

Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

SEPTEMBER 1946

Review of Business Conditions—Twelfth District

Production and Employment

THE completion of a full year since V-J Day found the economy of the Twelfth District in a much sounder position than most observers a year ago would have ventured to predict. While the process of conversion to peacetime operation is not yet complete, substantial progress has been made in the redistribution of the District's labor force and in the absorption of veterans and displaced war workers into a wide variety of undertakings, old and new. Not far short of a million men have returned from the armed forces to civil life. Total civilian employment in the District is currently very little below the level of V-J Day and is probably within 6 or 7 percent of the wartime peak of September 1943. The large volume of unemployment precipitated by the sudden ending of the war, and intensified by the series of labor disputes which culminated last winter, has been materially reduced.

Part of the improvement in general business conditions in the District during the last few months has been due to normal seasonal factors, such as expansion in food processing, the harvesting and sale of truck and orchard crops, and vacation and recreational spending. This seasonal expansion has tended to obscure and offset the continued reduction, in such activities as shipbuilding and repair; assembly, storage, and overseas shipment of military supplies; and other related operations. On the other hand, there has been a fairly steady increase in mining and miscellaneous industrial activity, especially in the production of construction materials, and in a wide range of non-manufacturing operations. This increase would undoubtedly have been greater in some lines had adequate supplies of materials been available. A shortage of railroad cars has also limited production and shipment in certain industries, notably in lumber. In addition, strikes in the maritime and trucking industries in September hampered operations of producers and distributors in many lines of activity.

Manufacturing

Despite the contraction of war industries since mid-1945, the position of manufacturing in the economy of the District still remains relatively high when judged by prewar standards. Data are not available for a detailed comparison for the District as a whole. For California, however, the estimated volume of employment in manu-

facturing in April 1946 was over 50 percent larger than in April 1940, as against an increase for all industry groups of less than 30 percent. Only government employment experienced a higher relative gain than manufacturing, nearly doubling during the six years. The public utility group also increased at a high rate, only slightly below that of manufacturing. Employment in trade expanded at a rate just under the general average for all industries, while construction had a more moderate increase. The service and financial occupations grew at a considerably lower rate than employment as a whole; this was true also of agriculture, forestry, and fishing. Employment in mining actually declined during the six-year period.

The volume of employment in each of these several categories in April 1940 and in April and July 1946, according to the estimates of the California Department of Industrial Relations, were as follows:

ESTIMATED EMPLOYMENT IN CALIFORNIA
(amounts in thousands of persons)

Industry group:	Apr. 1940	Apr. 1946	July 1946 ¹	Percent increase 1940 to	
				Apr. 1946	July 1946
Trade	551	702	718	27	30
Service and finance.....	617	651	669	6	8
Manufacturing	409	617	665	51	62
Government	237	456	440	92	85
Transportation, communi- cations and utilities....	184	273	283	48	54
Agriculture, forestry, and fishing.....	268	287	395	7	47
Construction	138	165	183	19	33
Mining	46	39	41	-15	-11
Total employment ²	2,482	3,210	3,414	29	37

¹ Preliminary.

² Including a small unclassified group.

Trade and service

The potentialities of employment expansion offered by the trade and service industries are indicated by the fact that some 32,000 net additional trade outlets were licensed in California by the State Board of Equalization during the first 10 months following V-J Day. Accelerating an upward trend that had set in before the end of the war, these recent increases brought the total number of trade outlets in the state to an all-time high of 231,600 on July 1, 1946, exceeding the prewar peak, established in 1941, by 25,000 outlets.

The number of trade outlets, nevertheless, has increased less than population since 1940. There are now about 25 outlets per thousand population in California,

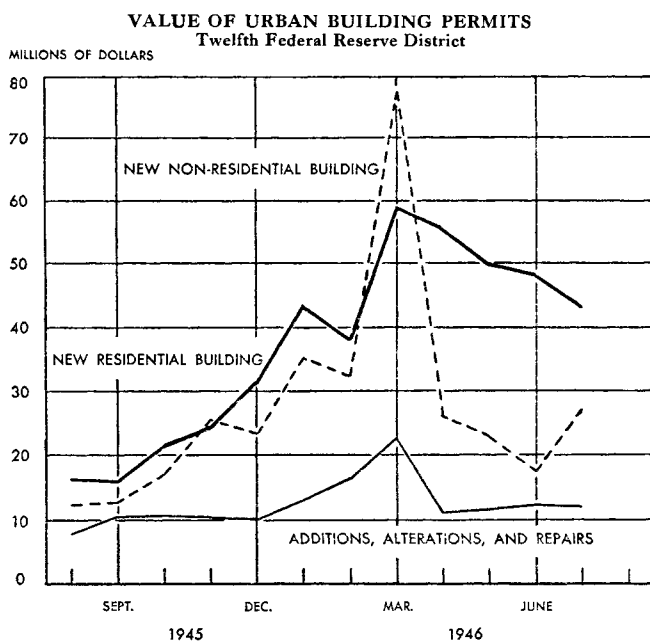
as against 29 per thousand before the war. Approximately 35,000 new establishments, in addition to those licensed since V-J Day, would be required to restore the prewar ratio of outlets to population.

A high proportion of these new trade establishments are independently owned. Most of the stores, shops, service stations and the like that went out of business in 1942 and 1943 were independent, so that the group as a whole declined in relative importance during the war period. With the licensing of new outlets since V-J Day, the prewar relationship in numbers between the independent group and the chain ownership group has been substantially restored.

