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FINANCIAL DEVELOPMENTS DURING 1946

Probably the most significant development in banking during 1946 was the unprecedented expansion in commercial lending.

Over the past fifteen years, commercial lending had occupied a somewhat secondary position in the overall banking picture. During the long depression loan volume was restricted by lack of demand for commercial credit. In the war years the financial requirements of war led to a tremendous increase in bank holdings of Treasury securities while commercial lending—much of it for war purposes—barely held its own.

Thus a year ago Treasury obligations constituted 74 percent of the earning assets of Fourth District reporting member banks, whereas commercial, real estate, and consumer loans combined totaled only 14 percent. However, developments during 1946 brought about a noticeable change in those ratios. Toward the close of the year Government issues had declined to 66 percent of aggregate earning assets, and the three types of loans had increased to 24 percent.

Currently, commercial loans of reporting banks in 10 Fourth District cities are about $277 million (72 percent) above the level on V-J Day in August of 1945. Real estate loans are about $66 million (43 percent) higher than in August, 1945.

"All other loans," which are largely consumer loans, were approaching the 1941 all time high by the close of the year and were about $74 million (56 percent) above the level which had prevailed at the termination of the war. Loans on securities, on the other hand, are about $200 million (55 percent) below the high point reached at the conclusion of the Eighth War Loan.

Balance Sheet Changes of Fourth District Reporting Member Banks
1946

Assets	Increase or Decrease*	Percentage Change	Total* Dec. 24, '46
Commercial Loans	+ $228	+ 53%	$ 660
U. S. Govt. Bonds	+ 184	+ 8	2399
Real Estate Loans	+ 63	+ 40	219
Consumer Loans	+ 54	+ 36	206
Reserves and Cash	+ 38	+ 5	870
Other Securities	+ 20	+ 7	292
All Other Assets	– 28	– 9	271
Loans on Securities	– 193	– 51	184
Bills, Certificates and Notes	– 1087	– 63	641
Total	– $721	– 11%	$5742
Liabilities and Capital Accounts	**Increase or Decrease***	**Percentage Change**	**Total* Dec. 24, '46**
Demand Deposits Adjusted	+ $277	+ 10%	$3180
Time Deposits	+ 118	+ 9	1373
All Other Liabilities	+ 15	+ 28	68
Capital Accounts	+ 15	+ 3	492
Interbank Deposits	– 109	– 18	495
U. S. Govt. Deposits	– 1037	– 89	134
Total	– $721	– 11%	$5742

*Millions of Dollars

Commercial Loans

The upward surge of commercial loans accompanied, and was stimulated by, the rapid advance in business activity which occurred during the latter half of the year. Depletion of business cash resources, as a result of the series of work stoppages in the spring of the year, necessitated considerable recourse to bank credit. The rise in business inventories and unbalanced production, both of which to a degree may be associated with the dislocating effects of labor difficulties, likewise were contributing elements in bank loan expansion. Another important factor in the growth of commercial loans was the pronounced upward movement of costs and prices.

Real Estate and Consumer Loans

The sharp gain in real estate loans reflected the acute housing shortage which materialized with the demobilization of the armed forces. As a result of the wartime restrictions on new residential construction, the unprecedented 1946 demand for living quarters was largely confined to the supply of housing in existence prior to the war. The vast majority of new real estate loans were for the purchase of used houses, the prices of which were determined under free market conditions. The volume of new loans made was actually considerably larger than is indicated by the net increase in real estate loans outstanding, for many prewar borrowers were reducing their mortgage indebtedness at a rate greatly in excess of contractual requirements.

The increase in consumer loans stemmed mainly from the increased quantities of consumer goods that moved to market during 1946. The rising price level, the gradual relaxation of Regulation W and the paring down of the backlog of cash buyers likewise contributed to the increase.

Outlook for Further Loan Expansion

Of the three types of loans which have expanded in the postwar period, consumer loans are probably the most likely to show further substantial increments. The gradual removal of restrictions on consumer borrowing, the general rise in the price level and some shrinkage in accumulated savings are expected to lift consumer loans at least up to the 1941 level if not considerably beyond. Given a continuation of the rate of increase in recent months, that six-year-old bench mark will be reattained by March, 1947.

The view is also rather widely held that a further increase in real estate loans lies ahead. For one thing, the rate at which existing loans are being paid off may be affected adversely by the rise in living costs. Also, the volume of new loans made may be stimulated by the prospective high level of building activity during 1947. The National Housing Administration recently estimated that the increase in mortgage indebtedness during the new year may be twice as large as the 1945 gain. Furthermore, very few banks have reached or even approached the statutory limit for real estate loans. In this regard, however, it is possible that economic considerations may be more effective than legal limitations in preventing much further expansion.

A greater difference of opinion exists with regard to the future trend of commercial, industrial and agricultural loans. Borrowing for inventory building purposes is probably near its maximum. Although a further rise in commodity prices and wage costs could raise minimum requirements for corporate working capital, it is difficult to visualize a continuation of the unprecedented 1946 rate of expansion throughout all of 1947. Sooner or later current assets of corporate and other business borrowers will be converted into cash more rapidly than during the reconversion period.

Comparison of Fourth District Gains

Commercial, real estate and consumer loans have increased less rapidly since V-J Day in the Fourth District than in the rest of the nation. The Fourth District increase to date is 61 percent compared with 67 percent for the country as a whole. The percentage increases in commercial and real estate loans were slightly lower in the Fourth District than in the nation, whereas the Fourth District gain in consumer loans exceeded the national figure.

Changes in Commercial, Real Estate, and Consumer Loans
(Reporting Member Banks)

	Aug. 15 1945	Jan. 2 1946	July 3 1946	Dec. 18 1946
Commercial Loans				
Fourth District	100	113	131	170
United States	100	122	128	174
Real Estate Loans				
Fourth District	100	102	120	143
United States	100	104	122	146
Consumer Loans				
Fourth District	100	115	127	155
United States	100	116	130	154
Total				
Fourth District	100	111	127	161
United States	100	119	128	167

There was substantial variation within the District in the size of the increases in commercial, real estate and consumer loans since V-J Day. The largest percentage gains were reported by Lexington and Dayton, with increases of 142 percent and 118 percent respectively. Increases at Cincinnati, Erie, and Pittsburgh ranged from 73 percent to 79 percent. The combined figures for Toledo, Canton and Akron rose 63 percent. Cleveland and Columbus were in the lowest bracket with increases of about 45 percent.

Changes in Commercial, Real Estate, and Consumer Loans in Fourth District Cities
(Reporting Member Banks)

	Aug. 15 1945	Jan 2 1946	July 3 1946	Dec. 24 1946
Lexington	100	177	146	242
Dayton	100	126	170	218
Pittsburgh	100	124	154	179
Erie	100	120	139	174
Cincinnati	100	108	129	173
Other Cities*	100	101	123	163
Cleveland	100	105	109	145
Columbus	100	96	117	144
Total	100	111	128	162

*Four Banks in Toledo, Canton and Akron.

