Output at factories and mines increased considerably in November and activity continued to expand in most other lines. Value of retail sales reached new record rates in November and the early part of December reflecting in part further increases in prices.

**Industrial Production**—Output in most industries showed important gains in November and the Board’s index of industrial production advanced about 6 per cent. The index, at a level of 172 per cent, or the 1935-39 average, was about the same as in September and in the autumn of 1941. Output for civilian use in November, especially of fuels, industrial materials, and producers’ equipment, was larger than in those earlier periods. Production for civilians of many finished consumer products, however, like automobiles, radios, clothing, and shoes, while much higher in November than in September, was still greatly reduced from 1941 levels.

Steel production showed a large rise during November and in the first three weeks of December output was scheduled at an average rate of 83 per cent of capacity, which was higher than the November average. Activity at shipyards continued to decline considerably in November but increases occurred in most other metal fabricating industries. Further increases in output were indicated in plants producing electrical products and machinery and in the railroad equipment and automobile parts and assembly industries. Automobile production, however, was curtailed sharply in the last week of November and the first half of December by a strike in the plants of a major producer.

Lumber and glass production were at low levels in November owing partly also to industrial disputes. In the case of lumber, however, output in recent months before the West Coast strikes was below 1939 levels and one-third less than the rate in 1941.

Production of most nondurable manufactures and of fuels increased from October to November reflecting increased supplies of materials and labor and the end of work stoppages in the petroleum and coal industries as well as strong demand generally for these and most other goods for civilian use.

Incomes received by agriculture, business, and consumers appear to have continued to rise in November as a result of the widespread increases in production and employment and further rises in prices and wage rates. Payments to unemployed industrial workers and veterans also increased somewhat in November.

Employment in nonagricultural establishments rose by over 300,000 workers in November, after allowing for seasonal changes, reflecting increases in all major lines except Federal war agencies. A further decline of about 100,000 workers in munitions industries was more than offset by gains in employment in other manufacturing industries, mostly in reconverted metal-products plants. Employment in the trades and services, construction, and various other lines showed relatively larger increases than in manufacturing.

**Distribution**—Department store sales increased sharply in November and the Board’s seasonally adjusted index rose to a record level of 228 per cent of the 1935-39 average as compared with 213 in October. November sales were 11 per cent larger than last year and in the first half of December sales continued to show about the same increase. Sales at some other types of retail stores, especially those selling automotive supplies, men’s apparel, furniture, building materials, and hardware, have recently shown much larger increases than department stores, while sales of foods and various other products have shown somewhat smaller increases.

**Bank Credit**—Loans and investments at banks in 111 leading cities increased by over 7 billion dollars during the six weeks ended December 12; this period covered the major part of the Victory Loan Drive. Government security holdings increased by 3.7 billion dollars—a somewhat smaller rise than had occurred in the three prior drives. Loans for purchasing directly from Government security holdings rose by 2.5 billion dollars, and at their mid-December levels loans both to brokers and dealers and to other bank customers slightly exceeded the high points of the previous drives. Commercial and industrial loans, which had been expanding since early fall, rose by an additional 800 million dollars during the six-week period. The increase in commercial credit extension has been at a rate substantially greater than at any time in recent years.

As payments for security purchases transferred funds from deposits of businesses and individuals to reserve-exempt war loan accounts, the average level of required reserves at all member banks declined by around 500 million dollars during the first half of December. Early in the month, excess reserves rose to above 1.5 billion dollars on a weekly average basis. Subsequently, however, excess reserves declined somewhat, as the amount of War Loan deposits at many banks reached the maximum limits and banks turned over to the Treasury current receipts from sales of Government securities.

Currency outflow has continued at a slackened rate compared with wartime years; money in circulation increased by close to 350 million dollars during the six weeks ended December 12 compared with over 750 million in the 1944 period. On a seasonally adjusted basis, currency outflow has recently been at the lowest rate since the early part of 1941.
Financing Unemployment Compensation—I

An Experiment in Federal-State Coordination

For the past decade the employers of from 60 to 75 per cent of the wage earners in the United States have been making payroll tax payments to the states and the Federal Government for the support of a system of unemployment insurance. During this period the states, the District of Columbia, and the territories have collected approximately 8.5 billion dollars of such earmarked revenue, and the Federal Government has received 1.6 billion dollars from its payroll tax for employers of eight or more persons and under the provisions of the Railroad Unemployment Insurance Act.

