

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

MAY-JUNE 1945

Review of Business Conditions—Twelfth District

After V-E Day

THE cessation of hostilities in Europe early in May has raised many questions concerning the immediate business and employment outlook as well as the longer term prospect while the war continues on the Pacific front. Important among these questions is that of early termination or modification of the numerous wartime controls affecting the economy, notably those having to do with materials and manpower and those specifically affecting the conversion of war plants to civilian production. The prospect of large cancellations and cutbacks of war contracts involving considerable unemployment in many localities gives this question a particular urgency in the Twelfth District where so large a proportion of current industrial employees is engaged in the production of war material. Questions involving the regulation or control of prices and wages, taxation, credit, transportation and finance and the disposal of surplus property and plant equipment will become of increasing importance in the future. At this time, however, the outlook for relaxation of controls over manpower and materials, with a view to easing the problems of reconversion, is of most immediate concern.

Only very general conclusions can be drawn from official actions and statements of intention that have occurred so far. Much will depend upon the timing and extent of cutbacks by the procurement agencies which, in turn, will determine policies as to continuance of controls. The situation has been somewhat obscured by the smaller than anticipated cutbacks immediately after the fall of Germany, and by uncertainties and conflicting estimates as to both the timing and the extent of additional cutbacks. Early forecasts indicated a relatively large volume of procurement cancellations; more recent estimates have generally emphasized the need for continued effort to keep the supply lines across the Pacific well stocked with supplies and equipment. Current official estimates indicate that the probable overall reduction in military procurement programs may not reach more than 20 percent by the end of the year, and they are not all in agreement as to the amount of the reduction. Lend-lease aid must also be continued, although on a reduced scale, until V-J day, and war relief requirements for foodstuffs and other necessities will not soon decline. Consequently, no

very substantial easing of the labor or materials markets is to be expected during the next few months in most localities, and only a relatively small volume of reconversion activity is likely to take place in the immediate future.

For the Twelfth District, moreover, the prospects for early reconversion to civilian production will be greatly affected by the impact upon the Pacific Coast of the transfer of the major war effort from the European to the Asiatic theatre of operations. While there will be a considerable reduction, for example, in employment in shipbuilding and aircraft production, which indeed has been under way for nearly two years, this may be offset to some extent by the concentration of troop movements in this area and by the maintenance and supply of a greatly expanded naval and military force based on Pacific Coast ports. Increased demands will be made upon local shipping and ship repair facilities, transport and warehousing agencies, port installations and the like, although the saturation point in the use of many of these is not far away. Certain basic industries of the District, notably lumbering, petroleum production and refining, and food canning and preserving, as well as most branches of agriculture, will continue to experience heavy military demand for their products.

With respect to the relaxation of industrial controls, the basic principle announced by the Director of War Mobilization and Reconversion is that "materials and manpower no longer pre-empted for war will be freed for civilian production." Rules for translating this general principle into practical application in specific instances are gradually being formulated, so that the main outlines of policy to be followed during "Period One" are becoming fairly clear. All official pronouncements have been careful to point out, however, that attempts to smooth the path toward industrial reconversion must not be allowed to divert attention or energy from the primary task of meeting munitions schedules and winning the war.

Wage, price, and rationing proposals

The general framework within which specific plans for reconversion must function is well indicated by the official attitude toward wage and price controls. Stability is the watchword here. As to wages, the announced

★ *For Victory* ★ *Buy War Bonds* ★ *Keep Them* ★

objective is to interfere as little as possible between the parties at interest in the transition to a peace economy and to encourage collective bargaining in the determination of specific wage rates, but to retain the principles of the Little Steel formula and similar criteria involved in current wage stabilization policy in order to combat continuing inflationary tendencies. At the same time there is a growing undercurrent of comment favoring a wage policy designed to offset in part the reduction in purchasing power that will result from loss of overtime pay when the work-week becomes shorter and from the shift to lower paid occupations. There are a number of practical difficulties in the way of initiating such a policy in the near future, aside from the circumstance that opinion is far from unanimously in favor of it. One difficulty is that the wartime controls and the agencies administering them were intended primarily to serve wartime purposes and have been concerned with the maintenance of wage ceilings, rather than wage floors. Another difficulty is that the device most commonly discussed, an increase in basic wage rates, might result in considerable inequity, since basic wage rates in some occupations and in some areas already have risen substantially, while other occupations and areas have been little affected by the war. Furthermore, there is a serious question whether basic wage rates can be increased while the Pacific war continues to require a high percentage of the national product without either affecting adversely the ability of plants still engaged in war production to obtain and hold needed workers or setting in motion a new series of inflationary forces.

The necessity for continuing price controls until such time as the production of civilian goods has had a chance to catch up with purchasing power is generally accepted. This clearly includes the present period of partial reconversion and may extend beyond the completion of the Japanese war. The program announced by the Office of Price Administration promises relaxation of price controls in one field after another as soon as inflationary dangers disappear. Present ceilings on goods which have been produced right along will generally be maintained and attempts to increase them will be opposed except upon demonstration of higher costs, as in the recent steel and textile decisions, or where higher prices are deemed necessary in order to stimulate production, as in the case of meat. The more difficult problems are presented by commodities that have not been produced during the war, by new models of prewar goods, and by entirely new products. The OPA has indicated the return of most peacetime products to the consumer market at 1942 retail price levels as the specific goal to be sought, in general, though modification of this rule to take account of actual increases in costs is recognized as necessary in particular instances. In all these cases full consideration of actual costs will be necessary as the basis for an intelligent pricing policy. The OPA expects high volume of production to make it possible to sell many goods at 1942 prices despite increased material costs and wage rates, with upward adjustments in prices permitted only when the

labor and materials costs per unit of output, even at high volume of production, appear to be excessive in terms of 1942 prices for the goods.

Important consumers' goods will continue to be rationed while serious shortages remain. In general, more liberal allowances can be anticipated as reconversion proceeds, but some shortages may become temporarily more severe. Gasoline rations have recently been increased, used 1942 model automobiles have been freed from rationing controls, and new classes of buyers are to become eligible to purchase the increased output of new cars. On the other hand, point values of some fats have recently been raised.