Liquidation of Loans on Securities

The trend of loans on securities was in marked contrast to the movement of the loan classifications discussed above. Total loans on securities are about 51 percent below the amount outstanding a year ago. Virtually all of this contraction occurred in loans for the purpose of carrying U. S. Government securities, many of which were purchased during the Eighth, or earlier, War Loan Drives.

Decline in Security Holdings

Another noteworthy development of 1946 was the shrinkage in holdings of U. S. Government obligations. The decline in security holdings resulted from the debt retirement program of the Treasury. At the conclusion of the Victory Loan Drive a year ago, the Federal interest-bearing debt totaled about $278 billion, but the Treasury had some $26 billion on deposit at reserve banks and war loan depositaries. During 1946 a major portion of those funds was devoted to the retirement of maturing security issues, an operation which reduced the debt to about $257 billion by the close of the year. Almost all of the retired securities were Treasury notes and certificates of indebtedness, most of which was held by the commercial banks.

The impact of the Treasury program on the balance sheets of Fourth District banks is presented in the table on page one. Holdings of bills, certificates and notes by reporting banks declined about $1,087 million, a reduction of 63 percent. Correspondingly, Government deposits were down some $1,037 million, or a reduction of almost 90 percent. These adjustments were of sufficient magnitude to bring about an 11 percent reduction in reporting member bank assets and liabilities, despite increases in total loans and in holdings of Government bonds. During the year, bond holdings advanced about $185 million for a gain of 8 percent.

Changes in Demand and Time Deposits

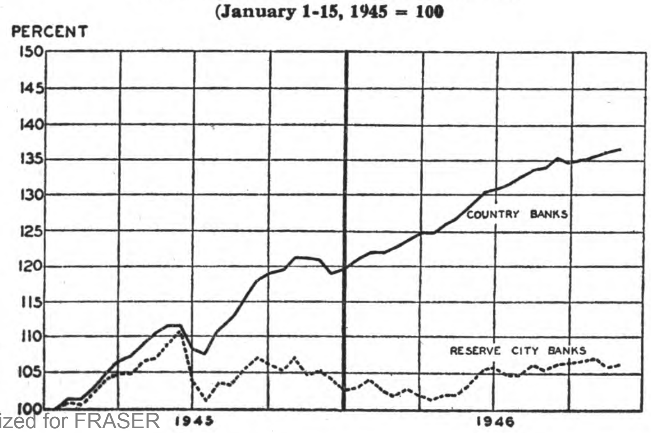
Adjusted demand deposits and time deposits recorded noticeable gains during 1946. Demand deposits at reporting banks increased 10 percent and time deposits rose 9 percent. The increase in Fourth District demand deposits may be attributed to the net gain in total loans, the increase in commercial bank holdings of Government bonds, the cash deficits of the Treasury in the first half of the year, and a flow of funds into the District.

Time deposits are dependent in large part on the propensity of the public to save. During 1946, advances in living costs and the increased availability of consumer goods gradually lowered the net additions to time deposits. Saving account figures received regularly from 59 banks in 12 large Fourth District cities reveal that the rate of accumulation in the latter part of the year was barely half as rapid as in the first six months.

Relative Changes in Required Reserves of Fourth District Country Banks and Reserve City Banks, 1945 and 1946

(Semi-monthly Averages of Daily Figures)

(January 1-15, 1945 = 100)



The Decline in Interbank Balances

Interbank balances at reporting member banks registered a rather severe decline during 1946, dropping about $110 million or 18 percent. A large share of interbank accounts represents deposits of country banks in large reserve city institutions. In recent years those balances rose to levels somewhat above actual requirements because of the ample reserve positions of the country banks. As the accompanying table indicates, the excess reserves of country banks declined steadily during 1946, thus leading many banks to draw down their balances due from other institutions.

Member Bank Reserves

Total reserves of Fourth District member banks rose during 1946, chiefly because of a net flow of funds into the District. As a result of the transfer of funds out of war loan accounts into private deposits required reserves likewise advanced, and at a slightly more rapid rate than did total reserves. As a result, excess reserves exhibited a downward trend during the year. The drop in Government deposits did not react directly upon required reserves because no reserves need be kept against such deposits.

Reserve Position of Fourth District Member Banks

(1946 by Quarters)

	millions of dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth* Quarter
All Member Banks				
Total Reserves	$1163	$1149	$1191	$1190
Required Reserves	1028	1045	1076	1087
Excess Reserves	135	104	115	103
Reserve City Banks				
Total Reserves	719	711	742	738
Required Reserves	686	689	704	709
Excess Reserves	33	22	38	29
Country Banks				
Total Reserves	444	438	449	452
Required Reserves	342	356	372	378
Excess Reserves	102	82	77	74

*October-November Only.

It may be noted from the accompanying table and chart that rather distinct differences existed during 1946 in the movement of reserves at country banks as compared with reserve city banks. At the latter institutions, total reserves and required reserves rose moderately and about proportionately to each other. As a result, the comparatively small volume of excess reserves at reserve city banks did not record any pronounced upward or downward trend.

On the other hand, required reserves of country banks advanced at a more rapid pace than did total reserves, with the result that their comparatively ample supply of excess reserves recorded a substantial decline during the year. Since required reserves are

(Continued on Page 7)

INDUSTRIAL REVIEW OF 1946

The past year was one of tremendous industrial activity in nearly every line of business. Although the earlier months were characterized by a series of industry-wide work interruptions, with an accompanying loss of production of much needed goods and services, business activity moved forward throughout most of the year. By October, industrial production had reached a point 82 percent above the 1935-39 average. However, further expansion of output was precluded by a 17-day suspension of coal mining in the closing weeks of the year. Largely because of the increase during the second half, the physical volume of goods produced was the highest on record for any peacetime year and five percent greater than the boom year of 1941.

Some of the national output of the past six months has been used to replenish manufacturers' stocks. From April through October, manufacturers' inventories of raw materials, goods in process, and finished goods rose from $16.8 billion to $19.5 billion or an increase of 16 percent. Rising prices accounted for a good portion of this advance. Part of the increase was unbalanced and due to some extent to work interruptions. Larger inventories, however, were needed to fill pipelines and to support the high level of shipments.

Most of the lag in production during the first part of 1946 occurred in the durable goods industries. Those industries were confronted with greater problems of physical reconversion, with more serious raw material shortages, and with a greater number of work disruptions than were the nondurable lines. Copper, lead, zinc, and steel were conspicuously in short supply throughout the year.

