JANUARY, 1945

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Results of the Sixth War Loan Drive

National Sales Exceed 21 Billion Dollars

With the close of the Sixth War Loan Drive the Treasury completed its third major financing effort of 1944. Though its goal was less than that set for the Fifth Drive, the latest campaign achieved a new sales record—producing 21 billion 621 million dollars through sales of securities to nonbank investors. This amount represents an excess of 54 per cent over the goal of 14 billion dollars set for the drive and an increase of 1 billion dollars over the proceeds of the Fifth War Loan Drive. As in previous drives, emphasis was placed on sales to investors other than banks. Total sales to individuals amounted to 5 billion 900 million dollars, of which approximately 2 billion 900 million dollars were Series E bonds. Corporations and associations topped their previous records with purchases of 15 billion 721 million dollars compared with the 9 billion dollar goal set for them.

Sales of securities included in the drive to investors in the five Seventh District states amounted to 3 billion 241 million dollars—49 per cent above the combined quotas for those states and about 30 million dollars more than sales during the previous drive. In the Sixth Drive each of these states was well over its quota for sales to corporations and to individuals. Series E bonds were also over subscribed.

MEDIUM-TERM SECURITIES POPULAR

The types of securities offered in the Sixth War Loan were identical with those of the previous drive. Besides the series E, F, and G savings bonds and Series C savings notes, the basket included 7/8 per cent certificates, 1¼ per cent notes, 2 per cent bonds of 1952-54 and 2½ per cent bonds of 1966-71. Of these issues the Treasury's 2's were most in demand, and sales of these bonds amounted to 6.9 billion dollars compared with 5.2 billion in the Fifth Drive—a larger increase than that reported for any other type of security. These bonds are attractive to banks seeking investment outlets for idle funds and owe part of their popularity to their eligibility for bank purchase after the drive. The 1¼ per cent notes have similar advantages but sales of these securities were 1.6 billion dollars compared with 1.9 billion dollars in the previous drive—reflecting the growing tendency for both corporations and banks to buy medium-term issues. Sales of certificates, which totaled 4.4 billion dollars were 400 million dollars smaller than in the Fifth War Loan. Combined sales of savings bonds and savings notes were 6 billion dollars but net sales over redemptions for November and December were 3.5 billion dollars, reflecting principally the redemption of savings notes in payment of taxes.

The stronger demand for longer-term issues was apparent in the Seventh District states also. Sales of 2 per cent bonds in the Seventh District states amounted to 679 million dollars or 21 per cent of total sales compared with 15 per cent in the Fifth Drive. Proceeds from the 2½ per cent bonds were also somewhat larger. In contrast to national figures, the largest receipts were from the sale of certificates which totaled 926 million dollars. These, however, constituted a smaller proportion of total sales than in the last drive.

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SIXTH WAR LOAN SALES AND QUOTAS
UNITED STATES AND SEVENTH DISTRICT STATES
(amounts in millions of dollars)

Areas	Grand Total			Individuals: Total			Individuals: Series E			Individuals: Other Issues			Corporations and Associations		
	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota
U. S. total	21,621	14,000	154	5,900	5,000	118	2,868	2,500	115	3,032	2,500	121	15,721	9,000	175
Illinois	1,532	1,034	148	400	351	114	194	174	111	206	177	116	1,132	683	166
Indiana	364	239	152	132	120	110	75	68	110	58	52	111	232	119	195
Iowa	323	178	182	143	98	146	72	53	136	71	45	157	180	80	225
Michigan	635	472	135	250	228	109	148	141	105	101	87	116	385	244	158
Wisconsin	387	253	153	125	107	117	66	55	120	59	52	114	262	146	179
Five state total	3,241	2,176	149	1,050	904	116	555	491	113	495	413	120	2,191	1,272	172

Farm Mortgages Continue Decline

Farmers Use High Incomes to Reduce Debt

Farmers of the nation and the District have applied substantial proportions of their wartime net incomes to the reduction of mortgage obligations against their land. Preliminary estimates of the total farm mortgage debt outstanding as of January 1, 1945, set the total at 5 billion 250 million dollars. This figure indicates a reduction of 1 billion 336 million dollars from the total farm mortgage debt at the beginning of the war, January 1, 1940, a decline of 20 per cent.

The national total farm mortgage debt reached a peak of 10 billion 786 million dollars as of January 1, 1923, and has shown a continuous decline since that date. Of the current wartime decline, nearly two-thirds has been accomplished during the last two years, 1943 and 1944.

The current situation is in sharp contrast to that prevailing during the first World War. In the five years from January 1, 1915 to 1920 the national total increased from 5 billion dollars to nearly 8 billion 500 million dollars, an increase of 70 per cent.

An even greater rate of reduction in the total mortgage debt than the 20 per cent shown for the nation for the five years 1940-45 was the net decline of 23 per cent shown for the total of the five states of the Seventh Federal Reserve District in the same period. The total for the five states declined from 1 billion 892 million dollars in 1940 to an estimated preliminary total of 1 billion 451 million dollars for 1945, a reduction of 441 million dollars.

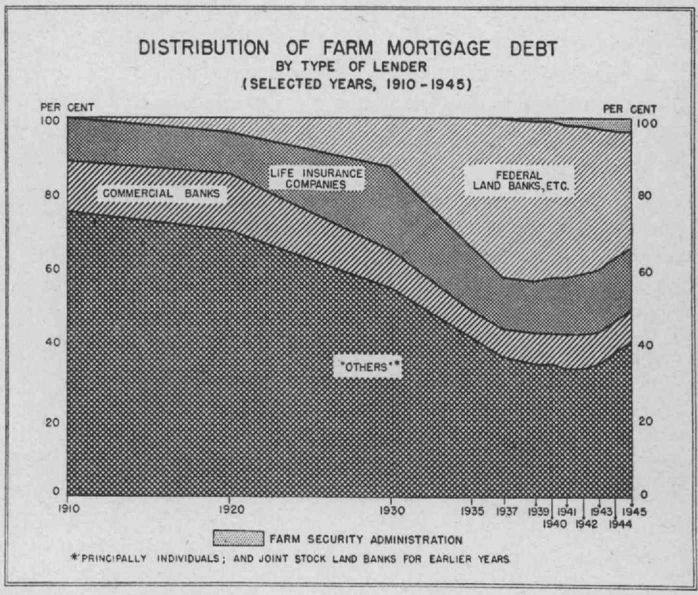
The rate of decline has been the greatest for Illinois farms, with a reduction of one-third in the total for the five year period. The outstanding farm mortgage debt for Illinois farms was estimated at 419 million dollars at the beginning of 1940. This total has been reduced to an estimated 278 million dollars for the first of this year, showing a net reduction of 141 million dollars for the period, and the largest total net reduction shown for any of the five states of the District.

