



NOVEMBER 1949

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Post-Strike Business Trends

"Heavy" Industry Readjustments to Continue

Current and anticipated return of striking steel and coal workers to their jobs, as well as re-employment of many others made idle by these work stoppages, foreshadows an important recovery movement in manufacturing employment and general business during the remainder of the year. The ending of serious strikes, however, does not in itself provide the basis for enduring high levels of business activity. In a few months the more fundamental trend of business should become evident. Although the strikes may well have postponed some of the remaining postwar readjustments from sellers to buyers markets, particularly in automobiles, steel, and many types of heavy equipment, they clearly have not eliminated such eventual transitional problems.

Except for the post-strike recovery—probably back to September levels—changes in employment and business generally during early 1950 should be small. The underlying direction of business, however, still seems to be gradually downward, although admittedly a net result of several mixed trends: (1) moderate weakness, particularly in heavy industries, plant and equipment investment, and some commodities, and (2) less pronounced expansive elements, rooted primarily in expected larger government outlays, construction, and some inventory balancing.

Strong "props" for business in 1950 are not difficult to find; but much more illusive are definite indications of future *expanded* buying by private business and consumers. In short, business itself seems likely to continue in a "defensive" buying period for some time, with government showing most new buying initiative. Consumers—with the greatest short-run buying power—are exercising caution, but responding well to lower prices and credit inducements.

The mildness of the 1949 recession in this District undoubtedly has resulted in considerable part from record automobile production, especially during the spring and summer months. The automobile industry has expanded activity in its own assembly and parts plants and has helped maintain the level of orders for steel and numerous other basic materials. A further contribution to the recent pre-strike upturn in employment, production, and income was the resurgence of orders for certain other durable goods, e.g., major household appliances, television sets, and specialized industrial equipment.

Prior to the steel strike, which began October 1, a moderate upturn in Seventh District business had been evident since midsummer. Most business measures, e.g., employment, production, income, and sales, showed marked improvement during August and September. The rise seemed largely attributable to seasonal factors and to some noticeable amount of accelerated buying for inventory balancing. Since both of these developments are

of a temporary nature, it did not appear even before the strike that the bottom of the postwar recession had yet been reached. Moreover, numerous business executives in this "heavy industry" region doubted that it had. Devaluation is the cause of some new fears, particularly for export sales next year, also.

RECENT BUSINESS DEVELOPMENTS

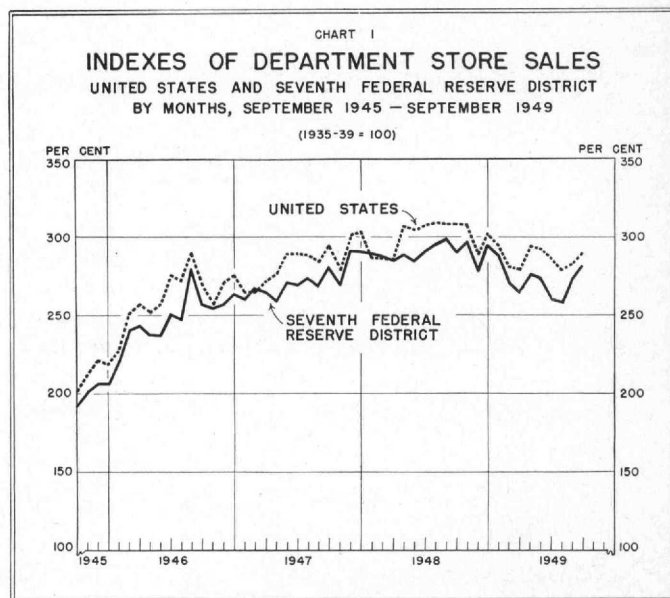
Consumer Income, Spending, and Saving—Following the modest April-July dip, aggregate personal income in the Seventh District was increasing slightly immediately preceding the steel strike. Wages and salaries, which constitute a somewhat larger proportion of personal income in this District than in the nation as a whole, appeared to be at or near the year-ago level.

Factory payrolls declined more rapidly than employment during the spring and summer production drop, since hours of work were reduced in many plants which did not make sizable layoffs. However, seasonal increases in construction activity combined with belated wage adjustments in many nonmanufacturing establishments softened the effects of the factory payroll decline.

Further countering the drop in factory payrolls, transfer payments—chiefly unemployment compensation—increased quite markedly. Likewise, the continued rise in salaries of nonproduction workers, together with minor gains in hourly wage rates of employed production workers, supported total wage and salary income.

No major change in general wage rate patterns has occurred in the mass production industries this year, but

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Meat and Meat Packing

Rising Production Trend Fails to Maintain Profits

The meat packing industry set a new dollar sales record in 1948 which is likely to be approximated this year. However, net earnings, which in 1948 were one-third to one-half below the unusually high levels of 1946 and 1947, in all probability will show further decline in 1949 with some prospects for recovery in 1950. No return to the high profits of the inflationary years is contemplated.

Profit declines since early 1948 resulted from unfavorable price fluctuations, work stoppages, and a squeeze on operating margins involving a combination of higher costs, higher livestock prices, and growing consumer resistance to high meat prices. The financial position of the industry has deteriorated somewhat during the past two years, as both long- and short-term debt rose from the 1947 low. Nevertheless, most long-established firms in the industry continue to be stronger financially than before the war.

The meat industry experienced its first major postwar adjustments early in 1948, a full half-year before general business turned downward. Although large-scale adjustments already have been made, further problems lie ahead for meat packing. The profit outlook for the industry in 1950, nevertheless, may be somewhat better than in the current year because of a larger volume of production already assured, and better prospects for price stability and cost control.

