

THE BUSINESS REVIEW



FEDERAL RESERVE BANK OF PHILADELPHIA

JULY 1, 1941

FEDERAL RESERVE BANK
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FEDERAL RESERVE BANK
ST. LOUIS

Trade and industrial activity is expanding further, and additional gains are in prospect even though operations are at or approaching capacity in several basic lines. Both public and private demand is strong, and sales and backlogs generally have expanded. New plants are coming into production; existing space and facilities are being enlarged; and the use of subcontracting is becoming more widespread. An expanding proportion of current output is for defense, and scarcities of some types of materials and labor for civilian production are increasingly in prospect.

Productive activity in the Third Federal Reserve District increased substantially from April to May, and further gains were in evidence in early June. The output of manufactures, particularly heavy goods, increased in the month; operations at coal mines expanded to earlier high levels following the curtailment in the bituminous coal industry during April; production of crude oil increased about seasonally; and the output of electric power advanced when there is ordinarily a small decline.

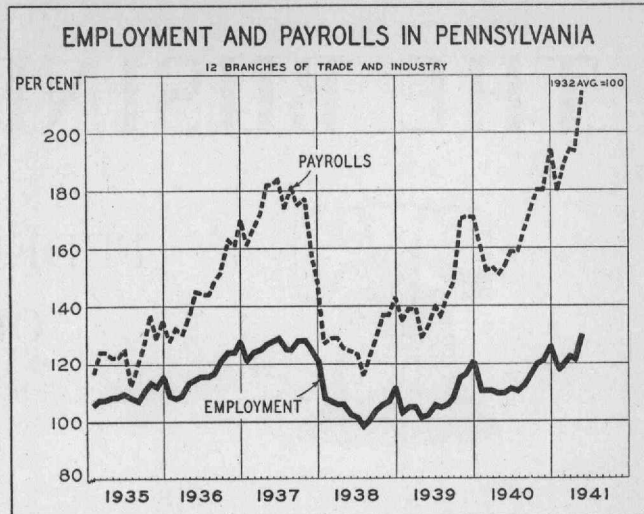
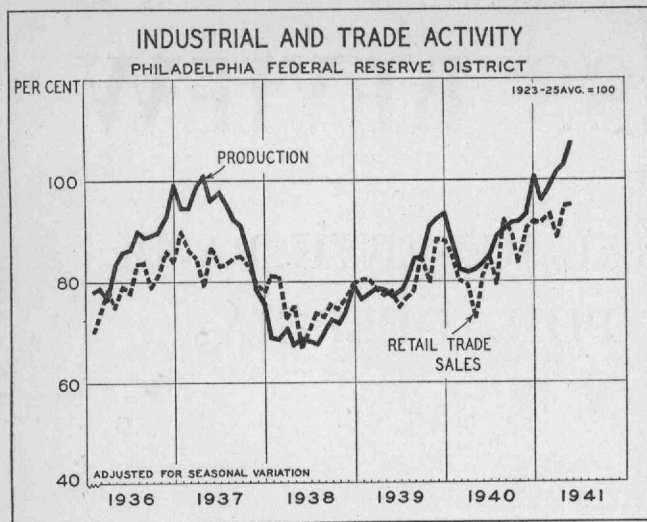
Building activity increased from April to May, and a substantial volume of new contracts was awarded. Residential building continues to expand, and the construction of factories and the renovation of commercial buildings have been at unusually high levels.

Consumer incomes continue to increase. Factory wage rates have reached new peaks, and under the pressure of defense production hours of work have lengthened. Large earnings in heavy manufacturing industries appear to be attracting labor from other lines. Farm income is also considerably above the levels of 1940.

The volume of retail trade is large. A wide variety of goods is being bought, particularly in heavy lines such as refrigerators and automobiles where production may compete with defense industries when scarcities of labor and materials become more acute. Sales at wholesale are also large but have been restricted somewhat in certain lines by inability to make prompt delivery. The movement of rail freight has expanded to new peaks, with further sharp increases in prospect this summer and fall.

Prices of basic materials have advanced substantially during the past month, and widespread increases have been reported in quotations on manufactured goods. The cost of living has been rising more rapidly in recent months, the principal increases being in prices of foods.

