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RECENT FINANCIAL DEVELOPMENTS

Further Decline in Industrial Deposits The April 1 issue of this Review contained an analysis of the ownership of demand deposits in the Fourth District in which was described the extent to which cash balances of industrial concerns had declined during the first six months of the postwar period to January 31. On the basis of information obtained more recently, the contraction has continued since then.

Early in May this bank conducted an interim survey as of April 30, of the 15 largest member banks in the District, the results of which indicated that deposits of mining and manufacturing enterprises at those banks had declined approximately 29 percent since July 31, 1945, to a point considerably below the cash balances held at mid-1943, the earliest for which comparable data are available.

In terms of dollars, industrial cash balances have fluctuated as follows in recent years:

**Demand Deposits
of Mining and Manufacturing Concerns
15 Largest Fourth District Banks**
(Accounts of \$100,000 and Over)

July 31, 1943.....	\$ 979,700,000
July 31, 1945.....	1,052,300,000
January 31, 1946.....	806,200,000
April 30, 1946.....	748,600,000

The depletion of such deposits at the 15 banks was \$58 million during the January-April period. At all banks in the District, the shrinkage since the wartime peak of last July is probably in the neighborhood of \$400-\$450 million.

The degree of contraction was not uniform among all 15 reporting banks. The percentage changes in the three months ended April 30 ranged from an increase of 1.9 percent at one bank to a decrease of 17.0 percent at the other extreme. The median change was a decrease of 10.4 percent. Of the reporting banks,

five are located in Pittsburgh, three each in Cincinnati and Cleveland, two in Columbus, and one each in Dayton and Toledo. The resources of these 15 banks constitute approximately 50 percent of all member banks in the District.

There is significance both in the cause and effect of this postwar shrinkage of cash assets of industrial concerns. During the nine months since the Japanese surrender, industrial enterprises raised substantial sums through the sale of new securities. Millions of dollars were obtained by borrowing from commercial banks. Cash redemptions of tax notes and the sale or redemption of marketable Government securities also should have mitigated the drain in cash reserves, as should have the taking up of unused excess profits tax credits.

Effect of Lower Earnings Some of the decline, which occurred despite these several offsetting factors, is attributable to expenditures for additional buildings and equipment and to the payment of accrued taxes. Some funds were absorbed in the moderate increase in inventories since last October, although according to the latest Department of Commerce reports, manufacturers' inventories are still noticeably below the record levels of 1943. It is believed, however, that the major cause has been the relatively low rate of earnings under adverse operating conditions. There is consistency between this trend in cash balances and the scattered dividend reductions and omissions which have come to public notice recently.

Until such time as a high level of operations on a comparatively profitable basis will result in cash accumulation, the demand for loans from commercial banks and the offering of securities to the public will probably continue. After nine months of erosion the cash position of many industrial firms is inadequate to finance a major expansion either of facilities or of operations.

Effect of Deposit Shifts For the District as a whole the contraction of manufacturers' deposits represents largely a shift from one type of depositor to another. Balances in checking accounts of individuals, and perhaps of distributive trades, as well as time deposits show gains commensurate with the drop in manufacturers' deposits. Only a small portion of the decline in industrial balances represents an outflow of funds to other Federal Reserve Districts. Thus, banks whose deposits are owned in the main by individuals, retail and wholesale businesses, and other nonindustrial accounts, have continued to gain deposits during the very period when large banks in metropolitan areas were experiencing a perceptible shrinkage.

The extension of deposit growth into the postwar period was not generally anticipated by country banks, nor by many larger banks. It was rather widely assumed that the entire deposit structure would shrink somewhat after the end of the war. There was considerable divergence of opinion as to the amount of probable contraction, and the alleged motivating forces were not too clearly comprehended. But it was taken for granted in many quarters that a sharp reduction in war orders, employment and payrolls would tend to bring about some shrinkage in total deposits.

In the case of most large banks those expectations have materialized, particularly since the turn of the year. But banks outside the industrial centers (and many of the smaller banks within large cities) are still gaining deposits. Expansion has continued in those sectors because of the predominance of non-industrial and noncorporate depositors. As long as this movement of funds from manufacturing firms to other depositors persists, one group of banks will gain deposits at the expense of another.

Probable Duration of Trend Although such shifts within the system are far from unknown—witness the historic westward flow of funds during the crop moving season—the present episode is susceptible to erroneous interpretation. Cash resources of industrial enterprises are nearer a working minimum than they were nine months ago. The decline may have nearly run its course. If so, deposits of large city banks may exhibit more stability in the coming months than in the recent past.

Conversely, if the time is not far off when consumer goods become available in greater volume, both in dollars and in physical quantities, deposits of individuals, distributive enterprises, and other nonmanufacturing deposits may diminish perceptibly. The once anticipated shrinkage may have been delayed by the slow resumption of many consumer items. Once production approaches current demand wherein dealers, retailers, and wholesalers find it possible to carry adequate stocks, and consumers are not handicapped by shortages of salable merchandise, the shift of deposits may turn in the opposite direction. In

any event, it is unsafe to assume that there will be no postwar contraction in deposits in many areas merely because it has not yet put in its appearance.

Effects of Public Debt Reduction In addition to these actual and potential deposit fluctuations, another development of some consequence is the Federal Government's current policy of public debt reduction out of cash reserves accumulated from wartime borrowing. During March, April, and May, Treasury issues to the amount of roughly \$6,400 million were paid off at maturity and retired. Involved were three issues of certificates of indebtedness, a Treasury note issue, and a small Treasury bond issue:

Marketable Treasury Obligations Retired at Maturity
(March, April, and May 1946)

Certificates of Indebtedness	\$4,600,000,000
Treasury Notes	1,300,000,000
Treasury Bonds	500,000,000
	\$6,400,000,000

The \$4.6 billion of certificates of indebtedness retirement represents approximately eleven percent of the amount outstanding on the eve of the redemption program. The \$1.3 billion note issue was less than seven percent of all Treasury notes outstanding at the end of last February, while the Treasury bond redemption was less than one percent of all outstanding bond issues.

