Monthly Business Review

Finance, Industry, Agriculture, and Trade

Fourth Federal Reserve District
Federal Reserve Bank of Cleveland

Vol. 27 Cleveland, Ohio, August 31, 1945 No. 8

BANK RESERVES DURING RECONVERSION

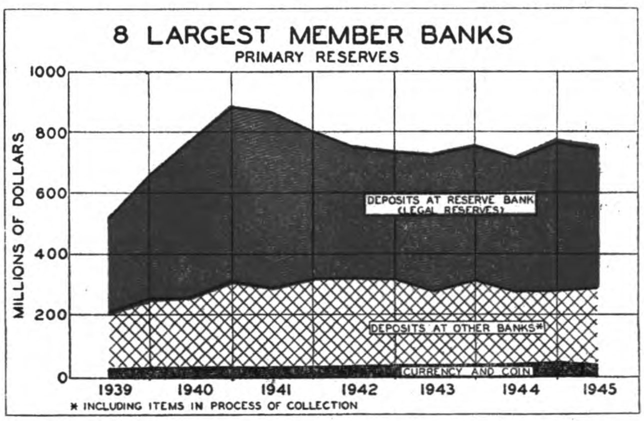
Background The ability of the United States to wage war effectively was bolstered in some degree by the apparent ease with which unprecedented financial requirements were met. The procurement of $200 billion of borrowed funds during the past five years, not to mention another $130 billion or more obtained in the form of taxes, was facilitated in turn by the existence of adequate reserves in the banking system.

The fact that the banking system was fortified with sufficient, and at times excessive, reserves for all valid purposes is attributable to a combination of both fortuitous developments and deliberative policies.

The $15 billion increase in the Nation's monetary gold stocks during the seven years prior to Pearl Harbor had come to be regarded during 1941 as a threat to domestic monetary stability because of its inflationary potentialities. Yet without that unparalleled influx of gold, the country's wartime credit structure would have had to be erected upon a much narrower metallic base. Margins of safety inevitably would have been much thinner along the entire financial front, with correspondingly unfavorable implications.

The prodigious influx of gold made possible an increase in the public debt of over $26 billion without any supplementary action by the monetary authorities. The first two years of the rearmament effort, including the first six months of active participation in war, were financed, therefore, wholly out of existing reserve funds and bank balances without any extension of reserve bank credit. Moreover, within that same period, approximately $4 billion in currency was paid out (net) to the general public without impairing the reserve position of member banks. As a matter of fact, legal reserves were still some $3 billion in excess of requirements in mid-1942 when the creation of additional reserves by internal action was initiated on a modest scale. However, at that juncture the volume of bank reserves gradually moved out of the realm of chance, so to speak, and became a matter of fundamental central banking policy.

This transition was initiated by the establishment of a ⅜ percent buying rate on 91-day Treasury bills by the reserve banks in April 1942, for the purpose of stabilizing short-term money rates which had been in a rising trend for some time. In this declaration of support for the price of Treasury bills for the duration of the war, it was contemplated not only that banks would refrain from further liquidation of bills and other short-term securities, but also that a considerable portion of the existing idle funds would be attracted to the bill market. However, owing chiefly to the persistent outflow of currency into circulation, more and more bills were being sold by member banks—to the reserve banks—as a means of replenishing reserves. It was as an indirect consequence of this first step to support the bill market that the ultimately huge wartime increase of reserve bank credit originated. During the past three years, over $12.5 billion of member bank reserves were created through this medium—more than twice the amount created through any other single channel.



Some months after the establishment of the 3/8 percent floor under bills, and prior to the First War Loan Drive, it was made known that prices and yields on the entire range of Government securities would be maintained close to then-prevailing levels for the period of the war. Those assurances had no immediate effect upon member bank reserves. However, with the passage of time the tendency became more and more pronounced for member banks, when in temporary need of reserves, to liquidate short-term Treasury obligations rather than long-term, higher-yielding Government bonds. On successive occasions, the reserve banks through the System Open Market Account acquired considerable quantities of bills, certificates and notes, which automatically created an equivalent volume of member bank reserves. Subsequently, as the reserve position of such banks improved, the newly available funds were more likely to be invested in Government securities of longer maturity. Thus, at no time during the course of each succeeding cycle, did member bank reserves contract sufficiently to offset the previous, and theoretically temporary, expansion. During the past three years, and aside from the $12.5 billion increase in Treasury bill holdings, the reserve banks acquired roughly $7 billion of Treasury notes and certificates of indebtedness in the interest of maintaining the short end of the pattern of rates.

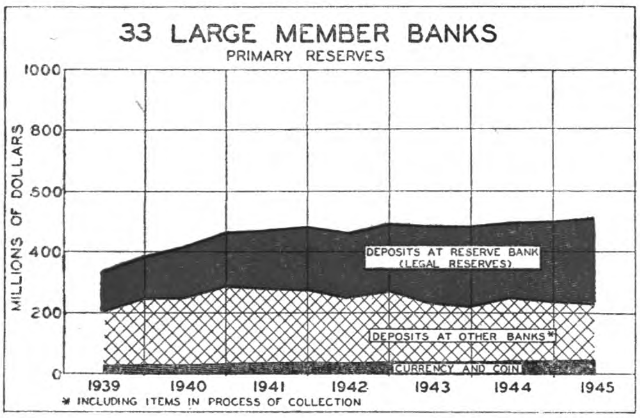
Two other factors might be mentioned as having contributed to the expansion of member bank reserves during the war period. One was the establishment, in October 1942, of a ½ percent preferential discount rate on advances to member banks, when secured by obligations of the United States Government maturing or callable in one year or less. However, it is only within the past year that member banks have taken significant advantage of this special avenue of accommodation. At the wartime peak on June 6, approximately $900 million of bank reserves had been created by virtue of member bank borrowing at the preferential rate.

