Monthly Review

FEDERAL RESERVE BANK OF ST. LOUIS

MARCH 1, 1946

Survey of Current Conditions

The major economic problem facing the country today is to obtain a steadily expanding volume of production. Several steps which should promote this end have been taken recently. The long-awaited Government program for wide wage-price adjustments was announced in mid-February. This was followed by settlement of the steel strike which had threatened to halt production in many important durable goods industries. An ambitious program looking toward elimination of some of the bottlenecks which are retarding vitally-needed housing construction was presented. It is hoped that these and other measures will lead to labor-management cooperation and result in speedy maximum utilization of the nation's vast production facilities. If this is achieved and the flow of goods to ultimate consumers expands rapidly, general inflationary pressures should be eased.

EMPLOYMENT

District employment in January continued to increase but not as rapidly as in the nation as a whole. National nonagricultural employment in January was slightly higher than just prior to V-J Day, while district nonagricultural employment was still somewhat below the pre-peace level. In the five major district cities, combined total employment in January was one per cent above December, but five per cent below last August. The number of workers currently employed in the district is some 145,000 less than is expected under full peacetime employment, but about 155,000 more than in 1940.

The impact of returning servicemen upon the labor market is beginning to be felt in greater degree, with unemployment increasing appreciably in January despite the rise in employment. While a majority of veterans have now entered the civilian labor market, a substantial number, perhaps as many as 2 million, remain outside it. Their entrance, which will probably occur in the near future (lag between discharge and job-seeking apparently averages about two or three months), is not likely to be offset completely by rising employment so that unemployment is expected to increase further. Current unemployment, however, is far below the amount predicted last summer.

In this district the U. S. Employment Service rates Evansville and Little Rock as having more than 10 per cent of their labor forces unemployed, and St. Louis, Memphis and Louisville as having from 6 to 10 per cent unemployed. The district labor markets, however, still have certain tight aspects principally because of difficulty in matching workers and jobs. Consequently, scheduled work-weeks remain considerably above the anticipated postwar 40 hours. In St. Louis the work-week is running 43 to 44 hours as compared with the wartime level of 46 hours. The quit rate continues high with workers still leaving their jobs about as freely as in 1943 and 1944 when the average quit rate was 5 per cent. In 1939, when jobs were scarce, it was only 1 per cent.

INDUSTRY

After receding sharply from V-J Day levels, industrial production in this district moved up slightly in November and then declined appreciably

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The Leather and Leather Products Industry

One of the most important of district manufacturing pursuits is the production of leather and leather products. Under normal conditions this industry employs about one-tenth of all district manufacturing workers and produces about one-twelfth of the district's total value of manufactured goods. The district industry is concentrated in an area, roughly circular, radiating out some 125 miles from its center at St. Louis. This region is the third most important shoe producing area in the United States, being surpassed only by Massachusetts and New York. Some 12.5 per cent of the nation's leather workers are employed in the St. Louis region and about one-sixth of all shoes produced in the United States are made here. The area also ranks high in production of other leather items, mainly luggage, belting and small leather wares.

The only major industrial area in the district with a heavy concentration of leather workers is the St. Louis area where about 40 per cent of the district's total are employed. The four other major district cities (Louisville, Memphis, Little Rock and Evansville) all together had only 600 leather workers in 1939 and have not many more today. Virtually all district leather workers not in the St. Louis area work in small cities and towns in outstate Missouri and Illinois. Cape Girardeau, Franklin, St. Charles and Saline counties in Missouri and Clinton and Randolph counties in Illinois are the more important outstate areas of leather products manufacture.

ECONOMIC CHARACTERISTICS

The leather and leather products industry, as defined by the Census, includes ten separate manufacturing pursuits. These are: leather tanning, currying and finishing; industrial leather belting and packing; boot and shoe cut stock and findings; footwear (except rubber); leather gloves and mittens; trunks and luggage; women's handbags and purses; small leather goods; saddlery, harness and whips, and miscellaneous items. By far the most important of these activities are the two concerned with shoe manufacture. Together they account for about two-thirds of the production of the entire leather and leather products industry. In 1939, the last year for which Census data are available, 1,600 of the industry's 3,500 establishments were shoe or shoe findings (soles, heels, laces, etc.) factories. Of the industry's 360,000 workers, almost 260,000 were employed in these two lines. They produced $865 million in goods, adding a manufacturing value of $385 million to raw materials costing $480 million. Comparable totals for the entire industry were $1,390 million in value of production and $585 million value added.

In the Eighth Federal Reserve District the importance of shoe manufacture in the leather industry is even more marked. There were, in 1939, some 180 leather-working establishments in this district, about 115 of these being shoe factories. More than four-fifths of all leather workers in the district produced shoes or shoe findings and an almost identical proportion of manufactured product and value added was in these categories. About 39,000 of the district's 46,000 leather workers were in shoe or shoe findings plants.

Growth Pattern—The leather and leather products industry has been characterized by a gradual growth trend interrupted at times by sharp upward swings, mostly during war periods. For example, value of output increased 2.4 times from 1899 to 1939 in contrast to a gain of 5.2 times for all manufacturing activity. In both world wars value of output rose abruptly, more than doubling between 1914 and 1919 and, while detailed data are not available, probably gaining as much between 1940 and 1945. Much of the wartime gains reflect price advances, but also indicate substantially better than average increases in physical production.

Comparison of district and national growth trends from the turn of the century shows the district curve rising more strongly than that for the country as a whole, mainly because the district industry in 1899 was in its infancy. Over the past two decades district trend, however, has been slightly lower than national. In 1924, about 18.5 per cent of the nation's leather shoes were produced in this district; in 1945 the percentage was 17.6.

In this district shoe plants tend to concentrate on expensive and high quality shoes with the result that on a pair basis shoe production here is characterized by a somewhat different cycle than national output. In the twenty-one years for which accurate district shoe production figures are available, the district share of national output has varied from a high of 21.3 per cent to a low of 15.3 per cent. The highs were reached in the late 1920's, the lows in the middle 1930's. During the war years the district's production has grown faster than that for the nation as a whole, but the ratio of district output to national output has not yet regained the level reached in the late 1920's.

Decentralization Movement—Leather workers were included among the first European settlers on this continent. Before the American colonies were two decades old, some tanneries were established along the Atlantic coast to provide leather for boots, saddles, belts and other necessary items. When the industrial revolution introduced factory procedures and machinery to the leather products industry, the United States was in its infancy and the industry naturally centered in the east, mostly in Massachusetts and New York. Gradually it moved south and west, and today important segments are located in the Carolinas, Ohio, Wisconsin, Illinois, Missouri and California. The movement is still continuing with factories spreading into the old mid-south and new southwest.