The principal administrative costs of the program have been financed by the Federal Government through grants to the states, and during the period have aggregated nearly .5 billion dollars. Benefits to the unemployed have been met from a trust fund with 52 separate accounts accumulated by the deposits of state tax receipts and railroad unemployment insurance contributions and interest thereon. These benefits during the past decade have amounted to over 2.2 billion dollars, and there is at present a consolidated balance in these funds of approximately 7.5 billion dollars (including the railroad account) earmarked for future payments to the unemployed.

Government insurance of unemployment risks was an innovation in Federal and state finance a decade ago. Only one state—Wisconsin—had experimented earlier with unemployment insurance, and its law was first effective in 1932. The system of insurance adopted in 1935 was a major phase of a broad social security program which in addition encompassed aid for the aged, the blind, and dependent children. The unemployment insurance provisions of the Social Security Act were not only novel in their objective but also in their financing arrangements and in the character of Federal-state relations which they inaugurated.

At the time of its adoption, unemployment insurance was not expected to cover fully the hazard of unemployment even for the workers in covered employment. It was expected to deal more or less adequately with frictional and seasonal unemployment and provide an initial offset to the loss of income from unemployment arising out of cyclical movements in economic conditions. Tax liabilities of employers for the support of this program were first incurred in January of 1936; benefits were withheld for a period of two years as reserves were built up. The program was in full operation in all states before the stimulus of defense expenditures began to be felt in the economic life of the country. Several years of high employment and rising rates of compensation have brought about the accumulation of substantial reserves in the trust fund and a not wholly anticipated financial capacity to deal with problems of unemployment. Time has also brought about a wider acceptance of a Government-financed program of social security and thus led to considerable discussion of the future functioning of unemployment insurance.

This public debate involves radical differences of opinion as to the role that unemployment insurance should play in combating economic effects of unemployment, the responsibility of the Federal Government and the states in administering the program, the integration of insurance benefits with public assistance or economic stimulation, and the reduction of employer tax liabilities through the extension and development of experience rating devices and the resulting effect upon the level of benefit payments and qualification conditions. These issues have been considered officially and unofficially in connection with reconversion; they will become more vital and pressing in later years if substantial cyclical unemployment should develop.

SCOPE OF UNEMPLOYMENT BENEFITS

The present system of unemployment insurance is characterized by a considerable variation in worker benefits arising out of differences in state statutes. The Federal framework under which all state laws operate imposes no minima or maxima on benefits which any state chooses to adopt excepting for those implicit in the financing arrangements. The payroll tax credit indirectly enforces a ceiling on benefit payments if state reserves for such payments are to remain solvent.

Originally state laws provided for a maximum weekly benefit of $15 with a maximum duration of from 10 to 20 weeks (16 weeks was most common), and a waiting period of two or three weeks before benefits began. These provisions have been progressively liberalized as it became apparent that the trust accounts were capable of supporting more liberal payments and as rising price levels and wage payments lowered the ratio of benefit compensation to previous weekly earnings. Taking into account legislation enacted by the states in 1945, it is estimated that states with over three-fourths of covered workers provide maximum weekly benefits of 20 dollars or more, and that a somewhat larger number of states with over four-fifths of the covered workers afford a maximum duration of 20 weeks or more. The waiting period has been generally reduced to one week. In addition, minimum benefit payments have been generally increased, dependency allowances have been introduced in four states, the period of benefit has been made uniform instead of varying with wage credits in nearly one-third of the states, and the...
coverage for seasonal workers has been extended by the
repeal or limited application of seasonality provisions
which restrict benefits to the period of seasonal employ-
ment.

The Federal law made employer contributions manda-
tory upon firms employing eight or more workers. Many
state laws when initially adopted extended the coverage
to employers of one or more; three-fifths currently have
a broader coverage than does the Federal law.