RISING PRODUCTION AHEAD

Meat production in the calendar year 1949 is expected to total about 22 billion pounds, slightly more than in

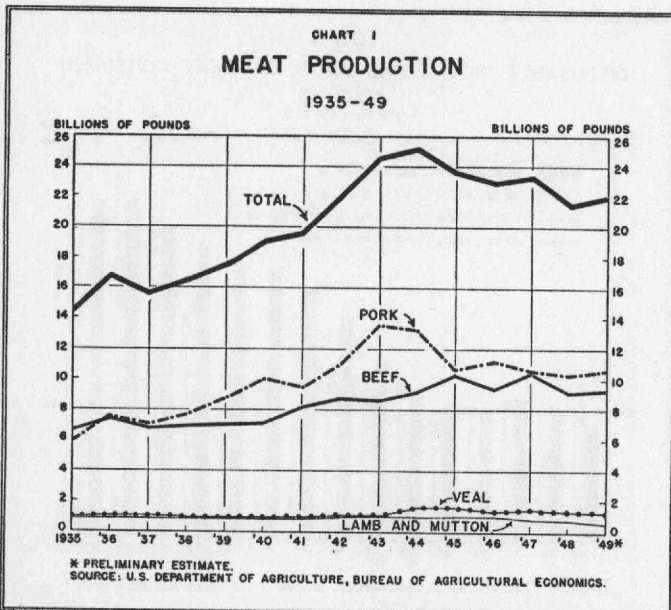
1948 and one-fourth more than the average for the immediate prewar years 1937-41. During the first half of the present year, production was about equal to the corresponding period of 1948, but in the second half a sharp increase in pork production is expected to raise total meat volume for the year moderately above the 1948 output of 21.6 billion pounds (Chart 1).

The current upward trend in meat supplies reflects expanding livestock production on farms and is largely in response to abundant supplies of feeds on hand and in prospect. High livestock prices, of course, have encouraged the expansion.

For the year ahead, most of the increase in meat production will be pork, although a moderate increase in the supply of higher grades of beef also appears probable. Veal and lamb supply is expected to show little change from current levels. The outlook is for over-all meat volume in 1950 to exceed the current year's level by as much as five to eight per cent.

The declining trend since 1944 in numbers of livestock on farms now has been reversed and moderate annual increases are expected over the next several years, if feed supplies continue abundant. Although the number of all cattle and calves on farms declined nine per cent from 1945-48, beef cow numbers declined only three per cent. Consequently, the productivity of the United States beef cattle herd has been relatively well-maintained. Total beef production in 1950 is expected to approximate the 1949 volume.

Hog numbers declined seven per cent from the record high in 1945 to January 1, 1948. It is possible, however, to increase hog production more rapidly than for the other common meat animals. The current recovery started with the fall pig crop of a year ago. The 1949 spring pig crop, coming to market in large volume currently, was 15 per cent larger than in 1948 and is expected to result in a substantial increase in pork production in the fourth quarter of 1949 and the first quarter of 1950. Further increases in both hog and pork production are anticipated.



This article is presented in lieu of a 1949 supplement to *A Financial and Economic Survey of the Meat Packing Industry*, published by this Bank in 1946 with annual supplements in 1947 and 1948. Suspension of comprehensive meat packing financial data previously compiled and released by the Packers and Stockyards Division of the U. S. Department of Agriculture prompts deferment of more extensive financial analysis of the industry until new sources of data are developed. Financial statements of 49 meat packing companies analyzed in this study include those from published sources plus others supplied by the Robert Morris Associates. Data are for the fiscal years beginning in most cases on November 1.

Additional copies of this article may be obtained on request to the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago 90, Illinois.

Sheep and lamb numbers are at the lowest level of record. There has been a rapid fall from a record high in 1942 to the current record low in 1949. There are indications that the decline has ended, but with no evidence yet that a substantial recovery in numbers is under way.

MEAT DEMAND DECLINES

Although physical volume of meat processed by packers can be projected with some accuracy upon the basis of livestock on farms and expected marketings, dollar sales volume must depend upon variations in consumer demand for meat at the retail counter. Total retail value of meat in 1949 probably will be about six per cent below 1948, despite somewhat larger physical volume, reflecting the lower level of prices prevailing in most of 1949 (Chart 2).

During the first seven months of this year, wholesale prices averaged 10 per cent below the same period of 1948 and prices at retail were down three per cent. Meat prices in the second half of 1949, however, are further below the year-ago level, largely as a result of the unusually sharp upsurge of prices in mid-1948. Moderately lower prices are in prospect for 1950.

Even though consumer income in the first eight months of 1949 exceeded that of the corresponding period in 1948 by 1.5 per cent, the over-all demand for meat declined. This was evidenced by a reduction in the proportion of disposable income spent for meat. Meat expenditures accounted for 5.6 per cent of disposable income (personal income less taxes) in the first half of 1949, about equal to prewar, down from 6.1 per cent in 1948 and 6.3 per cent in 1947. This development probably can be traced to such factors as the increasing competition of other goods and services for consumer expenditures, especially houses, automobiles, and installment plan items which require continuing payments, and a tendency, starting in the third quarter of 1948 for individuals to save more of their income. The firmness of meat prices currently, in the face of increasing supplies, indicates that the decline in the demand for meat has ceased, temporarily, at least.

A recent study of food consumption by city consumers¹ points up the importance in the demand for meat of total income level and its distribution among consumers. Meat consumption of city families was 10 per cent higher in the spring of 1948 than in 1942 principally because of increased consumption by low income families. For families in the lower third of the income scale the increase in per capita consumption was 19 per cent; for the middle third, three per cent; and for the higher third, the same as in 1942. Per capita meat consumption increased little at family income levels above \$4,000.

Income level also influences the kind of meat consumed. Consumption of beef increases more rapidly with increases in income than is true for pork but gains for both level off above the \$4,000 income level. Lamb, however, is used by families with incomes of \$7,500 and

over in more than twice the quantity used by those with incomes under \$4,000. Veal consumption shows only a slight increase with higher income. Demand for bologna, frankfurters, ground beef, luncheon meats, and similar products increases sharply with income up to the \$3,000 to \$4,000 level, then decreases as the higher income families turn to more expensive cuts. Beef steaks and roasts are used in twice the quantity among families with incomes of \$4,000 and over as by those with incomes under \$1,000.

PROFITS DECLINE

The comparatively poor earnings picture for the meat packing industry in 1948 was influenced heavily by the experience of the "big four," (Swift, Armour, Wilson, and Cudahy) whose earnings after taxes declined from 14.7 to 5.6 per cent of net worth from 1947 to 1948. Earnings of *medium*² size firms (i.e., with assets from 5 to 50 million dollars) declined slightly from 12 to 11 per cent of net worth, while those of *small* firms (under five million in assets) dropped sharply from about 15 per cent to less than four.

