

White House
4/8/42
Harold Smith &
M. E. ... with President

April 8, 1942

Chart 1 is designed to bring out the fact that wages and salaries of the people have been increasing rapidly since the middle of 1941; that they have been spending freely to buy goods, but that the output of goods for them to buy has not increased. The increase in production has been concentrated on war supplies. With the growing scarcity of materials and manpower it is likely that the output of consumer goods will begin to decline. It is the pressure of growing income on a shrinking amount of goods that holds the threat of inflation.

Chart 2 brings out the fact that salaries and wages constitute a large part of the increase in total national income paid out. It emphasizes the need of control of wage and salary increases as a part of the anti-inflationary program.

Chart 3 brings out the extraordinary increase in production since the bottom of the 1938 depression. This increase, which has been particularly rapid since the spring of 1940, has represented principally the production of goods for war purposes. The output of consumer goods, however, also increased until the spring of 1941.

Chart 4 shows the very rapid rise in prices, with prices of basic commodities going up most rapidly, wholesale prices of 900 commodities following closely behind, and cost of living lagging, but in recent months showing a more marked advance.

Chart 5 compares the course of prices of 40 basic commodities during the last war and during the present war up to date. What it shows is that up to the present time the course of prices has been surprisingly similar. Notwithstanding our greater awareness of the dangers of inflation and the many-sided efforts of combating it, there is little evidence up to date of better control than prevailed in 1914-17.

Chart 6 shows that parallel to the other inflationary developments there is a constant increase in the money supply. Up to date this increase has been constantly fed by sales of Government securities to the banking system. Adoption of a Treasury financing program that would reach non-banking investors to a larger extent than at present is a necessary part of an anti-inflationary program.

EAG dr

The decline for retail sales in the latest month shown reflects some reaction from an enormous volume of hoarding in January.

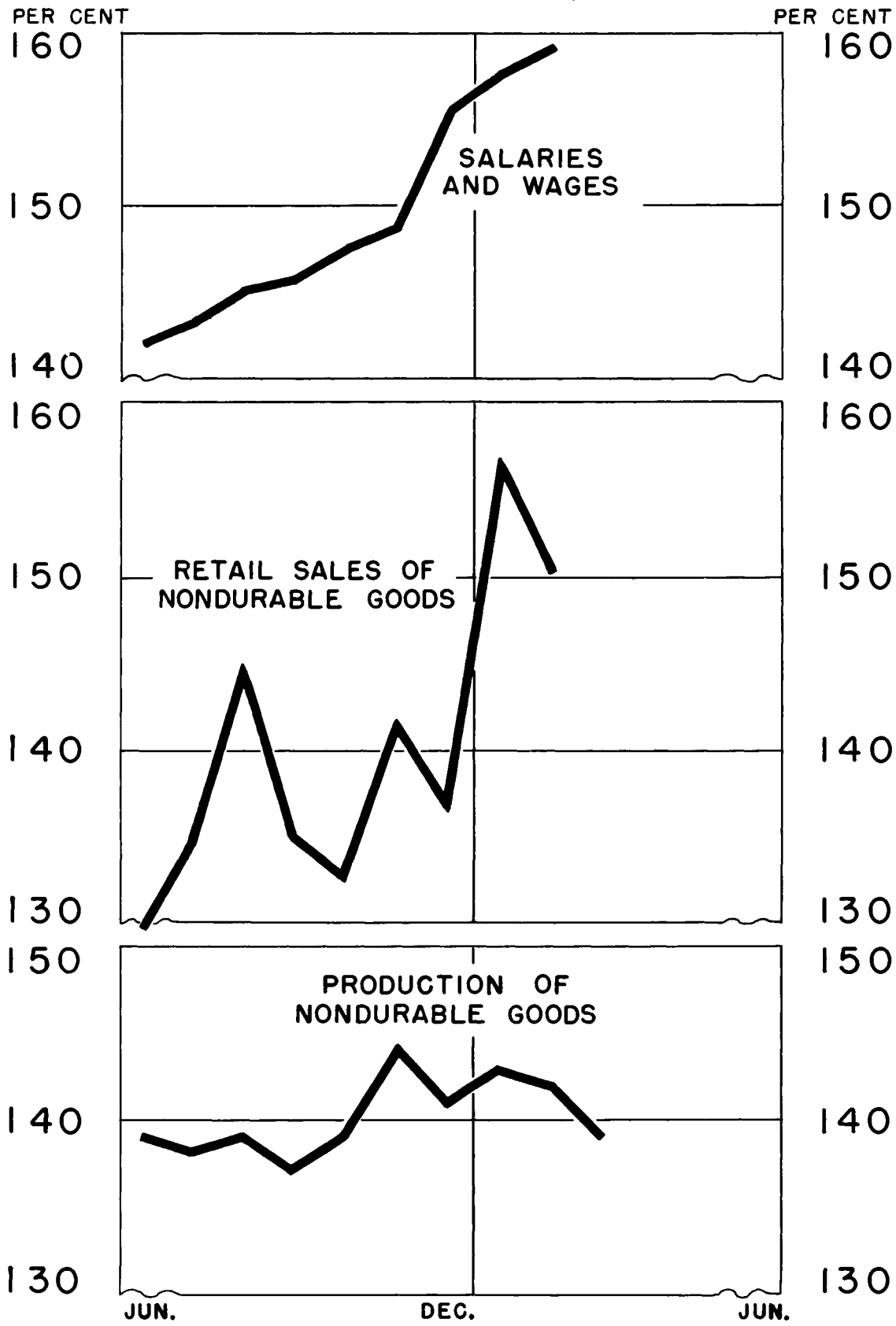
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Federal Reserve Bank of St. Louis

