

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

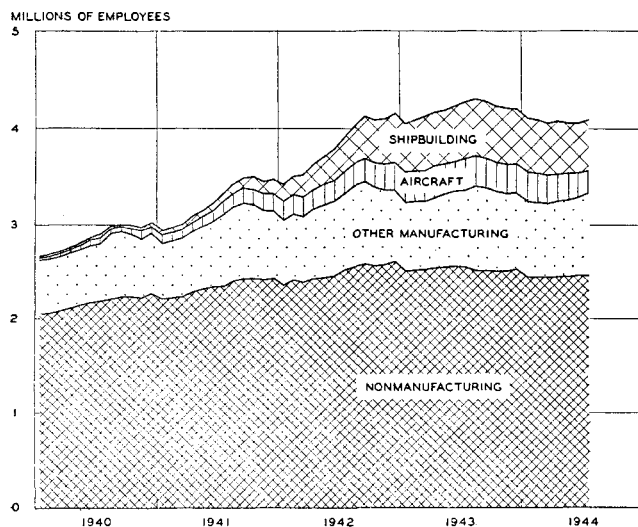
OCTOBER 1944

Review of Business Conditions—Twelfth District

It is now more than a year since employment in the Twelfth District began to shrink. Total employment in non-agricultural pursuits has decreased from a peak of 4.2 million in the fall of 1943 to a current level approximating 3.9 million. As has been pointed out in earlier analyses of employment trends, the decline has been especially pronounced in the aircraft and shipbuilding industries. Employment in shipbuilding in the District fell from 583,000 in September 1943 to 517,000 in September 1944, while aircraft industry employment experienced a decline from 309,000 to 236,000 over the same period. In all other manufacturing industries combined employment declined only slightly during the same period, from 876,000 to approximately 860,000, or 2 percent. In other non-agricultural pursuits employment has shown mixed changes during the past year. The largest decline took place in the construction industry, reflecting the comple-

The decrease in aircraft and shipbuilding employment has occurred in the face of renewed demands by these industries for more workers. In fact, virtually every important establishment in the area is actively attempting to recruit new employees at the present time. Apparently other factors, such as optimism regarding an early end of the war and fear of a reconversion lag in the West, are outweighing opportunities to remain in war jobs. People are leaving the five principal Pacific Coast production areas in substantial numbers, many of them presumably to return to home states outside the Twelfth District. Additional factors in the decline of employment in the principal durable goods industries have been the return of housewives and older persons to non-employment pursuits, and the shift of workers to so-called civilian goods industries. With regard to the latter point, preliminary reports indicate some recent growth in the number of small retail establishments.

NONAGRICULTURAL EMPLOYMENT—Twelfth District



Number of persons employed, by months, January 1940-July 1943. Sources: U. S. Bureau of Labor Statistics, California State Division of Labor Statistics and Law Enforcement, Aircraft War Production Council, Inc.

tion of war facilities, and small decreases also occurred in trade establishments and in mining. Employment in transportation and other public utilities, and in government, including Federally-owned establishments, increased somewhat during the same period.

Postwar Job Opportunities

A review of employment trends brings up again the question of future employment prospects in the West. Developments in recent months may call for some modification of earlier predictions. It has usually been assumed, for example, that the end of the war in Europe would come considerably earlier than in the Pacific, and that war employment needs on the West Coast would continue at a high level until the surrender of Japan. Events of recent weeks have caused some observers to revise their thinking in terms of a shorter Pacific war, with the result that the "lag" may not be as great as originally expected.

Regardless of the extent to which a continuing Pacific war eases the transition to peace in the Twelfth District, the overriding fact is that the end of the war will bring sharp reductions in war industry employment. District aircraft employment is expected to decline up to 80 percent in the immediate postwar period. Employment in shipbuilding, exclusive of Government operations, is expected to decline by a greater proportion, perhaps 90 percent, after the war. The decline may be less precipitous, however, because of the ship repair and conversion work expected in the immediate postwar period.

War industry in this region is being carried on largely with new rather than converted facilities. Net immigra-

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tion to the District between 1940 and early 1944 amounted to some 1,800,000 persons, and total manufacturing employment increased about 900,000 in the same period. Basic prewar industries such as lumbering, food processing, and petroleum refining, have been operating during the war at levels well above those of 1940. These basic factors, extensive plant capacity over and above prewar facilities, a greatly expanded labor force, and a present high level of activity in many of the District's prewar industries, make it evident that civilian industry would have to expand phenomenally in the immediate postwar period to maintain employment at anything approaching present levels.

Postwar Intentions of Immigrants

There has been much speculation concerning whether or not the prospective deficit in number of jobs will result in a mass exodus of workers who may have entered the District with the intention of remaining only during the war. A number of surveys, all of limited scope, have been made to determine the post-war intentions of these immigrants. They indicate that, regardless of employment conditions, some 20 percent expect to leave the area in which they are now working. A somewhat greater proportion, perhaps one third to one half, expects to remain. Moreover, the surveys of employee intentions show that one third of the former housewives plan to continue working, and that there is a marked preference for industrial employment among the immigrants, many of whom did not work in factories before the war. These conclusions are extremely tentative and actual decisions of many will probably depend upon job opportunities, here and elsewhere, after the war. In any event, the probable return of 900,000 persons who have joined the armed forces since 1940 must be balanced against the number who will leave the area or retire from the labor force when the war is over.

