

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO



MAY, 1944

Land Values Continue to Advance

Bankers Report Prices Substantially above Normal

Land prices continued their upward trend during the first quarter of this year in the Seventh Federal Reserve District, with a rise of slightly over two per cent from January 1 to April 1, 1944. These facts summarize reports of about 500 country bankers who have indicated their judgment as to agricultural land prices and other phases of the land market situation.

Rise for the year since April 1, 1943 amounted to 17 per cent, according to these same reports. The bankers who have cooperated in the study have reported, in studies for previous quarters, that values of land as reflected by current sales prices advanced eight per cent during the second quarter of 1943, five per cent during the third quarter, and three per cent in the last quarter of calendar 1943. These quarterly averages, when combined cumulatively, give a rise for the 12 months of approximately 18 per cent. Thus the combined reports present a strikingly consistent measure of the extent of increase in farm land prices. Reports of the Department of Agriculture show a rise of 15 per cent from March 1, 1943 to March 1, 1944.

INDIANA SHOWS LARGEST GAINS

Indiana showed the largest rise for the first quarter of 1944, with the bankers from that state reporting a rise of over three per cent. For Wisconsin the increase averaged 1.5 per cent; for the other states, roughly one per cent.

Changes for the year as averaged by states showed that Indiana also ranked first, with an average increase of 19 per cent, but closely followed by Illinois, Iowa, and Michigan with gains of 17, 16, and 15 per cent respectively. Wisconsin returns indicate that state as standing somewhat by itself, with a rise of 12 per cent reported for the year.

Values per acre were reported by the bankers of the district to be, in their judgment, a little over 150 dollars for the "better" land. The same quality of land has, they believe a "normal" value (long-time earning value) of approximately 100 dollars per acre. This may be interpreted as saying in effect that present values, as reflected by current sales prices of better lands, are in the opinion of bankers about 50 per cent above what they consider to be the normal value of these lands. Similar reports on "poorer" land evidenced the same relationship, with present values at about 75 dollars per acre, contrasted to a normal value of 50 dollars per acre.

For the states of Illinois and Indiana, where reports show the highest ratios of present values above normal, the rate is slightly higher for the better lands. For the other three states poorer lands tend to be slightly more "overvalued" than are the better lands. For Indiana and Illinois this situation is somewhat of a reversal of the usual change in the two qualities of land when prices rise.

It is commonly believed that when land values rise the poorer lands tend to rise relatively more than do better lands. Present conditions, however, with regard to owning and operating farms are so far from normal that unusual developments in the rates of rise in values of different qualities of farm lands should not occasion surprise. Labor and machinery limitations during this war have apparently put a greater relative premium on the better lands in these two states.

LAND MARKET CONTINUES RELATIVELY QUIET

Bankers reported that the land market in the district was on the whole quiet to moderately active. Reports from Indiana and Michigan show these states to have the most active land markets, with more than two-thirds of the bankers reporting activity as either brisk or moderately active. In Wisconsin the market was not quite as active. Much less activity in farm sales was reported from Illinois and Iowa, with nearly two-thirds of the bankers in Illinois and nearly three-fourths of those in Iowa reporting the land market as quiet or inactive.

On the basis of these indications the situation as to land market activity in the district during the first quarter of 1944 may be summarized by saying that for the district as a whole the market was quiet to moderately active, and that Indiana and Michigan were the most active states with reports predominantly moderate activity. Wisconsin was in between the other four states—quiet to moderately active. Illinois and Iowa would come next, in that order, with both states predominantly quiet.

CURRENT SALES COMPARED WITH 1943

The bankers were asked to compare land market activity during the first quarter of 1944 with that of the corresponding period of 1943. Three-fifths of the bankers in the district said there were fewer sales this year than last, the other

(Continued on inside back cover)

VALUES OF FARM LANDS

State	"Better" lands			"Poorer" lands		
	Present values	Normal values	Per cent present above normal	Present values	Normal values	Per cent present above normal
Illinois.....	\$202	\$124	63	\$100	\$62	61
Indiana.....	143	88	63	72	47	53
Iowa.....	160	118	36	81	58	40
Michigan....	107	79	35	51	35	46
Wisconsin...	105	82	28	51	39	31
District.....	153	103	49	76	51	49

Retail Sales Reach Record Volume

Inventories and Receivables Decline

Retail sales in the Seventh Federal Reserve District were approximately twelve per cent higher in 1943 than they were in 1942 according to a survey just completed by the Federal Reserve Bank of Chicago. Merchants in sixteen lines of trade, reporting more than eight hundred million dollars in sales, participated in the study.

Despite dire predictions that the supply of consumers' goods would be cut drastically, retailers in most lines were able to find something to sell, and gains rather than losses in sales volume were recorded in almost every line of trade. These increases were made notwithstanding the fact that an increasing portion of manufactured goods were for war purposes and a decreasing portion passed through retail channels. The greater volume can be accounted for in large part by higher prices, liquidation of inventories, and shifts in consumer choice to higher price lines.

Production restrictions and material shortages were the principal factors holding down sales in the durable goods lines. The intensification of restrictions, cessation of production, and a dwindling supply of certain types of goods caused declines in furniture, hardware, heating and plumbing, household appliances, and lumber and building materials.

Generally though, the predicted stampede of consumers to spend their higher incomes in an orgy of buying did not materialize and the lift given to retailing was a natural result of a wider distribution of income payments bringing persons into the market for items they formerly could not afford. This was particularly true in food lines as many families in the lower income groups came into the market for foods formerly not included in their budgets. All food products were in heavy demand. Grocery stores and milk dealers reported sales increases one-fourth higher than a year ago. Comparable gains were made in the wearing apparel lines where there was a marked tendency to purchase higher priced items.

