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CONTENTS

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Prospects for 1950 Farm Income

THE income of farmers, although still high, is falling faster than that of most other economic groups.

The all-time peak in annual net income of farm operators was reached in 1947.[1] The subsequent decline was comparatively moderate in its initial stages, but this year's net income is estimated at 15 percent below the 1948 figure and another 15 percent drop next year is probable. In that event annual farm income in 1950 would be about one-third below the 1947 peak, but it would still be larger than prewar income—even in terms of real buying power.

Admittedly these national averages conceal wide variations according to commodities produced, agricultural regions, and the efficiency of individual farms; but they indicate trends which affect all farmers.

Supply of Farm Products

An important element in the farm income picture is the physical volume of farm production, which in total next year may be only slightly below the all-time record achieved in 1948 and approximated this year.

Crop acreage is likely to be lower in 1950 due to Federal restrictions on plantings of corn, cotton, wheat and some other crops. This reduction, as well as the probability of more nearly average weather conditions, indicates a smaller total of crop production. On the other hand, a gradual expansion in livestock numbers which began last year is now increasing the production of meat and dairy and poultry products. These two diverse trends may largely offset each other with the net result that 1950 is likely to be another year of large agricultural production.

The high rate of output in a period of slowly declining demand has resulted in a rise in the carry-over of several crops.[2] A large part of these stocks has been taken out of the market by the Government in price-support operations. Nevertheless, free-market supplies of the major grains have been large enough to depress prices below support levels.

Domestic Demand

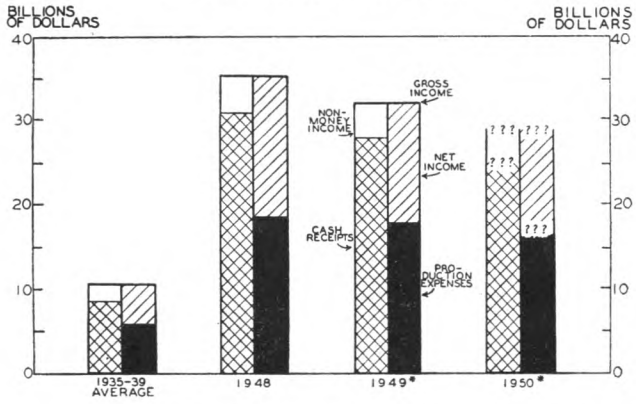
The other significant element in the farm income situation is the probability of shrinking demand for this large supply of agricultural products. Consumer demand for all goods and services is probably a little lower now than a year ago. This is mainly because of a small decrease in incomes resulting from shorter industrial working hours and the consequent loss of overtime pay.

Agricultural products are particularly affected by a recent shift in the pattern of consumer expenditures. Total expenditure has remained generally stable despite slightly lower incomes; but the portion spent on food and clothing has decreased, while the portion used for automobiles and other durable goods has increased. This change appears to reflect the end of war-caused shortages and a return more nearly to prewar relationships. Before the war, for instance, the average consumer spent about 23 percent of his available income for food. In 1948 food expenditures were as much as 28 percent of money income available, but by the middle of 1949 the proportion was back down to 26 percent, and a further reduction in consumers' outlays for food is possible.

(1) "Net income" here refers to realized net income without adjustment for changes in inventory valuation. Inclusion of this intangible item shows the total bookkeeping returns to operators to have been slightly higher in 1948 than in 1947.

(2) The November issue of this *Review* contained an article on some of the implications of crop surpluses.

FARM INCOME AND PRODUCTION EXPENSES
United States, selected years



. . . when gross farm income reached an all-time peak in 1948, net income of farm operators had already begun to decline. This contraction of net income is expected to continue into 1950 partly because of the relative stability of production expenses.

* Based upon published estimates of the Department of Agriculture in *Farm Income Situation,* September-October, 1949; and "Agricultural Outlook", address by O. C. Stine at Annual Agricultural Outlook Conference, October 31, 1949.

NOTE: Production expenses include current operating outlays, maintenance, taxes, interest and net rent to landlords not living on farms. Net income represents net realized incomes of farm operators.

U. S. Department of Agriculture data.

Foreign Demand Along with the prospect of slightly lower domestic demand there is great doubt that foreign demand will continue at current high levels. Effective foreign demand is limited by the amount of dollar exchange available; private trade and investment do not supply sufficient dollars to support the present level of exports. Governmental grants and loans, therefore, constitute the sustaining and critical factor. These Government funds financed nearly three-fifths of all agricultural exports in the year ended last June. It now appears that United States outlays for foreign aid will be less in 1950 than in 1949. Consequently, foreign demand for American agricultural goods will probably decline slowly. An added stimulus to the probable trend is the slow recovery of foreign agricultural production from the devastation of war.

Recent widespread devaluation of foreign currencies also tends to depress foreign demand, but its effect on total agricultural exports is expected to be rather mild. The needs of importing countries are still large, and they will probably continue to utilize nearly all available dollar exchange for imports. There may be some shifts in demand, however, among the various types of agricultural exports.

Prices Prevailing trends in demand and supply have resulted in a lowering of average farm prices which began in 1948 and will probably continue through 1950. Some decline next year is likely for nearly all groups of farm commodities, but due to the anticipated increase in production of livestock and livestock products, this group may register a greater average price drop than crops.

Falling farm prices are bringing price-support operations increasingly into play. The Government's investment in agricultural commodities is now about $3 billion, or about double what it was a year ago.

The Agricultural Act of 1949 provides support at 90 percent of parity for the 1950 crops of "basic" commodities (corn, cotton, wheat, tobacco, rice and peanuts); at 75 to 90 percent for whole milk and butterfat; and at 60 to 90 percent for wool (including mohair), potatoes, tung nuts and honey. Support for other commodities is not mandatory but may be set at any level up to 90 percent of parity at the discretion of the Secretary of Agriculture.

The method of computing parity prices has also been changed. Except for corn, cotton, wheat and peanuts, for which the present formula will probably be used, parity prices will be computed by a new formula which gives somewhat higher parities.

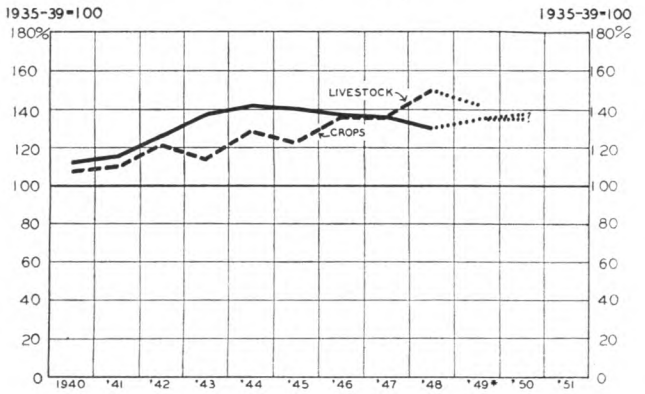
Price supports will not entirely prevent further declines in farm prices, however, because for one thing, a number of important commodities are still selling at varying margins above maximum support levels.

