THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

AUGUST 1, 1945

Current Business and Banking

In the three months since V-E Day reconversion has proceeded slowly with fewer dislocations resulting from contract cancellations than had originally been anticipated. Reported cutbacks in the war production program totaled more than $16 billion in the first six months of the year, but up until May many of these were "paper cutbacks" representing cancellation of production not actually begun and many were not immediately reflected in production because of the advance scheduling of orders. Munitions output declined by an estimated 15 per cent between March and July, due principally to cutbacks in aircraft production and in output of combat and motor vehicles.

Lay-off of workers was heavy in many areas, especially in California and the Mid-West, but over-all demand for labor continued high and the problem was chiefly one of persuading workers to transfer from surplus areas to those in which an acute shortage still remained, or from high-paid war industries such as shipbuilding and aircraft to lower paying jobs in civilian industries. At the beginning of June the total number of unemployed was about 1,000,000, which was only slightly higher than a year ago. The War Manpower Commission estimated that unemployment might double by August 1, but that nearly 700,000 persons would be reabsorbed in the expanding civilian sector of the economy by the end of October.

Civilian production is still being retarded by lack of materials. Although the "open ending" of steel, copper, and aluminum at the end of June and first of July made it possible for manufacturers to place unrated orders for these materials, the large volume of rated steel orders remaining on the books precludes delivery of any substantial volume for some months to come. The War Production Board is attempting to increase the supply of sheet steel for civilian production by a recheck on inventories to eliminate excess holdings and by a rescreening of third and fourth quarter military requirements. However, supplies of lumber, rubber, chemicals, and textile fibres are being absorbed largely by the Government and will continue tight as long as the military situation remains unchanged. The problem is one of a balanced supply—a surplus of any single metal will do little to facilitate reconversion so long as complementary materials are not obtainable. Production of consumer goods during the second quarter of the year was little higher than last year at this time, according to the Federal Reserve Board's index of industrial production.

Until a large volume of civilian goods can be placed on the market, price controls may have to be maintained in order to prevent an inflationary rise, which would serve no useful purpose in stimulating production and could only bring about further dislocations in the price structure. The general policy of the Office of Price Administration has been to hold prices at or near 1942 levels, but the agency is undertaking a series of industry-wide surveys in order to

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Changing Concepts of Bank Reserves

Reserves of Federal Reserve Banks and reserves of member banks of the Federal Reserve System are radically different although they have similar origins and the same word is used for both. The reserve of a member bank consists of a deposit at the Federal Reserve Bank; and its primary function is to enable the Federal Reserve authorities to influence the volume of bank deposits, which are the largest means of payment. The reserve of a Federal Reserve Bank, on the other hand, consists of gold certificates; and its primary function is to meet the demand for gold certificates that may legally be made upon the Federal Reserve Banks—almost entirely to settle international accounts.

As a background of the recent change in reserve requirements of the Federal Reserve Banks, it should be helpful to reconsider the development of reserves at both types of institutions.

As deposit banking was developed, commercial banks kept a certain amount of money "in reserve" to protect themselves against failure, despite solvency, because of insufficiency of cash to meet the demands of their depositors. Reserves were expected to be paid out from time to time or, in other words, to fluctuate.

As banking developed further, the function and form of commercial bank reserves changed. Since banks earn no interest on money in their vaults, they kept the smallest amount of reserves they considered adequate. There was a tendency to be satisfied with a smaller and smaller proportion between reserves and deposits. In some countries this decline came to an end as banks privately and voluntarily adopted a conventional minimum below which reserves were not allowed to fall except temporarily in unusual circumstances. Introduction of publication of balance sheets contributed to this result. In the United States, however, where many banks failed to keep adequate reserves, state and eventually national legislation was enacted requiring banks to maintain at least a minimum proportion between reserves and deposits, and banks gradually adopted the legal minimum as the proper amount of reserves to keep. Thus, whether by choice—as in England —or because of the influence of legal requirements—as in the United States—banks maintained a reasonably stable reserve ratio and kept little excess in ordinary times. The shift from variable to relatively fixed ratios did not take place overnight; but eventually it revolutionized the function of commercial bank reserves. In the United States banks could not use the reserves they were required to keep; and in other countries they did not in fact use those they kept because of convention. It was only the relatively small excess of reserves that was available to meet withdrawals.

Related developments were going on at the same time. Instead of keeping all their reserves as money in their vaults, banks deposited part in other banks. This practice was so widespread that limited amounts of such deposits in other banks were allowed—except to banks in money centers—in meeting the requirements under the National Bank Act. Furthermore, since most banks maintained only minimum reserves, they had to look elsewhere for money to meet withdrawals. In practice they relied on the correspondents with whom they maintained deposits. But these banks in turn could use not all, but only their excess reserves to meet such calls. Furthermore, such calls were apt to coincide with local withdrawals. Especially when demands for money were large and general, the scattered excess reserves of the entire banking system proved inadequate.

What was needed was an institution to do two things: (1) to provide additional money and reserves when needed; and, more important, (2) to regulate the total means of payment—money and deposits. The Federal Reserve System was established to meet these and other needs. The Reserve authorities were empowered to issue money and to create reserves in the form of member bank deposits to meet the first need. To meet the second, a means of influencing the volume of deposits was woven into the framework of banking that had developed in the United States. This means was based primarily on two elements in the existing structure. In the first place, member banks could not legally reduce their reserves **below** the legal minimum. In the second place, since excess reserves do not produce income, they did not ordinarily keep reserves for an extended period **above** the minimum. These two circumstances meant that, although reserves no longer were

available to meet withdrawals, the amount of reserves virtually determined the amount of deposits that the member banks could create.

It was not fully appreciated when the Federal Reserve System was established that reserves can be used to influence the volume of deposits if the reserve ratio of member banks remains relatively constant; but if it remains constant, the reserves cannot be used to meet cash demands. The **same** reserves cannot perform the dual role. To the extent that they are used for one purpose they cannot be used for the other. Establishment of the Reserve System meant in effect that member bank reserves were to be used as a method of influencing the volume of the means of payment and that the Reserve authorities would issue money in the form of notes to meet the cash needs of the country. It also meant that the Reserve authorities would determine within limits the amount of reserves that would be made available to the banking system.

Broadly speaking, it was recognized in the Federal Reserve Act that member banks could not provide cash for their customers from the reserves they were required to keep. This responsibility was shifted to the Reserve authorities. The full implications of this shift, however, were not appreciated. It was understood, of course, that member banks would operate for profit and that the Reserve Banks would operate in the public interest. But it was not clearly comprehended that this difference in purpose implied differences in reserve policies. It implied that a minimum legal ratio was in order for member banks since they tended to keep reserves at a minimum but that the Reserve Banks should pursue such reserve and other policies as were in the public interest. Nevertheless, traditional reserve practices were incorporated in the law; and the Reserve Banks were restricted in the same way that member banks were restricted. The primary purpose of imposing reserve requirements on the Federal Reserve Banks was to assure that they would be able to redeem their notes and deposits in gold or, in other words—as it was supposed—that they would not create excessive amounts of notes and reserves. But the method of required reserves is not suitable to this purpose because, with the Reserve Banks as with member banks, reserves that must be kept cannot be used to meet liabilities.

