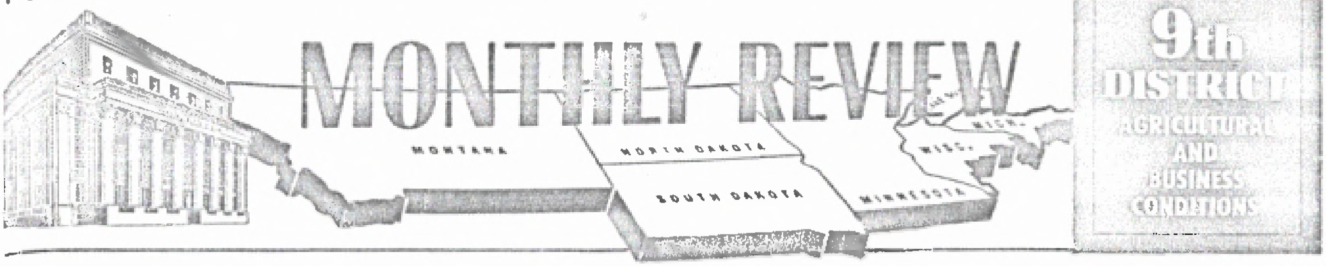
FEDERAL RESERVE BANK OF MINNEAPOLIS



Vol. 10 AUGUST 30, 1952 Serial No. 32

REVISED PROGRAM LAUNCHED BY TREASURY

New U. S. Savings Bonds Have Greater Investor Appeal

THE most cautious investors, that group which is concerned most with the safety of principal, got a break recently when the Treasury announced more favorable terms for the safest investment in the world—namely, U. S. savings bonds.

The old series E, F, and G have been replaced with new, more attractive E, J, and K bonds respectively. Also, an H bond has been added.

Most Important Changes Common to All Series

The rate of return on all of the new bonds is higher than on their older counterparts. The differences are especially pronounced at those parts of the rate schedules which apply to the years before maturity. (See graphs.)

If the owner of a new E bond, for example, finds it necessary to redeem his bond at the end of five years, he will receive \$10 in addition to every \$75 invested, whereas formerly he would have received only \$7.

Similar changes have been made in the premature redemption provisions of the J and K bonds.

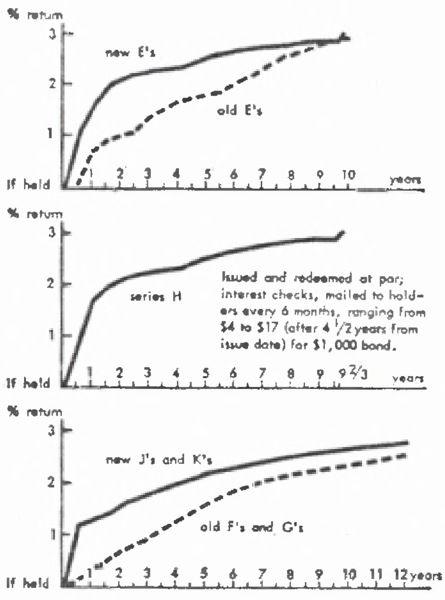
This is perhaps the most important change in the new savings bond program. Frequently small savers, even large ones, find it necessary to redeem their bonds before maturity. The cost of premature redemption to these people, in terms of the higher rates which they forfeit, has been lessened substantially.

The retention of a constantly progressive rate, however, still provides an incentive to hold the bonds until maturity.

The annual purchase limits which had been imposed on all of the old series bonds have been doubled.

The method of paying the higher rates on the new bonds is the same as on the older models. Interest is paid by principal appreciation in the case of the new E and J bonds which replace the old E and F. In the case of the new K bond which replaces the old G, owners receive semi-annual payment by check.

COMPARATIVE RETURN ON OLD AND NEW U. S. SAVINGS BONDS



THE RATE of return afforded by U. S. savings bonds has recently been increased, particularly in the years before maturity.

