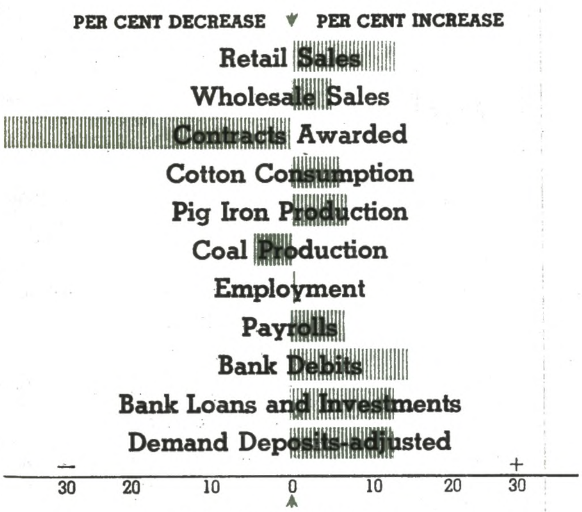
Monthly Review
FEDERAL RESERVE BANK OF ATLANTA

Volume XXV | Atlanta, Georgia, December 31, 1940 | Number 12

Reconnaissance



Sixth Distict Statistics for November 1940 compared with November 1939

District Summary of Business Conditions

Sixth District retail sales established in November a new record volume for that month, and new high levels were reached in textile activity and pig iron production, both of which have important parts in the national defense program. November building permits and total construction contracts awarded were not equal to the large totals for October or November last year. Electric power production reached a record total in October, the latest figures available. District gains over November 1939 in retail sales, residential contracts, and pig iron output were larger than those for the country and the District decline in coal output was smaller, while the comparisons of "all other" contract awards, coal production, and cotton consumption were less favorable for the District than for the country.

▶ The daily rate of retail sales in the District, which usually declines slightly in November, increased 13 per cent over October. The unadjusted index of daily average sales, at 141 per cent of the 1935-1939 average, was the highest for November of any year since 1926, when it was also 141, and had been exceeded in November only once, in 1920, in the entire series which begins with the year 1919. Furthermore, aside from the month of December, which always has the largest volume of retail trade of any month in the year, the index of 141 for November this year had been exceeded only three times in the entire series, November 1920, and October 1920 and 1925. After adjustment for seasonal variation, the November index was up 15 per cent from October, and was the highest for November of any

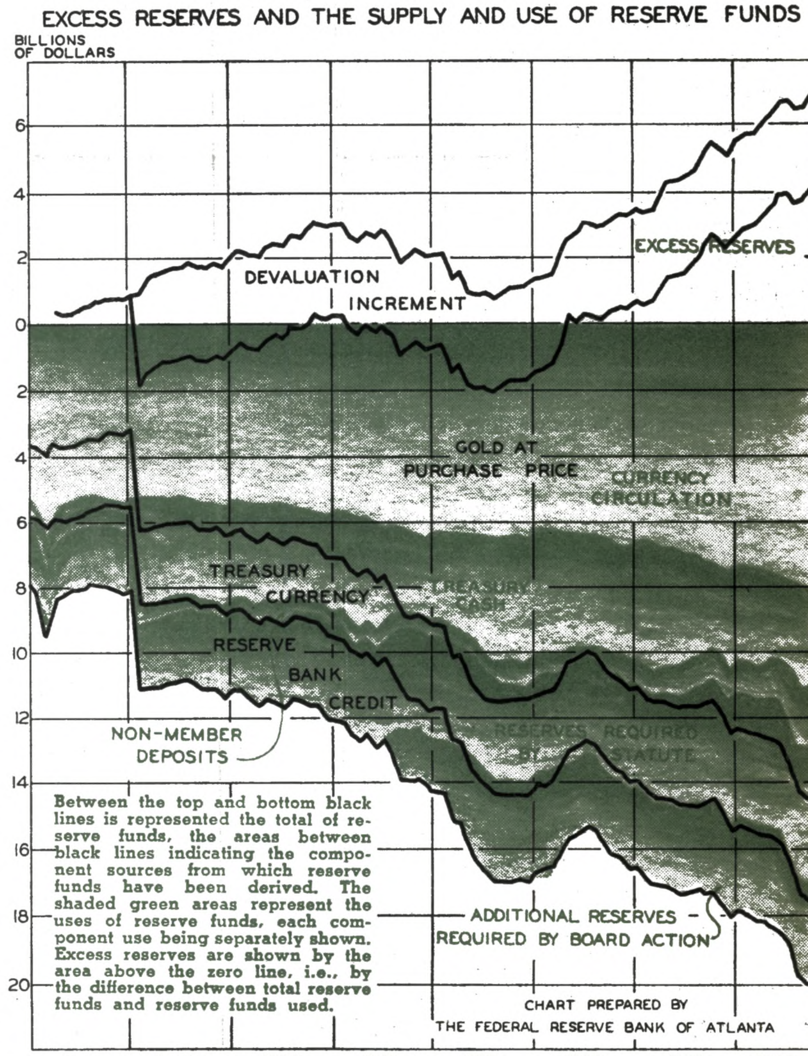
(*Continued on page 6*)

