

# Monthly Review



FEDERAL RESERVE BANK OF SAN FRANCISCO

AUGUST 1944

## Banking and Credit Developments — Commercial Bank Opinions

CURRENT policies which discourage idle cash but which emphasize liquidity, based primarily upon expectations of deposit losses to other areas after the war, are characteristic of most Twelfth District banks, according to recent interviews with executives of some 40 banks throughout the District. A sharp increase is generally anticipated in personal instalment loans; for business and agricultural loans, the outlook is more obscure.

There is a considerable degree of uniformity in the investment policies of these banks under present conditions. The emphasis is upon liquidity, but upon liquidity in terms of Government securities rather than cash. For the most part, cash is being held at a minimum, and includes little more than enough to meet reserve requirements and minimum working balances, including those with correspondents. Although a few banks are very definite exceptions, most of those interviewed make no significant distinction between surplus cash and Treasury bills. Treasury bills are considered as interest-bearing cash, on the assumption that the participation of the Reserve System in that market is relatively permanent, or at least will not be withdrawn abruptly. Other security holdings are almost entirely Government securities, and in large measure are certificates of indebtedness, notes, and bonds maturing in less than five years. A considerable proportion of these banks' new investments is being placed in securities of less than one year's maturity. During 1943, the increase in holdings of Treasury bills and certificates of indebtedness of all District member banks was 45 percent of the increase in their total Governments and 42 percent of the increase in their total assets.\*

Short term adjustments in reserve positions are made largely through the sale and repurchase of Treasury bills. Some banks are also relating, to some degree, their war loan accounts to their holdings of certificates of indebtedness. The principal factor determining the general policy of increased emphasis upon short run securities, however, is the possible loss of deposits after the war.

A second factor of much less weight is the possibility that interest rates will rise in the postwar period. Although it has contributed to the predominance of short term security holdings, this expectation is not general

and in several instances it is based upon the belief that if interest rates change at all, they will rise, rather than upon the thought that an increase is probable. There is quite complete agreement that rates will decline no further and that they will not increase for a year or two after the war. As to the probability of rates increasing over a longer period, there is a considerable range of opinion. In general, however, there seems to be confidence that Government security prices will be fairly well maintained, and that the Reserve System not only can but will support the market, if necessary.

In those cases where banks are in or near excess profits brackets, taxes have occasioned some shift into tax exempt securities, but for the most part, taxes, according to the banks, have not had an appreciable effect upon investment policies.

### Postwar Deposit Shifts

There is general agreement that total deposits in the country as a whole will not decline. Most banks in this District, however, expect a considerable loss of deposits after the war through a net shift of funds to the east, although in no case is the decline expected to carry deposits back to prewar levels. Deposits are expected to decline less sharply in banks and branches outside major cities than in the larger cities. Deposits in the outlying areas are generally assumed to be associated with levels of farm prices and farm incomes which are expected to be maintained for at least a few years after the war.

The greater part of the dollar increase—although not the larger relative increase—has occurred in the large cities and maintenance of current deposit levels is generally considered to be dependent upon war production. Various reasons are assigned for the expected loss of deposits when war production is cut back: migration out of the area, shifts of balances of national concerns eastward as their activities here are curtailed, settlement with eastern suppliers and with the Government by firms engaged in war production, and expenditures by consumers for automobiles and other durable goods and by business firms for inventories, maintenance and repair, and equipment, which the war has postponed.

The last reason for anticipating deposit losses, that individuals and firms will shift from cash into goods, is probably considered one of the most important, not only

\*Government security holdings of District member banks in 1939-1943 are given in the table which accompanies the following article on that subject.

★ For Victory ★ Buy War Bonds ★

in the Twelfth District but elsewhere as well, and deserves a brief further comment. In the nation as a whole, individual holders of deposits can reduce their balances, but all together can not unless total deposits decline. When checks are written against one account, they are deposited in another. Whether on balance this will mean a loss of deposits for a particular bank or a particular area is not always considered. Although deposits are not expected to decline for the country as a whole, the net total of the deposit changes expected by individual banks throughout the nation would, one may hazard a guess, reflect a marked drop in total deposits from present levels.

