

# Monthly Review

## FEDERAL RESERVE BANK OF ATLANTA

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### *Gasoline Taxes in the Sixth District*

Of all the necessary restrictions upon civilian habits of life created by war conditions, few have so vitally affected the average individual as the restrictions placed upon automobile transportation. Since the entry of the United States into World War II, Americans have had to begin to alter a way of life built around the unrestricted use of the automobile.

Restrictions now placed upon automobile transportation seriously affect the tax base from which state governments derived over 40 per cent of their tax revenues in the fiscal year 1940-41. Motor fuel taxation yields more state revenue than any other form of state tax. In 1941 the motor fuel tax yielded 25 per cent of all state taxes in the United States.<sup>1</sup> In addition, motor vehicle license taxes constituted 12 per cent of total taxes. To this proportion of 37 per cent may be added other levies upon the automobile and other trades directly and indirectly influenced by motor transportation which brings the estimate of total taxes raised by the motor vehicle industry to 40 per cent of all the state taxes levied.

In the states comprising the Sixth Federal Reserve District, motor fuel and license taxation is of greater importance than in the United States as a whole. Forty-eight per cent of the total taxes collected in 1941 in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee were motor fuel and motor vehicle license taxes in contrast with the 37 per cent for the United States as a whole. The tax of seven cents per gallon on gasoline in Florida, Louisiana, and Tennessee is higher than in any other state. The remaining three states of the District levy a tax of six cents, which is equalled by only North and South Carolina and exceeded by only Arkansas, which levies a tax of six and a half cents per gallon.

The proportion of revenue derived from the gasoline and motor vehicle license taxes in 1941 varied from 62 per cent in Florida to 32 per cent in Louisiana. In all other states of the District, with the exception of Louisiana, the proportion exceeded that of the United States average as can be seen by examining the accompanying chart and Table II. In Louisiana, the severance tax provided a large proportion of the state taxes in 1941. The yield of severance tax is partly dependent upon oil production in that state which in turn may be affected by the consumption of gasoline.

Not only are the revenues of state governments drastically affected by declines in gasoline tax collections, but local governments are affected as well. In 1941, 31 per cent of the gasoline taxes collected in the six District states was shared with local governments. The proportion

varied from state to state. In Alabama, 49 per cent of receipts went to local governments; in Florida, 42 per cent; in Georgia, 16 per cent; in Louisiana, 13 per cent; in Mississippi, 44 per cent; and in Tennessee, 28 per cent.

What may constitute a particularly difficult problem if revenues from the gasoline tax are sharply reduced is the fact that expenditures financed by the tax in several states are relatively fixed. In one state the entire proceeds of the tax are pledged for the service of highway bonds. In another state, four cents of the seven-cent tax are pledged to pay maturity and interest payments on the highway debt. In other states, gasoline taxes have been used to service county bonds. Revenues from gasoline taxation have also been used in some of the states to aid in financing schools and other general activities of the state governments as well as the construction and maintenance of highways which are entirely dependent upon motor taxation. Tax administrators may be able to solve this problem through reductions in expenditures not essential to the war effort and through diversion of increased tax receipts from other sources.

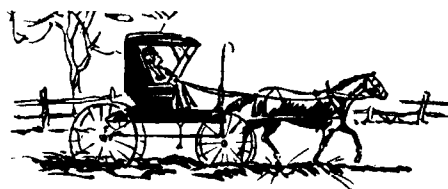
Data on gasoline tax collections should be interpreted with caution and should be examined in relation to many other factors. A study of the monthly behavior of collections during the past few years will help in picturing the present situation.

While there is no "normal" year that may be taken as a guide in studying present conditions, collections in 1939 may be conveniently used as a starting point. That year was the last prior to the beginning of the rearmament program; there was little thought of rubber shortage; there was no shortage of gasoline and consequently no rationing. In order to make a comparison with that year, monthly collections for each state and for the District have been converted into indexes, using the average monthly collections in 1939 as a base. These indexes are presented in Table I. Several significant changes may be observed from the data presented.

In the first place, collections during 1940 and 1941 were considerably above the 1939 level. During these years the general trend in collections was upward, although conditions varied from state to state.

Part of the increase in collections during the two years may be attributed to the increase in motor vehicle registrations.

New car registrations were 25 per cent greater in the District in 1940 than in 1939, while during the first 11 months of 1941 they were 44 per cent greater than during the same period in 1939. Changes by states are shown in Table III. New car registrations reflect increasing economic activity and purchasing



<sup>1</sup>In computing the total amount raised by taxation, unemployment payroll taxes are excluded since the proceeds are not used for the operation of the state governments.

power. How much of the increase in tax collections was the result of greater average mileage of motor vehicles travelled cannot be accurately estimated from the data at hand.

