

MONTHLY REVIEW

of Financial and Business Conditions

FIFTH
FEDERAL



RESERVE
DISTRICT

Federal Reserve Bank, Richmond 13, Va.

February 28, 1945

BUSINESS activity in the Fifth Federal Reserve District is still showing divergent trends. Most of the evidence indicating the physical volume of production, quantitative and qualitative, points to a lessening of activity though there are exceptions. Trade activity, on the other hand, shows evidence of an upward acceleration.

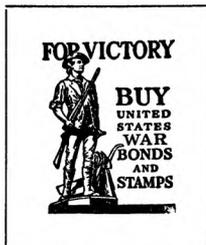
The trend in cotton textile output as measured by cotton consumption again gives the appearance of stabilizing at the reduced level of the past several months, the January average daily figure being about in line with the average of the past five months, but 2 per cent below January 1944. Production of cotton duck was stepped up substantially in January at the expense of other cotton products, but even so the output is said to be about 20 per cent below requirements. Army furloughs for skilled textile workers are also said to have improved the production level as well as creating an atmosphere which lowered labor turnover. If the improved turnover rate can be maintained, hope of holding the production level is increased despite the impediments of conversions.

Hosiery shipments of the entire industry were down 5.5 per cent in 1944 from 1943. But the tension in yarn supplies points to a further decrease at least for the first half of 1945.

Rayon yarn and staple fiber production are still on the increase and some of the new tire cord yarn capacity under construction will not be in production before the middle of the year. Thus, 1945 rayon output should exceed that of 1944.

Bituminous coal production in the District recovered in January 1945 from the low level of December, but was

7 per cent smaller than in January 1944. The increase in coal output in the District in 1944 over 1943 was due to increased production of strip mines in West Virginia, which more than offset losses in the underground mines. Bad weather and some shortage of coal cars held production in January and early February at a lower level than was expected. There is no prospect of increasing the number of miners in the District, and some of the older workers will probably be forced to retire after several years of full time effort. Thus, the outlook would point to a smaller production of coal in 1945 than in 1944 unless stripping operations can further be increased to take up the slack.



Tax paid withdrawals of cigarettes from bonded warehouses in the District are holding at a flat level about 20 per cent below the peak established in November 1943, but these represent cigarettes available to the domestic market. It has been estimated that 1944 production for the country as a whole was 329 billions, a gain of something over 6 per cent

from 1943. It is probable, therefore, that the production in this District is also at a new high level, but that the production in the last half year flattened off.

Construction is also in a downward trend and this trend will probably continue through 1945, owing to restrictions on materials and more urgent needs for the workers involved. Construction in the District in 1944 was valued at \$314 million, according to the F. W. Dodge Corporation, which was 34 per cent smaller than in 1943, 71 per cent below the all time peak established in 1942, and the lowest of any year since 1936.

(Continued on page 8)

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT

Average Daily 1935-39=100

Seasonally Adjusted

	Jan. 1945	Dec. 1944	Nov. 1944	Jan. 1944	% Change	
					Jan. 1945 from Dec. '44	Jan. '44
Bank Debits	209	231	226	197	-10	+ 6
Bituminous Coal Production*	139	118	146	149	+18	- 7
Building Contracts Awarded	103	96	81	150	+ 7	- 31
Building Permits Issued	64	42	48	21	+52	+205
Cigarette Production	151	155	162	158	- 3	- 4
Cotton Consumption*	145	133	149	148	+ 9	- 2
Department Store Sales	238	208	251	208	+14	+ 14
Department Store Stocks	178	162	159	179	+10	- 1
Life Insurance Sales	140	120	137	121	+17	+ 16
Wholesale Trade—Four Lines	198	177	182	184	+12	+ 8
Retail Furniture Sales	157	167	166	130	- 6	+ 21

* Not seasonally adjusted.

Relationships Between Tenure Status and Farm Income

It is the purpose of this article to explore some of the economic interrelationships which exist between the tenure arrangements of farming and the gross income derived from the farm enterprise. It is a well-known fact that, in many parts of the United States, current practices of farm tenure are associated with social and economic maladjustments of considerable magnitude. Many of these maladjustments result from causes other than the incomes derived from farming: some follow the inevitable exploitation of the land which accompanies its use by persons without long-term interest in its maintenance; some derive from the manner in which the gross farm income is distributed between tenant and landlord; still others grow out of social and economic conditions which are only accidentally connected with either the tenure status of the farmer or the income which he gains by his efforts. While these factors which are fortuitous with respect to the immediate problem must be considered, if only in passing, they will not receive emphasis in this analysis.¹

By *tenure status*, as here used, will be meant the arrangement under which the operator holds temporary or permanent right to the use of land. Since the data will be taken from the Sixteenth Census of the United States (1940), the definitions will be those employed therein. "Owners and part-owners" are operators who own all or part of the land which they farm *themselves*; the arrangements under which the remainder of their land is held is of no consequence to this definition. "Managers" are persons paid to operate the farm completely for some one else. "Tenants" rent all their land in one way or another: "cash" and "cash-share" tenants pay a periodical cash rental for the use of all or part of their holdings with any remainder rented through some kind of a crop-sharing agreement; "share" tenants and "croppers" both pay their rental in the form of a fixed share of the crop, but the former furnish their own tools and workstock (or machine power) while the latter are furnished these forms of capital by the landlord; "other" tenants include those whose rental agreements were not specified or could not clearly be placed under any of the above categories and persons who paid a fixed *amount* of crop for use of the land (often called "standing renters").

Throughout this article, unless otherwise specified, the term *gross farm income* will refer to the value of all farm and forest products sold, traded, or used in the farm household. This is by no means a complete accounting of the total income of the operator and his family from all sources. For example, this concept does not include wages or salaries received for work off the home farm, the imputed income from the farm living quarters, income from boarders, or the like. This is not a net income, for no deductions have been made for the costs of production nor for the rent of the land. Thus, the factor which is under consideration might be described as a rough rela-

tionship between tenure status and productivity.

Since the needed statistics have not always been available on a state basis, it has been necessary, in some phases of the analysis, to utilize data for the South Atlantic Division. This prevents the analysis of certain characteristics for the Fifth District, alone, because the South Atlantic states include Delaware, Georgia, and Florida, in addition to those of the District. There is a wide variation of agricultural characteristics within this region, so that many of the following generalizations will not necessarily apply to specific subdivisions of the area. This must be remembered particularly with respect to two facts: there are very few cash-share, share, or cropper farms in Florida, Maryland or Delaware; and the size of farms is subject to wide geographical variation.

DISTRIBUTION OF FARMS BY INCOME-CLASSES SOUTH ATLANTIC STATES

Many regional differences become apparent when the characteristics of agriculture in the South Atlantic states are compared with those of the entire country. In this connection, the farms of the two areas have been distributed with respect to their gross incomes, and the resulting income-groups compared on the basis of the following characteristics: average gross income per farm, average cropland harvested per farm, average income per acre of cropland harvested, the proportionate distribution of operators by general tenure-classes, and the per cent of all farms included in the group. These data are shown for the South Atlantic region and the United States in Table 1.

