Monthly Business Review

Finance, Industry, Agriculture, and Trade

Fourth Federal Reserve District
Federal Reserve Bank of Cleveland

Vol. 28 | Cleveland, Ohio, January 1, 1946 | No. 1

FINANCIAL REVIEW OF 1945

An attempt to array the financial events and developments of 1945 in their proper order of importance is subject to future revision, for any one of today's almost unnoticed trends may evolve into a major financial problem by tomorrow. Conversely, the importance of present perplexities may prove to have been exaggerated, after the passage of time. Today's policies, however, cannot be based upon the hindsight of the future. They must be formulated in the light of currently known facts and conditions.

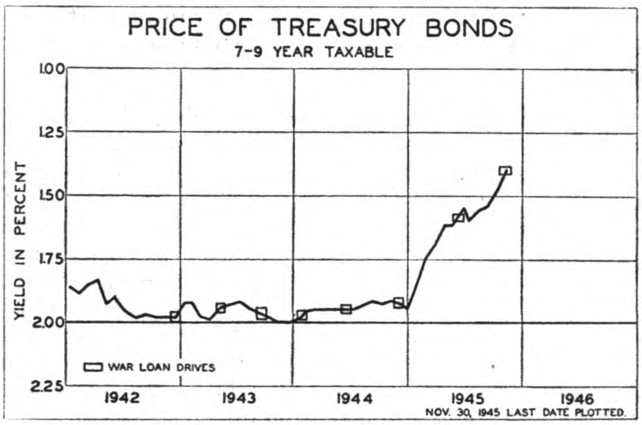
Most Significant Development At this juncture, it appears that the sharp price rise in the medium-term section of the U. S. Government bond market may well have been the most significant financial development during 1945. The magnitude of the rise, in relation to fluctuations in three preceding years, is depicted elsewhere on this page.

The ramifications of that development are innumerable. And its consequences, both immediate and ultimate, are the subject of rather deep differences of opinion.

The initial impetus for the rise came primarily from bank buying. After the Sixth War Loan at the close of 1944, and after the Belgian "bulge" was conclusively reversed, there began to emerge a growing conviction to the effect that the future supply of the popular eight-to-ten year two percent Treasury bonds would be reduced to nominal proportions or would disappear entirely.

In the course of time that conviction was tentatively substantiated. In the midsummer (Seventh) loan, the only medium-term offering eligible for bank ownership was the issue of 5½ year 1½'s which, moreover, was not available for direct subscriptions by commercial banks except in limited amounts. In the recent Victory Loan there were no maturities between the one-year certificates of indebtedness, and the 14-17 year 2¼'s, which are ineligible for bank purchase in the open market for another seven years.

Alternative Policies This drying-up of the supply of new intermediate issues was obviously a causative factor in the 1945 price rise. Whether it was also an effect is a moot question. In any event, the avidity with which outstanding issues were bid up by commercial banks and other investors posed a delicate problem. It evoked a diversity of views over the suggested alternative of gratifying this conspicuous demand, at least in part, by a direct offering to commercial banks, as was done during the early days of war finance. A resumption of that policy would have run counter to another widely held thesis, namely, that commercial bank participation had already been excessive, even though much of it was indirect, and the corollary that restrictions against commercial bank ownership should be tightened rather than eased.



Tied in closely with this debate, regarding appropriate policy under such unprecedented circumstances, was the question of bank earnings. During the first half of 1945, member bank income from interest and dividends in securities was at a new all-time high, nearly 21 percent above a year earlier. Profits from sales of securities were likewise at a long time high, and some 2½ times as large as in 1942. Apparently banks were not consistently on the buying side but on occasions elected to convert market premiums into realized profits. At least in theory, such transactions have an adverse effect upon future income; but warranted or not, the question of bank earnings has attracted some public attention and has become somewhat related to Treasury financial policy.

Certain other aspects of the 1945 record-breaking rise in bond prices are worthy of serious reflection. One is the fact that temporary "investors" have repeatedly been able to capitalize upon demand from ineligible subscribers, by reselling to banks and others at higher (market) prices. It is felt in some quarters that offerings should have been priced closer to the market, thereby permitting taxpayers to gain the benefit of lower rates, and argued by others that it is an unfair charge against banks and other restricted investors whose requirements can be filled only in the open market.

Another angle is that the price rise under discussion took place in the face of an unprecedented expansion of longer-term Treasury issues ineligible for commercial bank ownership for varying periods of years. The relative ease with which tremendous quantities of 2¼'s and 2½'s were absorbed is partially attributable to the fact that eligible subscribers were able to liquidate earlier purchases on a rapidly rising market.

Shifting of Securities This shifting of securities from one type of investor to another was not confined to medium-term securities, but was also quite evident in the short-term section, particularly with reference to Treasury bills. During 1945, a considerable quantity of bills was transferred from member banks to the reserve banks, either by sale or runoffs. Funds thus procured were in effect used to purchase Treasury bonds from nonbank investors who in turn subscribed to the long-term 2¼'s and 2½'s not eligible for commercial banks. Through such sequences, the effect of developments in one category of the money market are transmitted over a broader area.

It is this last-named tendency which probably is at the root of most of the misgivings over the prevailing low yields on medium-term (largely bank-held) Treasury bonds. It has not yet become a matter of precise determination whether one section of the money market can be effectively isolated, whether it would be harmful to the economy if no more 2½'s were to become available, and whether the relative unpopularity of Treasury bills and certificates of indebtedness is of prejudicial import to the entire banking structure. These and related questions will continue to command attention during 1946.

Lower Reserve Requirements Another event of note during the past year was the statutory change in reserve requirements of the twelve reserve banks. Since the beginning of the System, reserve banks had been required by law to maintain reserves equivalent to 40 percent and 35 percent of circulating notes and deposits, respectively. The reserve against notes was limited entirely to gold (certificates) whereas other lawful money (Treasury currency) might be included in the reserves against deposits.

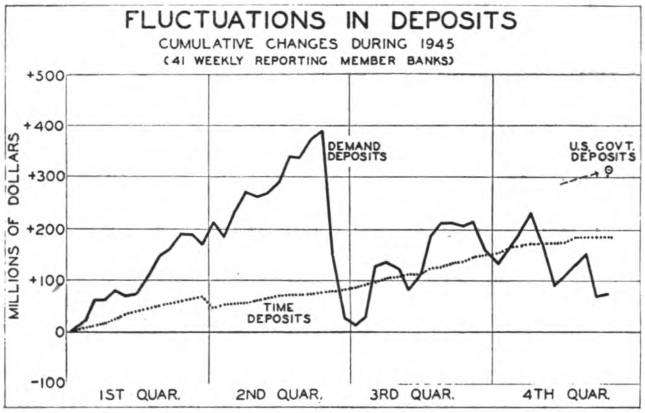
The Act of June 12, lowered both requirements to 25 percent, and restricted their content to gold (certificates) exclusively. This legislation had been anticipated for some time. It was construed mainly as a precautionary measure on the grounds that successful termination of the war might eventually entail a greater expansion of central bank credit than the former requirements would have permitted.