Somewhat parallel developments are taking place in other parts of the District. In Washington, for example, over 5,000 new firms entered business during the first nine months following V-J Day. Most of these were relatively small concerns, with an over-all average of about four employees per establishment. Retail trade and service represented over two-thirds of the total number of new ventures, construction and manufacturing enterprises about one-quarter.

Building permits

Urban building permits in the Twelfth District rose sharply following removal of wartime controls, from about 25 million dollars a month in early 1945, before V-E Day, to 40 million dollars a month between V-E and V-J Days, and on up to a peak of nearly 160 million dollars in March 1946. Since this March peak, they



have averaged about 85 million dollars for the four months April through July. As can be seen in the accompanying chart, new residential buildings, new non-residential buildings, and additions, alterations and repairs, all participated in the postwar increase, but not equally.

Wartime restrictions on the use of construction materials and labor were eased with approaching victory in the European theatre and were entirely discontinued on October 15, 1945. Shortages of building materials and components coupled with the inability of veterans to find adequate housing compelled the Civilian Production Administration to re-impose some measure of control shortly thereafter. The first step was the establishment on January 15, 1946 of a system of priorities for the purchase of construction materials. Preference was given to residential construction and to plants, shops and the like making or servicing construction materials. Under certain circumstances, new, expanded, or replacement construction to provide quarters for business enterprises that gave promise of providing continuous employment was permitted. The regulations were so loosely drawn and so liberally administered that they were largely ineffectual in curtailing non-residential construction except that for obviously frivolous use. After trying, with no marked success, to tighten the administration of these loose controls without restricting the construction or construction materials industries, the CPA issued a new limitation order on March 26, 1946 prohibiting unapproved construction in somewhat the same manner as had proved effective during the war.

During the postwar period of little or no restriction on the use of scarce construction materials, from August 1945 through March 1946, permits for new residential building comprised 43 percent, and for new non-residential building 40 percent, of the value of all urban permits in the District. The prewar proportions, from 1935 through 1939, were 51 percent of all permits for new residential and 32 percent for new non-residential building. Additions, alterations, and repairs accounted for 17 percent of the value of permits in both periods. Following re-imposition of the limitation order in March 1946, for the purpose of directing a higher proportion of still scarce construction materials and components into home building, the relative importance of new residential building permits rose, in the four months April through July, to 58 percent of the total. New non-residential permits fell sharply to 28 percent of the total, somewhat below the prewar proportion, and addition, alteration, and repair permits were reduced to 14 percent of the total.

Banking and Credit

It is reported that a considerable number of security offerings have been suspended on account of the recent stock market declines, but bank borrowing by business has continued to increase. Some borrowers may even have shifted from the securities market to banks, at least temporarily.

Loans of District member banks continued to increase substantially in late August and September. As of September 25, total loans were more than 50 percent above the level of a year ago. Among weekly reporting member banks, the largest increase in both dollar amount and percent over the four weeks ending September 25 occurred in commercial, industrial, and agricultural loans. Real

estate loans also increased, but other loans showed little change. Compared with a year earlier, commercial, industrial, and agricultural loans of reporting banks were up, 70 percent, real estate loans 20 percent, and other loans (including consumer loans but excluding loans for purchasing or carrying securities), almost 90 percent.

Government security holdings of member banks, which have been reduced steadily during the year by the Treasury debt retirement program, declined further in September, largely as the result of another retirement of certificates of indebtedness on September 1.

United States Government deposits in member banks were also reduced further to provide funds for this debt payment. These deposits in Twelfth District banks are less than half as large as they were in early 1946 at the post-Victory Loan peak. Total deposits of District member banks have declined during 1946, but the decline has been confined to Government and interbank deposits. Both demand and time deposits in private hands are higher than at the beginning of the year, although the percent increase is considerably smaller than that for the first three quarters of 1945. Third quarter tax payments brought the usual decline late in September in both demand deposits in private hands and member bank reserves.

Inventory Accumulation

The recent rapid growth of business inventories has attracted considerable notice in both official and private quarters. Estimates by the Department of Commerce indicate that total business inventories at the end of July were approximately 30 billion dollars, or about 1.5 billion above the previous peak reached in November 1943. New high records were established in each of the three categories, manufacturers' inventories, wholesale inventories, and retail inventories, at 18.0 billion, 4.6 billion, and 7.4 billion respectively. The publication of these figures led to a statement on September 18 by the Secretary of the Treasury warning the banks in particular to exercise caution in making loans that have an inflationary or speculative trend.

Some increase in manufacturers' stocks of raw materials and finished goods was to be expected during the first half of 1946, in view of the liquidation last year of materials and supplies which had been procured for war production. According to estimates by the Department of Commerce the net inventory reduction incident to contract termination was close to 5 billion dollars; the bulk of this liquidation was in the durable goods industries and occurred in the latter part of 1945. By mid-1946 inventories in durable goods industries had practically recovered the levels of a year ago. In the nondurable goods industries, inventories increased relatively little during the first six months of 1946 but advanced rapidly in July.

Raw materials and goods in process have increased more rapidly than stocks of finished goods, which currently represent only about one-quarter of manufacturers' total inventories as against a prewar ratio of about one-half. Price advances have played some part in recent in-

ventory increases; in some cases physical volume may be actually below the 1940 level, for example, while the dollar amount is considerably larger.