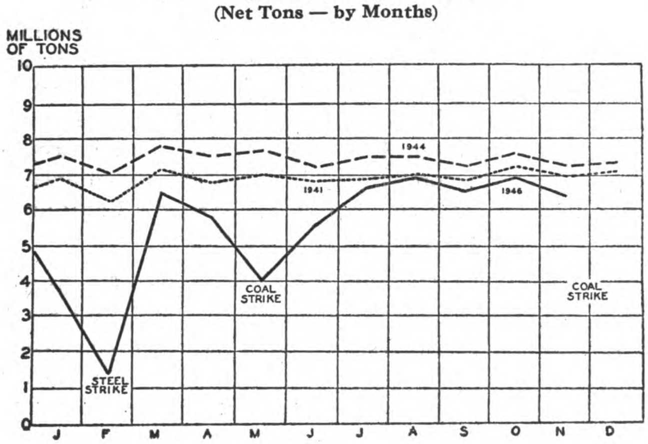
Fluctuations in Steel Production The problems encountered by the steel industry are more or less typical of the broad category of durable producers. The rate of steel ingot production in 1946 fluctuated more widely and more frequently than in any other comparable period. The accompanying chart illustrates the successive effects of a steel strike and two coal strikes. There is ample evidence that the industry could have produced, in the absence of those stoppages, at least 80 million tons of ingot steel. Actual production is estimated to have been no more than 68 million tons. This loss of output was felt throughout the entire economy, beginning with the steel industry itself, all of the steel fabricating industries whose number is legion, and the millions of consumers whose needs for durable goods were the greatest on record. With a national income 70 percent greater than 1941, and a vast backlog of unfulfilled demand, it is small wonder that a rate of steel production considerably smaller than 1941 fell far short of visible requirements. The persistent steel shortage, however, tended to mitigate a number of bottlenecks in the flow of nonferrous and other relatively scarce products.

Numerous upward price adjustments were made by major producers late in the year. Principal price increases affected pig iron, sheets, strip, tin plate, terne plate, bars, rails, and track accessories. Scrap prices also advanced sharply with No. 1 open hearth melting scrap reaching $32.50 per ton in Pittsburgh. The former ceiling price was $20.00 per ton. The full effects of the current 20 percent advance in freight rates are not yet clearly ascertainable. Rates on iron ore were increased 12 cents per ton, except from the ranges to upper lake ports. Rates on fluxing stone, slag, and coal also were raised.

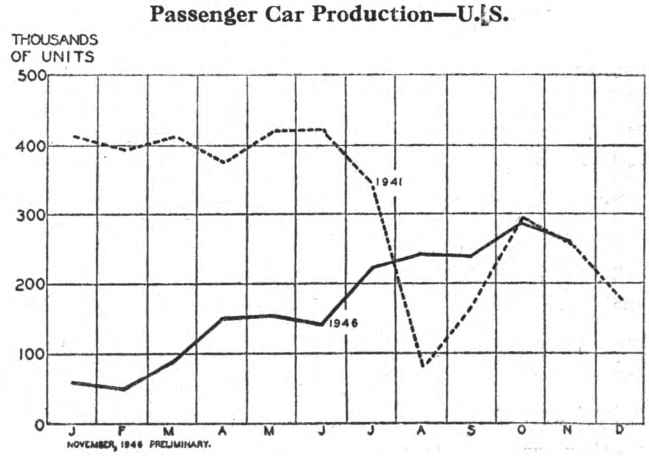
Lake Superior iron ore shipments from upper lake ports in the 1946 season were the smallest since 1939. Only 59 million gross tons were moved, or about 22 percent less than in the year before. Strikes delayed the start of the season so that only 13 million tons were shipped up to the end of June or less than half the amount shipped in the corresponding period of the previous year.

Stocks of iron ore at Lake Erie docks and furnaces totaled 41.9 million tons on December 1 according to the Lake Superior Iron Ore Association. While this was six percent less than a year ago, the supply is deemed adequate for the furnaces until the opening of navigation in the spring.

Steel Ingot Production—U. S.
(Net Tons — by Months)



Passenger Car Production—U. S.



Lag in Motor Car Production Motor car output in 1946 was extremely disappointing from the point of view of both the consumer and manufacturer. An adjoining chart compares 1946 output with production in 1941 which was one of the best years on record. The past year's month-by-month activity exceeded that of 1941 only in August and September which were the low months in prewar years because of model changes and in November and possibly December by which time in 1941 auto production was being curtailed as a defense measure.

With a 1946 goal of five million passenger vehicles, manufacturers were beset by a succession of strikes in their own plants as well as in those of their suppliers. Industrial disturbances and shortages of a wide variety of parts and materials such as sheet steel, castings, bearings, wire, electrical equipment, copper, and lead combined to hold production below 150,000 units a month for the first six months. Top monthly rate since July was 285,000 units in October representing an annual rate of less than 3½ million cars. Total production for the first 11 months is estimated at 1,890,000 passenger cars. The year's total output was thus little more than 40 percent of the original schedule.

Plans for new facilities to produce a lightweight automobile in 1947 were postponed indefinitely due to the outlook for both car-building materials and building supplies needed for new factories. Model changes by major producers for 1947 apparently will be limited to minor trim changes and front-end design. Although manufacturers are again projecting plans to produce between four and five million passenger cars in 1947, final results will depend upon the flow of materials and upon labor-management relations. The ability of the market to absorb such an output at present prices and under existing credit terms also is questioned by some observers.

Construction at Record Levels Cumulative dollar value of residential construction contracts awarded in the Fourth District from January through October totaled $271 million, a figure unequalled in the boom construction years of the 1920's. This ten-month total exceeds by about $25 million the entire record year of 1925. Although the rate of completions of dwelling units has been slow, there was some improvement toward the end of the year as building materials became more generally available. The greatest pinch was felt in lumber and lumber mill products, in building hardware, cast iron soil pipe, and clay sewer pipe.

Total building contracts awarded in the District for the 10 months also established a new high with a value of $671 million. A still larger volume might have been placed by builders but for the policy of the Civilian Production Administration of limiting non-housing construction to $35 million a week beginning last March. Between March 26 and December 5, about 48,000 applications were denied for non-housing construction valued at $1,781 million. In the Cleveland region alone, 6,000 applications were rejected at a projected cost of $164 million.

Late in the year the national housing program was substantially modified. The $10,000 ceiling on new homes was eliminated and the $80-per-month rent maximum was modified. Greater emphasis is to be placed on the building of rental units, but restrictions likewise were eased to permit non-veterans to build for owner occupancy. Although the dollar value ceiling on homes was removed, it was replaced with limitations on total floor area. The increase in building supplies is deemed sufficient to relax substantially the $35,000,000 weekly limitation on non-residential building. The priority and allocation system is to be eased on an accelerated basis.

Flow of Building Materials The record volume of contracts awarded was reflected in virtually all building material industries. Cement output in the Fourth District was approximately twice as large as in the year before. Despite this surge of production, stocks of finished cement at the mills declined steadily. For the country as a whole, finished cement stocks are the lowest in about 12 years. Rebuilding of inventories and the expected continuation of the construction boom indicate comparatively high levels of cement production during 1947.