#### Postwar Loan Volume

These banks anticipate some increase over present levels but no boom in their postwar volume of business loans. Those with substantial loans to war industries are doubtful about any net increase. There is some belief that banks will find it necessary in meeting demands for credit to shift to longer term, though not necessarily long term, business loans.

The banks which have any volume of agricultural loans expect little increase in the demand for long term agricultural credit. An increase in short term credit is expected by some, but not all of those banks. It should be noted that the improved cash position of farmers was suggested as a factor limiting the demand for loans more frequently than were increased business or consumer balances.

It is in the field of personal loans that banks are almost uniformly and highly optimistic. Those already in the

instalment loan field expect a marked expansion and many not in the field expect to enter it actively after the war. A considerable expansion in real estate loans is also rather generally anticipated.

#### Internal Effects of Deposit Loss or Loan Increase

Requirements which may arise from a loss of deposits or an increase in private loans and investments are not considered likely to be a serious problem. They will be met without difficulty, it is expected, primarily through the run-off of Government securities. Should needs go beyond this point, sales of Governments might be necessary, of course, and there is an expressed willingness, again with some rather definite exceptions, to borrow from the Reserve System rather than to sell securities if conditions favor the former. That either sales or borrowing would be substantial, however, is considered a remote possibility.

#### Capital Positions

The ratios of capital accounts to total assets (and to deposits) of banks have been declining with the expansion in security holdings, but little or no concern is expressed over capital positions beyond the advisability of strengthening them through the retention of profits, which is being done. Few banks state that their capital positions play any significant part in their investment policies or that they expect capital positions to be a limiting factor in any possible loan expansion in the postwar period.

### Government Security Holdings of Twelfth District Member Banks, 1939-43

IN the last four years, especially in 1942 and 1943, member bank investments in Government securities have been increasing rapidly, both in amount and relative to total assets. Total Governments, direct and guaranteed, amounted to 1,450 million dollars and were 27 percent of total assets on December 31, 1939; on December 31, 1943, they amounted to 6,235 million dollars and were 53 percent of total assets. At the same time, short term Gov-

ernments have been increasing in importance in Government security portfolios. At the end of 1939, securities which matured in less than 5 years were 31 percent of all Governments and 8 percent of total assets; four years later, they were 58 percent of all Governments and 31 percent of total assets. Of the total dollar increase in member bank assets over the period, one-third occurred in Treasury bills and certificates of indebtedness, one-

GOVERNMENT SECURITIES, BY MATURITY, AND OTHER ASSETS OF TWELFTH DISTRICT MEMBER BANKS, 1939-43  
(as of December 31)

	Millions of dollars					Percent of total				
	1939	1941	1942	1943	Increase 1939-43	1939	1941	1942	1943	Increase 1939-43
<b>United States Government securities</b>										
Treasury bills .....	7	101	473	714	707	—	1	5	6	11
Certificates of indebtedness.....	—	—	506	1,432	1,432	—	—	6	12	23
Other securities under 5 years <sup>1</sup> .....	447	445	842	1,505	1,058	8	7	9	13	17
<b>Total under 5 years .....</b>	<b>454</b>	<b>546</b>	<b>1,821</b>	<b>3,651</b>	<b>3,197</b>	<b>8</b>	<b>8</b>	<b>20</b>	<b>31</b>	<b>50</b>
Bonds maturing in 5 to 10 years.....	478	330	913	1,756	1,278	9	5	10	15	20
Bonds maturing after 10 years.....	518	861	896	830	312	10	13	10	7	5
<b>Total Governments .....</b>	<b>1,450</b>	<b>1,737</b>	<b>3,630</b>	<b>6,237</b>	<b>4,787</b>	<b>27</b>	<b>26</b>	<b>41</b>	<b>53</b>	<b>75</b>
<b>Other assets</b>										
Other securities .....	524	542	538	557	33	10	8	6	5	1
Total loans .....	1,967	2,451	2,170	2,106	139	37	36	24	18	2
Cash assets, except reserves .....	674	974	1,238	1,230	556	12	14	14	10	9
Excess reserves .....	122	202	159	107	—15	2	3	2	1	—
Required reserves .....	458	717	1,056	1,352	894	9	11	12	12	14
Other assets .....	185	168	162	147	—38	3	2	2	1	—1
<b>Total assets .....</b>	<b>5,380</b>	<b>6,791</b>	<b>8,953</b>	<b>11,736</b>	<b>6,356</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>1</sup>Includes all savings bonds and guaranteed obligations. Note: Figures do not necessarily add to totals because of rounding.

