

FEDERAL RESERVE BANK
OF ST. LOUIS

THE BUSINESS REVIEW



FEDERAL RESERVE BANK OF PHILADELPHIA

SEPTEMBER 1, 1944

THE persistence of manpower shortages in war industries and in supporting lines and continuing readjustments in certain munitions schedules were reflected in another slight decline in industrial production during July. Overall output of war goods appears to have been about in line with expectations, although critical scarcities again were revealed in a few categories. The gradual downtrend in employment at factories and mines continued through the month, and the number engaged in agricultural occupations showed a contraseasonal decline. According to the Department of Agriculture, hired labor in this field on August 1 represented only about one-fourth of the total farm labor force, the smallest proportion reported in the past decade.

Price changes at the wholesale level have been relatively insignificant in recent months, with the Bureau of Labor Statistics all-commodity index continuing to fluctuate narrowly a little under 40 per cent above the pre-war level of August 1939. Retail prices, as measured by the cost of goods and services purchased by wage earners and lower-salaried workers in large cities throughout the country, have risen slightly since the early spring. In mid-July average quotations reached a new wartime peak, although they were scarcely 2 per cent above the level of a year earlier and little more than one-fourth higher than in the month preceding the outbreak of war in Europe. Prices of clothing and housefurnishing goods have shown a rising tendency since the turn of the year, and in the latest month there

was a small advance in the case of foods which previously had shown considerable stability. In Philadelphia living costs showed virtually no change from June to July; comparisons with July 1943 and pre-war indicated increases of about the same magnitude as in the nation as a whole.

Recent developments in the European theatre of war, such as the spectacular advances of Allied armies on both eastern and western fronts, and the increasing efforts of remaining German satellite countries to withdraw from the conflict, emphasize the imminence of the reconversion problem facing the nation. War Production Board estimates indicating that munitions output may be cut as much as 40 per cent when Germany has been defeated suggest the magnitude of the task on which but a small beginning has been made with the issuance of directives permitting a limited resumption of civilian output wherever materials, facilities, and manpower no longer needed in the war effort are available.

Facilitating a large-scale changeover to the production of peace-time goods when that time arrives are the continuing reductions in manufacturers' inventories of raw materials and goods in process, declines made possible by the leveling off in over-all output of munitions since the turn of the year. As reported by the Department of Commerce, inventory declines in these categories totaled nearly \$500 million

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The Economy of the Third Federal Reserve District

Impact of War on Manufacturing—Production

The character of modern warfare is vividly reflected in the industrial activity of the Third Federal Reserve District. At the outset of the defense effort, demand for manufactured products stimulated almost every one of the district's activities, but the intensity and duration of the stimulus varied widely among the major industries.

Transportation has played a vital role in this war. Our enemies had to be pursued in both hemispheres; modern warfare is highly mechanized; and fighting units move rapidly from one scene of conflict to another. As a result our greatest need was for vehicles of all kinds such as planes, ships, submarines, tanks, half tracks, locomotives, and other instruments of transportation. The production of such equipment rose eightfold—far more than in any other industry.

Civilians ordinarily think of war in terms of guns and ammunition, but these paraphernalia of warfare pale into relative insignificance in contrast with the importance of transportation equipment. Although guns and ammunition are the immediate instruments of destruction, a tremendous amount of transportation is required to conduct successful warfare.

Over-all growth

The physical volume of manufacturing production almost doubled (+95 per cent) in the four years from 1939 to 1943. This wartime growth is much greater than the peacetime rate of growth that prevailed in the forty-year period preceding the war.

For purposes of analysis the war period may be divided into four stages:

1. From August 1939 to June 1940.

This pre-defense period begins after substantial recovery from the depressed thirties had taken place and covers the period from the outbreak of war in Europe to the beginning of the national defense program in this country.

2. From June 1940 to December 1941.

Beginning with the inauguration of the national defense program and ending with our entry into the war, this period was characterized by the vast program of constructing plants and facilities for war production.

3. The year 1942.

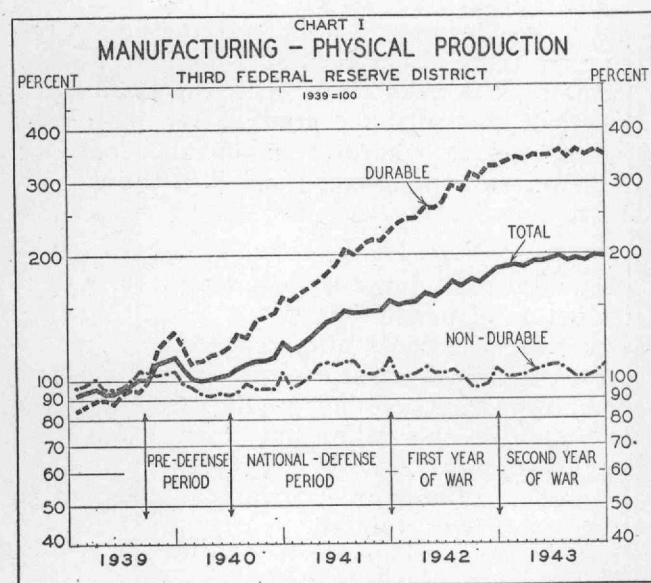
War production comprised an increasingly large portion of manufacturing activity and the flow of war materials from industry rose tremendously.

4. The year 1943.

The economy became fully geared into war production and output in many lines reached peak levels.

During the first period total manufacturing showed comparatively little change except for a sudden fillip at the beginning of the European war in the fall of 1939. With respect to durable and consumers' goods, however, there was already in evidence a trend which was to prevail in the next four years, namely, a war-induced stimulus to durable goods production in contrast to an almost stationary level in consumer goods output as shown in Chart I.

During the next year and a half the nation embarked on its national defense program and



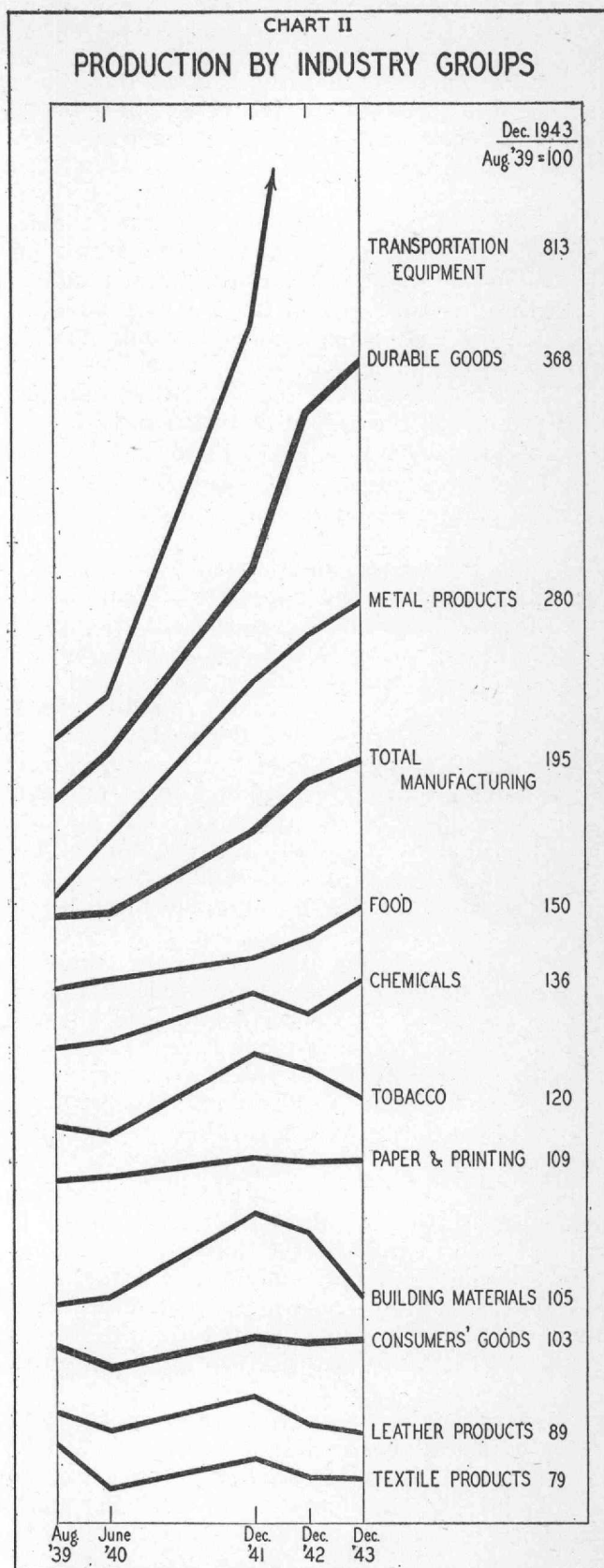
production of war materials began on a substantial scale in the Third Federal Reserve District. About \$2 billion of prime supply and facilities contracts were awarded to industries in the district during this time. Its high degree of industrialization made it appropriate that this district should be relied on for the production of large quantities of war materials. In the eighteen months from June 1940 to Pearl Harbor, manufacturing activity rose more than 50 per cent while durable goods almost doubled. Meanwhile, consumers' goods had risen also but to a much lesser degree.