Iowa, the leading agricultural state, has, of course, the largest total farm mortgage debt in the nation. For that state the reduction is estimated to have been 111 million dollars, a net decline of 16 per cent from the 1940 total of 706 million dollars bringing the total for 1945 down to 595 million.

Wisconsin farm owners had in 1940 an estimated farm mortgage debt of 357 million dollars. For the beginning of this year the estimated total is 262 million dollars, indicating a net reduction of 95 million, or slightly over one-fourth.

For Indiana a decline of similar proportions is indicated. The 1940 total of 236 million dollars is estimated to have declined 59 million to a 1945 figure of 177 million dollars, a net reduction of 25 per cent.

Michigan farm mortgage debt shows a reduction of 35



million dollars, or 20 per cent of the 1940 total of 174 million, bringing the estimated 1945 total to 139 million dollars.

GEOGRAPHIC SHIFTS IN DISTRIBUTION OF DEBT

In the history of farm mortgage debt for the nation and the states there have been some shifts in the proportional distribution of the totals held against the land in different geographical regions. During the last war period the five states of the District accounted for about one-third of the national total. In the current war period the same area has accounted for less than 29 per cent of the total. Illinois total debt was about 6½ per cent of the national figure in the earlier period. In recent years this proportion has ranged around 5½ to 6 per cent. In the earlier period the proportion accounted for by the state of Indiana was less than 3 per cent, while for the current wartime period the proportion has risen to about 3½ per cent. For Iowa the World War I proportion was 14 per cent of the national total, compared with slightly over 11 per cent in the last few years. Michigan shows a slight reduction from around 3 per cent in the earlier years to a little over 2½ per cent recently. Comparable proportions for Wisconsin were 6 per cent for the first period and just over 5 per cent for recent years. In general, the mortgage debt against the farms in the states of the Seventh Federal Reserve District has become a smaller proportion of the national total.

MORTGAGE RECORDINGS INCREASING

The figures thus far given on the net reductions in totals of farm mortgage debt outstanding are, of course, only the net difference between mortgages paid off and new mortgages written, or renewals. Data on the trend in mortgage recordings indicate that on the whole the total dollar amounts for all lenders have been rising for the past six or seven years. It is estimated that the dollar amounts of mortgages recorded in 1944 were one-third larger than the figure for 1939 and more than one-fourth larger than the total for 1940.

It appears from the data, however, that this increase in dollar amounts is due primarily to the increase in the average size of mortgage recorded. The number recorded in 1944 was nearly 10 per cent less than in either 1939 or 1940. The average size of mortgage recorded in 1944 was nearly $3,300 for all lenders as compared with $2,200 in 1939 and $2,300 in 1940. According to estimates "individuals" have been the largest group of lenders in recent years both as to number of mortgages recorded and total dollar amounts loaned. This class of lender is estimated to be responsible for 30 to 40 per cent of the total amount of mortgages recorded. The number of mortgages recorded and credited to this group on the whole declined since 1937 but the dollar amount of such mortgages declined only from 1937 to 1940 and has been increasing since 1940. The estimated value of recordings for this group for 1944 was more than 70 per cent larger than the total value in 1940. The average size of loan by this group has increased from about $1,600 in the period 1938-40 to nearly $3,000 in 1944.

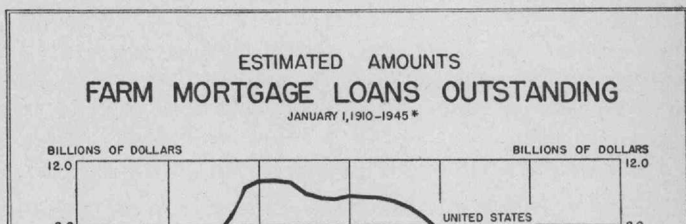
Commercial banks are credited with writing a little over 25 per cent of the total amount of mortgages recorded during recent years. The number of mortgages recorded has declined since 1940 and was 17 per cent less in 1944. The dollar amount of loans credited to this group in 1944 was 20 per cent larger than in 1940. The average size of loan made by this group of lenders has increased steadily from $1,900 in 1938 to over $2,800 in 1944.

Insurance companies account for less than 10 per cent of the total number of mortgages recorded but are credited with between 15 and 20 per cent of the dollar amount of such mortgages. The trend in the *number* of mortgages recorded by life insurance companies during the war period has been fairly stable with a slight tendency downward. The *dollar amount* of these recordings has trended somewhat upward, with 1944 recordings about 15 per cent larger than the figure for 1940. The average size of loan recorded by insurance companies has shown the same upward tendency as has each of the other principal groups of lenders. The average size of mortgage for this group in 1944 was about $7,300 compared with $5,500 for 1938 and 1939 and about $6,000 for 1940 and 1941.

