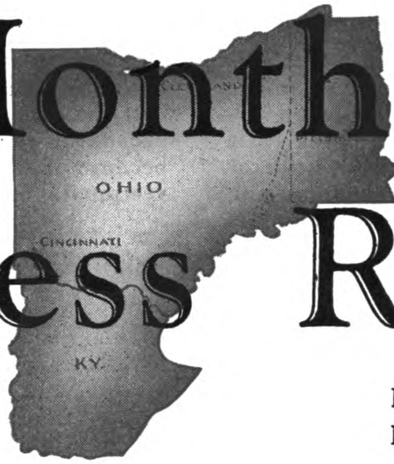
Monthly Business Review



Finance, Industry, Agriculture, and Trade

Fourth Federal Reserve District
Federal Reserve Bank of Cleveland

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THE ANGLO-AMERICAN FINANCIAL AGREEMENT

An Editorial

The proposal that the United States should establish a line of credit to the amount of $3,750,000,000 in favor of Great Britain has evoked considerable public discussion.

It is contended, on the one hand, that with a $275 billion public debt, the United States can not afford to underwrite world recovery, and that the granting of this credit to Britain would set in motion a series of similar requests of unknown magnitude from other countries. It is further argued that the rate of interest is too low in view of the risk involved, that on the basis of previous performances the credit will never be repaid in full, and finally that such a loan would enable British industry to undermine the competitive position of American producers in the world market.

Conversely, advocates of the loan urge that such a credit would be a most constructive move toward a revival of world trade, that the benefits which would thereby accrue to the United States would be immeasurable as compared to the cost. Furthermore, after having given legislative effect and encouragement to the Bretton Woods Agreements, the United States is under moral obligation to help create an international climate under which the Monetary Fund and World Bank would have a fair chance of survival. It is also claimed that the British situation is utterly without parallel and, therefore, the proposed loan would not constitute an embarrassing precedent in dealing with other potential borrowers.

Minor Issues Such is the theme of the conflicting claims. The only common denominator is their oblique approach. Most of these arguments, both pro and con, merely skirt the perimeter of the basic issue. For example, the amount involved is a relatively minor consideration—if there is a demonstrable justification for the loan.

The effective rate of interest is likewise of small moment. If the loan is a good proposition the interest charge is irrelevant; if the proposal is unsound, then no conceivable rate however usurious would make it desirable.

That the granting of this line of credit to Britain would establish a prejudicial precedent in favor of other potential borrowers can hardly be denied. Obviously it would not discourage appeals from other sources. But precedent or not, if the loan is basically essential it should be made.

As for the prospect of ultimate repayment, that depends largely upon the creditor's attitude. International loans of this type are literally loans of goods and services rather than money. The British are surfeited with "money," as all belligerents are by virtue of inflationary war finance. The proceeds of this proposed loan would be much more acceptable in the form of food, raw material, and industrial equipment.

This does not imply that repayment could be accomplished only by an importation of the same type of product. It is extremely unlikely that the United Kingdom will ever ship food or raw materials to this country, in any measurable quantities. Repayment in full or in part is more likely in terms of quality merchandise, and by the rendering of services such as financial, tourist, shipping, and other forms of service. Conjecture regarding the probability of ultimate repayment, however, is quite as secondary as the contentions with respect to the original cost.

Consequences of British Distress The fundamental and overriding questions are precisely these: Would it be detrimental to this country if Britain should regress to a third or fourth rate position among nations? Would long continued economic distress in Britain have an adverse effect upon the American economy? Would the United States be less secure if British power and influence were to wane and disappear?

That is the heart of the problem. If the existence of a reasonably strong United Kingdom would enhance the prospects of enduring peace, or at least contribute to American security, all other considerations are subordinate. If economic distress is one of the major causes of war and civil disorder, then it is imperative that one of the leading economic entities of the democratic world be given a financial transfusion, regardless of its immediate cost in dollars and cents, or the long-run probabilities of repayment.

What apparently is not widely realized in this country, nor for that matter in England, is the seriousness of the British situation after two very costly world wars.

For a half century or longer, the United Kingdom has been able to produce only about one-third of its own food requirements, and only a small portion of the raw materials used by its industries. What would appear to us an incredible proportion has had to be obtained abroad and paid for out of current income.

Under conditions of peace the British were able to obtain and pay for these quite indispensable imports by a moderate volume of exports of finished products, by extensive earnings from shipping services, by a substantial income from overseas investments (which incidentally involved a definite sacrifice at the time they were made originally), by the rendering of tourist services, and by the receipt of personal remittances.

Today, as a result of the war, nearly all of those sources of economic sustenance have been severely disrupted or impaired.

Exports and Food Supplies

British exports have fallen to less than one-third their prewar volume, with no prospect of early recovery without outside assistance. In the United States such a shrinkage in exports would be cause for concern; but it would not shut off the supply of meat and bread. In the United Kingdom, where food imports are dependent upon a satisfactory volume of exports and other external income, the consequences are almost tragic.

The drop in British exports was the result of deliberate policy. The high command was in mutual agreement that for the duration of the war British export industries should be devoted almost exclusively to production for direct military purposes, while Lend-Lease would supplement the British diet and provide the necessary industrial raw materials.

The sudden termination of Lend-Lease stirred hardly a ripple in this country; but it left a gaping hole in the British economic structure. Shortly there came the bitter realization that until export markets could be reestablished, food and other essential import items would be at an austere minimum because of lack of means of payment.

The earning power of British shipping has also suffered great contraction. More than half the prewar tonnage was lost through enemy action. Until new construction overcomes that deficit, shipping income will remain far below 1939 levels. New construction materials are not available in adequate amounts because of the urgent need for food, raw materials, industrial equipment, and housing material.

Another source of prewar earning power—overseas investments—has similarly shrunk to a low level, with the result that such income now buys less than half the former quantity of essential imports, partly because of the rise in commodity prices, and partly because of the sharp reduction in amount of such investments held.

Decline in Buying Power

Prior to enactment of Lend-Lease, Britain was forced to liquidate foreign securities and direct investments on a vast scale to obtain foreign funds needed to make payment for war goods produced in the United States and other still-neutral countries. Gold reserves and dollar resources were virtually exhausted before American munitions and materiel were made freely available, under the Lend-Lease program.

Furthermore, throughout the war period British foreign indebtedness was increasing rapidly, particularly in the Near and Far East. Military disbursements were made in British money, with the understanding that such funds would remain immobilized until the British economy could liquidate the debt — in terms of goods and services.

There is actually only one source of external income that holds promise of an early return to prewar or perhaps higher levels and it is tourist income. Yet that is not all a net gain in that a sharp rise in tourist traffic would accentuate food import requirements. Moreover, it would take a miraculous expansion of this trade to compensate for the deficit in any one of the other major sources.

Undoubtedly people of this country are fully aware that Britain suffered considerable physical loss during the war. Everywhere there is visual evidence of destruction of property.

