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DEPOSITS DURING RECONVERSION

Basic Observations Two salient facts emerge from an analysis of the vast increase in total deposits during the wartime period.

One is that the record volume of cash assets owned by individuals, business enterprises, and other private depositors appears destined to continue the wartime growth for another year or longer.

The other is that a large number of country member banks have been gradually converted from the status of savings banks, as it were, into institutions more akin to commercial banks. These situations are almost entirely a direct consequence of the prodigious expenditures for war. They are of more than immediate significance to individual banks as well as to the System as a whole.

Background The main causes of the tremendous expansion in total deposits in the short space of six years are rather generally understood. During the earlier war years, gold imports together with a moderate expansion of both loans and investments were the major factors. Subsequent to Pearl Harbor, a rapid expansion of bank investments in U. S. Government obligations was the chief cause.

The rate at which deposits expanded in the fourth district in response to that sequence of influences is depicted on the accompanying charts. It is quite widely assumed that the strong upward trend of total deposits, evident in all three size groups of banks, will tend to level off somewhat, at least for a time. That supposition rests on the theory that bank purchases of Government securities—the prime deposit-creating element in recent years—will diminish in volume.

Industrial reconversion and resumption of civilian production on a large scale should be free from drastic fluctuations in total deposits, either upward or downward. A reduction in payrolls or in Government expenditures, or an increase in private spending, will not affect the volume of deposits unless or until such

a change is reflected in bank loans and investments, international gold movements, and the flow of currency into or out of circulation.

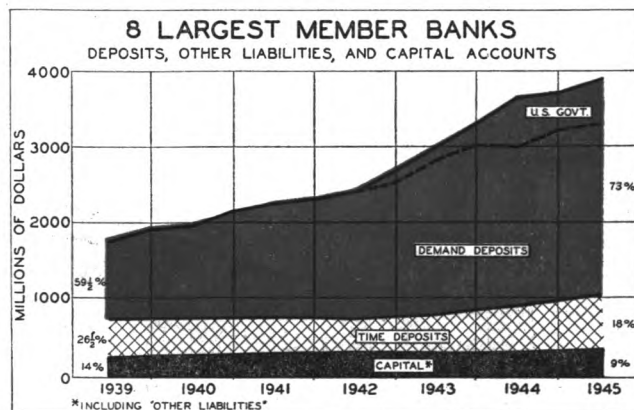
Eight Largest Banks However, the improbability of a pronounced change in the aggregate does not preclude the possibility of a considerable shift of deposits, not only among banks, but also among various types of depositors. A partial clue as to the nature of such potential shifts is disclosed by the following table, which shows the distribution of the six-year increases among various classes of depositors of large city banks in the fourth district:

**Increases in Deposits
Eight Largest Fourth District Banks**

June 30, 1939 to June 30, 1945

Demand Deposits of Individuals, Partnerships, and Corporations	\$1,077,000,000
U. S. Government (War Loan) Deposits	554,000,000
All Time Deposits	252,000,000
Interbank Demand Deposits	149,000,000
All Other Demand Deposits	18,000,000

\$2,050,000,000 or 134%



It is a logical expectation that during the course of the next year or so, U. S. Government deposits at these banks will decline by nearly \$500,000,000, as the Treasury's working balance recedes to peacetime requirements. For the country as a whole those funds will be converted largely into demand deposits of individuals and business enterprises. Thus arises the possibility that, assuming the experience of these eight banks will be typical, such demand deposits have completed only around two-thirds of their ultimate wartime expansion. A year or so hence those balances may stand more than 200 percent above the mid-1939 level as against a rise to date (June 30) of only about 150 percent.

This likelihood that cash assets of various kinds of depositors, including business enterprises, will increase substantially in the coming months has its implications with regard to the probable need for bank loans, and with respect to price fluctuations of securities, commodities, et cetera.

Government Deposits at Smaller Banks

The varying but similar extent to which unspent Treasury balances have contributed to over-all deposit expansion outside the large metropolitan areas, is shown in the following table:

**Increases in Deposits
Six Years ended June 30, 1945**

(Millions of dollars)

	33 Large Banks	All Other Member Banks*
Demand Deposits of Individuals, Partnerships, and Corporations.....	\$730	\$1,113
U. S. Government Deposits.....	433	460
All Time Deposits.....	112	603
Interbank Demand Deposits.....	60	8
All Other Demand Deposits.....	29	46
	\$1,364 or 146%	\$2,230 or 197%

*First half of 1945 partly estimated.

As in the case of the eight largest banks, over half of the six-year increase in total deposits flowed into, and was at least temporarily at rest in, corporate,

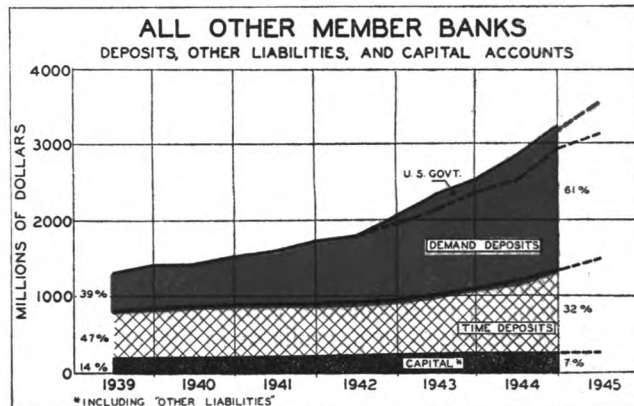
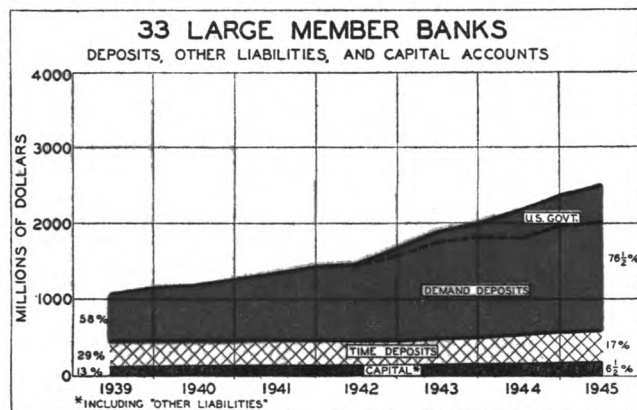
institutional, and individual demand balances. Likewise, another 20 to 30 percent was still (on June 30) in Government account. However, the tendency for funds to gravitate toward time deposits in smaller communities is evinced by the \$603,000,000 (out of \$2,230,000,000) increase in time deposits at the nearly 700 "all other" member banks.