During the time when this step was under legislative consideration, various views were expressed regarding its real significance. It was deplored on the basis that a reduction in requirements should be delayed as long as possible, and kept as small as possible, in the interest of sound money in the orthodox sense. On the other hand, this proposed modification of a 30-year-old restriction was found quite unobjectionable by another monetary school which views such statutory requirements as impediments in the administration of central bank policy.

Currency, Loans, and Borrowings Among other features of 1945 might be mentioned the lessening of the demand for hand-to-hand currency during the last three or four months of the year. This phenomenon is undoubtedly related to the reduction in payrolls which followed V-J Day. In some circles it had been anticipated that a return flow of considerable proportions would materialize, instead of the rather static situation which actually ensued.

The pronounced rise in commercial loans in the closing weeks of the year were another noteworthy feature. This rise began first in New York City and then spread into other districts. Current data on outstanding loans understate considerably the volume of new loans made by reporting banks, for simultaneously there occurred substantial liquidation of the V-type loan made for war contract and termination purposes.

It is also worth noting that member bank borrowings at one time during 1945 reached a new twelve-year high. This demand for reserves reached its climax immediately preceding the Seventh War Loan, in June. Borrowings in November failed to equal that earlier mark, in part because reserve-exempt Treasury deposits had not been drawn down to the June level when the Victory Loan was inaugurated.



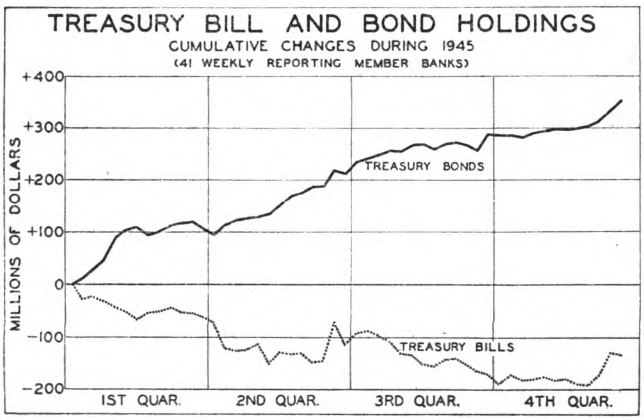
Contrasts in Deposit Growth

The trend of the several types of deposits was also somewhat unusual during 1945. The accompanying chart, and tabulation below, record the changes which took place with respect to the 41 weekly reporting member banks of this district. Since war loan drives were held near the close of both years, no allowance need be made for their incidence upon year-to-year changes.

The largest single increase was in U. S. Government deposits, and the second largest in time deposits. Net gains in the other three categories, particularly demand deposits of individuals and corporations, were of only nominal dimensions.

Government deposits (war loan accounts) reached an all-time high on December 12, when such balances were equal to 39 percent of personal and business demand deposits. Time deposits rose rather steadily throughout the year; the end of the war is hardly noticeable in the charted curve. The dip in April resulted from a net shift of some public funds from these 41 banks to nonreporting depositories in Ohio.

The net decline in demand deposits during the second half of 1945 was perhaps ascribable in small measure to some decrease in the rate of inflow of commercial and banking funds into the district during the final quarter. By far the most important influence, however, was the fact that Treasury deposits were not being disbursed, and transferred to private ownership, as rapidly as during wartime.



When the current large Government balances are ultimately reduced to peacetime levels, demand deposits are destined to reflect the process by another increase, perhaps beyond the June 1945 peak, in the normal course of events.

The net change in each balance sheet item of the weekly reporting banks is shown in the accompanying tabulation:

INCREASES IN DEPOSIT LIABILITIES*
(in millions)

Types of Deposits	Increases
Government Deposits	$292
Time Deposits	197
Demand Deposits (Adjusted)	105
Due to Domestic Banks	39
Total Increase in Deposits	$633 o- 12%

CHANGES IN OTHER BALANCE SHEET ITEMS*
(in millions)

		Increases	Decreases
Treasury Bonds		$380	
Certificates of Indebtedness		115	
Loans to Nonbrokers, on Governments		103	
Treasury Notes		102	
Reserves at Federal Reserve		51	
Corporate Securities		23	
"All Other" Loans		21	
Due from Other Banks		20	
Loans to Banks		11	
Loans to Brokers, on Governments		8	
Loans to Brokers, on Other Securities		8	
Commercial, Industrial, & Agricultural Loans		4	
Vault Cash		2	
Loans to Nonbrokers, on Other Securities		1	
Miscellaneous Assets			$ 4
Real Estate Loans			5
Government-Guaranteed Securities			44
Treasury Bills			128
Net		$668	
Less Increases in			
Borrowings and Other Liabilities	$ 9		
Capital Accounts	26	35	
Total Increase in Deposits		$633 or 12%	

* Year ended December 19, 1945.

The only type of loan to show a sizable dollar change was the loans to others-than-brokers for purchasing or carrying U. S. Government securities. Holdings of Treasury notes and certificates of indebtedness increased only moderately in comparison with the gain in Treasury bond holdings. Government-guaranteed securities have virtually disappeared from the scene, by virtue of having been refunded by direct issues.

The largest shrinkage in any single asset occurred in Treasury bills, the significance of which was discussed in a preceding paragraph.

New Member Banks

The Sabina Bank, Sabina, Ohio.
New Bethlehem Bank, New Bethlehem, Pennsylvania.

INDUSTRIAL SUMMARY AND REVIEW

The negotiations between motor car manufacturers and the auto unions continue to hold the spotlight of public interest. It is becoming increasingly apparent that the pattern finally established in Detroit in settlement of the wage disputes will be followed by related industries. A number of other wage disputes are more or less marking time to await the outcome in Detroit.

Suppliers of parts, accessories, miscellaneous supplies such as bolts, nuts, etc., and toolmakers have already felt the effect of the General Motors strike. Chief concern, however, is being expressed with respect to the pending steel strike. It is estimated that forty percent of all factory workers would be directly affected by such a walkout, and it would deal the reconversion program a serious blow. In addition, the construction industry would receive a severe setback.

Fear is also rising that if too high wage levels are established in the automotive industry, it will further seriously unbalance the normal wage relationships between the service and distributive trades, the light fabricating and manufacturing industries, and the so-called white collar jobs. It might also result in increased pressure from agricultural interests for price increases to maintain their relative position.

The end of the year offers an opportunity to pause and review the trend in industrial production for the preceding months and also to compare this year with previous years. The sharp contraction in some industries since the cessation of hostilities, some four months ago, was inevitable and highly desirable since their products are not needed in a peacetime economy. The period of readjustment for most firms is nearly at an end. Labor and price problems now appear to be the major obstacles to an increasing flood of goods.