The demand for bank credit continues strong. The government requires increasing amounts to meet defense and other expenditures, and industry and trade need additional working capital to carry larger inventories and to pay higher costs for materials and labor as operations advance to new high levels. Outstanding credit at reporting banks in this District has increased further in the past month. Deposits and reserves have recently been reduced, partly by large payments to the Treasury for income taxes and purchases of securities. The markets for securities are steady and quiet. Trading has been restricted somewhat, owing to widespread uncertainties in domestic and foreign conditions, but the volume of funds available for investment continues large.



Manufacturing. The demand for factory products is increasingly strong. Sales are sharply above a year ago and are expanding further in lines where deliveries can be made within a reasonable time. Defense purchases are increasing and in some cases, such as at steel and certain textile mills, plant capacity is booked for several months in advance. Some producers are no longer accepting new specifications, but advance ordering and backlogs generally have increased further. Heavy current and prospective demand, shortages of some types of key materials and labor, and rising costs have resulted in widespread advances in prices.

Stocks of finished goods at reporting factories are declining further, but supplies of raw materials are being maintained at or above recent high levels. Operations have increased in virtually all reporting lines, necessitating further purchases of equipment and additions to plants.

Factory employment and payrolls in Pennsylvania increased more than seasonally from April to May and advanced still further in June, when there is ordinarily some decline. The largest recent gains have been at plants producing heavy goods, although the increases are general throughout industry. The number of workers in Pennsylvania factories advanced about 2 per cent in May to an estimated 1,080,000 or about 200,000 more than a year ago. Wage disbursements increased 5 per cent in the month to more than \$32,000,000 a week, about \$11,000,000 a week more than in May of last year and the highest since the last war. Wage payments in the heavy industries have expanded 70 per cent in the past twelve months and at plants manufacturing consumers' goods the increase has been about 25 per cent.

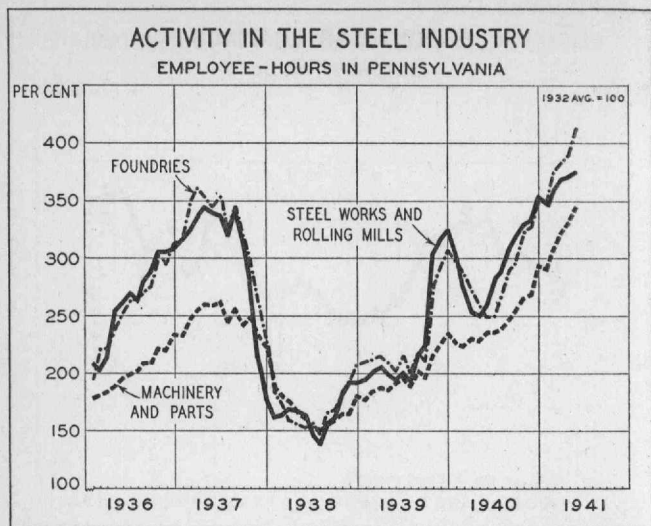
Substantial gains from April to May were reported by the iron and steel industry, particularly blast furnaces, forges, foundries, and factories producing machinery and electrical apparatus. Large increases also occurred in all lines of transportation equipment. In the case of consumers' goods, the principal increases were at textile mills producing cotton and woolen goods and floor coverings, at dyeing and finishing plants, and at men's clothing factories.

Hourly earnings of factory workers have increased to a peak of 79½ cents, or about 8 cents more than a year ago. Advances in basic wage rates have been reported by more plants than at any time since early 1937. Weekly earnings have increased to an average of well over \$32.00, or \$6.00 a week more than in May 1940.

In Delaware, employment increased 4 per cent and wage payments 9 per cent from April to May to levels sharply above last year. In southern New Jersey, employment increased 3 per cent and wage payments 8 per cent in May.

The output of factory products in this District also increased more than seasonally from April to May and advanced further in June. Gains in production in the latest month were widespread, although in several lines seasonal decreases were to be expected. The greatest improvement was in the output of transportation equipment and leather products and such textiles as cottons and woolens, where government buying has been active.

The output of electric power increased somewhat in May instead of showing the customary decline. Total sales were reduced less than seasonally and sales to industry expanded further.