In 1942 war production had come into its own. At the end of that year total manufacturing production in the Third District was 95 per cent above pre-war levels; durable goods production was 270 per cent higher, while consumers' goods production was practically unchanged. Although many types of consumers' goods such as food and clothing are necessary for waging total war, the greatest demand was for durable goods such as guns, ships, tanks, and other items. The flow of industrial war materials continued to increase tremendously. However, the rate of expansion was somewhat retarded when compared with the preceding period owing principally to Government-imposed restrictions on the output of consumers' goods. Also, the Third District did not maintain its pre-war position because new plants and facilities were constructed in other areas for military reasons and to secure fullest utilization of all labor resources.

During 1943 manufacturing activity showed a tendency to level off, indicating the approach of full wartime expansion. Throughout most of 1943, production of durable goods maintained a level of three and one-half times that of 1939 while production of consumers' goods remained practically stable at pre-war levels.

Impact of war on the various types of manufacturing

The effect of the war on the various types of manufacturing was shown above in the divergent trends of durable and consumers' goods. Within those broad classifications the impact has been even more striking. Chart II shows the trend of the various manufacturing groups arranged in order of growth over the war period. The chart illustrates the divergent reactions of the various types of manufacturing to war demands and the shifting pattern of production in the four periods of war.



Two major industry groups—transportation equipment and metals—were primarily responsible for the expansion of total manufacturing activity. Their rapid growth more than offset the slower increase or actual declines in the other seven groups, most of them consumers' goods. The tremendous rise in the production of the transportation equipment industry was the dominant factor in raising the index of total durable goods production, while the slower increase in metal products, and the much smaller growth and the eventual decline in production of building materials, tended to limit its rise. Consumers' goods production increased very little, owing to the decline in leather and textile products—the latter a particularly important item in this category. Food and tobacco were the major items tending to raise the consumers' goods index.

In the first period metals ranked high in rate of growth. Upon the receipt of European orders for war materials, metals were among the first to react, owing to the mechanized character of modern warfare. In the second period, as plants and facilities were expanded in preparation for war, the need for metals was increased still more to make the machinery and equipment required for production of our own war materials. In the third and last periods, metals still stood high in rate of growth but had fallen somewhat as one of their uses—supplying producers' goods—became less important.

Similarly, building materials ranked high in the early stages of the war period. Requirements for plant construction and war housing were particularly great from June 1940 to December 1941. Because practically all nonessential construction was restricted, completion of the expansion program resulted in a drop in the production of building materials.

Transportation equipment ranked first in rate of growth throughout the entire war period. Shipbuilding, extremely active in the Delaware River Valley, rose more than elevenfold and was the main factor contributing to the increase of the transportation equipment group.

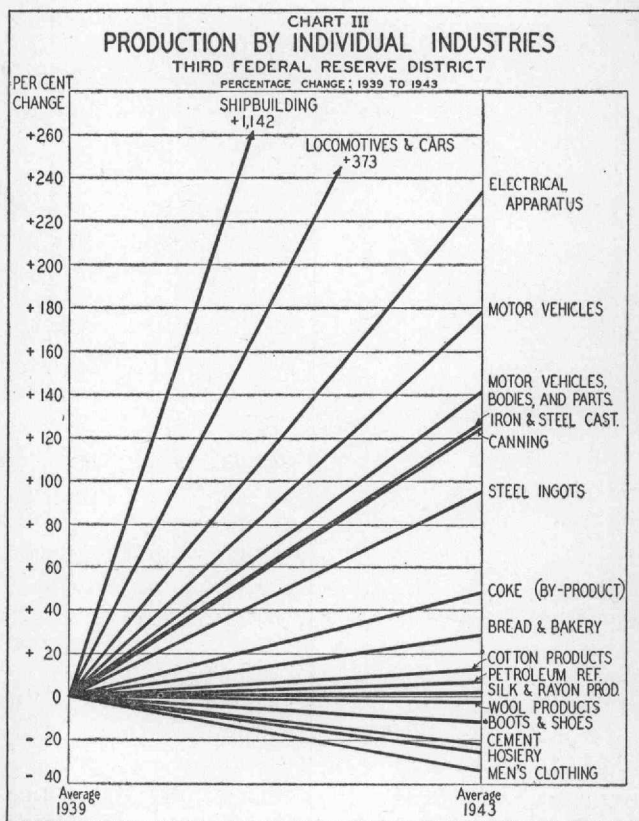
The remaining manufacturing groups are largely those producing consumers' goods. Manufacture of food products has shown a steady increase in almost every period, reflecting both increasing military demand with the growth of the armed forces and expanding

civilian demand arising from larger incomes. Leather and textiles, the only groups which actually declined from 1939 to 1943, displayed parallel trends during the various periods. The only marked effect of war demands on these industries was in the defense period when large amounts of equipment were needed to supply a suddenly enlarged military force.

Impact of war on individual industries

Just as the broad classifications of durable and consumers' goods conceal variations in the different manufacturing groups, so the groups obscure changes in individual industries. Chart III shows the over-all change from 1939 to 1943 in the more important industries of the district. Since industries are classified according to peacetime product, in some cases the industry designation may not apply accurately to its wartime product. However, it is impossible to make a satisfactory adjustment for this factor.

The output of three industries—shipbuilding, locomotives and cars, and electrical apparatus—more than tripled. **Shipbuilding** in this country is essentially a war industry. However, in



contrast to World War I, the shipbuilding program was well under way at the time of our entry into the present war. Nevertheless, in the early stages of the war, the need for ships of all kinds rapidly became one of the most critical problems of our war program. The crisis was met by expansion of construction facilities, the development of large-scale methods, and prefabrication by inland steel mills of large assemblies ready for installation at the shipyards, which reduced considerably the time of construction and resulted in a tremendous output of both naval and merchant vessels.

Manufacturers of **locomotives and cars** increased their production as transportation demands rose. In the early stages of the war, most of the industry's output went to the railroads, but as materials became scarce and the need for munitions more urgent, production of rolling stock for railroads was restricted, so that the industry's facilities could be utilized for production of strictly war materials, such as tanks, half tracks, and mobile gun carriages.

In the forty years preceding the war, manufacture of **electrical apparatus** was a rapidly developing industry. It was a young industry which expanded greatly with new inventions, improvements in equipment, and an ever-growing peacetime demand. During the war period it has received an even greater stimulus as new and revolutionary products have been developed for military use. The industry is of considerable importance in the Third Federal Reserve District, particularly in the Philadelphia area, and increased 235 per cent from 1939 to 1943.

Output of five industries showed increases ranging from about 100 to 200 per cent. These were, in order of increase: motor vehicles; motor vehicle bodies and parts; iron and steel castings; canning; and steel ingots. With little change in the manufacturing operations, these industries were readily adapted to the production of war materials.

In the Third District the **motor vehicles and bodies and parts** industries are largely confined to the production of automobile and truck bodies. With the exception of a small amount of essential replacement production, the ordinary peacetime output of these industries has been completely discontinued. Facilities were diverted to the production of trucks and parts for aircraft, tanks, and marine equipment. Pro-

duction of trucks has been similar to civilian production, but in general more emphasis has been placed on heavier types of equipment.

Iron and steel have formed the backbone of our war production. In this district production of iron and steel **castings** rose 125 per cent, and **steel ingots** almost 100 per cent. Through the restriction of nonessential uses of iron and steel, simplification and standardization of production, development of new processes, and economical use of scrap and other materials, the industry has succeeded in meeting the huge demands placed upon it. To achieve this record, ingot production was maintained above 90 per cent of rated capacity for three years. Since the rated capacity upon which these percentages are based was continually raised, actual physical production increased while per cent of rated capacity remained almost constant. Now that the industry has apparently completed its expansion program and the war demand appears to be slackening, production may revert more to civilian products and some restrictions on civilian uses may be relaxed.

Canning is the only major consumers' goods industry to experience a large increase. Military and Lend-Lease requirements for food in nonperishable form necessitated severe curtailment of civilian consumption. Increased output of canned goods was supplemented by new developments in dehydration and quick freezing.

Industries whose output rose no more than 50 per cent were coke; bread and bakery products; cotton goods; petroleum refining; and silk and rayon products. A substantial expansion in **coke** production was necessary to meet the war needs of iron and steel mills and foundries. Production of by-product coke increased about 50 per cent and all of the available equipment of the wasteful and obsolescent beehive ovens were pressed into use to meet the war demand for this industrial fuel.

