JUNE, 1944

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Weather Dominates Agricultural Picture

Crop Prospects Hinge on Corn

Present indications on crop prospects for the current season appear, temporarily at least, to be surprisingly good in spite of extremely wet weather in some areas and drought in others. Delay in Corn Belt planting due to the wet spring has given rise to some anxiety over crop prospects for the current year not wholly warranted by the indications to date.

The success of the growing season obviously depends largely upon weather conditions during the balance of the year. The size of the corn crop, because of its major importance, outweighs all other factors in making any judgment on prospects. Leaving corn out of consideration for the moment, the June 1 Federal crop report indicates that on the other major food and feed grains—wheat, oats, barley, and rye—the prospects as of that date were for a larger crop than was harvested last year. Much can happen between now and harvest to reduce the expected production, but indications at the present time are that the production of these four grains would total over 2½ billion bushels as compared with 2¼ billion harvested in 1943 and a ten-year average of less than 2.1 billion.

BUMPER WHEAT CROP PROBABLE

On the combined winter and spring wheat crop the indications were for the first billion-bushel crop in history. The forecast of a crop of winter wheat amounting to 714 million bushels, when added to the expected spring wheat crop of 321 million bushels, gives an indication of 1,035 million bushels. This compares with the combined crop of 836 million bushels in 1943 and a ten-year average of 789 million bushels. Spring wheat is not important in the Seventh Federal Reserve District. About 10 per cent of the winter wheat crop is produced in the five states of the district. June 1 indications were that the district's production of winter wheat will be about 50 per cent above 1943.

In spite of the late plantings and switching of some acreages away from oats the report indicated an expected production of oats this year of 1,193 million bushels compared with 1,144 million bushels in 1943, and slightly over 1 billion bushels for the average of the last ten years. About 40 per cent of the 1943 crop of oats was produced in the five states of the district, but the proportion in 1944 will be substantially less due to change in plans of farmers forced by the wet planting season. Present indications are that the production of oats in the district will be less than last year. A barley crop of 300 million bushels was anticipated for this season, compared with 322 million bushels harvested in 1943. The rye crop, of minor importance, is indicated at about the same size as last year.

The condition of the hay crop, especially tame hay, is substantially better in the nation and in the district than it was last year at this time. The situation is especially good in Iowa, Illinois, and Indiana, but Michigan and Wisconsin reports also indicate better prospects than at this time in 1943.

Pasture conditions are likewise substantially better than a year ago, especially in Iowa, Illinois, and Wisconsin. The heavy rains of this spring have put pastures in very nearly top condition and they are considered to be in the best condition they have enjoyed for over 20 years except for the areas where they have been actually flooded.

LARGE CORN CROP CRUCIAL

When the prospects for the food and feed grains, other than corn, are converted to a tonnage basis, the June 1 report points to a production of wheat, oats, barley, and rye about 15 to 20 per cent above the tonnage of these four grains harvested in 1943 and more than one-fourth larger than the average produced during the last ten years. If the farms of the nation are to equal the tonnage of grains, *including* corn, produced in 1943, a corn crop of about 2,760 million bushels is needed this year. This would be about 10 per cent less than the 3,076 million bushels harvested in 1943. It would be less than the 1942 crop but larger than the production in any other year since the bumper crop of 1932.

It is obviously too early for even approximate forecasts on what the corn crop will do. The planting situation this year is similar to that of 1943, but delayed plantings last year were more than made up by the extremely favorable growing season which followed. This spring the delay in preparation of seed beds and planting operations has been further complicated by the duration of the wet season which has required extensive replanting. In many cases the corn fields have been replanted three times. In several areas of the district excessive prolonged moisture forced a shifting from oats, and according to most reports the bulk of such acreage has gone into corn. Delays in corn planting of two and three weeks were common in the district. During the bulk of the planting season the Iowa and Illinois corn crops were estimated to be on the whole about eight to twelve days behind normal growth for the season. On June 1 the corn crop in these two states was only about two-thirds planted. However, by the middle of the month Iowa and Illinois corn was practically completely in the ground except for areas that required replanting.

While the present prospects with regard to food and feed crops may appear encouraging in spite of delays to date, it

(Continued on Page 8)

Midwest Manpower Scarcities Increase

Sharp Variations Exist Between Industrial Areas

Intense war production and Selective Service withdrawals have virtually exhausted the visible supplies of labor in the Midwest. The remaining reserves are not entering the labor force in sufficient volume and in many cases are not the type of labor that is needed. Thus the Seventh Federal Reserve District is now experiencing the most widespread manpower shortages in the nation. The number of acute labor shortage areas designated by the War Manpower Commission has mounted steadily, until on July 1, 1944 the district had 24 such areas or more than one-third of the national total.

Whereas the highest level in war production and employment in the nation to date was reached during the final quarter of last year, Seventh District war activity has continued to expand. Continued expansion in the district is directly attributable to heavy war contract awards in recent months and the coming into production of new industrial facilities. Many of the latest war products of Midwest industry have been designed after battlefront experience and for use in specific areas of combat rather than for general use such as in the case of many of the early war products. Relatively late conversion of peacetime industrial plants and some delay in new construction during the defense and early war period resulted in substantial out-migration of workers from the Midwest to other war production centers. As a result, a large portion of the Midwest labor force had entered the armed services or migrated elsewhere when the region reached its most critical stage of war production.