Coal and other fuels. Sales of fuels for domestic consumption continue active. The demand for bituminous coal is unusually heavy, reflecting the high levels of factory operations and rail traffic and the efforts of dealers to replenish stocks. Consumers' purchases of anthracite also have been stimulated somewhat by the suggestion that supplies for next winter be bought now to avoid over-taxing rail facilities in the fall. Prices of fuels generally are firm.

Production of Pennsylvania anthracite increased more than usual from April to May and expanded somewhat further in early June. Colliery output averaged 148,000 tons a day in May compared with 123,000 tons in April but was below a year ago. The volume mined during the first five months in 1941 was the smallest since 1938.

Following the virtual suspension of operations at bituminous mines in April, production rose sharply in May to a high daily average of 432,000 tons, the largest for the month since 1929. The output thus far this year has been the largest since 1937.

By-product coke ovens continue unusually active, and production in May was 14 per cent above a year ago. Operations at oil refineries increased somewhat from April but were below May 1940.

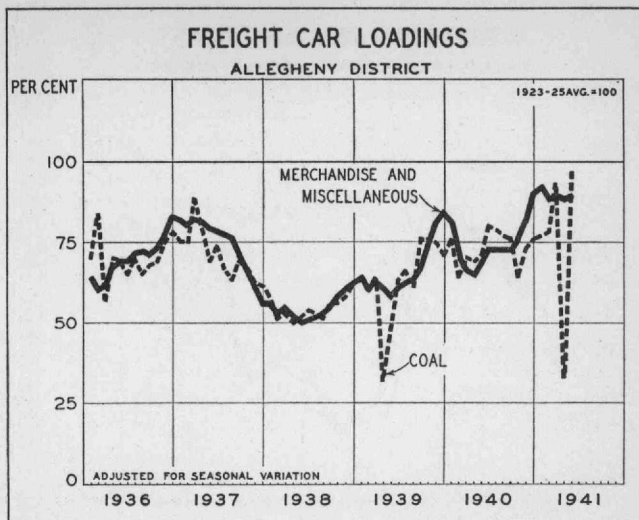
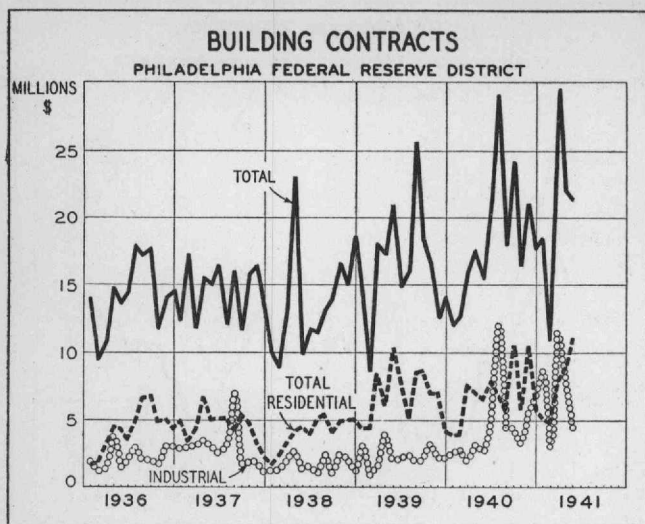
Building. Activity in the building industry in this District expanded further during May, although the volume of new awards declined slightly. Operations against existing contracts for manufacturing plants and facilities were sustained at a high level, and further increases occurred in the case of dwellings and public works and utilities. Wholesale prices of building materials reached a new fifteen-year peak about the middle of June.

Awards of building contracts in May declined 3 per cent to approximately \$21,300,000. Substantial increases in contracts for residences and public works and utilities were offset by sharp declines from earlier high levels in awards for other types of construction. The value of contracts let for one- and two-family dwellings, which included defense housing projects in Philadelphia, was considerably larger than in any month of the past 12 years, and accounted for nearly one-half of all contracts awarded in May. Aggregate awards exceeded the dollar volume of a year ago by 38 per cent, the sharpest increases being in contracts let for factory buildings.

Quotations on building materials have risen nearly 13 per cent since the outbreak of war, most of this increase being in the second half of 1940. The advance since the turn of the year has been only about one per cent.