Production of **bread and bakery** products is usually restricted to local markets. The enlarged urban population in this district during the war, together with swollen incomes leading to increased consumption of bakery delicacies have probably been the determining factors in the 30 per cent increase of output. **Silk and rayon** products increased very little over the period. Raw silk imports were cut off before our entry into the war and wartime production

of rayon goods for civilian use has been limited by military and Lend-Lease requirements for rayon yarn. **Cotton goods** increased 13 per cent, largely as a result of substitution for other fabrics and increased demands for tape and narrow fabrics.

Five industries declined during the war period: wool products, boots and shoes, cement, hosiery, and men's clothing. **Cement** is the only durable good among these, but its overall decline conceals an increase of two-thirds that occurred during the defense period when production facilities were being expanded and building in general was at a high point. Since March 1942, cement production in this district has declined. **Wool products** experienced a considerable stimulus during the defense period when it was a vital material for clothing for the armed forces. However, production leveled off after the peak military demand subsided. The same general situation prevailed in **men's clothing**. Rationing to conserve shoe leather for military use caused **boot and shoe production** to decline in this district which specializes in women's and children's footwear. The decline in **hosiery** was the result of the shortage of materials diverted in large part to war uses.

Conclusion and implications

Manufacturing industries of the Third Federal Reserve District practically doubled their production from 1939 to 1943 as part of the concerted war effort. During the remainder of the war, production will depend on the military situation. Already there is a sufficiency of some war materials and a shortage of others; changes in the type of warfare to be waged will necessitate changes in the pattern of production. With the approach of victory, production of war materials will gradually give way to civilian consumers' goods.

All of these wartime developments have great significance for manufacturing in the Third

Federal Reserve District after the war. It is sufficient here merely to point up some of the questions, since further consideration of post-war prospects will be given in a subsequent study.

1. What are the problems of reconverting to peacetime production?

The pattern of manufacturing production has changed drastically during the war—durable goods have risen 270 per cent while consumers' goods have remained constant at pre-war levels. As the production of civilian products is resumed, will the pre-war pattern be restored? What proportion of durable goods production represents products that will be abandoned after the war; will the production of discontinued lines and new items replace this loss?

2. What will be the over-all level of production after the war?

During the war, manufacturers have learned new techniques and developed new products. If they can utilize these gains after the war, how much will they contribute toward achieving higher levels of national output and employment?

3. What contribution will manufacturing in the Third District make toward the post-war national product?

Manufacturing in this district was easily geared into war production and has made full use of its capacities. But the huge demands of war necessitated large construction of plant and facilities in other areas. Although post-war manufacturing in this district may be a smaller proportion of the national output than before the war, our chief concern is the maintenance of a high absolute level of production and employment.

Leather Tanning in the Delaware River Valley

Maintenance of employment at high levels is likely to be one of the most perplexing problems in the post-war period. It is a responsibility which every community and every industry must face. There is no simple solution applicable to all industries because they differ so widely in

their basic characteristics. One industry differs from another in technology, capital requirements, type of raw material, labor requirements, nature of markets, and the like. The problem of reconversion is complicated still more by the fact that the war has affected manufacturing

industries in vastly different ways. Consideration of this problem by individual industries seems to be the most sensible approach.

Growth of the industry

The tanning industry of the United States in 1850 consisted of some 6,700 tanneries, each operated by four or five workers using local hides and skins and tan bark. The industry expanded rapidly in the next half century and more slowly between 1900 and 1919, when employment reached a peak of 72,000; thereafter employment declined to 47,000 in 1939. The scale of operations increased considerably—over three-fourths of the workers in 1939 were in tanneries that employed 100 or more workers. Larger-scale operation is the result of consolidations, the development of mineral tanning, and the rise of large tanneries operated in conjunction with meat packing and shoe manufacturing enterprises.

Major branches of the industry

Leather tanning consists of two major branches: (1) the heavy division, which produces leather from hides weighing from 25 to 75 pounds; and (2) the light division, which makes leather from skins of smaller animals, like calves, sheep, kids, and goats.

The heavy division, which uses vegetable tanning for the most part, accounts for about 35 per cent of the value of all tanned leather, and produces sole leather for the shoe industry, bag and strap leather for luggage products, and harness, belting, and upholstery leather.

Most of the output of the light division goes into shoe uppers and smaller amounts into glove and garment manufacturing, bookbinding, and upholstering. Contrasted with the heavy division, manufacturing operations in light leather are more elaborate, the process is much faster, and the industry is more dependent upon foreign raw materials.

Economic characteristics of leather tanning

Hides and skins come to market not in response to the demand for leather but in response to the demand for meat; yet the consumption of footwear—the chief market for leather—has little relation to the consumption of beef and veal.

The industry is dependent to a large extent

upon imported raw materials—10 per cent of the cattle hides, 25 per cent of the calf and kip skins, 50 per cent of the sheep and lamb skins, and 98 per cent of goat and kid skins. Also 55 per cent of the vegetable tanning materials and practically all of the chrome used in mineral tanning are imported. Furthermore, raw materials, which are highly volatile in price, constitute two-thirds of the value of product in contrast to an average of 56 per cent for all manufacturing.

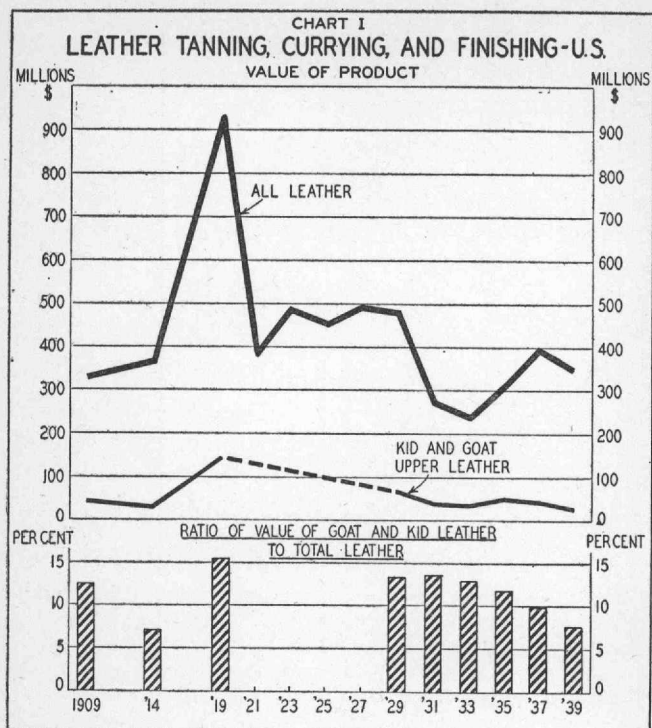
Another hazard in tanning is the long tie-up of working capital. In heavy leather this is due to the long manufacturing process; vegetable tanning requires two to four months. In light leather, particularly goat and kid tanning, working capital is tied up for a long time because it takes several months to deliver on the Atlantic seaboard the raw materials purchased in the African and Asiatic hide markets.

In addition to the problems growing out of the raw material situation, there are others arising from peculiarities of the leather market. The independent tanners have lost a substantial part, about 30 per cent, of the leather market to meat packers who have gone into tanning to increase the value of their by-product operations and shoe manufacturers who have gone into tanning to reduce their leather costs.

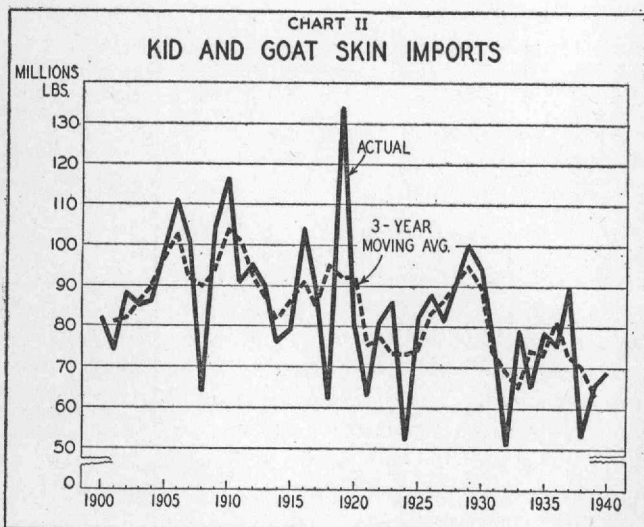
Finally, the tanners feel some of the effects of the growing importance of styling footwear. Although style change in footwear may increase the total demand for leather, it makes for greater irregularity of operations, especially in the finishing department of upper leather tanneries.

Kid leather tanning

For many decades the Delaware River Valley—Philadelphia, Camden, Chester, and Wilmington—has been the center of the goat and kid tanning industry of the United States. Prior to the '80's, the "Morocco manufacturers" of this area, who produced kid leather for women's shoes, were competing none too successfully with imported "French Kid" which was softer and finer than American brush kid. In the late '80's, Robert Foerderer, a Philadelphia tanner, perfected the chrome process of kid tanning, which yielded a leather superior to French Kid, and established the prominence of this area, which still accounts for about 80 per cent of the kid leather produced in this country.