Reconversion Problems

In any estimate of immediate postwar job prospects one of the imponderables is the speed and effectiveness with which industry can convert to the production of civilian goods. Several aspects of this problem in the

Twelfth District are of particular interest. As has already been emphasized, an unusually large share of war production facilities in this area consists of plants constructed especially for such production, rather than facilities converted from peace-time production. Virtually all the shipyards and aircraft plants fall into this category. Insofar as these two types of facilities are needed for peacetime production, there will of course be no conversion problem. It is very unlikely, however, that immediate postwar production needs will be such as to require more than a small fraction of such facilities.

Magnesium, aluminum, and, in large measure, steel plants are also war created additions to the District economy. Their continued operation depends both upon the development of additional metal-using manufactures in the District and upon the terms and conditions of disposal of those plants which are Government owned, as well as upon a number of other factors, including relative transportation costs. Their peacetime future is as yet obscure.

Certain other industries in the Twelfth District will experience little difficulty in shifting from war to peacetime production. Lumber, petroleum, and food processing industries fall in this group. Still others, such as furniture and apparel manufacturing, have been only partly converted to war production, and here again reconversion presents no serious problem. Reconversion and expansion of prewar industry, however, is the lesser part of the problem of employing the probable postwar labor force in the District. Even more important is the development of new industries and services to take up the slack of sharply reduced aircraft production and shipbuilding.

Various government agencies have for a number of months been giving a great deal of attention to reconversion problems. The so-called spot authorization program of the War Production Board, in effect since August 15, is designed to allow manufacturers to commence production of certain civilian goods where it can be done without danger to the war effort. No blanket authorizations have been given, action being limited to approval or disapproval of individual applications, and so far the program has been extremely limited in scope. Between August 15 and October 17 of this year 1,178 applications were received in the nation as a whole, and of these 940

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment				Without seasonal adjustment			
	1944			1943	1944			1943
	Sept.	Aug.	July	Sept.	Sept.	Aug.	July	Sept.
Industrial production¹								
Lumber	126	r124	127	131	146	r149	137	152
Refined oils ²	—	—	—	—	220	220	214	197
Cement ² .....	..	111	124	148	..	124	136	157
Wheat flour ²	117	137	151	108	139	137	133	128
Petroleum ² .....	..	—	—	—	133	130	129	118
Electric power ²	410	415	407	419	429	455	454	439
Factory employment and payrolls³								
Employment								
Twelfth District .....	..	280	281	306	..	282	282	310
California	318	327	332	364	319	328	332	366
Pacific Northwest ..	..	224	222	230	..	229	223	237
Oregon .....	..	193	195	206	..	199	196	214
Washington .....	..	243	238	244	..	247	239	251
Intermountain .....	..	123	120	158	..	123	123	163
Payrolls								
California	677	679	682	747	679	682	681	749

¹ Daily average.

² 1923-25 average = 100.

³ Excludes fish, fruit, and vegetable canning.

r Revised.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1944			1943	1944			1943
	Sept.	Aug.	July	Sept.	Sept.	Aug.	July	Sept.
Department store sales (value)¹								
Twelfth District	217	221	223	189	226	202	185	197
Southern California ..	..	..	..	..	228	205	190	196
Northern California ..	..	..	..	..	209	182	173	177
Portland .....	..	..	..	..	233	199	179	202
Western Washington ..	..	..	..	..	264	250	219	236
Eastern Washington and Northern Idaho .....	..	..	..	..	229	205	172	207
Phoenix .....	..	..	..	..	231	199	195	215
Carloadings (number)²								
Total	103	115	r116	108	121	133	r118	124
Merchandise and misc.	122	130	r130	113	144	145	r139	133
Other	84	98	r98	102	94	118	r93	113

¹ Seasonally adjusted indexes in process of revision.

² 1923-25 daily average = 100.

r Revised.

were approved, involving an expected production during the fourth quarter of some 44 million dollars. Compared with a probable war goods production alone of some 15 billion dollars during the same period it is clear that no very extensive reconversion is being authorized. Although an appropriate proportion of these authorizations applies in the Twelfth District, considerations involved in the shortage of manpower have prevented authorization of production of any significant proportions up to the present time.

The extent to which resumption of civilian goods production on the West Coast as against the rest of the country will be permitted has been the subject of much controversy. Some representatives of Western industry have expressed fears that early reconversion in other sections of the country following the defeat of Germany would give producers in these sections prior access to postwar markets, to the detriment of industry in the West. Proponents of this point of view stress the expectation that there will be little or no reduction in the need for ships and planes, the West Coast's two principal war products, and that geographic factors also dictate a continued high level of war activity in this area. In view of the complexity and diffusion of war industry, however, it seems unlikely that there will be no reduction whatever in war activity in the West even though such reductions may be less drastic here than elsewhere. It is more reasonable to as-

sume that cancellation of contracts will affect a number of war commodities to which this area is directly or indirectly contributing productive effort.

