Monthly Review

FEDERAL RESERVE BANK OF ATLANTA

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Food Subsidies and Inflation

WHEN Price Administrator Prentiss Brown announced on April 1 that the Office of Price Administration was about to extend the scope of price control, he raised issues of a peculiarly thorny character. The announced procedure included the establishment of dollars-and-cents ceiling prices at the retail level, the rolling back to the level of September 1942 of certain prices that had got out of hand, and the support of the rollback by the use of subsidies payable from funds of the Reconstruction Finance Corporation.

Few steps in its career have called down upon the Office of Price Administration the concentrated hostility of so many groups as has the rollback-subsidy program. Opposition came from many quarters: from Congress, from processors and distributors in various branches of the food industry, from farm organizations, and from some quarters within the Administration itself on the grounds that such a use of subsidies was a dangerous and delusive expedient. Labor organizations supported the program but indicated the belief that it was hopelessly inadequate to check the rapidly rising cost of living.

In spite of opposition, however, the Office of Price Administration has gone ahead with its announced program, though with some delays and modifications. It has done so, too, with the support of the President. On the side of the President and the Office of Price Administration, the subsidy program, which is now assured of a trial by the passage of the bill extending the life of the Commodity Credit Corporation, is defended as a weapon against inflation. On the side of its critics, the program is attacked as being itself inflationary, since the pouring out of Government funds in the form of subsidies swells the stream of purchasing power flowing into the pockets of the public and thus puts further pressure on prices and necessitates still larger subsidies. A price-subsidy spiral thus comes to be substituted for the price-wage spiral, say the critics of the program.

Opponents of the program realized that the best way to stop the proposed subsidies would be to cut off the funds with which they would be paid. Various plans were under consideration, but as matters turned out, it was the much-debated Commodity Credit Corporation bill that became the vehicle for the attack on the subsidy program. The question of chief concern is whether or not the use of subsidies is really a necessary element in any comprehensive plan to check the inflationary tendencies now at work in the national economy.

Critics of the subsidy program point out quite generally, and quite rightly, that there are but two ways in which inflation can really be prevented. They urge, first, that the pumping out of excess purchasing power be prevented, if possible; or, if that cannot be done, that such excess purchasing power be siphoned off by means of drastic tax and savings programs until the purchasing power remaining in the hands of consumers is commensurate with the volume of goods and services available for purchase.

Although these two propositions may be accepted in general, the question may still be raised as to whether they are not counsels of perfection, establishing goals that can be achieved only imperfectly and to a limited degree in any concrete situation.

It would seem to be quite impossible in any society relying upon economic incentives for its motivation to avoid the pumping out of an ever-swelling stream of purchasing power under existing circumstances. As long as men must be paid for their labor, the employment of larger numbers of people for longer hours, to say nothing of payment for overtime work, means an inevitable increase in the purchasing power flowing into the hands of the public.

If, at the same time, and insofar as there is no slack in the economic system, the character of the Government's war expenditures brings about an increasing diversion of primary resources from civilian to war production, the volume of civilian goods must necessarily decline. To check the pumping out of purchasing power under these circumstances, it would be necessary to decrease rates of pay by enough to offset the effect of increases in numbers of workers and the lengthening of the work week. While this action might conceivably be taken in a severely regimented state, it is utterly incompatible with the principles upon which an economically free society rests.

As for controlling inflation by siphoning off excess purchasing power by taxation and saving, there is still much that can and must be done. The United States is far from achieving the goal that Canada, for example, set for itself in 1942 when seven-eighths of its war expenditures, including expenditures for Great Britain, was to come from taxes.

Despite the success of the Second War Loan Drive last April in which the 13-billion-dollar goal was surpassed by more than 5 billion dollars, no really serious inroads were made on consumer purchasing power. Only 7 per cent of the 18 billion dollars, about 1,250 million dollars, came from the sale of E bonds, and 16 per cent, some 2,900 million dollars, from all sales to individuals. Since bank participation was limited to 5 billion dollars, a large part of the proceeds of the drive must necessarily have come from corporations, insurance companies, trust funds, and similar nonbanking sources. It is true

Main Office
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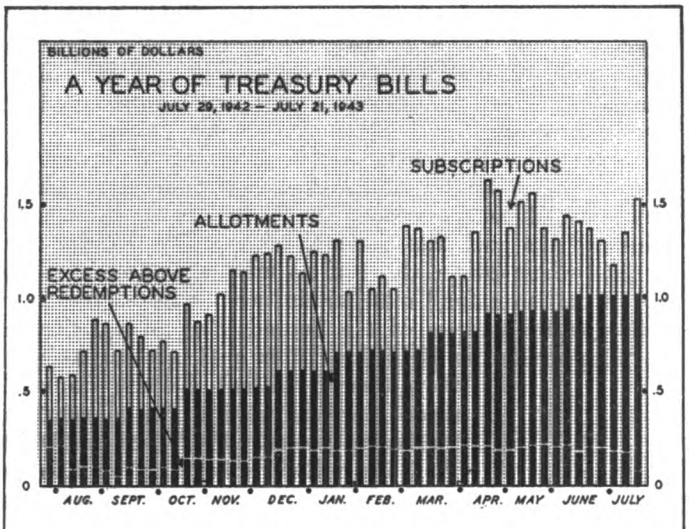
that security purchases by such institutions are not immediately as inflationary as are purchases by banks, since they involve for the most part merely a shift to Government issues of funds that would otherwise be invested elsewhere. Nevertheless, such purchases do not serve to close the inflation gap, for they represent no recapture by the Government of purchasing power competing for civilian goods and services. That there is much to be done by way of such recapture is obvious, and the devices available are taxation and a greatly expanded investment in Government securities by individuals.