Several large segments of the working population are
excluded from both Federal and state laws. Prominent
among these are the agricultural workers, domestics, self-
employed, maritime workers, and employees of Federal,
state, and local governments and of non-profit institu-
tions. In addition to these exclusions, qualifications for benefit
payments arising out of administrative complications have
seriously curtailed the adequacy of unemployment com-
pensation. Such restrictions are inherent in any insurance
system which functions with proper administrative safe-
guards. The determination of the eligibility or disquali-
fication of millions of idle workers to receive benefits
is not a clear cut process nor is it capable of accurate
determination without exorbitant administrative costs.
The standards in current use are even now in the process of
development. The safeguards employed by the states
to weed out claims which are not bona fide and to preserve
the solvency of their trust accounts have necessarily
impaired the attainment of some of the broader social
objectives of unemployment insurance.

PAYROLL TAXES

The Social Security Act levies a tax on employers of
eight or more workers proportional to the amount of their
payroll, up to three thousand dollars annually per worker.
The rate of tax in the first year of operation (1936) was
1 per cent; in 1937, 2 per cent; and in 1938 and thereafter,
3 per cent. A 90 per cent credit against this tax is allowed
to each employer for his state payroll taxes in states
having unemployment compensation systems approved by
the Social Security Board. This crediting device rapidly
forced the adoption of state unemployment compensation
laws in the United States, the last state to enact its law
being Illinois in 1937.

The original unemployment payroll tax provisions of
the Social Security Act set forth conditions under which
reductions in state tax rates on employers, if based upon
experience with the risk of unemployment, could be offset
against the Federal tax. The additional credit for ex-
perience rating, as it is generally known, was withheld
until certain requirements with respect to reserves were
met and until experience with benefit payments over a
period of three years (contributions over five years, as
benefits were not paid in first two years of operation)
had been attained. These conditions were relaxed to some
degree by the 1939 amendments to the Act and were
satisfied in many states by 1940-41; thereafter, experience
rating was widely put into effect by the several states.

At present all excepting five states utilize provisions for
reducing the state tax rates on payrolls for employers.
Since these plans are recognized in the Federal law, a
saving in state payroll taxes is not offset by higher Fed-
eral payroll taxes, although in many instances the tax
saving probably has been recouped in large measure by
Federal excess profits taxes. Since its adoption, ex-
perience rating is estimated to have reduced the accumula-
tion of funds for benefit payments by some 1.5 billion
dollars.

The cost of unemployment insurance, or a more gen-
eral system of benefit payments to the persons who suffer
from involuntary idleness, can be defrayed from the
general revenues of the states and the Federal Govern-
ment or from the imposition of a special tax earmarked
for that particular purpose. The latter alternative, of
course, is the one which has been used up to the present
time. Had the other alternative been adopted, benefits
would have of necessity been generally available to all
persons involuntarily unemployed, and coverage could
not have been restricted as it is under the existing pro-
gram. The cost of benefit payments would then have
been borne by personal and corporate income taxes, sales
and excise taxes, and other levies that the Federal Gov-
ernment and states employ.

From the long-run standpoint, it is generally preferable
to avoid the allotment of the yield of a specific tax to a
particular function, or to fix expenditures for a particular
function by reference to a specific tax yield. The con-
sequence that has commonly ensued from state experience
with this type of segregation (Federal experience with
earmarking has been negligible) is that expenditure needs
and tax receipts tend to get out of alignment. If, on the
one hand, earmarked receipts outstrip the scale of ex-
penditures, there is a tendency for expenditure policy to
be revised—often within the range of administrative
discretion—to absorb the excess receipts. Often this
occurs with too little weighing of the relative importance
of the earmarked expenditure against expenditure in other
fields of government service. If, on the other hand, the
revenue is inadequate to provide a desirable scale of ex-
penditure for the particular function, it tends arbitrarly
to restrict that expenditure to less than the requirements
of desired public policy. It is, of course, always theoreti-
cally possible to obtain nicety of balance between the
earmarked revenues and their related expenditure pro-
grams, but in actual practice adjustments in a given tax
rate and expenditures for a particular function are far
more difficult to attain than an over-all balancing of total
government expenditures and revenues.