The average gross farm income of the United States is higher than that of the region, but the consideration of average cropland acreages reveals a more significant difference between the region and the nation. The effective sizes of South Atlantic farms run consistently lower than the national averages, while the gross income per acre runs higher. This reflects the much greater density of the South's farm population per unit of arable land, and the concomitant emphasis on high-value crops, intensively cultivated, necessary for the maintenance of this population. It has been demonstrated on many previous occasions that this disproportionate concentration of persons to soil is one of the most pressing of the South's agricultural problems, especially since it is often accompanied by a tendency to take more from the soil under the guise of current income than is compatible with the long-run good of the farming community. In other words, the high income per acre of southern croplands should not be considered as necessarily implying a high *net* gain from farming. On the contrary, it often signifies the uneconomic exploitation of both human and soil resources, and is accompanied by very high costs of production when a proper accounting system is applied. A slightly different aspect of this same problem is demonstrated in the accompanying chart, which shows proportionate distribution of farms by income-classes.

¹ Although it is not directly involved in the present problem, the historical background of the Southern tenure pattern is essential to its complete understanding. Briefly, the present tenure patterns have evolved from regional dependence on cotton and tobacco culture, coupled with a large farm-labor supply and the presence of many large land holdings. These factors have led to high tenancy rates, small farm units (whether owner- or tenant-operated), and the intensive production of cash crops. Regardless of the actual tenure pattern, itself, the combination of an excessive farm population with a relatively low average of soil fertility has resulted in very low net farm incomes per capita and low rural-farm levels of living (see the MONTHLY REVIEW, January 31, 1944).

TABLE 1. INCOME AND TENURE CHARACTERISTICS OF FARMS CLASSIFIED BY GROSS FARM INCOME, UNITED STATES AND SOUTH ATLANTIC REGION, 1939

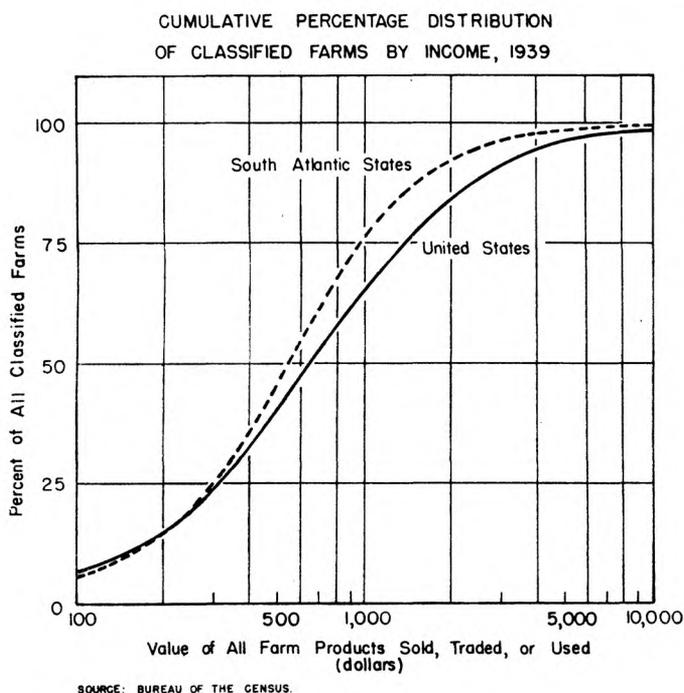
Income Classes ¹	Per Cent of All Classified Farms		Average Income Per Farm (\$)		Average Cropland Harvested Per Farm (acres)		Average Income Per Acre of Cropland Harvested (\$)		Per Cent of All Operators Who Are					
	U. S.	S. A.	U. S.	S. A.	U. S.	S. A.	U. S.	S. A.	Owners and Managers		Share Tenants and Croppers		All Other Tenants ²	
									U. S.	S. A.	U. S.	S. A.	U. S.	S. A.
All Classified Farms ²	100.0	100.0	1,309	915	56.4	28.9	23.2	31.7	61.4	58.0	22.3	28.0	16.3	14.0
\$ 1-99	5.6	5.2	57	58	9.9	6.1	5.8	9.5	67.2	67.8	13.0	10.4	19.8	21.8
100-249	13.6	14.7	173	173	14.9	10.3	11.6	16.8	61.8	64.7	20.2	16.9	18.0	18.4
250-399	13.7	16.6	320	320	21.4	15.7	15.0	20.4	58.1	58.9	26.2	23.8	15.7	17.3
400-599	14.6	18.4	491	490	30.2	21.8	16.3	22.5	56.0	53.9	29.2	30.8	14.8	15.3
600-749	8.0	9.9	669	667	39.7	27.0	16.9	24.7	57.1	50.2	28.6	37.3	14.3	12.5
750-999	9.6	11.1	865	861	50.2	31.8	17.2	27.1	59.3	50.1	25.8	38.4	14.9	11.5
1,000-1,499	11.9	11.4	1,222	1,207	67.0	37.8	18.2	31.9	63.1	53.9	21.9	37.4	15.0	8.7
1,500-1,999	7.0	5.0	1,726	1,714	86.5	47.7	20.0	35.9	66.1	60.0	18.0	31.2	15.9	8.8
2,000-2,499	4.4	2.6	2,229	2,217	102.6	57.3	21.7	38.7	65.4	65.6	16.6	27.9	18.0	6.5
2,500-3,999	6.3	2.9	3,111	3,078	126.0	73.0	24.7	42.2	65.1	69.7	15.3	23.2	19.6	7.1
4,000-5,999	2.8	1.1	4,806	4,806	162.0	106.8	29.7	45.0	68.4	79.3	13.3	11.7	18.3	9.0
6,000-9,000	1.5	.6	7,498	7,549	211.0	155.4	35.5	48.6	69.9	82.5	13.8	11.1	16.3	6.4
10,000 and over	1.0	.5	22,989	22,830	344.5	322.4	66.7	70.8	80.2	89.8	7.6	3.8	12.2	6.4

Source: Bureau of the Census.

¹ Throughout this table the phrase "gross income" refers only to the value of farm products sold, traded, or used in the farm household.

² A small proportion of farms either gave insufficient information or reported no income (by definition in footnote). These farms have been excluded from the table.

³ "All Other Tenants" includes all tenants other than "share tenants" and "croppers".



The income scale of this chart has been shortened without any sacrifice of over-all accuracy by the use of logarithmic grid-lines. With reference to this scale, the accumulated percentages are plotted in such a way that any point on the curve, read against the vertical scale, shows the proportion of *all* farms having gross incomes *below* the one specified. For example: In order to compare the United States and the South Atlantic region with respect to their relative distribution of farms by gross income, an income point is taken along the horizontal scale at, say, \$1,000 per farm per year and a vertical line extended upward from this point until it cuts the two curves.