Although the substantially augmented volume of savings deposits is presumably less volatile than any other section of the general deposit structure, it is noteworthy that time deposits are no longer predominant in many country banks.

Accession of Demand Deposits

For many years the primary depositary function of most country banks was that of receiving (and investing or lending) a substantial fraction of the monetary savings of their respective communities. That they still perform that function is attested by the virtual 100 percent increase in time deposits over the past six years. Concurrently, however, demand deposits increased approximately 300 percent. Demand liabilities now exceed time deposits in the ratio of nearly two to one.

The warborne expansion of deposits did not drastically change the deposit picture of the larger city banks. It merely accentuated the long-standing prominence of demand deposits. Loan and investment policies had been more or less adapted to that situation. But for the smaller banks the tidal wave of demand deposits was an unprecedented experience. There is every indication that the new relationship is more than a temporary phenomenon. Barring some unexpectedly broad movement of funds from outlying areas to industrial and financial centers, the character of country banking will not soon be recast in the traditional mold. If not with respect to lending opportunities, then at least with regard to their deposit liabilities, many country banks willy-nilly have come to resemble their metropolitan counterparts.



Deposit Ownership Surveys

While it is reasonably certain that demand deposits of individuals, partnerships, and corporations are destined to increase still further, as war loan accounts decline nationally, it is not a simple matter to anticipate the bank-by-bank results of such reconversion. A series of demand-deposit-ownership surveys, inaugurated in its present form as of July 31, 1943 and repeated at half-year intervals, is virtually the only guidepost available.

Analysis of those surveys reaffirms the principle that size and location are related to deposit growth and distribution. Banks of a certain size owe their deposit increase almost entirely to the wartime expansion of cash assets of one single type of depositor, while banks in another size group grew more or less rapidly because they are patronized by a different sector of the economy. Therefore, should industrial reconversion be characterized by a conspicuous shift of funds from one type of depositor to another, the prospective decline in U. S. Government deposits will not affect all banks equally.

Eight Largest Banks

During the past two years, over two-thirds of the aggregate increase in individual and corporate demand deposits at the eight largest fourth district banks took place in mining and manufacturing funds. The remaining one-third of the increase was spread over nine other types of depositors:

Ratio to Total Demand Deposits July 31, 1945	Changes in Demand* Deposits	
	Eight Largest Banks	
	Two years ended July 31, 1945	
	Increases	Decreases
	All Accounts over \$10,000:	
52.5%	Mining and Manufacturing	\$107,200,000
6.5%	Retail & Wholesale Trade	29,000,000
7.6%	Personal	12,900,000
4.3%	Trust Funds of Banks	12,900,000
2.9%	Other Nonfinancial	5,000,000
1.6%	Nonprofit Organizations	4,700,000
3.9%	All Other Financial	2,400,000
5.7%	Public Utilities	1,800,000
1.2%	Insurance Companies	200,000
13.8%	All Accounts Under \$10,000:	\$18,600,000
100.0%	Net Increase	\$157,500,000 or 9.4%
	x x x x	
	Time Deposits (estimated)	\$225,000,000
	U. S. Government (estimated)	350,000,000

*Hereinafter refers only to demand deposits of individuals, partnerships, and corporations.

Obviously banks of this kind have a sizable stake in the future trend of mining and manufacturing deposits, for such balances have consistently constituted more than 50 percent of total demand deposits. Moreover, the \$107,200,000 increase in those industrial balances appears rather impressive until

measured against a contemporary increase of perhaps \$350,000,000 in U. S. Government deposits, most of which will presumably be withdrawn in the next 12 to 18 months.

Deposits of retail and wholesale establishments, of trust funds of banks, and of nonprofit organizations also increased more rapidly than the average of 9.4 percent. Conversely, deposits of public utilities and of insurance companies and other financial concerns made only nominal net gains. And the aggregate of all accounts under \$10,000 actually decreased.

Each of those variations is probably susceptible to a reasonably accurate explanation. However, for the large city banks the overshadowing question appears to be: Will mining and manufacturing accounts continue to expand more rapidly than total deposits as the still large Government balances are gradually reduced at all banks? Unless future dissemination of funds in war loan accounts assumes a pattern wholly unlike that of the past two or three years, it is quite possible that cash balances of industrial enterprises may increase more rapidly during the first year or two of peace than during the war itself. Reluctance to admit that possibility carries with it the burden of identifying a more logical alternative. Which of the other ten categories (including time deposits) is likely to show a greater dollar gain, which in some cases would constitute an almost fantastic percentage increase?

All Other Member Banks

In striking contrast to their importance at the largest banks, accruals in industrial balances during recent years have been an almost insignificant factor in the deposit growth of banks outside the major fourth district cities. The following tabulation of a sample of banks in the \$10,000,000 to \$100,000,000 range reveals the major factors responsible for a 12.7 percent increase:

Ratio to Total Demand Deposits July 31, 1945	Changes in Demand Deposits—25 Banks	
	Two years ended July 31, 1945	
	Increases	Decreases
26.0%	All Accounts under \$10,000: \$64,800,000	
	All Accounts over \$10,000:	
9.7%	Personal	21,400,000
9.3%	Retail & Wholesale Trade	17,800,000
6.1%	Public Utilities	8,100,000
3.4%	All Other Nonfinancial	7,700,000
3.5%	Trust Funds of Banks	5,900,000
2.3%	Nonprofit Organizations	2,200,000
34.6%	Mining and Manufacturing	\$1,000,000
1.3%	Insurance Companies	2,400,000
3.8%	All Other Financial	9,500,000
100.0%	Net Increase	\$115,000,000 or 12.7%
	x x x x	
	Time Deposits (estimated)	\$245,000,000
	U. S. Government (estimated)	100,000,000

Over half of these banks' two-year deposit growth was brought about by a 32 percent increase in unclassified accounts, which are a prominent element (26 percent as shown in column 1 in table) in the demand deposit pattern. However, industrial accounts which constitute an even larger block remained virtually unchanged. Should it develop that subsequent expenditure of Government funds will be reflected chiefly in industrial accounts, banks of this type should not show a substantial decline in total deposits—unless concurrently the two categories heading the list are being drawn down by their owners in response to resumption of civilian production. In either event, banks of this classification appear to be in a straddle position. Their deposit structure is more evenly balanced, because of location and general clientele, and therefore less susceptible to significant changes in total deposits than either the larger or smaller banks.

