Monthly Review

FEDERAL RESERVE BANK OF ST. LOUIS

AUGUST 1, 1946

Survey of Current Conditions

The behavior of prices during the period immediately following the sudden termination of controls on June 30 provides only limited experience upon which to estimate probable future price movements that might occur either during an extended period of free market conditions or under the modified price-control law which the President signed late in July. In general, removal of ceilings resulted in a series of price advances in livestock, grains and foods, widespread reports of rent increases and little change in manufacturers' prices. In relating these recent price movements to future trends, considerable weight must be given to the differences in supply and demand conditions which exist throughout our economy.

The initial sharp increase in livestock and grain prices, for example, reflected a condition of artificial scarcity which is not expected to continue throughout the year. On the other hand, the immediate reaction of real estate owners to elimination of rent ceilings is indicative of what might be anticipated under permanent lack of controls, because of the current housing shortage which cannot be eased for some time.

The fact that manufacturers' prices tended to remain at or near their June 30 level after ceilings were removed cannot be construed as evidence that similar restraint can or will be exercised during an extended period of price freedom. In general, manufacturers tended to postpone price changes, partly due to their unwillingness to act at variance with the announced policy of holding to June 30 levels and to the uncertainty with respect to pending legislation providing for reinstatement of controls. In some instances increases had already been authorized but were not applicable prior to June 30. In other cases prices were advanced where relief was pending.

Regardless of the recent behavior of prices it is evident that the upward trend, which began well before June 30, will continue until such time as the supply of goods available to consumers is more equal to demand. Some restraining influence will result from increased productivity and reductions in non-manufacturing costs. In certain lines supplies are being greatly increased. However, such factors are at least medium long-term in character and hardly can be expected to have a significant immediate effect on prices. Consumer resistance to higher prices may not constitute a check on moderate price increases in the face of the tremendous demand which exists for all types of goods and which is supported by a high level of income and liquid assets.

EMPLOYMENT

Total employment in the Eighth District advanced seasonally in June. Agricultural employment was higher than in May, and the principal gains in non-agricultural employment resulted from increased activity in the construction industry and from greater demand for workers in the services and trades. Manufacturing employment remained at about the same level as in the previous month with additions to the working forces of some plants being mostly offset by reductions in other lines, such as meat packing and food processing, where operations were seriously curtailed in the month.

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During the first half of 1946, the dollar volume of retail sales was at an all-time record level despite continued shortages of goods and some decline in total income payments. The present boom shows no particular signs of early abatement; in fact, most signs seem to point toward its continuance for at least the balance of this year and perhaps longer. During this period, however, there may well be substantial variation in the magnitude of increase among different lines of trade.

In the outlook for retail sales volume, there are three major factors which must be considered. These factors are largely interdependent and are of almost equal importance in the over-all picture.

First, there is the factor of supply—the amount of goods that will be available for purchase by consumers. Second, there is the factor of effective demand which depends largely on the amount of purchasing power available—current income, savings, and borrowing in anticipation of income. Third, there is the factor of price which partly will determine and partly will be determined by the first two factors, and in addition will affect directly the actual dollar volume of sales.

THE SUPPLY OF GOODS

The Federal Reserve index of industrial production averaged about 163 per cent of the 1935-39 base period during the first six months of 1946. This level is about one-third less than average output during 1943 and 1944 (the wartime peak years), but is just about as high as the prewar peak average of 1941. Most of the decline from the high wartime level has come in the durable goods industries, which in June, 1946 were producing in volume only half as large as in the peak wartime month. This decline, of course, reflects the end of munitions production, and actual output of producers and consumers durable goods for peacetime use is not only much higher than in wartime but is 92 per cent more than in the base period and only 5 per cent less than in 1941, the high year before the war. In June, 1946, production of nondurable goods was off only 10 per cent from the wartime peak level and was 13 per cent more than the 1941 average.

While a large volume of goods has been produced since the end of the war much of it has gone into the so-called pipe lines of supply and the amount of goods actually reaching consumers is still fairly small relative to demand. This is particularly true of the durables. Since the end of the war, however, retailers have been building up their inventories and in May, 1946 the Department of Commerce estimated total retail store inventories at $7.1 billion, 7 per cent more (in dollars) than a year earlier and about 40 per cent more than at the end of 1939. Percentagewise, the increase in inventories in durable goods stores over the past year has been substantially larger than in nondurable goods stores, but relative to December, 1939, end of May stocks of durables (in terms of dollar value) were only 25 per cent higher while nondurables inventories (in dollars) were up 47 per cent.

It should be noted that comparisons of dollar value of inventories at the present time with those of like periods prior to the war overstate considerably the relative supply of goods at the moment. Retail prices have risen on the average about 45 per cent since 1939, and adjusting present dollar inventories for the price change indicates that physical stocks are now just about the same as, or perhaps slightly smaller than, those at the close of 1939.

Part of the average increase in price of 45 per cent has reflected stocking of higher quality merchandise. This is due partly to consumer preference and partly to curtailed supplies of low-priced goods because it has been more profitable to manufacture and sell higher-priced lines.

Retail outlets in the Eighth District apparently have had somewhat less difficulty in maintaining inventories than was experienced throughout the nation. Among the various lines, however, the pattern of experience has been similar to that of the country as a whole. Durable goods outlets still can build up stocks considerably before anything like a prewar relationship between stocks and sales is reached.

Many durable goods stores during wartime added new lines of merchandise to take the place of hard-to-get durable items. To some extent the current level of stocks in such stores reflects continued buying of such lines and does not fully represent increased supplies of durable goods for sale. Eighth District furniture stores, for example, expanded existing and added some new soft lines in an effort to keep sales volume at a high level during the war years. While value of stocks has increased since the end of the war, volume of durable goods is substantially below the prewar level, both because of increased prices and because of the presence of more soft lines. Furniture stores are now much more comparable to the housefurnishing divisions in department stores than they were prior to the war.

A somewhat similar situation has occurred in nondurable goods stores where over-all inventory figures tend to obscure the lack of balance in such inventories. In addition to this, the sharply lower stocks-sales ratios tend to indicate that the supply of goods is inadequate relative to the demand. It should be noted, however, that more efficient merchandising procedures may lead to postwar stocks-sales ratios somewhat lower than those in pre-war years even after the supply of goods becomes ample.

The charts accompanying this article illustrate both conditions. Shown are indexes (1941=100) of annual sales and June 30 stocks for district department stores*: total store, main store, basement store, and four major departmental divisions. June, 1942 stocks were very high; the peak was actually reached in May of that year after a heavy and sustained buying policy on the part of the stores.