The sales pattern in 1943 continued the trend which has been in evidence since late in 1941 when the curtailment of durable goods began to be felt and credit controls were instituted. Cash and charge account sales have been increasing, but instalment sales have continued to decline. In 1941 cash sales were 43 per cent of total sales. In 1942 they were 52 per cent, and in 1943 they were 56 per cent. Charge account sales, although higher than they were in 1942, did not represent as large a portion of total sales as in either 1941 or 1942. Instalment sales have shown a net decline and accounted for only a small part of total sales. In 1943 instalment sales credit in the sixteen lines of trade amounted to only six per cent of total sales. The various lines of trade showed wide variations from the average. In

Type of Transaction	Percentage Change from Previous Year		Percentage of Total Sales		
	1942*	1943	1941*	1942	1943
Cash.....	+20.3	+20.2	42.6	51.8	55.7
Open credit.....	+ 3.5	+ 4.8	44.3	40.6	38.2
Instalment.....	-33.2	-11.0	13.1	7.6	6.1
Total.....	+ 5.9	+11.6	100.0	100.0	100.0

*As reported by the 1942 Retail Survey. Stores included in the two surveys are not identical.

fact, there was a decline from 1942 in almost every line of trade.

Notwithstanding the efforts of retailers to maintain inventories, the physical stocks in practically every line of trade were substantially lower than at the end of 1942. Peak levels were attained in most lines during the third quarter of 1942, but there has been a drastic liquidation since that time. The record volume of retail sales has been at the expense of inventory reductions in all groups except jewelry stores, women's specialty stores, grocery stores, and milk dealers. The bulk of sales, however, came from current production. The composition of current assets has been altered by the inventory liquidation, which will have a bearing on merchandising developments in the immediate post-war period.

Many retailers have either greatly reduced or entirely liquidated their stocks of certain goods no longer available. Inventories have been shifted to include "victory" merchandise made from substitute materials which may prove difficult to sell when peacetime quality is available. This situation has been eased somewhat by the gradual release of some critical materials, such as springs for furniture, but it is clear that retailers will be faced with the problem of rebuilding stocks with peacetime quality. This demand by retailers will call for a considerable outlay for inventory purposes. The cushion for this expansion is being provided by higher cash holdings and a sizeable increase in marketable securities. Reserves are being accumulated by many retailers against the day when chargeoffs of dated merchandise will have to be made. The replenishing of inventories may call for the drawing down of cash holdings, the sale of securities, and an increase in short-term credits.

The wartime inventory position was made easier than might have been expected as there has been no significant transference of consumer preference from commodities no longer available to the more plentiful goods. Some severe shortages were created by "runs" caused by fears engendered by rationing. Retailers in general, however, have been able to satisfy the demands of customers. The consumers have shown a tendency to save a portion of their higher incomes and to purchase war bonds. They have shown remarkable restraint in their expenditures and a commendable resistance to higher prices and inferior quality.

Productiveness of most lines of trade as measured by the ratio of sales to merchandise indicates a substantial increase in turnover. This increase was to be expected under present conditions of availability of consumers' goods. The increase in dollar of sales for every dollar reported as inventory indicates a freshness of stock and the saleability of almost every item offered for consumption. There were four notable exceptions. In household appliances the ratio of sales to inventory dropped from 1942 levels. There was also a slower turnover in lumber and building materials. Grocery stores naturally had a high rate with annual sales running eleven times year-end inventories. In 1942 the rate was 14 times inventories. Milk dealers, by the very nature of their business, had a high ratio of sales to merchandise with an indicated ratio of ten to one. The year previous it was 14.

Women's specialty stores had year-end stocks equivalent to about a three months' supply as their ratio was four to one. Men's clothing stores did not do as brisk a business as was done at women's wear stores although their rate of turnover was increased from two to three. At men's stores there was one rush of buying early in the year, but for the most part the sales were not influenced by "scare" buying.

RECEIVABLES DECLINE SHARPLY

Both the volume of receivables and their ratio to total sales have declined sharply since 1942. While this trend has been common to most lines of trade, it has been particularly pronounced in those trades which have been under the most severe wartime restrictions. The decline in volume has been accelerated by the shift to cash sales, by a shortening of the period of outstandings, and by rationing. The overall contraction amounted to 13 per cent.

The sale of receivables was not an important factor in this contraction, as the ratio of paper sold to total credit sales was relatively small and showed practically no change from 1942. Even the small and medium size stores sold a smaller proportion of the paper they created in 1943 than they did in 1942. For the most part, dealers were in a better cash position and did not need to discount their paper.

Those lines of trade most seriously affected by scarcity of goods naturally suffered the largest declines in receivables.