In the United States the reconstruction process would be hailed in many quarters for the jobs it would create. It would involve no transfer problem —no foreign loans—because most of the building materials would be home-produced. In Britain, the situation is radically different. Many of the construction materials must be imported. Imports require foreign exchange—foreign money—the supply of which was sharply reduced by the exigencies of war.

Financial Destruction

Yet, the financial damage wrought by the war was much greater than the physical destruction. It is largely because of financial destruction that Britain's economic plight is serious, and the more serious because the deterioration is invisible to the naked eye.

Unless aid of considerable magnitude is forthcoming, it will be a question of British survival. Reattainment of prewar prominence would be a hopeless task. Purely as a matter of self-preservation, Britain would be forced to use every known device to restrict imports to rock-bottom requirements, and every conceivable means to stimulate exports—by subsidies, by bilateral trade agreements, by import quotas, by strict foreign exchange rationing and controls and through a host of other expedients in a struggle for mere existence.

Under such circumstances, all prospects for a revival in world trade would vanish and the international monetary institutions organized last month at Savannah would be stillborn.

Of even more serious implication than the impact of a desperate Britain upon our industrial situation, is

(*Continued page 3*)

INDUSTRIAL SUMMARY

Problem of Price Control The consensus of manufacturers and wholesalers in principal lines of business in the Fourth District, appears to be that balanced volume production will not be attained until a very large part of our present price control system is scrapped, and the price mechanism is allowed to function normally to allocate the uses of material and labor.

An important manufacturer and distributor of nonferrous metal products questions the wisdom of the present subsidy program for copper, lead, and zinc. The lead subsidy, for example, grants premiums to high cost and inefficient domestic producers in order to keep them in business. The foreign price of lead is higher than the ceiling price that may be paid for foreign lead by consumers in the United States. To supplement inadequate domestic production the Government acquires lead in the world market and resells it in this country at a loss. At the same time, however, low domestic prices stimulate uneconomic uses of lead and the demand for it continues far in excess of estimated production and imports. Higher prices would encourage the use of substitutes as well as stimulate foreign lead production.

Strikes have sharply curtailed lead, copper, and brass production. Settlement is made most difficult under existing price ceilings, and these industries find themselves in the same predicament that confronted the steel industry earlier in the year.

A prominent work clothing manufacturer reports that his industry is in a state of confusion with prices still frozen at the March 1942 level. Union work clothes manufacturers have given employees four wage increases totaling 33 percent above the 1941 base. In March, OPA authorized higher prices on denims and cotton textiles which will add from $1.25 to $1.75 to material costs per dozen garments. Most manufacturers are reported to be now operating at losses or just breaking even. While relief is expected at some future time, operations are being curtailed or stopped completely.

New price directives for men's suits, shirts, pajamas, and underclothing afford some relief and should stimulate production. The industry wonders, however, why price relief is apparently unobtainable until acute shortages develop.

A builder of small tools reports that there have been no general price increases in his industry since 1937 and that only abnormal volume has enabled this manufacturer to meet the increase in costs. A small decline in volume would make necessary an immediate application for price relief. He believes that discontinuance of all controls, both price and wage, would be preferable, since in his opinion the customer is the most effective policeman of prices in the long run.

An important paper products distributor states that the paper industry is maintaining production at an increasingly high level with employment generally improving. Production of badly needed specific grades is at a minimum because of deterrant price ceilings on the cheaper grades. Hence, production is limited to the higher priced papers with a resulting dislocation of the distribution of the various grades in demand. Unbalanced production is thus being fostered.

A leading lumber wholesaler in the eastern part of the District says that a drastic change in price controls, if not their entire elimination, is the only solution of the present chaotic condition of the lumber business. A rapid increase in prices might ensue but he anticipates that the normal reaction of consumers against paying exorbitant prices as well as increased production would quickly offset such a rise.

Considerations of Modified Controls The foregoing represents a cross-section of the attitude of a number of important Fourth District manufacturers and wholesalers toward continued price control as revealed in a survey made during March. The responses were made largely in terms of each firm's individual experience with price control and before OPA had begun its present program of price relief in the capital goods industries and its

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(*Continued from page 2*)

the potential political effect of the eclipse of Britain as a constructive factor in world peace. If, because of economic anemia, Britain can no longer exert her former influence in the conduct of world affairs, the United States will be confronted with a new concept of isolation. Within the memory of all now living, American foreign policy has always been able to rely upon one known factor in the international equation. British policy is not always sympathetic; but neither is it inscrutable.

Britain's economic disintegration at this vital juncture of history would force a strange, unnecessary, and perhaps ominous reorientation in our international relationships. On the other hand, a grant-in-aid to strengthen an independent Britain, whether repaid or not, would be infinitely more constructive than a military alliance with an overburdened and exhausted empire.

CURRENT EVENTS

The Board of Governors of the Federal Reserve System recently approved the appointment of Mr. Sam W. Emerson, President, The Sam W. Emerson Company, Cleveland, Ohio, as a member of the Industrial Advisory Committee for the Fourth Federal Reserve District, effective March 1, 1946. Mr. Emerson succeeds Mr. Dan C. Swander who died on January 27, 1946.

NEW MEMBER BANK

The Hicksville Bank, Hicksville, Ohio.

attempts to stimulate production of items in short supply due to low ceiling prices.

The larger aspects of the problem of price control, such as the futility of removing ceilings where supplies of particular goods are fixed and where higher prices would not enlarge the supply, were not given full consideration in these responses. Likewise, the circular effects of general price increases which would bring forth new demands for higher wages and a rise in other operating expenses, apparently were largely ignored. The effect of high prices upon those who live on fixed incomes is also a factor in the evolution of postwar price policies as is the effect of higher prices upon Government expenditures.

If production—and more production—is the prime requisite of the hour, price administration should be tailored to that objective. That does not necessarily require the elimination of all controls, but rather their realistic modification.

Iron and Steel Situation and Outlook Following the end of the steel strike, mills promptly resumed steel production and a rate of 84 percent of capacity was achieved by mid-March. It is anticipated that operations at 90 percent of capacity will be achieved by early April which would be the highest rate since the fall of Japan.

The Office of Price Administration increased steel prices for some 39 steel products on March 1 and made the increase retroactive to February 15. Price increases averaged $5 per ton or about 8.2 percent and ranged from $2 per gross ton on all types and qualities of ingots and sheet bars, to $12 per ton on electrical specialties. Finished steel composite price rose $6.18 to $64.45 and semi-finished steel rose $2.80 to $40.60.

On March 15, OPA announced a flat increase of 75 cents per ton on all grades of pig iron except charcoal iron to be effective immediately. The raise is designed to offset the recent wage increases and is the third increase since prices were frozen in 1941. Total price increase since that date is now $2.50. A major independent steel producer has also increased the stainless steel price 8.2 percent. Ceilings on this item were suspended last October.

The exact effect of these price increases upon non-integrated mills is not yet clear. While their raw materials received the smallest increases, it is possible that the higher prices for finished items will cause integrated mills to retain a larger portion of output for finishing in their own plants and further reduce the supply of semi-finished steel normally provided the non-integrated manufacturer.