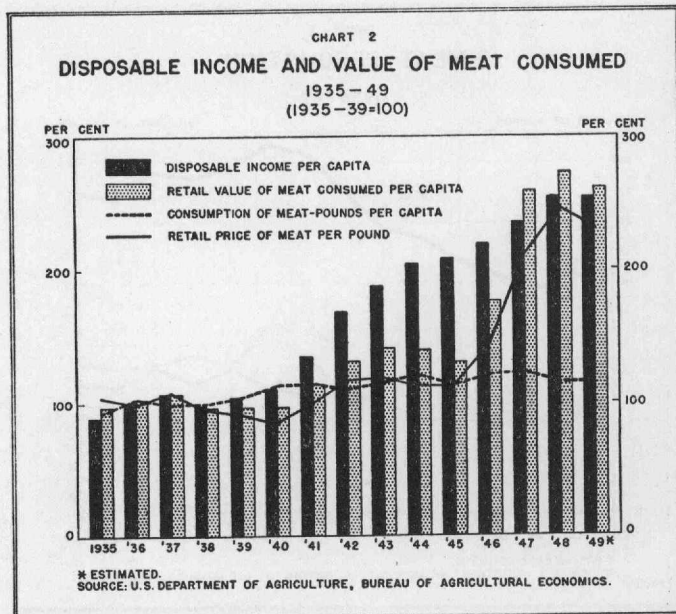
The favored position of the medium firms continues a tendency noted in previous studies. Since meat packing profits began to decline, the most stable earnings have been reported in all size classes by concerns using last-in-first-out method of inventory valuation (LIFO)³ and possessing low debt-equity ratios.

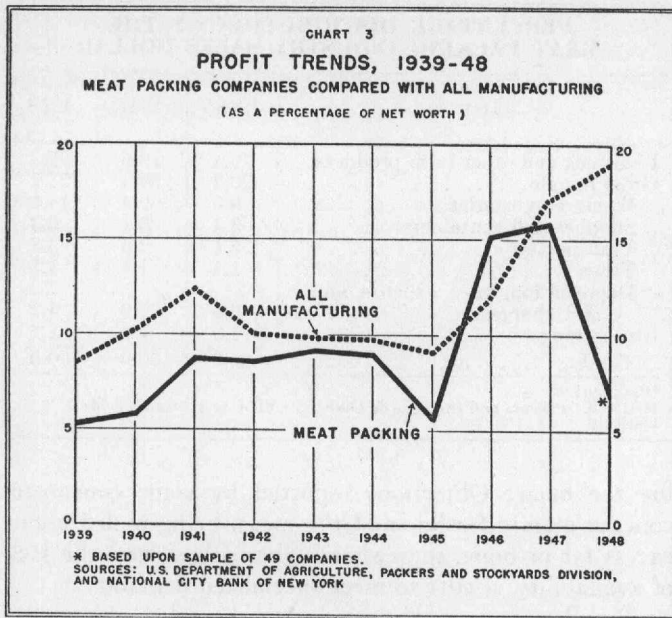
Most industries recorded their greatest profits in history last year. The National City Bank reported that although 1948 earnings of a selected group of manufacturing industries were 22 per cent greater in 1948 than in 1947, earnings of the meat packing firms included in the group suffered a 46 per cent decline (Chart 3).

¹ "Meat Selections of City Families," U. S. Department of Agriculture, Bureau of Agricultural Economics, Commodity Summary No. 1, August 1949.

² The size classifications used in this study approximate those of previous supplements except that the 1941 asset base has been abandoned in favor of 1948.

³ See *Business Conditions*, February 1948 for a fuller discussion of LIFO.





Inventory losses played a major part in the declining 1948 profits of the meat packing industry. The drop in wholesale meat prices in February of that year was more than 17 per cent and inventory losses of meat packers, particularly those not using LIFO were large. This experience was avoided, in part, by those firms which correctly anticipated that prices would recover later in the year. February is a month of high inventories for most packers, especially those handling large quantities of pork products. In some cases these inventories were well over the base quantities covered by LIFO.

A strike called by the United Packinghouse Workers (CIO) at some of the plants of the major packers in March 1948 lasted until late May and added to the losses occasioned by the price break. Smaller packers, many of which did not experience work stoppages, gained considerable production volume during the strike, largely at the expense of the large firms. In large part, this condition explains the relatively unfavorable earnings results of the large firms in 1948.

Operating profit margins for most firms declined in 1948 both as a percentage of sales and in cents per pound of product, in part, at least, because of increased operating costs. Average hourly earnings of production workers in meat packing have been approximately \$1.40 per hour since April 1948, 10 to 20 cents higher than the rates prevailing during 1947. In addition, packers had to provide for larger depreciation allowances on new equipment, heavier interest charges on increased debt, and higher prices for supplies and livestock. Consumer resistance to higher meat prices prevented packers from passing on all of these higher costs, with the result that profit margins for 49 companies included in the present study declined from about 1.5 per cent of sales in 1947 to less than half that amount in 1948, despite the higher over-all dollar volume of sales.

Distribution of meat packing revenues varied little between the years 1947 and 1948, according to estimates by the American Meat Institute (see table). Principal

changes resulted from lowered profitability of the industry. Net earnings dropped from 1.6 to 1.0 per cent of the sales dollar, and taxes from 1.4 to 1.1 per cent. Higher livestock prices, wages and supply costs accounted for most of the drop in taxes and net profits.

In view of the price, production, cost experiences of packers, a reduction in operating results for the current fiscal year starting November 1, 1948, can now be anticipated. A price break in February again caused some inventory losses and narrowed profit margins. Prospects for the 1950 fiscal year should show some improvement as wage rates in the industry appear to have stabilized, temporarily at least, and a large supply of livestock can be expected, permitting an effective use of fixed assets.

BALANCE SHEET ANALYSIS

The financial position of the meat packing industry, particularly the large companies, deteriorated to some extent during 1948. Working capital now provides less adequate coverage for current liabilities and long-term debt has increased in importance. In general, the industry is still financially strong relative to prewar because of large earnings retentions in the past few years. Several firms discontinued dividend payments during the past year, which might have jeopardized their newly won credit status.

Despite a 10 per cent rise in current assets and an increase in the dollar amount of net working capital, from 1947 to 1948, current assets of the 49 companies studied dropped from 2.7 to 2.4 times current liabilities (see Chart 4). A 50 per cent rise in bank borrowings was largely responsible. Almost all of this increase in current debt was incurred by the firms with assets in excess of 10 million dollars. Most *small* packers restrained new borrowing during 1948 and some reduced bank indebtedness outstanding at the end of 1947. The lowered earnings of the large firms probably accounts for most of this difference between size groups.

