BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

MARCH, 1946

Summary of the Budget Message

No Increase in Public Debt Anticipated for Fiscal 1947

In his message to Congress on January 21, the President combined the annual budget message with his report on the state of the Union—thus linking together the budgetary program and the general program of Government. In the budget section of the message expenditures for fiscal 1947, the first complete peacetime year since 1940, are estimated at 35 billion 860 million dollars, including net outlays of Government corporations other than debt retirement. This estimate represents a drop of about 47 per cent from the revised 1946 estimates and is only 36 per cent of the 100 billion dollar peak of expenditures reached in 1945. Total outlays for fiscal 1946 are expected to be about 67 billion dollars and include much of the cost of transition from a war to a peacetime economy. Part of the expenditures for 1947 are also attributable to continued costs of war liquidation.

Although the 1947 budget represents a sharp decline from wartime requirements, expenditures will still be about four times the 9 billion dollar budget of 1940, the last prewar year. In his message the President indicated his belief that the level of Federal expenditures after 1947 would not be less than about 25 billion dollars in view of the added responsibilities of the Government.

Net receipts from all sources for 1947 are estimated at 31.5 billion dollars, compared with 38.6 billion for 1946 and 46.4 billion for 1945. Thus, the 1947 budget will still be out of balance—the excess of expenditures over receipts amounting to 4.3 billion dollars. Financing of this deficit or of that for the remainder of fiscal 1946 will require no net increase in the public debt. In the fiscal year 1947 an anticipated 8.7 billion dollar reduction in the Treasury's cash balance will not only cover the deficit but will also be used to reduce the total outstanding debt by 4 billion dollars.

Estimates of both receipts and expenditures are highly tentative. They are based on assumptions of a fairly high level of business activity, but not "on an income reflecting full employment and the high productivity that we hope to achieve." Estimates of receipts assume that all existing taxes and tax rates will be maintained throughout fiscal 1947. On the expenditure side estimates are based on proposed legislation as well as on programs already authorized. For fiscal 1947 the allowance for recommended but unapproved Federal expenditure amounts to 3 billion dollars, half of which is in connection with the proposals now pending on international finance.

THIS MONTH'S COVER

View at Gary Works

(Courtesy of Carnegie-Illinois Steel Corporation)

Neglecting these contingent liabilities, which have not been included in any previous budget, the discrepancy between expenditures and receipts is only a little more than 1 billion dollars. Table I shows a resume of receipts and expenditures and the effect of these operations on the public debt.

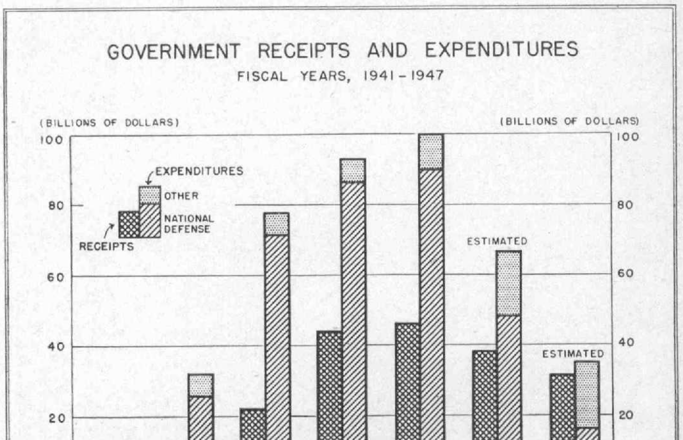
"AFTERMATH OF WAR" COSTS HIGH

The most striking contrast between the 1946-1947 estimates and the wartime budgets is, of course, the sharp decline in expenditures for war or national defense purposes. During fiscal 1947 it is expected that all war and national defense measures, including the continuing costs of war liquidation and occupation, will be covered by net outlays of 15 billion dollars. National defense expenditures are thus estimated to comprise about 42 per cent of the total budget in 1947 compared with 90 per cent in 1945. Revised figures show war and defense outlays for 1946 at 49 billion dollars.

Assuming about half of the 1947 national defense expenditures to be attributable to war liquidation, the President estimated the cumulative cost of World War II at 347 billion dollars from July 1, 1940, when the defense program was initiated, through June 30, 1947. Of this amount about 9 billion dollars is expected to be recovered before the end of fiscal 1947 from the sale and rental of surplus property and renegotiation of war contracts.

Besides demobilization, occupation, and war liquidation costs, the postwar budget for national defense includes substantial provisions for the maintenance of adequate peacetime national defense measures, including military

(Continued on page 7)



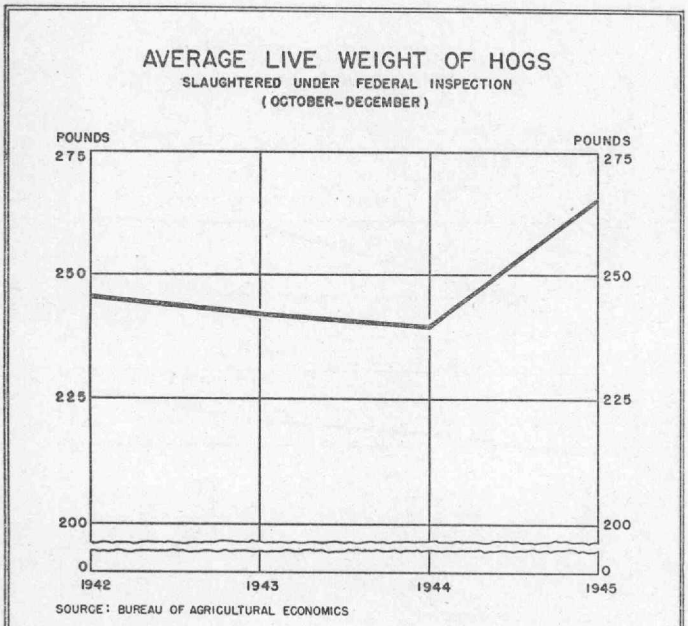
A Feed "Crisis" Again

Heavy Feeding Taxes Grain and Protein Supplies

A critical situation in feed has currently developed, reminiscent of and in many respects similar to that of two years ago. In spite of near record production in 1945 of major feed crops, feed supplies are inadequate to meet the tremendous demands for them. The principal factors in this situation are the high levels of livestock numbers on farms requiring feed, and the heavy rates of feeding which have been taking place, particularly in hog, dairy, and poultry enterprises. An additional factor has been the relatively poor distribution of available supplies geographically in relation to the demands for feeds.