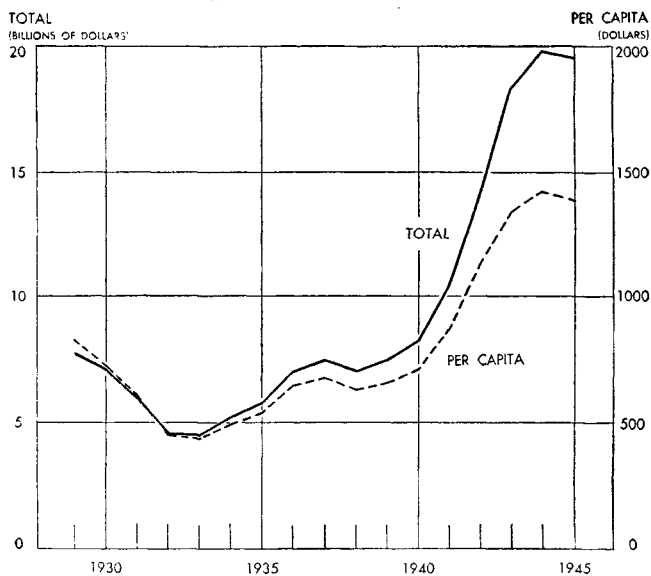
The Department of Commerce called particular attention to the very rapid rate at which goods were channeled into inventories during July, a rate about five times as large as the estimated average monthly increase during the previous six months. A very considerable fraction of the July inventory increases was accounted for, however, by the food industries which normally have a seasonal accumulation in this month. There was probably also a greater than seasonal restocking of grain bins to make good the depleted inventories resulting from the large relief shipments of last spring.

In the field of retail trade, department store inventories, both in the Twelfth District and in the United States as a whole, had increased by the end of July to a new high level. Since department store sales were also at record levels, the ratio of inventories to sales increased only slightly from the low point experienced at the end of 1945. Of probably greater significance, however, is the fact that outstanding orders of department stores at the end of July were more than five times as high as the 1941 average. This increase in volume of orders occurred despite a rapid increase in deliveries of merchandise during the current year, which in July reached a level nearly two and one-half times as great as the average rate during 1941.

Income Payments

Income payments to individuals in the seven western states fell slightly to 19.6 billion dollars in 1945 from 19.8 billion in 1944. In the fourth quarter of 1945, income pay-

INCOME PAYMENTS TO INDIVIDUALS
Twelfth Federal Reserve District



Source: U. S. Bureau of Foreign and Domestic Commerce.

ments were at the annual rate of 19.0 billion dollars after allowing for seasonal factors. The rate of national income payments, which had risen somewhat to 152.7 billion dollars in 1945 from 149.7 billion in 1944, also decreased in

the fourth quarter of 1945 compared with the entire year, but remained a little above 1944 payments. The District totals are derived from the recently released Department of Commerce estimates of income payments by states.

After V-J Day, sharp reductions in war plant payrolls and related payments were offset in large part by increases in mustering-out pay, in payments made by trade and service establishments as consumer spending rose to record levels, in a continued advance of income payments by private non-agricultural industries other than war plants, and in unemployment allowances to discharged servicemen and war workers. War plant payrolls were more sharply reduced in the Twelfth District than in the country as a whole. In the fourth quarter of 1945, District war plant payrolls had fallen to three-eighths of the 1944 rate, on an annual basis. This loss amounted to 2,700 million dollars annually, all of which except 800 million dollars was offset by increases in other income payments in the District.

Per capita income in the Twelfth District fell by some 3½ percent between 1944 and 1945 while national per capita income was rising 1½ percent. Reduction of income per person in Washington, Oregon, and California carried the District average downward, despite increases in Idaho, Arizona, and Utah, and no change in Nevada. At \$1,388 per person, nevertheless, District income payments remained well above the national per capita average of \$1,150.

The District, furthermore, retained most of its gain

since 1940 in the proportion of total national income paid to District residents. From 10.8 percent of the national income, the District's share increased during the war to a high of 13.2 percent in 1944. The 1945 figure was 12.8 percent, and the fourth quarter 1945 figure, 12.6 percent, was only slightly less.

Wages and salaries accounted for 67 percent of Twelfth District income payments in 1945 as against 70 percent in 1944. Proprietors' income, representing the net income, before withdrawals, of unincorporated establishments including farms, rose from 16 percent to 17 percent of the total. Property incomes represented about 9 percent of all payments in both years. Other income, which includes family allowances and allotments to relatives of military personnel, mustering-out pay, veterans' benefits, and social security payments, increased from 5 percent of all income payments in 1944 to 7 percent in 1945.

Both total and per capita income payments to individuals in the Twelfth District have risen substantially and almost without interruption since 1933. Total income first exceeded the 1929 high in 1940 and has been above it ever since. Per capita income passed the 1929 high in 1941. In 1945, total income was two and a half times, and per capita income was about one and two-thirds times, 1929 payments. Although the District's increase over 1929 in total income payments was considerably greater than the increase in the country as a whole, per capita income increased about the same in the District as in the entire country.

War and Postwar Developments Affecting Silver

FOR centuries silver has customarily been regarded as a metal used primarily for monetary purposes, though in recent decades it has been playing a less and less important monetary role and shifting gradually into more general use in industry and the arts. The shift into industrial use was greatly accentuated during World War II by the relative scarcity of other metals, such as tin, nickel, and copper, for which silver could be used as a substitute. In the United States, circumstances in recent months have served to focus almost all the attention given silver upon its availability for use in industry and the arts rather than for monetary purposes.

