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DEPARTMENT STORE INVENTORIES

The reappearance of January clearance sales on a scale reminiscent of prewar times is definitely within the realm of probabilites. The widely-heralded accumulation of inventories has not been confined to manufacturers and wholesalers. It has also spilled over into retail trade.

It is true that during the next sixty days department store stocks should recede noticeably under the impact of holiday trade. During each of the past four years, the out-movement of merchandise during the November-December buying wave was large enough to cancel all earlier accumulations. But there is nothing in sight to suggest that a similar reduction will be repeated this season.

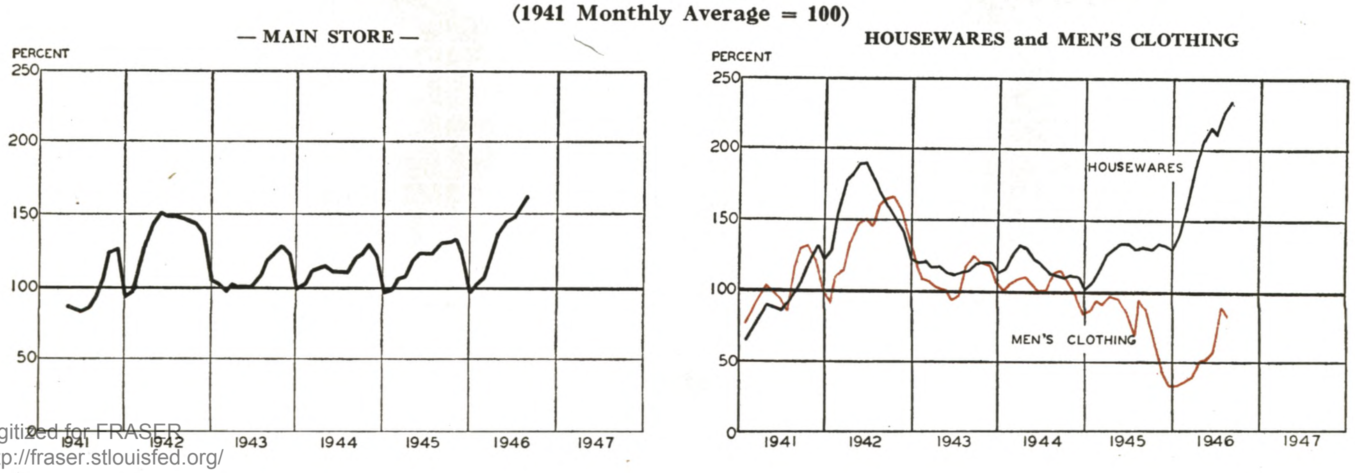
There has been no slackening in sales volume. Except for a few localities where power and transportation tie-ups impeded business, October trade was the best on record and by a considerable margin. For example, during the first four weeks of October, sales in such Fourth District cities as Akron, Cincinnati, Cleveland, and Toledo ran 22 percent ahead of last year's volume which was probably sufficient to reduce stocks appreciably. But a 22 percent margin over last year is not enough this fall and winter.

Inventories Up 80% Since January

The simple fact is that at the beginning of the current season stocks were 80% higher than last January. As shown on the accompanying chart, department stores lost no time in inaugurating their restocking program after a record Christmas trade in 1945. Inventories began to move up immediately. There are probably few, if any, precedents for that sustained replenishment drive. By July 31 the dollar figure was in record-high ground (over 1942) but the upward movement continued in high gear—perhaps into October.

The fact that prevailing unit prices are higher than in earlier years is a partial explanation, but not a comfortable one. It only introduces a new uncertainty. If much of the 1946 increase is merely a price phenomenon, the merchandising problem simply takes on a different hue.

DEPARTMENT STORE INVENTORIES
Fourth District
(1941 Monthly Average = 100)



During the past nine or ten months many manufacturers have been shipping merchandise to department stores at a rate noticeably in excess of consumption. The process has probably been reversed as it usually is during November and December. But if Christmas trade fails to make substantial inroads upon accumulated stocks, purchasing by department stores may be less spirited than last spring.

Disparities Among Departments Not all categories of merchandise are in an equally vulnerable position. Some substantial inventory increases appear to have been quite consistent with current sales volume. Housewares are an example. Aggregate inventories of pots and pans, cutlery, toasters, hardware and enamelware, et cetera, are perhaps 80 percent higher than last fall, but sales are up by about the same percentage. The long wartime scarcity of many of these items probably has left quite a gap to be filled.

The men's clothing department is another which has no excess inventory troubles. That stocks could be twice as large with immunity scarcely requires statistical proof. Currently, supplies of men's clothing are only about one-half the late 1942 figure when many potential customers were leaving the market. This is one department in which further restocking would be a salutary development.

There appears to be, however, as much unbalance in department store inventories as there is reputed to be among manufacturers. But the reasons are not identical. Here it is not a case of waiting for component parts. It was not a lack of buttons, pockets, or linings that has caused some classes of merchandise to pile up higher than ever in retail outlets.

Women's Wear Inventories At first glance, the supply of women's and misses' dresses does not appear far out of line even though stocks on hand are more than double the 1941 monthly average. Supplies are lower than last spring and the spring before. The fact is, though, that during September (latest data available) the number of dresses and gowns sold was no larger than a year earlier, whereas at the beginning of the month stocks were up 48 percent for the year. The racks are loaded much more heavily than at this time last year and before long room will be needed for new garments.

Women's and misses' coats and suits usually move out of the stores, on balance, during the last three months of the year. Undoubtedly they will this year, but September sales volume was none too promising. Sales were only 13 percent greater than last year, whereas in the preceding month the year-to-year margin was as much as 58 percent. Unless receipts are sharply reduced, and sales are unexpectedly good, stocks by February will be substantially higher than ever before at the beginning of the spring season.

Juniors' and girls' wear inventories are probably past their 1946 peak but only a record-breaking volume of sales will make a dent in supplies on hand. At the end of July stocks in this apparel line were $45,000 for each $10,000 on hand at the same time in 1941, and about 30 percent higher than last year. But sales in September were only 3 percent greater than in 1945. That situation is not conducive to further inventory accumulation unless or until sales catch up.

Of all major departments the greatest disparity exists in the blouse-skirt-sportswear department. At the end of May, stocks of this type of merchandise were more than four times as large as in May 1941 when business was hardly in a depressed state. A more-or-less seasonal reduction has been underway since May, but a long stretch remains to be covered, if stocks are

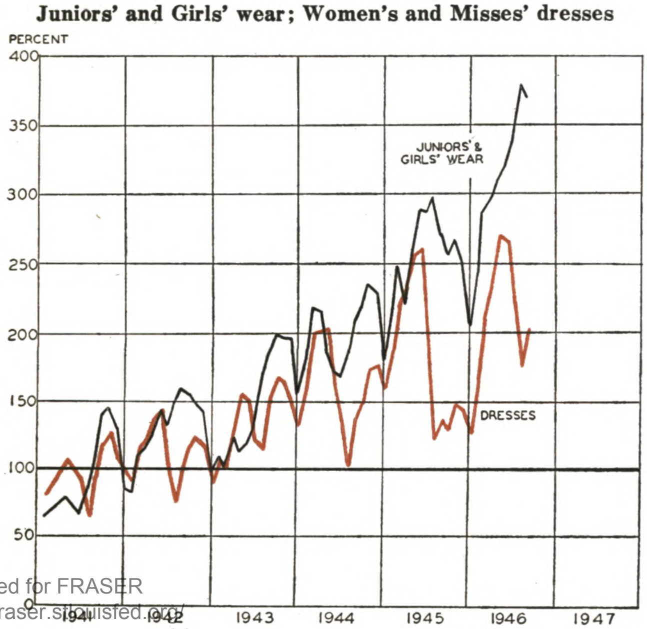
(*Please turn to Page 10*)