During the time that the various segments of the public debt were being reduced by the above percentages, the 41 weekly reporting member banks of this District reported the following changes in their composite portfolio of U. S. Government securities:

Changes in Holdings of U. S. Government Securities
41 Weekly Reporting Member Banks

(Feb. 27, 1946 to May 15, 1946)

	Increase	Decrease	Increase	Decrease
Certificates of Indebtedness		\$205,000,000		19.2%
Treasury Notes		82,000,000		12.8%
Treasury Bonds	\$50,000,000		2.2%	

The 19.2 percent reduction in certificate holdings over the three months was nearly twice as great as the decline in the amount outstanding. The 12.8 percent drop in note holdings likewise was proportionately about twice as large as the amount retired, while with respect to Treasury bonds, holdings actually increased despite a nominal contraction in total supply. These diverse movements are depicted in one of the adjoining charts entitled "Postwar Fluctuations in Investments."

Absorption of Reserves The sharp decline in certificate and note holdings since mid-February was both a direct and an indirect effect of the debt reduction program. Much of the contraction was due to the act of cash redemption, but a considerable volume of certificates, especially near-by maturities, was sold to offset a decline in legal reserves.

Some were purchased by the Federal Reserve System for the purpose of supplying needed reserves, and some were taken by nonbank buyers. This pressure upon legal reserves, also a by-product of debt retirement, was reflected in Treasury bill holdings which on May 1 stood at only \$11 million as against a record \$418 million in June 1943 and \$65 million on V-J Day. Treasury bills have all but disappeared from the portfolios of most of the 41 weekly reporting banks.

The virtual nonexistence of excess reserves among reserve city banks of this District may also account at least in part for the fact that few corporate and municipal securities were acquired in recent weeks after a rising trend of several months. On the other hand, holdings of Treasury bonds, chiefly of the 6-10 year maturities, increased to a new all-time high. Some of these bonds were probably acquired from borrowers in the closing out of collateral loans secured by U. S. Government securities. However, regardless of the causes of this concurrent liquidation of short-term securities, and acquisition of longer-term maturities, the net result was a further increase in the ratio of Treasury bonds to total assets. On May 15, 35 percent of the total assets of the reporting banks consisted of Treasury bonds as against 31½ percent two years ago, and barely 28 percent three years ago.

Decline in U. S. Government Deposits

In contrast to these changes in the asset structure, the effect of the current debt

reduction process upon the deposit structure appears to have been limited almost wholly to one type of account. Government deposits at the 41 banks have declined around \$300 million since late February, as shown on an accompanying chart, to the lowest point since before the Eighth War Loan. Concurrently, commercial demand deposits have risen to a new high since December, but the increase has been only nominal. The expansion in commercial accounts has been far less than the reduction in Government balances.

One reason is that a considerable portion of the war loan withdrawals was used in redemption of securities held by Federal Reserve Banks and by the member banks, which represented a contraction of bank credit

and bank deposits. Commercial demand deposits were augmented only where the redeemed securities were held outside the banking system. Since nonbank holdings were decidedly in the minority in the five redeemed issues, adjusted demand deposits have been inflated only slightly by the process.

Moreover, some of this increase was canceled by the concurrent repayment of collateral loans secured by U. S. Government obligations. During March, April, and the first half of May, there was a contraction of \$35 million in these secured loans. This liquidating movement—which presumably still has some distance to go—was somewhat instrumental in retarding the rise in privately-owned demand deposits.

Time Deposits Rising Less Rapidly

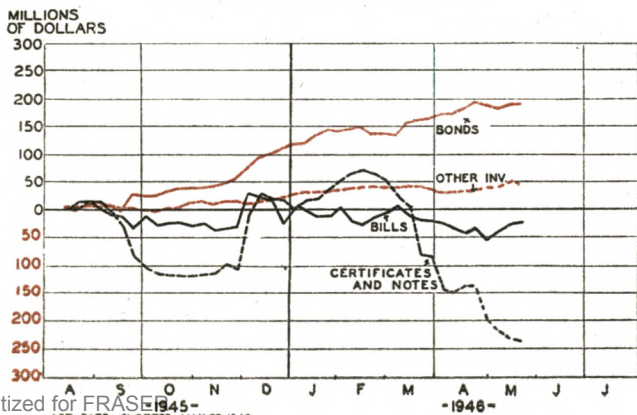
Until late in May time deposits were the only category to show any net gain over the past nine months.

The increase since last August 15 has been \$136 million or about 11½ percent at the 41 reporting banks. Although the trend has been quite steadily upward, and relatively free from fluctuation, savings by individuals are lagging behind the rate in effect a year ago. That tendency is reflected in a third chart entitled "Time Deposits of Individuals and Corporations."

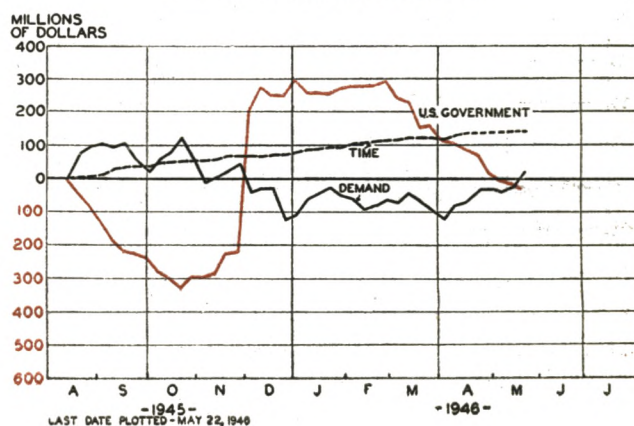
By the middle of May in 1945, such savings had increased \$81 million from the first of the year. Over the same period in the current year the accumulation has been only \$46 million. Since the lag has been most noticeable in such localities as Akron, Canton, Cleveland, Dayton, and Toledo, it may be concluded that reconversion difficulties of one sort or another are a factor of some degree in the modified trend of savings.

There is no conclusive evidence, however, that a resumption of the 1945 rate of increase is imminent. Under conditions of more regular employment, the rate of savings might move in the direction of the wartime pattern. But the availability of a wide range of durable goods ultimately may make considerable inroads upon savings balances. Here again is an instance where the trend of the first nine months of postwar experience is susceptible to a reversal when full production is attained.