While the recapture of all excess purchasing power by those two devices may be theoretically possible, it is nevertheless doubtful that it would be politically feasible. There are psychological limits beyond which taxation and other more or less forcible controls over income become impossible. As long, therefore, as there is any spread whatever between the growth of purchasing power and the amount recaptured by the Government, and as long as there is no increase in the volume of civilian goods and services, there will either be the threat of potential inflation inherent in increased cash holdings, or there will be the actuality of inflation if the increased purchasing power is allowed to produce its normal effects on prices.

It is in permitting increased purchasing power to bid up prices, however, that the inflationary spiral begins. Any increase at all in spending power, or indeed the maintenance of a constant level of purchasing power, accompanied by a dwindling supply of goods, will tend to cause prices to rise. A rise in prices, in turn, by increasing the cost of living, precipitates demands for higher wages. Higher wages, if granted, increase costs which again increase prices, and the not-so-merry dance is on. It is obvious on purely theoretical grounds as well as on grounds of experience that a functional control of the price level must be supplemented by the direct control of prices if the price-wage spiral is to be prevented from taking its unruly course.



Since December 1942, new offerings of 3-month Treasury bills have exceeded maturities by about 200 million dollars. With the issue of July 21, 1943, however, the margin was only 100 million dollars, and if the present level of offerings is maintained, maturities will equal offerings by mid-September.

The point of contact between goods and purchasing power —the point, in other words, where the cost of living is made —is at the retail level. Direct control of prices, therefore, may take the form of control over retail prices in any one of several ways: (1) selective control over the prices of certain specified commodities; (2) general maximum prices, uniform for all dealers or all communities, or individualized by store or community; (3) fixed mark-ups over cost, uniform or varying with the size and kind of establishment; or (4) fixed dollars-and-cents ceiling prices such as those contemplated in the present program of the Office of Price Administration. In one way or another, the retail price level must be stabilized.

If, however, retail prices are stabilized and costs continue to rise, a dealer is subject to what has become known as a "squeeze" that may wipe out his profit margin and eventually force him out of business. Efforts may be made, of course, to roll back this squeeze by compelling distributors or processors farther back to cut their prices in order to maintain the retail ceiling. If this policy were pursued to its conclusion, the squeeze would ultimately be rolled back to the suppliers of raw materials and labor, and the whole price structure would then presumably have been frozen. Indeed, one of the main criticisms of price control in the United States has been that the prices of farm commodities and wages have been either uncontrolled or very inadequately controlled. This situation, it has been said, is the basic reason why it has been difficult, if not impossible, to control prices on the retail level; in other words, costs have not been adequately controlled.

The rigidity, however, that would presumably characterize the price-cost structure if all prices, both of commodities and of the factors of production, were frozen, would be more of an illusion than a reality. The price system is not something that can be reduced to such a static condition. The reason for this lies in the fact that costs cannot be controlled by controlling the rates at which the cost factors are paid.

Costs are a function of two variables: (1) rates of pay and (2) output. For industries working at or beyond the point of maximum efficiency, additional output can be secured only at higher unit costs even though prices and wages be fixed. A farmer, for example, must use more fertilizer for each unit of output when cultivation is pushed to poorer soils, and hence his unit cost increases, even though the price of fertilizer is frozen. In manufacturing, the use of increasing numbers of less skilled workers; the increase in fatigue of the men when work is speeded up beyond a certain point; the increase in mechanical breakdowns, spoilage and waste; and the consequent increased cost of inspection have the effect of increasing unit costs as output expands, even though wage rates and the prices of raw materials and supplies be frozen.

These rising real costs exert a pressure that will thaw out the most rigidly frozen price structure, for there is no escaping them. They must be borne by someone. If they are pushed all the way up to the retail level, the ceiling will be ultimately and irreparably broken. They cannot be absorbed at the stage of primary production, for that is where they originate as an effect of expanded physical output. If these

increasing costs are pushed but part way up the ladder, then processors and distributors may be forced out of business as their margins disappear.

Here several equally impossible alternatives must be faced: (1) the increasing costs incident to expanded output must be allowed to do their inflationary work on prices; (2) some vital link in the chain of processing and distribution must be allowed to break; or (3) the increasing output upon which success in the war so vitally depends must be given up.

But there is really a fourth alternative. These costs may be recognized as socially necessary to the winning of the war and be accepted as a social obligation. Instead, therefore, of expecting any particular group to absorb the squeeze, the Government, realizing the vital importance of a stable price level, may exercise its taxing and borrowing power to provide subsidy funds. These funds may be used to subsidize those producers or distributors whose services are vital in maintaining the flow of goods upon which the war economy as well as the civilian economy rests.

The Government has now reached the point where it has embarked upon a program of subsidy payments in its effort to secure economic stabilization, but it is precisely this policy of subsidization that is being so violently criticized. It is easy to point out dangers in the use of subsidies, such as the danger of bad judgment and mismanagement and the danger of political patronage and corruption. Such dangers, however, are inherent more or less in the adoption of any policy whatsoever.

A more cogent argument against subsidies has already been mentioned; namely, that they may become uncontrollable additions to the volume of spending power in the hands of the public and thus prove to be inflationary rather than the opposite. What this volume may amount to in the end is uncertain. At first the Price Administrator spoke in terms of 450 to 500 million dollars. Later, the President spoke in terms of 2 to 3 billion dollars.