WARTIME MANPOWER CONTROLS

Early in the defense period it became evident that if this nation was to participate actively in war, certain manpower controls would be necessary both to supply personnel for the armed services and to provide for the essential labor requirements of war industries. The program of the Manpower Commission had originated in April 1942 based on a broad general policy of assuring "most effective mobilization and maximum utilization of the nation's manpower." Selective Service withdrawals increased steadily as the armed services were expanded, but occupational deferments during that period eased the labor supply situation somewhat for certain industries. Critical labor shortages developed initially in such areas as machine tool centers where equipment was made to convert industry to a war basis, shipbuilding areas where an early effort was made to expand the nation's badly depleted merchant marine and naval fleets, and aircraft centers, reflecting the heavy emphasis given to aircraft production for the use of our Allies and our own forces. A relatively large proportion of such initial production took place outside the Seventh District.

To facilitate the distribution of available manpower and to direct the allocation of contracts to communities capable of immediate production of needed war materials, a classification of labor market areas according to manpower supply and demand was developed by the WMC in October 1942. The program initially designated three types of labor market areas. In January 1943 the classifications were expanded and redefined to set up four types of areas. Areas of shortage, designated as Group I, are named as least capable of handling additional orders and these should receive no renewals or new contracts. In Group II areas, where the supply of labor meets the demand, renewals of contracts are permitted but no new contracts can be placed. Areas of anticipated balance, Group III, are those in which renewals of contracts are permitted to maintain the existing level of production and new contracts are also permitted if they can be completed within six months. In Group IV, areas of labor surplus, renewals, new contracts, and new facilities are not only permitted but also encouraged.

The fortunes of war obviously have influenced the trend in war production and also the labor supply. Overseas action has required new products and changed the need for existing weapons and equipment; victories have slackened the number of women entering the labor force, and also increased labor turnover because workers have sought new employment with postwar security.

The most recent controls of the War Manpower Commission are aimed at maintaining an adequate force of war workers in areas and industries critically needed to bring the war to a successful conclusion. Effective July 1st ceilings were placed on the number of male workers in all nonagricultural establishments employing eight or more persons within a Group I or II area. Male hirings, moreover, may occur only through the United States Employment Service which will direct workers to employment according to a regionwide priority system by importance of product needed in the war effort, thus discouraging the return of workers to non-war industries.

CONTINUOUS SHORTAGES APPARENT

The general progress of the war and its effect upon the district's labor supply can be seen in the changing status of cities in the WMC classification schedule. Within the Seventh District, Detroit has had a continually important role in war production, often being described as the "arsenal of democracy." Even before the suspension of civilian automobile production in February 1942, Detroit plants were providing arms and munitions needed for lend-lease and to equip the expanding army. After conversion of the automobile industry, tank production was emphasized and later

aircraft and parts as well. At no time in the last three years has Detroit had excess labor supply. This situation is likely to persist until the European phase of the war is successfully completed.

The Gary-Hammond-South Chicago "steel" area has maintained heavy production with accompanying manpower scarcities that have persisted almost continuously since the beginning of the war. Steel, the most basic war material, has been subject to increasing demand from the very earliest defense period.

Another area of continuous stringency has been Sterling, Illinois. The working population has not expanded enough to cope with the increased production of the steel and wire, hardware, and machinery plants located in the area.

CURRENT CLASSIFICATIONS VARY

Chicago's manpower problem became crucial in March 1944 when the area was first designated in the Group I classification. Since that time the status has remained one of acute labor shortage. As is typical of a large part of the district prior to that period the area lagged behind national gains in war production despite a huge output for war. The peacetime industries in Chicago maintained a heavy rate of production continually, but new industrial plants, developing because of war needs, have reached high production levels only recently. Some further production increases are expected.

Milwaukee's status as an area of labor balance has remained unchanged throughout the war. Large industrial production in the area has not given rise to generally severe manpower shortages because a more or less constant population has been maintained. Except for the armed services, there has been relatively little out-migration and enough in-migration from surrounding rural communities and gains in women workers to provide some margin of safety in the labor force. In addition, expansion at some plants within the Milwaukee area has occurred in rough relationship to cut-backs so that a fair balance of labor supply and demand has been maintained.