The use of the payroll tax levied on employers acts
both as a revenue-raising device and, with the nearly
universal adoption of experience rating, as a penalty on
employers with poorer than average employment records.
To a considerable degree this penalty—or the converse
premium—for an abnormal employment record can have
little effect on employment practices. Experience rating
either implies that it lies within the power of an employer
to stabilize his employment or that those employers in locations or industries characterized by high unemployment risks should bear higher tax costs. More often than not the employer is subject to factors which make a poor or good experience record as involuntary for him as it is for the unemployed worker. The social gain from an additional financial incentive to stable employment, whatever it may be, must be offset, more often, against arbitrary and capricious variations in tax rates that the competing employers suffer because they happen to be subject to a bewildering diversity in state-imposed qualifications for experience rating.

The use of the payroll tax for unemployment insurance complicates an analysis of the propriety of this means of finance because of the difficulty of determining the incidence of the tax. Some employers are able to pass a substantial portion of their payroll taxes on to consumers of their products, but it is probable that more employers shift the tax back to their employees. In some instances the enterprise absorbs the tax. A more complete coverage of employers would facilitate shifting, but even with complete coverage there would be substantial differences among employers as regards the incidence of the tax. The idea, therefore, that the tax is a penalty or incentive to the employers to stabilize their employment record is in some measure illusory.

Experience rating has been one means of reducing payroll taxes and bringing the contributions to the unemployment fund in closer alignment to the scale of benefits. Although tax reductions thus effected have already reduced accumulations to the fund substantially, the fund is still far in excess of what appears necessary to provide the present scale of benefits in the early postwar years. A period of prolonged unemployment accompanied by sharp declines in weekly earnings, however, would require the restoration of the standard rate in many states and at a time when heavier costs to employers are likely to be most onerous.

The compliance burdens on employers involved in payroll accounting for unemployment compensation when combined with similar requirements for old age and survivors' insurance, income tax withholding, and other payroll deductions, are a substantial expense that seems largely unnecessary.\footnote{1}

It is reasonable to assume that revisions in financial arrangements for social security will in the future be concerned with consolidating and integrating payroll deductions charged to both employers and employees so as to minimize the compliance and public costs that now exist. The federalization of unemployment insurance is not a prerequisite to simplification in the tax structure. Uniformity in withholding arrangements will become even more important if proposals are adopted to add other elements, notably health and disability insurance, to the social security program and pay for them by payroll taxes on employers and employees. The need for some integration and simplification in the tax administration will then become too obvious to be delayed longer.

**ADMINISTRATION**

Unemployment insurance is administered by the several states. However, the staff and facilities required for determining workers' qualifications for benefits, the actual disbursement of weekly allotments, and the collection of state payroll taxes are provided out of funds granted to the states by the Federal Government. The Federal Government is also at some direct administrative expense to collect its payroll tax and to render through the Social Security Board certain overhead services in connection with the entire program. By far the greater part of administrative expenditures, however, is incurred by the state organizations.

Departing from all precedents established in the grants of Federal funds to the states, the Social Security Act provided Federal funds to states in amounts required for adequate administration. No matching conditions were laid down, and the controls delegated to the Social Security Board to insure the proper expenditure of Federal funds were inadequate to secure anything like the same measure of expenditure control that the Federal Government exerts over its own disbursements. It would be surprising indeed if this arrangement had operated without friction and dissatisfaction on both sides. The disagreements that have arisen, however, have probably entailed substantial advantages as well as the obvious disadvantages. No doubt the experience so acquired has exercised a considerable influence on the understanding of the problem for both parties and in the long run effected a better administrative organization than might have been attained with the traditional arrangement. Moreover, a 100 per cent Federal grant for administrative purposes may suggest the clue for simplifying the financial impediments to dealing with problems of an interstate nature at the state level. A state hardly can object to interstate aspects of unemployment if such expenditure is fully reimbursed by the Federal Government.

The Federal grants for administration are paid from general Treasury funds but are usually regarded as an offset to Federal payroll taxes under the Unemployment Tax Act. Collections from this tax have aggregated more than 1 billion dollars since 1936, and grants to the
There have been numerous proposals that unemployment insurance, its administration, the scale of benefits, and the taxing provisions should be made exclusive responsibility of the Federal Government. These proposals have been supported by arguments that the problem of unemployment does not lend itself to being partitioned into 49 arbitrary compartments, that many workers and employees are engaged in interstate business, that remedies for local or regional decline in employment opportunities require national rather than state action, that administrative costs of the dual arrangement are exorbitant, and that the diversities which obtain in tax and benefit provisions are arbitrary and confusing and impose needless burdens on employers and unemployed.