* June 30 stocks figures were used because (1) June 30, 1946 is the latest date for which stocks data are available and (2) June 30 total stocks have a seasonal adjustment factor of 100 which means that they are equivalent to the monthly average for a year.

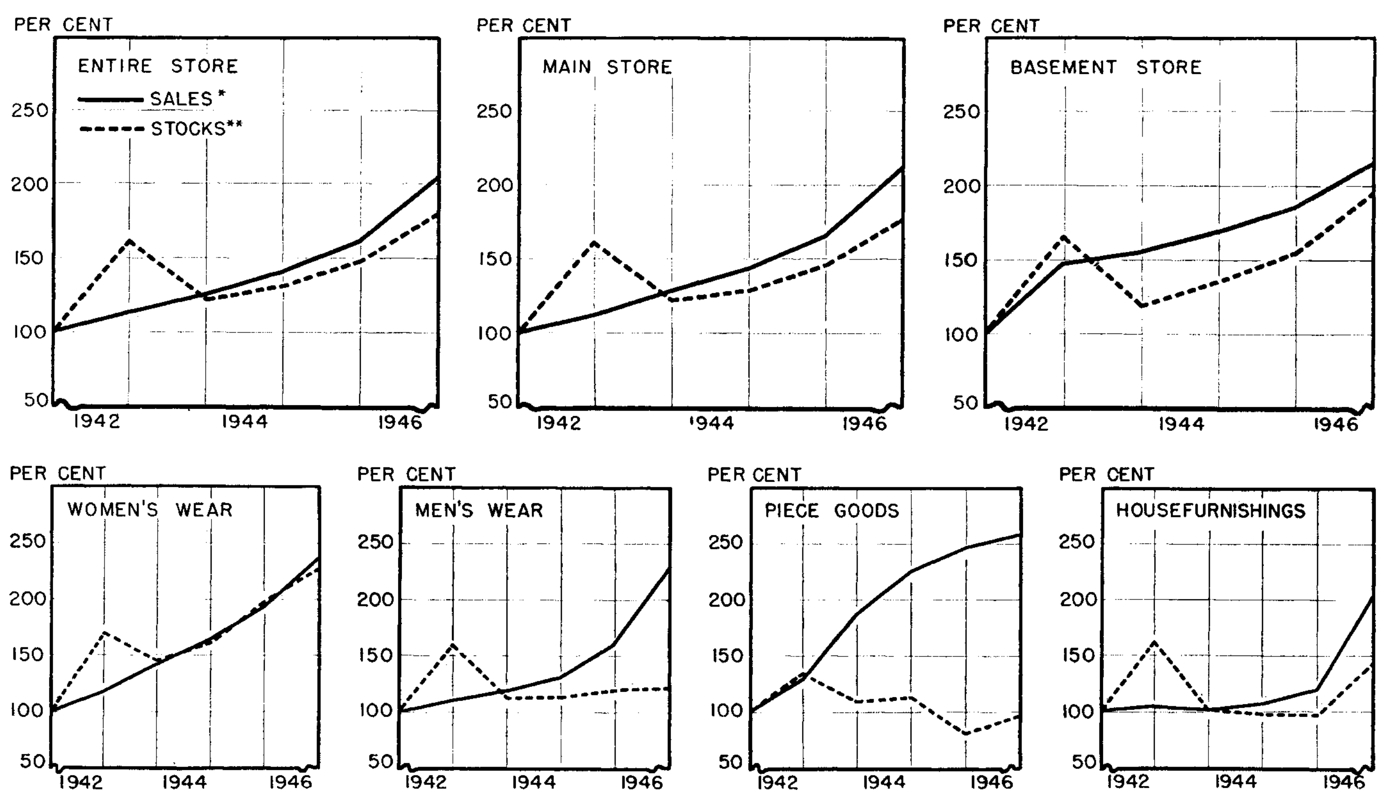
For the total store, the value of inventory at present is equivalent to about two months sales. Prior to the war, it averaged about three months sales volume. The spread between the inventory line and the sales line for the various divisions shown indicates roughly the change in supply-demand relationships for those divisions. Thus women's wear inventories have been maintained in better volume relative to sales than have other major divisions shown. Piece goods, men's wear and homefurnishings inventories relative to sales are now much lower than before the war.

Just as total inventory figures relative to sales conceal the unbalance in supply-demand relationships, the use of the major divisions shown also conceals unbalance within the divisions and in addition fails to indicate the rapidly changing supply situation in terms of particular items. Thus some items plentiful during the war are now virtually unobtainable, while other items not previously obtainable are now in fair supply.

At women's wear stores in the district, while dollar value of inventories has increased sharply since 1941, unit volume may be below the level of the prewar years. At men's apparel stores, the dollar value of stocks has been maintained in large part by the addition of women's ready-to-wear lines. Men's apparel stores have had more difficulty

INDEXES OF SALES AND STOCKS, EIGHTH DISTRICT DEPARTMENT STORES

BY MAJOR DIVISIONS



* SALES, 1941 = 100 ** STOCKS, JUNE 30, 1941 = 100

in maintaining their stocks than have the women's wear stores, and on the whole both men's wear and women's apparel stores apparently have experienced more difficulty in obtaining goods than have the comparable divisions within department stores.

During the war years, with retail outlets obtaining merchandise wherever and whenever they were able, the volume of outstanding orders increased considerably from the prewar level. The practice of duplicate ordering from several sources of supply became fairly widespread, with cancellation of unfilled orders frequently taking place. Overordering also was practiced with retailers hoping for at least partial delivery of merchandise ordered.

At district department stores present volume of orders outstanding is approximately six times as large as in 1941. In view of the sharply higher volume of deliveries of goods and the recent rapid increase in value of total inventories, continuation of this volume of ordering might soon become excessive. In outstanding orders as in stocks, however, the situation is in poor balance. Some items are being ordered months in advance of needs—for example, chinaware, where current orders will not be filled for some time to come. Delivery of items, long in scarce supply, is extremely spotty, virtually on a quota basis, with stores taking delivery when they can get merchandise. In other lines, particularly soft goods lines where production continued during the war years, the volume of orders outstanding recently has tended to return to pre-war levels in relation to sales volume. There are, of course, notable exceptions to this statement —for example: men's suits and shirts and women's hosiery.