Medium-Sized Banks Banks in the \$1,000,000 to \$10,000,000 range are more definitely dependent upon decisions of individuals and trading establishments. Virtually half of the 21 percent increase in demand deposits within the past year took place in that type of account:

Ratio to Total Demand Deposits July 31, 1945	Changes in Demand Deposits—57 Banks	
	One year ended July 31, 1945	
		Increases Decreases
29.6%	All Accounts under \$3,000:	\$14,000,000
	All Accounts over \$3,000:	
16.4%	Nonfarm Personal	12,400,000
14.7%	Retail & Wholesale Trade	11,300,000
21.8%	Mining and Manufacturing	7,700,000
2.5%	Farmers	2,300,000
1.7%	Trust Funds of Banks	1,600,000
2.4%	Nonprofit Organizations	1,500,000
3.9%	All Other Financial	700,000
2.7%	Public Utilities	700,000
0.7%	Insurance Companies	300,000
3.6%	All Other Nonfinancial	\$200,000
100.0%	Net Increase	\$52,300,000 or 21.1% in one year

If ultimate liquidation of the remaining war funds should result in a further accumulation of liquid assets by individuals, rather than by manufacturing concerns, such deposit gains might more than offset future war loan account withdrawals. However, the reconversion process is more likely to induce just the opposite result. In any event, the deposit experience of this type of bank will probably be somewhat in contrast to that of metropolitan institutions unless all important groups of depositors gain or lose deposits on a fairly uniform basis the country over. The fact that both producers and their customers, so to speak, added to their cash resources during the war is not a

warranty that a similar distribution will prevail henceforth.

Small Banks Prospects for further growth of the small banks are related still more closely to the future trend of personal, especially farmers', deposits and those of distributive trades. The following data refer to a sample of banks in the \$1,000,000 class:

Ratio to Total Demand Deposits July 31, 1945	Changes in Demand Deposits—25 Banks	
	One year ended July 31, 1945	
		Increases Decreases
	All Accounts over \$1,000:	
25.0%	Nonfarm Personal	\$1,540,000
14.8%	Farmers	1,120,000
17.6%	Retail & Wholesale Trade	1,050,000
3.6%	All Other Nonfinancial	360,000
6.7%	Mining and Manufacturing	240,000
3.5%	All Other Financial	230,000
2.3%	Nonprofit Organizations	150,000
1.7%	Public Utilities	100,000
0.3%	Trust Funds of Banks	50,000
0.1%	Insurance Companies	10,000
24.4%	All Accounts under \$1,000	510,000
100.0%	Net Increase	\$5,360,000 or 27.0% in one year

In this instance, so-called industrial accounts represent a minor fraction (6.7 percent) of total deposits. Deposits of banks in this size-group may decline noticeably in the event of a substantial shift of funds out of consumers' and distributors' hands. The type of depositors which would be at the receiving end of such a movement are too much in the minority to provide an effective offset to the anticipated reduction in Government deposits.

Conclusion By way of summary, it need only be reiterated that the ultimate reduction of war loan balances, after the Eighth ("Victory") War Loan, will inevitably cause an increase in privately-owned deposits.

If most of that increment comes to rest, at least temporarily in industrial accounts, the large city commercial banks should anticipate a further and noticeable growth of total deposits, while deposits of outlying banks might remain virtually stationary or decline somewhat. Those tendencies would be accentuated if consumers, retailers, and other commercial enterprises should concurrently draw upon their accumulated funds to fulfill long-deferred wants and plans.

This contingency is especially pertinent to the many country banks which have scarcely become acclimated to the sudden predominance of their formerly subsidiary demand deposit liabilities.

The Rubber Industry in the Fourth District

Value of Product Rubber manufacturing is one of the most important industries in the Fourth Federal Reserve District. In the last Census year, 1939, the value of rubber products manufactured in Ohio and Pennsylvania amounted to approximately \$344,000,000. Of this sum, Ohio accounted for about \$303,000,000. Since total value of rubber products produced in the United States during 1939 was \$902,000,000, Ohio alone produced 33.6% of the national total. The Census does not report separate rubber production figures for Kentucky and West Virginia due to the small number of rubber manufacturers in these states, nor is the information available by counties.

In 1939, tires and inner tubes produced in the fourth district accounted for 86% of the value of product and utilized 77% of the 42,000 wage earners employed by the rubber manufacturers.

The wartime expansion in manufacturing facilities located outside the district and operated by major tire producing companies with headquarters in Akron creates a question as to the future competitive position of the fourth district in the industry. Since Akron rubber manufacturers were responsible for 75.8 percent of all tires and tubes manufactured in the district, the problems now faced in the future are largely Akron's problems. The factors making for extensive decentralization of the industry may be summarized as follows:

1. Creation of enormous synthetic rubber production facilities and distribution centers located largely in the Southwest, Midwest and Far Western regions.
2. Building of modern one-story Government owned fabricating plants outside of the fourth district which has hastened the obsolescence of Akron's old style multi-floor buildings.
3. Comparatively high wage rates in Akron in relation to rates paid elsewhere in the industry.

History It is commonplace to associate the beginning of the rubber industry in the United States with Charles Goodyear's discovery of the vulcanization process in 1839 at Woburn, Massachusetts. The French, however, were experimenting with rubber in the middle of the Eighteenth Century and the English were working diligently with it at the beginning of the Nineteenth Century. A patent was issued in 1823 in England to Charles Macintosh for a new process of encasing rubber between two layers

of cloth to form a waterproof material. Garments made from this material were soon called "Macintoshes." However, the old problem of overcoming rubber's stickiness in warm weather and brittleness in cold weather was not solved until Goodyear discovered that a mixture of lead, sulphur and rubber subjected to heat would create the long sought result.

The first rubber manufacturing company in the United States was incorporated in 1833 at Roxbury, Massachusetts, to manufacture a rubber coated cloth. The firm also produced hose, boots, and shoes. Other companies were soon established at Boston, Chelsea, New York City, Staten Island, Troy, Woburn, and Framingham. Nearly all of the early enterprises failed within three years as the general public became acquainted with rubber's unstable character. Goodyear's new product in 1839, therefore, was first met with consumer resistance and scepticism.

The first Census of Manufactures for the United States rubber industry for the year 1849 reported the following:

Number of establishments.....	34
Number of wage earners.....	2,568
Wages paid.....	\$ 537,828
Value of product manufactured.....	\$3,024,335

The first rubber manufacturers were located in eight Eastern states: Connecticut 8, New York 8, New Jersey 6, Massachusetts 5, Rhode Island 2, Maryland 2, Pennsylvania 1, and New Hampshire 1. Approximately two-thirds of these firms were operating under licenses granted by Goodyear. What is now the fourth district did not have a single manufacturer. By 1937, only twelve states did not have rubber manufacturing establishments.