DEPARTMENT STORE INVENTORIES

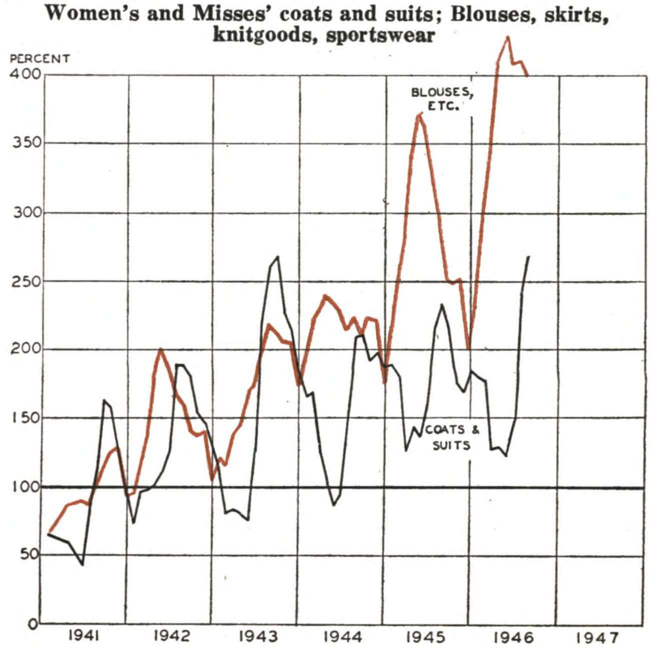
Fourth District

(1941 Monthly Average = 100)

Juniors' and Girls' wear; Women's and Misses' dresses



Women's and Misses' coats and suits; Blouses, skirts, knitgoods, sportswear



RECENT BANKING DEVELOPMENTS

During the first three quarters of 1946 the tempo of business activity mounted as reconversion to a peacetime economy progressed. Industrial production and department store sales in the second quarter exceeded the first quarter average and further substantial gains were recorded during the third quarter. Manufacturers' inventories and department store stocks attained progressively higher levels in succeeding quarterly periods. The wholesale price level and prices of consumers' goods and services likewise advanced, with particularly sharp increases occurring during the third quarter.

Increases in Business Activity, Inventories, and Prices
First Quarter 1946=100

	First Quarter	Second Quarter	Third Quarter
Industrial Production (1)	100	103	110
Manufacturers' Inventories (2)	100	102	110*
Department Store Sales (3)	100	110	113
Department Store Stocks (4)	100	117	130
Consumers' Price Index	100	102	110*
Wholesale Prices	100	103	117

(1) Seasonally adjusted.
(2) Quarterly Average
(3) Fourth District only, seasonally adjusted.
(4) Fourth District only, seasonally adjusted, quarterly average.
(*) Based on July and August data only.

Parallel developments may be noted in the field of banking and finance. For example, demand deposits, bank debits, and commercial loans have all registered sizable increases, partly in response to sharp advances in prices and partly as a result of the above described acceleration in general business. But the casual relationship was not a one way street, since financial factors exert a reciprocal influence upon the volume of business and the price at which business is conducted.

The relaxation of price controls naturally directs attention to factors likely to have an important bearing on price levels in a comparatively unregulated economy. The size of the money stream, which is dependent upon the quantity of money and the rapidity with which it changes hands, is of vital importance in this connection. If the flow of money increases relative to the supply of goods and services, higher price levels result. In view of frequent references of late to the possibility that production may be nearing capacity levels, it is particularly pertinent to analyze the trend of the money flow, together with the factors responsible for changes in its volume.

The major proportion of the flow of money is represented by bank debits, most of which consist of checks written against demand deposit accounts. Adjusted demand deposits, their rate of turnover, and the volume of debits for Fourth District reporting banks are presented in relative form in the table below. It may be noted that bank debits have increased substantially and apparently at a pace slightly in excess of the national gain in industrial production.

Commercial banks have virtually no control over the rate at which deposits are spent. The rate results from millions of decisions by individual depositors regarding the advisability of current expenditures for

Demand Deposit Volume, Turnover Rate, and Debits Fourth District Reporting Banks
—1946—
(Relatives computed from Average Weekly Figures)

	First Quarter	Second Quarter	Third Quarter
Adjusted Demand Deposits	100	103	105
Turnover Rate of Adjusted Demand Deposits	100	103	107
Debits to Adjusted Demand Deposits	100	106	112

countless items, including investments. The decisions are influenced by the availability of consumer goods, by the intensity of needs for goods and services, by expectations regarding future price and quality changes, and also by such subjective considerations as expected job security.

The quantity of deposits, however, is definitely influenced by the commercial banking system through changes in the volume of loans and investments. In the Fourth District, total loans and investments of reporting banks declined about $550 million during the first three quarters of 1946, largely because of a reduction in the public debt. This was accompanied by a roughly comparable reduction in total deposits of $585 million.

Nationally, the reduction in loans, investments and deposits was even greater than in the Fourth District. Loans and investments of all reporting banks dropped roughly 15 percent, while the decline for the Fourth District alone was only 10 percent. Deposits decreased 14 percent nationally and 10 percent in the Fourth District. The smaller declines recorded in the Fourth District reflect a flow of funds into the District from the rest of the country.

Changes in Loans, Investments and Deposits Fourth District Reporting Banks
(First Nine Months—1946)
(000,000 omitted)

	Jan. 2 1946	Oct. 2 1946	Change
Loans	$ 1118	$ 1185	+$ 67 or + 6.0%
Investments	4215	3597	− 618 or −14.7%
Total	$ 5333	$ 4782	−$551 or −10.3%
Adjusted Demand Deposits	$ 2903	$ 3116	+$213 or + 7.3%
Time Deposits	1255	1359	+ 104 or + 8.3%
Interbank Deposits	611	495	− 116 or −19.0%
U. S. Govt. Deposits	1171	384	− 787 or −67.3%
Total Deposits	$ 5940	$ 5354	−$586 or − 9.9%

It is significant that the reduction in deposits occurred only in U. S. Government and interbank deposits. The volume of adjusted demand deposits recorded substantial gains and time deposits likewise increased. Of the four categories of deposits, adjusted demand deposits are of the greatest importance from the standpoint of price level changes, because they represent readily spendable balances in the hands of the public. These balances rose roughly 7 percent at Fourth District reporting banks and 6 percent at all reporting banks in the country.

An understanding of the process whereby demand deposits rose while deposits as a whole declined is facilitated by an analysis of changes in the respective types of loans and investments. Reference must also be made to the possibility of shifts in deposits from one category to another.