A second factor of significance, to be observed from Table I, is the seasonal pattern of collections, which should be taken into account before any attempt is made to interpret current month-to-month changes. In all states except Florida collections in 1940 and 1941 declined after January, rising again in the spring and continuing at a relatively high level until the end of the year. Florida collections followed an opposite seasonal pattern. Collections in that state were lowest during the summer months, rose after the first of the year, and continued relatively high during the first three months of the year—the tourist season. It has been estimated that in normal years tourists account for 45 per cent of all automobile travel in Florida during the three winter months.

Part of the month-to-month variation may be accounted for by the varying number of days in each month. Collections are made for sales during the preceding month. March collections are always low because of the fewer days in February. Some of the month-to-month fluctuations would be removed were the index computed on a daily average basis.

With the customary seasonal pattern in mind, it is possible to examine the trends since the beginning of 1942. January collections continued the seasonal pattern of the two previous years by rising in the six states.

February collections declined in the District as a whole. The same thing had occurred in 1940 and 1941. In Florida, however, collections during February in 1940 and 1941 had increased over the previous month, but in 1942 the results of

the change in tourist traffic began to be felt. The index declined 16 points in contrast with a rise of 17 points in February of 1941.

In March, 1942, total collections in the District declined, following the usual seasonal pattern. In April, 1942, the District index rose one point from the normally low March collections. In 1941 it had risen 15 points and in 1942, 16 points. The District index for May collections remained at the April level. In Alabama and Tennessee the index for May, 1942, is above the same month in 1941. In other states, while collections increased except in Florida and Georgia, the indexes were below the 1941 levels.

Any estimate of the future behavior of collections must be based upon many assumptions, and future conditions may compel the altering of the assumptions. Gasoline consumption may be divided into two major categories—consumption by private passenger cars and consumption by trucks and busses. It will be helpful to consider each class separately.

At the present time, one of the conditions that accounted for the increased collections during 1940 and 1941 no longer exists. No new cars for civilian use are being produced and, consequently, registrations can no longer be expected to continue to increase. Assuming there were no scarcity of gasoline, private operation of automobiles would be limited by the availability of tires and by the prevailing attitude toward their use. How long present tires will last is, in turn, based upon additional assumptions. One rubber company official has estimated that about one-fourth of all automobiles will be off the highways by July, 1943, with about five million more out of use at the end of that year. A statistician with one of the major oil companies has estimated that within two years one-half of the passenger cars in use at the beginning of this year will be off the road unless new or recapped tires are provided. However, according to this estimate, some cars will be able to operate on their present tires until September, 1946. If 50 per cent of the tires are recapped, automobile use would be extended by one year. These estimates are based on a top speed of 40 miles per hour and a 10 per cent reduction in mileage per car.

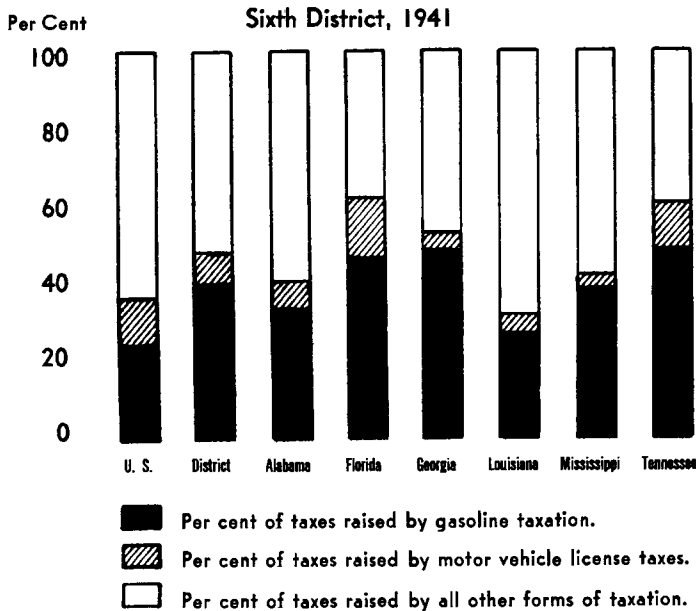
Another factor may complicate this picture. According to the Senate Defense Investigation Committee, there appears to be little prospect for civilian tires from the synthetic rubber program within the next three years. In January the OPA estimated that the average vehicle in use in this country had about 9,000 miles of travel left in its tires. The results of the campaign for scrap rubber may alter the picture somewhat. In the immediate future, however, there appears to be little prospect for civilian tires.