The present status of industry in the fourth district is depicted on the series of accompanying charts. On each has been plotted output for 1945 as compared to the war year in which peak production was reached for that particular industry, as well as 1939, which was the last year before war influences became dominant.

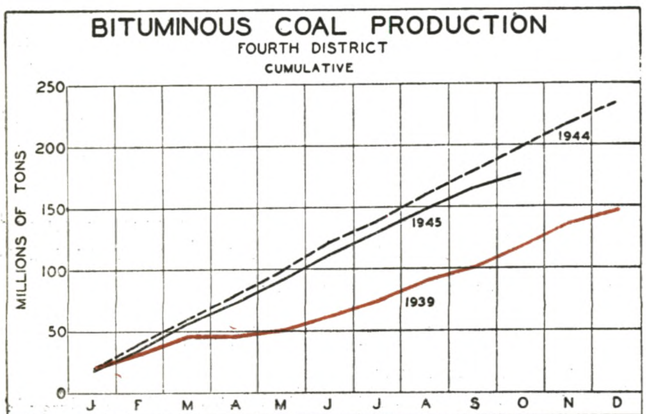
Coal Bituminous coal production in 1944 was the greatest on record in the district since 1923 when 246 million tons were mined. While production this year has fallen about 20 million tons below the level of a year ago, it is still some 65 million tons above the corresponding 1939 figure. In both 1939 and 1945, labor disputes retarded production. Production increases achieved during the war are even more remarkable in view of the fact that approximately 75,000 bituminous coal miners left the industry. Increased mechanization and more efficient methods account for the increased output despite the loss of labor. Miners are now working six days weekly and will probably continue to do so for at least the next four months. Absenteeism is high. A general strike in the steel industry would seriously affect production and consumption of bituminous coal.

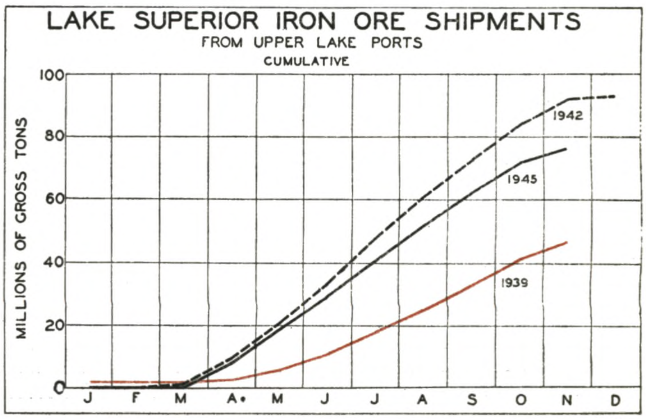
Bituminous coal production in the fourth district during November amounted to 19 million tons. This brought the January 1 to November 30 district total to 196 million tons as compared to 217 million tons for the same 1944 period.

Iron Ore Shipments Lake Superior iron ore shipments from upper lake ports held up well during the latter part of the year and continued at about the same rate during September and October as in previous months. November shipments, however, dropped seasonally to about 4 million gross tons. Total shipments for 1945 amounted to 75.7 million gross tons, a decrease of 6.7 percent from the previous year. The 1942 figure of 92 million tons was the greatest on record and more than twice the 1939 level. In 1945 the ore carriers surpassed the last peacetime year by 30.6 million gross tons.

Machine Tools The machine tool industry's greatest year in its history was in 1942 when average monthly shipments were $110.2 million as compared to $16.7 million per month in 1939. For the first ten months of 1945, shipments were at the rate of $35.8 million per month, which is more than twice the 1939 rate.

Shipments of machine tools have held up better since V-J Day than many in the industry had dared to hope. August cancellations amounted to only $24.2 million or about ten percent of unfilled firm orders





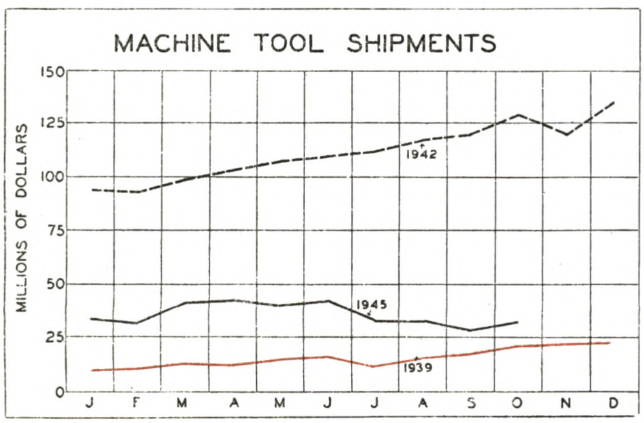
at that time. On the other hand, shipments during the past three months have been running ahead of new orders by around $5 million so that the backlog of unfilled orders has been steadily reduced.

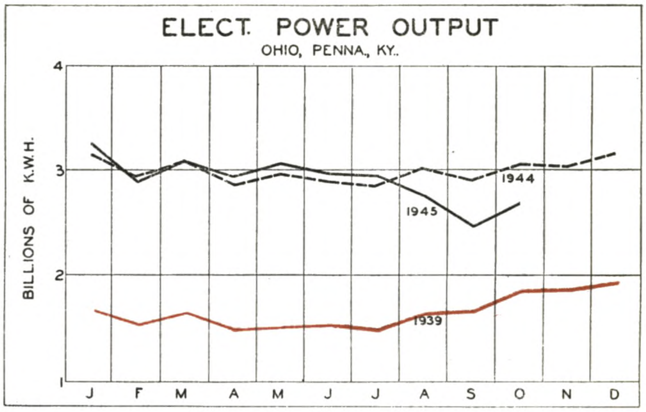
In an effort to expedite the disposal of Government-owned surplus machine tools, the Reconstruction Finance Corporation has invited manufacturers, dealers, and distributors to become its licensed approved dealers. Dealers that are licensed, will be paid a commission of 12.5 percent of the established sales price. Orders are to be solicited and turned over to the RFC for acceptance. Machines are sold with no warranties other than as to description. The dealer incurs no credit risk and sales will be effected F.O.B. cars or trucks at point of location. Commissions will not be paid on sales made to Federal, State, or local governments, or instrumentalities thereof.

The commission rate compares favorably with the discount which dealers now receive from manufacturers for sales of new machinery. Whether it is high enough to attract aggressive selling of used tools is open to some question. The Australian government has offered a commission rate to the trade of 28.5 percent to move its surplus machine tools.