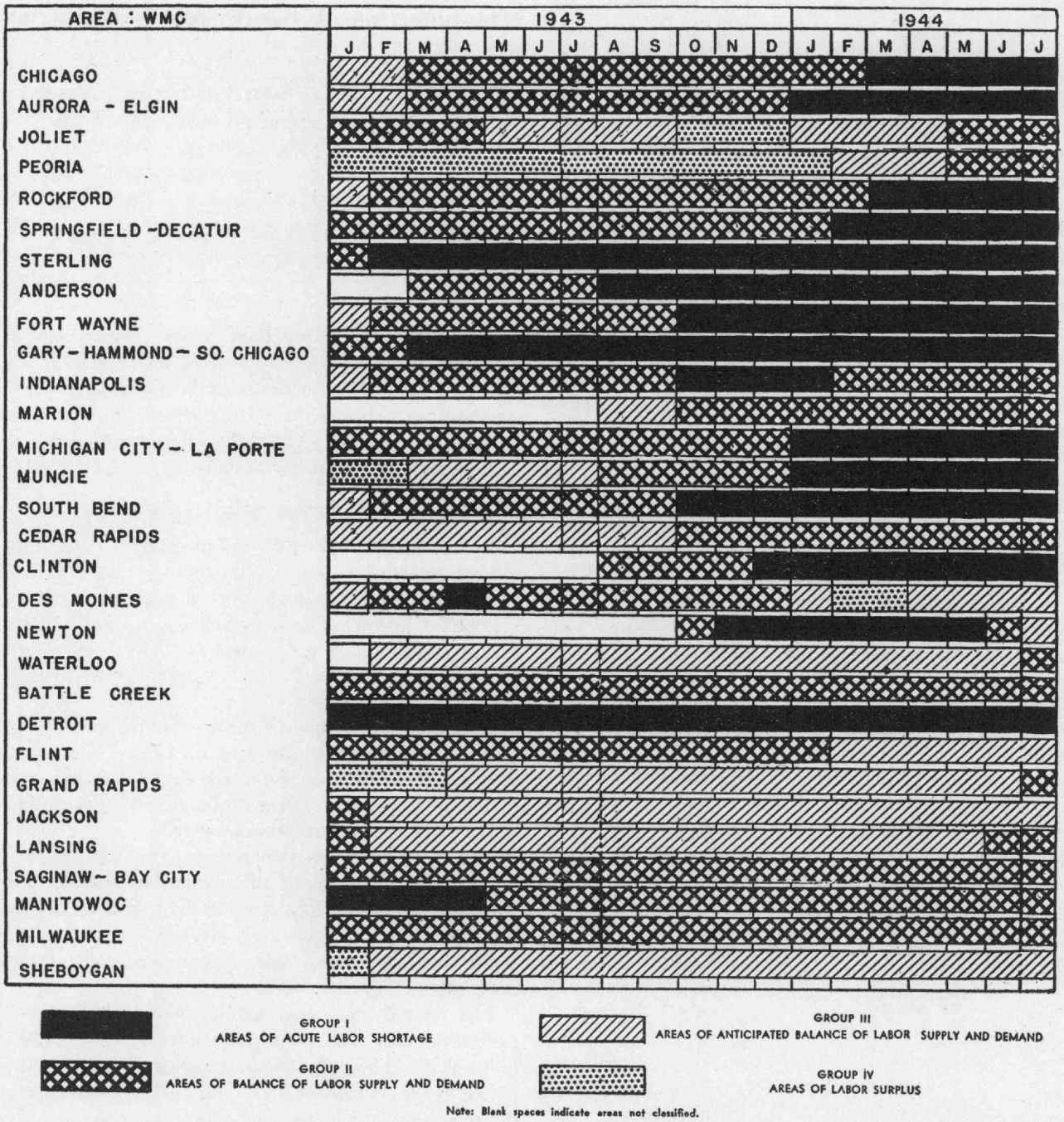
The Indianapolis area experienced a scarcity of manpower late in 1943 largely because of the substantial growth of aircraft equipment manufacture. A leveling off in aircraft production combined with better utilization of available workers subsequently has placed the city in Group II with a labor balance.

(Continued on Page 8)

Source: War Manpower Commission Releases, "Adequacy of Labor Supply in Important Labor Market Areas," June 1, 1944.

WAR MANPOWER COMMISSION
CLASSIFICATION OF LABOR MARKET AREAS
SEVENTH FEDERAL RESERVE DISTRICT 1

JANUARY 1943 – JULY 1944



Note: Blank spaces indicate areas not classified.

[1]The War Manpower Commission classification includes more than 70 cities in the Seventh Federal Reserve District. The cities included in this chart are primarily those which are designated as industrial areas by the War Production Board. LaSalle and Rock Island, Illinois, Davenport, Iowa, and Willow Run, Michigan, however, are included in the WPB listing, but labor classifications have not been assigned to these areas. Willow Run previously was listed as part of the Detroit area.

Source: War Manpower Commission Releases, "Adequacy of Labor Supply in Important Labor Market Areas."

Department Store Sales Index Revised

Major City Indexes Now Available

Cooperation of department stores with the Federal Reserve Bank of Chicago has made possible the construction of new indexes of the dollar volume of department store sales against which the stores can compare the movement of their own activity, and which can be used to indicate the level and movement of retail trade. Department store sales are an important segment of all retail sales and, to a lesser extent, of consumers' expenditures. The Seventh Federal Reserve district index is based on data from a maximum of two-hundred twenty-eight department stores located in eighty-nine district cities, and covers the period of 1921 to date. Independent stores, chain department stores, and retail outlets of mail-order companies in large, medium, and small cities are included.

DISTRIBUTION OF DEPARTMENT STORE SAMPLE

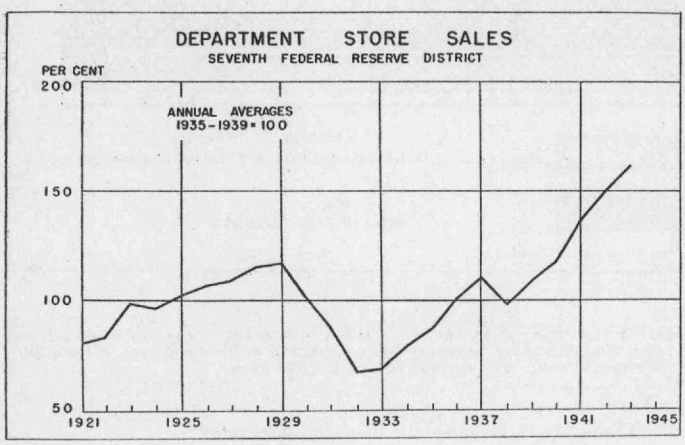
City	Number Reporting			Percentage of Total Sales		
	1929	1935-39	1943	1929	1935-39	1943
Seventh Dist...	91	182-199	228	100	100	100
Chicago.....	29	30-34	35	52	44	37
Detroit.....	6	7-9	11	22	18	20
Indianapolis...	6	6	6	5	6	7
Milwaukee....	8	9-10	10	8	8	9
Other Cities...	42	130-140	166	13	24	27

SAMPLE THREE-FOURTHS OF SALES VOLUME

The reporting stores accounted for approximately three-fourths of the department store sales volume as shown by the latest complete census of retailing. The sample is sufficiently large to provide dependable information not only on district but also local department store trade. In some of the larger cities, the coverage runs from ninety to almost one hundred per cent.