The Midwest's entrance into this field dated from 1870 when Akron's Colonel George T. Perkins, Head of the Board of Trade, and eighteen other Akronites invested \$1,000 each to induce Dr. Benjamin Franklin Goodrich to move his accidentally acquired and unprofitable rubber factory to Akron from Hastings-on-the-Hudson, New York. The first products manufactured were fire hose, wringer rolls, packing, billiard cushions, and belting. It was not until 1892 that another rubber factory was established in Akron. Only one major company of the "big four" in the rubber industry does not have a plant in the Akron area. The world's first commercial pneumatic auto tire order was received by the Goodrich Company in 1896 from a Cleveland manufacturer. He had to pay for the molds and casings in advance.

With the advent of pneumatic tire production and the growth of the automobile industry, rubber manufacturing expanded rapidly. A study of the 1939 Census of Manufactures reveals the following:

**Growth of Rubber Industry
All Rubber Products***

Year	Establishments	Number of Wage Earners	Wages	Value of Products	Value Added by Manufacturer
—In thousands of dollars—					
1899	301	37,000	\$15,000	\$ 100,000	\$40,000
1921	496	103,000	124,000	705,000	327,000
1929	525	149,000	207,000	1,117,000	539,000
1935	466	115,000	134,000	678,000	309,000
1937	478	130,000	171,000	883,000	369,000
1939	595	121,000	161,000	902,000	406,000

Tires and Inner Tubes

Year	Establishments	Number of Wage Earners	Wages	Value of Products	Value Added by Manufacturer
1921	178	55,000	75,000	496,000	205,000
1929	91	83,000	127,000	770,000	341,000
1935	42	57,000	78,000	446,000	181,000
1937	46	63,000	97,000	576,000	209,000
1939	53	54,000	90,000	581,000	231,000

*Includes establishments manufacturing rubber products of all kinds such as tires, rubber footwear, mechanical rubber goods, and rubber sundries. Also includes establishments specializing in reclaiming rubber or in retreading tires.

The stature of the fourth district in the rubber industry in 1939 is shown in the following tabulation. The information, where available, is shown by industrial communities.

Tires and Inner Tubes—1939

	No. of Establishments	Aver. No. Wage Earners	Mfg. Wages	Value of Product	Value Added by Mfr.
—In thousands of dollars—					
Ohio	19	29,900	\$50,900	\$268,000	\$121,700
Akron	11	26,000	45,300	224,300	104,600
Pennsylvania	5	2,100	3,100	27,700	12,200

Rubber Products Not Elsewhere Classified

	No. of Establishments	Aver. No. Wage Earners	Mfg. Wages	Value of Product	Value Added by Mfr.
Ohio	79	7,000	8,000	35,500	19,100
Cleveland	8	400	400	1,100	900
Akron	16	1,700	2,000	8,000	4,400
Toledo	4	200	200	1,700	700
Pennsylvania	27	2,500	2,800	12,500	6,600

West Virginia and Kentucky had no establishments manufacturing tires and tubes and only three that produced miscellaneous rubber products.

Status of

Fourth District In 1939, Ohio and Pennsylvania employed 59 percent of all workers engaged in the manufacture of tires and inner tubes. These workers produced 38.3 percent of the 50,000,000 pneumatic passenger car casings and 45 percent of the pneumatic truck and bus casings manufactured in the United States. They also turned out 40.8 percent of the nation's 51,000,000 passenger car, truck and bus inner tubes.

Akron, the acknowledged rubber capital of the world at the conclusion of World War I, has been losing ground to the rest of the country since 1929. Plants located there produced about 54 percent of the pneumatic casings in 1921, 60 percent in 1929, and 53 percent in 1935. By 1937, this had declined to

about 35.2 percent and two years later a further decline to about 34.5 percent had taken place. Reliable sources estimate that Akron now has only about 30 percent of the nation's plant capacity for building tires as a result of wartime expansion of plant facilities.

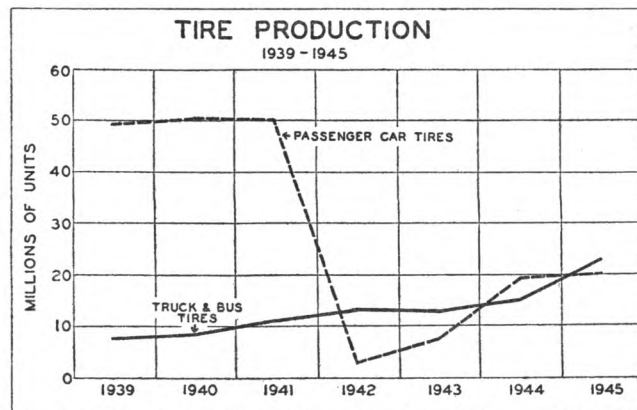
War Needs The needs of the military for tires to equip the war machine resulted in a substantial shift in the kind of tires produced by the industry. The Rubber Manufacturers Association, Inc., reports the following figures to show this shift in production:

Tire Production: 1939-1945

	Plane Tires	Truck and Bus Tires	Passenger Car Tires
—In Thousands—			
1939	33	7,700	49,900
1940	75	8,200	51,000
1941	170	11,100	50,400
1942	625	13,000	2,500
1943	1,033	12,900	7,600
1944	1,417	14,700	18,900
1945 (first 6 months projected)		20,300	20,000

These figures reflect the sharp contraction in passenger car tire production that took place following the outbreak of the war. Plane tire production in 1942 was 19 times as great as in 1939. It doubled again in the next two years. Truck and bus tire output for 1942 was nearly twice that of 1939. The struggle to increase the quantity of larger tire sizes was complicated by problems created by synthetic rubber. The larger size synthetic tires required more preparation and milling, more labor, and increased processing and curing time. It was necessary to conserve the stockpile of crude rubber and to this end, greater and greater proportions of synthetic rubbers were used as the war progressed. The end of hostilities found stocks of crude rubber near the vanishing point and inventories of passenger car tires at a dangerously low level.

Labor The rubber industry in general, and the tire and tube industry in particular, have for the past two decades given employment to a substantial number of workers. In 1929, Ohio alone employed 55,300 wage earners or 66.4 percent of the national total to build tires and tubes. By 1935, the number



of wage earners had declined to 39,000 but this smaller number represented 68.4 percent of the total. In 1939, Ohio with 30,000 wage earners employed 55.3 percent of the national total of 54,000. While individual state figures are not available, the tire and tube business has steadily increased the number of wage earners from 65,600 in 1942 to approximately 92,000 by the end of 1944. Manpower shortages were still prevalent at the end of the war.