The situation with regard to the steel fabricating industry remains confused. At the moment 50 percent of the producers have signed agreements with the union and have reopened on the same basis as the primary steel producers. The remaining members of the industry feel that they cannot grant wage increases on top of increased metal costs without definite assurance that adequate price adjustments will be forthcoming immediately.

Scarcity of pig iron and scrap has been a persistent problem in steel production and has slowed the rate of improvement. Because steel consumers have not been receiving material promptly or have been unable to process it, the supply of industrial scrap has been far below normal. This material usually returns to mills with a minimum of delay as steel is fashioned into consumer products and forms the bulk of supply in normal times. Settlement of the strikes at General Motors and General Electric as well as at many small fabricators promises to alleviate the situation somewhat.

The Civilian Production Administration estimates that current scrap supplies are about 200,000 tons below monthly requirements of 1,700,000 tons with a resultant drain on pig iron stocks. A campaign is to be inaugurated among householders, farmers, and small manufacturers reminiscent of wartime scrap drives to make up the deficit.

Steel producers are sold out through the year on many products and most of them are unwilling to book orders for 1947. Some products, notably alloy steel, are available for delivery within a short time according to magazine *Steel*.

The shortage of pig iron and coke is severe. Foundries report more difficulty now than at any time during the war in obtaining raw materials. The labor shortage still continues and returning veterans are reported to be not interested in foundry work. As a result foundries are operating at about 45 percent of capacity. Buyers of iron castings consequently are unable to obtain quantities needed and production of farm machinery and consumer durable goods is being delayed.

OPA granted this month an industry-wide four percent increase in ceiling prices for all steel castings and railroad specialties to take care of recent wage increases. This is said to be the first price adjustment to compensate an industry for "unabsorbable" wage increases since the February basic steel adjustment. A price increase of 11 percent was granted these commodities last November.

All producers of iron and steel forgings were granted a temporary 16.5 percent increase, based on 1941 prices, in late March to cover increased material and labor costs. This replaces an 8 percent advance awarded last September. A survey will be made shortly to determine the adequacy of the adjustment. Manufacturers of steam generating equipment were also granted a temporary 12 percent increase.

Coal Production and Prospects Bituminous coal production in the United States has proceeded at a very satisfactory rate since the beginning of the year. As of March 2, daily average production of 2.1 million tons was six percent above a year ago. Total United States production for the period ending March 2, was 107.9 million tons as compared to 104.7 million tons for the period ending March 3, 1945. Bituminous coal production in the Fourth District during February amounted to 19 million tons as compared to 17 million tons for February 1945, an increase of 12 percent.

Inventories of bituminous coal in the hands of consumers at this time are about 46 million tons or approximately normal. Coal stocks on the Great Lakes docks in Canada, Lake Michigan, and Lake

Superior ports are extremely low. Domestic sizes continue in short supply. Steel mills in general were unable to increase coal inventories during the recent strike and their supply position is spotty, ranging from two to six weeks. A coal strike would speedily curtail steel operations.

Coal operators throughout the nation as well as in the District are vitally concerned over the outcome of the wage negotiations being conducted between the UMW and the operators' negotiating committee. Recent studies indicate that any substantial wage increase in bituminous mines will have to be accompanied by price increases for coal. Mine operators and distributors are also acutely aware of the importance of price as it relates to the general competitive struggle with other fuels. For the past twenty years, the rate of growth in the coal industry has been substantially less than that of general industry whereas fuel oil and natural gas consumption have achieved substantial gains. Higher prices will cause a further deterioration in coal's competitive position, not only by stimulating the use of substitutes but also by encouraging the more efficient utilization of coal itself as a source of energy and thus reducing tonnage needed.

Although mines have steadily introduced more machines to off-set rising wages, labor costs per ton of coal mined have nevertheless increased. In 1944, machines cut 99 percent of the total product of underground mines in Ohio, and 68 percent of the 22.2 million tons of underground coal was machine loaded. In addition, 11.6 million tons were mechanically mined by stripping. About 19 percent of total output was cleaned by machines. It is therefore apparent that further utilization of machine operation (in Ohio at least) is virtually limited to the cleaning process. Prospects for increasing the volume of production, and thereby reducing unit costs are exceedingly dim.

The best approach to increasing the use of coal and checking the inroads of competitive fuels would be to reduce prices. The opposite appears certain to occur, to the long run detriment of the industry by way of the more rapid elimination of marginal mines and reduced employment opportunities in the industry.

Increased fuel costs will also have immediately unfavorable effects upon large coal consumers such as railroads, public utilities, steel mills, cement mills, and coke and gas plants. Prices of their end products are already under heavy pressure from increasing material and labor costs, and fresh demands for price or rate relief upon regulatory commissions and agencies are in the offing.

Ceramics Under Dual Price System The OPA has suspended price controls for vitreous china sold to hotels and institutions, but at the same time announced that it has no plans for lifting price ceilings on household ware and semi-vitreous products. Wage negotiations commenced March 19, between pottery manufacturers and the National Brotherhood of Operative Potters who are requesting a 30 percent wage increase and correction of certain other inequalities.

Many plants make both hotel and household ware and all plants making either or both kinds are covered by the same wage agreement. Industry-wide wage contracts have been in effect for many years. Household ware potteries have taken the position that even a small wage increase is impossible without adequate price relief. The continuation of price ceilings for an industry whose annual sales approximate only $30,000,000 and whose product forms such a small part of the nation's cost of living is explained on the ground that their removal might evoke charges of discrimination.

Construction Industry While total construction contracts awarded in 37 eastern states advanced in January over the previous month, total construction contracts awarded in the Fourth Federal Reserve District declined substantially in January to $39.7 million as compared to $49.6 million in December 1945. However, the January 1946 District total was four times that of January 1945. Residential contracts awarded were $9.3 million in January or about the same as in December, but eight times as great as the same month a year ago.

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

Construction Contracts Awarded

(thousands of dollars)

	Jan. 1946	Dec. 1945	Jan. 1945
Pittsburgh Territory:			
Total building	$10,786	$12,512	$2,935
Residential building	2,975	2,222	198
Non-residential building	7,811	10,290	2,737
Public works (public and private)	176	390	693
Utilities (public and private)	.....	715	400
TOTAL CONSTRUCTION	10,962	13,617	4,028
Cleveland Territory:			
Total building	$22,588	$25,281	$3,427
Residential building	6,316	5,594	864
Non-residential building	16,272	19,687	2,563
Public works (public and private)	533	1,895	469
Utilities (public and private)	767	302	1,409
TOTAL CONSTRUCTION	23,888	27,478	5,305
Cincinnati Territory:			
Total building	$13,255	$10,926	$2,140
Residential building	1,727	3,209	1,014
Non-residential building	11,508	7,717	1,126
Public works (public and private)	2,044	547	173
Utilities (public and private)	122	15	244
TOTAL CONSTRUCTION	15,391	11,488	2,557

Although these territories cover more than the Fourth District, it should be noted that both Pittsburgh and Cleveland suffered sharp reductions in non-residential building from the previous month whereas Cincinnati scored a 49 percent gain. Residential building contracts awarded, however, increased slightly in January over December in Pittsburgh and Cleveland, while taking a substantial drop in Cincinnati.