In any case, continued war production at a relatively high level may well be preferable to early cut-backs. This follows from a realization that major war industries in the West represent, not converted peacetime industries, but new war facilities not readily adaptable to civilian goods production. On the Pacific Coast, problems of transition from a wartime economy to a peacetime economy do not concern a return of facilities to prewar uses so much as they concern the development of new products and new markets to maintain employment at the high level required by the very large wartime increase in population. Since it is quite clear that such products and markets could not be developed within a few months in sufficient magnitude to absorb an appreciable part of the West's wartime plants and manpower, it is maintained that a more gradual transition from war to peacetime production in the area should be welcomed. Meanwhile such slackening in war production as is likely to occur in any case would provide men and facilities, particularly in the engineering category, with which the foundations for greatly expanded civilian goods production in the postwar period could be laid. The magnitude of the expansion that would be necessary remains the most impressive part of the problem.

Hawaiian Series Currency

AN unusual currency regulation applicable to the Territory of Hawaii was revoked in October. As a result we may expect a relatively small amount of currency overprinted "Hawaii" to appear in general circulation in the United States, particularly on the Pacific Coast, during the next several months.

The appearance of this overprinted currency in circulation on the mainland will serve to remind us of a most difficult period of the war in the Pacific. In July 1942, all regular United States currency in the Territory of Hawaii was withdrawn and replaced by special series of United States silver certificates and notes of the Federal Reserve Bank of San Francisco bearing a brown seal and overprinted "Hawaii" on each end of the note and across the back. (Currency needs in Alaska and Hawaii as well as in the Twelfth District are supplied through the Federal Reserve Bank of San Francisco, and virtually all of the higher denomination currency in circulation in Hawaii prior to the war were notes of this bank.) After August 15, 1942, no other currency could be legally held or used in Hawaii. Also, securities held in the Territory were required to be perforated with the letter "H." Export of Hawaiian Series currency from the Territory was prohibited.

This step was a part of the defense of Hawaii. The overprinted currency and the perforated negotiable se-

curities could be easily identified should they fall into enemy hands so that transactions could be stopped if attempts were made to realize on them. Later, as our military offensive progressed, Hawaiian Series currency was used, again because of its distinctive characteristics, as occupational currency in our invasion of Japanese-held islands in the Central Pacific. In the Philippines, however, special peso notes, exchangeable at the prewar rate of fifty cents per peso, are being used as invasion currency.

On October 21, 1944, the Hawaiian currency and securities regulation was revoked by the Treasury. Hawaiian Series currency will no longer be printed, and ordinary currency and unperforated securities as well as overprinted currency and perforated securities may be held and circulated in Hawaii. Hawaiian Series currency retains its validity as United States Government currency and continues to be legal tender for all purposes. It is not being retired and when received by banks in either Hawaii or the continental United States will be treated as any other currency and re-issued until it becomes unfit for further circulation. For some time previous, the small amounts of Hawaiian currency which were brought into the continental United States were freely exchanged for regular currency by banks but, once received by banks, were not re-issued.

Contract Settlement Financing—the T-Loan

IN the early part of the war business concerns which were expanding their operations to meet the requirements of the war procurement agencies often needed additional working capital. The guaranteed V-loan was devised as one means of making the necessary funds available. The Federal Reserve Banks, as fiscal agents of the United States on behalf of the War and Navy Departments and the Maritime Commission, guaranteed loans made by private financing institutions for war production. Later, a modified form of guaranteed loan, the VT-loan, was introduced, which not only provided financing of war production, but also protected the borrower in the event his contract should be cancelled. To be effective in the period between termination of war work and settlement of the contract termination claim, however, the VT-loan had to be entered into before contract cancellation occurred.

The Baruch-Hancock report recommended guaranteed termination loans to make funds promptly available to war contractors pending settlement of contract termination claims. Congress acted favorably on the recommendation in passing the Contract Settlement Act of 1944, which authorizes the guarantees. Federal Reserve Banks are empowered to act as fiscal agents of the United States on behalf of the War and Navy Departments and the Maritime Commission in extending Government guarantees to private financing institutions making termination loans (T-loans).

Any borrower who is or has been engaged in war production, whether as a prime contractor or as a subcontractor, is eligible for a T-loan. Contracting agencies are instructed not to refuse guarantees except in such classes of cases as may be prescribed by the Office of Contract Settlement. The amount of the loan is based on the borrower's receivables, inventory, and obligations to subcontractors, under terminated contracts, as certified by the borrower. The lending institution may refuse to make advances to the extent that it believes the borrower's receivables, etc. to be overstated, but the Federal Reserve Bank and the contracting agency are not to question the borrower's certification unless there is reason to believe it is substantially overstated. The borrower must reduce the loan as payments or credits are received on his termination claims and as he disposes of or elects to use the termination inventory.

The Contract Settlement Act of 1944, the regulations governing T-loans, and the procedures laid down by the agencies carrying out these regulations, recognize the need for making funds available promptly. The Act requires that adequate interim financing be provided for all war contractors, pending settlement of their claims, within thirty days after proper application is received. The regulations provide that contracting agencies having local representatives should delegate to them authority to approve guarantees for T-loans up to \$500,000 to any one borrower if the guarantee is 90 percent or less, and

up to \$100,000 if the guarantee does not exceed 95 percent. War contractors and banks are being encouraged to arrange T-loan commitments in advance, to reduce the piling up of applications immediately after termination of a large number of contracts. A commitment fee of not more than $\frac{1}{4}$ of 1 percent a year on the average unused balance, or not to exceed \$50 flat, at the lending bank's option, has been approved.