QUALITY OF CORN CROP A FACTOR

A part of the problem is the quality of the 1945 corn crop. While a total crop of over 3 billion bushels was reported, the total corn crop for grain amounted to 2.7 billion bushels. Throughout much of the Corn Belt, frosts before the corn had matured resulted in a large proportion of the crop turning out of poor quality, soft and with a high moisture content. This condition of the corn crop encouraged some additional livestock feeding in order to utilize this grain which would not keep and, therefore, was not fit for marketing. However, it is generally reported that results from feeding of soft corn have proved unsatisfactory to livestock producers, and gains have been less than might be normally expected with given amounts of corn. The net effect of this, therefore, is much the same as if the total corn crop had been considerably smaller in terms of normal quality.



It is also reported that sizable amounts of wheat were likewise soft. Farmers are reported to be using this and other wheat for feed, a factor which has become an important element in the current crisis over wheat supplies.

While the crisis has largely to do with wheat for human food, the situation appears now to have wide ramifications in much of the feed and livestock economy.

FEED SITUATION INVOLVED IN WHEAT PROBLEM

This country understook a commitment to ship 400 million bushels of wheat to relieve food distress in Europe, shipments to be made during the crop year ending June 30. At the beginning of 1946 there still remained to be shipped under this commitment a total of 225 million bushels. One of the bottlenecks in making deliveries along this line has been the extreme shortage of grain cars to move the stocks to seaboard. But this is only one of the factors. Secretary of Agriculture Anderson has stated his belief that farmers were holding back abnormally large amounts of wheat, for which a number of reasons are given. It is said that some wheat farmers are holding their supplies as a hedge against further inflation. Others are reported to be holding in the expectation that ceiling prices on wheat will be raised because of the critical shortage of wheat. In some quarters the expectations in farmers' minds are reported to run as high as one dollar increase in the ceilings. Other farmers are said to be simply holding back their wheat as reserve feed for the balance of the feeding season.

The President's recommendations as to measures to deal with the wheat crisis, stringent as they may seem, are expected to contribute only a minimum of supplies to relieving the tight situation. It would appear that about 40 to 45 million bushels additional wheat could be squeezed out between now and the end of the crop year by two of the measures recommended by the President. The making of beer and alcohol from wheat would be sharply reduced, and this is estimated to yield 20 to 25 million bushels. The increased rate of flour extraction recommended by the President would yield perhaps another 20 million bushels. Under this recommendation millers would increase the proportions of the wheat kernel ground into flour, with rates at 80 per cent or above. This would mean a darker flour and darker bread, incidentally increasing the vitamin content. This program will have some difficulties for millers who sell substantial quantities of cake and other specially prepared flours which cannot be modified as easily as ordinary or regular flour without greatly impairing their acceptability to housewives. Measures to reduce the use of wheat for livestock feed were also recommended by the President, as part of a program to reduce livestock feeding.

HIGH RATES OF DISAPPEARANCE, STOCKS DOWN

Wheat disappearance from the beginning of the feeding season on October 1 to the beginning of 1946 was one-third greater than last year. Disappearance of oats was 30 per cent larger. For corn the disappearance for the three month period was 1,047 million bushels, more than 10 per cent greater than disappearance during the corresponding period of the 1944-45 feeding season.

Food grain stocks on farms at the beginning of this year were, except for oats, smaller than either a year ago or two years ago. The same is true of wheat stocks. Considerably more than half of total stocks were on farms at the beginning of the year, compared with somewhat less than half in the two previous years. This would appear to substantiate the judgment that farmers are holding back their wheat.

Of the combined stocks of wheat, corn, oats, barley, and rye in all positions on January 1 of this year totaling nearly 4 billion bushels, nearly 3,500 million bushels were on farms, leaving only a little over 500 million bushels in off-farm positions. This was less than one-third of the off-farm capacity.

LIVESTOCK AND POULTRY HEAVILY FED

According to the reports of the U. S. Department of Agriculture considerable expansion has taken place in feeding in the Corn Belt especially to make use of large supplies of damaged corn. The 1945 fall pig crop was 12 per cent larger than a year earlier. Cattle feeding operations, based on reports of shipments of cattle into the Corn Belt states, appeared to be larger than last season, but January 1 indications show numbers on feed below the 1945 figure. A smaller number of sheep and lambs are being fed for market during the current season than last year.

Relatively favorable price relationships have led to rates of feeding dairy cattle much higher than average. The U. S. Department of Agriculture reports that the amount of grain and other feed concentrates being fed per milk cow were the second largest since records have been kept, averaging 4.81 pounds per cow fed as compared with a rate of 4.73 pounds for 1944 and the record high of 4.90 pounds in 1942. The rate of feeding of milk cows has been at or near this level throughout much of 1945, and this is one of the important factors in the large use of feed during the year. The heavy rates of feeding have resulted in the total milk production about 4 per cent above the 1944 record output.

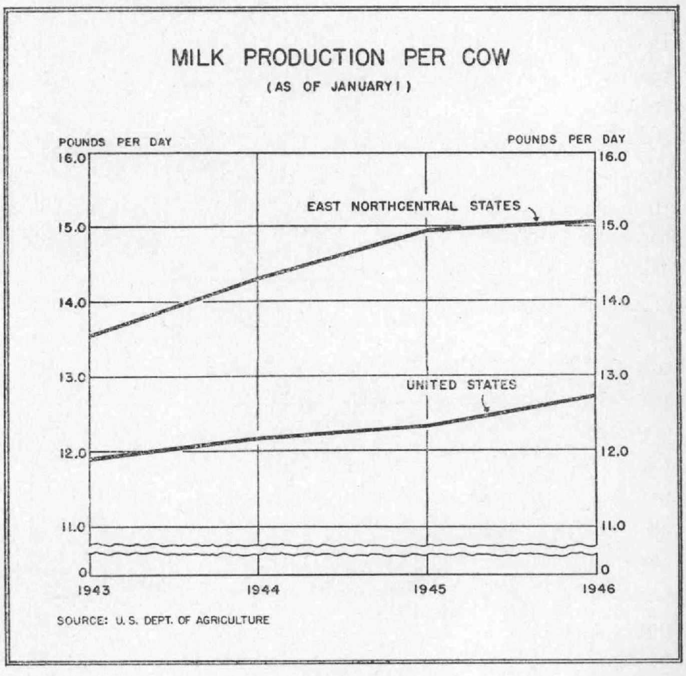
Heavy feeding of poultry is indicated by the record level of the rates of egg production prevailing throughout much of 1945 and continuing currently. The monthly rate of egg production was 830 per hundred layers in December of 1945 compared with 811 for the corresponding month of 1944. Except for Indiana the output per 100 layers in the states of the Seventh Federal Reserve District showed an even greater step-up for 1945 over the December 1944 figure. It appears that the total number of chickens on farms was slightly larger at the beginning of this year than last year. In addition to these factors the production of broilers in recent months has been running very substantially above previous figures.