Nearly all building materials, with the exception of cement, continue in very short supply and a shortage of skilled building craftsmen is reported in many areas. Moderate weather is permitting construction to proceed at a good pace.

CASH BALANCES OF INDUSTRIAL CONCERNS

The most recent demand deposit ownership survey reveals that cash balances of industrial concerns have dropped rather sharply since the end of last July.

At the eight largest banks in the Fourth District deposits of mining and manufacturing establishments had declined 23% by January 31. Presumably most of the shrinkage occurred subsequent to September 30, when corporate cash reserves, according to SEC reports, were close to the wartime peak. There is also some evidence that the contraction has continued since the end of January, the date of the latest semi-annual survey, with the possible consequence that cash reserves of industrial concerns are now lower than at any time in the past four or five years.

This reduction in bank balances of manufacturing enterprises is attributable to a combination of factors. Income tax payments undoubtedly made some inroads upon working balances at a time when operations in many instances were at a relatively low ebb. Repayment of Regulation V loans (Government-guaranteed war loans) was another factor of some import, although there were instances where such loans were paid off with the proceeds of conventional bank loans.

Corporate balances were reduced in some measure by renegotiation payments to the U. S. Treasury. Acquisition of fixed assets in the form of buildings and equipment may have been responsible for a small part of the decline in bank deposits of manufacturing firms.

An increase in inventories, largely because of the uncertainty regarding future deliveries of raw materials and other supplies, resulted in a drain of cash reserves. A rise in non-Government receivables may have been instrumental in some cases. There also exists the possibility of a net shift of funds to other districts, but this loss, if any, was probably of nominal proportions.

The feeling among commercial bankers is that the sharp contraction in industrial earnings, or the incurrence of actual losses, was the predominant factor over much of the period. The liquidation of wartime obligations would have caused some depletion of corporate treasuries, even under the most favorable circumstances, and when it occurred in conjunction with a period of relatively low and interrupted industrial production, the effect was doubly noticeable.

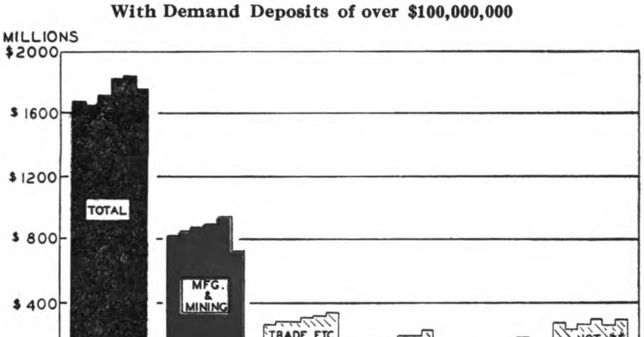
This decline in industrial balances goes a long way in explaining the midwinter rise in commercial and industrial loans. During November, December, and January, such loans increased $46 million at the eight largest banks. But for this extension of credit, manufacturers' deposits presumably would have dropped still further.

Effect Upon Total Deposits The shrinkage of industrial balances was most evident among the largest banks, and was of such magnitude as to bring about a drop in aggregate demand deposits of those institutions. Both developments are depicted on the charts below. Manufacturing and mining accounts represent such a large segment of the deposit structure of metropolitan banks that any substantial change in the volume of such balances is clearly reflected in total demand deposits. In the case of banks below the top bracket, the wartime upward trend of deposits was barely deflected, because of the lesser importance of industrial accounts.

Among the eight largest banks, aggregate deposits of insurance companies, trust funds of banks, and other financial firms at the end of January were at a new high since the inauguration of these semiannual surveys. The collective deposits of retail and wholesale establishments, public utilities, nonprofit associations, and other nonfinancial businesses were also at the highest level on record. Personal accounts of over $10,000 each, likewise rose above the previous high by a sizable margin. But the combined increase of all these subgroups was not adequate to offset the contraction in manufacturing balances. The net result

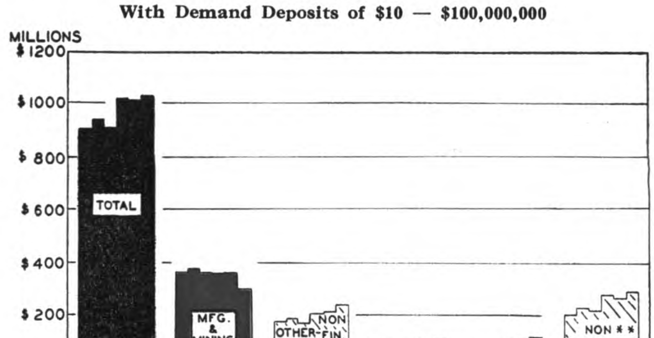
FLUCTUATIONS IN DEMAND DEPOSITS — JULY 1943 TO JANUARY 1946 *

EIGHT LARGEST BANKS
With Demand Deposits of over $100,000,000



* AT ROUGHLY HALF YEAR INTERVALS

25 LARGE BANKS
With Demand Deposits of $10 — $100,000,000



** ACCOUNTS WITH BALANCES OF LESS THAN $10,000 was a 4½ percent decline in total demand deposits for the six-month period. The shrinkage in manufacturing accounts increased the relative importance of all other accounts, and brought about a more even distribution by type of deposit.

Trend in Smaller Banks The postwar contraction in manufacturers' demand deposits has not been confined exclusively to the largest banks. It is equally visible in the case of banks in the $10-$100 million range, of which 25 typical institutions submitted deposit analyses. Percentage-wise the shrinkage was somewhat smaller, amounting to approximately 16 percent over the six months, but this type of deposit had shown virtually no expansion during the preceding two years, and for perhaps a much longer period. Thus with respect to these banks, the outward movement of deposits of manufacturing concerns represents more than a mere cancellation of late wartime growth.

Banks in this size classification, however, did not experience a decline in total demand deposits for contraction in the industrial section was slightly more than offset by gains elsewhere. All other types of deposits expanded to the highest levels on record. The rise was particularly pronounced in financial, personal, and the trade and other nonmanufacturing groups. Two and one-half years ago, mining and manufacturing balances were approximately twice as large as the trade and other nonfinancial block of accounts. But as a result of the converging trends noted above, there is no longer any great difference in the aggregate dollar volume of the two groups. The future course of trade, construction, service, and other nonmanufacturing deposits have become almost as important dollarwise as the one-time dominant industrial accounts.