With regard to investment portfolios of Fourth District reporting banks, it may be noted that holdings of bills, certificates and notes declined about $800 million, a percentage reduction of 46 percent. On the other hand, portfolios of Treasury bonds rose $170 million for a gain of roughly 8 percent. The decrease in bills, certificates, and notes did not work toward deflating demand deposits by a comparable amount, because it was coupled with a decrease of virtually the same size in Government deposits with the banks. These deposits, built up to very high figures during the Victory Loan, in effect were used by the Treasury to retire short-term obligations held by the commercial banks.

Changes in Investment Holdings of Fourth District Reporting Banks during 1946
(000,000 omitted)

HOLDINGS OF INVESTMENTS ON

	Jan 2	Apr. 3	July 3	Oct. 2
Bills, certificates and notes	$ 1728	$ 1557	$ 1191	$ 932
Treasury Bonds	2215	2265	2299	2384
Other Securities	272	283	279	281
Total	$ 4215	$ 4105	$ 3769	$ 3597

NET DOLLAR CHANGES—BY QUARTERS

	First	Second	Third
Bills, certificates and notes	−$171	−$366	−$259
Treasury Bonds	+ 50	+ 34	+ 85
Other Securities	+ 11	− 4	+ 2
Total	−$110	−$336	−$172

NET PERCENTAGE CHANGES—BY QUARTERS

	First	Second	Third
Bills, certificates and notes	− 9.9%	−23.5%	−11.3%
Treasury Bonds	+ 2.3%	+ 1.5%	+ 3.7%
Other Securities	+ 4.0%	− 1.4%	+ 0.7%
Total	− 2.6%	− 8.2%	− 4.6%

The decline in bills, certificates, and notes at Fourth District reporting banks was offset by a drop in Government deposits rather than in demand deposits. Therefore, if the reduction of Government deposits and the comparable decrease in bills, certificates, and notes are placed in a category by themselves, the gain of roughly $180 million in Treasury bond and other security holdings appears as a factor contributing to an increase in demand deposits. As such, it is pertinent that bond holdings posted a larger increase in the third quarter than in the other two quarters combined.

It may be observed that in reporting banks over the country as a whole, the drop in Government deposits during the nine-month period exceeded the decline in bills, certificates and notes by roughly 2 billion dollars. The excess amount was utilized to meet Treasury cash deficits and to reduce the Treasury security holdings of non-bank investors by a slight amount. Thus demand deposits were increased nationally at the expense of reductions in Government deposits.

Undoubtedly, the Government deposit reductions, made necessary by Treasury cash deficits and the net retirement of securities held by nonbank lenders, contributed to the net flow of funds into the Fourth District and thus to the increase in Fourth District demand deposits.

The increase in adjusted demand deposits was also encouraged by a persistent expansion in loan portfolios:

Changes in Loan Portfolios of Fourth District Reporting Banks during 1946
(000,000 omitted)

LOANS OUTSTANDING ON

	Jan. 2	Apr. 3	July 3	Oct. 2
Commercial	$ 432	$ 447	$ 500	$ 569
Real Estate	156	163	184	204
All Other	152	159	167	188
To Banks	1	0	1	20
Subtotal	$ 741	$ 769	$ 852	$ 981
Security Loans	377	367	305	204
Total	$ 1118	$ 1136	$ 1157	$ 1185

NET DOLLAR CHANGES—by Quarters

	First	Second	Third
Commercial	+$ 15	+$ 53	+$ 69
Real Estate	+ 7	+ 21	+ 20
All Other	+ 7	+ 8	+ 21
To Banks	− 1	+ 1	+ 19
Subtotal	+$ 28	+$ 83	+$129
Security Loans	− 10	− 62	− 101
Total	+$ 18	+$ 21	+$ 28

NET PERCENTAGE CHANGES—by Quarters

	First	Second	Third
Commercial	+ 3.5%	+11.9%	+13.8%
Real Estate	+ 4.5%	+12.9%	+11.1%
All Other	+ 4.6%	+ 5.0%	+12.6%
To Banks	*	*	*
Subtotal	+ 3.8%	+10.8%	+15.1%
Security Loans	− 2.7%	−16.9%	−33.1%
Total	+ 1.6%	+ 1.8%	+ 2.4%

* No percentage computed because of small base.

Although total loans in Fourth District reporting banks increased only about $65 million, or 6 percent over the nine-month period, loans other than security loans registered comparatively substantial gains. Furthermore, in general their rates of increase advanced considerably in the successive quarterly periods. Whereas commercial loans rose about 4 percent during the first quarter, they jumped 14 percent in the third quarter. All other (largely consumer) loans gained roughly 5 percent in the first quarter compared with 13 percent in the third quarter.

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INDUSTRIAL SUMMARY

Termination of price ceilings on livestock and meats on October 15 has been followed by a series of additional decontrol measures and it is conceivable that within the comparatively near future, prices in nearly every field will be freed from Government control and will be determined by the interaction of market conditions. Only in the case of rents, some building materials, and certain durable goods is it likely that price ceilings will be in effect for a more protracted period.

Removal of price controls can be expected to be followed by a period of erratic price movements as markets seek to establish supply-demand relationships. In many cases where controls have been removed, prices have first increased sharply and then have reacted somewhat; in some cases prices have declined from previously existing levels. This process of adjustment does not appear to have been completed.

Although there are wide differences of opinion regarding the desirability of permitting prices to find their natural level at this juncture, there is considerable agreement as to the broad implications of higher consumer prices. One point of concern is the probable effect upon prevailing wage rates and another is the ability of producers to sell in volume at relatively high unit prices.

During the past year, selling prices tended to move upward with manufacturing costs, of which wage costs are an important element. One of the dangers inherent in the current situation is that further price increases, for whatever reason, will eliminate more and more consumers from the market. Full production cannot be maintained if buyers cannot—or will not—absorb the end-product at present or prospective prices.

Machine Tools Third-quarter shipments of machine tools are estimated by the National Machine Tool Builders' Association to have approximated $75 million, or a monthly rate of $25 million. Shipments during the first half of the year were on a somewhat higher level of about $28 million a month.

New firm orders have fluctuated from $26.5 million in July to $23 million in September with the backlog of unfilled orders at about $180 million at the beginning of the fourth quarter. This is about $3 million less than at mid-year, but still represents more than six months production at current rates.

The demand for new machine tools of the latest types has thus held up very well in the face of the heavy disposal of war surplus machines. There are many operations on peacetime products that have no wartime counterparts, and there are many machine tools which were essential for the manufacture of munitions which now have no market at home or abroad. Foreign buyers are reported to be more interested in tools of the latest design rather than used equipment in uncertain condition at bargain prices. Foreign orders now account for 30 percent of the unfilled order backlog, and foreign shipments in September were one-fifth of total shipments in that month. The lack of dollar credits has curtailed some foreign buying.

Reported cancellation of machine tool orders reached a new high in August of $4.4 million, but dropped in September to $3 million, or about twice the June rate. Cancellations do not necessarily mean a net loss to the manufacturers of the amounts noted due to their method of reporting. For example, a customer may request that his order for a given machine tool be revised to obtain another model either smaller or larger than the one originally specified. This transaction is reported by the manufacturer as both a cancellation and a new firm order. Indefinite postponement of announced plans by several automobile producers to manufacture light cars has contributed to the increase in cancellations.