Kid leather has high tensile strength, flexibility, and light weight. In normal times nearly all of the kid leather is used for shoe upper stock and linings; consequently, the styling of footwear has an important secondary effect upon kid tanning. At the turn of the century the value of goat and kid upper leather represented 17 per cent of all leather produced in the United States; in 1939 it represented about 8 per cent. As Chart I shows, the greatest decline occurred during the decade preceding the Second World War.



Since this industry is dependent almost wholly upon foreign raw materials, its development may be portrayed by goat and kid skin imports, as shown in Chart II. The industry attained its greatest development during the 1900-10 decade, when imports reached a level of almost 100 million pounds annually—an average skin weighs almost 2 pounds. During the decade ending in 1939, annual imports averaged about 75 million pounds. British India normally supplies between a third and a half of our imports. For many years China ranked second, supplying 12 to 16 per cent of our requirements, but imports from this source have been curtailed seriously since the Japanese invasion of China. Argentina, Brazil, and Mexico also supply substantial amounts.

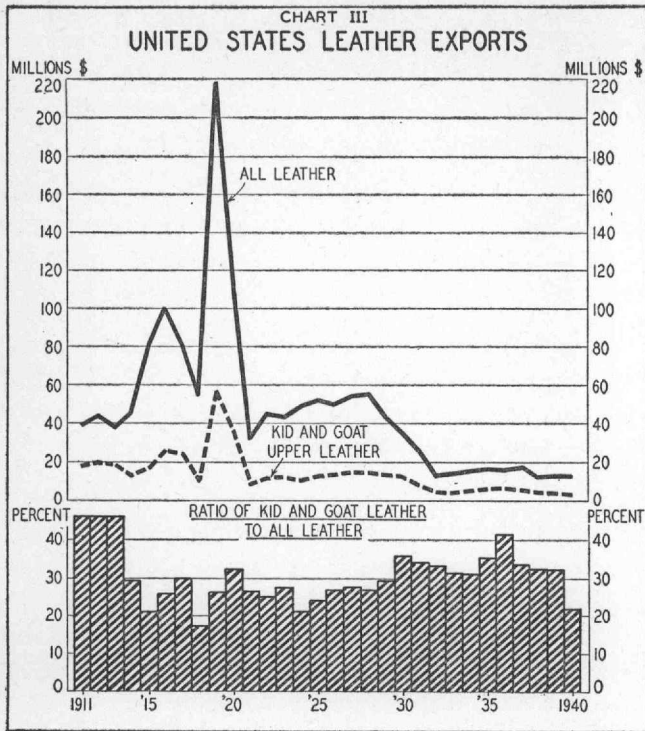
Imports of goat and kid skins declined from 49 million in 1941 to an estimated 36 million skins in 1943—a decrease of 26 per cent—owing largely to the wartime hazards of shipping. During the same period production of kid leather declined from 45 million to an estimated 37 million skins—a decrease of 18 per cent. Inventories of finished leather have been disappearing rapidly. Since January 1941, finished inventories have declined from about 12 million to less than 2 million skins.

Kid leather constitutes an important part of our leather exports. Just before the First World War it made up 46 per cent of all leather exports, but the proportion has declined since that time, as shown in Chart III. During the decade ending in 1939, kid leather exports averaged about a third of all leather exports.

Since the outbreak of the present war, this industry has been confronted by diminishing supplies of raw materials and the shoe industry has received less than its customary proportion of kid leather because of growing military needs for goat-skin gloves and garment leather.

Reconversion and post-war prospects

The tanning industry is not faced with the same kind of reconversion problems that confront those industries that have undergone a huge wartime expansion. The kid leather industry, for example, has no Government plants to be disposed of; it has no problem of surplus goods and no major reconversion problem. A survey made in 1943 by the Research Commit-



tee of the Philadelphia Committee for Economic Development, shows that 80 per cent of the tanning industry in Philadelphia will have no re-conversion problem, and the balance of the industry will require only one month or so to convert from war to peacetime operation. The estimated cost of reconverting is but a small fraction of total sales and the needed funds are available from the industry's own resources.

At a special conference of tanners of this area, sponsored by the Philadelphia Committee for Economic Development, opinion was almost unanimous that the raw material situation will be the most serious post-war problem. Run-away hide markets followed by collapse are possible in the absence of any efforts to moderate price fluctuation.

Leather inventories are now at their lowest level in many years and there is little likelihood for improvement before the end of the war. Upon removal of shoe rationing and style restrictions, demand for leather is expected to increase substantially. Philadelphia tanners estimate sales for the first post-war year to be 50 per cent above their 1939 level. In buying goat skins, domestic tanners must compete with foreign tanners who will be just as eager to replenish their depleted inventories.

If present Government controls over the hide, leather and shoe markets are removed immedi-

ately after the war, a mad scramble for hides and skins and soaring prices are inevitable. After the first World War goat skins soared to \$28 a dozen. That was in 1920. A year later prices were down to \$7 a dozen and tanners suffered heavy losses. The volatility of hide and leather prices is expressed by the frequently heard saying "high-priced hides make low-priced leather."

To avoid another price boom and collapse, most tanners feel that there should be some form of government price control to maintain balance between raw materials and finished products for several years after the war or at least until markets attain some semblance of normality. Such action, however, calls for utmost discretion. Kid tanners in this country may be "priced" out of their markets if their prices are set so high as to encourage substitution of side leather and calfskin. On the other hand, they may be priced out of their raw materials if prices are set too low and are not observed by foreign competitors. This suggests that the possibilities of international arrangements be explored.

In contrast to the immediate post-war raw material problem which is one of prices, the long-run outlook presents a problem of another kind—whether raw materials can be obtained in sufficient quantity to meet the demands of the industry. Kid tanning is developing in other countries, particularly India, the principal source of our high-grade kid skins. Ever since the First World War, India has fostered the development of its tanning industry. It has imposed a 20 per cent duty on hide exports, three-fourths of which is rebated on those exported to or tanned in Empire countries. By 1939, from 50 to 75 per cent of India's cattle hides, and 45 per cent of its goat and sheep skins were tanned at home. Domestic demand for leather is expanding still more owing to the stimulating effect of the present war on India's shoe industry. Sixty per cent of men's shoes sold in India are of domestic manufacture and there is a growing demand for women's fancy sandals of "gold" and "silver" kid. A continuation of these developments spells smaller proportions of Indian goat skins for our industry in the Delaware River Valley.

The war has stimulated leather tanning also in other countries, particularly in South America which is receiving numerous refugees with a technical knowledge of the industry. Other markets from which we obtain raw materials

are likewise developing their own local tanneries. Among these are New Zealand, South Africa, Mexico; and, after the war, no doubt Russia will be another. Increasing competition from these countries has the effect of further curtailment of raw material supplies for our industry.

The United States is not an important goat raising country; our domestic production of goat and kid skins is about 500,000 annually, which is less than 2 per cent of our imports. There is little prospect of increasing domestic supplies unless a market for goat meat can be developed in the United States.

The tanning industry is faced not only by the prospect of contracting raw material supplies but also contracting markets. For several

markets from which we obtain raw materials decades the consumption of leather has not kept pace with the growth of population owing to such developments as the introduction of the Oxford-type shoe, substitution of cloth for shoe uppers, the growing use of composition soles, reduction in demand for harness leather and leather belting, and the greater reliance upon automotive travel.

The prospects for new markets and new products should be examined thoroughly. Our survey of Philadelphia tanneries shows that 27 per cent of the firms are planning to make new products after the war. Studies of the uses of leather indicate that over 500 articles of military use are made wholly or partially from leather. Some of these articles probably are adaptable to civilian use.

Business and Banking

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during the first half of 1944. Of further significance is the fact that producers' shipments of finished goods in that period were maintained at a fairly constant rate, indicating that stocks were being reduced in relation to current output as well as in absolute amount.