The plate glass industry probably established a new all-time production record in the past year despite a slow start because of labor difficulties. The

Residential Building Contracts Awarded
(Fourth District)

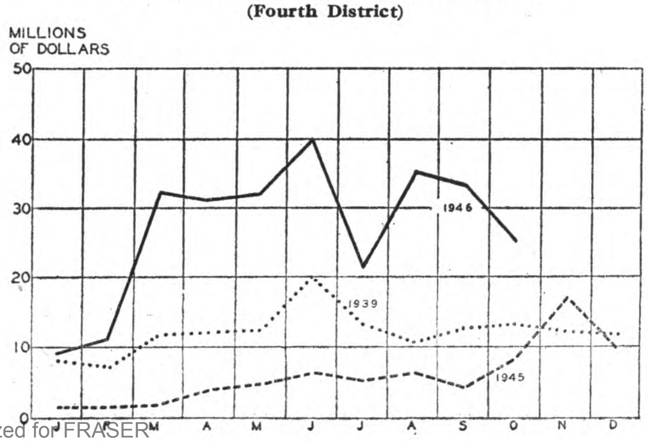
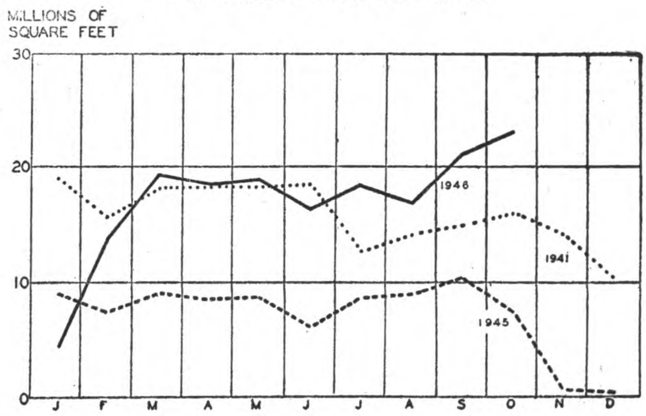


Plate Glass Production—U. S.



October production of 23 million square feet represented a new monthly achievement, but the industry still appears unable to keep up with incoming orders.

The output of unglazed brick in the District likewise improved enormously during 1946. Production currently is running approximately double that of a year ago and four times the rate in early 1945. October output in the East North Central states is estimated at 142 million brick as compared to 73 million in the preceding year. Fuel shortages hampered production somewhat, and at times freight car shortages retarded shipments of finished products. New equipment orders have not been filled rapidly and consequently there has been delay in modernization programs. Higher wages attracted more labor, but productivity is believed to be below prewar standards. District manufacturers generally anticipate a continuation of present demand levels as building programs are accelerated in response to changes in the construction program.

Trend in Nondurable Industries

Aggregate production of nondurable commodities, with the exception of soft coal, proceeded along a relatively even keel throughout most of 1946 and at a level some 16 percent above 1941, the most recent good peacetime year.

The three major nondurable goods industries which failed in varying measure to reach 1941 levels were the cotton-consuming industry, paper and pulp producers, and the soap industry. Labor and raw material shortages, and other considerations retarded production in those lines.

On the other hand, production of industrial chemicals, rayon, rubber products, wool textiles, petroleum products, alcoholic beverages, and tobacco was substantially greater than during 1941. Most of these manufacturers had only minor physical reconversion problems, and could continue to produce essentially the same type of product as was turned out during the war.

The outlook for 1947 for most nondurable lines is not quite as sanguine as in the durable industries. Thus far since the close of the war, nondurable goods have been relatively more abundant. During 1946, particularly in the earlier portion, soft goods sales took a considerably larger than normal share of the consumers' dollar. In more recent months, however, the tide began to run in the other direction as consumers' durable goods appeared in the markets in appreciable volume. During 1947 the sale of nondurable merchandise undoubtedly will meet more competition from the hard lines.

Tire Production at Record High

Production of passenger, truck and bus casings in 1946 set a new record for the industry with an output close to 83 million units as compared to a goal of 79½ million established early in the year.

Passenger tire production amounted to 54 million units for the first 10 months of the year and production at the rate of more than six million units a month was scheduled for the balance of the year. The major portion of this output was for the replacement market. Although manufacturers had estimated in the spring that passenger tires would be in ample supply by the end of 1946, it is apparent that retail inventories are still quite limited. Higher speeds and more highway driving are believed to explain the continuing large demand. Supply is now expected to equal demand by the second quarter of 1947.

The supply of several tire-making components hampered production in some degree. Carbon-black was consistently scarce and certain grades of cotton textile fabrics were hard to obtain. Rayon cord was in very short supply, and its use was restricted to the larger tire sizes until the last month of the year.

Nearly all controls over the industry have been eliminated with the exception of the amount of natural rubber that may be used. Premium tires are again being manufactured, and new cars now may be equipped with a spare tire and tube at the factory.

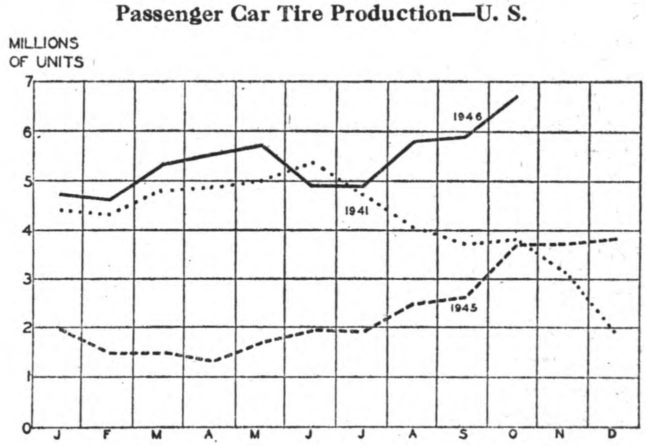
It is estimated that rubber consumption in 1947 will be close to 1,000,000 tons, or about the same as in 1946. Natural rubber should provide about half of this amount with the balance derived from synthetic production. Annual prewar consumption of rubber ranged between 700-800,000 tons.

Rayon Consumption at New Peak

Consumption of rayon filament yarn in 1946 continued to rise as in past years and was about 11 percent above 1945. Average monthly consumption through November was 55.4 million pounds as compared to 50.2 million pounds in 1945 and 37.7 million pounds in 1941.

Rayon filament yarn consumption has increased not only in terms of physical units but also in relation to total consumption of other fibers. Monthly consumption of rayon, wool, and cotton was 536 million pounds in 1941, while in 1946 it averaged 554 million pounds. In 1941, however, rayon filament yarn accounted for seven percent of the total whereas in 1946 it had risen to 10.3 percent.

Passenger Car Tire Production—U. S.



The industry has been unable to meet the demand for its product, and new plants are now under construction to provide greater output. This may be contrasted with the ever-mounting wool surplus which is accumulating in the United States as a result of the price support program. The high price and parity programs which have been adopted for both cotton and wool are working to the advantage of the rayon industry. Moreover, the quality and uniformity of rayon yarn have been improved steadily with the result that costs in subsequent manufacturing operations are reduced.

Textile fiber consumption of all kinds in 1946 was second only to the all-time peak of 1942. In view of the growing volume of durable goods being produced, there is little likelihood that present rates of textile output can long be maintained, as hard goods begin to offer greater competition for the consumers' dollar. Therefore it appears possible that some readjustment in the textile and apparel industries is in prospect.

Fluctuations in Shoe Production Production of leather shoes in the United States during 1946 was related to available leather supplies which fluctuated widely. The supply of hides declined rapidly at mid-year when cattle sellers delayed marketing until OPA controls had lapsed. After a brief rush of cattle to market, supplies again dried up with the re-imposition of price controls and did not reappear in volume until all restrictions on cattle prices were eliminated in October. The shortage of leather as a result of this irregular movement of cattle will not be completely overcome for several months.