Some cancellations are due to the inability of some manufacturers to meet promised delivery dates for new tools, thus forcing buyers into the used machinery market. The persistent and growing difficulty in securing purchased components and materials is delaying many shipments. Principal items in short supply are electric motors, electric switches and components, copper, steel, pig iron, and gray iron castings.

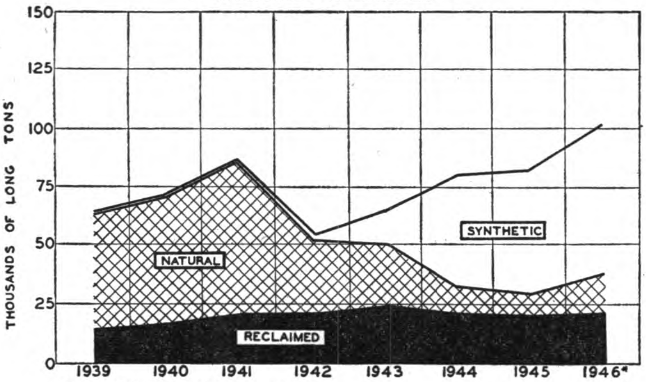
The long term outlook for machine tool activity is considerably clouded by current restrictions on new industrial construction. Deferment of needed industrial buildings will also delay manufacture of equipment necessary for such programs.

Rubber Information is now available concerning the consumption of both natural and manufactured rubber in the United States from 1939 to date as indicated on the accompanying chart.

The remarkable growth in the use of synthetic rubber is the most outstanding development. Domestic consumption of the synthetic product from 1939 through 1941 was almost zero, but rose to about 58,000 tons monthly by 1945. On the basis of the first seven months of 1946, consumption of synthetic rubber has reached a new peak of 66,000 tons a month, a figure which is greather than the combined use of natural and reclaimed rubber in 1939. Reclaimed rubber is being used at a rate one-third greater than prewar and appears to have leveled off at about 20-21,000 tons per month.

About 98 percent of synthetic rubber production comes from Government-owned plants which manufacture almost exclusively GR-S or general purpose rubbers. Special purpose rubbers are produced largely by privately-owned plants, whose most im-

Domestic Rubber Consumption — U. S.
— MONTHLY AVERAGES —



*ON BASIS OF FIRST SEVEN MONTHS
SOURCES: FACTS FOR INDUSTRY, RUBBER MANUFACTURERS' ASS'N.

portant products are Neoprene, Butadiene-Acrylonitrile types, and Butyl. The latter type, because of its special air-retaining properties, has been consumed in steadily increasing quantities and is particularly suited for inner tube manufacture. In 1943, it accounted for only one-tenth of one percent of the total natural and synthetic rubber consumed. By 1945 its proportion had risen to about five percent, and in July 1946 it was eight percent. The Civilian Production Administration is channeling nearly all Butyl into passenger-car-type inner tubes, although its use is permitted in certain sizes of tire tubes for tractors and implements. Natural rubber must be used in large truck tubes.

The supply of natural rubber has exhibited a high degree of elasticity in response to price changes. In June 1946, the Far Eastern price was raised 3¼ cents a pound to meet rising costs and to stimulate supply. The result was a flood of rubber and during the first week in October, the Rubber Development Corporation was able to buy 200,000 tons at 20¼ cents a pound, or a reduction equal to the increase of four months ago. This was the first reduction in price of internationally important raw materials.

In view of the improved supply condition, the Combined Rubber Committee* has agreed that international allocation of natural rubber need not continue beyond the end of this year, and the Committee will be terminated December 31, 1946. This is the initial step toward the return of a free rubber market, and beginning January 1, 1947 anyone outside of the United States can buy any quantity of rubber he can find. However, until the Second War Powers Act expires March 31, 1947, only rubber purchased by the Rubber Development Corporation may be brought into this country.

Natural rubber consumption in the United States in July 1946 amounted to 22,000 tons, up 35 percent from the previous month and about two and one-half times the 1945 rate. At least one District manufacturer will soon commence production of premium grade passenger car tires. Sale of these tires will not begin until OPA establishes selling prices for them, since current ceilings apply only to the one grade of tires which manufacturers have been making for the past five years.

Coal Bituminous coal production in the Fourth Federal Reserve District totaled 20.3 million tons during the month of September as compared to 17.5 million tons in the same month last year. District production for the first nine months amounted to about 152 million tons as compared to 165 million tons in the corresponding 1945 period. September was the fourth consecutive month in which production exceeded the 20 million ton level and the sixth month this year to reach that peak. Indicative of the current high level of operation is the fact that there were only 5 months during the entire war period when production exceeded this rate, the last time being August 1944.

Total United States bituminous coal production for the first three quarters of the year approximated 390 million net tons or about 11 percent less than the previous year. At mid-year, total production was 21 percent below a year ago. The tonnage lost from the long spring strike is thus being rapidly made up. Total industrial coal stocks at the end of August amounted to 45 million tons and were about equal to that held in the corresponding period of 1941. Some observers believe that it will be possible for the general coal industry to return to a five day week sometime after January 1. Such an event would result in a substantial reduction in costs through elimination of much of the overtime now being incurred.

There has been a serious railroad car shortage for several months, primarily in the northern coal producing districts of Ohio, Pennsylvania, and northern West Virginia, and some mines have been on reduced schedules because of inability to ship coal. The southern mines have had ample cars to meet all needs.

Because of the strikes that prevailed a few months ago, there is a shortage of bituminous coal for shipment to the Great Lakes. Deliveries are being rushed to take care of this market before the freeze-up which usually occurs about December 1. Bituminous cargo coal loaded into vessels on the Great Lakes totaled slightly less than 8 million tons in September, and amounted to 34.3 million tons for the season according to the Coal and Ore Exchange. Loadings are 3 million tons behind last year.

There is some shortage of the better grade coking coals, and the supply of metallurgical coke is very tight. High grade domestic coals are also in short supply. It is anticipated, however, that when lake shipments stop, there will be sufficient coal for all needs in the District, and there will probably be a surplus of inferior quality steam coal after December 1.

The immediate prospects for the coal industry were suddenly changed in the latter part of October by the United Mine Workers' demand upon the Government to reopen the coal contract on November 1. The union alleges that its contract with the Government has been breached by the Administrator's refusal to

*Member Countries: Belgium, Canada, France, Netherlands, United Kingdom, and the United States.

compute payments for the health and welfare fund on the basis of coal tipple weights instead of railroad car weights, and the failure to put into effect an arbitration award on pro rata vacation payments. A "significant" change in the Administration's wage policy is indicated to be the basis for a desire to reconsider wage rates.

According to the Bureau of Labor Statistics the average wage rate in the bituminous coal industry at present is $1.497 per hour as against $1.437 in the competitive petroleum refining industry.

Iron and Steel The District as well as the national steel situation is dominated by shortages of both raw materials and finished products. Supplies of scrap, pig iron, and coke are very scarce, and the mills are maintaining the production of steel ingots at about 90 percent of capacity with great difficulty. On the other hand, inventories of steel consumers are low and there is heavy pressure on mills for larger shipments. Demand is predominantly for the lighter gauges of sheets, strip, and plate and for smaller diameter bars and light structurals.