Federal Land Bank and Land Bank Commissioner loans in recent years have accounted for slightly more than 10 per cent of the total number of mortgages recorded and about 10 per cent of the dollar amount of recordings in the past few years. The trend in numbers of mortgage recordings has been, on the whole, downward during the war years, although 1944 estimated recordings were substantially larger in number than in 1943. The dollar amount of mortgage recordings by this class of lender reached a war-time peak in 1941, dropped sharply for 1942, but has increased substantially in the two years since 1942. The average size of loan recorded (taking Federal Land Bank and Land Bank Commissioner loans together) has not shown the same pronounced upward trend as has characterized the other major groups of lenders. The average for 1939 and 1940 was about $5,700, for 1941 and 1943 it was slightly over $5,800, and for 1944 just under $5,700.

SHIFT IN HOLDINGS CONTINUED

Rather marked shifts have taken place in recent years in the proportions of the total farm mortgage debt held by major lending groups. In 1910 life insurance companies and commercial banks together held one-fourth of the total outstanding, with the other three-fourths held by a miscellaneous group consisting mainly of individuals. As between the insurance companies and commercial banks the holdings were about evenly divided. By 1930 the life insurance companies held approximately 22 per cent of the total, commercial banks 10 per cent, and the Federal Land Banks and related agencies 12.5 per cent, with only 55 per cent held by others. With the organization of the Farm Credit Administration in 1934 a pronounced shift in the holdings among lending groups occurred. By 1935 Federal Land Banks and Land Bank Commissioner loans constituted slightly more than one-third of the total outstanding. At the same time holdings by life insurance companies had drop-



*1944 and 1945 are preliminary estimates, 1944 by Bureau of Agricultural Economics, 1945 by the Federal Reserve Bank of Chicago.

ped to 17 per cent and by commercial banks to less than seven per cent. The holdings by the Federal Land Banks and Land Bank Commissioner reached a peak of 42 per cent of the total at the beginning of 1939. The proportion has declined steadily since that time and at the beginning of this year they were estimated to hold slightly less than 30 per cent of the total farm mortgage debt outstanding. The Farm Security Administration entered the picture in 1938 and their holdings have increased steadily. At the beginning of 1945 they were estimated to hold 3.6 per cent of the total.

Holdings of life insurance companies decreased from 22 per cent in 1930 to just over 14 per cent in 1937, but since that date their proportional holdings have tended to increase to above 17 per cent for 1944 and 1945. Holdings by commercial banks fell below 7 per cent in 1935-37 and have since risen to a level of about 8 per cent of the total, at which figure they have remained for the last five or six years.

Joint Stock Land Banks held 5.5 to 6.5 per cent of the total in the period 1930-34, but with the advent of the Farm Credit Administration a continuous reduction has taken place as these joint stock banks have been liquidated and today their holdings are insignificant. The miscellaneous group of lenders, principally individuals, which held practically one-half of the total mortgage debt outstanding in the early 1930's has gradually decreased in relative importance to the beginning of 1941 when they accounted for one-third of the total farm mortgage debt. Since that date their relative importance has tended to increase and it is estimated that at the beginning of this year they again hold more than 40 per cent of the total.

INTEREST RATES CONTINUE AT LOWER LEVELS

Contract rates of interest on farm mortgages averaged 6.4 per cent for the United States in 1923. Since then the rate has gradually declined to 6 per cent for the early 1930's and to 4.5 per cent during the current war years. Rates for Illinois have always been slightly lower than the national average, reaching a peak of 6.1 per cent in 1923, declining to 5.7 per cent for the early 1930's, and to 4.1 per cent during the past few years. Rates for Indiana have been slightly above those for Illinois but below the national average. In the last few years they have averaged about the same as the national figure at 4.5 per cent. Contract rates for the state of Iowa have been significantly below the national figure, slightly lower than for Illinois in the early '30's, but in the last few years have run about 4.2 per cent. Rates for Michigan in the early '30's were very slightly above the United States average and during the past five years have been stable at 4.7 per cent. Contract rates for the state of Wisconsin have been 5 to 10 per cent below the national figure until very recent years and during the last five years have ranged around 4.2 to 4.3 per cent.

LIQUID POSITION OF FARMERS

As a result of favorable farm incomes the financial status of farmers has been greatly improved during the war period. According to the Bureau of Agricultural Economics in a recent study, the consolidated comparative balance sheet of the farms of the United States showed total assets valued at just under 53 billion dollars as of January 1, 1940. Farm real estate accounted at that time for 33 billion 600 million dollars of this total. Of the non-real estate items in the evaluation livestock was estimated to be worth 5 billion dollars, machinery and equipment, 3 billion dollars, and household equipment a little over 4 billion dollars. As of January 1, 1944, the farm real estate was estimated to have increased to a value of over 45 billion 500 million dollars, while the value of livestock on farms had nearly doubled and the worth of machinery and equipment was up one-third.

Farmers were estimated to have had, in 1940, 4 billion dollars in currency and bank deposits and roughly a quarter of a billion dollars in United States savings bonds. By January 1, 1944, the total of currency and deposits in the hands of farmers had expanded to nearly 10 billion dollars, or nearly 2.5 times the 1940 figure. From every indication these items continued to grow substantially during 1944. During the same four-year period the balance sheet shows a ten-fold increase in holdings of United States savings bonds, rising to a total of approximately 2 billion 500 million dollars at the beginning of 1944. On the liabilities and equity side of the balance sheet it appears that farmers' equity in real estate rose from 27 to 40 billion dollars and equity in non-real estate property doubled, rising from 17 billion dollars in 1940 to 34 billion dollars in 1944.

There are some dangers in drawing conclusions from this sort of balance sheet. For example, the increase of 12 billion dollars in the value of farm real estate could easily evaporate were farm prices to decline materially. Similar qualifications apply to the increases in the value of other asset items where such increases are due to placing a higher "price" tag on the items merely as a reflection of current market conditions. Such qualifications do not apply to the increases in currency, bank deposits, and war bonds held by farmers. The total of these items increased nearly 8 billion dollars for the four-year period ending January 1, 1944, and farmer holdings of such items increased further during 1944. The increase in these liquid assets of farmers spells out a healthy situation from the standpoint of ability to weather less favorable economic conditions. In 1940 the total of these liquid assets was less than one-half the indebtedness of farmers and less than two-thirds of the farm mortgages indebtedness. By 1944 the total of such assets was nearly one-third more than enough to meet the total debt owed, and more than twice the farm mortgage debt. Never before in recent farm history have the farmers of the nation been in such a sound and liquid position.

