BUSINESS CONDITIONS

Monthly Review of Agriculture, Industry, Trade and Finance
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FEDERAL RESERVE BANK OF ST. LOUIS

Courtesy Scripps-Howard Newspapers.
The year 1942 opens with our country at war. Already the months before December 7 seem a long way off. We have only one concern now: What is our part, and how can we best perform it? Bankers, therefore, at New Year's time are considering how their institutions can best contribute to the successful prosecution of the war.

The speed and scope of modern war are so tremendous that it is impossible to foresee what this struggle will eventually mean to us, either as individuals or as bankers. Nevertheless, it is well to take stock of our strength and deficiencies at the beginning of the new year in order that we may attempt to chart a course for the difficult days that lie ahead.

Fortunately, the banks of the country are in a better position to meet an emergency than they have ever before been. Banking resources are at an all-time high. This fact is striking evidence that the public's confidence in banks, which was at a low ebb in the early 1930's, has been fully restored. The various measures adopted in recent years for strengthening the banking structure, including the formation of a Federal deposit insurance system, should help preserve this public trust and confidence. The assets of banks generally are sounder than at any time in our history. Most important of all, there has been a growing realization, both on the part of the banks and of the general public, of the fact that in a modern economy the bulk of money settlements is made through the use of the checking facilities provided by commercial banks and, consequently, that the conduct of banks and banking is affected with the public interest. As a result, the Government can call upon the banks to assist in the financing of the war effort with the knowledge that the banks will accept and carry out their responsibility intelligently and efficiently.

Another important factor contributing to the underlying strong position of the banking system is the Federal Reserve System. At the beginning of the last war the Federal Reserve System had just been organized. It had to meet the numerous problems of the war on the basis of a very limited background, both of theory and practice. Today, the Federal Reserve System has been in existence for more than twenty-five years and has built up a rich background of experience in central banking practice under a wide variety of conditions. The Board of Governors of the Federal Reserve System announced on December 8, immediately after the outbreak of war, that the System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and is prepared to exert its influence toward maintaining satisfactory conditions in the Government security market.

The manner in which the Government security market withstood the shock of the sudden outbreak of war demonstrates the fundamentally strong position of the financial and banking mechanism of the country.

Now that the initial shock of war is past, there are numerous ways in which banks may contribute in the transformation necessary for a sustained war program.

First, the banking system can be depended upon to continue to handle with speed and efficiency the increased volume of transactions which will be involved in an all-out victory drive.

Second, the assistance of the banks will be vital to the Government in the financing of war. This financing program is directed toward obtaining as much of the necessary funds through taxation as is feasible and to borrow the remainder as largely as possible from savings rather than through expansion of bank credit. To the successful achievement of the latter objective, the Treasury's savings bond program must be greatly intensified. Bankers have accepted a real responsibility in this field; they have become issuing agents for these bonds, and are encouraging their sale among bank customers. The success of the savings bond program will depend to an important extent upon the efforts of the banks.

Third, the banking resources of the country must be available for the financing of war production. Those companies whose plants and organizations are capable of turning out essential war materials should not be prevented from doing so through inability to obtain the necessary financing. Bankers also can assist manufacturers among their customers to convert their plants, wherever possible, into defense production. All available plant facilities and labor must be used if our armament program is to go forward with maximum speed.
Fourth, some continued Government borrowing from banks will be necessary notwithstanding that the Government's financial requirements will be met to the largest extent possible without credit expansion. The supply of bank reserves, together with the Federal Reserve powers to add to reserves, should this be necessary, are fully adequate to meet all present and prospective needs, both of the Government and of private activity.

Fifth, for the most successful prosecution of the war, it is desirable that borrowing for non-defense purposes should be discouraged, particularly if it would add to the purchasing power that will be generated by the huge expenditures of the greatly increased and speeded-up armament program. The rise in purchasing power, plus the necessary curtailment of many types of consumers' goods, could lead to run-away price inflation which would not only greatly increase the cost of the armament program but would work hardships and undermine morale of many groups of our population. Exercise of careful bank lending judgment is only one aspect of a well-rounded and coordinated program to keep inflationary forces from getting out of hand. Regardless of the measures eventually adopted by the Government, a successful attack on inflation also calls for self-discipline on the part of the general public in the expenditure of its income. Bankers can aid by encouraging their customers to use their larger incomes to retire indebtedness, to purchase defense savings bonds, or to build up deposits which can be channeled into financing the war. Bankers, because they are frequently consulted for financial advice, are peculiarly well situated for this job.