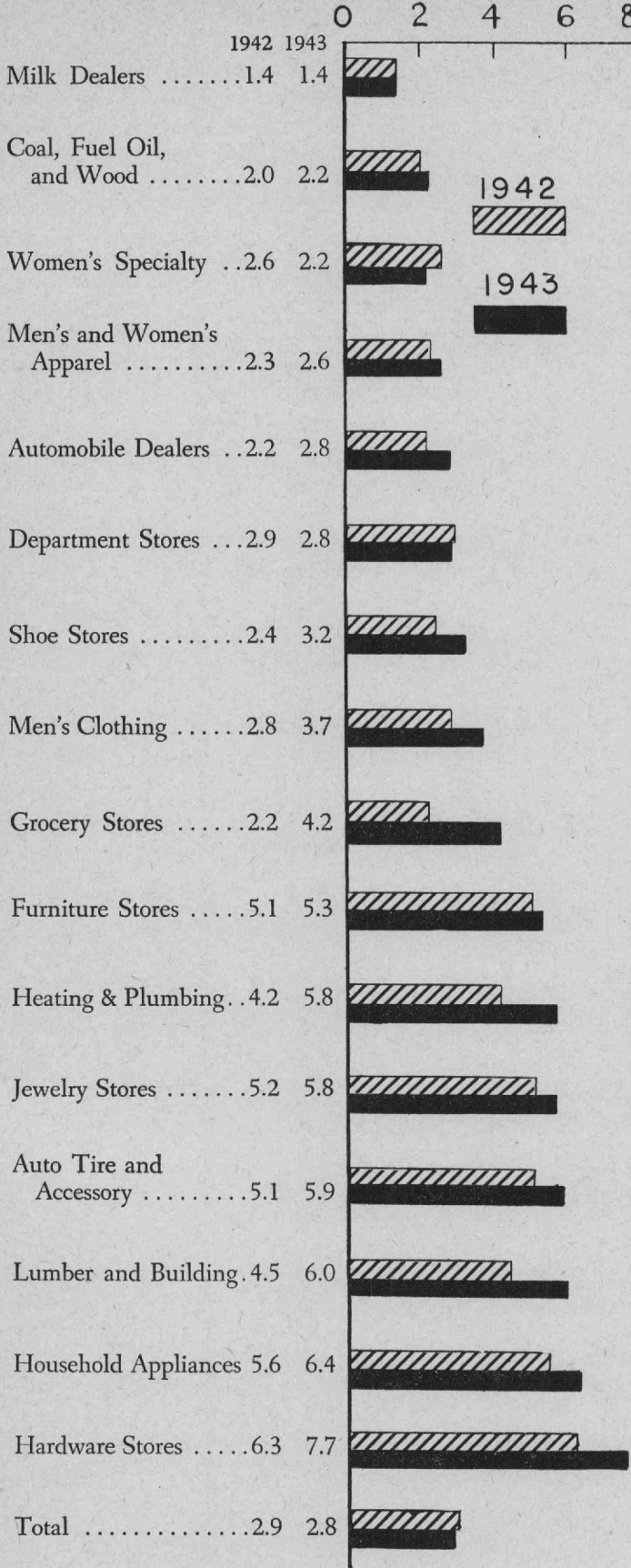
RETAIL CREDIT SURVEY — 1943

Sales by Type of Transaction and by Kind of Business

Kind of Business	Number of Stores	Percentage of Total Sales						Percentage Change, 1942 to 1943			
		Cash		Open Credit		Instalment		Total	Cash	Open Credit	Instalment
		1942	1943	1942	1943	1942	1943				
Automobile dealers	62	51.4	57.1	30.6	31.1	18.0	11.8	+ 2.0	+13.4	+ 3.5	-33.1
Automobile tire & accessory stores.	109	40.7	42.1	45.0	45.8	14.3	12.1	+16.0	+19.8	+18.0	- 1.5
Coal, fuel oil, and wood.....	90	17.5	18.9	82.3	81.0	0.2	0.1	+ 9.4	+17.8	+ 7.6	-32.9
Department stores	74	61.5	64.7	32.4	30.5	6.1	4.8	+12.3	+18.2	+ 5.8	-12.6
Furniture stores	96	18.3	22.8	20.0	18.2	61.7	59.0	- 1.0	+23.0	- 9.6	- 5.4
Grocery stores	31	42.5	46.1	57.5	53.9	—	—	+24.9	+35.7	+17.0	—
Hardware stores	27	45.7	51.1	51.7	46.9	2.6	2.0	- 4.6	+ 6.8	-13.4	-28.2
Heating & plumbing eqp't. dealers..	18	2.9	4.2	92.9	92.3	4.2	3.5	- 7.2	+34.2	- 7.8	-21.4
Household appliance stores.....	18	31.4	45.2	41.5	38.8	27.1	16.0	-29.8	+ 1.0	-34.2	-58.7
Jewelry stores	21	51.3	57.4	26.4	24.1	22.3	18.5	+31.6	+47.1	+20.0	+ 9.5
Lumber & building material dealers.	88	10.3	19.9	87.3	77.7	2.4	2.4	-32.8	+29.6	-40.2	-32.4
Milk dealers	76	13.3	14.6	86.6	85.4	0.1	*	+25.3	+37.3	+23.6	-59.2
Men's clothing stores	36	51.9	58.0	44.4	39.2	3.7	2.8	+ 6.7	+19.3	- 5.8	-19.6
Men's & women's apparel stores.....	24	51.8	61.3	43.8	34.4	4.4	4.3	+23.3	+45.9	- 3.1	+20.4
Women's specialty stores.....	34	53.9	60.9	44.1	37.3	2.0	1.8	+26.3	+42.6	+ 6.9	+14.3
Shoe stores	10	70.7	83.6	29.3	16.4	—	—	+22.6	+45.0	-31.5	—
Total	814	51.8	55.7	40.6	38.2	7.6	6.1	+11.6	+20.2	+ 4.8	-11.0

*Less than 0.1 per cent

Current Ratios by Kind of Business



Household appliance stores reported 70 per cent less volume of receivables at the end of 1943 than they had at the close of 1942. The shrinkage in instalment receivables was 79 per cent and in open credit was 18 per cent. The manufacture of major household appliances has been almost entirely eliminated and the stocks have all but disappeared from dealers' shelves. The lower volume of receivables reflects the contraction in credit sales, and was accompanied by an increase in the ratio of sales to receivables. In 1942 annual sales of household appliances were six times year-end receivables, whereas, they were ten times in 1943.

Heating and plumbing equipment dealers reported a decline of 47 per cent in total year-end receivables. Annual sales were 14 times year-end receivables in that line.

Lumber and building material dealers operated under severe handicaps due to shortages of material and the necessity for priority ratings. As a result their volume of receivables declined 45 per cent. Annual sales were nine times receivables on hand at the end of the year.

Shoe stores, which came under rationing during February 1943, reported a decline in charge account sales of 32 per cent. Total sales, however, were 45 times year-end receivables which decreased 44 per cent during the year.

Gains in receivables were reported by jewelry stores, milk dealers, women's specialty stores, and coal, fuel oil, and wood dealers. All other lines showed recessions.

OPERATING RATIOS IMPROVE

The financial picture of retail businesses mirrored in the balance sheet items is one of extreme liquidity. Retailers are beginning to wonder if they are not liquidating themselves out of business by the conversion of inventory and accounts receivable into marketable securities and cash. The limitations on the expansion of fixed assets, inability to expand inventories, and the reduction in bank debt have improved the current ratios of practically all retailers. The growth of tax accruals has more than counterbalanced the reduction in notes payable to banks with the result that current assets have expanded faster than current liabilities. The earnings which have been retained in the business have been kept in securities and cash.

The ratio of inventories to receivables, a check on the current ratio, was lower than the current ratio in some lines. Since inventories are declining faster than receivables these ratios are considered favorable.

SHIFTS IN BALANCE SHEET ITEMS

Changes in operations naturally are reflected in balance sheet items. The changes that are taking place are in line with what is happening throughout the business world and are symptoms of the war economy.

The piling up of liquid assets in the form of currency, bank deposits, and government securities accompanied by the using up of merchandise and the reduction of indebtedness is a development that is laying a foundation for expansion in the postwar period.