Excluding the expansion of the war period, a marked decline in the number of wage earners employed by the entire industry has taken place since 1929. Employment in the tire and tube industry dropped from 83,000 in 1929 to 54,000 in 1939. At the same time, however, the output per man-hour almost doubled and average output per wage earner increased about 62 percent. This improvement occurred without any fundamental change in technology. Probably causes for much of the reduction in cost may stem from a number of factors: time and motion study, job analysis, incentive wage systems, cumulative effect of many minor technological changes, and reduction in the number of plants in operation.

Trend of Costs The trend of costs since 1941 has undoubtedly been upward (or trend of labor productivity, downward) due to longer processing time necessary for synthetic rubber, loss of skilled personnel to the Armed Forces, production of larger tire and tube sizes, loss of efficiency caused by longer hours, and production of new rubber products. Expansion of facilities in areas where nearly complete new working forces had to be recruited and trained has been another temporary contributing factor to higher costs.

Hourly wage rates and average weekly earnings of wage earners have increased sharply since 1941, but the increase has not been as great percentagewise as the average for all manufacturing establishments of non-durable goods. A study of information compiled by the United States Department of Labor for the month of May indicates that average weekly earnings during 1945 for wage earners building rubber tires and tubes were \$57.32 as compared to \$38.96 in 1941. The 47.12 percent increase was due to two factors: an increase in average hourly wages from \$1.01 to \$1.28, and an extension of the work week from 38.6 hours to 44.6 hours. The average worker in the entire non-durable manufacturing field for the same month in 1945 earned \$38.23 as compared to \$24.47 in 1941 which represents an increase of 56.2 percent. The fact remains, however, that the tire and tube industry pays wages substantially above the average paid in other non-durable lines.

Tire and tube wage earners in the Fourth Federal Reserve District are paid wage rates which are substantially higher for the same type of work than paid elsewhere in the United States. According to a nationwide survey made by the United States Department of Labor in August 1942 covering 32 plants, average

hourly earnings exclusive of premium overtime pay and shift differentials for male workers were reported in round numbers to be \$1.25 in the Akron and Detroit areas as compared to \$1.00 in the Midwest, 95 cents in the Far West, and 75 cents in the South.

Basic wage rates have not varied greatly during the past three years so that these wage differentials still exist at the time of this writing. Using the Akron-Detroit wage rate as 100.0 percent, a weighted average of comparable occupations shows the following variations:

Regional Wage Levels—Weighted Average
Akron-Detroit = 100

	May 1940	August 1942
Other Midwest.....	73.1	83.0
California.....	87.7	85.9
East.....	73.1	80.9
South.....	57.1	63.7

This indicates that in 1942, wage rates ranging from approximately 64 percent in the South to about 86 percent in the Far West in relation to the Akron-Detroit scale were being paid. It should be noted further that in the brief two year period covered a substantial leveling out process had taken place. With a steady spread of unionism, it can be expected that a progressive narrowing of the competitive wage advantage enjoyed by other regions will take place. There is always a tendency to overemphasize differences in wage rates and to overlook a much more important factor, i.e., labor costs which are determined by the relation between wage rates and labor productivity. While southern tire builders are paid 36 percent less than their fellow workers in Akron, detailed study might reveal that they also produce somewhat less. To date, information in this regard is almost totally lacking.

Some light is thrown on the matter by a study of the 1939 Census of Manufactures which indicates that the average value added per man hour in the production of all types of rubber tires and inner tubes in the North amounted to \$2.42 as compared to \$2.00 in the South. Such comparisons are apt to be misleading since much additional information must be obtained in order to reach a valid conclusion. It would be necessary to know if "all other things are equal," such as: identity of product, hours of work, working conditions, management skill, type and amount of capital equipment with which the employee works as well as a host of other factors.

Trend Toward Decentralization The beginning of decentralization of the rubber industry may be said to date from 1910 when a major rubber company in Akron built a plant in Canada to escape high import duties. Since that date, fourth district companies have constructed facilities in California, Alabama, Tennessee, Maryland, Pennsylvania, Michigan, Massachusetts, Indiana, and Michigan as well as numerous foreign countries.

Various factors have operated to influence expansion outside of the Akron area. Among the more important may be enumerated nearness to expanding consuming markets; savings in freight on finished products; savings in taxes, power, and warehousing expenses; reduction in wage rates; and nearness to raw materials. Since the growth in membership and power of the United States Rubber Workers of America, the savings in labor costs are largely temporary.

The ultimate effect of the war-generated expansion of fabricating facilities cannot now be stated. The cutback which took place immediately after V-J Day prevented the completion of many Defense Plant Corporation plants in various stages of construction. The future of new plants being constructed with private capital remains uncertain. There remain in operation only four major tire and tube plants financed by the Defense Plant Corporation. These are located in Miami, Oklahoma; Topeka, Kansas; Waco, Texas; and Des Moines, Iowa. There also has taken place an extensive in-plant expansion program and some new building of facilities financed by private funds.

The effect of this expansion upon potential capacity by regions and major operating companies can only be estimated since capacity figures are among the most closely guarded secrets of this highly competitive industry. It has been estimated, however, that Akron now has only about 30 percent of the nation's capacity for building pneumatic tires. Since accumulated demand is deemed sufficient to keep all tire manufacturers operating at 100 percent of capacity for the next two or three years, the immediate effect of the fourth district's relative decline is of little consequence. The long-term implications, however, are of greater significance.

Industrial Summary

Industrial Outlook Industrial reconversion appears to be progressing more rapidly throughout the nation and the fourth district than generally had been anticipated. It has been estimated that Army cancellation of war contracts has reduced its consumption of steel by 99 percent, copper and aluminum 98 percent, cotton textiles 82 percent, and leather and lumber 75 percent. Industries in the district have announced extensive plans for increasing capacity of existing facilities and building new plants. Many expect to employ more people than during the immediate prewar period. Raw materials in most lines are reported to be in short supply and nearly all manufacturing enterprises have insufficient skilled labor to reach scheduled production goals. Heavy industries also report a need for common labor to perform necessary hard and dirty work, with a reluctance on the part of labor to accept wages below that formerly paid by some of the "war industries." Labor unrest in several basic industries caused by a demand for a 30 percent increase in wage rates to wholly offset a reduction in the work week to 40 hours, may have an

adverse effect upon the anticipated rate of reconversion.