Reported figures on milk production per cow as of January 1 show a national average of 12.69 pounds per day compared with 12.70 for a year ago. In the states of the District the output per cow was about 3 per cent higher in Indiana, Michigan, and Wisconsin, slightly higher in Iowa, but slightly lower in Illinois.

PRICE RATIOS FAVORABLE TO FEEDING

Price ratios between products and feeds continue favorable to feeding. The hog-corn ratio continues to run above 12 bushels. Similarly, the beef steer-corn price ratio, based on Chicago prices, continues above 14 pounds. This is not as relatively a favorable position for steers as it is for hogs, but still large enough to continue feeding at a heavy rate. The ratio between butterfat prices and feed costs in recent months has also been very near to record high levels. Egg-feed price relationships around the end of the year were favorable to feeding and have continued so up until recent weeks. Prices for feed grains, taken as a whole, have shown little change during most of 1945 and 1946 to date, while the price level for principal high protein feeds has been stabilized with no change during the past two years.

According to estimates by the U. S. Department of Agriculture on current prices of principal feeds in terms of digestible nutrients, corn as a whole continues to be the best value for the livestock producers' feed dollar. These estimates indicate that in terms of digestible nu-



trients, oats are nearly 10 per cent higher, while barley, rye, and wheat are one-fourth to one-third higher than corn.

PROTEIN FEEDS ALSO SCARCE

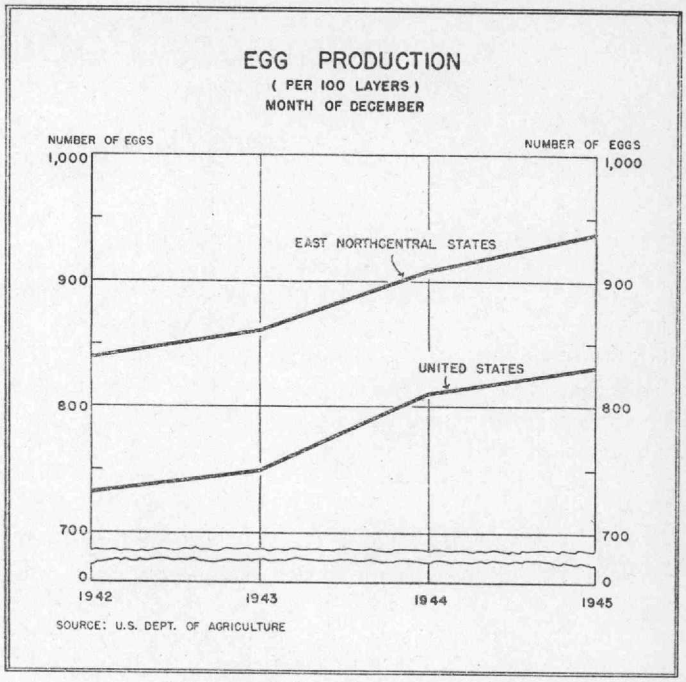
The shortages are not only in the feed grain concentrates but in protein supplements as well. The situation in high protein feeds became so critical in January that it was found necessary to reinstate orders limiting the sale of protein concentrates for feed mixing. For livestock feeds the limitations fixed the mill consumption at the same level prevailing in 1944 for each plant. In the case of poultry feeds the initial limitation was for 100 per cent of the 1944 consumption of protein, but the order also required the reduction of 5 per cent each month until a level of 85 per cent of the 1945 protein consumption in poultry feeds is reached. It is a part of Government food policy currently to encourage the reduction of chickens on farms, and the 1946 poultry production goals call for a reduction of about 15 per cent in chickens raised and eggs produced. The protein order, therefore, reduces the supplies available for poultry feeds in line with these goals.

Among the protein concentrates, wheat millfeeds have been in recent weeks produced at high levels along with the high output of flour. In spite of the large output, however, demand remained considerably in excess of supply. For oilseed cake and meal products the demand has continued urgent not only for immediate deliveries but for advance booking as well. Fairly large production currently is being applied mostly to previous contracts as yet unfilled.

FEED "BALANCE" INDICATES REDUCED RESERVES

Production in 1945 of all feed grains and hay taken together achieved the second highest record on the books. Production of the four principal feed grains, corn, oats, barley, and grain sorghums, totaled over 118 million tons compared with the record high of 122.6 million tons of feed in 1942 and 120 million tons in 1944. The total hay production of 105 million tons last year was the second time since 1910 that hay production exceeded 100 million tons. The highest record was reached in 1942 when 105.3 million tons were produced.

Stocks of feeds at the beginning of the crop year on October 1, plus production in the 1945 crop year and allowances for other grains to be fed, and adding by-product feeds for feed give a total supply of feed concentrates for the current feeding season of 158.5 million tons, according to U. S. Department of Agriculture estimates. This would be about 2 per cent below the available supply at the beginning of the 1944-45 feeding season and substantially below the supplies available in October 1942 and 1943. It is estimated that of these supplies of 158.5 million tons, a total of 132 million tons of feed concentrates will be fed.