Owners' equity, measured by reserves and net worth on balance sheets in meat packing corporations, fell from 62 per cent of total assets in 1947 to 57 per cent in 1948. Lower worth to debt ratios for the industry were the result largely of changes in the statements of large packers. Long-term debt increased about 35 per cent, but this could be traced mainly to a 40 million dollar bond issue by Armour and 35 million dollars in debentures of various maturities by Swift. Interest rates on the longer terms, 3½ per cent in the case of Armour despite unfavorable earnings, and 2⅞ per cent for Swift, reflect long-run confidence of the capital market in the meat packing industry. Worth to debt ratios of the smaller firms, for the most part, remained constant or moved upward slightly.

In the first six months of 1949, Dun and Bradstreet reported 12 failures among "Meat Products" manufacturers (including non-slaughtering firms). During the first half of 1946, only one such firm failed. In the corresponding periods of 1947 and 1948, failures totaled six and five respectively. Considering that the number of meat packing establishments recorded by the Census of

Manufactures increased substantially over the period 1939-47, the failure record is remarkably good.

Capital expenditures for the meat packing industry in 1947, according to the U. S. Bureau of the Census, were 67.6 million dollars. This amounted to about seven dollars of capital outlay for every hundred dollars of value added by manufacture; the comparable figure for all manufacturing establishments was close to nine dollars. The comparative showing for meat packing firms is creditable considering that the industry is not highly mechanized and was afflicted with over-capacity problems before the war. Most of the capital outlay has been for modernization, replacements, and more efficient plant location. Plant accounts of the major packers indicate that capital expenditures in 1948 were slightly more than those of 1947, but it is likely that they have fallen off during the current year both because of completion of programs and lower earnings retentions.

OTHER RECENT DEVELOPMENTS

Foreign commerce in meat and livestock is not expected to significantly affect domestic prices or rates of consumption in 1950. In recent months imports have been much less than in the corresponding months of 1948, when beef and veal imports from Canada temporarily reached substantial volume after that country lifted its restrictions on exports. In the first half of 1949, United States exports and imports of meat were approximately in balance and at a very nominal level, with exports accounting for less than one per cent of domestic production, a usual condition. United States export controls on meats, meat animals, and meat products were removed in August 1949, but effects on export volume are not likely to be important in the year ahead.

Cold storage locker plants in operation at mid-1949 totaled 11,245, according to a U. S. Department of Agriculture survey, an increase of 628 in the year. The increase was the smallest for any year since 1943 and with the exception of two years the smallest since annual reports were started in 1938. There are indications that many areas have all the plants they can support. Competition has forced the closing of a few plants, although many others continue to enjoy an expanding volume of business. There is some tendency for established plants to add slaughtering facilities. The number of cold storage locker plants and over-all locker capacity seems likely to continue to increase in the year ahead but probably at a still more reduced rate.

Self-service retailing of meats seems to be here to stay—"it's no passing fancy". This is the conclusion of a research study reported by the Michigan Agricultural Experiment Station. It is estimated that the number of stores in the United States operating on a 100 per cent self-service basis will approximate 1,500 by the end of 1949, compared with 178 in April 1948.⁴

The major items which attract consumers to this type of meat retailing are the ready availability of weight and price information, ease of shopping, and ability to exam-

PERCENTAGE DISTRIBUTION OF THE MEAT PACKING INDUSTRY SALES DOLLAR

Item	1948*	1947	1939
Livestock and other farm products . . .	79.8	79.6	72.3
Gross margin	20.2	20.4	27.7
Wages and salaries	9.6	9.4	14.1
Supplies and containers	3.4	3.1	3.3
Transportation	2.1	2.0	3.8
Taxes	1.1	1.4	1.1
Depreciation, sales, expense, and other charges	3.0	2.9	4.2
Net earnings	1.0	1.6	1.2
Total	100.0	100.0	100.0

*Preliminary.
SOURCE: Packers and Stockyards Division USDA and American Meat Institute.

ine the meat. Objections reported by some consumers concern mainly freshness of the meat, being fooled about excess fat or bone, somewhat higher prices, and the lack of availability of cuts to meet specialized demands.

Retailers report that several technical problems remain to be solved and that they have some difficulty in anticipating the demands of their customers. They insist, however, that packaged meats are priced no higher than comparable meat sold over the counter. Sales of pre-packaged frozen meat continue in relatively small volume.

A further uncertainty centers around labor requirements. Organized meat cutters have frowned on this development in retailing. This may effectively limit its adoption in many areas.

Canned meat production in the first seven months of 1949 was moderately below the year-ago level, but only one-half the high level output achieved during the war years. However, continuation of an enlarged domestic market for these products was indicated since production was two to three times the prewar volume.

Lard poses a problem of increasing proportions. Production in 1948 totaled 2,368 million pounds; in 1949 production may be 300 to 500 million pounds more, and with increasing hog production under way even larger lard supplies are forthcoming. Lard prices have declined sharply in the past year and the outlook is for even lower levels.

Exports in 1949-50 probably will not reach the record level of 1944, with the result that the supply available for domestic consumption probably will be larger than in the past year necessitating either increased carry-over or higher per capita consumption.

Farmers and meat packers alike have devoted much attention to the possibilities of enlarging the domestic market for lard, and reducing the production of lard relative to pork. Improved lard products have been offered consumers in limited quantity but at relatively high prices. As an increased volume of such products is marketed their price is likely to approximate the price of lard. This would enlarge the total lard market in part, at least, at the expense of competing fats and oils. Hogs which produce high proportions of "lean cuts" are available. Rapid adoption by farmers of the breeding, production, and marketing practices necessary to yield "lean pork" probably will not be experienced, however, until hog

⁴ Sam Teitelman, "Self-Service Meats," *The National Provisioner*, May 14, 1949.

marketing procedures are adjusted so as to reflect more adequately the relative value of such hogs in market prices.

Other significant developments in the market for animal fats include the rapidly expanding use of detergents in the soap field and of chemical emulsifiers or "bread softeners" in the baking industry. These developments may have important adverse effects on prices of animal fats. Synthetic detergents used in households accounted for 20 to 25 per cent of all packaged soap and other detergents sold during 1948, compared with two per cent in 1945 and about 10 per cent in 1946. Production of synthetic detergents is expected to show further large increases over the next several years, in part at least, at the expense of soap. The use of "bread softeners" in bakery products probably would decrease the demand for lard and is opposed for this and other reasons by several interested groups.

