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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
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Prices advance sharply

Commodity prices continued to advance sharply in May and the early part of June and the present level of the general wholesale price index is now probably about 5 percent higher than in the early part of February. Prices of practically all groups of commodities have participated in the recent advance which has been the most rapid since 1941 before broad wartime price controls were established.

Prices in retail markets, which advanced at a rate of one-half percent per month in March and April, according to the consumers' price index, have been rising more rapidly since that time. During recent weeks increases in retail prices ranging from 5 to 20 percent have been indicated in bread and other cereal products, dairy products, various textile products, shoes, coal, automobiles, tires, and hardware.

Preliminary figures for mid-May are available for retail prices paid by farmers. They show an advance of 2 percent from mid-April, reflecting increases in all groups of commodities purchased. The largest rise recorded was in prices of foods as a result of the substantial increases permitted in ceilings for grains and mill feeds on May 13. Since that time price increases have become effective on farm equipment and various other products purchased by farmers.

The increases permitted in ceilings for grains also resulted in large advances in prices received by farmers for these products from April 15 to May 15. Prices of truck crops, however, dropped 37 percent. This decline was considerably larger than is usual at this season of the year reflecting partly urgent marketings in anticipation of transportation difficulties as well as a substantially larger volume of commercial truck crop production than the record high established last spring. The drop in prices for these products more than offset the gains in prices received for grains and most other farm commodities and the total index of prices received decreased slightly.

Prices received by farmers in mid-June are likely to advance considerably, reflecting large price increases granted to milk producers, a recovery in prices of truck crops, and further advances in prices of most other farm products. For example, market prices for grains had not fully reflected the increases in ceilings by the middle of May. Also, prices of cotton, which had declined 1 cent per pound from the early part of April to the middle of May, have advanced by 2 cents since that time. New 22-year highs were established on June 10 with average cotton prices advancing over the 29 cent level.

Marketings of many farm products as well as sales of numerous industrial products appear to have been seriously restricted in recent weeks, reflecting the prospective removal or liberalization of Federal price control measures. If this withholding reaches large proportions by the end of the month, the subsequent movement of goods may be so great in some lines that the price increases will not be as sharp as is generally expected.

Consumer buying continues at high level

Sales at department stores in May were maintained close to the high level of the March-April Easter shopping season. The Board's seasonally adjusted index is estimated at 254 per cent of the 1935-39 average, as compared with 250 in April and 263 in March.

Outstanding orders for merchandise at the end of April were down from the record high levels of February and March; however, they were 26 per cent larger than a year ago and 2.9 times as large as April sales. Before the war outstanding orders generally were equal to about a month's sales. As compared with a year ago, department store stocks at the end of April were 14 per cent greater in value. Stocks of some items, however, such as men's clothing, hosiery and piece goods, continue very small.

Consumer credit rising sharply but volume of instalment credit still relatively small

Consumer credit outstanding has increased considerable in recent months, and at the end of April the total reached about 7.4 billion dollars. Although this amount is still more than one-fourth under the 1941 prewar peak, it is almost one-half above the level in the early part of 1944, when consumer credit reached its wartime low. The rate of increase in the past four months, approximately 1.9 billion dollars a year, if continued would bring total consumer credit above the prewar peak in less than 18 months.

The rise from wartime levels has occurred despite the fact that instalment buying, usually the occasion for the major use of consumer credit, has scarcely begun. The principal increases from April 1944 to April 1946, as shown in the table below, have been in charge accounts, single-payment loans, and installment loans. Two of these--charge accounts and single-payment loans--are relatively short-term non-instalment debt, and together constitute more than half the present total of consumer debt. Of the two, the more important determinant of recent movements in consumer credit has been charge-account credit.