After allowing for seed, human food, industrial uses, and exports, the U. S. Department of Agriculture estimates the total utilization at 146 million tons. This would be about 2 million tons below last year and again substantially below the 1942 and 1943 feed seasons. There is reason to believe that the utilization for feed will, however, be somewhat in excess of this total estimated, especially in view of the continued heavy feeding of livestock and poultry. Unless some of the special measures now contemplated to reduce this heavy feeding are effectively instituted, such utilization as is estimated would leave a total of only 12.5 million tons of feed stocks at the end of the current season next October. If realized, these stocks would be somewhat above the low levels reached at the end of the critical 1943-44 season, but only about 60 per cent of the average carry-out stocks for the period 1938-42. This low carry-over could be very serious if the 1946 feed crops should turn out to be short.

There was substantially no change in the number of grain-consuming animal units on farms January 1 of this year as compared with a year ago. With the smaller total of available supplies, the supply per animal unit currently is therefore about 2 per cent smaller than last season.

The whole economy of livestock and poultry feeding is still seriously complicated by some of the price and production heritages of the wartime period, and it will probably be many months before most of these abnormalities disappear and normal balancing factors between feeds and their uses come to operate as they have previously. Price ceilings, food production subsidies, and the distribution problems tending to prevent balance between feed concentrates and livestock and poultry requirements make the current feed situation a critical one, comparable in many respects to the situation two years ago.

Business Population Expands

Seventh District Records Growth in New Firms

Since the end of the war, a substantial growth in the business population of the Seventh Federal Reserve District has occurred which is now expected to continue throughout the year. This increase in the number of business firms in the District aggregates about 25,000 firms since V-J Day. The growth is particularly evident among small firms and heavily concentrated in the trade and service fields and represents a reversal from the downward trend for more than two years after the Pearl Harbor attack.

Among many interrelated factors contributing to the current gain in business population are the return of substantial numbers of servicemen who want to operate their own businesses; conclusion of specialized wartime employment; expected growing availability of civilian goods; accumulated savings; liberalized credit opportunities; and generally good, at least short-run, prospects for business success. Despite many current economic uncertainties, moreover, a good deal of underlying optimism, necessary to the beginning of a business, persists. This is chiefly because of the large backlog of demand, especially for consumers' durable goods, substantial accumulated savings of many individuals and business establishments, and anticipated high levels of employment, incomes, and consumer expenditures for some time after wage-price-profit controversies are settled.

The total number of operating business firms in the Seventh District, which comprises most of Illinois, Indiana, Michigan, and Wisconsin and all of Iowa, is now estimated to be about 585,000, or roughly 6 per cent higher than six months ago and about 12 per cent greater than in February 1944. Unlike the initial net increase in business population during 1944, however, the current rise can be attributed to a real upsurge in new and re-established firms rather than, as earlier, to a slight increase in the number of new businesses accompanied by a sharp decline in business discontinuances.

Although the current rate of business failures in this District and the nation is extremely low as compared with prewar periods, the return of the economy to more competitive conditions can be expected to increase this mortality rate, particularly because of the disproportionately high number of new firms in the business population. While mortality among the business population in the nation has always been high, the rate among new businesses has been particularly serious, e.g., nearly one-third of all new businesses in prewar years failed during the first twelve months. In the immediate prewar period the ratio of business discontinuances to total firms operating was as high as 13 per cent annually. Even in 1944, when war-stimulated economic conditions were generally favorable, the mortality rate among new businesses was more than double the rate for all firms.

The present wave of business births is highly favorable for Seventh District employment and income. The real test of the importance of these new businesses to the District economy, however, will be their ability to survive. Survival, of course, is dependent upon many factors, notably, competent management, product or service acceptances, knowledge of the market structure, financial ability to withstand fluctuations in general business activity, and the impact of Government regulations. With so many new businesses now being formed, even admittedly with the most favorable general outlook in years, there is a strong need for managements to guide and build their new businesses with utmost care. Otherwise the present upsurge in business population may only be a forerunner of a heavy wave of business failures, with attendant losses in employment, income, and investment which the District can ill afford in the years ahead.

BUSINESS POPULATION IN WARTIME

The current growth of the business population with its highly important implications for expanding employment opportunities represents a recovery from the serious war-caused decline which occurred for more than two years after Pearl Harbor. The outbreak of war in December 1941 brought to an abrupt halt the steady climb in business population which had continued for almost a decade before in the nation and this District. Just prior to Pearl Harbor, business firms operating in the Seventh District are estimated to have numbered roughly 625,000, the highest peak ever reached. In the following two years, however, the District business population declined by approximately 100,000 firms, to a level about 15 per cent below the 1941 peak. This decline was characterized by both a very high rate of business discontinuances and a diminishing rate of new business formations. Although great strides have been made in the number of new businesses during the past year in this District, the present business population is still about 5 per cent under the prewar record level.

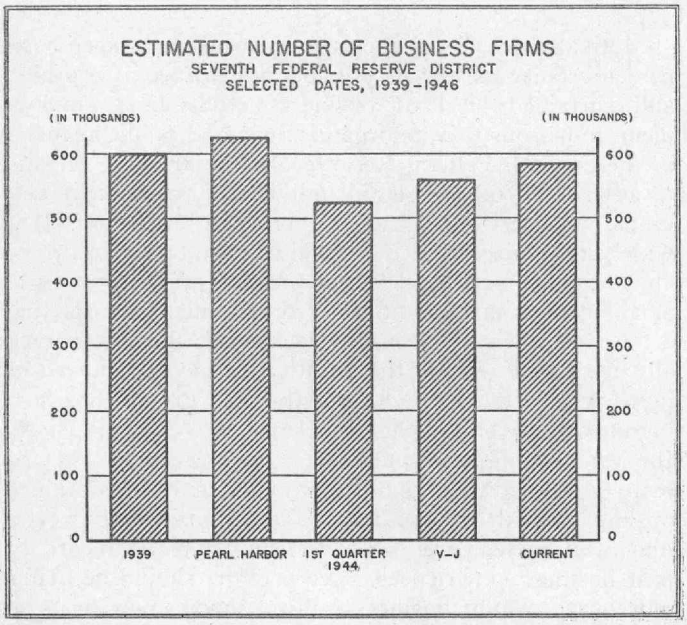
In contrast to the general prewar situation, many of the wartime business discontinuances were not failures but merely suspensions with proprietors having definite plans for reopening when hostilities ceased. Business failures in the Seventh District, according to Dun and Bradstreet reports, actually declined during each of the five years following 1939, and in 1944 were 93 per cent less than five years earlier.