There is reasonableness in this argument, but it overlooks two significant factors. The amount of purchasing power would be increased by a rise in prices at least as much and perhaps much more than under subsidy arrangements, Also, inflation does not arise entirely from a mechanical or mathematical relationship between goods and purchasing power; it may arise also from psychological factors. The confidence that the buying public has in the purchasing power of its money, i. e., in effect, in the ability of the Government to control prices, is a potent check against inflation. If there should be any break in this confidence, the natural reaction would be for people to convert dollars into goods at a more rapid rate than before. An increase in the rapidity with which money circulates, however, tends to have the same effect on the price level as would an increase in the volume of money itself. This increase in the velocity with which money and credit circulate is a most unmanageable factor. Insofar as the use of subsidies, on whatever scale may seem necessary, convinces the public of the Government's determination to maintain price stability, it serves to check the velocity of circulation and thus to minimize the inflationary tension.

While the case against subsidies may call attention to the danger inherent in their use, the case for them may be summarized by saying that they are a necessary and inevitable weapon against inflation if efforts at stabilization are to be anything more than pretense.

Sixth District Indexes

DEPARTMENT STORE SALES*
(1935-39 Average=100)

	Adjusted**			Unadjusted		
	June 1943	May 1943	June 1942	June 1943	May 1943	June 1942
DISTRICT	205	196	143	178	193	124
Atlanta	176	162	116	153	165	100
Baton Rouge	224	191	158	193	205	136
Birmingham	183	172	134	163	169	120
Chattanooga	190	190	146	185	196	143
Jackson	229	216	164	213	224	153
Jacksonville	285	249	176	252	262	156
Knoxville	194	173	136	175	181	123
Macon	259	247	162	233	258	146
Miami	194	176	133	132	145	91
Montgomery	228	213	176	197	219	152
Nashville	151	153	119	136	164	107
New Orleans	183	177	137	165	174	124
Tampa	269	277	174	235	262	152

DEPARTMENT STORE STOCKS
(1935-39 Average=100)

	Adjusted**			Unadjusted		
	June 1943	May 1943	June 1942	June 1943	May 1943	June 1942
DISTRICT	172	152	201	162	153	189
Atlanta	211	174	250	193	177	228
Birmingham	146	130	186	137	133	174
Montgomery	224	182	167	205	185	152
Nashville	254	218	223	237	221	208
New Orleans	128	111	228	120	115	214

	COTTON CONSUMPTION* (1935-39 Average = 100)			COAL PRODUCTION* (1935-39 Average = 100)		
	June 1943	May 1943	June 1942	June 1943	May 1943	June 1942
TOTAL	167	172	180	97	156	171
Alabama	173	174	186	101	166	177
Georgia	164	173	180	...	...	...
Tennessee	158	150	160	89	133	158

CONSTRUCTION CONTRACTS
(1935-39 Average = 100)***

	June 1943	May 1943	June 1942
SIX STATES	198	192	855
Residential	172	115	450
Others	211	230	1051
Alabama	138	133	1298
Florida	215	373	972
Georgia	66	110	664
Louisiana	143	139	890
Mississippi	38	116	1638
Tennessee	388	90	1004

GASOLINE TAX COLLECTIONS
(1939 Monthly Average = 100)

	June 1943	May 1943	June 1942
SIX STATES	95	88	117
Alabama	103	103	126
Florida	85	81	93
Georgia	89	87	99
Louisiana	103	91	110
Mississippi	92	78	130
Tennessee	102	91	136

COST OF LIVING
(1935-39 Average = 100)

	June 1943	May 1943	June 1942
ALL ITEMS	128	129r	118
Food	147	146r	125
Clothing	129	130r	126
Rent	114	114	114
Fuel, electricity, and ice	107	106r	104
Home furnishings	123	123	121
Miscellaneous	118	117	112

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	June 1943	May 1943	June 1942
Unadjusted	17.9	18.5	22.4
Adjusted	18.5	19.9	23.1
Index (1935-39 = 100)	71.4	77.0	89.4

ELECTRIC POWER PRODUCTION*
(1935-39 Average = 100)

	May 1943	April 1943	May 1942
SIX STATES	235	236	187
Hydro-generated	253	277	128
Fuel-generated	210	182	265

MANUFACTURING EMPLOYMENT**
(1939 Monthly Average = 100)

	June 1943	May 1943	June 1942
SIX STATES	154	154	140
Alabama	192	192	183
Florida	168	166r	122
Georgia	140	140	126
Louisiana	150	144r	133
Mississippi	135	142	133
Tennessee	140	139	131

*Daily average basis. ***New base. Back figures on request.
**Adjusted for seasonal variation. r=Revised.

District Business Expansion Slackens

AFTER a record expansion during the last half of 1942, the Sixth District economy during the first half of 1943 has slowed its pace. Drawing upon a reservoir of manpower and raw materials, the Sixth District in 1942 was able to maintain a record construction program, to create a new industry in shipbuilding, and to undertake an expansion in peacetime industries converted to war. That performance will not be repeated in 1943 on the same scale of expansion.

The reservoir of unused manpower and materials is no longer available for over-all expansion. Not all new industrial facilities have been completed and to bring them into full production upon completion will call for skillful control in view of increasing manpower shortages. Equal skill is required to shift activity from those phases of the economy in which the war program has been completed to those in which further expansion is needed. To keep the stream of war weapons flowing in the coming months is a task second in difficulty only to conversion from peacetime to wartime production.

Many evidences indicate the slowing pace, though certain sectors of the economy still maintain a high rate of expansion. Accustomed to the gains of 1942 and aware of the high rate of consumer spending in 1943, many have not noticed the slowing down of production expansion.

Employment Nears Peak: One evidence of the slowing pace is the slight decline in manufacturing employment—a decrease of 11,000 workers in the Sixth District States from December 1942 through June of this year. In the last six months of 1942, the number of employed increased 93,000, or 9 per cent—the same percentage increase registered for the first half of 1942.