The program outlined above only focuses attention on some of the most direct ways in which banks can contribute to the war effort. Carrying out the program involves much additional work and expense to the banks of the country. In this respect it involves sacrifices which all of us must make to a greater or lesser degree if victory is to be won.

**SUMMARY OF EIGHTH DISTRICT**

DURING November and early December Eighth District industry and trade were maintained at about the high levels of recent months. However, due to a shorter month in November, the physical volume of goods produced and distributed declined generally from October totals. New highs may be expected in the future with additional plants coming into operation as our economy moves into all-out war production.

The impact of war on industry, agriculture, and trade in the Eighth District is almost certain to bring about a reallocation of effort more striking than that called forth by the defense program to date. Employment in the construction industry may be stepped up instead of tapering off, as additional new plants or expansions are needed for the war effort. Employment in war industries, such as aircraft, ordnance, steel, etc., will increase in coming months. On the other hand, industries producing non-essential goods will probably be forced to curtail operations sharply. An example of this is already seen in the further cuts in automobile production announced by the Office of Production Management.

In the United States during November the rate of industrial production continued to increase. The index of the Board of Governors of the Federal Reserve System, adjusted for seasonal variation, rose to 167 per cent of the 1935-1939 average, as compared with 163 in October and 161 in September. These increases have raised the total output of goods to a level about 25 per cent above a year ago.

According to preliminary reports, November shoe production in the Eighth District is estimated at 26 per cent below October. Sales of ordinary life insurance in Eighth District states in November were 10 per cent less than in October and 14 per cent above November, 1940. Revenue freight carloadings of railroads operating in the Eighth District during the four weeks ending November 29 were 6 per cent less and 15 per cent greater, respectively, than in the similar period a month and a year ago. Estimated tonnage moved by the Federal Barge Lines on the Mississippi River between St. Louis and New Orleans in November was 6 7 per cent below October but 67 per cent above November, 1940. Cumulative tonnage for the first eleven months of this year exceeded that of the comparable period last year by 16 per cent.

Debits to individual accounts in November were 13 per cent less than October and 24 per cent greater than in November, 1940. Gross deposits reached a new peak as loans and investments rose.

Employment continued to gain in Eighth District states during October and was considerably above a year ago. Cost of living in the Eighth District as measured by the November index for St. Louis continued to rise, but the rate of increase was smaller than that of the preceding month.

Since the last issue of this Review, the First State Bank of Dongola, Dongola, Illinois, became a member of the Federal Reserve System.
IRON AND STEEL

Production of iron and steel in this area was at a somewhat lower level during late November and early December. Curtailment was due primarily to taking furnaces out for repairs. As of mid-December the rate of operations in this area was at 88.7 per cent of capacity.

Scrap continues very tight. There is some variation in volume of mill stocks but the longest inventory in this area seems to be about one month's supply, while most mills are considerably shorter than this. Colder weather is making collection of scrap more difficult. Allocation of material has aided some mills to keep up operations at high levels. Unless actual scrap supplies can be increased, however, allocation, while providing some relief, is not likely to keep production at near capacity, and the industry anticipates some curtailment of operations due to scrap deficiencies in 1942.

Demand for all steel products remains strong, and with intensified war effort, is expected to grow. If production is not increased, or even declines somewhat as expected by the steel industry, and war demand for steel increases, it is evident that civilian consumption will suffer even more than has been anticipated.

For the entire country production of pig iron in November, according to the magazine "Steel," was 4,707,194 tons, comparing with 4,860,033 tons in October and 4,397,656 tons in November, 1940. The decrease from October was due entirely to a shorter work-month, as average daily output in November was the second highest of record. Tonnage of pig iron produced in the first eleven months of 1941 was 50,903,091 tons compared with 46,894,676 tons produced in the whole of 1940.

Steel ingot production in November was 6,929,987 tons as compared with 7,242,683 tons in October and 6,469,107 tons a year ago. The rate of operations for the United States was 98.3 per cent, which represented a decline of 0.7 per cent from October but a gain of 1.7 per cent over November, 1940. Production of steel ingots for the first eleven months of 1941 amounted to 75,763,558 tons, comparing with 66,981,662 tons produced in the entire year 1940.

WHISKEY

Of the 58 distilleries in Kentucky, 46 were in operation on November 30, as compared with 42 on October 31. Due to anticipated increased consumption and possible future restriction of production, schedules call for continued operation at near-capacity levels. No definite sales trend of whiskey has been indicated recently; primarily because stocks of individuals and retailers were augmented considerably prior to September 1, the effective date of the increased whiskey tax. However, sale of revenue stamps in Kentucky during November, 1941 shows some increase in consumption as compared with the same month in the past three years.