Nonprofit educational institutions may buy surplus machine tools at a discount of 40 percent below the formula price schedule. The vast majority of trade schools are operating with obsolete machinery and their students do not receive the benefit of training on the latest available equipment. The value of such training has therefore been limited. Unfortunately, however, most educational institutions operate on such restricted budgets that they cannot afford to pay freight and packing charges on heavy equipment, let alone consider buying surplus tools at a discount. It would seem that a more realistic approach to this aspect of the problem is needed.

Electric Power Output Electric power output is an excellent indicator of general business activity. In 1944, power companies in Ohio, Pennsylvania, and Kentucky generated 35,859 million K.W.H. or the largest amount in their history. Production in 1939 was 20,296 million K.W.H. While output in the first seven months of 1945 ran slightly ahead of 1944, it dropped sharply after August 15,





as war contracts were canceled and industrial use slackened. The production index in October stood at 176 percent as compared to 200 the previous year and 123 in October 1939.

Construction Industry The construction industry has been geared directly to the war program since the beginning of 1942. In that year, the fourth district had the greatest amount of construction in more than 20 years. Total building contracts awarded amounted to $726 million. With most major defense projects under way in 1942, the volume declined to $270 million in 1943 and dropped to $165 million in 1944. The trend of construction in 1945 has been steadily upward with sharp increases in September and October. According to the F. W. Dodge Corporation, fourth district building contracts awarded in October were $38.5 million as compared to $8.9 million in October 1944 and $29.4 million in October 1939. Residential contracts for October were $8.2 million or nearly twice the September figure.

The F. W. Dodge Corporation reports valuation of construction contracts awarded in three major areas of the fourth district as follows:

Construction Contracts Awarded

(Thousands of dollars)

	October 1945	September 1945	10 months 1945	10 months 1944
Pittsburgh Territory:				
Total building	**$ 7,343**	**$ 7,184**	**$46,946**	**$29,098**
Residential Building	$ 1,855	$ 543	$ 9,960	$ 5,553
Nonresidential building	5,488	6,641	36,986	23,545
Public works (public and private)	1,336	787	12,517	9,513
Utilities (public and private)	2,631	730	7,889	13,195
TOTAL CONSTRUCTION	**$11,310**	**$ 8,701**	**$67,352**	**$51,806**
Cleveland Territory:				
Total building	**$21,917**	**$18,576**	**$108,845**	**$55,040**
Residential building	$ 5,345	$ 4,072	$30,193	$21,349
Nonresidential building	16,572	14,504	78,652	33,691
Public works (public and private)	1,242	3,124	17,018	16,818
Utilities (public and private)	31	1,581	10,547	8,143
TOTAL CONSTRUCTION	**$23,190**	**$23,281**	**$136,410**	**$80,001**
Cincinnati Territory;				
Total building	**$11,277**	**$ 5,459**	**$53,386**	**$23,976**
Residential building	$ 1,797	$ 79	$ 7,233	$ 4,035
Nonresidential building	9,480	5,380	46,153	19,941
Public works (public and private)	260	874	9,638	10,964
Utilities (public and private)	675	200	13,136	5,816
TOTAL CONSTRUCTION	**$12,212**	**$ 6,533**	**$76,163**	**$40,756**

Construction on a large scale is hampered by acute shortages of lumber, brick, cast iron soil pipe, and other important building materials. Many jobs in process are being held up because of inability to obtain one or two items that must be installed before work can continue with other materials that are on hand. The O.P.A. has granted price adjustments to stimulate production of brick, vitrified clay pipe, gypsum products, cement and other products. This has already produced results as evidenced, for example, by increased output of brick and the reopening of yards that have been shut down for several years. Substantial improvement is forecast in the supply of materials for the coming spring and summer.

Although the material situation will get better, the construction industry is already handicapped at present levels in some communities by a shortage of skilled construction workers in nearly every category. Plans for recruiting and training building trade apprentices seem entirely inadequate to produce the manpower needed to sustain the volume of building anticipated in the near future. Some parts of the district are reporting black-market wages for masons and carpenters of $3.00 per hour, despite pleas by union leaders to their members to accept no more than the union scale, since such wages prevent an equitable distribution of labor. The labor shortage is further aggravated by the apparent inability of the workers to abandon work restriction practices and make-work policies that were adopted during the 1930's to make every job last as long as possible. Longer hours would also relieve the situation but there is no evidence to indicate that such a course will be taken.

Cement Production Cement production in Ohio, West Virginia, and western Pennsylvania reached its highest peak during the war in 1942 with an output of 15.6 million barrels. This was the highest level since 1930 which saw an output of 17.5 million barrels. The pattern of output has followed closely total construction activity.

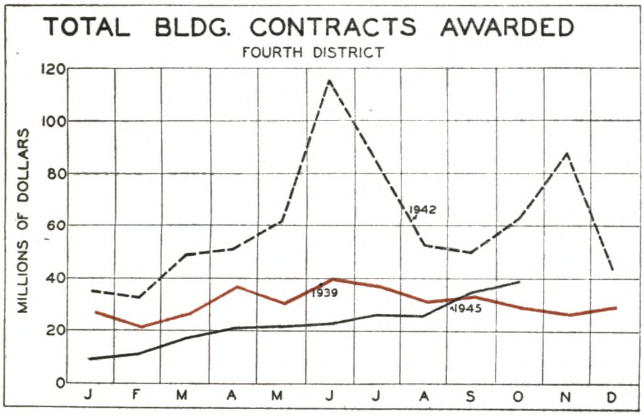
The 1945 production trend has been steadily upward and running well ahead of last year. Ten months' production in 1945 totaled 6.1 million barrels as compared to 5.5 million barrels in the corresponding 1944 period. The seasonally adjusted production index for the district was 81 percent in October with 1935-39 as the base period. This is an increase of 14 points from the previous month. Shortages of brick, tile, and lumber should provide additional stimulus for the cement industry. Mill stocks of finished cement continued to decline as shipments exceeded production and reached the low level of 12.4 million barrels for the nation. This is the lowest level for October, with the exception of 1942, since the early 1920's.

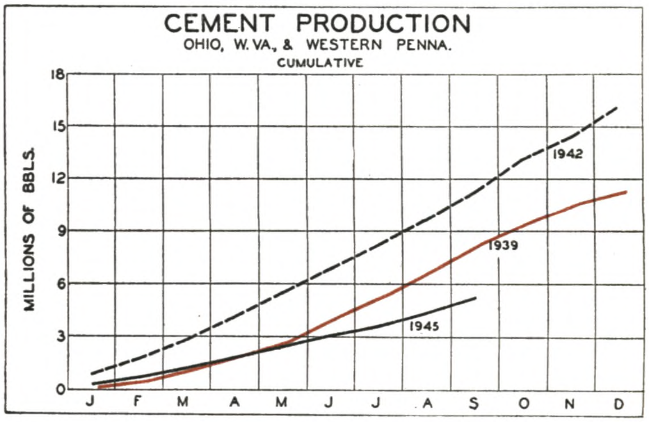
Many mills were closed down after the 1942 peak production period, when employment therein was declared to be nonessential. Some companies are now experiencing difficulty in recruiting sufficient unskilled labor either to reopen the plants or to reach the level of production desired. Experienced labor for needed repairs, rehabilitation, and maintenance is also hard to obtain in some areas. Cement producers have received two price adjustments during the last year and prices are now generally viewed as adequate.