The Origin of Excess Reserves

Excess reserves have now been with us for so long, and in such quantity, it is sometimes difficult to remember that they constitute an unparalleled banking phenomenon. Their existence, their magnitude, and their practically continuous growth for nearly a decade provide a principal peculiarity of the current banking scene, the source of many of the serious problems either currently or prospectively facing commercial banks and the Reserve System. While our banker readers are acutely aware of the excess reserve problem and know of the causative process that has brought it into being, we believe that the chart below will provide an interesting visual review of the evolution of the problem to its present proportions.

The chart has been prepared from data assembled by the Board of Governors of the Federal Reserve System. The month-to-month figure on excess reserves is there shown to be, as of course it must be, the result of a surplus in the total supply of reserve funds over the total use of those funds. With the chart's help it is possible readily to grasp the relative importance in any month of, say, gold inflows or Reserve System operations as factors providing reserve funds, and, on the other

EXCESS RESERVES AND THE SUPPLY AND USE OF RESERVE FUNDS



hand, to grasp the relative importance of, say, the growth of deposits or the Board's action in raising the rate of reserve requirements against deposits as factors using reserve funds.

▶ There are several sources of reserve funds, the result of historical developments now embodied in laws governing banking reserves. The government maintains the practice of buying at a fixed price all gold offered to it, and this practice creates reserve funds equal to the amount of each purchase, and conversely, in the absorption of reserve funds with each sale. Gold flows bring these uncompensated changes in the supply of reserve funds because of the manner in which the purchases or sales are made. The government buys new gold with checks drawn upon its balance with the Federal Reserve Banks, and replenishes its balance there by the deposit of gold certificates issued against the gold. The check against the Federal Reserve Bank must, however, come into the possession of a commercial bank and, upon payment, increase the reserve balance of that bank and of the entire banking system.

In addition to the reserve funds created by the purchase of new gold the government expanded the reserve significance of its gold stock by devaluation. Changing the dollar price of gold in January 1934 increased the value of the Treasury's gold inventory by $2.8 billion, making it possible for the government to increase by that amount its balances with the Reserve Banks, its expenditures of Reserve Bank deposits, and consequently the reserve funds of the banking system. This possibility was not exploited, however, for the devaluation profit was used to increase the Treasury's cash holdings, notably the Exchange Stabilization Fund, and as will be explained below, an increase in the Treasury's cash holdings absorbs reserve funds. On the chart the devaluation profit is shown separately. The sharp drops in the curves at January 1934 represent this change in the value of the Treasury's gold inventories, and compensating adjustments.

A third source of reserve funds is provided by the stocks of Treasury currency outstanding. Bank reserves were, until recently, considered to be a fund maintained for the purpose of converting deposit money into lawful money, and partly for this reason banks were in the past required to hold part of their reserves in the form of lawful money in their vaults. While under the Federal Reserve System vault cash is no longer credited to the banks' reserve accounts, all such money is, of course, directly convertible into reserve money by deposit at a Federal Reserve Bank. The supplies of Treasury currency are, therefore, a third source of reserve funds, and issues and redemptions of such money bring corresponding changes in the supply of bank reserves available. It should be noted that such National bank notes and Federal Reserve bank notes as are still in circulation are for the purposes of this tabulation included under Treasury currency. Also, it should be noted that the totals given for Treasury currency include all such currency in existence, including that in the Treasury's vaults and in the Federal Reserve Banks, allowance for these latter cases being made in the tabulation of the uses of reserve funds. The chart reveals that Treasury currency has been, on the whole, relatively stable throughout the period, and has, therefore, a relatively minor responsibility for the decade's growth of excess reserves.

The establishment of the Federal Reserve System provided a fourth source of reserve funds, for the Federal Reserve System is empowered, within limits, to create reserve funds. This power, it should be noted, is not a new one, for it was enjoyed by reserve city banks, although in less recognizable form, under our earlier banking laws. Today, however, the Federal Reserve Banks are the principal banking trustees of this privilege. When a Federal Reserve Bank buys an asset, government bonds or member bank paper for instance, its obligations come into the possession of the commercial banks, and, since these obligations are defined by law to be reserve money, a like amount of reserve funds comes into being. As the chart shows, Reserve Bank credit, like Treasury currency, has had little responsibility for increasing the volume of excess reserves in the period since 1933 during which period excess reserves have been mounting so remarkably.