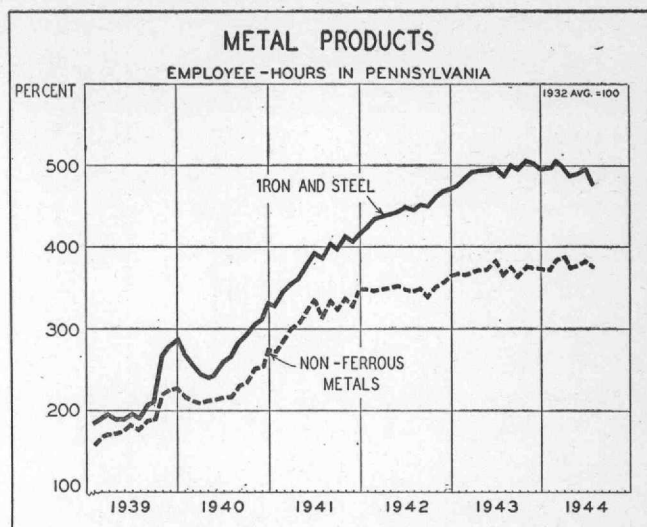
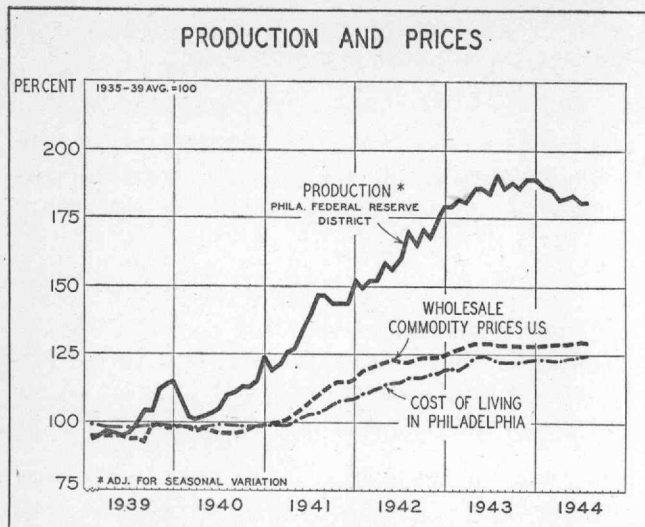
While manufacturers as a whole have continued to reduce their holdings of crude and semi-processed products, a relatively small number of firms, mostly metal fabricators turning out military items still in short supply, have found it necessary to build up their stock piles of raw materials to levels generally consistent with expanding production schedules. In the case of these producers, unmanufactured inventories showed an increase of about \$60 million during the six months ended June 1944. As suggested previously, broad changes in requirements for war goods, such as the increase called for in heavy truck production and the more recent cutback authorized for aircraft schedules, may be followed by wide fluctuations in the raw material inventory holdings of the affected industries.

Industry and trade. Industrial activity in the Philadelphia Federal Reserve District was approximately maintained from June to July, when the output of factory products showed a small increase on an adjusted basis, offsetting further declines in the production of coal and

crude oil. The gain in manufacturing output was attributable to a somewhat higher rate of operation in durable goods industries; activity in nondurable goods lines was slightly below the June level. Total industrial production in July was down about 5 per cent from a year earlier, reflecting decreases in the manufacturing, anthracite mining, and petroleum industries. In the first seven months of 1944, however, over-all output was little less than in the same period last year.

Employment, payrolls, and employee hours worked in Pennsylvania factories decreased somewhat in July, resuming a gradual downward tendency that had been in evidence for some time. The number of wage earners has decreased with but few interruptions from the wartime peak of last November, although the reduction to date has been little more than 4 per cent. The volume of wage payments, which reached a peak in February, showed a similar decline thereafter. Total working time likewise has decreased recently, following rather narrow fluctuations in the early months of this year. Payrolls in July were about 2 per cent above the level of a year earlier, while employment and employee hours were down 4 and 3 per cent respectively.

Wage payments decreased during July in all major groups except processed foods, where a further small advance was reported, and chemi-



cals and leather products, where they were maintained at about the June level. In heavy industry lines, widespread, but for the most part moderate, reductions in the month reflected to some extent cutback production schedules in certain munitions categories, notably aircraft and parts. Nondurable goods lines such as textile mill and paper products also experienced general declines in payrolls.

The weekly income of wage earners at reporting plants in Pennsylvania declined slightly in July for the second successive month, averaging \$46.93, as against the wartime high of \$48.14 reached in May. Over the twelve months, however, average earnings increased about 6 per cent; they have shown an advance of more than 75 per cent since the beginning of defense and war production in mid-1940. Hourly earnings rose slightly from June to July to an average of a little over \$1.06, the highest in records covering nearly two decades.

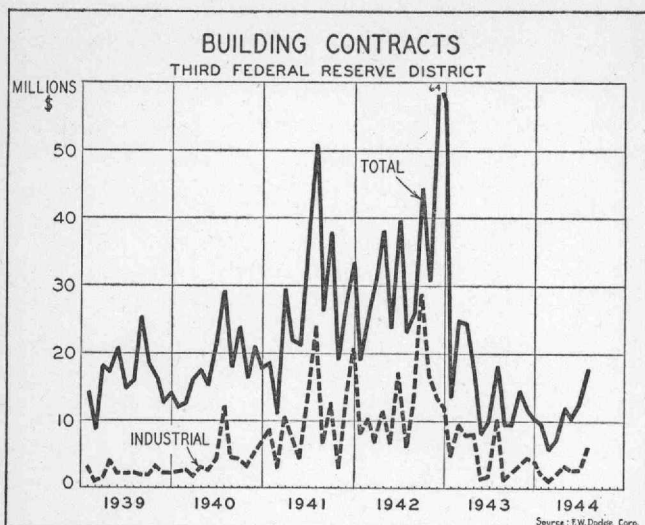
Labor shortages persist in varying degrees throughout the coal mining industry. On the basis of present manpower trends indicating that losses have been exceeding replacements by approximately 800 workers for several months, the Solid Fuels Administration has revised downward its estimates of anthracite production in the coal year ending March 31, 1945. Output of the fuel is not expected to rise above 60.9 million tons, as against 61.6 million mined in the 1943-44 period, and estimated requirements of 66.9 million.

In order to broaden the distribution of anthracite supplies, the Solid Fuels Administration has directed that maximum shipments to retail

dealers this season be reduced from 90 to 87½ per cent of estimated consumer requirements reported earlier to the agency. The production of bituminous coal also is expected to fall short of total requirements this coal year. On a tonnage basis the prospective deficit will be several times that of anthracite, but in terms of anticipated domestic and export needs it is expected to be much less critical.

Building activity nationally and locally has shown some temporary increases in the past month or two, although both actual operations and the volume of contract awards since the turn of the year have been considerably below the levels prevailing in the corresponding period of 1943. According to the F. W. Dodge Corporation, there has developed in recent months a pronounced tendency for privately and publicly financed construction to resume their pre-war relationships. This has become especially true in the residential field, where 65 per cent of the value of contracts awarded from January through July represented expenditure of private money, as against less than 40 per cent in the same months of 1943. In the nonresidential category about one-fourth of the 1944 placements to July 31 were privately financed, compared with only one-tenth in the first seven months last year.

The value of new contracts awarded in this district increased considerably from June to July, when exceptionally large gains were reported in nonresidential construction, notably factories and unclassified projects. Placements for small houses and multiple family dwellings declined sharply, and awards for public works and utilities showed a moderate decrease in the month.



The value of contracts let in the seven months ended July was well over a third less than a year earlier, reflecting substantial reductions in awards for industrial and residential structures.

Severe drought and the most persistent summer heat in three decades have reduced crop prospects over a large part of this district. Fall plowing, which usually gets under way in early August, has been delayed considerably by insufficient soil moisture. Pastures and meadows have deteriorated rapidly, necessitating unusually heavy supplementary feeding of livestock from supplies already at low levels. Damage to such field crops as corn, potatoes, and tobacco is reported from nearly all sections; yields of garden vegetables have been reduced in varying degrees, as has the production of orchard fruits in certain areas. The supply of farm labor generally has grown increasingly tight in spite of the importation of many workers, the use of war prisoners, and increased employment of members of farm families.

Farm cash income in Pennsylvania, New Jersey and Delaware reached a new wartime peak of approximately \$360 million in the six months ended June 1944. Receipts from marketings of crops were 4 per cent greater than in the same period last year and those from livestock and products were up 7 per cent. Total sales were the largest in many years, and more than double the average dollar volume reported by the Department of Agriculture during the first half of the prewar years 1935-1939.

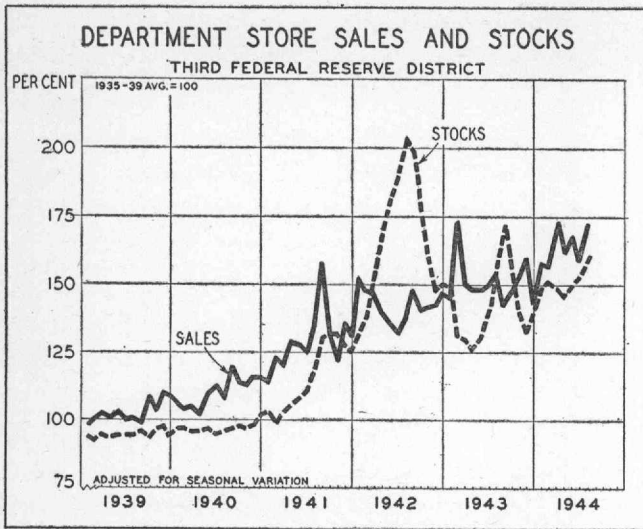
Rail freight shipments in this section, as in the country, continue above last year's level. Al-

though total freight carloadings did not change significantly from June to July, wide fluctuations were reported in the movement of several classes of commodities. Shipments of coal and grain declined sharply on an adjusted basis, following unusually large deliveries earlier this year; loading of livestock showed a large contra-seasonal gain, reflecting chiefly increased marketings prompted by a growing shortage of feeds. In the seven months ended July aggregate loadings were 7 per cent greater than a year earlier, the largest gains being reported in the case of solid fuels and agricultural commodities.