The shoe industry began to migrate westward in the last quarter of the Nineteenth Century. In the St. Louis area, shoe manufacturing had its start in the 1870's. Prior to that time St. Louis shoe wholesalers and jobbers had distributed products manufactured in New England. As their volume expanded, they found it progressively more difficult to secure sufficient merchandise to supply their dealers, and in addition became dissatisfied with the lack of uniform quality in the eastern-made shoes. Consequently several St. Louisans invaded the manufacturing field.

These same factors resulted in a general midwestern manufacturing movement. The midwestern shoe producers found that they had at hand an abundant supply of labor, part of it already skilled. The large-scale migration from Europe just before the Civil War and the natural westward movement of the American people had brought many skilled artisans to the midwest. The region was also much closer to basic raw materials supply (hides), but this advantage was mitigated somewhat by the fact that tanneries were difficult to establish and the existing ones were concentrated along the Atlantic coast line. Some tanneries, however, were established in this area.

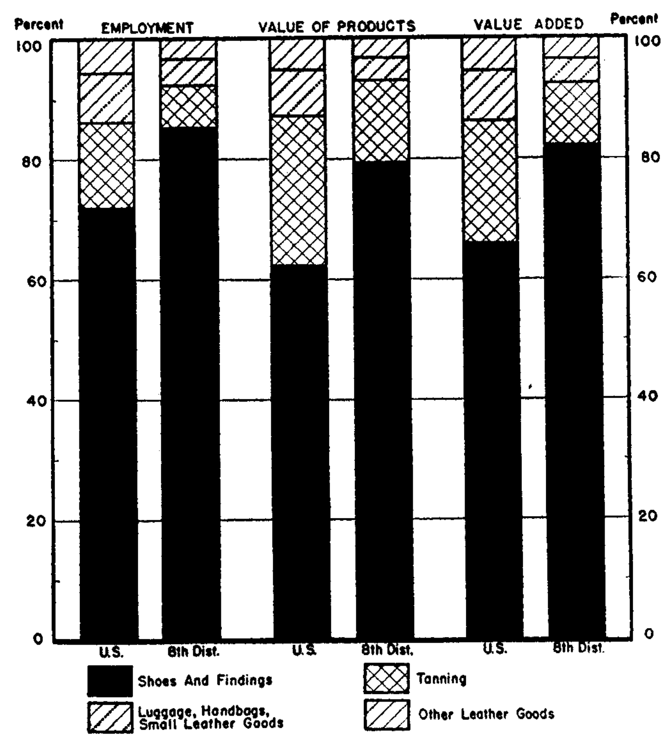
A factor of primary importance in the trend toward decentralization of the shoe industry was the development of a system whereby shoe machinery was leased to manufacturers on a royalty basis. This procedure became the prevailing method of procuring equipment after the United Shoe Machinery Corporation was formed in 1899. By using leased machinery it became possible to establish a shoe factory with a relatively small amount of capital, which made it easier for the midwesterners to invade the field.

Continuation of this policy of leasing machinery, plus the fact that great strides were made in technically improving mechanical equipment, brought about increasing mechanization and subdivision of work in the shoe industry. At the present time, 200 separate operations (170 of them by machine) are employed to produce a shoe. Most operations are light and can be learned quickly. This makes it easy to train workers and permits large use of female labor. Some operations, however, notably cutting, still require a high degree of skill.

As skills were diluted, the industry found it more advantageous to locate wherever labor supply, transportation facilities and raw materials could be obtained under favorable terms. The net result of this decentralization movement to date has been the rise of the midwestern regions as important centers of shoe production. For example, Missouri increased its share of national shoe output from 7 per cent to 12 per cent between 1904 and 1939, while Massachusetts declined in relative importance from 44 per cent of nationwide production in 1904 to 19 per cent in 1939.

As noted, the tanning industry has not moved westward in the same degree as has shoe manufacturing. This situation is the result of several

INDUSTRY PATTERN
LEATHER AND LEATHER PRODUCTS
U.S. And 8th District Totals - 1939



SOURCE CENSUS OF MANUFACTURERS-1939

factors, most important of which are: the relatively large capital requirements for a tannery, the necessity for an abundant supply of water, and the fact that many types of hides and skins as well as tanning materials are imported. The last two factors have continued to make the Atlantic coast region economically desirable for tannery location. The first made it financially difficult to establish a tannery in a new location. Some of the big midwestern concerns found it less expensive to purchase existing tanneries than to build new ones and now own East coast tanneries.

Supply and Demand Factors—Manufacture of leather goods is largely a semi-durable consumer goods industry. On the supply side it is influenced strongly by the volume of animal slaughter, since some by-products of this activity provide most of the basic raw materials for the leather products industry. Domestic leather supplies normally are supplemented by various types of imported hides. To some extent, particularly in the field of luggage and belting, but to a growing extent in shoes also, development of synthetic raw materials is lessening the industry's dependence on animal hides.

Hide prices, and thus leather prices, tend to fluctuate rather widely, being influenced by cattle population, import volume, demand for leather products, and competition resulting from excess tanning capacity. Consequently, inventory policy in leather product manufacture as well as in the tanning industry is of major importance. As noted earlier, some manufacturers of leather products have entered the tanning business and produce much of their own leather requirements. This enables them to minimize risks inherent in rapidly fluctuating raw materials prices. Even these integrated manufacturers, however, usually depend upon open market purchases for some supplies, a policy which also enables them to take advantage of any sudden price changes.

The trend toward vertical integration has led a number of shoe companies to acquire textile factories so as to supply their own requirements for linings and other fabric parts. Some shoe companies (and other leather products manufacturers) have also organized their own retail outlets for direct sales of their products or a portion of them to consumers. In general, Eighth District shoe producers have not followed this practice, preferring to sell to retailers rather than to ultimate consumers. In many cases, however, retailers feature exclusive lines and manufacturers provide advertising and promotional services. This situation tends to lead to a large degree of retailer control by the manufacturers. Some large retailers, particularly nationally-operating chains, have shoes made to individual specifications carrying the retailer's trade mark. Generally, wholesalers do not play a major role in shoe distribution as the bulk of output moves directly from manufacturer to retailer.