District shoe production which accounts for about four percent of the total, corresponded to the national pattern. Peak output of 49.5 million pairs was attained in May and then fell to 36.8 million pairs in July as factories closed or schedules were reduced due to the scarcity of leather. Preliminary estimates indicate that October production recovered to about 47 million pairs.

When price control ended, leather and hide prices advanced nearly 100 percent to a parity with world quotations and present raw hide and skin prices are the highest on record, with the exception of a period at the end of World War I. Shoe prices advanced with the rising cost of leather, and manufacturers indicate that additional upward adjustments will be made if present raw material prices are maintained.

An atmosphere of caution seems to prevail in the industry from the tanner to the manufacturer and retailer. Consumer resistance to high retail prices has already been felt, and some cancellations resulted when prices were raised. Shoe buyers are insisting on better style, quality, and adherence to delivery dates. Most manufacturers are buying carefully and only for current needs on the theory that prices may decline by early spring. Order backlogs, however, are substantial and producers anticipate that output will continue at a high level for at least another six months.

Loss of Coal Output Bituminous coal production suffered from two work stoppages within the past seven months. Loss of production in the District is estimated at 43 million tons. Uninterrupted production would have brought forth a tonnage in excess of the record 1944 total of 233 millions. November production declined to 15 million tons and brought the eleven-month total to 189 million tons as compared to 196 million tons in 1945.

At the end of the most recent strike, industrial stocks of coal had dropped to about 36 days' supply and a rail embargo had been imposed on the movement of all but the most essential commodities. The embargo, however, was cancelled before serious industrial paralysis could take place.

The coal industry anticipates a greater than normal rate of production between now and April 1 as consumers attempt to rebuild stocks. However, the long term demand for coal has been impaired. Uncertainty of supply and rising coal prices have accelerated the trend of household consumers to convert to the use of oil and gas. Large District coal distributors report commercial users—apartment buildings, laundries, cleaners, dairies, etc.—are giving greater consideration to other fuels from the point of view of cost, convenience, and regularity of supply. Electric utilities and large industrial users report that coal is still their cheapest source of power, but improved burning methods and furnaces will reduce the quantity needed. The use of oxygen in blast furnaces holds great promise both in increasing metal output and in reducing coke consumption.

Financial Developments During 1946

(*Continued from Page 3*)

tied directly to deposits, this relatively large advance in requirements at country banks indicates that during 1946 deposits of country banks grew much more rapidly than did those of the large institutions in reserve cities.

Early in the war, deposits rose rapidly at both classes of banks. In recent years, however, the growth at reserve city banks has been tapering off whereas deposits in country banks have continued to advance rapidly. It is possible that this trend may be reversed when consumer durable goods and farm machinery are more plentiful. A decline in agricultural income would also tend to reverse the upward trend of country bank deposits.

AGRICULTURAL REVIEW OF 1946

Relatively high prices for nearly all farm commodities, a record output of most crops, and a volume of livestock products well above average combined to return the highest farm income in history for the year just ended. Gross farm income in the United States is expected to be about $25 billion as compared with a gross of $17 billion in 1919.

Current estimates place *net* farm income plus government payments at approximately $15 billion, or $1 billion more than in 1945 despite increasing costs. In the five immediately preceding years net farm income averaged $11 billion and in the prewar years 1935-39, the annual average was slightly less than $5 billion. This extraordinary expansion of net farm income is being reflected in a continuing upward trend in farm land prices.

Prices Received Prices received by farmers are currently 29 percent above what they were at the close of the war. After a seasonal decline in late 1945, farm prices rose moderately through the first half of 1946. With the demise of OPA on June 30, farm prices mounted rapidly through July and August. The recontrol of prices in early September precipitated a temporary price decline and an even more significant drop in the monthly volume of farm marketings which declined 17 percent below the average for the past five years. Much of that reduction in volume of marketings was represented by decreased shipments of livestock to market.

With ample supplies of farm-grown feed available and no urgent need for cash, farmers were reluctant to ship livestock to market at the prices prevailing under the reimposed controls, particularly since those prices were believed to represent inadequate recognition of the increases which had occurred in feed grains and other farm products.

This impasse finally culminated in the lifting of price controls effective October 15. Thereupon livestock prices zoomed upward and the volume of livestock marketings increased to the point that receiving yards imposed temporary embargoes. Receipts from farm marketings in the month of October were the highest on record.

By mid-November the sharp decline in prices received for cotton, corn and poultry products caused the prices-received index to decline by ten points to 263 (1909-1914 = 100) from the all-time high on October 15 of 273, and held around that level during the remaining weeks of the year.

Meanwhile prices paid by farmers held below the 1919 level until mid-summer. The rise of the past six months however pushed prices paid beyond the World War I peak.

There have been certain similarities as well as contrasts in movements of prices received and prices paid during the two war and postwar periods as depicted on a set of accompanying charts.

The prices received curves followed almost parallel courses until near the end of the plotted periods. At the termination of both wars, prices received were more than double the prewar level. The postwar rise since V-J Day, however, has gone considerably further than was the case in 1919-20.

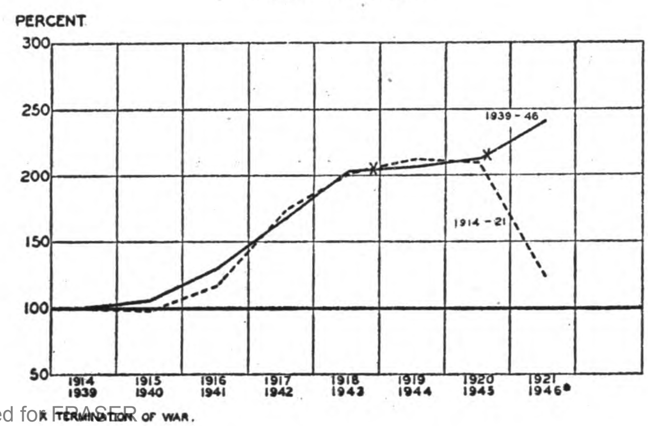
On the other hand, operating and other costs, as represented by the prices-paid curve, moved up much less rapidly during World War II. By 1920 prices paid were nearly twice as high as in 1914, whereas the 1946 average was only about 55 percent above 1939. Although by November prices paid were 71 percent above the 1939 base, it is evident that both prices received and prices paid have pursued a course somewhat more favorable to agriculture during the recent interval than in the earlier war period.