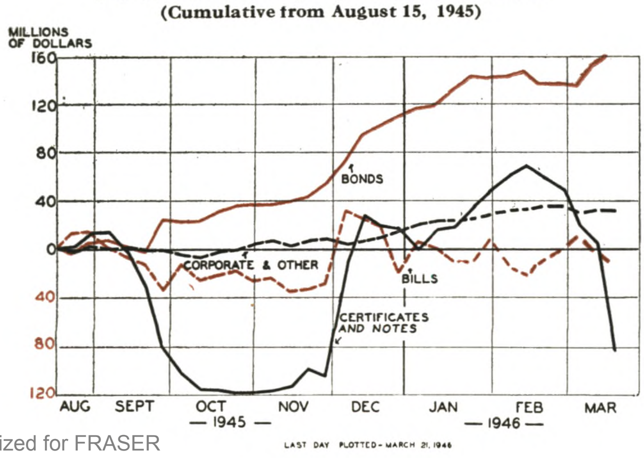
The broad movement of funds out of industrial accounts into other types of deposits has been equally noticeable among banks outside the largest manufacturing centers. During the year ended January 31, manufacturing deposits at banks in the $1-$10 million range declined 13 percent. All other demand deposits at the same banks increased 14 percent causing a net expansion of 8 percent in total demand deposits to a new all-time high.

Recent Changes in Loans Commercial loans of the 41 weekly reporting member banks established another long-time high in March, moderately above the level reported in our previous issue. At mid-March, these banks had loaned (net) $60 million since V-J Day, for commercial, industrial, and agricultural purposes. The gross figure may be nearer $100 million for concurrently there was substantial repayment of loans by some borrowers. Over the same period, "all other" loans, principally the consumer type, increased about $27 million net. In this category the trend likewise is still upward at a rate roughly comparable to that of commercial loans.

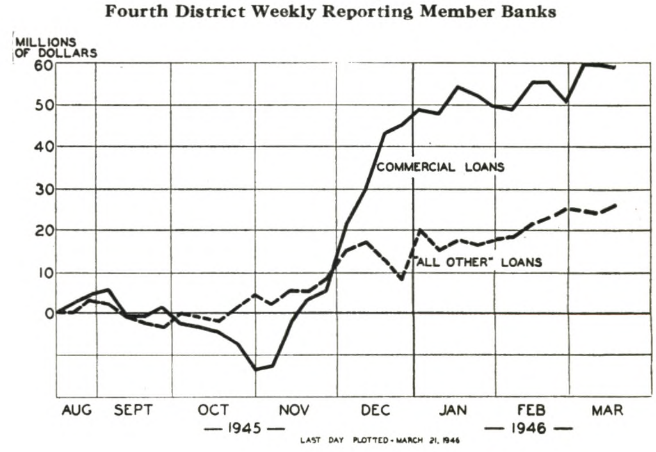
Recent Changes in Investments Holdings of certificates and Treasury notes were reduced sharply during the past several weeks. The cash redemption by the Treasury of a portion of the March 1 maturity of certificates and the entire March 15 note maturity was a major factor in reducing note and certificate holdings to the levels of last November. The cash redemption of a small Treasury bond issue at mid-March did not similarly reduce the Government bond portfolios of these banks. Holdings of Treasury bonds by weekly reporting banks increased to a new all-time high on March 20, representing acquisition of $156 million since the close of the war.

There has been no great change in Treasury bill holdings for an extended period. But reporting banks have purchased nearly $40 million corporate and municipal securities since V-J Day. Longer term bonds, whether Treasury or corporate, appear to have been in more persistent demand than short term Government obligations which logically and traditionally are subject to more frequent variation in both demand and supply.

POSTWAR FLUCTUATIONS IN INVESTMENTS
Fourth District Weekly Reporting Member Banks
(Cumulative from August 15, 1945)



POSTWAR FLUCTUATIONS IN LOANS
(Cumulative from August 15, 1945)
Fourth District Weekly Reporting Member Banks



WHEAT SUPPLY AND CROP PROSPECTS

Prospective Wheat Carryover Winter wheat prospects are being watched with keen interest, particularly since the export goal for the current half year was recently established at 225 million bushels. If that record level of shipments abroad, however commendable and necessary, is to be attained domestic consumption must be drastically curtailed during the remaining months.

The following tabulation describes the status and outlook for wheat stocks under both actual and projected conditions:

Wheat Supply Situation and Prospects

(In bushels)

Total Domestic Supply, July 1, 1945		1,414,000,000
Average Annual Consumption 1941-44:		
Food Products	532,000,000	
Livestock Feed	293,000,000	
Seed	71,000,000	
Industrial Use	66,000,000	
Exports, 2nd Half 1945 (Actual)	170,000,000	
Exports, 1st Half 1946 (Proposed)	225,000,000	
Total Disappearance		1,357,000,000
Carryover, July 1, 1946		57,000,000

Source: U.S.D.A.

The above projected carryover would be the smallest carryover in several decades, and would be less than half of the amount believed to be necessary for operating stocks and inventories. Nine years ago, the United States carryover amounted to 83 million bushels, but the world-wide need was far less urgent and a good domestic crop was being harvested. Obviously if exports approach 225 million bushels during the current six months, only a sharp reduction in average (1941-44) wheat consumption for food products would prevent an abnormally low carryover. On an annual basis the reduction would need to be only 15 percent, but with three-fourths of the crop year already elapsed, the reduction would have to be nearer 60 percent over the remaining three months to July 1. Curtailment on such a scale is obviously impossible.

Conceivably a few million bushels might be diverted from use for livestock feed but not without implications as to future meat supplies. Thus, either the July carryover will be below normal requirements, or the export program will fall short of the original schedule. Perhaps it is more logical to expect that the final result will be a combination of the two.

Crop Conditions The latest report on crop conditions (March 1) indicates condition of winter wheat to be about 82 percent of normal, unchanged from early December, which indicates a crop of about 750 million bushels. That is somewhat below a harvest of 823 million last year and 759 million bushels in 1944. Production prospects for the current year are based on a 14.5 bushel-per-acre yield from 51.9 million acres seeded. Crops in the past (1934-43) have averaged 12.7 bushels per acre from a seeded area averaging 46.7 million acres. Weather conditions throughout the wheat-growing area since December have favored an improvement in wheat condition in Texas, southern and eastern Kansas, eastern Nebraska, and the adjacent states to the east, and a slight decline in condition in Ohio, western Nebraska, northwestern Kansas, Colorado, and California.

Recent reports on the condition of winter wheat in the Fourth District vary from excellent in Kentucky to good and fair in parts of Ohio and western Pennsylvania. Winter wheat seedings in the Fourth District states are from six to twelve percent less than last year, and are below the ten-year average in all but Kentucky where the seeded acreage equaled the average. Unfavorable weather at seeding time was responsible for this variance from the national trend. The national acreage of winter wheat is 3½ percent larger than in 1945, and nearly 12 percent above the average acreage for the ten-year period 1934-43.

Acreage Seeded to Winter Wheat

(Thousand acres)

	1946	1945	1934-43
Kentucky	478	543	478
Ohio	2,010	2,284	2,092
Pennsylvania	901	959	945
West Virginia	100	114	149
United States	51,940	50,123	46,757

Source: U.S.D.A.