New Type of Income Bond Unveiled

Semi-annual payment by check is also made to holders of the completely new H bond, which has no older counterpart. These checks are graduated in amount so that H bonds provide their owners with the same rate of return as do E bonds, both before and at maturity.

The number of years to maturity of the H bond is also the same as for the E bond, which has been reduced from a 10-year maturity to 9⅔ years.

Like the E bond, the H may be purchased by natural persons only; Fs and Ks are available to all investors except commercial banks.

Unlike the E bond, the H is purchased and redeemed at par regardless of how long held, and does not have an extension privilege.

Extension features of the new E include a choice of continued holding after original maturity at higher rates than under the old extension schedule, or shifting to a modified K (current income) bond (\$500 minimum denomination) which can be redeemed at par any time. Only the E incorporates an extension privilege.

Accommodating a wider range of investors, the new bonds incorporate so many more attractive features that no eligible investor can afford to overlook this opportunity for the profitable risk-free employment of funds. END

Owners Fail to Gain by Higher Income

PROFITS CUT SLIGHTLY
at Member Banks Due to Tax Hike

ALTHOUGH Ninth district member banks reported higher first half net earnings this year than last, higher taxes caused their net profits to decline slightly from the earlier level.

This was disclosed by recently completed tabulations of first-half earnings reports submitted by the member banks in July. An increase of $1.8 million in profits before taxes was more than offset by a tax hike amounting to $2.2 million.

As in other recent years, the most substantial boost to earnings came from higher loan income. Unlike other recent years, however, the higher loan income reflected mostly higher interest rates, with only a slightly higher volume of loans.

Loans Up 3.4%

The average amount of loans outstanding at district member banks in the first six months of this year was 3.4 per cent greater than in the comparable period last year, the amounts being $1.22 billion and $1.18 billion respectively.

Interest rates, on the other hand, were up proportionately more. Loan income amounted to 4.86 per cent of average outstandings this year compared to only 4.60 per cent last year.

Altogether, the higher rate of return on a slightly larger volume of loans gave rise to a 10 per cent increase in earnings on loans.

Less important, earnings-wise, was income from investments, chiefly U. S. government securities, which advanced 5 per cent. As in the case of loans, the higher income from investments represents both an increased rate of return and larger holdings.

These developments together with minor gains in other income accounts brought gross current earnings to a level almost $4 million higher than in the comparable period last year.

Offsetting almost $3 million of this gain were higher current expenses, most of the increase here being for wages and salaries and interest on deposits.

The charge to earnings resulting from the excess of losses over recoveries declined from $1.9 million last year to $1.1 million this year. Much of this charge, of course, represents not actual losses but transfers to reserve accounts.

Drop Here Contrasts With National Gain

Despite the larger increase in earnings than in expenses, a 27 per cent income tax increase reduced net profits to 97 per cent of the amount reported for the first six months of last year.

By way of contrast, the Board of Governors in Washington reports that the preliminary tabulation of data from all districts has disclosed an increase of 9 per cent in the net profits of all member banks in the nation.

▶Higher interest rates characterized first half operations.

▶Better profits of member banks in other districts reflect faster deposit climb there.

A larger increase in earning assets at member banks in other districts is the most important reason for their more favorable earnings experience. This in turn is a natural outgrowth of the more rapid deposit increase at banks in other parts of the country which was described in the banking section of the June Monthly Review.

It is important to recognize that the amounts discussed here are simple aggregates derived by consolidating the reports of all member banks. It would be incorrect to assume that changes in the aggregates accurately

Concluded on Page 320

Selected Items from the Earnings and Dividends Reports of Ninth District Member Banks

(000's omitted)

	1st Half '52	1st Half '51	Change
Return on Loans	$29,771	$27,251	+2,520
Return on Investments	15,075	14,316	+ 759
Other Income	9,627	8,908	+ 719
Total Income	$54,473	$50,475	+3,998
Wages and Salaries	$17,186	$15,687	+1,499
Interest on Deposits	5,233	4,178	+1,055
Other Expenses	11,160	10,732	+ 428
Total Expenses	$33,579	$30,597	+2,982
Excess of Losses over Recoveries	1,112	1,914	— 802
Total Charge to Income	$34,691	$32,511	+2,180
Profits before Taxes	$19,782	$17,964	+1,818
Taxes	10,015	7,821	+2,194
Net Profits	$ 9,767	$10,143	— 376

