death are redeemable at values below par which provide lesser yields if redeemed before maturity.

During the drive, commercial banks holding savings deposits are being given the opportunity to subscribe to the 2¼ per cent and 2½ per cent bonds and to the Series F and G Savings Bonds. Subscriptions are limited to 10 per cent of a bank's savings deposits or $200,000, whichever is less. However, no bank will be permitted to hold more than $100,000 (issue price) of Series F and G Savings Bonds (Series 1944) combined. Following the practice established in the Third War Loan drive, offerings to commercial banks are not being counted as part of the total funds raised during the drive.

In order to avoid unnecessary transfers of funds, which involve considerable extra work and create disturbances to the money market, the Treasury has requested that all subscriptions by corporations and firms be entered and paid for through the banks where funds are located. Statistical credit for sales during the drive will be allocated to any county or counties requested by the subscriber at the time of subscription. However, quotas for insurance companies are still set according to the location of the home offices of these institutions, and their subscriptions will therefore be credited to the counties in which the home offices are located.

FOURTH WAR LOAN QUOTAS
Compared With Third War Loan Sales
(In millions of dollars)

Investor Class	United States[1]		Seventh District States		Illinois		Indiana		Iowa		Michigan		Wisconsin	
	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales	Fourth War Loan Quota	Third War Loan Sales
Individuals, partnerships, and personal trust accounts	5,500	5,377	951	860	368	312	125	118	92	114	253	218	113	98
Corporations and Associations	8,500	12,936	1,062	1,781	537	868	108	187	85	134	187	344	145	248
Total	14,000	18,313[2]	2,013	2,641	905	1,180	233	304	177	248	440	563	258	346

[1]Includes territories and possessions.
[2]Excludes sales of 630 million dollars to U. S. Government agencies and trust funds.
Note: Amounts will not necessarily add to totals due to rounding.

Business Conditions

A Review by the Federal Reserve Bank of Chicago

INDEX FOR THE YEAR 1943

*Statistics for later months are available upon request from the Research and Statistics Department, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago 90, Illinois.

Railroads In The War

All-Time Passenger, Freight Records Established in 1943

American railroads in the war period have already accomplished a job that even their staunchest supporters would have considered virtually impossible four years ago. In 1943 the railroads carried nearly 75 per cent more passengers and about 55 per cent more ton miles of freight than ever before in their history. Passenger traffic amounted to 85 billion passenger miles and freight to 725 billion miles. Troop movements currently are at least four times heavier than in World War I, and regular shipments of war goods have approximately doubled the volume of the last war. A still heavier period of rail activity is expected, especially during the coming six-months, as the offensive phase of the war intensifies.

Record rail movements, accomplished in the face of manpower shortages, a dwindling supply of cars, lack of motive power, and insufficient maintenance of both way and equipment demonstrate the vital role of the railroads in making this country a strong ally in the present world conflict. War problems of the industry have been many and serious, and only the excellent cooperation evidenced between railroads, shippers, and government agencies has enabled the railroads to achieve their unprecedented record.

Until December 27, 1943 the railroads accomplished their wartime job without direct governmental control. The U. S. Army at that time took over the operation of the railroads to prevent a threatened strike of employees. On January 18, 1944 Secretary of War Stimson ordered the return of the roads to private management, the wage disputes having been settled generally. Unlike the last war, when the roads had great difficulty in meeting war demands of the country with resultant government operation for the duration, the excellent record of the railroads to date in World War II made it evident that government control would not be continued for more than a brief period.

Because of the tremendous increase in rail activity, railroad finances have shown much improvement with greatly increased revenues, debt reductions, lowered fixed charges, well controlled expense, and a generally strengthened financial position. Some estimates for post-war years place annual net income of the nation's railroads at one billion dollars. Operators plan to use a large part of such a return to aid in a program to meet the competition of the plane, bus, and truck. Whatever the future success of the railroads in maintaining their position in the transportation field, developments in the Seventh District will indirectly influence the position and growth of the industry throughout the nation.

SEVENTH DISTRICT RAILROADS

Long the hub of the nation's railroad lines, the Seventh Federal Reserve District, comprising all of Iowa and most of Illinois, Indiana, Michigan and Wisconsin, has been a major shipping and transshipping center for the large-scale wartime transport of men and materials. Class I railroads, i.e., those having annual revenues above one million dollars, which enter the Seventh District extend over two-thirds of the 232 thousand miles of such railroads in the country.

The five district states have nearly 18 per cent of all steam railway mileage in the United States. Of the twenty-two carriers' lines entering Chicago alone, no single line crosses the Seventh District from north to south or from east to west, indicating the importance of the area as a hub of railroad activity. Detroit and Des Moines are served by 10 different railroads, while six roads carry passengers and freight to and from Indianapolis. In addition to serving the district states, the railroads of this region have developed transshipping activities as a link between the agricultural and industrial West and the industrial East.

From a total railroad tonnage standpoint, more freight is terminated in the five district states than sent out, although the same situation does not prevail for manufactured products. In 1942, these states originated 16.5 per cent of the total carload freight transported by Class 1 steam railways in the nation, but terminated 18.6 per cent. This largely represents the difference in physical mass between the raw materials and foodstuffs which are shipped into the district and the manufactured goods which are sent out.

The rapid growth of war production in the Seventh District is directly reflected in the tonnage of manufactures shipments by rail. With about 22 per cent of the war contracts in the United States, Seventh District states originated in 1942 about the same proportion of rail shipments of manufactured products, 77 million tons as against the national total of 361 million. In 1943, the volume continued to grow.

For all manufactured products in 1942, Seventh District railroads originated 9 million tons more than they terminated. The district's leading industry, motor vehicles and parts, has the largest outbound balance among manufactured products. Important shipments of aircraft parts and assemblies are included since the automobile industry is now concentrating over 40 per cent of its efforts on the production of aircraft products.

More minerals were brought into the district than originated — an additional 24.4 million tons. In agricultural products, inbound balances generally exceeded the outbound, and the key position of the district as a packing center is demonstrated by the large outbound balances of carload shipments of meats.