WPB reconversion policies

A maximum degree of freedom to industry in deciding on the actual course of reconversion when restrictive controls can finally be removed has been indicated as the basic policy of the War Production Board, but it insists that first priority must continue to be given to all military programs. At the same time, it is becoming increasingly clear that, for the initial period at least, major reliance will have to be placed on the system of allocation of materials to specific industries in order to be sure that reconversion proceeds in an orderly manner and that first things really come first. Thus it is estimated that military cutbacks will free for civilian use approximately 2 million tons of carbon steel during the third quarter of 1945. Instead of permitting manufacturers of civilian products to scramble for this material, it is planned to "program" the production of the most urgently needed items and to allocate the steel to the particular industries and manufacturers making these products. Such essential industries as railroads, truck and bus lines and other public utilities, and the producers of farm machinery, oil drilling equipment, building materials, plumbing and heating equipment, construction machinery, tools and general industrial equipment will get the bulk of the material made available by current reductions in military requirements. Similar provision will be made for metal containers and for definite but limited production of such consumers' durable goods as washing machines, refriger-

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment				Without seasonal adjustment			
	1945			1944	1945			1944
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Industrial production ¹								
Lumber	109	127	159	132	113	112	116	136
Refined oils ²	—	—	—	—	244	238	239	228
Cement ²	116	113	138	120	122	114	123	126
Wheat flour ²	169	141	156	150	149	138	156	132
Petroleum ²	—	—	—	—	139	137	136	126
Electric power ²	434	458	459	456	428	427	420	450
Factory employment and payrolls ³								
Employment								
Twelfth District	..	261	270	r292	..	259	266	r291
California	..	289	301	r348	..	289	300	r348
Pacific Northwest	..	215	223	224	..	212	218	223
Oregon	..	180	196	189	..	178	188	190
Washington	..	236	239	246	..	233	236	243
Intermountain	..	133	137	125	..	123	124	122
Payrolls								
California	..	605	626	653 r709	..	605	625	647 r709

¹ Daily average.

² 1923-25 average = 100.

³ Excludes fish, fruit, and vegetable canning.

r Revised.

ators and passenger cars, as well as for increased output of stoves, electric irons, alarm clocks and the like, the production of which has been severely restricted during the war.

In order to give further impetus to civilian production, the WPB plans to relax present restrictions on the output of a considerable range of products and to authorize the use for civilian manufacture of certain scarce materials which it was necessary to conserve in order to assure the meeting of munitions schedules. Of the 650 orders and schedules limiting civilian production that were in effect on the first of April, 156 had been revoked by May 27 and 83 others were scheduled for revocation within the next 6 weeks. Modification of the Controlled Materials Plan has been announced, effective July 1, permitting the sale of steel, copper, and aluminum without restriction, provided there is no interference with CMP allotments to war plants and essential war-supporting industries. Small business firms and new enterprises have been assured that steps are being taken to give them a fair opportunity to get production materials, and fixed allotments of materials are to be set aside for new producers under most of the new civilian production programs. Some relaxation of restrictions on building construction, both for business and residential purposes, has also been announced. The dollar limit on remodeling and repair that may be undertaken without obtaining WPB authorization has been raised from \$200 to \$1,000 for houses, from \$200 to \$5,000 for commercial establishments, and from \$5,000 to \$25,000 for factories and other industrial undertakings. The continuing shortage of lumber and skilled workers, however, is likely to limit most types of building activity for some time to come.

Unemployment and manpower controls

The nation was ill-prepared for the wholesale cancellation of Government contracts thrust upon business at the end of the last war. Profiting from that experience, present Government agencies concerned with procurement have established orderly procedures for terminating contracts, financing contractors and sub-contractors pending settlement, and for clearing plants of war materials and Government equipment. Proposed cutbacks are exam-

ined by the joint procurement agencies to determine how best to distribute their incidence in relation to individual industries and plants and in relation to employment in various localities and areas. While it is possible to do something to distribute the burden of unemployment resulting from cutbacks, it must be recognized that some areas are bound to experience more or less severe unemployment, particularly those dependent on a single war plant or industry that has no real postwar future.

In view of the impending release of large numbers of workers resulting from cutbacks and the completion of war contracts, as well as the return to the labor force of men released from the Army, the necessity for continued manpower controls might well be questioned. Here again the situation is far from clear, at least quantitatively, due to conflicting estimates of the rate and timing of cutbacks, military discharges, inductions, et cetera. Early in May the War Manpower Commission estimated that about 1.5 million workers would be released from war jobs within the following 6 months while within the same period military discharges were expected to exceed new inductions by half a million men. Later WMC estimates indicated that manpower needs for war and war work would drop by 2.8 million within the next 3 months and by 4.7 million within 6 months. The chairman of the WPB has stated that of a total of approximately 51 million civilian workers now employed, roughly 6.5 million are in jobs most likely to be affected by cutbacks, while the other 44.5 million are employed in work that will continue regardless of munitions schedules.

Whatever the total number of surplus workers available at any reasonably early date, it is quite clear that they will be very unevenly distributed among the several industrial areas of the country. Accordingly, it is argued that the retention of manpower controls is necessary in order to assure an adequate supply of labor for the war industries still functioning, many of which have been experiencing an increasingly difficult problem in keeping their labor forces up to the level necessary to insure production at scheduled rates. The war agencies, particularly the armed services, are eager to guard against a flight of workers, especially those possessing critical skills, from war industries.

While there will probably be a tendency toward progressive relaxation of manpower controls with respect to plants engaged in civilian production, many of the devices for channeling workers into war industries will continue to be necessary in areas of labor shortage, which still include a substantial part of the Twelfth District. Chief among these devices are the controlled referral system, and the requirement of a certificate of availability as a condition for changing employment. In labor market areas approaching a balanced demand and supply situation, including the San Francisco Bay and Los Angeles areas, and labor surplus areas, including 5 small areas in California and Arizona, as designated by the WMC, the local WMC area directors are to be given discretionary control over hiring practices. Even in places no longer classed as areas of labor shortage, con-

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1945		1944		1945		1944	
	Apr.	Mar.	Feb.	Apr.	Apr.	Mar.	Feb.	Apr.
Department store sales (value) ¹								
Twelfth District.....	219	249	257	203	205	232	217	194
Southern California.....	224	255	260	214	208	r241	r231	202
Northern California.....	205	233	234	187	189	219	196	178
Portland.....	209	240	256	199	197	220	217	191
Western Washington.....	260	298	305	228	250	270	251	227
Eastern Washington and Northern Idaho.....	198	228	266	186	186	198	186	184
Southern Idaho and Utah.....	217	234	256	202	201	208	193	193
Phoenix.....	243	269	296	216	255	282	269	233
Carloadings (number) ²								
Total.....	114	r108	136	114	110	r101	112	110
Merchandise and misc..	137	128	156	128	129	119	129	120
Other.....	85	83	111	96	87	77	91	98

¹ Revised series. Tabulations of back figures for these and other cities and areas will be made available upon request.
² 1923-25 daily average = 100.
 r Revised.

tinued exercise of manpower controls may be necessary in some circumstances. Ship repair in Pacific Coast ports is a case in point. Increasingly in recent months this industry has found it difficult to recruit and retain an adequate supply of skilled craftsmen. Some 15,000 to 20,000 skilled workers are currently needed in Pacific Coast repair yards, with the greatest demand in the San Francisco Bay area. The volume of ship repair and maintenance work required has grown steadily with the expansion of the Navy and the merchant fleet; severe battle damage sustained in the Pacific amphibian warfare has underlined the need for speeding up repair work at West Coast ports. This critical need has led in recent weeks to drastic action designed to relieve the shortage of labor having requisite skills. The Selective Service System has granted blanket draft deferments to nine categories of skilled workmen in Pacific Coast ship repair yards. The United States Employment Service gives repair yards the highest priority in the referral of labor. The WMC grants clearance for the transfer of qualified workers from other essential industries to ship repair yards, although ordinarily a worker can not obtain clearance for a transfer if he is already in an essential industry.