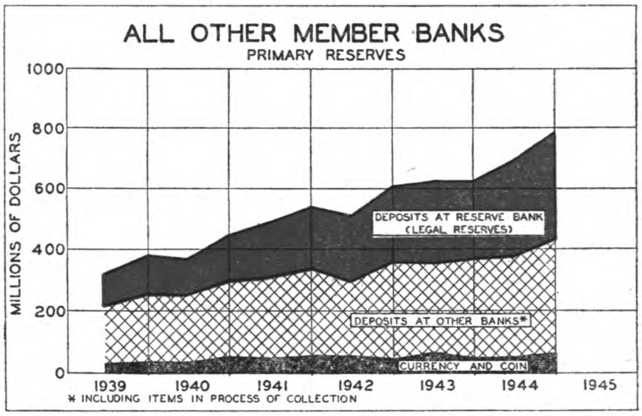
The other factor was the issuance during 1942-43 of some $600 million of unused Federal reserve bank notes as a measure to conserve labor and materials. This currency, a heritage of the banking crisis of 1933, was issued as a legal tender obligation of the U. S. Treasury. Member bank reserves were quite incidentally increased by approximately $600 million as a result of that expedient. The yearly increment in the amount of silver certificates in circulation (which is currently being augmented by the "monetization" of a synthetic paper profit on silver purchases since 1934) has had a similar effect on member bank reserves.

Thus, the present volume of member bank reserves of approximately $15 billion (the residual after a $20 billion outflow of currency) is the end result of a series of developments. In some cases, an increase in reserves was the avowed objective; in others it was an incidental by-product. Moreover, there was wide variation in the wartime trend of reserves among groups of banks, as revealed on the accompanying charts.

Trends in Fourth District During 1939 and 1940, when gold imports were the predominant cause of expansion of reserve balances, the eight largest banks accounted for virtually 70 percent of the aggregate $400 million increase in the fourth district. This tendency for reserves to gravitate to metropolitan banks was typical for the country as a whole during those earlier years.

Early in 1941, reserves of the eight largest banks began to decline rapidly from the all-time high of nearly $600 million. Gold imports, the former mainstay, had begun to recede, especially after the enactment of lend-lease which obviated gold payments for a considerable fraction of American exports. Also, the proceeds of Treasury offerings which were predominantly of the type most likely to appeal to the money market banks with substantial excess reserves, were being disbursed elsewhere in connection with an expanding armament program. Similarly, the considerable increase in defense and other industrial loans, most noticeable among the large institutions, brought about a shift of deposits as the borrowed funds were expended in more remote localities.





This flow of funds from the money centers toward outlying areas prevailed more or less throughout the war period. In its early stages the losing banks met the drain out of the huge backlog of idle funds which had accumulated during 1939-40. Subsequently, reserves were usually replenished by means of the sale of short-term Government securities, in a minor degree by borrowing from the reserve banks, and to a still lesser extent by withdrawing balances from correspondent banks. By virtue of such sales and borrowing, legal reserves of the eight largest banks were maintained within a range of five to ten percent in excess of slowly increasing requirements during 1944 and 1945.

At the other extreme is the wide variety of so-called country member banks whose reserve balances grew more rapidly after 1941 than before. It was not only because deposits, especially individual and corporate demand deposits, increased at a faster rate at country member banks from 1942 to date that reserve balances continued the pre-Pearl Harbor trend. A more significant reason was the apparent reluctance of such outlying banks to pursue the policy of comparatively full investment adopted by the larger city banks.

In the fourth district, country member banks have regulary carried reserves from 30 to 40 percent in excess of requirements throughout the past two years. Balances with city correspondent banks were also permitted to accumulate beyond the end-of-1941 levels, a tendency which incidentally mitigated somewhat the reserve problem of the correspondent banks.

Effect of Changes In Reserves Changes in the volume of reserves affect the ability of a bank or banks to lend, the inclination to invest or liquidate, the behavior of interest rates and the earning power of banks. Because of these ramifications the future trend of reserves, with respect to both city and country banks, in the fourth district as well as elsewhere, is of extreme importance for the establishment of a basically sound peacetime economy.

At the moment, the postwar behavior of security prices, of commodity and real estate prices, the probable level of industrial production and employment, the prospective volume of borrowing on both Government and private account including consumption loans by individuals, cannot be estimated with precision. Until these various elements crystallize into a recognizable pattern, the question of what constitutes an appropriate volume of member bank reserves —for the long-term welfare of the country—will remain somewhat in suspense.

Furthermore, events of the past decade emphasize the fact that the ultimate results are almost inevitably a composition between official policy and extraneous economic forces. The deliberate expansion or contraction of reserve bank credit is not a laboratory operation wherein all surrounding conditions are subject to exact control. It is such extrinsic factors as international gold movement, domestic currency requirements, the mood of the people, and the existence of a tremendous public debt with its virtually interminable refunding operations, that are most likely to generate conflictions in the evolution of national postwar credit policies. But at this early stage of reconversion and adaptation to peacetime conditions, no sudden change in credit policy appears imminent.

RECENT FINANCIAL DEVELOPMENTS

Deposits and Currency At the termination of hostilities, total deposits of fourth district weekly reporting banks were only slightly below the all-time high established on July 18. At that point, aggregate deposit liabilities of this representative group of banks had increased 80 percent since the time of Pearl Harbor. The nominal contraction of the past several weeks is consistent with earlier experience between war loan drives when deposits have tended to shrink somewhat as collateral loans are reduced and because of currency moving into circulation.

Over the same period, the rise in individual and corporate demand and time deposits was only around 60 percent, or somewhat less than that of all deposits combined. This disparity is accounted for by the fact that Government balances are still extremely large in terms of prewar standards. Ultimately, after the forthcoming war loan, and as federal financial needs recede to a peacetime basis, a major portion of those Treasury deposits will be transposed into privately-owned deposits.

Notwithstanding the moderate but steady decline in wage-earner payrolls of the past year or so, the wartime growth of time deposits has continued unchecked. If anything, the rise thus far in 1945 has been even more pronounced. Likewise, the rate of currency outflow seems not yet to have been markedly affected by the recent reduction in payrolls. The increase of fourth district Federal reserve notes in circulation within the past month was approximately $41 million or not far from that which occurred in the same interval a year ago. It is too early to ascertain whether, or to what extent, current industrial developments will alter those trends significantly.

Investments With regard to investments, in August Treasury bill holdings of the 41 reporting banks reached the lowest point in three years, which was only about $30 million more than in December 1941. Conversely, these banks' holdings of Treasury certificates of indebtedness, notes, and bonds were up nearly $3 billion, a 300 percent increase. As a result of this tremendous acquisition of Government obligations, corporate and other securities have receded to a position of minor importance dollarwise in the composite portfolio. However, presumably in response to renewed activity in the new issue market, holdings of such securities have expanded some 10 percent since the wartime low of over a year ago.

Loans At the war's end, commercial, industrial, and agricultural loans stood close to the lowest levels of recent years. New loan volume apparently has been barely sufficient to offset payments on outstanding V-type and other war production loans. Real estate and all other loans are not far above their wartime lows recorded during the past year.