Wartime Deposit Expansion

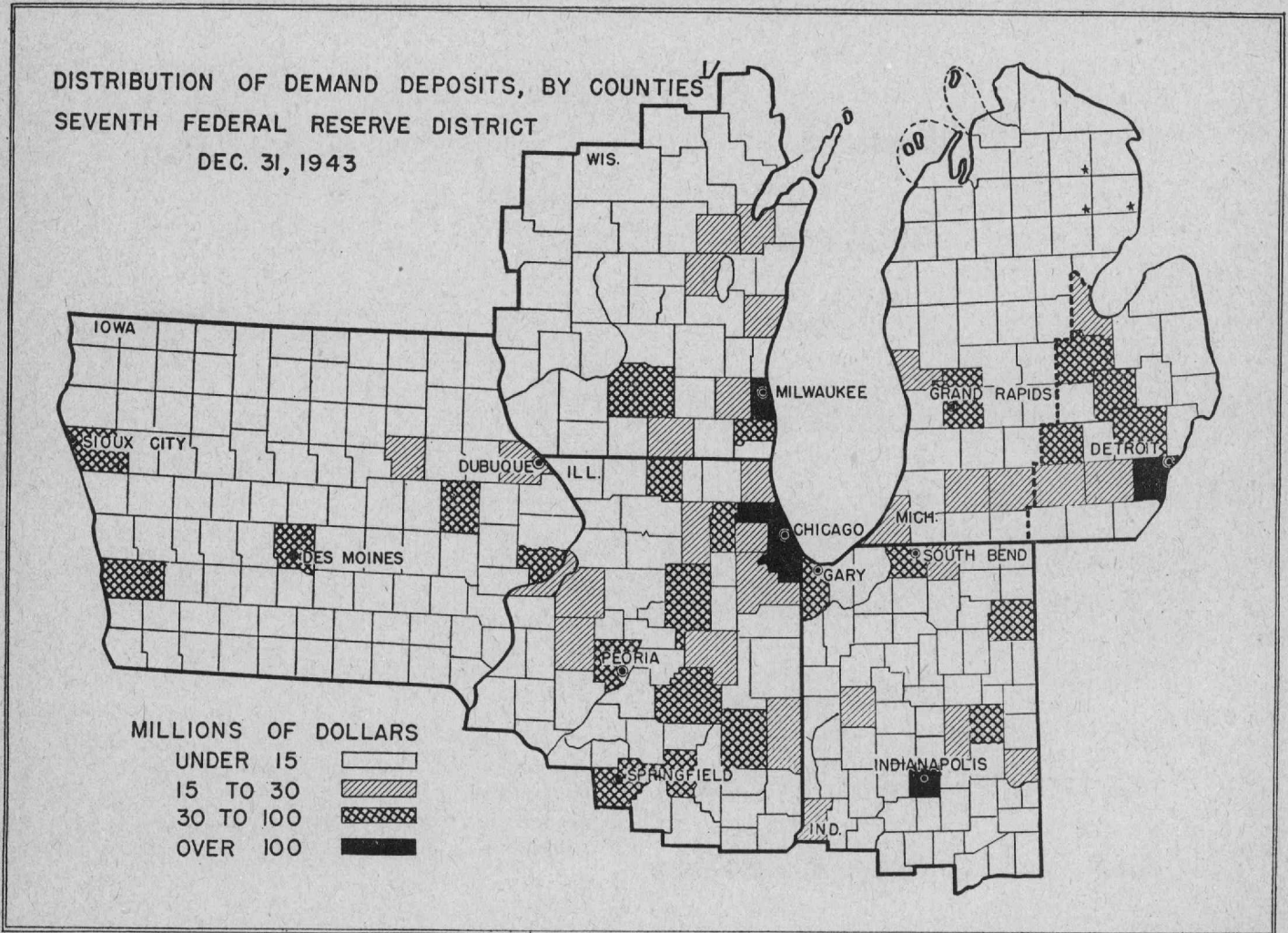
Farm Areas Show Large Percentage Gains

Bank deposits of businesses and individuals throughout the country rose almost 41 per cent in the two war years ended December 31, 1943 to a level of approximately 90 billion dollars. In the Seventh District these deposits rose 56 per cent during the same period, reaching 12 billion dollars.

This exceptional deposit growth, together with its present and postwar implications, suggests the need for more comprehensive and precise data on the geographical distribution and ownership of deposits. Two important studies have been undertaken to determine information of this character. One is the Federal Reserve System's regular survey of deposit ownership. Results on a national basis of the most recent survey — February 29, 1944 — appear in the May 1944 issue of the *Federal Reserve Bulletin*, while Seventh

District estimates will be released in the June issue of *Business Conditions*. The other is a study of the geographical distribution of deposits made by the Treasury Department, a summary of which — insofar as it pertains to the Seventh District — is shown in the two maps below.

The figures, covering demand deposits of individuals, partnerships, and corporations, and excluding interbank balances and deposits of governments, indicate the distribution of cash balances of businesses and individuals throughout the Seventh District. Viewed first as a whole the district showed a gain of 69 per cent during the two years ended December 31, 1943 as compared with 57 per cent for the United States. Although the Seventh District ranked sixth in percentage gain, it was second in dollar increase — 3,683 million dollars — closely behind the New York District which ranked last in percentage gain.



¹Demand deposits of individuals, partnerships, and corporations.

*No banks in county.