Postwar Fluctuations In Investments
Fourth District Weekly Reporting Member Banks
(Cumulative from August 15, 1945)



Postwar Fluctuations In Deposits
Fourth District Weekly Reporting Member Banks
(Cumulative from August 15, 1945)



Importance of Commercial and Consumer Loans

The only function of banking which apparently has been wholly unaffected by the contraction of the Federal debt is that of lending. As depicted on a fourth accompanying chart, commercial loans and "all other" loans are both considerably higher than they were at the close of the war. As a matter of fact, because of the recent decline in loans on U. S. Government securities, the \$76 million increase in commercial loans since last August has become the largest single factor in the growth of total loans in the postwar period to date. Moreover, since it is likely that collateral loans will continue to decline, the burden of maintaining, or increasing, the present loan portfolio falls upon the commercial and consumer categories. The former is entering a period usually characterized by some seasonal dullness, but this year may prove to be an exception. Consumer loans, the chief component of "all other," while up 23 percent since last August, are still far below prewar peacetime levels and may eventually move much higher and may be an important factor in any further increase in bank loans.

Elimination of Preferential Rate

On October 27, 1942, this bank in conformity with Federal Reserve System policy, established a new low rediscount rate of $\frac{1}{2}$ percent for advances to member banks when secured by U. S. Government obligations callable or maturing within one year.

The purpose of that preferential rate was to encourage banks to make more effective use of their excess reserves as an aid to wartime finance. At that time reserves held by member banks in the Fourth District totaled nearly \$300 million, or 43 percent in excess of legal requirements.

The period of greatest effectiveness of this low rate occurred during the first eighteen months of its existence. By the middle of 1944, Fourth District member banks had increased their holdings of Treasury bills and certificates of indebtedness by \$800 million,

or an increase of more than 140 percent. Thereafter, member banks began to exhibit a growing tendency to invest available funds in longer-term Government obligations.

In the course of time this preference for higher yielding securities gradually came to bear upon the broader problems of bank earnings, liquidity, and the general effects of continued bank credit inflation. With the close of the war, and particularly in the light of developments in connection with the last two War Loans, it became apparent that the preferential rate had outlived its usefulness.

Access to Federal Reserve credit at such a relatively low cost undoubtedly permitted the use of commercial bank credit for speculative operations in U. S. Government securities both by banks and their customers, which in turn resulted in a further expansion of the money supply at a time when the need for monetary expansion had entirely disappeared. On the contrary, inflationary forces have become so strong as to call for a reduction in the money supply as a means of reducing the upward pressure.

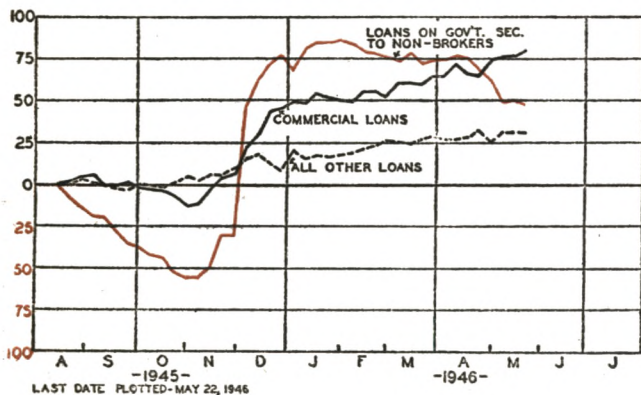
In order to eliminate one of the minor sources of inflationary pressure, this bank along with other Federal Reserve banks, and with approval of the Board of Governors, revoked the $\frac{1}{2}$ percent preferential rate as of May 3, 1946. The effective rate on advances secured by U. S. Government obligations of any maturity is now one percent. At the time this action was taken, rediscounts and advances at this bank totaled around \$40 million. Because such borrowings may have a maturity of as much as 90 days, the effect of this change in rate may not become fully evident for another two months.

NEW MEMBER BANKS

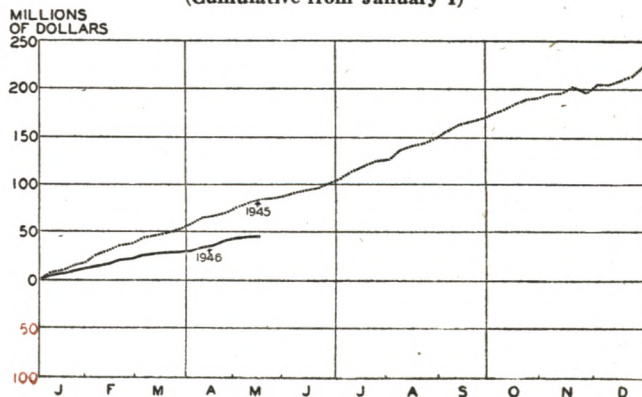
The Bridgeville Trust Company, Bridgeville, Pennsylvania

Peoples Bank, Science Hill, Kentucky

Postwar Fluctuations In Loans
Fourth District Weekly Reporting Member Banks
(Cumulative from August 15, 1945)



Time Deposits of Individuals and Corporations
Fourth District Weekly Reporting Member Banks
(Cumulative from January 1)



THE ASHTABULA INDUSTRIAL CORPORATION

Ashtabula, Ohio, provides an interesting case study of a small community's method of attracting new manufacturers to provide additional employment and higher payrolls for its people. Although the success of the program has been due largely to the energy and determination of individuals connected with it, the pattern could be used by other communities.

Early in 1941, the owner of a local automobile agency, and several other business leaders became convinced that the traditional Industrial Committee within the Chamber of Commerce did not command sufficient resources and freedom of action to promote effectively the advantages of the city and to provide inducements for manufacturers to locate there. This small group was also concerned over the continued vacancy of several well located factory buildings.

Without a formal organization, or any funds in hand, the Cleveland owners of the old Aetna Rubber Company plant were approached by this group to determine if they would sell the property which had been idle since 1936. A satisfactory price was agreed upon, and the committee returned to Ashtabula to devise ways and means of raising the necessary money.

After considering several plans, it was determined to charter the Ashtabula Industrial Corporation as a profit corporation with a wide range of powers to engage in nearly all forms of activity. Authorized capital was \$50,000 divided into 1,000 shares. The charter was granted April 1, 1941.

An aggressive stock selling program was launched by the Chamber of Commerce and within a short time enough stock had been sold to consummate the purchase of the Aetna plant. The entire capital stock has now been subscribed for and paid in full. There are 170 shareholders and none owns more than five percent of the issue. Numbered among the stock purchasers are the Chamber of Commerce, chain stores, local banks, utilities, independent retailers, business and professional men representing nearly every interest in the city. The stock was sold as an investment in the future of the community, and not upon promises of profits and dividends that might arise from the operations of the corporation.