Manufacturing employment in Florida was the exception to the general decline. Probably because of the growing shipyard employment, there were 30,000 more manufacturing workers in Florida at the end of June than at the end of December 1942. The index of employment in January was 130 (1939=100) and has risen rapidly month by month. In June the index was 161.

Expansion of manufacturing employment came early in Alabama and rose during 1942 to higher levels, compared with the 1939 base, than in other states of the District and in the United States as a whole. Shipyards, steel mills, and other war industries created labor demands that raised the index to 199 in December 1942 while the index for the Six States had risen to only 153 and the index for the nation to 165. Ever since the first of the year the index of manufacturing employment in Alabama has been declining slightly and in June had declined to 192, the level of September 1942.

A second evidence that District employment is reaching its peak is the growing number of labor shortage areas. The designation of a city as a labor shortage area is made by the War Manpower Commission with the recommendation that no future contracts be placed in that area so long as the labor shortage exists. By last September only three cities in the District were in that category. In June of this year the number had increased to 11. Nine other areas are in the classifications which designate them as areas where labor stringency exists or where a general labor shortage may be anticipated after six months.

The increasing labor shortage in Alabama led the Governor of that state to appoint a State Labor Supply Committee to investigate the problem. In its report to the Governor, the committee stated that Alabama needs more than 100,000 additional workers and recommended the undertaking of a state-wide campaign to urge additional persons to apply for work. In June the regional office of the War Manpower Commission added Gadsden and Anniston, Alabama, to the list of labor shortage areas. In July the same authority classified the Birmingham district as a critical area in common labor and ordered immediate suspension of recruitment of that class of labor from July 15 to August 15.

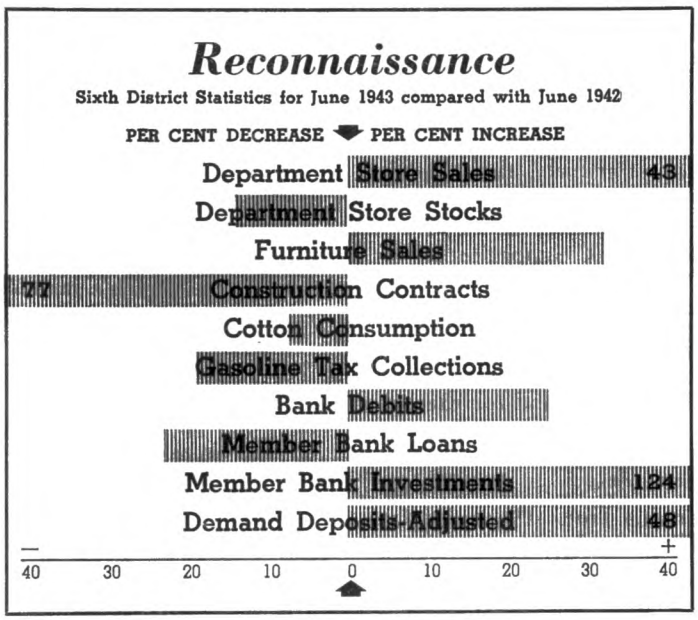
Textile Production Declines: The textile industry, the Sixth District's most important manufacturing industry, has suffered a decline in output in recent months. This industry, one of the first to expand production in the Sixth District, also was one of the first to approach full production and to experience difficulties in maintaining peak production. The first six months of 1943 found the mills of Alabama, Georgia, and Tennessee consuming 1,911,823 bales of cotton, a consumption 4 per cent below that of the last half of 1942, and 1.5 per cent below that of the corresponding period in 1942.

The inauguration of the war program found the textile industry in a position to expand its operations by fuller utilization of existing equipment and manpower without a great deal of conversion. War orders expanded the industry rapidly during 1942. The volume of cotton consumed by the mills during the last half of the year amounted to 1,992,218 bales, the highest consumption volume of any six-month period.

Lack of civilian or military demand does not explain the failure to expand beyond the previous levels of cotton consumption or the decline registered in recent months. Demand for textiles is in excess of supply and the supply of raw cotton is adequate. Instead of calling for decreased production, the War Production Board asks for an increase of 10 per cent in 1943 production over the 1942 output.

The inability of mill machinery to handle more cotton has been one of the chief causes of failure of consumption to continue to rise, while the labor situation has been largely responsible for the recent decline in cotton consumption. Military demands made a shift to heavier fabric necessary and thus created a bottleneck in certain types of machinery. The uninterrupted operation of machinery at capacity has also made temporary shutdowns necessary in some mills in order to make repairs. This latter factor accounts to some extent for the decline in the index of cotton consumption to 167 (1935-39 = 100) in June of this year from 172 in May and 183 in January.

Textile mills have been experiencing increasing difficulties in retaining their labor forces. The monthly labor turnover rate for each 100 employees was 8.52 for March 1943 compared with 7.43 for the preceding month, according to the Bureau of Labor Statistics. In March 1942 the rate was 4.38. At the current rate, the mills must more than replace their working forces each 12 months. The turnover rate in textile industries was even higher in March than the rate in the



transportation equipment industry, including the ship and plane industries, upon which so much attention has recently been focused. With the purpose of halting the drain upon manpower, the War Manpower Commission in April classified the production of textiles for necessary civilian uses as an essential activity supporting the war effort.

The rise in material and labor costs apparently has not been paralleled by increased prices for the finished products. As a consequence, many mills have been slow to undertake new production.

