

## District Summary of Business Conditions

Merchandise distribution in April at both retail and wholesale increased more than usual over March and was well above the level at the corresponding time last year; there were gains in building and construction activity, and textile operations rose to a new high level. Coal production in Alabama and Tennessee was interrupted by labor difficulties and pig iron output was reduced somewhat by an explosion that curtailed blast furnace operations.

▶ Department store sales increased in April by 10 per cent on a daily average basis, and were 32 per cent higher than in April last year. After allowance for seasonal influences, including the later date of Easter this year, the adjusted index of daily average sales was up 13 per cent from March and was 27 per cent above that for April 1940. The unadjusted index for April is higher than it has ever been in April before, and the adjusted index is the highest for any month in the series covering more than twenty-two years. Wholesale sales in April increased 6 per cent over March, when there is usually a decline, and were 30 per cent greater than in April 1940.

▶ The value of construction contracts awarded in April in the Sixth District increased 54 per cent over the March total and was 38 per cent greater than for April last year. While there was a gain of 13 per cent in residential contracts in April, the larger part of the month's increase was in "all other" awards, which include non-residential building, public works, and utilities. Residential awards were off 15 per cent in comparison with April of last year, but "all other" contracts were up 95 per cent. The four-month total of contracts for all types of construction for the January-April period amounts to \$133.4 million, and is 25 per cent larger than for that part of 1940. Indeed, not since 1927 has the January-April total in this District been so large as it has been this year.

Another new high level in textile activity in this District was reached in April. Cotton mills in Alabama, Georgia, and Tennessee consumed a total of 303,905 bales of cotton, or an average of 11,688 bales for each of the twenty-six working days in April. This represents a gain of 5 per cent over the rate for March, and is half again as large as for April last year. In the nine months of the current season, August through April, mills in this District have used 17 per cent more cotton than in that part of the previous season. For the country as a

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Loans and Commitments to Make Loans for Defense Purposes. Weekly Reporting Banks of the Sixth District, April 30, 1941. Solid Areas Represent Loans and Commitments Financed by Assignment of Claims.



## Assignment of Claims in Defense Financing

An aspect of the national defense program particularly and directly concerning bankers is the Assignment of Claims Act of October 1940, under which the part that banks may play in the defense program has been substantially enlarged. In recognizing the assignment to banks and other financing institutions of claims against itself, the government has provided prospective defense contractors with an additional basis for obtaining bank credit, and has, to the extent that this new security is attractive to the banks, facilitated the financing of defense work, and has encouraged the participation of banks and other private lenders in the defense effort.

The Act represents the reversal of a government policy adopted in 1846 and uninterruptedly maintained for almost a century. Under a statute of that year all transfers and assignments of claims upon the United States were declared "absolutely null and void" until such time as the claim had been allowed, the amount of the claim ascertained, and a warrant issued for its payment. Under such conditions the possession of a government contract provided in itself little access to credit. Early in the present defense program, however, the Board of Governors of the Federal Reserve System, the National Defense Council, the War and Navy Departments, and other interested groups and persons petitioned the government for a reversal of its century-old policy.

The volume of work contemplated by the defense program was very large, and a considerable number of producers would have been eligible to compete by direct bids on government work only if financing could be arranged. The government was anxious to enlist the services of private lenders as much as possible, but willingness upon the part of lenders depended in many instances upon their obtaining the security of a direct claim against the government. Without an assigned claim, a bank making a defense loan would be apt to find itself among the general creditors of the contractor—even for the portion of the contract already fulfilled—in the event of his insolvency, and would have no assurance, even if the contract were fulfilled, that funds received from the government would be used promptly to repay the loan.

At the Senate hearings it developed that, not only was there no opposition to the bill, but that none present knew of any serious objection to the proposal other than the additional accounting required of the government by the transfer of claims. The Board of Governors of the Federal Reserve System supported the bill with the assurance that it would "facilitate financing the performance of Government contracts, would encourage additional business concerns to bid for such contracts and, by increasing the number of bidders, would tend to expedite, and to reduce the cost of, the defense program."