Organization Each share of stock carries one vote and the elected officers and directors have been drawn from all walks of life. The president is the owner of an automobile agency; the vice-president, a partner in a large department store; the treasurer, the cashier of a bank; the secretary, a local attorney; and the auditor, a newspaper accountant. The officers are also members of the Board of Directors. Other directors are the respective partners or

proprietors of a sheet metal company, a bottling company, a retail furniture store, a construction company, a motor parts company, a lumber business. One of the directors is an architect.

In order to achieve close cooperation with the Chamber of Commerce, the by-laws provide that the President and Secretary of the Chamber shall sit with the Board of Directors at all meetings but they do not have an actual vote in the corporation's affairs. There are no paid employees. Expenses have been kept at a minimum. All business is transacted at the Chamber, or the officers' places of business since office space has not been rented. The corporation has no telephone nor printed stationery.

The directors meet only when required to approve actions of the officers or to establish or change major policies. As a consequence, they may hold several meetings in a single week and then not again for a month or more.

The Corporation has proceeded on the theory that it can function to best advantage when it has something definite to show or offer a prospective manufacturer. Therefore, from time to time, it has acquired or built factory buildings and assembled promising industrial acreages through purchase or options to buy. With these in hand, it can make definite commitments to a prospect as to the terms of purchase or lease upon which the property is available. The danger of private owners raising the price of property that is desired for a specific purpose is thus eliminated. Adequate utilities, water supply, sewerage system, and access to transportation agencies can also be guaranteed in advance.

Inquiries concerning Ashtabula as a possible factory site are handled and screened by the Chamber of Commerce. If it appears that a tract of land will be needed, or that it will be necessary to provide a building to close the deal, the transaction is turned over to the Industrial Corporation which handles the direct negotiations. The president is given a free hand to do everything necessary to achieve success. In fact, during the past five years, he has devoted at least one-fourth of his time to administering the affairs of the Corporation.

Not all types of producers are encouraged to settle in Ashtabula. Preference is shown for companies that will utilize skilled employees to manufacture an end product. At present, companies that will largely employ common or female labor are not encouraged because the primary need is jobs for skilled and semi-skilled men. Likewise, if the Corporation will have to provide a building, operations are preferred which will provide a large number of jobs per square foot of space provided.

The Record The Ashtabula Industrial Corporation's first action was to ratify the agreement of its promoters to acquire the Aetna Rubber property which contained 83,000 square feet of floor space in three buildings, a water tank, and a power house. The plant is served by two railroad sidings.

A contractor was employed to repair the roofs of the structures and to clean up the premises. Unneeded machinery and boilers were salvaged and sold. The first prospect was the Mercury Equipment Company with headquarters in Cleveland which was looking for additional space, but could not use such a large plant.

This company, however, agreed to buy a part of the plant and was sold 33,000 square feet of space in which to manufacture automobile aerials. During the war, a variety of antennas was produced for the armed forces. Initial employment was about 100 people and during the war reached a peak of approximately 300.

Another 3,000 square feet of space was leased to the Ashtabula Hide and Leather Company for warehouse space. On June 1, 1941, the Ashtabula Corrugated Box Company leased 30,000 square feet for five years to be used for paper storage. This latter contract freed an equivalent amount of manufacturing space at the Box Company's main factory, and enabled them to expand their manufacturing operations and employ an additional 50 people.

In 1943 the remainder of the available space was sold to the Seat Cover Corporation, which is allied with Mercury Equipment Company, and now manufactures automobile seat covers. That part of the property under lease to the Box Company, was finally sold in 1945 to the owners of the Seat Cover Corporation, subject to existing leases, to provide needed space for expansion. At the end of 1945, the Seat Cover Corporation and Mercury were employing 300 people.

The second major venture embarked upon by the Corporation was the acquisition in mid-1941 of a 48 acre tract of land which had been the site of the old Empire Steel Company. It adjoins the New York Central Railroad on the northeast side of town and at the time of purchase, the old mill buildings were being dismantled by the Sheffield Steel Company of Kansas City for shipment to Houston, Texas.

The officers undertook to erect a modern steel and concrete block factory building on this site in the belief that a satisfactory buyer or tenant could be found for it. When the building was started in September 1941, it was intended to provide about 16,000 square feet of floor space. While construction was in progress the American Fork and Hoe Company obtained a substantial contract to manufacture bayonets for the Army, and needed a factory for the purpose. Negotiations with the Industrial Corporation were

carried on, and it was agreed to enlarge and modify the plans to suit the needs of the company in return for a three year lease of the property.

The completed structure contained about 36,000 square feet of floor space. Since the Corporation did not have sufficient funds in hand to complete a structure of that size, a \$14,000 bank loan was negotiated with four banks in Ashtabula county in equal participation. Rental income retired the loan in 1944.

The American Fork and Hoe Company occupied the plant until March 1, 1946 when its lease was canceled. The Industrial Corporation had negotiated the sale of the property to the Nelson Machine and Manufacturing Company of Cleveland to expand its production of popularly priced electrical household items such as toasters, electric irons, waffle irons, and sandwich grills. Initially employment will be provided for about 200 people compared with a peak wartime employment as an ordnance plant of about 325.

The third venture of the Ashtabula Industrial Corporation involved an old mill built in 1892 by the Ashtabula Worsted Mill Company and abandoned in 1912. The property, although well constructed of brick and heavy timber, had remained idle since that time except for intermittent use as a warehouse.

A manufacturer's agent of men's clothing who desired to obtain a factory for Brenel Textiles, Inc., for the production of a high quality line of men's sweaters, was quietly shown the property by the Chamber of Commerce in late 1944. He expressed satisfaction with it, provided it could be remodeled and obtained on a lease basis. The Industrial Corporation thereupon negotiated for the purchase of the mill and obtained it at a low price in January 1945. Remodeling was accomplished, and sweater production commenced in July 1945 with about 30 employees. The Brenel Textiles, Inc., is now planning to take over the second floor of the building to expand operations as soon as additional machinery can be obtained.

The 10 year lease agreement is looked upon with favor by both landlord and tenant. Annual rental is fixed at 10 percent of the original cost of the structure to the Corporation plus 12 percent of the remodeling cost. Depreciation is being charged off at the rate of 3 percent of the building cost and 5 percent of remodeling cost. The lessee has a 9 year and 6 months option to buy the mill and will receive credit for all depreciation charges if it chooses to exercise the option.