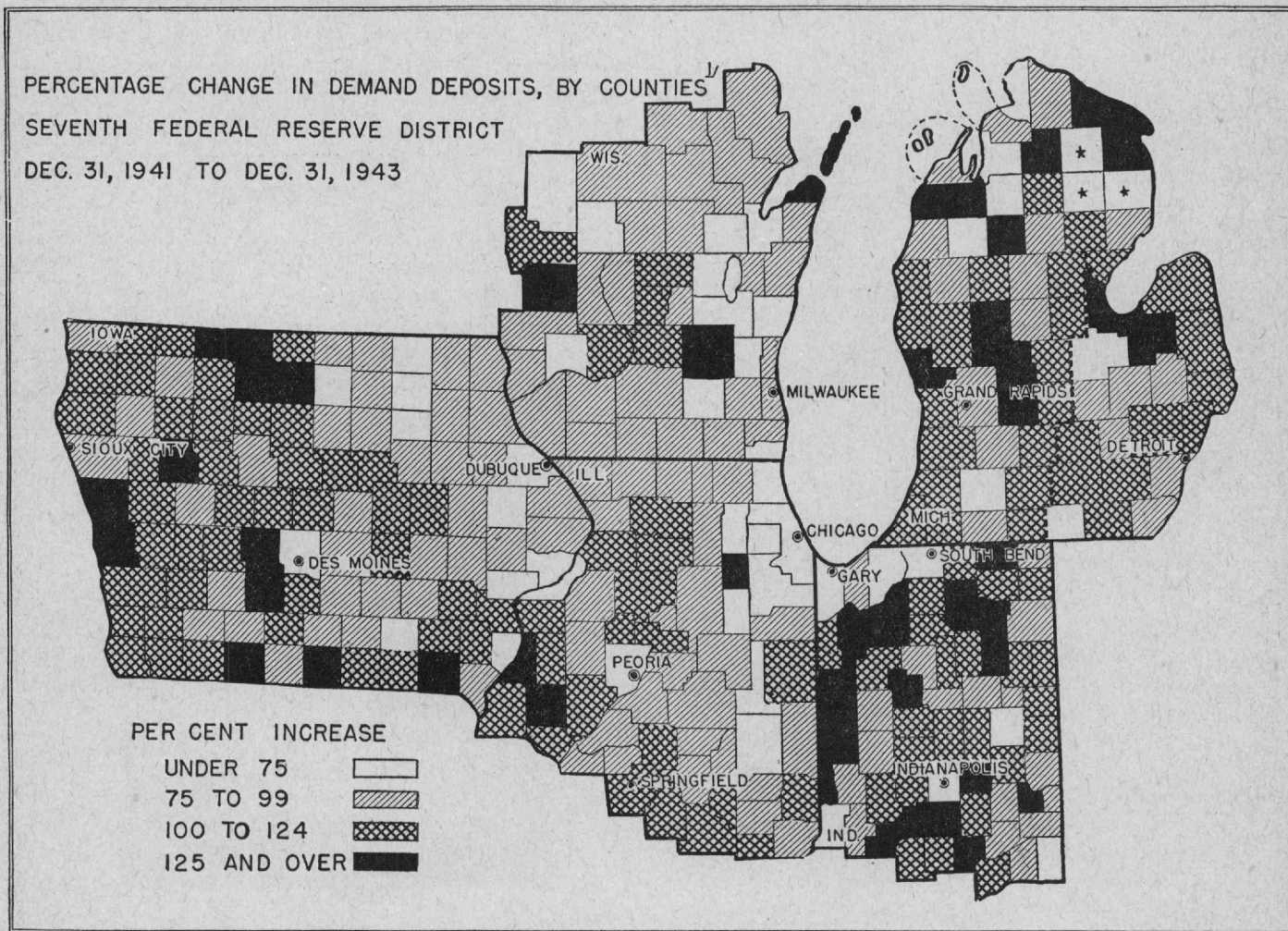
Examination of the two maps—the first of which shows dollar amounts in each county on December 31, 1943, the other indicating percentage gains in the two-year period—reveals an uneven pattern of relative deposit growth. Substantial increases took place in every county. One-sixth of the total 338 counties showed gains of from 80 to 90 per cent. Two-thirds of the counties gained 80 to 120 per cent.

Generally, percentage increases in deposits over the two-year period were larger in predominantly rural counties than in those in which cities are located. Approximately 80 per cent of city bank deposits are business accounts; in the rural counties, the proportion of business accounts is usually less than 50 per cent. This difference in the ownership of deposits in rural and city areas may help to explain the difference in the rate of growth. Business firms in the larger cities are disposed to invest idle funds in short-term government securities. In contrast, it is the practice of individuals and small business firms to keep more of their liquid reserves in the form of bank deposits. The larger percentage gains in many agricultural areas may also be related to sharply increased agricultural income. The marked difference in percentage increases in regions encompassing sev-

eral counties which are similar in their economic characteristics should be interpreted with care as they may arise from the fact that banking facilities in a given county serve not only that county but many sections of surrounding counties. Trading areas for particular communities are not restricted by county lines.

Of the five states either partly or entirely in the district Michigan showed the largest percentage deposit increase, rising approximately 98 per cent; Iowa ranked second with a gain of 89 per cent; Indiana, third with an 85 per cent gain; fourth was Wisconsin with a 79 per cent gain; and lastly, Illinois which showed an increase of only 53 per cent. Illinois deposit behavior was strongly weighted by Chicago which showed a gain of only 47 per cent; however, in terms of dollar gain, that city's deposits rose 1,188 million dollars, 75 per cent of Illinois' dollar gain. With Chicago excluded from the Illinois figure, the state shows a gain of approximately 84 per cent.

Summary data by counties on bank deposit growth in the Seventh District from 1941 through 1943 may be obtained from the Research and Statistics Department of the Federal Reserve Bank of Chicago.



¹Demand deposits of individuals, partnerships, and corporations.

*No banks in county.

Gasoline Consumption in War

Military Needs and Rationing Sharply Alter Uses and Tax Revenues

Changes in gasoline consumption and distribution necessitated by the war appear to have brought about as extensive adjustments in Seventh District economic life as the limitation of any other commodity. Gasoline consumption, the "fourth necessity" of peacetime life — after food, clothing, and shelter, is the "first necessity" of mechanized warfare, as at least two-thirds of the population using gasoline in transportation and for industrial, agricultural, heating, and related purposes have reason to know. While gasoline rationing is now generally accepted as vital to the war effort, at the outset many failed to appreciate its close relationship to rubber conservation. Although the rubber situation has improved somewhat, gasoline rationing is still necessary to conserve rubber and to make available gasoline supplies to meet the unprecedented requirements of the armed forces, and also to prolong the life of currently irreplaceable civilian motor vehicles.

Total gasoline consumed in 1943 in the five district states fell 26 per cent below the record 1941 level. The corresponding reduction in the nation as a whole was 20 per cent. The most important wartime shift in consumption obviously has been to the armed forces and lend-lease which now receive about one-third of all available supplies. Highway uses of gasoline, which accounted for about 90 per cent of total prewar consumption, have now declined to about 55 per cent.