The addition of these four sources of reserve funds, gold stocks at purchase price, devaluation increment, Treasury currency, and Reserve Bank credit, shown on the chart by the total area between the top and bottom black curves, reveals the total supply of reserve funds available to the banking system. The general picture is clear. The supply of reserve funds has more than trebled since the beginning of 1933, and one factor alone, the value of Treasury gold stocks has contributed over 90 per cent of the increase, approximately 15 per cent being attributable to the devaluation profit, and the remainder being the result of gold inflows and domestic production.

▶ The supply of reserve funds available is utilized in several ways other than in the actual provision of member bank reserve balances. These uses of reserve funds are plotted on the chart in green, cumulatively from the zero line downward. Because lawful money and reserve money overlap, in the sense that the supplies of reserve funds may be used either in the form of lawful money or of bank reserves, the provision of hand-to-hand currency absorbs funds that would otherwise be available as bank reserves. This demand for reserve funds, usually called the "internal drain," constitutes the largest single use of reserve funds, although its proportion of the total demand has fallen during the period of the chart from some 65 per cent in 1933 to about 40 per cent in 1940.

In more normal times when excess reserves are scarce, the internal drain of reserve funds is an extremely important factor in the banking picture because the public, being free, of course, to choose the proportion of its balances that it will keep in the form of lawful money, may create an uncomfortable or even dangerous situation for the banks at either extreme of the business cycle: by converting deposits into cash for purposes of safety in periods of crisis, or for purposes of financing increased wage and other payments during booms. The internal drain for the provision of safety is visible in the chart in the sharp V appearing in March 1933. The seasonality in this series, shown by the small V's appearing each fall is also interesting, although the Federal Reserve note has solved this once dangerous problem.

A second portion of the reserve funds available is absorbed by the Treasury. Not only does the Treasury provide reserve funds through the issue of Treasury currency, as explained above, but it absorbs them to some extent in maintaining its working balances. These working balances are kept in three forms: in cash, in deposits with the Federal Reserve Banks, and in deposits with commercial banks throughout the country. Funds kept in either of the first two forms, shown on the chart as "Treasury cash," absorb corresponding amounts of reserve funds that would otherwise be available to the commercial banks. Until 1934, however, this item was a minor one, amounting to approximately half a billion dollars, or about 4 per cent of the total use of reserve funds; but, as explained above, the devaluation profit accruing to the government in January 1934 was credited to Treasury cash, and Treasury holdings of cash have since then fluctuated between $2 and $4 billion.

A third portion of the reserve funds available is absorbed by those nonmember banks, foreign governments, and central banks that keep balances with the Federal Reserve Banks. Such balances are bought by these depositors through the surrender to the System of reserve money, money that would otherwise be available as reserve money in the hands of the public or the commercial banks. The item is a small one, although the foreign deposit portion has been growing remarkably in recent years.

The expansion of these nonmember deposits with the Federal Reserve System has, of course, retarded the growth of member bank excess reserves, but it seems necessary to note that even if such deposits were large enough to lower substantially the excess reserves curve, it would not represent in any sense a solution to the excess reserves problem. Nonmember bank deposits with the Federal Reserve System may themselves be part of the excess reserves of nonmember banks, and in some part, therefore, it would be logical to add these deposits to the excess reserves curve in appraising the seriousness of the excess reserves problem.

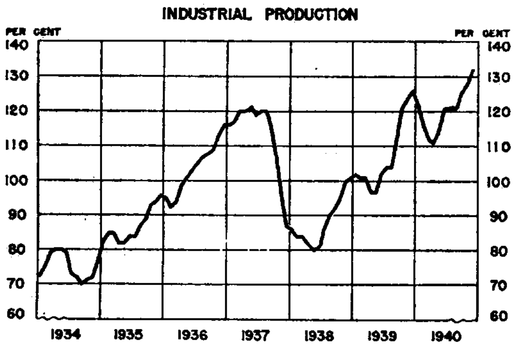
In making this chart another use of Reserve Bank credit, logically unconnected with nonmember bank deposits but of small amount, was included in this category. This item is the unexpended capital funds of the Federal Reserve System, an item of about one-quarter billion dollars. The System's unexpended capital funds were paid in by the banks in the form of reserve money, and not having been returned to the market by expenditure, remain a drain upon the supply of reserve funds available to the banks.