The continuing westward march of the meat packing industry closer to sources of supply continued during the period 1939-47 as revealed by the recently released Census of Manufactures. Illinois is still well in the lead if volume is measured by the "value added by manufacture," but Iowa, the second state, narrowed the gap considerably. Iowa is actually ahead in total pounds of dressed meat produced, but the auxiliary processing operations are more important in Illinois. Biggest strides forward proportionately have been made by Nebraska and Texas, which rose from tenth and thirteenth to fourth and sixth places, respectively, from 1939 to 1947. The states which have slipped the most relatively are New York and Ohio.

Greatest changes in the proportion of meat packing done within states were recorded for Illinois, which dropped from over 19 to less than 13 per cent, and Nebraska, which almost doubled its proportion of the total, to six per cent. As a group, the West North Central states (Minnesota, Iowa, Missouri, Nebraska, and Kansas) now account for 34 per cent of all meat production as against 28 per cent for the East North Central states (Ohio, Indiana, Illinois, Michigan, and Wisconsin). In 1939 the standings of the two areas were approximately reversed.

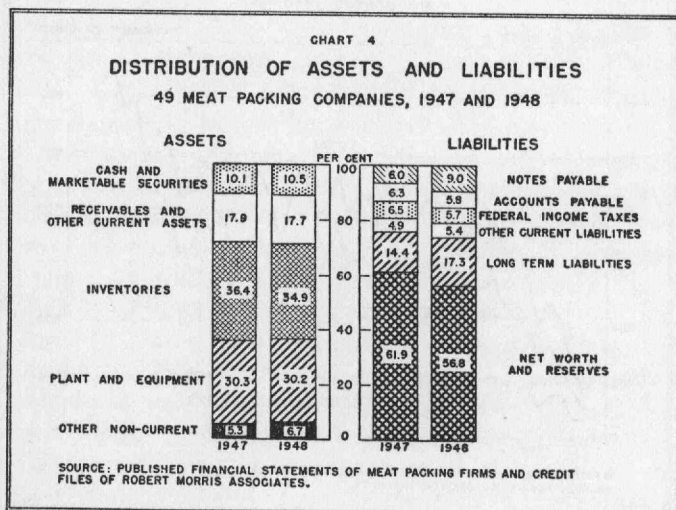
Federally inspected plants which distribute products across state lines show an increase in meat production in 1949 relative to production in non-Federally inspected establishments. This increase is in part a reflection of the effects on output of work stoppages which were common in the larger plants in the spring of 1948. There is also some indication that the large wartime and early postwar gains in output of small slaughtering establishments, which for the most part operated without Federal inspection, are disappearing as the larger, well-established firms regain their "normal" share of the industry's output.

Labor conditions in the meat packing industry now appear relatively stable, as the approximately 200,000 workers continued at their jobs through August 11, 1949, expiration date for contracts with the three important unions—the United Packinghouse Workers (CIO), the Amalgamated Meat Cutters and Butchers Union (AFL), and the National Brotherhood of Packinghouse Workers (Independent). Negotiations for a new contract were recently concluded between one of the large companies and the CIO and AFL unions acting in concert (an unprecedented action). The agreement runs to August 11, 1950, but provides for reopening on February 15, 1950, for further negotiations on wages. The contract is expected to set a pattern for the industry. Major changes include decreased differentials between outlying and city plants as well as between skilled and unskilled jobs, and increased disability, severance pay, and vacation benefits.

Hourly earnings of production workers in meat packing, as reported by the Bureau of Labor Statistics, are about 13 cents above the figure for food processors of all types and slightly above the average rates for all manufacturing industries. The unions claim that seasonal variations in employment require still higher pay to compensate for shorter hours and layoffs. There is considerable opposition to the introduction of incentive pay plans, although management contends that higher productivity justifying wage increases can best be achieved by such means.

An anti-trust suit was filed by the Department of Justice in September 1948 seeking to force the large packing companies to abandon certain buying and selling practices and to break up the "big four" into 14 separate companies. According to the FTC the assets of Armour and Swift in 1947 accounted for almost 55 per cent of the net capital assets of all meat packers, and of Wilson and Cudahy, almost 15 per cent, making a total for the "big four" of about 70 per cent of the industry. A check of earnings statements reveals that in 1947 the "big four" accounted for 5.5 billion dollars of the industry total of 9.4 billion dollars of sales or close to 60 per cent. (The proportion was somewhat lower in 1948 because of the strike.)

The Government has offered publicly little new evidence to support its case; the original complaint cited alleged abuses dating back 50 years. However, on November 4 the court ruled against motions by the defendants that the case be dismissed, but restricted evidence presented by the Government to developments and practices since 1930. No date for the trial has been set.



POST-STRIKE BUSINESS TRENDS

(Continued from Inside Front Cover)

fairly numerous minor rate increases have taken place in smaller plants and in nonmanufacturing lines. General wage rate increases were approved in late spring and early summer for building trades workers in many Midwest cities. Other recent wage increases have occurred chiefly in the food, printing, paper, petroleum, street railways, and trucking industries, but have averaged probably not more than five cents per hour. However, while the number and size of such increases have been distinctly smaller than in previous postwar years, a sharp rise in non-wage benefits is apparent. The latter has little direct effect upon personal income or expenditures, but does add to the fixed costs of business and thereby tends to reduce other forms of business outlays.

Consumer purchases continued at high levels during the first nine months of this year. Estimated total Seventh District retail sales were less than two per cent below those of the comparable period of 1948. Dollar sales of new automobiles were 45 per cent greater than during January-September 1948; department store sales of radio and television sets were about 25 per cent higher; residential construction nearly equalled year-ago levels; and sales of foodstuffs declined only slightly.

Significant declines in sales of electrical appliances, housefurnishings, apparel, and most other soft lines occurred, however, particularly during the summer months. The slump in sales for most of these lines was reversed in August and September not only for seasonal reasons, but also as the result of more aggressive selling policies.

After a rather poor first quarter, department store sales increased substantially in April, reflecting the usual seasonal rise. After Easter, however, sales tended persistently downward through July, declining to a low point about 15 per cent below July of last year. This slump was nullified by the subsequent recovery, however, and sales in September were only three per cent below the same month in 1948. Most major department store lines followed a similar or even more pronounced movement, including apparel, housefurnishings, appliances, and radio and television sets. Total sales for January-September inclusive this year were about six per cent below the comparable period of 1948.