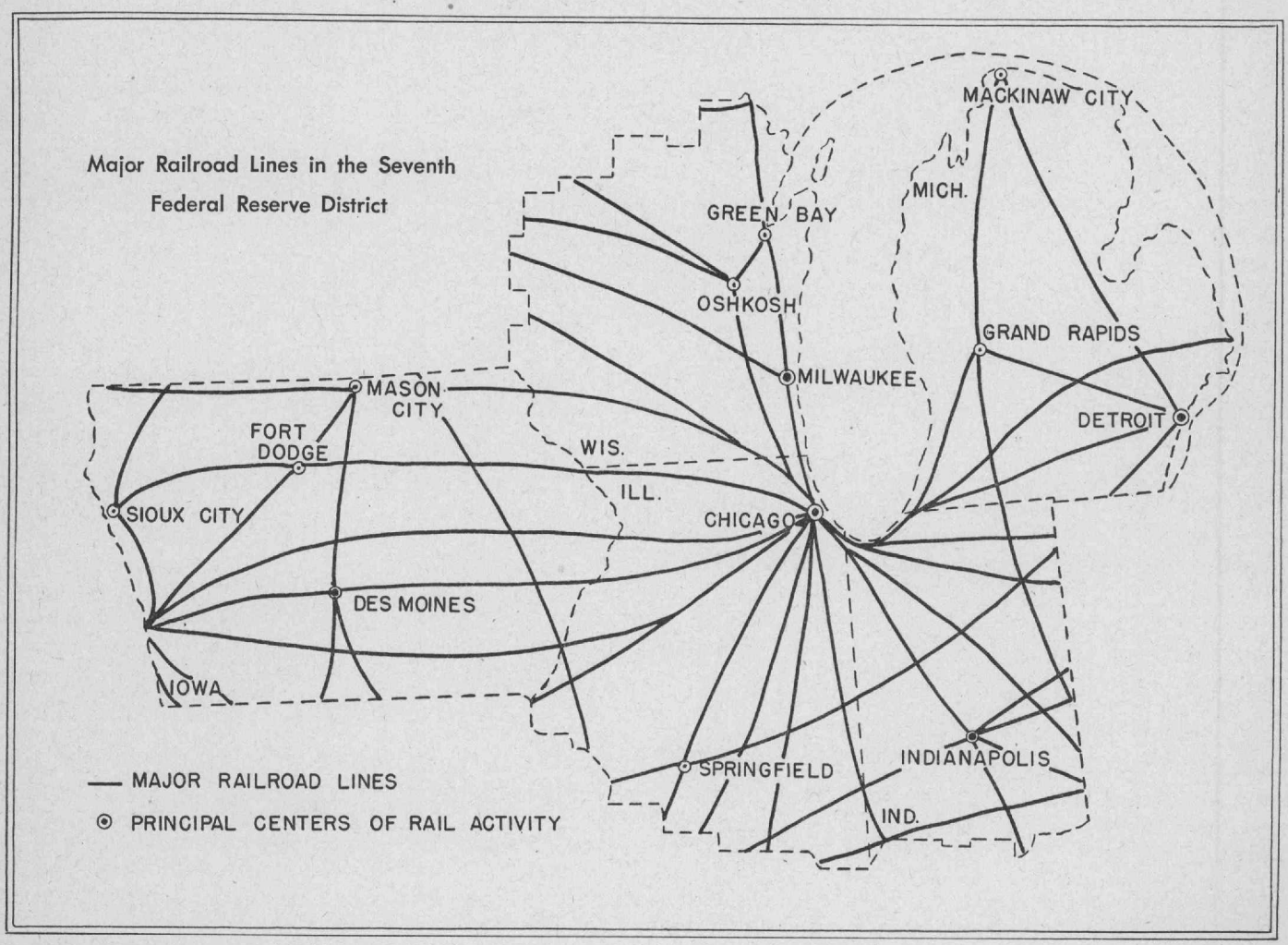
The Seventh Federal Reserve District not only is a great producer of foodstuffs and manufactures, but also is a large importer of many products. It is the combined volume of commodities carried into, from, and within the district by rail that makes this the most important railroad center in the country.

WAR PROBLEMS OF THE INDUSTRY

Labor – On November 1, 1943 the railroads reportedly were in need of 117,000 additional employees and the situation has become progressively worse. The Middle West now has the greatest regional shortage in railway manpower, with at least 28,220 workers needed. Though the railroads today are employing more people than ever before, the increased volume of traffic handled requires a still greater number. The loss of many experienced men to the armed services has presented a critical labor situation in this industry as elsewhere. Railway battalions, organized before our entrance into the war and comprised of highly skilled and experienced workers and officers, were called into active service at the outset and sent to battlefronts all over the world. Large expenditures by the railways and related public and private agencies in recruiting manpower and the training of new employees have kept the trains running, but not without some serious crises.

The labor shortage in the operating division of the industry is found principally in those jobs below the position of engineer, i.e., fireman, brakeman, and trainman. Few engineers have been lost to the armed forces as they are usually too old for active military service by the time they reach this important post. The loss of men in the non-operating division has been offset in part by the employment of women and young men. Only the increased efficiency of the newer equipment has seen the railroads through this boom period of railroad activity. Experienced manpower will remain the number one problem of the railroads for the duration. A nationwide strike of railroad employees scheduled for December 30, 1943 threatened to create the most serious labor crisis of the war. The strike was cancelled because of a Presidential order giving the government temporary "possession, control, and operation" of the railroads.

Equipment – When it was seen that our entrance into the war would generate a great rise in railroad activity, operators began placing orders for new cars and other vital rail equipment. However, as construction of new cars soon came under government restrictions and all railroad equipment companies undertook the production of tanks, ordnance, and other military goods, railroad equipment quickly became scarce. Only very recently have restrictions been lifted to allow some increased manufacture, and a few equipment companies have returned to their former produc-



tion. In the Seventh Federal Reserve District more than half of the order backlogs of the railroad equipment companies still represent war work activities. The Chicago and Detroit industrial areas are leaders in the production of railroad equipment, with Davenport and Rock Island-Moline also large contributors.