Post-War Developments About a year and a half ago, it appeared that the Corporation would no longer be needed to promote employment in Ashtabula. The General Electric Company had announced that it would build a \$4 to \$5 million plant in the city on a 140 acre site that had been assembled, and would employ from 1500 to 2500 people as soon as the buildings could be erected after the war. Since a project of this size

would absorb all conceivable post-war unemployment in the county, the Chamber of Commerce advised subsequent inquiring manufacturers that the labor supply would be very short and discouraged other new developments. Three months after V-J Day, General Electric cancelled the Ashtabula project because it had acquired government surplus war plants operated during the war and would not now need this additional facility.

With the employment picture changed overnight, and faced with a labor surplus of about 1200 men, instead of a shortage, the Chamber and the Corporation went to work in earnest at the end of 1945 to obtain new industrial plants, and to broadcast the information that Ashtabula was again in the market for new employers.

In January 1946, the Corporation acquired a 20 acre tract along the Nickel Plate Railroad to offer as an industrial site. It also assembled a 60 acre tract on Benefit Avenue, with access to the New York Central. It is on this latter location that Ashtabula's latest industrial development is now being planned and aggressively carried forward.

The Corporation is erecting on 3.5 acres of this tract, a 12,000 square foot factory for the Fibro Form Corporation which is a new producer of moulded pulp and moulded plastic fibre products. The building will be leased to this corporation and about 50 people will be employed.

Despite uncertain building costs, the long term lease provides for an annual rental charge of 20 cents per square foot of floor space. The Corporation provides the building shell and brings in necessary utilities. The lessee will install necessary interior partitions and special facilities. The lease also gives the lessee an option to buy the property on terms similar to those used in the woolen mill contract.

An existing local manufacturer has outgrown his present quarters and the Corporation has sold the company a 17 acre site in this development upon which the company will construct its own buildings containing 160,000 square feet and double its present employment. To facilitate the transaction, the Industrial Corporation is buying this manufacturer's present plant with 69,000 square feet of factory area, and as soon as it is vacated will endeavor to find either a tenant or buyer for it.

The recent sale of 26 acres in this plat to the Reliance Electric & Engineering Company of Cleveland probably represents one of the Corporation's greatest triumphs. Reliance will erect factory buildings containing 120,000 square feet of manufacturing floor space. Building and equipment costs are estimated at about \$1.5 million and it is anticipated that 500 employees will be needed. The company will manufacture one to fifteen horsepower electric motors and a prewar development in electrical industrial driving equipment. The Civilian Production Administration has approved this construction and work is getting underway. The addition of this plant should

go a long way in absorbing any surplus labor in the Ashtabula area.

The Industrial Corporation has donated the necessary right of way for a railroad siding to serve the entire development, and the railroad is extending its facilities to these new plants. It also has cooperated with the proper public authorities to obtain necessary street paving, water, sewerage system, and utilities. Land in the tract is sold at cost.

It is apparent from the review of these activities, that an outstanding job has been done in Ashtabula to promote industrial employment. These enterprising activities have benefited not only the community but also the original sponsors, for the total net worth of Ashtabula Industrial Corporation has grown from \$47,900 as of December 1, 1941 to more than \$80,000 in December 1945. Most of this accumulation has come from rental income. Substantial amounts have been paid as income taxes since operating costs have been virtually zero. All earnings in excess of taxes have been plowed back into the enterprise and no dividends have been paid to stockholders. In fact, there has been no demand for dividends since the stockholders feel that a larger capital provides greater freedom of action and opportunity for better things to come.

The citizens of Ashtabula have shown an aggressive and enterprising spirit in an era when local communities are all too prone to appeal to the state or Federal Government for aid in meeting purely local problems. It is an adventure in private enterprise, boldly carried on by a group of men who believe in the future of their community and who are willing to back their judgment with time and privately owned capital. Their work has been rewarded by the establishment of new manufacturing enterprises that should provide employment for several thousand people and has made the community problem of the returning war veteran a minor one.

Although abundant employment opportunities are apparently assured for the near term, the Corporation will continue in business to manage its present holdings and to attract new employers whose activities would be an asset to the city.

Officers and Directors of the Ashtabula Industrial Corporation:

Robert S. Morrison, President
 Theodore F. Carlisle, Vice President
 R. E. Graham, Treasurer
 W. J. Webb, Auditor
 G. E. Carlson
 Fred J. Knuebel
 John Laird
 C. V. Martin
 C. W. Miner
 Nelson J. Pinney
 Charles H. Sanborn

Chamber of Commerce Representatives:

M. H. Ritchie, President
 Castle M. Smith, Secretary-Manager

INDUSTRIAL SUMMARY

Tire Production Automotive pneumatic casing production appears to be headed toward a new record in 1946. Passenger car tire output in March amounted to 5.3 million units or an increase of about 16 percent over the short month of February. Truck and bus casing production in March was 1.4 million units, up 13 percent from the previous month. Continued production at these rates would yield about 63 million passenger casings and 16.5 million truck and bus casings or a total of 79.5 million units. This compares with the total 1941 record output of 61.5 million units of which 50.3 million were passenger tires.

First quarter production of casings this year is compared in the following table with the same periods in 1945 and 1941:

First Quarter	—In Thousands—		
	Passenger Car	Truck & Bus	Total
1941.....	13,750	2,580	16,330
1945.....	5,000	5,370	10,370
1946.....	14,600	3,850	18,450

Source: The Rubber Manufacturers Association.

While retail inventories of passenger casings are still very low, the supply situation should substantially improve by late summer or early fall. The truck and bus casing inventory situation is much nearer normal and prices are reported to have weakened in several cities.

Meanwhile, the industry is struggling against a wide variety of material shortages. The coal strike has again reduced the supplies of bead wire to a hand-to-mouth basis. Textiles are difficult to obtain in sufficient quantity as are casein and resin. Several unauthorized strikes in Akron tire plants have also recently disrupted production schedules.

Iron and Steel The iron and steel industry has exhibited an amazing ability to maintain production in the face of the coal famine. Fourth

District producers have maintained a better rate during the past month than the national average. In the third week of May, the national production rate was estimated by *Magazine Steel* at 49 percent of capacity as compared to Youngstown 43 percent, Cleveland 77.5 percent, Cincinnati 84 percent, and Pittsburgh 40 percent. Current use of coal and coke stocks, however will probably prolong the period required to return to the pre-strike rate of production of about 90 percent.