Exact figures reflecting changes in the use of passenger automobiles are not available. However, reports from highway department checking stations are of interest. They indicate to some extent how road travel has declined. At various checking stations in Mississippi, it is estimated that there was a decrease of 4 to 8 per cent in traffic by early April of 1942, as compared with the corresponding week in 1941. Traffic surveys in Tennessee indicate declines from last year with the decreases becoming progressively greater from month to month since the beginning of the year. In January the traffic

Table I  
INDEXES OF GASOLINE TAX COLLECTIONS  
(Average Monthly Collections, 1939 = 100)

1940	Ala.	Fla.	Ga.	La.	Miss.	Tenn.	District
January	104	118	108	108	108	113	111
February	89	126	93	96	88	93	100
March	89	125	94	93	68	82	95
April	103	127	104	104	107	114	111
May	105	112	107	104	113	128	112
June	111	105	109	112	112	122	111
July	111	101	111	103	101	121	108
August	101	97	108	109	97	107	104
September	121	101	119	112	116	124	115
October	112	94	112	109	121	130	112
November	122	106	119	121	125	100	114
December	115	115	116	115	106	125	116
1941							
January	115	132	118	121	107	123	121
February	109	137	115	111	109	126	120
March	103	134	108	104	105	107	112
April	121	145	123	117	109	133	127
May	121	126	124	127	125	119	124
June	132	122	150	124	132	137	133
July	127	111	122	125	118	123	120
August	136	116	130	128	109	139	127
September	143	116	136	136	144	158	136
October	143	103	124	137	130	127	125
November	142	112	131	143	137	150	134
December	134	116	125	109	120	120	120
1942							
January	141	133	135	120	135	167	139
February	129	117	120	125	129	138	125
March	113	107	103	126	80	115	109
April	121	118	114	89	105	110	110
May	125	105	100	103	105	125	110

PER CENT OF TOTAL STATE TAXES  
RAISED BY MOTOR VEHICLE TAXATION



Source: United States Bureau of the Census.

Table II  
PER CENT OF TOTAL STATE TAXES\*  
RAISED BY MOTOR VEHICLE TAXATION

	Sixth District, 1941			Total
	Gasoline Taxation	Motor Vehicle License Taxation	All Other	
United States	25.4	11.6	63.0	100.0
District	40.4	8.2	51.4	100.0
Alabama	34.5	6.9	58.6	100.0
Florida	47.2	15.2	37.6	100.0
Georgia	48.4	5.5	46.1	100.0
Louisiana	27.6	4.5	67.9	100.0
Mississippi	39.0	4.2	56.8	100.0
Tennessee	48.9	12.7	38.3	100.0

\*Unemployment taxes are excluded from the totals.

Table III  
NEW CAR REGISTRATIONS

	Per Cent Increase 1940 Over 1939	Per Cent Increase 1941* Over 1939*
Alabama	18.5	43.7
Florida	30.8	44.0
Georgia	27.2	46.7
Louisiana	15.6	40.2
Mississippi	19.9	30.3
Tennessee	33.2	55.7
DISTRICT	25.1	44.1

\*First 11 months.

culties have all but stopped that source of supply and the resulting shortage of gasoline is also a factor in the decline in gasoline tax receipts.

General conclusions based upon the behavior of collections since the beginning of 1942 are difficult to make. It appears to be true, however, that as yet the full effects of the expected decline in automobile use have not been felt. In only a few instances have collections fallen below the average monthly collections of 1939. It may also be concluded that, except in the case of Florida, any trend toward decline has been felt only within the last two months. It is the future behavior rather than the past behavior of tax collections that is worrying state officials.