Clearly, the broader phases of the problem of unemployment are a matter of major concern to the Federal Government and, to the extent they are affected by national monetary and fiscal policies, are beyond the effective control of the several states. While there may be some doubt as to the need for federalization of unemployment insurance, there can be no question that there is a wide acceptance of the thesis that the Federal Government cannot and should not absolve itself of the responsibility for dealing with the broader phases of the problem of unemployment. That portion of public policy which is directed at alleviating the effects of unemployment through government insurance, however, offers alternatives to the extent of state participation. These in turn depend largely upon a more general understanding of the contribution of unemployment insurance to the larger problem, and upon the removal of such barriers as may make it difficult for the states and the Federal Government to cooperate in a coordinated attack upon the problem.

Much unemployment can be obviated and the duration of enforced idleness can be considerably lessened by a well-integrated employment service and vocational education. Several years before the enactment of the Social Security Act the Federal Government encouraged the establishment of employment services through matching grants to the states. Even earlier it made available matching grants for stimulating state expenditures for vocational training. Both programs were vastly extended (the former was taken over by the Federal Government) on a temporary basis during the war to facilitate the training and placement of people in war production. In many respects these programs can be administered at the state level and on an intrastate basis, but if a desirable degree of mobility of labor is to be preserved, there is need for programs and policies that readily transcend arbitrary state lines. As in the case of many other governmental services, the ideal administrative organization from the standpoint of economy depends upon the delineation of service areas in which uniformity of policy and procedure is desirable; these areas are not necessarily coincident with state lines. It should be possible for both employers and wage earners of adjoining states where economic conditions are similar and job or entrepreneurial opportunities are interchangeable to cross state lines without any alteration in payroll costs, unemployment benefits, or employment services. Such possibilities are somewhat more difficult to achieve under state administration than under a Federal system but are not incapable of accomplishment if an understanding of their importance and contribution to economic stability is recognized.

The principal arguments against federalization of unemployment insurance are those which are commonly urged in connection with all programs of Federal expenditure which overlap or infringe upon any existing or potential state or local government service. They are associated with apprehensions that the sheer size of undertakings to render service on a nationwide scale will result in unwieldy organizations which shortly become too large and powerful to be responsible to traditional citizen controls. Smaller state organizations, on the other hand, can be more directly controlled and can attain a higher degree of responsiveness and flexibility in their programs. The considerable differences in economic and social conditions in various sections of the United States and in the temper and desires of the citizens of various areas contribute another reason for preferring state to Federal administration. Not only can more diversity in policy and administration be attained, but such policy differences can be made to reflect views that do not prevail in determining national policy.

For every program of government aid which entails the possibility of geographical differences in benefits or services, there is ordinarily a practicable means for taking those differences into account. This is feasible under either Federal or state administration. In the case of unemployment compensation, for example, regional differences in scales of living can be reflected by fixing benefits in terms of previous earnings. The real issues involved in this dispute relate to the kind and extent of diversity under Federal or Federal-state administration. Thus, many advocates of federalization contend that disparities in tax and benefit provisions should not be permitted and that an exclusive role for the Federal Government in unemployment insurance is necessary in order to obtain uniformity in governmental services. This view is often associated with the establishment of national minimums for health, welfare, and education, and the use of taxable resources wherever they may be found for that purpose. The character of Federal taxation and the expanding role of governmental expenditures in the total economy have already brought about considerable movement in this direction.
Record Set in Department Store Sales

1945 District Total 10 Per Cent Over Previous Year

New record levels are again reported for the dollar sales volume of department stores located in the principal cities of the Seventh Federal Reserve District and for the District as a whole. It has been estimated by the Federal Reserve Bank of Chicago that 1945 sales in the Chicago department stores have reached a total of 372 million dollars; in Detroit, 194 million dollars; in Indianapolis, 73 million dollars; in Milwaukee, 94 million dollars; and in the Seventh Federal Reserve District, 1,294 million dollars.