half in all Government securities maturing in less than 5 years, and three-fourths in total Government security holdings.

The increasing importance and shortening maturities of Government securities are general among District banks. Classifications of banks in terms of their deposit growth and in terms of size reveal no clearly defined association between those factors and the character of the banks' Government security holdings.

There was considerable variation in 1939 among these groups of banks in the importance of Governments rela-

tive to total assets and in the relative importance of Government securities of under 5 years maturity. It is noticeable that by the end of 1943, however, banks in every size group, except the two smallest, and in every deposit increase group had increased their Governments to between 50 and 58 percent of total assets and their short term Governments (under 5 years) to between 30 and 35 percent of total assets. This convergence indicates much greater similarity among current investment policies, partly by choice and partly by necessity, than was the case before the war.

ASSETS OF TWELFTH DISTRICT MEMBER BANKS BY DEPOSIT INCREASE AND TOTAL DEPOSITS, 1939 AND 1943  
(percent of total)

	Banks classified by percentage increase, 1939-43, in demand deposits of individuals, partnerships and corporations					Banks classified by amount of total deposits, December 31, 1943 (in millions of dollars)						
	50-150	150-200	200-300	300-500	Over 500	1943						
						Under 1	1-2	2-5	5-10	10-50	50-500	Over 500
<b>United States Government securities</b>						<b>1943</b>						
Treasury bills	6	8	5	7	4	9	7	7	6	6	5	7
Certificates of indebtedness	10	15	13	9	13	7	8	11	11	13	10	14
Other securities under 5 years <sup>1</sup>	15	12	12	17	14	10	10	14	14	14	15	11
Total under 5 years	31	35	30	33	31	26	25	32	31	33	30	32
Bonds maturing in 5 to 10 years	17	14	15	14	14	7	13	13	12	12	18	13
Bonds maturing after 10 years	10	5	7	5	5	4	4	5	7	7	9	6
Total Governments	58	54	52	52	50	37	42	50	50	53	57	50
<b>Other assets</b>												
Other securities	3	4	5	4	2	3	5	6	6	4	3	6
Total loans	12	18	20	15	11	18	16	14	13	15	14	22
Other assets	27	24	23	29	37	42	37	30	31	28	26	22
Total assets	100	100	100	100	100	100	100	100	100	100	100	100
<b>United States Government securities</b>						<b>1939</b>						
Treasury bills	1	..	..	..	..	..	..	..	..	..	..	..
Certificates of indebtedness	..	..	..	..	..	..	..	..	..	..	..	..
Other securities under 5 years <sup>1</sup>	7	9	9	7	5	6	4	4	4	7	8	9
Total under 5 years	8	9	9	7	5	6	4	4	4	7	8	9
Bonds maturing in 5 to 10 years	12	2	10	3	6	3	4	4	5	4	9	10
Bonds maturing after 10 years	19	14	6	5	7	2	4	4	9	5	15	6
Total Governments	39	25	25	15	18	11	12	11	18	16	32	25
<b>Other assets</b>												
Other securities	8	11	10	10	11	11	13	15	12	9	8	11
Total loans	24	37	40	44	41	41	41	41	34	38	29	43
Other assets	29	27	25	31	30	37	34	33	36	37	31	21
Total assets	100	100	100	100	100	100	100	100	100	100	100	100
Number of banks	20	27	98	92	19	19	60	86	32	32	24	3
Total assets (in mill. of dollars)												
1943	1,777	1,779	7,380	665	77	16	98	279	242	763	4,800	5,480
1939	1,061	938	3,110	216	16	7	39	104	95	311	2,200	2,585

<sup>1</sup> Includes all savings bonds and guaranteed obligations. Note: Figures do not necessarily add to totals because of rounding.