Reading the percentage scale opposite the intersection of the United States curve and the \$1,000 line shows that approximately 66 per cent of the farms in the nation *had incomes of less than \$1,000 in 1939*. Reading across from the intersection of the South Atlantic curve and the \$1,000 line shows that approximately 76 per cent of the region's farms had incomes of less than \$1,000 in 1939. Thus it is clear that the region's farms tend to concentrate lower along the income-scale than do those of the nation at large. Since the South Atlantic region's curve lies above the United States curve for most of its length, it is clear that there are more South Atlantic farms in the lower income brackets than would have been had the national average relationship applied in this region.

Up to this point nothing has been said about the tenure status of the operators of these farms, but it has been shown that the South Atlantic region has farms of smaller effective size (as measured in acreage of cropland harvested) which are more intensively cultivated and yield higher gross incomes per acre, but which do not yield as much *per farm* to support their operators' families. The tenure status of the operators in each income group is indicated by the last six columns of the above table. The most outstanding feature of these figures is the manner in which the proportion of owners and managers tends to drop off in the middle classes while being high at the extremes. In the two lowest income classes of both the United States and the South Atlantic region, owners and managers comprise better than 60 per cent of the total. Furthermore, there seems to be little geographical variation in the composition of the operators of farms producing less than \$400. Here the similarity ends. For the United States the low point of farm ownership appears to come in the \$400-599 income class (56.0 per cent), and the proportion of owners climbs rather steadily from this point to the high of 80.2 per cent in the \$10,000 and over class. On the other hand, the South Atlantic region shows dropping proportions of owners and managers until the low

(50.1 per cent) is reached in the \$750-999 income class, with the proportion of owners rising again to a high of 89.8 in the highest income class. Thus, relative to the rather narrow range of variation on the national level, tenants in the South Atlantic region are concentrated in the lower reaches of the income scale.

For the United States, the proportion of all other tenants except share and cropper tenants (this class primarily includes cash and cash-share tenants) behaves somewhat similarly to the owner and manager class. All other tenants constitute a falling proportion of the lower part of the range, reaching a low at 14.3 per cent in the \$600-749 class, and rising again in the upper income classes. This tenure group differs from the other, however, in that it again falls off in the three highest income classes. For the South Atlantic states, on the other hand, this group's importance decreases with almost unbroken regularity from the lowest to the highest income classes. In general, it can be said that these predominantly cash tenants are of fairly constant importance throughout the income range of the nation's farms, while their importance in the South Atlantic region is inversely related with income.

In all except the three highest and three lowest income classes, share tenants and croppers are much more important to the South Atlantic states than to the country as a whole. Although some operators of this class are found at every income level, they tend to fall off sharply in the upper reaches of the income scale. This is the larger of the two tenant classes.

In summary of this section, it can be said that by far the bulk of the nation's and the region's farms are found in the group receiving less than \$1,000 per year from the farm enterprise. Of this group owners and managers operate the majority of the farms (as they do of all income classes), but a larger proportion of these farms are run by tenants than is found in the higher income classes. For the entire United States, the owner-manager class and the other tenant class tend to fluctuate together throughout most of the income range, with the share-cropper class of least importance in the extreme classes at each end of the range. For the South Atlantic region, on the other hand, each of the three tenure groups tends to follow its own pattern of behavior: the proportion of owners moves downward and then upward; the proportion of share-croppers moves inversely to owners; and the proportion of other tenants moves almost steadily downward. In other words, in this region, while total tenancy is somewhat inversely related to farm income (as in the United States), cash and cash-share tenancy is very inverse in its relationship with income. This tends to go counter to the popular conception that share tenants and croppers are economically poorest off of the region's farmers.² Owners, managers and cash tenants are relatively more numerous in the very lowest income groups than are share tenants and croppers.

² This should not be taken to mean that share tenants and croppers are not the worst off socially. There has been no evidence presented herein on this point. It is quite possible that the net income of this group falls below that of the others, even when its gross income may be equal or higher. Furthermore, it will be shown in the next section that home consumption of farm products tends to run low in tenant classes. It is logical to assume that it will be lowest in the share-cropper group, which is under landlord pressure to concentrate on cash crops. Thus, depending on the relative spending patterns of the tenure classes, it is possible for the share-cropper class to exist on a lower level of living, even given equal total income and equal rental deductions, than would owners or cash tenants with equal-sized families.

SOURCES OF FARM INCOME BY INCOME GROUPS, TENURE STATUS, AND STATES

There are so much less detailed data available on a state basis than on a regional one that it will not be possible to show the several classes of tenants separately at this stage of the analysis, nor can as many income classes be used. Although the material available is insufficient for an analysis on the state level such as was made in the last section on a regional level, it is sufficient for the determination of the different values of several sources of income to different tenure and income groups. In this analysis, the states of the Fifth District will be examined separately, with the one exception that Maryland and the District of Columbia have been combined with Delaware (not in the Fifth District) in the source tables. This should add little distortion to the District's figures, since Delaware is a small state and will constitute a negligible proportion of the total. In the following table, the detailed figures for the District will be given along with the totals of the component states. State deviations from the District detail will be brought out in the text.

TABLE 2. DISTRIBUTION OF GROSS FARM INCOME BY MAJOR SOURCES, BY STATES; AND BY TENURE AND INCOME CLASSES FOR THE FIFTH DISTRICT, 1939

Area, Farm Income, ¹ & Farm Tenure	Gross Farm Income (\$000)	Home Consump- tion ²	Per cent Derived from:			
			Total	Sold or Traded		
				Live- stock	Livestock Products	Crops & Forest Products
Fifth District ^{3 4} ...	660,967	24.8	75.2	7.5	15.7	52.0
Under \$10,000	605,850	26.8	73.2	7.0	13.6	52.6
Owners & Mgrs..	376,393	28.9	71.1	9.3	17.9	43.8
Tenants	229,458	23.3	76.7	3.1	6.5	67.1
\$10,000 and over..	55,116	2.9	97.1	14.0	38.7	44.4
Owners & Mgrs..	50,909	3.0	97.0	14.3	38.4	44.4
Tenants	4,206	2.7	97.3	10.4	42.5	44.4
Delaware, ³						
Maryland, & D. C. ⁴	82,553	13.0	87.0	7.4	43.0	36.7
Virginia ⁴	150,912	28.2	71.8	14.3	20.5	37.0
West Virginia ⁴ ..	54,315	44.0	56.0	21.0	21.8	13.1
North Carolina ⁴ .	262,438	24.1	75.9	2.8	7.0	66.0
South Carolina ⁴ .	110,749	21.1	78.9	3.1	6.4	69.4

Source: Bureau of the Census.

¹ Throughout this table "Income" refers to value of farm products sold, traded, or used in the farm household.

² Imputed value of farm products used in the farm household.

³ Delaware, included in District total, is not in the Fifth District.

⁴ Total of all income and tenure groups.

Generally speaking, this District derives relatively little farm income from the sale of livestock and livestock products, and much from the sale of crops. This is to be expected in an area dominated by the culture of cotton and tobacco. The home consumption of farm products is relatively more important than livestock enterprises as an income source. For the bulk of farms, those with annual incomes of less than \$10,000, home consumption provides better than one-fourth of the total farm income, while crops provide over half. In contrast, livestock enterprises provide more than half the income of farms in the \$10,000-and-over class, and the consumption of farm products at home constitutes a negligible part of the total. Tenants generally depend for their income more on crops and less on livestock than do owners and managers, although this is more noticeable for the low income group. Tenants also consume a smaller proportion of their total produce.