The fourth, and final, demand for reserve funds comes from member banks that need certain amounts of such funds to fulfill the requirements of law and regulation. In drawing the chart, however, reserve funds required to meet the statutory requirements of the amended Federal Reserve Act (7, 10, and 13 per cent for country, reserve city, and central reserve city banks, respectively) have been segregated from the additional reserves required by regulatory action of the Board of Governors. This segregation makes it possible to visualize the growing need of reserve funds to support the decade's growth of deposits at a constant reserve rate, and also to visualize the quantitative importance of the Board's action taken under the authority of the Banking Act of 1935. Under this Act, authorizing the Board to change reserve requirements at its discretion between the limits of the statutory provisions and twice the amount provided by statute, reserve requirements were increased 50 per cent in August 1936, an additional 25 per cent in March 1937, and a final 25 per cent, exhausting the Board's powers in this matter, in May 1937. Subsequently, the requirements were reduced 25 per cent in April 1938. At the present time member bank reserve requirements as a whole account for about 35 per cent of the total use of reserve funds, as compared with some 25 per cent in 1933.

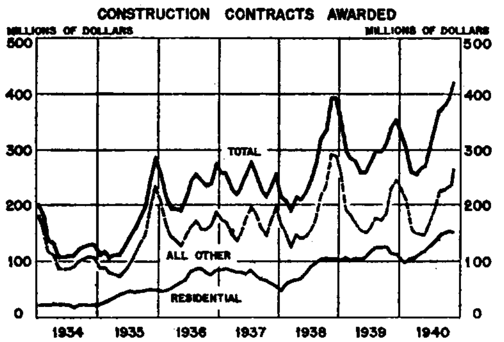
▶ The addition of these five uses of reserve funds, money in circulation, Treasury cash and deposits with the Federal Reserve Banks, nonmember deposits with the Federal Reserve Banks (including unexpended capital funds), member bank reserves required by statute, and additional member bank reserves required by action of the Board of Governors, shown on the chart by the total green shaded area, yields the total use of reserve funds. Starting from the bottom of this area, the various supplies of reserve funds have been plotted cumulatively upward, and, as will be noticed, the supplies of such funds considerably exceed their use. The amount of this excess, shown by the area above the zero line, is the month-by-month volume of excess reserves.

The chart is complete except for one item alluded to above, i.e., reserve funds established in reserve city banks that hold the lawful reserves of certain nonmember banks. This omission, however, while unfortunate from the standpoint of providing a total picture of the banking situation, does not interfere with the exact balancing of the factors included in this tabulation, for the excess reserves resulting from the overplus of the supply of reserve funds over their use are the excess reserves of member banks only. Both the reserves of, and the reserves created for, nonmember banks are omitted from the double-entry tabulation, and its balance is therefore assured. While there is thus an omission of a factor determining nonmember reserves, it should be remembered in this connection that the reserves of member banks are quantitatively of by far the greater importance in the reserve situation.

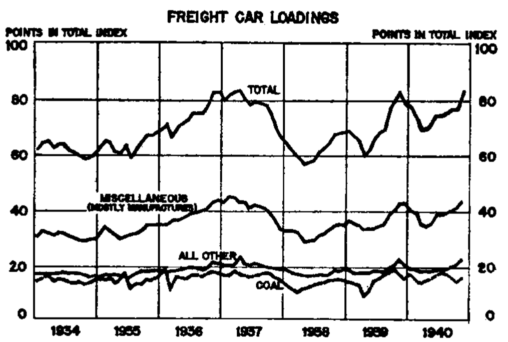
—E. H.



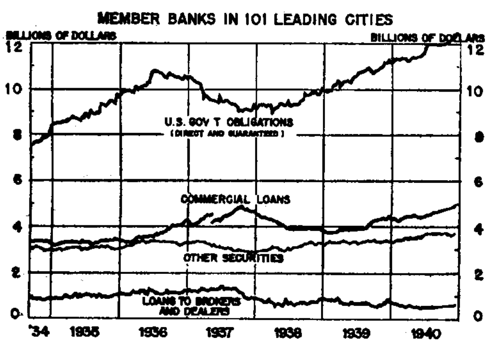
Index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January, 1934, to November, 1940.



Three-month moving average of F. W. Dodge data for value of contracts awarded in 37 Eastern States, adjusted for seasonal variation. Latest figures based on data for September, October, and estimates for November.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. Miscellaneous, coal, and all other expressed in terms of points in total index. By months, January, 1934, to November, 1940.



