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FINANCIAL

Member Bank Earnings in 1944

The rise in net profits (after taxes) of the banking system during the past year or two has been the subject of considerable comment within financial circles. Until recently, the 1936 earnings record represented the highest achievement, from the point of member bank profits, since before the lean years of the banking crisis.

The 1936 peak was only about 16 percent short of the 1929 all-time high, chiefly because of substantial recoveries in assets which had been drastically written down or charged off. The ensuing business recession, preceded by a sharp drop in bond prices—each of these phases proved to be of comparatively short duration—was translated into a substantial decline in bank profits, which during 1938 were roughly only about one-half those of two years before.

Earnings during 1939-42 were somewhat better, but not of such proportions as to threaten former records. However, by 1943, the rise in net profits had carried through the 1936 top and equaled the 1929 all-time high for all member banks combined. Preliminary estimates indicate that all previous marks were surpassed during 1944. In the fourth district, all member banks' net profits last year, after taxes, were seven percent above 1929.

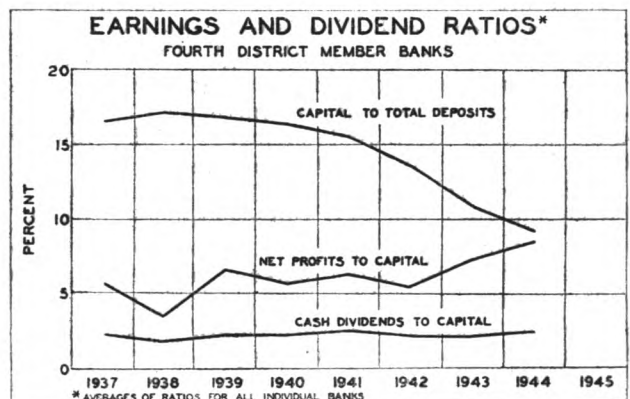
This excursion of bank earnings into uncharted levels has several significant aspects and implications. As to the source of this new high level of net income, the largest single factor is to be found, not on the income side of the ledger, but on the expense side. Prior to 1933, interest payments (on both demand and time deposits) were consistently the largest single element of expense, frequently representing nearly half of the current cost of bank operations. However, a steady decline ensued thereafter, until today interest payments on deposits aggregate only about one-sixth of the 1929 volume, and interest costs are only around ten percent of total current expenses for all member banks as a group. In the fourth district,

interest payments have declined to 15-16 percent of total expenses. A reduction of such proportions in a major expense item inevitably produced a marked effect upon member bank net income.

A second factor contributing to the rise in profits, but one of somewhat less importance dollarwise, is the increase in income earned on investments. While of such magnitude as to make investments the principal source of earning power, that expansion has not been enough to offset the concurrent shrinkage in revenue obtained through lending operations. Interest earned on combined loans and investments is still measurably below 1929 and earlier years.

A third factor which has contributed to the growth of bank profits is that of recoveries on loans and securities, etc., and profits arising from the sale of securities. During the relatively good year 1936, that source of profit actually exceeded losses and charge-offs—an exceptional development. A similarly favorable situation prevailed during 1943 and again in 1944. However, it is contrary to the very nature of banking that recoveries and capital gains should constitute a permanent source of net income.

High bank earnings, as a result of these factors,



have let to suggestions that interest rates on time and savings deposits should be increased, that the return on bank-owned Government securities should be reduced further, or that service charges should be revised downward or eliminated altogether.

Implicit in such proposals—designed either to increase expense or to curb income—is the assumption that the present equity behind deposit liabilities is quite generally adequate, and that, therefore, record high bank earnings are inconsistent with sound public policy. The validity of that assumption should be weighed in terms of current and prospective operating ratios.

In this connection, the record of fourth district member banks during the past eight years is shown on the accompanying chart. The middle curve shows that 1944 net profits (after taxes) were high in relation to previous years, being equivalent to 8.6 percent of total capital accounts. Earnings on such a scale are decidedly in contrast to the experience during the lean years of 1931-35, which were characterized by losses rather than profits.

However, the propriety and justification of current net income hinge largely upon the need for earnings and the disposition thereof, rather than absolute volume. The trend of the uppermost curve on the chart suggests the possibility that an increase in bank capital might be desirable. Prior to the war, capital accounts of fourth district member banks fluctuated around 17 percent of total deposits. Owing to the rapid growth of deposits, while capital accounts were increasing only about four percent per year, the ratio of equity funds to deposit liabilities has dropped to around nine percent.

It is rather generally assumed that the over-all risk in banking has not increased as rapidly as deposit liabilities have risen, because bank assets now contain a much larger proportion of Government securities, and a smaller percentage of loans, than a few years ago. However, banks should be in a position to meet a larger loan demand, when and if it should appear, either during reconversion or afterwards. Whether a nine percent capital-deposit ratio fulfills that requirement is a matter of some doubt. Obviously, a higher ratio would lessen the restrictive probabilities.

There are two known sources from which capital funds can be enlarged. One is from the sale of additional stock. The other is through the retention of current earnings. It happens that, during 1944, capital stock outstanding of fourth district member banks actually decreased slightly. While common stock increased \$5,300,000, outstanding preferred stock and capital notes were reduced \$5,700,000. At the close of 1944, the RFC still held some \$23,500,000 (of a one-time high of \$66,000,000 in 1936) of stock and notes of fourth district banks. Until that segment of Government-owned stock is retired, a potential need for more privately-owned capital seems to exist. A reduction in net earnings from present levels would not facilitate the raising of funds for this purpose or for the purpose of making a permanent addition to capital accounts.

The retention of current earnings has been almost the sole source of capital funds for a number of years. The lowest curve in the chart, depicting the ratio of cash dividends to total capital accounts, shows that very little of the increase in earnings has been passed on to stockholders. As recently as 1938, roughly 55 percent of net profits after taxes was distributed to common shareholders. During 1944, dividend distribution represented only 31 percent of net profits. The remaining 69 percent of the record-high net income was retained for the protection of depositors and to expand the banks' potential lending ability, should the need and opportunity arise.

Seventh War Loan Drive The Seventh War Loan Drive will open May 14, with a total goal of \$14 billion. This is the same amount as that set for the Sixth Drive, which was oversubscribed by more than 50 percent. While the over-all goal remains unchanged, a number of significant modifications have been made in campaign plans and securities to be offered in the current drive. These indicate the renewed emphasis to be given the objective of financing the war to the greatest possible extent through funds channeled from the savings of individuals and business, while holding to a minimum the amount to be obtained from the commercial banking system.

That inflationary tendencies may be restrained as much as possible, \$7 billion of the \$14 billion total goal is sought from sales to individuals, partnerships, and personal trust accounts. This is a larger amount than for any previous war loan and particularly emphasizes Series E savings bonds, which have a quota of \$4 billion. The fourth district's portion of the Series E quota will probably exceed \$350 million, and the quota for individuals also will be greatly increased, although the actual goal has not yet been announced. The Seventh Drive is being prefaced by intensified efforts to further Series E sales through payroll plans. By crediting to the Drive all savings bonds and savings notes processed between April 9 and July 7, the period for individual subscriptions is about three weeks longer than in the Sixth Drive.