Virtually all trains are now filled to overcapacity, especially to the Far West, with some roads even selling standing space. This mass transport is due to the war inspired rise in economic activity involving many more trips for business purposes, increased civilian travel related to the movement of members of the armed forces, an expansion in pleasure travel, and the use of over one-half of all Pullman sleeping cars and one-third of all railway coaches in the transportation of troops. Railroad facilities for handling passenger traffic clearly are not adequate for this huge upsurge in demand.

Unlike passenger traffic which in 1939 was just about one-half the volume of its previous high, freight traffic at the same time was nearly three-fourths of the all-time peak. To some extent however the railroads were a little better prepared to handle the freight traffic increases of the war than appears because of newer equipment and operating experience. The 1943 freight haulage represented a rise of 14 per cent above 1942, and 117 per cent more than in 1939. Freight cars are moving vast supplies of war goods in both finished and semi-finished stages, are bringing raw materials to fabricating points, and until recently had a heavy volume of business transporting materials for military and industrial construction work.

In 1941 it was estimated that the minimum requirements for locomotives in the following two years would be 1200 a year. That the carriers managed with only 717 new locomotives in 1942, and an even smaller addition, 501, in 1943, is indicative of the extent to which the use of existing locomotives has been expanded. This has been accomplished by reducing the number of serviceable and nonserviceable stored locomotives, and by increasing the length of trains and the miles per locomotive per day.

Class 1 railroads on October 1, 1943 had 28,896 new freight cars and 1,117 new locomotives on order. Though the contracts for the construction of these cars extend into the third quarter of 1944, some are now being filled and are expected to be completed by the end of March 1944.

Scarcity of railroad equipment has placed a much greater emphasis on car utilization. To the shippers this has meant heavier loading of cars, elimination of cross-hauling and circuitous routing wherever possible, and the substitution at times of alternative equipment to free cars badly needed elsewhere. To the railroads it has meant these same factors as well as putting into service every available piece of equipment, developing new methods of operation, and increasing general efficiency.

Maintenance — Upkeep is a serious problem to the industry which may greatly affect its post-war prospects in the transportation field. In spite of a record expenditure for maintenance in 1943, approximately one billion dollars after allowing for charges to depreciation and deferred maintenance, railroad fixed properties have continued to deteriorate at an alarming rate under the impact of increasingly heavy traffic. Rails and crossties are the most critical items at present, and little if any relief of these needs is expected this year. Under these circumstances, and with inexperienced help, hazards of railroad travel probably can only increase despite concentrated efforts of operators to promote safety at all times.

FINANCIAL POSITION

The railroads today are obviously in a boom period. Cash, including temporary cash investments, never has been higher, totaling 2.7 billion dollars in September 1943 as compared with 0.6 billion at the end of 1939. Annual operating revenues also have climbed strikingly, exceeding 7 billion dollars in 1942 for the first time in railroad history, and passing the 9 billion mark in 1943. While operating expenses have mounted, the rise has been at a slower rate than in the case of income.

In 1942 earnings covered fixed charges 2.59 times, and this ratio increased in 1943 in part as a result of the current debt reduction program. Evidence seems to point now to the railroads entering the post-war period with less than a 10 billion dollar funded debt against a 26 billion dollar property investment. With probably a billion dollars in cash and with little or no bank debt and short term maturities, they should be able to take care of their deferred maintenance and have some funds left to help on capital expenditures for new equipment.

The outlook for 1944 is for continued heavy rail traffic and large operating revenues, at least for the first six months of the year. However, while net operating income is the highest in railroad history, a downward trend is evidenced. This is due to increases in taxes and operating expenses, the latter principally increased payroll charges. The income of railroads in 1944 will depend in a large degree upon the extent of the war activities in Europe and Africa. As long as there is a great demand for fighting men and war materials the railroads will carry capacity loads.

During the immediate post-war years the railroads face diminished activity, perhaps to the 1941 level, and sharp competition from planes, trucks, and buses. The airlines expect to increase their proportion of first class passenger and mail traffic. The railroads seem likely to hold for some time an overwhelming share of freight and express because of relatively lower charges and smaller importance of speed for many of the shipments. Railroad companies plan to modernize their equipment and improve their service so as to resist inroads in passenger business from other modes of transportation. The best passenger prospects for the railroads seem to lie in intermediate price and distance ranges where cost and comfort are typically more significant than speed.

War Contracts Reflect Industrial Growth

Seventh District Leads Nation in Supply and Facility Awards

Relaxation of wartime censorship restrictions now makes it possible to reveal the general scale of industrial war activity within the major industrial areas of the Seventh Federal Reserve District. Manufacturers in the Detroit industrial area, comprising Oakland and Wayne counties, received from June 1940 through November 1943 major supply, excluding food, and facility contracts valued in excess of 12.4 billion dollars, the largest volume for any industrial area in the nation.

The Detroit area also ranks first in supply contracts alone, including aircraft, ordnance, and other war materiel. The Chicago area, including Cook, Du Page, Kane, and Lake counties in Illinois, and Lake county in Indiana, leads all areas in the nation in awards for war facilities, valued at approximately one billion dollars and nearly all for industrial plants and equipment.

The more than 31 billion dollars in contracts awarded to firms in the Seventh District's 19 principal industrial areas account for 80 per cent of the district total. Within the five district states, Illinois, Indiana, Iowa, Michigan, and Wisconsin, similar contracts worth 39.7 billion dollars constitute nearly 23 per cent of all awards in the nation.