New Crop Records Farmers responded to that favorable situation with unprecedented volumes of farm products. Never before in the country's history were such large crops harvested as in the years beginning with 1942. The past year was one of unexcelled crop production. The total

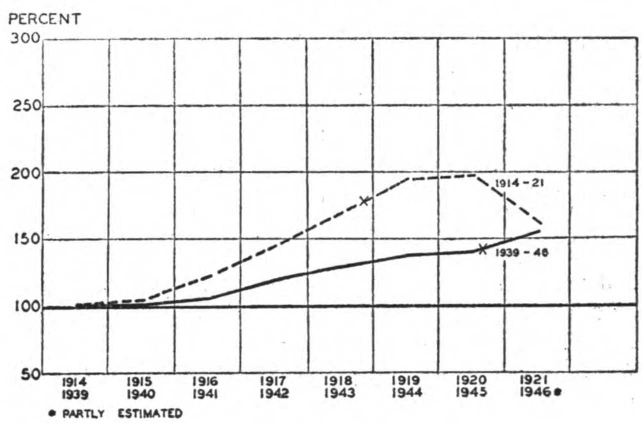
PRICES RECEIVED AND PAID BY FARMERS

(1914 = 100)
(1939 = 100)

Prices Received



Prices Paid



volume of crops is expected to exceed the 1942 output by two percentage points and the next highest volume attained in 1945 by seven points. Furthermore, quality of the harvest in the aggregate was above any year to date.

This abundant harvest was attained by continued long hours of work, the most liberal use of commercial fertilizers ever recorded and a slightly larger and more-skilled labor force due to the demobilization of the armed forces. Favorable weather conditions prevailed quite generally throughout the year. Adverse growing weather was confined to limited areas and for comparatively short periods. The amount of new mechanical equipment available during 1946 was far short of demand. Virtually the entire burden fell upon equipment on hand at the beginning of the harvest season.

The record volume of crop production in 1946 was due to record harvests of corn, wheat, soybeans, potatoes, tobacco, stone fruits, citrus fruits, truck crops, and an above-average output for all other important crops except cotton and rye.

The following table reveals that of the twenty major crops listed, soybeans head the array with respect to expansion of production in relation to the ten-year average. Vegetables for canning follow closely in second place. Citrus fruits and tobacco qualify for third and fourth place, respectively. Whether future demand for these crops will justify the expansion which has occurred is a matter of question. In the case of soybeans the current shortage of fats and oils, accentuated by smaller supplies of cottonseed and flaxseed for crushing, is expected to maintain demand for the current marketing season. The fact that supplies of canned vegetables, citrus fruits, and tobacco are substantially above normal consumption levels leaves some doubt as to whether demand will be maintained without some weakening in price structures. Corn and potatoes have already declined in price in the current marketing year.

Crop Production in the United States

Crop		Ratio of 1946 to 1935-44 Average	1946* Est.	1945 Actual
			(million units)	
Soybeans	bu.	191	197	192
Vegetables (canned)**	lbs.	178	6,367	6,212
Citrus Fruits	boxes	154	207	183
Tobacco	lbs.	151	2,235	1,994
Hay (all)	tons	139	111	109
Wheat	bu.	137	1,156	1,108
Oats	bu.	134	1,510	1,536
Peanuts	lbs.	131	2,075	2,042
Vegetables (market)**	lbs.	130	34,402	35,938
Potatoes	bu.	127	475	418
Corn	bu.	126	3,288	2,881
Sorghum grain	bu.	123	107	97
Sugar beets	tons	110.4	10.6	8.6
Sugar cane	tons	110.3	6.4	6.7
Apples (commercial)	bu.	101	122	68
Flaxseed	bu.	100	23	35
Barley	bu.	91	263	267
Cotton	bales	68	8,482	9,015
Cottonseed	tons	66***	3.45	3.66
Rye	bu.	45	19	24

Source: U. S. Department of Agriculture.
* Final Estimate.
** September Estimate—Ratio to 1935-39 Average.
***1934-43 Average.

Of interest at this point is the fact that the harvested acreages of corn and potatoes during the past year were below average, yet the total crop outturn of each is without parallel. This was due to a record 37 bushel per acre yield of corn, and a 175 bushel per acre yield of potatoes for the country as a whole.

The drop in output of barley, rye, and cotton is attributable to substantial declines in acreage. Some of this decline may be ascribed to unfavorable weather at planting time; however, the extent and duration of the decline in acreage suggests that other competitive crops may have been more profitable.

Crop Acreages Harvested in the United States

	Ratio 1946 to 1935-44 Average	1946*	1945
		(thousand units)	
Soybeans	168	9,606	10,661
Peanuts	141	3,168	3,160
Rice	134	1,567	1,494
All Hay	128	74,352	77,017
Tobacco	124	1,938	1,821
Commercial Truck Crops	124	4,099	3,837
Grain Sorghum	121	6,765	6,408
Wheat	121	67,201	65,120
Oats	118	43,648	41,933
Sugar cane	106	310	291
Sugar beets	104	821	713
Corn	96	88,718	88,079
Flaxseed	91	2,430	3,785
Potatoes	86	2,578	2,696
Barley	83	10,477	10,465
Cotton	70	17,639	17,059
Rye	46	1,598	1,856

* Final Estimate—U. S. Department of Agriculture.

Livestock Declines In contrast to record crops, output of all the major livestock products was actually lower in 1946 than in the previous year according to these most recent estimates:

Livestock Production in the United States

		Ratio 1946 to 1935-39 Average	Production Est. 1946	Actual 1945
			(million units)	
Turkey	dressed lbs.	171	600	677
Eggs	doz.	147	4.9	5.0
Chicken	dressed lbs.	135	3,150	3,700
Total Meat (beef, pork, lamb)	lbs.	133	21,300	22,891
Fluid Milk	lbs.	114	118,523	121,744
Wool	lbs.*	81	299	321
Butter	lbs.	67	1,450	1,699

Source: U. S. Department of Agriculture, Food Situation—September 1946.
*Crops and Markets, October 1946.

Despite this apparent decline the volume produced was substantially above prewar levels except for wool and butter. Output of wool was nearly a fifth less than normal and butter produced barely exceeded two-thirds of the prewar annual average.

Sheep numbers have been declining steadily since 1942 with a comparable decline in the total amount of wool shorn. Livestock-feed ratios during much of the past year were not favorable. As a result livestock producers did not maintain the high level of operations that prevailed during the preceding two years. In addition, feed supplies were insufficient to support expansion of livestock enterprises, principally because of the demand for feed grains for export to war-devastated countries.

(Continued on Page 12)

DEPARTMENT STORE TRADE DURING 1946

A number of records were broken by department store trade during 1946. Some were definitely of inflationary significance, while others were of opposite implication.

The dollar volume of sales in the Fourth District exceeded the preceding year's record by approximately 25 percent, but the physical volume of goods moving into consumption was scarcely greater than that of the year before. In some localities and in some lines of merchandise the unit volume was actually smaller. Much of the aggregate store margin over 1945 was merely a reflection of higher prices.