Agriculture. Widespread rains have substantially improved growing conditions in this District since early June. Farm work continues to be impeded by the shifting of agricultural labor to both civilian and defense manufacturing industries. Consumer demand for farm products is increasingly active. Prices of most agricultural commodities are advancing steadily, and in the case of certain staples are the highest in several years.

The yield of early garden vegetables was sharply curtailed by dry weather over much of the growing season, but the outlook for later varieties has improved considerably in the past several weeks. Production of the winter grains is expected to be smaller than in 1940 and somewhat below the



ten-year average, owing partly to insufficient moisture in the early spring. The first crop of hay was unusually small and some fields were used for pasturage. The condition of other field crops such as oats, corn, and white potatoes is generally satisfactory. Transplanting of tobacco in Pennsylvania has been nearly completed and the early outlook for the crop is favorable. Fruit prospects are somewhat less promising than at the beginning of the season.

Farm cash income in Pennsylvania, New Jersey, and Delaware is expanding more sharply than in the spring of 1940, reflecting principally advancing prices. Receipts from the sale of crops and livestock products totaled \$122,400,000 in the first four months of 1941, or nearly 10 per cent more than a year ago. Government benefit payments were decreased about 27 per cent in this period to approximately \$3,600,000.

Trade. Distribution of goods to consumers continues active. Wage income has already reached record levels and is expanding steadily. Retail sales in May and early June were well maintained around the peak levels reached in April and were substantially larger than a year ago. Wholesale trade sales have expanded sharply, and further large gains are in view as long as goods are available for early delivery. The movement of rail freight has also increased substantially.

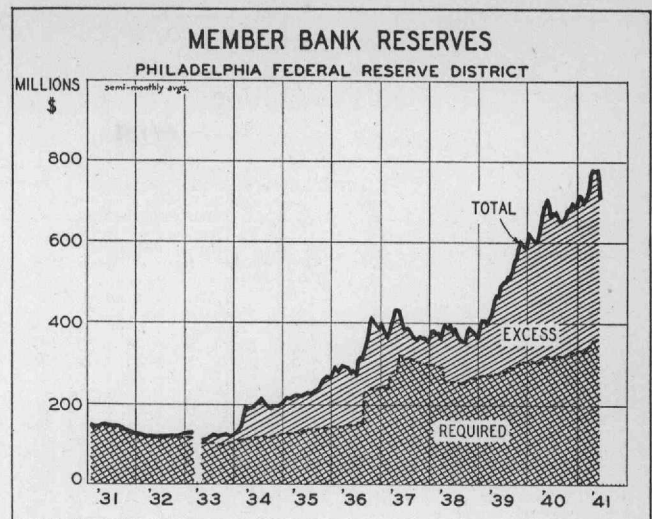
Sales by department stores in May continued at the high level reached the month before, and further increases were reported in the first two weeks of June. Buying has been well diversified, but particularly heavy in the case of such durable consumers' goods as refrigerators and other house-

hold equipment. Purchases of automobiles were sustained in May at the record high levels reached in April.

Sales of women's apparel declined substantially less than usual in May, and sales by men's apparel and credit stores were reduced slightly less than was to be expected. The only large decline in the month on a seasonally adjusted basis was in sales by shoe stores. Inventories at retail establishments were generally well maintained in May, and at most establishments were above last year.

Buying in wholesale channels has been heavy. Business increased substantially in May and was about one-third larger than a year ago. The sharpest gains in the month were in sales of paper and groceries; in the year the largest increases have been in electrical supplies, hardware, and jewelry. Stocks of goods at wholesale establishments are somewhat small in relation to sales.

Freight-car loadings in the Allegheny District increased 15 per cent from April to May to a level about one-third above May of 1940. The largest gains were in loadings of coal and coke, shipments of which were sharply curtailed the month before by the shutdown of bituminous mines. Further increases were also reported in the movement of merchandise and miscellaneous materials. Shipments of ore increased sharply but not so much as seasonally, owing to the heavy volume of traffic in April accompanying the early opening of the Great Lakes. The largest gains in the past year have been in loadings of forest products, coke, ore, and coal, reflecting heavy defense requirements. Freight shipments originating in Philadelphia reached the highest levels in a decade in May and were well sustained in early June.