U. S. SAVINGS BONDS A GOOD HEDGE

Farmers Have Multiple Choice of Reserves

▶ ***Hazards of production emphasize need for the establishment of farm reserves.***

▶ ***Sound credit rating provides farmer with indirect reserve in case of financial emergency.***

ONE of the perennial financial problems confronting farmers is the setting aside of reserves — reserves for periods of relatively low farm income; reserves for machinery and equipment depreciation; and reserves for emergencies such as sickness or accident.

The farmer has several alternatives in the establishment of such reserves, each of which carries some advantages and some disadvantages. These alternatives may be listed as follows:

1) Storage of farm commodities in years of favorable production, 2) cash reserves, 3) crop insurance, 4) the build-up of collateral along with a sound credit rating, 5) investments in U. S. savings bonds.

Storage Stocks Have Useful Reserve Function

Over a period of years, most farmers average out fairly well on crop yields. Unfortunately, a farmer can't live on averages, especially if misfortune should strike before he has had opportunity to build reserves or if he has failed to provide for the proverbial "rainy day."

In much of the Ninth district, however, reserve provisions should be for the "dry day."

The severe drouth this spring and early summer in the Dakotas and eastern Montana and the soft corn crops of the past two years in south central parts of the district illustrate the need for farm reserves for both rainy and dry years.

Farmers and businessmen alike remember the 1930's when a series of "famine years" occurred. They remember, too, the "fabulous 40's," when agricultural production rose to record high levels.

All of this serves to remind farmers that establishment of reserves are a necessary part of good farm management. It is especially significant now in this period of dizzy-high farm operating costs, because a single crop failure can precipitate serious financial difficulties for many farmers. A series of crop failures might well be disastrous.

One of the most common types of reserves used by farmers is the carry-over of storable crops from years of favorable production to years of poor production. This practice is sound where adequate storage is available and where quality can be maintained. Unfortunately, it is difficult to carry over most farm commodities without more or less loss due to shrinkage or to quality deterioration. Furthermore, there is always a risk of price decline.

In these days of high progressive income taxes there is an advantage, tax-wise, in having a grain-stock reserve program that distributes cash income somewhat evenly from year to year. In general it tends to reduce total tax costs over a period of years. Then, too, by selling stored grain in years of poor crops or of low income the farmer is able to take full advantage of his tax exemption.

Cash Reserves Good, but Difficult to Maintain

Ideally, of course the farmer should hedge against low income years and other financial emergencies by setting up a cash reserve program. It is flexible and safe, and it has 100 per cent liquidity. Such a program is possible and effective, however, only where several favorable financial years precede the poor ones and where restraint is exercised in spending.

The principal difficulty with a program of cash for reserve purposes is the temptation to use such funds for the innumerable needs of farm living. When cash is available at the bank or from the coffee pot on the pantry shelf, whether earmarked as reserves for contingencies or not, it is altogether too easy to capitulate on the reserve program. It is so easy to rationalize that the reserves may be replenished soon by some good turn of fortune.

Crop Insurance, Credit Give Indirect Reserves

Farmers think not only in terms of primary reserves but also in terms of indirect reserves as a hedge against temporary loss of income. All-purpose government crop insurance is an excellent device to protect farm income in years of crop failure due to natural hazards. Although not strictly a reserve, it serves the same purpose of providing income in periods of crop failure.

The disadvantage is that the crop insurance program is not available to all areas as yet. Furthermore, it covers only a limited number of farm crops, principally only the major grain crops. Premiums are relatively high, too.