Consumer credit terms have weakened considerably on both listed and unlisted items since expiration of Regulation W at the end of June, and consumer response to such relaxation has been noticeable. Many of the larger stores continue to quote terms of 10 per cent down and maturities of two years or less. A rapidly increasing number of retailers, however, are selling on the basis of nominal or no down payments. Some instalment sales, especially those featuring the "meter plan," have maturities in excess of two years. The weakening of credit terms to date, however, appears to be characterized somewhat more by the lowering of down payments than by the extension of maturities.

Net new additions to consumer savings through important institutional channels in the District are down more than seasonally from the high levels of the first

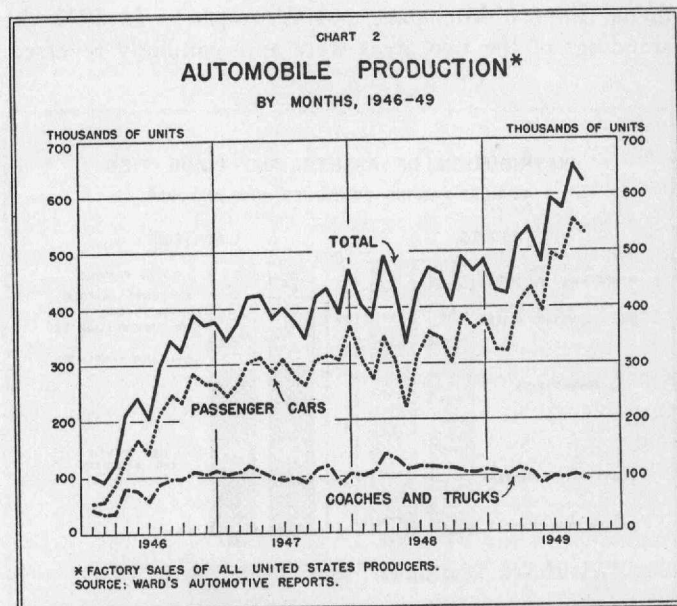
quarter of this year. Estimated net new savings (i.e., including savings deposits, life insurance payments, savings and loan share accounts, and savings bonds) during the second quarter were about 35 per cent, and during the third quarter, 58 per cent, below the first-quarter inflow.

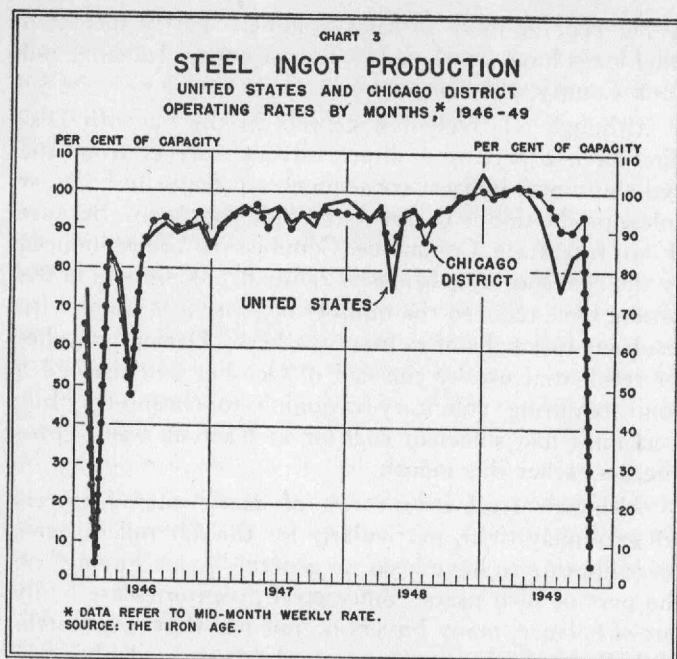
Total new savings for the year to date, however, are estimated to be 18 per cent above those of the comparable period of last year. Thus, the more-than-seasonal decline witnessed earlier this year was primarily a reflection of the unusually high level of saving during the first quarter. In addition, the somewhat lower level of personal income and increased unemployment experienced during the summer months were contributory factors.

Consumer indebtedness has increased sharply during the past three or four months. Outstanding consumer instalment loans of banks in this District have risen about 14 per cent since March, and are now eight per cent higher than at the end of last year. Outstandings of other consumer lenders have exhibited a similar, although less marked movement. In addition, automobile paper outstanding has been increasing very rapidly as car sales remain near record levels. The volume of "other" credit paper has resumed its earlier rise since July, as a result of some improvement in demand and easier credit terms for major household appliances and furnishings.

Construction—A marked increase in Seventh District total construction contract awards—both residential and nonresidential—took place in August and September. However, the recent spurt merely brings this District up to its normal postwar proportion of the nation's construction volume, and to a level about seven per cent below the comparable months of 1948. Nonresidential construction volume has been supported considerably by public building, consisting chiefly of schools and hospitals.

Both selling prices and building costs in the residential field appear to have stabilized. Although building materials prices declined slightly during the first half of 1949, chiefly in lumber and other wood products, increases in hourly wage rates apparently have nullified most of the





effects of this price decline upon construction costs.

During the spring and summer months, sales of newly finished houses lagged behind completions, but more active buying during September and October seems to have reduced the overhang of unsold houses substantially. Recent sales activity is particularly marked in residences costing less than \$12,000. Many local observers believe that the more active buying market will have a salutary effect upon late fall starts, and that the increased sales account in part for the gain in residential building permits issued during August and September.

No significant number of public housing units is likely to be started during the months immediately ahead. However, certain relocation projects in Chicago, totaling about 1,200 units, are either in process of construction or will get under way during the next six months. Also, both Detroit and Milwaukee have projects on which construction should start soon. Under the newly enacted public housing legislation this District could start as many as 10,000 dwelling units during the next calendar year—about 15 per cent of all urban units authorized during the last 12 months—but numerous problems of local and Federal approval seem likely to reduce the figure substantially (see *Business Conditions*, August and September 1949).

Manufacturing Industries—A definite increase both in employment and production characterized August and September in District manufacturing industries. The low point in the slide-off which took place from November 1948 to midsummer 1949 occurred in July. The August-September increase apparently brought production and employment back to about the April 1949 level, but still under last year's peak.