## Review of Business Conditions—Twelfth District

### Results of the Fifth War Loan Drive

EXCEEDING the goal of the drive by nearly 5 billion dollars and the largest volume of sales in any previous drive by almost 2 billion, national sales of Government securities during the Fifth War Loan Drive amounted to 20.6 billion dollars. In addition, sales outside the loan drive were made to commercial banks holding savings accounts in the amount of 0.8 billion dollars and to Treasury investment accounts in the amount of 0.6 billion.

Sales to individuals totaled 6.4 billion dollars, about one billion more than in either the third or fourth drives.

Sales of Series E bonds were not quite half of total sales to individuals, and were somewhat less than in the fourth drive. Many larger investors probably had previously purchased the limit allowed in a calendar year, as indicated by the fact that, although the total declined, sales of 25 and 50 dollar denomination bonds increased over the previous drive.

Twelfth District sales were also higher than in any other drive, and amounted to 1.7 billion dollars. As in the country as a whole, District sales to individuals increased, totaling 703 million dollars compared with 623 million in the fourth drive, but Series E bond sales did

not quite reach the level of the previous drive. District sales were about the same share of the national total, 8 percent, in the fourth and fifth drives.

SALES OF SECURITIES, FIFTH WAR LOAN DRIVE  
UNITED STATES AND TWELFTH DISTRICT BY STATES  
(in millions of dollars)

	Total	Sales to individuals			Other <sup>1</sup>	
		Total	Series E	Series F & G		
United States .....	20,639	6,351	3,036	574	2,741	14,288
Twelfth District <sup>2</sup> .....	1,690	703	414	69	217	988
Arizona <sup>2</sup> .....	43	21	12	2	7	22
California .....	1,070	410	260	51	98	660
Idaho .....	32	19	12	1	6	13
Nevada .....	14	8	4	1	3	6
Oregon .....	188	119	45	5	69	69
Utah .....	58	24	15	1	7	35
Washington .....	285	102	66	8	27	183

<sup>1</sup> Includes corporations, associations, state and local governments, and Federal field agencies.

<sup>2</sup> Includes sales in five southeastern counties of Arizona in the Eleventh Federal Reserve District.

Note: Figures do not necessarily add to totals because of rounding.

**Food Production and Processing**

The decline in Twelfth District nonagricultural employment which began last fall was reversed in July and August as the processing of food crops entered its active season. Agricultural employment also increased. Industrial and agricultural activity and employment customarily attain a seasonal peak, somewhat less marked now than before the war, in August and September. This year, however, because of outmigration and retirement from the labor force, total employment is not increasing in the numbers characteristic of the same period in other recent years, and will, according to present indications, fall off more sharply than is customary in the late fall months even in the absence of substantial cutbacks in war production. Nonagricultural employment currently approximates 3.9 million, compared with 4.2 million a year ago.

The attention of manpower officials is currently focussed on the agricultural and food processing labor situation as well as on continuing shortages in the war industries. Shortages in the war industries relate largely to activities requiring high skills or heavy labor. Because of lack of training and other factors, women are not adaptable to most of these activities which, to name a few, include ship repair and conversion, heavy tire manufacture, and waterfront, warehousing, and transport operations.

To an increasing extent employers are seeking persons having certain capabilities to fill particular jobs, rather than taking workers at random, a procedure which has resulted in some unemployment in localities where workers and jobs do not match.