AGRICULTURE

Farming Conditions—Final estimates of the principal crops in the Eighth District given by the U.S. Department of Agriculture in its report based on December 1 conditions, show no marked changes from forecasts made a month previous. November weather was generally favorable for harvesting late crops.

Farm employment in the United States declined less than usual during November and the total number of persons employed in agriculture on December 1 was 9,349,000, according to the U.S. Department of Agriculture. This compares with 10,420,000 estimated for November 1 and 9,320,000 a year ago. The number of hired farm workers on December 1 was the largest for this date since 1935 and showed a much less than usual decline from November 1 totals. A factor accounting for this may be a tendency to retain hired help through the slack season to be sure of having them next spring. Also evident on December 1 was a shift of family workers from an unpaid to a paid status.

Cash income from farm marketings and Government payments for Eighth District states in October was 35 per cent above September and 53 per cent above October, 1940. All groups of farm products shared in the increase, with returns from wheat, soybeans, and truck crops recording the greatest percentage gains. Most of the increase from a year ago is accounted for by higher agricultural prices.

Corn—Eighth District corn production for all purposes in 1941 is estimated at 348,402,000 bushels against 1940 production of 328,495,000 bushels and the 18-year (1923-1940) average of 330,578,000 bushels. Although considerably behind schedule, especially in parts of Missouri and Illinois, as of mid-December, husking and cribbing of corn was making progress. A considerable amount of corn still remained in the fields of the northern sections of the Corn Belt. Quality of new corn marketed showed improvement, which was unexpected on the basis of previous reports.

Cotton—An Eighth District cotton crop of 3,539,000 bales is forecast by the U.S. Department of Agriculture. This compares with 10,420,000 estimated for November 1 and 9,320,000 a year ago. The number of hired farm workers on December 1 was the largest for this date since 1935 and showed a much less than usual decline from November 1 totals. A factor accounting for this may be a tendency to retain hired help through the slack season to be sure of having them next spring. Also evident on December 1 was a shift of family workers from an unpaid to a paid status.

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Livestock—There was an increased movement of stocker and feeder cattle into the Corn Belt states during November, and for the first time in the past five months such shipments were larger than in the corresponding month of last year. Shipments inspected at stockyards were about 30 per cent larger than last November and were large relative to the previous months of this year, although cumulative shipments from stockyards for the past five months were about 17 per cent smaller than for the same period in 1940. Direct shipments in November show little change from a year ago, but for the five-month period were down in about the same proportion as shipments from markets.

Recent sharp advances in prices of fat cattle are expected to improve demand for stocker and feeder cattle and thus bring about a rather heavy movement of shortfeds back to Corn Belt feedlots during December and the early months of 1942. This would tend to reduce the slaughter supply of fed cattle during the winter months and to increase it during the spring and summer. Even with this expected movement the total of cattle fed in 1942 is likely to be below the record number of 1941, although large in comparison with most years in the past ten-year period.

The number of lambs fed in the United States during the 1941-1942 feeding season will be larger than the record number fed in the 1940-1941 season. Shipments into Corn Belt states inspected at stockyards during November were about 25 per cent greater than a year ago, and direct shipments also showed an increase from last year.

Tobacco—Production of all types of tobacco in the Eighth District is estimated by the U. S. Department of Agriculture in the December 1 report at 249,835,000 pounds, which compares with 277,830,000 pounds harvested in 1940, and the 18-year (1923-1940) average of 285,064,000 pounds.

During the latter part of November, deliveries of the burley crop to market were unusually heavy. Large quantities were reported at warehouses on opening dates. Generally, burley is thinner than a year ago, with a consequent larger percentage of grades suitable for cigarette and smoking types. Sales in the first two weeks at Kentucky markets totaled 94,366,641 pounds. Opening week prices in Kentucky averaged $27.89 per cwt., more than $10 per cwt. above opening week last year, and have advanced substantially since then.

Green River and stemming district tobacco auctions opened at Owensboro on November 27. The 1941 crop of this type of tobacco is reported as one of the best quality crops in years. Volume of sales to mid-December was light due to lack of suitable weather for stripping. Average price for the first two weeks of the season was $11.60 per cwt., compared with last season's average of $7.64.

Auction markets for one-sucker tobacco opened November 25 with the crop moving slowly to market due to unfavorable weather. Offerings indicate a very good quality crop, much superior to last year. Average price for the first two weeks of auctions was $11.25 per cwt., compared with last season's average of $8.04 per cwt.