Durable goods industries, which had been declining for approximately 10 months, participated importantly in the August-September production increase. This was particularly true of foundries and other metal-fabricating plants, but also included many producers of finished con-

sumer durables. Production and employment in non-durable goods likewise registered more-than-seasonal gains since July. Improved orders for clothing, shoes, and paper products, among the consumer goods, and for chemicals and petroleum, among the producer goods, seem to account for most of the rise.

Finished inventories of most manufacturers in both steel-using and non-steel-using lines had been worked down quite substantially by the end of July. The pre-strike increase in orders from manufacturers plus interrupted output therefore has resulted in a relatively low level of finished goods stocks among producers.

Agriculture—Cash farm income in this District has been relatively stable during recent months, failing to make the usual large seasonal rise common to this period of the year. Consequently, farm income lagged behind the year-ago level by 12 per cent for the first seven months of 1949. The decline, relative to a year ago, has been in receipts from livestock and livestock products. Countering this decline, however, was a 10 per cent rise in receipts from crop marketings, reflecting the large 1948 corn crop.

The dominant items in farm income in this District fall into the livestock category, with meat animals, dairy products, poultry, and eggs accounting for about three-fourths of cash farm income in comparison with 56 per cent for the nation. Cash farm receipts from these livestock items recently have been below year-ago levels. This is largely the result of price declines, since the volume of marketings has changed little from 1948.

Financial obligations of farmers, both short-term and mortgage debt, are up from a year ago and are expected to rise further in the year ahead. Farmers' deposits in country banks have not changed materially.

Business Attitudes and Plans—A poll of a cross section of Seventh District business executives immediately prior to the strikes showed relatively little revival of optimism concerning the business outlook over views held three months previously. The summer-early fall upturn was largely attributed to seasonal factors and minor inventory balancing. Excessive business caution earlier in the year is admitted generally, but there is no apparent move to a less cautious attitude now.

Plant and equipment expenditures are certain to be lower this year than in 1948, with even greater reductions in prospect for the year ahead. Many manufacturing and commercial firms have completed their modernization and expansion programs, and some others have announced cutbacks in what were considered definite plans because of lowered demand prospects and less favorable earnings results.

Financial Position of Business—Business in general remains strong financially. Capital outlays are less than last year, wages have not risen appreciably, and inventories have fallen both in price and physical volume. Money provided by depreciation on new, high-cost plant and equipment and declining inventory purchases has tended to offset the drop in retained earnings. On balance, the pressure upon business cash positions has eased

during the past year and made possible the repayment of substantial amounts of bank loans.

As business activity, employment, and inventories began to rise in August, commercial loans of weekly reporting banks ended their half-year decline. The subsequent rise has been slight, and on November 2 business loans of weekly reporting banks in the Seventh District were 15 per cent below the start of the year.

Although bankers do not seem to have tightened short-term credit appreciably, some firms have experienced difficulty in obtaining or retaining lines of credit, particularly for periods exceeding one year. The RFC reports a doubling of inquiries in the Chicago office compared with last year. Also, there is some recent evidence of increased interest in credit advances under section 13b of the Federal Reserve Act.

Although District businesses are failing at more than double the year-ago rate, according to *Dun and Bradstreet*, the number of business deaths is still somewhat below the national average and well below prewar rates. The current underlying tone of financial strength in District business is reflected in the fact that April marked the high tide in business failures for the year and the trend since then has been down.

EFFECTS OF STRIKES

Unless final settlements of the controversial steel and coal negotiations are prolonged much further, it seems probable that most lost production will be regained in the next few months through expanded output schedules. There can be no doubt, however, that some production and sales, not to mention a good deal of income, has been permanently lost as a result of the strikes. These stoppages—particularly in steel—have adversely affected general business volume and industrial production in the Seventh District during October and November. Many observers seem to feel, nevertheless, that strike-caused declines represent “deferred” rather than “lost” production, because of unsatisfied demand for durable goods.

Strike consequences to the families and communities directly concerned have been of far-reaching significance, but the secondary effects upon other parts of Midwest business have been felt only recently. Unemployment insurance claims in the five states comprising the Seventh District increased only slightly during the latter weeks of October, indicating that no significant spreading of joblessness had taken place during the first month of the shutdowns. Recent sizable layoffs in Milwaukee, Chicago, and Detroit, however, appear to portend a considerably larger volume of secondary unemployment during the current month.

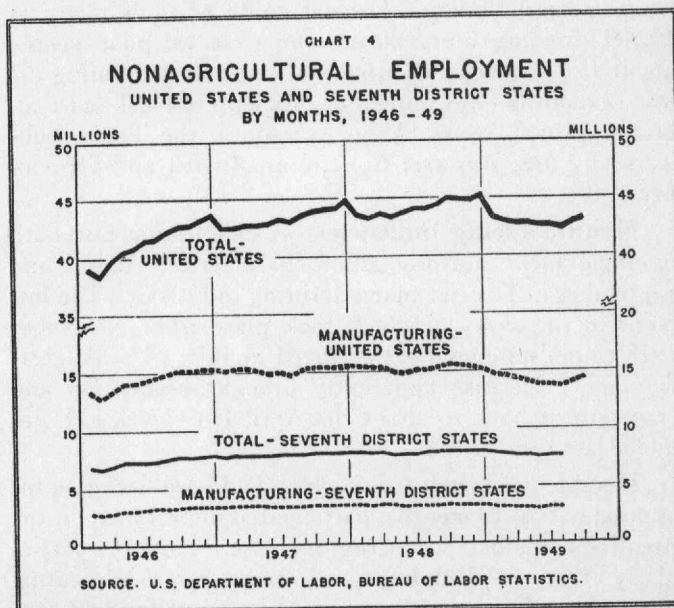
Some 90,000 Midwest workers—about 70,000 of whom are in the Chicago-Indiana industrial area—have been idled directly by the stoppage in basic steel plants. Unfavorable effects upon general business have been sharpest, of course, in Gary, Indiana, and other adjacent communities comprising the Chicago steel district. Total retail sales in these communities are reported to have shrunk markedly, with some lines experiencing drops of