Steel Anticipating a nation-wide steel strike around January 14, consumers are exerting all possible pressure on steelmakers to obtain immediate deliveries. There has also been noticed a trend by consumers to substitute grades of iron and steel where such switching holds promise of more prompt deliveries. National production is at the rate of about 83 percent of capacity or about the same as last month. Absenteeism and slowdowns have made maintenance of this rate difficult. There may also be a reluctance on the part of producers to blow in more furnaces because of the impending strike.

Nonintegrated steel producers are having great difficulty in obtaining supplies of semifinished steel necessary for their operations. Government officials are considering ways and means to remedy the situation.

Pig iron and scrap supplies continue very tight and mills have been unable to improve their inventory positions in these items. High freight charges have been incurred to obtain scrap from remote shipping points and full ceiling prices prevail for all grades.





Eleven months' total production of open hearth, Bessemer, and electric steel is estimated by the American Iron and Steel Institute at 73.7 million net tons as compared to 82.3 million net tons for the same 1944 period. Estimated November production was 6.2 million net tons. If a December production of about 6 million tons can be obtained, it will bring the 1945 total to 79.7 million net tons which would be equal to 83.5 percent of capacity.

If this tonnage were applied to the 1940 industry capacity of 81.6 million tons, 1945 production would have required a rate of 97.7 percent. The fact that the American Iron and Steel Institute refigures the industry's steel capacity each year to exclude the capacity of long idle plants and to add that of new facilities, is frequently overlooked. The average 1936-39 capacity was 79.6 million net tons. New construction during the war has raised this figure to 95.5 million net tons. The industry is therefore currently producing at approximately 100 percent of the 1936-39 total capacity.

Iron Iron foundries are currently operating at less than 60 percent of capacity. The materials situation is easing and the supply of unskilled labor has improved in contrast with other industries. Principal obstacle to greater production is the lack of skilled labor. A steel strike, however, would result in a complete shutdown within a very short time, as inventories of pig iron are very low.

Civilian Production Administration (successor to WPB) estimates nine months' production in 1945 for gray iron castings, including soil and pressure pipe, at 6.8 million short tons. Unfilled orders at the end of September amounted to 2.3 million short tons. There was no material decline in backlog as a result of the war's ending. Capacity for the same period of time was 13.5 million tons. These figures are for 1,100 reporting foundries, including both commercial and captive foundries, and represent about 94 percent of the total tonnage of gray iron castings.

Low production of castings continues to be a major bottleneck in the manufacture of a wide range of consumer durable goods, industrial and farm machinery, and the construction industry. There have been reports that pig iron consumers are violating the 30 day inventory restrictions prescribed in Priorities Regulation Number 32 and causing an unbalanced inventory situation.

Ceramics and Glass The semi-vitreous dinnerware manufacturers report that dealers' stocks appear to be at a new low. Production continues at about 85 percent of capacity which is the maximum obtainable with the present labor supply. Very few order cancellations have been received and little progress is being made in reducing a two year backlog of orders. The pressure for goods for export continues to grow and at the same time a steady increase in pottery imports from Great Britain is reported. This is one of the few industries in which there is no apparent immediate prospect of a strike.

The industry-wide flat glass strike which commenced October 22 has completely closed down the major flat glass producers, which in turn would have crippled the auto industry if scheduled production had been attained. It is reported that General Motors had only a week's supply of glass when their shutdown began. The flat glass industry refuses to negotiate while the men are on strike and the union refuses to work without a contract. Producers of automotive lenses have been affected by the motor car strike.

Other glass-makers report a satisfactory backlog of orders and an improved manpower situation, although few men are willing to work more than 40 hours weekly.

Lumber Lumber dealers in the district report the lumber situation is the most demoralized in their memory. Shipments are obtained only with greatest difficulty and some mills even refuse to make price quotations. Stocks have reached the vanishing point and with the present state of demand, there is little likelihood that they will be replenished for some time.

Lumber shipments of 440 mills reporting to the National Lumber Trade Barometer were 6.8 percent above production for the week ending December 1. Unfilled orders of the reporting mills amounted to 85 percent of stocks. Compared to the average corresponding week of 1935-1939, production was 33 percent less, shipments 30 percent less, and orders 41 percent less.

Shoes Shoe manufacturers received a 4.5 percent price increase this month which should materially aid the industry. Retailers and wholesalers are required to absorb the increase. In general, leather supplies are beginning to improve, but top grades, especially for women's shoes, are in very short supply. Retailers are reported to be destitute of stocks of quality merchandise and some sources believe it will require at least two years to build up adequate inventories. The labor front appears to be quiet.

Preliminary October figures for district shoe production raised the index number to 100, up 16 points over September. This is equal to average monthly production in 1935-1939. Output for the month was approximately 1.4 million pairs of shoes. Substantial reductions in the requirements of the armed forces made a much larger proportion than heretofore available to civilians. Individual manufacturers report production gains of 12-15 percent over August, with leather supplies limiting further increases.

Other Industries District clothing manufacturers report output is being limited only by material and labor shortages. The sad state of retailers' inventories indicates that demand will continue at a high level for some time to come.

Brass manufacturers continue to receive orders in large quantities and expect little loss in volume as a result of the motor car strike. Since large amounts of tool steel are used, a steel strike would quickly affect their operations. A lack of manpower is still hampering production.

One of the district's locomotive manufacturers has just booked an order for 80 locomotives for the French Government, which will add three months to scheduled production. The company has been unable to find needed men to increase its rate of output, and employees have recently voted 61 percent in favor of a strike.

Industrial paint manufacturers note a slowing down in new orders, possibly as a result of the unstable industrial picture. Certain essential raw materials are in short supply and the oil quota of 75 percent of the 1940-41 average is limiting production.

Paper product manufacturers report a slight increase in rates of production and some improvement in manpower. Raw materials are slowly increasing in supply, although certain types of paper materials are very scarce because of the huge increase in civilian demands and expansion programs of other paper users such as magazines. Orders are holding up well.