A number of persons have furnished data upon which this article is based. Acknowledgement is made to the following, who furnished information on gasoline tax collections: A. B. Tucker, Chief, Alabama State Gasoline Tax Division; J. M. Lee, Florida State Comptroller; W. Wayne Walker, Director, Georgia State Motor Fuel Tax Unit; J. F. Boyle, Chief, Louisiana State Petroleum Products Tax Division; J. W. Purvis, Supervising Accountant, Mississippi State Highway Department; and R. L. Weakley, Director, Tennessee State Gasoline Tax and Oil Inspection Division. Data on motor vehicle registration were received from: W. M. Parker, Division Engineer, Florida State Road Department; R. V. Glenn, Georgia State Director, Division of Highway Planning; I. L. Thomas, Jr., Traffic and Planning Engineer, Louisiana Department of Highways; and L. N. Means, Office Engineer, Tennessee Department of Highways. Data on motor vehicle traffic were received through the courtesy of Roscoe Arant, Atlanta Regional Business Consultant, United States Department of Commerce, from: W. G. Pruet, Alabama State Highway Director; Thomas A. Johnson, Chairman, Florida State Road Department; Harry B. Henderlite, Chief Engineer, Louisiana Department of Highways; I. W. Brown, State Manager, Mississippi Division of Highway Planning; and A. P. Connell, Engineer Director, Division of Research and Statistics, Tennessee State Department of Highways.

count in Alabama was 7 per cent higher than in the previous year. In February Alabama traffic was about 2 per cent above the 1941 level; but by March, however, it had declined 7 per cent below the 1941 level.

The average of six recorders in Louisiana indicated a decline of 10 per cent in January, 18 per cent in February, and 20 per cent in March from the corresponding months of 1941. Manual traffic classification counts in Florida indicated that the 1942 tourist travel was only 75 per cent of that in 1941. April tourist traffic in Louisiana in 1942 is estimated to have been 31 per cent below the same month in 1941. These samples seem to indicate that the decline in total traffic is accelerating. During the first months of 1942, however, the decline was not sufficient to affect tax collections materially.

As a partial offset to this decline in passenger car traffic, traffic by trucks is expected in some quarters to increase substantially for a time. The necessity for efficient use of highway transportation in moving war materials is recognized. Trucks normally consume a greater amount of gasoline per mile than passenger cars. A rise in collections from this source may offset to some extent the decline in revenues from sales of gasoline to owners of other types of motor vehicles. Efforts are being made, however, through elimination of competing schedules, and other means, to reduce mileage and thus reduce the use of gasoline and rubber by trucks and busses.

Up to this point, it has been assumed that there will be no difficulty in securing supplies of gasoline. The supply problem along the eastern seaboard, however, has become acute. In four states of the District, gasoline rationing was instituted on May 15. Before the war, many areas of the District were partially supplied by tankers either directly or in cooperation with other forms of transportation. Ocean shipping diffi-

## Sixth District Business Conditions

While business activity in the Sixth District remains at a high level, governmental wartime controls are exerting an increasing influence on the direction of that activity. Retail trade as measured by department store and furniture store sales exhibits a downward trend. This trend is in part the result of governmental restrictions upon consumer credit and in part the result of wartime price controls and limitations upon the production of certain goods for civilian use. Another factor in the decline of retail trade is the continued pressure upon the public to buy War Bonds, thus reducing the amount of spendable funds. Still another factor is the uncertainty about the future. Many consumers have already entered the armed services and others hesitate to buy because they may presently be inducted.

Wartime needs have resulted in increased business activity in many other lines. The textile industry in the Sixth District is being increasingly devoted to wartime production, although there are indications that total activity may not expand much beyond present levels. The volume of construction continues at a high level, but such construction is almost entirely devoted to meeting the needs for housing war workers and to the building of war plants and facilities for the armed forces. Agricultural conditions are generally reported to be good, but agricultural labor supply may hamper operations in the future.

**Textiles:** After establishing new high records in each of the first four months of this year, activity at Sixth District cotton textile mills declined slightly in May.

The majority of the mills in the District are primarily engaged in fulfilling war contracts. In general, Southern textile mills are operating at capacity, and war requirements have compelled them to shift from lighter to heavier fabrics. Heavier fabrics naturally require more cotton than previously fabricated lighter products. Manufacturers in five Southeastern states recently have been awarded contracts for \$20 million worth of textile goods by the War Department.

**Agriculture:** While most agricultural commodities are exempted from the General Maximum Price Regulation of the Office of Price Administration, prices of many farm products will no doubt be indirectly affected, since the prices of finished commodities have been fixed. Preliminary indications are that the general index of prices received by farmers was about the same in May as in April. Although prices of fresh vegetables are not included in the price order, the order may have some indirect influence upon the prices of vegetables grown and processed in 1942. Maximum wholesale and retail prices of canned vegetables have been fixed at their highest March levels. Although most farm prices are not expected to increase substantially, the need for maintaining and increasing agricultural production will probably insure the continuance of government support. Parity payments will not be given on cotton, rice, and most types of tobacco in 1942 because 1941 returns including conservation payments are at or above parity levels. Conservation payments will be continued on certain agricultural products.