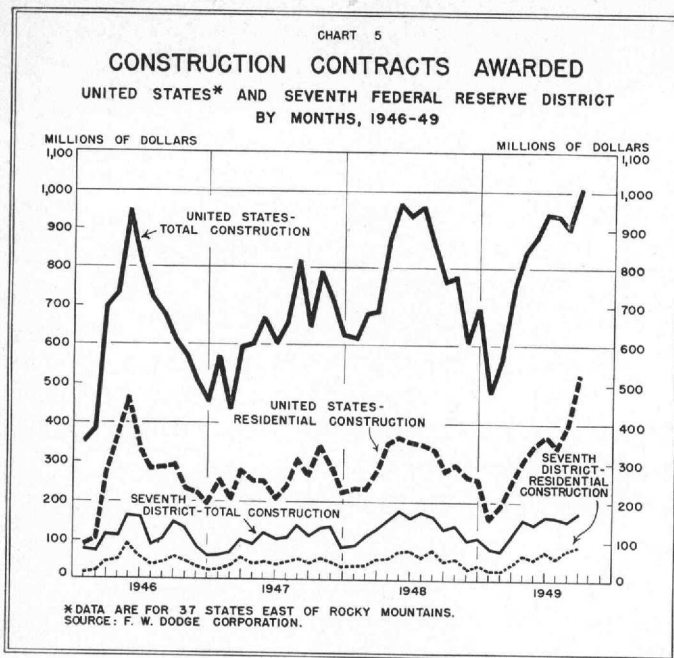
50 per cent or more in sales volume. Vastly increased relief loads have developed in Lake County, Indiana, and Cook County, Illinois.

Although relatively few centers in the Seventh District have experienced direct adverse effects from the coal shutdown, indirect consequences promise to be great unless production is resumed at a high rate soon. Because of an Interstate Commerce Commission order induced by the coal shortage, Midwest railroads, like others in the nation, have reduced the number of passenger trains with resultant furloughs of railroad workers. Dealers' supplies for residential use by the end of October had reached a point requiring voluntary rationing to consumers. Idle steel mills had sufficient coal for at least six weeks' production earlier this month.

Although steel inventories of many manufacturers are extremely tight, particularly for the flat rolled items, there appears to have been no general “panic buying” on the part of such users. Since steel inventories are badly out of balance, many buyers do not feel that it is worthwhile to stockpile certain items wherever available when others needed for their production are unobtainable. This is in contrast to the earlier postwar period in which many users stockpiled whatever steel items they could get for what appeared to be speculative inventory purposes. Basically, the prolonged shutdown of most steel mills has made steel buying in any quantity virtually impossible.

Unquestionably, the adverse effects of the strikes upon general Midwest business will last for several months. If no substantial decline from third-quarter levels in steel consumption occurs, roughly five months output at near capacity operation would be needed to bring steel inventories back to pre-strike size and balance. Whether third-quarter steel demand will persist, however, in light of shrinking demand for automobiles and machinery is a basic question. Nevertheless, a considerable period of high level steel production is in prospect. The weeks immediately ahead seem inevitably to reflect the





restricted production schedules of many steel users as they await supplies needed for working inventories.

There is little doubt that the Christmas trade will suffer losses in the areas directly affected by the strikes and probably also in those which experienced the secondary showdown. Furthermore, sales of some durable goods items may be depressed as a result of inventory shortages in the retail stores. The results of the strike upon Midwest retail sales, therefore, probably will be reflected in a worse-than-expected fourth quarter followed by a better-than-expected first quarter of the coming year. Some Christmas sales seem likely to be irretrievably lost.

BUSINESS OUTLOOK

Before the steel strike, business in this District by most measures was roughly 5-10 per cent below last year's peak and perhaps 2-5 per cent above the early summer low. The strikes, together with seasonal declines and continued postwar readjustments, seem to have wiped out the short-lived recovery and reduced business and employment to levels not far from the previous 1949 lows in May-July.

Recent business developments, in short, have been the result of such mixed forces as: (1) severe work stoppages in steel and coal; (2) moderate declines in capital expenditures, agricultural income, and consumer buying; (3) sustained high activity in Government expenditures, construction, and industrial exports; and (4) some renewed business buying, particularly in soft goods lines to balance depleted inventories. In the period ahead, it is likely that post-strike expansionary forces will be evident primarily in the industries most severely affected, that most of the aforementioned moderate declines will continue, and that at least some of the non-Government sustaining elements will weaken. The net result promises

to be a generally sidewise to slightly downward trend once the temporary post-strike upturn subsides.

\$64 QUESTIONS FOR 1950

As always, numerous unexpected developments can, and in all probability will, alter in some degree the conclusions reached here with respect to business prospects for the months immediately ahead. It is essential, therefore, to appraise continually the key factors which seem most likely to influence the course of general business. At the present time these factors appear to be:

1. *Restocking of inventories.* Unless some new, important, upward change occurs in the level of consumer spending, must not the recent wave of new orders in certain lines and accompanying expansion in production and employment subside, especially after the post-strike effects have disappeared? The trend on new orders should provide insight into this situation.

2. *Business capital expenditures.* Will the widely held view in business that "expansion programs are almost over" show up distinctly in the official estimates next year? Or, will more stabilized construction costs and greater incentives to reduce costs lead to a new wave of industrial projects?

3. *Prices.* There appears to be widespread belief that prices will not fall much further next year. Could this be wishful thinking, stemming at least in part from general reluctance to reduce prices? The vulnerability of prices to further declines must not be overlooked. Actually, should moderate price cuts be feared? Might they not stimulate expanded consumer buying?

4. *Devaluation.* Recent monetary value changes have caused relatively little shock and apprehension among District business leaders. The course of United States exports must be studied carefully to detect the impact of devaluation upon sales and prices of American goods, domestically and in international markets. If devaluation is to achieve its purpose, must not the net result be unfavorable to business in this country?

5. *Automobile industry.* An end to sellers' markets for the most popular cars widely foreseen for 1950 can only mean further readjustments in business and employment. Can product ingenuity and mass merchandising, however, extend the automobile boom longer than now expected?

6. *Consumer buying.* What underlies the observed increased caution in consumer spending? Lower income? End of most urgent demands? Lack of confidence in future job security? With large accumulated savings, G.I. Insurance refunds due, increased availability of credit, and better price-quality combinations offered, might not consumers generally see no economic advantage in postponing purchases much longer?

7. *Government expenditures.* Does Russia's possession of the atomic bomb mean greatly expanded defense preparations? To what extent will the expansionary effects of deficit financed increases in Government expenditures be offset by declines in private commitments because of fears of higher taxes and more regulation?

SEVENTH FEDERAL



RESERVE DISTRICT