The second significant change is the reduced goal for nonbank investors, other than individuals, from \$9 billion in the Sixth Drive to \$7 billion for the Seventh. Moreover, eligible corporate and institutional investors have only two, rather than four, weeks in which to enter subscriptions. Coupled with this limitation is the Treasury's request that nonbank investors refrain from disposing of securities now held, if such sales are made to obtain funds with which to make new subscriptions for Seventh Drive securities. The Treasury emphasizes that this request is not intended to rule out customary portfolio adjustments.

The shifting of securities from nonbank investors to commercial banks after the Drive is further discouraged by the nature of Treasury offerings. The 2% ten-year bonds, which tended to gravitate to commercial banks from other subscribers in considerable quantities, are not offered in the Seventh Drive. Instead, offerings include 2¼% bonds of medium term (17 years) which commercial banks will not be per-

mitted to own for seven years, and longer-term $2\frac{1}{2}\%$ bonds which are restricted so that commercial banks cannot acquire them for 17 years—a longer waiting period than formerly required.

The $1\frac{1}{2}\%$ bond is an unrestricted issue of $5\frac{1}{2}$ -year maturity, offered only to individuals. Because of the likelihood of smaller market premiums than unrestricted issues of other drives, free-riders may be less tempted to acquire them. Such securities, therefore, may not find their way to the banking system in such large amounts. The $\frac{1}{8}\%$ certificates of indebtedness are the second unrestricted issue available to individuals and the only unrestricted issue available to other nonbank investors. Both of these issues are of relatively short-term and with low yields.

Except for limited amounts of savings bonds, $1\frac{1}{2}\%$ bonds, and certificates of indebtedness (size of an individual bank's subscription for these issues is determined by its volume of time deposits), commercial banks are not permitted to subscribe to Drive securities for their own account. The highest yielding issue eligible for purchase after the Drive is the $1\frac{1}{2}\%$ short-term bond.

Current Trends in Banking A noticeable tightening of the reserve position of member banks in this district featured the first three weeks of April. On March 21, reserves had stood close to the all-time high established two years earlier. However, Treasury operations, such as income tax collections and war loan withdrawals, depleted those reserves somewhat. The decline in reserves was also partly the result of a shrinkage in the net inflow of commercial and banking funds into this district. A resumption of the outflow of currency into circulation, after a lull during March, was also a contributing factor.

Meanwhile, reserve requirements continued to increase, as is customary between drives, when reserve-exempt war loan deposits are disbursed and translated largely into demand deposits of individuals, partnerships, and corporations. It is not inconceivable that requirements will reach a new record high before the final phase of the Seventh War Loan.

The incidence of such developments is not uniform among all member banks. Some member banks have found it necessary to borrow more extensively than formerly, with the result that rediscounts during the past month rose above the previous wartime peak reached last November.

Other member banks have sold Treasury bills carrying the repurchase option, in order to obtain needed reserves. In the two weeks ended April 11, option bills to the amount of \$70 million were sold to this reserve bank. Largely as a consequence of that liquidation, bill holdings of weekly reporting banks dropped to a three-year low during April. Twelve out of the nineteen which customarily hold such Treasury bills reduced their portfolios by varying amounts.

The need for reserves seems to have been more

noticeable among the larger reporting banks. Smaller institutions are currently somewhat more liquid than during several preceding months.

Deposits Even though demand deposits of individuals, partnerships, and corporations have increased considerably since the Sixth War Loan, and may reach a new record high in the next few weeks, total deposits of weekly reporting banks have receded slightly since last December. Such a trend has been typical of recent inter-drive periods, largely because of a net flow of currency into circulation, and because changes in bank credit have been relatively small during such intervals.

Time deposits of state funds decreased considerably at weekly reporting banks, indicating that there may have been some shift of public funds from larger to smaller banks in Ohio around April 1. This may explain in part the relatively easier cash position of smaller banks.

U. S. Government deposits have been declining somewhat less rapidly since December than was true in previous inter-drive periods.

Investments Total investments of weekly reporting banks show only a minor over-all change, notwithstanding a considerable shrinkage in Treasury bill holdings. Certificates, notes, and bonds were acquired in almost sufficient volume to offset the decline in bills. Only a few of the 41 weekly reporting banks participated in this expansion, whereas the decline in bill holdings affected more than half the banks which customarily own Treasury bills.

Loans Commercial, industrial, and agricultural loans have been in a declining phase since the turn of the year and are now near the 1944 low point. In the case of nearly half the weekly reporting banks, such loans have already dropped below that level.

Loans on Government securities to others than brokers and dealers, which stood at \$149 million on January 3, have been reduced to around \$89 million late in April. That figure compares as follows with the low reached immediately prior to other war loan drives:

Jan. 26, 1944.....	\$22,000,000
June 21, 1944.....	14,000,000
Nov. 29, 1944.....	65,000,000
Apr. 25, 1945.....	89,000,000

Thus, a considerable quantity of bank credit utilized in this district during the Fifth and Sixth Loans has not yet been liquidated. On the other hand, similarly secured loans made to brokers and dealers are not far above the lowest point reached since the beginning of 1944, when statistical distinction was inaugurated between loans on Government securities and loans collateralized by other securities.

WARTIME STEEL FACILITY EXPANSION

The history of the development of this Nation has been paralleled, and partly shaped, by the growth of its iron and steel industry. From early colonial days, iron works followed the surge of population across the continent. Primitive furnaces, utilizing charcoal for the reduction of ore, produced the iron for forges where the industrial and domestic tools of a community were shaped. By the close of the Revolutionary War, the estimated weight of iron in use totaled about one-half pound per capita in this country. Since that time, there has been a steady increase in the per capita employment of iron and steel, until today there are approximately 19,000 tons in use for every person in the Nation. Because of its broad application, versatility, and low cost, steel has, indeed, become the "backbone of the Nation."

The enormous expansion in per capita use of the metal is closely allied with the industrial development of the fourth district. During the early years of the region's industrial growth, the considerable iron and steel-making resources of the immediate environment were utilized. In 1844, however, vast deposits of iron ore were discovered in the upper lakes area, which eventually made new horizons of industrial expansion possible. Thus, through its fortunate geographical location in the heart of enormous supplies of coking coal, and having access by water shipment to the open-pit iron ore mines of the upper lakes, the iron and steel industry of the district rapidly outstripped in productive capacity the older mills of the East Coast.

Low cost steel produced in this district was an important factor in helping to make possible the network of transcontinental railroads and the early development of the oil industry in Pennsylvania and Ohio. In fact, such industries feed upon steel just as steel's expansion rate depends on the development of industry. In the beginning, the needs of industry were served by small iron works which produced 35 to 50 tons of iron per day from charcoal furnaces, whereas the tremendous steel-consuming requirements of today are supplied by modern furnaces which produce up to 1,600 tons daily. Unquestionably, the availability of steel was a deciding factor in the location of the innumerable metal-consuming industries in this area.