Wednesday figures, September 5, 1934, to December 18, 1940. Commercial loans based on new classification beginning May 19, 1937.

National Summary of Business

Prepared by the Board of Governors of the Federal Reserve System

INDUSTRIAL activity continued at a high rate in November and the first half of December and distribution of commodities increased considerably. Commodity prices generally showed little change following earlier advances.

Production

Volume of industrial production, which usually declines at this season, showed little change from October to November, and the Board's seasonally adjusted index rose 3 points further to 132 per cent of the 1935-1939 average.

Reflecting work on a large volume of orders for national defense purposes and for civilian needs, activity in the machinery and textile industries continued to increase sharply. At machinery plants and at cotton textile mills activity reached new high levels and at woolen mills output was close to the previous peak reached early in 1937.

Steel ingot production, which had been at about 94 per cent of capacity in October, increased somewhat further in November and the first half of December. Automobile production continued in unusually large volume, amounting in November to around 500,000 cars and trucks. Retail sales of new cars have been large this autumn and production has been maintained at high levels in order to supply this demand and to build up dealers' stocks. Lumber production declined less than seasonally from October to November. New orders for lumber continued somewhat above the current rate of production although below the high level of the three preceding months when large orders were placed for cantonment construction. Lumber stocks at mills continued to decline and were smaller than at any time in recent years. Bituminous coal production increased considerably in November, following a sharp decline in the previous month, while output of crude petroleum was maintained at about the October rate. Production of most metals continued in large volume.

Value of total construction contract awards declined less than seasonally in November. In the 37 eastern States for which F. W. Dodge Corporation data are available total contracts showed little change; awards for public construction increased further and those for private work declined by somewhat less than the usual seasonal amount. In the far western States contract awards showed a decline from the unusually high level reached in October.

Distribution

Distribution of commodities to consumers increased considerably in November. Sales at department stores and mail-order houses rose sharply, while variety store sales increased by about the usual seasonal amount. In the first half of December there was the customary large expansion in retail sales.

Total freight-car loadings showed considerably less than the usual seasonal decline in November and the early part of December. Loadings of coal, which had been curtailed in October, increased sharply and shipments of ore and of miscellaneous merchandise declined much less than is usual at this time of the year.

Wholesale Commodity Prices

Prices of basic commodities, which had risen substantially since August, generally showed little change from the middle of November to the middle of December. Prices of a few imported commodities, particularly cocoa, burlap, and shellac, increased considerably and there were small advances in steel scrap and some other domestic commodities, while moderate declines were reported for such varied commodities as lead, grains, and lard.

Bank Credit

Total loans and investments at reporting member banks in 101 leading cities have increased sharply since the beginning of October. Commercial loans continued to increase in November and the first half of December, and holdings of United States Government obligations at New York City banks rose sharply. Principally as a result of the expansion of bank loans and investments, Government expenditures, and foreign disbursements financed by additional gold imports, bank deposits increased to new high levels. At the same time there has been a considerable increase in currency in circulation partly in response to seasonal trade demands.

United States Government Security Prices

Prices of United States Government securities continued to rise during the latter half of November and the early part of December, and the 1960-65 bonds advanced to successive new high levels, with a peak of about 111⅝ on December 10. The yield on this issue declined to a low point of 2.03 per cent on the latter date, but increased slightly toward the middle of the month, reflecting some easing in prices.

CONDITION OF FEDERAL RESERVE BANK OF ATLANTA
(In Millions of Dollars)

	Dec. 18 1940	Nov. 13 1940	Dec. 20 1939	Per Cent Change Dec.18,1940 from Nov. 13 1940	Dec. 20 1939
Bills discounted	$ .04	$ .06	$ .1	— 47	— 44
Industrial advances	.3	.3	.7	...	— 67
U. S. securities	83.8	86.2	100.8	— 3	— 17
Total bills and securities	84.2	86.5	101.9	— 3	— 17
F. R. note circulation	194.9	183.4	165.3	+ 6	+ 18
Member bank reserve deposits	226.1	231.1	205.0	— 2	+ 10
U. S. Gov't general deposits	15.0	19.4	20.8	— 23	— 28
Foreign bank deposits	27.1	27.0	14.3	+ 0	+ 90
Other deposits	5.2	5.0	6.4	+ 4	— 18
Total deposits	273.4	272.5	246.4	+ 0	+ 11
Total reserves	390.7	381.4	311.2	+ 2	+ 26
Industrial advance commitments	.01	.5	.1	...	...