In Delaware, Maryland, and the District of Columbia, taken together, the relation between the tenure and income groups is roughly that of the District, with one exception. Although tenants with incomes of less than \$10,000 derive a smaller part of their income from livestock enterprises than do owners and managers, tenants with incomes of \$10,000 and over are predominantly livestock operators, and receive a larger part of their income from this source than do any other single group. In West Virginia, home consumption is the major income source, being of far greater importance than is true in any other part of the District. Here, again, tenants in the higher income group, unlike those in the lower, are the most intensive livestock operators in the state.

The general relationships found in Virginia and the Carolinas are quite similar to those of the District. Livestock enterprises are most important to owners and managers of both income groups, and to the higher-income farms in both tenure groups. The consumption of products in the farm household approximates that in the District.

From the above it becomes apparent that, while itself the product of past agricultural patterns, tenure status may be a strong causal force in the determination of the agricultural pattern to be found on many farms. Because tenants in most sections of the District (and of the South) must operate rather small holdings on a basis of insecure tenure, they are forced by circumstances into the cultivation of annual cash crops rather than allowed to develop longer-maturing, extensive enterprises, such as most livestock operations. Very large owner-or-manager-operated livestock farms dominate the higher income brackets.

CONCLUSIONS

The data which are available, although incomplete in the sense that they do not allow the most exacting study which might be desired, are sufficient to bring out several very important basic relationships between farm tenure status and gross income from the farm enterprise. These relationships will be summarized with respect to the Fifth District and the region of which this District comprises the major part.

By and large, tenancy is associated with small farms which are so intensively cropped as to yield higher-than average value per acre, but which are too small to provide high incomes per farm family. This condition, which is accompanied by an implicit impoverishment of both the

soil and the people, derives historically from one-crop agriculture, the high ratio of farm population to arable land, and the inability of tenants or small owners to purchase any or more land. Thus, livestock and other extensive operations are conspicuously lacking in all but the northern states of the region. Where these enterprises are found the association of tenancy with low farm income is not nearly so strong as in the other sections of the area.

Owners and managers as a class are directly associated with high gross farm income, although it is probable that small owners, if they could be separated, would concentrate in the lower income brackets. Of the two main tenure classes, cash and cash-share tenants show the strongest inverse relation with gross income. This is surprising in view of the popular concept of the low status of sharecroppers. However, it might reflect the better opportunity for cash tenants to save and acquire land-capital, thus moving over into the owner class. The data at hand are insufficient to determine this point.

Not only do the above relations between tenure and total farm income exist, but there are also relationships between the tenure of operators and the *source* of the farm income. Since they are under less direct pressure to produce cash crops than are tenants of the same income group, owners seem to conduct somewhat more diversified farming operations, consuming more of their total farm produce and gaining more of their total income from livestock enterprises. Only in the very northern part of this District did tenants tend to equal or exceed owners in the diversity of their enterprises. Undoubtedly, one of the major needs of the area is for the reduction of the farm population to a size allowing the practice of more diversified agriculture by more operators. Further improvement of our farm economy would follow changes in tenancy conditions which would permit more secure, long-term occupancy of the land and provide an opportunity to build up the operator's landed capital.

It is realized that this article has hardly touched on the many aspects of the District's agriculture which are tied in with this over-all problem. No attempt has been made to show how present agricultural patterns evolved from past situations, nor to show the recent dislocations which have followed such profound changes in our agricultural market as, say, our foreign markets for cotton and tobacco. These have been reserved for future discussion as have some of the more detailed statistical examinations of tenure conditions in this region.

The Cost of Living

Changes in the cost of living are of particular significance in war time. Heavy war production necessitates the absorption of a large proportion of the country's resources. The amount of resources that can be devoted to civilian production is therefore limited. The greater the quantity of goods and services needed for waging war, and the smaller the pool of unemployed resources that can be drawn upon, the more severe will be the restrictions in the civilian sector of the economy.

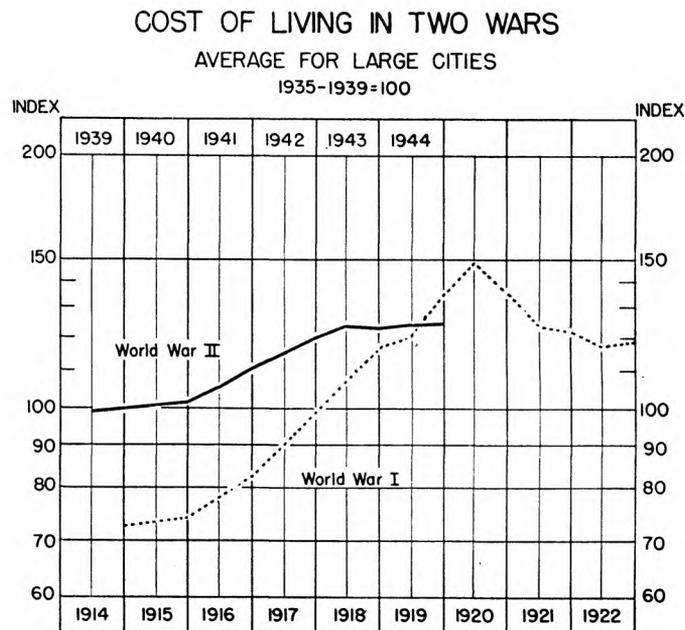
The effect of a high level of war production, therefore is to create upward pressure on the price structure. This pressure comes from two directions. There is first of all the direct pressure on costs. As full employment of labor is approached and excess plant capacity is put to use, increased war production can be achieved only by transferring labor, raw materials, equipment, etc., from civilian to war output. Without a strict program of direct allocation and wage and price ceilings, the various sectors of the economy bid for the resources at constantly increasing prices; and these prices of resources, which are costs to the producer, are in turn passed on to the consumer.

In addition, there is the impact on prices of the increase in purchasing power relative to the quantity of goods and services available for consumption. Income is earned both in war and in civilian production. But that income can be spent only on civilian output. And the greater the proportion of resources devoted to war, the greater is the discrepancy between total income earned, on the one hand, and available civilian output, on the other. If savings and taxes are sufficiently high to siphon off the excess purchasing power, the general level of prices tends to remain constant. But if the expenditures which consumers attempt to make are in excess of the total value of available goods and services, then the gap between the two becomes a source of inflationary price increases.

In the present war period, the price rise has been much less pronounced than in the last year. A number of factors have contributed to this more effective control of prices. In the first place, at the time of the outbreak of war in Europe there was a substantial amount of excess capacity in the American economy. There was heavy unemployment of labor, plant and equipment were not fully utilized, and there was room for increased efficiency and output by already-employed resources. All of this meant that additional output was possible for both war and civilian use, with little or no effect on costs and prices. Secondly, a number of direct controls were instituted: direct allocation of materials and equipment, ceilings on prices, wage and manpower controls, and rationing of scarce goods. Finally, taxes were increased, and the attempt was made to sell as large a proportion of Government securities as possible to the non-banking public.