Spring Wheat Spring wheat plantings in the Northern States are being encouraged as a means of compensating for the prospective decline in carryover. If the farmers in the spring wheat belt carry out their intentions and plant the 18.9 million acres indicated March 20, and harvest a crop equal to the average of 1937-44, about 257 million bushels will be added to the 1946 crop. Thus the total harvest of winter and spring wheat would approximate 1007 million bushels—a crop equal to 116 million bushels less than was harvested in 1945 and slightly less than the average of the past three years. Apparently a surplus of wheat is still some distance in the future.

Agricultural Production Outlook

Intentions to Plant Farmers intend to plant an acreage slightly larger than last year, but three percent short of the goals set by the Government for this year. This was revealed from a survey of crop reporters completed by the Department of Agriculture and released less than two weeks ago. The survey shows that intended acreages will exceed goals for some crops, but will be below the desired acreages for others. Wheat, oats, rice, peanuts, and tobacco are the crops for which intentions to plant exceed requested acreages. Those of which the intended acreage will fall short of requests include: corn, hay, grain, sorghum, barley, soybeans, flaxseed, potatoes, sugar beets, dry beans, and peas. The acreages of each crop actually planted may be either larger or smaller than indicated by this survey as farmers find it necessary to adjust their action to weather conditions, labor supply, equipment available, and other factors prevailing at planting time.

Planting intentions for most of the major crops in the nation are listed below in comparison with crop goals and 1945 actual plantings.

Prospective Plantings—1946

(Thousand acres)

	1946 Goals	1946 Indicated	Planted Acreages 1945	1946 as percent of 1945
Above Goals:				
Tobacco	1,900	2,000	1,800	105.9
Rice	1,400	1,600	1,500	103.8
Wheat—all	69,900	70,900		
Winter wheat		51,900		103.5
Spring wheat		19,000	18,700	101.6
Oats	45,700	46,400	45,200	102.7
Peanuts	2,500	3,800	4,000	95.0
Below Goals:				
Sugar beets	1,000	900	800	120.4
Barley	13,400	11,500	11,400	100.8
Corn	97,800	93,000	92,900	100.1
Tame hay	61,300	59,800	59,900	99.8
Beans, dry edible	2,100	1,700	1,800	95.1
Potatoes	2,800	2,700	2,900	94.6
Sorghum (all uses)	17,100	14,800	15,800	93.4
Soybeans (beans)	10,700	11,800*	13,400*	88.3
Peas (dry field)	500	500	500	87.5
Flaxseed	4,300	3,500	4,100	86.0

*Acreage grown for all purposes. If usual percentage is harvested for beans, the acreage would be below the goal.

Source: U.S.D.A.

Two crops of which acreages might conceivably be increased over intentions shown above are hay and soybeans. Unfavorable weather for plowing and seedbed preparation during the next two months would result in an expansion of the hay and soybean acreage at the expense of corn, oats, and other early spring planted crops.

In view of the above planting intentions, a relatively high livestock population, and low feed grain stocks, it seems probable that feed grain supplies may continue short throughout this year and the first half of 1947, unless another very favorable crop year occurs.

Farm Labor Although wartime demands on manpower came to an end nearly eight months ago, there has been no improvement in the farm labor supply. After having to contend with a dwindling labor supply throughout the war period, farmers were hopeful that the close of the war might bring some relief on this point; but instead the situation so far has actually become more difficult.

The 7.7 million of farm employees in January was the lowest for the month in 21 years of record. The small increase since then has been less than seasonal and farm employment still stands at two percent below a year ago.

Current reports from Fourth District sources indicate that few returning servicemen have entered the farm labor field. Those who have were from farms where they had an economic interest before entering the service. Apparently few if any workers are returning to farms from industry. In fact, the available evidence suggests that the net movement has been in the opposite direction despite a decline in industrial activity since the close of the war. This may be partially attributable to the fact that the average age of farm operators in many communities is high—over 50—and even before the close of the war many of the older men had expressed a desire to retire from active management of a farm as soon as the need for wartime production ceased.

Present prospects are that the situation with respect to seasonal labor, which is needed principally in the peak harvest periods, may be even more critical than a year ago. Prisoners of war were used extensively in harvesting tobacco and canning crops during the past season and had there been a fruit crop they would undoubtedly have filled a great need there. In view of the fact that most of the prisoners will have returned to their home countries by summer, one of the unanswered questions so far as farm labor is concerned is from what source will sufficient seasonal labor be obtained to harvest apples, potatoes, canning crops, and tobacco.

A further complicating element in the labor situation is the prospect that labor-saving machinery will not be available in anywhere near the quantity needed.

Farm Machinery The outlook for new farm machinery to meet 1946 farm needs is distinctly unfavorable. It appears that shortages of new implements will be more acute than was considered possible three months ago. Even though 1945 production is estimated to have exceeded the preceding year by $20 million, that volume was accomplished without a corresponding increase in new equipment. Because machinery production was low during the early war years, it subsequently became necessary to produce an unusually large amount of repair parts and attachments. During the past year, these replacement items accounted for over one-third of the dollar volume of implement manufacturers. In the latter half of 1945 there developed a trend away from the production of repair parts, which had been a wartime expedient. However, this shift in production was too slow to bring the 1945 dollar volume of new equipment up to the preceding year's level.

Despite the fact that operations in some plants were hampered by strikes the volume of farm machinery produced continued to increase during January of this year. Reports to the Civilian Production Administration by manufacturers representing 90 percent of the productive capacity indicate a dollar volume of 61 million. This was $1 million above the volume of each of the previous two months and $6 million more than was produced in the same month a year ago.

At the turn of the year implement and farm machinery output were running ahead of a year earlier; but work stoppages in the industry, beginning in late January and extending through February into March, have cut production sharply. One manufacturer reports output cut 60 percent by work stoppages. Production has been virtually at a standstill in the plants of another major implement manufacturer for the past nine-week period, and the labor controversy is still unsettled at this writing. Firms whose operations have not been interrupted by labor controversies within their own plants are now finding it necessary in many cases to curtail output until they can overcome the effect of the recent suspension in steel production on the supply of steel for parts. In some cases inadequate steel supplies may entail a break of from eight to twelve weeks in assembly line operations.

Another factor which serves to complicate the outlook for new farm machinery is that implement makers customarily budget varying periods of the year to the exclusive production of specific items of farm equipment. Some of these periods have now expired, and the manufacturer faces the problem of omitting the production of certain implements entirely, or at best attaining only a portion of the original quota.

Items which registered the greatest gain in production during the latter half of 1945, as well as during the early part of this year were domestic water systems and harvesting machinery. Farm poultry equipment and dairy farm machinery and equipment also showed sizable gains. Farm tractors, which are important in meeting the peak periods of field work, showed only a slight gain in production during the last six months of 1945, and during the first month of this year volume dropped below that of the same month a year ago. All available reports indicate that tractor output has deteriorated further since January.