Interest charged by lenders on T-loans may not exceed $4\frac{1}{2}$ percent. Guarantee fees have been set at 10 percent of the interest payable by the borrower on the guaranteed portion of the loan if the guarantee is for 80 percent or less, 15 percent if the guarantee is up to 85 percent, 20 percent if the guarantee is up to 90 percent, 30 percent if the guarantee is up to 95 percent, and 50 percent if the guarantee is for more than 95 percent of the loan. The regulations state that the requested percentage of guarantee should not ordinarily be questioned by the Federal Reserve Bank or the contracting agency if it does not exceed 90 percent. Guarantees over 90 percent in the case of large loans and over 95 percent in the case of small loans cannot be granted unless they are clearly justified.

To free working capital for peacetime production as quickly as possible after it is no longer needed in war production is a primary aim of the contract settlement program. Final settlement of the entire contract termination claim may be sufficiently prompt to obviate interim financing, but it may be impossible for the war contractor to prepare a complete inventory of all items in his final claim and for the contracting agencies to approve the claim in time to avoid the need for recourse to such financing. In such cases, the T-loan is only one of several devices that may be used. Regulations provide that interim financing should be provided through partial payments, upon request of the war contractor, whenever administratively possible. In some cases where advance payments have been authorized and funds are on deposit in an advance payment account, interim financing may be provided by continued withdrawals after contract ter-

Banking and Credit—

Condition items of weekly reporting member banks	Averages of Wednesday figures (millions of dollars)			
	Sept.	1944		1943
		Aug.	July	Sept.
Total loans	969	+ 2	- 49	- 1
Com'l., ind., & agric. loans	478	+ 6	+ 9	+ 6
Loans to finance transactions in:				
U. S. Government securities	52	- 9	- 56	+ 33
Other securities	50	+ 3	+ 4	-
Real estate loans	295	0	- 1	- 30
All other loans	94	+ 2	- 6	- 10
Total investments	4,545	- 10	+ 51	+1,089
U. S. Government securities	4,208	- 8	+ 60	+1,056
All other securities	337	- 2	- 9	+ 33
Adjusted demand deposits	2,876	+ 95	+197	+ 383
Time deposits	1,551	+ 39	+ 72	+ 288
United States Government deposits	808	-227	-336	+ 315
Coin and currency in circulation				
Total (changes only)	-	+ 81	+173	+ 785
Fed. Res. Notes of F. R. B. of S. F.	2,484	+ 76	+168	+ 781
Member bank reserves	1,560	+ 50	+ 93	+ 188

mination, under appropriate safeguards. However, the military services expect loans to be the most practicable method of providing interim financing to subcontractors and to concerns holding numerous contracts with several procurement agencies. While T-loans will be necessary

in many instances, financing institutions are encouraged to make unguaranteed loans and a guarantee may be sought later, without prejudice, under the T-loan provisions, even if the proceeds of the T-loan are used to retire the existing loan.

California Grapes and Raisins—Production and Prices

ANOTHER harvest season in the California vineyards is drawing to a close, and the bulk of one of the most important crops in the West has gone to market. Grapes constituted over 16 percent of the one billion dollar total of California farm crops, and 11 percent of the one and one-half billion dollars of all farm receipts, including Government payments, in the State in 1943. The area of bearing vineyards in California was 493,050 acres in 1943. Of this area 246,000 acres were in raisin grapes. The raisin acreage alone is greater than the total acreage devoted to any other fruit or nut crop in the State.

California grapes have a greater farm value than that of all field and orchard crops in either Oregon or Idaho, and a greater value than the total farm crop production in Arizona, Nevada, and Utah combined. They constitute over 90 percent of all grapes produced in the United States, and 99 percent of the grapes produced in the Twelfth Federal Reserve District. Because of California's predominance as a grape producer, the discussion and tables which follow apply only to the one State.

As measured by labor requirements, the grape industry is most important at this season of the year in many sections of California. The peak of the grape harvest season is generally from late September to the first of November. In the San Joaquin Valley this year, however, the principal harvest is extending over a somewhat longer period, from early August until the second week of November. During this period about 48,000 workers are needed to harvest grapes and to dry raisins. The labor requirement in the various regions of California is distributed about as follows: Southern Counties 2,200, Central and North Coast Counties 5,300, San Joaquin Valley 39,200, Sacramento Valley 1,300.

Production—Fresh Grapes

Production of grapes in 1943 reached a new peak, 28 percent above that of the previous year and 18 percent above the 1933-42 average. A year-to-year variation of 20 percent has been common, and high production in 1941 and 1943 and relatively low production in 1940 and 1942 were equally true of wine, table, and raisin grapes. The 1944 total crop, as indicated on October 1, is about 12 percent less than in 1943, and the same relative decline is expected for raisin grapes.

Changes in grape production are due chiefly to favorable or unfavorable weather conditions at critical stages in the growth of the fruit. In the past three years there have been no marked changes in total grape acreage or in the acreage devoted to any of the three classes. Changes

in bearing acreage during the period have been less than 1 percent of the total. In non-bearing acreage, there has been a recent increase in wine varieties and a decrease in raisin varieties, but these changes have been very small relative to bearing acreages.