Prospects for increased civilian gasoline supplies are inseparably related to the future needs of the military and naval forces. Pending the outcome of the invasion in Europe, there probably will be little change in the supply situation, but certain developments, such as improved gasoline transportation, rising crude oil production, greater inventories in some areas, and a high production rate, suggest that somewhat larger rations for civilians may come this year. Although unlikely, some changes in rationing possibly could be forthcoming when the OPA reviews the gasoline situation again before the end of June. Any approximation of full prewar civilian supplies must await the successful completion of the major war program.

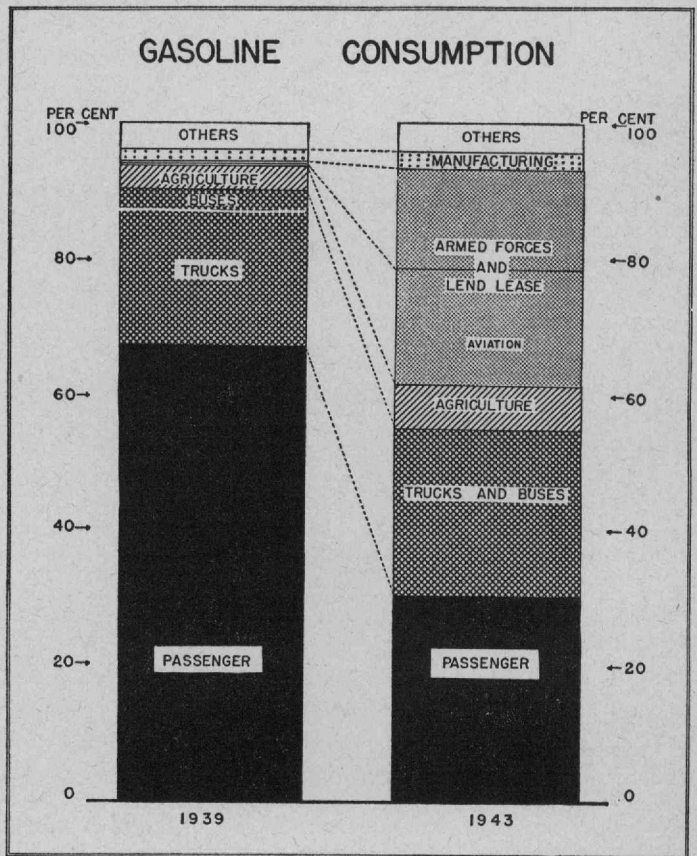
IMPACT OF RATIONING

Gasoline rationing in the Mid-West since December 1942 has reduced average civilian consumption from about fifteen to seven gallons per week, and cut most driving at least in half, bringing it within the range of 2,000-6,000 miles annually. In addition, rationing has (1) contributed substantially to the doubling of the passenger carrier business of some local transit companies, railroads, and bus lines, all of which will suffer revenue reverses when gasoline rationing is ended; (2) closed, or seriously affected, thousands of drive-in markets, outlying restaurants, clubs, and recreational centers; (3) emphasized local and nondelivered buying, par-

ticularly in suburban areas at the expense of metropolitan retail stores; (4) reduced gasoline taxes—a highly important source of state revenues—by a fourth; (5) closed in the Seventh District states about 8,000 gasoline service stations and more than 200 bulk wholesale plants, many permanently; (6) materially altered petroleum marketing practices, limiting the importance of established brand names, and changing the seasonal buying pattern; and (7) given rise to a serious "black market" in ration coupons.

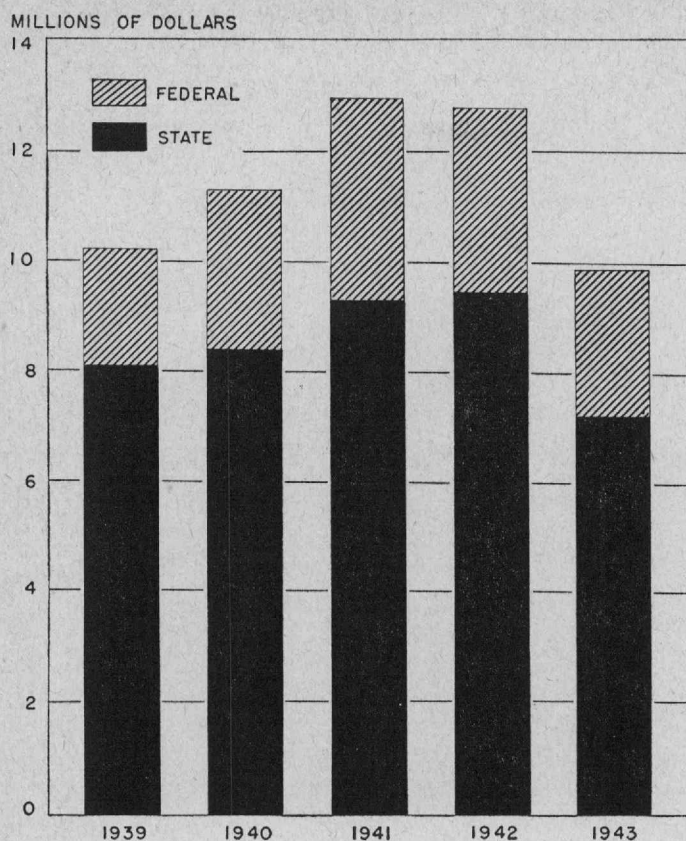
Gasoline is the major derivative of crude oil. Before Pearl Harbor a 42-gallon barrel of crude oil yielded 18 gallons of automotive fuel in contrast to 11.5 gallons at present. The difference is attributable to the current heavy concentration of refinery operations upon aviation gasoline and certain fuel oils as well as automotive gasoline.

Normally three grades of automotive motor fuel are sold: premium, regular, and third. Premium or "ethyl" gasoline having the highest octane (antiknock) rating, 80-83, comprised about 10 per cent of total prewar gasoline sales. Regular or "house brand" gasoline with an octane number of 70-76 accounted for 78 per cent, or the vast majority of



Source: American Petroleum Institute and Petroleum Administration for War.