DEPARTMENT STORE TRADE

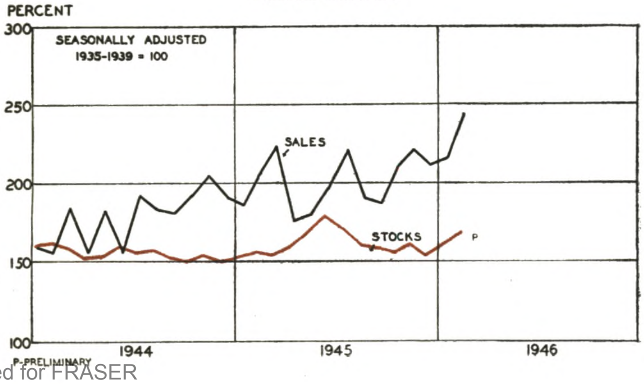
Department store sales throughout the country reached a record-high volume in February. In the Fourth District, the adjusted index moved up to 242, as against 222 in March 1945, the previous peak.

Seven out of the eleven cities for which separate indexes are computed established individual records. Columbus holds the distinction of being the first large city in this district to reach the 300 mark, which represents a 200 percent increase in sales over the 1935-9 base period.

Cincinnati was another city in which February sales improved remarkably over the preceding month and reached a point not far below the record set in Columbus.

This broad buying movement is the end result of a number of factors. One is the existence of war-accumulated purchasing power. Another is the reappearance of some lines of postwar durable merchandise. The possibility of higher prices may be another factor. Last, and perhaps most important, is the apparently strong belief that personal incomes will not shrink drastically from their wartime level.

DEPARTMENT STORE SALES & STOCKS
Fourth District



The sustained volume of retail trade is unquestionably one of the most significant developments in the current business situation. It has a decided bearing upon the problem of price control and the need for a high level of industrial production. Certainly the outlook would be entirely different if trade statistics reflected hesitation and indecision on the part of consumers in general, instead of the keen desire and willingness to buy as evinced by current record sales.

Based upon weekly reports from a smaller sample, there was no diminution in the public's eagerness for merchandise during March, nor in the stores' ability to gratify the demand, notwithstanding disruptions in production and payrolls, and shortages in a number of lines.

After moving alternately upward and downward by small amounts during the past several months, the seasonally adjusted index for stocks increased further during February to the highest level since last July despite record sales during February and some interruption in deliveries. There has been a noticeable increase in stocks of small wares, ready-to-wear accessories, and house furnishings.

Outstanding orders of 296 large department stores located throughout the country recently reached an all-time high of nearly $900 million as against around $500 million two years earlier.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	Feb. 1946	Jan. 1946	Feb. 1945	Feb. 1946	Jan. 1946	Feb. 1945
SALES:						
Akron (6)	249	258	229	222	196	204
Canton (5)	279	243	258	212	187	196
Cincinnati (9)	285	218	223	214	178	167
Cleveland (10)	233	195	197	182	162	153
Columbus (5)	301	247	248	226	200	186
Erie (3)	225	235	210	191	183	179
Pittsburgh (8)	200	207	166	180	156	150
Springfield (3)	281	247	249	219	180	194
Toledo (6)	244	205	213	192	152	168
Wheeling (6)	229	202	186	185	141	151
Youngstown (3)	252	235	231	204	181	187
District (97)	242	214	204	194	167	163
STOCKS:						
District	163	157	150	151	138	140

Bank Debits in 29 Fourth District Cities

Bank debits continue to show year-to-year gains in the smaller cities, as against decreases in the large industrial areas. During February, the volume of money transfers as measured by bank debits was 5 percent ahead of last year in the 19 smaller centers as against a drop of nearly 2½ percent in the ten largest cities of the Fourth District.

10 Largest Centers:

Columbus . . . topped the list of large cities with a nearly 22 percent gain over February 1945. For some time, Columbus has consistently shown relatively large increases over the year before.

Dayton . . . was second among the large cities with a 11.9 percent increase. Dayton also ranks high among comparable cities for the three-month period.

Erie . . . with a gain of approximately 11 percent stood third among the large cities. **Toledo** and **Youngstown** showed only nominal increases over last year, and all other large cities reported year-to-year decreases.

19 Other Centers:

Zanesville . . . reported the largest percentage increase of all reporting cities. The 51.5 percent margin over last year represents an expansion of nearly $6,000,000.

Lorain . . . also reported a substantial increase of more than 30 percent over the same period a year ago.

Covington-Newport . . . with a 23.4 percent gain likewise ranked high in the list of smaller localities.

(In thousands of dollars)

	February 1946	% change from year ago	3 months ended Feb. 1946	% change from year ago
ALL 29 CENTERS	$4,186,269	− 1.7	$15,032,726	+ 0.6
10 LARGEST CENTERS:				
Akron . . . Ohio	$ 173,332	− 1.7	555,487	− 4.2
Canton . . . Ohio	65,349	−12.1	225,572	− 8.9
Cincinnati . . . Ohio	578,374	− 2.4	2,027,859	+ 1.2
Cleveland . . . Ohio	1,072,067	− 4.3	4,101,717	− 0.6
Columbus . . . Ohio	324,297	+21.7	1,137,022	+21.2
Dayton . . . Ohio	143,889	+11.9	471,862	+ 6.1
Toledo . . . Ohio	221,957	+ 0.5	750,494	− 1.2
Youngstown . . . Ohio	77,735	+ 1.6	268,348	+ 3.6
Erie . . . Penna.	55,937	+10.9	193,651	+11.4
Pittsburgh . . . Penna.	1,078,125	− 8.5	3,926,893	− 5.3
Total	$3,791,062	− 2.4	$13,658,905	− 0.2
19 OTHER CENTERS:				
Covington-Newport . Ky.	$ 27,197	+23.4	$ 91,306	+21.2
Lexington . . . Ky.	64,382	−12.2	253,159	+13.7
Hamilton . . . Ohio	21,745	+12.0	69,959	+ 5.3
Lima . . . Ohio	26,057	− 3.0	87,218	− 0.8
Lorain . . . Ohio	9,685	+30.5	34,117	+24.9
Mansfield . . . Ohio	22,382	+ 8.2	74,060	+11.2
Middletown . . . Ohio	21,422	+23.3	68,062	+14.3
Portsmouth . . . Ohio	11,938	+16.8	41,481	+17.3
Springfield . . . Ohio	30,069	+ 4.9	99,062	+ 1.0
Steubenville . . . Ohio	15,061	+ 9.7	49,975	+10.9
Warren . . . Ohio	19,288	−17.1	69,152	− 8.9
Zanesville . . . Ohio	16,904	+51.5	52,357	+35.5
Butler . . . Penna.	18,346	+ 2.0	59,345	− 2.7
Franklin . . . Penna.	5,986	+19.1	19,160	+ 9.0
Greensburg . . . Penna.	12,229	+15.1	41,536	+14.7
Homestead . . . Penna.	5,092	+12.8	16,056	+11.7
Oil City . . . Penna.	14,368	+ 6.2	45,849	− 7.8
Sharon . . . Penna.	13,559	−11.5	48,660	− 1.6
Wheeling . . . W. Va.	39,497	+13.2	153,307	+16.1
Total	$ 395,207	+ 5.1	$ 1,373,821	+ 9.1

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified		February 1946	% change from 1945	January 1946
Savings Deposits—end of month:				
39 banks O. and W. Pa.	$	1,441	+20	1,431
Retail Sales:				
Department Stores—97 firms	$	43,682	+19	40,886
Wearing Apparel—17 firms	$	2,033	+ 9	1,852
Furniture—68 firms	$	3,106	+58	2,679
Building Contracts—Total	$	50,019	+321	38,289
—Residential	$	11,605	+672	9,478
Commercial Failures—Liabilities	$	70	−23	50
—Number		7	+40	2
Production				
Pig Iron—U. S. . . . Net tons		a	a	a
Steel Ingot—U. S. . . . Net tons		1,354	−80	3,869
Bituminous Coal—				
O., W. Pa., E. Ky. . . . Net tons		19,066	+12	20,260
Cement—O., W. Pa., W. Va. . . . Bbls.		a	a	918
Electric Power—				
O., Pa., Ky. . . . Thousand K.W.H.		a	a	2,710

a—Not available.