THE AMOUNT OF PURCHASING POWER

In the period before the war ended, there were dire predictions of income declines which were expected to follow curtailed Government expenditures for war. Widespread unemployment and substantial losses in wages resulting from the abolition of overtime and other premium pay were feared. Employment, in fact, remained very high and unemployment low. Actually conditions of labor scarcity have continued throughout the reconversion period. At the same time, substantial basic wage rate increases held up take-home pay close to wartime levels.

As a result, total income payments in May, the latest month for which figures are available, amounted to $12.7 billion, according to Department of Commerce estimates. This is equivalent (on a seasonally adjusted basis) to an annual rate of $160 billion, or less than 1 per cent below the $161 billion total in 1945, and is 75 per cent above the 1941 total of $92 billion. Income from wages and salaries in May totaled $8.6 billion, equivalent to an annual rate of $103 billion which compares with $110 billion in 1945 and $60 billion in 1941.

Not only has income held at a very high level—unprecedented in a peacetime period and off only slightly from the tremendous amount generated by war spending—but the volume of individual saving has declined sharply. Tax payments of individuals also have decreased. In other words, actual consumer expenditures have been much heavier than while war was being waged. According to Department of Commerce estimates, consumer expenditures in the first quarter of 1946 totaled $27.6 billion, well above any quarter of 1945 save the last when expenditures were seasonally very high. In the first quarter of 1945, consumer expenditures were $24.7 billion.

In the Eighth Federal Reserve District proper, accurate income figures are not available, but there are indications that income flow in this region was reduced somewhat less than in the nation as a whole. This district traditionally has been dependent to a greater degree than the nation upon agricultural income which increased rather than declined after the end of the war. The district had larger-than-national-average income gains during the war period and such minor deflationary trends as resulted from discontinuance of war activity apparently were less pronounced here than in many other sections.

Except for the wartime years when goods were relatively short, retail sales volume has correlated very closely with income flow. High level income has been accompanied by high level sales. Since the war ended and for the immediate future, sales potentials seem to be higher than might be expected normally from maintenance of present income levels. This is true mostly because of deferred demand that can be made effective not only because of high current income but because of liquid assets and increasing consumer credit.

While a recent survey of liquid asset holdings (bank deposits and Government securities) indicated that the overwhelming majority of bank deposits and Government securities were in the hands of relatively few family spending units, mostly in the higher income levels, there are some such assets held by many other income groups. Also much of the currency holdings, not covered by the survey, probably are held by lower-income consumer groups who may well spend at least a portion of them.

Since the end of the war, there has been a marked increase in the amount of credit granted for the financing of consumer expenditures, with the rise somewhat more noticeable in the Eighth District than in the nation as a whole. The present volume of consumer credit outstanding is about equal to that of 1939, with prospects of increasing substantially in the next few months as more and more consumer durable goods become available.

During the war period, Federal Reserve control of consumer credit under Regulation W, coupled with sharp curtailment of goods normally purchased with such credit, caused outstanding loan volume to decline sharply. Regulation W is still in effect but goods are flowing back on the market and even with continued credit restriction considerable expansion in loans is expected.

THE PRICE OUTLOOK

At the time this article is written, the best word to describe the price outlook seems to be "obscure". There are, however, a few comments that can be made about the price situation and outlook. Prospects at present seem to point toward an upward movement of prices. As a matter of fact, for all practical purposes, there would seem to be little difference in prospects for the movement of prices under the recently approved form of price control and under a free price system.

Just how far prices will move up in the next few months is anybody's guess. There have been many and varied estimates, ranging all the way from forecasts of price declines to those of prices doubling or even going higher. Most retailers (exclusive of those in the food lines) seem to expect a general price advance of 10 per cent to 15 per cent by year's end. After that date, price movements will be determined by a number of factors that cannot be evaluated properly at the moment.

Among these factors are: (1) The attitude of labor and its demand for wage increases; (2) the possible pick-up in production; (3) the resistance of the consumer to higher prices, and (4) the restraint of business in advancing prices.

If labor demands at once full coverage in wages for price advances and strikes to obtain this goal, production is likely to be set back again, producers' costs will rise, prices will advance further, and the well-publicized wage-price spiral will be upon us. Historically, in an inflationary upswing, wage increases never have kept up with price increases and attempts to catch up have merely increased the spread—in other words, lowered real wages.

If production is not halted by strikes, there are fair prospects that a steadily increasing flow of goods will cause prices to become fairly stable after the initial increase, that unit production costs will decline somewhat in industries now operating at less than capacity, and that then further wage advances can be given, if labor efficiency increases, without equal cost—and hence price—increases. In general, statements that production has been curtailed because of external price controls seem to be without much statistical basis when the total volume of output is considered. Without question, however, price control has channelled output into some lines and out of others which from an overall economic viewpoint might be more desirable, a development which presumably would not occur under a free market.

Buyers' resistance to sweeping price advances, perhaps major buyers' strikes, may well operate to keep price increases within reasonable bounds. Coupled with sellers' restraint in increasing prices, consumer reaction could be a major brake upon major inflationary pressures. In this connection, it is noteworthy that, in published statements and in buying policy, retailers have served notice that they do not favor retail price advances and do not intend to foster them by anticipatory buying. There have been isolated instances of buyers' strikes since July 1, but no concerted movement as yet. If prices do not advance outrageously, the buyers' strike is likely to remain more of a threat than an actuality.

On balance, then, there remains the definite possibility that the initial wave of price increases may be temperate and that a secondary wave geginning an upward spiral may be avoided. This situation depends, however, upon rapid production increases, no further cost increases, no price gouging, and public aversion to continued buying under steadily advancing prices.

SALES SINCE WAR'S END

Since the end of the war, retail sales volume has shown a strong upward trend. In May, the latest month for which over-all estimates of dollar volume are available, total retail sales amounted to $7.9 billion, according to the Department of Commerce. This figure is 27 per cent higher than that for May, 1945 and was exceeded in actual dollar amount by only one previous month of record, December, 1945, when sales were at their seasonal high point for the year. For the first five months of 1946, total retail sales ran 26 per cent over the comparable period in 1945.

Sales of durable goods stores in May totaled

$1.6 billion, 67 per cent more than in May, 1945 and exceeded only slightly by the peak month, May, 1941. For the first five months of 1946, sales of durable goods stores averaged 56 per cent larger than in the like period of last year. Nondurable store sales in the first five months of this year averaged 20 per cent higher than in the first five months of 1945.

Current estimates of total retail sales are not yet available for this district. Such indications as there are, however, point to postwar gains slightly higher percentagewise than those registered for the nation as a whole. For example, sales of district department stores in the first half of 1946 ran 28 per cent ahead of the first half of 1945, while the gain for the United States was 27 per cent.