CONDITION OF 22 MEMBER BANKS IN SELECTED CITIES
(In Millions of Dollars)

	Dec. 18 1940	Nov. 13 1940	Dec. 20 1939	Per Cent Change Dec.18,1940 from Nov. 13 1940	Dec. 20 1939
Loans and Investments—Total	$713.2	$684.0	$631.2	+ 4	+ 13
Loans—Total	373.8	352.5	320.9	+ 6	+ 16
Commercial, industrial and agricultural loans	196.6	183.1	176.0	+ 7	+ 12
Open market paper	3.6	2.8	3.6	+ 29	...
Loans to brokers and dealers in securities	9.3	6.4	4.7	+ 45	+ 98
Other loans for purchasing and carrying securities	11.2	10.6	11.1	+ 6	+ 1
Real estate loans	33.7	33.2	32.0	+ 2	+ 5
Loans to banks	1.9	1.3	.9	+ 46	+111
Other loans	117.6	115.1	92.7	+ 2	+ 27
Investments—Total	339.4	331.6	310.3	+ 2	+ 9
U. S. direct obligations	157.2	151.8	141.2	+ 4	+ 11
U. S. guaranteed obligations	63.4	65.7	69.7	— 4	— 9
Other securities	118.7	114.1	99.4	+ 4	+ 19
Reserve with F. R. Bank	143.1	146.2	127.1	— 2	+ 13
Cash in vault	16.5	15.5	15.2	+ 6	+ 9
Balances with domestic banks	196.8	202.6	203.0	— 3	— 3
Demand deposits-adjusted	449.6	439.2	399.0	+ 2	+ 13
Time deposits	189.2	190.6	186.9	— 1	+ 1
U. S. Government deposits	40.3	42.1	44.6	— 4	— 10
Deposits of domestic banks	330.0	317.1	287.0	+ 4	+ 15
Borrowings	....	....	....	...	...

DEBITS TO INDIVIDUAL ACCOUNTS
(In Thousands of Dollars)

	Nov. 1940	Oct. 1940	Nov. 1939	Per Cent Change Nov. 1940 from Oct.1940	Nov.1939
ALABAMA					
Birmingham	$ 107,657	$ 114,043	$ 92,202	— 6	+ 17
Dothan	3,430	4,018	3,047	— 15	+ 13
Mobile	46,112	49,580	37,990	— 7	+ 21
Montgomery	29,363	30,995	26,327	— 5	+ 12
FLORIDA					
Jacksonville	93,469	89,541	77,562	+ 4	+ 21
Miami	57,877	54,148	45,292	+ 7	+ 28
Pensacola	11,059	11,088	8,187	— 0	+ 35
Tampa	38,809	32,681	28,452	+ 19	+ 36
GEORGIA					
Albany	6,454	5,955	5,251	+ 8	+ 23
Atlanta	251,918	250,303	219,723	+ 1	+ 15
Augusta	22,430	22,655	19,203	— 1	+ 11
Brunswick	2,983	3,018	2,354	— 1	+ 27
Columbus	21,928	22,180	16,198	— 1	+ 35
Elberton	1,663	1,880	1,359	— 12	+ 22
Macon	19,411	19,539	18,034	— 1	+ 8
Newnan	2,466	2,801	2,217	— 12	+ 11
Savannah	32,433	32,503	28,251	— 0	+ 15
Valdosta	4,473	4,346	3,992	+ 3	+ 12
LOUISIANA					
New Orleans	239,601	234,593	223,384	+ 2	+ 7
MISSISSIPPI					
Hattiesburg	15,805	10,267	4,678	+ 54	+238
Jackson	30,673	31,114	30,944	— 1	— 1
Meridian	13,804	15,539	12,123	— 11	+ 14
Vicksburg	9,215	8,958	9,321	+ 3	— 1
TENNESSEE					
Chattanooga	47,293	50,399	43,482	— 6	+ 9
Knoxville	33,551	34,680	27,925	— 3	+ 20
Nashville	92,350	95,590	90,163	— 3	+ 2
SIXTH DISTRICT					
26 Cities	1,236,227	1,232,414	1,077,661	+ 0	+ 15
UNITED STATES					
274 Cities	39,088,000	39,695,000	34,666,000	— 2	+ 13

RETAIL TRADE — NOVEMBER 1940
(Cities for which no indexes are compiled)

	Sales: Nov. 1940 compared with October 1940	November 1939	Stocks: Nov. 1940 compared with October 1940	November 1939
Jackson	+ 8	+ 17	...	...
Jacksonville	— 6	+ 26	...	...
Macon	— 4	+ 9	...	...
Montgomery	+ 5	+ 14	+ 3	+ 26
	+ 15	+ 23	...	...