Dark-fired auctions open early in January, 1942. Warm, damp weather in November was quite helpful to growers in fire-curing the crop and this work is largely completed. Reports indicate presence of houseburn in some cuttings, but the seriousness of this cannot yet be determined. It is believed, however, that color and quality will be better than earlier expected.
COST OF LIVING AND PRICES

For the larger cities in the United States, the cost of living rose 0.7 per cent between October 15 and November 15 and 9.5 per cent since the outbreak of war in 1939. The rate of increase during the past month was smaller than that of the preceding month. Living costs in St. Louis advanced 0.9 per cent and 9.4 per cent, respectively, in the same periods. Food and clothing have paced the rise this past month.

Between October 14 and November 18, food costs in the United States rose 1.3 per cent. All Eighth District cities showed increases from a month earlier with Little Rock reporting the greatest gain, 2.8 per cent, and Memphis reporting the least, 0.9 per cent. Compared with a year ago, food costs in Little Rock were up 21.0 per cent, and those in Louisville were up 15.0 per cent. Compared with a year ago, food costs in Little Rock were up 22.4 per cent, for the largest increase, and those in Louisville were up 21.0 per cent for the smallest.

Wholesale prices of commodities were virtually unchanged during the first three weeks of the past month, but coincident with the Japanese attack moved up in the week ending December 13 when the index for all commodities stood 0.9 per cent above a month ago and 16.8 per cent more than a year ago.

EMPLOYMENT

Total civil non-agricultural employment in the United States in October amounted to 40,749,000, according to the U.S. Department of Labor. In each month since February of this year, non-agricultural employment has reached a new peak. The October estimate represents a gain of 34,000 workers since September and 3,374,000 since October, 1940. Manufacturing employment declined by 0.9 per cent with increases in durable goods industries, particularly shipbuilding and aircraft, being slightly more than offset by sharp seasonal declines in canning and preserving industries. Construction employment increased in October, due largely to increased building activity at defense plants financed by the Government. Non-agricultural employment in Eighth District states in October was 5,748,000, compared with 5,745,000 in September and 5,115,000 a year ago. In the past month, all Eighth District states Missouri showed the greatest gain, 3.0 per cent, while Indiana showed the greatest loss, 2.9 per cent, due largely to declines in canning employment. Illinois, Tennessee, and Arkansas showed small positive changes while Kentucky and Mississippi showed slightly larger negative changes. In the past year Missouri has shown the greatest gain, 16.0 per cent while Arkansas has shown the smallest increase, 8.0 per cent.

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LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

First nine days

Dec. 17, 1941  Nov. 19, 1941  Dec. 18, 1941

El Dorado....... Ark. 7,449 $ 8,435 $ 5,739 22% + 30%
Fort Smith...... 16,546 20,266 14,466 28 + 38%
Greenwood...... 2,703 4,103 2,080 23 + 41%
Little Rock..... 53,156 66,839 48,745 20 23
Pine Bluff...... 5,169 6,047 3,549 21 23
St. Louis........ 21,407 24,594 16,941 34 45%
St. Louis, Nat. S. Y. 7,601 12,485 7,729 52 81%
Springfield..... 2,540 1,941 964 1 26%
St. Louis, Mo. 11,940 17,066 11,737 16 38%
St. Louis, Mo., East 831 1,214 713 14 30%

TOTALS.... 117,600 145,754 105,602 21 31%

DEPTHS TO INDIVIDUAL ACCOUNTS

(In thousands of dollars)

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<th>Nov. '41</th>
<th>Oct. '41</th>
<th>Nov. '40</th>
<th>Change from</th>
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| El Dorado... Ark. $490 $ 8,435 $ 5,739 22% + 30%
| Fort Smith... 16,546 20,266 14,466 28 + 38%
| Greenwood... 2,703 4,103 2,080 23 + 41%
| Little Rock... 53,156 66,839 48,745 20 23
| Pine Bluff... 5,169 6,047 3,549 21 23
| St. Louis...... 21,407 24,594 16,941 34 45%
| St. Louis, Nat. S. Y. 7,601 12,485 7,729 52 81%
| Springfield... 2,540 1,941 964 1 26%
| St. Louis, Mo. 11,940 17,066 11,737 16 38%
| St. Louis, Mo., East 831 1,214 713 14 30%

TOTALS.... 117,600 145,754 105,602 21 31%

COMMERICAL FAILURES IN EIGHTH F. R. DISTRICT

Number of failures...