As noted, the leased machinery system in shoe manufacture reduces the amount of initial capital required to enter the field. This might be expected to attract new enterprises in periods of expanding consumer purchasing power. Actually, new competition is not great since it is extremely difficult to break into the established retail distributor set-up. Hence, the major companies enjoy a rather firmly entrenched position. In the Eighth District the two leading manufacturers account for about 75 per cent of total district output of shoes. Where competition does exist, it usually is confined to a certain product in a given price range and does not extend over the whole field.

Leather products, particularly shoe, manufacture, is traditionally highly seasonal. The war tended to reduce seasonal swings in output because demand outran supply, and plans have been cast which look toward further smoothing of the production curve. Ordinarily in shoe production there are two peaks, winter or early spring and early fall. Generally, manufacturers' sales for the spring season begin about mid-October with deliveries beginning at the turn of the year. Peak manufacturing months are January, February and March. Fall and winter sales begin about mid-April with retail deliveries beginning about mid-August. Manufacturing activity thus is also heavy in July, August and September. In the district the seasonal production peaks tend to come somewhat later than those for the nation.

Demand for leather products tends to be relatively more stable than that for producers' goods or even more durable consumer goods. At the same time, demand does fluctuate, varying with income level. In 1930, for example, per capita shoe consumption was 2.45 pairs. In 1942, it was 3.50 pairs, an all time peak. Consumption in the last three years might have exceeded this peak had it not been limited by rationing. There is an even more pronounced variation in dollar value of shoes purchased than in number of pairs consumed. Generally, cheaper shoes sell in much greater volume in depression years than in prosperous times. Since shoe quality for the most part is hidden in construction, it is relatively easy to shift demand from more expensive to less expensive shoes when consumer purchasing power declines. It is less easy to shift demand back to higher quality merchandise when income rises, but generally advertising and natural consumer upgrading of purchases aid this end.

The industry has attempted to increase demand for shoes largely through increasing styles in women's shoes and by promoting different styles for different occasions. Emphasis is placed on a complete shoe wardrobe and style changes are stressed. The program has been fairly successful, with the exception of the war years, when shoes were rationed. Women's shoes constituted 32 per cent of total shoe output in 1925 and 39 per cent in 1939.

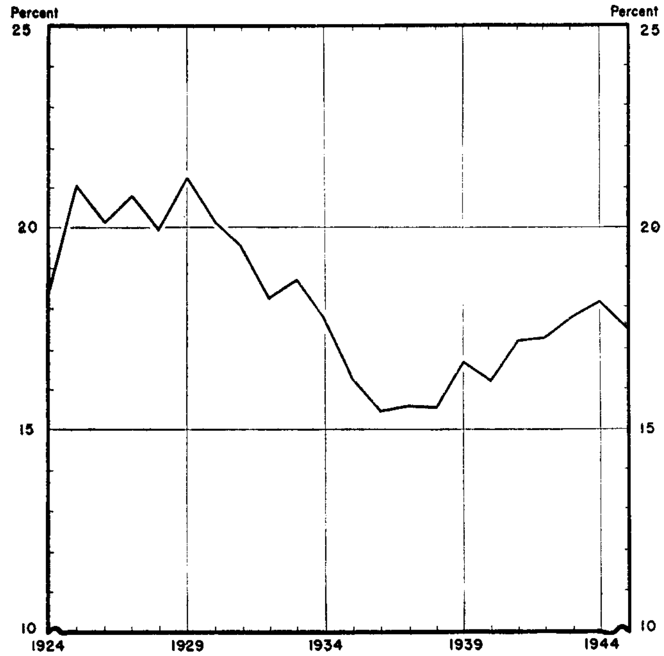
WAR RECORD

It has been said that leather ranks seventh in importance among war materials. During the war years output of leather products expanded considerably. Total shoe production in the United States in 1940 was about 400 million pairs. In 1941, it climbed to 493 million pairs. In the succeeding years, 1942 to 1944, output was below the 1941 level but was substantially above that of any year prior to 1941. Average production in these years was 42 per cent higher than in the 1930-34 period and 17 per cent over the 1935-39 average. Preliminary figures for 1945 indicate that production in that year ran above 1941, reaching perhaps 500 million pairs, an all-time record.

District shoe output in the 1940's rose relatively more than that for the nation as a whole. In 1940, total shoe production in the Eighth District was 65 million pairs. In 1941, it exceeded 85 million pairs and in the following three years, while below 1941, was off relatively less from that peak than national output. As compared with 1935-39 average output, that of 1942-44 was up 30 per cent. District production in 1945 was about equal to that of 1944, slightly more than 84 million pairs.

Even though shoe production was considerably expanded during the war period, it was not sufficient to satisfy demand which rose sharply along with growing consumer purchasing power. In addition, military demand for shoes cut into civillian supplies appreciably as the war years advanced. In 1941, the first year in which Government orders accounted for a sizable amount of total production, volume earmarked for the Government totaled about 15 million pairs. In 1944, Government takings reached a peak of some 47 million pairs. Consequently, it was necessary to impose shoe rationing (first wartime regulation at the retail level) early in February, 1943. Initially, rationing plans called for the purchase of no more than three pairs

RATIO OF SHOE PRODUCTION, EIGHTH DISTRICT TO UNITED STATES, 1924-1945



of shoes per year by each consumer. As supplies declined, this allotment had to be reduced. By mid-1945 rationing plans had lowered civilian per capita purchase of ration-type shoes to an annual rate of 1.5 pairs. In order to partly alleviate unfilled demand, various non-ration types of shoes, particularly women's shoes, were developed in the war years. These were made mainly of fabric uppers and employed non-leather soles. In 1944, output of this type shoe amounted to about 147 million pairs and in 1945 to about 176 million pairs.

The shoe industry, in fact all leather products industries, was handicapped during the war period by curtailment of supplies of raw materials and by difficulties in securing labor. Since a substantial amount of the leather used is imported, the strain on shipping at the height of the German submarine campaign resulted in sharply reduced imports, which proved a fairly effective limiting factor on shoe and other leather goods production. The unbalance of supply and demand led to a series of wartime regulations for the industry. Among the more important of these were regulation of imports of hides and leather (M-63), set-aside orders for first quality sole leather (M-80), a monthly allocation plan of tanning quotas which gave Government orders preference with respect to leather supplies (M-194), and an order restricting the number and simplifying the permitted styles during the war period (M-217).