Farmers are becoming increasingly concerned with the labor supply. While the farm labor supply on April 1, according to the United States Department of Agriculture, was higher

in all states of the District except Alabama than in the United States as a whole, the supply was considerably below that of a year ago. On April 1 the farm labor supply in the six District states was 63.7 per cent of normal, compared with 74.3 per cent a year ago. Farm labor demand in the six states was 97.8 per cent of normal, compared with 91.3 per cent in 1941. As a consequence of the labor shortage, farm wage rates averaged \$30.54 per month without board, compared with \$24.38 a year ago.

While growth of Alabama crops was slow during May, conditions were generally favorable. With less than normal rainfall over most of the state and cool nights in the early part of the month, grass and weeds made little progress, and the available labor was able to put in full time. The oats crop is not up to expectations because of an early lack of moisture. While this year's acreage in oats is considerably larger than last year's, the indicated yield is 19.5 bushels per acre, compared with 25 bushels in 1941. The estimated peach crop is 1.9 million bushels, compared with last year's large crop of 2.4 million bushels.

General rains during the latter part of May and early June were particularly helpful to Florida crops. Favorable condition figures were reported on most general crops, but the condition of new citrus crops declined 15 points to 73 per cent on June 1. Grapefruit declined nearly as much. The estimate of June production from the 1941 bloom was further reduced by a million bushels in May. Southern Florida is producing the best tomato crop in years, and growers are looking forward to continued good prices. Watermelon shipments were expected to get under way about June 25.

Crops and pastures in Georgia showed improvement during the latter part of May as a result of the breaking of the drought of late April and early May. Reported prospects for most crops on June 1 were better than for the same period in other recent years, although the tobacco crop is later than usual and stands are irregular. Peaches are moving to market in volume and, although the estimated crop is smaller than last year's, a large crop of good fruit is expected. Peaches are being marketed for the first time under a Federal Marketing agreement. The agreement requires that all fruit shipped in interstate commerce meet specifications as to size and degree of ripeness.

Cool weather, rains, and floods in May retarded the progress of crops in some areas of Louisiana. While the cotton crop is late and stands vary, insect pests that prey upon the cotton plant are reported as being less numerous than last year. Cotton acreage is larger than previously. Rice sowings which were retarded by April rains made good progress in May.

Mississippi crops were in a generally good condition on June 1. A peach crop of 1.2 million bushels is predicted for the year, in contrast with 1.4 million bushels last year. According to the Mississippi State Agricultural Department, severe damage may result from the boll weevil unless July and August are hot and dry. It is also feared that the 1941 severe attack upon crops by the Southern striped blister beetle may be repeated this year. The chief crop activity in Mississippi at present is cotton chopping. Although there is a local shortage

of labor, it is not serious enough to require a large-scale mobilization and transportation of farm workers from one area to another, according to the Mississippi branch of the United States Employment Service.

Badly needed rains in May improved Tennessee crop prospects in the eastern part of the state. The outlook for grain crops is excellent, and the farm labor situation may not prove as serious as has been anticipated.

**Money and credit:** Demand deposits (adjusted) of weekly reporting member banks in the District reached a new high level on June 17. These banks have also continued to increase their investments in United States Government securities. On June 17 their holdings of United States direct obligations were more than twice as large as they were a year ago and more than \$120 million larger than at the beginning of this year. Loans have declined somewhat further in May and the first half of June. Deposits of other banks and balances maintained with correspondent banks increased in early June after declining in the latter part of April and in May.

Net demand and time deposits of all member banks in the District increased further in May and reserve requirements averaged \$3.8 million higher than in April. Actual reserves maintained by the banks, however, rose only about \$1 million and estimated excess reserves declined \$2.8 millions.

Total reserves of the Federal Reserve Bank of Atlanta reached another new high level on June 10 when they were \$627.8 million. This represents an increase of \$54 million since December and a rise of \$141 million since the middle of June last year. Federal Reserve note circulation of this Bank's issue also reached another peak on June 10 when it stood at \$352.6 million, a rise of \$88 million since December and an increase of \$136.8 million over the corresponding date last year.

Bank lending activities are being increasingly directed toward the war program. According to data received by this bank through a special survey of commercial and industrial loans of 181 member banks in the Sixth District covering the period April 16 to May 15, 1942, 42 per cent of the dollar volume of new loans was for defense purposes. The proportion of loans for defense purposes renewed during the period was only 16 per cent. New loans constituted 57 per cent of the total loans made during the period.