The development of a sound credit rating also provides an indirect reserve that may help tide a farmer over a crisis due to natural forces beyond his control. Credit represents a reservoir of potential purchasing power, and it can be developed over a period of years only by accumulation of collateral, a record of prompt repayment, honest dealings, and demonstrated earning capacity.

As a matter of fact, many farmers —perhaps most of them—rely principally on credit to carry them over emergencies of one sort or another. Credit as a reserve may be thought of as the accrual of "claims" to the use of funds. These claims take the form of lines of credit and the privilege of drawing on them in times of poor crops and for emergencies in general.

The disadvantage in relying too heavily on credit as a hedge against emergency periods is that credit involves an interest cost and, also, it may not be available in adequate amounts in the event there is a series of unfavorable years.

Credit Sometimes Not Available

In the past bank credit has sometimes been more readily available when least needed and less readily available when most needed—assuming it is most needed during depression periods and least needed during prosperity.

In periods of general economic expansion and prosperity, banks have generally gained deposits and been in a position to expand credit, while in periods of general recession many individual banks have been forced to liquidate loans and investments in order to meet deposit drains. In the latter circumstances, borrowers found it difficult or impossible to secure bank credit.

Much can be done by the farmer in cooperation with his banker to improve his financial position in prosperity, to withstand adversity better and to be entitled to a firm line of bank credit in bad times. But this is not the whole of the problem. The ready availability of bank credit involves much more than a good relationship between the individual banker and the individual farmer and more than a thorough understanding by each of the other's problems, however important such good relationship may be.

Also involved is the availability of credit to the banker.

Standing back of the local commercial banks is the Federal Reserve System, designed to help safeguard the general liquidity and soundness of privately-owned commercial banks.

It is the duty of the Federal Reserve System to assist commercial banks to supply the legitimate credit needs of their communities. The amount of money and credit should be neither excessive, inducing inflation, nor so little as to induce deflationary developments.

That being the case, it is desirable not only for the individual farmer and individual banker, but also for the economy as a whole that credit not be granted to excess in good times. It is also important that the banker should have access to sufficient funds for his good customers—those whose financial house is in order—in bad times.

When this whole complex problem of credit availability in both good and bad times is studied more carefully and is better understood, there can be hope that credit may become a more dependable part of the farmers' reserve program.

A long step in this direction was taken when the Federal Reserve Act was changed in the 1930's to make it possible for member banks to borrow funds from the Federal Reserve bank on security of any sound asset.

Credit as a reserve consideration would be more desirable from the farmers' viewpoint if it were practicable to delay principal payments in low-income periods until years of average or favorable income. This also deserves special study. In other words, a variable type of repayment plan depending on conditions would make credit more acceptable to farmers as a reserve technique.

In actual practice most farmers use a combination of reserve methods for contingencies. Some, particularly wheat farmers, may emphasize storage as a reserve technique; others may rely primarily on cash in the bank; still others may depend almost entirely on crop insurance or a good credit rating with minimal reliance on carry-over of farm stocks or cash.

U. S. Savings Bonds Provide Ideal Reserves

It would seem, however, that one of the ideal forms of financial reserves has been overlooked by many farmers. This is the investment of cash reserves in U.S. savings bonds. Some of the advantages of investing cash reserves in savings bonds are:

1) a substantial rate of interest is earned on the investment;

2) there is complete liquidity and safety of investment;

3) once reserves are invested in bonds and set aside for some specific purpose, such as a supplement to income in years of poor crops, for machinery depreciation, or for improvements, it is more likely to be used as intended;

4) in addition to serving the economy of the individual farmer, the purchase of savings bonds is in the interest of the total economy.

The more bonds are purchased by individuals the better the chances of financing the defense program without serious inflationary developments. It is in the interest of the individual farmer to prevent further price inflation.

Series E Bonds Ideal for Farmers

The new series E bond is ideal for the requirements of farmers who wish to establish reserves for periods of low income, depreciation of equipment, or for various contingencies.