The scrap situation has shown no improvement, despite Government efforts to stimulate its flow from farms and households. The collecting arm of the industry apparently is on strike against what it regards as an insufficient differential between unprepared and prepared scrap. Some scrap dealers are now devoting their time to paper and other waste materials. Many steelmakers have arrangements with industrial scrap producers for direct shipments thus bypassing the scrap yard.

The coke shortage has become more widespread. The shift of blast furnaces from steelmaking to foundry grades of pig iron is one cause for heavier coke consumption, the latter grade requiring more fuel in the smelting process. Quality of coke in some instances is definitely inferior due to poor coal.

Spelter, needed for galvanizing, is a hard-to-get item, and some mills report barely enough on hand to keep galvanizing pots operating. A few shutdowns of galvanizing lines have been reported. The zinc shortage is attributed by the industry to the price control and subsidy program.

Total stocks of iron ore at furnaces and Lake Erie docks amounted to 37.5 million gross tons on October 1 as compared to 39.5 gross tons a year ago, according to the Lake Superior Iron Ore Association. Shipments of iron ore in September equaled 9.6 million tons. Cumulative shipments for the season are reported at 43.3 million gross tons or 30 percent below last year. The trade estimates total shipments for the season will approximate 55 million tons as compared to a goal of 60 million tons at the beginning of the season. This should enable producers to squeeze through the winter until the lakes open in the spring.

Production of steel ingots and steel for castings in September totaled 6.5 million net tons, or a rate equal to 86.4 percent of capacity. For nine months this year, production amounted to 47.3 million tons compared to 61.8 million tons in the first nine months last year. Shipments of finished steel reached 5.4 million tons in August, or 20 percent greater than a year ago. Despite the acute demand for nails, only 61,000 tons were produced in August as compared to 48,000 tons a year ago when the demand was relatively light.

Shipments of gray iron castings in August advanced 16 percent over July to reach 945,000 tons, the greatest amount on record. The previous peak of 928,000 tons was attained in March 1945. Soil pipe shipments amounted to 36,000 tons, a new high since the end of the war. Shipments of malleable iron castings, steel castings, and steel forgings also rose 6 to 11 percent in August.

Shoes District shoe manufacturers are faced with a critical shortage of leather and curtailed operations are indicated for the balance of the year. The supply of hides was greatly reduced as cattle slaughter declined with the return of meat price controls on the livestock industry in August. Since it takes from 90 to 120 days to convert hides into usable shoe leathers there will be little immediate benefit to the shoe industry from the recent increase in livestock slaughter.

On October 31, when price ceilings were removed from all skins, hides, leather, and shoes, foreign hides were quoted at about 30 cents a pound as compared to a ceiling of 15½ cents for domestic hides.

National shoe production for 1946 had been estimated earlier in the year at 550 million pairs. In view of the leather situation, this estimate has now been lowered to less than 500 million pairs as against 498 million pairs manufactured in 1941.

Construction Fourth District total building contracts awarded in August increased $14.5 million dollars over July and amounted to $79 million according to estimates based upon F. W. Dodge Corporation reports. Cumulative contracts for the first eight months totaled $567 million as compared to $156 million for the same 1945 period.

Residential contracts awarded were up sharply in August to $36 million as compared to $21 million in July. Cumulative residential construction contracts through August equaled $214 million as compared to $30 million in 1945.

A large proportion of started residences are still in process because of the lack of material with which to carry on the work. In Cleveland, for example, it is estimated that work has stopped on 1,100 dwellings because of the lack of nails. Other critical building materials are cast iron soil pipe, hardwood floorings, building hardware, finished millwork such as doors and window sashes, lumber, paint, bathtubs, sinks, water closets and heating equipment. Brick and tile are in fairly good supply.

AGRICULTURAL SUMMARY

Crop Production

Good September weather generally over the Corn Belt resulted in an upward revision of the corn crop estimate released October 10. A record harvest of 3,374 million bushels is indicated, three million bushels more than on September 1. Late reports on the wheat crop added two million bushels making the present yield estimate 1,169 million bushels. This is 44 million bushels more than in 1945 and 323 million above the ten-year average.

Potatoes joined the all-time record group in September, which now includes corn, wheat, tobacco, peaches, pears, plums, and truck crops. Oats, rice, and peanuts moved nearer to record production levels. Also in the near-record production class are grapes, cherries and sugar cane. Production equal to average or better is still promised for hay, soybeans, dry peas, prunes, apricots, hops, and sugar beets. Flaxseed, sorghum grain, buckwheat, sweet potatoes, and apples also joined this group in the past sixty days. Cotton was the only major crop to show a decline. Production prospects dropped from 9.1 million bales September 1 to 8.7 million a month later, the lowest in 25 years. Other below-average crops are rye, broom corn, dry beans and pecans.

Despite improvement in recent weeks in the oil-seed group, production will be lower than in 1945. Feed grains and food grains, however, will aggregate the highest production on record, and the fine quality of the harvest assures a high nutrient value.

District crop yield estimates of tobacco and potatoes were increased over the previous month, corn and hay yield estimates declined, and oats and wheat remained unchanged as shown in the accompan ying tabulation:

Fourth District Crop Yields

		Oct. 1, 1946	Sept. 1, 1946	Ratio of Oct. 1 Estimate to: 1945	1935-44
		(Thousand Units)		Production	Average
Tobacco	lbs.	159,146	157,253	110%	140%
Potatoes	bu.	14,061	13,830	104%	76%
Corn	bu.	231,307	234,241	105%	118%
Wheat	bu.	58,023	58,023	87%	123%
Oats	bu.	79,653	79,653	125%	154%
Hay	tons	5,708	5,750	102%	111%

Except wheat, production of major crops in the District exceeded 1945. The yield of wheat was distinctly above average but twelve percent below the record output of a year ago. Only potatoes were below the ten-year average production due mainly to a sharp reduction in acreage, as yields per acre in each of the Fourth District states were significantly higher than the average for the years 1935-44.

Milk Production and Consumption

Milk production per cow during September was the highest in 22 years of record. This is the seventh consecutive month in which milk production per cow has surpassed all previous records. Removal of the less efficient milkers, better than average pasture, and more liberal feeding of grains and concentrate feeds than in any of the past three years have all contributed to the attainment of a high rate of milk production per cow in the recent months.

Egg production during September was four percent below the same month of 1945. Production per layer declined and there were fewer layers. Total egg production for the first nine months of this year now stands at 44.9 billion dozen compared to 45.7 billion for the same period in the previous year. Eggs for civilian use in 1946 are now estimated at 367 per capita. This is lower than the 392 eggs available in 1945, and somewhat above the average of 363 eggs per capita in the years 1943-45 inclusive.

Egg production in the four states of the District was 440 million dozen this September as against 426 million in the same month a year ago. A lower rate of production per layer in Kentucky and West Virginia was offset by a higher rate in Ohio and Pennsylvania along with a larger number of layers on farms in both Pennsylvania and Kentucky.

The 41 million turkeys being raised this year represent nine percent less than the record number of the previous year and are expected to move to market earlier than heretofore. Growers plan to have 25 percent of their crop marketed by November 1, and 65 percent by December 1. The holiday markets, according to growers' intentions, will receive about one-fourth of the year's marketings as compared to 30 percent a year ago. Thus turkeys remaining to be offered on 1947 markets will approximate nine percent, whereas they equaled 14 percent a year ago. The trend toward earlier marketings has been in part due to the fact that early poults are easier to raise, and that growers have experienced less mortality with them both in the spring during the brooding season and in the fall from early winter storms.