The effect of the coal and steel strikes is reflected in steel ingot production which totaled 17.8 million net tons for the first four months of this year as compared with 28.8 million net tons for the same period in 1945, or a loss of 11 million tons.

The steel scrap supply is very tight with steel-makers seeking all they can obtain for use when conditions return to normal. Lack of fuel has also cut pig iron production sharply, causing many foundries to close. The shortage of finished steel has now reached virtually all steel consumers with adverse

effect upon the production of industrial and consumer durable goods.

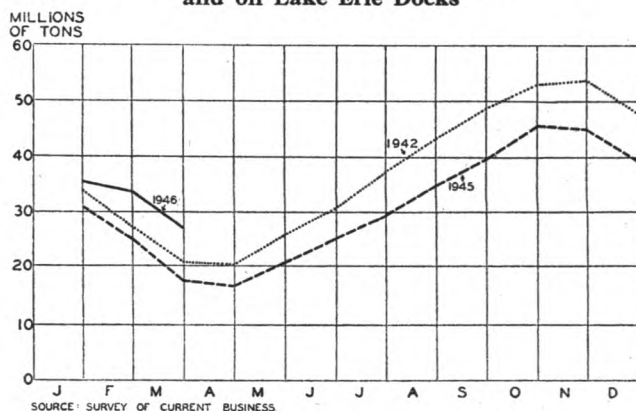
Machine Tools Since January, machine tool shipments have been maintained at a steady rate between \$27 and \$28 million a month. April shipments are estimated at \$28.1 million, up nearly \$1 million from March, according to the National Machine Tool Builders Association. Unfilled orders at the end of April amounted to \$180.3 million as compared to \$178.1 in January. About 28 percent of total unfilled orders are for foreign account.

The industry has been hampered by shortages of steel and electric motors as well as adverse price ceilings during the first four months of the year. The latter factor was largely eliminated during April when price ceilings were suspended on six broad classes of the heavier types of machinery and equipment. A 20 percent increase in manufacturers' ceiling prices was also authorized for all other classes of machine tools except manually operated portable tools. Market prices are being adjusted slowly by manufacturers and few have increased prices by the full amount permitted.

Iron Ore Stocks Movement of iron ore on the Great Lakes is getting away to a very late start this year. Principal factors are abundant supplies now on the docks, continued strikes in some of the iron ore mines and pits, lack of coal cargoes for Canada and the upper lakes, and fuel shortage for the lake vessels themselves. The coal strike has reduced the quantity of iron ore needed and has also shortened the season during which it can be moved. Consumption for this year is estimated at about 20 percent below last year's 75 million tons.

The accompanying graph indicates the estimated stocks of iron ore at blast furnaces and on Lake Erie docks at the end of each month for 1942, 1945, and 1946. Stocks on hand closely reflect the seasonality of the lake shipping season which normally does not get underway until April and ends in November. Enough iron ore to operate the blast furnaces 12 months of the year must be moved in about eight months.

Lake Superior Iron Ore Stocks at Furnaces and on Lake Erie Docks



The accumulated stock at the end of November, 1942, of 53.7 million tons was the greatest on record and a result of the wartime needs of the steel industry and anticipated record output. As of the same date in 1945, iron ore stocks were about 9 million tons below 1942.

In 1945, stocks on March 31, amounted to only 17.3 million tons or the lowest since 1937. They were rapidly replenished, however, and by the end of the shipping season were comparable to the previous year. If the end of the war had been foreseen, it is likely that a smaller tonnage would have been accumulated. The coal strike last fall also resulted in a greater movement of iron ore than anticipated, since lake vessels were kept busy past the normal season by carrying coal to upper lake ports, returning loaded with iron ore instead of mere ballast.

The steel strike this winter reduced iron ore consumption about 9 million tons below the first quarter of 1945. This factor, alone, largely explains the present size of iron ore stocks.

WAGE INCREASES—FOURTH DISTRICT

By Executive Order (9697) on February 14, it was provided that pending applications for wage increases were automatically approved if they conformed to the general pattern of wage adjustments that had taken place between August 18, 1945 and February 14, 1946. Approval was also to be given wage increases that eliminated gross inequities and substandards of living. Where no general pattern of wage increase was apparent, higher wages could be approved when found necessary to correct a disparity between the 33 percent increase in the cost of living, and the increase in wage and salary rates between January 1941 and September 1945. The process of adjusting prices to partially offset wage increases was to be speeded up.

The Wage Stabilization Office subsequently included additional classes of wage increases which do not require pre-approval in order to constitute grounds for seeking price relief, and extended the time limit for general pattern adjustments to March 15 to relieve itself of an overwhelming workload. On the other hand, any proposed wage rate in a new plant, wage changes in the construction industry, or wage changes for agricultural employees subject to control by the Department of Agriculture, continued to require prior approval. Procedures to be followed to obtain price relief were also amplified.

Sufficient time has now elapsed to gauge the trend and level of wage increases that have taken place since the promulgation of the new policy.

National wage patterns have been generally followed in the Fourth District. The fact that the patterns have been modified to some extent, reflects the peculiar characteristics of each particular area. The following table depicts the pattern which Fourth District wage increases have assumed since V-J Day. The information has been estimated on the basis of records of the Cleveland office of the Wage Stabilization Boards, the regional Bureau of Labor Statistics

office in Cleveland, press reports, and reports from industrialists in this area.

IRON AND STEEL

Steel and Steel Fabricator—18½ cents per hour, national pattern.

Steel Foundries—18½ cents on basis of national pattern for steel.

Steel Products—12 to 18½ cents per hour.

RUBBER MANUFACTURERS

18½ cents on the basis of agreements between the union and companies.

ELECTRICAL MACHINERY, APPARATUS AND SUPPLIES

18½ cents national pattern; increases in Fourth District range from 4 cents per hour to \$2 a day.

VEHICLES AND PARTS

Average increases in this area are about 10 cents per hour but several companies have met the national pattern of 18½ cents per hour.

CLAY PRODUCTS

Pottery—about 10 to 18½ cents per hour.

Structural Clay Products—10 to 18½ cents per hour.

GLASS

No patterns established. Increases ranged from 4 cents per hour to 12 percent. Average increase since October is probably around 17 cents.

PETROLEUM REFINING

11 cents to 15 percent for companies in the area is typical. National pattern is about 23 cents per hour.