On the other hand, on July 3 collateral loans of weekly reporting banks had risen to a record $328 million, of which $285 million was secured by U. S. Government securities. With the announcement that the Eighth "Victory" Loan would be launched on October 29, or only about eight weeks hence, the volume of unliquidated bank credit which remains from the Seventh Loan is of some interest.

Liquidation of loans for the purpose of carrying Government securities, during successive inter-drive periods, has consistently fallen short of 100 percent. Although there are no clear indications that the present interlude will be an exception, during the first eight weeks of liquidation (to August 29), this special category of collateral loans declined nearly 20 percent. A slight acceleration in that rate would reduce the volume below the pre-Seventh War Loan low by November 1. The disposition of borrowers to lighten their commitments has presumably been affected by the fact of declining Treasury bond prices in the past several weeks.

MANUFACTURING AND MINING

The Industrial Outlook Although Government and industry had not completed their plans to change over quickly from war to peacetime production, total unsettlement actually may be less than if a year or more had elapsed between the ending of the two wars. The end of war telescopes the problems of a slower reconversion but at the same time it permits the full play of American business ingenuity which, accompanied by the release of extensive material and labor resources, can be applied to peacetime production. The next few weeks and months will constitute a period in which indexes of industrial production and national income, as well as data pertaining to unemployment and the length of the work week, will have temporary meanings without their usual causal relationships. It will be a touch-and-go period in which both the forces of inflation and deflation will be evident. The capacity of Government, industry and labor to work constructively together during this trying period will have much to do with the smoothness and rapidity of reconversion.

The diversified character of fourth district industry will stand it in good stead as the switch from war to peace is made. Manufacturers in the fourth district produced nearly one-eighth of the total value of manufactured products prewar. Several industries in the district—all heavily associated with war production—have larger portions of the national totals. Among these are iron and steel; rubber; machinery; stone, clay, and glass; and electrical equipment. Wartime expansion of the district's industrial facilities amounted to approximately $2.5 billion, or some 10.4 percent of the Nation's aggregate wartime industrial expansion. Iron and steel experienced the largest absolute expansion of any district industry, while machinery and electrical equipment; machine tools; and aircraft, including engines, parts, and accessories, showed great relative growth.

Although new plant facilities are scattered widely throughout the district, the greatest growth occurred in areas which were important industrially prewar. It also is significant that, for the most part, the greatest expansion has occurred in the industries which were most important before the war. These lines will face relatively few reconversion problems, though they may confront the necessity of contraction to peacetime requirements. It is estimated that nearly 80 percent of district industry is free from serious reconversion difficulties.

The effect of complete and rapid reconversion on employment in the district is of paramount interest. The industry of the district is not narrowly specialized for single-purpose war objectives. Therefore, such industries as steel, coal, rubber, machinery, chemicals, and ceramics will continue to produce in peacetime, with changes only in the degree and character of operations. The machine tool, the numerous metal-working industries, and the great variety of parts suppliers will all be needed, both to help industrial reconversion and to provide materials and parts for the reconverted industries. Unemployment in fourth district industry due to physical reconversion should be less than the average for the country. Likewise, frictional delays in transferring labor and industrial facilities to peacetime production should be less serious in this area than in many more specialized sections. Even so, unemployment largely of a temporary character will create many tensions and necessitate heavy drains on unemployment funds and private savings. However, just as "priority" unemployment did not develop on the predicted scale in 1942, a smooth and flexible meshing of our intricate industrial mechanism may reduce the shock of reconversion unemployment.

Steel Steel ingot output in July totaled 6,999,625 net tons as compared with 6,842,290 tons in June and 7,498,387 tons in the corresponding month of 1944. The two-day holiday of August 15-16 cut the production rate of that week to 60 percent with recovery in the following week to about 70 percent, contrasted with close to 90 percent in previous weeks.

Current statistics on steel production and operating rates have less than their customary meaning because of suspensions following the end of the war with Japan. Revision of schedules, necessitated by the change from war to peace, is the order-of-the-day for mill managements. Sheets, bars, shapes and tin plate are in heavy demand for peacetime products and may provide a cushion for operating rates in the near future.

Coal The reduction in military requirements may permit a reversal of the recent inventory decline in bituminous coal. With the resumption of large-scale civilian production, however, industrial demand again will be heavy. On an over-all basis, pressure on coal should be lessened from this time on, except for certain grades of household-type coals. Bituminous coal production in the fourth district during July amounted to 18,260,000 tons. This brought the January 1—August 1, 1945 district total to 129,006,000 tons, compared with a national total of 352,006,000 tons for the period, January 1—August 4, 1945.

Rubber A myriad of rubber products, held back by war demands on this industry, will make their appearance in distributive channels following the gradual release of controls. The tire and tube industry, which has been laboring to meet military requirements, can easily turn its production ability to the peacetime market. It is possible that tire production may reach 4 million a month in the October-December quarter. Total rubber consumption in the next twelve months may not reach the 800,000 tons predicted, but the expected release of larger supplies of crude may provide the volume and variety of rubber to meet most consumer and trade demands. The rubber industry believes that there is a place for both synthetic and natural rubbers and that the two will have approximate cost equality. It is anticipated that the majority of synthetic capacity will be used, although petroleum rather than alcohol will constitute the economic source base.

Machine Tools The machine tool industry was a vital requisite to expanded wartime production. It remains a key industry in a Nation at peace. Current shipments of approximately $40 million monthly are far below the wartime peak reached in 1942 when annual shipments amounted to $1.3 billion. Reconversion needs of the automobile, steel, railroad, electrical machinery, and the construction industries, plus the needs of certain durable consumer goods producers, promises continued machine tool production above prewar rates. The disposal of Government-owned machine tools—estimated at some 600,000 in number, of which approximately 80 percent can be used in civilian production—constitutes the biggest question concerning the industry's peacetime rate of operation.