This raises the question of whether a more appropriate method can be devised. The problem is sufficiently important to merit consideration before it again becomes urgent. The ensuing discussion is designed to introduce some alternative solutions. What is desired is a method that will accomplish two purposes: (1) release gold certificates as needed to redeem liabilities and (2) indicate to Congress when its grant of monetary powers should be reviewed. It was hoped that the reserve ratio would accomplish both, but it is preferable to consider them separately.

One method of freeing gold certificates would be simply to remove reserve requirements on Federal Reserve Banks. Obviously this does not mean that the Reserve Banks would not hold gold certificate reserves but only that they could use all of them if necessary.

Another alternative would be to remove the reserve requirements against Federal Reserve notes but to retain the requirement against deposits. This alternative would mean a lesser break with tradition and might be preferable to the outright abandonment of all reserve requirements for Federal Reserve Banks. The elimination of the requirement against notes has much to commend it. It would permit the Reserve Banks to carry out the intention of the framers of the Reserve Act that the issuance of such notes should be virtually automatic in response to needs. Such notes are currency and part of our total money supply parallel to demand deposits held by the public. Under existing law, however, they put a much heavier strain than such deposits on reserves at the Reserve Banks. The required gold certificate reserve against notes is 25 per cent as compared with about 5 per cent against such deposits. On the other hand, gold or gold certificates are no longer domestic means of payment and may not be secured for this purpose in exchange for Federal Reserve notes. Elimination of the reserve requirement against notes would greatly increase the "free" gold certificates of the Federal Reserve Banks. Under this method, international gold payment could still break down while the Reserve Banks had much gold as reserve against deposits and even though proper measures were being taken to correct the outflow. It would not preclude awkwardness of the type we experienced internally in the depression. Nevertheless, as a practical matter it might be preferable to eliminate reserves against notes but to continue them against deposits.

The second purpose of reserve requirements has been to set a limit on the power of the Reserve Banks to extend credit. It is helpful in this connection to recall that virtually the only purpose served historically by such legal limits on central banks has been to force reconsideration of monetary policy when a limit is approached. Unfortunately, the limits have not provoked such consideration always and exclusively when it is needed. Excessive credit extensions have taken place well within the limits, and at other times the limits have been restrictive even though issuance of additional central bank credit was desirable.

One method of provoking democratic and informed discussion is through publication of statements of condition. Such statements, now published by most central banks, enable competent observers to be informed and to direct particular attention to developments when the volume of central bank credit is seriously deficient as well as when it is greatly in excess. This simple device might be adequate.

Another method could be based on the value of the exceptional publicity that usually is released when a specified limit is approached. Limits or benchmarks could be enumerated in the law for this specific purpose. The Reserve authorities could then be required to submit a policy report to the appropriate Congressional committees when these benchmarks were reached. If desirable, issuance of such a report could be the occasion for Congressional inquiry into policy. Benchmarks need not be objectives of policy, and should be considered merely indicators of significant monetary developments.

Ideally they should be a financial litmus, whose color would indicate whether too much or too little credit was being extended. In other words, they should be reached only and invariably when unusual publicity would promote better policy. But in the real world one must be content with much less reliable substitutes. This is meant to imply that such benchmarks as may be chosen should be considered as useful, practical indicators and should not be endowed with a magical quality of inviolability. One of the shortcomings of the reserve ratio has been that once a particular proportion has been chosen it becomes a fetish and often a misleading guide. An illustration is the fact that the required gold reserve ratio against Federal Reserve notes was not changed in 1933 when the right to redeem notes in gold was withdrawn. Neither was the required ratio against deposits changed. Yet the imposition of restrictions on the use of gold reduced the claims that could be made for gold certificates by owners of Federal Reserve notes and deposits.

One measure that could be utilized is the amount of gold certificates held by the Federal Reserve Banks. A benchmark might be made of, say, $12 billion. The Reserve authorities would then be required to issue a special report when the gold certificate holdings reached this amount. Congress could at that time establish the next benchmark at, say, $5 billion. The reason for choosing this measure is that a large decline in gold certificate holdings would raise the question of the System's ability to discharge its obligations. Congressional inquiry presumably would be directed to ascertaining the adequacy of holdings relative to prospective requirements and what steps the authorities propose to take.

Such an inquiry would disclose that the functions of central bank reserves also have changed. Gold and gold certificates may no longer be held domestically without official permission except by the Treasury and the Federal Reserve Banks. The only useful purpose that gold serves—other than in the arts and dentistry—is to make payments abroad when our international balances require such payments. Hence the inquiry might center on the prospective net claims of foreigners against the United States.

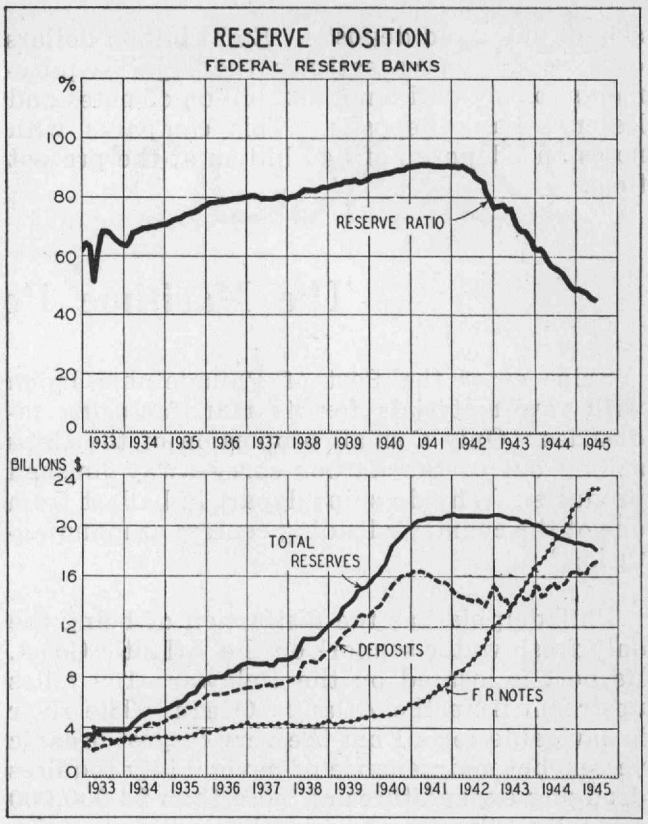
The amount of gold holdings has numerous advantages over the reserve ratio as a measure of monetary policy. The reserve ratio reflects confusion between a central bank's liabilities and its responsibilities. From a purely accounting point of view the reserve ratio measures the ability of a central bank to discharge its liabilities from its own resources. But in a panic the responsibility of the central bank is to lend more notes and deposits to allay fear and stem the avalanche. It is not to restrict credit by limiting its activities to redemption of outstanding notes and deposits. Approach to the legal limits tended to promote uncertainty, fear, and panic. The chief advantage of considering gold holdings is that they direct attention to the real problem. Of course, every mechanical device or rule of thumb is subject to abuse, particularly if it is elevated to an objective of policy. This benchmark would be abused if it were concluded that proper policy required maximization of gold and minimization of claims against it.