Banking conditions. The volume of bank credit outstanding at reporting member banks in this District has advanced to the highest point in nearly a decade. The demand for credit from industry and trade has been exceptionally active over the past month and other classes of loans also were increased. Investments were reduced somewhat. Deposits declined considerably, reflecting tax payments, the redemption of securities, and an increasing demand for currency.

The reserve balances of all member banks declined \$84,000,000 to \$700,000,000 in the four weeks ended June 18, but continue about double requirements. Reserves in this District still exceed the level of a year ago by \$32,000,000, although a substantial reduction has occurred in the country as a whole. The reduction in the past month has been due chiefly to losses in transactions with other districts, the withdrawal of funds from the market by operations of the Federal Government, and a further unusually sharp increase in currency requirements.

Net payments into the Treasurer's account amounted to almost \$40,000,000 in the period, in spite of continuing heavy expenditures on defense and the additional disbursements for interest on debt and routine governmental operations. Quarterly installments on the income tax were heavy, and Treasury receipts were further increased by the sale of savings securities and other bonds. Cash subscriptions to the new 2½ per cent bonds of 1956-58 were \$472,000,000 in this District and allotments aggregated about \$38,000,000.

Loans of the reporting banks have increased \$87,000,000 in the past year to \$539,000,000 on June 18. Expansion of \$15,000,000 in the past

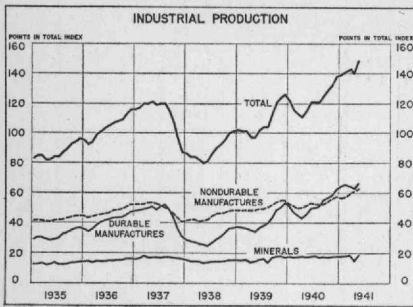
four weeks has been due largely to a further advance of \$10,000,000 in commercial loans to \$286,000,000 or 32 per cent above a year ago. Requirements for working capital have increased owing to the larger inventories required for higher industrial operations, rising prices and wage costs, and the extension of subcontracting in the defense industries. Smaller gains were shown in the four weeks in loans to carry securities and real estate, and in the miscellaneous group, which includes personal and installment loans.

The expansion in loans during the past month was offset to the extent of \$10,000,000 by a decline in holdings of securities. The investment in corporate and municipal obligations was reduced \$11,000,000 to the lowest point in two years and a decline also occurred in the case of guaranteed securities. The increase in direct governments was only \$3,000,000 in spite of the recent new issue of Treasury bonds. In the past twelve months the investment in direct and guaranteed Treasury obligations has risen \$55,000,000 to one-half billion dollars or nearly two-fifths of the outstanding credit of the reporting banks.

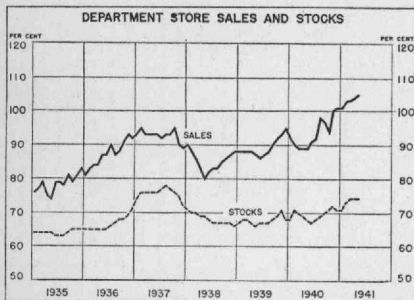
A contraction of \$82,000,000 to \$1,889,000,000 in deposits at these banks was caused largely by payments from state and municipal balances incident to the redemption of securities. On June 18 cash assets, other than cash items, were equal to 40 per cent of deposits after similar adjustment. This compared with 38 per cent at reporting banks in 101 leading cities of the country.

Industrial advances by this Bank increased \$400,000 to \$3,400,000 and discounts for member banks increased slightly to one-quarter million dollars. Holdings of governments were unchanged.

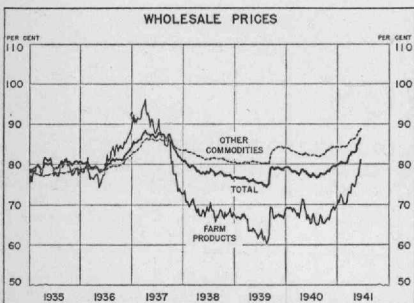
National Summary of Business Conditions



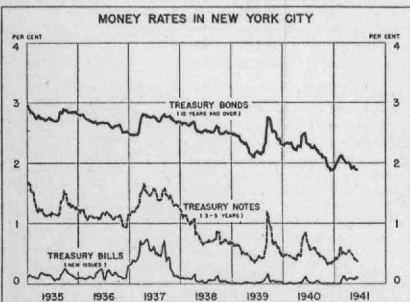
Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-39 average=100. Subgroups shown are expressed in terms of points in the total index. By months, January 1935 to May 1941.