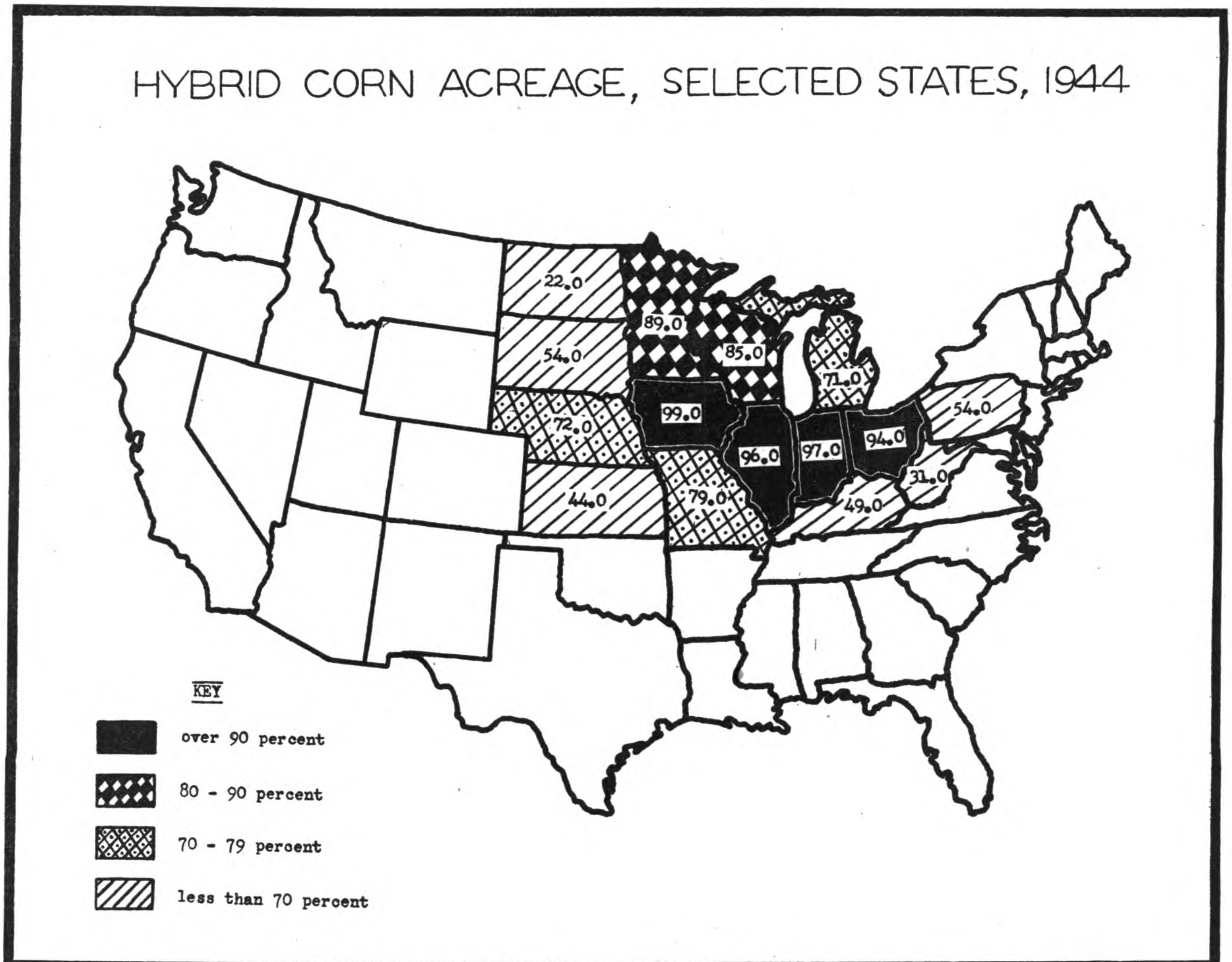
Other District Industries Military requirement cutbacks and cancelations soon will be reflected in a sharp upturn in the production of consumer goods. In general, this will be brought about through the release of manpower and materials to civilian production. For instance, cancelations of military lumber requirements, combined with the relaxation of many lumber controls, will aid greatly in releasing labor and productive facility so necessary to fill the anticipated demands of a rapidly expanding building program. Military and lend-lease cutbacks have released such substantial quantities of cowhide for upper and soles that shoe rationing may not long be necessary. The textile industry should expand operations as manpower becomes sufficiently available to match supplies of raw materials. The reconversion of the shoe and textile industries does not apply to production as much as it does to reallocation of sales. Reconversion in the glass industry presents no difficult problems and civilian and reconversion needs will be met. Other ceramics industries, especially the dinnerware industry, report production at approximately 80 percent of capacity and are eagerly awaiting manpower developments. The paper and paperboard industries report some improvement in deliveries and a hope for additional manpower. This industry, like many others, is concerned with the handling of Government-owned surpluses.

HYBRID CORN PRODUCTION

Hybrid corn represents the most outstanding economic example of the influence of theoretical scientific research in revolutionizing production practices of American agriculture. In little more than a decade of rapidly increasing use, though backed by many years of cumulative research, the hybrids have established their superiority in productiveness, in resistance to wind, disease, drouth and other unfavorable conditions. Because of the better stand-ability of the hybrids, they have been instrumental, too, in increasing the use of mechanical pickers which have enabled labor-short farm operators to harvest the record yields that have been so essential to both the war and home fronts. Yet, despite the scope of this agricultraul revolution, hybrid corn has crept quietly into the Nation's economy and way-of-life.

Corn is the backbone of American agriculture. It is grown on three-fourths of the six million farms, although the north-central states (the Corn Belt) account for 60 percent of the acreage planted and about 75 percent of the total crop. The relative position of corn belt production, in comparison to the rest of the country, has improved during the last decade because of extensive use of high-yielding hybrid seeds. This is borne out by the fact that of the Nation's 100,000,000 total corn acreage in 1945 approximately 60 percent was hybrid, whereas it averaged over 80 percent throughout the Corn Belt and was well above 90 percent in the leading corn producing states.

Traditionally, the pollination of corn was uncontrolled. However, hybrid seed corn—the first-generation cross on hybrid of two or more inbred or purified strains—is pollinated under controlled conditions. Breeding is directed toward the development of desired qualities adapted to local conditions. Its value is for seed in the production of a crop of commercial



corn. Although the resulting corn will grow, of course, it cannot be used for seed without a loss in yield in succeeding generations. This has caused a drastic change in the thinking of farmers who have followed the time-honored system of selecting their seed from their own fields.

Some Production Factors The accompanying table indicates the rapidity with which corn acreage planted with hybrid seed has expanded throughout Corn Belt and fourth district states.