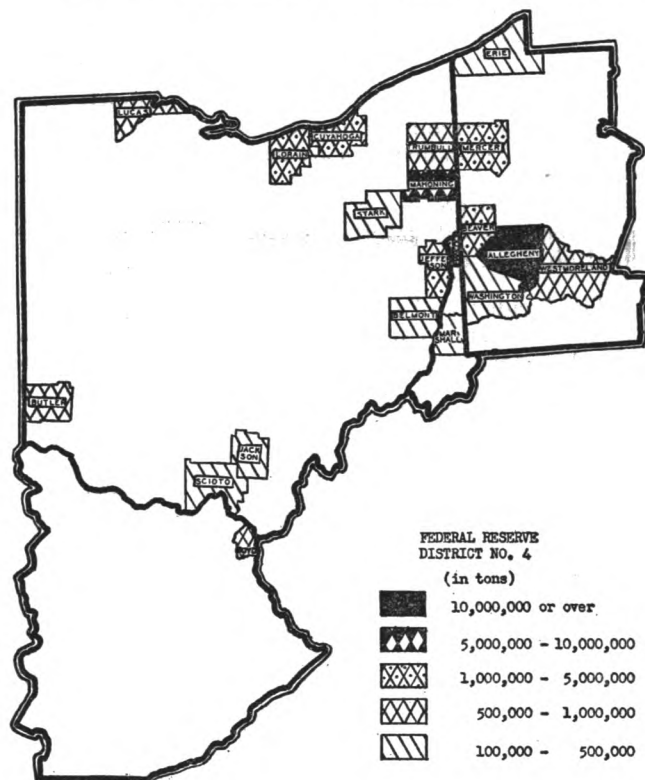
The technical economies in handling large masses of materials in the iron and steel industry have resulted in ever-increasing amounts of low-cost metal available for fabrication. It has, likewise, necessitated enormous capital investment in plant facilities. The efficient production of steel requires modern mills which range in cost from 18 to 1,900 millions of dollars. Improvements in quality, resulting from refinements of techniques, have continuously broadened its field of application. While the capacity of steel expanded from 10 million tons at the turn of the century to its present capacity of 95 million tons, the varieties of steels available experienced a corresponding increase. Steel is now "tailor-made" for an endless number of products and promises to set the

pace of progress for the industry of the Nation into the foreseeable future.

Facility Expansion The mobilization of the steel industry for war underlies the magnificent performance of American industry during the past four years. Steel production records during the war period have far exceeded all previous peaks, and, in establishing these records, the industry has made it possible for other war industries to achieve miraculous production records. To accomplish this gigantic task an enormous expansion of production facilities was required. Since the Fourth Federal Reserve District contains approximately 47 percent of the capacity of the industry, significant and proportional additions to plant and equipment have occurred. This expenditure for new plant and equipment is of additional social and economic interest, because it represents one of the few salvageable items out of the high cost of war.

Nationwide, wartime expansion of facilities for the production of iron and steel is estimated to have cost in excess of \$2,000,000,000. Expenditures for wartime expansion of the industry began in 1940 and, for more than a year, were financed from private sources. In late 1941, however, the flow of Government funds began, supplied in part by the armed services but in greater amount by the Defense Plant Corporation. Of the total expansion from mid-1940 to mid-1944, approximately 36 percent of the amount was supplied

BLAST FURNACE CAPACITY - JULY 1944



by private industry and finance; the remainder represents Governmental investment in plant and equipment. By July 1, 1944, the combined investments had resulted in adding approximately 12,700,000 tons to blast furnace capacity, which totaled 55,723,640 tons on January 1, 1940. During the same period, ingot capacity increased from 81,619,496 tons to 94,054,550 tons, thus adding some 12,400,000 tons to the steel-making potential.

A description of the expansion in capacity for production of pig iron or steel ingots does not exhaust the story of steel's wartime growth. The expansion of steel, under pressure of war, actually started from the ground up. New iron ore mines were opened in the upper Great Lakes; new ships were added to the fleet of ore carriers; and new coal mines and coke ovens were added to augment existing facilities and to accommodate the new completely-integrated steel works of the South and West. In addition, there were projects built for specific products: armor plate mills; tank armor plants; alloy airplane tube mills; and bomb casing and shell plants. If steel is the "backbone" of the Nation's peacetime industry, its importance is emphasized even more to a country waging global war.

The Fourth District In the Fourth Federal Reserve District, long the center of the Nation's steel industry, total investment in the new wartime facilities for production of iron and steel through June 1944 is estimated at approximately \$600,000,000. Of this amount, private investment accounted for approximately 42 percent; the remainder, representing Government funds, was supplied largely

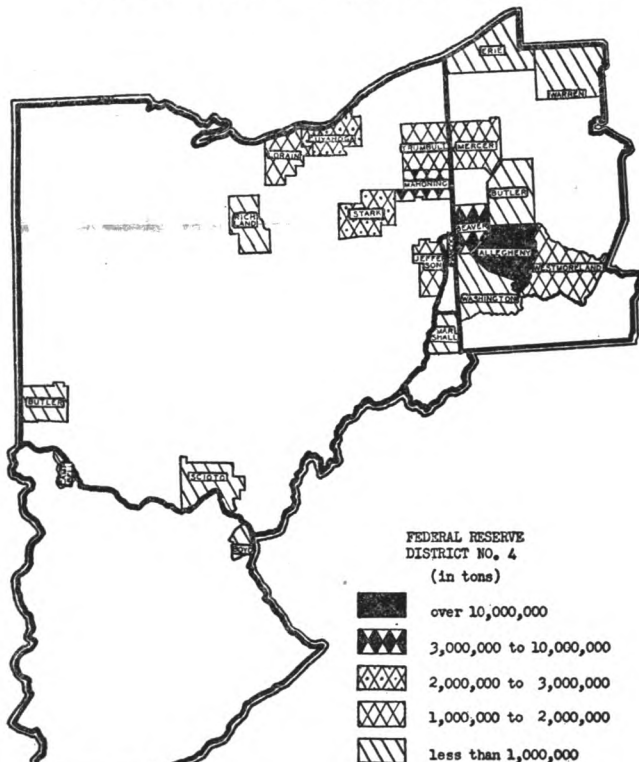
through the Defense Plant Corporation. The implications of these enormous expenditures and the consequent changes produced in the industrial equipment of the district are far-reaching. An examination of the scope of the new facilities is a prerequisite to a study of their probable absorption into the economy of the district in postwar years.