CONSUMER CREDIT
(Estimates. Amounts in millions of dollars)

Type of credit	Amount outstanding April 30, 1946	Percentage distribution	Percentage change from: December 31, 1945	April 30, 1944	December 31, 1941
Total	7,355	100	+ 9	+47	-26
Charge accounts	2,146	29	+ 8	+59	+22
Single-payment loans	1,752	24	+ 8	+54	+ 9
Instalment loans	1,695	23	+16	+52	-22
Instalment sale credit	951	13	+ 5	+38	-75
Service credit	811	11	+ 5	+15	+33

Before the war charge accounts were less important in relation to total consumer credit than now. At the end of 1941 charge-account indebtedness amounted to less than 18 per cent of total consumer credit. In April 1944, charge accounts constitued about 27 per cent of the total, and by 1946 the proportion had grown to nearly 30 per cent. The factors that might tend to expand charge-account indebtedness are an increase in the length of the repayment period, and an increase in the use of charge-account credit. Since the average collection period for charge accounts has not shown any significant increase in 1945, the expansion in charge accounts since 1944 is a result of increased use of charge-account credit. The rise of charge-account indebtedness is part of the general picture of increased consumer spending. Consumer spending is finding outlets where it can, particularly in the purchase of soft goods. In addition to the greater physical volume of goods bought, a large part of the swollen charge-account bill is a result of a rise in prices and a shift to the purchase of higher-priced lines.

A boom in consumer credit is expected in the area of instalment sale credit, arising from sales of automobiles and other consumer's durable goods. With the production and shipments of major consumers' durable goods scarcely under way, the instalment buying of such goods is still far below its prewar importance; as shown in the table, the increase in total consumer credit has been substantially more rapid than that in instalment sale credit. This segment which was a major portion of total consumer credit at the end of 1941, comstituting almost 40 per cent of the aggregate, was only 13 per cent of the total at the end of April 1946.

The sharp increase of 16 per cent in instalment loans during the past four months is evidence of some increase in instalment buying. These loans are made for various purposes, some of which include instalment borrowing to buy durable goods. However, when instalment sale credit begins to resume its prewar role, total consumer credit outstanding will rise much faster than in recent months. This accelerated rate is expected because instalment credit is outstanding for a much longer period than are charge accounts, and it arises from the sale of much higher-priced merchandise.

Stock prices advance again after railroad strike ends

Stock prices fluctuated somewhat during the first three weeks of May, but after the settlement of the railroad strike prices of all groups rose, and industrials and utilities broke through to new high ground. At the end of the month Standard's index of 90 stocks was about two per cent above the April close. Trading on the New York Stock Exchange was slightly less active in May than a month earlier.

Stock exchange credit continues to decline--Customers' debit balances of New York Stock Exchange firms decline by 41 million dollars during April to a total of 895 million outstanding at the end of the month. Balances secured by U. S. Government obligations represented 154 million dollars of this total, having decreased 11 million dollars during April.

Required reserves increase and reserve positions of banks tighten in May and early June

Member bank reserve positions tightened somewhat in the five-week period May 2 - June 5 largely as a result of increased required reserves and a drain on reserves accompanying Treasury debt retirement operations and a small currency outflow. Deposits subject to reserve increased sharply, reflecting primarily a shift of about 2.6 billion dollars from war loan accounts to accounts held by businesses and individuals, and average required reserves increased about 300 million dollars in the 5-week period. About 1.2 billion dollars of the deposit shift appears to have been related to the cash retirement on June 1 of a like amount of certificates held by nonbank investors; the remainder represented Treasury expenditures, other than for certificate retirement, in excess of receipts. Treasury operations in connection with security retirement operations also tended to reduce member bank reserves somewhat. In the four weeks ending May 29 the Treasury built up its balances at the Reserve Banks by about 250 million dollars and on June 1 these funds were used to retire almost 250 million of certificates held by the Reserve Banks. Banks also lost reserve funds as a result of a 280 million dollar outflow of currency.

The greater part of the drain on member bank reserves was met by 450 million of purchases of Government securities by the Reserve Banks, resulting in an increase over the five-week period of 200 million dollars in holdings of Government securities. In addition reserve funds were provided by an expansion of 150 million dollars in Federal Reserve float, and bank borrowing at the Reserve Banks increased slightly. The resulting increase in member bank reserves was not as large, however, as the increase in required reserves, and excess reserves declined.

Memorial Day weekend brings increase in money in circulation

Money in circulation, which had shown little change following a large post-Christmas return flow in January, increased by 280 million dollars in the five weeks ending June 5. About 200 million of the outflow occurred in the last two weeks of the period, and probably reflected in part additional currency requirements in connection with the Memorial Day weekend.