Prewar status of silver

Since the passage of the Silver Purchase Act of 1934, the United States Treasury has been the largest single buyer of silver in the world. It has also become the holder of the largest single stockpile of silver. Because of these facts, the Treasury's program for buying and selling silver has been of prime importance to both the producers and the users of silver. This has been particularly true since the early years of our participation as a belligerent in World War II.

During most of the time since 1934 the Treasury's buying price for newly mined domestic silver has been substantially above the market price of imported silver, though as the largest single buyer of foreign silver, the

Treasury has also played a dominant role in determining the price paid for imported silver. Prior to the passage of the domestic silver purchase law of July 6, 1939, the prices which the Treasury paid for imported and for newly mined domestic silver were determined by administrative action. Under terms of this law, the Treasury's buying price for imported silver remained a matter of administrative action, but the price for newly mined domestic silver was set by law at 71.11 cents per fine ounce.

Wartime diversion of silver to industrial use

By early 1942 the relative scarcity of metals for which silver could be used as a substitute had resulted in a large industrial demand for silver. All imported silver was flowing to the open market, where industrial users were offering a premium over the 35 cent price established by the Treasury for its purchases of foreign silver. On the other hand, newly mined domestic silver was flowing entirely to the Treasury, which bought it at the legal price of 71.11 cents per fine ounce.

Relative to the available marketable supplies, the industrial and arts demand for silver had become so great by the summer of 1942 that in July the War Production Board issued an order restricting domestic consumption of foreign silver to essential uses, and the Office of Price Administration made silver import transactions subject

to price control. The initial ceiling price on imported silver was 35¾ cents per fine ounce. On August 31, 1942 the OPA raised this ceiling to 45 cents, where it remained until cessation of hostilities.

On September 3, 1942 the OPA instituted price control upon transactions in newly mined domestic silver and fixed the price at 71.11 cents per fine ounce plus transportation charges. This latter margin permitted industrial users to outbid the Treasury for such silver, with the result that newly mined domestic silver began to flow entirely to the open market.

Use of Treasury silver in essential war production

In 1942 the stock of silver held by the Treasury was divided by existing legislation into one minor and two major categories. The minor one was "silver ordinary" and consisted of silver purchased prior to the Silver Purchase Act of 1934, and recovered bullion which had been lost in melting and coining. Since there were no legal restrictions upon its sale, the Treasury offered in the autumn of 1942 to sell this silver for essential war uses at 45 cents an ounce. A second category was the "monetized" silver behind the silver certificates. Silver certificates are issued in an amount corresponding to the net cost to the Treasury of silver acquisitions, and are fully covered by silver valued at its monetary value of \$1.29 an ounce. However, since silver is acquired at a net cost to the Treasury of much less than \$1.29 an ounce, a large portion of silver purchases is not required as cover for outstanding certificates. This so-called free silver was the third category, and in 1942 the Treasury could not sell it at less than \$1.29 an ounce under terms of the Silver Purchase Act of 1934. In order to make this free silver available where it was vitally needed in the war effort, a "lend-lease" arrangement was devised in 1942 whereby it could be obtained by plants engaged in war production for *non-consumptive use only*. Such silver had to be returned after the war, and its primary use was as a substitute for copper in electrical conductors, such as bus bars, a use which does not destroy or consume the metal.

Later the Treasury agreed to send silver on a lend-lease basis to allied or friendly foreign countries with the provision that it would be returned within five years after the President declares the present emergency to be ended. Nearly 411 million ounces of silver were sent abroad on these terms. Some of the problems associated with the return of this silver to the United States will be mentioned at the conclusion of this discussion.

These various provisions for making silver available from Treasury stocks were inadequate to meet the growing domestic demand for industrial use, with the result that on July 12, 1943 the Green Act was approved authorizing the Treasury to sell or lease for manufacturing and industrial uses any portion of its stocks of free silver at a price not less than 71.11 cents per fine ounce. The original act was scheduled to expire on December 31, 1944, but was subsequently extended to December 31, 1945. The Treasury sold approximately 140 million ounces of silver to industry under the terms of the Green Act.

The Treasury's stock of free silver reached a peak of about 1,400 million ounces in May 1942, and had declined to 403 million ounces by the end of 1945, when the Green Act expired.

Postwar developments in the silver market

Relative to the available supply, the demand for silver has continued to be quite large since the conclusion of the war. Several factors have contributed to this situation. The first of these was the revocation in August 1945 of War Production Board Order M-199 which limited and controlled the use of silver. This created a large demand upon the part of manufacturers of non-essential silver products whose wartime output of these articles had been limited to 50 percent of their 1941-42 production.