PRODUCTION OF GRAPES IN CALIFORNIA
(thousands of fresh tons)

	Wine grapes	Table grapes	Raisin grapes	All grapes
1940	517	460	1,273	2,250
1941	549	482	1,516	2,547
1942	474	409	1,277	2,160
1943	575	553	1,661	2,789
1944 ¹	541	482	1,450	2,473

¹ Indicated October 1.
Source: California Department of Agriculture.

Production—Raisins

California furnishes about half of the world raisin crop in normal years. Raisin grape production represents well over half of all grape production in California, the balance being fairly evenly divided for wine and for table use. In other states, grapes are used mainly as fresh table stock, but also for grape juice, wine, jams and jellies.

The raisin varieties of grapes were first put under Government control in California in 1942 by a War Production Board Conservation Order designed to bring about the greatest possible production of raisins to meet increased military, civilian, and lend-lease requirements. This order provided that all raisin grapes should be dried, with the exception of those grown on girdled vines, those to be canned, and those not feasible to dry because of quality or condition or lack of drying facilities. A large tonnage was diverted from crushing for wine and brandy to drying, but lack of drying facilities and other factors prevented more than a slight reduction in the amount of raisin grapes used fresh.

In 1943, the drying of raisin grapes was made mandatory in the main producing area. The order provided that

UTILIZATION OF THE CALIFORNIA RAISIN GRAPE CROP
(thousands of fresh tons)

	Total production	Dried ¹	Used fresh	Crushed	Canned
1940	1,273	684	160	418	11
1941	1,516	836	168	494	18
1942	1,277	1,016	150	95	16
1943	1,661	1,604	8	36	13

¹ Four fresh tons yield approximately one dried ton.
Source: California Department of Agriculture.

raisin grapes produced in eight San Joaquin Valley counties (Fresno, Kern, Kings, Madera, Merced, Stanislaus, San Joaquin, and Tulare), which normally produce about 95 percent of the raisin grapes grown in the United

States, must be sold as raisins or sold for conversion into raisins unless specifically released. This order, supplemented by a large expansion of drying facilities, was much more effective than that of 1942 in channeling grapes into raisin production. The results of these orders are shown in the table on the preceding page, which gives the disposition of the California raisin grape crop in the years 1940 to 1943.

The 1943 order was reapplied to the 1944 crop in the San Joaquin Valley, but a somewhat smaller proportion of the crop as well as a smaller absolute amount is being dried this year. Tentative estimates indicate that raisin production will be 285,000 to 300,000 tons this year as against some 400,000 tons in 1943. In the controlled area some raisin grapes were released fresh this year, unlike last, for both fresh shipping and crushing, after it appeared that the total potential raisin output would be in excess of estimated military and civilian needs. The 230,000 tons of raisin grapes released were purchased by the Raisin Producers Association, acting for the Commodity Credit Corporation, at a fresh grape price equivalent to the ceiling price for raisins. These grapes were sold by the Association to wineries, to shippers, and to growers who wished to resell on their own account. Most of the grapes released went to wineries for crushing. Profits resulting from the differential between the price of grapes sold by the Association for other uses than drying and the dried ceiling price equivalent are to be prorated among growers in the eight counties.

As a result of this program, the proportion of raisin grapes which are dried for raisins rose from a little over 50 percent in 1940 to more than 96 percent in 1943, and should be about 80 percent this year. Raisin output was at an all-time high in 1943, amounting to 235 percent of the 1940 crop. It is not expected to equal the 1943 record this year, but will probably be above that of any previous year.

A War Production Board order in 1942 froze raisin stocks and prevented their sale to the civilian trade pending determination of Government needs. Later about half of the year's production was allotted to civilian use. This "freeze" order was repeated in 1943, although its administration was transferred to the War Food Administration. A little less than half of the 1943 crop had been released by July 1944. Civilian trade appears to have received about the normal amount of raisins, and the increased production went into military and lend-lease channels. Again in 1944 packers were ordered to set aside their entire pack for Government allocation. On September 28, the War Food Administration released to the civilian trade 65 percent of packers' receipts of the 1944 crop of Muscat raisins, 45 percent of the Thompsons, and all of the Sultanans.

Prices—Fresh Grapes

By 1943 the prices of wine and raisin grapes marketed fresh had increased to four and five times the 1940 prices. The price of table grapes had increased until it was over six times the 1940 average. High prices have been the

result of increased demand, since there is no Government support program for fresh grapes. Ceiling prices were set on both wine and table grapes during a part of the 1943 season. No ceiling price has been in effect on wine grapes since November 30 of last year, although a ceiling price has remained on wine. In 1944 a new and rather detailed plan of ceilings on table grapes was put into effect, but it caused considerable dissatisfaction among

AVERAGE PRICES PER TON OF CALIFORNIA
GRAPES MARKETED FRESH

	Wine grapes		Table grapes		Raisin grapes	
	Dollars	% of 1940	Dollars	% of 1940	Dollars	% of 1940
1940.....	16.50	100	16.70	100	15.50	100
1941.....	22.10	134	26.60	159	20.90	135
1942.....	31.20	189	44.70	268	39.90	257
1943.....	77.90	472	102.00	611	68.00	439

Source: U. S. Department of Agriculture.

table grape growers. Growers of wine grapes are reported to be receiving \$100 to \$140 per ton, while table grape growers under ceiling restrictions were receiving an average price of only \$83 per ton for their 1944 crop. To eliminate this differential the Office of Price Administration proposed to place the same ceiling prices on wine grapes as had been placed on table grapes. The War Food Administration vetoed the proposal and therefore effective October 10 the Office of Price Administration removed the ceilings on table grapes to prevent discrimination.