Some measure of the importance of war supply contracts during the past three and one-half years can be found in a comparison with the value of manufactured products during the year 1939. Firms in the Seventh District states manufactured about 13.7 billion dollars worth of products in 1939. War supply contracts awarded to date represent nearly three times this amount. Striking differences are apparent however when this same comparison is made for individual industrial areas. The South Bend—La Porte area, for example, has received supply contracts amounting to nearly seven times the volume of 1939 manufactures, while in contrast Waterloo area awards to date represent only one-half the manufacturing output in 1939.

DETROIT, CHICAGO DOMINATE DISTRICT

The Detroit and Chicago industrial areas together have been granted over one-eighth of the war supply and facility contracts awarded to the nation's manufacturers since the beginning of the defense period. These two areas clearly dominate industrial activities of the Seventh Federal Reserve District, for over one-half of all contracts awarded to the district states have been given to plants in these areas. The 17 other major industrial areas located within the Seventh District have been awarded approximately 18 billion dollars of war contracts since 1940.

Both the peacetime pattern of industry and the newest wartime requirements are reflected in the nature of war materiel currently being produced. Long the center of automobile production, the Seventh District has forged ahead in output of combat vehicles and aircraft parts and equipment commonly built by automobile manufacturers and their affiliates. The geographic location has also influenced the pattern of war activity, giving the district leadership in ordnance production. Many gun, ammunition, and explosives plants were located in the Mid-West very early in the war for domestic security reasons. Although on a very much smaller scale than in the nation's coastal areas, shipbuilding has become important in this district since the beginning of the war. By December 1943 Seventh District firms had received nearly 40 per cent of the nation's ordnance contracts, 20 per cent of the aircraft contracts awarded, and 8 per cent of the shipbuilding contracts. The "all other" group, which includes machinery, metals, railroad equipment, paper, chemicals, and numerous other items, is large relative to the country as a whole.

Industrial areas which are specializing particularly in ordnance materials include: Anderson—Muncie, Chicago, Des Moines, Flint, Grand Rapids, Muskegon, and Waterloo. Shipbuilding, including both parts manufacture and assembly, predominates in the Manitowoc and Saginaw—Bay City areas. Indianapolis is engaged to an overwhelming extent in the manufacture of aircraft motors and parts. Production of aircraft, parts, and equipment also constitutes a major fraction of total output in the Chicago, Detroit, Muskegon, and South Bend—La Porte areas. Major industrial areas which are producing large proportions of "all other" materials include: Cedar Rapids, communication equipment, machinery, and parts; Battle Creek, automotive equipment, steel parts, and fittings; Rock Island, railroad equipment, tools, and machinery; and Fort Wayne, automotive, electrical, and communication equipment.

SUBCONTRACTING INCREASES ACTIVITY

Data on prime war contracts obviously do not give a complete record of industrial activity and probably understate the situation in the Seventh District because foodstuffs, many basic raw materials, and an unusually large volume of subcontracts received by firms in this district are omitted. Unfortunately, no information is available on the extent to which prime contracts awarded elsewhere are subcontracted within the Seventh District. The general nature of production of many district plants, however, consisting of parts, sub-assemblies, and basic materials known to be fabricated and assembled finally in other regions of the nation, lends credence to opinions that subcontracting in the Mid-West is unusually large. Offsetting to some extent the amounts of prime contracts received in the district are contracts redirected to plants in other areas. Subcontracting, nevertheless, has increased substantially the total amount of all contracts carried into production in the Mid-West.

DISTRIBUTION OF MAJOR PRIME SUPPLY CONTRACTS AND FACILITIES PROJECTS OF THE ARMY, NAVY, MARITIME COMMISSION, TREASURY, AND BRITISH EMPIRE*

Seventh Federal Reserve District States and Industrial Areas

(millions of dollars)

Industrial Areas	SUPPLY CONTRACTS Through November 1943					FACILITIES PROJECTS Through October 1943			Total Supply Contracts and Facilities Projects
	Aircraft	Ships	Ordnance	All Other	Total	Industrial	Non-Industrial	Total	
ANDERSON—MUNCIE. Delaware and Madison Counties, Ind.	2.1	.7	121.1	35.4	159.4	13.7	2.2	15.8	175.2
BATTLE CREEK. Calhoun County, Michigan	.2	.1	38.7	93.2	132.2	8.9	17.6	26.5	158.7
CEDAR RAPIDS. Linn County, Iowa	....	....	15.4	134.7	150.1	.8	....	.8	150.9
CHICAGO. Cook, DuPage, Kane, Lake, and Will Counties, Illinois; Lake County, Indiana	1,346.0	145.1	3,114.2	2,782.4	7,387.7	870.0	98.2	968.3	8,356.0
DES MOINES. Polk County, Iowa	.3	.1	216.1	24.3	240.8	65.1	4.9	69.9	310.7
DETROIT. Oakland and Wayne Counties, Michigan	3,365.3	566.1	4,354.4	3,560.1	11,846.0	565.0	17.1	582.1	12,428.1
FLINT. Genesee County, Michigan	25.2	....	1,418.8	96.8	1,540.8	89.7	1.3	91.0	1,631.8
FORT WAYNE. Allen County, Indiana	42.2	8.9	155.6	228.6	435.3	48.8	13.0	61.8	497.2
GRAND RAPIDS. Kent County, Michigan	15.3	1.0	100.2	35.7	152.2	24.1	.6	24.7	176.9
INDIANAPOLIS. Marion County, Indiana	1,351.1	.3	259.1	128.5	1,738.9	153.1	4.8	158.0	1,896.9
MANITOWOC. Manitowoc County, Wisconsin	....	107.1	13.0	8.7	128.7	2.4	.1	2.5	131.2
MILWAUKEE. Kenosha, Milwaukee, and Racine Counties, Wisconsin	585.2	71.4	727.5	564.8	1,949.0	227.8	2.3	230.1	2,179.1
MUSKEGON. Muskegon County, Michigan	283.0	1.2	106.5	31.1	421.9	26.8	....	26.8	448.6
PEORIA. Peoria and Tazewell Counties, Illinois	....	1.7	49.4	423.7	474.8	2.8	....	2.8	477.6
ROCKFORD. Rock County, Wisconsin; Winnebago County, Illinois	32.7	218.3	100.7	112.0	463.6	30.9	8.6	39.6	503.1
ROCK ISLAND. Rock Island County, Illinois	2.0	.4	37.0	56.8	96.2	27.9	....	27.9	124.1
SAGINAW—BAY CITY. Bay, Midland, and Saginaw Counties, Michigan	.4	126.0	98.9	67.6	292.8	37.0	3.0	40.0	332.9
SOUTH BEND—LA PORTE. Elkhart, La Porte, and St. Joseph Counties, Indiana	799.0	1.3	253.6	650.6	1,704.5	123.0	....	123.0	1,827.5
WATERLOO. Black Hawk County, Iowa	.1	.2	36.7	6.9	43.9	6.4	....	6.4	50.3
REMAINDER OF DISTRICT STATES	2,188.9	656.6	2,108.3	1,452.0	6,405.8	1,068.7	364.8	1,433.4	7,839.2
SEVENTH DISTRICT STATES TOTAL	10,039.0	1,906.5	13,325.2	10,493.9	35,764.6	3,392.9	538.5	3,931.4	39,696.0
UNITED STATES TOTAL	47,724.2	22,681.9	33,212.8	42,605.5	146,224.4	15,635.8	14,083.5	29,719.3	175,943.8