Significant differences have been noted in the effect of the war upon the various segments of the District's business population, classified as to both kind and size of business. These same differences have been developed in studies by the United States Department of Commerce for the nation as a whole. Manufacturing and mining industries experienced a moderate increase in numbers during the war as emphasis was shifted in large part to the production of war materiel. Other fields, however, experienced striking declines because of scarcities of raw materials and finished merchandise for civilians and labor shortages. Construction suffered the greatest loss of firms as a result of wartime building restrictions. Trade was seriously affected by the diversion of more than half of all production from ordinary distributive channels directly to the Government for war use. Service industries fell off in number largely as a result of manpower shortages. Less severe declines were also experienced in the groups comprising transportation, communication and public utilities, and finance, insurance, and real estate.

The decline in business population following the Pearl Harbor attack was, in general, much more serious for small firms than for those of large or medium size. The wartime decline in small business, however, cannot be explained entirely in terms of size, but occurred partly because the types of business where smaller firms, for economic reasons, tend to cluster were affected most seriously by losses of manpower to selective service, shortages of materials, and other wartime influences.

AGENCY REPORTS REFLECT INCREASE

Particularly since V-J Day has the real upsurge in new business formation been observed. This boom in new business ventures is now well recorded in reports of several agencies in the Seventh District states which issue new corporation charters and local business licenses, collect sales (e.g., use, occupational) taxes from business firms, and administer consumer credit regulations. All of these sources show a marked rise in the number of new business firms.



SOURCES: Estimated from data of the Illinois and Michigan Departments of Revenue; Iowa State Tax Commission; Michigan Corporation and Securities Commission; Secretaries of State of Illinois, Iowa, and Wisconsin; Bureau of Old-Age and Survivors Insurance; United States Department of Commerce; and Federal Reserve Bank of Chicago.

From July 1945 to February 1946 more than 5,000 new business corporation charters have been issued to firms, excluding non-profit organizations, in the Seventh Federal Reserve District states. According to data furnished by the respective Secretaries of State, totals for charters issued were as follows: Illinois, more than 2,200; Iowa, 341; Michigan, 1,468; and Wisconsin, 868. Data for Indiana are not available, but the number of new corporation charters issued during the period is estimated at 500-750. During January 1946, several District states established all-time records in the issuance of corporate charters to new firms. More charters were issued to Illinois firms in the first 24 days of January 1946 than in any full month on record. A statement by the Michigan Corporation and Securities Commission, moreover, reveals that a new record was set on January 2, 1946, for the largest number of charter applications in a single day. Some of these new charters have been issued to previously established firms, but most of them are to entirely new businesses.

Retail businesses, which constituted roughly half of all operating firms in the Seventh District during 1939, are estimated to have increased more than 10 per cent in number since the end of 1944. Firms selling furniture and home furnishings have shown a rise of about 15 per cent during the past 13 months. The automotive group, comprising mainly dealers in motor vehicles and accessories, garages and repair shops, and filling stations, has grown by more than 11 per cent since late 1944. Retailers of food and food products increased by nearly five per cent during the same period.

About one out of every 25 servicemen recently interviewed in separation centers has expressed the specific intention of going into business for himself. On this basis it would be expected that more than 75,000 veterans will have started or attempted to start their own businesses in the Seventh District by the time demobilization is largely completed. Probably half of these new business ventures by veterans have been initiated and some failures already reported.

With the expected increasing availability of goods for civilian use, notably automobiles, electrical home appliances and other house furnishings, gasoline, and similar products extremely scarce during the war, has come the necessity for re-establishing channels of distribution, thus opening the way for many new and enlarged trade and service outlets. Present limitations in goods to sell and the general reluctance of manufacturers and wholesalers to divert their currently small supplies from outlets with which they have established relationships, however, are responsible for fewer new businesses being established than might otherwise be expected. A new wave of business openings, therefore, can be expected when price-wage-profit problems are resolved.

OPTIMISM CAUSES EXPANSION

The current growth of new businesses must also be attributed in part to the widely held belief that prospects are now generally good for such ventures, particularly in sales of consumers' durable goods. Many persons, in fact, are frank to say they are setting up new businesses now to "get in on the kill" of immediate postwar pent-up demand sales. Such individuals often appear to have few if any longer range plans, which may foreshadow future difficulties for their businesses.

In addition to the foregoing factors which have contributed to the new growth in business firms in this District, the financing of many new enterprises now appears to be more easily accomplished than before the war. This is due primarily to the accumulated savings and stronger credit positions of many individuals. Accumulated savings are widely reported to be an important source of funds to finance new Seventh District businesses. Many persons who previously lacked necessary funds now have sufficient wartime savings on hand to establish their own firms or acquire interests in established businesses. Many others, including servicemen, are pooling savings.

It has already been observed that the early stages of a new business are normally very difficult, and the financial aspects are no exception. Once a business has acquired some experience and demonstrated reasonable ability to continue, however, trade and bank credit becomes increasingly available.

The loan guarantee provisions of the G.I. Bill of Rights have not as yet been extensively used for business purposes. The new law liberalizing the original provisions was signed by the President on December 28, 1945, and the Veterans Administration drafted new regulations which became effective on March 1. The G.I. bill, as now amended, provides for an automatic guarantee of 50 per cent to an aggregate amount guaranteed of $2,000 for non-real estate loans and $4,000 for real estate loans, or a prorated portion thereof. Actual funds must be obtained from banks or other approved lenders who are required to assume the risk on the unguaranteed portion of the loan. To warrant the guarantee there must be a "reasonable likelihood" of success in the business or occupation for which the funds are borrowed, and the purchase price of the property must not exceed a "reasonable value" as determined by proper appraisal. Loans to purchase business property are broadly defined to include funds for fixed as well as working capital.

NEW BUSINESS MORTALITY HIGH

While new, small business enterprises in general meet a particularly critical test during their first year of existence, certain types of business have been shown to be more vulnerable to failure than others. According to United States Department of Commerce estimates, for example, 16 per cent of the new businesses with employees established in the nation in 1944 closed within a year. Variations in the annual mortality rate for specific businesses ranged from 24 per cent in mining and quarrying to 6 per cent in wholesale trade. In retail trade, 22 per cent of the new firms were casualties within the first year; in service industries, 16 per cent; and in manufacturing, 12 per cent.