Among other lines of district retail trade whose statistics are available to this bank, increases for the first six months of 1946 over the first six months of 1945 were as follows: furniture stores, 52 per cent; men's wear stores, 37 per cent; women's wear stores, 10 per cent; and shoe stores, 24 per cent.

THE OUTLOOK FOR RETAIL SALES

The magnitude of the percentage gain in sales should continue to be greater for stores selling durable goods than those selling nondurables. In the first place, the supply of durables available to consumers should increase relatively more than the supply of nondurables. In the second place, current and deferred demand for durables is probably much higher than for nondurables. In fact, there are indications that some purchasing power now focused on nondurables may be shifted to durables as they become more available.

Certain factors may be pointed out which will influence the volume of sales among various specific lines of trade during the balance of 1946. For example, if the reappearance of durable goods in volume does tend to shift some demand from nondurables, stores handling primarily apparel, piece goods, draperies, etc. have a less favorable outlook than those specializing in furniture, household appliances, and various hard goods.

Furniture stores are among the very important retail trade outlets in this district. In the first half of this year, these stores exhibited striking gains over 1945, and in general these sales gains were limited by the supply of goods available. Furniture inventories are still far from adequate to satisfy demand, but they have been increasing and as the year advances sales should also increase. In addition to normal replacement demand, both current and deferred, demand for homefurnishings is now stimulated by the heavy wave of new marriages and the increasing volume of new residential construction.

Men's wear stores, while specializing in soft goods, also appear likely to continue to register imposing increases in dollar volume over the comparable period of 1945. The demand situation in this field is still far out of balance with supply but more goods are in prospect. First half of 1946 sales of men's wear also were limited appreciably by curtailed supplies.

Women's wear stores may experience somewhat smaller increases over last year in the final half of 1946. During the war period, such stores showed tremendous sales gains due in part to the large increase in the number of employed women. Comparatively few restrictions were placed on production of women's wear in the war years and supplies of goods in general were maintained in fair balance with demand. At the present time, women's shops, unlike men's shops, cannot look for major increases in demand from customers out of the market in the war years, and in fact may experience some decline in demand due to large numbers of women leaving the labor force. There have been rather consistent reports in recent weeks of more discriminatory buying at women's wear shops.

Department stores are in the rather enviable position of handling both durables and nondurables, although the latter category is far more important from a sales volume standpoint than the former. To some extent, however, major sales gains in durables at department stores should tend to offset lesser increases in other departments. Housefurnishings' sales are already accounting for a larger share of total sales at department stores than was true of the comparable period last year.

In summary, it may be said that virtually every retail trade line may be expected to continue to show sales gains over 1945 for the balance of this year. For some lines the increases may be substantially less than for others, but for all lines the outlook is bright.

Alfred C. Kearschner

CURRENT CONDITIONS

(Continued from Page 1)

Termination of price controls on June 30 had no immediate repercussions in the district labor market. Uncertainty continued with respect to the reinstatement of price controls and manufacturers preferred to await the final outcome of Congressional action before placing in operation whatever plans they may have had for expanding employment. Recruitment of workers by the larger meat packers began in mid-July in response to the increased flow of livestock to market.

The number of unemployed persons in the district increased in June, reflecting mostly the entry of students and other seasonal workers into the labor market in excess of new job openings. On a national basis about 80 per cent of the 250,000 increase from May to June in the number of persons unemployed were between the ages of 14 to 19.

Some increase occurred in the number of district veterans drawing servicemen's readjustment allowances. Although recent estimates indicate that about 80 per cent of all veterans are employed or are in school, available evidence points to a somewhat smaller ratio for veterans in this district.

INDUSTRY

Total district industrial activity in June showed little change from May with mixed trends characterizing the over-all industrial scene. The immediate effects of the coal strike were not completely dissipated by June, a factor which retarded output in some instances. In addition, the uncertain status of legislation concerning price control tended to result in a wait-and-see attitude throughout industry. Industrial power consumption in the major district cities declined 2 per cent from May and was 21 per cent less than in June 1945.

Manufacturing—Manufacturing activity in the district in June appears to have been maintained at about the same level as in May although contradictory trends continued to exist. Some increase in activity occurred in the steel, lumber, and stone, clay and glass industries but declines were registered in meat packing, chemicals, food processing and metal products industries. The steel industry in St. Louis operated at 31 per cent of capacity in June as compared with 23 per cent in May and 64 per cent in June, 1945. The increase from the low level in May was considerably less than that for the nation as a whole, reflecting the continued shutdown of one district plant due to a labor dispute.

Output of lumber in district mills continued to increase during June as production entered the seasonally high period of the year. Preliminary estimates indicate that southern pine production was about 7 per cent larger than in May and about equal to the output in June, 1945. The Southern hardwood industry operated at 67 per cent of capacity in June or two points higher than in the preceding month and in June of last year. Lumber production has increased substantially during recent months in response to improvement in labor supply and to the increased availability of equipment. In addition, a number of upward adjustments in prices for many types of lumber has tended to stimulate output. Somewhat higher than ceiling prices were quoted immediately following the ending of controls on June 30 with some reports indicating that a levelling-off is anticipated at levels approximating the black market prices which prevailed until the end of June.

The number of whiskey distilleries operating in the district at the end of June totaled 31 as compared with 17 at the end of the previous month and 53 in June, 1945. Comparisons of the number of distilleries operating at the end of each month are now not as good an indication of production changes as they formerly were. In the past, end-of-month data rather accurately reflected over-all operations. At present, however, distilleries are operating considerably below capacity because grain is short and is allocated to them each month. Consequently, in the interests of efficiency a distillery is likely to concentrate its operations in as few days as possible and sustains capacity operations over the maximum period possible with its grain supplies. This results in heavy operations at the end of one month and the beginning of the next, followed by a virtual shutdown extending over the close of that month and the beginning of the next and so on.

Actually whiskey production in June was not much changed from May output. In fact, the use of potatoes in whiskey-making is tending to increase production somewhat although a relatively small proportion of total whiskey production comes from the use of potatoes as a raw material.

District meat packers virtually suspended operations during June as the number of livestock marketed through normal channels declined to the lowest levels in recent years. Receipts in July were very much larger, however, following the elimination of price ceilings, and production schedules were substantially higher than in June. The total number of animals slaughtered under Federal inspection at St. Louis in June was 37 per cent smaller than in May. Slaughter of cattle increased fractionally but the number of calves killed was 40 per cent and hog slaughter was 61 per cent less than in May. A large increase occurred in sheep slaughter which totaled 2.4 times that of May.