*Awards having a value of less than $50,000 and all awards for foodstuffs are excluded. No allowance has been made for revisions in the estimated final costs of products under cost-plus-a-fixed-fee contracts or under contracts containing a clause with respect to wage rates and materials prices. British Empire contracts cover the period since September 1939. Manufacturing project orders have not been included, for in large part these are subsequently awarded as prime contracts and included in prime contract data. Contracts have been assigned to the industrial areas on the basis of location of the producing plants. The category "facilities" represents the latest estimate of final cost of each construction project for which a contract has been awarded, or a letter of intent or project order issued with the entire estimated value assigned to the project site.

Source: War Production Board, Statistics Division, *War Supply and Facility Contracts by State and Industrial Areas.*

Construction Activity Declines Sharply

Further Reduction in New Building Seen for 1944

Influenced by a declining need for new industrial facilities, contract cancellations and cutbacks, government building restrictions, and shortages of some basic materials, Seventh District construction activity in 1943 fell off to less than a third of the 1942 all-time record level. In the nation as a whole the decline was more moderate but nevertheless at least 40 per cent below the previous year. The downward trend in total construction which began in the fall of 1942 persisted throughout 1943 with only occasional month-to-month gains. The outlook for 1944 is for a further substantial drop in construction, perhaps as sharp as the 1942-43 decline unless unexpected changes occur relaxing building restrictions and making available manpower and materials.

The 1943 volume of construction contracts awarded in the Seventh District totaled 408 million dollars of which residential contracts constituted 34 per cent, non-residential 38 per cent, and public works and utilities 28 per cent. Residential construction has maintained a comparatively low and stable level, while non-residential construction has continued to decline steadily.

Government regulations served to restrain residential development in spite of strong demand, but the volume of non-residential construction was determined largely by decreased needs. In December 1942 industrial plant construction in the district was valued at 15.6 million dollars dropping to a monthly figure of less than four million dollars by the end of 1943. Only twice during the year did any noticeable upturn occur, with the March industrial construction awards rising to 26.4 million dollars, the peak for the year. The sharp contrast between the past two years is indicated by a 1943 monthly average of 8.7 million dollars and a monthly average of 43.4 million dollars in 1942.

PUBLIC FINANCING DOMINANT

Publicly financed construction has assumed new proportions during the wartime era reaching record heights in the conversion period of 1942 but declining somewhat in 1943. The recent drop in proportion of projects financed by the government is attributable to the same factors that are responsible for decreased construction in general. Expansion for wartime production, military construction, and residential units for defense workers has been largely completed. Consequently there is reduced need for such new construction and government sponsorship has been curtailed. In 1943 publicly financed residential construction totaled about 55 million dollars in the district, a drop from 129 million in 1942. Government sponsorship of non-residential construction declined from more than 631 million dollars in 1942 to 126 million in the following year.

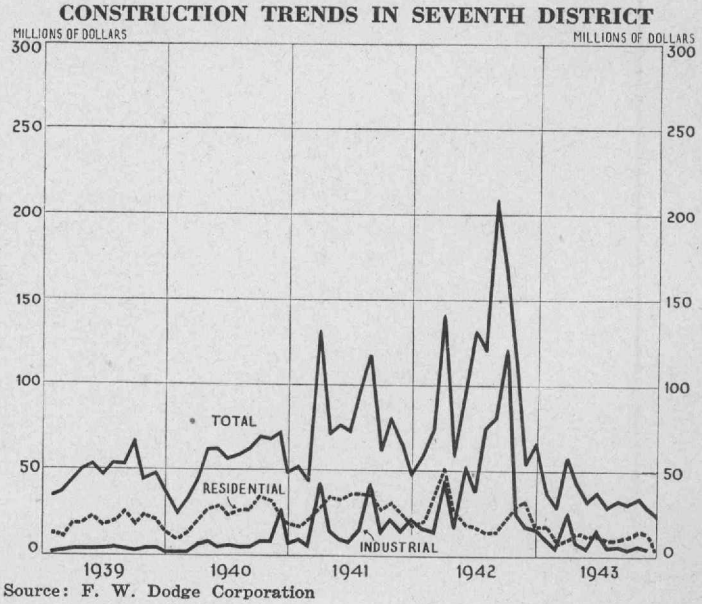
The City of Detroit has led district cities in dollar volume of construction, as indicated by building permit valuation, and has maintained that position throughout the period from 1939 to 1943. The peak in Detroit was reached in 1940 and is attributable to industrial growth stimulated by early defense activities and lend-lease production. Steady decline in dollar volume occurred in succeeding years but Detroit consistently remained ahead of Chicago, which was next in construction importance in the district. Indianapolis and Des Moines experienced the most severe decreases in construction among the largest cities in the district during the defense-war era. The vast growth of new industrial facilities and housing projects for war workers immediately outside the limits of these large cities is, of course, not reflected in the building permit figures.