Income Lower prices will mean lower cash receipts, since the total physical volume of marketings is not likely to be much, if any, larger than in 1949. It is anticipated that gross receipts for next year as a whole will be about 10 percent lower than this year.

The large 1949 crops will help maintain crop marketings—and cash receipts—in the first half of 1950, but production control programs will probably effect some reduction in the latter part of the year. For livestock and livestock products, it is expected that lower prices will more than offset a small increase in tonnage marketed.

The prospective further decline in cash receipts may result in a reduction of as much as 15 percent in net income (the residual income after operating costs are paid). The reason for this is that farm costs are relatively stable. For instance, the index of *prices paid* by farmers did not begin to recede from the 1948 peak until several months after *prices received* had turned down. The gradual reduction in prices paid—about 5 percent from the peak—has thus far been primarily on account of processed farm products, mainly feedstuffs. It is probable that farmers' costs will again in 1950 show no more than a moderate decline. This conclusion is supported by the fact that industrial wage rates are remaining virtually at the all-time high.

PHYSICAL VOLUME OF FARM PRODUCTION
Crops and Livestock (including livestock products)
United States, 1940-1949
(1935-1939 = 100)

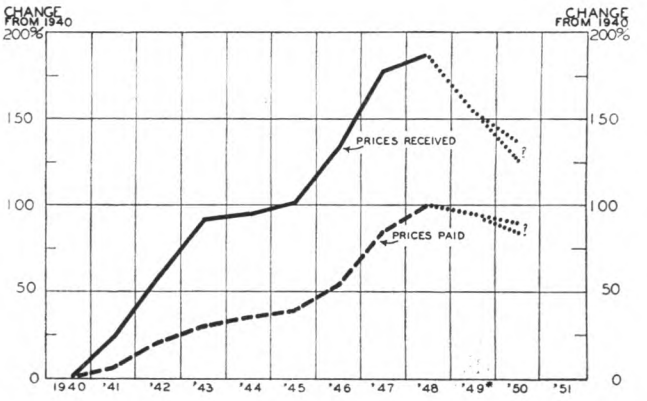


. . . although crop production in 1950 cannot be estimated at this early date, the probability is that total agricultural production (crops and livestock) next year will be close to the record highs of recent years.

* Preliminary.

U. S. Department of Agriculture data.

CHANGES IN FARMERS' PRICES SINCE 1940
Annual average percentages
Prices Received and Prices Paid



. . . prices *received* have been declining more rapidly than prices *paid*, and further moderate declines are in prospect. The ratio, however, is still more favorable to agriculture than it was in such years as 1940 and 1941.

* 10 months only.

Source of data: U. S. Department of Agriculture, Index of Prices Paid (including interest and taxes) and Index of Prices Received.

Fourth District The decline in cash receipts of Fourth District farmers probably will be a little less than the national average of 10 percent. Farmers of this District are relatively close to urban markets, and the types of farming are sufficiently varied to avoid extreme divergence from the national average. As usual, however, there is no uniformity of outlook among the many different kinds of agricultural products. Cash receipts from poultry products, for example, may fall more sharply than the national average for all farm products. On the other hand, cash income from the production of beef cattle in 1950 may be only slightly below this year's returns, and next year's income of fruit growers may equal the 1949 figure. The outlook for the latter product is based on an unusual supply condition—unusually heavy yields of noncitrus fruits this year weakened prices in a manner that is likely to be only temporary.

The relatively favorable outlook for receipts from beef cattle in 1950 is based on the prospect that very little of the expected 3 or 4 percent increase in total meat supply will be in the form of beef and veal. Cattlemen throughout the country are holding back cows and calves for further herd expansion, thus postponing the increase in market beef. Competition from increasing pork supply will place some pressure on prices, but with continuing strong demand for beef, cattle prices are likely to average only a little below the 1949 level.

The unfavorable outlook for poultry products arises from the prospect of an egg surplus. Egg production in the first 6 or 8 months of 1950 appears likely to exceed the corresponding 1949 output by 3 or 4 percent. Prices may be lower than a year earlier by 10 to 15 percent unless the Government makes purchases to prevent the decline. The large-scale price-support buying of recent months may legally be discontinued after December 31 at the discretion of the Secretary of Agriculture, and this discretion is legislatively limited by, among other things, the funds remaining after provision for mandatory supports. It cannot now be predicted whether the benefit of the indicated egg surplus will accrue to consumers by way of lower prices or to poultrymen by way of supported prices.

If a price drop is allowed to materialize and if it goes as far as anticipated, substantial marketing of hens may begin in the spring, driving poultry prices down also.

Note: This discussion was based on information published by the U. S. Department of Agriculture.

Industrial Retrospect

THE highlight of the year's record of industrial production was the upswing in manufacturing activity that developed in late summer after more than six months of steady decline. The low point was touched in July and recovery was well under way in August and September until interrupted by the occurrence of prolonged labor disputes in the steel, coal, and aluminum industries.

The physical volume of industrial production as measured by the Federal Reserve Board index of production attained its postwar peak in the fourth quarter of 1948 when it averaged 194 or 94 percent above the 1935-1939 base period. From that level the index declined 4 percent in the first quarter, 7.5 percent in the second, and 3 percent in the third, for a total drop of 13 percent. Actually, the low point was reached in July at 161. Further, it should be noted that the Federal Reserve Board has not as yet made full seasonal allowance for the new postwar pattern of plant-wide vacations usually concentrated in the month of July. Correction for this factor would raise the July index perhaps as much as 5 points. At any rate, production in September was more than 7 percent above July, only to return nearly to the July level in October by the loss of steel and coal production. Resumption of output in these two industries in November has again turned the index upward. For the first 10 months, production averaged 76 percent above the 1935-1939 average rate as compared with 91 percent above in the comparable 1948 months.

Durable goods manufacturing industries accounted for the major part of the 1949 slump. The durable goods production index dropped from the very high fourth quarter 1948 average of 230, to 192 in the third quarter of 1949 for a loss of 17 percent. Two-thirds of the decline took place in the second quarter as output dropped sharply in basic steel and pig iron, machinery, metal fabricating, household appliance, building material, and nonferrous metal industries. The contraction would have been even more marked had it not been partly offset by the rising tide of automobile and parts output.