Steel expansion in the fourth district has been a "scrambled facility" growth during the war years, in contrast to the new "grass roots" plants of the South and West. The former term is applied to newly-constructed facilities used in conjunction with an existing plant. The latter term is descriptive of construction of a complete unit in a section of the country where none formerly existed, and often without relation to customary source of raw materials or peacetime markets. The expenditure of private and public funds in this district has resulted in added capacity in practically every branch of the industry from ore to fabricated products. The huge volume of facility, both plant and machinery, represents the latest and most up-to-date equipment available. Based on economic factors, it would appear that the obsolescence of some of the older prewar plants would insure the peacetime operation of most of the new facility.

In addition to the sheer volume of added plant and equipment, two variations, in particular, have been introduced in wartime steel: (1) emphasis on the production of alloy steels; and (2) enormous increases in steel plate production. Production of alloy steel, already of great importance to prewar industry, has been increased since the outbreak of war by more than 250 percent. During 1943, one out of every six tons of steel produced in this country was alloy steel, and this relative gain is likely to continue as a factor of prime importance in meeting the competition of lighter metals in postwar markets. This shift of emphasis has necessitated modifications in production plants. The greatest share of alloy steel is made in the open-hearth furnace. However, the most efficient way to make alloy, and the only method for making some grades, is the electric furnace. Capacity of electric furnace steel in 1940 totaled 1,993,000 net tons. Capacity in mid-1944 equaled 5,372,150 net tons. This shift has been reflected proportionately in the new facilities of the fourth district, where some 46 percent of the total electric furnace capacity of the Nation is located.

In 1941, the available capacity of the steel industry for plates was approximately 500,000 tons per month; by June 1942, plate shipments exceeded 1,000,000 tons per month. This increase in production has been accomplished largely by converting mills designed for making fairly thin sheet and strip to handling and finishing long flat pieces of plate. The continuous wide strip mills of this district shared in this conversion. One of the largest projects in this line was the conversion of Republic Steel's 98-inch mill, built in Cleveland during 1937, to the production of steel plates, although this plant, like many others, has now reverted to other products. Of the new steel plate facilities, the Homestead Plant of Carnegie-Illinois alone has 40 percent of the total new capacity added by the expansion program.

STEEL INGOT CAPACITY - JULY '44



Privately-Financed Expansion Available information with respect to privately-financed facility expansion of the steel industry in the district is not sufficiently complete or detailed to be of more than illustrative value. The decade of the 30's was characterized by a modernization of production equipment in the industry as a whole. In 1940, realizing the growing necessity for capacity expansion as a result of the demands of the war in Europe, an intensive program of enlarging existing and adding new blast furnaces, installing electric furnaces, and improving rolling mill equipment was initiated. Nationally, between January 1940 and the attack on Pearl Harbor, approximately 7,000,000 tons of steel ingot and 4,500,000 tons of pig iron capacity were added by the industry, financed largely by private funds. Counties in this district having a major share in this expansion are listed below, along with an estimate of the amount of private funds invested from 1940 to late 1943 in steel facility.

<i>County and State</i>	<i>Amount (in thousands)</i>
Allegheny, Pa.....	\$60,000
Cuyahoga, Ohio.....	26,000
Beaver, Pa.....	17,200
Hancock, W. Va.....	16,800
Mahoning, Ohio.....	16,000
Stark, Ohio.....	13,500
Westmoreland, Pa.....	13,000
Trumbull, Ohio.....	11,600
Lorain, Ohio.....	9,800
Fayette, Pa.....	7,600
Boyd, Ky.....	7,200

In contrast to the publicly-financed steel expansion program, no completely-integrated steel mill built in the period 1940 to 1944 was financed by private sources. The expansion financed by private funds, however, did provide significant additions to facilities already extant, and, perhaps most important of all, a large part of such added plant and machinery was ready by early 1942. Thus, it could contribute the steel necessary to accommodate the construction and machinery requirements of the remainder of the war program. In this district, the early privately-financed program included new blast furnaces built to augment capacity in the following steel centers: Wheeling, Youngstown, Pittsburgh, Cleveland, and Cincinnati. Existing furnaces were enlarged in all these centers, emphasizing the trend toward larger hearth furnaces over the last few years.

One of the first steps taken by the industry in the district to expand ingot capacity was the installation of new electric furnaces. These additions were a prominent factor in the list of steel-making facilities added during 1940 and 1941, according to the first Dunn report on the existing capacity and probable needs of the Nation. Before the completion of this program by the industry, however, the flow of public funds began, and the Government assumed an ever-increasing importance in financing steel facility expansion in the district. The problem of separating "scrambled" facility additions financed by public funds from those made by the industry is nearly impossible, using available records.

Publicly-Financed Expansion The largest single project in the publicly-financed steel expansion program of the district occurred in Allegheny County, Pennsylvania, where the Carnegie-Illinois-operated Homestead Plant was built at an approximate cost of \$90,000,000 for building and equipment. This expenditure included eleven 225-ton open-hearth furnaces, a 45-inch slabbing mill, a 160-inch plate mill, and a machining and heat-treating shop.

Second largest project was for construction of the plant operated by the Copperweld Steel Company at Warren, Ohio, which provided electric furnaces and annealing and straightening equipment. Third largest addition included three electric furnaces and related auxiliary equipment for heat-treating and finishing at the Duquesne, Pennsylvania, plant of Carnegie-Illinois Steel Corporation. The list of publicly-financed projects is long. In general, it follows the geographic pattern of the industry as it existed prewar in the district. Its scope is as broad as the industry itself, for practically every phase of production is represented.

Ore sintering plants, used to condition soft, finely-divided ore for blast furnace use, were built in Hamilton, Cleveland, and Warren, Ohio. Coke production facilities were built in Cleveland and Youngstown, Ohio; and Braddock and Monessen, Pennsylvania. Electric furnaces were added in Middletown, Warren, and Canton, Ohio; Newport, Kentucky; Beaver Falls, Duquesne, and Washington, Pennsylvania. Open-hearth furnaces were built in Homestead and New Castle, Pennsylvania. In addition to this briefly-noted expansion, considerable addition was made in related auxiliary equipment necessary for the operation of each of the production facilities listed. The estimated Government-financed facility expansion is shown in Table I.

TABLE I
Estimated Government-financed Facility
Expansion in Iron and Steel, Fourth District*

June 30, 1944
(in thousands of dollars)

OHIO	PENNSYLVANIA
Cuyahoga.....33,702	Allegheny.....152,728
Trumbull.....33,209	Lawrence.....26,175
Stark.....28,677	Beaver.....9,781
Jefferson.....9,889	Westmoreland.....7,320
Allen.....9,502	Mercer.....5,027
Mahoning.....9,442	Crawford.....2,821
Ashtabula.....4,106	Washington.....2,391
Lucas.....3,900	Erie.....585
Butler.....2,294	Venango.....318
Clark.....2,034	Butler.....179
Franklin.....1,152	
Erie.....664	TOTAL.....207,325
Hamilton.....303	
Marion.....260	KENTUCKY
Other.....680	Campbell.....5,348
TOTAL.....139,814	Boyd.....493
	TOTAL.....5,841
WEST VIRGINIA	TOTAL FOR
Ohio.....1,516	DISTRICT.....354,496

* Table adjusted to include expenditures authorized by DPC, RFC, the Army, Navy, and Maritime Commission, as well as expenditures by Emergency Plant Facilities contracts and the British Government.