Prices—Raisins

The prices of raisins have increased until the lowest priced raisins now are selling at three times the average price for 1940. The support price, which is also the price received by farmers, has now reached more than 155 percent of parity.¹

Prices received by California growers for the 1943 and 1944 crop of dried raisins are the highest since 1921. Nevertheless they are relatively lower than prices received for grapes for other uses. \$163 per ton dry weight, the 1943 average price, equals \$41 per ton fresh weight

PRICES OF CALIFORNIA DRIED RAISINS

	Parity price in dollars per dry ton	Price to producers		
		Dollars per dry ton	% of parity	% of 1940
1940.....	80.50	57.60	72	100
1941.....	87.00	85.50	98	148
1942.....	100.50	113.00	112	196
1943.....	109.00	163.00	150	283
1944.....	116.00	180.00 ¹	155 ¹	360 ¹

¹ Price of natural condition Thompson seedless raisins which account for the major share of the crop.
Source: California Department of Agriculture.

if the common conversion ratio of 4 to 1 is used. In 1943, the relatively small amount of raisin grapes which was permitted to be sold fresh brought the grower \$68 per ton. In the same year, wine grapes brought \$78 and table grapes \$102 per ton. Raisin prices have also increased

¹ The average price of raisins was \$105.80 per ton in the period 1919-28, the base period used in computing parity for raisins. The index of the things that farmers buy, on an August 1919-July 1929 base, was 110 in October 1944. Therefore, the current parity price of raisins, that is, the price that today would presumably command the same volume of goods and services as did the average price in 1919-28, is approximately \$116 per ton, determined by raising the base period price, \$105.80, by 10 percent. The current actual price, \$180 per ton, is approximately 155 percent of parity, that is, 155 percent of \$116.

considerably less since 1940 than have prices of wine and table grapes. Wine and table grapes had increased in 1943 to 472 percent and 611 percent of their 1940 price, compared with a raisin price increase of 283 percent.

Beginning with 1942, prices of raisins to growers have been virtually fixed by Government regulations. Minimum prices are fixed by the support program of the War Food Administration and maximum prices are fixed at the same level by the Office of Price Administration. Prices increased steadily during the seasons of 1940 and 1941 as increased demand became apparent. Support and maximum prices have maintained a steady increase by years to 1944, prices being fixed for the entire season.

PRICES TO PRODUCERS OF SELECTED VARIETIES OF RAISINS
(NATURAL CONDITION)
(per dry ton)

	1940	1941	1942	1943	1944
Thompson	\$50-60	\$70-100	\$110	\$155	\$180
Muscat	50-60	72- 93	110	165	195
Sultana	45-53	65- 75	105	150	180

Source: California Department of Agriculture.

Prices paid packers for raisins taken by Government agencies have been determined by adding an allowance for processing and handling to the grower prices. In 1943 and again in 1944 packers' ceiling prices for raisins released for sale to the civilian trade were held at practically the same levels as those set for the 1942 crop. The ensuing loss because of the increased prices paid growers is covered by a subsidy payment to packers from Commodity Credit Corporation funds. Prices for sales in civilian trade channels in 1944 are based on the minimum of \$115 per ton, the Government absorbing the difference between such prices and the higher prices paid producers.

**The Market Under Government Controls
and Future Price Supports**

In 1943 packer demand for raisins was very active and competition to buy was keen. Each packer was anxious to process a maximum tonnage, due to the virtually as-

sured outlets for the entire crop at prices allowing a reasonable packing profit. With prices for table and juice grape varieties relatively higher than raisin prices, efforts were made during the 1943 season to get raisin prices revised upward, but growers' hesitancy to sell, in the hope of higher prices, was overcome by packers' guarantees to pay any advance in raisin prices. As a result the 1943 crop was sold in a very short time. The packer demand for raisins has again remained active through the 1944 season and by the fore part of October the bulk of the crop had been sold at prices established by the Government.

The future of grape prices is uncertain. Prices of grapes marketed fresh have not been supported and, under the existing support price program, it is unlikely that they will be supported after the war. Support prices for raisins, however, have been in effect since 1942. Certain hypothetical postwar support prices for raisins are given below, without any attempt to forecast either the extent or standards of future Government price controls or to predict future trends of non-agricultural prices. These raisin prices have been computed on the assumptions of support at 90 percent of parity (the minimum implied under the present program), 100 percent of parity, and 155 percent of parity, with prices of goods purchased by farmers assumed to be at the current level and at the levels of 1942 and 1940.