Another measure might be the total means of payment. When the selected benchmark volume is reached, Congress could establish a larger amount as a new benchmark. Care should be exercised in preparing a significant, precise, and administratively or statistically feasible definition of the total means of payment. The measure is suggested by the fact that Congress is naturally concerned with an excessive or deficient supply of the means of payment.

Still another measure might be changes in the average of a specified price level index. For example, a report might be required when the cost of living changes as much as, say, 10 per cent in twelve months or less. Absolute price stability may not be the appropriate goal of central bank policy but sudden changes certainly call for reconsideration of that policy. This measure has an advantage in that it operates in both directions.

These benchmarks have been cited only to illustrate a possible technique of general Congressional supervision of the Federal Reserve System based on sound principles. If benchmarks are used, they should be relevant to the real problems so that reaching them would be presumptive evidence that Federal Reserve policy should be thoroughly reconsidered. They should not be established so near existing conditions that reports would become frequent and hence ineffectual. Good policy involves judgment, and judgment can be exercised only if there is latitude. Experience shows that any rule-of-thumb directives have resulted in infinite difficulties, especially during major economic crises and when they are made absolute.

It is in the light of these principles and long-term developments that the recent changes in reserve requirements of the Federal Reserve Banks should be viewed. On June 12 the Federal Reserve Act was amended to reduce the required reserves of Federal Reserve Banks from 40 per cent in gold certificates against Federal Reserve notes and 35 per cent in gold certificates and lawful money against deposits to a uniform 25 per cent of gold certificates against both notes and deposits. The change was occasioned by the fact that although total reserves were $18 billion, existing requirements absorbed $15 billion, leaving only $3 billion as free reserves to meet future needs.



Changes in the ratios and the factors immediately responsible for them are shown in the chart. A sharp but temporary decline in the ratio in March 1933 was associated with the bank holiday period when people first withdrew gold and currency for hoarding and then returned them. The persistent rise from early 1934 to 1941 was the result of increases in reserves. Primary factors accounting for the rise were the increase in the price of gold from $20.67 to $35 an ounce; uncertainties abroad as to continuing stability of currencies, of governments, and of international relations; and after war broke out, official shipments to pay for equipment and supplies. The addition to reserves was great enough to increase the ratio despite increases in deposits—primarily a result of the inflow of gold—and in money in circulation. After the United States entered the war, the ratio began to decline rapidly because of exports of gold, large and continuous increases in notes, and more recently in deposits.

The amendment left total reserves virtually unchanged but reduced requirements to $10 billion, thereby increasing free or excess reserves of the Federal Reserve Banks to $8 billion. This sum is now available to meet losses of gold and increases in requirements resulting from expan-

sion of notes and deposits. Eight billion dollars of excess reserves satisfies the legal requirements for an additional $32 billion of notes and Reserve Bank deposits. This compares with notes and deposits of $40 billion at the present time.

This is sufficient latitude to permit unhurried reconsideration of the functions of reserves and reserve requirements. Mature consideration should produce a policy and program suited to modern conditions.

The Maritime Port of Philadelphia

Ships enter the Port of Philadelphia laden with raw materials for its manufacturing industries. Only a small proportion of the ships sailing out of the harbor carry away finished products. Why do ships depart in ballast from one of the country's leading centers of manufacturing?

Philadelphia has the distinction of being the only fresh-water seaport on the Atlantic Coast. Its port is located on the Delaware 100 miles upstream from the Atlantic Ocean. The river is navigable for all but the very largest oceanic vessels but maintenance of navigability requires dredging expenditures of more than $3,000,000 annually. Smaller vessels ply upstream as far as Trenton, New Jersey. The term "Port of Philadelphia," so far as commercial statistics are concerned, is used to designate the entire navigable area of the Delaware River Basin and its tributary waterways.

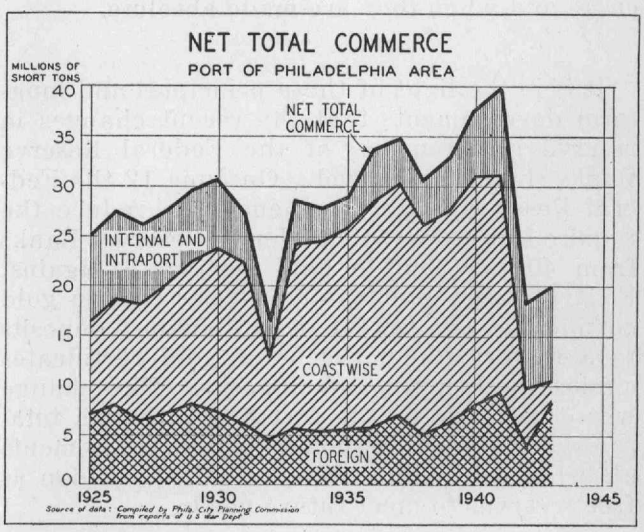
The channels of this harbor are navigable throughout the year, although above Bristol, Pennsylvania, ice conditions frequently hamper navigation during January and February. Very infrequently, ice likewise obstructs navigation in the channel between Philadelphia and Chester, but tidal currents usually keep the ice in motion. Fogs occasionally slow down the movement of traffic during winter months but this hazard is no greater than in other Atlantic ports, such as Boston, New York, and Baltimore.

Philadelphia's inland location has more industrial than commercial advantages. The Delaware Basin affords a number of ideal sites for shipbuilding and this industry has flourished here for two and a half centuries. For many years the United States Navy has used the natural facilities of the Delaware for shipbuilding and storage of inactive vessels. The 100-mile upstream location of Philadelphia, however, handicaps the city's port because local shippers are more remote than New York from the great circle route to Europe. This is a serious disadvantage to passenger traffic and somewhat of a drawback to trans-oceanic freight traffic.

Volume of Trade

Among the United States seaports, Philadelphia ranks second to New York in tonnage of commercial traffic, but the two ports are scarcely comparable, since the volume of commerce in New York is ordinarily three times that of Philadelphia. From 1925 to 1941 the net total commerce of the Port of Philadelphia rose from a level of 25 million short tons to a peak of 40 million, as shown in Chart I. These figures, refined to avoid duplication, include all foreign, coastwise and local traffic.