Since August there has been a notable increase in the output of such durable goods as furniture, household electric appliances, and various building materials. But, fourth quarter durable goods output will be somewhat erratic due to the strike loss of about 10 million tons of steel ingots and the subsequent interruption to the metal processing and fabricating trades. Automobile and truck production will also be sharply lower in November and December because of both steel supply difficulties and rearrangement of facilities for the introduction of 1950 models. For the first 10 months, durable goods production averaged 104 percent above the 1935-39 level as compared with a margin of 123 percent in 1948.

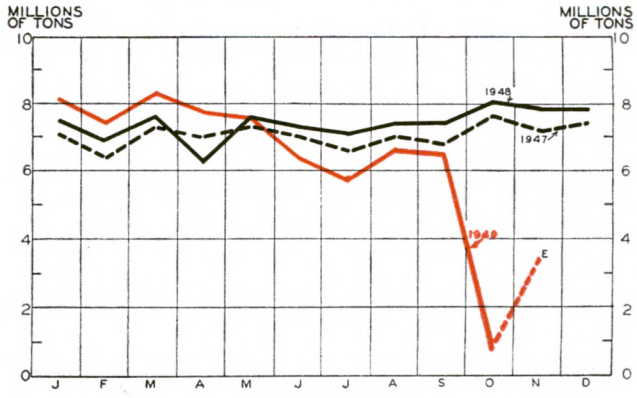
The decline in nondurable goods production ended in the second quarter of the year at a level of 9 percent under the final 1948 quarter. Vacations in July were largely responsible for a further dip in the nondurable goods index but September output was nearly 11 percent above the mid-year low. The largest gains, which in some cases were almost spectacular, were achieved by paper and products, shoes, cotton and woolen textiles, and rayon industries.

While the declines in industrial production that have been noted were taking place, total retail sales volume was maintained at a fairly stable rate and probably, in the aggregate, did not vary more than 1 percent from year-ago levels. As a consequence, the inventory accumulation which had been taking place at all levels since the end of the war was reversed in the first quarter of 1949 and a substantial amount of liquidation occurred over the next six months. Much of the decline can therefore be explained in terms of inventory liquidation by manufacturers, wholesalers, and retailers. It now appears that some degree of inventory accumulation is taking place. Stocks which had been reduced below practical working levels are being balanced to meet the present rate of business activity.

Iron & Steel

The steel industry in the first quarter of 1949 finally overcame the shortages of steel that had plagued producers since the end

STEEL PRODUCTION
1949 As Against Previous Years



. . . from an all-time high in the first quarter, steel production sagged to a postwar low by midsummer as a result of cutbacks in many durable goods. The fourth quarter strike caused a loss of over 10 million tons.

E Estimated.

Source of data: American Iron & Steel Institute.

of the war, and at times had even brought threats of government entrance into the field to expand capacity. Production of steel ingots and steel for casting broke all records in the first quarter with output at 101.5 percent of capacity or 24.1 million tons.

The spring decline in production of nearly all durable goods except automobiles, however, caught up with steel producers and output dropped to 91 percent of capacity in the second quarter and to about 79 percent in the third quarter. For the first nine months, output totaled 65 million tons, or just a shade below the 1948 level.

Steel production in August and September was stimulated somewhat by consumer fear of an industry strike. Further additions to steel inventories were made so that during October and the first part of November, steel users were affected very little by the lack of steel.

With nearly all major producers strikebound, October production was less than a million tons and output in November was probably less than 3.5 million tons. If output averages 90 percent of capacity this month, total production for the year will amount to 76.6 million tons, or 12 million tons less than in 1948. By virtue of the extended strike, steel shortages which had disappeared, thus returned and apparently will persist well into the first quarter of 1950.

The steel strike which commenced on October 1 was called for the purpose of obtaining a program of company-financed social insurance and old age pensions. The union desired a program which would cost $80 a year per employee for life insurance, hospitalization, etc., and a pension plan to cost $120 per man per year which it was stated would yield monthly retirement benefits at age 65 of $100, including federal social security benefits.

The steel producing companies were willing to negotiate on these proposals, but insisted that any plan should provide for employee contributions. On the 31st day of the strike the Bethlehem Steel Company signed a contract with the C. I. O. United Steel Workers. This company, for the past 26 years, had had in operation a noncontributory pension plan which provided monthly benefits averaging $46. Within the following ten days other major steel companies reached agreements with the union. All contracts were reported to be similar to the Bethlehem agreement.

According to press reports, the pension plans are on a noncontributory basis. Employees will receive a minimum pension of $100 a month, including federal social security payments, at age 65 and after 25 years of service. Individual pensions are computed by multiplying the number of years of service by 1 percent of average earnings over the last 10 years before retirement. Reduced pensions are pay-

(CONTINUED ON PAGE 6)

ANNOUNCEMENTS

Mr. John D. Bainer, President, The Merchants National Bank and Trust Company of Meadville, Meadville, Pennsylvania, has been re-elected as a Class A director of this bank for a term of three years beginning January 1, 1950.

Mr. Edward C. Doll, President, Lovell Manufacturing Company, Erie, Pennsylvania, has been elected as a Class B director of this bank for a term of three years beginning January 1, 1950. He succeeds Mr. Ross Pier Wright of Erie, Pennsylvania, a Class B director of this bank since January 1, 1917, who was not a candidate for re-election.

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able after 15 years of service. Retirement is not compulsory at age 65. Disability pensions are also provided after 15 years of service.

The cost of the social security package of five cents an hour will be shared equally by company and employee. Benefits will include life insurance, a paid-up life policy upon retirement, temporary disability benefits, and hospitalization for employees and dependents. Most contracts provide that the insurance and pension clauses cannot be changed for the next five years.

Final costs will not be known until complete details are worked out by the company actuaries, but unofficial estimates place costs at between $3 and $4 per ton at 80 percent of capacity. The prospects for a reduction in steel prices have been greatly diminished by the injection of this additional cost of manufacture.

Gray iron foundry activity slumped sharply in 1949 from the record levels prevailing in 1948 when shipments averaged over one million tons a month. Cumulative shipments for the January-September period were 12 percent below the year-ago performance with September shipments down 19 percent. Unfilled orders for sale at the end of September were little more than two months' business and were 62 percent lower than a year ago. Activity in captive shops was maintained at a higher rate than in the independent jobbing shops.

The divergent trend between steel ingot production and gray iron shipments is largely explained by reduced activity in a number of industries that are heavy users of gray iron. Shipments were off sharply to railroad shops and freight car builders as well as machine tool builders and other machinery producers. Cast iron soil pipe and pressure pipe foundries also finally caught up with backlog and restored field inventories during the winter and spring quarters when building activity was low. The foundry industry is also losing some ground due to the tendency of manufacturers to use more steel stampings and weldments in place of castings.