Depending upon the availability of labor, plants engaged in war production will probably be required to continue on the 48-hour work week but for other plants this requirement is likely to be relaxed. For essential industries still facing labor shortages, such as textiles, logging and lumbering, and nonferrous metal mining, a 48-hour work week is still required. For the steel industry, on the other hand, this requirement is to be revoked, effective July 1, making the work week in steel plants subject to area decisions rather than industry decisions of the WMC.

Reconversion financing

The first detailed proposals for facilitating reconversion and the first specific procedures to be established had to do with the settlement of war contracts and the rapid freeing of business funds tied up in war work. The Contract Settlement Act of 1944 provides for generous settlement of terminated contracts and emphasizes speed of payment throughout. Partial payments and guaranteed termination loans are provided and war contractors have been urged repeatedly to make advance arrangements.

The number of war contractors that have so far taken advantage of the privilege of arranging for possible termination credit in advance, however, remains small. Banks and other affected agencies consequently may not be able to meet all requests as rapidly as is desired in case of sudden, large scale, contract cancellations.

For the most part the larger industrial firms anticipate no difficulties in financing reconversion and postwar operation. They are well provided, in general, with liquid funds. Also, revision of the Federal corporation tax laws to make funds available in time to finance reconversion is under active consideration. Small businesses, including many that shut their doors for the duration and newly established firms, are expected to have more difficulty in obtaining desired financing. Partly this is a problem peculiar to the reconversion period, but partly, if not largely, it is simply an intensification of the traditional problem of financing small business enterprises. Commercial banks have announced their readiness to advance credit to small as well as large business enterprises, but in the past many of the small enterprises have wanted capital financing through term credit rather than from equity funds. The banks hope to meet the legitimate needs of small businesses after the war by making somewhat longer term loans than has been accepted practice and by forming credit pools for spreading risks that would not ordinarily be accepted by a single bank. The Reconstruction Finance Corporation has offered to take up to 75 percent of the amount of loans made by these credit pools and also has announced a new program for direct participation in industrial loans made by individual banks. The new program is limited to loans of \$250,000 or less in amount and ten years or less in term. Under it, the RFC in effect guarantees 75 percent of the loan by agreeing to furnish up to 75 percent of the funds any time the bank so requests, under a blanket participation agreement that eliminates RFC investigation and approval of each case. The Smaller War Plants Corporation is empowered to make loans in connection with contract termination, for financing purchases of surplus war plants and facilities, and for assisting small producers of essential civilian goods. A broadened authorization for Federal Reserve banks to participate with financing institutions in loans to business enterprises is currently receiving Congressional consideration. In addition, many other proposals involving various credit agencies, including several other kinds of Government guarantees, have reached the discussion stage. None of these promises to overcome entirely the greater costs of small scale than of large scale financing, whether the need be for short-term credit, long-term mortgage borrowing, or equity capital.

Relaxation of inter-related controls

With the possible exception of financing problems, which are not wholly peculiar to the reconversion period, interest centers largely on the relaxation or repeal of wartime controls of production and materials, manpower and wages, and prices. Although the three sets of controls

Banking and Credit—

Condition items of weekly reporting member banks	Averages of Wednesday figures (millions of dollars)			1944 Apr.
	Apr.	1945 Mar.	Feb.	
Total loans	982	— 25	— 48	+ 20
Com'l, ind., & agric. loans	483	— 18	— 32	0
Loans to finance transactions in:				
U. S. Government securities	53	— 6	— 11	— 4
Other securities	51	— 2	— 4	+ 20
Real estate loans	294	— 2	— 2	— 2
All other loans	101	+ 3	+ 1	+ 6
Total investments	5,109	+ 38	+ 40	+ 1,004
U. S. Government securities	4,730	+ 30	+ 38	+ 952
All other securities	379	+ 8	+ 2	+ 52
Adjusted demand deposits	3,194	+ 97	+ 128	+ 501
Time deposits	1,785	+ 23	+ 64	+ 371
United States Government deposits	696	— 130	— 241	— 49
Coin and currency in circulation				
Total (changes only)	—	+ 32	+ 67	+ 750
Fed. Res. Notes of F. R. B. of S. F.	2,805	+ 29	+ 62	+ 725
Member bank reserves	1,717	+ 2	+ 37	+ 289

are administered by different agencies, they are inter-related in a number of ways. In the absence of sufficient manpower, repeal of orders restricting the production of particular goods has little meaning, as has been demonstrated by experience with the Spot Authorization program. The connection between wage controls and price controls is readily apparent. Production controls and price controls also are intimately related at some points. Repeal of all production orders, for example, would complicate the problem of upgrading, since the chief incentive for producing many low-price lines of merchandise has been a stipulation in materials allocations that a stated percentage of the allotment was to be used in producing the lower-priced lines. This problem, which already is one of the most difficult to deal with satisfactorily, has been especially acute in the textile and garment industries.

Aside from these inter-relationships, the immediate administrative problems of how and when restrictions are to be relaxed or abandoned are quite different for production, manpower and wage, and price controls. Production and materials controls appear to offer the least difficulty—it is simply a matter of freeing for use in civilian production such materials as are no longer required for military production, with appropriate safeguards, if necessary, to assure a reasonable distribution among industries

and among producers within industries as long as important shortages continue. In the case of manpower allocation the policy is equally clear, although the power to channel men even among war producers is much less absolute than the ability to channel materials, and the allocation of labor among non-war producers is likely to be even less direct. In wage control and price control, the difficulties are more complex. For one thing, there are no self-evident or widely accepted criteria for judging when the need for control no longer exists. For another, a piecemeal approach does not appear feasible, at least in the near future, since inflationary forces, unlike materials shortages, are not peculiar to particular products or areas. Both wartime wage and price controls have been directed primarily toward the prevention of inflation, and inflationary forces may persist after other controls have been relaxed—indeed the very relaxing of other controls may strengthen them. At the same time, the reconversion process at some point might well generate strong deflationary forces, arising out of unemployment and reduced total wage payments, which accounts for the current discussion of a possible reversal of wage controls from a preoccupation with ceilings to an emphasis on floors. Price control, however, except for certain agricultural products, continues to be concerned with ceilings rather than floors.