If prices of goods purchased by farmers should remain at 1944 levels, the support price of raisins at 90 percent of parity would be \$104 per ton, at 100 percent of parity \$116, and at 155 percent of parity, \$180 (the current support price). If prices of goods purchased by farmers should return to 1942 levels, thus reducing parity prices, the corresponding support prices for raisins would be \$90, \$101, and \$150 per ton, respectively. With prices of goods purchased by farmers at 1940 levels, these hypothetical support prices would be respectively \$72, \$81, and \$125 per ton.

The Sixth War Loan Drive

FROM November 20 through December 16, the Treasury once more will call upon the nation for funds. Fourteen billion dollars is the goal sought in the Sixth War Loan Drive, five billion from individuals and nine billion from other non-bank investors. As in previous drives, sales efforts, in which sales to individuals will be emphasized, will be under the direction of the State War Finance Committees. The same types of securities as were offered in the fifth drive will be available:

- Series E, F, and G Savings Bonds
- Series C Savings Notes
- $\frac{7}{8}$ percent certificates of indebtedness
- $1\frac{1}{4}$ percent notes of 1947
- 2 percent bonds of 1952-54
- $2\frac{1}{2}$ percent bonds of 1966-71

Commercial banks are excluded from direct participation in the drive but will be permitted to make limited subscriptions related to their time deposits, on a basis similar to those in the two previous drives. Banks are again requested to refuse to make speculative loans for the purchase of Government securities or to make loans for the purpose of later acquiring for their own account securities offered during the drive. Subscriptions from dealers and brokers are to be limited to the greater of two amounts: (1) an amount not in excess of 50 percent of their net worth or (2) an amount not in excess of the amount of securities included in the Fifth War Loan Drive sold by them directly to customers other than com-

mercial banks and other dealers and brokers in the 30 days following the close of the drive.

Although war expenditures have not increased significantly in recent months, they are amounting monthly to more than 7 billion dollars and no material decline in expenditures can be safely anticipated for some time. Tax receipts, although expected to be at record levels for the current fiscal year, are likely to be less than half of total expenditures, hence additional funds are urgently needed. The 14-billion-dollar goal of the Sixth War Loan is less than one-third of the estimated increase of 50 billion dollars in the public debt during the current fiscal year.

Income, after taxes, remains well above available supplies of consumer goods and services, and cash holdings of businesses and individuals are continuing to increase. Twelfth District demand deposits, excluding interbank and Government deposits, were at a new high in late October, up 26 percent over deposits a year ago and 6 percent over deposits at the opening of the last war loan drive in June, and currency in circulation is continuing to increase. In view of these facts it is desirable to absorb as much as possible of current excess purchasing power and at the same time to restrict additions to current purchasing power through the creation of bank deposits. The Treasury is attempting to do this by borrowing its requirements in excess of tax collections from non-banking sources to the maximum extent possible. This objective should be supported by the public more vigorously than ever.

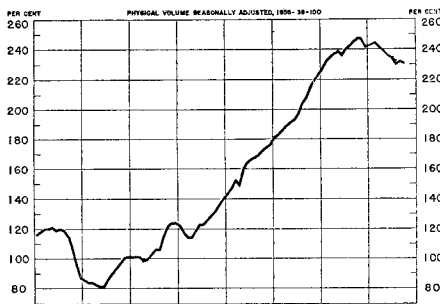
THE WAR LOAN DRIVES—GOALS AND SALES
(millions of dollars)

	First ¹		Second ¹		Third		Fourth		Fifth		Sixth Goals
	Goals	Sales	Goals	Sales	Goals	Sales	Goals	Sales	Goals	Sales	
United States											
All non-bank investors.....	4,000	7,860	8,000	13,476	15,000	18,944	14,000	16,730	16,000	20,639	14,000
Individuals.....	2	1,593	2,500	3,290	5,000	5,377	5,500	5,309	6,000	6,351	5,000
Others.....	2	6,267	5,500	10,186	10,000	13,567	8,500	11,421	10,000	14,288	9,000
Twelfth District											
All non-bank investors.....	2	309	675	865	1,251	1,372	1,230	1,398	1,437	1,684	1,213
Individuals.....	2	130	275	351	595	586	629	625	704	698	578
Others.....	2	179	400	514	656	786	601	773	733	986	635

¹ Figures for commercial banks, which participated directly in the first two drives with 5 billion dollar quotas, are not included. Subscriptions filled amounted to 5,087 million dollars in the first drive and to 5,079 million in the second.

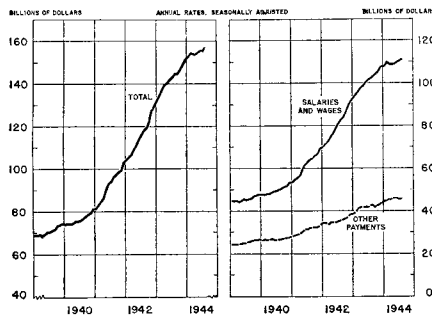
² No goals established for individuals or Districts.

INDUSTRIAL PRODUCTION



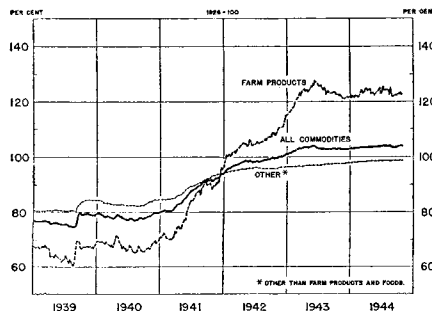
Federal Reserve index. Monthly figures, latest shown is for September.