Malleable iron casting activity declined even more than gray iron. Shipments for the first 9 months of 1949 were 21 percent below the same period of last year. Unfilled orders at the end of September were about one-third the tonnage on the books 12 months ago. Despite these cumulative production losses from year-ago performance, producers of ferrous castings were encouraged by the late summer rise in orders and production from the low levels prevailing at mid-year.

Shipments of Lake Superior iron ore were, for all practical purposes, brought to a premature end on October 1 with the beginning of the steel strike. The principal iron mines were struck and workers refused to unload ore at the steel mills. As a consequence only 1½ million tons of ore were moved in October as compared with more than 10 million tons last year. Early in November, some steamship companies began to lay up their boats for the winter months as fast as the last cargoes could be discharged and dockage space arranged.

For the season to November 1, Lake Superior iron ore shipments totaled 68 million tons as compared with 75 million tons for the comparable 1948 period, and 83 million tons for the entire 1948 season. The peak of ore traffic was reached in July and then began to taper off in August and September as it became apparent that steel mills would not maintain output at the rate prevailing in the first half of the year. If the duration of the shipping disruption had been anticipated, undoubtedly more ore would have been moved in the third quarter of the year.

Stocks of Lake Superior iron ore at furnaces and docks amounted to 47 million tons on November 1. Consumption of ore in November probably did not exceed 3½ million tons. If it is assumed that monthly consumption until April 1 averages 7 million tons, then stocks at the beginning of the shipping season will approximate 15 million tons. This would be the lowest on record and might cause some hardship to individual mills.

Finished steel and pig iron prices changed little during the past year. *Iron Age's* composite finished steel base price stood at 3.705 cents per pound on November 22, 1949 as compared with 3.720 cents a year ago. Pig iron prices were $45.88 per gross ton on November 22, 1949, and $46.91 a year ago, a decline of little more than 2 percent. The more sensitive scrap steel prices, however, reacted sharply to the lack of demand this spring and summer and dropped from a level of $43.00 a ton in January to $19.33 by the end of June. Prices firmed again as steel ingot production advanced in August and by November had reached $29.92.

Coal Conditions in the coal industry in 1949 may be described with one word—chaotic. To the end of November there had been three industry-wide strikes: March 14-27, a so-called "memorial stoppage"; June 13-20, "a brief stabilizing period of inaction"; September 19-November 9, a "refusal to work without a contract". In addition, the miners did not work for 10 days during the June-July vacation period and from July 5 through September 18, were ordered by the union to work only 3 days a week. When the miners were ordered back to work on November 9, it was announced that another strike would begin at the end of the month unless a new work contract had been signed.

The principal motive behind these multiple work stoppages and short work weeks appeared to be a determination to reduce excessive coal inventories so that a more favorable contract could be obtained from the mine operators. Efforts to reduce bituminous coal inventories during the year, however, were remarkably unsuccessful in the main. Total bitumi-

nous coal inventories amounted to 69.4 million tons at the beginning of the year and despite two work stoppages advanced to 74.2 million tons by July 1. By October 1 there were still 62 million tons on hand of which 59.9 million tons were industrial stocks, equal to 66 days' supply. In terms of days' supply, most industry was fairly well situated when the latest coal strike began: coke ovens, 49 days; steel mills, 59 days; cement mills, 68 days; and railroads, 43 days.

The steel strike, of course, reduced that industry's coal consumption by about 90 percent during October and also reduced coke oven consumption so that when steel production resumed in November, stocks in these industries were still near the October 1 level. However, stocks at steel mills were poorly distributed with several companies having as little as 2 or 3 weeks' supply on hand. Railroad stocks were also low and some coal burning runs were eliminated to conserve fuel. The hardest hit group appeared to be household consumers and public institutions, both of whose fuel inventories were relatively low at the start of the strike.

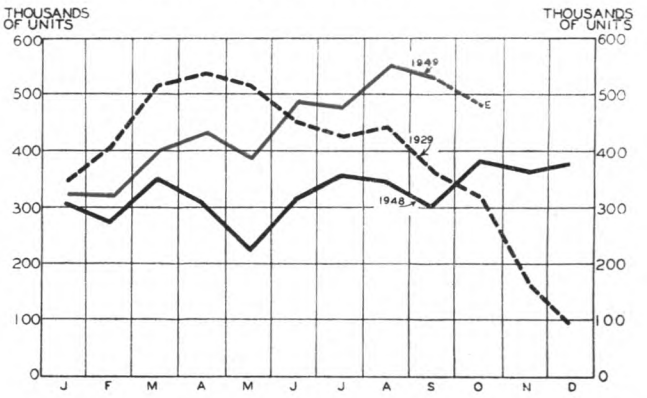
One of the indirect results of the strike has been to accelerate the movement of all classes of consumers to adopt oil and gas fuel burning equipment wherever such moves were feasible. Class I railroads, for example, installed 1,381 diesel and 49 steam locomotives this year, and had on order on October 1, 775 diesel and only 21 steam locomotives. Dieselization is also spreading to Canada and promises soon to diminish a lucrative United States coal export business.

Consumption of fuel by electric utilities in September 1949 as compared with September 1948 illustrates further the drift from coal. Coal consumption declined 23 percent, oil increased 99 percent and gas increased 7 percent.

Changes in the kinds of residential warm air furnaces shipped by manufacturers in the first 8 months of the year as compared with the same months in 1948 reflect the same shift away from coal burning equipment. Total shipments for the period were down 15 percent. The number of solid fuel burning furnaces (mainly coal) shipped declined 46 per cent while oil furnaces rose 8 percent and gas increased 28 percent. Preliminary reports indicate that September and October installations of gas and oil furnaces were soaring and that the demand for coal heating equipment had virtually dried up.

Total United States bituminous coal production for the year through the week ended November 19 amounted to 373 million tons, a reduction of 30 percent from the 535 million tons turned out in the like 1948 period. Although recent District figures are unavailable, the decline in coal production was probably somewhat greater than for the nation as a whole. This would be due to a higher degree of unionization of mines and thus more complete shutdowns during the strikes as well as the more pronounced decline in District industrial activity in 1949 because of the importance of durable goods industries.

UNITED STATES AUTOMOBILE PRODUCTION
1949 As Against Previous Years



. . . automobile production has been at an all-time high each month since June, and output for the year will break the previous (1929) record. The margin over 1948, however, is shrinking because of the steel strike.

E Estimated.