The pre-war traffic of this port averaged about 6 per cent of the tonnage of all United States ports and about 10 per cent of all Atlantic Coast ports. The precipitate decline that occurred in 1942 was caused by the German submarine warfare, which temporarily drove coastwise petroleum tanker traffic inland. The



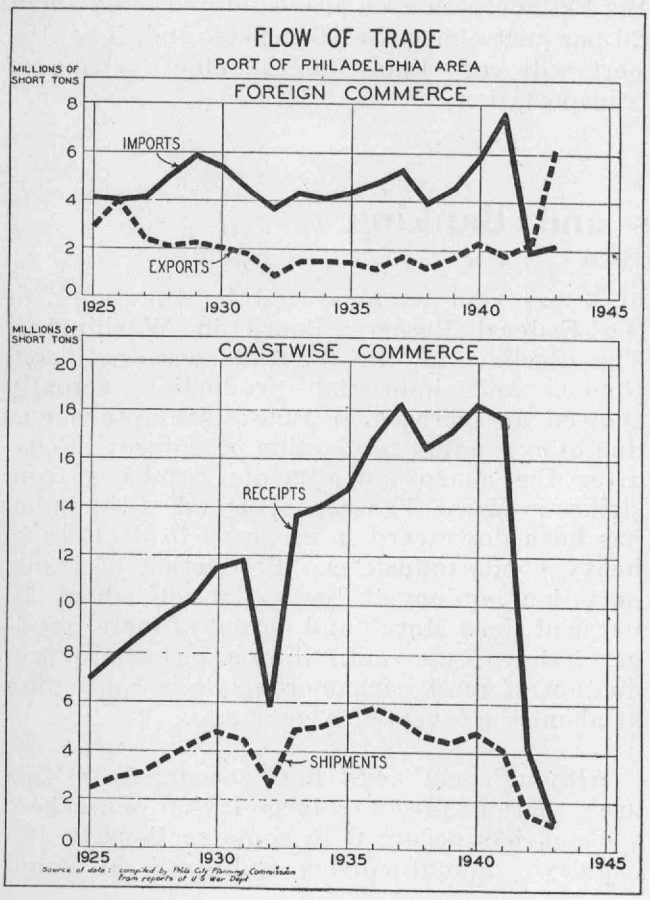
sharp decline between 1930 and 1933 reflects the severe business depression of that period.

Foreign commerce of the port, as indicated by the chart, is a comparatively small and declining proportion of the total. In 1925, it represented about 28 per cent of total commerce and in 1939, the last pre-war year, about 20 per cent. Philadelphia is essentially a coastwise port. This type of traffic accounted for approximately a third of the total commerce in 1925 and two-thirds in 1939.

Internal traffic, which includes all commerce within the port area and traffic through the Chesapeake and Delaware Canal, constituted slightly over a third of the total commerce in 1925, and declined to about 15 per cent of the total in 1939. It consists primarily of crude petroleum products, coal, and sand and gravel.

Flow of Trade

Primarily, the port receives coastwise traffic to supply raw materials for the great manufacturing area centering in Philadelphia. As Chart II shows, receipts are larger than shipments. With respect to foreign commerce, imports are also more important than exports. Between the two world wars, imports have averaged about twice the volume of exports. World War II caused a pronounced decline in both receipts and shipments of coastwise commerce. The war likewise caused a serious decline in foreign imports, but it stimulated exports consisting largely of lend-lease shipments.



Composition of Trade

The Port of Philadelphia is used primarily by the huge petroleum refineries in the Delaware River Basin. Crude petroleum and refined petroleum products account for much of its commerce. They accounted for 40 per cent of total tonnage in 1925, 70 per cent in 1939, and 45 per cent in 1943. Crude petroleum comprises over 80 per cent of the coastwise receipts, and the refined products of petroleum rose from 20 per cent of coastwise shipments in 1925 to 75 per cent in 1939, and to 98 per cent in 1943. This concentration on petroleum means that the activities of the port contribute relatively little directly or indirectly to employment in the area. Incoming crude oil and outgoing refined products are carried in bulk in large tankers that require small crews; tankers are easily loaded and unloaded with mechanically operated pumps and, incidentally, the refining process is also highly mechanized.

Petroleum also dominates the foreign commerce of the port. In 1925 it constituted one-quarter of the import tonnage, in 1939 over one-third, and in 1943 almost one-half. Petroleum and its products also accounted for more than half of the export tonnage in 1925; and although it has since declined slightly, it is still the dominant item.

Among imports, sugar and by-product molasses ranked next to petroleum. Among exports, coal ranked second in 1925 but was superseded by iron and steel products in 1939.

Internal traffic before the war consisted primarily of sand and gravel; coal ranked second. Since 1939, these commodities have been superseded by petroleum and its products—very largely as a result of wartime conditions.

Concluding Comments

The future of the port depends upon how Philadelphia capitalizes its advantages in the

face of certain limitations. The city has a good, fresh-water inland seaport. It has excellent and ample facilities with respect to depth of channel, piers, wharfage, railroad connections, loading and warehousing facilities for all kinds of commodities, fire protection, and labor supply. In addition, there are no lighterage charges, as in the Port of New York. In contrast with Baltimore, the local port is at a slight disadvantage with respect to railway freight rates. One of the chief handicaps to the growth of the port is its polluted waters. They are contaminated by local sewage, factory waste, and coal silt deposits from up-state tributaries of the Delaware. Concerted effort is now being made to remedy this condition.

The foreign commerce of the port has been relatively unimportant for many years. A great seaport must have tonnage, two-way traffic, and frequency of arrivals and departures. These factors, which Philadelphia lacks, are found in the Port of New York—the commercial and financial center of the country. In fact, many local shippers truck their foreign consignments to New York where speedy shipment is assured. Obstacles to the growth of foreign trade through the Port of Philadelphia are its proximity to New York and its inland position which requires ships to travel an extra 200 miles to get into the great sea lanes to Europe.

Future prospects for coastwise commerce of the port are favorable. Petroleum may be expected to constitute the bulk of the trade as heretofore. A new element in the situation is the "big inch" pipe line, which was built to relieve the wartime strain on railway tank car shipments of petroleum from the Southwest. The "big inch" serves both the Philadelphia and the New York refining centers. It delivers crude oil obtained from the mid-continent and Gulf oil fields at the rate of about 300,000 barrels daily, two-thirds of which goes into the New York area and one-third into the Philadelphia area. It is not known what use will be made of this facility after the war. Since it was built by the Government, it might be operated by the Government as a pipe line yardstick; it might be used to transport natural gas from the Southwest or it might be operated by private enterprise. Private companies can obtain all their crude oil requirements much more economically by coastwise tankers. In view of this situation, the Port of Philadelphia will very likely continue to be used as a petroleum waterway after the war as before. Within five years after the war, petroleum requirements of the Philadelphia area are estimated to be about 20 per cent above the 1941 peak and, if so, the port will very likely be the chief avenue of transportation.