MOTOR FUEL TAX REVENUES



Source: U. S. Treasury Bulletin and Federation of Tax Administrators.

sales. Third grade gasoline, the poorest quality but often better than regular gasoline a few years earlier, had octane ratings near 60 and made up about 10 per cent of sales. Aviation gasoline, 91-100 octane rating, accounted for the remaining pre-Pearl Harbor sales.

War conditions have changed markedly the quality of gasoline consumed. Very large quantities of the highest octane gasoline are now made for military aviation purposes. Civilian gasoline has steadily declined in antiknock performance principally because of the scarcity of antiknock fluids ordinarily mixed with gasoline. Premium grade motor fuel for civilians, consequently, has become increasingly scarce at a time when the demand has grown because of its reputed engine-saving qualities, particularly important for the duration. Third grade gasoline is now virtually unobtainable.

CHANGES IN GASOLINE USES

Ninety per cent of all gasoline before the war was for highway purposes, and three nonhighway uses consumed most of the remaining gasoline as follows in declining order of importance: agriculture, manufacturing, and construction. The significant drop in highway uses in 1943 to 55 per cent of the total indicates strikingly the major shift which has taken place in gasoline consumption during the war. Aviation gasoline has increased from virtually nothing to about 17 per cent of the total; the armed forces and lend-lease consumption for other than aviation purposes, to more

than 15 per cent; and agricultural uses nearly doubling, to about 7 per cent. In short, the armed services and lend-lease require nearly one of every three gallons of gasoline produced. Aggregate gasoline supplies are about equal to the 1939 level, although crude oil production is 20 per cent greater, indicating the increased importance of fuel oils.

The marketing of gasoline involves a very extensive network of wholesale bulk plants and retail service stations. Based on data of the Petroleum Administration for War covering about 85 per cent of the industry, at the outbreak of war there were more than 37,000 filling stations and 5,300 bulk plants scattered throughout the Seventh District states but heavily concentrated in large urban communities. On January 1, 1944 only 29,000 of these stations and 5,100 wholesale establishments were in operation. Only food stores outnumber filling stations among all retail outlets. Before Pearl Harbor there was one service station for every 130 passenger cars in this area. The proportionately greater service station closings than automobile scrappings since Pearl Harbor indicates that there probably has been a slight increase in the number of cars per filling station during the past two years.

The Seventh District constitutes one of the nation's heaviest gasoline consuming areas, regularly using about a fifth of the nation's supply. Filling stations sales, including nongasoline items, in 1939 in the district states exceeded 530 million dollars compared with an estimated 620 million in 1941, the record year, and 450 million in 1943. When sales of other gasoline retailers such as garages and miscellaneous stores are added, the over-all sales volume of retail petroleum outlets is appreciably greater.

Gasoline consumption in the five states was 4.4 billion gallons in 1939, 5.1 billion in 1941, and 3.8 billion in 1943. Illinois consumed the largest volume of gasoline among the district states followed by Michigan, Indiana, Iowa, and Wisconsin. Nearly three-fifths of the total gasoline is used in Illinois and Michigan.

As indicated, thousands of Mid-West retail outlets have been forced to close because of reduced gasoline revenues and inability to obtain related items such as tires, which in peacetime often provided the margin between profit and loss in many stations' operations. Some of the closed stations have been converted into dwellings for war workers and stores for the sale of nonpetroleum goods.

The war period also has been marked by the decline in the importance of brand names and the rise of the gasoline black market. Brands have tended to become weakened not only because of the slight quality differences between gasolines of the same grade but also because consumers with very limited amounts of gasoline to buy do not care to waste much of it searching for a station carrying a particular brand. The gasoline black market is a menace to the equitable distribution of available civilian supplies of gasoline. The problem is really a black market in ration coupons, not gasoline, because no mysterious source is producing additional gasoline. Rather, the influx of illegal ration coupons absorbs operating stocks of gasoline and may force cuts in general

rations or prevent their increase. The over-all effect is that car owners who purchase gasoline with illegal coupons or without coupons get an unfair share of a rigidly limited supply. The Petroleum Administration for War estimates that black market operations are currently draining off more than five per cent of the total civilian supply, especially through counterfeit "C" ration coupons. Black markets are known to be active in the Mid-West, East, and South.

Military, nontaxable, uses of gasoline have meant a decline in Federal and state gasoline tax revenues, both showing a current loss of about 25 per cent from 1941, the last full year of unrationed sales. In 1943 total gasoline revenues in the nation amounted to 985 million dollars, of which 719 million were from state taxes and 265 million from Federal taxes. Despite wartime restrictions gasoline, nevertheless, is still the largest revenue producer in most state tax systems, yielding, however, 19.5 per cent of all state revenues in 1943 compared with 25.8 per cent in 1941.

WIDESPREAD SPECULATION ABOUT RATIONING

The exact amounts of gasoline available in the Mid-West throughout the nation and overseas are known only to a few Government officials. Because of the general interest and need, there is constant speculation over the possibility of changes in gasoline rations. Growing inventories of gasoline, however, do not necessarily mean more gasoline for civilians because stockpiles of gasoline as well as of other war materiel are necessary to support the invasion of Europe and Allied forces throughout the world. Success in Europe clearly is the key to future gasoline rations. Prolonged and extensive fighting on the Continent will prove a heavy drain on gasoline reserves with probable repercussions on civilian consumption. Any improvement in the crude oil

supply for Mid-West refineries now operating below capacity because of limited raw materials would be a strong positive factor aiding the gasoline situation in the district. Rationing authorities, however, will probably endeavor as far as possible to keep ration coupons of equal value throughout the nation.

The quality of gasoline as well as the quantity must also depend upon the progress of the war and the release of materials and facilities for civilians. Aviation high-octane gasoline now being produced in large volume for the armed services cannot be used in civilian automobiles because present engines are not designed for its combustion. Automotive engineers, moreover, reportedly have not yet developed engines acceptable for passenger car use which can utilize gasoline with higher than an 85 octane number.

A few service stations have been reopened in recent months and others will follow as soon as gasoline supplies for civilians improve sufficiently. Many stations, nevertheless, will probably remain closed indefinitely because they are badly located or have obsolete facilities. New super service stations seem certain to appear with gasoline constituting a smaller proportion of total sales as other retail activities are combined with petroleum services. Improved wholesale distribution will also necessitate fewer bulk stations with greater reliance on faster, more efficient, and more direct transportation.