Business at wholesale decreased somewhat further from June to July, as dollar volume continued to slacken in a majority of reporting lines. Sales of electrical supplies, shoes, jewelry, and paper, were sharply below year ago levels; small gains occurred at grocery and hardware establishments, while sales of drugs did not change significantly. Inventories likewise declined in the month, although the value of total holdings was nearly one-tenth larger than in July 1943.

The sharp rise in consumers' wartime incomes is reflected in a high level of retail sales. In this district the value of sales by department stores has been averaging substantially more than 50 per cent above the pre-war level of 1939. Rising prices, and to some extent the up-grading of merchandise resulting from the discontinuance of many low-priced lines, accounted for part of this increase, although there is little doubt that the volume of sales also has been greater. Inventories at these establishments, measured in dollars, have fluctuated widely throughout the war period; for the most part they have been rather well maintained in relation to sales. The character of both sales and stocks has shifted with the virtual disappearance of many lines of consumers' durable goods, and the resulting concentration of demand upon apparel and other lines of soft goods.

In July, retail dollar sales by reporting department, apparel, and shoe stores in this district were unusually well maintained, and showed increases over a year earlier ranging from a little over one-tenth to nearly one-third. Inventories declined less than seasonally in the month and were somewhat greater than in July 1943 at department and women's apparel stores, two lines that reported substantially larger sales in the first seven months this year than last.



Banking conditions. Revised budget estimates indicate that Treasury receipts in the current fiscal year may be substantially larger than had been anticipated earlier, and expenditures somewhat lower. The volume of funds to be raised by borrowing is placed at \$50 billion, after allowance for a reduction of \$4½ billion in the working balance. This compares with an increase of \$64 billion in the gross direct debt in the past fiscal year, when debt operations resulted in a considerable rise in Treasury balances. Part of the borrowing requirements this year have already been met through operations since July 1.

Final figures for the Fifth War Loan Drive show that sales to nonbank investors were the largest on record both in this area and in the country as a whole. Sales credited to the three states lying wholly or partly in this district were about 10 per cent of the national total of \$20.6 billion. For the sixty counties in the Third Federal Reserve District the aggregate was \$945 million, excluding substantial purchases by the Commonwealth of Pennsylvania, which in this drive were not allocated among the counties; inclusion of a proportionate share of such purchases would bring the district total to about \$1 billion.

As shown in the accompanying table for entire states, sales in Pennsylvania, New Jersey, and Delaware to corporate and miscellaneous investors were considerably larger than the quotas. While sales to individuals in these states were somewhat below the goals, they were greater than in any previous drive, helping to absorb surplus funds from an area of the econ-

omy where sharply accumulating purchasing power might tend toward the development of inflationary pressures.

Sales During War Loan Drives (\$ amounts in millions)	Individuals*	Corporate, etc.	Total Sales
Pennsylvania			
Third Drive	\$405	\$801	\$1,205
Fourth Drive	396	672	1,069
Fifth Drive	428	823	1,251
New Jersey			
Third Drive	\$167	\$544	\$710
Fourth Drive	186	595	781
Fifth Drive	216	527	743
Delaware			
Third Drive	\$15.7	\$42.3	\$58.0
Fourth Drive	14.5	33.2	47.6
Fifth Drive	17.3	38.0	55.3
Fifth Drive—% of quota			
Pennsylvania	97%	128%	116%
New Jersey	99	127	117
Delaware	91	109	102

* Sales to individuals, partnerships, and personal trust accounts.

The net flow of funds to the Treasury in this district since July 12, shortly after the close of the loan drive, to August 23 has been \$87 million. The outflow of currency amounted to \$23 million in this six-week period. While the effect of these operations upon the reserves of member banks was balanced in part by gains in inter-district commercial transactions, the use of additional Reserve Bank credit was the principal factor in maintaining relatively stable reserve balances. There was a small increase in direct borrowings from the Reserve Bank, and the volume of Treasury bills held by this Bank under repurchase option moved up from \$113 million to \$191 million.

Treasury withdrawals from war loan accounts, currency demand, and repayments on loans were reflected in lower deposits at reporting banks in leading cities of the district. Thus far customers' balances at these banks have shown only moderate recovery, following the heavy drafts made upon them to pay for securities purchased during the drive. United States Government accounts have been drawn upon actively and balances held for other banks have declined somewhat, with the result that total deposits decreased \$103 million in the six weeks to \$2,649 million. These changes were reflected among the assets principally in smaller holdings of securities. The investment in Governments was reduced \$53 million to \$1,767 million; holdings of Treasury bonds and notes increased, but there were more than corresponding declines in bills and certificates. The loan account decreased \$27 million, because of repayments on commercial and security loans and on credits extended to other banks.

BUSINESS STATISTICS

Production

Philadelphia Federal Reserve District

Employment and Income

in Pennsylvania

Industry, Trade and Service

Indexes: 1923-5=100	Adjusted for seasonal variation						Not adjusted		
	July 1944	June 1944	July 1943	Per cent change			July 1944	June 1944	July 1943
				July 1944 from	1944 from				
					Mo. ago	Year ago				7 mos. 1943
INDUSTRIAL PRODUCTION	147p	147	155r	0	-5	-1	141p	145	150r
MANUFACTURING	151p	150	159r	+1	-5	-1	145p	149	153r
Durable goods	235p	230	256r	+2	-8	-4			
Consumers' goods	95p	95	94	-1	+1	+3			
Metal products	184	184r	183r	0	+1	+4	180	185	178r
Textile products	70p	70	73	0	-4	3	65p	68	67
Transportation equipment	590p	578	687r	+2	-14	-7	573p	577	667r
Food products	130p	127r	119	+2	+9	+16	115p	116	111r
Tobacco and products	80	83	99	-4	-20	-19	86	89	107
Building materials	34p	35	39	-1	-12	-20	37p	37	42
Chemicals and products	165p	160	165	+3	0	+5	162p	161	162
Leather and products	112p	109	113	+3	-1	-4	100p	106	103
Paper and printing	98	97	96	+1	+2	+3	95	96	93
Individual lines									
Pig iron	104	112r	115	-7	-10	-3	95	106r	106
Steel	148	138	150	+7	-1	+1	135	141	137
Silk manufactures	81	89	83	-9	-3	+2	79	85r	81
Woolen and worsteds	63p	64	59	-1	+7	0	60p	61	56
Cotton products	54	48	62	+11	-13	-19	47	46	54
Carpets and rugs	58p	56	49	+3	+17	0	55p	55	47
Hosiery	80	72	90	+13	-11	-11	66	70	74
Underwear	164	145	179	+14	-8	-9	136	145	148
Cement	28p	28	40	0	-29	-45	33p	33	47
Brick	50	49r	61	+3	-17	-19	48	51r	58
Lumber and products	30	32	27	-6	+11	+10*	33	32	29
Bread and bakery products				-1*	+11*	+10*	125	126	113
Slaughtering, meat packing	124	128	120	-4	+3	+26	109	121	105
Sugar refining	116	84	80	+38	+45	+40	118	90	82
Canning and preserving	186p	176	170r	+6	+9	+22	129p	126	139r
Cigars	79	82	99	-3	-20	-19	85	88	107
Paper and wood pulp	86	85	86	0	0	0	82	85	83
Printing and publishing	100	99	98	+1	+2	+4	97	98	95
Shoes	118	132	133	-10	-11	-5	110	125	123
Leather, goat and kid	103p	87	95	+19	+9	-1	91p	88	83
Paints and varnishes	105	96	103	+10	+2	+6	98	98	96
Coke, by-product	166p	168	160	-1	+3	+6	163p	168	157
COAL MINING	79	86	84	-7	-6	+10	78	84	83r
Anthracite	75	81	81	-7	-7	+9	75	81	81
Bituminous	115	122	110r	-6	+4	+12	101	108	96r
CRUDE OIL	340	360	418	-6	-19	-12	340	375	418
ELEC. POWER—OUTPUT	434	440	425	-1	+2	+6	404	418	395
Sales, total	444	449	435	-1	+2	+8	417	436	409
Sales to industries	356	344	336	+3	+6	+10	363	348	343
BUILDING CONTRACTS									
TOTAL AWARDS†	57	45	51	+27	+12	-56	52	46	47
Residential†	9	17	32	-46	-71	-62	10	18	36
Nonresidential†	91	56	68	+61	+34	-51	83	57	63
Public works and utilities†	120	106	48	+14	+153	-52	103	100	41

