Monthly Business Review

Finance, Industry, Agriculture, and Trade

Fourth Federal Reserve District
Federal Reserve Bank of Cleveland

Vol. 27 | Cleveland, Ohio, July 31, 1945 | No. 7

BANK LOANS DURING RECONVERSION

The probable trend of loans during and after the reconversion period is of manifold significance to the banking system. Notwithstanding the large wartime increase in investment income, the making of loans is still the basic and traditional function of commercial banking. Moreover, the future volume of loans will undoubtedly be a moving factor in the evolution of bank policy with regard to investments, interest rates, capital requirements, cash reserves, rediscounting, physical expansion, and last but not least, public relations.

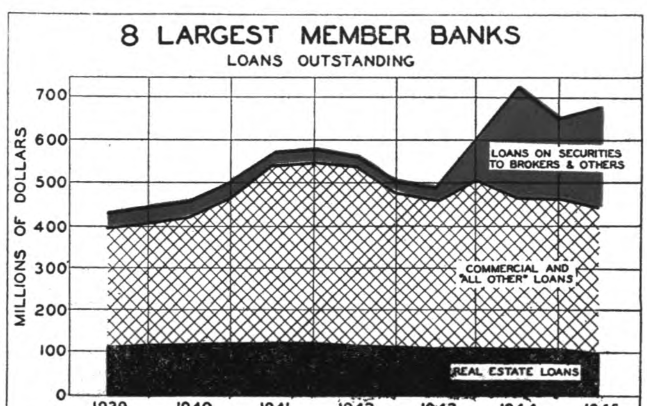
Derivative Effects of Expansion A further expansion of loans from the present 14-year high (for all member banks) would tend to take some of the buying pressure off the bond market where prices have recently risen to unprecedented levels. Such a development in turn would probably circumscribe and might even reverse the most recent decline in yields on Treasury bonds which shows signs of affecting the capitalized value of other securities, if not most forms of income-producing property.

An extension of the six-year rise in loans would undoubtedly accentuate the need for additional bank capital since it is commonly assumed that the risk factor is greater in the granting of credit to individuals and corporations than to the Federal Government which has been the major outlet for bank credit in late years.

A greater loan volume might lead to the maintenance of somewhat larger cash reserves in terms of legal requirements. Commercial, real estate, collateral, and other loans do not carry the option privilege with which Treasury bills have been endowed, nor the marketability which to date has been inherent in certificates of indebtedness and other Treasury obligations. Under such circumstances an increase in rediscounting would be a logical development, especially in view of the fact that member bank borrowing for such purposes would be more consistent with conventional banking practice than rediscounting for the purpose of carrying Government securities either directly or indirectly.

The prospect that a larger loan volume were potentially within reach might be instrumental in an expansion of physical facilities, particularly with reference to the establishment of branches. During the 'twenties banking was taken to the people, so to speak, in a competitive drive for deposits which (in terms of each respective bank) were relatively more difficult to obtain than prospective borrowers. Currently the situation is quite the reverse. Deposits (available funds) are comparatively abundant while loans are an object of active solicitation.

Finally, with regard to the vital matter of public relations, an enlightened lending policy is probably one of the most productive instrumentalities in the building of good will. A high level of loan volume, especially of the personal or consumer type, would strengthen public appreciation of the value and importance of a privately-owned banking system.



Derivative Effects of Contraction The consequences of a protracted decline in loans during the reconversion period and thereafter would be almost the opposite of those enumerated above. For example, the question of an appropriate long-term interest rate would swing farther into the realm of deliberate and arbitrary Governmental policy, and the trend of bond prices would inevitably become a matter of even greater public concern and control than at present.

The question of capital requirements would hinge largely upon official evaluation, and public acceptance thereof, of the probable risk entailed in the ownership of Government securities. The ability to obtain additional private capital might be adversely affected if bank income were to depend too greatly upon fiscal and other noneconomic considerations.

A prospective decline in loans would provide no incentive for additional banking facilities for the convenience of potential depositors, whose patronage and good will in some measure would be diverted to other types of money-lending institutions and enterprises.

The prospects for a further substantial increase in loans appear none too promising for the commercial banking system as a whole. As was stated earlier in this discussion, loans of all member banks have reached the highest level of about 14 years. But that is still roughly 25 percent below the all-time record established in 1929, despite the interposition of a period of unparalleled industrial activity. However, any conjecture regarding the probable trend in loans during and after reconversion must take into consideration the numerous wartime factors and developments, and more significantly, their varying effect upon different types of banks.

At the outbreak of war in 1939, member bank loans were not far above the depression low point. On June 30, 1939, total loans of fourth district member banks had risen only to $1,066 million from the long-time low of $930 million reported at the March 4, 1935 call date. By mid-1945, after a series of ups and downs in the intervening six years, outstanding loans of fourth district member banks reached approximately $1,400 million.

During the period prior to this country's entry into war, each of the three types of member banks experienced a substantial increase in loans. This period was one of widespread inventory accumulation by manufacturers and suppliers, of considerable activity in the construction industry, accompanied by a sharp expansion in consumer borrowing.

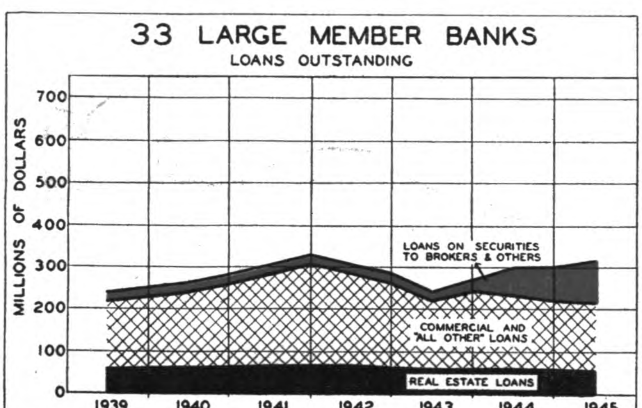
This sharp growth of loans was succeeded by an 18-month period of rapid liquidation of loans, as consumers and producers of nonessential goods reduced their indebtedness, while production for war was facilitated and expedited in many cases by means of Government advances on contracts to prime producers, thus obviating some of the need for borrowing at commercial banks.