Source of data: Automobile Manufacturers Association.

Motor Vehicles The record-breaking performance of the automobile industry this year was one of the brightest spots in the nation's economic picture and did much to sustain total industrial production.

Estimated United States factory sales of passenger cars for the first 10 months of the year totaled 4,450,000 units, or an increase of 41 percent over the comparable months of 1948, and 14 percent higher than 3,900,000 units turned out in all of 1948. By the end of October, the industry was virtually assured of breaking the all-time record for passenger car output established in 1929 when 4,587,000 units were sold in the entire year.

In both August and September factory sales of 557,000 and 534,000 cars, respectively, were at the highest monthly rates ever achieved. The beginning of model changeovers in October and reduction in steel supplies caused October production to drop about 45,000 units from September. Output was further restricted in November and will be reduced still more in the last month of the year because of both extensive switches to 1950 models and delayed steel deliveries. It is likely that steel supply limitations will be felt well into January 1950.

The shortage of steel and the consequent effect upon factory shipments was not entirely unwelcome to many new car dealers. Trade reports indicated toward the end of the third quarter, that retail inventories of many makes and models were increasing

rapidly and that dealers were reverting to prewar practices to keep their stocks moving. These practices included more attractive trade-in allowances, cash discounts, and in some instances, down payments of $100 with monthly payments of only $40 for the lower priced cars. There were also reports of dealer complaints that shipments of cars were being made in excess of orders placed with factories.

United States truck and bus factory shipments for the first 10 months of 1949 were estimated at about 985,000 units, down 15 percent from the comparable months of 1948. Even at this reduced rate of production, it is reported that dealers were being required to accept more trucks than they had ordered. This was particularly true of dealers that handled both passenger cars and trucks produced by the same manufacturer. Perhaps as a consequence, truck sales by the companies that produce both passenger vehicles and trucks were maintained at a higher rate than that experienced by the exclusive truck manufacturer. Late in the fourth quarter demand for new trucks appeared to be picking up from previous levels.

Rubber For the tire manufacturers this year was marked by the complete return to the old bitter prewar competitive struggle for business and a marked reduction in profit margins.

Early spring saw the introduction by leading companies of a fourth line of passenger casings in a bid for the lowest price market, and a lower priced line of truck casings. In an effort to stimulate sales, a major oil company slashed retail prices 19 percent in May. Manufacturers partially met this cut in June by reducing list prices 5 percent on premium and low pressure tires, and 7½ percent on standard first line tires. These price cuts were the first since the wave of reductions in June 1947 which were partially eliminated 12 months later when prices were marked up 5 percent.

Competition and lowered margins were at least partially responsible for the closing of two of the District's tire plants. An independent producer at Newark, Ohio, attempted without success to obtain union consent to reset labor rates in mid-1948. By the fall of the year, it was decided to liquidate the company and this has now been accomplished. In another part of the District, a tire factory at Jeannette, Pennsylvania, was closed in the summer of 1949 and its tire and tube facilities were consolidated with another producer at Mansfield, Ohio.

Other evidence of the general competitive struggle is found in a recent Federal Trade Commission decision to issue an order limiting quantity discounts that manufacturers may grant various classes of customers. Authority for such action is found in the Robinson-Patman Act, and independent tire dealers have long complained about the pricing practices of manufacturers. Present list prices have a spread of as much as 30 percent between the smallest and largest buyers.

The Federal Trade Commission now proposes that a carload of 20,000 pounds be the maximum quantity of replacement tire and tubes upon which a quantity discount may be granted. Such a ruling would, of course, greatly diminish the competitive differential prevailing between the independent dealer on one hand and the chain distributors such as oil companies and mail order houses on the other hand. Hearings on this proposed rule will be conducted in December.

During the first 9 months of the year passenger car tire shipments totaled nearly 51 million units to surpass the comparable 1948 period by slightly more than 2 percent. Preliminary reports indicate that fourth quarter shipments will be about in line with year-ago performance so that the year should see little change from 1948 total shipments of 63½ million casings.

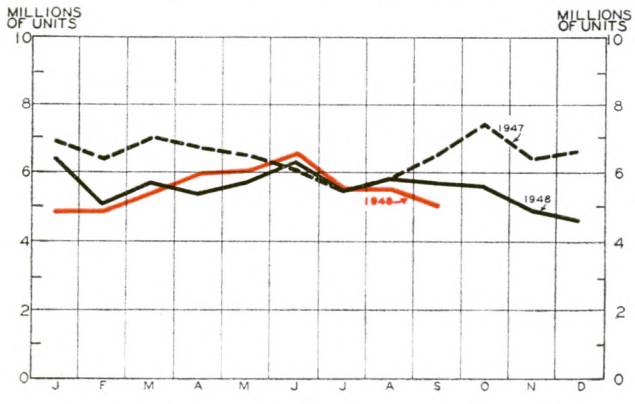
Despite these comparable totals, the industry experienced a broad change in the character of its market in 1949 and was saved from a relatively poor year by the expansion of new motor vehicle production. Original equipment sales in the first three quarters of the year totaled 21.9 million units, a sharp gain of 40 percent from the like 1948 period. Replacement sales, however, definitely were below expectations and dropped 15 percent to a total of 28.4 million units. As a consequence, smaller tire companies that produce almost exclusively for this market were adversely affected. Export sales shrank 25 percent to the low total of 355,000 units.

Passenger car tire production in the 9-month period amounted to 49.1 million units, or a 5 percent reduction from 1948. With output lower than sales, the industry reduced finished inventories.

Truck and bus tire shipments dipped to 8.6 mil-

PASSENGER CAR TIRE PRODUCTION

1949 As Against Previous Years



. . . passenger tire production this year will be the smallest in four years, but shipments (not shown above) will be about the same as in 1948.

Source of data: The Rubber Manufacturers Association.

lion units for a drop of 21 percent in the first 9 months as compared with the same months in 1948. Preliminary reports indicate that the year's total shipments will approximate 11 million casings or 3.2 million below a year ago.

This decline was due in large part to the recession in total new truck and bus production and the rise in the output of smaller trucks that use passenger car type tires. Accordingly, original equipment sales amounted to only 2.8 million units in the 9-month period, a drop of 31 percent from1948. Replacement truck and bus tire sales totaled 5 million units, down 15 percent, and export sales declined by the same percentage.

Production of truck and bus casings was off 24 percent in the first three quarters of the year to a total of 8.4 million units and inventories declined about 7 percent. Output for the year should just about equal total shipments. Stocks of 7.1 million casings on October 1 were 9 percent lower than on the same date in 1948. It is anticipated, however, that some inventory building will take place in the last quarter of the year so that stocks will be near the 8 million level by year-end.