CONTINUING DECLINE LIKELY

Recent estimates indicate that construction in 1944 for the nation will be about 50 per cent of 1943 volume and 30 per cent of 1942 volume. The low level of the coming year is attributable to decreased activity both in residential and non-residential building. The one sphere of pent-up demand in construction is in the residential field which, however, continues to be restricted by government regulation. Possible relaxation of these restrictions seems unlikely for some time because of general manpower shortages and continuing scarcity of some supplies and especially lumber.

Indications are that the initial postwar period will find scarcity of certain building materials still prevalent. The construction industry probably will be counted on as a major factor in maintaining employment during the transition to peace. In the meantime, the industry very likely will resort to more definite programs of repair and maintenance until the time when extensive new construction can be initiated.

CONSTRUCTION TRENDS IN SEVENTH DISTRICT



Source: F. W. Dodge Corporation

The Break in Egg Prices

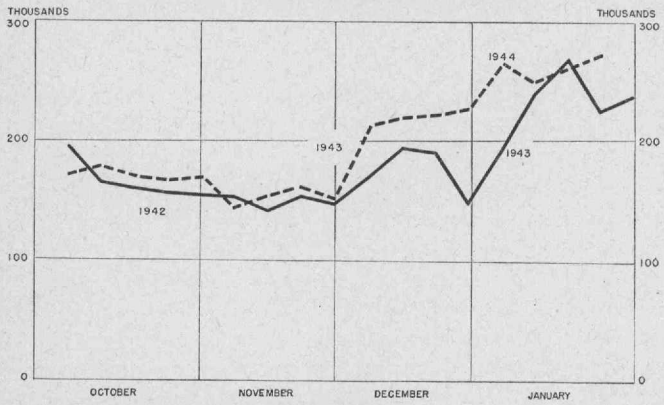
Many Explanations of the Drop Have Been Advanced

One of the most disconcerting farm price developments around the year end was the drastic break in egg prices at wholesale markets and on the farm. The decline began in early December with Chicago wholesale prices of top grades declining from over 49 cents in early December to 39 cents during the second week of January. The prices of "standards" showed a proportional decline and the quotation on "current receipts" fell from nearly 44 cents to 33 cents. Provision is made in the schedules of ceiling prices for seasonal declines, but the price slumps were considerably in excess of these allowances in most cases. These declines were reflected in an even more drastic drop in farm prices, with some reports indicating a low of 19 cents per dozen received by farmers.

The medium weights and lower grades broke first but by the middle of December top grades were also affected. It is generally expected that the declines are temporary, but from the standpoint of meeting war production goals the break is particularly disconcerting because of government commitments to encourage farm production of eggs. However, output for January is expected to be about 7 per cent above January of last year, and over-all supplies of eggs through the current flush season are expected to be at record levels.

A number of explanations of the drop in prices have been advanced. An unusually mild winter has probably resulted in a production seasonally larger than usual. Furthermore, producers have been reluctant to cull their flocks while prices were favorable. Particularly heavy receipts were received during December and early January at the four principal markets, New York, Chicago, Philadelphia, and Boston. Cumulative receipts at the four markets were substantially the same for 1943 as for 1942, but receipts during the six weeks beginning with the first week in December ran 25 per cent above the corresponding period of the previous year.

EGG RECEIPTS AT FOUR MARKETS[1]



Source: Food Distribution Administration
1. New York, Chicago, Philadelphia, Boston

On the demand side it is said that weakness in the market developed for a number of reasons. Consumers have apparently shown a marked preference for large and high quality eggs, while the supply has been heavily weighted with medium weight, low grade, and pullet classifications. In spite of the wholesale and farm price declines, retail prices were slow to decline, which is attributed by some observers to the fact that dealers were unwilling to take losses on inventories acquired at high prices, especially with the high level of consumer income. Another explanation offered for the relatively weak demand is that with recent bonuses of pork, consumers were taking less eggs than normal. Demand from hatcheries for incubation is reported to have fallen off because of the expected check to the expansion in poultry production due to the tight feed situation, particularly in some areas. Demand for storage was virtually non-existent. Storage stocks of shell eggs on January 1 were about two and one-half times as large as a year ago, and stocks of all eggs, shell and frozen, were more than one-third above last year.

Two programs have been launched by the War Food Administration to cushion the price collapse. The first, announced December 23, was designed to bolster prices in the midwestern part of the country and consisted of offers to buy dried eggs for February delivery without limit as long as farm prices are below 90 per cent of parity. Since most of the drying plants are in the Middlewest, this program was expected to be particularly effective in that part of the country and to reflect a price of 32 to 35 cents per dozen to farm producers. This is to be a temporary measure pending completion of plans for 1944 buying programs. The second measure, inaugurated January 3, was an offer on the part of the Food Distribution Administration to purchase shell eggs in carload lots for delivery in northeastern U. S. markets, with the possibility that purchase of shell eggs will have to be extended to the South and Middlewest if the dried egg program proves less inadequate. Because storage space is extremely limited, officials said that the eggs purchased will be made available to charities and to school lunch programs.

Throughout most of January wholesale prices of eggs remained fairly steady with more strength shown for medium weights and lower grades than for top quality. This appears to have been a reflection of the government buying programs. Careful culling of layers is being urged upon producers by the War Food Administration because of the tight feed situation. The desire is to get the maximum of production possible from limited feed supplies by reserving feeds for the more efficient birds.