▶ The defense program has now been underway for just a year, and the Assignment of Claims Act has been in effect for

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# National Summary of

Prepared by the Board of Governors

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

	May 14 1941	Apr. 16 1941	May 15 1940	Per Cent Change May 14, 1941, from	
				Apr. 16 1941	May 15 1940
Bills discounted.....	\$ .01	\$ .06	\$ .11	- 83	- 91
Industrial advances.....	.2	.2	.3	...	- 33
U. S. securities.....	94.9	94.9	104.4	...	- 9
Total bills and securities.....	95.1	95.2	104.8	- 0	- 9
F. R. note circulation.....	209.9	205.2	160.4	+ 2	+ 31
Member bank reserve deposits.....	281.4	288.7	240.2	- 3	+ 17
U. S. Gov't general deposits.....	22.2	26.9	26.8	- 17	- 17
Foreign bank deposits.....	28.4	27.8	13.9	+ 2	+ 104
Other deposits.....	6.4	5.7	5.6	+ 12	+ 14
Total deposits.....	338.4	349.2	286.6	- 3	+ 18
Total reserves.....	458.9	461.8	347.8	- 1	+ 32
Industrial advance commitments.....	...	...	...	...	...

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

	May 14 1941	Apr. 16 1941	May 15 1940	Per Cent Change May 14, 1941, from	
				Apr. 16 1941	May 15 1940
Loans and Investments—Total.....	\$710.4	\$703.0	\$626.2	+ 1	+ 13
Loans—Total.....	373.3	375.6	306.8	- 1	+ 22
Commercial, industrial, and agricultural loans.....	192.1	198.5	157.8	- 3	+ 22
Open market paper.....	4.8	5.0	3.8	- 4	+ 26
Loans to brokers and dealers in securities.....	6.1	7.0	5.2	- 13	+ 17
Other loans for purchasing and carrying securities.....	11.0	11.2	10.7	- 2	+ 3
Real estate loans.....	35.7	35.8	31.8	- 0	+ 12
Loans to banks.....	1.4	1.2	.7	+ 17	+ 100
Other loans.....	122.3	117.0	96.9	+ 5	+ 26
Investments—Total.....	337.0	327.3	319.4	+ 3	+ 6
U. S. direct obligations.....	159.1	158.2	148.3	+ 1	+ 7
Obligations guaranteed by U. S.....	61.7	53.2	66.5	+ 16	- 7
Other securities.....	116.2	115.9	104.6	+ 0	+ 11
Reserve with F. R. Bank.....	176.7	172.4	144.9	+ 2	+ 22
Cash in vault.....	16.1	14.8	12.7	+ 9	+ 27
Balances with domestic banks.....	261.5	268.2	240.7	- 2	+ 9
Demand deposits—adjusted.....	501.6	483.9	413.2	+ 4	+ 21
Time deposits.....	193.0	193.0	191.0	...	+ 1
U. S. Government deposits.....	36.0	34.3	47.5	+ 5	+ 24
Deposits of domestic banks.....	370.9	386.4	315.9	- 4	+ 17
Borrowings.....	...	...	...	...	...

## DEBITS TO INDIVIDUAL ACCOUNTS (In Thousands of Dollars)

	April 1941	March 1941	April 1940	Per Cent Change April, 1941, from	
				Mar. 1941	Apr. 1940
<b>ALABAMA</b>					
Birmingham.....	\$ 117,463	\$ 119,841	\$ 97,336	- 2	+ 21
Dothan.....	3,954	3,963	2,935	- 0	+ 35
Mobile.....	53,206	54,569	40,864	- 2	+ 30
Montgomery.....	29,139	27,197	22,438	+ 7	+ 30
<b>FLORIDA</b>					
Jacksonville.....	108,474	122,035	85,237	- 11	+ 27
Miami.....	72,474	84,313	62,873	- 14	+ 15
Pensacola.....	11,812	12,013	9,267	- 2	+ 27
Tampa.....	44,158	40,522	32,717	+ 9	+ 35
<b>GEORGIA</b>					
Albany.....	6,389	6,568	5,423	- 3	+ 18
Atlanta.....	269,745	286,648	216,241	- 6	+ 25
Augusta.....	25,777	25,469	19,625	+ 1	+ 31
Brunswick.....	3,366	3,174	3,227	+ 6	+ 4
Columbus.....	24,537	24,417	16,622	+ 0	+ 48
Elberton.....	1,491	1,345	1,218	+ 11	+ 22
Macon.....	23,943	26,530	15,554	+ 10	+ 54
Newnan.....	2,513	2,601	1,939	- 3	+ 30
Savannah.....	35,341	35,832	28,937	- 1	+ 22
Valdosta.....	4,271	4,312	3,895	- 1	+ 10
<b>LOUISIANA</b>					
New Orleans.....	262,930	270,115	217,299	- 3	+ 21
<b>MISSISSIPPI</b>					
Hattiesburg.....	9,864	11,209	5,187	- 12	+ 90
Jackson.....	33,479	31,923	29,121	+ 5	+ 15
Meridian.....	15,683	15,365	12,397	+ 2	+ 27
Vicksburg.....	7,872	7,877	8,051	- 0	- 2
<b>TENNESSEE</b>					
Chattanooga.....	50,333	56,267	44,011	- 11	+ 14
Knoxville.....	34,975	37,483	32,252	- 7	+ 8
Nashville.....	107,078	104,371	85,288	+ 3	+ 26
<b>SIXTH DISTRICT</b>					
26 Cities.....	1,360,267	1,415,979	1,099,953	- 4	+ 24
<b>UNITED STATES</b>					
274 Cities.....	42,237,000	44,558,000	37,780,000	- 5	+ 12