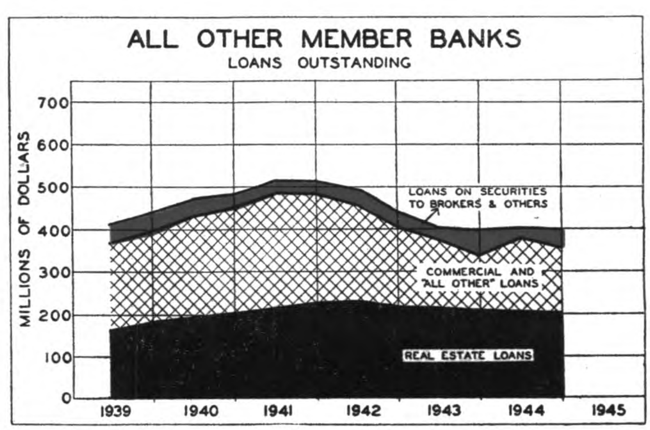
During the past two years the loan total for all member banks has risen again, to a level slightly higher than the 1941 post-depression peak. This latest increment is wholly attributable to the increased use of a long-latent type of credit—loans to brokers and others for the purpose of carrying securities, in this instance chiefly Government securities, and principally to others than brokers.

Eight Largest Banks Not all banks were similarly affected by this succession of developments. The net gain in outstanding loans over the period of six years seems to have been mostly a function of size, as is disclosed on the accompanying charts.

These largest banks managed to retain or replace a sizable portion of the earlier expansion in commercial loans during the past two or three years. The establishment of the "V"-type guaranteed loan in April 1942 undoubtedly contributed to the ability of the large metropolitan banks to maintain a more satisfactory level of commercial loans than the smaller banks whose potential borrowers made less use of Regulation V provisions.

However, the major reason for the recent expansion in the loans of these largest banks is to be found in loans on securities which until after the Second War Loan were of nominal amount, but which since have





pushed the loan total far above the 1941 peak. Presumably in the course of time these loans will be almost entirely liquidated, either out of income or by sale of the collateral. It is difficult to see how any sizable contraction in this category of loans could be fully and promptly offset by an increase in other types of loans. Not even a 100 percent increase in real estate loans would suffice. Only a substantial increase in commercial, industrial, and consumer loans to individuals will enable the largest banks to maintain the present loan volume once liquidation of collateral loans enters its concluding phase.

33 Large Banks Banks in the intermediate group, comprised of weekly reporting "country" banks and smaller reserve-city banks, have also engaged quite extensively in lending on Government security collateral, but only to the extent that their loan total was brought back up approximately to the 1941 high point. While subsequent liquidation of such loans might result in the accumulation of a considerable volume of funds, some revival in real estate loans and in commercial and consumer loans is to be expected and may be of such dimensions as to mitigate noticeably the problem of idle funds.

Country Banks The nearly 700 smaller banks, averaging around $5 million in deposits, are the only group whose outstanding loans show no increase over the 1939 level. The substantial expansion of 1940-41 was nullified by the subsequent contraction in commercial, industrial, agricultural and all other loans, including consumer loans to individuals. Loans on securities were virtually unaffected by war loan activities.

While banks of this type are not vulnerable to a shrinkage in collateral loans, the restoration of the 1941 volume would require substantial increases in all other kinds of loans. A full blown revival of homebuilding would have a more noticeable effect upon the loan volume of these smaller banks than upon the larger city banks. The volume of real estate loans has held up very well despite the widespread belief that wartime prosperity was resulting in a rapid reduction of mortgage indebtedness. If that supposition is valid, then these banks perforce were able to add many new loans in place of those being amortized ahead of schedule.

The Outlook With respect to the largest banks, the trend of total loans during and after reconversion hinges upon the rate at which collateral loans are liquidated. The gradual resumption of civilian production will probably result in a substantial need or demand for loans by manufacturers planning postwar expansion, by the distributive trades for restocking purposes, and by individuals for the purchase of durable goods and for other postponed needs. However, it is doubtful whether these potential requirements, plus some expansion in real estate loans, will be of sufficient magnitude to counterbalance the ultimate shrinkage in collateral loans. Within the past two weeks, legislative steps were taken whereby some $5 billion of excess profits tax refunds and postwar credits will be made available considerably in advance of the original schedule. This change of procedure will undoubtedly expedite industrial reconversion in some degree, but one of its probable byproducts will be a lessened demand for commercial loans for financing the return to civilian production.

These eight largest banks, and many of the 33 large banks in the second group, have been pursuing a policy of comparatively full investment for the past year or two. A contraction in collateral loans, without a commensurate increase in other types of borrowing might accentuate the problem of finding suitable employment for available funds.

On the other hand, the vast majority of the relatively small nonreporting banks are confronted with a different problem. Although their excess reserves have been reduced noticeably from the huge margins which were commonplace two or more years ago, these banks in the aggregate still possess reserves of around 30-35 percent in excess of requirements.

This relative abundance of available funds is partly the result of a more rapid growth of deposits of these banks in the past year or so, as compared with metropolitan banks, and partly the result of a deliberate policy of liquidity, motivated by the belief that eventually the demand for loans would absorb a goodly portion of such excess funds.

During 1940-41 these banks' real estate loans expanded rapidly in response to the relatively high level of home construction. A resumption of building activity on that scale presumably might lift real estate loans of such banks beyond the 1942 peak within a comparatively short time. An expansion in consumer loans to individuals, in loans to local retail, wholesale, service, and manufacturing establishments is likewise definitely within the realm of probabilities. In the absence of any threat of large scale shrinkage in security loans, in contrast to the outlook for larger banks, these smaller institutions appear to be endowed with the more favorable prospects for a protracted upward trend in loans.

RECENT FINANCIAL DEVELOPMENTS

Since the beginning of the year, weekly reporting member banks of this district have increased their holdings of Treasury bonds by $245 million (to July 18) or by more than 13 percent. Meanwhile, acquisitions of Government obligations with shorter maturities were of quite nominal amounts.

This preference for longer-term Government securities began to appear a year or more ago, but it is only within the past six months that it has become a major characteristic of investment policies of member banks as a group. Moreover, this trend has not been peculiar to the fourth district, but has been prevalent more or less throughout the country.

Virtually all of the newly acquired Treasury bonds were obtained from noncommercial-bank sellers on a rapidly rising market. When compared with previous fluctuations during the war period, as illustrated on the accompanying chart, the boom in Treasury bonds assumes rather remarkable proportions.

While essentially all sections of the market aside from the shortest issues reflected the pressure of bank investment demand, the area of greatest impact was in the intermediate section, including some near-by maturities on either side of the seven-to-nine-year group whose price trend is depicted on the chart.

One of the contributory causes of the extraordinary rise in bond prices to record high levels was an undercurrent of speculation regarding the probable nature of the forthcoming Seventh War Loan offerings, and some presentiment that the future supply of securities desired by commercial banks would be restricted beyond previous experience. However, the influence of such apprehensions upon market prices might have been little more than theoretical if member banks in the aggregate had not been in possession of ample reserves. It was the availability of investment funds that actually provided the fuel for the recent rise.