Extending as it does over more than twenty years, the index reflects the behavior of department store sales under the influence of some of the most extreme business conditions ever experienced in the United States. It begins with the depression year of 1921, and reflects the influences of the present war economy. As a pattern of changing conditions, the index records an experience complete in the vicissitudes of business life.

Because the years 1935 through 1939 represent a recent and average experience, and because other important indexes of business are based on that period, the new index of department store sales has been based on the daily average dollar sales during those years. Direct comparisons can thus be made between the department store index and other similarly based indexes of business activity. Direct relationships between the years covered can also be made. It is evident from the index that department store sales in 1921 were 80 per cent of the daily average of 1935-1939.



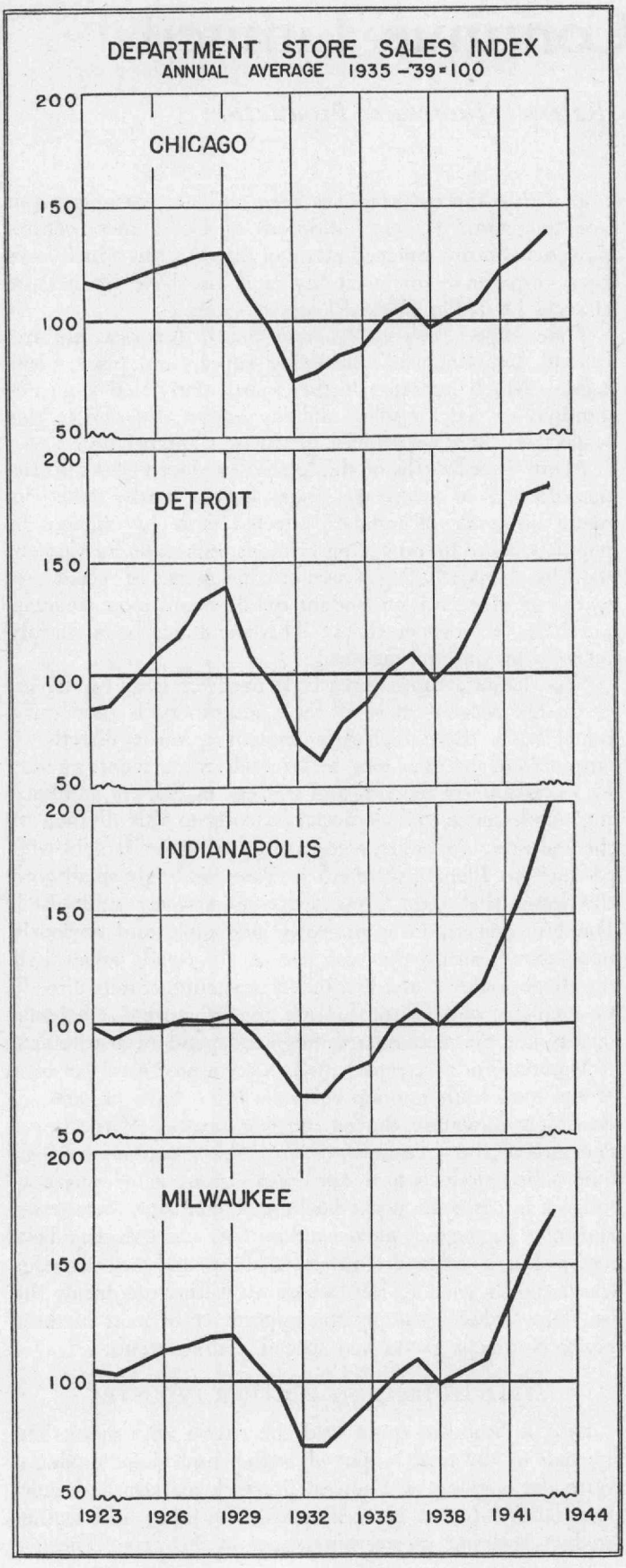
HIGH LEVEL REACHED IN 1929

The pre-depression peak was reached in 1929 when the index for that year rose to 116. In the light of subsequent experience that was a high level of peacetime trade as the volume for that year was not reached again until 1940 when the defense program got underway. The boom year 1929 has not been equaled in any year unaffected by expenditures for war purposes.

Following the collapse of the speculative market in 1929, business fell sharply until late in 1932. The volume of department store sales followed the downward business trend and the index number declined to 67, the all-time low of the twenty-two year period covered.

The index traces the slow recovery through the next five-year period to the high of 1937 when business again halted and turned down sharply carrying the volume of department store sales slightly below the average of the base period. Since 1938, the annual index has climbed each year, reaching a peak of 161 for 1943.

The revised index was computed to include more comprehensive data than were previously available. The reliability of the index was checked against census levels as reported in the censuses of 1929 and 1939. The movement of the reporting sample between those two years was in very close agreement with the movement of all department store sales. Where there were significant variations the sample was adjusted. It is believed, therefore, that the index is a reliable indicator of the movement of department store sales in the Seventh Federal Reserve district.