Flow of Livestock to Markets

Livestock receipts at receiving yards were the lowest on record for the month of Sepember, and continued low through early October. At three markets in the Fourth District comparative receipts were as follows:

September Livestock Receipts
(Cleveland, Cincinnati and Pittsburgh)

	1946	1945
Cattle	70,900	100,200
Calves	36,300	39,600
Hogs	17,000	95,000
Sheep	107,600	118,600

Lifting of price controls on livestock on October 15 precipitated a record movement of livestock to market. Both railroads and receiving markets were taxed to capacity to handle the incoming livestock. In some instances stockyard officials had to impose an embargo until railroad cars were obtained or until the livestock could be moved to meat packers.

The degree to which livestock moved to market following the lifting of price controls is shown below by a comparison of receipts on the five market days preceding October 14 with receipts on the five market days immediately after that date:

Livestock Receipts—12 Major U. S. Markets

	Five Market Days: Preceding Oct. 14	Five Market Days: Following Oct. 14
Cattle	204,733	400,000
Calves	63,816	100,900
Hogs	36,610	333,200
Sheep	265,681	364,000

Total hog receipts at the twelve major markets increased by 900 percent for the five market days immediately following October 14 as compared to receipts on the five market days preceding this date. Similar comparisons for the other classes of livestock showed increased receipts of cattle, 96 percent; calves, 58 percent; and sheep, 38 percent.

Prices received by producers for livestock rose sharply to unprecedented levels on most markets and then eased to lower levels after the first seven days of decontrolled markets.

Prevailing Prices for Good and Choice Grades at Cincinnati Livestock Market
(price per cwt)

	Oct. 14	Oct. 17	Oct. 23
Beef Steers	$ 19.00	$ 25.00	$ 21.00
Veal Calves	17.50	22.50	23.50
Hogs	16.35	25.50	23.25
Lambs	19.50	24.00	20.00

More extreme prices were recorded in some other markets, but the foregoing table illustrates the price fluctuations which characterized the inception of free markets.

KENTUCKY BANKERS ASSOCIATION PROGRAM

At their meeting at Louisville on October 10 and 11, members of the Kentucky Bankers Association approved plans for an agricultural program calling for the employment of a full-time agricultural field agent. The person employed in that capacity will represent the bankers of Kentucky in their efforts to foster activities designed to conserve and improve soil resources and otherwise contribute to the betterment of agriculture in that state.

Duties of the field agent as outlined by the committee were in part as follows:

1. To keep bankers currently informed concerning practices, varieties, and methods applicable to the agriculture of their respective communities.

2. To arrange joint meetings, tours, etc., of bankers and farmers which would permit each to have a better understanding of the others' problems.

3. To aid bankers in each county in developing a program of work in cooperation with existing public and private agencies that would lead to soil improvement, better farm incomes, and more opportunities for rural youth.

4. To work out plans for the presentation of achievement awards through local bankers to farmers and to rural youth for outstanding achievement in certain designated projects.

5. To assist local bankers in locating operators or potential operators of custom harvesting equipment for recovering legume and grass seeds on small acreages, and earth moving equipment necessary in the construction of terraces, farm ponds, and other similar practices necessary to soil and water conservation.

It is anticipated that the field agent would make liberal use of color slides and films to point out clearly the problems and to make progress reports to farmers, bankers, civic clubs, and other interested groups in the state.

This comprehensive program was prepared by the Association's agricultural committee of which W. A. Hinton, President of the Farmers Deposit Bank of Sadieville, is chairman. It was presented to the convention assembly by W. A. Cole, Cashier, Lincoln National Bank of Hodgeville, a member of the committee.

In the committee's report to the membership it was pointed out that University of Kentucky agricultural authorities estimate that more than three-fourths of the original topsoil has been washed away on 46 percent of Kentucky's land. On another 28 percent of the area of the state one-fourth to three-fourths of the topsoil is gone. It was further emphasized that immediate steps are needed to build up the soil on at least one-half of all the farms in Kentucky, and that on most of the other half further soil improvement could be made with profit. With nearly one-half of the population residing on farms and perhaps 80 percent dependent upon farming or business with farmers as their chief means of support, correction of this loss of soil resources is of paramount importance to a vast majority of the state's inhabitants.

Concurrently with this need for protecting the state's topsoil from erosion and depletion is the need for taking full advantage of the natural factors that favor grassland farming—the most economical type of livestock production. Ideal grazing conditions are provided by the fact that Kentucky is situated just far enough north to permit optimum growth of all the better legumes and grasses, yet far enough south to avoid the long winter feeding period and more expensive winter shelter required in the Corn Belt States. In addition, research has shown that under these conditions one acre of adapted grasses will produce as many pounds of feed nutrients as an acre of grain. In fact, an acre of productive blue grass is equal in feeding value to a 49 bushel-per-acre yield of corn.

In approving this plan which calls for an estimated expenditure of $10,000 annually for the next five years, the bankers of Kentucky have definitely demonstrated their willingness to lend assistance to the conservation of soil resources and to the betterment of the state's largest industry—agriculture. Incidentally, they are pioneering in a type of project which may find application elsewhere, for the need for preservation and wise use of farm land resources is nationwide.

(*Continued from Page 2*)

to come anywhere near last December's low. Little encouragement can be derived from the fact that the September sales volume of these items actually was three percent below a year ago, whereas beginning inventories were up 37 percent.

It is not within the purview of this discussion to inquire into the causes of these situations. The more immediate question is the probable magnitude of overextension and the near-term effects of any extra-seasonal liquidation, both upon prices and upon production and employment in the respective fields of garment manufacture.

A more detailed account of sales by departments is contained in the following tabulation of Fourth District reporting stores' sales during September:

Sales by Departments—September, 1946
(Fourth District Reporting Stores)

	% Changes from year ago
Major Household Appliances	+728%
Domestic Floor Coverings	+102
Housewares	+ 84
Sport Goods	+ 76
Men's Furnishings	+ 59
Toys and Games	+ 56
Domestics, Blankets, Towels, etc.	+ 49
Men's Clothing	+ 47
Men's and Boys' Shoes	+ 47
Luggage	+ 46
Furniture	+ 34
Lamps and Shades	+ 33
China, Glassware	+ 33
Draperies, Curtains, Upholstery	+ 32
Silverware and Jewelry	+ 30
Furs	+ 28
MAIN STORE TOTAL, All Departments	+ 26
Notions	+ 18
Corsets and Brassieres	+ 17
Toilet Articles, Drug Sundries	+ 16
Women's and Children's Shoes	+ 14
Women's and Misses' Coats and Suits	+ 13
Hosiery (Women's and Children's)	+ 11
Cotton Wash Goods	+ 10
Art Needlework, Art Goods	+ 9
Dresses (Women's and Misses')	+ 8
Women's Underwear	+ 8
Laces, Trimmings, etc.	+ 8
Aprons, House Dresses and Uniforms	+ 8
Restaurants	+ 7
Silks, Velvets, Woolen Dress Goods	+ 6
Boys' Clothing and Furnishings	+ 5
Infants' Wear	+ 5
Handkerchiefs	+ 5
Books, Stationery	+ 4
Juniors' and Girls' Wear	+ 3
Leather Goods (small)	+ 2
Millinery	+ 1
Blouses, Skirts, Knitgoods, Sportswear	− 3
Gloves	− 4
Neckwear and Scarfs	− 4
Beauty Salon	− 8
Photographic Studio	− 24

Major household appliances continue to lead the list with respect to percentage increase over a year ago although dollar volume was slightly below the August all-time high.