During the past twelve months, member bank reserves were supplemented by nearly $7.2 billion of Federal reserve credit:

Year ended July 18, 1945

Purchases of Treasury Bills	$4,120,000,000
Purchases of Certificates of Indebtedness	2,659,000,000
Purchases of Treasury Notes and Bonds	278,000,000
Increase in Rediscounts	79,000,000
Increase in Float	35,000,000
Total Increase in Member Bank Reserves	$7,171,000,000

Simultaneously, reserves were being steadily depleted by the following factors which for several years have constituted a persistent drain on the reserve position of member banks:

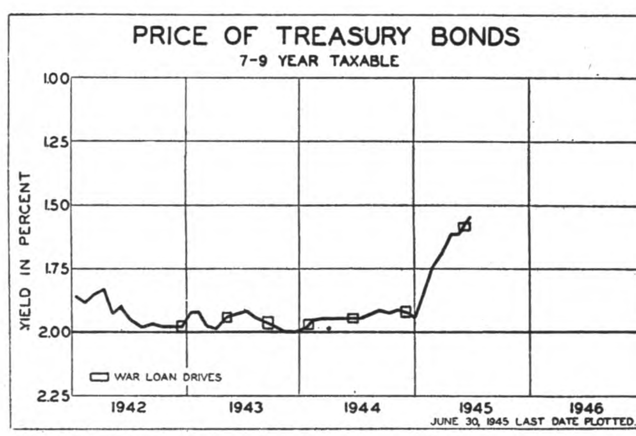
Year ended July 18, 1945

Net Outflow of Currency into Circulation	$4,370,000,000
Net Gold Exports and Other Changes	896,000,000
Total	$5,266,000,000

Thus it appears that the increase of reserve bank credit was nearly $2 billion in excess of the precise amount required to offset the diminution caused by gold and currency movements. This additional quantity of reserves was created more or less incidentally in the fulfillment of the commitment of October 1942 to maintain the pattern of rates then effective.

As is suggested in the first tabulation above, the rate structure has needed support only at the short end. Virtually all of the twelve-month increase in reserve bank credit is represented by purchases of Treasury bills, certificates of indebtedness and short-term Treasury notes. This extension of credit took place in relatively small weekly increments, during intervals between war loan drives. Owing to the constant geographical flow of funds, such newly created reserves were rather quickly and widely disseminated throughout the banking system. The reserve position of various banks would thus rise beyond minimum requirements, which in turn tended to generate a new demand for investments. That demand was reflected, not in the repurchase of Treasury bills and certificates of indebtedness from the Reserve System, which would have neutralized the original extension of credit, but rather in longer-term Treasury bonds which generally could be obtained only from nonbank sellers. This expansion of member bank credit in turn created new individual and corporate deposits which became potentially if not actually competitive in the investment market with the commercial banking system itself.

This sequence of events illustrates the difficulty of delimiting the effects of expansive credit operations to one particular section of the money market. Funds which were created in an effort to keep short-term rates from rising gravitated toward that segment of the market which has been least in need of support. If the expansion of reserve bank credit had been of somewhat smaller proportions, member banks in the fourth district and elsewhere would have been less aggressive in acquiring Treasury bonds, the prices of medium and long-term bonds would not have risen to such premiums, and the Seventh War Loan would have been freer of speculative subscriptions.

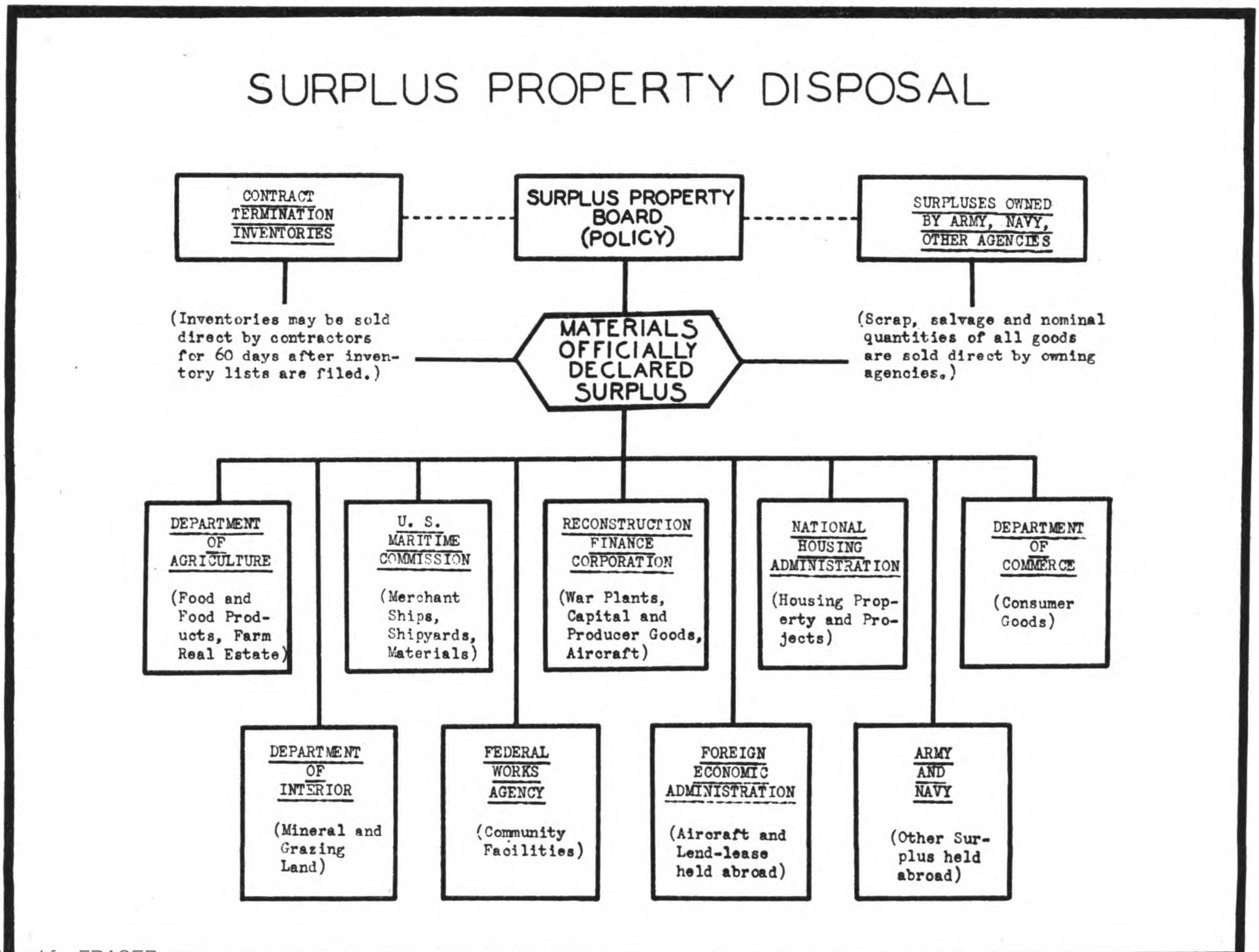


SURPLUS PROPERTY DISPOSAL

Government-owned property, much of it destined to be absorbed through civilian channels, is a tangible asset for positive good to the Nation's economy. However, the magnitude and variety of property to be disposed of by the largest seller in history, the United States Government, will test the capacity, sincerity and ingenuity of all interested parties—including Government, business and the public. The great majority of this property, whether capital or consumer goods, will become surplus as a result of the transition from war to peace. Some of the surpluses, however, are chargeable to overprocurement, to obsolescence, or to unforeseen changes in requirements. In general, this latter source is supplying the type of goods now available for sale, but the amount is small in comparison to the veritable flood of surplus property to be released at the end of the war with Japan.