CITY INDEXES ALSO COMPUTED

In order to be as helpful as possible to the cooperating department stores and other organizations, as well as individuals interested in city data, separate indexes were also computed for Chicago, Detroit, Indianapolis, and Milwaukee. Additional indexes will be issued in the near future for other cities.

The city indexes show that while each city followed the general pattern of the district and the United States, each one was influenced by local conditions. Department store sales in Chicago have not shown the violent swings recorded in the other large cities of the district. The index did not fall as far in 1932 as did those of the other large cities. During the war expansion, the index has failed to climb as high as in other cities. The varying amplitude of fluctuation in major cities of the Seventh District is indicated by the fact that the index of Chicago department store sales has increased only 41 points since 1938, whereas the Milwaukee index has gained 72 points, Detroit 90 points, and Indianapolis, 99 points.

Indianapolis has had a unique experience in that the stores in that city had practically no peacetime expansion but have had the sharpest relative increase during wartime. Even in 1929 the index moved up to only 105 after fluctuating around the 100 mark for five years. During the depression its sales dropped to 68 per cent of the 1935-39 level, and did not rise significantly above that base period until the outbreak of war in Europe. Since that time there has been a succession of new highs each year with the index registering 200 for 1943, the highest of all the principal cities. The Detroit index was 185, Milwaukee 171, and Chicago 138.

The highest percentage change from the depression of 1932 through 1943 was also recorded by Indianapolis stores. The change represents an increase of 132 per cent. In Detroit the comparable change was 115 per cent, although the low point in that city was not reached until 1933. In Milwaukee the gain was 98 per cent. In Chicago it was only 64.

Since retail trade of department stores is affected by seasonal influences, a further analysis has been made of data by eliminating the effects of seasonal disturbances. The adjustment made for seasonal variation was computed by the ratio-to-moving average method, with allowances for changes from month to month in the number of Saturdays and Sundays and for the most commonly observed holidays. An allowance was also made for the changing date of Easter.

The monthly indexes for the Seventh District and several large district cities, as well as a detailed description of the method of computing the indexes may be obtained upon request from the Research and Statistics Department of this Bank. National indexes prepared by the Board of Governors of the Federal Reserve System may also be obtained. Information concerning department store trade will continue to be available currently.

Leather Supplies Continue Limited

Manpower Shortages Currently Restrict Increased Production

The record of the leather and leather products industry during the war illustrates a manufacture in which conversion problems were at a minimum and in which manufacturers and distributors have adjusted their operations to meet the full requirements of the armed forces and also the essential needs of civilians. Expanded war demands for shoes and other leather products have been met by a diversion of the available supply of leather to the more essential products, at the expense of items like luggage, handbags, and leather specialties, rather than by any marked increase in production.

Limited supplies of hides, skins, and tanning materials have prevented any marked expansion in leather production, although some temporary gains were made during 1941-42. Recently, however, more raw materials are available, principally because of increased cattle killings, but manpower has become the most significant factor limiting output. Until the labor supply situation improves or the heavy demand of the armed services subsides, both unlikely for six months or more, leather products for civilians cannot be expected to become more plentiful. In the meantime, rationing of leather shoes will continue to be necessary.

WHAT THE INDUSTRY COMPRISES

The leather and leather products group includes (1) tanning, currying, and finishing leather; (2) footwear; (3) other leather goods such as shoe repair materials, handbags, luggage, gloves, and similar items. Employment in the combined industry is normally divided as follows: tanning, 15 per cent; footwear, 65 per cent; and all other products, 20 per cent. The three divisions contribute about 20, 60, and 20 per cent, respectively, in value added by manufacturing to the finished goods.

An important segment of the industry processes hides for the use of shoe and leather goods manufacturers. Tanners are dependent upon the livestock and meat packing industries for hides and skins and upon chemical industries for tanning materials, some of which have been imported. The cost to tanners of raw materials frequently amounts to as much as two-thirds of the value of their finished product. The tanning process requires from one to four months, necessitating large inventories of hides and skins to assure continuous operations. Such inventories in peacetime are subject to wide price fluctuations accentuated by the time interval between the purchase of hides and the sale of finished leather.

Capital investment in tanning facilities is relatively large. Overall capacity has been in excess of normal demand which declined for some years before the war because of the introduction and use of leather substitutes. Prewar competition within the industry was keen and net earnings small and uncertain. Present conditions of Government control have temporarily removed many of these factors which have been responsible for instability, and also have limited the chances for either marked losses or gains.

Hide imports, especially from South America, are frequently important in influencing supply and price movements. Much imported leather, particularly that from Argentina, is used for soles, and the import situation in this respect has at times slowed production appreciably.

About three-fourths of the leather produced goes into the manufacture of footwear. Shoes have a fairly stable demand, in terms of number, affected more by changes in population and by prevailing fashions, especially for women, than by the purchasing power of consumers. In recent prewar years, there was an evident trend toward more frequent purchases of cheaper shoes. This trend has been sharply reversed by wartime rationing.

Shoe manufacturers have little need for large capital investments because most of their machinery is used on a rental basis. Rental charges, moreover, relate directly to output from the machines, and rental arrangements provide for installation of modern and efficient machinery, minimizing obsolescence and depreciation costs to this division of the industry. Machinery cost, in short, varies largely with production. Plant investment is correspondingly small with the result that most firms are conservatively capitalized. Foreign competition is normally negligible and obviously nonexistent during the war period. Normally about half the shoes produced are distributed by manufacturers directly to retailers, one-fourth through manufacturers' wholesale outlets, and the remainder through independent distributors.