Early apprehension that there would be a critical insufficiency of agricultural and food processing workers to handle this year's crops has not, at latest reports, been borne out. Although agricultural employment averaged about 870,000 in July, some 16,000 workers fewer than were available in July 1943, an unusually large apricot crop was harvested satisfactorily, and only scattered shortages were reported in other farm activities. That current farm employment has not fallen farther short of 1943 levels reflects the utilization in greater numbers than last year of Mexican nationals, Japanese evacuees, American volunteer workers and servicemen, and prisoners of war. More than 47,000 Mexican nationals were employed in agricultural work on August 1.

DECIDUOUS FRUIT AND COMMERCIAL TRUCK CROP PRODUCTION—  
TWELFTH DISTRICT  
(in thousands)

	Average 1932-41	1942	1943	Indicated 1944
Apples (bu.) .....	42,887	38,195	35,580	41,169
Apricots (tons) .....	250	228	106	330
Cherries (tons) .....	68	90	80	84
Grapes (tons) .....	2,132	2,179	2,808	2,515
Peaches (bu.) .....	25,241	32,074	27,873	34,732
Pears (bu.) .....	19,432	20,884	20,878	20,300
Plums (tons) .....	64	72	76	73
Prunes				
Ida., Wash., Ore. (fresh tons) ..	147	113	136	101
California (dry tons) .....	195	171	196	163
Asparagus (crates) .....	7,513	7,851	8,198	8,262
Snap beans (bu.) .....	1,513	1,391	1,328	974
Peas (bu.) .....	5,594	2,761	3,561	4,659
Tomatoes (bu.) .....	4,529	5,472	5,820	6,683

Source: United States Department of Agriculture.

Wage-earner employment in the fruit and vegetable canning industry increased sharply in July, the latest month for which data are available, to 76,000, compared with 58,000 in July 1943 when the apricot crop was unusually small. July employment at canneries during the three-year period 1940-42 averaged 67,000. In mid-August, canning facilities were reported taxed as harvesting of the largest peach crop since 1930 was acceler-

**Banking and Credit—**

Averages of Wednesday figures (millions of dollars)	Change from			
	July	1944 June	1944 May	1943 July
<b>Condition items of weekly reporting member banks</b>				
Total loans .....	1,018	+ 60	+ 73	+ 102
Com'l., ind., & agric. loans .....	469	+ 2	- 5	+ 28
Loans to finance transactions in:				
U. S. Government securities .....	108	+ 52	+ 62	+ 111
Other securities .....	46	+ 5	+ 12	
Real estate loans .....	296	- 1	0	- 33
All other loans .....	100	+ 2	+ 5	- 3
Total investments .....	4,494	+380	+476	+1,211
U. S. Government securities .....	4,184	+367	+454	+1,163
All other securities .....	346	+ 12	+ 22	+ 47
Adjusted demand deposits .....	2,679	-111	- 78	+ 262
Time deposits .....	1,479	+ 14	+ 41	+ 261
United States Government deposits ..	1,144	+587	+611	+ 718
<b>Coin and currency in circulation</b>				
Total (changes only) .....	—	+ 75	+159	+ 760
Fed. Res. notes of F. R. B. of S. F. ..	2,316	+ 74	+156	+ 732
<b>Member bank reserves</b> .....	1,467	- 48	+ 11	+ 162

**Production and Employment—**

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944		1943		1944		1943	
	July	June	May	July	July	June	May	July
<b>Industrial production<sup>1</sup></b>								
Lumber .....	126	r131	r122	141	136	r149	141	150
Refined oils <sup>2</sup> .....	—	—	—	—	214	225	216	192
Cement <sup>2</sup> .....	124	119	116	137	136	135	122	150
Wheat flour <sup>2</sup> .....	151	153	153	126	133	134	135	110
Petroleum <sup>2</sup> .....	—	—	—	—	129	128	126	118
Electric power <sup>2</sup> .....	407	418	437	378	454	448	444	422
<b>Factory employment and payrolls<sup>3</sup></b>								
<b>Employment</b>								
Twelfth District .....	284	288	313	..	283	287	314	
California .....	332	334	342	370	332	334	342	370
Pacific Northwest .....	224	223	241	..	223	222	243	
Oregon .....	193	190	222	..	194	191	224	
Washington .....	243	244	252	..	240	241	254	
Intermountain .....	121	120	164	..	124	121	168	
<b>Payrolls</b>								
California .....	681	r691	695	717	680	r694	698	716

<sup>1</sup> Daily average.