Of thirteen industrial groups, the greatest proportion of new loans for defense purposes was made to the metal products industry, followed by the building and construction industry. The dollar volume of loans for defense purposes accounted for 96 per cent of new loans and 75 per cent of renewals in the metal products industry. In the construction industry 85 per cent of the new loans was for defense purposes, while 63 per cent of the renewals was for defense purposes. War needs accounted for only 2 per cent of the new loans made to sales finance and personal loan companies and for 3 per cent of the renewals.

Of the total new loans made for defense purposes, 50 per cent of the dollar volume went to the building and construction industry, while 36 per cent of the total renewals in dollar volume went to the building and construction industry. Loans to the textile, apparel, and leather products industry amounted to 21 per cent of total defense renewals.

Since defense loans were of a larger average size than other

## Reconnaissance

PER CENT DECREASE ↘ PER CENT INCREASE



Sixth District statistics for May 1942 compared with May 1941.

commercial and industrial loans, only 23 per cent of the number of loans was connected with war needs, although 31 per cent of the dollar volume was accounted for by such needs.

Businesses having estimated assets of \$50,000 to \$500,000 received the greatest number of loans during the period, as well as the greatest dollar volume. The proportion for war purposes, however, was greater for businesses having estimated assets of \$500,000 to \$5,000,000. Over 98 per cent of the new loans and renewals mature in one year or less.

Holdings of consumer instalment paper on the part of the reporting banks of the District continue to decline. Holdings of such paper on the part of 31 reporting banks declined from \$46.4 million as of December 31, 1941, to \$36.5 million on May 31, 1942, a decrease of 21 per cent. As might be anticipated under present restrictions on the sale of new automobiles, the principal decline occurred in the holdings of

### Volume of Consumer Instalment Credit Extended by 27 Reporting Banks of the Sixth Federal Reserve District in the Months of May and April, 1942

Type of Paper	May, 1942 In Thousands	April, 1942 In Thousands	Per Cent of Change
1. Retail instalment paper purchased			
(a) Automotive . . . . .	\$ 476	\$ 650	-27
(b) Other . . . . .	242	383	-37
2. Direct retail instalment loans			
(a) Automotive . . . . .	255	253	+ 1
(b) Other . . . . .	7	16	-56
3. Repair and modernization loans			
(a) FHA, Title I, Class I	217	204	+ 6
(b) Other . . . . .	3	4	-30
4. Personal instalment cash loans . . . . .	852	944	-10
5. TOTAL . . . . .	\$2052	\$2454	-16

automotive instalment paper. Holdings of purchased retail automobile paper declined by 39 per cent during the period, and holdings of direct retail automobile instalment loans declined by 37 per cent. Major declines also occurred in repair and modernization loans, with FHA Title I, Class I loans declining by 17 per cent and other modernization loans by 59 per cent. Personal instalment cash loans, in contrast, decreased by only 4 per cent during the five-month period.

As of May 31, 1942, holdings of instalment paper purchased amounted to 52 per cent of the total; direct retail instalment loans to 9 per cent; repair and modernization loans to 18 per cent; and, personal instalment cash loans to 21 per cent.

The volume of consumer instalment loans made by reporting banks during the month of May, 1942, was 16 per cent less than for the month of April, 1942. The percentage change in the volume of such loans, classified by types of loan, is given in the preceding tabulation, shown on page 41.

**Retail trade:** Sales of reporting Sixth District department stores declined somewhat in May, when there is usually a small increase, but merchants continued their accumulation of stocks which are now very much larger than they were a year ago, even after taking into consideration the rise in prices. The dollar volume of sales in May reported by 80 firms was down 6 per cent from April and down 2 per cent from May of last year. The index of daily average sales, based on reports from more than half of the reporting stores, declined 5 per cent in May 1942 but increased 4 per cent above that of May 1941. After adjustment for seasonal influences, the May index was 6 per cent lower than for April. If it is assumed that prices have risen about 20 per cent in the past year, these figures indicate a considerably smaller volume of merchandise moving into customers' hands.

Department stores reporting sales by departments experienced declines in sales in 17 out of 22 departments as compared with sales a year ago. The greatest percentage decline occurred in the sale of furs. Sales of major household appliances decreased 40 per cent from sales in the previous year. Substantial increases were reported only for women's and misses' coats and suits, infants' wear, and piece goods.

In contrast to the decline in sales, stocks on hand at reporting department stores at the end of May were 5 per cent larger than a month earlier and the index, after adjustment for the usual seasonal change, was up 9 per cent. In comparison with May 1941, stocks are larger by 65 per cent. There is still a very large increase in the actual volume of merchandise on hand, after allowing for the rise in prices.