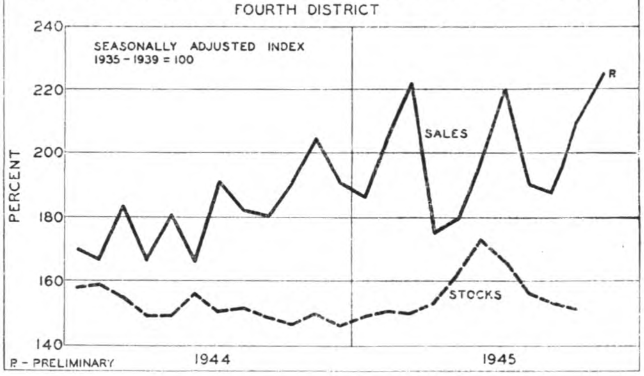
Soap producers report that their volume of business continues to be limited only by the scarcity of fats and oils. It will probably be twelve months before sufficient supplies of fats and oils are available to build up dealer stocks of soaps and shortening to prewar levels.

DEPARTMENT STORE TRADE

Sales Department store sales have more than recovered from the past V-J Day reaction. Sales during November and the first half of December in the fourth district were the highest on record, averaging around 10 percent over 1944. Christmas shoppers, eager to purchase available merchandise, bought heavily of various luxury items. The Army and Navy discharge program has increased considerably the number of purchasers of scarce men's clothing. Sales volume in that department was 39 percent ahead of a year ago.

Dollar sales volume in women's clothing increased substantially in November. Declining inventories retarded sales of women's apparel somewhat, and the high dollar volume probably reflects to some extent increased prices rather than a larger number of sales. A few newly available electric housewares found their way to housefurnishing departments where sales were brisk. More merchandise of this type was reported promised for delivery in early 1946. Appearance of these and other similar items have accounted for a small part of the increase in sales.

DEPARTMENT STORE SALES & STOCKS
FOURTH DISTRICT



The district preliminary sales index for November, adjusted for seasonal variation, rose to 225 percent of the 1935-39 average, which is the highest point on record. The accompanying chart shows monthly adjusted sales for 1944 and 1945 to date.

Sales volume varied widely among cities in November. Columbus showed the greatest increase, where the adjusted index jumped to 258 percent of the 1935-39 average. Conversely, in Pittsburgh the adjusted index rose to only 215 percent, the smallest rise in the district.

Stocks In anticipation of tremendous Christmas business, store managers were reported to be concerned that small inventories may hamper future sales. Men's clothing stocks are unprecedentedly low; white shirts and underwear are likewise extremely scarce. Supplies of suits and topcoats of better grade woolens have been inadequate in view of the accelerated demand created by returning servicemen. Stocks in women's apparel lines dropped moderately during November, but apparently enough merchandise was on hand to satisfy December demand.

Piece goods stocks continued to drop; woolens and rayon dress materials were virtually unobtainable.

The accompanying chart indicates the extent to which stocks had been depleted by the end of October. It is reported that the adjusted index declined still further in November and early December.

According to reports there has been some change in consumer demand in recent weeks. In the period immediately following the end of the war, quality goods were insisted upon and customers seemed to defer purchasing in preference to accepting inferior merchandise. During the rush of holiday trade, however, the general attitude has shifted to one of buying what is available at any price.

AGRICULTURE IN 1945

Resumption of rationing a year ago, of virtually all foods previously removed from the rationed list, pointed to the need of maximum agricultural production in 1945. Yet, the task of producing a third more than average with ten percent fewer workers represented a rather unattainable goal. There were, however, some favorable factors in the situation. Perhaps most important were the ample stocks of grain — enough to feed the third largest livestock population on record. Secondly, farm equipment and production materials, while not available in the quantity desired, were at least adequate in supply. And finally, prices received by farmers for products sold were at the highest level since September 1920. These three facts plus the faint hope that 1945 might bring a close to the war brought forth an unexcelled effort from agricultural producers. Spot food shortages in the spring resulted in country-wide recognition of what could happen if 1945 production efforts failed.

During the year further incentives to maximum production were provided by Government action. Important to milk production was the continuation of dairy production payments, which were made in lieu of permitting price rises that would adequately compensate for increased costs. A scheduled mid-year 50¢ per cwt. reduction in cattle ceilings was canceled, and a 50¢ per cwt. producer subsidy added on top grade beef animals to encourage beef production. As a further incentive to meat production, a 50¢ per cwt. increase in the support price of hogs was allowed applicable at first to average weight hogs and later to all weights.

By mid-summer the index of prices-received by farmers for all crops and livestock had advanced to the highest level since the boom which culminated in 1920, after World War I. The same held true for prices-paid by farmers. Thereafter prices-received started downward while prices-paid continued upward for the remainder of the year. The latest available figures place prices-received by farmers at 199 and prices-paid at 173, or a parity ratio of 114 compared to a high of 119.

Starting out with the scarcest labor supply of any of the war years, the shortage became worse as the year progressed, with no sign of an improvement until November. That was the first month to show a significant increase in farm workers over the same month a year ago for the past two years. The extreme shortage of farm help in face of a strong demand bid farm wages to a new high. In many cases it was necessary to pay more than three times the prewar average wage to retain hired workers.

With one of the worst spring planting seasons ever experienced, agricultural producers devised various time-saving methods to plant the second largest acreage of crops since 1932. Frosts, excessive rainfall, and other unfavorable weather conditions damaged crops in areas and to some extent in regions, but for the country as a whole the weather was sufficiently favorable to permit the third largest volume of crops ever harvested. The 1945 record was within 2 percent of the 1942 all-time high, and only 1½ percent below the 1944 bumper year.

Comparative Production in 1945 The extent to which production of various crops has been expanded is indicated in the percentage relationship of 1945 to the ten-year average shown in the following tabulation:

Comparative Crop Production in United States

Crop	Ratio of 1945 to 1934-43 Average	1945 (estimated)	1944 (actual)
		millions of units	
Soybeans........bu.	223	192	190
Flax seed........bu.	171	36	23
Vegetables (canned).lbs.	168	6,852	6,355
Tobacco.........lbs.	147	2,041	1,956
Oats............bu.	145	1,547	1,154
Wheat..........bu.	142	1,123	1,072
Peanuts.........lbs.	141	2,079	2,110
Sorghum grain....bu.	136	95	181
Sugar cane.......tons	126	7	6.2
Corn...........bu.	124	3,018	3,203
Hay (all)........tons	120	104	97
Vegetables (market) lbs.	116	35,483	34,243
Potatoes.........bu.	113	425	383
Barley..........bu.	96	263	278
Sugar beets.......tons	90	8.6	6.6
Cotton..........bales	75	9,195	12,230
Cottonseed.......tons	72	3.7	4.9
Rye............bu.	63	26	25

Source: U. S. Department of Agriculture.

Soybeans head the list with respect to expansion of production. Flax seed, another oil-bearing crop, ranks second. Third place goes to canned vegetables. Unprecedented wartime needs called for a broad expansion of those crops. It seems reasonable to assume that they will be among the first crops to face some downward adjustment in the reconversion of agriculture to peacetime operations. The extent to which adjustment occurs will depend upon imports in the case of the oil-bearing crops, and on export trade in the case of tobacco and wheat. Future production needs of canned vegetables, as well as other crops that do not enter into foreign trade to any appreciable extent, will be dependent upon consumer incomes.