Iron and Steel The steel industry is emerging from the confusion brought about by the cancellation of wartime contracts and the sudden influx of civilian orders. From an operating rate of about 60 percent of capacity at mid-August, the rate has steadily increased to about 83 percent at the end of September.

Civilian buying has been very heavy, particularly in sheets, bars, and wire products. Mills are booked with orders well into 1946 on many lines. The load is almost as heavy as at the peak of war demand, and some mills have instituted something like an allocation program to provide equitable distribution. The labor situation is proving difficult since civilian steel involves more highly finished products requiring more manpower. This is especially true in steel sheets. Despite the large number of men released from war plants, steel mills have been unable to add sufficient men to meet their requirements.

Scrap prices have not eased as many observers predicted, but have remained at ceiling prices for nearly all grades. The scarcity is due in part to lack of labor in dealers' yards to prepare scrap adequately for shipment. Steel producers are also seeking to build scrap reserves for the winter when supply is subject to interruptions. While pig iron supplies are sufficient for current needs, the situation is tight and users have been unable to accumulate inventories at the level customarily held during peacetime.

New basing points were established this month for stainless steels which had the effect of lowering prices on that material by the amount of freight incurred from the former Pittsburgh basing point. The move seems designed to meet previous objections to a single basing point.

Iron foundries are busy and turning down new orders. Shortage of labor is holding down production with molders especially needed.

Coal The reduction in military requirements is beginning to result in an improvement in the coal situation. Bituminous coal consumers have approximately 50 million tons in storage, but it is not evenly distributed. Many large consumers have short inventories. The shortage of good domestic coals and better grades for industrial purposes continues. Approximately 75,000 bituminous coal miners left the industry during the war and are slow in returning. It is estimated that 25,000-35,000 men are needed in the mines. Bituminous coal production in the fourth district during August amounted to 18,280,000 tons. This brought the January 1 to September 1, 1945, district total to 147,286,000 tons compared to 159,161,000 tons for the same 1944 period. National production for January 1 to September 1, 1945, amounted to 393,426,000 tons as compared to 424,762,000 tons for the same 1944 period.

Machine Tools All Government-owned standard machine tools have been made immediately available to private industry and the Reconstruction Finance Corporation is making an intensive drive to dispose of them promptly. Some standard machine tools are under option to lessees and will be sold to them. It is estimated some 400,000 standard machine tools valued at \$2 billion are available for unrestricted sale. An unknown quantity of specialized tooling will be held in reserve on a stand-by basis.

Preliminary estimates indicate that the value of shipments of completed machine tools in August was about the same as July or at the rate of \$30-\$32 million. There has been an increase in new orders received. Unfilled orders assure about seven months of production at current rates. Output is expected to hold firm.

Other District Industries The ceramic industry has experienced little change since V-J Day. Orders continue far in excess of production in the dinnerware branch with production at 80-85 percent of capacity. Shortage of skilled workmen continues to limit production and the introduction of new patterns.

In the field of textiles, worsted manufacturers are now producing woolen and worsted fabrics for civilian trade. Operations show a slight upward trend with abnormal civilian orders in prospect. Cotton work clothes industry estimates that it will take six to nine months to replenish retailers' inventories. Demand is larger than ever and some unskilled labor is becoming available. The industry is complaining of a "profit squeeze" caused by rising costs and allegedly inflexible O.P.A. price policies. The shipment of uniforms has been reduced to a negligible amount and the transition to peacetime production was made smoothly.

Automobile parts and accessory producers, if unimpeded by labor difficulties, have planned accelerated schedules. Materials are somewhat easier and it is reported that help in certain lines is hard to hire. Office supply manufacturers report difficulty in obtaining an adequate supply of raw materials and steel is in short supply. Production is at prewar levels and employment up 25 percent. Labor supply is very short in the glass industry and new orders are piling up ahead of production on glass for building and allied trades. The supply of lumber continues very scarce and it is anticipated that August will show a less than seasonal rise in lumber production. Government cancellation of contracts has had little visible effect upon the supply condition since there were no substantial inventories that could be diverted to civilian needs. Soap producers continue to find it difficult to secure sufficient fats and oils but the situation has eased somewhat in the last 30 days. The women's shoe industry is experiencing a shortage of skilled labor.

Paper manufacturers report their principal difficulty to be a shortage of labor in the woods and in the mills.

The industry has lost its prisoner of war labor but some former employees are returning from the Armed Forces. Marked improvement is expected by October and imports from Sweden are increasing.

AGRICULTURAL SUMMARY

Seasonable temperatures and generally favorable moisture reserves resulted in a net gain for crop prospects during August for the entire country. Corn in particular benefited and it appears that there will be another 3 billion bushel crop. Record production of other grains and hay seems to assure an increased supply of meat and an early end to meat rationing. The agricultural situation in Ohio has shown little change during the month of August and early September. The September 1 crop report made no important changes in the estimate of corn, small grains, and soybeans. The corn crop is maturing well and will be the second largest on record barring an early frost. The apple crop will probably be a fourth of a normal crop as compared to an earlier prediction of a third of a crop. A similar condition exists for the grape crop.

The September 1 forecast of 1,999 million pounds of tobacco indicates an all time record crop. Reports from Kentucky indicate that such good progress is being made in harvesting the tobacco crop that it should be completed in September. A crop of 570 million pounds of burley is estimated which is 20 million pounds less than last year. The crop in central Kentucky is very good but there are other areas in Kentucky where it is poor.

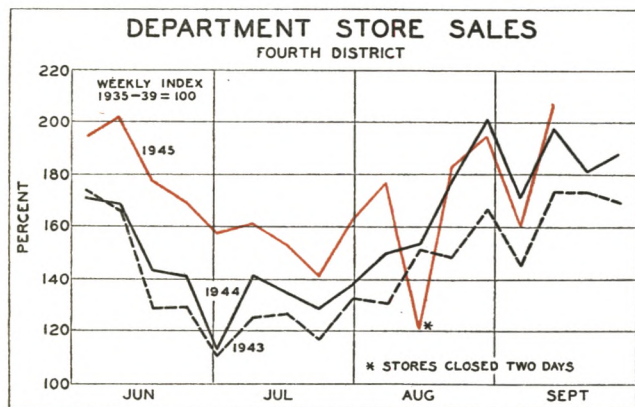
Reports from Pennsylvania indicate that farm production in 1945 is high with the exception of fruit crops. The peach crop was fair but apple and grape crops are very poor. Apples will be scarce throughout the East.