Further small increase in Reserve Bank holdings of Government securities in May

The System's holdings of Government securities increased by 200 million dollars during the month of May to a total of 22.9 billion dollars. Holdings of Treasury bills increased by 235 million dollars and Treasury notes by 76 million. Holdings of certificates, however, were reduced by 110 million dollars as redemptions of the May 1, 1946 issue were in excess of net purchases.

Decline in bank holdings of Government securities
reflects Treasury debt retirement

Holdings of Government securities at reporting banks were reduced further in the five weeks ending June 5. Bank holdings of certificates were reduced by 770 million dollars reflecting sale of these securities to the Reserve Banks in the first half of May and cash redemption on June 1 of almost 600 million of maturing certificates held by banks. Banks continued to sell notes, and holdings declined by over 200 million dollars. Holdings of bills fluctuated during the period as banks bought and sold bills to adjust reserve positions. New York City banks increased their bond holdings by over 100 million dollars; bond holdings at other reporting banks declined somewhat.

Further small decline in total loans of reporting banks

Total loans at reporting banks in 101 cities continued to decline as loans for purchasing and carrying Government securities were further reduced. Loans to brokers and dealers for this purpose declined throughout May and the first week in June except for a temporary rise just prior to the June 1 certificate retirement. Loans to others to purchase or carry Government securities continued to decline steadily.

The volume of commercial and industrial loans showed little change; and increase in such loans at reporting banks outside New York City was almost offset by a decline at New York City banks.

Personal and business deposits continue to rise

Demand deposits of individuals and businesses increased further in the five weeks ending June 5. The increase resulted largely from cash redemption by the Treasury of about 1.2 billion dollars of certificates sold in the Seventh War Loan Drive and maturing June 1, and Treasury expenditures, other than for certificate redemption, in excess of receipts. Time deposits continued to increase during this period.

Government bond prices ease further in May; little change in corporates

Prices of Government securities continued to ease during May, but the decline was less pronounced than during April. The average yield on medium-term taxable bonds, which had increased from 1.29 per cent in the week ended March 30 to 1.44 per cent in the week ended April 27, rose further to 1.48 per cent in the week ended June 1. The average yield on long-term taxable bonds increased from 2.08 to 2.14 per cent in the earlier period, and further to 2.18 per cent during the recent period. The average yield on 9-to-12 month certificates advanced from 0.82 to 0.84 during the recent period.

During the first week in June, prices of Government securities firmed somewhat.

Among corporate bonds prices changed little during the month. The average yield on Aaa bonds included in Moody's average was 2.51 per cent at the end of May, the same as a month earlier, and on Baa issues was 3.03 compared with 3.00 per cent on the earlier date.

Corporations resume large-scale refunding operations in May

Corporate offerings of new security issues in May totaled about 740 million dollars. About 600 million of the month's total represented refunding issues; this is more than double the monthly average of such issues for the period January-April and is slightly above the average for the last half of 1946, when refunding reached unusually high levels.

All three major industrial groups shared in the current refunding operations. For the first time in several months public utilities were major issuers of refunding securities; their total offerings amounted to about 300 million dollars. Industrial offerings, swelled by the 85 million dollar debenture issue of Standard Oil Company of New Jersey, totaled about 180 million; offerings of railroads, which accounted for most of the remainder, were in much smaller volume than in the latter part of 1945. Public utilities and industrials offered about 160 million of stocks, largely in preferred issues, for refunding outstanding securities.

The volume of issues for "new capital", about 140 million dollars, was much smaller than in April but somewhat above the average for the first three months of the year. Practically all of the new capital issues were offered by industrial companies. In contrast with recent months when stocks have accounted for about 70 per cent of industrial issues for new capital, only about one-half of their volume for May was in the form of stocks.

Profits of large industrial companies in the first quarter

Published earnings reports of large industrial corporations for the first quarter of 1946 show substantial increases in profits after taxes in trade and in most nondurable goods industries, reflecting the sustained level of output and removal of the excess profits tax. Durable goods industries show sharply reduced net profits or net deficits; in most of these industries operations were directly or indirectly restricted by strikes and reconversion during the first quarter. Similar results, though with perhaps some improvement in the durable goods groups, now appear likely for the second quarter.