Mining and Oil—Production of coal in district mines in June was sharply higher than in May but tonnage remained well below that of a year earlier. A shortage of coal cars at the mines restricted output in many fields, a condition which is expected to improve as a result of the pressure being exerted by carriers to reduce the length of time cars are held by consignees. Output in Illinois mines was 4.8 million tons as compared with 1.9 million tons in May and 6.0 million tons in June, 1945.

Crude oil production at district fields was slightly less than in May but was 3 per cent larger than in June, 1945. Daily average output in June was 336,800 barrels as compared with 337,500 barrels in May and 326,700 barrels in June, 1945. Total U. S. production averaged 4 per cent larger than in May but the gain over June of last year was less than 2 per cent.

Operations in district lead mines continued at a low rate. In May average daily production at all U. S. mines was less than in any month since the beginning of production records in 1907, according to the U. S Bureau of Mines. Dissatisfaction with the price level under the ceilings existing during June, plus the fact that technical problems pertaining to the relationship between lead prices and output and the price of substitute materials tended to create a disbalance between lead supply and consumption.

Construction—The value of building permits awarded in the five major district cities in June totaled $6.4 million or 25 per cent more than in May when permits amounting to $5.1 million were issued. Shortages of critical materials continue to retard actual construction of housing as well as approved industrial and commercial building. However, considerable expansion has occurred in the industry and with permits on a value basis having increased during each of the past two months, a continued high level of construction activity is expected during the remainder of the season.

AGRICULTURE

On the basis of recent crop reports, the largest aggregate grain crop ever produced in the history of the United States is in prospect. The July 15 crop report indicated a corn crop of 3.5 billion bushels, 15 per cent higher than the 1945 crop and 33 per cent above the 1935-44 average. If present corn prospects materialize, the 1946 corn crop will be an all-time high. The wheat crop, on the basis of July 15 indications, will be 1,132,075,000 bushels, about 5 million bushels above last year and 33 per cent above the 1935-44 average. Oats production also will be of near record proportion in 1946. The July 1 prospect of 1.5 billion bushels is only 4 per cent under 1945 and is 32 per cent above the ten-year average. With the wheat and oats crops now practically a certainty and with favorable corn prospects, there is every promise that United States grain bins will be fairly well restocked with the completion of the 1946 harvest.

Most other crop prospects in the United States are also very good. The 1946 soybean crop is expected to be well above average even though it is estimated currently at 13 per cent below last year's record crop. A 67 million bushel rice crop is indicated by July 1 reports. This is 2 per cent less than last year's crop but 25 per cent above the ten-year average. Tame hay production will be off about 9 per cent from last year but will be about 4 per cent above the average. Tobacco production is expected to reach an all-time record of 2.1 billion pounds this year. This is 6 per cent above the 1945 crop and 44 per cent over the 1935-44 average.

Cotton acreage again is light in 1946, being only 3 per cent above the small acreage of 1945 and 29 per cent under acreage planted during the ten-year period 1935-44. Total cotton production is still difficult to estimate, but condition of the crop varies widely over the country from very poor to fairly good and a light crop seems indicated.

In the Eighth District, crop conditions are in general quite similar to the national picture. Corn production in district states promises to exceed last year's production by 12 per cent, and a 14 per cent larger oat crop appears likely. The district wheat crop, on the other hand, is expected to be about 9 per cent under last year's record. Contrary to the national trend, district rice production should be about 5 per cent above last year. Cotton acreage is up about 6 per cent but the condition of the crop is very spotty and total production is not likely to exceed appreciably last year's poor crop. The district tobacco crop this year promises to be about equal to last year's harvest.

Farm Prices—There has been much speculation regarding the outlook for farm prices with the relaxation of OPA controls. While it is still too early to foretell accurately the course of farm prices over the next few months, some observations can be made at this time.

Generally speaking, prices of farm products have had a considerable rise since June 30, but much of the publicity given to price increases has tended to be misleading. For example, there has been much talk of $27 per cwt. for cattle. While it is true that top grade cattle have sold at this price, which represents a rise of more than $7 per cwt. since June 30, actually this extremely high price has been paid for very few cattle which represent an insignificant percentage of total offerings. The bulk of the slaughter cattle offerings have been in the medium to good quality range where total price increases have been $2 to $3 per cwt., a rise decidedly smaller than that for top grade cattle. There is some reason to believe that with appreciably larger supplies retail beef prices may not go much higher and may even decline somewhat from present levels. It is noteworthy that feeder cattle prices have not registered increases of the magnitude shown in slaughter cattle prices.

Hog prices may remain at or near present levels well into 1947, for the hog supply situation is less favorable than that for cattle. The 1946 spring pig crop was only slightly larger than last year's, and farrowings for the fall crop point to a 16 per cent decrease from that of 1945. In combination, the total pig crop this year is expected to be off 6 per cent from 1945.

Dairy products prices have risen generally 10 to 15 per cent with butter showing the most significant rise. In this connection it should be noted that butter may be pricing itself out of the market. During the war years, consumers generally came to recognize that butter substitutes are palatable and are much less expensive. It is possible that this wartime consumer preference for butter substitutes may continue and that in the future butter (sold as such) will represent a much smaller percentage of total dairy products than in prewar days.

Prices of grains have shown more significant increases since June 30, but to some extent (particularly in corn) current market prices probably reflect actual effective prices, which have obtained for some months, more accurately than the pre-June 30 quotations. In any event, prices of feed grains should tend toward weaker trends as present crop prospects materialize. With the trend of hog numbers downward and with substantial liquidation of marketable cattle, considerable easing should come in the demand for feed supplies during the 1946-47 feeding period.

BANKING AND FINANCE

Banking changes during the first half of 1946 both nationally and in the Eighth District continued to reflect primarily the effects of Government fiscal policy but the direction of the changes was reversed from that obtaining through the war period and the six months thereafter. Cash redemptions of Treasury securities have resulted in a decrease in bank investments and in total deposits in contrast to the huge increase in these items produced by Government borrowing from the banks during the war and immediate postwar periods.