<sup>2</sup> 1923-25 average = 100.

<sup>3</sup> Excludes fish, fruit, and vegetable canning.

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ated and the Farm Labor Offices of the War Food Administration were cooperating with the WMC to meet cannery labor shortages in several areas. Workers such as housewives and school children among whom the turnover rate is abnormally high, comprise a large proportion of cannery help.

Under wartime conditions, the civilian demand for processed foods at ceiling prices exceeds the supply available to civilians. Stocks of canned goods carried over from the previous season, the unsold portion often unmovable at asking prices before the war, are now almost negligible at the beginning of each new packing season.

**CANNERS' SOLD AND UNSOLD STOCKS OF MAJOR CALIFORNIA CANNED FRUIT AND VEGETABLES**  
(July 1 figures—thousands of cases)

	1944 <sup>1</sup>	1943 <sup>1</sup>	1941 <sup>1</sup>	1937-41 Average
<b>Fruits (No. 2½ can basis)</b>				
Apricots .....	1	103	276	762
Cherries .....	1	5	16	60
Fruit cocktail .....	156	239	653	651
Fruits for salad .....	0	81	46	226
Peaches, cling .....	210	768	792	2,656
Peaches, freestone .....	2	63	165	244
Pears .....	28	159	244	306
<b>Total .....</b>	<b>398</b>	<b>1,418</b>	<b>2,192</b>	<b>4,905</b>
<b>Vegetables (actual cases)</b>				
Asparagus <sup>2</sup> .....	177	220	307	424
Spinach <sup>2</sup> .....	98	57	183	267
Tomatoes .....	121	310	543	1,085
Tomato products .....	795	1,290	1,390	2,077
<b>Total .....</b>	<b>1,191</b>	<b>1,877</b>	<b>2,423</b>	<b>3,853</b>

<sup>1</sup> Exclusive of stocks sold to U. S. Government.  
<sup>2</sup> March 1 figures.  
Source: Canners' League of California.

Unlimited packs of most fruits and vegetables canned in the Twelfth District are permitted under WPB Tin Conservation Order M-81, the principal exception being spinach. The canning of fruits for salad is not permitted. Official figures of 1944 packs will not be published until 1945, but trade reports indicate that the California apricot pack was very large, possibly approaching the record pack of 5,553,000 cases packed in 1937. The peach pack, to be completed in September, will also be large, possibly 14 to 15 million cases, compared with a previous high of 14,975,000 cases packed in 1928, but a small pear

pack is anticipated. In July, an asparagus pack of 2,433,000 cases, the largest since 1930, was completed. The spinach pack, also completed earlier in the year, was limited in amount to the average for 1942-43.

**PRODUCTION, GOVERNMENT REQUIREMENTS, AND CIVILIAN SUPPLIES OF SELECTED CANNED FOODS**  
(in millions of cases: fruit No. 2½ can basis, vegetables No. 2 can basis)

	Twelfth District production		Production		United States Government requirem'ts		Civilian supply	
	1943	1942	1943	1942	1943	1942	1943	1942
Apricots .....	1.2	3.2	1.2	3.2	1.1	1.5	0.1	1.7
Cherries .....	0.9	1.0	1.3	3.5	0.4	1.4	0.9	2.1
Peaches .....	11.3	14.8	11.3	16.0	5.1	5.5	6.2	10.5
Pears .....	4.5	5.5	4.5	6.0	3.0	2.3	1.5	3.7
Asparagus .....	2.6	2.7	4.0	4.3	1.3	1.3	2.7	3.0
Peas .....	10.4	8.1	35.4	36.0	6.9	12.5	28.5	23.5
Spinach .....	2.5	3.6	6.7	9.6	3.3	4.3	3.4	5.3
Tomatoes .....	6.6	9.3	29.0	41.0	9.0	16.0	20.0	25.0

Source: United States figures, Office of Price Administration. Twelfth District figures partly estimated from National Cannery Association data.