SIXTH DISTRICT BUSINESS INDICATORS
Indexes
(1923-1925 average = 100, except as noted)

	Adjusted Nov. 1940	Oct. 1940	Nov. 1939	Unadjusted Nov. 1940	Oct. 1940	Nov. 1939
RETAIL SALES* (1935-1939 Av. = 100)						
DISTRICT (47 Firms)	129	112	114	141	125	125
Atlanta				151	134	132
Birmingham				147	121	126
Nashville				128	117	117
New Orleans				136	116	129
RETAIL STOCKS						
DISTRICT (22 Firms)	85	81	80	94	90	88
Atlanta	166	158	147	188	177	167
Birmingham	79	78	80	89	85	90
Nashville	63	59	59	70	67	66
New Orleans	68	66	66	74	72	72
WHOLESALE SALES						
TOTAL				74	80	75
Groceries				52	58	54
Dry Goods				69	76	69
Hardware				125	148	120
Drugs				115	117	116
CONTRACTS AWARDED						
DISTRICT				101	150	157
Residential				99	112	75
Others				102	175	212
Alabama				116	143	85
Florida				85	142	52
Georgia				169	113	54
Louisiana				54	43	44
Mississippi				154	105	120
Tennessee				95	293	691
BUILDING PERMITS						
20 CITIES				49	91	70
Atlanta				21	115	160
Birmingham				33	27	17
Jacksonville				111	278	58
Nashville				23	30	15
New Orleans				42	33	32
PIG IRON PRODUCTION*						
Alabama				134	132	125r
COAL PRODUCTION (1935-1939 Av. = 100)						
TWO STATES	120	118	127	129	127	136
Alabama				135	134	137
Tennessee				117	111	135
COTTON CONSUMPTION*						
THREE STATES				217	205	205
Alabama				266	249	236
Georgia				200	187	196
Tennessee				185	201	173
EMPLOYMENT (1932 Av. =100)						
SIX STATES				140	137	139
Alabama				152	148	143
Florida				104	96	110
Georgia				157	153	155
Louisiana				131	132	133
Mississippi				113	112	118
Tennessee				136	136	137
PAYROLLS (1932 Av. = 100)						
SIX STATES				202	196	188
Alabama				278	266	236
Florida				104	96	97
Georgia				227	219	211
Louisiana				164	166	159
Mississippi				145	148	151
Tennessee				184	182	181
				Oct. 1940	Sept. 1940	Oct. 1939
ELECTRIC POWER PRODUCTION*						
SIX STATES				439	404	392
Alabama				507	493	466
Florida				551	512	475
Georgia				233	237	235
Louisiana				651	677	667
Mississippi				113	90	100
Tennessee				459	333	336

Statistics
(000 Omitted)

COMMERCIAL FAILURES	Nov. 1940	Oct. 1940	Nov. 1939	Year to Date 1940	1939
Number (Actual—not 1000's)	38	53	40	601	642
Liabilities	$ 744	$ 858	$ 252	$ 6,612	$ 7,406

FARM INCOME**	Oct. 1940	Sept. 1940	Oct. 1939	Year to Date 1940	1939
SIX STATES	136,273	75,695	132,433	612,694	644,621
Alabama	24,460	12,089	23,809	87,028	89,692
Florida	6,022	3,355	7,931	87,068	104,902
Georgia	34,201	25,351	24,469	137,436	123,731
Louisiana	17,086	9,528	24,103	86,538	98,789
Mississippi	34,440	15,679	35,988	109,808	124,357
Tennessee	20,064	9,693	16,133	104,816	103,150

*Indexes of retail sales, electric power and pig iron production, and of cotton consumption are on a daily average basis.

**Includes Government benefit payments.

r = Revised.

Defense Activities

In the *Review* last month it was announced that the Federal Reserve Bank of Atlanta and other Reserve Banks and Branches in their Districts had assumed for the Advisory Commission to the Council of National Defense certain duties connected with the defense program. In pursuance of this function the Federal Reserve Bank of Atlanta has issued to all banking institutions in the Sixth Federal Reserve District the following circular communications:

1. An announcement, dated November 19, 1940, containing (a) the letter of reference from the Advisory Commission designating the Federal Reserve System and the Reserve Banks and Branches as its agency in certain particulars and designating the functions to be performed; (b) a further description by the Federal Reserve Bank of Atlanta of its functions and a designation of officers to act in connection with national defense at its main office and Branches in New Orleans, Nashville, Birmingham, and Jacksonville;
2. An outline in detail, styled *Financing National Defense*, dated December 9, 1940, reviewing chiefly the problems of procedure connected with defense contracts and loans on such contracts;
3. A transmittal, dated December 12, 1940, of (a) a communication by the Director of Procurement entitled *Procedure under the Assignment of Claims Act of 1940;* (b) a copy of a letter from the Comptroller General of the United States containing rulings with regard to copies of instruments of assignment and payments under assigned contracts; (c) a suggested form of notice of assignment setting forth on its reverse side instructions to be followed as to the use of the form of notice;
4. Copy of a press release, dated December 11, 1940, of the National Defense Advisory Commission pertaining to the procedure to be followed in making application for certificates required under the amortization deduction provisions of the Internal Revenue Code.