Recognizing that the level of general business activity is a major factor in individual business success or failure, other basic causes for high mortality are commonly found in a lack of one or more of the following: necessary know-how on the part of management, adequate and properly trained manpower, available merchandise and good merchandising methods, and sufficient capital. Of primary importance, of course, is the selection of a type of business which promises to have a profitable market, not only immediately but upon a sustained basis. Furthermore, management should clearly understand all phases of operation and have capacity for planning. The implications of the present upsurge in business population and heavily expanded productive capacity upon future sales competition, for example, particularly for consumers' durable goods, should be recognized and anticipated by individuals opening new sales outlets. For many goods, sales will be almost automatic for an extended period, but during this same period new and established sales organizations may well take advantage of the opportunity to develop policies and techniques which will help sustain their businesses when the so-called backlog of demand has disappeared. Emphasis upon minimizing costs is important, moreover, particularly because profits during the early months or years of a new enterprise are usually small or non-existent.

BUSINESS GUIDANCE ESSENTIAL

Motivated to a large measure by a desire to keep business mortality as low as possible and to promote a high and sustained level of business activity and employment, numerous private organizations and public agencies in the Seventh Federal Reserve District are now seeking to advise and otherwise aid individuals, particularly veterans, who desire to establish their own businesses. It is widely recognized that if individuals are better informed about the business field which they are entering as well as about the financial and other requirements for starting a business, their chances for success are thereby materially improved. While the addition of new businesses is indispensable to economic growth, such growth has lasting importance only if the firms survive. With enthusiasm for establishing new businesses now greater than for many years, excellent opportunities for new and sustained business growth are apparent. This enthusiasm, however, may well be tempered with realism from the record of past business experiences. Every effort should be made, moreover, to limit business failures among new firms so as to prevent job insecurity, disappointment, financial loss, bitterness, and permanent discouragement for the beginnings of other new businesses.

BUDGET MESSAGE

(Continued from Inside Front Cover)

research, procurement, construction, and the maintenance of expanded fleets and of important military installations. Also included in this category are outlays by the United Nations Relief and Rehabilitation Administration amounting to 1.2 billion dollars for fiscal 1947. With the end of the war the lend-lease program, which accounted for about 46 billion dollars of war outlays, was terminated and will require no additional funds except for minor interagency settlements of previous transactions.

Estimates for most of the classifications of expenditures other than national defense are expanded for 1946 and 1947 as compared with the war years. This shift in the breakdown of total outlays reflects the transition from the costs of actual prosecution of the war to the continuing obligations incurred directly or indirectly as a result of the war. These so-called "aftermath of war" expenditures are estimated at 11 billion dollars for 1947 or approximately 30 per cent of the total budget outlays. Included in this category are veterans' pensions and benefits, interest on the public debt, and tax refunds. Expenditures for veterans, including educational benefits for one-half million veterans, 1.7 billion dollars in pensions, and expanded medical facilities, are expected to total 4.2 billion dollars for 1947 or more than 10 per cent of the total budget. Interest on the public debt will amount to 5 billion dollars, and refunds for overpayments of taxes through the current collection method and for excess profits credit carry-backs and similar adjustments are estimated at 2.7 billion dollars for 1946, but will be reduced to 1.6 billion for the following year.

TABLE I

SUMMARY OF THE FEDERAL BUDGET AND EFFECTS ON THE PUBLIC DEBT FISCAL YEARS 1945-1947

(In billions of dollars)

	Estimated		Actual
	1947	1946	1945
Net receipts	31.5	38.6	46.5
Expenditures			
National defense			
General budget	16.0	48.8	90.0
Government corporations (net)	—1.0	.2	.5
Total national defense	15.0	49.0	90.5
Interest on the public debt	5.0	4.8	3.6
Refunds	1.6	2.7	1.7
Veterans' pensions and benefits	4.2	3.3	2.0
International finance[1]	2.8	2.6	....
Other activities			
General budget[2]	6.6	5.3	3.0
Government corporations (net)[3]	.7	—.5	—.8
Total other activities	7.3	4.8	2.2
Total expenditures	35.9	67.2	100.0
Excess of expenditures	4.3	28.6	53.6
Net expenditures of trust accounts	.3	.3	—2.0
Retirement of Government corporation debt	.1	.2	1.6
Change in Treasury balance	—8.7	—12.8	+4.5
Net increase in public debt	—4.0	16.3	57.7
Public debt end of year	271.0	275.0	258.7

[1]Includes Government corporations, based on existing and proposed legislation.
[2]Includes outlays under proposed legislation of 250 million dollars for 1946 and 1.5 billion dollars for 1947.
[3]Excludes debt retirement.

A new type of expenditure appearing for the first time in the budgets for 1946 and 1947 is included under the heading "international finance." In connection with the international financial arrangements which have been approved or proposed, the President anticipates necessary expenditures of 2.6 billion dollars for fiscal 1946 and 2.8 billion for 1947.

Among the international financial programs provided for in the budget message are: (1) credits for the settlement of unused lend-lease goods, (2) Export-Import Bank loans for reconstruction and development and for the promotion of United States foreign trade, (3) advances under the proposed line of credit to Great Britain for the purpose of financing its balance of payments deficit, and (4) payment of the initial portion of the United States subscription to the International Bank for Reconstruction and Development. Requirements for the International Monetary Fund during the fiscal years 1946 and 1947 will not necessitate any cash outlay by the Treasury. Part will be provided by the 1.8 billion dollar Exchange Stabilization Fund, and the remaining 950 million dollars will be paid in the form of non-interest-bearing obligations of the Treasury. Net expenditures of the Export-Import Bank, expected outlays under the proposed credit to Great Britain, and payments of obligations to the Bretton Woods institutions, including the 950 million dollar non-cash item, are estimated to total 2.6 billion dollars for fiscal 1946 and 2.7 billion dollars for fiscal 1947.