PERCENTAGE OF TOTAL CORN ACREAGE PLANTED WITH HYBRID CORN

	1936	1937	1938	1939	1940	1941	1942	1943	1944
United States	3.1	7.9	14.9	22.5	30.4	39.1	45.8	51.3	57.0
Corn Belt States	5.1	12.9	25.4	38.6	51.8	64.9	72.9	78.0	82.5
Iowa	14.4	30.7	51.9	73.4	90.3	96.9	98.9	99.3	99.0
Indiana	3.5	11.1	28.5	50.8	63.1	83.1	92.8	95.9	97.0
Illinois	9.9	25.2	47.5	65.5	76.4	86.9	93.3	96.1	96.0
OHIO	2.0	6.7	25.0	42.1	56.0	74.7	86.7	91.5	94.0
Minnesota	3.7	9.1	20.4	37.0	57.6	72.4	83.0	87.5	89.0
Wisconsin	5.0	11.1	24.0	39.7	56.6	70.1	76.5	81.2	85.0
Missouri	0.3	0.6	1.8	12.1	26.9	46.7	60.1	70.7	79.0
Nebraska	1.0	2.5	6.8	12.7	24.9	36.5	51.4	63.5	72.0
Michigan	0.5	1.1	3.2	8.1	20.9	41.6	55.2	62.9	71.0
South Dakota	0.4	1.2	3.1	7.0	12.6	24.7	33.9	43.8	54.0
Kansas	...	0.2	1.6	5.3	11.1	18.1	24.4	30.1	44.0
North Dakota	...	...	0.4	1.6	3.8	7.6	12.3	16.3	22.0
Fourth District:									
Ohio	2.0	6.7	25.0	42.1	56.0	74.7	86.7	91.5	94.0
Pennsylvania	0.1	0.9	3.4	8.3	14.7	25.1	36.1	44.7	54.0
Kentucky	0.2	0.8	1.8	4.1	8.2	13.5	22.7	35.8	49.0
West Virginia	0.1	0.6	1.9	4.0	8.0	12.3	21.9	29.5	31.0

In the leading Corn Belt states one could drive for days without seeing corn fields planted with other than hybrid seed. What this has meant in increased production is even yet not fully understood. Improved seed alone, of course, is not the entire answer to the record crops of recent years because good weather, better seed-bed preparation and more rapid planting when the soil is receptive to the seed have been of great importance. However, the ability of hybrid seed to meet the challenge of higher production unquestionably is of dominant importance.

Perhaps it is no indication of the conservatism of Government crop reports that the final corn crop figures, in bushels, were above the August 1 reports as follows: 1941—88,000,000; 1942—378,000,000; 1943—160,000,000; and 1944—299,000,000. The average increased yield per acre between August 1 and the final corn crop figure during these years was about 2.5 bushels. If this is applied to the August 1 crop estimate of 2,850 million for this year's acreage of 92,000,000 this would mean a 1945 corn crop just over 3 billion bushels.

Management Factors The use of corn hybrids has expanded so rapidly because the seed has proved to be the most profitable investment a corn farmer could make. In 1943, 1944 and 1945, for instance, hybrid seed corn cost farmers about $60 million each year. The Department of Agriculture estimates increased yields for each year of at least 600 million bushels, which resulted in a financial return of about $10 for each dollar invested. This is prefaced on the fact that one bushel of seed corn, which had a United States average retail price on May 15, 1945, of $8.62 per bushel, will plant about seven acres, and hybrids planted under favorable conditions will increase production by 10 to 30 percent.

Corn hybrids have many other plus values. Their vigor has been proven, especially in drouth years. Equally impressive has been their ability to produce a crop under late planting conditions, a factor of real importance in 1945. Because hybrid corn makes better use of soil fertility and can withstand drouth, it has helped to take some of the speculation out of corn farming. Corn hybrids also have fitted into the soil conservation program because hybrid seed has enabled farmers to grow sufficient corn while acreage has been released to clover and other soil-building crops. However, even under continuous corn cropping the improvement of hybrid seed corn has increased yields about as fast as the soil has depreciated.

The unbelievable impact of hybrid corn can be seen in better crop rotations, as well as the release of a large amount of fertile acreage to much needed soybeans, wheat and other cereals made necessary by the war effort. Even with the release of former corn acreage to other crops the record corn production during the war years is fit testimony to the ability of hybrids to meet the challenge. They will continue to prove just as important as a means of assuring needed production and maintenance of soil fertility in peacetime years.

Summary Under favorable conditions corn produces a greater yield of grain and of total digestible nutrients per acre than any other crop now grown. About 90 percent of corn production goes to livestock feeding, in one form or another, with 50 to 55 percent going to hogs. If corn production reaches the near-three billion bushel mark this year, total grain tonnage of the country may reach a record high. Such feed stock totals would permit a sizeable increase in the hog population and the maintenance of beef cattle, dairy animals and poultry at present levels. The corn crop, therefore, is of extreme importance in determining whether the present livestock population can be better fed out, and their numbers possibly increased. The discontinuance of meat rationing in late 1945 or early 1946 is dependent upon the size of the 1945 corn crop. Hybrid corn may again prove its importance by providing the key to a normal supply of meat for peacetime America.

AGRICULTURAL SUMMARY

Fourth district agricultrual production, as well as that for the entire country, is headed for many new records during 1945. The Ohio corn crop, aided by good growing weather during August, may set a new record although the August 1 crop estimate at 181 million bushels is slightly less than the amount produced in 1942. The Ohio wheat crop at 62½ million bushels is the largest on record, while oats production at 353 million is the largest since 1931. Soybean production, estimated on August 1 at 25 million bushels, would be the second largest in the State's history. July egg production at 231 million eggs is the highest ever recorded for that month. Is is generally believed that August milk production wae the highest ever recorded for that month, and tht conditions of pastures during August, combined with heavy feeding, assures a continuation of a high milk supply.

Reports from Kentucky indicate that the tobacco crop is well above average in quality, though slightly less in volume than last year's record production. Tobacco cutting has begun and will continue on a large scale during September. The Kentucky condition is fairly general throughout the tobacco belt and sufficient national supplies are assured.

Nationwide, the near-record total grain tonnage not only promises relief from fears of food or livestock shortages but it permits increased hog production for 1946. The record wheat and oats production will more than offset the possible shortage of corn, and total feed stocks available for 1945-46 will be as great as in 1944-45. Hay production will reach a record high in 1945 and it is generally reported that pasture conditions in late summer have not been so good in 30 years. In a national way, too, the country has record crops of peaches, peanuts, rice and truck crops.