The accompanying chart compares the increase in cost of living in the two wars. The vertical scale is geometric, so that equal slopes (or parallel lines) denote equal percentage changes. It will be evident that for the most part, the percentage increase in the cost of living was considerably greater in the first World War than in the present one.

This index of the cost of living, however, is not an index of the changes in consumption expenditures of the average family unit. A considerable amount of confusion has



SOURCE: Bureau of Labor Statistics

arisen on this point. The cost of living index of the Bureau of Labor Statistics, as well as that of the National Industrial Conference Board, measures changes in the unit prices of a substantial sample of goods and services purchased by wage earners and lower-salaried workers. To many people the term "cost of living" denotes more than this. In addition to changes in unit prices, consumption expenditures may change because of changes in the manner of living beyond the control of consumers; or they may change with income, shifting from one plane of living to another. These three factors are often lumped together and confusion is created, especially in times of rising prices, by the fact that the total increase in consumer expenditures is greater than that suggested by the statistical cost of living indexes.

In the present war period the last two factors have been particularly important. Many goods and services have become scarce or completely unobtainable, so that other goods and services, often inferior or more expensive, have been substituted. There have been many changes in quality of standard goods, and although the cost of living indexes have attempted to record inferior qualities as increases in unit prices, this has not always been possible. Many workers, drawn to war centers by the prospect of higher earnings and by the desire to contribute productively to the war effort, have been compelled to change their manner of living and increase their expenditures—there has been the cost of moving, the need for more away-from-home eating, the difficulty of obtaining inexpensive housing, food, and other goods in crowded war centers. These, and other factors, have necessitated an increase in consumer expenditures which have been involuntary, yet have not been accounted for in the cost of living indexes.

In addition, the present war period has witnessed a phenomenal increase in income. Between 1939 and 1944,

total income payments to individuals in the United States more than doubled, and by far the largest share of this increase was accounted for by wages and salaries. This increase in income has induced the desire to shift to a higher plane of living, and in spite of the fact that almost half of our resources have been devoted to war output, the level of consumption expenditures in the war years, after discounting for price increases, was substantially higher than before the war.

Whether or not it would be desirable to measure changes in consumer expenditures arising from either of these last two factors, the cost of living index can take only the first into account, namely, changes in expenditures that are due to changes in unit prices of a sample of goods and services. The cost of living is divided into six component groups: food; clothing; rent; fuel, electricity and ice; house furnishings; and miscellaneous. Prices of individual items are combined into an index of the particular component group for each city; and the weights used are based on actual family expenditures of employed wage earners and clerical workers, as determined by a nation-wide study of family expenditures in 1935-36. For example, the unit price of a particular food item may be large, but may nevertheless constitute a small percentage of annual expenditure on food. By assigning weights to the particular items, changes in their prices take on an importance which is proportionate to the importance of the item in the wage earner's budget. Using these weights multiplied by average prices, an aggregate cost figure for each component in each city is obtained; and this cost figure is then related to the average value of the aggregate cost figure in 1935-39. These component indexes are then combined into an "all-items" index for each city, and a "national" index is then constructed, with the relative populations of the particular cities serving as weights.

An examination of the changes in prices of the component groups in the war period reveals some significant variations.

TABLE 1: PERCENTAGE INCREASE IN THE COST OF LIVING AND ITS COMPONENTS, 1939 TO 1944

	All Items	Food	Clothing	Rent	Fuel, Electricity & Ice	House Fur- nishings	Miscel- laneous
Sept. 15							
1939 to 1941	7.5	12.5	10.5	2.3	5.2	10.8	3.9
1939 to 1942	17.1	28.7	25.4	3.4	7.7	22.3	10.2
1939 to 1943	23.2	39.6	32.1	3.4	9.2	24.9	15.7
1939 to 1944	25.7	39.2	41.0	3.6	11.4	39.2	21.1

It will be evident that the largest increases in living costs have come about in food, in clothing, and in house furnishings. These are the components which have been subject to a greater degree of competing war demand, which have been more difficult to control, or whose supply has not been as responsive to increased demand as the other components.

Although data on prices are collected in a number of cities, the cost of living index should not be used to make inter-city comparisons as of a given date. Rather, the index compares costs in a particular city between specified dates. The only comparison between cities that can be drawn from these indexes is a comparison of the extent of change in living costs in different cities over the same time period.

A comparison of the changes in living costs in those cities surveyed in the index which are in the Fifth District, reveals that the increase in living costs has in general been

related to the increase in population arising from war plants or other war activities. Of the cities covered, the Norfolk area had the largest increase in population between April 1940 and November 1943 (about 50 per cent), and also the largest increase in living costs. Richmond, on the other hand, had the smallest increase both in population and in cost of living.

TABLE 2: FIFTH DISTRICT AND ALL-CITY CHANGES IN COST OF LIVING SEPT. 15, 1939 TO SEPT. 15, 1944

	All Cities, U. S.	Baltimore	Norfolk	Richmond	Washt'n
All Items	25.7	27.1	31.3	23.4	24.4
Food	39.2	41.5	45.0	39.1	35.9
Clothing	41.0	44.9	40.3	39.0	46.0
Rent	3.6	3.1	7.1	1.2	0.2
Fuel, Elec. & Ice	11.4	11.5	20.6	8.3	12.6
House Furnishings	39.2	44.8	44.0	36.8	33.7
Miscellaneous	21.1	19.7	28.4	15.6	24.9

It might have been expected that the variation in living cost increases as between cities would have been even greater than the index shows. However, just as the increase in income generated by war production spread rapidly through almost every segment of the economy, in the same way the forces making for higher prices did not remain localized for any length of time. It is quite likely, however, that if the involuntary and the voluntary changes in the manner of living were lumped in with the cost of living, the inter-city variation would be considerably larger. It is precisely in those war centers that have experienced a large influx of population that involuntary changes in the manner of living have been most important in causing an increase in consumer expenditures. It is in these centers that inexpensive housing has been most difficult to obtain, that there has been a larger-than-average increase in the cost of many services, that it has been difficult or impossible to shop around for less expensive goods or to trade at less expensive outlets, and so on. On the other hand, it is also in these centers that the increase in income has for the most part been the greatest.

In spite of the fact that living costs have been fairly well controlled in the present war period, we should be aware of the fact that the battle against rising prices has not yet been won. In World War I prices continued to climb after the termination of hostilities, with only a short period of relative stability in the first half of 1919. And this price inflation was followed by an almost equally severe deflation that lasted from the middle of 1920 to the middle of 1922.

Any further increase in the cost of living must be guarded against. The danger of such an increase will be particularly great as the end of the war approaches and as the economy is reconverted, both because goods and services will remain scarce for some time and because there will be a tremendous demand in the form of war-time savings. A further increase in the cost of living would be dangerous from several points of view. It might create the fear that prices are too high and that they cannot be maintained at that level, thus leading to a reluctance to invest. This would have the effect of causing a high level of unemployment and a low level of income. On the other hand, a further increase in prices might lead to a cumulative inflationary price spiral in the reconversion period, ending in a collapse similar to the one that followed World War I. Finally, a further increase in prices would have the effect of wiping out, in terms of real goods and services,

an important proportion of the savings that have been accumulated during the war. The present high level of accumulated savings can be of the greatest value in the post-war period. If they are spent only as more goods and services become available, they will be instrumental in maintaining a high level of income and employment. Their effectiveness in this way should not be diminished by further price increases.