In an effort to attract additional supplies of foreign silver, the OPA ceiling price on imported silver was raised from 45 cents to 71.11 cents per fine ounce on September 21, 1945. About the same time proposals were made in Congress to raise the Treasury's buying price for domestic silver substantially above its existing

Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment				Without seasonal adjustment			
	1946		1945		1946		1945	
	July	June	May	July	July	June	May	July
Industrial production ¹								
Lumber	103	128r	107	103	116	148r	125	114
Refined oils ²	—	—	—	—	228	219	222	265
Cement ²	155	149	158	128	169	169	165	140
Wheat flour ²	116	156r	140	170	102	137r	123	150
Petroleum ²	—	—	—	—	132	132	131	143
Electric power ³	213	212	210	223	222	216	212	232
Factory employment and payrolls ^{4,5}								
Employment								
Twelfth District								
California	180	179r	176r	257r	180	179r	176r	257r
Pacific Northwest	—	—	—	—	—	—	—	—
Oregon	—	—	—	—	—	—	—	—
Washington	—	—	—	—	—	—	—	—
Intermountain	—	—	—	—	—	—	—	—
Payrolls								
California	344	341r	333r	540r	344	342r	335r	539r

¹ Daily average.

² 1923-25 average = 100.

³ Converted to 1935-39 base; seasonal factors revised. Back figures available on request.

⁴ Excludes fish, fruit, and vegetable canning.

⁵ Indexes in process of revision.

r Revised.

Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment			
	1946		1945		1946		1945	
	Aug.	July	June	Aug.	Aug.	July	June	Aug.
Department store sales (value)								
Twelfth District	324	322r	315	231	291	266	288	210
Southern California	330	336	341	231	302	283	312	213
Northern California	288	292r	282	212	261	239r	260	193
Portland	301	303r	280	211	282	254r	265	197
Western Washington	364	367	350	275	339	300r	321	256
Eastern Washington and Northern Idaho	325	290r	280	232r	288	253r	262	205r
Utah and Southern Idaho	364	331r	300	257	304	258	280r	214
Phoenix	444	381	375	324r	311	290	320	227r
Department store stocks (value) ¹	240	250	217	186	263	265	221	205
Carloadings (number) ²								
Total	102	121r	113r	103	118	124r	122r	118
Merchandise and misc.	125	138r	137r	121	140	147r	145r	135
Other	74	101r	84r	80	90	96r	93r	97

¹ At retail, end of month; 1935-39 average = 100.

² 1923-25 daily average = 100.

r Revised.

level of 71.11 cents. These two developments touched off a wave of speculative interest as to future increases in the price of silver, and consequently imports of silver failed to improve significantly. This speculative withholding of foreign silver continued to exist during the first seven months of 1946 while Congress was debating the establishment of a new price for domestic silver. During this period the price of silver in some countries was above our ceiling price of 71.11 cents per fine ounce. In India, for instance, the price of silver throughout 1945 maintained a level well above that prevailing in other countries, ranging from a low equivalent to about 95 cents to a high of about \$1.11 per ounce. But since the Indian Government controls all imports of silver, the metal did not flow freely to India in response to the higher prices prevailing there.

From the expiration of the Green Act on December 31, 1945 until a new law was passed on July 31, 1946, the Treasury was not authorized to sell or lease silver for manufacturing and industrial uses, though its authority to buy newly mined domestic silver at 71.11 cents per fine ounce remained in force. During this interval Congress was unable to agree upon the price at which future purchases and sales of silver by the Treasury should be made. Since the Treasury has been the largest single supplier of silver in recent years, the temporary withdrawal of this source of supply created a very tight condition in the United States silver market.

Increase in the price of silver

Under terms of the new law, the price which the Treasury will pay for domestically mined silver was raised from 71.11 cents to 90.5 cents per fine ounce, provided that the silver is mined after July 1, 1946 and is offered to the Treasury within one year after the month in which it was mined. This is the highest price since the two-year period from the middle of 1918 to the middle of 1920 when silver sold for more than \$1.00 per fine ounce and reached a short-lived peak slightly in excess of its monetary value of \$1.29 per fine ounce at the end of 1919 and the first two months of 1920.

The new law also authorizes the Treasury to sell or lease for manufacturing and industrial uses any portion of its stocks of free silver. The price of silver to be sold under the new law shall be not less than 90.5 cents per fine ounce, though the Treasury may charge more than this if it chooses. The Treasury has established a current selling price of 91 cents per fine ounce. At the end of July the Treasury had nearly 220 million ounces of free silver, 50 million of which it offered for immediate sale or lease under terms of the new law.

After the temporary lapse of the Office of Price Administration on June 30, the price of foreign silver rose to 90 $\frac{3}{8}$ cents per fine ounce and imports began to flow to the United States in increased quantities. On August 1, the reconstituted Office of Price Administration raised the ceiling price on imported silver to conform with the new price for domestic silver authorized by law. The new ceiling is 90.5 cents per fine ounce, or the Treasury's

selling price, whichever is higher. The Treasury's current selling price is 91 cents per fine ounce.

With the establishment of higher prices for domestic and imported silver, there is no further incentive for the speculative withholding of foreign silver from the United States market. This should lead to an increased flow of foreign silver to the United States, thereby relieving somewhat the great shortage of silver which has existed in this country for the past year, and particularly during the first seven months of 1946 when the Treasury lacked authority to sell any of its free silver. The restoration of this authority on July 31 made 50 million ounces of Treasury silver immediately available for sale.

Production and consumption of silver

Silver output declined steadily during the war in the major producing countries of the world. Production in the United States amounted to 64 million ounces in 1939, rose to 71 million in 1941, and then dropped steadily to 29 million in 1945. In the first six months of 1946 only 9 million ounces were produced, the Twelfth District having provided 70 percent of this total. In general, manpower and material shortages were responsible for this wartime decline, though in some countries, including the United States and Canada, formal restrictive measures were taken. Most of the silver recovered in the United States is a by-product of the mining of base metal ores, and the exceptionally low silver output during the first half of 1946 was due primarily to extended strikes in the nonferrous mining industry.