The lengthening of the war inevitably will result in the accumulation of a still greater amount of Government-owned property. Just how big total war surpluses eventually will be, or what kinds of goods and facilities they will include, cannot definitely be determined until after V-J Day. The major exception to this is the approximate $16 billion worth of extremely important Government-owned plant facilities which will not change greatly in character or amount from this time on. Total value, as expressed in cost, of other surplus property may be anything from $60 billion to $75 billion and will run the gamut from the simplest of civilian goods to the most special type of war material. Possibly three-fourths of such surplus will be in the combat weapon category, while the remaining fourth will be of more-or-less usefulness to the civilian market. A good part of the usable material will be held abroad and largely will be sold there. Although disposable surpluses seem small in terms of the total of more than $200 billion of goods produced for war—or even the annual civilian goods production—they, nevertheless, constitute a very important asset, the disposal of which is of interest to all citizens since their Government has already paid for them once.

Organization of Property Disposal In one form or another, surplus property disposal is very likely to be a part of the business system for many years to come. An outline of the



present organization empowered to dispose of the complex and manifold properties owned by the Government is shown in the accompanying chart. In principle, the owning agencies are responsible for transfers and sales of property until they release it through surplus declarations. After property is declared surplus by an owning agency, responsibility is vested in the selling agency designated to handle the various kinds of property in accordance with policy contained in the Surplus Property Act of 1944 and the rulings of the Surplus Property Board. For instance, the domestic sale of surplus aircraft, parts, and components is under the control of the Reconstruction Finance Corporation. When the Army, Navy, or other owning agency, declares any of this type of property surplus, control passes to the RFC as the disposal agency. This type of property accounts for approximately two-thirds of the more than $2 billion worth of property thus far declared surplus. To show how this problem will grow, it is estimated that before the end of 1945 parts and components surplus declarations alone will amount to $2 billion. Property of such staggering value, composed of engines, assemblies, and parts, thrust upon a much smaller postwar airplane industry, might cause production stagnation and the dissipation of engineering skills to the point of endangering national security. Therefore, the Surplus Property Board and other controlling agencies must take this into account in establishing particular policies of surplus property disposal for such strategic materials.

The organization chart indicates that the Surplus Property Board is a policy-making body and that it is not the agency for actual disposal. A change in this policy, as well as the possible creation of a one-man board, might completely alter the character of surplus property sale as presently constituted. Since the current system is beginning to crystallize, a substantial change from the present structure of actual disposal is not probable until such time as the surplus problem can be telescoped to permit more centralized organization.

Preferences and Protections In partial recognition of the immense problems involved in surplus property disposal, Congress instituted certain social and economic preferences and protections in the Surplus Property Act of 1944. In general, the Act establishes the policy of protecting markets and price structures in order to preserve the "going" pattern of production and distribution, as well as to avoid the strengthening of possible monopolies. Remembering World War I experiences, it also barred sales to speculators—a restriction nearly impossible to supervise, even if economically desirable. In addition, the Act provides that purchase preferences on many kinds of goods be given to Government agencies, veterans, farmers and small businessmen, whereas volume transactions which involve large-scale operators are hedged around by protective measures. Among the latter is the requirement for the Department of Justice to examine the monopolistic possibilities for plant transactions of $1 million and above, while Congress, itself, must be apprised of plant dispositions of $5 million or more. What these preferences and protections will mean, as administrative procedures are developed, is difficult to predict. They were instituted in large measure with the idea of insuring both idealism and economic justice in the disposal of Government property. They are fraught, however, with the possibility of slowing down property sale until the social good which could result from a rapid disposal program will have been obviated.

Channels of Distribution In order to obtain "orderly disposal," the Surplus Property Act instructs disposal agencies to distribute goods through regular channels of distribution but does not define what this means nor how far up the channel the disposal process is to start. In the case of branded or other specialty goods, as well as such goods as machine tools which might be in need of conditioning or remodeling, the policy frequently has been to sell back to original producers. However, when distributive levels are involved, the problem of trade and quantity differentials is encountered. Wholesalers, for instance, must be charged lower prices than retailers if goods are to move through distributive channels. This sometimes constitutes a considerable problem because large retailers, such as mail order houses, department stores, and chains with or without central warehouses, often buy in larger quantities than wholesalers and eventually will seek to break the present one-price policy irrespective of quantity of purchase.

Despite intentions to the contrary, small-scale buyers may not find it easy to deal directly with disposal agencies. The policy of sale on an "as is—where is—no recourse basis" practically forces small buyers to purchase through wholesalers who can stand this risk. Even where reasonable adjustments would be made by disposal agencies, small buyers can ill afford to take a chance. The Smaller War Plants Corporation is empowered to aid small business through actual purchase and credit extension—and it can do the same for veterans who seek to establish a small business—but the possibilities of this type of disposal operation still require a great deal of study.

Disposal officials are hesitant to set forth uniform sales policies at different levels of distribution. Ultimately, however, they apparently intend to correlate the kind of goods to be sold with the customary marketing structure, the quantities purchased, and the conditions of sale, as well as certain broader considerations such as equitable distribution between various channels of trade and regions. At present the basic rule is to make no direct sales to consumers, except for aircraft, and to establish no Government stores. As products from regular sources become more plentiful, however, the pressure for wider distribution of surplus goods may force a change in policy.

Prices The law merely specifies that surplus goods shall be sold at reasonable prices. Actual selling of most consumer goods is by sealed bids, sometimes of a spot-sales nature, or negotiated sale. Insofar as consumer goods are concerned, regional offices of the Department of Commerce maintain display rooms and encourage inspection of samples and of warehoused products. Negotiated sales for most goods have not been favored, nor has the auction sales method except for certain types of products. The eventual goal is to sell most goods on a fixed-price basis with differentials for the various levels of distribution.