These department store sales totals are a continuation of an unbroken chain of advances that started in the pre-war year of 1939. Since that time the largest expansion has been recorded by Indianapolis and Milwaukee stores, where sales have more than doubled in value. Detroit stores have had an increase in sales volume of nearly 90 per cent over the 1939 dollar value, Chicago stores, more than 60 per cent, and the District as a whole, approximately 80 per cent.

The dollar volume of department store sales which had been expected to decline in 1945 because of depleted inventories—especially with the end of the war and re-conversion difficulties—exceeded 1944 levels. In this respect Milwaukee stores take the lead with an estimated gain of 14 per cent; Indianapolis stores follow with an increase of 12 per cent; those of Chicago show an advance of 11 per cent; sales of Detroit stores rose 4 per cent, less than the average for the other cities. The District total increased 10 per cent.

Holiday buying, in general, exceeded last year’s dollar sales by better than 10 per cent. This gain, as well as others in the volume of 1945 sales, largely reflected price advances, rather than increase in physical volume. Much Christmas shopping was concentrated in higher-priced gift items of jewelry, toiletries, lingerie, men’s and women’s apparel, and household appliances. The needs of returning military personnel accelerated department store sales late in 1945.

Figures for the first eleven months of 1945 indicate that sales were above year-ago levels in all merchandising divisions of the reporting department stores for the Seventh District. Women’s apparel sales were 14 per cent greater than those of a corresponding period of 1944; house furnishings, 12 per cent; men’s and boys’ wear, 10 per cent; small wares, 8 per cent; and piece goods, 4 per cent. Available supplies of household items and musical instruments permitted sharp advances in sales. Many items in apparel lines continued to show consistent gains from year-ago figures. Because of merchandise shortages in domestics such as muslins, sheeting, and floor coverings, the trend in these sales was the only exception to increases generally shown for classifications by departments.
New Indexes of Department Store Stocks

City Results Show Variation in Trends

Indexes of stocks held by department stores have been prepared by the Federal Reserve Bank of Chicago for the Seventh Federal Reserve District and the cities of Chicago, Detroit, Indianapolis, and Milwaukee. These indexes, adjusted for seasonal variation and without seasonal adjustment, are given in per cent of the 1935-39 average and cover the period by months from January 1929 to date. These series reflect the movement of inventories, expressed in terms of the dollar retail value rather than the physical volume of merchandise in stock at the close of each month. Hereafter, the Bank will release current stock indexes each month together with the department store sales indexes.

The District index is based on the experience of two hundred twenty-eight department stores located in eighty-nine cities within the District. These department stores are representative of independent stores, chain stores, and retail outlets of mail-order companies, located in small, medium, and large cities. The District and the individual city stock indexes have been tied to the corresponding indexes of sales which are adjusted to Census of Business data. The new stock indexes will be incorporated with corresponding figures for the other eleven Federal Reserve Districts into a national index which will be compiled and published by the Board of Governors of the Federal Reserve System.

INVENTORIES REACH PEAK IN 1942

Inventories at reporting department stores in the Seventh District reached a peak on August 31, 1942—114 per cent higher than the average for 1935-39. This accumulation of inventories undoubtedly reflected to some extent heavy advance buying in anticipation of wartime scarcities. During the subsequent war years, however, inventory levels continued high.

Estimates of the average retail value of stocks of all department stores in the Seventh District and the cities of Chicago, Detroit, Indianapolis, and Milwaukee for the years 1929 to 1945 are shown in Table I. The average retail value of merchandise on hand during the war years of 1942-44 was estimated at $255 million for the Seventh District or about 63 per cent larger than the average for 1939, the last year prior to the war. At the time of the Pearl Harbor attack the estimated retail value of inventories was $270 million, compared with $260 million in August 1945. The average value of stocks increased from
1938 to 1942 (sharply so in 1941 and 1942), declined in 1943, and again increased in 1944. During 1945 stocks showed a slight decrease.