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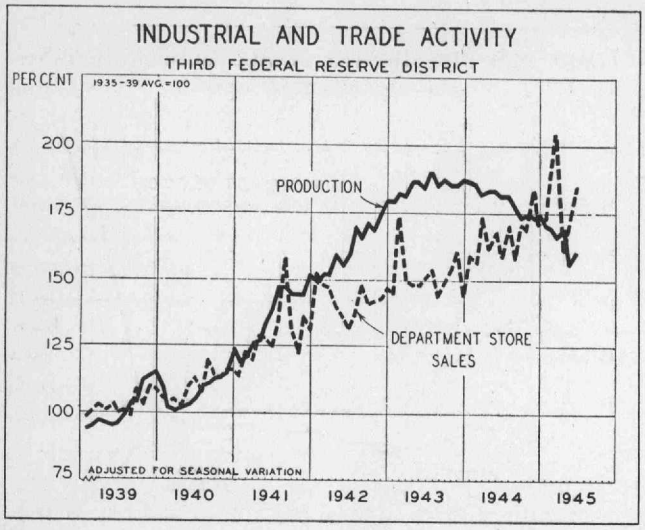
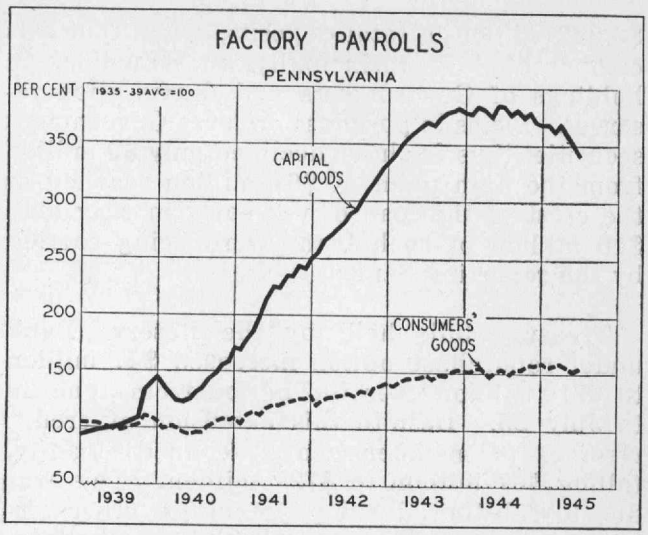
determine whether existing ceilings are unduly restrictive in view of wartime advances in costs. A uniform increase factor will be provided for industries and adjustments for individual firms where necessary.

As the supply of metals and other commodities increases it will be possible to eliminate price controls piecemeal. The OPA has obtained authority to remove ceilings where no price increase is likely to result and to eliminate controls on luxury items which contribute only a small portion of the total cost of living.

Business conditions in the Third Federal Reserve District have reflected national trends rather closely in recent months. Industrial production declined about 3 per cent between March and June compared to a national decline of 6 per cent as measured by the index of the Federal Reserve Board in Washington. The decline in the district was not continuous and industrial production actually showed an increase in June; this upturn was due to expanding production of anthracite coal after the sharp curtailments resulting from strikes in May. The general trend of the index has been downward in response to declines in heavy goods industries. Production of transportation equipment has fallen off about 12 per cent since March and output of metal products is down 7 per cent. Here as elsewhere, production of most consumer goods is continuing at about the levels of a year ago.

Although cutbacks have occurred in this area, there has been no large lay-off of workers such as has occurred in some sections of the country. Manufacturing industries in Penn-





sylvania report a decline of 4 per cent since March in the number of wage earners employed and a slightly larger drop in payrolls, especially among producer goods industries, as shown by the accompanying chart. Average working time has been reduced from 45.3 hours a week to 44.5. A sharper decline in employment has occurred in the state of Delaware where the number of workers in the Wilmington industrial area has declined 14 per cent in the past three months. Among the other major industrial areas of the district the effect of cutbacks has been fairly evenly distributed.

Trade and transportation activity continues at a high level. Despite the scarcity of consumer goods, department store sales during the second quarter were 6 per cent higher than in the corresponding quarter of 1944, and sales by women's apparel stores were 15 per cent above last year. The high volume of consumer purchasing, although partly a reflection of rising prices, is an indication of the inflationary pressures which now exist and will continue until adequate supplies of goods reach the market. At the wholesale level, sales are not much higher than a year ago in this district, although dealers' supplies of electrical goods are apparently moving somewhat more rapidly than last year.

Transportation facilities in this area are still carrying a heavy load despite the shift of freight movement to the West Coast. Railway carloadings in April, May, and June were almost equal to the peak levels of last year and redeployment of troops from Europe is requiring full utilization of passenger trains along the East Coast.

The basic changes in the Third District economy to be expected from the shift of military operations to the Pacific are beginning to take place but no drastic reductions in output or employment have yet occurred.

Banking conditions. On June 30, virtually at the peak of credit expansion accompanying the Seventh War Loan, the earning assets of all member banks in the Third Federal Reserve District were at a record high level of approximately $5½ billion. Growth to a point nearly two and one-half times pre-war volume reflects expansion in holdings of United States Government obligations, differing in this respect from changes nationally, where part of the increase was in loans. While the proportionate increase in total loans and investments of the Third District banks over the past year has been slightly larger than that shown for all members, growth over the war period as a whole has been much greater nationally.

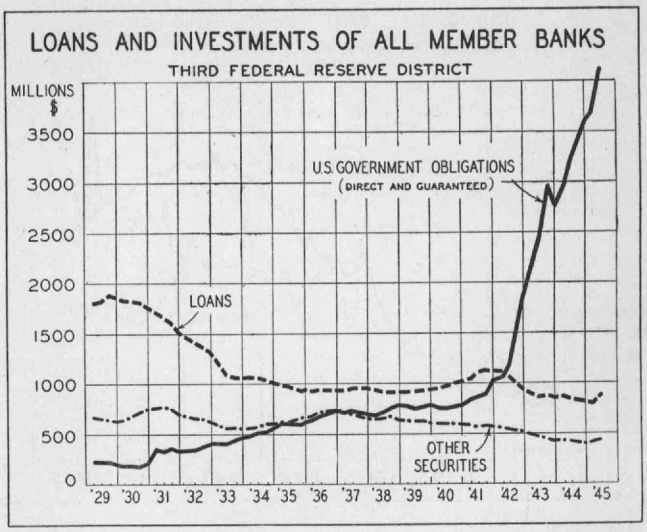
Mixed trends are shown in weekly banking data for this district covering the past month. Early in the period the loan drive was still in progress. Customers' balances were still being drawn upon; United States Government deposits were increasing; and earning assets of reporting banks reached new heights. In the past few weeks, with the development of interdrive forces, these trends have been reversed. Adjusted demand deposits have been moving upward, but to date have regained only a fraction of the decline which occurred during the drive.