Productive Capacity Expansion

The implications of these extraordinary expenditures, both public and private, are far-reaching. Perhaps the most fundamental change which they produced was the increase in productive capacity for pig iron and steel ingots. This is shown in Table II, which gives the increase or decrease as it occurred by county for the period 1940 to mid-1944. It should be noted that, in addition to the increased capacity indicated by the figures in the table, there was considerable equipment built for replacement of worn-out furnaces and some erected for the Government but not put into production.

Not revealed, however, by tables of productive capacity changes is the type of steel produced by the district mills during the war period. The steel industry during the war years has continued to produce steel, but it was often steel of different composition and of such critical requirements that it necessitated more

TABLE II
Changes in Steel Ingot and Blast Furnace Capacity in the Fourth Federal Reserve District

January 1940 to July 1944

(In Net Tons)

County	Changes in Blast Furnace Capacity	Changes in Ingot Capacity
OHIO		
Butler.....	+ 185,800	+ 15,160
Cuyahoga.....	+ 590,800	- 149,340
Jackson.....	+ 22,800	
Jefferson.....	+ 31,700	+ 118,800
Lorain.....	+ 404,400	+ 147,000
Lucas.....	- 54,460	
Mahoning.....	+ 749,600	+ 644,200
Richland.....		+ 20,940
Stark.....	- 400	+ 223,812
Trumbull.....	+ 17,600	+ 487,360
TOTAL.....	+1,947,840	+1,507,932
PENNSYLVANIA		
Allegheny.....	+1,372,650	+2,208,731
Beaver.....	- 84,960	+ 560,882
Butler.....		- 114,600
Erie.....	- 22,190	+ 28,630
Mercer.....	+ 46,080	+ 238,000
Warren.....		+ 13,800
Washington.....	+ 24,000	+ 165,490
Westmoreland.....	+ 15,730	+ 107,697
TOTAL.....	+1,351,310	+3,208,630
WEST VIRGINIA		
Hancock.....	+ 454,080	+ 237,200
KENTUCKY		
Boyd.....	+ 411,120	+ 28,800
Campbell.....		- 87,674
TOTAL.....	+ 411,120	- 58,874
Total District—1944.....	32,020,560	44,076,690
Total District—1940.....	27,856,210	39,181,802
<i>Difference.....</i>	4,164,350	4,894,888
Total United States—1944.....	68,446,310	94,054,550
Total United States—1940.....	55,723,640	81,619,496
Percent in Fourth District—1944.....	46.8	46.9
Percent in Fourth District—1940.....	51.8	48.0

exactingly metallurgical control and production techniques than any similar peacetime product. No less than the mills and equipment, these factors represent salvageable items out of war experience that promise great influence on peacetime uses of steel.

Tables I and II indicate that, districtwise, the Pittsburgh area has greatly enhanced its position of dominance as a steel center. The importance of the district as a whole in relation to the rest of the country has declined slightly as a result of the war program. Prior to the war, 48 and 52 percent of steel ingot and blast furnace capacity of the Nation was concentrated in this district, respectively. In mid-1944, 47 percent of both steel ingot and blast furnace capacity was located in the area. This slight decline is due principally to the addition of new mills in the South and West. The district, however, easily maintains its position as the steel center of the country. Its importance, historically as in the present, is based on its fortunate location in respect to raw materials. The coking coals of Pennsylvania and West Virginia are rated "best in the world;" vast supplies of ore are reached by the greatest inland water route; and supplies of limestone are plentiful throughout the district.

Equally important with the entrenchment of the production facility for iron and steel within the district is the concentration of iron and steel-consuming manufacturing industries within this general area. It was but natural that the greatest share of wartime production expansion in other industrial lines (as in steel) was accomplished largely through intensive use of existing plant and equipment. Most of these plants have long since justified their economic existence and, with the resumption of peace, they anticipate a return to old markets and a possible expansion into new ones. Thus, the "associative" development of steel-consuming industries in the region has provided a market which tends to insure the continued importance of steel production in the district.

In summary, there are a number of factors which would seem to assure the perpetuation of the fourth district steel industry. Among these are: (1) the versatility of the industry as exhibited in its adaptation to the war program; (2) the fortunate position of the industry in this district in relation to raw materials; and (3) the relation of production facilities to consuming industries. All these augur well for the healthy absorption of the new steel production facilities into the industry of the district. However, the comparative transportation costs for both raw materials and finished products require continuing examination, if all areas in the district are to be fully competitive.

Some of the problems involved in absorbing the war-built steel facility expansion into the Nation's economy will be discussed in the next issue of the *Monthly Business Review*.

THE INDUSTRIAL SUMMARY

Current and prospective cut-backs—or curtailed programs—on aircraft, ordnance, and shipbuilding have increased the intensity of interest and planning for reconversion. Cut-backs are preceding the fall of Germany, as the Nation prepares for a change-over from a two-front to a one-front war, and are expected to accelerate more rapidly after that time than formerly forecast. While most cut-backs, thus far, were related to programs scarcely beyond the planning boards, others will release materials and manpower for more essential war production as well as increased civilian goods activity. What cut-backs may mean to local areas is illustrated by the transfer of an airplane propeller plant to an out-of-state location from Marietta, Ohio. The closing of this plant resulted in the payment of a far larger volume of unemployment compensation benefits during March than were paid to any major Ohio city. This, except for scale, may be a harbinger of expectancy during the transition period.

Just as attempts to boost war production ran into shortages of raw and semi-processed materials, the slackening of war production may release supplies more rapidly and extensively for civilian production than has been anticipated. If this is true, the flexibility of American industry will have opportunity to assert itself, and products long absent from the market, and some never before marketed, will appear in trade channels.

Based on both potential employment and need for product, the greatest interest throughout the Nation as in this district centers on possible automobile production. Culmination of this program will necessitate extensive planning in order that materials and parts production may be synchronized with assembly requirements. In order to facilitate this, a fairly good priority rating on machine tools has been assigned the automobile industry, and additional war cancelations may result in a still higher position on order boards. The automobile industry may well be considered a bellwether for other durable consumers' goods recon-

version programs, despite the likelihood that other less complex products in this field may reach the market first.

Manufacturing and Mining Key to the production of civilian goods will be the availability of steel and other basic materials.

Cancelations are being reflected gradually on mill schedules due, at present, to curtailment of some shell programs and reductions in amount of steel required for equipment and facilities. Nationwide, steel operated at approximately 95 percent of capacity during March and declined to 92 percent by mid-April. Under present manpower conditions, maximum operating rate for the industry seems to be about 96 percent of capacity. Generally, an even lower figure prevails in fourth district mills as postponed mill repairs engage the attention of operators.