## RETAIL TRADE — APRIL 1941 (Cities for which no indexes are compiled)

Sales for April compared with:

	Mar. 1941	Apr. 1940		Mar. 1941	Apr. 1940
Baton Rouge.....	+ 29	+ 27	Knoxville.....	+ 11	+ 30
Chattanooga.....	+ 7	+ 31	Macon.....	+ 16	+ 55
Jackson.....	+ 21	+ 31	Montgomery.....	+ 12	+ 21
Jacksonville.....	+ 10	+ 43	Tampa.....	+ 8	+ 22

Wholesale commodity prices advanced sharply in April and the first half of May, with the exception principally of metals for which maximum prices had been established. Industrial production declined in April, owing to reduced output of coal and automobiles, but increased rapidly in the first half of May as operations in these industries were resumed.

**PRODUCTION.** In April the Board's seasonally adjusted index of industrial production declined to 139 per cent of the 1935-1939 average, a drop of 4 points from March. The decline reflected chiefly a sharp reduction in output of bituminous coal, as most mines were closed during the entire month. The mines were reopened on April 30 and in the first half of May coal output increased rapidly.

Automobile production also declined in April, owing to stoppage of work at plants of the Ford Motor Company during an industrial dispute. This was settled about the middle of the month and domestic output has since advanced to a high monthly rate of over 500,000 cars and trucks. Announcement by the Office of Production Management that output in the twelve months ending July 31 would approximate 5,290,000 units indicates that a rate close to that now prevailing should be maintained through July, although there is usually a considerable decline in this period.

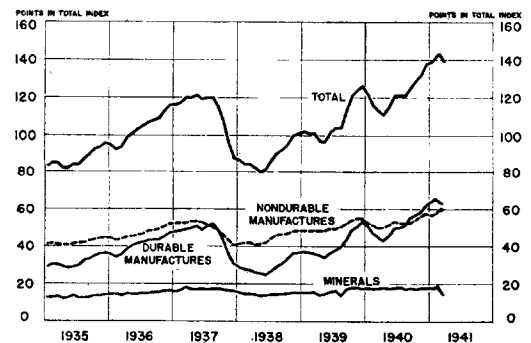
Steel production was curtailed somewhat in the latter half of April by shortages of coal and coke and output declined from a level of 100 per cent of capacity to 94 per cent at the month end. Subsequently output increased, reaching 99 per cent by the middle of May.

In most other lines activity continued to increase during April and the first half of May. Machinery production rose further and activity in the aircraft and shipbuilding industries continued to expand rapidly. Consumption of nonferrous metals also advanced, and, as in March, domestic sources of copper were supplemented by large supplies from Latin America. Textile production rose further from the high rate prevailing in March. Consumption of raw cotton in April amounted to 920,000 bales, a new record level, and rayon deliveries also rose to a new peak.

At wool textile mills activity was maintained near the high March rate. Continued advances were reported in the chemical, paper, and food industries.

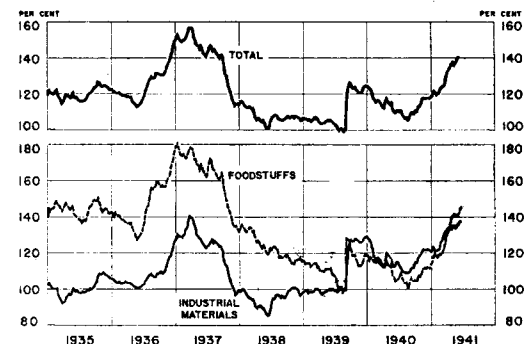
Anthracite production declined considerably in April, owing to a delay by dealers in placing usual spring orders, but increased in the first half of May. Output of crude petroleum showed little change from the March rate, following some increase from the reduced level of the winter months. Iron ore shipments in April amounted to about 7,000,000 tons, an exceptionally

### INDUSTRIAL PRODUCTION



Federal Reserve index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. By months, January 1935 to April 1941.