Sales of domestic floor coverings were twice as large as a year ago. Blankets and linens also moved upward from the preceding month's ranking.

Year-to-year percentage increases in men's clothing are no longer so outstanding chiefly because of the fact that the postwar rise in sales was getting under way at this time last year.

Among the major departments which tended to hold down the store-wide gains were: women's and misses' coats and suits whose sales were up only 13 percent, women's and misses' dresses which increased only 8 percent, juniors' and girls' wear department whose sales were only 3 percent higher than 1945, and the blouse department where sales were off 3 percent from the year before.

The situation may be summarized by the statement that exclusive of house furnishings and the men's clothing department, main store sales were only 12 percent above a year ago. However activity in those two departments was sufficient to lift the increase over a year ago to 26 percent.

CURRENT EVENTS
Savings Bond Drive

A drive to stimulate sales of U. S. Savings Bonds will be launched by the Treasury Department on Armistice Day, November 11. The campaign is to run until Pearl Harbor Day, December 7, and will place special emphasis on encouraging payroll savings plans and sales to farmers.

The drive is designed to absorb consumer spending power and thus to combat rising prices. Funds raised will be utilized in the Treasury program to retire short term debt in the hands of the banks.

The drive will stress the advantages gained by those buying bonds at this particular time. The favorable interest rate and safety of the investment will be emphasized. Potential bond buyers will also be reminded that funds saved now may be spent to greater advantage sometime in the future.

A similar campaign staged several months ago was an important factor in boosting July Savings Bond sales to a level 32 percent above the June figure.

NEW MEMBER BANK

The Adams Bank, Millersburg, Ohio.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	Sept. 1946	Aug. 1946	Sept. 1945	Sept. 1946	Aug. 1946	Sept. 1945
SALES:						
Akron (6)	276	302	215	281	257	219
Canton (5)	327	345	225	324	304	222
Cincinnati (9)	285	306	207	291	257	211
Cleveland (10)	219	262	162	249	234	185
Columbus (5)	322	349	242	322	297	242
Erie (3)	261	286	213	258	246	211
Pittsburgh (8)	192	275	180	196	239	183
Springfield (3)	263	305	234	260	250	232
Toledo (6)	239	294	189	249	247	196
Wheeling (6)	235	266	179	242	216	184
Youngstown (3)	277	305	213	285	278	219
District* (98)	249	286	197	251	249	199
STOCKS:						
District	221	208	153	246	225	171

* Adjusted Index Revised July, 1946.
For back figures see Page 7 of September 1, 1946 Monthly Business Review

Bank Debits—September, 1946

(29 Fourth District Cities)

Debits during September were 26% above the figure for a year ago, but were 1% under the August total and 3% below the figure for July; however, on a daily-average basis September debits exceeded both preceding months.

Most of the debits represent transfers of funds by check, although debits to U. S. Treasury deposits at reporting banks and withdrawals from savings accounts are also included.

TEN LARGEST CITIES

Significant debit totals were recorded in **Toledo** and **Dayton.** Toledo quarterly figures were about 40% above a year ago and the September total exceeded last year's figure by 44%. The corresponding figures for Dayton roughly were 31% and 38%, respectively.

Quarterly figures were also substantially above last year in **Columbus** and **Youngstown,** while **Pittsburgh** and **Canton** recorded particularly large totals for September.

NINETEEN SMALLER CITIES

During September and the third quarter, smaller cities exceeded the large cities in their percentage increases above a year ago, thus continuing a trend underway in the Fourth District since the final year of the war.

In 12 of the 19 smaller cities the quarterly figures constituted all-time highs. The **Middletown** quarterly total was almost 50% above that of a year ago, and was the largest percentage increase reported among the 29 cities. **Zanesville** and **Covington-Newport** likewise recorded striking quarterly gains over last year.

The outstanding September increase over the corresponding figure for a year ago was achieved by **Middletown** with a figure slightly above 44%. September increases were likewise high in **Lexington** and **Hamilton,** where gains of about 41% occurred.

(In thousands of dollars)

		Sept. 1946	% change from year ago	3 months ended Sept. 1946	% change from year ago
ALL 29 CENTERS		$5,426,700	+26.0	$16,539,897H	+19.9
10 LARGEST CENTERS:					
Akron	Ohio	213,167	+25.1	655,898	+18.9
Canton	Ohio	93,422	+35.8	267,271	+16.1
Cincinnati	Ohio	698,395	+20.3	2,173,388H	+17.1
Cleveland	Ohio	1,394,155	+18.5	4,335,150	+14.5
Columbus	Ohio	376,357	+14.5	1,255,841H	+28.9
Dayton	Ohio	184,157	+37.5	555,953H	+30.8
Toledo	Ohio	315,981	+43.9	999,665H	+39.8
Youngstown	Ohio	108,871	+26.4	330,163H	+26.4
Erie	Penna.	67,645	+23.6	209,914	+13.7
Pittsburgh	Penna.	1,498,330	+33.4	4,301,607	+16.9
Total		$4,950,480	+25.6	$15,084,850H	+19.1
19 OTHER CENTERS:					
Covington-Newport	Ky.	$ 33,729	+28.9	$ 108,424	+35.9
Lexington	Ky.	47,250	+40.9	145,999	+40.1
Hamilton	Ohio	29,297	+40.5	82,645H	+23.0
Lima	Ohio	34,151	+37.0	102,432H	+29.6
Lorain	Ohio	12,981	+34.7	40,029H	+44.7
Mansfield	Ohio	29,972	+31.2	90,223H	+31.2
Middletown	Ohio	26,698	+44.3	82,999H	+49.5
Portsmouth	Ohio	16,906H	+27.1	49,078H	+26.9
Springfield	Ohio	36,473	+21.9	115,899H	+23.5
Steubenville	Ohio	19,605	+23.3	59,371H	+22.8
Warren	Ohio	29,348	+37.5	87,843H	+32.9
Zanesville	Ohio	20,848H	+34.6	61,719H	+39.5
Butler	Penna.	24,503	+32.6	73,611H	+26.6
Franklin	Penna.	6,207	− 0.8	19,634	+10.6
Greensburg	Penna.	15,853	+31.8	50,253	+31.7
Homestead	Penna.	6,768	+32.6	21,198	+34.2
Oil City	Penna.	16,412	+ 5.6	49,389	+ 9.0
Sharon	Penna.	19,865	+30.7	62,012H	+23.5
Wheeling	W. Va.	49,354	+21.7	152,289	+16.3
Total		$ 476,220	+30.3	$ 1,455,047H	+28.8

H denotes new all-time high for one month or quarter-year.