Of the crops which were below average in production this year, cotton and sugar beets warrant further comment. The low cotton crop this year was occasioned by an acreage that was 25 percent below normal from which the yield per acre was also slightly below average. Despite considerable effort to increase the acreage of sugar beets, this year's actual plantings were still below average. Unfavorable planting conditions, labor shortages, and alternative opportunities offered by other crops served to hold the production down to 90 percent of average, although it was nearly a third more than last year.

The record of crop production was paralleled by a similar expansion in livestock as follows:

Comparative Livestock Production in U. S.

	Ratio of 1945 to 1935-39 Average	1945 Production*	1944 Production
		millions of units	
Turkey (dressed)..lbs.	186	650	547
Chicken (dressed).lbs.	154	3,575	3,460
Eggs............doz.	151	5.1	5.3
Total meat (beef, pork, lamb).lbs.	140	22,625	24,648
Fluid milk.......lbs.	119	123,000	119,000
Butter...........lbs.	79	1,720	1,816

* Last two months estimated.

Source: U. S. Department of Agriculture.

Poultry and poultry products experienced the greatest increase. A strong demand for these products existed because they were not rationed, and could be used to substitute for red meats which were rationed.

The expansion in quantity of red meats produced corresponded roughly with the expansion in feed crops grown. The same was true for fluid milk. The quantity of butter produced in 1945 was 20 percent below the prewar average. Other market outlets for cream have attracted some of the supply that formerly was processed into butter—a situation which prevailed throughout most of the war period.

Fourth District Crops The past year will be remembered by farmers in the fourth district for the adverse weather conditions which prevailed in both the spring and fall. At times it appeared almost inevitable that crop production would be seriously impaired, in the face of almost unprecedented need for foodstuffs.

The unseasonable "May" weather last March (warmest on record), which forced fruit trees into full bloom three weeks prior to normal, gave promise of an early spring. This prospect was shortly broken by cool weather and frosts—frosts which reduced the fruit crop in the district to the lowest ever harvested. These frosts were followed by rains in May and June that delayed corn planting. This unseasonably wet weather in turn was largely responsible for haymaking being crowded into the wheat harvest period. Nevertheless, by dint of hard work and long hours on the part of a depleted farm labor force, most of the intended acreages of spring crops were planted. For the same reasons, most of the hay and small grain was harvested without serious loss.

Again during the fall, rains interfered. Wheat sowing was delayed. In northeastern Ohio and western Pennsylvania some of the intended acreage was not sown. Much of that which was sown went into the ground anywhere from a week to two weeks late. The outcome of these sowings is yet to be determined.

Excessive precipitation in September and October also stalled the potato harvest. Digging operations were delayed to the point where growers began to wonder if they would ever get all of the crop harvested. This was particularly true in northeastern Ohio and western Pennsylvania where as late as October 25 sizable acreages were yet to be dug. Fortunately subsequent weeks brought favorable weather and harvesting proceeded without serious loss. The losses which did occur were principally due to potatoes rotting in the soil because of excessive moisture.

Even though the first killing frosts in the autumn occurred about the usual time, they came too early for some of the late planted corn. The acreage involved was limited, however.

In spite of the handicaps inflicted by the weather, and a short labor supply, farmers of the fourth district produced more of each of the major food crops than they did in 1944. In fact, 1945 production of all major crops, except for potatoes, was in excess of the average for the ten years preceding 1944.

Crop Production—Fourth District

(1945 estimated)

Crop		1945 Estimated Production* (million units)	1944 Actual Production (million units)	Percent 1945 Estimated Production is of 1934-43 Average
Soybeans**	bu.	22.6	22.5	228
Wheat	bu.	68.2	52.9	160
Tobacco	lbs.	147.4	158.9	137
Oats	bu.	63.6	47.1	126
Corn	bu.	220.6	181.2	116
Hay	tons	5.6	5.0	112
Potatoes	bu.	14.3	11.8	74

Source: U. S. Department of Agriculture.
* Based on November 1 figures.
** Ohio only.

Potato production in the district, while above last year, was below the ten-year average by 26 percent. This is due to a declining acreage of commercial plantings. Many growers in the district have refrained from planting their normal commercial acreage because of a short labor supply. Some production, however, has shifted to other states and areas of high average yields, with the result that there will be plenty of potatoes. Total production in the country was well over 430 million bushels, whereas normal consumption for food averages slightly less than 400 million bushels per annum. Some potatoes are now being shipped to foreign countries where the supply is short.

Production of wheat, another crop which will figure strongly in alleviating food shortages in the war-torn countries, was 27 percent above 1944 in the district. Compared to the ten-year average, the past year's production was 40 percent better.

With respect to feed crops, production in 1945 exceeded that of 1944 in all cases. Furthermore, the production of corn, oats, and hay was above the ten-year average by 16 percent, 26 percent, and 12 percent, respectively. The second 30-bushel-per-acre corn crop in 40 years in Kentucky made a much brighter feed situation in that area than a year ago this winter. A large corn crop in Ohio, plus stocks of oats and other feed grains, provided about one ton of grain for each grain-consuming animal unit, which is 25 percent more than a year ago, and 9 percent above the five-year average. Production of feed crops in Pennsylvania and West Virginia was not as favorable as in the other portions of the district, but will be above the figure of a year ago.

Bank Debits in 29 Fourth District Cities November

In the leading cities of the fourth district, member bank debits were 8.6 percent below a year ago. The largest net decline was recorded in Pittsburgh where debits show a year-to-year drop of nearly 18 percent. Running contrary to the general trend were Columbus, Youngstown and Dayton, the last named showing a 7.2 percent increase over November 1944.

In contrast to the decline in the largest cities, debits in smaller centers have been running ahead of last year. During the first three full months since V-J Day, debits in Lexington, Kentucky, Steubenville and Zanesville, Ohio, averaged 17-25 percent above the level of a year earlier. In recent months debits in Oil City, Pennsylvania, Lima and Warren, Ohio, were moderately below the 1944 volume.