To meet in some degree the problems of reduced supplies of materials and labor, the industry, as noted, utilized a substantial volume of substitute materials, developing some quite usable synthetics. Labor shortages were offset to some extent by increasing the number of women employed and by speedup training programs for unskilled workers. The Eighth District leather industry has customarily employed relatively more women than the nationwide industry; in 1940 some 45 per cent of district leather workers were women as compared with 38 per cent for the United States. During the war years the number of female employees rose to more than half of the district's leather industry labor force.

In general, profits in the leather industry run somewhat lower than the average for all manufacturing. During the war years, however, profits were fairly good despite price ceilings, rising costs, and sharply higher taxes. From a net after taxes standpoint (or return on net worth) 1941 and 1942 were the best years of the war period. In those years profits ran about one-fourth more than in 1939. In 1944 and 1945, however, profits after taxes averaged about the same as in 1939 even though sales were much larger.

OUTLOOK

With the conclusion of World War II, the shoe and other leather products industries were confronted by comparatively simple reconversion problems. War production for the most part had consisted of producing the same items as were made during peacetime, the major difference being that the military became a much more important customer. Some few factories took on manufacture of canvas items when leather supplies were not adequate for capacity output, but by and large production processes were not changed essentially even in these cases.

The obstacles to production which confronted the industry in wartime are gradually disappearing and it is now easier to obtain labor, raw materials, and machinery than it was in the war years. At the same time the leather goods producers could use currently more labor, materials and equipment than they have. In other words, despite easing of the situation, relative shortages still exist.

The materials supply position has improved with the release from service requirements of substantial amounts of sole and upper leather and the increase in domestic hide supply. Still imports, both hides and tanning materials, are at a low level, and according to trade sources, will continue relatively small because of shortages at the source and because of domestic price ceilings.

Labor is easier to procure since munitions output has ceased and war veterans are returning. During the war years, leather goods producers found it difficult to get workers because there was a substantial differential between the industry's wage rates and those for war plants. Some wage increases have been granted and there is now apparently no serious rate differential between most leather-working and other industry. The tanning industry, however, has had difficulty in securing sufficient labor despite relatively high wage rates.

The industry expects to expand considerably as factors presently limiting output become progressively less stringent. A survey of St. Louis manufacturers' expectations indicated that the leather goods industry looked for a sharp rise in dollar sales after reconversion of the economy. Postwar sales of the surveyed concerns were expected to be about 20 per cent over the wartime level and some 80 per cent higher than in 1940. If national income remains high, consumer demand for leather products should increase sharply from the wartime level when goods either were unobtainable or rationed. Return of men from military service will, at least temporarily, raise demand for shoes above normal levels. There is also some deferred demand by civilians for replenishment of their war-depleted shoe wardrobes. Finally, there will be intensive industry promotion campaigns to increase leather goods use and hence sales. This level of demand should keep the industry operating at close to capacity for at least the immediate future.

With a reduction in overtime work, employment is expected to rise appreciably from the wartime low and run ahead of the prewar level. Productivity is expected to increase, although the return of numerous styles may lead to some temporary decline in labor efficiency.

The shoe industry has worked out a new postwar marketing system, the "Balanced Program for Shoes." Main function of the new plan is to reduce seasonal fluctuations to a minimum through year-round production and delivery schedules instead of continuing to gear shoe output and styles to two peak seasons. Under the new plan there would be at least four or five overlapping merchandising periods annually. Shoe men are confident that all groups connected with the industry would benefit: manufacturers by the elimination of peak and valley periods of production; labor by more steady employment; and retailers by receiving stock replacements monthly in materials and styles currently in demand, which would tend to minimize markdowns. This plan calls for close cooperation between manufacturers and retailers and will require intensified sales promotion activities. When manufacturers' inventories become sufficient to permit discontinuance of the present emergency program of allocating quotas to retailers, the Balanced Program will be put into effect.

The industry intends to do some new building and to purchase some new equipment, although outlays will not be large in comparison with those of many other manufacturing lines. St. Louis area leather goods producers expect to spend in the next two years about $750,000 for new construction and equipment for their St. Louis plants. The construction program outside St. Louis is of more significance for it will entail much larger increases in manufacturing capacity and marks an accentuated trend toward decentralization. Some half dozen new shoe factories, for example, are earmarked for various Arkansas towns. These will employ some 2,000 workers. In 1940, total leather worker employment in Arkansas accounted for only 53 persons.

Substantial funds are held in very liquid form, deposits or short-term Government securities, by the leather goods industries. These can be used for plant expansion, inventory build-up, and re-establishment of marketing connections. Very little borrowing, either from banks or from other sources, is anticipated for any purpose. For example, of the expenditures for new building and equipment in the St. Louis area, only 6 per cent is to be borrowed and only half of this from banks. Most of the expansion program in other localities is being financed by the towns obtaining the new factories so that the producers' own investment in the new facilities will be relatively small.

CURRENT CONDITIONS

(Continued from Page 1)

again in December with the decrease largely accounted for by the shorter work-month. In January, despite the serious strike situation, the level of industrial activity in this district apparently was slightly higher than in December, although it did not reach the November level and was far below that of a year earlier. The January upturn is explained partly by the fact that the steel strike, which while it was on adversely affected manufacturing activity, did not begin until fairly late in the month and partly by the fact that the over-all strike situation in the district was relatively less serious than in the nation as a whole. By and large, the St. Louis area was the only major industrial section in the district where strikes severely affected output. Probably activity levels in February and the immediate subsequent months will exhibit more slowly-rising trends than formerly anticipated as the full effects of the over-all strike situation are diffused through the economy.

Manufacturing—In January, the consumption of industrial electric power in the major cities of the district was 3 per cent more than in December, but 8 per cent less than in November and 34 per cent less than in January, 1945. Four of the six cities for which industrial power consumption data are available registered increases in January relative to December, with only Louisville and Memphis showing a decline. January power consumption in Little Rock was higher than a year earlier.

Steel mill operations in the St. Louis district in January averaged considerably lower than in December because of the steel strike which began on January 21. Not all steel plants in this area were struck, however, so that some steel production took place throughout the strike period. Activity in the closed plants had not been resumed by the end of the third week in February, and there was little prospect of any production from these plants in February. Even after the local labor disputes are settled, it will take some time to restore operations.

Steel products manufacturers and nonferrous metal workers increased output in January in this district, apparently drawing heavily upon inventories to do so. There is some prospect that anticipated future gains in these lines will be curtailed because of strike-caused interruptions in the flow of raw materials.