The President's Budget Message

Peak Activity for War Reflected

In his budget message of January 13, the President set 100 billion dollars as the total of Government expenditures for the fiscal year ending June 30, 1945 provided the war continues on all fronts until that date. This figure includes war and non-war expenditures for general and special accounts, together with net expenditures of Governmnt corporations, credit agencies and trust accounts. The total is only slightly higher than the revised estimate for the fiscal year ending June 30, 1944. War expenditures, including net war expenditures of Government corporations, are expected to be somewhat below those of fiscal year 1944, the totals being 90 billion dollars and 92 billion dollars respectively. However, increases in expenditures for interest on the public debt and other expenditures will more than offset the decline in war expenditures. The increase in other expenditures is entirely due to increased provision for veterans' pensions and benefits, and tax refunds. The latter item for fiscal year 1945 includes 1 billion dollars for the issuance of postwar bonds for the refundable portions of corporate excess profits taxes. Since this is not a cash expenditure, total expenditures are somewhat overstated when compared with those of preceding fiscal years.

The estimate of net receipts for fiscal year 1945, based on present tax laws, is slightly less than the revised estimate for fiscal year 1944. This is due entirely to the effects of the transition in 1943 to the pay-as-you-go tax collection system. Many tax payments which might otherwise have been spread more equally over the calendar year were concentrated in the last half of 1943 (the first half of fiscal year 1944). Also payments on the unforgiven portion of the 1942 individual income tax liability will probably be higher on March 15, 1944 than on March 15, 1945.

Since reaching a peak in June 1943, monthly expenditures have been fluctuating within a relatively narrow range, as is indicated in the chart. However, some increase is to be expected in the second half of fiscal year 1944. Total expenditures for the entire fiscal year ending June 30, 1944 are estimated at about 99 billion dollars. In the first 6 months, July—December, of fiscal year 1944 total expenditures amounted to approximately 46 billion dollars. Thus, if the estimate for the full fiscal year is met, total expenditures in the six months' period January – June 1944 will amount to about 53 billion dollars. This would represent a monthly average of around 8.8 billion dollars, which would be over 1 billion dollars higher than monthly average expenditures in the period July—December 1943.

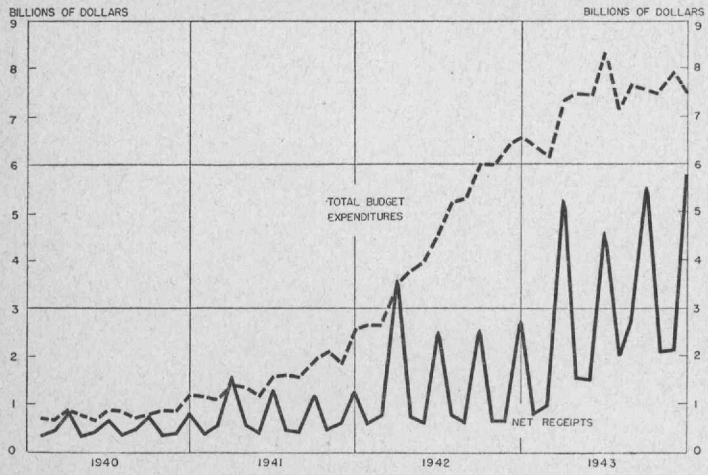
War expenditures, including net war outlays of Government corporations amounting to about 3.5 billion dollars, are expected to total approximately 92 billion dollars for fiscal year 1944. In the first six months of fiscal year 1944 expenditures for war purposes were 43.4 billion dollars. This leaves over 48 billion dollars to be spent for war purposes in the period January—June 1944. This would represent a monthly average of about 8.1 billion dollars, which is almost 900 million dollars greater than monthly average expenditures for war purposes in the first six months of the current fiscal year.

Net receipts, amounting to 20 billion dollars, fell short of expenditures by 26 billion dollars in the period July-December 1943. On the basis of the President's budget estimate net receipts can be expected to reach 21 billion dollars, which would be 32 billion dollars less than estimated total expenditures in this period. If because of the changing requirements of war total expenditures should fall below the amount projected for the second half of fiscal year 1944 the deficit will be reduced.

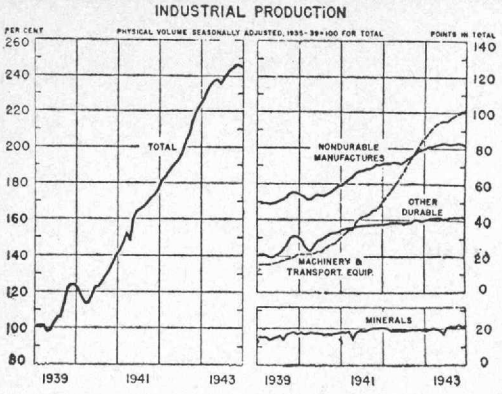
GOVERNMENT EXPENDITURES AND RECEIPTS
FISCAL YEARS 1943-1945
(In billions of dollars)

	1945 Estimated	1944 Estimated	1943 Actual
EXPENDITURES:			
War activities:			
General and special accounts	88.2	88.5	72.1
Government corporations and credit agencies	1.8	3.5	3.0
Total war activities	90.0	92.0	75.1
Interest on public debt	3.8	2.7	1.8
Other activities	6.0	4.6	2.5
Total Expenditures	99.8	99.3	79.4
Net receipts	40.8	41.2	22.3
Excess of Expenditures	59.0	58.1	57.1
Retirement of Government corporation debt	1.3	2.8	0.7
Increase in Treasury balance	0.1	—	6.5
Net increase in public debt	60.4	60.9	64.3
Public debt at end of year	258.0	197.6	136.7

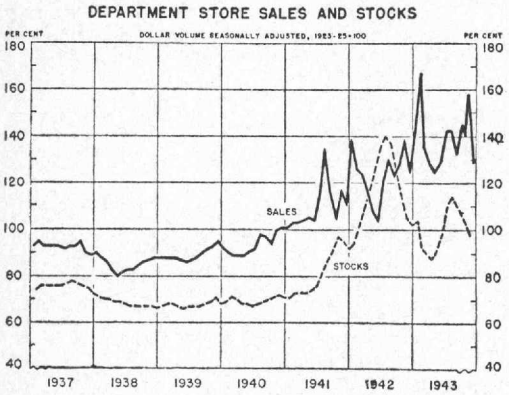
BUDGET RECEIPTS AND EXPENDITURES



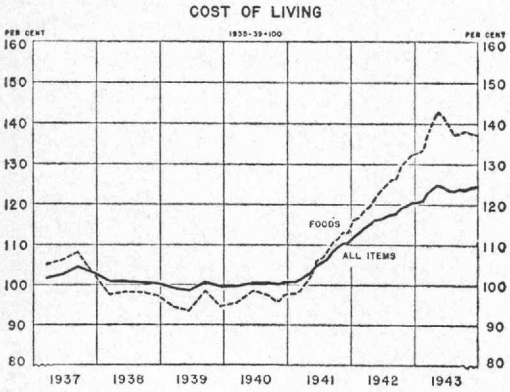
Budget expenditures exclude net expenditures of Government corporations, credit agencies, and trust funds.