(Continued from page 1)

Shipbuilding, which has been responsible for much of the wartime increase in the District's employment and income, is on the decline. Unless further new contracts are awarded for cargo ships, this business will be drawn to a conclusion sometime in the fall. Repair work, it is said, will continue to occupy the shipyards, but it seems hardly possible that such work could employ even the reduced numbers now occupied. Navy Yard employment has been reduced, but it is not known whether this is scheduled or because of lack of personnel. The Navy Yard at Norfolk is operating with several thousand fewer workers than a year ago, but, based on the findings of the Mead Committee on personnel usage, this may not have resulted in any decrease in actual construction and repair work. The Newport News Shipbuilding and Dry Dock Corporation shows that in the first 39 weeks of 1944 the value of new ship construction declined nearly \$12 million, or 12 per cent from the same period of 1943. Naval requirements will continue large until the Pacific war is terminated and it is probable that no material cutbacks will occur at either Navy Yard in the District.

Department store sales in the District during January on a seasonally adjusted basis were 14 per cent higher than in December and 14 per cent ahead of January 1944.

The January index of sales is higher than any other month in history with the exception of November 1944, and gives some evidence that the rate of rise is on the increase. However, annual sales have shown a decreasing rate of rise since 1941. From 1941 to 1942 department store sales of the District increased 19 per cent; from 1942 to 1943, 15 per cent, and from 1943 to 1944, 10 per cent. Store inventories after seasonal adjustment at the beginning of January were somewhat higher than a month earlier, and while they were 18 per cent lower than their 1944 high point in September, they are still substantially larger than in pre-war years.

Earning assets of the weekly reporting member banks were at their highest point on January 17 at \$1,979 million. By February 14, these had declined \$27 million to \$1,952 million with loans accounting for \$16 million of the decline and securities \$11 million. The decline in loans was caused largely by a reduction of \$15 million in loans to others for purchasing or carrying Government securities. Between January 17 and February 14, total security holdings of the weekly reporting banks declined \$11 million with all types of issues recording losses except Government bonds. Government bond holdings rose \$39 million, and these were exactly offset by reductions in holdings of \$23 million in notes; \$7 million in certificates and \$9 million in bills. A reduction of \$7 million in Government guaranteed securities and \$4 million in other securities makes the total reduction in security holdings of \$11 million.

The weekly reporting member banks of the District lost \$33 million in deposits between January 17 and February 14, owing to a withdrawal of \$43 million in Government deposits and a loss of \$20 million in bankers' balances of other banks which were not offset by rises of \$30 million in other deposits.

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT
Average Daily 1935-39=100

	Seasonally Adjusted				% Change	
	Dec. 1944	Nov. 1944	Oct. 1944	Dec. 1943	Dec. 1944 from Nov.'44	Dec.'43
Bank Debits	231	226	205	191	+ 2	+21
Bituminous Coal Production*	118	146r	145r	147	-19	-20
Building Contracts Awarded	96	81	72	151	+19	-36
Building Permits Issued	42	48	48	50	-13	-16
Cigarette Production	155	162	152	193	- 4	-20
Cotton Consumption*	133	149	142	147	-11	-10
Department Store Sales	208	251	224	187	-17	+11
Department Store Stocks	162	159r	171	166	+ 2	- 2
Electric Power Production	209	215	211	219	- 3	- 5
Employment—Mfg. Industries*	138	137	137	150	+ 1	- 8
Furniture Orders	186p	160r	160	217	+16	-14
Furniture Shipments	204p	144r	132	200	+42	+ 2
Furniture Unfilled Orders	561p	494	459	499	+14	+12
Life Insurance Sales	120	137	146	112	-12	+ 7
Wholesale Trade—Four Lines	177	182	175	173	- 3	+ 2
Wholesale Trade—Drugs	223	232	239	196	- 4	+14
Wholesale Trade—Dry Goods	120	98	115	109	+22	+10
Wholesale Trade—Groceries	190	200	188	185	- 5	+ 3
Wholesale Trade—Hardware	105	94	92	113	+12	- 7
Retail Furniture Sales	166	166	163	125	- 0	+33

* Not seasonally adjusted.

FEDERAL BANK OF RICHMOND
(All Figures in Thousands)

ITEMS	Feb. 14 1945	Change in 1-17-45	Amt. from 2-16-44
Total Gold Reserves	\$ 987,892	+42,079	-100,307
Other Reserves	17,425	- 1,278	- 2,747
Total Reserves	1,005,317	+40,801	-103,054
Bills Discounted	5,750	+ 3,250	+ 3,620
Industrial Advances	121	- 5	- 106
Gov't. Securities, Total	1,146,378	- 8,571	+524,072
Bonds	73,712	- 3,362	- 38,427
Notes	100,327	- 152	+ 38,109
Certificates	315,543	+ 2,426	+137,999
Bills	656,496	+ 7,483	+386,391
Total Bills and Securities	1,152,249	- 5,326	+527,586
Uncollected Items	132,258	-14,639	- 5,003
Other Assets	15,606	- 5,350	- 4,904
Total Assets	\$2,305,430	+15,486	+414,625
Fed. Res. Notes in Cir.	\$1,487,346	+ 7,438	+346,166
Deposits, Total	695,829	+25,382	+ 75,594
Members' Reserves	616,684	+12,710	+ 87,435
U. S. Treas. Gen. Acc.	25,031	+ 8,145	- 1,602
Foreign	51,527	+ 4,964	+ 6,793
Other Deposits	2,587	- 437	- 3,446
Deferred Availability Items	99,023	-17,859	-10,691
Other Liabilities	451	+ 74	+ 250
Capital Accounts	22,781	+ 451	+ 3,306
Total Liabilities	\$2,305,430	+15,486	+414,625

