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FEDERAL RESERVE BOARD

WASHINGTON

X-3708
May 2, 1923.

SUBJECT: Duplication of Contracts for Building Materials.

Dear Sir:

Honorable Herbert Hoover, Secretary of Commerce, has transmitted to the Federal Reserve Board a letter addressed to him under date of April 9th by certain cement manufacturers. A copy of the letter referred to is attached and is transmitted to you with the thought that the contents thereof should be communicated to your member banks as indicating a point at which the banks can be of distinct service.

By order of the Federal Reserve Board:

Wm. W. Hoxton,
Secretary.

(Enclosure)

To Governors of Federal Reserve Banks

(C O P Y) X-3708a

New York, April 9, 1923

Hon. Herbert Hoover,
Secretary of Commerce,
Washington, D. C.

Dear Sir:

In the desire to provide the cement necessary to meet the requirements of this year's unprecedented demand, we call to your attention a condition of uncertainty in the industry due to heavily over-estimated or duplicated contracts for future delivery. If some means of relief can be made effective, the amount of cement available for construction purposes will be materially increased.

In order that an architect, a contractor or an engineer, may be able to know the exact cost of the cement required for a particular enterprise, - it is a trade practice to enter into a contract technically known as a "specific job contract", under the terms of which, the manufacturer agrees to deliver the cement required during the entire construction period of the project at an agreed price. This practice involves the manufacturer in a hazard as to manufacturing cost, because during the life of the contract, the factors entering into cost, may materially advance. The terms of these contracts confine deliveries to the requirements of the job and are so made in order to minimize speculation in cement to the detriment of the public.

It is a common practice for purchasers - either through excessive caution or desire to speculate at the manufacturer's expense - to make padded contracts naming amounts much in excess of the requirements of the job and even to place duplicate contracts for the requirements of the same job with several different manufacturers. This is the serious problem. It introduces an element of uncertainty into the manufacturer's knowledge of his exact position. Basing his judgment on specific job contracts booked, he figures the amount of his production which is still available for sale. But if the contract for cement has been placed with several companies, only one may be called upon for delivery which means that the other companies have withdrawn from the market the amount of cement for that job, which, if the duplication of contract had not occurred, would be available for sale.

In the year 1920, an investigation was conducted for the purpose of determining so far as possible, the average amount of cement over-contracted for on specific jobs. Capable engineers were employed to make the estimates. The investigation showed that 40% of the cement so contracted for, was not required for the jobs.

Demand for building materials this year has aggravated the conditions herewith described, and there is no doubt of an outstanding duplication or padding of contracts running into many millions of barrels that will not be called for delivery, which are now necessarily withheld from the market because of these fictitious contracts. If it was possible to eliminate them, this additional amount of cement would be available for sale, and would be a material influence in making the cement market easier.

Another factor of importance is the peak load condition which occurs during the months when outdoor construction is most active and the demand for cement heaviest. If consumers would realize that spreading their purchases over the months of normally low demand not only would assure an ample supply but also better delivery, it would be a great help to all concerned. Otherwise the manufacturers are called upon to deliver in the peak months of July, August, September and October more cement than is currently produced or can be currently delivered.

Realizing that this year would require cement exceeding in amount that of any previous year, cement manufacturers have increased their output beyond that of any in their history, notwithstanding the fact that last year production and shipments exceeded all previous records. For the months of January and February, 1923, the output was 16,789,000 barrels against 8,569,000 for the same months of the previous year, an increase of 8,220,000 barrels, or 95%. At the same time, stocks on hand increased, 2,122,000 barrels having been added in February. Stocks at the end of that month were 14,142,000 barrels. Also stocks of clinker at mills increased over 500,000 barrels.

Conservative estimates indicate that production this year may reach 120,000,000 or 125,000,000 barrels. However, the estimated capacity of the mills of the country, leaves a large margin of excess, and there is no valid reason for assuming that there will be an actual shortage of cement in 1923 if transportation facilities permit of prompt deliveries.

The peak price for cement was reached in 1920 when the average U. S. price at the mills for the entire year was $2.02. (Figures from U. S. Geological Survey.) In 1921 the price declined to $1.89, and for the year 1922, there was a still further decline in the average price for all mills of the United States, to $1.76, or a total decline of 26¢ per barrel.

In presenting this situation, we are mindful of your great interest in aiding to prevent a cessation of construction and in bringing about a realization on the part of all of those engaged in construction work - whether public or private - that wasteful or selfish methods must be abandoned if the building industry expects to carry to completion all contemplated projects.

It is our feeling that this brief explanation of our situation and an appreciation by you of its seriousness will suggest the advisability of an appeal to buyers of cement to avoid duplicating contracts and to limit their estimates to their actual needs, and to consumers generally, to spread their buying over the months of light demand.

We believe that such action would have real weight among those concerned and be of effective benefit to the public generally.

We remain, dear sir,

Very truly yours,

Atlas Portland Cement Co.,
By Lowell R. Burch, Vice Pres.

Hercules Cement Corporation,
By Morris Kind, Pres.

Penn Allen Cement Co.,
By W. E. Erdell, Pres.

Dexter Portland Cement Co.,
By Joseph Brobston, Vice Pres.

Lehigh Portland Cement Co.,
By E. M. Young, Vice Pres.

Alpha Portland Cement Co.,
By G. S. Brown, Pres.