Care must also be exercised so that prices on surplus goods will not run counter to the more specific pricing exactions of the Office of Price Administration. Supplementary Order No. 94, dealing with sales by federal agencies, is the most important single regulation relating to surplus goods disposal. There are more than 60 national dollar and cents pricing orders under S.O. 94 on products whose sales are recurrent and no specific regulations are suitable. When the supply of certain products is of regional significance only, and there is no satisfactory covering regulation, the various regional offices are authorized to issue the necessary pricing orders. A new regulation, Supplementary Order No. 122 which becomes effective August 22, establishes a method whereby all sellers can price surplus products automatically, provided they operate a "going" business in a recognized distributive channel. New businesses must make application for price margins with their Regional OPA office. Most of the surplus products, however, are covered by individual pricing regulations—some priced under formula; others by margin mark-ups; and still others by specified dollar and cents prices.

Perhaps the most difficult—although not so dollar-wise—pricing job is encountered in connection with job lot disposals or heterogeneous groups. Although considerable attention has been given to the disposal of these products, sales are usually in small quantities and, in most cases, non-inflationary.

The agencies responsible for property disposal may, to a certain degree, be excused for their emphasis on sales rather than price enforcement. Nonetheless, as long as goods remain scarce, the need for price control on surplus goods is evident in fairness to the public, distributors who are bound by price regulations on normal procurements, as well as competitive manufacturers who are by necessity remaining in production of essential war materials. Some selling agencies, however, have been uncooperative in supplying OPA with sales invoices, which thus far have been the best means of permitting a thorough follow-up of proper pricing by resellers. If care is not exercised in surplus property disposal, windfall profits to both speculators and regular operators may be injurious to our goods-starved economy and may result in scandals similar to those following World War I.

Consumer and Capital Goods Although there is a vast variety of surplus goods, consumers are interested in products which can be consumed, or directly used, and in plants and equipment which can produce still other goods—and jobs. There is, of course, a significant difference in the social and economic implications associated with the disposal of goods as compared with the sale of productive equipment including plants. Goods are consumed once, and they can generally be absorbed—depending on the timing and conditioning of their release—with benefit to consumers and without long-term injury to the total economy. On the other hand, Government-owned plants and equipment constitute a productive asset, the absorption of which will have a long-time affect upon the nature and scope of the Nation's peacetime economy, as well as its military security. It is in connection with this type of property that most of the social and economic problems involving territorial decentralization of industry, the concentration of economic power, and the use of Government-owned plants as the means to achieve full employment, originate. Goods also differ from plants in that their distribution can be nationwide and can be balanced fairly well between regions. In contrast, plants and their facilities have been located in approximate co-ordination with prewar industrial location and they cannot easily be changed. The Government can, however, exert some inter-regional balance on plant facilities by a careful selection of stand-by plants in order to secure the economic objectives which changing national policy may impel.

Plant Facilities War-required Government expenditures for industrial plant and equipment amounts to approximately $16 billion. In the fourth district, this expansion has totaled some $1.7 billion. The absorption of this enormous addition to the Nation's productive capacity constitutes a challenge to the sagacity of the Government, to private enterprise, and to the citizens of each community where surplus facilities are located. On a country-wide basis only about one-third of total plant expansion is readily adaptable to peacetime production; the remainder being concentrated in Government arsenals, munitions, shipbuilding, aircraft, etc., which present, at best, peculiar and expensive conversion problems. The sale—or lease—of even $5-10 billion worth of plant facilities will cause many questions to be raised relating to competitive private enterprise and the adjustments which may be necessary to accommodate the expanded facility. The problem of disposal also is complicated because of the great public interest in who purchases these facilities and the use to which they will be put, rather than simply the dollar amount for which they can be sold.

Practically all plants leased from the Government by private corporations provide an option for purchase by the operator, except aluminum, magnesium, synthetic rubber and components (butadiene and styrene), pipelines, and a miscellaneous group of plants including the Geneva Steel Works. Policies governing the establishment of sales prices for Government-owned plants have not been fully developed but the first essential step is a property evaluation, in terms of peacetime production standards, by professional appraisers. While the sale of goods is expected to fit the traditional trade pattern, the sale of plant facilities must be based upon research which will determine their peacetime usefulness. The usual procedure is for option holders to indicate their desire to enter negotiation for purchase and to grant release of options so that other interested parties may bid. This is not done necessarily because of a sense of fairness but because option prices are higher than anticipated negotiated prices. Throughout the fourth district, where plants are still occupied with war contracts, only three surplus plant declarations have been made and only one small plant has been sold. Many additional negotiations already have started on district plants, however, and it is estimated that approximately 150 plants eventually may be sold.

The equipment in plants may constitute as large a problem in its fashion as the sale of plants themselves. Never has American industry been so well equipped as at the present time. Illustrative of the general problem, and of especial interest to the fourth district because it produces one-third of the machine tools in the country, is the position of machine tools and the machine tool industry. In general, the process of Government-owned machine tool disposal is the same as that of plants. They are covered by the operator's option on an all-or-nothing basis and on sliding-scale price schedules which allow for wartime cost inflation and depreciation. If an operator decides to negotiate the purchase, he grants an option release and takes his chances with other buyers. Since operators are the only ones who know the true condition and use of machine tools in their plants, they have an actual advantage over outside buyers. The importance of machine tools to a country's ability to wage total war is bringing increasing recognition of the extraordinary problems involved in their sale. The result may be that most of the special machine tools, and a considerable part of the standard, may be held as standby. This will permit the absorption of a more manageable proportion of the war-built machine tools and will encourage the peacetime continuance of an industry which has proved its value in war.

Government-owned plant facilities are tangible, and can be an important addition to the economy, or their disposal can be so laggard that it may result in a prolonged market overhang. In general, each region, each industry, each plant will need to be examined as a separate problem and then be related to its national setting. The position of the fourth district as an industrial area would seem to indicate that peacetime prospects in this connection are particularly promising. Surely, this will be true if ease of convertibility is the most important criterion of warplant value.

Summary The extent of Government-owned surplus property is matched by the size of the socio-economic problems its disposal will raise. In general, goods which will be readily disposable have duplicates or near-counterparts in the civilian economy. The rapidity with which they can be released through trade channels will have much to do with the success of the anti-inflation fight from this time on. It also should be remembered that speedy disposal will reduce competition with peacetime high production and employment goals. The immediate sale of plant facilities is somewhat less pressing. The sale of many facilities must await painstaking research in order to determine the greatest potential postwar use. In the meantime, some plants can be leased until such time as postwar operation will prove their going value. Still other plants can be held in stand-by condition, while certain unsuccessfully leased plants can be returned to that status. Although the social and economic usefulness of the war-expanded industrial facility may be evident within a short period, total absorption may neither be expected or desired. The sale of even a large portion of this plant facility will not prevent a large-scale, privately-financed, expansion of industry which will be especially constructed with the product requirements of the postwar civilian economy in mind.