Milk production throughout the district continues high. For the United States, it continues at a record rate of 11 billion pounds with fewer cows being milked than in 1944. Dairy farmers would like to know what will be done with the subsidy in order that future programs can be planned. All "set asides" and restrictions have been removed on the production and use of dairy products except that butter is still rationed. Reduction in purchases for evaporated milk by the Armed Forces will cause shifts in utilization of milk. Any shifts to fluid milk will bring higher prices but that which goes into butterfat or cheese will bring lower prices. The maintenance of high incomes in industrial areas is of vital concern to the dairy farmer.

Egg production in Pennsylvania continues below last year because of the smaller number of layers. Ohio egg production for August of 200 million eggs was four percent greater than the same month in 1944 and was achieved with three percent fewer layers. The number of potential layers in both Ohio and the United States on September 1 was one percent greater than a year ago and should result in slightly larger laying flocks for 1946.

DEPARTMENT STORE SALES

Of special interest among recent department store developments is the trend of dollar sales since the end of the Pacific war. Prior to August 15, stores had been reporting sizable year-to-year gains in their business, and total district sales from January 1 through that date were 13 percent above the corresponding period a year ago. However, during recent weeks stores in this district have failed to experience such large gains, and sales during the four weeks ended September 15 were at the 1944 level. Slight advances during two weeks were offset by declines for the other two periods, as shown on the accompanying chart. This was in sharp contrast to the record of June and July, when the dollar volume was up 19 and 15 percent, respectively, over last year.



Total store sales during August were slightly greater than in the previous month; but, on a daily average basis, the increase was less than usual and the seasonally adjusted index dropped from 220 percent to 189 percent of the 1935-39 base. This represents a gain of four percent over August of last year, despite the fact that most stores were closed two days this year after the Japanese acceptance of the Potsdam Declaration. The year-to-year changes among the leading cities of the district ranged from a decrease of one percent in Cleveland to a twelve percent gain in Youngstown. Sales in Toledo were up three percent, Cincinnati and Pittsburgh six percent, and Columbus nine percent.

Housefurnishings sales during August were down three percent compared with the same month last year as a result of substantial decreases in sales of floor coverings, draperies, curtains, and domestics. Other homefurnishing departments—such as lamps and shades, housewares, and appliances—experienced gains

in their business. Sales of women's dresses, shoes, gloves, millinery, and underwear also were larger than they were a year ago, while the volume of coats and suits sold was one percent smaller. Piece goods departments reported an eight percent decline in their business.

Sales of luxury items held up well during August, despite a sharp decline immediately following the Japanese surrender, when it was rumored that the 20 percent excise tax might be repealed or reduced. However, sales in these departments showed considerable recovery late in August, and total sales for the month were up from last year. The gain for cosmetics was 12 percent, jewelry 12 percent, small leather goods 9 percent, and furs 47 percent.

Reconversion Effects Several factors attributable to the present reconversion have contributed to the leveling-off in department store sales recently. Of considerable importance is the fact that many war workers are now unemployed and do not desire to use their savings for purchases of department store merchandise. These lay-offs likewise have prompted many consumers still at work to be more conservative in their buying habits. The inventory situation also has been an important factor tending to curb business recently. Receipts of postwar merchandise have been relatively small thus far, and customers are becoming more reluctant to purchase war-quality goods. They are waiting for better merchandise or articles that they have not been able to buy for some time, as for example nylon hosiery. It is reported that women are becoming very selective in their purchases of available hose, in anticipation of nylons within the near future. Stocks of many items are far from sufficient to meet demand. This is especially true in the men's wear departments, as returning servicemen are finding it difficult to obtain adequate amounts of civilian clothing and furnishings. Many items in the housefurnishings departments are still in short supply, although merchants are now receiving a few of the major appliances, especially stoves and washers.

New Member Banks

Ashley, Ohio—The Farmers Savings Bank Company
Orwell, Ohio—The Orwell Banking Company

Fourth District Business Indexes

(1935-39 = 100)

	Aug. 1945	Aug. 1944	Aug. 1943	Aug. 1942	Aug. 1941
Bank Debits (24 cities).....	205	202	185	159	147
Commercial Failures (Number).....	6	3	16	45	70
(Liabilities).....	3	3	16	17	51
Sales—Life Insurance (O. and Pa.).....	114	111	100	75	99
—Department Stores (97 firms).....	165	159	143	136	148
—Chain Drugs (5 firms)*.....	169	163	160	145	123
—Chain Groceries (4 firms).....	149	152	139	143	126
Building Contracts—(Total).....		68	77	213	216
—(Residential).....		31	128	99	322
Production—Coal (O., W. Pa., E. Ky.).....	146	162	157	145	144
—Cement (O., W. Pa., E. Ky.)**.....	78	80	129	159	184
—Electric Power (O., Pa., Ky.)**.....	191	187	185	166	146
—Petroleum (O., Pa., Ky.)**.....	a	91	108	100	96
—Shoes.....	90	93	93	101	124

* Per individual unit operated.

**July.

a Not available.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-39 = 100

	Without Seasonal Adjustment			Adjusted for Seasonal Variation		
	Aug. 1945	July 1945	Aug. 1944	Aug. 1945	July 1945	Aug. 1944
SALES:						
Akron (6).....	192	196	184	226	236	216
Canton (5).....	208	211	205	236	261	233
Cincinnati (9).....	170	170	161	203	232	192
Cleveland (10).....	153	155	155	172	206	174
Columbus (5).....	200	200	184	235	257	216
Erie (3).....	169	167	167	197	219	194
Pittsburgh (8).....	151	138	142	173	212	164
Springfield (3).....	195	192	188	238	256	230
Toledo (6).....	165	160	161	197	226	192
Wheeling (6).....	145	148	133	180	200	165
Youngstown (3).....	190	180	170	208	240	186
District (97).....	165	161	159	189	220	182
STOCKS:						
District (51).....	171	167	160	176	187	165

Wholesale and Retail Trade

(1945 compared with 1944)