OTHER METALS

Aluminum—19 cents per hour, national pattern.

Silverware—15 cents per hour.

Metal Products—10 to 15 cents per hour.

BUILDING CONSTRUCTION

About 15 cents per hour.

FOOD

Bakery Products: Cincinnati area only, 12 cents per hour.

TEXTILES

Rayon mills in Pennsylvania—5 cents per hour. National pattern for several textiles range from 10 to 15 cents per hour.

TRANSPORTATION

Akron Transportation System—12 cents per hour.

Cleveland Transportation System—13½ cents per hour.

PRINTING

Cleveland only—15 percent for one commercial printing shop.

Cleveland pressman—about \$14 to \$15 per week.

TELEPHONE

Cincinnati only—17 cents per hour national pattern.

Mid-Ohio—three companies—15 cents per hour.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for Publication May 27, 1946)

Industrial output declined somewhat in April and the early part of May owing to the coal strike. Employment in the economy as a whole, however, continued to expand in April. The value of retail trade was maintained at record levels and commodity prices rose further.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 2 percent in April and was at 164 percent of the 1935-39 average. The drop in coal output after April 1 and the resultant curtailment in operations in some industries were offset in part by substantial increases in activity in the automobile and electrical machinery industries following settlement of wage disputes in the latter part of March.

Production of durable manufactures as a group rose 3 percent in April. Iron and steel production declined about 6 percent; decreased output of pig iron and open hearth and bessemer steel was partly offset by a sharp rise in electric steel production. In May activity at steel mills continued to decline as a result of coal shortages and during the past two weeks has averaged only about 50 percent of capacity.

The number of passenger cars and trucks assembled in April was 80 percent greater than in March, and there also were substantial increases in activity in the railroad equipment industry and in output of many types of electrical equipment. Production of lumber and stone, clay, and glass products was maintained at the March level, which was above the same period last year.

Output of most nondurable goods was maintained in April at about the March level. Activity at cotton mills declined slightly, owing to reduced coal supplies, but output at other textile mills advanced further. The number of animals slaughtered under Federal inspection continued to decline sharply in April. Output of flour and bakery products decreased somewhat in April and is expected to decline substantially in May as a result of the stringent wheat supply situation.

Minerals production declined by a fourth from March to April, reflecting primarily the drop in bituminous coal output. There was also a further reduction in output of metals, while crude petroleum production increased in April and early May. On May 13 bituminous coal production was resumed under a temporary work agreement, and during the week ending May 18 output was 70 percent of the pre-strike weekly rate.

Value of construction contracts awarded rose sharply in April, according to reports of the F. W. Dodge Corporation. The increase reflected a very large expansion in awards for private residential construction to a record level; awards for most other types of private construction were maintained at recent high levels.

Employment

Nonagricultural employment continued to gain in April notwithstanding the bituminous coal strike, and

unemployment decreased by about 350,000. Manufacturing employment rose by about 400,000 largely because of settlement of major labor disputes, and construction employment showed a further large gain.

Commodity Prices

Price ceilings on grains were increased substantially on May 3 and ceilings for a number of nonagricultural products have also been raised during the past month. Recent price increases for industrial products have usually been between 10 and 20 percent. Recent advances announced for automobiles were smaller than these amounts but they were in addition to price increases made earlier this year.

Retail prices of most groups of commodities continued to show small advances in April and the consumers' price index increased one-half percent to a point 3 percent higher than in April 1945.

Distribution

Retail sales continued at a high rate in April and the first half of May. During the past four weeks department store sales have been one-third larger in value than in the corresponding period of 1945.

Freight carloadings declined sharply in April, reflecting chiefly the drop in coal shipments. Shipments of most manufactured products continued to increase until the week ending May 18. In that week interruptions in freight service resulted in large decreases in loadings of manufactured products but bituminous coal shipments were resumed, and total loadings increased slightly.

Bank Credit

Treasury deposits declined, reflecting disbursements in excess of receipts, and deposits subject to reserve requirements increased during April and the first three weeks of May. Reserve balances increased less than required reserves, and excess reserves declined to about 700 million dollars on May 22. Federal Reserve holdings of Government securities, which declined substantially in the early months of the year, have increased somewhat since the middle of April.

Member bank holdings of Treasury bills, certificates, and notes declined in April and the first half of May, while holdings of Treasury bonds increased further. Loans at member banks in leading cities declined, reflecting largely reductions in loans for purchasing and carrying Government securities.

In the latter part of April the Reserve Banks, with the approval of the Board of Governors, eliminated the wartime preferential discount rate of about one-half of one percent on advances to member banks secured by Government obligations due or callable in not more than one year. The regular discount rate on advances secured by Government obligations or eligible paper remains at one percent.

Yields of Government securities, which declined in the early weeks of the year, rose sharply in the latter part of April and early in May.

Indexes of Department Store Sales and Stocks

(Daily Average for 1935-1939 = 100)

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	Apr. 1946	Mar. 1946	Apr. 1945	Apr. 1946	Mar. 1946	Apr. 1945
SALES:						
Akron (6)	243	289	203	264	247	201
Canton (5)	279	329	235	290	256	217
Cincinnati (9)	269	284	192	275	252	177
Cleveland (10)	207	250	151	238	220	162
Columbus (5)	290	308	224	292	274	200
Erie (3)	229	287	194	245	239	189
Pittsburgh (8)	227	271	163	243	233	155
Springfield (3)	255	296	209	268	260	195
Toledo (6)	221	255	175	241	225	174
Wheeling (6)	225	283	182	243	224	164
Youngstown (3)	256	304	201	282	255	189
District (98)	236	271	174	253	237	171
STOCKS:						
District	178	174	153	183	168	158

Fourth District Business Statistics

(000 omitted)

	April 1946	% change from 1945	March 1946
Fourth District Unless Otherwise Specified			
Savings Deposits—end of month:			
39 banks O. and W. Pa.	\$1,458,515	+18	1,449,228
Retail Sales:			
Department Stores—98 firms	\$ 62,105	+54	57,855
Wearing Apparel—16 firms	2,107	+24	2,767
Furniture—72 firms	4,430	+48	3,318
Building Contracts—Total	\$ 68,328	+231	75,677
—Residential	31,024	+697	32,296
Commercial Failures—Liabilities	34	-78	149
—Number	3	-63	2
Production:			
Pig Iron—U. S.	Net tons 3,614	-24	4,424
Steel Ingot—U. S.	Net tons 5,877	-19	6,507
Bituminous Coal—			
O., W. Pa., E. Ky.	Net tons 774	-95	22,098
Cement—O., W. Pa., W. Va.	Bbls. a	a	966
Electric Power—			
O., Pa., Ky.	Thousand K.W.H. a	a	2,690

a Not available.