INDUSTRIAL and AGRICULTURAL SUMMARY

Since February there has been a persistent drop in new industrial orders. Inasmuch as the amount of new business placed on the books of manufacturers is an indicator of future activity this downward trend forecasts a decline in shipments, though order backlogs are still so large as to provide a substantial cushion for some time. Reflecting the changing military picture and the resultant cutbacks, new orders in the durable goods industries have dropped sharply. This has not been offset by the moderate increase in new orders for non-durable goods which go largely to the civilian market. The expected increase in non-military orders in the durable goods industries, as reconversion progresses, has been slow to materialize and partly reflects the uncertainty of this in-between period of war and peace. Shipments of nondurable goods generally have advanced slightly during the past several months while the value of major durable goods shipments has not changed significantly. The most notable drop has been in the deliveries of transportation equipment, primarily shipbuilding and aircraft.

Layoffs in industry are closely related to cutbacks, being largest in the aircraft, shipbuilding and munitions industries. Most of the affected workers have been absorbed in other war work or by civilian goods industries. There has been some dropping away from the labor force, primarily women and over-age workers. In most areas of the country reconversion is progressing quietly, indicating that cutbacks have been less sharp than anticipated and that high war production has been largely responsible for the postponement of the production and unemployment problems which will accompany extensive reconversion. However, the over-all slower production pace is evidenced by the slight decline in the number of hours worked weekly and by the increase in unemployment compensation applications. Among fourth district cities, Youngstown has experienced the sharpest advance in compensation applications, while Cleveland, Toledo, and Warren, among others, have also reported increases. In terms of prewar claims, the present level remains low, although the average weekly payment of $15.43 during June per beneficiary is a record high.

Steel June output of steel ingots totaled 6,868,717 net tons, compared with 7,234,257 tons in June last year. Total first half 1945 ingot output was the lowest for any similar period since 1942, much of the loss resulting from winter weather and transportation delays early in the year.

In late July the estimated average steel production rate held at 90 percent of capacity. The range among major district producing centers was from 86 at Cleveland to 96½ at Wheeling. Cancelation of steel orders on mill books has been below expectations and those that have occurred apply largely to remote deliveries. The War Production Board order calling for a reduction of steel inventories from 60 to 45 days' supply has not materially increased cancelations thus far. However, considerable easing is expected in August and the fourth quarter, which should release facilities for sheets, strip, bars and wire for civilian production.

Coal Bituminous coal production during June in the fourth district amounted to 19,941,000 tons. This brought the January 1—July 1, 1945 district total to 110,746,000 tons, compared with a national total of 297,555,000 tons for the same period. National tonnage for the comparable 1944 months was 319,-647,000 tons, which indicates that 1945 production is running behind 1944 by 6.9 percent.

Inventories gradually are declining because consumption is in excess of production and unless there is a drastic change in coal requirements, supply conditions will become more critical as the fall and winter seasons come. In view of the large domestic demand, plus the coal officially committed for European consumption, apparently the only way to remedy the coal deficiencies is through increased production. This will require the release of miners from the armed services and a reduction of absenteeism in the present mine labor force. Assuming that the meat is actually available, it is possible that the program by which the Office of Price Administration granted an increase in the number of red points for mine workers will have a measurable influence on regularity of work.

Other District Industries Many industries of the district continue to reflect high military requirements, but there is increasing indication that civilian markets will receive greater supplies. Although heavy duty tire needs constitute the major problem of tire, carbon black and tire cord producers, production is believed sufficient to take care of new car needs and, by early 1946, most other passenger car requirements. This is further evidenced by cancelation of the proposed expansion of new tire and tube facilities. Leather shoe production for the fourth quarter of 1945 will be at the rate of 26 million pairs monthly as compared to the third quarter monthly average of 22½ million pairs. The increased production rate is made possible by military and lend-lease cutbacks which released substantial quantities of cowhide for uppers and soles. The shortage of labor continues to affect the lumber industry. Military requirement cutbacks will not affect employment in this industry but will release labor and productive facility needed to fill the anticipated demand of an expanded building program. In the machine tool industry, cutbacks have not been reflected in the current volume of production or shipments, but they have made it possible to schedule reconversion needs more adequately and flexibly.

Heavy military demand continues on worsteds although the 100 percent "freeze" has been relaxed 35 percent for the period July 5 to August 18. In general, the textile industry is not greatly concerned with cutbacks because of anticipated full-time operations for civilian requirements. Reconversion of the glass industry presents no difficult problems and civilian needs, including that for automobile production, will be met. Restrictions are still in effect on the acceptance of orders in most of the ceramics industry and it is estimated that potteries are under-manned at least 25 percent. The paper and paperboard industries report no appreciable improvement in deliveries. Some kraft, pulp and paper mills have been forced to close temporarily because of woodpulp shortage. The supply of pulp from Scandinavia, as well as increased American production starting in September, is expected to improve supplies, but an increase in skilled labor is important in determining total production.

Agricultural Prospects Now that a record wheat crop—estimated on July 1 to be 1,129 million bushels—is nearly assured, corn crop prospects are bidding for the attention of a meat-hungry Nation. The July 1 forecast of 2,685 million bushels compares with 3,228 million last year and the 1934-43 average of 2,433 million bushels. An increase of 186 million bushels in July 1 stocks will offset part of the anticipated production decline. Greater hope must be pinned, however, on the likelihood of good growing weather from this time on. This, aided by widespread use of high-producing, drouth-resistant, earlier maturing hybrid seed—which now accounts for 95 percent or more of the acreage planted in Iowa, Illinois, Indiana and Ohio—may turn total yield prospects bullish on subsequent crop reports. Until a good 1945 corn crop is assured, however, sales by producers will be short of the demand from corn industries, feed mixers and shippers to eastern deficit areas. If the record, or near-record, wheat, oats and hay crops are given due weight, over-all prospects for grain and feed are good, despite the drastic reduction in grain sorghums.

New high-record cash receipts from farm marketings during the first half of 1945 were about $8,708 million, slightly more than the income of $8,669 million for the comparable period of 1944. Increased income from nearly all principal crops has resulted partially from larger-than-normal quantities carried over from the previous year. Sales of most varieties of meat animals, and other livestock products, were approximately the same as in 1944 but decreased marketings of hogs caused total livestock and livestock product receipts to drop 7 percent. The total 1945 United States crop, livestock and livestock product production promises, in combination with continued high prices, record farm cash receipts.