How well farmers will be able to maintain this improved position will, of course, depend on how well agriculture prospers in the next few years. There will no doubt be occasions when farmers will want to draw on these accumulations in the postwar years, and some dangers involved in how they are handled, but it appears likely that farmers will give a good account of themselves in managing these savings.

Construction Declines Further In 1944

Small Building Activity Foreseen Until V-E Day

Construction contracts awarded in the Seventh Federal Reserve District during 1944 totaled 334 million dollars, the smallest annual volume since 1935. The 1944 level was 20 per cent below 1943, and 73 per cent under 1942, the all-time record year. During 1944, however, the Seventh District, which comprises most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa, had a larger dollar amount of construction contracts than any other Federal Reserve District, aggregating 17 per cent of all such contracts awarded in the nation.

The immediate outlook for building in the Midwest cannot be considered favorable for several important reasons: (1) nearly all of the vast wartime construction program has been completed except for some additional plants and allied housing for war workers needed in the production of newly developed or redesigned weapons; (2) the general manpower shortage obviously limits construction activity, particularly in light of the recent directive requiring War Production Board (WPB) approval of all future civilian and military building in acute labor shortage areas, in which the Seventh District presently leads all other districts; (3) supplies of lumber and certain other building materials are very limited; and (4) in the light of these conditions, numerous related wartime priority and conservation regulations are certain to remain in force until at least some time after V-E Day.

The WPB now estimates that if the war continues both in Europe and the Pacific throughout 1945, national construction activity for this year will be about 18 per cent below the 1944 level. If the war in Europe ends before spring, but the Japanese war continues throughout 1945, the WPB estimates that construction may exceed last year's volume by a very slight margin. On the basis of information now available it is fairly evident that 1945 will not be a big year for construction in the Midwest or the nation as a whole. This will be true particularly in comparison with either the highest war years or the early postwar years when the existing backlog for housing and public works is expected to be carried into a substantial building program.

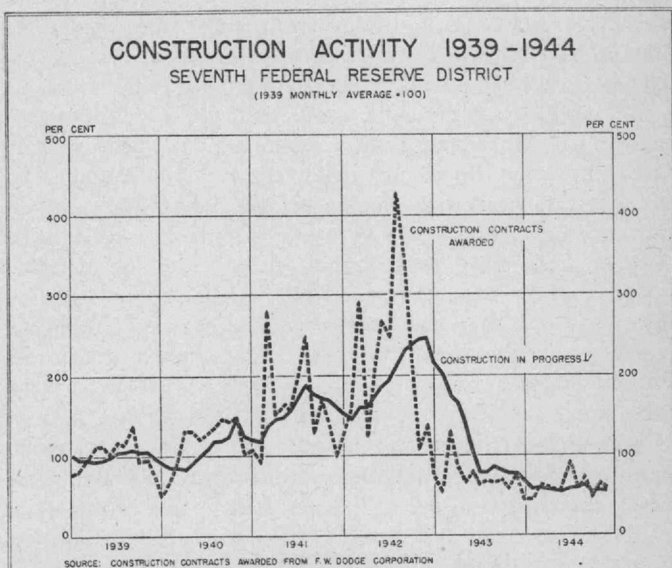
WAR PROGRAM NEARS COMPLETION

By the end of 1944 the construction industry had completed the bulk of its war program, which, in the Midwest, got underway at the outset of the defense period but reached a peak somewhat later than in the nation as a whole. Most of the 1944 construction work in the District was for industrial structures and defense housing, with only small additions to military and naval installations. Thus, the past year witnessed the near completion of the vast war building boom which began in 1940 with the construction of large Army and Navy bases and cantonments; continued with the erection of industrial plants for the production of defensive weapons, followed by more war plants for offensive weapons; and was marked in 1943-44 by large housing projects for workers who migrated to war production centers.

The different timing in wartime construction in the Seventh District compared with the nation as a whole is attributable to (1) substantial building of powder and related ordnance plants in 1940-41, located in this District for security reasons, (2) a lag in 1942 as shipbuilding and aircraft production expanded greatly in the nation's coastal areas, and (3) the huge industrial structure-defense housing program launched in late 1942 and 1943 in the District to provide new and improved war weapons found necessary after battlefront experience and to take advantage of underutilized manpower then available in the Midwest.

WARTIME BUILDING CHANGES

The major change which has occurred within the District's construction industry since Pearl Harbor has been the marked shift from residential building to a concentration in heavy nonresidential construction for industrial and military purposes. Also apparent is the shift from many buyers to a few, dominated by the Federal Government. Nonresidential construction contracts, excluding public works and utilities, which accounted for 27 per cent of total Seventh District awards in 1939, increased steadily to 53 per cent in 1942, subsequently declining to 40 per cent in 1943, but rising to 46 per cent in 1944.



[1] "Construction in Progress" adjusts contract award data to take account of time required to complete each major type of contract.

In 1942, the first full year of American participation in the war, nonresidential construction awards in the Seventh District totaled 660 million dollars, a gain of 63 per cent over the previous year, while residential contracts were 295 million dollars, a decrease of 12 per cent from 1941. In 1943, nonresidential construction, measured by contracts awarded, declined at a faster rate than residential construction, indicating the renewed importance of residences in the form of defense housing. Contracts for nonresidential building in 1944 totaled 154 million dollars compared with 89 million dollars for residences and 91 million dollars for public works and utilities.

Manufacturing buildings have not only continued to dominate nonresidential construction throughout the period since 1940, but have constituted the largest single type of construction in the Seventh District during 1942-44. This striking growth is revealed in contract values which rose from 89 million dollars in 1940 to a record high of 521 million dollars in 1942, but which subsequently declined to 94 million dollars in 1944. The manufacturing proportion of total Seventh District construction increased from 14 per cent to 42 per cent during 1940-42, and the expanded heavy ordnance and aircraft programs kept this proportion above 28 per cent in 1944.