Materials for shoe repairs, which accounted for 7 per cent of the total leather group value in 1939, have become increasingly important during the war because of the heavy demands of the shoe repair trade. The contribution of all other allied products to the peacetime group value ranged as follows, in per cent: pocketbooks and handbags, 4; suitcases and other luggage, 3; gloves and mittens and industrial belting, each 2; small leather goods, saddlery, and miscellaneous leather goods, each 1. Restrictions on leather use during the war have reduced sharply the importance of most of these products, except gloves and special military items.

SEVENTH DISTRICT LEATHER INDUSTRY

Eastern Seaboard states lead the nation with more than one-half of the total output of leather and allied products. With the opening of Midwest livestock markets and widespread development of meat packing, leather and leather products assumed greater importance in this area. The five

states—Illinois, Indiana, Iowa, Michigan, and Wisconsin—produced one-fourth of the nation's leather and one-sixth of all leather footwear in 1939. Within these five states footwear, other than rubber, ranked 17th and tanning, 28th in value of product among all manufactures in 1939 with a combined value of 205 million dollars. The Seventh Federal Reserve District has most of the leather production in the five-state area, but probably only two-thirds of the shoe production, the remainder taking place in southern Illinois, which lies in the Eighth District. Seventh District leather and shoe factories are located mainly in Illinois and Wisconsin and nearly half within the Chicago and Milwaukee industrial areas. Tanneries are heavily concentrated in and near Chicago in close proximity to meat packing establishments. Expansion in plant facilities in the industry has been negligible during the war.

WAR ALTERS LEATHER DEMAND

The most significant changes in leather demand caused by the war have been (1) unprecedented requirements for high quality leather for armed service and lend-lease uses, and (2) a forced reduction in demand through manufacturing restrictions and rationing for leather to be used in civilian shoes and specialty leather goods.

The demand for leather shoes has not only increased generally since 1939 but has been marked by significant shifts among different types of shoes. The most important demand changes for leather shoes which have occurred since 1939 are: (1) Government orders including lend-lease now exceed 12 per cent of all production; (2) civilian men's shoes at present constitute about 23 per cent of production compared with 29 per cent earlier; (3) production of men's work shoes has doubled but currently there are 15 per cent less work shoes used by civilian men, reflecting selective service withdrawals from industry and agriculture; (4) civilian women's shoes increased sharply during 1941 and 1942, indicating scare buying and a greater number of women working, but the proportion since 1939 has dropped from about 47 to 43 per cent of all leather shoes made; (5) youths' and boys' models have expanded by nearly one-fifth, reflecting that more younger persons are working and also that enlarged family incomes have made more shoe purchases possible; and (6) indicative of the rising birth rate during the war, infants' leather shoes have increased more than 5 per cent.

Some of the expanded demand for footwear, especially for women, has been met by the use of leather substitutes accentuating a trend evident before the war. While part-leather and part-fabric shoes have increased only slightly in number during the war, entirely fabric and hence non-rationed shoes have increased about 500 per cent since 1939. Fabric shoes, however, still constitute less than 8 per cent of all shoes used, emphasizing continued civilian dependence upon leather.

SHOE PRODUCTION IN THE UNITED STATES
(thousands of pairs)

Kind of Shoe	1939	1943
Total	424,136	461,573
Leather shoes for civilians	356,383	319,271
Women	167,697	157,861
Men	103,753	83,584
Children	84,933	77,826
Leather shoes for Government	.....	45,663
Fabric shoes	4,937	30,226
Other[1]	62,816	66,413

[1]"Other" includes shoes of part leather and part fabric, athletic shoes, slippers, and footwear not distributed as to kind.

SOURCE: Bureau of the Census.

LEATHER SUPPLIES IN WARTIME

Although general manufacturing showed a definite expansion immediately following the outbreak of war in September 1939, the leather industry did not increase in activity until early in 1941 when heavy military demand and civilian anticipatory buying developed. Until mid-1943, tanning operations were at a moderately high level with production about 20 per cent above 1939. Shoe production experienced a smaller increase, or about 15 per cent, during the same time interval. Raw materials for the industry became increasingly scarce throughout the period.

Since early in the war, the Federal Government has controlled the domestic and imported supply of cattle hides and calf skins. Allocations are made to tanners with instructions as to the nature and disposition of the finished leather. The inability of tanners to meet the existing demand is now attributable more to manpower shortages than to scarcity of raw materials.

Livestock on farms reached a record high at the close of 1943 leading to a rise in production of hides and skins. The War Production Board subsequently eased restrictions on tanning operations to allow tanners to increase supplies, resulting in a slight gain in leather production, but insufficient to satisfy the growing demand since stocks of finished leather have continued to decline. While tanners thus far have generally had sufficient quantities of tanning materials, they are now giving greater attention to the possibilities of developing domestic sources of supply.

The industry's most important problem is manpower, and all stages of production from raw materials to finished products are affected. A major reason given for the labor shortage in certain areas is the industry's inability to compete with the higher wage rates and longer hours at overtime pay prevalent in local war industries.

PROSPECTS FOR THE INDUSTRY

In view of the currently unfavorable labor supply situation in the leather and leather products industry, processing of increasingly abundant hides and skins very likely will not take place in sufficient quantity in the next few months

to alter materially limited leather supplies. Increased production quotas and the easing of general tanning restrictions will not immediately eliminate leather shortages.