Indexes: 1932=100	Employment				Payrolls			
	July 1944 index	Per cent change from		July 1944 index	Per cent change from			
		June 1944	July 1943		June 1944	July 1943		
GENERAL INDEX	131	-2	-4	324	-3	+2		
Manufacturing	183	-1	-4	486	-3	+2		
Anthracite mining	40	-20	-24	68	-29	-19		
Bituminous coal mining	76	-3	-8	326	-11	+15		
Building and construction	49	+3	-3	123	+5	+3		
Quar. and nonmet. mining	85	+2	-17	271	-1	-13		
Crude petroleum prod.	134	-1	-2	247	+1	+13		
Public utilities	98	+1	-2	150	+2	+8		
Retail trade	107	-3	+1	152	-3	+3		
Wholesale trade	104	0	0	149	0	+3		
Hotels	103	0	0	172	-1	+10		
Laundries	107	+2	-1	182	+1	+10		
Dyeing and clean ng.	100	-3	0	169	-10	+8		

Manufacturing

Indexes: 1923-5=100	Employment*				Payrolls*			
	July 1944 index	Per cent change from		July 1944 index	Per cent change from			
		June 1944	July 1943		June 1944	July 1943		
TOTAL	118	-1	-4	198	-3	+2		
Iron, steel and products	123	0	-2	275	-4	+3		
Nonferrous metal products	203	+1	+3	424	-3	+7		
Transportation equipment	161	-4	-9	287	-3	-2		
Textiles and clothing	80	-1	-7	116	-5	0		
Textiles	73	-1	-6	107	-5	0		
Clothing	106	-2	-9	157	-5	-1		
Food products	124	+2	+7	194	+2	+16		
Stone, clay and glass	85	-2	-3	123	-6	+2		
Lumber products	53	-1	-1	85	-2	+9		
Chemicals and products	117	+1	-6	208	0	+1		
Leather and products	74	0	-10	117	0	0		
Paper and printing	102	0	0	147	-1	+5		
Printing	94	+1	+3	131	0	+6		
Others:								
Cigars and tobacco	52	-4	-15	73	-6	-9		
Rubber tires, goods	146	0	+6	301	+2	+13		
Musical instruments	86	-5	+12	141	-8	+12		

* Figures from 2844 plants.

* Unadjusted for seasonal variation. p—Preliminary.
† 3-month moving daily average centered at 3rd month. r—Revised.

Hours and Wages

Local Business Conditions*

Percentage change—July 1944 from month and year ago	Factory employment		Factory payrolls		Building permits value		Retail sales		Debits	
	June 1944	July 1943	June 1944	July 1943	June 1944	July 1943	June 1944	July 1943	June 1944	July 1943
	Allentown	0	-6	-4	+4	-34	-85	-17	+13	-13	+7
Altoona	+1	-4	-5	+11	+16	-21	-9	+23	-2	+16
Harrisburg	0	0	-1	+8	-56	-61	-9	-1	-10	-2
Johnstown	-1	-5	-2	+10	+35	+63	-12	+23	-6	+9
Lancaster	0	0	+1	+6	+148	-82	-14	+2	-13	+38
Philadelphia	-3	-6	-3	+1	-86	-85	-22	+11	-18	+5
Reading	0	-6	-6	-2	+88	+56	-11	+8	-17	+2
Scranton	+1	+19	-6	+35	-87	-99	-15	+37	-42	+17
Trenton					-40	+86	-18	+3	-18	+33
Wilkes-Barre	-1	0	-4	+4	+26	+49	+11	+36	-4	+12
Williamsport	-2	-10	-4	-10	-57	+300			-3	-15
Wilmington	-1	-8	+3	-2	-40	-85	-13	+16	-15	+4
York	+1	-4	-2	+2	-8	-69	+8	+23	-4	+17

* Area not restricted to the corporate limits of cities given here.

Factory workers Averages July 1944 and per cent change from year ago	Weekly working time*		Hourly earnings*		Weekly earnings†	
	Average hours	Ch'ge	Average	Ch'ge	Average	Ch'ge
	TOTAL	44.4	+1	\$1.063	+5	\$46.93	+6
Iron, steel and prods.	45.7	+1	1.127	+4	51.48	+5
Nonfer. metal prods.	45.1	+2	.998	+7	44.97	+10
Transportation equip.	46.5	0	1.251	+9	58.10	+8
Textiles and clothing	38.4	0	.763	+7	29.24	+7
Textiles	39.2	+1	.784	+6	30.69	+7
Clothing	36.4	-1	.709	+9	26.20	+9
Food products	44.4	+3	.812	+3	36.31	+6
Stone, clay and glass	39.4	+2	.913	+4	35.92	+6
Lumber products	43.8	0	.765	+7	33.17	+8
Chemicals and prods.	45.7	+4	1.050	+1	47.90	+6
Leather and prods.	42.2	+4	.750	+6	31.63	+11
Paper and printing	42.6	0	.902	+4	38.91	+5
Printing	40.5	0	1.049	+3	42.67	+3
Others:						
Cigars and tobacco	41.8	-1	.609	+6	25.46	+7
Rubber tires, goods	43.6	0	1.051	+6	45.76	+6
Musical instruments	45.6	-4	.934	0	42.56	0

* Figures from 2696 plants.

† Figures from 2844 plants.

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change		
	July 1944 from		1944 from 7 mos. 1943
	Month ago	Year ago	
Sales			
Total of all lines.....	- 2	- 9	+ 3
Boots and shoes.....	-15	-14	...
Drugs.....	+ 4	0	- 2
Dry goods.....	- 4	-21	0
Electrical supplies.....	+ 5	-33	- 9
Groceries.....	0	+ 4	+ 9
Hardware.....	- 5	+ 4	+ 6
Jewelry.....	-16	-11	+ 3
Paper.....	-17	-10	+15
Inventories			
Total of all lines.....	- 3	+ 9	.....
Dry goods.....	- 2	+16	.....
Electrical supplies.....	+10	+21	.....
Groceries.....	-11	+ 8	.....
Hardware.....	0	+ 4	.....
Jewelry.....	-10	- 6	.....
Paper.....	+ 6	+ 8	.....

Source: U. S. Department of Commerce.

Prices	July 1944	Per cent change from		
		Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100).....	182	0	+ 3	+ 82
Wholesale (1926 = 100).....	104	0	+ 1	+ 39
Farm.....	124	- 1	- 1	+103
Food.....	106	- 1	- 1	+ 57
Other.....	99	0	+ 2	+ 23
Living costs (1935-1939 = 100)				
United States.....	126	+ 1	+ 2	+ 28
Philadelphia.....	125	0	+ 2	+ 27
Food.....	135	- 0	- 1	+ 45
Clothing.....	139	0	+ 8	+ 40
Rent.....	107	0	0	+ 4
Fuels.....	109	0	+ 3	+ 13
Housefurnishings.....	138	0	+11	+ 37
Other.....	120	0	+ 4	+ 19

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation						Not adjusted		
	July 1944	June 1944	July 1943	Per cent change			July 1944	June 1944	July 1943
				July 1944 from		1944 from 7 mos. 1943			
				Month ago	Year ago				
RETAIL TRADE									
Sales									
Department stores—District.....	173p	159	154	+ 9	+12	+ 8	119p	143	107r
Philadelphia.....	165	156	150r	+ 6	+10	+ 6	105	136	96r
Women's apparel.....	192	151r	163	+27	+17	+10	108	130r	92
Men's apparel.....	146	131	120	+11	+21	0	97	146	80
Shoe.....	163	134r	123	+22	+33	- 4	126	143r	95
Furniture.....				-19*	- 3*				
Inventories									
Department stores—District.....	161	153	156	+ 5	+ 4	.....	139	143	134
Philadelphia.....	156	150	151	+ 4	+ 4	.....	134	139	130
Women's apparel.....	219	207r	210r	+ 6	+ 4	.....	165	169r	158r
Shoe.....	87	80r	105	+ 9	-17	.....	75	76r	90
Furniture.....				+ 3*	- 9*				
FREIGHT-CAR LOADINGS									
Total.....	150	149	145	+ 1	+ 3	+ 7	153	153	148
Merchandise and miscellaneous.....	138	135	137	+ 2	+ 1	+ 3	138	137	137
Merchandise—l.c.l.....	87	90	88	- 3	- 1	+ 4	87	90	88
Coal.....	166	165	156	-10	+ 6	+16	158	167	148
Ore.....	215	209	209	+ 3	+ 3	+ 7	322	307	313
Coke.....	233	235	204	- 1	+14	+11	214	219	188
Forest products.....	120	124	123	- 3	- 2	+ 7	134	141	137
Grain and products.....	122	150	91	-18	-34	+13	164	130	122
Livestock.....	171	149	153	+15	+12	+24	147	136	132
MISCELLANEOUS									
Life insurance sales.....	122	120	108	+ 2	+13	+17	116	122	103
Business liquidations									
Number.....				+297*	-20*	-70*	12	3	15
Amount of liabilities.....				+144*	- 1*	-87*	10	4	11
Check payments.....	187	199	169	- 6	+10	+ 9	178	215	116

* Computed from unadjusted data.

p—Preliminary.

r—Revised.