Wholesale and Retail Trade

(1946 compared with 1945)

	Percentage Increase or Decrease SALES Feb. 1946	SALES First 2 months	STOCKS Feb. 1946
DEPARTMENT STORES (97)			
Akron	+ 9	+ 9	+ 3
Canton	+ 9	+10	a
Cincinnati	+28	+21	+ 2
Cleveland	+18	+16	+12
Columbus	+22	+19	+ 4
Erie	+ 7	+14	+ 8
Pittsburgh	+20	+20	+ 8
Springfield	+13	+10	a
Toledo	+14	+ 9	+14
Wheeling	+23	+20	+15
Youngstown	+ 9	+10	a
Other Cities	+24	+25	+ 4
District	+19	+17	+ 8
WEARING APPAREL (17)			
Canton	− 3	− 3	− 3
Cincinnati	+ 4	− 5	−20
Cleveland	+18	+12	−15
Pittsburgh	+ 6	+ 7	+ 5
Other Cities	+ 6	+ 3	− 1
District	+ 9	+ 4	− 8
FURNITURE (68)			
Canton	+57	+45	− 9
Cincinnati	+69	+72	+13
Cleveland	+44	+53	+31
Columbus	+44	+57	+24
Dayton	+90	+92	+10
Pittsburgh	+46	+41	a
Allegheny County	+56	+64	a
Toledo	+67	+76	a
Other Cities	+81	+84	+15
District	+58	+63	+15
WHOLESALE TRADE**			
Automotive Supplies (3)	+34	+35	a
Beer (5)	− 1	+11	a
Confectionery (3)	+34	+30	a
Drug and Drug Sundries (4)	+13	+18	a
Dry Goods (4)	+15	a	+52
Fresh Fruits and Vegetables (10)	+10	+10	− 1
Grocery Group (36)	+21	+22	+37
Total Hardware Group (20)	+16	+17	−14
General Hardware (5)	+47	+49	−14
Industrial Supplies (7)	−10	− 4	a
Plumbing and Heating Supplies (8)	+ 8	+ 9	a
Jewelry (7)	+67	+70	a
Lumber and Building Materials (6)	+34	a	−45
Paints and Varnishes (4)	+29	+30	a
Paper and Its Products (3)	+ 7	+ 5	a
Tobacco and Its Products (14)	+40	+36	+100
Miscellaneous (21)	+ 1	+12	+32
District—All Wholesale Trade (143)	+17	+19	+27

** 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.

Summary of National Business Conditions

By the Board of Governors of the Federal Reserve System

Production and employment at factories declined in February but advanced in the first three weeks of March, reflecting mainly the influence of the steel strike. The value of retail trade reached new record levels. Wholesale prices of a number of commodities increased.

INDUSTRIAL PRODUCTION

Output of durable goods declined considerably further in February, while production of nondurable goods and minerals continued to increase. Production of steel, automobiles, and machinery has advanced sharply since the settlement of wage disputes in these industries, and the Board's index of industrial production, which declined from 160 in January to 154 percent of the 1935-39 average in February, will show a considerable rise in March.

Steel mill operations in February were at an average rate of 19 percent of capacity as compared with 50 percent in January. Output at steel mills has increased rapidly since the middle of February, and during the week ending March 23 is scheduled at 89 percent of capacity—the highest rate since V-J Day. In February production of nonferrous metals, machinery, and transportation equipment also declined, reflecting chiefly the direct or indirect effects of work stoppages. Lumber production, after advancing in January, showed little change in February. Plate glass production increased sharply to the highest level since November 1941.

Production of most nondurable goods continued to advance in February, partly reflecting increases in working forces. Output at textile mills rose further and was at a rate slightly above the level of a year ago. Activity in the meat packing industry increased sharply in February following settlement of the wage dispute at major plants and was 20 percent higher than a year ago. Flour production likewise showed a substantial gain for the month. In March a Federal program was instituted to reduce domestic consumption of wheat in order to increase exports for relief purposes. Output of automobile tires in February rose to the highest rate on record.

Output of coal was maintained at exceptionally high levels in February and early March. Crude petroleum production showed a gain in February, but declined in March.

EMPLOYMENT

Employment continued to advance from the middle of January to the middle of February in most lines of activity except at manufacturing plants closed by industrial disputes. After February 15, with the settlement of the steel strike, there were large increases in employment in the durable goods industries and by the middle of March employment in private nonagricultural establishments is estimated to be about 2½ million larger than last September, after allowing for seasonal changes. Unemployment increased from January to February by about 400,000 to a level of 2,700,000 persons.

DISTRIBUTION

Department store sales in February, after allowance for seasonal changes, were the largest on record by a considerable margin, and in the first half of March sales continued to show marked increases over a year ago. Total retail trade in February was probably close to one-fourth higher than in the same month last year.

Shipments of most classes of railroad freight increased from the middle of February to the middle of March and almost the same number of cars were being loaded in the first two weeks of March as during the same period last year, when shipments of war products were at peak levels.

COMMODITY PRICES

The general level of wholesale commodity prices advanced one percent from the middle of February to the middle of March, reflecting increases in most groups of agricultural and industrial products. Since last September wholesale prices have advanced 3.3 percent, according to the Bureau of Labor Statistics' index. Price control regulations permit manufacturers and distributors to pass on to consumers only part of the recent advances granted in maximum wholesale prices.

BANK CREDIT

Retirement of 2.8 billion dollars of United States Government obligations during March was reflected in a decline of about the same amount in Treasury balances during the four weeks ending March 20. Holdings of Government securities by both Federal Reserve Banks and member banks declined, accompanying reductions in Treasury deposits at these banks. Deposits, other than those of the Treasury, at member banks showed little change. Member banks required and excess reserves also changed little during the period. Member banks increased their borrowings at the Reserve Banks to over 700 million dollars on March 13, but reduced them somewhat in the following week.

Commercial and industrial loans at member banks in leading cities continued to increase between the middle of February and the middle of March. Loans on Government securities to brokers and dealers fluctuated considerably in connection with the Treasury retirement and refunding operations, while those to others continued to show a slow decline.