These observations are based on preliminary figures for the group of 629 companies which will appear in the regular table in the June Bulletin. This series is heavily weighted by companies most seriously affected by strikes during the first quarter, and as a result aggregate profits of the group were considerably below the level of other recent quarters. They were, however, in the aggregate, slightly above the quarterly average for the first nine months of 1939, the earliest year covered by this series.

Profits before Federal income and excess profits taxes for the first quarter are available for 323 of the 629 companies and are shown in the table. (For most industrial groups the percentage change in profits after taxes shown in the table is of the same order of magnitude as for the larger group of 629 companies.)

For the group of 323 companies, profits before taxes were 72 per cent smaller in the first quarter of 1946 than in the same period of 1945. Large decreases in profits before taxes were shown in all durable goods groups; even in some nondurable goods groups profits before taxes declined moderately. In only one group, trade, did first quarter profits before taxes show a large increase from 1945 to 1946.

For this group of 323 companies, the effective tax rate on reported earnings was 27 per cent for the first quarter of 1946 as compared with 64 per cent in the same period of last year. This decline reflects, of course, removal of the excess profits tax. In addition, the overall effective rate this year reflects lower normal taxes or no tax at all on the greatly reduced earnings of companies in the durable goods industries, and also the fact that a few very large companies--particularly U. S. Steel in the iron and steel group, General Electric in the machinery group, and several companies in the auto group--included in their accounts certain tax credits representing estimated reductions in income tax liability for the remaining quarters of 1946 due to the first quarter loss; most other companies, however, have stated that no such credit has been taken.

The effect of removing the excess profits tax is particularly evident in the trade group, and also in the beverage, confectionery, and tobacco group where a lower effective tax rate on a slightly increased income resulted in a greatly increased net profits after taxes. In all groups, however, profits after taxes compare more favorably than profits before taxes with the comparable figures for the first quarter of 1945.

First Quarter Profits and Taxes
of 323 Large Industrial Corporations

(dollars in millions)

Industrial group	No. of Cos.	Profits-1st Qu. 1946: Before Federal 1/ income and excess profits taxes	Profits-1st Qu. 1946: After taxes	Percentage change 1st Qu. 1945-1st Qu. 1946: Profits before taxes	Percentage change 1st Qu. 1945-1st Qu. 1946: Profits after taxes	Effective tax rate: 1st Qu. 1946	Effective tax rate: 1st Qu. 1945
Total	323	284.9	207.4	- 72	- 44	27	64
Durable goods	183	- 90.2	- 26.4	2/	2/	2/	67
Nondurable goods	112	306.3	192.2	- 18	+ 23	37	58
Misc. services	28	68.8	41.6	+ 11	+ 80	40	63
Durable goods							
Iron & steel	25	19.3	22.3	- 84	- 47	2/	65
Nonferrous metals	38	19.8	12.0	- 54	- 46	40	49
Machinery	39	- 30.8	- 25.6	2/	2/	2/	76
Automobiles	8	- 99.5	- 36.9	2/	2/	2/	60
Other transportation equipment	37	- 17.1	- 7.8	2/	2/	2/	76
Other durable goods	36	18.1	9.6	- 46	- 12	47	67
Nondurable goods							
Foods	14	28.2	16.0	- 39	+ 1	43	66
Bev., conf., & tobacco	12	56.9	30.9	+ 9	+ 88	46	69
Industrial chemicals	17	93.5	58.4	- 26	+ 37	38	66
Oil	23	58.4	46.2	- 27	- 12	21	34
Other nondurable goods	46	69.3	40.6	--	+ 45	41	59
Miscellaneous services							
Trade	13	39.0	23.7	+ 61	+166	39	63
Amusements	5	27.6	16.5	- 11	+ 46	40	63
Other miscellaneous services	10	2.3	1.3	- 67	- 54	42	58

1/ Figures on Federal income and excess profits taxes used in compiling this table are as reported by the companies included.

2/ Not computed because of deficits or negative tax provisions in the first quarter of 1946.

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