Non-monetary consumption of silver, on the other hand, increased during the war, particularly in the United States where it rose from 45 million ounces in 1939 to an estimated 140 million in 1945. This great increase in consumption could hardly have been realized had it not been for sales by the Treasury of its free silver.

The industrial, as distinct from monetary, needs of the United States are estimated at about 125 million ounces for the current year, including 70 million ounces for the silverware industry. Since the estimated world output of silver in 1945 amounted to about 160 million ounces, the United States alone could use nearly all of the world's present production.

To what extent the new, higher price for silver will stimulate world production remains to be seen. The stimulus will be neither direct nor rapid since most silver production is incidental to the output of other ores, such as nickel, copper, and lead. There will no doubt be a gradual relaxation of the manpower and materials shortages which were largely responsible for the wartime reduction in silver output, and this may be more important than the increase in price in stimulating production.

Return of lend-lease silver

Within five years after the President declares the present emergency to be ended, the recipients of the nearly 411 million ounces of lend-lease silver must return it on an ounce-for-ounce basis to the United States.

The British Empire is by far the largest silver debtor on lend-lease account, owing 326 million ounces. India has the largest individual debt, but its obligation has been guaranteed by the United Kingdom.

In view of the present unprecedented demand for silver in industry and the arts and the relatively small world output, it will be difficult for the debtor countries to secure the large amount of silver which they will need to repay the United States. A vast dehoarding movement in India might enable that country to pay its share, but it is not likely that such a development will take place in India in the foreseeable future. Silver now circulating in coin in most of the countries which received lend-

lease metal constitutes the one visible source of supply from which the large silver debt could be repaid. However, the countries involved might be reluctant, and might also find it difficult, to withdraw any great amounts of silver from circulation. The British Government apparently intends to alter its coinage in order to release silver with which to liquidate its lend-lease obligation.

The great demand for silver in industry and the arts, the need for repayment of lend-lease silver to the United States, the low level to which world output of silver has fallen—all of these suggest that a prolonged silver shortage is probable.

Supply of Department Store Stocks by Department

DURING the second quarter of 1946, the Twelfth District department store ratio of stocks to sales, that is, the number of months' supply, was at a lower level than in the second quarter of either of the two preceding years for most departments, although the dollar value of stocks was higher. Between the second quarters of 1944 and 1945 the dollar value of stocks decreased slightly while sales increased. During the second quarter of 1946, merchandise deliveries to department stores and the dollar value of stocks were considerably greater than in the same period of 1944 or 1945. The continued increase in sales, however, was large enough to reduce the number of months' supply for most departments to the lowest level for the three periods.

Among the 43 departments listed in the accompanying table, 26 had a smaller and 16 a larger number of months' supply in the second quarter of 1945 than in the second quarter of 1944. Between the second quarters of 1945 and 1946 the number of months' supply declined in 29 departments and went up in 10. Over the two-year period 1944-46, second quarter stocks fell in terms of sales in 32 departments and rose in nine.

Substantial decreases in the number of months' supply occurred between the second quarters of 1944 and 1945 in the furs, luggage, woolen dress goods, and major household appliances departments; and between the second quarters of 1945 and 1946 in the toys and games, sporting

TWELFTH DISTRICT DEPARTMENT STORE STOCKS
Number of Months' Supply and Increase in Sales by Departments