### WHOLESALE PRICES OF BASIC COMMODITIES



Bureau of Labor Statistics' index based on 12 foodstuffs and 16 industrial materials, August 1939 = 100. Thursday figures, January 3, 1935 to May 8, 1941.

# Business Conditions

of the Federal Reserve System

large amount for this time of year, and mine output of nonferrous metals continued at near capacity rates.

Value of construction contract awards in April declined somewhat from the high March total, owing principally to a smaller volume of defense plant contracts, according to F. W. Dodge Corporation reports. There was an increase in contracts for publicly financed defense housing, and awards for private residential building rose by about the usual seasonal amount.

**DISTRIBUTION.** Sales of general merchandise at department and variety stores showed about the usual seasonal rise from March to April, making allowance for the changing date of Easter. Retail sales of new automobiles, which had amounted to 526,000 cars and trucks in March, rose further in April and sales of used cars were at peak levels.

Freight-car loadings declined sharply in April, reflecting a reduction in shipments of coal and coke, but increased in the first half of May when coal mines were reopened. By the middle of the month total loadings had risen to a weekly rate one-fourth higher than in the corresponding period last year and about the same as the seasonal peak reached in the autumn of 1940.

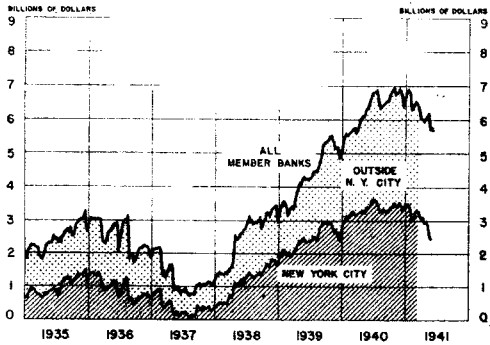
**COMMODITY PRICES.** Prices of most basic commodities, both domestic and imported, advanced sharply further in the first half of May following a short period of little change during the latter part of April. Price increases were most pronounced for agricultural commodities reflecting in part the prospect of legislation raising Federal loan rates for basic farm crops. Prices of a number of semimanufactured industrial products, including petroleum products, coke, leather, textile yarns and fabrics, and building materials, also advanced. Metal prices, now for the most part subject to Federal control, remained at the maximum levels established earlier.

**BANK CREDIT.** Bank loans and investments have shown a marked rise since last summer, the increase at reporting banks in 101 leading cities amounting to \$4,000,000,000. In April and early May holdings

of investments by these banks increased considerably, mostly at New York City Banks, reflecting substantial purchases of newly issued Reconstruction Finance Corporation notes. Increases in commercial loans in this period were somewhat smaller than during the preceding two months.

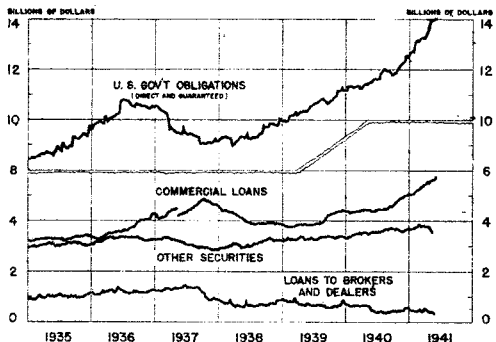
Excess reserves of member banks were \$5.7 billion on May 14. Since January they have declined by about \$1.1 billion, owing largely to recent increases in Treasury deposits with the Federal Reserve Banks and to increases in currency in circulation.

EXCESS RESERVES OF MEMBER BANKS



Wednesday figures partly estimated, January 2, 1935 to May 7, 1941.

MEMBER BANKS IN 101 LEADING CITIES



Wednesday figures, January 3, 1935, to May 7, 1941. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other Loans" as then reported.