Bank Debits During April

(29 Fourth District Cities)

In all but three cities, bank debits were higher this April than a year ago. The margin over 1945 continues to be wider in the smaller cities than in the larger metropolitan areas.

10 Largest Centers:

Debits reported by Dayton banks rose to a record high of \$176 million during April, for a nearly 19% increase over a year ago. This was the largest percentage increase among the ten major cities.

Toledo debits of \$275 million for April exceeded last year's total by more than 17% as against a District average increase of about 7%.

The volume of debits has also held well above last year in Columbus with a \$404 million total for eight banks in April.

19 Smaller Centers:

For the fourth consecutive month, Zanesville's three banks report the largest percentage increase (45.8%) of all reporting cities in the District. Total for the three months was over \$56 million, or a new all-time high.

Lexington, (Ky.) shows the second-largest percentage gain, and Lorain is next with a 35.8% increase.

(In thousands of dollars)

	April 1946	% change from year ago	3 months ended Apr 1946	% change from year ago
ALL 29 CENTERS	\$5,146,101	+ 7.2	\$14,289,559	+ 1.8
10 LARGEST CENTERS:				
Akron	\$ 196,562	- 5.2	\$ 579,730	- 2.4
Canton	78,661	- 5.9	220,320	-10.5
Cincinnati	658,715	+ 6.4	1,904,150	+ 2.1
Cleveland	1,323,045	+ 1.9	3,662,115	- 2.5
Columbus	404,106	+11.0	1,111,274	+15.7
Dayton	176,304	+18.6	493,945	+14.5
Toledo	274,558	+17.3	773,642	+ 8.3
Youngstown	94,933	+ 9.0	265,085	+ 4.7
Erie	62,419	+ 0.2	179,994	+ 3.6
Pittsburgh	1,427,758	+ 8.7	3,807,978	- 1.4
Total	\$4,697,061	+ 6.3	\$12,998,233	+ 1.1
19 OTHER CENTERS:				
Covington-Newport, Ky.	\$ 32,214	+30.6	\$ 91,821	+27.7
Lexington, Ky.	46,501	+42.1	162,638	+ 3.9
Hamilton, Ohio	25,895	+16.2	74,766	+15.4
Lima, Ohio	31,596	+12.5	87,000	- 1.3
Lorain, Ohio	11,692	+35.8	32,855	+30.5
Mansfield, Ohio	25,842	+10.8	74,825	+ 8.3
Middletown, Ohio	22,953	+22.6	69,639	+22.1
Portsmouth, Ohio	15,614	+34.6	42,937	+27.1
Springfield, Ohio	36,556	+17.5	102,865	+ 6.5
Steubenville, Ohio	17,972	+14.2	51,278	+11.8
Warren, Ohio	27,697	+ 8.2	71,116	- 4.4
Zanesville, Ohio	19,718	+45.8	56,394	+46.1
Butler, Penna.	23,090	- 4.2	63,620	- 3.1
Franklin, Penna.	6,633	+ 9.7	19,840	+11.7
Greensburg, Penna.	14,654	+17.7	41,880	+17.4
Homestead, Penna.	6,142	+20.3	17,222	+16.3
Oil City, Penna.	18,028	+ 5.2	48,039	- 2.4
Sharon, Penna.	18,724	+11.7	49,730	+ 0.9
Wheeling, W. Va.	47,519	+ 9.1	132,861	+10.9
Total	\$ 449,040	+17.8	\$ 1,291,326	+10.0

Wholesale and Retail Trade

(1946 compared with 1945)

	SALES April 1946	Percentage Increase or Decrease SALES First 4 Months	Percentage Increase or Decrease STOCKS April 1945
DEPARTMENT STORES (98)			
Akron	+36	+12	+11
Canton	+39	+12	a
Cincinnati	+61	+27	+16
Cleveland	+53	+21	+21
Columbus	+52	+23	+13
Erie	+35	+13	+14
Pittsburgh	+63	+29	+14
Springfield	+43	+13	a
Toledo	+44	+14	+20
Wheeling	+54	+25	+23
Youngstown	+55	+18	a
Other Cities	+54	+25	+7
District	+54	+22	+15
WEARING APPAREL (16)			
Canton	+33	+ 2	+ 4
Cincinnati	+49	+ 7	-21
Cleveland	+84	+28	- 8
Pittsburgh	+91	+21	+ 4
Other Cities	+35	+ 6	+ 3
District	+60	+14	- 3
FURNITURE (72)			
Canton	+36	+41	+5
Cincinnati	+43	+53	+30
Cleveland	+40	+38	+23
Columbus	+55	+51	+30
Dayton	+76	+76	a
Pittsburgh	+40	+49	a
Allegheny County	+60	+54	a
Toledo	+60	+71	a
Other Cities	+53	+61	+27
District	+48	+51	+23
WHOLESALE TRADE**			
Automotive Supplies (6)	+55	+46	+10
Beer (6)	+ 3	+ 4	-44
Confectionery (5)	+49	+39	a
Drugs and Drug Sundries (4)	+20	+18	a
Dry Goods (3)	+52	a	+64
Electrical Goods (4)	+52	a	+97
Fresh Fruits and Vegetables (13)	+ 5	+ 8	+16
Grocery Group (35)	+33	+24	+ 6
Total Hardware Group (21)	+24	+20	+ 6
General Hardware (5)	+46	+40	+14
Industrial Supplies (7)	- 7	- 3	a
Plumbing and Heating Supplies (9)	+25	+16	a
Jewelry (8)	+50	+58	+37
Lumber and Building Materials (4)	- 2	a	-65
Machinery, Equip. & Sup. (exc. Elect.) (4)	+ 3	a	a
Meats and Meat Products (3)	+90	+4	+72
Paints and Varnishes (5)	+ 7	+ 8	a
Paper and Its Products (5)	+48	+ 8	a
Tobacco and Its Products (14)	+48	+36	+48
Miscellaneous (18)	+26	+17	+ 8
District—All Wholesale Trade (161)	+28	+21	+16

** 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.