(In thousands of dollars)

		November 1945	% change from year ago	3 months ended Nov. 1945	% change from year ago
ALL 29 CENTERS		$4,696,917	− 8.6	$13,671,632	− 6.9
10 LARGEST CENTERS:					
Akron	Ohio	$ 177,763	−16.1	$ 629,969	− 9.1
Canton	Ohio	77,885	− 8.8	219,188	−11.3
Cincinnati	Ohio	687,645	− 3.1	1,884,474	− 2.8
Cleveland	Ohio	1,235,398	−10.0	3,719,134	− 9.5
Columbus	Ohio	346,397	+ 4.1	1,032,661	+11.1
Dayton	Ohio	150,746	+ 7.2	427,827	− 0.4
Toledo	Ohio	248,354	− 9.4	693,981	−12.6
Youngstown	Ohio	97,855	+ 6.7	289,999	+ 5.1
Erie	Penna.	60,346	−10.5	171,379	−10.3
Pittsburgh	Penna.	1,198,566	−17.8	3,528,789	−13.3
Total		$4,280,955	− 9.8	$12,497,401	− 7.9
19 OTHER CENTERS:					
Covington-Newport	Ky.	$ 29,084	+13.2	$ 83,208	+13.4
Lexington	Ky.	41,049	+29.6	111,944	+24.5
Hamilton	Ohio	23,382	− 4.3	67,460	+ 2.6
Lima	Ohio	28,928	− 1.7	81,186	− 7.1
Lorain	Ohio	10,493	+ 9.8	30,239	+13.2
Mansfield	Ohio	23,722	+ 1.4	69,386	+ 2.7
Middletown	Ohio	21,193	+ 2.6	60,630	+ 4.0
Portsmouth	Ohio	15,407	+18.1	42,527	+11.9
Springfield	Ohio	35,463	+ 6.9	96,769	− 0.5
Steubenville	Ohio	17,478	+18.4	50,289	+17.0
Warren	Ohio	25,217	− 5.7	69,694	− 5.3
Zanesville	Ohio	16,158	+23.5	46,735	+20.8
Butler	Penna.	20,107	− 6.7	59,865	+ 1.7
Franklin	Penna.	6,693	+ 6.9	20,275	+ 7.5
Greensburg	Penna.	14,496	+14.0	38,944	+ 3.0
Homestead	Penna.	5,486	+ 5.0	15,730	+ 6.2
Oil City	Penna.	14,908	− 2.5	44,541	− 2.9
Sharon	Penna.	19,237	+ 7.5	52,735	+ 3.8
Wheeling	W. Va.	47,461	+ 3.2	132,074	+ 1.2
Total		$ 415,962	+ 6.5	$ 1,174,231	+ 5.1

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified		November 1945	% change from Nov. 1944	October 1945
Savings Deposits—end of month:				
39 banks O. and W. Pa.		$1,389,515	+22	1,374,335
Life Insurance Sales: Ohio and Pa.		$ 116,758	+18	116,449
Retail Sales:				
Department Stores—97 firms		$ 62,157	+ 8	56,848
Wearing Apparel—17 firms		$ a	a	2,906
Furniture—74 firms		$ 3,532	+21	3,342
Building Contracts—Total		$ a	a	38,556
—Residential		$ a	a	8,241
Commercial Failures—Liabilities		$ 142	+2,740	66
—Number		5	+400	2
Production				
Pig Iron—U. S.	Net tons	4,026	−18	3,388
Steel Ingot—U. S.	Net tons	6,247	−14	5,598
Bituminous Coal—O., W. Pa., E. Ky.	Net tons	19,108	+ 1	12,037
Cement—O., W. Pa., W. Va.	Bbls.	a	a	955
Electric Power—O., Pa., Ky.	Thousand K.W.H.	a	a	2,677
Bituminous Coal Shipments: Lake Erie Ports	Net tons	6,978	+26	4,509

a Not available.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

	Without Seasonal Adjustment			Adjusted for Seasonal Variation		
	Nov. 1945	Oct. 1945	Nov. 1944	Nov. 1945	Oct. 1945	Nov. 1944
SALES:						
Akron (6)	294	244	282	249	230	239
Canton (5)	272	244	296	223	223	243
Cincinnati (9)	289	236	259	229	222	205
Cleveland (10)	243	211	230	213	211	201
Columbus (5)	309	268	285	258	255	237
Erie (3)	278	231	280	231	216	234
Pittsburgh (8)	255	212	223	215	200	188
Springfield (3)	283	243	300	250	229	266
Toledo (6)	258	219	255	217	201	214
Wheeling (6)	237	200	221	201	198	187
Youngstown (3)	288	246	267	240	234	222
District (97)	264	224	244	220	209	204
STOCKS:						
District	165	174	160	157	151	149

Wholesale and Retail Trade

(1945 compared with 1944)

	Percentage Increase or Decrease		
	SALES Nov. 1945	SALES first 11 months	STOCKS Nov. 1945
DEPARTMENT STORES (97)			
Akron	+ 4	+ 9	+ 7
Canton	− 8	+ 3	a
Cincinnati	+12	+14	+−
Cleveland	+ 6	+ 8	+−
Columbus	+ 9	+15	−0−
Erie	− 1	+ 5	+ 6
Pittsburgh	+14	+12	+ 3
Springfield	− 6	+ 4	a
Toledo	+ 1	+ 8	+ 6
Wheeling	+ 7	+14	−0−
Youngstown	+ 8	+15	a
Other Cities	+ 6	+ 5	+ 6
District	+ 8	+10	+−
WEARING APPAREL (17)			
Canton	a	a	a
Cincinnati	−0−	+10	−31
Cleveland	+ 6	+10	−21
Pittsburgh	+10	+13	−10
Other Cities	a	a	a
District	a	a	a
FURNITURE (74)			
Canton	+ 1	+ 7	+ 9
Cincinnati	+31	+14	+ 8
Cleveland	+16	+ 2	+24
Columbus	+19	+ 2	+12
Dayton	+15	+10	+13
Pittsburgh	+28	+ 8	a
Allegheny County	+24	+ 8	a
Toledo	+18	+ 3	−10
Other Cities	+24	+10	+14
District	+21	+ 7	+14
WHOLESALE TRADE**			
Automotive Supplies (5)	+12	+18	+ 1
Beer (6)	+11	− 1	−21
Clothing and Furnishings (3)	+10	a	a
Confectionery (4)	− 3	a	a
Drug and Drug Sundries (4)	+12	a	a
Electrical Goods (7)	+34	+ 9	+136
Fresh Fruits and Vegetables (6)	+16	+17	− 4
Furniture and House Furnishings (3)	+30	a	a
Grocery Group (39)	+15	+ 4	+11
Total Hardware Group (21)	+20	+ 7	+26
General Hardware (7)	+36	a	a
Industrial Supplies (6)	− 7	− 5	a
Plumbing and Heating Supplies (8)	+13	+11	a
Jewelry (8)	+29	+ 8	+ 1
Lumber and Building Materials (4)	+21	+ 3	−23
Machinery, Equip. & Sup. (exc. Elect.) (4)	− 7	a	a
Paints and Varnishes (3)	+22	a	a
Paper and Its Products (6)	+ 2	+ 4	a
Tobacco and Its Products (15)	+10	+ 2	a
Miscellaneous (9)	+ 3	− 7	− 1
District—All Wholesale Trade (153)	+12	+ 3	+14

** 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.

FEDERAL RESERVE BANK OF CLEVELAND
OHIO
WEST VA. KENTUCKY
4D
PENNA.
CLEVELAND OHIO