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<th>Nov. '40</th>
<th>Change from</th>
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| 34 29 44 17% 23%

Liabilities...

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<th>Nov. '40</th>
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| $426,000 $252,000 $354,000 17% 23%

Source: Dunn and Bradstreet.
NATIONAL SUMMARY OF CONDITIONS
BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Production — Volume of industrial output was sustained in November at the high rate of the previous two months, although a decline is usual at this season. The Board's seasonally adjusted index advanced from 116 per cent of the 1935-39 average. In industries engaged in production of armament and munitions activity continued to increase and in most other lines volume of output was maintained or declined less than seasonally.

Output of materials, such as steel and nonferrous metals, was maintained at about capacity. In the automobile industry activity increased, reflecting larger output of both military and civilian products, and at lumber mills and furniture factories activity declined less than seasonally. At cotton and rayon textile mills activity rose to new record levels, and at woolen mills the high production rate of other recent months was maintained. Less than seasonal declines in output were indicated for shoes and manufactured food products.

Crude petroleum production increased further in November. Bituminous coal production declined somewhat owing to temporary shutdowns at some mines during November, and anthracite production was curtailed as a result of unusually warm weather in some areas and the existence of considerable stocks of coal accumulated in earlier months. Iron ore shipments continued in large volume until the shipping season closed early in December; during 1941 about 80 million tons of ore were brought down the Lakes as compared with 63 million tons in 1929. Stocks of ore at lower Lake ports on November 30 amounted to about a seven months' supply at the current consumption rate of around 6.5 million tons a month.

Following a declaration of war by this country in early December further steps were taken to curtail output of nondefense goods using critical materials. Output for passenger cars and hooptor cars were greatly reduced and cessation of output of some other products was ordered as of the end of January. Also, the production and sale of new automobile tires and tubes for civilian use were halted temporarily, pending establishment of a system for controlling their distribution.

Value of construction contracts awarded in November declined sharply from the high level of other recent months, according to figures of the F. W. Dodge Corporation. Awards for privately-financed construction decreased more than seasonally and contracts for publicly-financed projects also declined following a continued large volume of awards since last spring. Total awards in November were about a fifth larger than a year ago, while for the first ten months of the year they were three-fifths larger.

Distribution — Volume of retail trade increased in November following some decline in the previous month. Department store sales, as measured by the Board’s seasonally adjusted index, advanced to 113 per cent of the 1923-25 average as compared with 105 in October and 116 in September. Larger sales in November were also reported by variety stores. Sales of automobiles increased somewhat, according to trade reports, but, as in other recent months, new car sales were smaller than output and dealers’ stocks rose further.

In the second week of December sales at department stores rose less than seasonally, particularly in the coastal regions.

Freight traffic on the railroads continued in large volume in November and the first half of December. Grain shipments increased considerably and hogs, which included many mercantile, were maintained at the high level reached several months earlier. Coal loadings declined somewhat, owing to the shipping season. Coal loadings declined somewhat, owing in part to temporary shutdowns and shortages of coal at some mines. Output of materials, such as steel and nonferrous metals, was maintained at about capacity. In the automobile industry activity increased, reflecting larger output of both military and civilian products, and at lumber mills and furniture factories activity declined less than seasonally. At cotton and rayon textile mills activity rose to new record levels, and at woolen mills the high production rate of other recent months was maintained. Less than seasonal declines in output were indicated for shoes and manufactured food products.

Commodity Prices — Following the entry of the United States into the war, prices of grains, livestock, and foods rose sharply. Prices of most industrial materials traded in the organized markets, being limited by Federal regulation, showed little change. Additional measures to prevent advances in wholesale prices were soon announced for wool and shellac and for such imported foods as cocoa, coffee, pepper, and fats and oils.

Retail food prices, as compared by the Bureau of Labor Statistics' index, increased 1 1/2 per cent further from the middle of October to the middle of November to a level 18 per cent above a year ago. Indications are that retail prices of both foods and other commodities continued to rise in December.

Bank Credit — Total loans and investments in banks in leading cities continued to advance during November and the first two weeks of December, owing mostly to increased holdings of Government securities at banks Outside New York City. Commercial loans, after showing little net change in November, again increased sharply in the first two weeks of December.

Excess reserves increased through most of the period as a result of Treasury expenditures from Reserve Bank balances, but declined sharply on December 15 when these balances were replenished in connection with the issue of 1.6 billion dollars of new Government securities. Money in circulation has continued to show a marked increase.