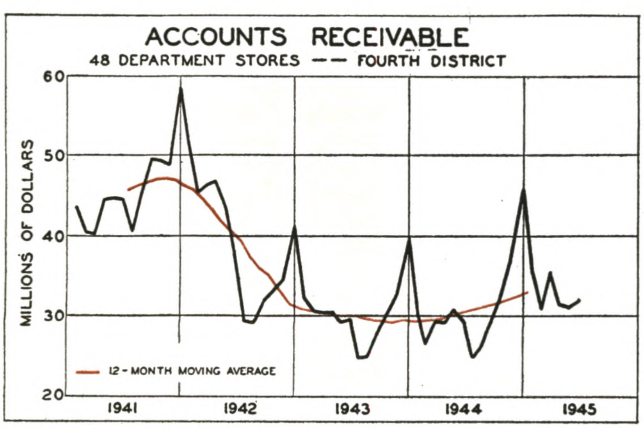
DEPARTMENT STORE TRADE

After remaining near the 1944 level the previous two months, sales at department stores throughout the fourth district during June showed sizable gains over the same month a year ago. Favorable weather conditions encouraged the purchase of summer clothing and other items. The increases among the leading cities of the district ranged from 12 percent in Erie to 25 percent in Cincinnati, Wheeling, and Youngstown. Sales in Cleveland were up 16 percent this June over last, and in Pittsburgh 19 percent. The average gain for the 97 reporting stores in this district was 19 percent. During the first half of this year, dollar sales were 13 percent greater than they were in the corresponding period a year ago, establishing an all-time high for the six months.

The sharpest gains in sales last month were experienced by the clothing departments. Sales of women's coats and suits were up 118 percent, dresses 24 percent, and juniors' and girls' wear 37 percent. Various accessories departments — such as gloves, leather goods, jewelry, underwear, and hosiery—also reported substantial increases in their business. Sales of men's and boys' wear were 20 percent larger. Total basement store sales were up only 16 percent, compared with a gain of 23 percent for the upstairs departments.

During recent months there has been an increasing tendency to charge merchandise purchased at fourth district department stores, with the result that the downward trend in accounts receivable has been reversed. The accompanying chart shows the dollar volume of month-end accounts outstanding at 48 reporting stores. In order to eliminate the definite seasonal movement and show the trend, a 12-month moving average (red curve) was superimposed on the raw data.

As indicated on the chart, the volume of accounts declined very sharply during 1942, as debts made during previous years were being liquidated. Among the factors contributing to this decrease was Regulation W, with larger down payments and more prompt collections, and the fact that production of major household appliances, which had accounted for a large amount of credit business, especially that of an instalment nature, was curtailed. Then, too, many consumers with war-swollen incomes were paying cash for their purchases. The ratio of cash sales to total advanced from approximately 40 percent during prewar years to around 55 percent by the end of 1943. The peak was reached in July a year ago, when cash transactions accounted for 58 percent of all business. Since then, the ratio has declined to 54 percent, while



30-day charge sales advanced from 38 percent to 43 percent of the total. There has been little change in the proportion of instalment sales, but a gain may be expected in this category, when such items as heavy appliances reach the market in large enough volume.

The 12-month moving average of accounts receivable reached its lowest point near the close of 1943. Since that time there has been a rather steady increase, with stores reporting year-to-year gains in their accounts each month-end. As of June 30, 1945, the volume was 13 percent larger compared with the same date a year ago. Regular charge accounts were up nearly 17 percent, but instalment receivables were approximately 3 percent smaller.

While both the volume of accounts outstanding at fourth district stores and the ratio of their credit sales to total business are still well below prewar levels, the slight gains reported recently would seem to indicate that the decline in department store credit had reached its limit and that consumers are starting to use their charge accounts to a greater degree. Wartime conditions and regulations did result in a liquidation of credit outstanding, but this was probably accomplished more through the prompt payment of accounts than from reductions in the volume of credit sales. This was especially true of 30-day charge accounts, since these are as much an arrangement for customers' convenience as they are a means of deferring payment. In all probability, the factors which tended to reduce the volume of accounts outstanding at department stores during the war period have not had a permanent effect on the credit habits of most consumers, and the recent increases in accounts receivable and credit sales may reasonably be expected to continue for some time.

New Member Banks

Farmers Bank & Trust Company of Indiana, Pa.
Indiana, Pennsylvania

The Savings & Trust Company of Indiana
Indiana, Pennsylvania

Midland Bank
Midland, Pennsylvania

Kiski Valley National Bank
Vandergrift, Pennsylvania

Half Dollar Trust and Savings Bank
Wheeling, West Virginia

The Federal Reserve Bank of Cleveland will be pleased to send reprints of an article by Governor M. S. Szymczak, entitled "The Federal Reserve in World War II," which is currently appearing in *The Burroughs Clearing House.*

Wholesale and Retail Trade

(1945 compared with 1944)

	Percentage Increase or Decrease SALES June 1945	SALES first 6 months	STOCKS June 1945
DEPARTMENT STORES (97)			
Akron	+20	+14	+13
Canton	+13	+ 9	a
Cincinnati	+25	+16	
Cleveland	+16	+11	+10
Columbus	+24	+17	+17
Erie	+12	+ 8	− 6
Pittsburgh	+19	+12	
Springfield	+14	+ 8	a
Toledo	+16	+12	+ 9
Wheeling	+25	+19	+ 6
Youngstown	+25	+19	a
Other Cities	+ 8	+ 6	+13
District	+19	+13	
WEARING APPAREL (16)			
Canton	+22	+12	+19
Cincinnati	+21	+12	a
Cleveland	+19	+12	+12
Pittsburgh	+34	+11	+17
Other Cities	+30	+12	+22
District	+24	+12	+13
FURNITURE (73)			
Canton	+18	+ 5	+15
Cincinnati	+14	+13	+14
Cleveland	+11	+ 2	+21
Columbus	+ 1	− 4	−10
Dayton	+11	+ 3	a
Pittsburgh	+13	+ 5	a
Allegheny County	+ 1	+ 7	a
Toledo	+ 8	+ 1	+ 4
Other Cities	+13	+ 6	− 5
District	+10	+ 5	+ 9
CHAIN STORES*			
Groceries—District (4)	+17	+12	a
WHOLESALE TRADE**			
Automotive Supplies (4)	−10	+22	+11
Beer (5)	− 2	− 5	a
Clothing and Furnishings (3)	− 8	a	a
Confectionery (4)	+ 6	+15	a
Drugs and Drug Sundries (3)	+ 2	a	a
Dry Goods (3)	− 6	a	a
Electrical Goods (6)	− 1	+ 5	+15
Fresh Fruits and Vegetables (8)	+29	+19	− 6
Furniture and House Furnishings (3)	−16	a	a
Grocery Group (40)	+ 5	+ 4	−20
Total Hardware Group (25)	+ 6	+ 8	−0−
General Hardware (7)	+ 8	a	+ 1
Industrial Supplies (8)	+ 3	− 2	−14
Plumbing and Heating Supplies (10)	+ 3	+ 9	a
Jewelry (8)	+11	+ 2	a
Metals (3)	−31	a	a
Lumber and Building Materials (5)	+ 3	+ 2	−15
Paints and Varnishes (4)	−14	a	a
Paper and its Products (6)	+ 4	+ 8	a
Tobacco and Its Products (13)	− 5	− 5	−33
Miscellaneous (13)	−11	− 6	−18
District—All Wholesale Trade (163)	−0−	+ 3	−16