The new E bond continues to be available in small denomination—$25 and up. The yield has been increased to average 3% if kept to maturity. Unlike the old E, the new bond returns 1.07% interest if the owner finds it necessary to sell at the end of only six months. The interest yield, of course, increases the longer the bond is held.

The peculiar advantage to a farmer in buying both the new E and H bonds is that, once they are purchased for reserve purposes, their progressively higher interest rate acts as a strong deterrent to cashing them before maturity. Thus, they are more apt to be used for the purpose intended compared with cash reserves.

Even after maturity the new E bond automatically continues to yield a favorable return, which amounts to approximately 3 per cent.

If the farmer wishes, he may convert the E bond at maturity to series K bonds. These bonds yield 2.76%, and the interest check will be mailed the farmer every six months during the 12-year life of the bond.

Concluded on Page 319

1952 Building Relatively Good

Construction Activity

in the Ninth District Approaches 1951 Peak

▶ ***Number employed by the industry in the second quarter was down 8 per cent from a year ago.***

▶ ***Survey shows builders in current market sold fewer houses before completion than in 1951.***

THE construction industry appears to be having another good year in the Ninth district. A rapid expansion in activity in the spring revived the industry from its normal winter low. Employment in construction, however, during the second quarter of this year was still 8 per cent below the high level reached in the second quarter of 1951.

There was an exception to the lower employment level on construction work on the Upper Peninsula of Michigan and in Montana. The number of workers on the Upper Peninsula was 21 per cent higher in the second quarter as compared with the number employed in the same period of last year.

Contributing materially to industrial and residential building has been the building of plants to beneficiate larger quantities of low grade iron and copper bearing ores.

In Montana, employment on construction work was up 4 per cent during the second quarter. The building of multiple-purpose dams—Hungry Horse dam on the Flathead river near Kalispell and the Canyon Ferry dam on the Missouri river near Helena—added substantially to the total volume. Moreover, in many localities construction of roads and buildings (both residential and nonresidential) was above the 1951 volume.

Plant Expansion Tapers Off

In comparison with the first half of 1951, some types of construction have declined while others have risen. In the nonresidential field, the building of manufacturing plants has taken the largest drop. The number of contracts awarded, as reported by the F. W. Dodge corporation for the states in this district (with the exception of Montana), was down by almost one-fifth from the number awarded in the first half of 1951. Commercial building, on the other hand, was up by one-third.

In the residential field, the number of contracts awarded was down 6 per cent during the first half of the year compared with the same period last year. Most of the decrease was concentrated in contracts awarded for apartment houses.

The number of contracts awarded for public works, such as roads and municipal improvements, and for public and private utility company projects, was down as much as 45 per cent in the first half of this year from the same period of last year.

Most New Houses Sold within 30 Days

A survey was conducted in this district in the latter part of July and in the first week of August to secure first-hand information from home builders operating in the current new housing market.

The survey covered a representative group of 34 home builders operating in medium and large metropolitan centers of this district. These builders erected 75 per cent of their houses this year for sale and 25 per cent on contracts for owners. In 1951 they built a slightly smaller proportion for sale and more on contracts. (In small communities home builders build almost exclusively on contracts, and in large metropolitan centers they build mostly for sale.)

Of the total number of houses built for sale in the current season, approximately 65 per cent were sold at the time the survey was made. About 4 per cent of the unsold houses were not ready for sale.

Only a small number of houses remained unsold 30 days or more after completion. A large majority of builders with some unsold houses attributed the difficulty experienced in sell-

Ninth District Business Indexes

(Adjusted for Seasonal Variation—1947-49=100)

	July '52	June '52	July '51	July '50
Bank Debits—93 Cities	123	130	119	110
Bank Debits—Farming Centers	114	124	116	113
Ninth District Dept. Store Sales	104p	100	101	127
City Department Store Sales	109	101	102	130
Country Department Store Sales	97p	98	100	122
Ninth District Dept. Store Stocks	107p	105	124	98
City Department Store Stocks	109p	107	128	98
Country Department Store Stocks	110p	102	118	98
Lumber Sales at Retail Yards (Bd. Ft.)	94p	89	92	122
Miscellaneous Carloadings	91	83	107	110
Total Carloadings (excl. Misc.)	47	45	99	95
Farm Prices (Minn. unadj.)	103	105	105	96

p—preliminary

ing them to the large down payments required by financial institutions. Apparently many prospective buyers do not have savings ranging from $2,600 to $3,500—the amount required in the most popular house price range.