Government processed food requirements are considerably larger this year than in 1942 or 1943, and nearly half the 1944 pack is being set aside under the provisions of War Food Administration order WFO 22.6. This compares with 31 percent in 1942 and 27 percent in 1943, and means that even though the national processed food pack is larger this year than last, civilians will get less.

**Distribution and Trade—**

Index numbers, 1935-39 daily average=100	With seasonal adjustment			Without seasonal adjustment				
	1944		1943	1944		1943		
	July	June	May	July	June	May	July	
<b>Department store sales (value)<sup>1</sup></b>								
Twelfth District .....	223	210	210	200	185	193	202	166
Southern California .....	..	..	..	..	190	199	206	166
Northern California .....	..	..	..	..	173	178	184	152
Portland .....	..	..	..	..	179	198	206	174
Western Washington .....	..	..	..	..	219	223	241	199
<b>Eastern Washington and</b>								
Northern Idaho .....	..	..	..	..	172	183	185	161
Phoenix .....	..	..	..	..	195	202	225	176
<b>Carloadings (number)<sup>2</sup></b>								
Total .....	120	r116	119	117	123	r125	120	119
Merchandise and misc. ....	135	r132	138	117	144	r140	129	125
Other .....	102	r 96	96	118	97	106	108	112

<sup>1</sup> Seasonally adjusted indexes in process of revision.  
<sup>2</sup> 1923-25 daily average = 100.  
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## Summary of National Business Conditions

Released August 26, 1944—Board of Governors of the Federal Reserve System

**I**NDUSTRIAL production and employment declined slightly further in July. Wholesale commodity prices generally continued to show little change, while the cost of living increased somewhat.

### INDUSTRIAL PRODUCTION

Output at factories and mines continued to decline slightly in July and the Board's seasonally adjusted index was 233 percent of the 1935-39 average as compared with 235 in June. The decrease in industrial production largely reflected small declines in a number of industries due to continued minor readjustments in the munitions program and to manpower shortages.

Output of steel and of nonferrous metals declined further in July to levels respectively 8 percent and 20 percent below the high levels of last autumn. A small decrease in activity in transportation equipment industries reflected partly the indirect effects of manpower shortages in foundries and continued readjustments in the shipbuilding and aircraft industries. In August a cutback in aircraft production was announced which was expected to result in the immediate release of 20,000 aircraft workers and the gradual release of 100,000 more during the balance of this year.

Production of manufactured dairy products and meats, after allowance for seasonal change, was maintained in July while output of other food products declined slightly. Cotton consumption showed little change from the rate of the last two months. Activity in the rubber products industry continued to decline slightly in July and supplies of heavy truck and bus tires available for civilians during the third quarter were substantially below estimated needs. Output of chemicals likewise continued to decline slightly.

Crude petroleum output and metal mining were maintained in large volume during July. Coal production dropped 5 percent from the level of the preceding month, but for the year through August 12 was approximately 8 percent above the corresponding period of last year, reflecting uninterrupted operations, longer working hours, and a great expansion of strip mining.

So far this year the value of construction contracts awarded, as reported by the F. W. Dodge Corporation for 37 states, has fluctuated around 160 million dollars a month—the lowest level since early 1935.

### DISTRIBUTION

Department store sales declined considerably less than is usual in July, and have continued in August at a higher level than a year ago.

Freight carloadings continued to rise in July and were maintained at a high level during the first two weeks in August. There were considerable increases in shipments of grain, forest products, and miscellaneous freight, offset partly by a small decrease in coal shipments.

### AGRICULTURE

Dry weather during July in the east central area has reduced somewhat national prospects for corn, hay, and potatoes. Aggregate crop production, however, is likely to exceed last year by 5 percent, reflecting chiefly a record wheat crop 35 percent larger than last year.