Of the 60 whiskey distilleries in Kentucky, 49 were in operation at the end of January as compared with 48 at the end of December and 53 at the close of January, 1945. Relative to a year earlier, current output is much more depressed than number of plants in operation would indicate, because most distilleries are now working at far less than capacity. Apparently there is little likelihood of any appreciable increase from present low production levels because of the grain situation. The Department of Agriculture has allotted sufficient grain to permit distilleries to operate 7½ days at peak capacity (24 hour production) or about 21 days at current operating levels during February. The March allotment was reduced, however, and in view of the recently-announced program to conserve wheat, material shortages have become very critical in the whiskey industry. Trade sources indicate that some distilleries will cease operating entirely if the supply situation does not ease. Another heavy consumer of grains is the important district brewing industry. Output in this field in January was up somewhat from December but is expected to be curtailed sharply in future months because of material shortages.

Production of lumber in the district in January showed a further seasonal decline from previous months. Hardwood producers operated at about 46 per cent of capacity as compared with 55 per cent in December and 78 per cent in November. Southern pine production was less than at any month since mid-1945. Mill inventories of southern pine are approximately 43 per cent below last year.

Mining and Oil—During January, coal production in the Eighth District was larger than in December but was less than in January, 1945. Output in January amounted to 16.6 million tons as compared with 15.5 million in December and 17.9 million in January, 1945. Crude oil production in January showed an increase in output for the third consecutive month and was only slightly below that of January, 1945. The current daily rate of operations is approximately at the same level as in the middle of 1945.

Construction—Building activity in this district dropped seasonally in January; the cold weather retarded construction despite exceptionally high demand. At the same time, January construction was much higher than a year earlier. In terms of dollar value of building permits granted in the major district cities, building in January was off 10 per cent from December but was eight times as large as in January, 1945.

As noted previously in this Review, demand for housing in this district, particularly in the larger cities, is extensive and with more and more veterans returning from service the situation is rapidly worsening. Vacancy rates are currently so low as to be almost meaningless, thousands of families are living doubled up, and other thousands are merely existing in substandard dwelling units.

TRADE

The usual decline from high holiday levels was registered in district trade in January, but the month's sales held well above those of a year earlier. Preliminary reports for the first part of February indicate a continuation of heavy buying. These gains have occurred in the face of shortages in certain lines even more severe than those experienced during the war period, and point to the probability of a new all-time sales record when goods reappear in more adequate volume.

The dollar sales level at district department stores in January was off 47 per cent from the record breaking level of December, 1945, but was 11 per cent higher than in January of that year. In the first two weeks of February sales ran 21 per cent and 27 per cent, respectively, over the comparable weeks of 1945. Among district cities the seasonal drop in January sales was most pronounced in the smaller urban centers where declines in war activity brought relatively greater losses in income

AGRICULTURE

CASH FARM INCOME

(In thousands of dollars)	December 1945	December 1944	Cumulative for 12 months 1945	Cumulative for 12 months 1944	Cumulative for 12 months 1943
Arkansas	$ 27,191	$ 34,201	$ 314,978	$ 339,562	$ 292,348
Illinois	94,936	99,990	1,166,459	1,178,325	1,152,449
Indiana	54,702	51,543	678,335	675,542	657,387
Kentucky	88,225	67,369	429,012	364,244	330,294
Mississippi	34,457	26,680	336,596	345,159	319,652
Missouri	54,366	58,037	688,445	714,696	657,534
Tennessee	45,920	44,369	326,589	329,165	298,248
Totals	399,797	382,189	3,940,414	3,946,693	3,707,912

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts Jan., 1946	Receipts Dec., 1945	Receipts Jan., 1945	Shipments Jan., 1946	Shipments Dec., 1945	Shipments Jan., 1945
Cattle and Calves	101,353	111,116	135,500	63,617	57,577	56,240
Hogs	219,392	228,553	279,771	89,292	80,199	98,064
Horses and Mules	4,626	3,123	2,294	4,626	3,363	2,282
Sheep	48,502	67,645	44,228	10,898	15,206	5,843
Totals	373,873	410,437	461,793	168,433	156,345	162,429

PRICES

COST OF LIVING

Bureau of Labor Statistics (1935-39=100)	Jan. 15, 1946	Dec. 15, 1945	Sept. 15, 1942	Jan. 15, 46 Compared with Dec. 15, '45	Jan. 15, 46 Compared with Sept. 15, '42
United States	129.9	129.9	117.8	-0-%	+10.3%
St. Louis	128 6	128.4	116.6	+ 0.2	+10.3
Memphis	*	133.3	119.3	*	*

*—Not available.

COST OF FOOD

Bureau of Labor Statistics (1935-39=100)	Jan. 15, 1946	Dec. 15, 1945	Sept. 15, 1942	Jan. 15, 46 Compared with Dec. 15, '45	Jan. 15, 46 Compared with Sept. 15, '42
U. S. (51 cities)	141.0	141.4	126.6	—0.3%	+11.4%
St. Louis	144.3	144.1	126.7	+0.1	+13.9
Little Rock	140.8	139.8	129.2	+0.7	+ 9.0
Louisville	151.2	151.8	129.7	—0.7	+ 8.1
Memphis	151.2	151.8	129.7	—0.4	+16.6

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1926=100)	Jan., '46	Dec., '45	Jan., '45	Jan., '46 comp. with Dec., '45	Jan., '46 comp. with Jan., '45
All Commodities	107.1	107.1	104.9	-0-%	+ 2%
Farm Products	129.9	131.5	126.2	— 1	+ 3
Foods	107.3	108.6	104.7	— 1	+ 2
Other	100.8	100.5	99.1	-0-	+ 2

than in the larger communities such as St. Louis, Louisville and Memphis. As compared with a year earlier, sales gains were particularly marked at the middle-size district cities (Evansville, Springfield, Quincy and Fort Smith) and the smaller towns (El Dorado, Pine Bluff, Alton, Carbondale, Jackson, and some others). Two of the larger cities, Louisville and Memphis, ran ahead of the district average gain over last year; St. Louis approximated the average, while Little Rock fell far below it.

Sales volume increases over January, 1945 also showed great variation among individual stores, reflecting to some extent differences in the ability of stores to obtain supplies of merchandise. In the aggregate department store inventories, however, were at a higher level at the close of January than a year earlier, although the heavy Christmas shopping had reduced stocks to a point 26 per cent below the pre-Christmas (November 30, 1945) level.