## SIXTH DISTRICT BUSINESS INDICATORS

Indexes (1923-1925 average = 100, except as noted)

	Adjusted			Unadjusted		
	Apr. 1941	Mar. 1941	Apr. 1940	Apr. 1941	Mar. 1941	Apr. 1940
<b>RETAIL SALES* (1935-1939 Av. = 100)</b>						
DISTRICT (47 Firms).....	141	125	111	137	125	104
Atlanta.....				155	130	105
Birmingham.....				125	134	99
Nashville.....				123	122	96
New Orleans.....				129	109	105
<b>RETAIL STOCKS</b>						
DISTRICT (21 Firms).....	83	83	78	87	86	82
Atlanta.....	159	162	141	167	165	148
Birmingham.....	76	76	76	80	78	80
Nashville.....	64	60	60	66	61	62
New Orleans.....	69	71	67	72	74	69
<b>WHOLESALE SALES</b>						
TOTAL.....				76	72	67
Groceries.....				65	64	55
Dry Goods.....				58	54	51
Hardware.....				150	132	99
Drugs.....				114	125	117
<b>CONTRACTS AWARDED</b>						
DISTRICT.....				120	78r	87
Residential.....				96	84r	113
Others.....				137	74r	70
Alabama.....				116	69	81
Florida.....				60	62	60
Georgia.....				214	54	98
Louisiana.....				140	122	142
Mississippi.....				279	90	59
Tennessee.....				228	109	91
<b>BUILDING PERMITS</b>						
20 CITIES.....				61	54	71
Atlanta.....				37	28	24
Birmingham.....				44	29	19
Jacksonville.....				123	90	84
Nashville.....				33	14	46
New Orleans.....				52	26	32
<b>PIG IRON PRODUCTION*</b>						
Alabama.....				122	136	113
<b>COAL PRODUCTION (1935-1939 Av. = 100)</b>						
TWO STATES.....	21	146	1f	21	160	128
Alabama.....				19	163	134
Tennessee.....				25	152	115
<b>COTTON CONSUMPTION*</b>						
3 STATES.....				246	235	164
Alabama.....				295	279	190
Georgia.....				227	221	155
Tennessee.....				230	188	152
<b>EMPLOYMENT (1932 Av. = 100)</b>						
SIX STATES.....				147	146	132
Alabama.....				156	159	136
Florida.....				120	124	110
Georgia.....				163	162	145
Louisiana.....				134	130	119
Mississippi.....				117	116	110
Tennessee.....				141	140	132
<b>PAYROLLS (1932 Av. = 100)</b>						
SIX STATES.....				223	221	179
Alabama.....				316	312	222
Florida.....				118	123	100
Georgia.....				257	247	200
Louisiana.....				167	167	145
Mississippi.....				160	160	144
Tennessee.....				222	220	169
<b>ELECTRIC POWER PRODUCTION*</b>						
SIX STATES.....				485	489r	386
Alabama.....				682	705r	526
Florida.....				683	711r	561
Georgia.....				254	254	227
Louisiana.....				632	645r	569
Mississippi.....				112	118	61
Tennessee.....				369	338	258

Statistics (000 Omitted)

	Apr. 1941	Mar. 1941	Apr. 1940	Year to Date 1941	
				1941	1940
<b>COMMERCIAL FAILURES</b>					
Number (Actual—not 1000's)	41	44	70	169	247
Liabilities..... \$	\$ 958	\$ 439	\$ 829	\$ 2,031	\$ 2,615
<b>FARM INCOME**</b>					
SIX STATES.....	65,831	54,257	59,858	184,788	162,414
Alabama.....	7,491	5,402	8,380	18,811	22,712
Florida.....	17,983	12,314	8,963	44,293	28,312
Georgia.....	11,048	9,543	10,457	29,181	23,136
Louisiana.....	8,325	6,533	8,418	24,059	21,605
Mississippi.....	11,226	9,430	13,439	30,054	34,268
Tennessee.....	9,758	11,035	10,201	38,390	32,381

\*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.

**Assignment of Claims in Defense Financing**

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almost eight months. It is interesting, therefore, to review the extent to which banks and defense producers have availed themselves of the right to assign claims against the government as security for loans, and to know something about the types of contract and contractor whose claims are most frequently assigned.

The American Bankers' Association made a survey of the nation's largest banks to determine the amount of defense loans and commitments to make loans outstanding as of March 31. The survey showed that, by amount, 46 per cent of the loans made by the large banks in this District had been financed by assignment of claims, and 67 per cent of the commitments had been so arranged.

More recently, the Federal Reserve Banks have called upon those member banks that report weekly to furnish figures on defense loans and commitments as of April 30. The 22

member banks that report weekly in this District reported \$12,275,000 of defense loans outstanding and \$25,445,000 in additional commitments. Of 224 loans and commitments in all, 46, or about 20 per cent, had been made in accordance with the assignment of claims provision, and, by amounts, 43 per cent of the loans and 41 per cent of the commitments had been so financed.