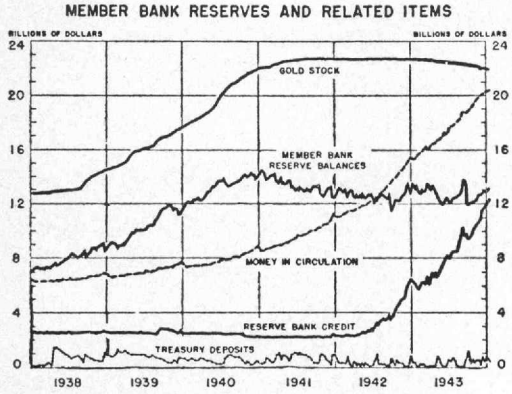
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures. latest shown are for December, 1943.



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



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September, 1940, monthly thereafter. Mid-month figures, latest shown are for December, 1943.



Wednesday figures, latest shown are for January 19, 1943.

NATIONAL SUMMARY OF CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial activity declined slightly in December from the record levels reached in preceding months. Prices of commodities at retail showed little change and distribution was maintained in large volume.

Industrial production — The Board's reasonally adjusted index of industrial production, which had been at 247 per cent of the 1935-39 average in October and November, declined to 245 in December, reflecting largely decreases in output of steel and chemicals.

Steel production dropped 6 per cent in December to the same rate as in December 1942. Output for the year, however, totaled 88.9 million tons, which was 2.8 million tons larger than the year before. Activity in the transportation equipment and machinery industries was maintained in December at a high level. The number of aircraft accepted during the month was slightly larger than in November and was at approximately the average monthly rate scheduled for 1944. The average weight of planes to be produced, however, will continue to increase. Deliveries of merchant vessels in December were the largest on record, bringing the total for the year to 19,238,626 deadweight tons, as compared with 8,089,732 tons in 1942. Lumber production in the last two months of 1943 was above the level of a year ago in contrast to the first 10 months of 1943 when output averaged 10 per cent below the same period in 1942.

Activity in the chemical industry declined 5 per cent in December, reflecting a large reduction in output of small arms ammunition in accordance with plans of the armed forces. Cotton consumption declined further in December to a level 13 per cent below December 1942. Newsprint consumption declined seasonally. Further restrictions on its use, as well as on the use of printing paper in books and magazines, were made effective January 1, 1944, owing to inadequate supplies of pulpwood. Output in the petroleum refining and rubber products industries increased further.

Crude petroleum production showed little change in December and output of coal was restored to a high level. Bituminous coal production for the year exceeded 1942 output by 1.6 per cent. Iron ore production continued to decline seasonally in December and output for the year was approximately 4 per cent below 1942.

The value of construction contracts awarded in December, according to reports of the F. W. Dodge Corporation, was greater than in recent months, reflecting mainly increased Federal awards for manufacturing and other nonresidential buildings.

Distribution — December department store sales were slightly larger than a year ago and combined with November sales were 11 per cent larger than in the corresponding months last year. For the year 1943 total value of sales reached a new peak—about 12 per cent larger than in 1942 and 55 per cent larger than 1939. Sales during the first two weeks of January were about the same as last year.

Railway freight traffic in December and the first part of January was unusually heavy for this season. For 1943 total freight carloadings were about the same as in 1942. Shipments of grain and livestock averaged about 20 per cent above 1942, while loadings of ore, forest products, and less-than-carload-lot freight averaged 8 per cent lower.

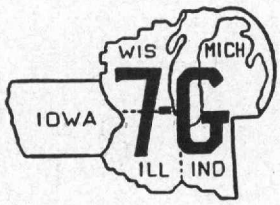
Commodity prices — Wholesale prices of agricultural and industrial commodities showed little change from the middle of December to the middle of January and the general index of the bureau of Labor Statistics remained at 103 per cent of the 1926 average.

Retail food prices declined slightly from mid-November to mid-December, while other groups of cost-of-living items increased and the total index advanced .2 to 124.4 per cent of the 1935-39 average.

Bank credit — During the latter part of December and the first two weeks of January excess reserves at all member banks were maintained at an average level close to 1.1 billion dollars. Purchases of Government securities by the Federal Reserve Banks offset the effect on reserves of increases in nonmember deposits at the Reserve Banks and the increase in currency in circulation. The System portfolio of Government securities increased by 900 million dollars in the five weeks ending January 19. After allowance for expected seasonal movements, currency in circulation increased less in December than in November but there was little post-Christmas return flow.

Loans and investments of reporting member banks in 101 leading cities, which had been decreasing steadily since late October, declined by an additional 620 million dollars during the five weeks ended January 19. A large part of the decline reflected sales of Government securities, principally Treasury bills, to the Federal Reserve Banks. Holdings of United States Government securities were reduced by 370 million dollars. Total loans declined by 230 million dollars, representing reductions in loans to banks, in commercial and industrial loans, and in "other" loans, mainly instalment credit. Adjusted demand deposits, which had increased sharply from the middle of October to the middle of December, declined somewhat over the year-end, but increased again in the first half of January. United States Government deposits at banks continued to decline.

SEVENTH FEDERAL



RESERVE DISTRICT