Ownership and Geographic Distribution of Demand Deposits

Ownership of Demand Deposits

THE semi-annual survey of the ownership of demand deposits, as of the end of January 1945, indicated continuing deposit gains over 6 months and a year earlier in virtually every ownership category. Personal deposits increased as much as business deposits in dollar amount, and more than business deposits percentagewise. The increase in business deposits occurred largely in those of noncorporate enterprises. Between July 1943 and Janu-

ary 1944, personal deposits, which accounted for 820 million dollars out of the total increase of 1,830 million, rose from 34 to 37 percent of the total. Personal and trade accounts in the District continue to be somewhat more important, relative to the total, than in the United States, and manufacturing and mining considerably less important. Through January 1945, the gain in both personal and business deposits was more rapid in the District than in the country as a whole, as has been the case in each previous survey period.

During the period July 1944-January 1945, some 440 million dollars were added to personal accounts in the District, and a like amount to business accounts. The greater preference of individuals for cash is further emphasized by the fact that noncorporate business accounts increased by about 300 million dollars and corporate accounts by only 140 million, although corporate accounts make up more than 60 percent of all business deposits. Trade was the only business category to show a substantial deposit increase. Although noncorporate enterprises are of more importance in that field than in any other business category, most of the corporate increase occurred there also. Increases in most ownership categories were smaller, relatively, in the major cities than in the rest of the District. This reflects seasonal influences to some extent, but it is also true of the deposit expansion from July 1943, when data by ownership first became available, through January 1945, and is true of total deposits for the entire war period.

ESTIMATED DISTRIBUTION BY OWNERSHIP OF DEMAND DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
(millions of dollars)

	Twelfth District				U. S. January 1945
	July 1943	February 1944	July 1944	January 1945	
Manufacturing and mining..	1,190	1,190	1,300	1,320	17,500
Public utilities	270	310	340	310	3,800
Retail and wholesale trade..	1,010	1,032	1,180	1,420	10,400
Other nonfinancial	470	520	540	670	3,700
Total nonfinancial	2,930	3,050	3,350	3,710	35,300
Financial	410	460	480	570	5,100
Total domestic business..	3,340	3,510	3,830	4,270	40,400
Farmers	1	1	480	580	4,700
Other personal	1	1	1,760	2,100	16,700
Total personal.....	1,860	2,080	2,240	2,680	21,400
Trust funds of banks.....	70	60	60	60	1,500
Nonprofit associations.....	150	180	220	250	1,900
Foreign	20	20	10	10	800
Total deposits	5,440	5,840	6,350	7,270	66,000

Not available.

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

Geographic Distribution of Deposits

Within the Twelfth District, the predominant characteristic of distribution of the deposit growth of the past few years is its widespread nature. Although some war centers have had relative increases far above average, virtually all parts of the District, agricultural as well as industrial and inland as well as coastal, have realized substantial gains in bank deposits. The increase in deposits is a wartime phenomenon but one not confined to military and war production areas.

The major metropolitan counties,¹ especially Los Angeles and San Francisco, have received the bulk of the dollar increase in both demand and time deposits, but deposits in other areas have increased percentage-wise more rapidly throughout the three-year period. At the end of 1941, San Francisco, Alameda, and Los Angeles counties had 54 percent of all District demand deposits of individuals, partnerships and corporations, the other 7 major metropolitan counties had 19 percent, and the rest of the District 27 percent. At the end of 1944, these percentages had changed to 47, 18, and 35, respectively.

Although both demand and time deposits have increased appreciably in dollar amount, have increased rel-

atively more in the District than in the nation, and within the District have grown more rapidly outside of than within the 10 major metropolitan counties, there have been significant differences in the growth of the two types of deposits. Both the amount and the rate of gain in District demand deposits have lessened from year to year, but time deposits have behaved in exactly contrary fashion. After a negligible increase in 1942 compared with the marked rise in demand deposits, time deposits increased sharply in 1943 and in 1944, and are continuing to rise in the current year. This contrast between time and demand deposits appears to hold throughout most of the District counties, and is especially pronounced in Los Angeles and San Francisco. In Los Angeles County, a 9 percent increase in time and a 44 percent increase in demand deposits in 1942 were succeeded by a 26 percent increase in time and a 20 percent increase in demand deposits in 1944. In San Francisco and Alameda Counties, the contrasting shifts were even more pronounced; a 5 percent increase in time and a 39 percent increase in demand deposits in 1942 were followed in 1944 by corresponding increases of 20 and 5 percent.

¹ See table below for list of these counties.

DISTRIBUTION OF DEMAND AND TIME DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
BY STATES AND SELECTED METROPOLITAN COUNTIES—TWELFTH DISTRICT, 1941-44¹
(as of December 31, amounts in millions of dollars)

	Demand				Time				Percent increase			
	1941	1942	1943	1944	1941	1942	1943	1944	Demand		Time	
									1943-44	1941-44	1943-44	1941-44
Arizona	42	77	97	124	17	20	27	37	28	195	37	118
California												
Los Angeles	872	1,260	1,716	2,064	679	741	935	1,233	20	137	26	82
San Francisco-Alameda	699	975	1,260	1,317	922	969	1,107	1,324	5	88	20	44
San Diego	60	154	180	209	55	67	88	121	16	248	38	120
Remainder	422	716	1,093	1,335	548	622	810	1,073	22	216	32	96
Total	2,053	3,105	4,249	4,925	2,204	2,399	2,940	3,751	16	140	28	70
Idaho	68	118	166	213	33	36	47	64	28	113	35	94
Nevada	26	46	54	62	18	22	26	34	15	138	29	89
Oregon												
Multnomah	132	214	266	308	89	106	141	188	16	133	33	111
Remainder	107	184	254	322	51	60	80	111	27	300	39	118
Total	239	398	520	630	140	166	221	299	21	164	35	114
Utah												
Salt Lake-Weber	66	106	135	156	47	54	66	83	16	136	26	77
Remainder	19	41	53	59	19	23	32	42	11	211	31	121
Total	85	147	188	215	66	77	98	125	14	153	28	89
Washington												
King-Pierce	247	406	487	529	178	213	275	359	9	114	31	102
Spokane	42	67	88	94	22	25	30	40	7	124	33	82
Remainder	124	222	335	421	71	86	117	160	26	240	37	125
Total	413	695	910	1,044	271	324	422	559	15	153	32	106
Twelfth District												
Ten counties	2,118	3,182	4,132	4,677	1,992	2,175	2,642	3,348	13	121	27	68
Remainder	809	1,404	2,052	2,536	757	869	1,139	1,521	24	213	34	101
Total	2,926	4,584	6,184	7,214	2,749	3,044	3,781	4,869	17	147	29	77
United States	37,595	47,641	59,078	64,967	25,917	26,550	30,501	36,966	10	73	21	43

¹ In comparisons, allowance must be made for the fact that individual, partnerships, and corporation deposits as of December 30, 1944 probably were more affected by a war loan drive (the Sixth Drive ended only two weeks earlier) than those of any other year-end. War loan drive bias lowered deposits as of the end of 1944 of all counties relative to those of earlier years. It also probably reduced so-called metropolitan county deposits relative to those in other counties and demand deposits relative to time deposits.