The most pronounced gains in sales of retail lines reporting to this bank have been occurring in men's apparel shops and furniture stores. Higher sales levels at men's apparel stores reflect largely demands by returning veterans for civilian clothing. Men's stores are apparently experiencing considerable difficulty in maintaining even supplies of stocks, and some items are virtually unattainable. At the close of January total stocks at men's wear stores in this district were off 5 per cent and 47 per cent, respectively, from the levels of a month and a year earlier.

District furniture store sales declined seasonally in January but were 38 per cent larger than in January, 1945. The large volume of sales made by these stores reflects re-establishment of family units by returning servicemen and new marriages. Furniture store stocks are apparently easier to obtain at present. At the close of January inventories at these stores in the district were 2 per cent higher than at the end of January, 1945. Stocks are, however, still inadequate to meet current demand even though the demand is limited to some extent by housing shortages.

BANKING AND FINANCE

Thus far in 1946 banking developments have not differed materially from the wartime pattern. Deposit behavior, allowing for the influence of January 15 tax payments, has been similar to that of other periods following major Treasury financings in the past three years. Total loan volume remained fairly stable, as did investment portfolios.

Perhaps the most significant monetary development in early 1946 was the relatively heavy return flow of money from circulation after the holiday period. From January 2 to February 13 currency in circulation in the United States declined by $524 million, while in the comparable period a year earlier there was an increase of $207 million. Although the reduction this year is still less than seasonal, it is the first significant decline that has occurred in money in circulation since January, 1941.

Only relatively small changes occurred in deposits of reporting member banks in this district

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Customers*	Jan., 1946 K.W.H.	Dec., 1945 K.W.H.	Jan., 1945 K.W.H.	Jan., 1946 compared with Dec., '45	Jan., 1946 compared with Jan., '45
Evansville	40	5,517	5,248	8,361	+ 5%	—34%
Little Rock	34	3,479	3,383	3,166	+ 3	+10
Louisville	82	14,562	16,634	16,573	—12	—12
Memphis	31	5,104	5,489	7,385	— 7	—31
Pine Bluff	19	1,667	1,393	7,696	+20	—78
St. Louis	96	45,196	41,273r	71,550r	+10	—37
Totals	302	75,525	73,420r	114,731r	+ 3	—34

* Selected industrial customers.
r—Revised.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

Jan., '46	Dec., '45	Jan., '45	First nine days Feb., '46	First nine days Feb., '45	1 mo., '46	1 mo., '45
121,952	109,245	155,942	36,381	45,828	121,952	155,942

Source: Terminal Railroad Association of St. Louis.

COAL PRODUCTION

(In thousands of tons)	Jan., '46	Dec., '45	Jan., '45	Jan., '46 comp. with Dec., '45	Jan., '46 comp. with Jan., '45
Illinois	6,442	6,056	6,545	+ 6%	— 2%
Indiana	2,344	2,229	2,523	+ 5	— 7
Kentucky	6,222	5,711	6,270	+ 9	— 1
Other Dist. States	1,555	1,509	2,568	+ 3	—39
Totals	16,563	15,505	17,906	+ 7	— 8

DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	Jan., 1946	Dec., 1945	Jan., 1945	Jan., '46 comp. with Dec., '45	Jan., '46 comp. with Jan., '45
El Dorado, Ark.	$ 12,674	$ 13,168	$ 11,099	— 4%	+14%
Fort Smith, Ark.	30,233	41,806	26,269	—28	+15
Helena, Ark.	6,625	7,265	5,503	— 9	+20
Little Rock, Ark.	86,196	93,194	85,901	— 8	- 0 -
Pine Bluff, Ark.	19,257	24,126	19,331	—20	- 0 -
Texarkana, Ark.-Tex.	9,438	9,662	12,110	— 2	—22
Alton, Ill.	16,666	18,792	15,738	—11	+ 6
E.St.L.-Nat.S.Y., Ill.	73,350	74,604	86,739	— 2	—15
Quincy, Ill.	19,551	20,515	16,327	— 5	+20
Evansville, Ind.	77,394	78,122	101,013	— 1	—23
Louisville, Ky.	404,574	443,941	403,152	— 9	- 0 -
Owensboro, Ky.	26,149	23,778	25,261	+10	+ 4
Paducah, Ky.	10,880	10,860	8,783	- 0 -	+24
Greenville, Miss.	12,355	12,991	12,108	— 5	+ 2
Cape Girardeau, Mo.	7,824	7,004	7,836	+12	- 0 -
Hannibal, Mo.	5,587	5,859	5,521	— 5	+ 1
Jefferson City, Mo.	43,318	25,968	52,040	+67	—17
St. Louis, Mo.	1,066,747	1,285,971	1,084,646	—17	— 2
Sedalia, Mo.	7,696	7,573	6,154	+ 2	+25
Springfield, Mo.	41,093	36,765	32,913	+12	+25
Jackson, Tenn.	12,490	13,993	9,762	—11	+28
Memphis, Tenn.	359,418	376,699	291,132	— 5	+23
Totals	2,349,515	2,632,656	2,319,338	—11	+ 1

RETAIL TRADE

DEPARTMENT STORES

	Net Sales: January, 1946 compared with Dec., '45	Net Sales: January, 1946 compared with Jan., '45	Stocks on Hand: Jan. 31, 1946 comp. with Jan. 31, 1945	Stock Turnover: Jan. 1, to January 31, 1946	Stock Turnover: Jan. 1, to January 31, 1945
Ft. Smith, Ark.	—54%	+15%	—11%	.48	.37
Little Rock, Ark.	—55	+ 2	— 1	.45	.44
Quincy, Ill.	—51	+24	+ 8	.43	.37
Evansville, Ind.	—51	+12	+11	.29	.28
Louisville, Ky.	—49	+14	+11	.52	.52
St. Louis Area[1]	—42	+ 9	+ 4	.46	.45
St. Louis, Mo.	—42	+ 9	+ 4	.47	.45
E. St. Louis, Ill.	—56	— 5	....	....	....
Springfield, Mo.	—49	+25	— 7	.47	.36
Memphis, Tenn.	—49	+13	+ 1	.52	.49
*All other cities	—45†	+23†	+11†	.41†	.37†
8th F. R. District	—47†	+11†	+ 4†	.47†	.45†

*El Dorado, Fayetteville, Pine Bluff, Ark.; Alton, Harrisburg, Jacksonville, Mt. Vernon, Ill.; New Albany, Vincennes, Ind.; Danville, Hopkinsville, Mayfield, Paducah, Ky.; Chillicothe, Mo.; and Jackson, Tenn.