INCOME PAYMENTS TO INDIVIDUALS



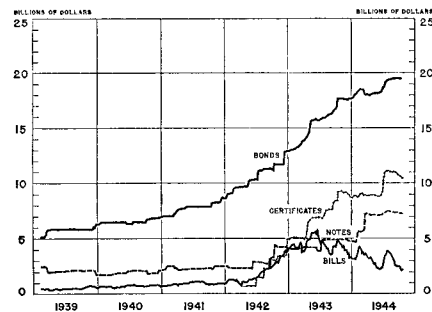
Based on Department of Commerce estimates. Wages and salaries include military pay. Monthly figures raised to annual rates, latest shown are for August.

WHOLESALE PRICES



Bureau of Labor Statistics indexes. Weekly figures, latest shown are for week ending October 21.

GOVERNMENT SECURITY HOLDINGS OF BANKS IN LEADING CITIES



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for October 18.

Summary of National Business Conditions

Released October 27, 1944—Board of Governors of the Federal Reserve System

OUTPUT at factories and mines in September and the early part of October was maintained close to the August level. Value of department store sales continued to show increases above last year. There were mixed movements in commodity prices with a sharp decline in the price of steel scrap.

INDUSTRIAL PRODUCTION

Industrial production in September was 231 percent of the 1935-39 average, according to the Board's seasonally adjusted index, as compared with 232 in August and 230 in July.

Activity in most industries manufacturing durable goods showed slight decreases in September and there were further large declines in production of aluminum and magnesium. Steel output averaged 93.4 percent of capacity, somewhat below the August rate, but showed an increase during the first three weeks of October. Easing of military demand for steel led to some increase in allocations for civilian production during the fourth quarter. Aircraft production and output in the automobile industry were maintained during September at the level of the preceding month.

Output of textile and leather products continued to increase in September from the reduced July level. Shoe production advanced to the highest rate reached since the spring of 1942. Output of manufactured food products, as a group, was maintained at the level of the preceding month after allowance for seasonal change. Butter production continued about 15 percent below last year. Hog slaughter declined further in September, while cattle slaughter continued to increase more than is usual at this season and reached a record rate for the wartime period—about 50 percent above the 1935-39 average. Beverage distilleries resumed production of alcohol for industrial purposes in September after turning out an exceptionally large amount of whiskey and other distilled spirits during August.

Crude petroleum production continued to rise in September, while output of coal and other minerals showed little change.

DISTRIBUTION

Department store sales in September showed about the usual large seasonal increase and were 14 percent larger than a year ago. In the first half of October sales rose sharply and were 16 percent above the high level that prevailed in the corresponding period last year, reflecting in part the greater volume of Christmas shopping prior to the overseas mailing deadline.

Carloadings of railway freight during September and the first half of October were slightly lower than a year ago owing to decreases in shipments of raw materials, offset in part by increased loadings of war products and other finished goods.

COMMODITY PRICES

Prices of grains and some other farm products were higher in the third week of October than in the early part of September and there were scattered increases during this period in wholesale prices of industrial products. Prices of steel scrap and nonferrous metal scrap, however, declined; steel scrap was reduced from ceiling levels by 3.40 dollars per ton, or 18 percent, to the lowest prices offered since August 1939.

AGRICULTURE

Crop production in 1944 will rank with 1942 when the largest production in history was harvested. Corn production is estimated at 3.2 billion bushels. This, together with other feed grains, wheat, and good pastures, will go far to prevent too-rapid marketings of livestock. Commercial truck crops for the fresh market will not only exceed 1943 production but appear likely to exceed the 1942 record by about 11 percent. Deciduous fruit production is about 20 percent above 1943, and citrus fruit production may equal or possibly exceed that of last year in spite of recent storm damage.

BANK CREDIT

Expenditure by the Treasury of funds received during the Fifth War Loan Drive continued in large volume during the latter half of September and the first half of October, and United States Government deposits at banks declined. Time deposits at weekly reporting banks in 101 leading cities rose by about 300 million dollars in the five weeks ended October 18, and demand deposits of business and individuals, which decreased somewhat in the latter part of September partly as a result of tax payments, increased again in October. Currency in circulation increased by 660 million dollars in the five weeks ended October 18. This unusually large outflow of currency may have been associated with purchases of overseas Christmas gifts during the period.

Reporting banks in 101 cities reduced their Government security holdings during the five weeks ended October 18 by about 900 million dollars. Treasury bill holdings declined by 370 million dollars and certificate holdings by 530 million. These sales were largely made to meet the currency drain and increased reserve requirements. During the same period the Reserve banks purchased 680 million dollars in Government securities. Excess reserves continued to fluctuate during this period at a level of close to a billion dollars.

Commercial loans at weekly reporting banks increased steadily during September and early October. Loans to brokers and dealers in securities increased somewhat, reflecting in part large flotations of new corporate issues during the period. Loans to others for purchasing and carrying Government securities, although declining steadily, were in mid-October still about 280 million dollars above their pre-drive level in June.