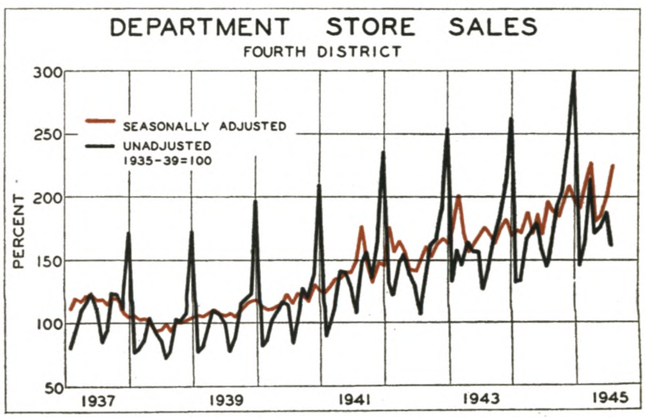
Although the end of war and the lend-lease program will reduce agricultural commodity requirements, demand is expected to be good during the remainder of 1945 and throughout 1946. National income, of course, is expected to be down somewhat from wartime levels, but it may not decline as rapidly as employment. When this lag is taken up by reconverted industry, and by an increase in non-manufacturing employment, the high demand for agricultural products may be expected to continue without seriously endangering the agricultural price-support program.

Indicative of the fact that fear is cumulative, the agricultural surplus specter has not been discussed as much with the actual end of war as it was in the fall of 1944 when the talk of the end of the war in Europe first began. It is true, of course, that the armed services have accumulated vast stocks of food, both for current consumption and as a safety factor in the military scheme. The factor of military food supplies, moreover, is but one of the problems confronting farm leaders in their efforts to correlate agricultural production to demand. However, the difficulty encountered with the ill-fated hog reduction program, which was a major cause of the meat shortage on the home-front, may occasion some hesitation in formulating plans which call for lower agricultural production quotas.

DEPARTMENT STORE TRADE

With World War II ended, it seems appropriate to discuss briefly the effects of the war on fourth district department store business. The outstanding development was the sizable increase in total stores sales, as shown on the accompanying chart. Sales have advanced steadily since 1938, and last year's dollar volume was up 72 percent from 1939 and 57 percent over the prewar peak established in 1929. Merchants continued to report gains during the first seven months of this year, and sales in this period were 13 percent larger compared with January-July 1944. The surrender of Germany had little effect on consumer buying, as sales during June and July this year were considerably greater than a year ago.

The pressure on prices resulting from record-high salary and wage payments, combined with unexpectedly high civilian inventories, was largely responsible for the tremendous gains in retail sales. Many consumers, particularly those employed in industries manufacturing materials for war, used their greatly enlarged earnings to purchase luxury items and other higher-priced articles which they could not afford prior to the war. The increases in sales over the past several years also reflect higher retail prices, upgrading of merchandise, deterioration in the quality of certain staples, and the absence of many lower-priced lines of



goods. Thus, there have been hidden price increases, as well as direct price advances, with the result that the gains in the physical volume of merchandise sold have not been as great as in the dollar value.

The gains in sales over the war period have been far from uniform among the various departments of reporting stores. As a result of shortages of certain types of merchandise, especially heavy appliances and various other housefurnishings, consumers shifted their purchasing power to departments which were more heavily stocked, especially those selling women's ready-to-wear and accessories. Piece goods sales recently were two to three times larger than the pre-war level, as many women were making their own garments because certain ready-made clothing was difficult to secure or of inferior quality. Men's apparel departments did not experience sales increases as large as those in the women's wear divisions, principally because many of the stores' male customers were in the armed forces. However, this loss was partly offset by the larger amount of goods purchased by war workers.

Of special interest in a discussion of department store trade over the war years is the fact that retailers were able to maintain a large volume of merchandise stocks in the face of war production and the accompanying curtailment in production of many civilian items. Following entry of the United States into World War II, department stores made every effort to build up their inventories in anticipation of future shortages. On May 31, 1942, stocks at fourth district stores were the largest on record, but during the remainder of 1942, these were liquidated almost as rapidly as they had been built up earlier in the year. During 1943 and 1944, reporting stores were able to secure approximately as much merchandise as they sold, despite the fact that they experienced record-high dollar sales month after month. In discussing dollar stocks, as well as dollar sales, one must take into consideration the upgrading of merchandise and other factors which have tended to inflate the stocks figures. While department store inventories during the war have been greater than in the years prior to 1941, there have been fewer articles from which customers could make their selections.

Total store sales during July 1945 were up 15 percent from the same month a year ago and were the largest on record for that period. The decrease from June was considerably smaller than usual, and the seasonally adjusted index advanced to 220 percent of the 1935-39 base, only two points less than the all-time high established last March. The year-to-year gains for July showed considerable variation among the leading cities of the district, ranging from one percent in Erie to 26 percent in Youngstown. Sales in Pittsburgh and Cleveland were up 16 percent, and in Cincinnati 19 percent.

Since the first of this year, there has been some improvement in the inventory situation at fourth district stores, and stocks at the end of July were up 34 percent compared with January 1. During the same period, the seasonally adjusted stocks index advanced from 137 percent to 187 percent of the 1935-39 average, the highest point in nearly three years. At the present time stores are faced with the necessity of closing out their wartime goods, many of which are of substandard quality. Some merchants report that they are canceling orders for such merchandise in anticipation of receiving better quality goods within a short period of time. Customers, too, are very reluctant to purchase goods of this type.

It is generally expected that department store sales during the next several months will drop from the wartime peak, but it is difficult to predict the length or degree of this decline. The amount of time needed for reconversion in this area and the volume of contract cancelations, with the accompanying layoff of war workers, will be determining factors. Certain merchants have reported that their business already is falling off somewhat. However, following the reconversion period, department stores again should experience a boom in sales, especially as articles which have not been available at all, or only in limited quantities, reach the market in large volume.

Fourth District Business Indexes

(1935-39 = 100)

	July 1945	July 1944	July 1943	July 1942	July 1941
Bank Debits (24)cities	213	216	199	171	147
Commercial Failures (Number)	4	9	16	45	70
" " (Liabilities)	19	12	38	20	52
Sales—Life Insurance (O. and Pa.)	128	110	101	81	105
" —Department Stores (97 firms)	161	140	126	106	107
" —Chain Drugs (5 firms)*	171	160	163	141	120
" —Chain Groceries (4 firms)	165	175	163	141	122
Building Contracts —(Total)	113	78	72	344	268
" " —(Residential)	65	27	101	85	433
Production—Coal (O., W. Pa., E. Ky.)	146	149	154	148	137
" —Cement (O., W. Pa., E. Ky.)**	68	70	132	161	178
" —Electric Power (O., Pa., Ky.)**	194	190	186	161	143
" —Petroleum (O., Pa., Ky.)**	99	100	105	101	91
" —Shoes	73	70	84	111	123

* Per individual unit operated.