With production declining, consumer demand for textile products is at a high level. Expanded consumer purchasing power has increased the demand for more and better clothing. Since the production of textiles for civilian supply was somewhat less in 1942 than in 1941, the present declines have led some to predict that rationing of clothing may be inevitable. To avoid the possibility of rationing clothing, a wartime code of selling practices was laid down for textile dealers on July 15 by the War Production Board. The code was worked out with representatives of large and small retailers and was designed to eliminate scare advertising and other promotional devices for encouraging buying. In addition, it is the opinion of the War Production Board that the number of civilian clothing units produced from even the limited quantity of material available can be substantially increased by a program of simplification and standardization.

Crop Output Looks Smaller: In July the Department of Agriculture reported that food and feed crop prospects improved during June, but aggregate crop output is estimated at 5.9 per cent below the record harvest in 1942. Nevertheless, this reduction is due chiefly to adverse weather conditions in the early part of the 1943 growing season, for total acreage this year is extremely large. The unusually cold spring wrought severe damage in the orchards of the District and the Georgia peach crop, for instance, is estimated at only 1.5 million bushels. In the 10 Southeastern States, the 1943 crop is down to 5.6 million bushels, as compared with 19.6 million bushels in 1942.

While some concern is felt for agricultural production this year and while output of the chief agricultural staples will apparently be below the record production of 1942, still the District's agricultural production will be larger than in many recent years if average weather obtains from now until harvest time. In Mississippi, for example, the Agricultural Adjustment Administration estimates that over 99 per cent of the farmers of the state are co-operating in the AAA program of war production goals and that all crop acreage goals, with the exception of the goal for peanuts, will be attained.

Perhaps the most significant development of the first half of 1943 was the reduction in planted cotton acreage. For years the problem of the South has been one of surplus cotton. Now, however, tremendous war demands for textiles and new industrial uses for cotton have pushed domestic cotton consumption above 11 million bales annually, while, at the same time, Southern farmers have been diverting acreage from cotton to food crops and strategic war crops such as peanuts and soy beans. The 1943 AAA marketing quotas allowed approximately 30 million acres of cotton but farmers actually planted only some 22 million acres. As a result the War Food Administration has suspended the marketing quotas. In the nation as a whole, cotton acreage, as estimated on July 1 by the Crop Reporting Board of the United States Department of Agriculture, was 25.5 per cent below the average of the past 10 years. In Georgia the 1943 indicated cotton acreage is the smallest since 1872.

The agricultural outlook as compared with last year, however, is not entirely less favorable. The first six months of 1943 saw Florida citrus income at all-time high levels. The citrus season ending with the spring of 1943 resulted in shipment of 36 million boxes, a 10-million-box increase over the previous year's shipments, and prices were maintained at the highest level in 13 years.

Bank Operations: In the first half of 1943, check clearings through the Federal Reserve Bank of Atlanta and its four branches at Birmingham, Jacksonville, Nashville, and New Orleans were only slightly larger than clearings in the last six months of 1942. Similarly, currency receipts and shipments handled by the Bank and its branches were but slightly larger in the first half of 1943 than in the last half of 1942. To be sure, allowance has to be made for the fact that December is the seasonal peak for check and currency payments but, nevertheless, the rate of increase in these items has slackened quite definitely in the first half of 1943. This is another indication that the peak of the District's war boom is nearing.

In the last half of 1942 the transit departments of the Atlanta Bank and its branches handled 38.5 million pieces, involving transfers of 15.5 billion dollars. In the first half of 1943 the number of pieces handled totaled 39.5 million, an increase of 1.0 million, while the dollar volume rose by only 23 million. There was a 5 per cent increase in the dollar volume of currency receipts and shipments handled by the Atlanta Bank and its branches in the first half of 1943, as compared with the last half of 1942. In the last six months of 1942 the operation involved 1.3 billion dollars and in the first half of 1943, 1.4 billion dollars.

Federal Reserve note circulation at this Bank continues to increase in response to the expanding demand for currency for pay roll and other purposes. Total circulation in mid-July amounted to 728.7 million dollars, a new high level. This level represents a rise of one-third in 1943 and is about double the total a year ago.

Sixth District Statistics

UNITED STATES TREASURY BILLS

Dated	Tenders	Allotments
June 30, 1943	$ 7,224,000	$ 6,957,000
July 7, 1943	4,550,000	4,300,000
July 14, 1943	56,425,000	51,774,000
July 21, 1943	24,410,000	23,429,000

INSTALMENT CASH LOANS

Lender	Number Reporting	Per Cent Change May 1943 to June 1943	
		Volume	Outstandings
Federal Credit Unions	50	+ 43	+ 2
State Credit Unions	29	+ 12	+ 4
Industrial Banking Companies	42	+ 12	+ 2
Personal Finance Companies	57	+ 27	+ 4
Commercial Banks	36	+ 16	+ 1

RESERVES AND RELATED ITEMS OF SELECTED SIXTH DISTRICT MEMBER BANKS

(In Thousands of Dollars)

For reserve city banks figures are averages of seven-day period ending July 2; for country banks they are averages of fifteen-day period ending June 30.

Group*	No. of Banks	Deposits of Banks	Balances Due from Other Banks	War Loan Deposits	Actual Reserves	Per Cent Actual to Required
A	6	..	512	35	169	192
B	22	78	4,030	1,029	1,520	178
C	48	284	16,552	3,524	6,013	163
D	74	6,065	39,512	9,515	17,263	152
E	68	5,904	66,448	18,609	36,428	142
F	30	19,189	58,942	21,559	36,892	138
G	42	622,751	292,216	188,516	376,563	112
Total	290	654,271	478,212	242,787	474,848	117

*Group A: 1942 average deposits up to $250,000; Group B: $250,000 to $500,000; Group C: $500,000 to $1,000,000; Group D: $1,000,000 to $2,000,000; Group E: $2,000,000 to $5,000,000; Group F: $5,000,000 to $10,000,000; Group G: Over $10,000,000.