Fourth district production of bituminous coal for March totaled 19,560,000 tons. Monthly output this year has lagged consistently behind last year's figures. The lower production record of the industry would seem to make inevitable the tightening of distribution controls unless curtailed industrial activity results in decreased demand.

Other industries of the district reflect the shifting of military requirements. The production of heavy duty tires for the first quarter will be substantially achieved, despite raw material shortages. Production of both carbon black and tire cord is scheduled for a steady increase throughout this quarter and already is reflected in increased civilian quotas. Currently, crude rubber is considered the most critical of all strategic materials. Paper and paperboard continue in short supply, due to enormous requirements for packaging of military supplies. Production in ceramics holds at high levels, limited chiefly by manpower rather than component raw materials. Manufacturers of many other civilian goods report a larger volume of orders than can be filled under present manpower and materials conditions.

AGRICULTURE

Prices of Farms and Number of Farm Transfers

Farm real estate prices continued to mount in the Fourth Federal Reserve District and in the Nation during the year ended March 1,

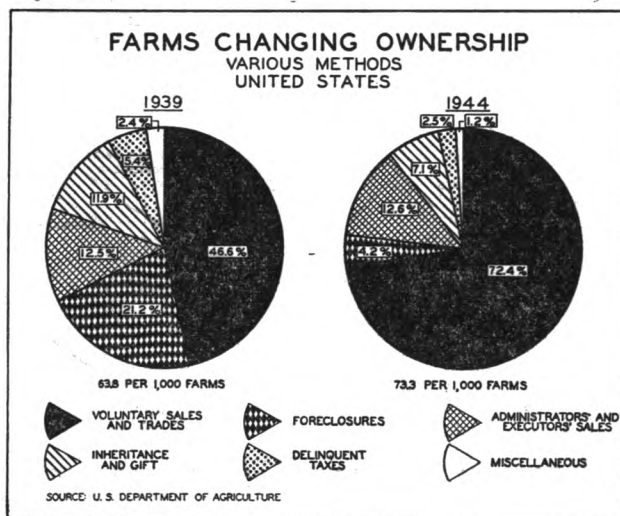
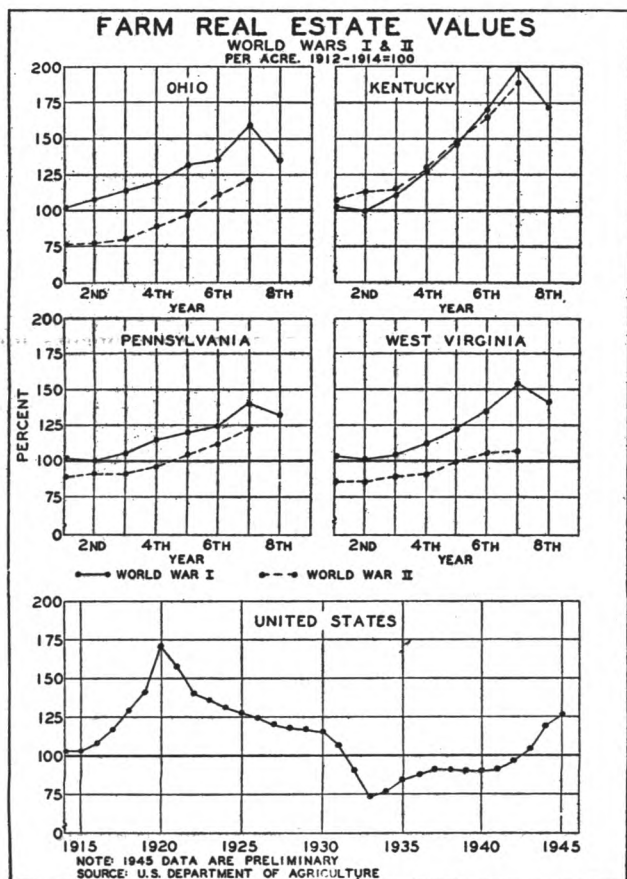
1945. The Bureau of Agricultural Economics index of estimated value per acre increased eleven percent during the year, the second greatest annual rise of this war for the United States. Likewise, all fourth district States experienced increases in the past year: Ohio—9 percent; Kentucky—15 percent; Pennsylvania—11 percent; and West Virginia—1 percent. For Kentucky this was the greatest year-to-year advance of World War II. The Kentucky index stood at 189 percent of the 1912-14 average, and was exceeded in only two States.

Percentage increases thus far in the present war (1939 to 1945) are already greater than during World War I (1914 to 1920) in Ohio and Pennsylvania, but are less than last war in Kentucky and West Virginia and in the Nation as a whole. However, it should be noted that, with the exception of Kentucky, the 1939 level of farm land prices was well below that of 1914. Not until 1942 and 1943 did per acre values in the fourth district States reach the point from which they

started to rise in 1914. Despite the continuous upswing in farm land prices during the war, at the present time the United States index is still only about three-fourths as high as the peak of World War I. In Kentucky, land values are now 5 percent under the 1920 peak; whereas in Ohio farm land prices are 24 percent lower than the previous high; and in Pennsylvania and West Virginia prices are 12 and 31 percent, respectively, below the former peak.

The number of farms changing ownership was greater during the year ended March 15, 1944, than in any other year of the war period. Current reports indicate that the number of transfers for the year ended March 15, 1945, was only slightly lower than a year earlier. Of every thousand farms in the United States, 73.3 changed hands during the twelve months ended March 15, 1944, as compared to 63.8 transfers during 1939—an increase of 15 percent. Ohio and Kentucky exceeded the national figure, whereas Pennsylvania and West Virginia were somewhat below the level for the United States. Kentucky was eighth among the States of the Nation in number of farm transfers.

The number of voluntary sales and trades, which make up the greatest single type of changing ownership, has increased even more than the total. From 1939 to 1944, these transfers increased 79 percent. In 1939, they comprised about half of the total number, as compared with about three-fourths of the total in 1944. In contrast to the trend of voluntary transfers, the number of foreclosures was at the lowest point during the past year of any year since 1919. Since 1933, the number of forced transfers arising out of debt-payment difficulties has declined steadily. For the last year, such sales accounted for only four percent of all farms changing hands.



DEPARTMENT STORE SALES

Throughout the war period there has been a continuous increase in dollar department store sales in the Fourth Federal Reserve District. With salary and wage payments at record-high levels, consumers in many cases have had more money than ever before and chose to spend a greater portion of their enlarged earnings for department store merchandise. Many of the purchases were of a luxury nature, while others were for long-needed additions to, or replacements of, housefurnishings and clothing articles.