Other expenditures of the Government also are expected to show substantial increases over 1945 levels. Aid to agriculture and the price support and other activities of the Commodity Credit Corporation will bring the total costs of the agricultural program to 2 billion dollars for 1947. The general program of public works is also scheduled for expansion, particularly with respect to outlays for highways and airports and for flood control and reclamation. Total expenditures for "other activities," including outlays by Government corporations, are expected to amount to 4.8 billion dollars during the current fiscal year and 7.3 billion for fiscal 1947, compared with 2.1 billion for 1945. The 1947 figure includes 1.5 billion dollars for activities based on proposed legislation excluding international finance.

Required appropriations and contract authorizations for the fiscal year 1947 are tentatively estimated in the budget message at 30 billion 982 million dollars. Permanent appropriations will provide 5 billion 755 million, chiefly for interest on public debt. During the war it was necessary that appropriations be made well in advance of expenditures. Thus total authorizations and commitments of Government corporations for the war program from July 1, 1940, through June 30, 1945, amounted to 432 billion dollars against which there were 290 billion dollars of expenditures—leaving 141 billion

TABLE II

FEDERAL RECEIPTS, FISCAL YEARS 1944-1947

(In billions of dollars)

Source	Estimated 1947	Estimated 1946	Actual 1945	Actual 1944
Direct taxes on individuals	12.9	15.8	19.8	20.3
Direct taxes on corporations	8.2	12.4	16.4	15.3
Excise taxes	6.3	6.3	5.9	4.4
Employment taxes	1.9	1.6	1.8	1.8
Customs	.4	.4	.4	.4
Miscellaneous receipts	3.2	3.2	3.5	3.3
Total receipts	32.9	39.7	47.7	45.4
Deduct: Net appropriation to Federal old-age and survivors insurance trust fund	1.4	1.1	1.3	1.3
Net receipts	31.5	38.6	46.5	44.1

dollars in unexpended balances and unliquidated obligations. To readjust these authorizations in order to bring them more closely into line with expenditures, actual and recommended rescissions of appropriations in the current fiscal year will total 60.8 billion dollars, which with other minor adjustments, will bring unexpended authorizations down to 28 billion dollars on June 30, 1946. By the close of fiscal 1947 cumulative authorizations for war and national defense will amount to 376 billion dollars; expenditures, 354 billion; and unexpended authorizations, 22 billion.

SMALLER TAX RECEIPTS EXPECTED

Net receipts from taxes and miscellaneous sources reached an all-time high of 46.5 billion dollars in the fiscal year 1945. Budget receipts are expected to decline during the current fiscal year and again in fiscal 1947 but to a much smaller extent than the decline in expenditures. Most of the decrease in expected receipts will occur through the drop in taxes paid by individuals and corporations, as indicated in Table II. Direct taxes on corporations show the greatest decline, both percentage-wise and in dollar amounts. For 1947, revenue from this source is estimated at 8.2 billion dollars or 50 per cent less than the 1945 level. It will provide approximately 25 per cent of total receipts, compared with 34 per cent for 1945. Corporation tax liabilities will be reduced principally by three factors: offsets to current payments granted under the Tax Adjustment Act of 1945, the decline in corporate profits from the 1943-44 peak, and, for 1947, the reduction in surtax rates and the repeal of the excess profits tax effected by the Revenue Act of 1945.

Tax receipts from individuals will likewise reflect lower income payments, caused by a reduction in war spending by the Government to an extent greater than the expansion in private activities. They will decrease 7 billion dollars in the two years ending June 30, 1947. Tax payments by individuals will begin to show the effects of the 1945 rate reductions during the current fiscal year.

Partially offsetting the decline in income tax receipts, excise taxes are expected to yield increased revenue in 1946 and 1947 as taxable commodities, particularly tobacco, become more plentiful. Employment taxes will decline with lower levels of salaries and wages in the current fiscal year, but will increase in 1947 as a result of the rise from 1 per cent to 2½ per cent in the contribution rate under the Federal Insurance Contributions Act.

Miscellaneous receipts include proceeds from the renegotiation of war contracts and the disposal and rental of surplus property. These receipts are expected to show a decline in 1946 from 1945 as a result of smaller recoveries from renegotiations, but because of estimated sales and rentals of surplus property amounting to 2 billion dollars they will not be further reduced during the fiscal year 1947.

Because of the continued high level of budgetary expenditures and the danger of inflationary pressures, the President strongly advised against any additional reductions in tax rates at this time.

CASH BALANCE TO BE REDUCED

Table III shows the trend in the cash balance of the Treasury and its relation to the budget deficit and public debt since 1940. As a result of heavy proceeds from sales of securities during the Victory Loan Drive, the balance on December 31, 1945, was 26 billion dollars. Of this large cash balance, 12.8 billion dollars will be used to offset part of the deficit for the current fiscal year. An additional reduction of 8.7 billion will cover the 4.3 billion dollar deficit and retire 4 billion dollars of debt during fiscal 1945—leaving a balance of 3.2 billion dollars, which is expected to be adequate for peacetime needs.

After allowance for the reduction in the Treasury's balance, the net increase in the public debt during the current fiscal year is estimated at 16.3 billion dollars, bringing the total public debt to 275 billion dollars on June 30, 1946. The debt reached an all-time high of 278 billion on December 31, 1945. The anticipated 4 billion dollar debt retirement in the coming fiscal year will represent the first annual decline in the debt since 1930.

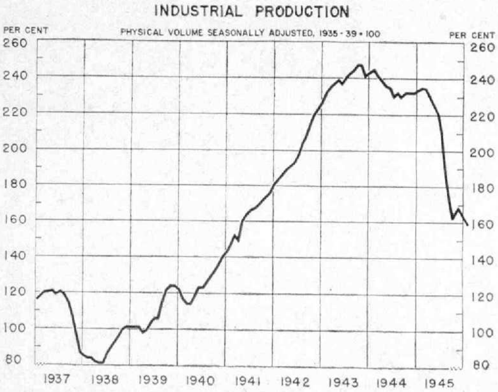
TABLE III

BUDGET DEFICIT, THE PUBLIC DEBT, AND THE TREASURY'S CASH BALANCE, FISCAL YEARS 1940-1947

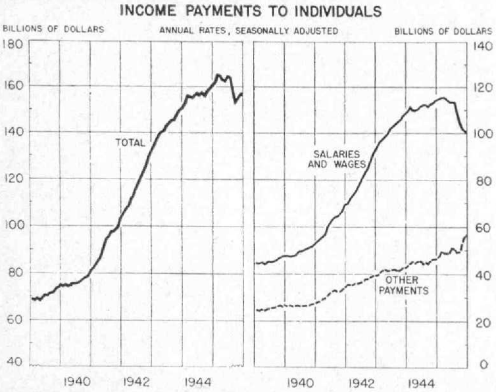
(In billions of dollars)