[1]Includes St. Louis, Mo., East St. Louis and Belleville, Ill.

Trading days: January, 1946—26; December, 1945—25; January, 1945—26.

Outstanding orders of reporting stores at the end of January, 1946, were 23 per cent greater than on the corresponding date a year ago.

Percentage of accounts and notes receivable outstanding January 1, 1946, collected during January, by cities:

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Fort Smith	....%	61%	Quincy	46%	72%
Little Rock	27	63	St. Louis	38	72
Louisville	39	62	Other cities	25	62†
Memphis	42	62	8th F.R. Dist.	37	67†

INDEXES OF DEPARTMENT STORE SALES AND STOCKS
8th Federal Reserve District

	Jan., 1946	Dec., 1945	Nov., 1945	Jan., 1945
Sales (daily average) Unadjusted[1]	192†	365	303	173
Sales (daily average), Seasonally adjusted[1]	234†	227	266	211
Stocks, Unadjusted[2]	138†	130	175	128
Stocks, Seasonally adjusted[2]	160†	155	163	149

[1]Daily Average 1935-39=100.
[2]Monthly Average 1935-39=100.
†Preliminary.

SPECIALTY STORES

	Net Sales: January, 1946, compared with Dec., 1945	Net Sales: January, 1946, compared with Jan., 1945	Stocks on Hand: Jan. 31, 1946, comp. with Jan. 31, 1945	Stock Turnover: Jan. 1, to January 31, 1946	Stock Turnover: Jan. 1, to January 31, 1945
Men's Furnishings	—56%	+10%	—47%	.57%	.27%
Boots and Shoes	—33	+17	—26	1.00	.62

Percentage of accounts and notes receivable outstanding January 1, 1946, collected during January:
Men's Furnishings .... 62% Boots and Shoes 67%

Trading days: January, 1946—26; December, 1945—25; January, 1945—26.

RETAIL FURNITURE STORES

	Net Sales: January, 1946 compared with Dec. '45	Net Sales: January, 1946 compared with Jan. '45	Inventories: January 31, 1946 compared with Dec. 31, '45	Inventories: January 31, 1946 compared with Jan. 31, '45	Ratio of Collections: Jan. '46	Ratio of Collections: Jan. '45
St. Louis Area[1]	—29%	+ 24%	—11%	— 5%	51%	43%
St. Louis	—25	+ 24	—11	— 5	53	46
Louisville	—37	+ 58	+ 4	+ 4	34	28
Memphis	—39	+ 47	*	*	29	27
Little Rock	—22	+ 47	— 6	+ 4	33	30
Fort Smith	— 7	+127	*	*	*	*
8th Dist. Total[2]	—29	+ 38	— 3	+ 2	41	35

*Not shown separately due to insufficient coverage, but included in Eighth District totals.

[1]Includes St. Louis, Missouri; East St. Louis and Alton, Illinois.

[2]In addition to above cities, includes stores in Blytheville, Pine Bluff, Arkansas; Evansville, Indiana; Henderson, Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Cape Girardeau and Springfield, Missouri.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	Jan., '46	Dec., '45	Jan., '45
Cash Sales	28%	28%	23%
Credit Sales	72	72	77
Total Sales	100	100	100

during the last six weeks. Demand deposits of individuals, partnerships and corporations increased nearly $45 million, about half of the increase coming at reporting banks in St. Louis. Government deposits in these banks decreased about $4 million. Bankers' balances dropped about $33 million from year end to mid-February. Time deposits continued their upward trend, increasing $7 million in the period. This gain was less, both absolutely and relatively, than that of the comparable period last year and may be partly due to the greater use of savings by individuals to pay income taxes and by workers involved in strikes for living expenses.

Total loans of the reporting member banks rose but slightly over the past six weeks. The most notable change in a particular loan category was an increase of $1.6 million in "other" loans, the largest part of which was in loans to consumers. This increase in consumer credit was offset in part by decreases in commercial, industrial and agricultural loans, and loans on United States Government securities.

Total investments of the major city banks of the district increased $15 million in the six weeks following January 2. The increase was due primarily to gains of about $22 million each in Treasury certificate and bond holdings, which were offset in part by a decline of about $21 million in Treasury bill portfolios.

AGRICULTURE

At this time of year agricultural activity is at a minimum, although plans are being laid for the coming planting season. These plans call for 1946 crop production to be maintained at levels equal to those of the war years. There will be some shifts among crops, but it is hoped that aggregate output will compare favorably with that of 1944 and 1945. Farmers will be aided in 1946 by an improved labor supply, more farm machinery and fertilizer, and generally adequate seed supply. Thus the principal uncertain factor in the outlook is the weather. While present weather conditions are favorable, except in the Great Plains area, the weather encountered during the planting, growing and harvesting seasons will be vital in determining the volume and quality of 1946 crop production.

An unfavorable crop season might produce serious situations in many areas. Present supplies of grains and feed crops are fairly good, but disappearance is at record rates. Large crops are, therefore, necessary to maintain relatively ample food and feed supplies throughout 1946 and 1947. At the beginning of this year stocks of most grains on farms were but slightly below those of a year earlier. In aggregate, feed stocks were but 6 per cent below the January 1, 1943 peak. Stocks of oats were at a record level and hay stocks were also very high. By-product feed supplies, while fairly high, were somewhat less than a year earlier.

The animal population is still exceptionally large by prewar standards, although it has been reduced from wartime peak levels. In addition to continued high demand for grains and feed concentrates from this source, domestic industrial demand and unusually high demand for exports has brought about a sustained rapid rate of disappearance. By the time 1946 crops reach harvest stage, supplies will probably be below average. Present supplies must be utilized carefully, therefore, to meet the needs for high output of livestock and livestock products, most domestic industrial demand, and to help feed distressed foreign areas.

Generally, the district feed supply situation is about as good as that for the nation as a whole, but in several local areas feed shortages either exist or are expected. The district, in contrast to the nation, has not enjoyed nine good crop years. Flood and drouth in this region proved limiting factors on production throughout many of the war years.

Winter wheat condition varies rather widely with actual deterioration resulting from dry weather and lack of adequate snow coverage in the central- and south-west. In other areas, including this district, condition of the crop is good. On the basis of present conditions, a national wheat crop exceeding a billion bushels, but by a smaller margin than in 1944 and 1945, is in prospect.