Departments	Number of months' supply during second quarter ¹			Percent change in sales second quarter 1944 to second quarter 1946
	1946	1945	1944	
Furs	9.2	8.6	16.0	+171.7
Art Needlework (excluding Artist's Supplies)...	4.9	4.1	4.3	+ 14.0
Lamps, Shades	4.6	4.5	5.1	+ 64.5
Handkerchiefs	4.3	4.6	4.0	+ 19.3
Toys and Games, Sporting Goods, Cameras	4.2	5.5	5.1	+ 71.8
Toilet Articles, Drug Sundries (including Prescriptions).....	4.0	4.4	4.4	+ 39.5
Silverware, Jewelry (including Clocks and Watches)	3.8	4.1	4.0	+ 64.2
Stationery, Books and Magazines (excluding Cameras and Film)...	3.6	3.6	3.2	+ 26.4
China, Glassware	3.6	3.6	3.8	+ 40.4
Housewares (Pots, Pans, Cutlery, Toasters, Percolators, etc.)....	3.4	3.6	4.3	+122.1
Linens (including Towels)	3.3	3.7	4.2	+ 50.5
Girls' Wear	3.1	3.6	2.9	+ 46.4
Notions	3.1	3.1	3.4	+ 37.5
Boys' Clothing and Furnishings..	3.1	4.3	3.6	+ 32.0
Infants' Wear (including Infants' Furniture)	3.1	3.2	2.3	+ 19.0
Blankets, Comforters, Spreads (including Auto Robes).....	2.9	3.2	4.0	+ 46.5
Gloves (Women's and Children's)	2.7	2.5	2.3	+ 39.0
Blouses, Skirts, Sportswear (including Sports Dresses, Sweaters, Swim Suits, Riding Habits)	2.6	2.5	2.4	+ 48.0
Luggage	2.5	2.8	3.8	+100.2
Furniture, Beds, Mattresses, and Springs	2.5	3.7	3.6	+ 82.3
Draperies, Curtains, Upholstery, Awnings, Window Shades....	2.5	2.5	2.7	+ 34.3
N negligees, Robes, Lounging Apparel	2.4	2.7	3.0	+ 46.0
Domestic Floor Coverings (including Pads, Linoleum).....	2.4	3.4	3.0	+ 37.8
Woolen Dress Goods	2.3	3.2	4.9	+ 75.0
Handbags & Small Leather Goods	2.3	2.6	3.3	+ 57.7
Radios, Phonographs, Records...	2.0	5.5	5.9	+539.4
Juniors' Coats, Suits, Dresses....	1.9	2.1	1.8	+ 54.0
Men's Furnishings, Hats, Caps (including Hosiery, Gloves, etc.)	1.9	3.1	3.5	+ 68.0
Men's & Boys' Shoes & Slippers..	1.7	3.6	5.0	+ 58.8
Domestics—Muslins, Sheetings (including Mattress Covers)...	1.7	1.4	2.3	+ 16.7
Corsets, Brassieres.....	1.6	1.5	1.6	+ 52.5
Women's & Misses' Coats & Suits	1.6	2.4	1.6	+ 50.5
Knit Underwear	1.6	1.5	2.5	+ 21.9
Women's and Children's Shoes...	1.5	2.4	2.9	+ 42.5
Silk and Muslin Underwear, Slips, Nightgowns, etc.	1.4	1.3	2.1	+ 26.2
Women's and Misses' Dresses....	1.1	1.4	1.3	+ 44.2
Millinery	1.1	1.2	0.9	+ 36.5
Major Household Appliances (Refrigerators, Washers, Stoves, Ironers, Cabinets, etc.)	1.0	2.1	5.0	+781.6
Men's Clothing	1.0	2.9	4.2	+ 50.1
Aprons, House dresses, Uniforms.	1.0	1.2	1.8	+ 45.5
Women's and Children's Hosiery.	1.0	1.8	1.7	+ 23.9
Silks, Rayons, Velvets (including Linings).....	0.9	1.0	1.9	+ 21.4
Cotton Wash Goods.....	0.9	0.7	1.3	+ 13.8

¹ Number of months' supply for each department was computed by dividing the average end of month stocks by the average monthly sales during the second quarters of the respective years.

Banking and Credit—

Condition items of weekly reporting member banks	Averages of Wednesday figures (millions of dollars)			
	Aug.	Change from 1946		1945
		July	June	Aug.
Total loans	1,505	+ 72	+138	+414
Com'l, ind., & agric. loans.....	811	+ 71	+125	+293
Loans to finance transactions in:				
U. S. Government securities.....	116	— 13	— 29	— 12
Other securities	62	— 10	— 3	+ 11
Real estate loans.....	335	+ 14	+ 24	+ 45
All other loans	181	+ 10	+ 21	+ 77
Total investments	5,524	— 83	—265	— 9
U. S. Government securities.....	5,083	— 85	—263	— 50
All other securities.....	441	+ 2	— 2	+ 41
Adjusted demand deposits.....	3,544	+ 16	+ 13	+339
Time deposits	2,140	+ 11	+ 31	+234
United States Government deposits...	766	— 64	—235	—274
Coin and currency in circulation				
Total (changes only).....	—	— 16	— 62	— 74
Fed. Res. Notes of F. R. B. of S. F....	2,892	— 17	— 62	—100
Member bank reserves.....	2,002	+ 7	— 5	+227

goods, cameras; boys' clothing and furnishings; furniture, beds, mattresses and springs; radios, phonographs, records; and men's furnishings, hats and caps departments. The number of months' supply decreased sharply in both years in the men's and boys' shoes and slippers, and men's clothing departments. The second quarter sales of all departments increased over the period from 1944 to 1946. Unusually large increases in sales commonly accompanied large decreases in the number of months' supply of stocks, indicating a rapid turnover of merchandise

and the inability of stores to accumulate stocks as rapidly as sales increased.

In general, the number of months' supply was lowest in the second quarter of 1946 for departments handling goods that are in heavy demand as a consequence of demobilization or forced postponement of purchases, that have not yet been produced in large quantity because of materials shortages, strikes, and the like, or that ordinarily turn over rapidly. The number of months' supply was generally greatest for luxuries and less-essential incidentals.



National Summary of Business Conditions

Released August 28, 1946—Board of Governors of the Federal Reserve System

INDUSTRIAL production increased somewhat further in July, after a sharp advance in June. Prices of commodities rose rapidly in July and continued to advance, although at a more moderate rate, in the first three weeks of August.

INDUSTRIAL PRODUCTION

Industrial production advanced from 171 percent of the 1935-39 average in June to 174 in July, according to the Board's seasonally adjusted index. Output of durable goods and of minerals generally increased while output of nondurable manufactures as a group showed little change, with increases in some lines offset by declines in others.

Production at steel mills in July rose about one-sixth and in August has increased somewhat further, with output of ingots increasing to about 90 percent of capacity. Activity in the machinery and transportation equipment industries continued to advance in July. Production in the nonferrous metal industries rose again but was still about 7 percent below the January level. Output of stone, clay, and glass products continued to increase and the July index, at 197, was well above the previous high in March, with increase in production of glass containers accounting for most of the July advance. Lumber production showed a decline, owing in large part to vacations for lumber workers on the Pacific coast in the early part of July. Activity in the furniture industry remained at about the June rate.