Fiscal Year	Budget Deficit[1]	Public Debt (At End of Period)	Cash Balance (At End of Period)
1940	3.9	43.0	1.9
1941	6.2	49.0	2.6
1942	21.5	72.4	3.0
1943	57.4	136.7	9.5
1944	51.1	201.0	20.2
1945	53.6	258.7	24.7
1946 (e)	28.6	275.0	11.9
1947 (e)	4.3	271.0	3.2

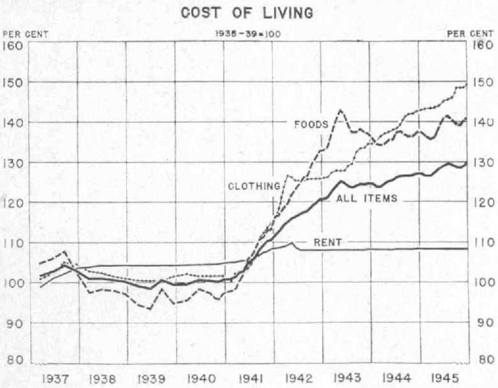
[1]Including net expenditures of Government corporations and credit agencies, other than debt retirement.
(e)Estimated.



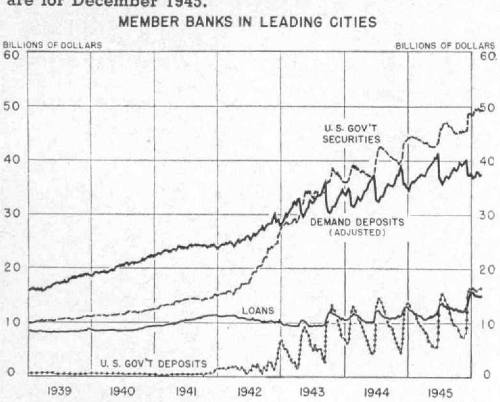
Federal Reserve index. Monthly figures, latest shown are for January 1946.



Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for December 1945.



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for December 1945.



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 February 20, 1946.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Output at factories declined further in January and the early part of February owing to work stoppages. Production and employment in most non-manufacturing lines, however, continued to advance and the value of retail trade was maintained considerably above last year's level.

Industrial Production—Wage disputes sharply reduced output in the iron and steel and electrical machinery industries during January and the early part of February. These decreases were offset in part by increased output in most other manufacturing lines and in mining. The Board's index of total industrial production was at a level of 159 per cent of the 1935-39 average in January, as compared with 164 in December.

Steel mill operations, which averaged 83 per cent of capacity in the first three weeks of January, dropped to around 6 per cent during the succeeding four weeks. Since settlement of the wage dispute in the steel industry, output has recovered sharply and during the last week of February operations were scheduled at 59 per cent of capacity.

Activity in machinery industries declined about 5 per cent in January, mainly because of work stoppages in plants of leading electrical equipment producers after January 15. Output of most other types of machinery continued to increase. Activity in the automobile industry rose in January, even though plants of the leading producer remained closed by a labor-management dispute. About twice as many automobiles and trucks were assembled in January as in December. Passenger car assemblies were at an annual rate of 700,000 cars which, however, was only about one-fifth of the 1941 rate.

Lumber production rose considerably in January and there were substantial increases in output of most other building materials from previous low levels. Production gains were also recorded in January at textile and paper mills, at printing and publishing establishments, and in the furniture, tobacco, chemical, and rubber products industries.

Output of minerals rose 5 per cent in January, reflecting large increases in output of anthracite and bituminous coal and a small gain in production of crude petroleum. Coal production in January and the first part of February was at a rate about 8 per cent above a year ago.

Employment—Employment at trade establishments in January showed a much smaller decline than is usual after the Christmas season and employment in most other industries continued to advance. Construction employment in January was double the level in the same month last year, and, following large increases since last autumn, employment in the trade, finance, service, and miscellaneous industries was substantially larger than a year ago. Employment at factories was about one-fifth lower than at the beginning of 1945 as reductions in munitions employment was only partly offset by increases in other employment. Unemployment rose somewhat further by the middle of January to a level of 2,300,000 persons.

Distribution—Value of department store sales in January was 15 per cent above last year and in the first half of February the increase was larger. Retail sales at stores selling furniture, building materials, and other durable goods were from 25 to 40 per cent above a year ago in January and the total value of retail trade since the first of the year has been about one-fifth higher than during the same period last year.

Railroad freight traffic was reduced from the middle of January to the middle of February owing mainly to the work stoppage in the steel industry. Shipments of agricultural commodities, coal, and general merchandise, however, remained at high levels.

Commodity Prices—Federal price policies were modified in the middle of February to permit increases in ceilings made necessary by Federally approved wage-rate advances and sellers now may ask for immediate price relief rather than waiting six months. Accompanying this action steel prices were raised by 8 to 9 per cent. Ceiling prices for a number of other manufactured products, including certain foods, cotton goods, paper, and lumber, have also been increased in recent weeks.

Bank Credit—Treasury deposits increased by more than one billion dollars in the five weeks ending February 20, reflecting large Treasury tax receipts, reduced expenditures, and sales of savings bonds and tax savings notes in excess of securities redeemed. Deposits, other than Government and inter-bank, showed little change during this period, in contrast to developments in former post-drive periods when funds were shifted rapidly from Treasury balances to accounts of businesses and individuals. Bank loans made for purchasing and carrying Government securities were further reduced, while commercial, industrial, and agricultural loans continued to increase.

Banks continued to increase their holdings of Government securities, purchasing bonds in the market and Treasury certificates from the Federal Reserve Banks. Nonreporting banks drew upon their balances with city correspondents to increase their loans and investments. City banks met this and other drains in part by selling bills to the Reserve Banks.

SEVENTH FEDERAL

RESERVE DISTRICT