BANKING STATISTICS

MEMBER BANK RESERVES AND RELATED FACTORS

Reporting member banks (Millions \$)	Aug. 23, 1944	Changes in—	
		Five weeks	One year
Assets			
Commercial loans.....	\$ 238	-\$ 4	+\$ 3
Loans to brokers, etc.....	36	- 5	+ 6
Other loans to carry secur.....	14	- 2	+ 3
Loans on real estate.....	37	+ 1	+ 6
Loans to banks.....	2	.....	- 2
Other loans.....	103	.....	- 3
Total loans.....	\$ 430	-\$10	+\$ 1
Government securities.....	\$1712	-\$52	+\$336
Obligations fully guar'teed.....	55	+ 1	- 20
Other securities.....	162	- 8	- 30
Total investments.....	\$1929	-\$59	+\$286
Total loans & investments.....	\$2359	-\$69	+\$287
Reserve with F. R. Bank.....	376	+ 7	- 27
Cash in vault.....	28	- 1	+ 1
Balances with other banks.....	78	+ 3	- 5
Other assets—net.....	57	+ 2	- 6
Liabilities			
Demand deposits, adjusted.....	\$1597	+ 43	-\$127
Time deposits.....	184	+ 3	+ 20
U. S. Government deposits.....	518	-108	+ 344
Interbank deposits.....	350	+ 2	- 1
Borrowings.....	2	.....	+ 2
Other liabilities.....	16	+ 1	+ 5
Capital account.....	231	+ 1	+ 7

Third Federal Reserve District (Millions of dollars)					Changes in weeks ended—					Changes in five weeks	
					July 26	Aug. 2	Aug. 9	Aug. 16	Aug. 23		
Sources of funds:											
Reserve Bank credit extended in district.....					+ 7.8	+20.3	+20.1	+ 2.1	+10.9	+61.2	
Commercial transfers (chiefly interdistrict).....					+ 4.2	- 2.3	+16.7	+14.7	+10.2	+43.5	
Treasury operations.....					- 7.7	-15.8	-24.5	- 6.3	-15.7	-70.0	
Total.....					+ 4.3	+ 2.2	+12.3	+10.5	+ 5.4	+34.7	
Uses of funds:											
Currency demand.....					+ 0.0	+ 4.0	+12.2	+ 6.9	+ 3.5	+26.6	
Member bank reserve deposits.....					+ 4.3	+ 1.6	- 0.8	+ 4.1	+ 0.9	+10.1	
"Other deposits" at Reserve Bank.....					- 0.1	- 3.6	+ 0.9	- 0.5	+ 1.0	- 2.3	
Other Federal Reserve accounts.....					+ 0.1	+ 0.2	+ 0.0	- 0.0	+ 0.0	+ 0.3	
Total.....					+ 4.3	+ 2.2	+12.3	+10.5	+ 5.4	+34.7	
Member bank reserves (Daily averages; dollar figures in millions)					Hold	Re- quired	Ex- cess	Ratio of excess to re- quired			
Phila. banks											
1943: Aug. 1-15.....					\$384	\$372	\$12	3%			
1944: July 1-15.....					364	344	20	6			
July 16-31.....					356	345	11	3			
Aug. 1-15.....					357	349	8	2			
Country banks											
1943: Aug. 1-15.....					\$265	\$199	\$66	33			
1944: July 1-15.....					283	217	66	31			
July 16-31.....					281	222	59	26			
Aug. 1-15.....					284	226	58	26			
Federal Reserve Bank of Phila. (Dollar figures in millions)					Aug. 23, 1944	Changes in—					
						Five weeks	One year				
Disc. and advances.....					\$ 5.3	+\$ 2.7	+\$ 4.5				
Industrial loans.....					4.1	- 0.4	- 0.6				
U. S. securities.....					1121.4	+ 68.0	+ 542.2				
Total.....					\$1130.8	+\$70.3	+\$546.1				
Fed. Res. notes.....					1295.3	+ 30.3	+ 265.6				
Member bk. deposits.....					641.3	+ 10.1	+ 12.0				
U. S. general account.....					35.0	+ 11.8	+ 13.2				
Foreign deposits.....					126.1	- 5.3	+ 22.8				
Other deposits.....					6.9	- 2.3	+ 1.7				
Total reserves.....					983.6	- 25.0	- 260.4				
Reserve ratio.....					46.7%	- 2.3%	- 21.9%				

National Summary of Business Conditions

Industrial production and employment declined slightly further in July. Wholesale commodity prices generally continued to show little change, while the cost of living increased somewhat.

Industrial production. Output at factories and mines continued to decline slightly in July and the Board's seasonally adjusted index was 233 per cent of the 1935-39 average as compared with 235 in June. The decrease in industrial production largely reflected small declines in a number of industries due to continued minor readjustments in the munitions program and to manpower shortages.

Output of steel and of nonferrous metals declined further in July to levels respectively 8 per cent and 20 per cent below the high levels of last autumn. A small decrease in activity in transportation equipment industries reflected partly the indirect effects of manpower shortages in foundries and continued readjustments in the shipbuilding and aircraft industries. In August a cutback in aircraft production was announced which was expected to result in the immediate release of 20,000 aircraft workers and the gradual release of 100,000 more during the balance of this year.

Production of manufactured dairy products and meats, after allowance for seasonal change, was maintained in July while output of other food products declined slightly. Cotton consumption showed little change from the rate of the last two months. Activity in the rubber products industry continued to decline slightly in July and supplies of heavy truck and bus tires available for civilians during the third quarter were substantially below estimated needs. Output of chemicals likewise continued to decline slightly.

Crude petroleum output and metal mining were maintained in large volume during July. Coal production dropped 5 per cent from the level of the preceding month, but for the year through August 12 was approximately 8 per cent above the corresponding period of last year, reflecting uninterrupted operations, longer working hours, and a great expansion of strip mining.

So far this year the value of construction contracts awarded, as reported by the F. W. Dodge Corporation for 37 states, has fluctuated around 160 million dollars a month—the lowest level since early 1935.

Distribution. Department store sales declined considerably less than is usual in July, and have continued in August at a higher level than a year ago.

Freight carloadings continued to rise in July and were maintained at a high level during the first two weeks in August. There were considerable increases in shipments of grain, forest products, and miscellaneous freight, offset partly by a small decrease in coal shipments.

Agriculture. Dry weather during July in the east central area has reduced somewhat national prospects for corn, hay and potatoes. Aggregate crop production, however, is likely to exceed last year by 5 per cent, reflecting chiefly a record wheat crop 35 per cent larger than last year.

Total production of all feed grains is estimated at 112 million tons compared with 115 million tons produced in 1943. While hay production, except in the drought areas, has been large, it will provide a smaller supply per animal unit than has been available in any of the last 6 years.

Crop prospects for most fruits and vegetables, except potatoes, are better than last year. Tobacco production is indicated as being above average and cotton yields may be good as dry weather has held the boll weevil in check.

Bank credit. In the five weeks following the close of the Fifth War Loan Drive, loans by banks for purchasing and carrying U. S. Government securities declined sharply; calls on war loan deposits and subsequent Treasury expenditures increased adjusted demand deposits and consequently required reserves; the rapid outflow of currency into circulation was renewed; and excess reserves declined.

In the five weeks from July 12 through August 16 loans to brokers and dealers for purchasing and carrying Government securities declined 500 million dollars to about the pre-drive level. Loans to others for purchasing and carrying Government securities declined about the same amount, but are still considerably larger than before the drive. Commercial loans continued to show little change.

Treasury war-loan balances at all depositories declined in the five-week period by 2.7 billion dollars. At weekly reporting banks, Government deposits fell by 2.2 billion during the same period and adjusted demand deposits increased by 1.4 billions. Time deposits continued the steady increase that has been in progress for more than a year.

Following a slackened rate of outflow during the war loan drive, currency renewed its rapid outflow and in the next few weeks increased at a rate of about 500 million dollars a month. The resulting drain on bank reserves and the increase in required reserves were met in part by purchases of Government securities by the Reserve Banks and in part by a decline in excess reserves.

Weekly average excess reserves of all member banks declined about 300 million dollars from their peak during the war loan drive and amounted close to 1.1 billion dollars in mid-August. The rate of decline was about the same at reserve city and at country banks.