The long-run outlook for gasoline supplies and consumption depends upon reserves of crude oil, the proportion that can be refined into gasoline, and the efficiency with which the fuel is converted into power. While there are important differences of opinion as to the extent of these reserves and further technological developments, the Seventh District and the nation will continue to depend upon gasoline from petroleum for motor fuel for several more decades.

SOME EFFECTS OF GASOLINE RATIONING

District States	Station Closings ¹ January 1, 1942 - 1944				Gasoline Consumption ² (millions of gallons)		State Motor Fuel Tax Receipts ³ (millions of dollars)	
	Retail		Wholesale		1943	Per Cent Change From 1941 ⁴	1943	Per Cent Change From 1941 ⁴
	Number	Per Cent	Number	Per Cent				
Illinois.....	2,432	22.1	47	3.2	1,165	-28.8	34.0	-31.6
Indiana.....	1,442	19.1	32	3.4	673	-18.0	23.3	-25.6
Iowa.....	1,133	23.5	83	6.6	483	-21.1	14.3	-21.4
Michigan.....	1,938	23.5	56	6.5	979	-29.7	25.4	-32.4
Wisconsin.....	996	18.0	13	1.6	466	-26.7	17.7	-52.9
Total	7,941	21.4	231	4.3	3,765	-26.1	114.7	-28.8

¹Petroleum Administration for War, covering 46 selected operators with about 85 per cent of all retail outlets, and 80 per cent of bulk stations in the district states.

²American Petroleum Institute

³Federation of Tax Administrators

⁴Record year

LAND VALUES ADVANCE

(Continued from inside front cover)

two-fifths reporting that there were more sales during the first three months of this year than in the first quarter of 1943. There was a wide range in these proportions when the reports were analyzed by states. For Wisconsin nearly three-fourths of the bankers reported there were more sales this year than last, while 59 per cent of Michigan reports indicated more sales this year than in 1943. Indiana bankers were more nearly divided, 55 per cent reporting more sales than last year and 45 per cent reporting less. Illinois and Iowa reports put these two states definitely at the other end of the scale, with only one-fourth of Illinois bankers reporting more sales this year than last and less than one-fourth of the Iowa bankers so reporting.

Reports as to who were selling farms during the first quarter of 1944 indicate that for the district slightly more than one-half were sold by owner-operators. An additional one-third were estimated to have been sold by such non-operating owners as estates and trusts. Sales by involuntary owners, such as insurance companies, banks, and governmental agencies, accounted for one-sixth of the total.

In Michigan and Wisconsin the opinion of the bankers was that about three-fourths of the sales were by owner-operators, while in Indiana slightly more than one-half of the sales were from this source. In Illinois the reports indicated less than 40 per cent of the sales were by owner-operators, while sales from estates and similar agencies (the most important class in Illinois) accounted for nearly one-half of the total. In Iowa less than one-third of the sales were reported as by owner-operators, and the most important sellers were reported to be involuntary owners (insurance companies, for example).

CITY INVESTORS HEAVY BUYERS

City investors accounted for one-fourth of the purchases during the quarter. Farmers who were tenants and are now becoming owner-operators bought one-third of the farms sold. Present landowners adding to their holdings accounted for a similar amount of the purchases. Specula-

tors, who will probably hold only a short time, were reported as buying six per cent of the farms. This was a slightly larger proportion than reported for the fourth quarter of 1943, when the bankers reported that four per cent of the farms were being bought by speculators.

Buying by city investors was proportionately most important in Michigan where 37 per cent of the sales were absorbed by this class of purchaser, and in Illinois where 33 per cent were reported as going to this class. In Indiana this proportion was slightly under one-fourth; in Wisconsin it approximated one-fifth; and in Iowa only about 15 per cent of the sales were estimated to be going to city investors.

Purchases by former tenants becoming owner-operators ranged in the five states from one-fourth to one-half of total purchases. Nearly one-half of the sales in Iowa were estimated to be going to tenants. The proportion bought by this class of purchaser was estimated at 40 per cent for Wisconsin. The similar figure for Indiana was one-third of the total while for Michigan and Illinois the proportion was about one-fourth.

Land owners adding to present holdings were the most important single class of purchasers in Illinois and Indiana, taking upwards of one-third of the total farms sold. However, this class of buyers was also relatively important in the other three states where they accounted for 30 to 35 per cent of totals.

Speculative buying, which averaged six per cent of total for the district area, ranged from five per cent in Illinois to eight per cent in Indiana, with five per cent reported for Iowa, and six per cent for Michigan and Wisconsin.

SUMMARY

To summarize the situation as revealed by the quarterly report from cooperating member banks, it would appear that land values as reflected by current sales prices have advanced a little over two per cent during the first three months of the current year, and that values in these terms are 17 per cent above their level of a year ago. Rises for the year were greatest in Indiana, Iowa, and Illinois, and least in Michigan and Wisconsin.

Bankers generally feel that present values are substantially above normal values (long-time earning values), with land prices relatively highest in these terms in Illinois and Indiana, and less pronounced in Iowa, Michigan, and Wisconsin. Apparently both better and poorer grades of land are overvalued, with the better lands slightly more so than the poorer grades in Illinois and Indiana, with the reverse situation in Iowa, Michigan and Wisconsin.

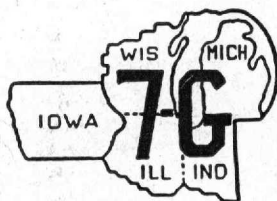
City investors were important buyers of farms during the quarter, while speculative buying fortunately remained small. The bulk of the farms were sold to operating farmers, about evenly divided between tenants becoming owner-operators and landowners adding to present holdings.

LAND MARKET ACTIVITY

(per cent of state reports)

State	Brisk	Moderately Active	Quiet (some sales)	Inactive (no sales)	Total
Illinois.....	7	30	53	10	100
Indiana.....	16	53	29	2	100
Iowa.....	4	25	61	10	100
Michigan.....	13	54	32	1	100
Wisconsin....	11	48	38	3	100
District.....	10	40	44	6	100

SEVENTH FEDERAL



RESERVE DISTRICT