41 REPORTING BANKS—5th DISTRICT
(All Figures in Thousands)

ITEMS	Feb. 14 1945	Change in 1-17-45	Amt. from 2-16-44
Total Loans	\$ 305,840	-15,827	+ 14,103
Bus. and Agric. Loans	144,626	+ 2,311	+11,216
Real Estate Loans	46244	- 821	+ 2,940
All Other Loans	114,970	-17,317	+ 5,827
Total Security Holdings	1,646,688	-10,716	+255,242
U. S. Treas. Bills	104,668	- 9,249	- 27,636
U. S. Treas. Certificates	304,044	- 7,136	+ 61,682
U. S. Treas. Notes	305,084	-22,543	+107,060
U. S. Gov. Bonds	865,405	+39,492	+146,632
Obligations Gov. Guaranteed	11,812	- 7,432	-31,803
Other Bonds, Stocks and Sec.	55,675	- 3,848	- 693
Cash Items in Process of Col.	96,616	- 597	+ 2,485
Due from Banks	160,588*	+ 8,492	+10,210
Currency and Coin	37,533	+ 809	+ 3,673
Reserve with F. R. Bank	314,396	+ 6,013	+36,441
Other Assets	67,433	+ 1,578	+ 5,693
Total Assets	\$2,629,094	-27,232	+327,847
Total Demand Deposits	\$2,113,923	-40,258	+234,702
Deposits of Individuals	1,190,497	+24,166	+175,873
Deposits of U. S. Gov.	429,174	-43,073	+ 15,413
Deposits of State & Local Gov.	76,259	+ 2,307	- 724
Deposits of Banks	400,143	-21,281	+ 42,100
Certified and Officers Checks	17,850	- 2,377	+ 2,040
Total Time Deposits	301,800	+ 6,003	+51,197
Deposits of Individuals	288,147	+ 6,210	+53,644
Other Time Deposits	13,653	- 207	- 2,447
Liabilities for Borrowed Money	4,000	+ 1,500	+ 4,000
All Other Liabilities	88,383	+ 2,894	+28,737
Capital Accounts	120,988	+ 2,629	+ 9,211
Total Liabilities	\$2,629,094	-27,232	+327,847

* Net figures, reciprocal balances being eliminated.

MUTUAL SAVINGS BANK DEPOSITS
8 Baltimore Banks

	Jan. 31, 1945	Dec. 31, 1944	Jan. 31, 1944
Total Deposits	\$300,041,503	\$295,619,832	\$261,919,096

COTTON CONSUMPTION—FIFTH DISTRICT
In Bales

MONTHS	No. Carolina	So. Carolina	Virginia	District
January 1945..	226,639	172,983	20,502	420,124
December 1944..	196,432	158,634	17,318	372,384
January 1944..	224,388	169,763	19,222	413,373

DEBITS TO INDIVIDUAL ACCOUNTS
(000 omitted)

Dist. of Columbia	January 1945	January 1944	% Change
Washington	\$ 554,236	\$ 481,719	+15
Maryland			
Baltimore	797,429	770,783	+ 3
Cumberland	14,356	11,783	+22
Frederick	11,490	11,079	+ 4
Hagerstown	16,302	17,451	- 7
North Carolina			
Asheville	31,315	24,369	+29
Charlotte	135,716	115,405	+18
Durham	66,340	59,102	+12
Greensboro	39,380	38,716	+ 2
Kinston	9,892	7,449	+33
Raleigh	56,673	57,403	- 1
Wilmington	41,609	35,285	+18
Wilson	11,788	8,267	+43
Winston-Salem	74,279	64,257	+16
South Carolina			
Charleston	44,002	40,272	+ 9
Columbia	54,407	48,999	+11
Greenville	42,265	38,181	+11
Spartanburg	24,685	21,722	+14
Virginia			
Charlottesville	20,180	13,672	+48
Danville	23,228	14,058	+65
Lynchburg	22,889	21,570	+ 6
Newport News	24,306	25,545	- 5
Norfolk	131,930	116,429	+13
Portsmouth	17,826	15,712	+13
Richmond	350,425	309,895	+13
Roanoke	45,630	37,800	+21
West Virginia			
Bluefield	25,590	23,798	+ 8
Charleston	80,860	82,511	- 2
Clarksburg	18,455	15,735	+17
Huntington	38,098	30,561	+25
Parkersburg	20,139	15,128	+33
District Totals	\$2,845,720	\$2,574,656	+11

COMMERCIAL FAILURES

PERIODS	Number of Failures District	U. S.	Total Liabilities District	U. S.
January 1945....	4	80	\$900,000	\$5,883,000
December 1944....	1	93	31,000	1,804,000
January 1944....	3	120	102,000	1,708,000

Source: Dun & Bradstreet.

COTTON CONSUMPTION AND ON HAND—BALES

	January 1945	January 1944	Aug. 1 to Jan. 31 1945	1944
Fifth District States:				
Cotton consumed	420,124	413,373	2,423,060	2,515,791
Cotton Growing States:				
Cotton consumed	753,847	728,532	4,312,514	4,469,806
Cotton on hand Jan. 31 in				
Consuming establishments	2,010,354	2,053,930		
Storage and compresses	12,872,262	11,888,898		
United States:				
Cotton consumed	849,945	818,724	4,877,181	5,091,116
Cotton on hand Jan. 31 in				
Consuming establishments	2,291,251	2,380,963		
Storage and compresses	12,991,042	12,114,990		
Spindles Active	22,260,628	22,216,202		

RAYON YARN DATA

	Jan. 1945	Dec. 1944	Jan. 1944
Rayon Yarn Shipments, Lbs.	49,800,000	49,000,000	41,500,000
Staple Fiber Shipments, Lbs.	13,700,000	13,600,000	13,900,000
Rayon Yarn Stocks, Lbs.	6,700,000	6,100,000	7,600,000
Staple Fiber Stocks, Lbs.	2,700,000	2,700,000	2,100,000

Source: Rayon Organon.

BUILDING PERMIT FIGURES
Fifth Federal Reserve District
January 1945

	Total Valuation	
	Jan. 1945	Jan. 1944
Maryland		
Baltimore	\$ 532,170	\$ 225,670
Cumberland	600	390
Frederick	6,400	200
Hagerstown	2,550	4,135
Salisbury	15,387	8,267
Virginia		
Danville	\$ 9,010	\$ 8,067
Lynchburg	9,627	3,680
Norfolk	114,995	91,360
Petersburg	0	400
Portsmouth	410,420	15,575
Richmond	388,809	67,500
Roanoke	22,503	25,221
West Virginia		
Charleston	\$ 30,047	\$ 23,021
Clarksburg	470	1,275
Huntington	243,525	2,140
North Carolina		
Asheville	\$ 11,998	\$ 5,875
Charlotte	363,919	9,172
Durham	61,810	5,711
Greensboro	44,739	15,955
High Point	20,110	23,729
Raleigh	90,025	12,700
Rocky Mount	77,100	850
Salisbury	3,628	18,100
Winston-Salem	36,998	18,893
South Carolina		
Charleston	\$ 56,517	\$ 91,619
Columbia	41,445	12,495
Greenville	3,850	85,623
Spartanburg	21,585	7,690
District of Columbia		
Washington	\$ 911,340	\$ 359,770
District Totals	\$3,531,577	\$1,145,083

CONSTRUCTION CONTRACTS AWARDED

STATES	Dec. 1944	% chg. from		Year 1944	% chg. from	
		Dec. 1943	Year 1943		Year 1943	Year 1943
Maryland	\$ 3,145,000	-66	\$ 83,951,000	-21		
Dist. of Col.	3,900,000	+42	30,382,000	-10		
Virginia	5,865,000	-45	107,247,000	-38		
West Virginia	1,702,000	-59	24,326,000	+17		
North Carolina	5,492,000	+4	46,293,000	-49		
South Carolina	2,329,000	-21	21,784,000	-58		
Fifth District ...	\$22,433,000	-36	\$313,983,000	-34		

Source: F. W. Dodge Corporation.