Total new rubber consumption, according to the Rubber Manufacturers Association, by all domestic rubber manufacturers in the United States declined 10 percent in the first 9 months of 1949 to a total of 733,500 long tons. Natural rubber use was off 12 percent while synthetic consumption was down 7 percent. The proportion of natural rubber consumption to total new rubber declined from 58.4 percent in 1948 to 57 percent in 1949.

The Rubber Allocation Order R-1 was revised slightly in July and August to stimulate more natural rubber consumption and thus make more dollars available to foreign countries. The revision permits greater freedom in choice of materials that can be used in tires and tubes still subject to specification control. It also reduces somewhat the classes of tires under control without endangering the consumption of the minimum tonnages of GR-S and Butyl required by law. It is estimated that the required use of GR-S and Butyl will be decreased by 7,000 tons a year each, if minimums specified by law are met by manufacturers.

Natural rubber prices drifted irregularly downward during the year. Spot market prices of rubber averaged slightly over 19 cents per pound in January as compared with 17 cents per pound at mid-November. A late August-September rise in price was abruptly halted by devaluation of the pound sterling with prices reacting about 1½ cents. Prices during November, however, advanced somewhat.

Machine Tools

The position of the machine tool industry in the District has steadily deteriorated during the past 12 months according to data made available by the National Machine Tool Builders Association. Both foreign and domestic new orders have declined. Shipments have been maintained fairly well through the year, but at the expense of order backlog.

The total new order index stood at 57 in October (1945-47 equals 100) and although it had risen from 48 in July it was still 16 percent under the year-ago level. The foreign order index was about 14 in October as compared with 22 at the beginning of the year. Machine tool builders expect that devaluation and the general dollar shortage will continue to affect adversely their export markets. To date, the ECA program has not given any appreciable lift to foreign sales.

Machine tool builders reported a late summer surge in inquiries but the extended steel strike apparently dampened, at least temporarily, the conversion of many of these inquiries into firm orders. Manufacturers continue to view the future with optimism and hope that increased costs arising from the pension programs will stimulate interest in cost-reducing machine tools. Industry representatives point out that more than half of present day machines were put in place before the war and much of the wartime-built equipment was built from designs frozen ten years ago.

Although there are no big retooling programs in sight, reports from Detroit indicate that several new automobile engine programs will require substantial tool investment.

The October machine tool shipment index was 62, down 23 percent from the year before. Order backlog represented only 3.8 months' shipments whereas a year ago it amounted to slightly more than 4 months' business. Standard machine tools are again being carried in stock and prompt delivery can be had for these items.

Consumer Durable Goods

The production of major household appliances during the first three quarters of 1949, as measured by an index constructed by the Research Department of this bank, lagged substantially behind last year's level during the first two quarters of the year, but showed a marked pickup during the third quarter. This third-quarter rise was largely attributable to increases in the production of washing machines and gas ranges, and to a lesser extent, to increases in the output of ironers and vacuum cleaners. This index does not include radios or television sets.

Despite the third-quarter increase in production, manufacturers and wholesalers reported that the combined effect of the improved retail sales situation and the October steel strike had pulled inventories of almost all types of household appliances to abnormally low levels for the Christmas selling season.

The production of television sets continued its steady upward march during most of the year, although the rate of increase showed some signs of

tapering off toward the end of the year. Nevertheless, the 305,000 television sets shipped in October represent a new record for monthly shipments. Shipments during the third quarter were 134 percent above the corresponding quarter of 1948. Radio manufacturers have found, however, that the television boom has been offset somewhat by a corresponding decline in sales of radios. The production of radios during the first three quarters of 1949 was only slightly more than half that of the comparable period of a year ago, and no significant recovery in output appears to be under way.

Production of washing machines was one of the major factors responsible for the excellent third-quarter showing of total appliance production. Despite last year's high sales, the year-to-year deficit in the number of washing machines sold by factories was narrowed from 44 percent in the first quarter to 23 percent in the third quarter. In October 334,000 units were sold and this total was only 15 percent short of the number of units sold in October of 1948.

Shipments of household cooking ranges during the first nine months of 1949 were only about two-thirds of the 1948 volume during the corresponding period. Possibly as a result of the increasingly rapid completion rate of new homes, a factor to which sales of cooking ranges seem to be quite closely related, the volume of third-quarter shipments was the most favorable of the year. Shipments of gas models rose rather steadily throughout the year and the percentage margin by which 1949 shipments trailed 1948 shipments shrank from 44 percent in the first quarter to 22 percent in the third quarter. Sales of electric ranges dropped sharply during the second quarter but expanded somewhat during the third quarter.

Factory sales of vacuum cleaners declined slowly through most of 1949. The rate of decline, however, was not so rapid as that of 1948 and, consequently, the monthly year-to-year comparisons successively became more favorable. A total of 273,000 vacuum cleaners were sold during October. This was only 3 percent short of factory sales during October of 1948.

Sales of electric ironing machines followed a more or less steady course through the first nine months of 1949. Sales during the third quarter of the year showed a substantial improvement when compared with the corresponding period of 1948, but this was largely due to slow sales a year ago. For the first nine months of the year sales averaged 43 percent below the comparable period of 1948.

Electric refrigerator manufacturers were the only long-established appliance producers to report a greater unit output in the first three quarters of 1949 than in the corresponding period last year. The peak month of the year was January, when 396,000 units were sold. From this point factory sales declined to a June low of 311,000 units. Sales improved somewhat during the third quarter but, nevertheless, were 5 percent below last year's level. The relatively favorable year-to-year comparisons in sales of refrigerators are largely explained by the fact that, based on prewar factory sales data, sales of refrigerators have expanded less in the postwar period than those of any other major appliance.

QUARTERLY FACTORY SALES—UNITS
Percentage changes from corresponding period of 1948

	1st Quarter	2nd Quarter	3rd Quarter	1st Three Quarters
Television sets	+258%	+205%	+134%	+187%
Electric Refrigerators	+ 20	— 8	— 5	+ 1
Vacuum Cleaners[1]	— 20	— 19	— 15	— 18
Electric Ranges	— 15	— 45	— 34	— 31
Gas Ranges[1]	— 44	— 38	— 22	— 35
Washing Machines (electric and gasoline)	— 44	— 44	— 23	— 37
Electric Ironers	— 45	— 56	— 22	— 43
Radios, FM and AM[2]	— 27	— 59	— 56	— 45
TOTAL*	— 23%	— 32%	— 19%	— 25%

[1] Shipments. [2] Production.
*Does not include sales of radios or television sets.