CONDITION OF 20 MEMBER BANKS IN SELECTED CITIES
(In Thousands of Dollars)

Item	July 14, 1943	June 16, 1943	July 15, 1942	Per Cent Change July 14, 1943 from	
				June 16, 1943	July 15, 1942
Loans and Investments—Total	1,477,858	1,398,686	905,607	+ 6	+ 63
Loans—Total	286,466	285,011	363,393	+ 1	— 21
Commercial, industrial and agricultural loans	171,792	171,973	202,601	— 0	— 15
Loans to brokers and dealers in securities	5,788	4,683	4,472	+ 24	+ 29
Other loans for purchasing and carrying securities	9,779	8,952	8,272	+ 9	+ 18
Real estate loans	27,045	25,487	29,714	+ 6	— 9
Loans to banks	232	330	1,324	— 30	— 82
Other loans	71,830	73,586	109,509	— 2	— 34
Investments—Total	1,191,392	1,113,675	542,214	+ 7	+120
U. S. direct obligations	1,025,236	948,714	390,180	+ 8	+163
Obligations guaranteed by U. S.	53,393	52,405	43,633	+ 2	+ 22
Other securities	112,763	112,556	108,401	+ 0	+ 4
Reserve with F. R. Bank	291,236	285,714	228,543	+ 2	+ 27
Cash in vault	25,830	23,576	19,009	+ 10	+ 36
Balances with domestic banks	190,752	187,646	193,495	+ 2	— 1
Demand deposits-adjusted	970,956	946,672	648,226	+ 3	+ 50
Time deposits	228,329	222,146	192,624	+ 3	+ 19
U. S. Gov't. deposits	244,590	165,967	63,910	+ 47	+283
Deposits of domestic banks	465,322	482,992	367,074	— 4	+ 27
Borrowings	.....	.....	.....	....	....

Pay Rolls and Income Payments

ESTIMATES of income payments recently released by the Department of Commerce (*Survey of Current Business*, June 1943) appear to bear out what many have suspected all along; namely, that the Sixth District States have not kept pace with the rest of the country in wartime industrial gains. The evidence, while by no means conclusive, is based upon a number of comparisons:

1. In proportion to the national total, the region's manufacturing pay rolls during recent years have declined. In 1933 the Six States were estimated to have 4.8 per cent of the nation's manufacturing pay rolls. For 1939 the estimate was 4.6 per cent and for each of the years 1940, 1941, and 1942, it was 4.5 per cent. This retrogression did not take place in all states of the District. Estimates for 1942 as compared with 1939 show Alabama gaining in per cent of national total (rising from 0.9 per cent to 1.2 per cent); Louisiana and Mississippi neither gaining nor losing; and Florida, Georgia, and Tennessee losing slightly.

2. For 1942 as compared with 1939 manufacturing pay rolls of the Sixth District showed a smaller percentage increase than did the United States as a whole. Estimates for the two years gave the District an increase of 125.8 per cent as compared with an increase for the nation of 132.4 per cent. Three of the District states showed a greater percentage gain than did the nation as a whole, while the remaining three states showed a smaller gain. Alabama had a gain of 201.2 per cent; Mississippi, 150.3 per cent; and Louisiana, 137.7 per cent. Florida had a gain of 110.6 per cent; Georgia, 82.6 per cent; and Tennessee, 100.0 per cent.

3. Of the estimated increase for 1942 over 1939 in total income payments, manufacturing pay rolls represented a smaller proportion for the District than for the United States as a whole. Only 21.2 per cent of the increase in total income payments for the District was represented by manufacturing pay rolls. For the United States as a whole, in contrast, 40.2 per cent of the increase was represented by such payments. Here again important differences existed among the individual states of the District. For 1942 over 1939, manufacturing pay rolls in Alabama accounted for 32.9 per cent of the gain in income payments. In Florida the corresponding percentage gain was 12.4; in Georgia, 17.5; in Louisiana, 22.7; in Mississippi, 11.7; and in Tennessee, 25.5.

4. Certain industries of the District increased their relative shares in the national total of manufacturing pay rolls, but other industries experienced more than counterbalancing declines. District pay rolls in the transportation equipment industries (principally the aircraft and shipbuilding industries) increased from 5 million dollars in 1939 to 223 million dollars in 1942, a gain of 4,460 per cent. Even so, the District's share of the national manufacturing pay rolls for the transportation equipment industries increased only from 1.5 per cent to 4.4 per cent. Other District industry classes showing gains in percentage of national manufacturing pay rolls were food and kindred products, textile products, lumber and timber basic products, paper and allied products, petroleum and coal products, and nonferrous metals and their products. District industry classes showing declines in percentage of national manufacturing pay rolls were tobacco manufactures, furniture and finished lumber, printing and publish-

ing, chemical and allied products, machinery other than electrical, and automobiles.

While the District has not kept pace with the rest of the nation with respect to the proportion of income payments represented by manufacturing pay rolls, this failure should not obscure the fact that substantial gains have been recorded in the District in total income payments. As a matter of fact, the estimates of the Department of Commerce indicate a gain of 80.5 per cent in total income payments in the District for 1942 over 1939 as compared with a gain of 61.5 per cent for the United States as a whole. Mississippi led the states of the group with a gain of 114.2 per cent for the period. Alabama was next with a gain of 110.1 per cent, followed by Georgia with 79.4 per cent, Tennessee with 70.2 per cent, Louisiana with 66.1 per cent, and Florida with 65.2 per cent.