Throughout the war period inventories were maintained at record dollar levels despite the fact that retailers were confronted with shortages of merchandise combined with an increased sales volume unequalled in prewar retailing. The composition of stocks was changed by the disappearance of major household appliances and scarcities in such lines as furniture, apparel, floor coverings, and cotton materials. Replacements were frequently made by substitute goods of lower quality and by higher priced lines. Manufacturers' delivery of goods "when ready" altered the seasonal pattern of the merchants' purchases. These factors were relieved in many cases, however, by a quota system of distribution of goods to merchants, voluntary restrictions on the purchase of stocks, and less apparent shortages in certain lines such as women's apparel, gift items, and soft goods.

Inventories maintained by retailers since V-J Day were sufficient to support record-breaking sales by department stores. Despite depleted stocks in certain lines and many failures to receive shipments of merchandise from manufacturers for such reasons as labor troubles.
and pricing difficulties, consumers continued to find something to buy. Scarce items will return to store inventories as reconversion progresses.

Although stores in all of the principal cities in the District increased stocks on hand from the peacetime year of 1939 to the peak in the middle of 1942, the experience during the subsequent war years has varied considerably. For example, the 1945 dollar value of stocks in Chicago department stores was about one-fourth less than in 1942, while in 1945 inventories in Milwaukee stores were slightly above the 1942 level.

In the prewar period from 1929 to 1939, the Seventh District index of average monthly stocks varied from the 1929 high of 137 per cent to a low of 79 per cent in 1933, but gradually recovered to 114 per cent in 1937. Detroit stores were more adversely affected by the depression than stores in the other cities—with a sharper drop in sales and a corresponding reduction of 59 per cent for estimated merchandise in stock from 1929 to 1933.

STOCK TURNOVER RATE INCREASING

As may be noted in the sales-to-stock ratios in Table II, merchandise moved faster in the District in 1945 than in any other year during the 1929-45 period. The current high rate of stock turnover, 5.4, reflected increased sales volume rather than any substantial reduction of inventory. In 1942 the sales increase did not match the pace of accumulating inventories, and as a result, the rate of turnover was only 3.5. Stock turnover rates for the other war years, however, have not differed much from the 4.6 rate in 1939, the last prewar year. The turnover rate was 4.7 in 1940, 4.5 in both 1941 and 1943, and 4.8 in 1944.

In the different cities there were marked variations in the rates at which stocks of merchandise were sold and replenished. The stock turnover rate of the Detroit stores has been consistently much higher than the average for the District or for the other large cities. This trend was marked in the depression years and has continued throughout the war years, with a turnover rate since 1934 of more than one-third above the District average. In the immediate prewar years, Chicago and Indianapolis had turnover rates close to the District average, while Milwaukee was consistently lower. In 1943 and 1944 the comparisons were not so far apart, Chicago stores having turnovers of 4.0 and 4.6 respectively, Indianapolis 4.4 and 4.5, and Milwaukee 4.2 and 4.3, while Detroit stores experienced turnovers of 6.8 and 6.7. The 1945 results, however, are again like the prewar pattern. Chicago and Indianapolis stores, both with a turnover of 5.2, followed the District trend; Detroit stores, with 7.3, were consistently higher, and Milwaukee stores, with 4.4, again had lower turnover.

It is probable that the volume of orders outstanding maintained a larger relationship to sales as the war progressed than in the prewar years. Because of the increasing difficulty in obtaining adequate inventories it became necessary for merchants to place the request for merchandise on order for delivery when available.

TABLE III

INDEXES OF DEPARTMENT STORE STOCKS
SEVENTH FEDERAL RESERVE DISTRICT
(Annual averages, 1935-39=100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Seventh District</th>
<th>Chicago</th>
<th>Detroit</th>
<th>Indianapolis</th>
<th>Milwaukee</th>
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<td>155.2</td>
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</tr>
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<td>91.8</td>
<td>84.3</td>
<td>83.5</td>
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<tr>
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</tr>
<tr>
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<td>177.9</td>
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<tr>
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<td>187.1</td>
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TABLE IV

INDEXES OF DEPARTMENT STORE SALES
SEVENTH FEDERAL RESERVE DISTRICT
(Annual averages, 1935-39=100)

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<th>Year</th>
<th>Seventh District</th>
<th>Chicago</th>
<th>Detroit</th>
<th>Indianapolis</th>
<th>Milwaukee</th>
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<td>74.3</td>
<td>69.5</td>
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