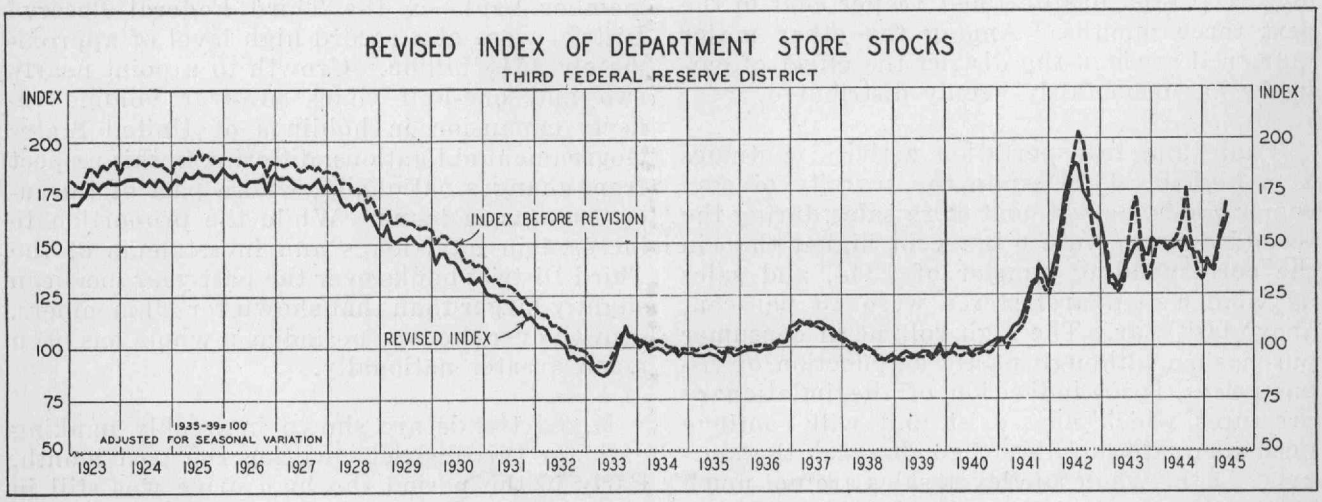
For the five weeks ended July 25, reporting banks show a contraction of $73 million to

$3,022 million in total deposits, a loss that was compensated for principally by reductions in holdings of Governments and drafts upon reserves. Loans to purchase or carry Government securities thus far have declined only $9 million from the high point of $61 million reached at the crest of the loan drive; early in May only $10 million of such loans were being carried by the reporting banks.

Treasury bills held by the Reserve Bank under repurchase option increased $47 million to $210 million over the period from June 20 to July 25. Despite this extension of credit, reserves of member banks declined steadily, falling $67 million to $727 million. This was due to substantial net payments to other districts in interdistrict commercial transactions, payments to the Treasury for securities and taxes, and growth in currency demand. Even at this reduced level, member bank reserves were still $92 million larger than a year ago.

Reduction in reserve requirements, as funds from customers' deposits were transferred to reserve-free war loan accounts, was reflected in reports covering the first half of July. In this period reserve requirements for all members in this district averaged $656 million, down $63 million from a month earlier. With corresponding declines in reserves, excess reserves of the member banks were approximately $90 million in both periods.





The indexes of department store stocks for the Third Federal Reserve District and the city of Philadelphia have been revised, as part of a program started some time ago to improve the accuracy and usefulness of our information on department store activity. This completes the data for the District and Philadelphia. Summaries of the new index numbers and a description of the revision are available upon request. Sales and stocks indexes for the cities of Lancaster, Reading, Trenton, Wilkes-Barre and York also are in process of revision.

An analysis of department store business, utilizing the improved data, will be published in an early issue of the Business Review.

BUSINESS STATISTICS

Production

Philadelphia Federal Reserve District

Indexes: 1923-5 = 100	Adjusted for seasonal variation: June 1945	May 1945	June 1944	Per cent change: June 1945 from Mo. ago	June 1945 from Year ago	1945 from 6 mos. 1944	Not adjusted: June 1945	May 1945	June 1944
INDUSTRIAL PRODUCTION	130p	127	147	+ 3	− 12	− 10	129p	125	145
MANUFACTURING	132p	133	151r	− 1	− 12	− 10	131p	132	149
Durable goods	190p	195	232r	− 2	− 18	− 13	.....	.....	.....
Consumers' goods	92p	91	95	+ 1	− 3	− 3	.....	.....	.....
Metal products	162	170r	184	− 5	− 12	− 7	164	168r	185
Textile products	66p	64	70	+ 3	− 5	− 6	64p	62	68
Transportation equipment	433p	428	588r	+ 1	− 26	− 22	434p	445	587
Food products	122p	120	124r	+ 2	− 1	0	111p	112	113
Tobacco and products	89	93	83	− 4	+ 8	− 1	96	90	89
Building materials	36p	37r	35	− 2	+ 3	0	39p	37	37
Chemicals and products	170p	169	161r	+ 1	+ 6	+ 6	170p	171	161
Leather and products	84p	88	109	− 5	− 23	− 17	82p	80	106
Paper and printing	100	96	97	+ 4	+ 3	+ 2	99	97	96
Individual lines									
Pig iron	101	90r	112	+13	− 9	− 7	96	93	106
Steel	128	127	138	+ 1	− 7	− 4	131	134	141
Silk manufactures	88	84	89	+ 4	− 1	− 3	83	81	85
Woolen and worsteds	63p	64	63r	− 2	− 1	+ 1	60p	60	61
Cotton products	46	42	47r	+10	− 3	− 7	44	41	45r
Carpets and rugs	56p	55	56	+ 3	0	+ 4	55p	54	55
Hosiery	66	61	72	+ 8	− 8	− 9	65	61	70
Underwear	135	130	145	+ 4	− 7	− 6	135	131	145
Cement	30p	29r	28	+ 2	+ 7	0	36p	35r	33
Brick	51	48	49	+ 6	+ 4	− 2	53	51	51
Lumber and products	32	35	32	− 9	+ 1	+ 3	32	33	32
Bread and bakery products	.....	.....	.....	+ 5*	+ 1*	+ 4*	127	121	126
Slaughtering, meat packing	111	104	128	+ 7	− 13	− 21	107	105	121
Sugar refining	52	95	84	−46	− 38	+ 2	56	117	90
Canning and preserving	175p	172	164r	+ 1	+ 7	+ 9	126p	131	118r
Cigars	88	92	82	− 3	+ 8	− 2	95	89	88
Paper and wood pulp	86	82	85	+ 5	+ 1	0	85	82	85
Printing and publishing	103	99	99	+ 3	+ 4	+ 2	102	100	98
Shoes	104	108	132	− 4	− 21	− 12	99	98	125
Leather, goat and kid	65p	69	87	− 6	− 25	− 23	65p	63	88
Paints and varnishes	91	86	96	+ 6	− 5	− 5	93	97	98
Coke, by-product	170p	158	169r	+ 7	+ 1	− 3	170p	165	169r
COAL MINING	85	38r	85r	+122	− 1	− 18	83	37r	84
Anthracite	81	30r	81	+170	0	− 19	81	30r	81
Bituminous	115	104r	118r	+ 10	− 3	− 11	101	94r	104r
CRUDE OIL	323	323	360	0	− 10	− 14	336	335	375
ELECTRIC POWER	449	446	440	+ 1	+ 2	+ 2	427	415	418
Sales, total	446	435	449	+ 3	− 1	0	433	417	436
Sales to industries	341	326	344	+ 5	− 1	− 1	344	332	348
BUILDING CONTRACTS									
TOTAL AWARDS†	78	74	45	+ 5	+ 74	+ 48	80	71	46
Residential†	4	4	17	+ 2	− 75	− 81	5	4	18
Nonresidential†	72	56	56	+ 28	+ 27	+ 38	73	59	57
Public works and utilities†	334	425	106	− 21	+216	+205	317	298	100