* 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.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

	Without Seasonal Adjustment June 1945	May 1945	June 1944	Adjusted for Seasonal Variation June 1945	May 1945	June 1944
SALES:						
Akron (6)	218	210	182	237	217	198
Canton (5)	237	211	212	246	219	220
Cincinnati (9)	193	183	155	215	180	172
Cleveland (10)	174	165	150	189	176	163
Columbus (5)	223	205	179	239	211	193
Erie (3)	192	195	171	216	207	192
Pittsburgh (8)	172	163	144	173	157	145
Springfield (3)	225	217	197	228	209	199
Toledo (6)	186	181	161	200	181	174
Wheeling (6)	174	170	137	196	159	154
Youngstown (3)	212	204	169	226	208	180
District (97)	187	177	157	197	179	166
STOCKS:						
District (51)	168	166	148	180	163	159

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified	June 1945	% change from 1944	Jan-June 1945	% change from 1944
Bank Debits—24 cities	$5,978,000	+10	29,622,000	+ 5
Savings Deposits—end of month:				
39 banks O. and W. Pa.	$1,279,184	+25		
Life Insurance Sales:				
Ohio and Pa.	$ 107,547	+11	624,817	+11
Retail Sales:				
Dept. Stores—97 firms	$ 45,630	+19	255,831	+13
Wearing Apparel—16 firms	$ 2,107	+24	12,506	+12
Furniture —73 firms	$ 3,158	+10	16,225	+ 5
Building Contracts—Total	$ 22,729	+90	103,128	+37
" " —Residential	$ 6,015	+100	18,924	− 4
Commercial Failures—				
Liabilities	$ 225	+43	1,176	+30
Number	4	−50	29	−36
Production:				
Pig Iron—U. S. ....Net tons	$ 4,605	− 9	29,142	− 7
Steel Ingot—U. S. ....Net tons	6,869	− 5	43,180	− 4
Bituminous Coal—				
O., W. Pa., E. Ky. ...Net tons	19,941	− 3	110,746	− 8
Cement—				
O., W. Pa., W. Va. ....Bbls.	593a	+ 26	2,455b	+ 11
Electric Power—				
O., Pa., Ky. ...Thous. K.W.H.	3,085a	+ 4	15,215b	+ 2
Petroleum—				
O., Pa., Ky. ....Bbls.	a		b	
Shoes ....Pairs	c	+4	c	− 3
Bituminous Coal Shipments:				
Lake Erie ports ....Net tons	6,953	− 5	18,336	−12

a May.
b January-May.
c Confidential.

Fourth District Business Indexes

(1935-39 = 100)

	June 1945	June 1944	June 1943	June 1942	June 1941
Bank Debits (24 cities)	269	244	203	171	147
Commercial Failures (Number	6	12	10	56	61
" " (Liabilities)	15	11	9	37	24
Sales—Life Insurance (O. and Pa.)	127	115	99	79	101
" —Department Stores (97 firms)	187	157	155	129	130
" —Chain Drugs (5 firms)*	a	162	165	143	123
" —Chain Groceries (4 firms)	174	156	151	141	121
Building Contracts (Total)	93	49	97	469	211
" " (Residential)	78	39	88	336	281
Production—Coal (O., W. P., E. Ky.)	159	163	98	156	140
" —Cement (O., W. Pa., E. Ky.)**	72	57	128	187	171
" —Electric Power (O., Pa., Ky.)**	202	195	181	162	144
" —Petroleum (O., Pa., Ky.)**		105	103	98	95
" —Shoes	89	86	92	110	101

* Per Individual unit operated.
**May.
a Not available.

Debits to Individual Accounts

(Thousands of Dollars)

	June 1945	% change from 1944	Jan.-June 1945	Jan.-June 1944	% change from 1944
Akron	234,616	+23.1	1,246,504	1,075,990	+15.8
Butler	24,038	+17.0	132,236	105,315	+25.6
Canton	100,414	− 2.3	518,064	488,295	+ 6.1
Cincinnati	769,756	+ 5.4	3,947,354	3,670,603	+ 7.5
Cleveland	1,749,551	+11.7	8,314,993	7,838,454	+ 6.1
Columbus	459,990	+32.7	2,099,896	1,932,005	+ 8.7
Covington-Newport	32,763	+11.6	158,554	148,789	+ 6.6
Dayton	173,913	+12.7	912,295	873,724	+ 4.4
Erie	75,074	− 2.0	365,472	389,754	− 6.2
Franklin	7,126	+11.2	36,595	36,647	− 0.1
Greensburg	16,065	+21.4	76,498	73,271	+ 4.4
Hamilton	31,516	+28.1	142,895	122,782	+16.4
Homestead	6,090	+ 6.2	31,173	29,521	+ 5.6
Lexington	46,367	+34.5	325,871	240,851	+35.3
Lima	30,560	+ 1.8	178,842	160,667	+11.3
Lorain	10,748	+12.6	54,638	52,716	+ 3.6
Mansfield	28,201	+10.9	142,619	123,945	+15.1
Middletown	23,445	+ 3.7	122,831	122,474	+ 0.3
Oil City	18,281	+ 7.0	101,455	92,083	+10.2
Pittsburgh	1,655,189	+ 8.0	8,259,345	8,030,395	+ 2.9
Portsmouth	15,927	+22.9	74,364	67,897	+ 9.5
Sharon	20,861	+ 6.3	103,822	102,286	+ 1.5
Springfield	38,163	+11.1	199,821	196,042	+ 1.9
Steubenville	17,729	+18.5	95,886	80,941	+18.5
Toledo	305,718	+ 2.6	1,506,214	1,596,661	−5 .7
Warren	27,536	− 5.8	151,050	145,170	+ 4.1
Wheeling	55,841	+10.2	266,373	250,608	+ 6.3
Youngstown	99,574	+ 1.2	530,064	511,466	+ 3.6
Zanesville	16,718	+18.1	82,400	76,468	+ 7.8
Total	6,091,770	+10.5	30,178,124	28,635,820	+ 5.4