Note: Deposits for other individual counties for these years are available.
Source: Treasury Department.

Earnings and Expenses of Member Banks in the Twelfth District, 1944

NET profits of Twelfth District member banks increased markedly in 1944 to a new high level, 32 percent above those of 1943 and 70 percent above those of 1940. Although expenses have increased steadily over the past five years, they have gone up much more slowly

EARNINGS AND EXPENSES OF MEMBER BANKS,
1940-44—TWELFTH DISTRICT
(millions of dollars)

	1940	1941	1942	1943	1944
Interest and discount on loans.....	104.0	115.0	112.4	94.5	93.1
Interest and dividends on securities...	44.5	45.2	54.5	86.2	111.8
Service charges on deposit accounts....	8.5	9.4	10.1	12.3	14.2
Trust department earnings.....	6.8	7.0	6.9	7.6	8.9
Service charges and fees on loans.....	1	1	1.5	1.5	1.6
Other earnings.....	15.8	15.9	13.8	17.1	19.2
Total earnings.....	179.6	192.5	199.2	219.2	248.8
Salaries and wages.....	54.5	59.1	64.9	69.1	74.6
Interest on time deposits.....	31.4	30.2	28.5	25.6	29.7
Taxes other than on net income.....	13.2 ²	15.7 ²	8.5	9.5	7.3
Other expenses.....	35.4	39.6	36.4	39.4	44.0
Total expenses.....	134.5	144.6	138.3	143.6	155.6
Net current earnings.....	45.1	47.9	60.9	75.6	93.2
Recoveries on loans.....	4.4	9.7	6.0	7.3	7.2
Losses on loans.....	12.9	13.4	9.8	6.0	14.3
Recoveries and profits on securities....	19.4	16.2	8.9	9.3	15.6
Losses on securities.....	8.3	9.8	9.0	10.3	8.6
Other net charge-offs.....	4.2	4.1	4.9	3.6	+ 0.4
Total net charge-offs.....	1.6	1.4	8.8	3.3	+ 0.3
Net profits before income taxes.....	2	2	52.1	72.3	93.5
Taxes on net income.....	2	2	10.5	16.1	19.9
Net profits after taxes.....	43.5	46.5	41.6	56.2	73.6
Cash dividends.....	24.2	24.8	23.7	23.6	25.8
Number of banks.....	277	277	274	273	270

¹ Included in other earnings.

² Taxes on net income included in "taxes other than on net income" in 1940 and 1941.

Note: Effects of changes in number of banks upon comparability of figures is negligible.

than earnings. The principal source of the increase in banks' earnings since 1941 has been the unprecedented expansion in Government security holdings that has resulted from the wartime financial needs of the Treasury. The decline in rates of return on loans and securities, which began well before the war and has continued through the war period, has been far more than offset by the expansion in earning assets.

Even though rates of return declined further in 1944, earnings on securities rose to two and one-half times those of 1940 and 1941. They were about 45 percent of total earnings in 1944 compared with 25 percent in 1940. The decline in earnings on loans was negligible in 1944, although they remained well below the 1941 peak. The return from service charges on deposit accounts has risen steadily since their inauguration in the early 1930's, as the result of increases both in rates and in the volume of deposit activity.

Current expenses, except for taxes other than income taxes, also increased in 1944 but by a considerably smaller amount than current earnings. The decline in total interest payments on time deposits was reversed last year because of the continued growth in time deposits, although there was a slight further reduction in the rate of interest paid on such accounts.

The increase in member bank profits has not been re-

flected in dividends. Total dividends paid increased slightly in 1944 over the previous year for the first time in three years, but profits retained amounted to 48 million dollars as against 33 million in 1943. Despite this addition to capital accounts, the ratio of aggregate net profits to capital accounts increased further to 12.5 percent, well above the corresponding ratio of 9.7 percent for all member banks in the nation. The decline in capital accounts relative to total assets and to total deposits also continued in 1944.

Although the high level of bank earnings is directly related to the extraordinary increase in Government security holdings of the banking system that has occurred during and because of the war, there is no reason to expect any correspondingly abrupt decline in such holdings or in bank earnings after the war. Even on the somewhat questionable assumption that Government deficits disappear abruptly, either a substantial reduction in the public debt or a shift in its ownership from banks to other investors is unlikely. Rather, there may well be a shift in Governments to the banking system from other holders who wish to spend the funds now represented by their holdings of Government securities. Also, bank loans, the one source of bank earnings that was unfavorably affected by wartime restrictions, are no longer declining. They are at a high level compared with prewar years despite their decline since 1941, and may well increase somewhat with the shift to a peacetime economy.

SELECTED OPERATING RATIOS OF MEMBER BANKS,
1939-44—TWELFTH DISTRICT

	1939	1940	1941	1942	1943	1944
Net profits after taxes as percentage of						
Total capital accounts.....	8.6	8.3	9.1	7.4	9.7	11.8
Total assets.....	—	0.9	1.0	0.7	0.6	0.6
Percentages of total earnings						
Interest and dividends on securities	22.9	21.5	19.8	23.7	34.4	42.9
Interest and discount on loans....	61.1	62.7	64.1	58.8	46.4 ¹	38.6 ¹
Service charges on deposit accounts	5.5	5.6	5.8	6.2	7.5	7.2
Salaries and wages.....	31.3	31.6	31.9	34.3	34.6	32.1
Interest on time deposits.....	16.7	16.6	15.7	15.3	13.1	12.8
Capital accounts as percentage of						
Total deposits.....	14.3	13.7	12.5	10.0	7.0	5.7
Total assets.....	—	11.8	—	—	6.4	5.3
Total assets less cash and Government securities.....	—	—	—	23.9	28.3	32.0
Interest and discount on loans as percentage of total loans.....	6.6	6.5	6.4	6.0	5.9 ¹	5.7 ¹
Interest and dividends on securities as percentage of total securities...	3.4	3.1	3.0	2.3	1.6	1.4
Interest on time deposits as percent- age of total time deposits.....	1.7	1.7	1.6	1.5	1.1	1.0

¹ Includes service charges and other fees on loans.