	Debits to Individual Accounts		Percentage Increase or Decrease		Percentage Increase or Decrease	
	August 1945	% change from 1944	Jan.-Aug. 1945	% change from 1944	SALES	SALES STOCKS
Akron.....	183,603	- 4.3	1,627,750	+12.5	August 1945	first 8 months 1944
Butler.....	18,567	+ 4.6	171,913	+21.7		
Canton.....	80,242	- 2.1	679,563	+ 3.3		
Cincinnati.....	624,270	+ 9.1	5,222,880	+ 7.4		
Cleveland.....	1,276,954	- 0.2	10,925,924	+ 3.9		
Columbus.....	322,127	+ 3.4	2,745,190	+ 7.1		
Covington-Newport.....	25,712	+ 6.8	212,156	+ 6.8		
Dayton.....	141,981	+ 1.5	1,203,533	+ 4.4		
Erie.....	61,145	+ 1.6	495,388	- 2.9		
Franklin.....	5,426	- 7.9	48,093	- 1.4		
Greensburg.....	11,970	+ 1.8	102,613	+ 4.4		
Hamilton.....	23,091	+17.8	189,224	+17.1		
Homestead.....	5,249	+ 5.7	41,859	+ 5.1		
Lexington.....	36,907	+29.3	396,569	+33.3		
Lima.....	27,159	- 0.9	232,981	+ 7.5		
Lorain.....	9,063	+10.7	72,658	+ 4.3		
Mansfield.....	22,939	- 6.4	188,513	+11.7		
Middletown.....	18,826	- 1.1	159,853	- 0.1		
Oil City.....	14,421	- 5.0	131,224	+ 7.4		
Pittsburgh.....	1,252,378	+ 2.2	10,814,582	+ 2.2		
Portsmouth.....	13,433	+19.6	99,740	+ 9.4		
Sharon.....	17,905	+ 9.0	138,841	+ 2.7		
Springfield.....	32,070	- 2.8	263,765	+ 1.2		
Steubenville.....	16,197	+16.7	128,349	+17.7		
Toledo.....	243,879	- 7.8	2,001,617	- 6.7		
Warren.....	22,127	- 7.4	195,826	+ 0.5		
Wheeling.....	42,809	- 2.4	356,816	+ 4.0		
Youngstown.....	85,018	- 1.1	705,025	+ 2.7		
Zanesville.....	13,753	+ 1.4	111,154	+ 7.0		
Total.....	4,649,221	+ 1.6	39,663,599	+ 4.1		

Fourth District Business Statistics

(000 omitted)

	August 1945	% change from 1944	Jan.-Aug. 1945	% change from 1944
Fourth District Unless Otherwise Specified.....				
Bank Debits—24 cities.....	\$4,557,000	+ 2	38,921,000	+ 4
Savings Deposits—end of month: 39 banks O. and W. Pa.....	\$1,330,501	+25		
Life Insurance Sales:				
Ohio and Pa.....	\$ 96,528	+ 4	829,074	+11
Retail Sales:				
Dept. Stores—97 firms.....	\$ 41,831	+ 4	335,519	+12
Wearing Apparel—17 firms.....	\$ 2,015	+ 2	16,415	+11
Furniture—75 firms.....	\$ 2,602	- 0	21,958	+ 5
Commercial Failures—				
Liabilities.....	\$ 42	- 2	1,500	+34
Number.....	4	+100	36	-32
Production:				
Steel Ingot—U. S.... Net tons	5,713	-24	55,855	- 7
Bituminous Coal—				
O., W. Pa., E. Ky.... Net tons	18,280	-10	147,286	- 7
Cement—				
O., W. Pa., W. Va.... Bbls.	647a	- 2	3,660b	+ 6
Electric Power—				
O., Pa., Ky.... Thous. K.W.H.	2,916a	+ 2	21,095b	+ 2
Shoes..... Pairs	c	- 4	c	- 2
Bituminous Coal Shipments				
Lake Erie ports.... Net tons	6,536	-15	31,518	-11

a July.

b January-July.

c Confidential.

DEPARTMENT STORES (97)

	August 1945	first 8 months 1944	August 1944
Akron.....	+ 5	+13	+ 9
Canton.....	+ 2	+ 8	a
Cincinnati.....	+ 6	+15	+10
Cleveland.....	- 1	+10	+ 5
Columbus.....	+ 9	+16	+ 8
Erie.....	+ 2	+ 7	- 0
Pittsburgh.....	+ 6	+11	+ 7
Springfield.....	+ 4	+ 8	a
Toledo.....	+ 3	+11	+ 6
Wheeling.....	+ 9	+17	- 3
Youngstown.....	+12	+18	a
Other Cities.....	+ 1	+ 5	+ 8
District.....	+ 4	+12	
WEARING APPAREL (17)			
Canton.....	+ 5	+12	- 0
Cincinnati.....	- 2	+11	-20
Cleveland.....	- 6	+10	- 3
Pittsburgh.....	+13	+13	+ 2
Other Cities.....	+ 7	+12	+11
District.....	+ 2	+11	- 2
FURNITURE (75)			
Canton.....	- 4	+ 6	+18
Cincinnati.....	+ 2	+12	+10
Cleveland.....	- 9	+ 2	+16
Columbus.....	- 3	- 3	+ 6
Dayton.....	+16	+ 7	a
Pittsburgh.....	- 1	+ 6	a
Allegheny County.....	+ 8	+ 7	a
Toledo.....	-11	+ 1	+ 4
Other Cities.....	+ 6	+ 5	+11
District.....	- 0	+ 5	+13
CHAIN STORES*			
Drugs—District (5).....	+ 4	+ 4	a
Groceries—District (4).....	+ 3	+ 9	a
WHOLESALE TRADE**			
Automotive Supplies (7).....	- 1	+17	+13
Beer (6).....	- 4	- 5	-36
Clothing and Furnishings (3).....	- 3	a	a
Confectionery (3).....	+ 8	+13	a
Electrical Goods (9).....	- 8	+ 4	+34
Fresh Fruits and Vegetables (10).....	+22	+20	- 9
Furniture & House Furnishings (3).....	-19	a	a
Grocery Group (38).....	- 0	+ 3	-18
Total Hardware Group (20).....	+ 1	+ 8	-13
General Hardware (5).....	-12	a	-13
Industrial Supplies (6).....	-11	- 3	a
Plumbing & Heating Supplies (9).....	+29	+12	a
Jewelry (8).....	+ 5	+ 3	a
Lumber and Building Materials (4).....	- 3	+ 3	+ 7
Machinery, Equip. & Sup. (Except Elec.) (4).....	- 5	a	+15
Metals (3).....	-30	a	a
Paints and Varnishes (4).....	-18	a	a
Paper and Its Products (6).....	-13	+ 5	a
Tobacco and Its Products (14).....	+10	- 1	+24
Miscellaneous (15).....	-12	- 6	-16
District—All Wholesale Trade (161).....	- 3	+ 3	-11

* 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.