Percentage gains are, of course, somewhat misleading. Small increases in dollar amounts may represent large percentage gains if the base is small. Mississippi, for example, showed a gain of 102.5 per cent in per capita income payments for 1942 as compared with 1939, while for the same period the per capita payments for the United States as a whole increased only 58.1 per cent. In actual amounts, however, Mississippi's per capita income payments rose from $201 in 1939 to $407 in 1942, while for the United States as a whole the per capita income payments rose from $539 to $852.

Before the inauguration of the war program, the Six States ranked well toward the bottom in per capita incomes. In spite of wartime increases in income payments, these relative positions have not changed materially. Per capita income in Mississippi in 1942 was still the lowest in the nation. In comparison with the per capita incomes for 1942 of all the states, including the District of Columbia, Alabama ranked forty-sixth; Tennessee, forty-fifth; Georgia, forty-fourth; Louisiana, forty-first; and Florida, thirty-seventh.

Despite the fact that the Six States still rank low in comparison with the states of other sections, their income position for 1942 represented a substantial relative improvement. In 1929 the per capita income payments of the Six States were 51.2 per cent of the United States total. In 1933 this percentage was 51.4; in 1939, 56.2; and in 1942, 59.5.

Gains in District income payments for 1942 over 1939 were chiefly represented by increases in manufacturing pay rolls, in Government payments, and in incomes of farm operators. Of these three categories of income payments, the most important to the District was the increase in Government payments. In 1939, Government payments accounted for 9.3 per cent of District income payments, while in 1942 this percentage had risen to 17.0 per cent. Manufacturing pay rolls in contrast rose from 13.6 per cent of the total in 1939 to 17.0 per cent in 1942. Net income of farm operators rose from 12.9 per cent to 14.5 per cent for the same period. The proportion of all other income payments declined from 64.2 per cent in 1939 to 61.5 per cent in 1942.

The heavy dependence in the District upon Government pay rolls, pay rolls largely pertaining to the armed forces, is extremely significant to the economy of the District. A curtailment in total income payments will almost certainly accompany any slackening in the military training program. Insofar as they arise from strictly wartime production, District manufacturing pay rolls are of an equally temporary nature. If the District is to maintain its wartime income gains during the postwar period, severe adjustments will be necessary.

Sixth District Statistics

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores	Per Cent Change June 1943 from	
		May 1943	June 1942
Total Sales	104	— 14	+ 32
Cash Sales	92	— 11	+ 48
Instalment and Other Credit Sales	92	— 14	+ 31
Accounts Receivable, end of month	102	— 3	— 38
Collections during month	102	— 9	— 13
Inventories, end of month	77	— 6	— 5

SALES OF UNITED STATES SAVINGS BONDS IN THE SIXTH FEDERAL RESERVE DISTRICT

June 24-July 23, 1943, at Issue Price (In Thousands of Dollars)

Area	Series E	Series F and G	Total
DISTRICT	36,058	11,953	48,011
Alabama	7,141	1,765	8,906
Florida	8,940	2,647	11,587
Georgia	7,449	2,884	10,333
Louisiana*	6,454	1,618	8,072
Mississippi*	2,476	720	3,196
Tennessee*	3,598	2,319	5,917

*These figures apply only to that part of the state lying within the Sixth Federal Reserve District. Tennessee figures do not include Post Office sales.

DEBITS TO INDIVIDUAL BANK ACCOUNTS

(In Thousands of Dollars)

Area	June 1943	May 1943	June 1942	Per Cent Change June 1943 from	
				May 1943	June 1942
ALABAMA					
Anniston	13,818	12,071	13,632	+ 14	+ 1
Birmingham	170,630	164,341	146,028	+ 4	+ 17
Dothan	6,171	5,696	5,170	+ 8	+ 19
Gadsden	9,450	9,475	7,425	— 0	+ 27
Mobile	113,657	114,272	93,904	— 1	+ 21
Montgomery	33,144	33,759	31,641	— 2	+ 5
FLORIDA					
Jacksonville	165,504	162,901	120,602	+ 2	+ 37
Miami	105,373	90,646	60,790	+ 16	+ 73
Orlando	22,901	23,702	14,369	— 3	+ 59
Pensacola	21,427	19,814	17,324	+ 8	+ 24
St. Petersburg	17,619	18,461	10,947	— 5	+ 61
Tampa	62,214	75,198	51,608	— 17	+ 21
GEORGIA					
Albany	7,355	7,608	7,199	— 3	+ 2
Atlanta	340,876	351,378	302,008	— 3	+ 13
Augusta	39,368	30,264	30,095	+ 30	+ 31
Brunswick	12,841	13,936	5,595	— 8	+130
Columbus	34,367	33,048	32,136	+ 4	+ 7
Elberton	1,427	1,495	1,373	— 5	+ 4
Macon	36,353	37,445	34,052	— 3	+ 7
Newnan	4,296	4,343	3,416	— 1	+ 26
Savannah	91,171	73,122	48,721	+ 25	+ 87
Valdosta	5,176	5,449	4,479	— 5	+ 16
LOUISIANA					
Baton Rouge	36,614	41,392	34,426	— 12	+ 6
Lake Charles	19,992	20,703	9,645	— 3	+107
New Orleans	378,801	348,987	314,016	+ 9	+ 21
MISSISSIPPI					
Hattiesburg	12,489	11,558	10,648	+ 8	+ 17
Jackson	50,106	41,451	35,320	+ 21	+ 42
Meridian	14,168	15,974	16,152	— 11	— 12
Vicksburg	17,387	18,752	9,004	— 7	+ 93
TENNESSEE					
Chattanooga	82,228	77,197	69,130	+ 7	+ 19
Knoxville	58,146	55,520	41,671	+ 5	+ 40
Nashville	166,011	164,501	144,468	+ 1	+ 15
SIXTH DISTRICT 32 Cities	2,151,080	2,084,459	1,726,994	+ 3	+ 25
UNITED STATES 274 Cities	63,202,000	60,708,000	50,107,000	+ 4	+ 26

The National Business Situation

MANUFACTURING activity was maintained at a high level in June while mineral production declined reflecting mainly reduced output of coal. In the early part of July coal production was resumed in large volume. The value of retail trade continued large.