Federal Reserve indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. By months, January 1935 to May 1941.



Bureau of Labor Statistics' indexes, 1926=100. "Other" includes commodities other than farm products and foods. By weeks, January 5, 1935 to week ending June 14, 1941.



Weekly averages of daily yields of 3- to 5-year tax-exempt Treasury notes, Treasury bonds callable after 12 years, and average discount on new issues of Treasury bills offered within week. For weeks ending January 5, 1935 to June 14, 1941.

After a slight decline in April industrial activity increased sharply in May and the first half of June. Wholesale commodity prices showed a further considerable advance and retail prices also increased. Distribution of commodities to consumers was maintained in large volume.

PRODUCTION

Volume of industrial output increased sharply in May, following a decline in April, and the Board's seasonally adjusted index rose to 149 per cent of the 1935-1939 average, as compared with 140 in April and 143 in March. The decline in April had reflected mainly reduced output of bituminous coal and automobiles occasioned by shutdowns accompanying industrial disputes. These were settled during the month and in May and the first half of June output in these industries rose to the high levels prevailing earlier.

In a number of other lines activity increased steadily throughout the spring months, particularly in the machinery, aircraft, and shipbuilding industries. Steel production was maintained at 99 per cent of capacity, except for a short period during late April and early May when output was reduced somewhat owing to a shortage of coal. Output of nonferrous metals also continued near capacity; deliveries of foreign copper in May increased to 49,000 tons, amounting to about one-third of total deliveries to domestic consumers. Toward the end of the month, as it became apparent that combined military and civilian need for these metals would soon greatly exceed available supplies, a General Preference Order covering all iron and steel products was issued by the Priorities Division of the Office of Production Management and in June mandatory priority controls were established for copper and zinc.

Textile production rose further in May, reflecting increased activity at cotton, wool, and rayon mills. A continued rise in output of manufactured food products was likewise reported and activity in the chemical and shoe industries was maintained at earlier high levels, although usually there is a considerable decline at this season. Petroleum production increased, and output of anthracite also advanced following some curtailment in April. Iron ore shipments amounted to 11,000,000 tons in May, a new record level and near the shipping capacity of the present Lake fleet.

Value of construction contract awards rose sharply in May, reflecting increases in both public and private construction, according to F. W. Dodge reports. Awards for private residential and nonresidential building increased more than seasonally, and contracts for defense projects continued in large volume.

DISTRIBUTION

Distribution of commodities to consumers was sustained at a high level in May. Department store sales showed a further rise, while sales at variety stores declined by slightly more than the usual seasonal amount. Retail sales of new automobiles continued at the high April level and sales of used cars rose further.

Freight-car loadings increased sharply in May, reflecting a marked rise in coal shipments and a further expansion in loadings of miscellaneous freight. In the first half of June total loadings were maintained at the advanced level of other recent weeks.

COMMODITY PRICES

Wholesale prices of a number of agricultural and industrial commodities showed further increases from the middle of May to the middle of June and the general index of the Bureau of Labor Statistics advanced two points to 87 per cent of the 1926 average. Federal action to limit price increases was extended to some consumer goods, principally new automobiles, hides, and certain cotton yarns. In retail markets prices of most groups of commodities have advanced, reflecting in part increases in wholesale prices earlier this year.

BANK CREDIT

Commercial loans at reporting banks in 101 cities continued to rise during the four weeks ending June 11. Bank holdings of United States Government securities increased further, chiefly through the purchase of bills by New York City banks and of bonds by banks in other leading cities. As a result of the expansion in loans and investments bank deposits continued to increase.

UNITED STATES GOVERNMENT SECURITY PRICES

Following a rise in the latter part of May, Treasury bond prices declined slightly in the first half of June. On June 14 the 1960-65 bonds were $\frac{7}{8}$ of a point below the all-time peak in prices of December 10. Yields on both taxable and tax-exempt 3- to 5-year notes declined slightly from the middle of May to the middle of June.