Note: Ratios are arithmetic averages of ratios of individual banks, not ratios based on aggregate dollar totals. The operations of each bank, regardless of size, have equal weight in the determination of the averages.

More complete tabulations of Twelfth District member bank operating ratios for 1944, including separate tabulations for banks classified by state, by state or larger area and size, by proportion of time to total deposits, and by proportion of loans to total assets, are available upon request.

It appears unlikely that, for the country as a whole, the postwar period will see any appreciable decline in either bank deposits or earning assets of banks, although banks in particular areas may have to dispose of earning assets because of deposit shifts. Twelfth District banks have in-

creased their deposits and earning assets more rapidly than banks in many other parts of the country because of the shift of funds, largely through Treasury expenditure, to this District. Banks in some areas of the Twelfth District may be faced with deposit losses as war activities contract, but a considerable portion of the relative deposit

gain in this District is expected to be permanent. So far in 1945, Twelfth District banks appear to be in a situation similar in general to that of last year with respect to earnings, although further increases in net earnings for the year as a whole on the 1942-44 scale are less likely to be realized.

Guayule Production in the West

NATURAL rubber is one of the most important strategic materials for both industrial and military use not produced in quantity in the United States. With the outbreak of war, the loss of Far Eastern sources of supply made it necessary to investigate all other possible sources, including domestic production. Efforts to obtain natural rubber in the United States in the past few years have centered largely around the guayule shrub, which is being produced in California at the present time. Since March 1942 practically all guayule rubber growing and experimentation, from seed collecting to harvesting, have been carried on in the Department of Agriculture as the Emergency Rubber Project. By the end of June 1945 it is expected that the Project will have spent a total of about \$36,500,000 for guayule production. An additional amount of \$1,900,000 has been spent in experimentation to determine the rubber producing possibilities of four other plants, goldenrod, Russian dandelion, *cryptostegia*,¹ and rabbitbrush. Congress recently reappropriated \$4,817,000 from 1942, 1943, and 1944 unexpended balances for the year ending June 30, 1946. These funds, together with steps taken by the Rubber Reserve Company to provide additional processing facilities, assure the harvesting of present rubber plantings in California so as to yield the maximum amount of natural rubber in the immediate future when it will be most useful.

Although no further plantings are being made under the Government program, guayule growing is again the subject of Congressional consideration. Senate action is pending on the Poage bill (H.R. 2347), passed by the House on May 14, which would foster private guayule production in the southwestern states and continue the experimental work of the Government. This bill directs the Secretary of Agriculture "to support by loan, purchase, or other operation a fair price to growers and processors of guayule shrub based upon a price of 28 cents per pound at the mill for processed crude guayule rubber from shrub harvested before June 30, 1956," provided that this price support in any one year to any one farmer is limited to the rubber produced from 100 acres or less.² The price support is further limited to the guayule harvested from a total of not more than 400,000 acres and from not more than 100,000 acres in any one year. The bill also author-

izes the Secretary of Agriculture to continue research and experimentation on guayule and other rubber bearing plants and to produce and purchase guayule seed and seedlings to be sold at cost to guayule farmers.

History of guayule production

Guayule is a stubby, woody, dusty looking shrub native to the tableland of north central Mexico and the Big Bend area of southwestern Texas. Rubber is stored in nearly all parts of the plant. Depending on age and variety, up to 20 percent of the dry weight of the plant is natural rubber. The shrub is usually harvested after a growth of four or five years, and the practice has been to harvest the entire plant, so that one planting yields only a single crop. First commercial experiments with guayule were made in Germany in 1900, rubber being extracted from wild shrub shipped from the Western Hemisphere. In 1904 a practical method of extracting rubber from guayule was perfected by an American corporation. At that time a subsidiary of this company constructed a rubber mill in Mexico in which production has been practically continuous since operations started. Four other small mills were constructed prior to the war. During the war three additional guayule mills have been put into operation in Mexico, processing the wild shrub.

Experiments in the domestication of guayule were begun in Mexico as early as 1911 with private capital. Later these experiments were shifted to Arizona and California, and a rubber mill was built in the Salinas Valley of California in 1930 where 4,400 acres of guayule were grown and processed. In the absence of wartime pressure and in the interests of producing rubber as economically as possible, the experiments were confined to dry land culture with what was considered to be the most productive rotation period, 4 to 7 years.

The War Department investigated the production of guayule rubber as a national security measure as early as 1930. Congressional interest began in the spring of 1941 and culminated in the law of March 5, 1942, providing for the planting, growing and recovery of rubber from guayule and other rubber bearing plants to provide crude rubber for war or other emergency use. It authorized the planting of 75,000 acres in the Western Hemisphere. In carrying out the provisions of this act the Secretary of Agriculture purchased for the Government 14 million guayule seedlings and 22,867 pounds of seed, the only collected supply of guayule seed in existence, a rubber mill and other tangible assets from the holders in Califor-

¹ In addition the Rubber Development Corporation spent \$6,948,451 for the development of *cryptostegia* on 43,000 acres in Haiti, but only 4 tons of rubber were produced from test lots. This project was discontinued effective April 1, 1945.

² The bill as originally introduced limited acreage eligible for price support to 40 acres per farm; on the other hand, the Guayule Committee sponsored by the California State Reconstruction and Reemployment Commission favors a limit of 160 acres.

nia. Work started at once. Nurseries were established and additional land was leased. Seeds were planted and seedlings transplanted for commercial production.

An amendment in October 1942 increased the authorization to 500,000 acres, and more nurseries were established to try to keep up with the expanded program. This program called for planting 200,000 acres by June 1944 and subsequent plantings to allow an annual harvest of 200,000 acres or about 80,000 tons of rubber. Previous experience with guayule production had been on dry land, but in order to produce rubber in the shortest possible time because of the war emergency, high priced irrigated land was acquired by lease, and it was planned to harvest the crop in 2 years rather than in 4 or 5 years as was the practice on unirrigated land. The period of rapid expansion continued throughout the winter of 1942, and at one time as many as 4,400 field workers were employed. In solving the problem of housing these transient workers, the Government constructed a number of camps which were considered to be models of sanitation and livability and announced plans for similar camps to house the larger numbers of workers that would have been necessary to carry out the larger program authorized by Congress.