A few builders attributed the difficulty in selling to the decline in G.I. loans made to veteran purchasers. A few who build houses in the medium-priced bracket felt that Regulation X terms were holding up the sale of some houses. If it were not for these restrictions, it was explained, lending institutions would accept larger loans on such houses, thereby reducing the down payments.

The same builders this year sold a smaller per cent of their houses before completion than was true in 1951. Because of the very active postwar market, both builders and home owners have become accustomed to executing the transactions before the houses have been completed.

This had the incidental advantage of permitting the owners to choose their decorations, thereby resulting in more satisfied home owners.

END

CURRENT BUSINESS DEVELOPMENTS

STORE SALES INCREASE; BANK DEBITS REFLECT HIGHER PRICES

Bank Debits—The dollar volume of bank debits during July this year was 8 per cent above the July 1951 total for Ninth district cities. Part of this increase could be attributed to an additional business day this July (26 as against 25 last year) and the remainder to higher prices.

This observation is confirmed by the Ninth district bank debits index, which is adjusted for seasonal variation and also for changes in the number of trading days. The July to July increase in this index was 3 per cent, approximately the same as the increase in consumer prices—3.6 per cent.

District debits, which are, in brief, the dollar volume of checks drawn against bank balances, may be compared with the previous month by using the seasonally adjusted index. On this basis July showed a decline of 5 per cent from the very high June debit total.

Of course, from town to town throughout the district there were variations from the district average. Some of these variations were attributable to money expenditures, such as transfers of funds which have little business significance; others reflected recognizable economic events.

Among the latter were lower debits in Duluth and Cloquet, Minnesota, traceable to effects of the steel strike.

In North Dakota, the towns of Williston and Bismarck showed the largest percentage increases with bank debits 46 per cent and 24 per cent respectively above last year. One of the important influences in both towns has been the expenditures resulting from oil activity.

In Montana, Glendive revealed the largest percentage increase in bank debits, while Billings has had the largest dollar increase over last July. This same showing holds true when bank debits for the period January-through-July 1952 are compared with the same period a year ago.

The apparent reason underlying these changes is the oil development occurring in the Williston basin area, with the most actively growing centers usually showing the largest increases.

Department Store Sales—Total district department store sales during July were 7 per cent larger than for July 1951. After adjustment for differences in the number of trading days, however, July sales this year were only 3 per cent larger than a year ago.

This is a continuation of the percentage increase that prevailed during the past two months.

Month-to-month comparisons of the seasonally adjusted index numbers reveal that July sales were 4 per cent larger than those for June and approximately equal to the May level of sales.

These aggregate percentage changes, however, conceal diverging trends in city and country stores. The seasonally adjusted index of sales of department stores in the cities of Minneapolis, St. Paul, and Duluth-Superior was 109 per cent of the 1947-48 average—an increase of 7 per cent from a year ago. The country store index, on the other hand, was 3 per cent lower than a year ago.

In contrast to the district increase for July, cumulative dollar sales for the first seven months of 1952 at one per cent below a year ago still reflect the depressing effects of the very high January 1951 sales.

END

FARMERS HAVE MULTIPLE CHOICE OF RESERVES

Continued from Page 317

New H Bond Also A Desirable Reserve

Some farmers may wish not only to invest reserve for safety, liquidity, and yield, but also to secure current income rather than a lump sum interest payment at bond maturity, as is the case with E bonds. The new H bonds meet this requirement, since they pay interest every six months. They can be redeemed at par any time before maturity providing they have been held at least six months, and after one month's notice has been given.