Commercial buildings, which exceeded manufacturing plants in value of construction contract awards in 1939, have declined sharply since Pearl Harbor as a result of wartime building restrictions and some temporary lessening of demand. The 1944 contract volume of 14 million dollars was 80 per cent under the 1941 level.

With the exception of hospitals and institutional buildings all other types of construction, including educational, recreational, public, and religious buildings, have declined since the outbreak of war.

Residential building, as indicated, has participated heavily in the defense-war construction program. After Pearl Harbor the emphasis in residential building shifted to an important degree from permanent to more temporary dwellings for workers in new and expanded war production areas. Single family units for owner occupancy have fallen to negligible importance, but single family houses for sale or rent have remained the key element in residential construction. The role of multiple-unit housing during the war is evident in the substantial growth of two-family dwellings and apartment buildings in 1941-43. While unprecedented farm incomes have increased the demand for farm buildings, more urgent urban-industrial needs commonly have limited severely the amount of farm construction work during the war.

CONSTRUCTION IN PROGRESS

Although construction contract data, such as provided by the F. W. Dodge Corporation, provide an excellent index of building activity, it must be recognized that construction contract awards do not measure actual construction in progress in terms of materials used, employment, or rate of completion, but rather indicate the volume of building about to be started. During war the time between the awarding of the contracts and the finished building is particularly significant because this interval indicates the delay before actual training of the armed forces and war production can begin.

To measure total construction in progress, monthly contract awards can be adjusted to indicate the time required to complete each major type of contract. The resultant series, which includes the weight of contracts so long as they are known or estimated to be in force, indicates the level of actual rather than anticipated construction.

In the Seventh District, construction in progress reached a post-Pearl Harbor peak in December 1942, four months later than the high point in contract awards, reflecting heavy construction activity throughout much of 1943. On a contract award basis it would appear that construction activity reached a low level early in 1943. Equally significant in measuring the wartime upsurge in building is the more regular and realistic trend of construction in progress compared with the unadjusted contract award series which is much more sharply influenced by large individual construction projects.

CHICAGO LEADS IN CONSTRUCTION

The importance of urban-industrial construction in the Seventh District since Pearl Harbor (through 1944) is indicated by the substantial proportion, 38 per cent, of total construction contracts awarded within the five counties containing the five largest cities. Chicago (Cook County, Illinois) has had the largest wartime construction program, aggregating 364 million dollars, or 18 per cent of the District total. Detroit (Wayne County, Michigan) with awards valued at 240 million dollars ranks second, followed by Milwaukee (Milwaukee County, Wisconsin), 67 million dollars; Indianapolis (Marion County, Indiana), 61 million dollars; and Des Moines (Polk County, Iowa), 29 million dollars. These five counties also have had 39 per cent of total District nonresidential contracts, 53 per cent of all residential contracts, but only 19 per cent of construction awards for public works and power utilities.

Chicago's leadership is attributable principally to nonresidential construction and more specifically to new industrial structures which have totaled about 200 million dollars since Pearl Harbor, or about 27 per cent of all such contracts in the Seventh District. In Wayne County, Michigan, residential construction contracts have been twice as large as nonresidential contracts. This relationship, however, is largely the result of taking into consideration only one county in the larger Detroit industrial area, which also includes Oakland and Macomb counties where many new and large industrial structures have been built since Pearl Harbor.

The trend of construction contract awards since 1939 has been very similar in Chicago, Milwaukee, and Indianapolis. Total construction and nonresidential awards in these cities reached record levels in 1942 following the outbreak of war,

(*Continued on Page 7*)

The President's Budget Messsage

Turning Point in War Finance Program

Without making any prediction as to the length of the war, the President's budget message for the fiscal year 1946, as reported to Congress on January 9, indicated that a turning point has been reached in the war financing program. The tentative estimate of 83 billion dollars to cover total Government expenditures in fiscal 1946 is 17 billion dollars lower than the estimated 100 billion dollar peak for the current year, and represents the first sizable reduction in expenditures since the beginning of the defense program in 1940.

Of the 83 billion dollars estimated for total expenditures, 70 billion, or approximately 84 per cent, has been designated for direct war outlays. This represents a decline of 17 billion dollars from the current fiscal year. Actually, the President suggested a range of from 60 billion to 80 billion dollars for war expenditure, depending on the possible turn in war events. Should the war in Europe end well before June 30, 1946, the estimate would no doubt be revised downward. The sharp reduction from the current year is mainly due to a shift from a "build-up" basis of war production to a "maintenance" basis, as termed by Harold D. Smith, Director of the Budget. Initial equipment for the Army and Navy is nearly completed and the huge war building program almost ended. This factor is counteracted to some extent, however, by the increasing Treasury burden of pay and subsistence costs and increasing mustering-out payments. Of the total estimate for war expenditures, 39 billion dollars was designated for Army expenditure, 22 billion dollars for Navy, and 2 billion dollars for Maritime Commission. If the 70 billion dollar estimate for total war expenses proves to be correct, by mid-1946 total expenditures by this country for war purposes will amount to 360 billion dollars out of authorizations and appropriations of 450 billion, 36 billion dollars of which have been for lend-lease purposes.

Approximately 13 billion dollars was requested by the President for non-war purposes, ordinary Government expenditures accounting for 3 billion dollars of this amount. The remaining portion was designated for what the President termed the "three major aftermath of war" items. The most important of these is interest on the public debt for which 4 billion 500 million dollars has been requested. Veterans' benefits accounted for 2 billion 600 million dollars —more than double the expected amount for the current year. Refunds to taxpayers, the third item, accounted for 2 billion 700 million dollars, about 1 billion of which will go to individuals because the withholding tax has taken more than the proper amount of their income taxes. The rest will go to corporations, 1 billion dollars being set aside as provided in the law for 10 per cent postwar refunds of excess profits taxes.