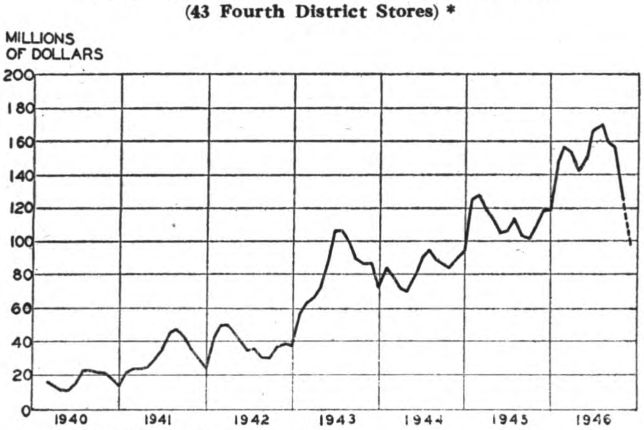
In contrast to the 25 percent expansion in sales, inventories at the close of holiday trade are estimated to have been roughly 50 percent larger than a year earlier. The growth of inventories during 1946 was the greatest on record, and clearly outran the contemporary sales increase.

Total outstanding orders of 36 identical stores in the Fourth District likewise reached unprecedented levels during 1946. At the peak on July 31, such commitments were nearly five times as large as on the comparable date in 1942, whereas sales were less than twice as large.

The contraction in orders outstanding during the latter part of 1946 is without precedent. At the close of November (latest available) outstanding orders were 43 percent below the midsummer peak and the lowest in two years as indicated on the accompanying chart. There have been times in the past when a contraction of that magnitude would have been accompanied by a curtailment of production. But 1946 was unique in that industrial output actually increased in the face of a sharp reduction in new orders received from retail trade outlets.

The bulk of the expansion in sales occurred during the first eight months of the year. A year ago, dollar volume was running 120 percent ahead of the 1935-39 daily average base. By August the margin had widened to 186 percent after the customary seasonal adjustments. During the next two months,

Outstanding Orders of Department Stores
(43 Fourth District Stores) *



* SAMPLE SLIGHTLY SMALLER IN FIRST TWO YEARS.

sales failed to expand at the normal autumn rate, partly because of local power and transportation disruptions.

By mid-October, however, a record-breaking Christmas trade began to develop. The year closed on a strong note with December dollar volume (adjusted) estimated at 170–175 percent above the base period. At no time did the several nationwide work stoppages in important industries appear to have an appreciable effect upon department store trade.

Within the Fourth District, the greatest improvement in sales over 1945 occurred in the large cities. Department stores in Cincinnati, Cleveland, Columbus, and Pittsburgh experienced wider gains than the District as a whole. The smallest year-to-year gains were recorded in Akron, Erie, and Springfield.

Both demobilization of the armed services, and the reappearance in volume of many durable items were important elements in the retail picture. Sales volume of major household appliances broke through the 1941 peak last June and continued upward to establish successively higher monthly totals. Sales of domestic floor coverings, furniture, beds, lamps and shades, sport goods, toys and games, and housewares likewise ran from 50 percent to 150 percent above the year before.

Trade also was much more active in men's clothing, furnishings, and shoes. The smallest gains were recorded in women's and misses' ready-to-wear and accessories.

According to preliminary estimates, stocks failed to decline by the customary seasonal amount during November and December, presumably because of a tremendous volume of incoming merchandise. At the end of November, inventories were nearly 60 percent higher than the year before. Women's apparel lines appear relatively to be the most heavily stocked of all major departments.

INDEX

Special Articles - - - Volume 28

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939 = 100

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	Nov. 1946	Oct. 1946	Nov. 1945	Nov. 1946	Oct. 1946	Nov. 1945
SALES:						
Akron (6)	288	264	249	340	280	294
Canton (5)	319	304	223	389	331	272
Cincinnati (9)	285	274	229	359	290	289
Cleveland (10)	269	253	213	307	253	243
Columbus (5)	335	300	258	402	315	309
Erie (3)	279	248	231	335	266	278
Pittsburgh (8)	272	218	215	324	231	255
Springfield (3)	287	260	250	324	276	283
Toledo (6)	268	251	217	319	274	258
Wheeling (6)	252	242	201	297	244	237
Youngstown (3)	293	283	240	352	297	288
District* (98)	266	248	212	333	265	264
STOCKS:						
District	249	232	157	263	268	165

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

Bank Debits—November, 1946

(29 Fourth District Cities)

Bank debits during November in twenty-nine Fourth District cities were slightly below the near-record October total but were 23.4% greater than in November 1945. For the first time in a number of months, the year-to-year increase was wider among the large cities of the District than among the smaller localities where aggregate debits were up only about 22% for the year.

TEN LARGEST CITIES

Dayton was the only large city where debits hit a new record high last month, totaling $196 million for a gain of nearly 30% over last year's $151 million.

Among the largest cities **Toledo** showed the widest year-to-year gain, amounting to more than 41%. **Pittsburgh** debits likewise were substantially greater than in November 1945.

NINETEEN SMALLER CITIES

November debits in **Lorain** exceeded $15 million for the first time, representing a 46% increase over the comparable month in 1945.

Over the most recent three month period, new record high debit totals also were established, in **Lima, Mansfield, Portsmouth,** and **Warren,** Ohio, and in **Oil City,** Pennsylvania.

November debits were considerably above last year's figure in **Middletown** (up 39.5%) and in **Lexington** (up 30.9%).

(In thousands of dollars)

		November 1946	% change from year ago	3 months ended Nov. 1946	% change from year ago
ALL 29 CENTERS		$5,796,679	+23.4	$17,053,344H	+24.7
10 LARGEST CENTERS:					
Akron	Ohio	228,623	+28.6	694,677H	+31.1
Canton	Ohio	91,361	+17.3	276,280H	+26.0
Cincinnati	Ohio	752,503	+ 9.4	2,233,273H	+18.5
Cleveland	Ohio	1,486,316	+20.3	4,436,842	+19.3
Columbus	Ohio	426,072	+23.0	1,239,666	+20.0
Dayton	Ohio	195,654H	+29.8	574,870H	+34.4
Toledo	Ohio	350,657	+41.2	1,022,998H	+47.4
Youngstown	Ohio	110,691	+13.1	345,880H	+19.3
Erie	Penna.	70,826	+17.4	213,178	+24.4
Pittsburgh	Penna.	1,576,904	+31.6	4,510,206H	+27.8
Total		$5,289,607	+23.6	$15,547,870H	+24.4
19 OTHER CENTERS:					
Covington-Newport	Ky.	$ 34,445	+18.4	$ 102,304	+22.9
Lexington	Ky.	53,745	+30.9	153,358	+37.0
Hamilton	Ohio	27,018	+15.6	86,796	+28.7
Lima	Ohio	36,228	+25.2	109,145H	+34.4
Lorain	Ohio	15,319H	+46.0	42,782H	+41.5
Mansfield	Ohio	31,674	+33.5	93,795H	+35.2
Middletown	Ohio	29,571	+39.5	85,566	+41.1
Portsmouth	Ohio	17,994	+16.8	54,481H	+28.1
Springfield	Ohio	40,257	+13.5	116,861	+20.8
Steubenville	Ohio	18,747	+ 7.3	58,448	+16.2
Warren	Ohio	33,099	+31.3	96,203H	+38.0
Zanesville	Ohio	20,286	+25.5	62,552	+33.8
Butler	Penna.	24,653	+22.6	76,537	+27.8
Franklin	Penna.	6,216	− 7.1	19,166	− 5.5
Greensburg	Penna.	16,641	+14.8	50,298	+29.2
Homestead	Penna.	7,392	+34.7	21,326	+35.6
Oil City	Penna.	18,987	+27.4	55,281H	+24.1
Sharon	Penna.	21,625	+12.4	64,318	+22.0
Wheeling	W. Va.	53,175	+12.0	156,257	+18.3
Total		$ 507,072	+21.9	$1,505,474H	+28.2