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

Local Business Conditions*

Percentage change—June 1945 from month and year ago	Factory employment: May 1945	June 1944	Factory payrolls: May 1945	June 1944	Building permits value: May 1945	June 1944	Retail sales: May 1945	June 1944	Debits: May 1945	June 1944
Allentown	− 1	− 1	− 1	− 1	+391	+133	+10	+13	+ 7	+ 6
Altoona	0	+ 2	− 2	+ 6	− 70	− 36	+ 6	+25	+19	+40
Harrisburg	0	− 6	0	− 1	− 31	− 96	+ 6	+22	+24	+ 8
Johnstown	0	− 3	− 1	− 5	+ 80	+556	+ 1	+24	+16	+18
Lancaster	+ 1	−14	+ 2	−10	+ 7	+179	+ 4	+12	+ 9	−14
Philadelphia	− 2	−13	0	−10	.....	.....	− 1	+16	+32	+22
Reading	0	− 3	− 2	− 1	+ 10	+158	+ 4	+15	+15	+ 6
Scranton	− 1	+ 1	+ 3	0	− 69	− 90	+10	+20	+12	−27
Trenton	.....	.....	.....	.....	+156	+109	+ 9	+27	+14	+ 9
Wilkes-Barre	0	+ 2	+10	+17	− 6	+124	+ 7	+23	+ 6	+15
Williamsport	0	−11	− 1	−11	+ 53	− 64	.....	.....	− 1	+ 7
Wilmington	− 6	−24	− 6	−28	− 65	− 60	+ 5	+ 5	+35	+16
York	+ 1	− 4	− 2	− 2	+203	+310	+ 3	+22	+12	+25

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

Employment and Income

in Pennsylvania

Industry, Trade and Service

Indexes: 1932 = 100	Employment: June 1945 index	Per cent change from: May 1945	June 1944	Payrolls: June 1945 index	Per cent change from: May 1945	June 1944
GENERAL INDEX	127	+ 2	− 5	319	+ 3	− 5
Manufacturing	170	− 1	− 8	465	− 1	− 7
Anthracite mining	52	+731	+ 6	106	+1011	+11
Bituminous coal mining	72	0	− 8	361	+ 10	− 1
Building and construction	48	+ 6	+ 1	117	+ 7	− 4
Quar. and nonmet. mining	76	+ 1	− 9	256	+ 3	− 6
Crude petroleum prod.	130	+ 1	− 4	262	+ 2	+ 7
Public utilities	96	0	− 2	150	+ 2	+ 2
Retail trade	120	0	+ 8	165	+ 4	+ 6
Wholesale trade	103	0	− 1	153	+ 1	+ 3
Hotels	106	+ 3	+ 3	188	+ 3	+ 9
Laundries	102	+ 3	− 3	185	+ 2	+ 2
Dyeing and cleaning	100	+ 3	− 4	193	+ 6	+ 2

Manufacturing

Indexes: 1923-5 = 100	Employment*: June 1945 index	Per cent change from: May 1945	June 1944	Payrolls*: June 1945 index	Per cent change from: May 1945	June 1944
TOTAL	109	− 1	− 8	190	− 1	− 7
Iron, steel and products	117	− 2	− 9	256	− 2	−10
Nonferrous metal products	219	− 1	+ 9	456	− 1	+ 5
Transportation equipment	137	− 3	−19	252	0	−15
Textiles and clothing	76	+ 1	− 6	121	+ 3	0
Textiles	70	+ 1	− 4	113	+ 3	+ 1
Clothing	98	+ 2	− 9	162	+ 3	− 2
Food products	120	0	− 2	194	+ 4	+ 2
Stone, clay and glass	82	+ 2	− 5	133	+ 4	+ 2
Lumber products	51	+ 1	− 4	86	+ 2	0
Chemicals and products	114	− 1	− 2	211	0	+ 1
Leather and products	72	+ 2	− 3	122	+ 4	+ 4
Paper and printing	101	+ 2	0	157	+ 1	+ 5
Printing	96	+ 2	+ 2	140	− 1	+ 7
Others:						
Cigars and tobacco	48	+ 1	−12	75	+ 2	− 6
Rubber tires, goods	143	0	− 2	302	+ 3	+ 2
Musical instruments	82	− 4	−10	107	− 5	−30

* Figures from 2800 plants.

Hours and Wages

Factory workers Averages June 1945 and per cent change from year ago	Weekly working time*: Average hours	Ch'ge	Hourly earnings*: Average	Ch'ge	Weekly earnings†: Average	Ch'ge
TOTAL	44.5	− 2	$1.087	+ 3	$48.22	+ 1
Iron, steel and prods.	45.8	− 3	1.145	+ 2	52.45	− 1
Nonfer. metal prods.	44.5	− 3	1.024	+ 2	45.58	− 1
Transportation equip.	45.3	− 3	1.312	+ 7	59.41	+ 4
Textiles and clothing	39.7	0	.816	+ 7	32.37	+ 7
Textiles	40.7	0	.826	+ 6	33.68	+ 6
Clothing	37.3	− 1	.791	+11	29.58	+10
Food products	44.5	0	.836	+ 3	37.69	+ 3
Stone, clay and glass	42.0	+ 2	.957	+ 5	40.06	+ 7
Lumber products	43.8	− 2	.792	+ 4	34.58	+ 3
Chemicals and prods.	46.5	+ 1	1.075	+ 2	49.92	+ 4
Leather and products	43.2	+ 2	.789	+ 6	34.22	+ 8
Paper and printing	44.5	+ 2	.935	+ 4	41.88	+ 6
Printing	41.5	+ 2	1.091	+ 5	45.28	+ 6
Others:						
Cigars and tobacco	42.7	0	.664	+ 8	28.30	+ 8
Rubber tires, goods	44.2	+ 1	1.060	+ 3	46.82	+ 4
Musical instruments	38.6	−17	.882	− 6	34.06	−23

* Figures from 2656 plants. † Figures from 2800 plants.

Wholesale trade Unadjusted for seasonal variation	Per cent change: June 1945 from Month ago	Per cent change: June 1945 from Year ago	1945 from 6 mos. 1944
Sales			
Total of all lines	+ 1	+ 2	+ 3
Drugs	− 7	+ 3	+ 5
Dry goods	+ 3	−11	−14
Electrical supplies	+ 9	+39	+17
Groceries	− 1	0	+ 9
Hardware	+12	+ 1	+ 8
Jewelry	−13	− 9	−14
Paper	+ 1	− 4	− 6
Inventories			
Total of all lines	− 2	−14	.....
Dry goods	− 3	−43	.....
Electrical supplies	− 3	+33	.....
Groceries	−10	−15	.....
Hardware	− 2	− 9	.....
Jewelry	+ 6	− 5	.....
Paper	+ 4	−24	.....