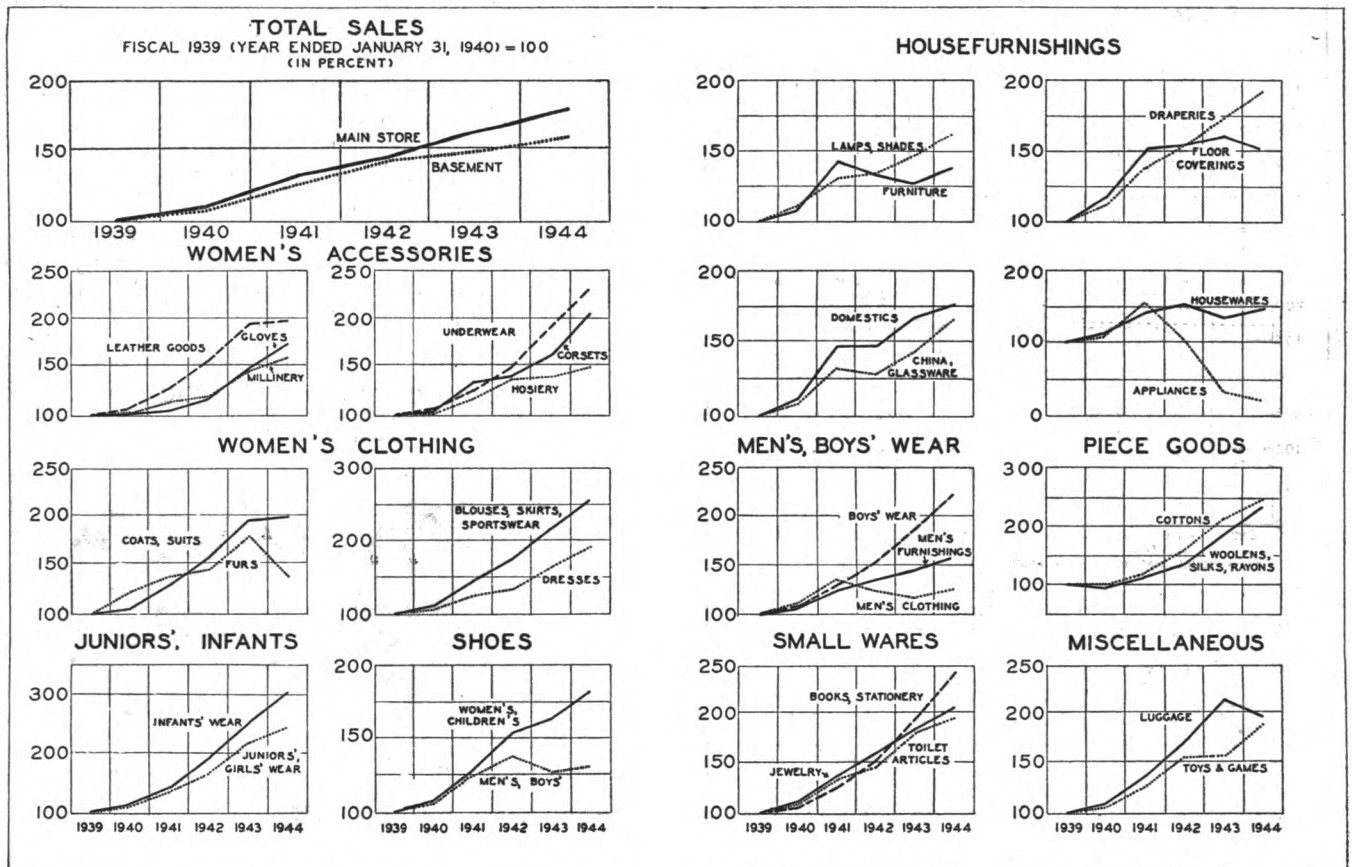
As shown on the accompanying charts, the trends in sales over the war years are far from uniform among the various departments of reporting stores. Main store sales increased 80 percent from 1939 to 1944, while basement sales showed an advance of 59 percent, reflecting the tendency to buy higher-priced merchandise. Then, too, merchants have frequently experienced greater difficulty in securing lower-priced goods for their basement stores.

The physical volume of stocks, in conjunction with price increases and upgrading of lines, generally has been the controlling factor in determining the sales trend in any given department. In those departments where merchandise has been available in fairly large quantities, sales have increased sharply. This was particularly true of textiles, especially women's wear, which usually were more readily available than certain housefurnishings and some men's apparel items. Sales

of most women's and misses' ready-to-wear and accessories advanced steadily since 1939, the only outstanding exception being furs. Sales in this category were down 24 percent during fiscal 1944 as compared with 1943, partly as a result of the 20 percent excise tax on these items. The effect of this tax is also indicated by the gain of only two percent in leather goods sales and the decrease reported by departments selling luggage. Jewelry and cosmetics, however, continued to rise despite the tax. Men's wear sales failed to show the gains reported for boys' apparel, reflecting the loss of many male customers to the armed forces.

There was considerable difference in the trends for the various housefurnishings departments. Major household appliance sales dropped sharply since 1941, when production was curtailed. Sales of floor coverings, furniture, and housewares leveled off during the more recent years, after advancing from 1939 through 1941. These articles were often difficult to obtain, and what were available were frequently of an inferior quality, based on prewar standards. Dollar sales of draperies, lamps and shades, domestics, china, and glassware continued to rise throughout the war period.

The gains in dollar sales that stores experienced in recent years were repeated early in 1945, with total sales during the first three months at an all-time high for that quarter. March sales advanced sharply over those of the previous month and were up 28



percent from March a year ago. This was the largest year-to-year gain reported in many months and resulted partly from the fact that Easter came one week earlier this year than last. All the pre-Easter apparel buying this year occurred before April 1. Nevertheless, after allowing for the earlier Easter date, dollar sales during March were exceptionally large, and the seasonally adjusted index advanced to 222 percent of the 1935-39 daily average, the highest point on record.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-39=100

	Without Seasonal Adjustment			Adjusted for Seasonal Variation		
	Mar. 1945	Feb. 1945	Mar. 1944	Mar. 1945	Feb. 1945	Mar. 1944
SALES:						
Akron (6)	248	204	191	261	229	208
Canton (5)	264	196	197	294	258	229
Cincinnati (9)	219	167	169	221	223	177
Cleveland (10)	203	153	163	212	197	176
Columbus (5)	250	186	181	248	248	186
Erie (3)	239	179	190	257	210	214
Pittsburgh (8)	195	150	156	199	166	166
Springfield (3)	263	194	206	263	249	219
Toledo (6)	221	168	167	226	213	178
Wheeling (6)	199	151	144	206	186	158
Youngstown (3)	242	187	185	242	231	196
District (97)	214	163	167	222	204	183
STOCKS:						
District (51)	147	142	154	143	148	149

Wholesale and Retail Trade

(1945 compared with 1944)