Using the large War Loan deposit balances built up during the Victory Loan drive, the Treasury redeemed $12,214 million of its securities from the

INDUSTRY

CONSUMPTION OF ELECTRICITY

(K.W.H. in thous.)	No. of Customers*	June, 1946 K.W.H.	May, 1946 K.W.H.	June, 1945 K.W.H.	June, 1946 compared with May, '46	June, 1946 compared with June, '45
Evansville	40	6,504	6,800	10,010	— 4%	—35%
Little Rock	35	3,334	3,214	3,384	+ 4	— 1
Louisville	82	16,652	17,153	18,146	— 3	— 8
Memphis	31	4,925	5,219	6,815	— 6	—28
Pine Bluff	19	1,146	1,027	7,558	+12	—85
St. Louis	96	55,736	57,115	65,520	— 2	—15
Totals	303	88,297	90,528	111,433	— 2	—21

*Selected industrial customers.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

June, '46	May, '46	June, '45	First nine days July, '46	First nine days July, '45	6 mos. '46	6 mos. '45
125,012	114,430	156,800	33,404	40,647	717,967	971,741

Source: Terminal Railroad Association of St. Louis.

INDEXES OF EMPLOYMENT IN MANUFACTURING INDUSTRIES BY METROPOLITAN AREAS

Bureau of Labor Statistics (1937 = 100)	April, 1946	March, 1946	April, 1945	April,'46 comp. with Mar., '46	April,'46 comp. with Apr., '45
Evansville	100.0	79.6	223.6	+26%	—55%
Louisville	121.4	118.2	164.8	+ 3	—26
Memphis	118.8	120.0	143.7	— 1	—17
St. Louis	110.7	105.4R	150.1	+ 5	—26

R—Revised.

AGRICULTURE

RECEIPTS AND SHIPMENTS AT NATIONAL STOCK YARDS

	Receipts June, 1946	Receipts May, 1946	Receipts June, 1945	Shipments June, 1946	Shipments May, 1946	Shipments June, 1945
Cattle and Calves	135,187	113,987	136,384	121,541	92,825	90,872
Hogs	77,337	187,531	147,507	37,181	69,398	46,409
Horses and Mules	8,049	9,269	3,964	8,049	9,269	3,964
Sheep	165,887	79,640	172,172	91,484	54,599	94,563
Totals	386,460	390,427	460,027	258,255	226,091	235,808

CASH FARM INCOME

(In thousands of dollars)	May 1946	May 1945	Cumulative for 5 months 1946	Cumulative for 5 months 1945	Cumulative for 5 months 1944
Arkansas	$ 16,257	$ 15,014	$ 95,328	$ 90,547	$ 83,342
Illinois	105,010	96,725	460,420	450,360	493,842
Indiana	59,183	53,833	248,049	244,155	267,199
Kentucky	19,233	17,974	170,870	212,612	165,837
Mississippi	12,963	12,207	83,822	92,715	71,583
Missouri	47,968	53,470	230,419	242,607	257,278
Tennessee	20,363	16,548	120,535	119,135	120,450
Totals	$280,977	$265,771	$1,409,443	$1,452,131	$1,459,531

DEPARTMENT STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	June, 1946 compared with		6 mos. 1946 to same period 1945	June 30, 1946 comp. with June 30, 1945	Jan. 1, to June 30,	
	May, 1946	June 1945			1946	1945
Ft. Smith, Ark...	— 9%	+18%	+22%	+12%	2.75	2.14
Little Rock, Ark.	—10	+24	+22	+17	3.06	2.68
Quincy, Ill.	+ 2	+28	+25	+45	2.75	2.50
Evansville, Ind...	— 2	+27	+22	— 8	2.14	1.81
Louisville, Ky.....	+ 4	+26	+26	+18	3.36	3.12
St. Louis Area[1] ..	+ 1	+35	+29	+23	2.69	2.44
St. Louis, Mo.........	+ 1	+35	+28	+24	2.69	2.44
E. St. Louis, Ill.	— 2	+54	+39	....	......	......
Springfield, Mo...	— 4	+46	+40	+ 6	2.90	2.07
Memphis, Tenn...	— 6	+35	+27	+21	3.01	2.74
*All other cities..	—11	+36	+38	+23	2.85	2.43
8th F. R. Dist...	— 2	+33	+28	+21	2.85	2.55

* 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: June, 1946—25; May, 1946—26; June, 1945—26.
Outstanding orders of reporting stores at the end of June, 1946, were 66 per cent greater than on the corresponding date a year ago.
Percentage of accounts and notes receivable outstanding June 1, 1946, collected during June, by cities:

	Instalment Accounts	Excl. Instal. Accounts		Instalment Accounts	Excl. Instal. Accounts
Fort Smith	....%	63%	Quincy	32%	75%
Little Rock......	30	63	St. Louis..........	40	68
Louisville	39	59	Other cities......	33	62
Memphis	48	60	8th F. R. Dist.	39	64

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

	June, 1946	May, 1946	Apr. 1946	June, 1945
Sales (daily average), Unadjusted[2]	274	272	281	198
Sales (daily average), Seasonally adjusted[2]..	305	277	267	220
Stocks, Unadjusted[3]	222	211	193	182
Stocks, Seasonally adjusted[3]	222	211	193	182

[2] Daily Average 1935-39 = 100.
[3] End of Month Average 1935-39 = 100.

SPECIALTY STORES

	Net Sales			Stocks on Hand	Stock Turnover	
	June, 1946 compared with		6 mos. 1946 to same period 1945	June 30, 1946 comp. with June 30, 1945	Jan. 1, to June 30,	
	May, 1946	June, 1945			1946	1945
Men's Furnishings	-0- %	+21%	+37%	—10%	3.69	1.86
Boots and Shoes....	+ 9	+24	+24	+54	5.62	5.16

Percentage of accounts and notes receivable outstanding June 1, 1946, collected during June:
Men's Furnishings.................. 66% Boots and Shoes.................. 54%
Trading days: June, 1946—25; May, 1946—26; June, 1945—26.

RETAIL FURNITURE STORES

	Net Sales		Inventories		Ratio of Collections	
	June, 1946 compared with		June 30, 1946 compared with			
	May, '46	June, '45	May 31,'46	June 30,'45	June,'46	June,'45
St. Louis Area[1]..	—13%	+ 47%	+ 4%	+37%	65%	47%
St. Louis	—13	+ 49	+ 4	+37	69	49
Louisville Area[2]..	— 8	+ 28	+ 2	+46	34	35
Louisville	— 7	+ 26	+ 4	+58	34	32
Memphis	— 7	+ 47	*	*	35	29
Little Rock........	—10	+ 45	+14	+84	35	31
Springfield	— 3	+ 14	*	*	*	*
Fort Smith	—13	+ 64	*	*	*	*
8th Dist. Total[3]..	—12	+ 42	+ 7	+50	48	40

*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]Includes Louisville, Kentucky; and New Albany, Indiana.
[3]In addition to above cities, includes stores in Blytheville, Pine Bluff, Arkansas; Henderson, Hopkinsville, Owensboro, Kentucky; Greenville, Greenwood, Mississippi; Hannibal, Missouri; and Evansville, Ind.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	June, '46	May, '46	June, '45
Cash Sales	25%	27%	23%
Credit Sales	75	73	77
Total Sales	100	100	100

end of February through July 1. As a result, the gross Federal debt was reduced nearly $11 billion and War Loan deposits were drawn down nearly $13 billion to a total of $11.5 billion on July 3.