Source: U. S. Department of Commerce.

Prices	June 1945	Per cent change from Month ago	Per cent change from Year ago	Per cent change from Aug. 1939
Basic commodities (Aug. 1939 =100)	184	0	+ 1	+ 84
Wholesale (1926 =100)	106	0	+ 2	+ 41
Farm	130	0	+ 4	+114
Food	108	0	+ 1	+ 60
Other	100	0	+ 1	+ 24
Living costs (1935-1939 =100)				
United States	129	+ 1	+ 3	+ 31
Philadelphia	128	0	+ 2	+ 30
Food	139	+ 1	+ 3	+ 49
Clothing	146	0	+ 5	+ 47
Fuels	110	0	0	+ 13
Housefurnishings	144	0	+ 5	+ 44
Other	121	0	+ 1	+ 20

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 =100	Adjusted for seasonal variation: June 1945	May 1945	June 1944	Per cent change: June 1945 from Month ago	Per cent change: June 1945 from Year ago	1945 from 6 mos. 1944	Not adjusted: June 1945	May 1945	June 1944
RETAIL TRADE									
Sales									
Department stores—District	185	170	158r	+ 9	+17	+11	167	163	142r
Philadelphia	176	166r	154r	+ 7	+14	+ 9	153	154r	134r
Women's apparel	198	188r	151r	+ 5	+31	+19	171	180	130r
Men's apparel	156	148	131	+ 5	+19	+14	174	138	146
Shoe	157	119	134	+32	+17	+ 8	168	147	143
Furniture	.....	.....	.....	+ 1*	+ 7*	.....	.....	.....	.....
Inventories									
Department stores—District	164	155	149	+ 6	+10	.....	156	156	142
Philadelphia	161	154	145	+ 5	+11	.....	152	152	136
Women's apparel	232	205	207r	+13	+12	.....	189	197	169r
Shoe	68	63	80	+ 9	−14	.....	66	69	76
Furniture	.....	.....	.....	+ 3*	+13*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	146	144	149	+ 1	− 2	− 2	150	146	153
Merchandise and miscellaneous	133	135	135	− 2	− 1	+ 1	136	139	137
Merchandise—l.c.l.	89	92	90	− 3	− 1	0	89	92	90
Coal	181	150	185	−20	− 2	−11	163	133	167
Ore	198	227	209	−13	− 5	+ 4	290	288	307
Coke	207	246	235	−16	−12	− 8	193	209	219
Forest products	97	113	124	−14	−21	−19	111	109	141
Grain and products	171	145	150	+18	+14	+ 2	148	135	130
Livestock	121	117	149	+ 3	−19	−12	110	107	136
MISCELLANEOUS									
Life insurance sales	132	136	120	− 3	+10	+11	135	134	122
Business liquidations									
Number	.....	.....	.....	0*	+50*	−58*	4	4	3
Amount of liabilities	.....	.....	.....	+125*	+ 5*	−53*	4	2	4
Check payments	234	191	199	+22	+17	+ 9	252	191	215

*Computed from unadjusted data. p—Preliminary. r—Revised.

BANKING STATISTICS

Reporting member banks (Millions $)	July 25, 1945	Changes in—Five weeks	Changes in—One year
Assets			
Commercial loans	$ 204	−$ 2*	−$ 37
Loans to brokers, etc.	44	− 9	+ 2
Other loans to carry secur.	56	+ 4*	+ 41
Loans on real estate	33	.....	− 3
Loans to banks	1	.....	− 1
Other loans	130	− 2*	+ 27
Total loans	$ 468	−$ 9	+$ 29
Government securities	$2076	−$24	+$322
Obligations fully guar'teed	.....	.....	− 54
Other securities	178	+ 5	+ 9
Total investments	$2254	−$19	+$277
Total loans & investments	$2722	−$28	+$306
Reserve with F. R. Bank	415	− 33	+ 39
Cash in vault	29	− 1	+ 1
Balances with other banks	77	− 8	.....
Other assets—net	46	+ 3	− 10
Liabilities			
Demand deposits, adjusted	$1738	−$58	+$169
Time deposits	210	+ 2	+ 29
U. S. Government deposits	708	+ 21	+ 101
Interbank deposits	366	− 38	+ 19
Borrowings	3	+ 3	.....
Other liabilities	17	+ 1	+ 1
Capital account	247	+ 2	+ 17

*Revised.

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended—June 27	July 4	July 11	July 18	July 25	Changes in five weeks
Sources of funds:						
Reserve Bank credit extended in district	+21.0	+18.7	− 7.4	+ 5.5	+ 6.8	+44.6
Commercial transfers (chiefly interdistrict)	−53.9	+ 5.6	+ 6.0	−10.0	+ 7.8	−44.5
Treasury operations	− 9.7	−16.8	− 2.3	+ 0.3	−14.0	−42.5
Total	−42.6	+ 7.5	− 3.7	− 4.2	+ 0.6	−42.4
Uses of funds:						
Currency demand	+11.8	+ 9.2	+ 7.4	+ 0.7	+ 3.9	+33.0
Member bank reserve deposits	−49.3	− 0.4	− 9.5	− 4.2	− 3.7	−67.1
"Other deposits" at Reserve Bank	− 5.1	− 1.1	− 1.6	− 0.5	+ 0.4	− 7.9
Other Federal Reserve accounts	− 0.0	− 0.1	+ 0.0	− 0.3	+ 0.0	− 0.4
Total	−42.6	+ 7.5	− 3.7	− 4.2	+ 0.6	−42.4

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1944: July 1-15	$364	$344	$ 20	6%
1945: June 1-15	465	450	15	3
June 16-30	428	414	14	4
July 1-15	407	394	13	3
Country banks				
1944: July 1-15	283	217	66	31
1945: June 1-15	346	269	77	29
June 16-30	350	263	87	33
July 1-15	339	262	77	29

Federal Reserve Bank of Phila. (Dollar figures in millions)	July 25, 1945	Changes in—Five weeks	Changes in—One year
Discounts and advances	$ 3.4	+$ 0.3	−$ 0.8
Industrial loans	2.0	− 0.5	− 2.3
U. S. securities	1558.4	+181.1	+ 489.8
Total	$1563.8	+$180.9	+$486.7
Note circulation	1535.1	+ 27.0	+ 268.8
Member bk. deposits	727.4	− 67.1	+ 92.0
U. S. general account	50.7	+ 15.9	+ 25.0
Foreign deposits	93.3	− 13.4	− 33.2
Other deposits	3.3	− 7.9	− 5.9
Total reserves	837.3	−220.6	− 138.3
Reserve ratio	34.7%	− 8.4%	− 12.6%