Retail furniture store activities in the Sixth District for the month of May 1942 were in sharp contrast to activities for earlier periods. Sales of reporting stores showed a decrease of 29 per cent for the month of May 1942, as compared with the same month a year ago, and a decrease of 15 per cent for the month of May 1942, as compared with the month of April 1942.

The decrease in sales has been accompanied by a decrease in total receivables. May 1942 receivables were 14 per cent less than May 1941 receivables and 4 per cent less than April 1942 receivables. Coincident with these declines have been greater collections. During May 1942, collections were 15 per cent greater than for May 1941 and 6 per cent greater than for April 1942.

In spite of declining sales, inventory holdings of reporting

furniture stores continue to increase. Inventories of May 31, 1942, were 63 per cent greater than for May 31, 1941, and 6 per cent greater than for April 30, 1942. Inventories of reporting stores on December 31, 1940, were 9 per cent greater than on December 31, 1939, and were 40 per cent greater on December 31, 1941, than on December 31, 1940.

A slight gain is reported in the proportion of cash sales to total sales. Of total sales of reporting furniture stores for May 1941 only 3 per cent was represented by cash sales. In April 1942 the percentage of cash sales increased to 5 per cent and in May 1942 to 6 per cent.

## Interpretations of Regulation W

The Board of Governors of the Federal Reserve System has issued the following interpretations of Regulation W that relate particularly to loan credit for consumer purposes. The interpretations have been grouped under section headings set out in the Regulation itself as revised effective May 6, 1942.

**Section 2(i) Single-payment Loans:** An overdraft resulting from the drawing of a check is an extension of credit, but in the usual case it is not "in the form of a loan" within the meaning of Section 2(i), and therefore is not subject to Regulation W unless used as a means of evasion.

A pawn transaction in which the pawnor is not under any personal obligation to repay the pawnbroker is not a loan and is not subject to Regulation W. However, the mere fact that the transaction is called a pawn does not mean that it is not subject to Regulation W since there are many so-called pawn transactions which do in fact involve an obligation to repay.

**Section 6(b) Instalment Loans Not to Purchase Listed Articles:** Last part of Section 6(b) refers to a loan to retire an obligation held elsewhere whereas Section 7(c) (1) refers to the renewal or extension of an obligation held by the registrant.

**Section 7(c) Renewals and Extensions:** Reference to "charge account" in clause (1) of Footnote 5 of Regulation W is a cross-reference to Section 6(b) and means a charge account arising in whole or in part from the sale of a listed article. This means that a single-payment loan made on or after May 6 which the registrant knows was used to retire a charge account arising wholly from the sale of unlisted articles may be renewed or extended under Section 7(c) (1) or 7(c) (2) with a final maturity not exceeding twelve months from the date of the original loan.

**Section 8(b) Security Loans and Credits:** Loans for purposes of purchasing or carrying building and loan shares are exempted from Regulation W by the last clause of Section 8(b). Loans for other purposes, however, even though secured by building and loan shares, are not exempted by this section.

Board does not regard savings passbooks as "investment securities" for purposes of Section 8(b) of Regulation W.

The word "carrying" in Section 8(b) of Regulation W has the same general meaning as in Section 3(b) of Regulation U. In effect, this confines "carrying" to the refinancing of indebtedness which was originally incurred for the purpose of purchasing stocks, bonds, or other investment securities. The mere fact that the extension of credit is secured by such investment securities is not sufficient.



## The National Business Situation

Industrial activity continued to advance in May and the first half of June. Commodity prices showed little change after the middle of May when the general maximum price regulation went into effect. Retail trade declined further in May but increased somewhat in the first half of June.

**Production:** Volume of industrial production increased in May and the Board's seasonally adjusted index advanced to 176 per cent of the 1935-39 average, as compared with 173 in April and 171 during the first quarter of this year. Output of manufactured products continued to increase, reflecting chiefly further growth in production of war materials, while mineral production showed a seasonal rise.

The largest increases in May, as in other recent months, were in the machinery and transportation equipment industries which are now making products chiefly for military purposes. The amount of copper smelted rose sharply and output of chemicals continued to advance. Activity in the automobile industry, which since January had been retarded during the conversion of plants for armament production, showed an increase in May.