Copies of these circulars are available to interested persons on request to the Federal Reserve Bank of Atlanta or its Branches. In addition the Bank has available for distribution copies of the *Army Purchase Bulletin* (1940), issued by the War Department, and *Selling to the Navy* (1940), issued by the Navy Department. These publications will prove helpful to those desiring to do business with either Department.

The Bank at this time reminds readers of the *Review* that it will be happy to serve the public by performing the following general functions in connection with national defense:

1. To assist business and the Commission in bringing industrial defense capacity to the attention of the Defense Advisory Commission and the procurement agencies of the armed forces;
2. To acquaint financial institutions with proper procedure in accepting assignments of claims against the government resulting from defense contracts;
3. To assist business and banks in arranging the financing of defense supplies and facilities contracts and subcontracts;
4. To furnish business with information on the procedure and proper contacts to make relative to obtaining defense contracts; and generally to act as a local information center for the Defense Advisory Commission.

(*Continued from page* 1)

other year, and was exceeded only by the indexes for the months of May, July, and August 1920. The adjusted index for November is, therefore, higher than for any other month in more than twenty years. For the country as a whole, the Board's adjusted index rose 7 per cent in November and was up 9 per cent from November last year. Wholesale trade in the District declined 8 per cent in November, whereas over a long period of years the November total has averaged about 12 per cent less than for October, and was up 5 per cent from November 1939.

Construction contracts awarded in the Sixth District declined in November in comparison with the previous month and the corresponding month last year. In both of those comparative periods the District had unusually large totals. In November last year the District total of construction contracts was 55 million dollars and included a large public works project in Tennessee that totaled about 38 millions. The decline from October this year was due in part to a decrease of 12 per cent in residential building contracts, but principally to a reduction of 42 per cent in the volume of "all other" contracts, mostly in the nonresidential building classification, although there was a decline of smaller proportions in awards for public works and utilities. Residential contracts awarded in the District during November were 32 per cent larger than in November last year, a slightly larger gain than was recorded for the country.

Textile activity in the District increased 6 per cent from October to November, evidenced by the daily rate of cotton consumption by mills in Alabama, Georgia, and Tennessee, and was at a new high level. The November rate was also 6 per cent above that for November 1939, which was the highest that had at that time been attained, and the months of October and November this year have reached new record levels.

Production of pig iron in Alabama also reached a record level in November, having increased 2 per cent over October and 7 per cent over November last year. Steel mill activity in the Birmingham and Gadsden area averaged 108.4 per cent of capacity in November against 105 in October, and in the country the November average was 96.5 per cent against 94.3 in October. In the first three weeks of December the Alabama rate averaged 107, and that for the country 96.8. Coal output in Alabama and Tennessee increased 2 per cent from October to November but was 5 per cent less than in November last year, which compares with a decrease of 4 per cent for the country as a whole.

The cotton crop in the six states of the District, according to the December estimate by the United States Department of Agriculture, amounted to 4,080,000 bales, a decrease of 9 per cent from 1939, while in the country as a whole the crop increased 7 per cent. The District decline was due to smaller production in Louisiana and Mississippi, offset only in part by increases in the other four states. The District produced this year 32.2 per cent of the country's cotton crop, and last year 38 per cent.

Cash farm income in the six states of the District increased 80 per cent from September to October and was 3 per cent larger than in October last year. Receipts from crops and livestock increased 95 per cent, and government payments 5 per cent over September; compared with October 1939, receipts from marketings of crops and livestock were 7 per cent larger, while government payments were smaller by 26 per cent. Because of the large movement of cotton in October, and the importance of that crop in this District, farm income is always at the year's high point in October.

Total loans and investments at weekly reporting member banks in selected cities of the District have increased 97.5 millions of dollars since midsummer. Of this amount, loans for commercial, industrial, and agricultural purposes have risen 47.5 millions to the highest level in comparable statistics, "all other" loans 11.8 millions, and investment holdings have increased 30.5 millions. Demand deposits-adjusted reached a new high level on December 11.