While tanners face no important reconversion problems, excess capacity almost certainly will affect adversely the future of tanning. Even with the present extraordinary demand, all tanning facilities are not in use. Further relaxation of restrictions on civilian leather consumption together with improved labor supply conditions will enable tanners to expand production to meet the backlog of demand; thereafter, serious marketing problems very likely will arise. Moreover, new and established substitutes for leather in use during the war, no doubt, have made permanent inroads into the demand for leather. Increased imports after the war may also provide further competition, and with no new substantial outlets for leather presently foreseen, the normal elements of demand will be insufficient to keep tanning at a high level of production.

The postwar outlook for leather footwear manufacturing is more favorable and particularly from a longer point of view. Again, no serious reconversion problems are likely to arise. The end of civilian shoe rationing, which cannot be expected at least for some months, will undoubtedly bring a moderate buying wave. Discharges from the armed services are already increasing the demand for men's shoes. Foreign rehabilitation policy probably will require a period of large shoe exports, but many of these may be obtained from war surpluses. Despite these factors, however, no large growth in shoe manufacturing is to be expected. Demand will, in all probability, continue fairly stable with some gains resulting from aggregate population increases. The prewar trend toward more frequent purchases of cheaper shoes may be resumed.

Producers of specialty leather products, such as handbags and luggage, anticipate much larger production when present restrictions and taxes are removed. Ability to manufacture and ingenuity in devising needed and useful articles made from leather, will determine the future prospects of these manufacturers.

WEATHER THE CRITICAL FACTOR

(Continued from Inside Front Cover)

scarcely needs to be emphasized that crop conditions this year are almost on a "touch and go" basis. For example, the oats crop in Illinois is poor in many areas and in Iowa excessive rains during the second week of June resulted in much of the oats being yellow, flooded, and mudded. There are many indications that the report on oats is overoptimistic. The one substantial note of optimism in the general picture is the bumper wheat crop. In view of the increasing importance of wheat as an animal feed and for alcohol manufacture, this is something to be thankful for. However, during the balance of the growing season crops may suffer serious damage from the hazards of drought and hot winds.

MANPOWER SCARCITIES

(Continued from Page 2)

Iowa's principal city, Des Moines, has had the most sharply varying labor supply situation of any major city in the Midwest experiencing both extremes of the labor market classifications. Des Moines had an acute shortage for a short period early in 1943 when several important plants underwent expansion. Contract cut-backs and cancellations have become so important that a labor surplus currently exists with some indications of possible balance in the near future.

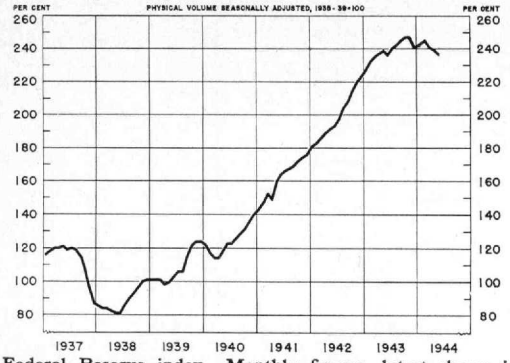
ACUTE SHORTAGES IN ALL DISTRICT STATES

All cities in the district having acute labor shortages are centers of intense war production. Aurora-Elgin, Waukegan, and Chicago Heights-Harvey near Chicago reflect the general pressure of labor upon satellite cities in a metropolitan region of highly industrialized war activity. DeKalb, Moline, Rockford, and Springfield-Decatur are other Illinois Group I areas whose industries are producing essential items ranging from ammunition to aircraft parts. Iowa cities of acute shortage have been few, primarily because the state is largely agricultural. At present only Clinton remains so classified, with the situation in Newton improving recently. Indiana rivals Illinois with nine regions of acute shortage, including Fort Wayne, Logansport, Michigan City-La Porte, and South Bend in the northern part of the state, and Muncie, Anderson, and Richmond near Indianapolis in the heart of Indiana. In Michigan areas, where a variety of highly specialized war products are made, severe manpower shortages have become apparent at different periods. Muskegon has experienced labor stringency since June 1943. Adrian and Monroe entered this same category several months later, but the latter city achieved the status of labor balance again in March of this year. However, it was not until May 1944 that Benton Harbor's situation became acute. Wisconsin's shortage areas include Sturgeon Bay, an important shipbuilding city, and Racine whose production contributes greatly to mechanized warfare.

FEW SURPLUS AREAS

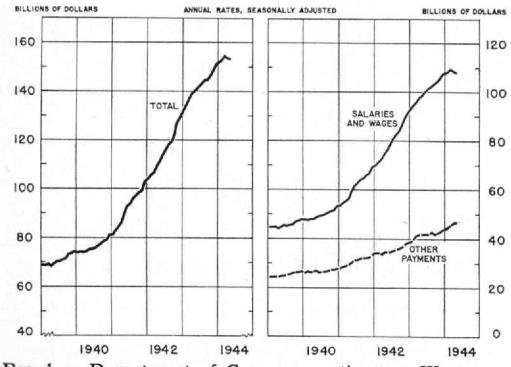
Areas of surplus labor supply have not been numerous in the Seventh District at any time. In most such areas there is little war production either because none has developed or because of contract cutbacks and plant shutdowns. The steadily decreasing number of areas of labor surplus in the district, from 14 in August 1943 to one in the July 1944 classification, has been an indicator of heavy labor demand and diminishing supply throughout the district. Iowa, less industrialized than the other district states, has had the greatest number of centers designated as surplus labor supply areas.