The effects of cash redemptions of Treasury securities on the commercial banks varies according to the ownership of the redeemed securities. In preparation for redemptions the Treasury transfers funds from War Loan accounts in the commercial banks to the Federal Reserve banks. To meet these withdrawals the commercial banks either use excess reserves, sell some of their investments or borrow from the Reserve banks. If the funds are paid back to the commercial banks as holders of the redeemed securities the net effect, after interbank adjustments, is a decline in their Government security holdings and their War Loan deposits. If payment is to nonbank investors, the net result is a transfer of funds from reserve-free War Loan accounts to the deposit accounts of individuals and business firms accompanied by an increase in required reserves. Redemption of se-securities held by the Federal Reserve System draws down member bank reserve balances directly and their security holdings indirectly to the extent sales are necessary to replenish reserves.

Although these effects cannot be shown completely with mathematical precision from weekly reporting member bank data, they may be observed readily.

CHANGES IN BANK HOLDINGS OF GOVERNMENT SECURITIES JANUARY 2 TO JULY 3, 1946.
(In millions of dollars)

Institution	Bills	Certificates	Notes	Bonds	Total U. S. Securities
Federal Reserve Banks..	+1,413	—1,363	— 947	—192	—1,089
Reporting Member Banks (U. S.)	— 735	—2,055	—3,143	+ 11	—5,922
Reporting Member Banks (8th District)..	— 46	— 82	— 115	+ 13	— 230

War Loan accounts, which declined nearly $13 billion at all commercial banks from January 2 to July 3, were down $9 billion at reporting member banks. Reporting bank holdings of Government securities decreased nearly $6 billion which, on the basis of the year-end relationship between reporting bank security holdings and all commercial bank holdings, appears to be substantially in excess of the reporting banks' holdings of the redeemed issues. The tendency of the redemption of securities held by nonbank investors to increase private deposits is reflected in a $2 billion increase in demand deposits, other than Government and interbank deposits, although this effect was partially offset by a decline of $1 billion in reporting member bank loans and other minor changes. Adjustments to meet the drain on reserves are indicated by: (1) a decrease in Government security holdings apparently considerably in excess of the amount of the redeemed issues held, and (2) the sale of short-term Governments reflected in the $1.4 billion increase in Treasury bills held by the Federal Reserve banks.

In addition to the decrease in total holdings there were some adjustments in Government security portfolios. The tendency for the commercial banks to shift low-yield, short-term issues to the Federal Reserve banks and replace them with higher-yield, longer-term issues continued both nationally and in the Eighth District. This trend is reflected in: (1) a decrease in reporting bank holdings of bills and a $1.4 billion increase in Federal Reserve bank holdings, and (2) a slight increase in bond holdings despite the fact commercial banks held over $1 billion of the bond issues redeemed. There was some shifting from notes into certificates. The decrease in reporting member bank note holdings was apparently about $1 billion in excess of the redeemed Treasury notes held by all commercial banks. On the other hand, the decrease in certificate holdings was apparently less than reporting bank holdings of the redeemed issues of certificates.

One further comment should be made regarding the effects of the cash redemption of Treasury securities. So far the redemptions have been made out of idle War Loan balances built up mostly during the Victory Loan drive. The effect is not as deflationary therefore as if the more active deposit balances of individuals and business firms were drawn on by means of an excess of current Treasury receipts over expenditures. The latter method would draw down private deposits and decrease the funds available for private expenditure.

Banking changes in the Eighth District were similar to those for the nation as a whole. Government security holdings decreased $230 million from January 2 to July 3 with Treasury notes decreasing $115 million, certificates $82 million and bills $46 million. Bond holdings increased $13 million which was slightly above the increase for all reporting member banks in the United States.

Total loans at Eighth District reporting banks decreased $28 million. A greater-than-seasonal decline was registered in commercial, industrial and agricultural loans, in contrast to a slight increase nationally, the total dropping from $340 million to $290 million. However, the total is still substantially above the $239 million of a year ago. Loans to others than brokers and dealers to purchase or

WHOLESALING

Lines of Commodities Data furnished by Bureau of Census, U. S. Dept. of Commerce.*	Net Sales June, 1946 compared with May, '46	Net Sales June, 1946 compared with June, '45	Stocks June 30, 1946 compared with June 30, 1945
Automotive Supplies	+ 7%	+ 54%	....%
Drugs and Chemicals	— 8	+ 12	....
Dry Goods	— 6	+ 53	+69
Furniture	— 5	+ 33	....
Groceries	— 13	+ 17	+23
Hardware	— 2	+ 73	+31
Tobacco and its Products	— 7	+ 37	....
Miscellaneous	— 1	+ 23	+26
Total all lines**	— 6	+ 34	+43

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

CONSTRUCTION

BUILDING PERMITS

(Cost in thousands)	New Construction Number 1946	New Construction Number 1945	New Construction Cost 1946	New Construction Cost 1945	Repairs, etc. Number 1946	Repairs, etc. Number 1945	Repairs, etc. Cost 1946	Repairs, etc. Cost 1945
Evansville	71	36	$ 174	$ 95	219	149	$ 96	$ 81
Little Rock	116	27	612	87	168	180	434	79
Louisville	176	90	841	217	61	41	46	11
Memphis	610	355	1,202	651	233	248	180	176
St. Louis	204	101	2,228	222	279	242	632	388
June Totals	1,177	609	5,057	1,272	960	860	1,388	735
May Totals	1,409	616	4,306	1,505	891	822	839	596