The farm price outlook continues favorable. The parity index reached a new 25-year high during December, 1945 at 176 per cent of the 1910-14 average. The unusual demand for farm products indicates that the over-all level of farm prices should be maintained at or near present points throughout most of 1946 and that income from farm marketings in 1946 (assuming a good crop year) will remain near the record levels of the past four years. There is evidence, however, that prices paid by farmers will tend to increase in relation to prices received, which may result in slightly lower net incomes on farms in 1946 than were enjoyed in 1945. Despite this fact, however, a very favorable net income situation is in prospect for farmers this year.

WHOLESALING

Lines of Commodities	Net Sales		Stocks
Data furnished by Bureau of Census, U. S. Dept. of Commerce.*	January, 1946 compared with Dec., '45	Jan., '45	Jan. 31, 1946, compared with Jan. 31, 1945
Drugs and Chemicals	— 8%	+ 6%	...%
Electrical Supplies	+ 39	+ 26	+ 15
Groceries	+ 20	+ 15	+ 1
Hardware	— 15	+ 17	+ 30
Plumbing Supplies	— 3	+ 26	..
Tobacco and its Products	— 8	+ 33	+ 22
Miscellaneous	— 17	— 6	+ 25
Total all lines**	— 10	+ 10	+ 21

*Preliminary.
**Includes certain lines not listed above.

CONSTRUCTION

BUILDING PERMITS

(Cost in thousands)	New Construction Number 1946	1945	Cost 1946	1945	Repairs, etc. Number 1946	1945	Cost 1946	1945
Evansville	21	6	$ 121	$ 22	79	47	$ 63	$ 34
Little Rock	73	23	438	20	149	147	102	66
Louisville	86	15	1,024	120	47	23	52	16
Memphis	422	227	1,789	327	212	227	158	134
St. Louis	184	70	2,926	80	209	123	883	149
Jan. Totals	786	341	6,298	569	696	567	1,258	399
Dec. Totals	767	360	7,681	1,171	476	382	703	336

BANKING

CHANGES IN PRINCIPAL ASSETS AND LIABILITIES FEDERAL RESERVE BANK OF ST. LOUIS

(In thousands of dollars)	Feb. 13, 1946	Change from Jan. 16, 1946	Feb. 14, 1945
Industrial advances under Sec. 13b	$.........	......	......
Other advances and rediscounts	4,530	+ 407	— 13,070
U. S. securities	1,066,980	— 15,837	+259,682
Total earning assets	1,071,510	— 15,430	+246,612
Total reserves	640,534	+ 15,898	+ 48,246
Total deposits	676,384	+ 12,160	+ 89,193
F. R. notes in circulation	1,046,588	— 6,468	+110,046
Industrial commitments under Sec. 13b	....	......	—55

PRINCIPAL RESOURCE AND LIABILITY ITEMS OF REPORTING MEMBER BANKS

(In thousands of dollars)	Feb. 13, 1946	Change from Jan. 16, 1946	Feb. 14, 1945
Total loans and investments	$2,216,994	— 21,758	+350,456
Commercial, industrial, and agricultural loans*	344,020	— 117	+ 83,304
Loans to brokers and dealers in securities	9,671	— 981	+ 2,082
Other loans to purchase and carry securities	81,904	— 834	+ 47,553
Real estate loans	70,516	+ 823	+ 5,703
Loans to banks	3,347	+ 870	+ 2,209
Other loans	97,303	+ 1,567	+ 15,835
Total loans	606,761	+ 1,328	+156,686
Treasury bills	31,330	— 37,061	— 11,047
Certificates of indebtedness	309,810	+ 16,591	+ 18,816
Treasury notes	308,049	— 18,361	— 38,330
U. S. Bonds	825,215	+ 18,793	+226,069
Obligations guaranteed by U. S. Govt.	362	— 1,490	— 18,454
Other securities	135,467	— 1,558	+ 16,716
Total investments	1,610,233	— 23,086	+193,770
Balances with domestic banks	117,547	— 1,866	— 528
Demand deposits—adjusted**	1,075,396	— 3,803	+ 33,825
Time deposits	346,298	+ 4,328	+ 64,023
U. S. Government deposits	495,141	+ 7,961	+227,822
Interbank deposits	666,040	— 38,034	+ 61,254
Borrowings	3,000	+ 515	— 14,500

*Includes open market paper.
**Other than interbank and Government deposits, less cash items on hand or in process of collection.
Above figures are for selected member banks in St. Louis, Louisville, Memphis, Little Rock and Evansville.

Revised Indexes of Department Store Sales and Stocks

With this issue the Federal Reserve Bank of St. Louis begins publication of revised index series of department store sales and stocks. Revision of the sales index involved only changes in seasonal adjustment factors for a few recent years. The unadjusted index numbers were not changed from those carried in past Reviews. The stocks index, however, was completely revised and was put on a 1935-39 base, comparable with the sales index.

In the light of 1944 and 1945 experience, it was determined that certain fluctuations, regarded at the time of the original revision of the sales index as irregular, were really seasonal in character—at least for the war period. Consequently, it was decided to recalculate seasonal adjustment factors and recompute the seasonally adjusted indexes from 1939 through 1945. The new adjusted series is not greatly different from the old for the years 1939 through 1942, but in 1943, 1944 and 1945 is much smoother than before revision.

Revision of the stocks index involved complete recalculation of indexes from 1922 to date and adjustment for seasonal variation by a statistical method identical with that used for the sales index. The sample was expanded to include figures of a greater number of stores, and while data is not available for all currently reporting stores for the entire period, smaller samples were built up to the current sample level throughout by chaining in overlapping years.

In addition, since the group of stores reporting stocks figures is somewhat less representative than that reporting sales, an adjustment was made to tie the stocks index directly to the sales index. This refinement involved application of stock-sales ratios, calculated from the sample of all stores reporting both stocks and sales, to the sales level shown by the regular sales index which is adjusted to Census levels. The adjustment was not large in any year, which indicates that the stores reporting both sales and stocks are almost as representative of the district total as the larger sample which reports only sales.

The stocks index, as noted, is on a 1935-39 average base. The index is based on the sum of total stocks of all reporting department stores in the district. Stocks are measured by dollar retail value at the close of each month, and consequently there is no adjustment for number of trading days.

Copies of the revised sales index series and the new stocks index series are available upon request to the Research Department of this bank.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS IN THE EIGHTH DISTRICT
ADJUSTED FOR SEASONAL VARIATION