In the nondurable industries, production at textile mills declined, owing to worker vacations during the first week in July, while output of manufactured food products increased considerably. Meat packing rose sharply to the highest level since February and there were increases also in the output of flour, bakery goods, and dairy products. Sugar meltings declined. Output of paperboard and paper boxes declined from recent high levels while newsprint consumption showed a further advance. Activity in the chemical and rubber industries showed little change.

Mineral production rose to a new high, 46 percent above the 1935-39 average. Increases in the output of anthracite, copper ore, and iron ore accounted for most of the July rise in production of minerals.

CONSTRUCTION

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in July, but was still more than twice the prewar average. The drop reflected a continued decline in residential awards to a level about two-fifths below the May peak. Non-residential building awards increased slightly in July, after a small decline in June.

EMPLOYMENT

Non-agricultural employment continued to rise in July, with major gains in the construction and manufacturing industries and some decrease in Government employment. Total unemployment decreased to about 2.3 million in July, the lowest of the year.

DISTRIBUTION

Value of department store sales declined less than seasonally from June to July and the Board's adjusted index rose to 278 percent of the 1935-39 average as compared with an average of 254 for the first six months of the year. In the first three weeks of August sales continued at a high level. As a result of large receipts of merchandise, value of department store stocks continued to increase in July but relative to sales was still lower than before the war. Unfilled orders were at an exceptionally high level.

Loadings of railroad freight increased further in July as shipments of livestock and grains and of ore and coke rose sharply and shipments of other classes of freight showed little change.

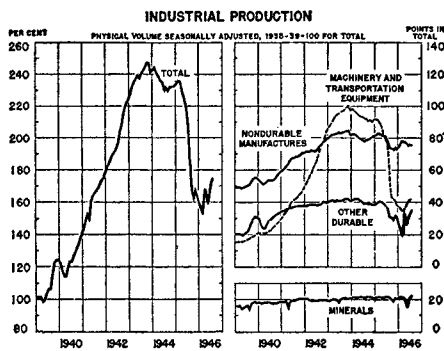
COMMODITY PRICES

Commodity prices, which had advanced sharply in July, rose somewhat further in the first three weeks of August. There were increases in prices of textiles, house furnishings, and fuels as well as in some farm products and foods. Grain, however, declined and corn future contracts were still substantially below cash quotations, reflecting the continued prospect of a large harvest. With the renewal of price control at the end of July, ceiling prices were reestablished but in many cases at higher levels than prevailed on June 30. Announcement was made that ceilings would not be reestablished at this time on most grains or on dairy products but would be on livestock and meats and on cottonseed and soybeans.

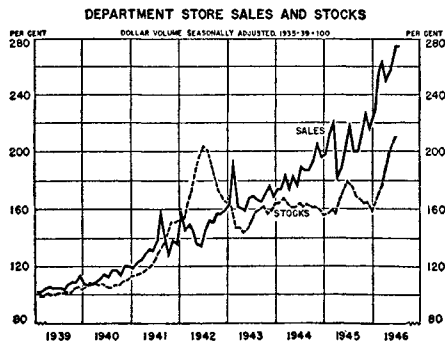
BANK CREDIT

The Treasury retired for cash 3.3 billion dollars of Government securities during July and early August; war loan balances at commercial banks were reduced by approximately the same amount. As most of the securities were held by banks, retirement operations had little effect on deposits of businesses and individuals. Drains on bank reserves resulting from redemption of securities held by the Reserve Banks were met by system purchases of Government securities and by reductions in Treasury deposits. Need for Reserve funds resulted also from an increase in nonmember balances at the Reserve Banks, reflecting the deposit of the first instalment of the British loan, and from some outflow of currency into circulation. Changes in required and excess reserves, on the average, were negligible.

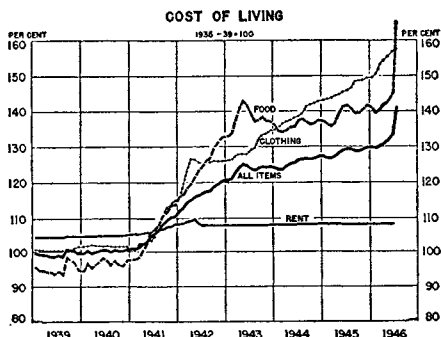
As a result of the Treasury debt retirement operations as well as security sales to the Reserve Banks in connection with reserve adjustment, Government security holdings at banks in 101 leading cities were reduced by an additional two billion dollars during the seven weeks ended August 14. Total loans for purchasing or carrying Government securities declined further to a level comparable to that which prevailed prior to the Victory Loan Drive. Commercial loans, both in New York City and outside, increased substantially over the period.



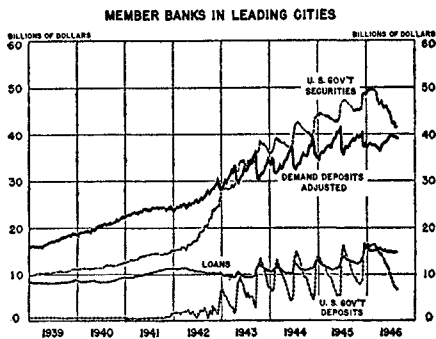
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for July.



Federal Reserve indexes. Monthly figures, latest shown are for July.



Bureau of Labor Statistics' indexes. Midmonth figures, latest shown are for July.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for August 14.