Total production of all feed grains is estimated at 112 million tons compared with 115 million tons produced in 1943. While hay production, except in the drought areas, has been large, it will provide a smaller supply per animal unit than has been available in any of the last 6 years.

Crop prospects for most fruits and vegetables, except potatoes, are better than last year. Tobacco production is indicated as being above average and cotton yields may be good as dry weather has held the boll weevil in check.

### BANK CREDIT

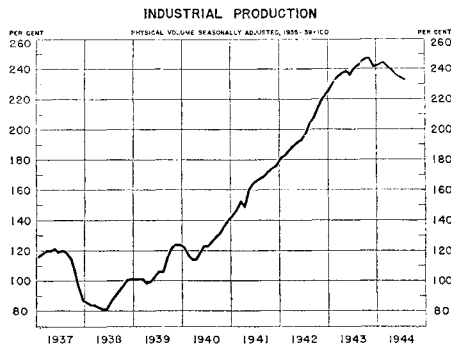
In the five weeks following the close of the Fifth War Loan Drive, loans by banks for purchasing and carrying U. S. Government securities declined sharply; calls on war loan deposits and subsequent Treasury expenditures increased adjusted demand deposits and consequently required reserves; the rapid outflow of currency into circulation was renewed; and excess reserves declined.

In the five weeks from July 12 through August 16 loans to brokers and dealers for purchasing and carrying Government securities declined 500 million dollars to about the pre-drive level. Loans to others for purchasing and carrying Government securities declined about the same amount, but are still considerably larger than before the drive. Commercial loans continued to show little change.

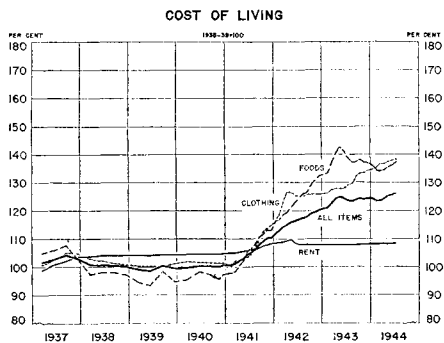
Treasury war-loan balances at all depositories declined in the five-week period by 2.7 billion dollars. At weekly reporting banks, Government deposits fell by 2.2 billion during the same period and adjusted demand deposits increased by 1.4 billions. Time deposits continued the steady increase that has been in progress for more than a year.

Following a slackened rate of outflow during the war loan drive, currency renewed its rapid outflow and in the next few weeks increased at a rate of about 500 million dollars a month. The resulting drain on bank reserves and the increase in required reserves were met in part by purchases of Government securities by the Reserve Banks and in part by a decline in excess reserves.

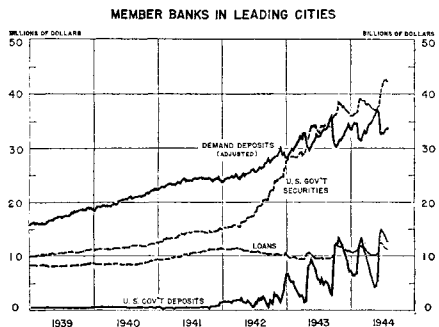
Weekly average excess reserves of all member banks declined about 300 million dollars from their peak during the war loan drive and amounted close to 1.1 billion dollars in mid-August. The rate of decline was about the same at reserve city and at country banks.



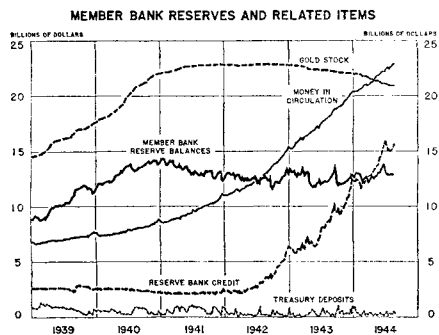
Federal Reserve index. Monthly figures, latest shown is for July.



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for July.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for August 16.



Wednesday figures, latest shown are for August 16.