Like the E's, H bonds earn a higher rate of interest the longer they are held. Unlike the E's they are issued only in higher denominations starting at $500.

Other types of U.S. savings bonds are also available to the farmer for investment of reserves. A description of these together with a more adequate analysis of the E, H, and K bonds may be found in the article on the front page.

END

BANKING

Continued from Page 315

reflect changes at a particular bank. Much individual variation can and does exist within the group which makes up the aggregate. END

BANKING DEVELOPMENTS

Banks Increase U. S. Portfolios

DISTRICT member banks added substantial amounts to both loan and investment accounts in July. Government securities in particular were acquired in large amounts. Not since May of 1949 have holdings of these obligations increased by so much in a single month.

Allotment figures for the new 2⅜% six-year Treasury bonds suggest that much of the $54 million increase represents the purchase of these securities. Out of commercial bank subscriptions in the Ninth district amounting to $102 million, allotments of $42 million were made.

Bonds worth $38 million together with a small amount of notes and certificates were added to city bank portfolios, while bills worth $15 million were liquidated.

Since country banks report only total holdings, composition of the $26 million addition to their government portfolios is not known.

Higher yields on all types of government securities in July made such holdings more profitable and doubtless attracted some of the proceeds of the seasonal deposit upswing which has been in progress since May.

City and country banks report that loans were up $6 million and $9 million respectively. The city increase reflects additional loans of all major types.

Both city and country banks report that deposits were up in July; these funds together with borrowings and additions to capital offset the additional assets reported.

Part of the new deposits represents credits to the account of the U. S. Treasury at banks which received allotments of the new Treasury bonds and made payment for same with such credits. END

Assets and Liabilities of Member Banks in the Ninth Federal Reserve District

(In Millions of Dollars)

ITEM	All Member Banks		City Banks (weekly reporting)		Country Banks (non-weekly reporting)	
	July 30, 1952	Change Since June 25, 1952	July 30, 1952	Change Since June 25, 1952	July 30, 1952	Change Since June 25, 1952
Loans and discounts	$1,249	+ 15	$ 606	+ 6	$ 643	+ 9
U. S. Government obligations	1,487	+ 54	598	+ 28	889	+ 26
Other Securities	296	— 1	145	....	151	— 1
Cash and due from banks	913	— 3	472	— 8	441	+ 5
Other assets	37	+ 2	18	+ 2	19	....
Total assets	$3,982	+ 67	$1,839	+ 28	$2,143	+ 39
Due to banks	$ 359	— 11	$ 314	— 13	$ 45	+ 2
Other demand deposits	2,360	+ 55	1,117	+ 29	1,243	+ 26
Total demand deposits	$2,719	+ 44	$1,431	+ 16	$1,288	+ 28
Time deposits	959	+ 10	249	+ 3	710	+ 7
Total deposits	$3,678	+ 54	$1,680	+ 19	$1,998	+ 35
Borrowings	26	+ 8	24	+ 7	2	+ 1
Other Liabilities	34	+ 1	23	+ 1	11	....
Capital funds	244	+ 4	112	+ 1	132	+ 3
Total liabilities and capital accounts	$3,982	+ 67	$1,839	+ 28	$2,143	+ 39

Reporting bank data are from balance sheets submitted weekly. Non-reporting bank data are in part estimated. Data on loans and discounts, U. S. Goverment obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items in the process of collection, and data on deposits are largely taken from semi-monthly reports which member banks make to the Federal Reserve bank for the purpose of computing required reserves. Reserve balances and data on borrowings from the Federal Reserve banks are taken directly from the books of the Federal Reserve bank. Data on other borrowings are estimated. Capital funds, other assets, and the other liabilities are extrapolated from call report data.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUG. 28, 1952

STEEL production and over-all industrial activity have shown substantial recovery in August from the sharply reduced July rate, and the volume of construction has continued at close-to-record levels. Sales at department stores have expanded in early August, while sales of automobiles have apparently continued near the restricted July rate. Wholesale prices have advanced slightly since early July, and consumer prices have reached a new record level.