INDUSTRIAL PRODUCTION



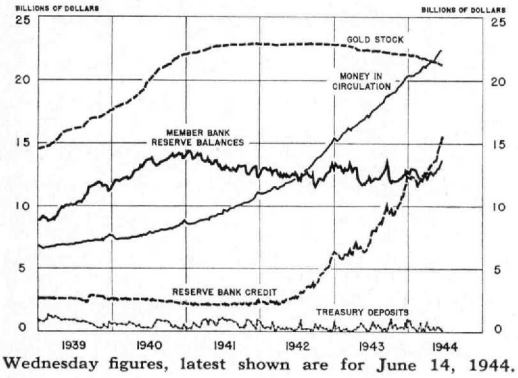
Federal Reserve index. Monthly figures, latest shown is for May, 1944.

INCOME PAYMENTS TO INDIVIDUALS



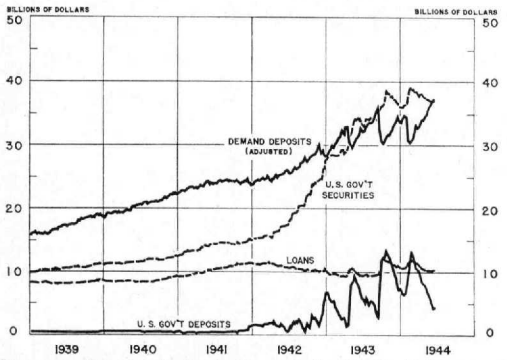
Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for April, 1944.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for June 14, 1944.

MEMBER BANKS IN LEADING CITIES



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for June 14, 1944.

NATIONAL SUMMARY OF CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial activity and employment declined slightly further in May. Value of retail trade was maintained in May and the first three weeks of June and commodity prices showed little change.

Industrial production — Industrial production continued to decline in May and the Board's seasonally adjusted index was 237 per cent of the 1935-39 average as compared with 239 in April. Small declines in output of metal products and nondurable goods accounted for most of the decrease in the total index.

Steel production was maintained at a high rate. Supplies of aluminum and magnesium continued to exceed military requirements after further curtailment of output in May, and relaxation of restrictions on the use of these metals in civilian products was announced on June 18. Activity in munitions industries declined slightly in May. Aircraft producton was at approximately the same daily average rate as in the preceding month. Deliveries of merchant ships declined somewhat from the April rate, reflecting curtailment of Liberty ship construction; the number of Victory ships delivered rose further in May.

Output of lumber and of stone, clay, and glass products declined further in May. Additional Federal control was established over lumber consumption, effective in the third quarter, in order to assure sufficient supplies for essential requirements.

Production of most nondurable goods was likewise somewhat lower in May than in April. Cotton consumption declined 6 per cent from the rate prevailing earlier this year to a level 16 per cent below May 1943. Output of manufactured dairy products showed a large seasonal rise in May while manufacture of most other food products declined somewhat, after allowance for seasonal changes.

Output of crude petroleum and coal continued to rise and iron ore production reached an exceptionally high level for this season of the year.

Distribution — Department store sales in May were maintained at the April level, and the Board's seasonally adjusted index, as recently revised, was 173 per cent of the 1935-39 average. During the first half of June sales continued at about the April-May rate and were 4 per cent larger than in the corresponding period last year.

Railroad freight traffic was maintained at a high level during May and the early part of June.

Commodity prices — Wholesale commodity prices continued to show little change in May and the early part of June. Retail prices showed a further slight increase in May. The wholesale price index and the cost of living index of the Bureau of Labor Statistics were both at the same level as they were in May 1943.

Agriculture — Crop prospects on June 1 were better than on the same date in the last 10 years except 1942. The total wheat crop appeared likely to exceed a billion bushels as compared with a harvest of 836 million bushels in 1943 and 974 million in 1942. Prospects for other grains, however, were not as favorable and, with grain stocks reduced, it is expected that total supplies available to meet food, feed, and industrial needs will continue short. In recent months the feed situation has been eased by generally good condition of the hay crops and pastures.

Bank credit — In the five months from the beginning of the Fourth War Loan Drive to the beginning of the Fifth Drive, Federal Reserve Bank holdings of U. S. Government securities increased by more than 3 billion dollars. Member bank borrowings at Federal Reserve Banks also increased somewhat during the period, and at times exceeded 200 million dollars for the first time in more than a decade. These additions to Reserve Bank credit supplied the market with funds to meet a growth of nearly 2 billion dollars in money in circulation, an increase of 700 million in member bank required reserves, and a loss of gold of 700 million. Excess reserves, which declined to as low as 600 million dollars during the period, amounted to 1.1 billion on June 14.

During the Drive, purchases of Government securities by businesses and individuals will shift deposits to reserve-exempt Government war loan accounts and reduce the amount of reserves that member banks are required to hold. This will result in some further increase in excess reserves and some repurchases of Government securities by member banks from the Reserve Banks.

Adjusted demand deposits at member banks in leading cities have risen by about 5¾ billion dollars since the end of the Fourth Drive and are more than 2¼ billion dollars above the level prevailing prior to that Drive. Time deposits also increased steadily.

Government security holdings at reporting banks declined by close to 2 billion dollars between mid-February and mid-June, following an increase of around 3 billion during the Fourth Drive. Bill holdings declined substantially, paralleling increases in such holdings at the Reserve Banks. Loans to brokers and dealers in securities, which by the end of May had declined well below their early January levels, increased somewhat in the first two weeks of June preparatory to the Drive. Other loans for handling Government securities are close to their pre-Fourth Drive level. Again in the Fifth Drive, as in the previous one, borrowings for speculative purchases will be discouraged.