Sources: American Washer and Ironer Manufacturers' Association, Vacuum Cleaner Manufacturers' Association, National Electric Manufacturers' Association, Bureau of the Census, and Radio Manufacturers' Association.

FACTORY SALES—UNITS
First nine months

	1949	1948	% Change
Television sets	1,403,000	488,000	+187%
Electric Refrigerators	3,084,000	3,041,000	+ 1
Vacuum Cleaners[1]	2,092,000	2,550,000	— 18
Electric Ranges	693,000	1,006,000	— 31
Gas Ranges[1]*	1,134,000	1,812,000	— 35
Washing Machines (electric and gasoline)	2,183,000	3,453,000	— 37
Electric Ironers	213,000	370,000	— 43
Radios, FM and AM[2]	583,000	1,053,000	— 45

[1] Shipments. [2] Production. * Eight months total shipments.

Sources: American Washer and Ironer Manufacturers' Association, Vacuum Cleaner Manufacturers' Association, National Electric Manufacturers' Association, Bureau of the Census, and Radio Manufacturers' Association.

Construction Activity Construction activity in the Fourth District was at a very high level in 1949 according to reports compiled by the F. W. Dodge Corporation. Through October, dollar value of contracts awarded for residential building, total building, and total construction was the greatest recorded in the last twenty years. If activity continues at the same rate as established during the first ten months, the value of total construction during 1949 will amount to about $1,200 million as compared with $1,081 million in 1948. On the other hand, floor area of total construction was 9 percent under the corresponding period of 1948 and the floor area to be provided in new manufacturing building was the smallest since the depression of the 'thirties.

Value of total residential contracts in an area

roughly equal to the Fourth District will total about $400 million in 1949, on the basis of the average rate for the first ten months. Through October, this represented a gain of 5 percent over a year ago, but was less than the 10 percent increase for the 37 eastern states covered by the Dodge figures. Although the value of District residential contracts increased during 1949, the amount of floor space involved declined 5 percent from the same ten months of 1948.

The number of new dwelling units provided by residential projects for ten months of 1949 increased 2 percent from 1948 to a total of 31,800 units. An upsurge in the months of August, September and October (when home-building activity is usually declining) was largely responsible for this improved standing over last year. In the rest of the country, the increase in the number of dwelling units reported by the Dodge Corporation was 15 percent above a year ago.

The number of new dwelling units provided in apartments during the first ten months of 1949 was far above last year in the Cleveland and Pittsburgh territories, but lagged behind in the Cincinnati area. The number of apartments provided in the three areas combined was double a year ago but was exceeded in five of the last twelve years.

In the District construction of one-family dwellings for owner occupancy was 11 percent ahead of last year. On the other hand speculative building, as measured by the value of contracts awarded to construct one-family houses for sale or rent, declined 16 percent as compared with no change from a year ago for the rest of the country. The value of contracts to build two-family houses was 38 percent below a year ago.

Building costs in the District continued to rise during 1949. The estimated average cost per square foot for new residential building increased from $7.77 in 1948 to $8.51 in 1949, or 10 percent. For the rest of the country, the gain during 1949 was only 5 percent, and the average cost per square foot in 1949 was only $7.96.

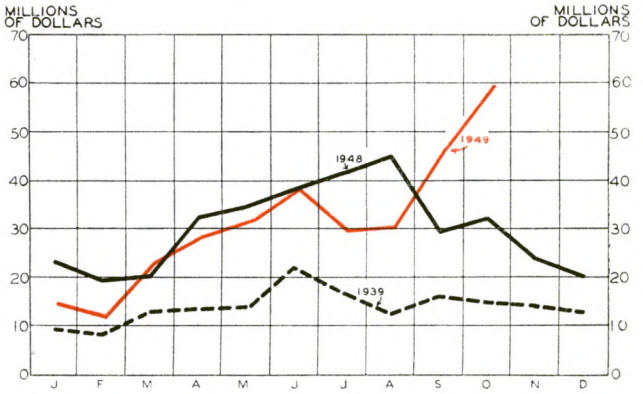
A trend toward smaller homes was reflected in the average size of dwelling units placed under contract. Average floor area decreased from 1,264 square feet in the first ten months of 1948 to 1,171 square feet in 1949, or 7 percent. New homes in the District were about 6 percent larger than in the rest of the country, since the average floor area in 1949 dwelling units was only 1,103 square feet.

Manufacturing building activity in an area roughly corresponding to the Fourth District fell far behind 1948. Floor space to be provided by new structures ranged from 41 percent less than a year ago in the Pittsburgh territory to 64 percent less in the Cincinnati region. Value of manufacturing construction in the District dropped 32 percent from 1948 figures. Construction of most other types of nonresidential building was above a year ago.

TOTAL RESIDENTIAL CONSTRUCTION CONTRACTS AWARDED

1949 As Against Previous Years

(Fourth District)



. . . after an unspectacular beginning, dollar volume of residential contracts awarded in this District has recently rushed upward to record heights.

Source of data: F. W. Dodge Corporation.

Employment Employment in United States manufacturing establishments showed more instability over the first three quarters of 1949 than did total nonagricultural employment. Nonagricultural employment (seasonally adjusted) declined from 44 million in January to a low in July of 42.7 million, or a decrease of 2.6 percent. During August and September the number employed in nonagricultural endeavors increased somewhat but was still nearly 2 percent below the January total and more than 5 percent under a year ago. Although employment in manufacturing establishments exhibited a similar pattern, the decrease by September was 4.5 percent from the January high of nearly 15 million and nearly 8 percent below September 1948. In September the outlook for increased employment seemed considerably brighter, but this was short-lived when the coal and steel strikes directly affected nearly a million employees and indirectly affected many more.

In the four District states of Ohio, Pennsylvania, Kentucky, and West Virginia, the number of workers employed in manufacturing industries showed a 10 percent decline in the first three quarters of 1949 and a 13 percent decline from a year ago. This decrease was much larger than that experienced in manufacturing employment for the entire country due to the heavy concentration of durable goods industries in this area. The machinery industry showed the greatest decline—25 percent—in the number of workers employed in August 1949 as compared with August 1948. Other major industries showing declines of more than 10 percent included lumber, metal, rubber, and stone, clay, and glass

products. Employment in food and textile industries remained fairly constant.

The average hours worked by all production workers fluctuated between 39.4 and 38.3 per week in the first seven months of 1949 and average hourly earnings remained fairly stable at $1.40. The cost of living index fell less than 2% in the same period. This represented a slight gain in real wages for the production worker per hour but did not necessarily represent an increase in his standard of living because of the general decline in the average number of hours worked.