Industrial production: The Board's seasonally adjusted index of total industrial production declined slightly in June from the high level of other recent months. Activity continued to increase at plants producing war products in the chemical, rubber, and transportation equipment industries. These increases were more than offset by a sharp drop in coal production and a temporary reduction in output of coke, pig iron, and steel.

Finished aircraft production, in terms of airframe weight, was 3 per cent higher in June than in May. Delivery of supplies for the Army ground forces rose 1 per cent over May. Tonnage of cargo vessels delivered from merchant shipyards was not up to the record May level; it was, however, higher than in any other month.

In industries manufacturing nondurable goods output as a whole showed little change from May to June. Activity at cotton mills declined—consumption of 917,000 bales of cotton was 50,000 less than in June 1942.

Output at coal mines in June was 30 per cent below May due to the work stoppages, but early in July both anthracite and bituminous coal production recovered to above the levels prevailing a year ago. Crude petroleum production was maintained in June and moved upward in July partly in anticipation of the completion of the pipeline from Texas to the East Coast. Lake shipments of iron ore in June were 6 per cent below the same month last year due to unfavorable weather conditions.

The volume of construction contracts awarded in June was about the same as in May. The value of awards in June was at the lowest level for this month since 1936, according to the F. W. Dodge Corporation.

Distribution: Value of consumer nondurable goods sold at retail was in near-record volume in June and the early part of July, while sales of durable goods, many of which are becoming increasingly scarce, were generally below previous peak levels.

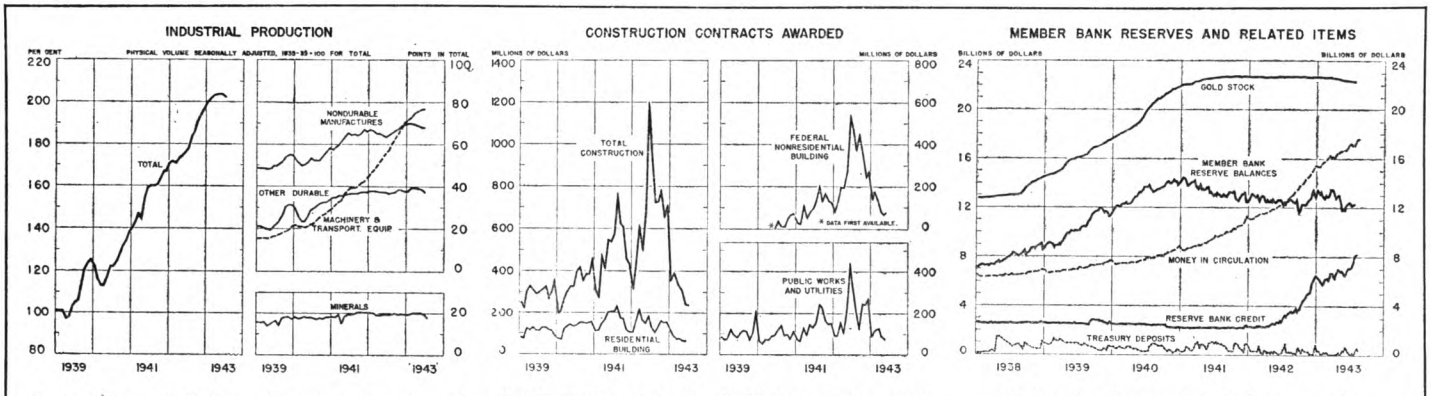
Carloadings of revenue freight declined in June, reflecting the drop in coal shipments. Loadings of grain showed the usual increase at this season and the movement of most other commodities was maintained in large volume.

Commodity prices: Wholesale prices of most commodities showed little change in the early part of July, following a decline during June of 1 per cent in the general index. This decline reflected chiefly reductions ordered in maximum prices of butter and meat and seasonal decreases in prices of fresh fruits and vegetables.

Agriculture: Aggregate crop production this year is expected to be 10 per cent smaller than last year but 5 per cent above the average of the preceding 5 years, according to the July 1 official report. Of the major crops, production prospects for grains are the lowest compared with last season, while there are indications of considerably larger harvests for dry beans and peas, flaxseed, and potatoes. Output of livestock products has continued in larger volume than a year ago.

Bank credit: During June and the first three weeks of July there was an increase of about 1.4 billion dollars in Reserve Bank holdings of United States Government securities. Continued currency outflow, and increase in required reserves due to the growth of deposits, were reflected in the increased demand for Reserve Bank credit. The expansion in Reserve Bank credit was in the form of Treasury bills sold by member banks to the Federal Reserve Banks under options to repurchase. Holdings of bills showed wide fluctuations during the period as member banks adjusted their reserve positions through sales and repurchases. A large part of the Treasury bills came from New York City banks where excess reserves continued to be low. Total loans and investments of New York City banks have declined recently. Other reporting member banks have shown a continued growth in deposits and U. S. Government securities.

(This page was written by the staff of the Board of Governors of the Federal Reserve System)



Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for June 1943.

F. W. Dodge data for 37 Eastern states, total includes state and local government and private nonresidential building not shown separately. Monthly figures, latest shown are for June 1943.

Wednesday figures, latest shown are for July 14, 1943.