	Percentage Increase or Decrease		
	SALES SALES STOCKS		
	March 1945	first 3 months	March 1945
DEPARTMENT STORES (97)			
Akron	+30	+21	-3
Canton	+34	+19	a
Cincinnati	+29	+24	-0
Cleveland	+24	+19	-6
Columbus	+38	+25	-6
Erie	+25	+14	-9
Pittsburgh	+25	+20	-3
Springfield	+28	+16	a
Toledo	+32	+22	-8
Wheeling	+38	+28	-13
Youngstown	+31	+27	a
Other Cities	+31	+17	-8
District	+28	+21	-4
FURNITURE (72)			
Canton	+3	+1	+14
Cincinnati	+22	+19	+6
Cleveland	+16	+4	+2
Columbus	+1	-4	-13
Dayton	+17	+4	a
Pittsburgh	+29	+16	+22
Toledo	+9	+6	a
Other Cities	+20	+6	+5
District	+18	+8	+10
CHAIN STORES*			
Drugs—District (5)	+1	+3	a
Groceries—District (4)	+18	+15	a
WHOLESALE TRADE**			
Automotive Supplies (6)	+18	+24	-6
Beer (5)	-8	-5	a
Confectionery (3)	+34	+23	a
Drugs and Drug Sundries (4)	+6	+4	a
Electrical Goods (5)	-10	+3	+18
Fresh Fruits and Vegetables (8)	+6	+8	-8
Furniture and House Furnishings (3)	-17	a	a
Grocery Group (45)	-1	+3	-12
Total Hardware Group (25)	+3	+5	+6
General Hardware (7)	+23	a	+5
Industrial Supplies (9)	-10	-5	+19
Plumbing and Heating Supplies (9)	-14	+6	-10
Jewelry (12)	-10	-2	+11
Lumber and Building Materials (5)	-1	-4	-21
Machinery, Equip. & Sup. (Except Elect.) (6)	+28	+26	+23
Paints and Varnishes (3)	-0	-1	a
Paper and its Products (5)	+7	-1	a
Tobacco and Its Products (13)	-6	-5	-54
Miscellaneous (17)	-3	-5	-19
District—All Wholesale Trade (168)	+1	+2	-8

* Per individual unit operated.

**Wholesale data compiled by U. S. Department of Commerce, Bureau of the Census.

a Not available.

Figures in parentheses indicate number of firms reporting sales.

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified	March 1945	% change from 1944	Jan.-Mar. 1945	% change from 1944
Bank Debts—24 cities	\$4,880,000	+6	13,898,000	+1
Savings Deposits—end of month: 39 banks O. and W. Pa.	\$1,220,022	+25		
Life Insurance Sales: Ohio and Pa.	\$ 113,519	+12	298,189	+6
Retail Sales:				
Dept. Stores—97 firms	\$ 54,388	+28	126,663	+21
Furniture—72 firms	\$ 2,847	+18	6,785	+8
Building Contracts—Total	\$ 17,523	+22	39,037	+11
—Residential	\$ 1,750	-48	4,627	-53
Commercial Failures—Liabilities	\$ 585	+748	705	+209
Number	6	-14	13	-38
Production:				
Pig Iron—U. S. Net tons	5,228	-4	14,736	-7
Steel Ingot—U. S. Net tons	7,725	-1	21,582	-4
Bituminous Coal—O., W. Pa., E. Ky. Net tons	19,560	-3	55,248	-7
Cement—O., W. Pa., W. Va. Bbls.	448a	+30	801b	-5
Electric Power—O., Pa., Ky. Thous. K. W. H.	2,892a	-1	6,113b	+1
Petroleum—O., Pa., Ky. Bbls.	1,918a	-6	4,039b	-4
Shoes—O., Pa., Ky. Pairs	c	-4	c	-3
Bituminous Coal Shipments: Lake Erie ports Net tons	429	-58	489	-60

a February
b January-February
c Confidential

Debts to Individual Accounts

(Thousands of Dollars)

	March 1945	% change from 1944	Jan.-Mar. 1945	Jan.-Mar. 1944	% change from 1944
Akron	210,306	+9.9	581,974	539,355	+7.9
Butler	23,516	+42.8	61,981	51,568	+20.2
Canton	88,323	+8.4	246,309	232,715	+5.8
Cincinnati	653,645	+4.0	1,904,481	1,826,543	+4.3
Cleveland	1,337,738	+8.5	3,843,669	3,719,971	+3.3
Columbus	329,943	+8.6	902,428	991,844	-9.0
Covington-Newport	25,184	+2.5	73,863	73,849	-0
Dayton	154,146	+5.2	430,927	440,790	-2.2
Erie	61,028	-11.3	163,792	191,162	-14.3
Franklin	6,686	+8.9	17,405	17,865	-2.6
Greensburg	12,616	+3.1	34,897	36,655	-4.8
Hamilton	23,100	-12.7	64,243	59,558	+7.9
Homestead	5,190	+7.2	14,448	14,526	-0.5
Lexington	50,451	+50.8	209,490	154,839	+35.3
Lima	33,156	+19.9	91,194	78,800	+15.7
Lorain	9,145	+3.6	25,977	26,723	-2.8
Mansfield	25,103	+19.5	66,144	58,648	+12.8
Middletown	20,945	-1.6	57,832	61,612	-6.1
Oil City	18,562	+14.7	49,498	45,557	+8.7
Pittsburgh	1,371,266	+2.5	3,895,642	3,944,915	-1.2
Portsmouth	11,945	+2.7	34,292	32,969	+4.0
Sharon	17,190	+1.2	48,257	49,363	-2.2
Springfield	36,865	+6.8	97,447	99,769	-2.3
Steubenville	16,393	+14.7	45,394	39,450	+15.1
Toledo	259,560	-1.8	716,536	792,299	-9.6
Warren	25,531	+8.8	72,626	68,999	+5.3
Wheeling	41,368	+3.6	118,170	121,456	-2.7
Youngstown	89,624	+8.0	248,536	248,781	-0.1
Zanesville	13,926	+10.4	38,006	38,584	-1.5
Total	4,972,451	+5.7	14,155,458	14,059,165	+0.7

Fourth District Business Indexes

(1935-39=100)

	Mar. 1945	Mar. 1944	Mar. 1943	Mar. 1942	Mar. 1941
Bank Debts (24 cities)	220	208	189	161	134
Commercial Failures (Number)	9	10	25	86	120
(Liabilities)	40	5	15	56	69
Sales—Life Insurance (O. and Pa.)	135	121	112	88	106
—Department Stores (97 firms)	214	167	146	149	114
—Wholesale Drugs (4 firms)	156	148	137	130	112
—Groceries (45 firms)	158	159	140	122	108
—Hardware (25 firms)	161	156	166	201	152
—All (74 firms)	155	155	146	149	124
—Chain Drugs (5 firms)*	168	167	152	128	116
—Chain Groceries (4 firms)	165	147	145	133	119
Building Contracts (Total)	72	59	116	199	144
(Residential)	23	44	127	267	202
Production—Coal (O., W. Pa., E. Ky.)	156	160	167	147	145
—Cement (O., W. Pa., E. Ky.)**	54	42	95	103	87
—Elec. Power (O., Pa., Ky.)**	190	192	169	150	144
—Petroleum (O., Pa., Ky.)**	87	92	82	87	84
—Shoes	92	96	95	115	117

* Per individual unit operated.

**February.