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified		September 1946	% change from 1945	August 1946
Retail Sales:				
Department Stores—98 firms		$ 56,820	+26	$ 63,398
Wearing Apparel—15 firms		2,420	+10	2,606
Furniture—67 firms		3,595	+72	3,648
Building Contracts—Total		$ 53,888	+54	78,997
—Residential		$ 32,500	+670	36,122
Commercial Failures—Liabilities		$ 577	+318	64
—Actual Number		7	−13	5
Production:				
Pig Iron—U. S.	Net tons	4,687	+11	4,898
Steel Ingot—U. S.	Net tons	6,517	+ 9	6,887
Bituminous Coal—O., W. Pa., E. Ky.	Net tons	20,298	+16	22,516
Cement—O., W. Pa., W. Va.	Bbls.	a	a	1,505

a Not available.

Time Deposits*—12 Fourth District Cities

City and Number of Banks	June 30 1945	Aug. 28 1946	Sept. 25 1946	Percentage Change Since Aug. 28 1946	Percentage Change Since June 30 1945
	(In thousands of dollars)				
Lexington (5)	$ 8,057	$ 10,011	$ 10,172	+1.6%	+26.3%
Erie (4)	29,146	35,825	36,106	+ .8%	+23.9%
Akron (3)	81,051	95,821	96,404	+ .6%	+18.9%
Pittsburgh (13)	286,173	317,503	318,932	+ .5%	+11.4%
Cincinnati (8)	151,553	177,404	177,893	+ .3%	+17.4%
Cleveland (4)	699,081	825,514**	827,184	+ 2%	+18.3%
Canton (4)	34,284	39,299	39,386	+ .2%	+14.9%
Toledo (3)	72,136	86,752	86,688	− .1%	+20.2%
Youngstown (3)	43,853	52,334	52,296	− .1%	+19.3%
Wheeling (6)	23,643	28,470	28,440	− .1%	+20.3%
Columbus (3)	58,427	69,081	68,955	− .2%	+18.0%
Dayton (3)	42,793	49,625	49,473	− .3%	+15.6%
TOTAL—12 Cities	$1,530,197	$1,787,639	$1,791,929	+ .2%	+17.1%

* of individuals, corporations and nonprofit associations.
** estimated—adjustment required by unavailability of data for two absorbed banks.

Wholesale and Retail Trade

	Percentage Changes from Preceding Year SALES Sept. 1946	SALES first 9 months	STOCKS Sept. 1946
DEPARTMENT STORES (98)			
Akron	+29	+21	+39
Canton	+46	+26	a
Cincinnati	+38	+34	+41
Cleveland	+35	+29	+39
Columbus	+33	+31	+41
Erie	+22	+22	+25
Pittsburgh	+ 7	+33	+44
Springfield	+12	+15	a
Toledo	+27	+23	+39
Wheeling	+31	+30	+48
Youngstown	+30	+26	a
Other Cities	+33	+34	+28
District	+26	+30	+40
WEARING APPAREL (15)			
Cincinnati	+18	+11	+31
Cleveland	+24	+31	+37
Pittsburgh	− 8	+21	+42
Other Cities	+ 4	+ 8	+34
District	+10	+17	+37
FURNITURE (67)			
Canton	+51	+46	+40
Cincinnati	+71	+54	+30
Cleveland	+86	+49	+45
Columbus	+54	+56	+60
Dayton	+53	+71	a
Pittsburgh	a	a	a
Allegheny County	+86	+59	a
Toledo	+91	+65	a
Other Cities	+66	+69	+50
District	+72	+57	+44
WHOLESALE TRADE**			
Automotive Supplies (3)	+60	+57	a
Beer (5)	− 1	− 1	− 9
Clothing and Furnishings (3)	+26	a	a
Drugs and Drug Sundries (4)	+39	+22	a
Fresh Fruits and Vegetables (11)	+ 5	− 1	+21
Grocery Group (35)	+51	+26	+45
Total Hardware Group (19)	+89	+46	a
General Hardware (7)	+ 6	+69	+50
Industrial Supplies (5)	+44	+ 9	a
Plumbing and Heating Supplies (7)	+69	+34	a
Jewelry (8)	+50	+37	+34
Lumber and Building Materials (3)	+34	a	+36
Machinery, Equip. & Sup. (exc. Elect.) (3)	+68	a	a
Meats and Meat Products (3)	+10	a	−11
Paints and Varnishes (4)	+67	+45	a
Paper and Its Products (5)	+35	+16	a
Tobacco and its Products (15)	+27	+33	−0−
Miscellaneous (19)	+68	+27	+27
District—All Wholesale Trade (147)	+48	+27	+34

** 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

(Continued from Page 4)

Of the total nine-month increase of $240 million in loans other than those on securities, roughly $175 million was offset by the decline in security loans. It is interesting to note with regard to this reduction in security loans that Fourth District reporting banks' holdings of bonds rose to the extent that loans on securities declined. It would thus appear that the banks were disinclined to allow aggregate earning assets to contract by the full amount of collateral loan liquidation.

In summary, it would appear that the increase in the volume of demand deposits during 1946 may be attributed to the expansion of loans, the growth in commercial bank holdings of Treasury bonds, and the process of drawing down Government deposits in order to meet Treasury cash deficits and to retire nonbank holdings of Treasury securities. Of these three sources of additional demand deposits, commercial bank loan and investment portfolios have been growing at a more and more rapid pace. However, the effect of Government deposit reductions on demand deposits has of course diminished with progress toward a Treasury cash surplus.

In some ways, the increases that occurred in the volume and flow of money during the first three quarters of 1946 encouraged price advances, or at least failed to discourage increases. Consumer loans created added buying power at a time when the supply of goods was inadequate to meet the demands of cash buyers. Loans to business in many cases placed funds in the hands of consumers before added goods were ready for sale. The additions to the money supply occurred while the tendency to save was diminishing and the propensity to spend was rising.

Furthermore, this increase in the money flow was taking place at the very time that price controls were being relaxed. With the curtailment of controls, the power to determine prices was being restored to basic demand and supply conditions, where changes had long been neutralized by Government regulations. Price increases which had been forestalled over a period of several years, therefore, were occurring in large volume.

Fortunately, the volume of production was increasing during this nine-month period, thus modifying the effect upon the price level of the relaxation of controls and the increased flow of money. Actually, it would appear that the increase in the money flow was almost offset by the gains in supplies of goods and services.

From the standpoint of the future, it is conceivable that capacity production may soon be reached. If that condition is matched by full expenditure (or investment) of monetary incomes, further injections of money into the economic system would exert an upward pressure on prices.

On the other hand increases in consumer loans and real estate loans may merely keep buying power in proper proportion to increasing supplies of goods and housing. Commercial loans possibly may cease rising as unbalanced inventories are corrected and overall production levels off. For a time, loans on securities may continue to decline and hence partially offset advances in other loan and investment categories. Furthermore, the banking community may become increasingly cautious in granting loans and expanding bond holdings, partly because the Treasury debt retirement program is reducing liquidity positions and partly because of doubts regarding the underlying soundness of present business conditions.

In view of these considerations, it is difficult to foresee whether the flow of money in the coming months will be on a parity with, or somewhat in excess of, the volume of business activity. However, developments bear careful watching, particularly because of the tendency for commercial loans, consumer credit, and commercial bank bond holdings to expand more rapidly even though production appears to have leveled off.