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	January 1945	January 1944	% Change
West Virginia	13,397	13,900	-4
Virginia	1,771	1,762	+1
Maryland	146	175	-17
5th District	15,314	15,837	-3
United States	52,200	53,975	-3
% in District	29.3	29.3

RETAIL FURNITURE SALES

	January 1945 compared with January 1944
STATES	
Maryland (5)*	+15
District of Columbia (6)*	+8
Virginia (25)*	+13
West Virginia (10)*	+3
North Carolina (21)*	+38
South Carolina (14)*	+26
Fifth District (81)*	+16
INDIVIDUAL CITIES	
Baltimore, Md. (5)*	+15
Washington, D. C. (6)*	+8
Lynchburg, Va. (3)*	+8
Richmond, Va. (7)*	+17
Charlotte, N. C. (4)*	+48
Winston-Salem, N. C. (3)*	+55
Columbia, S. C. (4)*	+4

* Number of reporting stores.

DEPARTMENT STORE TRADE

Richmond	Baltimore	Washington	Other Cities	District
Percentage change in Jan. 1945 sales, compared with sales in Jan. 1944:				
+21	+13	+16	+31	+17
Percentage change in stocks on Jan. 31, '45, compared with Jan. 31, '44:				
+1	0	-2	+4	-0
Change in outstanding orders Jan. 31, 1945 from orders Jan. 31, 1944:				
+52	+49	+35	+74	+43
Change in total receivables Jan. 31, 1945 from receivables Jan. 31, 1944:				
+19	+19	+20	+22	+19
Percentage of current receivables as of Jan. 1 collected in Jan.:				
53	54	45	58	50
Percentage of instalment receivables as of Jan. 1 collected in Jan.:				
25	29	22	28	25

WHOLESALE TRADE, 230 FIRMS

LINES	Net Sales Jan. 1945 compared with		Stocks Jan. 31, 1945 compared with		Ratio Jan. collections to accounts outstand'g Jan. 1
	Jan. 1944	Dec. 1944	Jan. 31 1944	Dec. 31 1944	
Auto supplies (10)*	+37	+15	+31	-3	82
Drugs & sundries (8)* ..	+7	+7	145
Dry goods (9)*	-7	+98	-15	-8	121
Electrical goods (7)*	+2	-12	-5	-4	83
Groceries (81)*	+11	+14	-2	-1	174
Hardware (13)*	+17	+9	-3	-9	108
Industrial supplies (8)* ..	+8	+16	+4	+9	108
Paper & products (6)* ..	+10	+29	97
Tobacco & products (10)* ..	+6	+2	-24	+13	147
Miscellaneous (78)*	+7	-7	-7	-0	138
District Average (230)* ..	+7	+8	-6	-2	124

Source: Department of Commerce.

* Number of reporting firms.

TOBACCO MANUFACTURING

	Jan. 1945	Jan. 1944	% Change
Smoking & chewing to- bacco (Thousands of lbs.) ..	23,838	20,158	+18.3
Cigarettes (Thousands)	20,077,012	20,115,138	-0.2
Cigars (Thousands)	379,420	366,919	+3.4
Snuff (Thousands of lbs.)	3,682	3,782	-2.6

SUMMARY OF NATIONAL BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

Factory output continued to increase in January despite severe weather conditions. Department store sales during the first seven weeks of this year have been 14 per cent above the high level maintained during the same period last year.

Industrial Production

Total output at factories and mines rose slightly in January and the Board's seasonally adjusted index was 234 per cent of the 1935-39 average as compared with 232 in the preceding three months.

Activity in munitions industries was maintained in January at the December rate, although slight increases were scheduled. In February it was announced that schedules for 1945 production of aircraft and Army ordnance items had been increased further. Output of open hearth and Bessemer steel in January was at the lowest rate since July 1942, largely due to severe weather conditions in several important steelmaking areas. Output of electric steel, however, which had been declining since the end of 1943, rose 10 per cent in January, reflecting new military requirements for alloy steel. The War Production Board early in February ordered a 10 per cent increase in aluminum ingot production and announced that a large increase had occurred in output of aluminum sheet since December 1.

Output of nondurable goods rose 2 per cent in January. Production of liquor and beverage spirits increased sharply as a result of the release of distilleries from industrial alcohol production for the month of January. Output of manufactured food products also showed a gain for the month, reflecting increases in the canning and baking industries, after allowing for seasonal changes. Activity at meat-packing establishments declined 10 per cent in January and was at a rate 25 per cent below the same month a year ago. Production in the chemical industries continued to rise, largely reflecting further increases in output of small arms ammunition. Activity at textile and paper mills continued to show little change.

Output of coal increased in January but the tonnage was 8 per cent less than the large volume for January 1944. The production rise was limited by shortages of cars at mines due to congestion in ice-clogged northern railroad yards. In the week ending February 10 output of bituminous coal was the largest for any week since last November.

Distribution

Department store sales continued in January and the first half of February at about the same high level that prevailed in the last quarter of 1944 after allowance is made for the usual sharp seasonal decline. Value of sales was 14 per cent greater than in the corresponding period a year ago, with a higher rate of gain shown in February.

Freight carloadings increased in the early part of January due chiefly to larger shipments of fuel and war

materials. At the end of January and in the early part of February, however, two short embargoes were placed on rail shipments of most non-war goods. These embargoes were limited to the northeastern states where heavy snowfalls had resulted in traffic tie-ups.

Commodity Prices

Prices of commodities in wholesale and retail markets continued to increase slightly during January. In the first three weeks of February prices of farm products averaged above the January level and small increases were permitted in maximum wholesale prices of various industrial commodities.

Bank Credit

With a steady succession of Treasury calls on War Loan balances, both demand deposits adjusted and time deposits at member banks increased from mid-January to mid-February. Time deposits maintained the rather rapid rate of increase which has prevailed for the past several months. During this period reporting member banks in 101 cities reduced their total holdings of Treasury bills in order to meet increases in required reserves and a currency drain. At the same time, however, banks continued to make sizeable purchases of Treasury bonds, mostly in the eight-to-ten year maturity range. Loans for purchasing and carrying Government securities decreased, particularly loans made directly to customers. Commercial loans also declined slightly.

During the five weeks ending February 21, Reserve Banks increased their holdings of Treasury bills by 630 million dollars and sold 65 million of Treasury bonds. The bill purchases, together with advances of 165 million dollars to member banks, enabled banks to meet a 450 million currency drain and a 270 million dollar growth in required reserves. Although currency in circulation had declined through most of January, the outflow was renewed in the last days of the month and continued at an accelerated pace in February. Excess reserves declined to below 1 billion dollars late in January, about the average level at which they have been between drives during the past year.

Government Security Yields

Following the close of the Sixth War Loan drive in December, the Government security market was strong during January and the first part of February. The average yield on medium-term, taxable Treasury bonds declined from 1.94 per cent during the last week of December to 1.78 per cent during the week ended February 17. The average yield on long-term, taxable Treasury bonds declined from 2.47 per cent to 2.39 per cent in the same period, the lowest since early December 1941.