By March 1943, although actual plantings were still far short of 200,000 acres, a public reaction against the program had set in. Agricultural products prices had advanced considerably by this time and farmers were experiencing pronounced difficulty in obtaining sufficient farm labor. Production of food was felt to be of greater immediate importance than the further expansion of a program to insure domestic production of natural rubber a few years later. Lessors were anxious to take advantage of the opportunities offered by rapidly rising prices. It is also probable that the working conditions for farm laborers under the Emergency Rubber Project contributed to the difficulties of farm operators in the local communities. As a result of these and other considerations, and at the suggestion of the Rubber Director of the War Production Board, the nurseries were maintained on a stand-by basis and no further lands were leased. Up to this point the Emergency Rubber Project had been organized on the basis of the very large objectives authorized by Congress. Large nurseries had been constructed in the four guayule states of Arizona, California, New Mexico, and Texas. However, from many of these nurseries no seedlings have ever been transplanted. Labor camps had been built and machinery bought on the basis of the original goals. The area of agricultural land leased for guayule production was twice as great as the area that was actually planted.

In the spring of 1943 the first rubber was produced by the Government at Salinas. It came from about 550 acres of 12-year-old shrub, which had been purchased along with other properties when the Government inaugurated its Emergency Rubber Project. Additional plantings were made on lands already under lease and by July 1, 1944, 31,356 acres of plantations had been estab-

lished in California, of which all but about 9,000 acres were on irrigated land. These plantations are fairly evenly distributed among the Salinas, Bakersfield, Colusa, and Tracy-Newman areas in California. A smaller acreage is planted in southern California. Activities in other southwestern states were only experimental, though plans were under way for large-scale operations in Arizona, New Mexico and Texas when the Project was curtailed.

Liquidation plans and costs

Since July 1944 Federal policy on guayule production has been one of retrenchment. No additional plantations have been established, much leased land has been returned to its owners, and emphasis has been placed upon the extraction of the rubber from the shrub planted in 1942 and 1943. Because of the length of time needed to produce the shrub, retrenchment began even before the start of quantity rubber production. The first carload of Government grown domestic natural rubber was not shipped from the Salinas mill until January 31, 1945. A new mill, costing \$400,000 and employing 50 to 60 persons, was erected at Bakersfield and put into operation during the week of April 15, 1945. Based on the operation of the two mills, plans were made for the production of 1,100 long tons of rubber in 1945.

With no additional mill capacity, it would require until 1955 finally to liquidate the project and, it is estimated, 31,000 long tons of rubber would be produced. However, the War Production Board has recently announced plans to process all Government owned guayule within the next two years in order to obtain the maximum tonnage of guayule rubber by April 1947. To this end the Rubber Reserve Company has contracted with a leading tire manufacturer to construct and operate four additional rubber mills, two to be located at Bakersfield and two at Patterson, California. This program will reduce the total rubber recovery from the plantations to 12,000 to 16,000 long tons because of the earlier harvesting of the plants. It will, however, provide the greatest possible amount of natural rubber from the Project in the immediate future, when it will be most useful to the war effort.

Expenditures to date for guayule production, exclusive of the cost of the additional mills, amount to more than \$1 per pound of rubber in terms of the estimated total yield. The gross cost per pound under the Government's Emergency Rubber Program is no indication, however, of the possible or probable cost under ordinary conditions. Much of the expenditure was incidental to the preparation for a larger program and had nothing to do with the cost of the rubber actually grown. The plantations were established under great pressure to produce the maximum weight of rubber in the shortest possible time. If the highest quality land would grow rubber faster, it was leased. If irrigation would speed up rubber production, it was practiced. If some rubber could be extracted from two-year-old plants rather than waiting for four years, the earlier, less economical rotation was

adopted. Land rents and labor costs were high because of the need for speed. Nevertheless this experience has indicated the possibility of a new industry in the Southwest.

Future of guayule production

Guayule can be grown on much of the non-irrigable marginal land in the Southwest if the rainfall is at least 10 or 12 inches per year. It has been found that irrigated guayule, with a two-year rotation, will produce from 600 to 700 pounds of crude rubber per acre. Sixteen hundred pounds per acre can be produced with a four or five-year rotation on dry land or in three years on irrigated land. The maximum possible guayule rubber production has been shown to be about 2,200 pounds per acre on good irrigated land with a four-year rotation.

It appears unlikely that with existing production methods guayule could compete in a free market on a large scale with imported natural rubber or with the major types of synthetic rubber, although small amounts might be sold for specialized uses because of its high resin content or other properties. The last prewar market price of natural rubber from the East Indies was 22 cents per pound, but within the space of seven prewar years, rubber prices ranged from 3 cents to \$1.23 per pound. The average cost of main-type synthetic rubber produced up to the first of this year is reported to be about 32 cents per pound, but some plants appear to be able to produce at a profit for as low as 20 cents per pound. Mexican guayule rubber has been sold recently for 28 cents per pound but this is nearly twice as high as its average price during the decade prior to the war. Forest Service guayule rubber has been priced at 27 cents per pound. To obtain the most profitable yield from the guayule shrub, furthermore, some four to five years must elapse between planting and harvesting, which increases the financial uncertainty involved and further discourages private action.

Production methods are still not stabilized, however, and continuing Government experiments to determine the most economical methods of production may yield surprising results. For example, the guayule plants may be mowed down like alfalfa hay and a second or third crop be derived from the sprouting stumps, in this way

reducing the cost of seeding and seedlings and possibly increasing the average yield per year. The most economical and effective use of irrigation water is another field in which experiments may improve the economic feasibility of guayule production. Experiments are also going on in closer planting and in improved seed strains, and in seeding the crop directly in the field instead of starting the plants in nurseries.

Federal aid to guayule growers is proposed in the Poage bill, which provides a price floor of 28 cents per pound through June 1956 on milled domestic guayule rubber; that is, for plantings made through 1950. It has been estimated that this would net farmers 20 cents per pound after milling costs, but how much acreage farmers would wish to plant on this basis is not known. If the total should appear to result in harvested acreage in excess of the proposed limits of 100,000 acres per year and 400,000 acres over-all, some equitable method of allocation would be required. The limitation on the total acreage eligible for price support limits the possible Government liability implied in the price guarantee, and the limitation on acreage per farm is designed to avoid encouragement of one-crop farming and concentration of production.

Guayule could become a new cash crop for farmers of the Southwest, and one offering off-season employment for agricultural workers, since the labor requirements complement those of sugar beets. Should national security require it because of the need for natural rubber for blending with synthetic rubber, Federal support of domestic guayule production would of course be justified. Apart from considerations of national defense, if there should be a reasonable chance for guayule to become a profitable crop, temporary price support while commercial success or the lack of it is being demonstrated also might be warranted. Temporary aid to an industry tends to become permanent, however; and aid extended to an industry primarily to protect the nation may become primarily a matter of protection for producers in that industry. Government encouragement of guayule production, if adopted, should not be allowed to become simply another stone in a permanent structure of Federal aid to domestic agriculture.