BANKING

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

(In thousands of dollars)	July 17, 1946	Change from June 19, 1946	Change from July 18, 1945
Industrial advances under Sec. 13b	$	....	....
Other advances and rediscounts	12,745	— 12,935	+ 9,115
U. S. securities	1,069,991	+ 15,771	+ 47,946
Total earning assets	1,082,736	+ 2,836	+ 57,061
Total reserves	610,260	+ 6,714	+ 41,074
Total deposits	635,796	— 2,437	+ 16,956
F. R. notes in circulation	1,057,146	+ 9,728	+ 79,448
Industrial commitments under Sec. 13b	3,600	-0-	+ 3,550

PRINCIPAL RESOURCE AND LIABILITY ITEMS
OF REPORTING MEMBER BANKS

(In thousands of dollars)	July 17, 1946	Change from June, 19, 1946	Change from July 18, 1945
Total loans and investments	$1,950,902	+ 48,372	— 12,443
Commercial, industrial, and agricultural loans*	302,162	+ 3,033	+ 60,804
Loans to brokers and dealers in securities	11,863	— 473	+ 2,464
Other loans to purchase and carry securities	65,097	— 3,085	+ 6,398
Real estate loans	84,294	+ 3,521	+ 18,326
Loans to banks	916	— 1,389	— 2,249
Other loans	120,478	+ 3,387	+ 31,536
Total loans	584,810	+ 4,994	+117,279
Treasury bills	12,924	+ 2,798	— 45,187
Certificates of indebtedness	192,204	— 21,756	— 75,483
Treasury notes	205,022	— 25,727	—113,869
U. S. Bonds	810,506	— 13,364	+ 85,713
Obligations guaranteed by U. S. Gov't.	366	-0-	— 136
Other securities	145,070	+ 4,683	+ 19,240
Total investments	1,366,092	— 53,366	—129,722
Balances with domestic banks	119,132	+ 4,482	— 5,340
Demand deposits—adjusted**	1,101,187	— 20,488	+ 72,471
Time deposits	366,689	+ 3,420	+ 54,077
U. S. Government deposits	236,477	— 36,841	—138,839
Interbank deposits	573,719	+ 21,204	— 23,207
Borrowings	8,065	— 13,235	+ 6,465

*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.

carry securities also declined $22 million. On the other hand, real estate loans increased $14 million as compared to practically no change during the first six months of 1945. Other loans, chiefly consumer loans, increased $25 million as compared to an increase of only $1 million during the same period last year.

Demand deposits, exclusive of interbank and Government deposits, increased $47 million at reporting member banks as compared to a slight decrease during the same period last year. Government deposits, however, decreased $256 million in contrast to an increase of $95 million for the first half of 1945.

Additions to Eighth District Par List

Between September 15, 1945, and July 15, 1946, 15 non-member state banks were added to the Federal Reserve par list in the Eighth Federal Reserve District. In addition, the National Bank of Commerce, Corinth, Mississippi, and the First National Bank, Clinton, Missouri, were automatically added to the par list with their creation, and the Citizens State Bank, Tupelo, Mississippi, whose membership in the Federal Reserve System is announced below, also became a par bank. The names and locations of non-member banks added to the par list since September 15, 1945, follow:

ARKANSAS

Bank of Bentonville .... Bentonville

KENTUCKY

Fulton Bank .... Fulton

MISSISSIPPI

Security Bank .... Corinth

Bank of Tupelo .... Tupelo
Branches:
Bank of Nettleton .... Nettleton
Fulton Bank .... Fulton
Peoples Bank & Trust Co. .... Tupelo
Branches:
Guntown Branch .... Guntown
Peoples Bk. & Tr. Co. .... Saltillo
Shannon Branch .... Shannon

MISSOURI

Bank of LaBelle .... LaBelle
LaMonte Community Bank .... LaMonte
Security Bank of Mountain Grove—Mountain Grove
Bank of Overland .... Overland
Bank of Poplar Bluff .... Poplar Bluff
State Bank of Poplar Bluff .... Poplar Bluff
Bank of Sikeston .... Sikeston

TENNESSEE

Bank of Dyer .... Dyer
Bank of Enville .... Enville
Newbern State Bank .... Newbern

DEBITS TO DEPOSIT ACCOUNTS

(In thousands of dollars)	June, 1946	May, 1946	June, 1945	June,'46 comp. with May, '46	June,'46 comp. with June, '45
El Dorado, Ark.	$ 13,238	$ 14,331	$ 11,337	— 8%	+17%
Fort Smith, Ark.	39,303	28,961	25,060	+36	+57
Helena, Ark.	4,525	4,886	3,865	— 7	+17
Little Rock, Ark.	90,787	85,778	91,717	+ 6	— 1
Pine Bluff, Ark.	19,007	17,822	16,649	+ 7	+14
Texarkana, Ark.-Tex.	8,336	8,507	11,269	— 2	—26
Alton, Ill.	19,051	17,160	18,064	+11	+ 5
E. St. L.-Nat.S.Y., Ill.	62,724	66,645	80,679	— 6	—22
Quincy, Ill.	21,634	21,503	18,775	+ 1	+15
Evansville, Ind.	76,045	73,035	108,618	+ 4	—30
Louisville, Ky.	404,461	370,713	518,962	+ 9	—22
Owensboro, Ky.	20,268	21,859	21,378	— 7	— 5
Paducah, Ky.	12,289	11,355	10,357	+ 8	+19
Greenville, Miss.	12,406	11,366	8,113	+ 9	+53
Cape Girardeau, Mo.	7,735	7,718	5,452	-0-	+42
Hannibal, Mo.	5,875	5,682	5,319	+ 3	+10
Jefferson City, Mo.	29,129	32,621	22,138	—11	+32
St. Louis, Mo.	1,202,051	1,185,806	1,242,904	+ 1	— 3
Sedalia, Mo.	8,327	8,661	6,713	— 4	+24
Springfield, Mo.	45,952	44,364	36,067	+ 4	+27
Jackson, Tenn.	12,611	12,393	10,171	+ 2	+24
Memphis, Tenn.	323,178	350,943	290,037	— 8	+11
Totals	2,438,932	2,402,109	2,563,644	+ 2	— 5

NEW MEMBER BANK

On July 1, 1946, the Citizens State Bank of Tupelo, Mississippi, became a member of the Federal Reserve System, bringing the total membership of the Federal Reserve Bank of St. Louis to 494 banks.

The Citizens State Bank was organized in September, 1922. Its capital is $100,000, surplus $100,000, and total resources $4,108,000. Its officers are R. F. Reed, President; H. L. McCain, Vice-President and Trust Officer; L. E. Bean, Cashier and Trust Officer; W. N. Reed, Jr., Assistant Vice-President, and Margaret Motley, Assistant Cashier.