Although expenditures were estimated at 83 billion dollars, the President asked Congress for 87 billion dollars in appropriations, of which 73 billion was set aside for war purposes. War appropriations in a given period do not necessarily coincide with war spending because funds obligated in one year are often spent in a later year. Thus in the fiscal year 1944 a record 128 billion dollars was appropriated for all purposes, but total spending was only 95 billion. In the present fiscal year, 1945, appropriations are expected to be 97 billion dollars, while spending is expected to reach 100 billion.

TAX RECEIPTS

Budget estimates indicate that in the fiscal year 1946 the Treasury will for the first time during the war suffer a sharp drop in tax receipts due primarily to reduced war spending by the Government which will be reflected in smaller war profits and individual incomes. As compared with actual tax receipts of 44 billion 100 million dollars in the fiscal year 1944 and expected receipts of 45 billion 700 million dollars in the current year, the budget estimates receipts of 41 billion 300 million dollars in fiscal 1946. This is based on the assumptions that tax rates remain unchanged and that no

GOVERNMENT EXPENDITURES AND RECEIPTS

Fiscal Years 1944-1946

(in billions of dollars)

	1946 Estimated	1945 Estimated	1944 Actual
General and special accounts—			
Expenditures:			
War activities	69.4	88.0	87.0
Interest on public debt	4.5	3.7	2.6
Other activities	8.6	7.2	4.1
Total expenditures, general and special accounts	82.5	98.9	93.7
Net receipts	41.2	45.7	44.1
Net deficit	41.3	53.2	49.6
Government corporations and credit agencies net expenditures	1.2	2.7	4.4
Public debt at beginning of year	251.8	201.0	136.7
Net deficit	41.3	53.2	49.6
Government agency expenditures less trust accounts net receipts	1.2	2.7	4.1
Change in Treasury cash balance	— 2.0	— 5.0	10.7
Increase in public debt during year	40.5	50.8	64.3
Public debt at end of year	292.3	251.8	201.0

TREASURY RECEIPTS FROM TAXATION AND FROM BORROWING

(amounts in billions)

Fiscal Year	Total Receipts	Tax Receipts		Borrowings*	
	Amount	Amount	Per Cent	Amount	Per Cent
1941	$ 14.4	$ 7.6	52.8	$ 6.8	47.2
1942	34.5	12.8	37.1	21.7	62.9
1943	86.1	22.3	25.9	63.8	74.1
1944	105.9	44.1	41.6	61.8	58.4
1945 (e)	95.2	45.7	48.0	49.5	52.0
1946 (e)	81.8	41.3	50.5	40.5	49.5

(e) Estimated

* Based on changes in direct and fully guaranteed debt.

new taxes will be introduced. Individuals are expected to pay 3 billion 300 million dollars less in taxes in 1946 than in the current fiscal year. Corporations will pay 700 million dollars less in direct taxes, and excise taxes will be down 100 million. Businesses will have moved forward as the largest contributor to Federal Government revenues, a position held in early war years by individual taxpayers. Corporations will pay an estimated 16 billion 300 million dollars in direct taxes—a figure which is lower than the current year figure of 17 billion dollars, but higher than next year's estimated individual tax payments of 15 billion 600 million dollars.

TREASURY FINANCE REQUIREMENTS

Even with smaller tax receipts, Treasury borrowings are estimated to drop 11 billion dollars in fiscal 1946 from the expected 51 billion dollar level this year. Of the estimated 40 billion dollars in required borrowing in 1946, 5 billion dollars is expected to be absorbed by investment of Federal trust funds, leaving a residue of some 35 billion dollars to be borrowed from individuals and financial and other institutions.

Revised budget estimates for the current year indicate that the amount of Treasury new money needed by the Treasury for the first six months of 1945 will be less than the actual amount raised in the closing six months of 1944. This reduction is due primarily to the success of the Sixth War Loan Drive, which enabled the Treasury to begin 1945 with a General Fund balance of 22 billion dollars. It is estimated that this balance will be reduced to 15 billion 100 million dollars by June 30, 1945.

It now appears that the Federal direct and fully guaranteed debt will increase some 20 billion dollars in the first six months of calendar year 1945 as against 29 billion 500 million dollars in the last six months of 1944. Of this 20 billion dollars about 2 billion will be financed by the sale of special issues to Government trust funds, leaving roughly 18 billion dollars in new money to be raised by the sale of savings bonds, tax notes, and open market issues. In addition to this new money, the Treasury will carry out a considerable amount of refunding. The amount of Treasury direct and guaranteed issues, excluding Treasury bills, due or callable in the first six months of 1945 totals approximately 22 billion.

The volume of Treasury financial needs for this fiscal year and the next compared with the actual amounts for the fiscal years 1941 through 1944 are shown in the accompanying table. It can be seen that new money borrowing reached a peak in 1943 when the direct and guaranteed debt increased 63 billion 800 million dollars. A slight reduction from this amount took place in 1944, and estimates for this and next year show a steady decline in the volume to be raised even under the assumption of the war continuing through mid-1946.

By the end of 1944 the public debt was 232 billion dollars. Budget estimates anticipate a total debt of approximately 252 billion dollars by July 1, 1945. Borrowing of 40 billion dollars in fiscal year 1946, as tentatively suggested by the President, would bring the debt up to 292 billion by July 1946, a development which would, of course, require a further boost in the debt limit. Legislation to raise the debt limit was requested by the President in the budget message.

CONSTRUCTION DECLINES

(*Continued from Page 5*)

but the residential peaks came in 1941 before wartime private building restrictions became effective. In Detroit and Des Moines, however, early defense activity brought the highest contract award levels in 1941. In Detroit the peak in residential awards was reached in 1940.