Business Failures The trend of business failures in the Fourth District continued upward. There were 553 mortalities in the first 10 months of 1949 as compared with 251 for the same period of 1948, according to Dun and Bradstreet reports. This increase of 120 percent may be compared with an increase of only 79 percent experienced in the entire United States. The proportion of United States failures occurring in the District has risen steadily since April of 1947. In that year it was 5 percent, in 1948 it was 6 percent, and in the first 9 months of 1949 it had advanced to over 7 percent.

The growth in the number of mortalities has been evident in all branches of business. Failures in manufacturing, retailing, wholesaling, construction and commercial service have been increasing by significantly greater rates in the District than in the rest of the country. Commercial service and construction failures now exceed their prewar mortality rates. Manufacturing failures have returned to the 1937-1941 levels, but retail and wholesale failures, though rising, are still well below the number of trade casualties before the war.

During the last half year, the number of District failures has been ranging from 45 to 70 per month, about the same as the 1937 and 1939-1941 levels. Meanwhile, the number of business establishments in the four Fourth District states is estimated to have increased about 16 percent between July, 1940 and July, 1949. Since nearly three-fourths of all failures generally occur among business less than 6 years old, the recent large crop of casualties is probably due to the rapid growth of the business population. Furthermore, the increased number of concerns in business has diluted the relative significance of the larger number of failures. The failure rate ranged from 38 to 56 per 10,000 active concerns from 1934 to 1940, but was only 30 in 1949.

In past years, the failure rate for the District usually has been substantially below the rest of the country in prosperous times, but has equaled or exceeded the national rate during depressions. The District rate in the first 10 months of this year was slightly below the national rate of 33 failures per 10,000 active concerns.

BUSINESS STATISTICS

Bank Debits*—October 1949 in 31 Fourth District Cities

(In thousands of dollars)
(Compiled November 10, and released for publication November 11)

No. of Reporting Banks		Oct. 1949	% Change from Year Ago	3 Months Ended Oct. 1949	% Chang from Year Ago
191	ALL 31 CENTERS	$6,621,530	— 8.5%	$19,824,828	— 7.4%
	10 LARGEST CENTERS:				
5	Akron, Ohio	$ 241,474	— 5.5%	$ 682,058	— 2.6%
5	Canton, Ohio	101,376	—14.2	302,641	—13.8
16	Cincinnati, Ohio	862,413	— 7.1	2,549,823	— 4.8
10	Cleveland, Ohio	1,723,357	— 9.1	5,101,897	— 8.9
7	Columbus, Ohio	531,647	+ 0.7	1,651,302	+ 2.1
4	Dayton, Ohio	224,406	— 3.8	654,038	— 3.3
6	Toledo, Ohio	355,467	— 8.5	982,583	—11.1
4	Youngstown, Ohio	144,532	— 4.5	442,118	— 3.6
6	Erie, Penna.	83,641	—12.9	248,827	—10.5
51	Pittsburgh, Penna.	1,749,776	—11.2	5,418,488	— 9.5
113	TOTAL	$6,018,089	— 8.4%	$18,033,775	— 7.3%
	21 OTHER CENTERS:				
9	Covington-Newport, Ky.	$ 37,328	— 7.6%	$ 108,885	— 7.1%
6	Lexington, Ky.	56,542	— 9.7	158,520	—14.5
3	Elyria, Ohio	17,984	—14.4	51,184	—15.2
3	Hamilton, Ohio	37,182	+ 2.2	112,585	— 2.7
2	Lima, Ohio	44,219	— 1.7	128,977	— 0.7
5	Lorain, Ohio	17,130	—14.0	52,102	—12.5
4	Mansfield, Ohio	41,276	— 5.9	116,371	—10.0
2	Middletown, Ohio	31,788	— 5.9	93,524	— 6.7
3	Portsmouth, Ohio	20,837	—14.0	57,471	—14.6
3	Springfield, Ohio	43,645	— 5.9	131,985	— 3.1
4	Steubenville, Ohio	19,809	—26.0	61,855	—17.2
2	Warren, Ohio	35,197	— 8.1	105,685	— 5.7
3	Zanesville, Ohio	25,652	—10.6	76,419	— 7.0
3	Butler, Penna.	28,761	— 8.5	86,495	—15.0
1	Franklin, Penna.	6,376	—18.4	19,289	—10.8
2	Greensburg, Penna.	18,641	—17.0	58,106	—13.0
4	Kittanning, Penna.	8,516	—28.1	27,589	—22.1
3	Meadville, Penna.	12,140	—21.9	36,182	— 8.5
4	Oil City, Penna.	17,384	—16.4	53,095	—12.1
5	Sharon, Penna.	24,560	—16.8	72,264	—16.4
6	Wheeling, W. Va.	58,474	— 5.5	182,470	+ 0.8
78	TOTAL	$ 603,441	— 9.8%	$ 1,791,053	— 8.8%

* Debits to all deposit accounts except interbank balances.

Debits to deposit accounts (other than interbank) in 31 Fourth District cities totaled $6,621,500,000 during October, or slightly less than the September figure and 8.5 percent below the aggregate of October 1948.

On the other hand, the volume of deposits owned by individuals and corporations at the end of October (not shown in accompanying tabulation) was about 2 percent larger than a year earlier. This contrast reveals the extent to which the rate of turnover has slowed down during the past twelve months. It is equally noticeable in both the larger and smaller city groups.

TEN LARGEST CENTERS

In **Pittsburgh, Erie** and **Canton,** the year-to-year declines in debits ranged from 10-15 percent. In the last two named cities, the October total was the smallest for the month since 1946. **Columbus** was the only large city to report a gain in debits over a year ago.

TWENTY-ONE SMALLER CENTERS

Hamilton was the only smaller city in which October debit volume exceeded the 1948 figure.

In **Meadville, Steubenville** and **Kittanning** debits last month were from 22 percent to 28 percent below the year-ago total.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	Oct. 1949	Sept. 1949	Oct. 1948	Oct. 1949	Sept. 1949	Oct. 1948
SALES:						
Akron (6)	268	282	326	281	285	342
Canton (5)	309	343	396R	325	350	416
Cincinnati (8)	289	296	331	304	299	347
Cleveland (10)	249	260	291	261	260	306
Columbus (5)	315	331	366	334	331	388
Erie (3)	315	311	353	327	308	368
Pittsburgh (8)	237	264	308	251	262	326
Springfield (3)	288	292	324	294	286	331
Toledo (6)	249	302	316	266	299	338
Wheeling (6)	197	250	265R	207	255	278
Youngstown (3)	227	320	358	241	317	380
District (96)	259	279	319R	274	282	338
STOCKS:						
District	252	242	269R	287	264	305

R—Revised.