**June.

a Not available.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-39 = 100

	Without Seasonal Adjustment			Adjusted for Seasonal Variation		
	July 1945	June 1945	July 1944	July 1945	June 1945	July 1944
SALES:						
Akron (6)	196	218	180	236	237	217
Canton (5)	211	237	198	261	246	244
Cincinnati (9)	170	193	148	232	215	203
Cleveland (10)	155	174	139	206	189	186
Columbus (5)	200	223	171	257	239	219
Erie (3)	167	192	164	219	216	216
Pittsburgh (8)	138	172	120	212	173	184
Springfield (3)	192	225	184	256	228	246
Toledo (6)	160	186	150	226	200	211
Wheeling (6)	148	174	125	200	196	169
Youngstown (3)	180	212	149	240	226	199
District (97)	161	187	140	220	197	191
STOCKS:						
District (51)		168	146		180	164

Debits to Indiv dual Accounts

(Thousands of Dollars)

	July 1945	% change from 1944	Jan.-July 1945	Jan.-July 1944	% change from 1944
Akron	197,643	+10.5	1,444,147	1,254,839	+15.1
Butler	21,110	+16.1	153,346	123,495	+24.2
Canton	81,257	− 7.3	599,321	575,909	+ 4.1
Cincinnati	651,256	+ 4.7	4,598,610	4,292,562	+ 7.1
Cleveland	1,333,977	− 4.8	9,648,970	9,240,400	+ 4.4
Columbus	323,167	+ 1.3	2,423,063	2,251,136	+ 7.6
Covington-Newport	27,890	+ 8.2	186,444	174,563	+ 6.8
Dayton	149,257	+ 7.0	1,061,552	1,013,183	+ 4.8
Erie	68,771	+13.7	434,243	450,229	− 3.6
Franklin	6,072	− 2.5	42,667	42,873	− 0.5
Greensburg	14,145	+ 6.8	90,643	86,519	+ 4.8
Hamilton	23,238	+21.3	166,133	141,939	+17.0
Homestead	5,437	+ 2.1	36,610	34,844	+ 5.1
Lexington	33,791	+20.3	359,662	268,939	+33.7
Lima	26,980	− 5.5	205,822	189,229	+ 8.8
Lorain	8,957	+ 2.1	63,595	61,493	+ 3.4
Mansfield	22,955	+12.6	165,574	144,339	+14.7
Middletown	18,196	− 1.6	141,027	140,961	-0-
Oil City	15,348	+ 2.9	116,803	106,996	+ 9.2
Pittsburgh	1,302,859	− 1.8	9,562,204	9,356,742	+ 2.2
Portsmouth	11,943	− 0.6	86,307	79,914	+ 8.0
Sharon	17,114	+ 3.5	120,936	118,815	+ 1.8
Springfield	31,874	+ 0.8	231,695	227,664	+ 1.8
Steubenville	16,266	+14.5	112,152	95,149	+17.9
Toledo	251,524	−11.6	1,757,738	1,881,216	− 6.6
Warren	22,649	−11.8	173,699	170,857	+ 1.7
Wheeling	47,634	− 2.2	314,007	299,304	+ 4.9
Youngstown	89,943	+ 1.0	620,007	600,512	+ 3.2
Zanesville	15,001	+ 8.4	97,401	90,310	+ 7.9
Total	4,836,254	− 0.9	35,014,378	33,514,931	+ 4.5

Fourth District Business Statistics

(000 omitted)

Fourth Districe Unless Otherwise Specified	July 1945	% change from 1944	Jan.-July 1945	% change from 1944
Bank Debits—24 cities	$4,742,000	− 1	34,364,000	+ 4
Savings Deposits—end of month:				
39 banks O. and W. Pa.	$1,302,322	+25		
Life Insurance Sales:				
Ohio and Pa.	$ 107,729	+17	732,546	+12
Retail Sales:				
Dept. Stores—97 firms	$ 37,856	+15	293,687	+13
Wearing Apparel—17 firms	$ 1,657	+19	14,401	+13
Furniture—74 firms	$ 2,747	+10	19,160	+ 5
Building Contracts—Total	$ 27,476	+44	130,840	+39
" " —Residential	$ 4,994	+143	24,094	+11
Commercial Failures—				
Liabilities	$ 282	+66	1,458	+36
Number	3	−50	32	−37
Production:				
Pig Iron—U. S. Net tons	4,801	− 7	33,955	− 7
Steel Ingot—U. S. Net tons	7,000	− 7	50,154	− 5
Bituminous Coal—				
O., W. P., E. Ky. Net tons	18,260	− 3	129,006	− 7
Cement—				
O., W. Pa., W. Va. Bbls.	558a	− 3	3,016b	+ 8
Electric Power—				
O., Pa., Ky. Thous. K.W.H.	2,965a	+ 2	18,179b	+ 2
Shoes Pairs	c	+ 4	c	− 2
Bituminous Coal Shipments:				
Lake Erie ports Net tons	6,646	− 7	24,982	−10

a January.

b January-June.

c Confidential.

Wholesale and Retail Trade

(1945 compared with 1944)