ROLE OF GOVERNMENT FINANCING

Since 1940, public funds, especially those provided by the Federal Government, have been used to finance the major portion of construction in the Seventh District and the nation. The proportion of total contract awards publicly-financed in the Seventh District increased from 33 per cent in 1940 to 81 per cent in 1942, and has since remained above 60 per cent. Publicly-financed construction has been slightly more important nationally than in the Seventh District throughout the period since 1940.

Government participation in the unprecedented industrial expansion program in the Seventh District caused the publicly-financed proportion of all nonresidential contracts to increase from 26 per cent in 1940 to 92 per cent in 1942; and despite the sharp decline in industrial building, this proportion in 1944 was 65 per cent. Residential building, normally financed about 90 per cent with private funds, had 43 per cent public participation in 1942 and 22 per cent in 1944.

SIXTH WAR LOAN DRIVE

(*Continued from Inside Front Cover*)

Besides the sales of securities credited to the war loan drive, the Treasury obtained additional funds through subscriptions of commercial banks, based on their time deposits, of 1 billion 14 million dollars, of which 886 million were for 2 per cent bonds. Another 767 million dollars of bonds were sold to Treasury investment accounts. The increase in Treasury bills outstanding in the month of November yielded an additional 400 million dollars.

BANK PARTICIPATION CONTINUED

Despite the exclusion of banks from direct participation in the Sixth War Loan and the Treasury's request that banks refrain from making loans on Governments for speculative purposes and from accepting subscriptions which were sure to be later sold to the banks, expansion of bank credit was an important source of funds used by nonbank investors in the purchase of Sixth War Loan securities. Indirect bank participation in the drives takes two forms—purchase by banks of outstanding securities sold in the market by private investors and loans for purchasing or carrying U. S. Government securities. Because of local sales pressure during each drive, some firms and individuals without currently available funds sell securities acquired during previous drives and use the proceeds to subscribe to the new issues. Furthermore, the demand for the new Governments after each drive, as banks purchase them in the open market, has tended to encourage purchases of the war loan issues in anticipation of resales at a premium.

Measured by the accounts of weekly reporting member banks in 101 cities, the expansion of bank credit in the Sixth Drive was roughly comparable in amount to that of the Fifth. The accompanying table indicates the increase in holdings of Governments other than Treasury bills and loans on Governments for corresponding periods of the last three drives. It will be noted that the composition of the increase in the total amount of credit has shifted considerably in the Sixth War Loan. The Treasury achieved some measure of success in its attempt to curtail loans for speculative purposes—the increase during the period in loans on Governments being about 1.7 billion dollars compared with 1.9 billion dollars in the previous drive. The outstanding amount of these loans, however, reached a new high of 3.1 billion dollars in the Sixth Drive. Certificates and notes must be considered together due to the exchange of certificates for notes over the December 1 certificate maturity. These securities together made up a smaller proportion of the total increase in Governments while the expansion of bond holdings was more than 600 million dollars greater during the Sixth Drive.

For the entire banking system credit expansion for November and December was probably between 9 and 10 billion dollars. According to our estimates, based on the change in holdings of Governments by the reporting banks in 100 cities outside New York, Government securities of all commercial banks increased about 7 to 8 billion dollars. Federal Reserve Bank holdings rose 1 billion 459 million dollars—yielding a total of between 8.5 and 9.5 billion dollars for the banking system compared with 9.5 billion dollars in the last drive. When the 1 billion 534 million dollar increase in loans on Governments at reporting banks for this two month period is added to these amounts, the total increase in bank credit may be estimated at between 10 and 11 billion dollars. Of this amount 1 billion dollars was offered to banks directly.

BANK RESERVES AFFECTED

The familiar war loan drive shift from private deposits to reserve-free war loan accounts released bank reserves and thus enabled banks to increase their loans and purchase the Governments offered by nonbank investors. This was particularly true for city banks where excess reserves have been maintained close to zero. The decline in demand deposits-adjusted and time deposits of reporting banks in 101 cities, as customers drew down their accounts in payment for the new Treasury issues, was 4 billion 149 million dollars from November 22 through December 27. During the same period United States Government deposits rose 9 billion 238 million dollars. Increased loans and investments, the proceeds of which were used to place subscriptions for securities through banks' war loan accounts, were responsible for the greater amount of change in Government deposits. This type of transaction enabled banks to build up their portfolios without affecting their reserve positions.

The decline in required reserves of all member banks during the drive amounted to about 900 million dollars. Part of this was reflected in the rise in excess reserves to a level of about 1.3 billion dollars, most of which was in country banks, from a low of 800 million dollars prior to the drive. In addition to the funds absorbed by the purchase of outstanding securities in the open market, part of the reserves released were used to replenish bill portfolios and to repay borrowings from Reserve Banks.

The Federal Reserve Banks continued to stabilize the market and to supply reserves to member banks where needed by increasing their holdings of Governments. Almost all of the 1.5 billion dollar increase in their holdings was in certificates and notes which banks are using more extensively in place of bills to adjust their reserve positions.

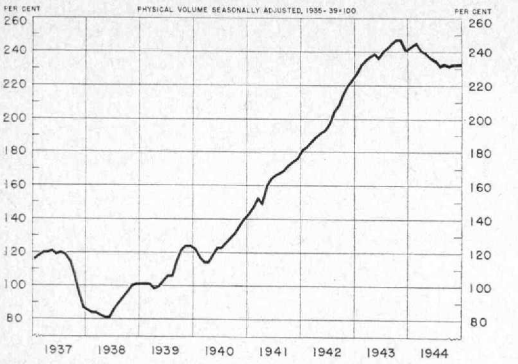
INCREASE IN HOLDINGS OF U. S. GOVERNMENT SECURITIES AND LOANS ON GOVERNMENTS DURING WAR LOAN DRIVES*

Weekly Reporting Banks in 101 Cities of the U. S. (millions of dollars)

	Sixth Drive	Fifth Drive	Fourth Drive
Certificates	107	2,212	366
Notes and guaranteed	2,022	333	982
Bonds	1,631	1,019	812
Loans on Governments	1,696	1,916	976
Total	5,456	5,480	3,136

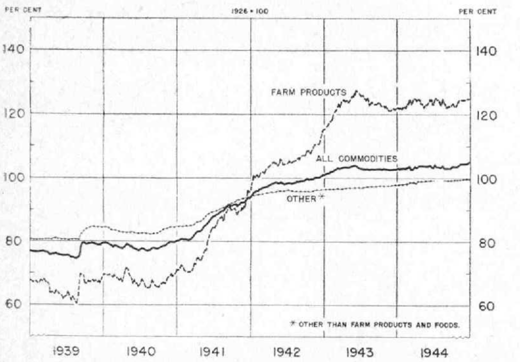
*The periods covered are January 5 to February 16 for the Fourth Drive; May 31 to July 12 for the Fifth Drive; and November 8 to December 20 for the Sixth Drive.