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

Fourth District Business Statistics

(000 omitted)

Fourth District Unless Otherwise Specified			November 1946	% change from 1945	October 1946
Retail Sales:					
Department Stores—98 firms		$	78,381	+ 26	67,491
Wearing Apparel—14 firms		$	2,565	+ 9	2,391
Furniture—65 firms		$	3,563	+ 30	3,699
Building Contracts—Total		$	42,933	− 2	50,187
—Residential		$	19,479	+ 14	24,397
Commercial Failures—Liabilities		$	2,158	+1419	20
—Actual Number			6	+ 20	1
Production:					
Pig Iron—U. S.	Net tons		4,435	+ 10	4,814
Steel Ingot—U. S.	Net tons		6,379	+ 3	6,910 R
Bituminous Coal—					
O., W. Pa., E. Ky.	Net tons		15,120	− 21	22,563
Cement—O., W. Pa., W. Va.	Bbls		1,557a	+ 63	1,570 b

a October. b September. R Revised.

Time Deposits*—12 Fourth District Cities

(59 Banks)

City and Number of Banks	Time Deposits Nov. 27, 1946	Average Weekly Change During: First 9 Mos. 1946	October 1946	November 1946
Cleveland (4)	$ 835,296,000	+$1,239,000	+$ 798,000	+$1,031,000
Pittsburgh (13)	324,783,000	+ 506,000	+ 67,000	+ 1,380,000
Cincinnati (8)	177,726,000	+ 363,000	+ 411,000	− 556,000
Akron (3)	97,314,000	+ 158,000	+ 117,000	+ 82,000
Toledo (3)	87,639,000	+ 157,000	+ 151,000	+ 48,000
Columbus (3)	70,611,000	+ 97,000	+ 60,000	+ 338,000
Youngstown (3)	52,833,000	+ 54,000	+ 90,000	+ 22,000
Dayton (3)	49,403,000	+ 57,000	+ 47,000	− 77,000
Canton (4)	39,350,000	+ 41,000	+ 20,000	− 34,000
Erie (4)	36,949,000	+ 88,000	+ 127,000	+ 52,000
Wheeling (6)	28,522,000	+ 67,000	+ 75,000	− 73,000
Lexington (5)	10,166,000	+ 32,000	− 10,000	+ 11,000
Total—59 Banks	$1,810,592,000	+$2,860,000	+$1,953,000	+$2,225,000

*of Individuals, Partnerships, and Corporations.

Wholesale and Retail Trade

	Percentage Changes from Preceding Year: SALES Nov. 1946	SALES first 11 months	STOCKS Nov. 1946
DEPARTMENT STORES (98)			
Akron	+16	+19	+53
Canton	+43	+29	a
Cincinnati	+24	+32	+65
Cleveland	+26	+28	+65
Columbus	+30	+29	+60
Erie	+21	+21	+44
Pittsburgh	+27	+29	+52
Springfield	+15	+15	a
Toledo	+23	+23	+51
Wheeling	+25	+29	+44
Youngstown	+22	+25	a
Other Cities	+29	+34	+36
District	+26	+28	+56
WEARING APPAREL (14)			
Cincinnati	+ 4	+ 8	+28
Cleveland	+ 9	+24	+73
Pittsburgh	+ 8	+15	+46
Other Cities	+13	+ 9	+43
District	+ 9	+15	+52
FURNITURE (65)			
Canton	+63	+46	+37
Cincinnati	+ 9	+46	+51
Cleveland	+24	+44	+62
Columbus	+44	+52	+49
Dayton	+28	+63	a
Pittsburgh	a	a	a
Allegheny County	+40	+54	a
Toledo	+ 8	+49	+57
Other Cities	+30	+62	+73
District	+30	+52	+58
WHOLESALE TRADE**			
Automotive Supplies (3)	+32	+54	a
Beer (4)	−34	− 5	+25
Clothing and Furnishings (3)	−0−	a	a
Confectionery (4)	+36	a	a
Drugs and Drug Sundries (5)	+ 7	+21	+32
Dry Goods (3)	+73	a	+85
Fresh Fruits and Vegetables (11)	−17	+ 1	+28
Grocery Group (32)	+22	+28	+45
Total Hardware Group (20)	+68	+52	a
General Hardware (6)	+72	+71	+50
Industrial Supplies (7)	+38	+16	a
Plumbing and Heating Supplies (7)	+80	+43	a
Jewelry (8)	+ 2	+29	a
Lumber and Building Materials (4)	+106	a	+148
Machinery, Equip. & Sup. (exc. Elect.) (4)	+51	a	a
Meats and Meat Products (4)	+73	a	+95
Metals (3)	+33	a	a
Paints and Varnishes (4)	+49	+42	a
Paper and Its Products (4)	+40	+20	a
Tobacco and its Products (15)	+26	+32	+45
Miscellaneous (14)	+ 2	+27	+ 8
District—All Wholesale Trade (152)	+26	+30	+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

Agricultural Review of 1946

(*Continued from Page 9*)

Crop Production in the Fourth District

	Ratio of 1946 to 1935-44 Average	1946* Est. (million units)	1945 Actual (million units)
Oats . . . . bu.	145	75.1	59.8
Soybeans** . . . . bu.	141	17	20
Tobacco . . . . lbs.	135	154.3	144.1
Hay . . . . tons	119	6.1	6.2
Corn . . . . bu.	114	223.4	215.8
Wheat . . . . bu.	113	53.5	62.8
Potatoes . . . . bu.	79	14.7	13.2

* Federal Reserve Crop Report.

**Ohio only.

Of the seven major crops in the Fourth District soybeans, wheat and hay were below the previous year in volume of output. Corn and tobacco set new records in Kentucky and the record per acre yield of oats obtained in Ohio placed that state high in the nation. Potatoes were the only crop in the group of which the total yield did not exceed the ten-year average. This was due to fewer acres planted as the average yield per acre was substantially higher throughout the District.

Although milk and egg production declined somewhat for the country as a whole, output in the District appears to have been maintained at about 1945 levels. Milk production per cow in each of the states of the District was above that of the preceding year to the extent that it probably offset a reduction in number of cows milked. Egg production for the first eleven months of 1946 exceeded the previous year's lay by 25 million dozen. Data on other livestock enterprises in the District are not currently available. However, with fewer cattle on feed August 1, and fewer hogs and sheep raised, it is probable that the aggregate volume of livestock products from these sources in the District fell below that of the year before.

FOR INDEX OF SPECIAL ARTICLES DURING 1946 (Vol. 28) SEE PAGE 10 OF THIS ISSUE.

FEDERAL RESERVE BANK OF CLEVELAND
CLEVELAND OHIO