National Summary of Business Conditions

Released May 26, 1945—Board of Governors of the Federal Reserve System

OUTPUT and employment at factories declined somewhat in April. Department store sales showed a marked decline and wholesale commodity prices continued to advance slightly.

INDUSTRIAL PRODUCTION

Industrial production, which had advanced earlier this year, declined in April to the same general level that prevailed during the last half of 1944. The Board's seasonally adjusted index was 231 percent of the 1935-39 average as compared with 235 in the first quarter.

Activity in the machinery and transportation equipment industries declined about 3 percent in April, reflecting curtailed munitions production; the largest part of the decrease was accounted for by a further reduction in operations at shipyards. As a result of the decline in shipbuilding during the last 12 months, activity in the transportation equipment industries in April was 10 percent below a year ago. Steel production was maintained at the March level as a decline in output at open hearth furnaces was offset by a further rise in steel produced in electric furnaces. Production of nonferrous metals, which had increased somewhat during the first quarter of this year, showed little change in April. Output of stone, clay and glass products was maintained at the first quarter level, while lumber production continued to decline.

Production of textiles and manufactured food products declined slightly in April and was at the level of a year ago. Cotton consumption showed a decrease of 5 percent from March but rayon shipments rose further to a record level. Activity at meat packing establishments, which had shown little change during the first quarter after allowing for seasonal fluctuations, declined 10 percent in April. Output of rubber products decreased as the shortage of carbon black continued to limit production despite measures to stretch available supplies. Production of most other nondurable goods showed little change.

Bituminous coal production recovered in the latter part of April from a substantial decline earlier in the month due to work interruptions accompanying contract negotiations. Output for the month was 8 percent below that of March and in the first two weeks of May continued at this lower rate. Anthracite production in April was 14 percent higher than in the preceding month but declined sharply in May prior to agreement on a new wage contract on May 19. Output of crude petroleum has been maintained at record levels and iron ore production has shown an exceptionally large increase this spring due to early opening of the navigation season on the Great Lakes.

DISTRIBUTION

Department store sales declined sharply in April and the Board's seasonally adjusted index was 181 percent of the 1935-39 average as compared with an average of 211 in the first quarter and with 172 in April 1944. Sales in the first half of May were only slightly larger than in the corresponding period a year ago. Owing to unseasonably warm weather and expectations of shortages, much spring shopping, which would usually be done in April and May, occurred this year in February and March. In mid-April many stores were closed immediately following the death of President Roosevelt. Also, in particular cities, part of the recent decrease in sales appears to have been associated with actual or anticipated income declines resulting from cut-backs in war production.

Freight carloadings of most manufactured products were maintained at a high level in April and the early part of May and were above the same period a year ago. Shipments of coal and lumber, however, were in smaller volume, reflecting reductions in output of these commodities.

COMMODITY PRICES

Wholesale prices of farm products advanced in April and then showed little change in the first three weeks of May. Maximum prices for coal, steel products and various other industrial commodities have been raised somewhat in recent weeks.

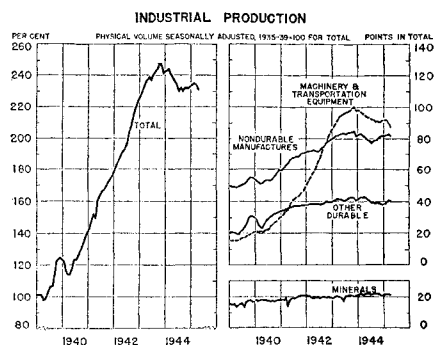
Retail price changes for foods and other commodities apparently have continued to be small in April and the early part of May.

BANK CREDIT

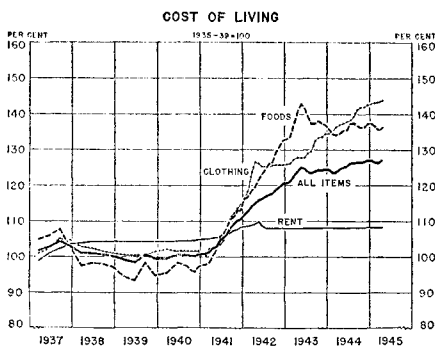
During the four weeks ended May 16 total deposit and currency holdings of businesses and individuals increased by nearly 3 billion dollars. Increases of about 300 million in currency and of over 400 million in reserves required to be held against expanding deposits at member banks resulted in an increased demand for reserve funds by member banks. This demand was supplied largely by an increase of about 500 millions of dollars in Reserve Bank holdings of Government securities, mostly bills and certificates, and in part by a temporary decline in Treasury deposits at the Reserve Banks. Excess reserves rose slightly to around a billion dollars.

In the 5 months between war loan drives, December 20 to May 16, reporting banks in 101 cities reduced their holdings of short-term Government securities by around 2.3 billion dollars in order to maintain adequate reserve balances. But during the same period bond holdings of these banks were increased by 1.6 billion dollars.

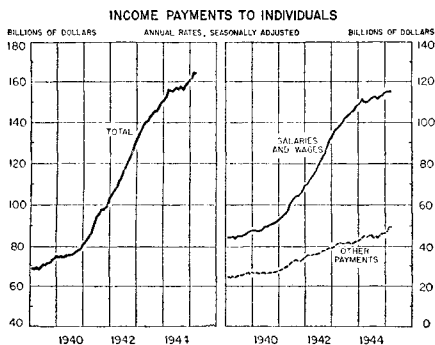
Loans to brokers and dealers for purchasing or carrying Government securities, which had declined in early April to a level comparable with that reached before the Sixth War Loan Drive, rose substantially during the three weeks immediately preceding the Seventh War Loan Drive. Commercial loans declined during the interdrive period, reaching a level about 500 million dollars lower than that prevailing just before the Sixth War Loan Drive.



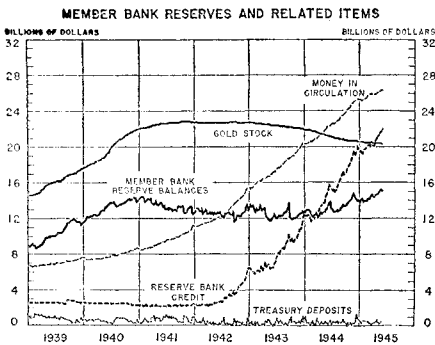
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for April.



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



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



Wednesday figures, latest shown are for May 23.