INDUSTRIAL PRODUCTION



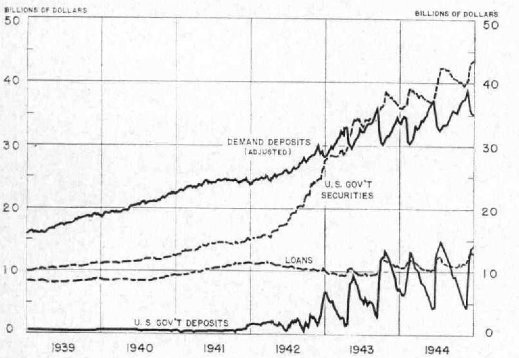
Federal Reserve index. Monthly figures, latest shown is for December, 1944.

WHOLESALE PRICES



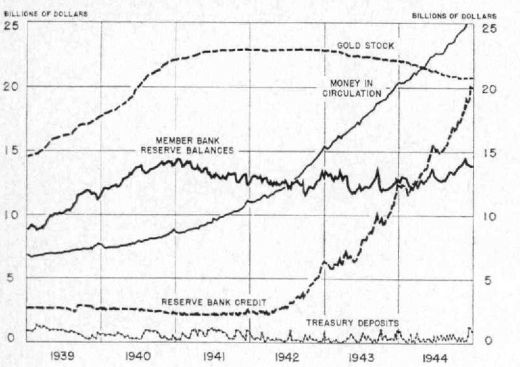
Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending December 30, 1944.

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 December 27, 1944.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for December 27, 1944.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Production and employment at factories increased somewhat in December. Retail buying was exceptionally active in December and the first half of January and wholesale commodity prices advanced.

Industrial production — Total industrial production was maintained in December at the level of the preceding month, which was 232 per cent of the 1935-39 average, according to the Board's index. Manufacturing output showed a slight rise because of increased output of war products, while minerals production declined, reflecting a sharp drop in coal production.

Gains over the November levels of activity in the machinery, transportation equipment, chemicals, petroleum refining, and rubber industries followed a renewed drive to expand output of critical munitions. Military events in December resulted in higher production schedules for munitions and in additional Federal measures to assure manpower for war output and to increase inductions into the armed services. Stringent limits were placed on the use of metals in civilian products under the programs initiated last fall.

Output of metals decreased somewhat further in December. In the first three weeks of January steel production continued to decline, partly because of severe weather conditions. Output of aluminum has been held at a level of about 90 million pounds per month since last autumn. The curtailment of aluminum sheet production during 1944 was reported in January to have led to a critical supply situation for this product in the light of the recently raised aircraft schedule.

Lumber production showed the usual seasonal decline in December. Output for the year 1944 was about 5 per cent below 1943, and a further decline is expected in 1945 due to continued shortages of manpower and equipment.

Cotton consumption and output of manufactured foods were maintained in December at the level of the preceding month. There were declines in shoe production and in activity at paper mills.

Output of coal in December was about 12 per cent below average production in the preceding 11 months. In order to assure supplies to meet the most essential needs, restrictions on less essential civilian uses of coal were instituted in January. Crude petroleum production was maintained in December in large volume, while output of iron ore showed the large seasonal decline customary in this month.

Distribution—During the November-December Christmas shopping season department store sales rose to new high levels and were 15 per cent larger than in the corresponding period a year ago. The high level of sales was maintained in the first half of January, taking into account usual seasonal changes in trade.

Carloadings of railroad freight declined more than usual in December. During the first two weeks of January loadings were 5 per cent less than during the same period a year ago, owing to decreases in all classes of freight except miscellaneous shipments.

Commodity prices — The general level of wholesale commodity prices advanced somewhat from the early part of December to the middle of January. Prices of most farm products were higher. After the middle of January grains and cotton declined but were still above early December levels. Steel scrap, which had been considerably below ceiling levels in the autumn, showed a sharp price rise. Prices of nonferrous metal scrap, cement, and various other industrial materials also increased in December and the early part of January.

Bank credit — In the four weeks ended January 17, Government security holdings at weekly reporting member banks increased further. Loans for purchasing and carrying Government securities declined from the level reached during the Sixth War Loan Drive; most of the decline was in the loans to customers, but loans to brokers and dealers also were reduced moderately. The Government securities added to reporting member bank holdings in this period consisted mainly of bonds and bills.

Excess reserves held by member banks declined relatively little from the peak reached during the Sixth War Loan Drive. Reserve requirements increased, but member bank reserve balances also increased by approximately the same amount. Spending of Treasury balances and a reduction of nonmember deposits at Reserve Banks more than offset a decline in holdings of Government securities by the Federal Reserve Banks. Currency in circulation declined 130 million dollars during the three weeks following the Christmas peak, the largest decline for any corresponding period since early 1942.

Following the Sixth War Loan Drive, adjusted demand deposits renewed their increase, and time deposits increased at a more rapid rate than demand deposits. Between war loan drives, time deposits in all banks have been increasing at the rate of almost three-quarters of a billion dollars a month.

SEVENTH FEDERAL

WIS MICH
IOWA 7-G
ILL IND

RESERVE DISTRICT