Steel production was maintained at about 98 per cent of capacity in May and the first half of June. Lumber production increased seasonally and activity at furniture factories, which usually declines at this time of year, was sustained at a high rate. In industries manufacturing textiles and food products, output continued large in May. Gasoline production declined further, however, reflecting the effects of transportation difficulties. There was a further marked decrease in paperboard production which, according to trade reports, reflected a slackening in demand.

Coal production was sustained at a high rate in May and output of crude petroleum increased somewhat, following considerable declines in March and April. Copper production and iron ore shipments rose sharply to new record levels.

Value of construction contract awards increased sharply in May, following a decline in the previous month, and was close to the record high level reached last August, according to figures of the F. W. Dodge Corporation. Awards for publicly financed work increased in May and, as in other recent months, constituted around three quarters of the total. Awards for residential building continued to decline.

**Distribution:** Retail trade declined further in May. Department store sales were about 7 per cent smaller than in April and sales by mail-order houses showed a similar decrease. In the first half of June department sales increased somewhat.

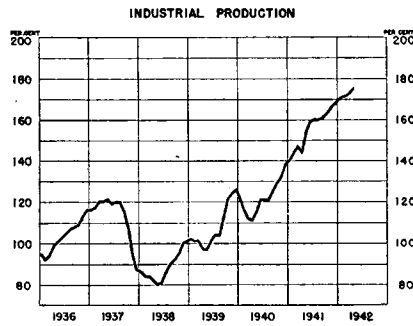
Carloadings of revenue freight increased in May by about the usual seasonal amount. There was a further substantial decline in the number of cars loaded with merchandise in less than carload lots, reflecting the effect of Federal orders raising the minimum weights for such loadings. Increases were reported in shipments of most other classes of freight, particularly coal, ore, and miscellaneous freight.

**Commodity prices:** Prices of most commodities both at wholesale and retail showed little change after the general maximum price regulation went into effect around the middle of May. Declines occurred in prices of cotton and some other agricultural commodities, and prices of some industrial commodities were reduced to conform with the general order that prices should not exceed the highest levels reached in March. Action was taken to exempt most military products from the general regulation and to allow for special treatment of women's coats and dresses and a few other nonmilitary items.

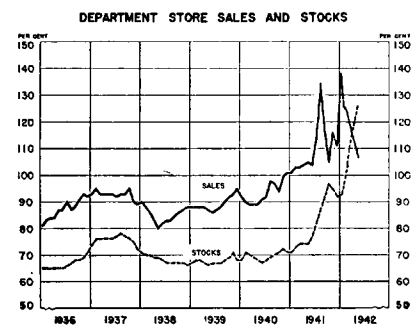
**Bank credit:** During May and the first half of June, the Federal Reserve Banks purchased about \$200 million of United States Government securities. Additions to member banks' reserves from this source, however, were offset by continued withdrawals of currency by the public. Excess reserves fluctuated around \$2,700 million during the six-week period.

Reporting member bank holdings of United States Government securities increased by nearly \$1 billion during the period. Two-thirds of the increase came in the week ending May 20 with delivery of new Treasury 2 per cent 1949-51 bonds, and the balance represented mainly increased bill holdings. Loans declined somewhat in the period. Adjusted demand deposits continued to increase, while United States Government deposits were reduced.

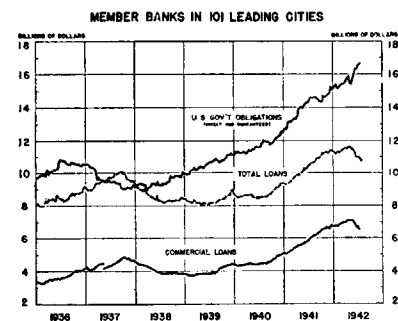
**United States Government security prices:** Prices of taxable United States Government bonds, which declined by about 1/2 point at the time of the early May financing, subsequently regained that loss and during the first half of June remained steady.



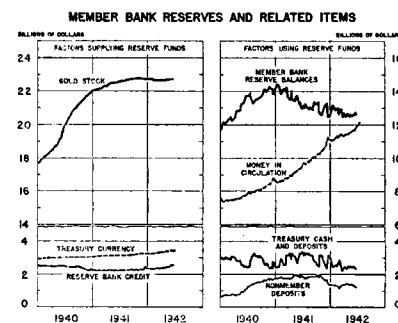
Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-39 average = 100. Latest figures shown are for May 1942.



Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average = 100. Latest figures shown are for May 1942.



Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937, so-called "Other loans" as then reported. Latest figures shown are for June 10, 1942.



Wednesday figures. Latest figures shown are for June 10, 1942.