Industrial Production — The Board's index of industrial production declined further in July to 191 per cent of the 1935-39 average, but is estimated to have recovered in August to about the May level. Steel and iron ore production have increased rapidly following settlement of the dispute at the end of July, and gains in other industries have been fairly widespread.

Activity in durable goods industries was reduced further in July, owing mainly to curtailments in steel consuming industries. Over-all activity in the machinery industries decreased about 5 per cent.

Much sharper curtailments occurred in the automobile and railroad equipment industries. Production of passenger automobiles and trucks amounted to about 200,000 in July as compared with 519,000 in June; in the third week of August, output was up markedly and for the month may approach 300,000 vehicles. Output of television was unchanged in July, while appliances decreased about 15 per cent.

Steel production was at about the June level of 18 per cent of capacity, but expanded to 99 per cent of capacity by the fourth week of August.

Output of nondurable goods decreased in July owing mainly to vacation schedules in textiles and some other industries. Rayon deliveries rose substantially further. Paperboard production — following the usual July curtailment—increased in early August to the highest rate since last autumn, and petroleum refining activity increased to a new record level.

Minerals production in August will be substantially above the reduced level of recent months, owing mainly to the restoration of iron ore production. Crude petroleum output has also increased, but coal production is being sharply curtailed in the last week of August by a work stoppage.

Construction—Value of construction contracts awarded showed little change in July as an increase in awards for public construction offset a small decline in private awards.

The number of housing units started was 104,000, a seasonally adjusted annual rate of 1,088,000 as compared with 1,063,000 in June. Total dollar volume of new construction put in place in July was a record for the month.

Employment — Seasonally adjusted employment in non-agricultural establishments declined further in July, as shut-downs in steel-consuming industries about doubled the number of workers idled by the steel strike.

The average work week at factories was reduced by one-half hour, and average hourly earnings were down slightly. In mid-August, however, initial claims for unemployment compensation at 179,000 were almost 200,000 below the peak of mid-July.

Agriculture — Crop prospects declined in July, particularly for tobacco, feeds, and pasture, and total output as of August 1 was forecast at only 1 per cent above last year.

In August, rains have fallen in many dry areas. Beef production has increased and total meat output in the first three weeks of August has been 4 per cent above the year-ago level.

Production of milk and eggs in July continued smaller than a year ago.

Distribution — Department store sales showed a more than seasonal increase in the early part of August, following a decrease in July of 5 per cent, according to the Board's seasonally adjusted index.

Stocks at the end of July were indicated by preliminary data to be somewhat higher, after seasonal adjustment, than at the end of June, but 12 per cent below a year ago.

Passenger automobile sales in early August remained near the considerably reduced July rate, as new car supplies continued low.

Commodity Prices — The general level of wholesale commodity prices advanced slightly from early July to the third week of August, reflecting increases in some farm, food, and textile products. Also following conclusion of new wage agreements, prices of steel and aluminum products were raised about 5 per cent and prices of steel scrap and nonferrous metals strengthened.

The consumers price index rose further by .6 per cent in July to a new high. Average prices of foods also reached a new high — 3 per cent above year-ago levels. Rents and prices of other services and of fuels also increased, while apparel prices declined further.

Bank Credit — Total outstanding bank credit declined somewhat from mid-July to mid-August. Bank holdings of U. S. government securities, bank loans on such securities, and loans to manufacturers of metal products decreased. The effect of these declines on total bank credit was offset to some extent by increases in other types of loans and investments.

Bank reserve positions continued generally tight for the period, with discounts at the Federal Reserve fluctuating around a high level and with the rate on federal funds remaining just below the discount rate. A number of important money market banks raised their lending rates on stock market call money by ¼%.

Security Markets—Yields on government securities rose during the first half of August, then declined somewhat in the following week. The average rate of discount on the new bills issued August 14 was 1.90 per cent, but market rates on bills stayed below this level.