	Percentage Increase or Decrease		
	SALES July 1945	SALES first 7 months	STOCKS July 1945
DEPARTMENT STORES (97)			
Arkon	+13	+14	+13
Canton	+11	+ 9	a
Cincinnati	+19	+16	
Cleveland	+16	+11	
Columbus	+22	+18	+17
Erie	+ 1	+ 7	+ 2
Pittsburgh	+16	+12	+16
Springfield	+ 9	+ 8	a
Toledo	+11	+12	+10
Wheeling	+18	+19	+11
Youngstown	+26	+19	a
Other Cities	-0-	+ 5	
District	+15	+13	
WEARING APPAREL (17)			
Canton	+18	+13	+ 9
Cincinnati	+16	+13	−14
Cleveland	+17	+13	− 2
Pittsburgh	+27	+13	+11
Other Cities	+19	+12	+13
District	+19	+13	+ 3
FURNITURE (74)			
Canton	+24	+ 7	+21
Cincinnati	+13	+13	+ 9
Cleveland	+ 9	+ 3	+16
Columbus	+ 6	− 2	+ 2
Dayton	+22	+ 5	a
Pittsburgh	+18	+ 7	a
Allegheny County	-0-	+ 6	a
Toledo	+14	+ 2	−11
Other Cities	+ 5	+ 7	+ 4
District	+10	+ 5	+11
CHAIN STORES*			
Drugs—District (5)	+ 7	+ 4	a
Groceries—District (4)	− 1	+10	a
WHOLESALE TRADE**			
Automotive Supplies (7)	+ 6	+20	+21
Beer (5)	− 3	− 5	a
Confectionery (5)	+ 6	+13	−16
Dry Goods (3)	− 1	a	−40
Electrical Goods (7)	+18	+ 7	+ 9
Fresh Fruits and Vegetables (10)	+26	+20	− 3
Furniture & House Furnishings (3)	−28	a	a
Grocery Group (41)	+ 2	+ 4	−22
Total Hardware Group (17)	+15	+ 8	-0-
General Hardware (5)	+30	a	-0-
Industrial Supplies (6)	− 6	− 2	a
Plumbing & Heating Supplies (6)	+24	+10	a
Jewelry (10)	+23	+ 3	a
Lumber and Building Materials (4)	+ 6	+ 3	+ 3
Machinery, Equip. & Sup. (Except Elec.) (4)	− 3	a	+12
Metals (3)	−31	a	a
Paper and Its Products (5)	+16	+ 9	a
Tobacco and Its Products (15)	+12	− 3	−23
Miscellaneous (14)	+ 9	− 5	−13
District—All Wholesale Trade (160)	+ 4	+ 4	−15

* Per individual unit operated.

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

aNot available.

Figures in parentheses indicate number of firms reporting sales.

Summary of National Business Conditions

By the Board of Governors of the Federal Reserve System

Industrial activity declined further in July and the early part of August and was sharply curtailed in the latter part of the month as munitions cutbacks were greatly accelerated. Retail trade was maintained in July and early August at a high level for this season of the year.

INDUSTRIAL PRODUCTION

Industrial production in July, the last full month of high level production for war, was 212 percent of the 1935-39 average, according to the Board's seasonally adjusted index, as compared with 220 in June. Following the surrender of Japan most munitions contracts were cancelled, and as a result it is expected that munitions output and industrial production will show much larger declines in August.

Production of aircraft declined about 20 percent in July and operations at shipyards and in other munitions industries were reduced considerably from the June rate. Steel production in July and the early part of August was about 5 percent below the June level. In the week following Japan's surrender activity at steel mills decreased sharply to a rate of 70 percent of capacity. Production of nonferrous metals continued to decline in July, while output of lumber and stone, clay, and glass products was maintained.

Production of most nondurable goods declined somewhat in July, but, as a group, output of these products was slightly above a year ago. Cotton consumption was 14 percent below the preceding month and was 11 percent below last July. Activity in the meatpacking, canning, and baking industries, after allowance for seasonal changes, was down somewhat from June. Production of alcoholic beverages rose sharply as distilleries were released from industrial alcohol production. Activity in chemical, rubber, and other nondurable goods industries declined slightly.

Coal production declined about 5 percent in July and the first part of August from the June rate, while output of crude petroleum continued to increase and was in record volume.

Contracts awarded for private construction continued to rise sharply in July and were more than three times the low level prevailing last summer, according to F. W. Dodge Corporation data. Contracts for privately-owned non-residential building showed the largest increase. On August 21, all restrictions over the construction of industrial plants were removed.

Distribution

Department store sales declined much less than is usual from June to July, and the Board's seasonally adjusted index rose from 201 to 218 percent of the 1935-39 average. Sales in July were 15 percent larger than in the corresponding period last year. During the first two weeks of August sales were about 20 percent larger than a year ago.

Carloadings of most classes of railroad freight declined somewhat in July and the early part of August and were below the volume shipped during the same period last year. Shipments of l.c.l. merchandise, however, were at about the same rate as prevailed during the same period last year.

Commodity Prices

Wholesale commodity prices generally showed little change from the early part of July to the early part of August. Following the announcement of peace negotiations prices of cotton and grains declined somewhat—especially contracts for delivery next year—while prices of most other basic commodities continued unchanged.

Retail prices advanced somewhat further in June. Food prices rose 2 percent and retail prices of clothing, housefurnishings, and miscellaneous items continued to show slight advances.

Agriculture

Crop prospects improved during July and, according to indications on August 1, total output this year will be only slightly smaller than the record volumes of 1942 and 1944. Of the major crops only production of cotton, corn, and apples is expected to be less than a year ago. Marketings this summer of most livestock products except hogs have been about as large as, or larger than, the high levels of recent summers.

Bank Credit

Loans and investments at reporting banks in 101 leading cities declined by 1.2 billion dollars between the close of the Seventh War Loan and mid-August. Reflecting repayments on advances made during the drive, loans for purchasing or carrying Government securities declined by a billion dollars. Loans both to brokers and dealers and to other bank customers decreased by approximately 500 million dollars each, compared to drive and immediate pre-drive increases of 1.1 billion and 1.8 billion dollars respectively. While bank holdings of Treasury bonds continued their steady week-to-week increase, holdings of bills and certificates, which had increased during the drive, began to decline again in late July and August. On balance, the total portfolio of Government securities declined by 350 million dollars. Holdings of other securities showed a small increase over the six-week period.

Following the close of the Seventh Drive, deposits of businesses and individuals began to increase again as Treasury expenditures transferred funds from war loan to private accounts. The average level of required reserves accordingly rose by about 500 million dollars between the drive-end low point and mid-August. Reserve balances increased by about 300 million dollars and excess reserves dropped by about 200 million to around 1.2 billion outstanding; this was still somewhat above the generally prevailing inter-drive level of slightly less than a billion dollars.

Member bank borrowing from the Federal Reserve Banks, which had declined to a minimum by the close of the Seventh Drive, increased by 275 million dollars in the subsequent six-week period ended August 15. Reserve funds were also supplied to member banks through an increase of 125 million dollars in Government security holdings at the Reserve Banks, as well as by temporary fluctuations in other Federal Reserve Bank credit and in Treasury deposits at the Reserve Banks. Only partially offsetting increases in such funds were a currency outflow of 520 million dollars and a small decline in gold stock. The currency outflow during July, 360 million dollars, was the largest in the past few months; early August increases were also substantial.