The fact that more than 40 per cent of defense loans of this District's weekly reporting banks are financed by assignment of claim indicates that the government's sanction of this procedure has had effect. Some, at least, of those contractors whose loans have been made upon assignment would, no doubt, have been refused credit had assignment not been permitted.

▶ The available data do not permit very positive statements about the types of contract and contractor usually financed through the provisions of the Act. In general, however, it can be said that in this District that (1) the larger contracts are more frequently assigned than smaller contracts, that (2) contracts, as would be expected, are more frequently assigned when the amount of the contract is large relative to the total assets of the contractor, and that (3) some banks have taken assignment on most of their defense loans, irrespective of particular conditions, while others have taken assignments on none of their defense loans.

▶ The making of loans under the Assignment of Claims Act demands a shift of attention on the part of the banker considering a contractor's application for financing. In making ordinary commercial loans the banker must judge the willingness and the capacity of the borrower to repay, particularly if the loan is unsecured by specific collateral, and he must judge the quality of the collateral if the loan is secured. Judging the capacity to repay involves knowledge on the banker's part of the borrower's ability to perform the contemplated task remuneratively.

Under the arrangements made possible by the assignment of claims provision there is no question — aside from honesty of purpose — of the borrower's willingness to repay, for the Treasury's payments are sent direct to the assignee, and under this type of financing there need not always be specific collateral whose quality must be assessed. Moreover, sale of the goods and the selling price is asured beforehand. The banker's problem in making defense loans resting upon an assignment of the contractor's claim against the government mainly involves, therefore, judgment of the borrower's ability and willingness to perform his contract, for only when the contract has been met, at least in part, will there be a claim against the government. The principal factors in the problem of ability to perform are the costs at which the contractor will be able to obtain labor and supplies, and the contractor's ability to solve his technological problems of increased output or of output diverted from peace-time to war-time goods.

▶ Our banker readers will recall that the Federal Reserve Bank of Atlanta has prepared and circulated statements of the procedure to be followed in assigning claims upon government contracts. While the government does not specify a particular form of assignment, it does specify both the form and procedure with which notice of assignments is to be made. Additional copies of this Bank's statement of procedure may be obtained upon request, and the legal department of this Bank has undertaken to assist member and nonmember banks in the procedure of making assignments on government contracts.

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**District Summary of Business Conditions**

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whole the Board's index advanced 3 per cent from March to April and was 45 per cent above that for April 1940.

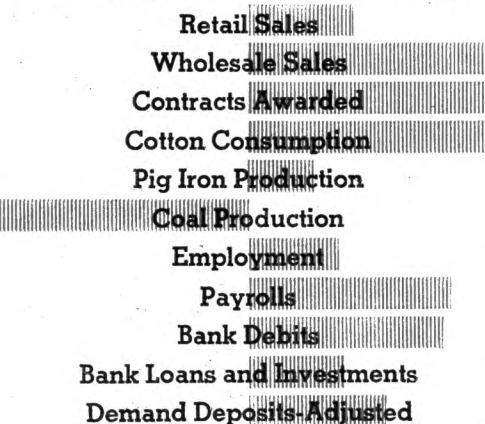
Steel mill activity in the Birmingham-Gadsden area has been reported at 95 per cent of capacity since March 1. In May last year the rate averaged 81.5 per cent. In the United States as a whole the reported rate of activity declined from 100 per cent for the last week in March and the first week in April to 94 per cent for the week ended May 3, and rose the following week to 97.5 per cent. The daily rate of pig iron production in Alabama declined 10 per cent in April but was 8 per cent above that of April 1940, when output was at the lowest level of the year. For more than two years Alabama output has been larger each month than in the corresponding month a year earlier. For the country as a whole, the Board's index for April was down 4 per cent from March but 38 per cent above that for April last year. According to *The Iron Age*, the coal strike was responsible for the closing of twenty of the nation's furnaces and a considerable loss in production. Because of the interruption to mining operations at the beginning of April,

the weekly statements issued by the Bureau of Mines have not included estimates for Alabama and Tennessee since March, when production was at the highest level in more than eleven years. The rate of electric power output declined 1 per cent in March from the record level reported for February.

Water produced power increased, despite the shortage of water supply.

**Reconnaissance**

PER CENT DECREASE ▼ PER CENT INCREASE



Sixth District Statistics for April 1941 compared with April 1940