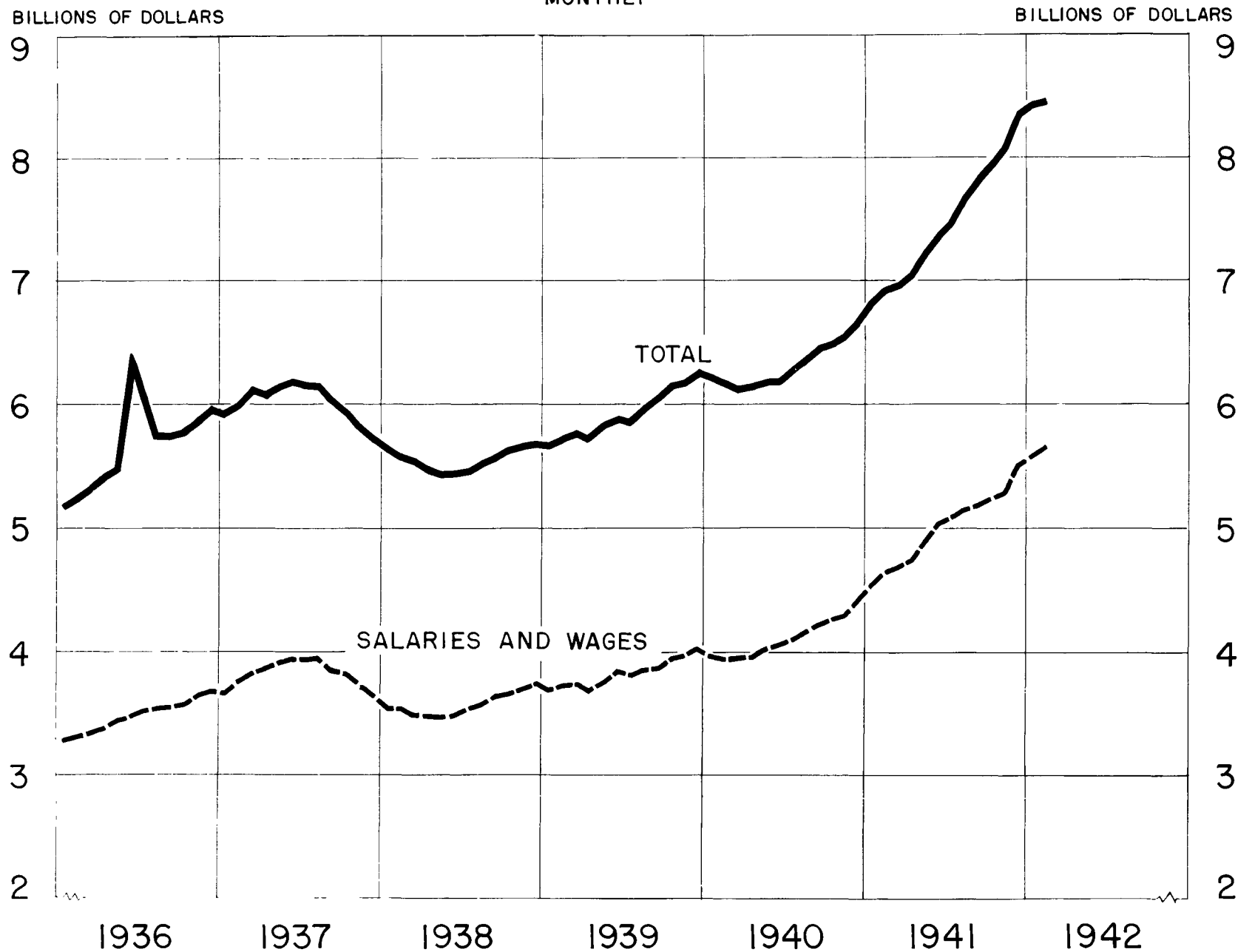
WORKERS' INCOME COMPARED WITH RETAIL SALES AND PRODUCTION OF NONDURABLE GOODS

ADJUSTED FOR SEASONAL VARIATION, 1935 - 1939 = 100

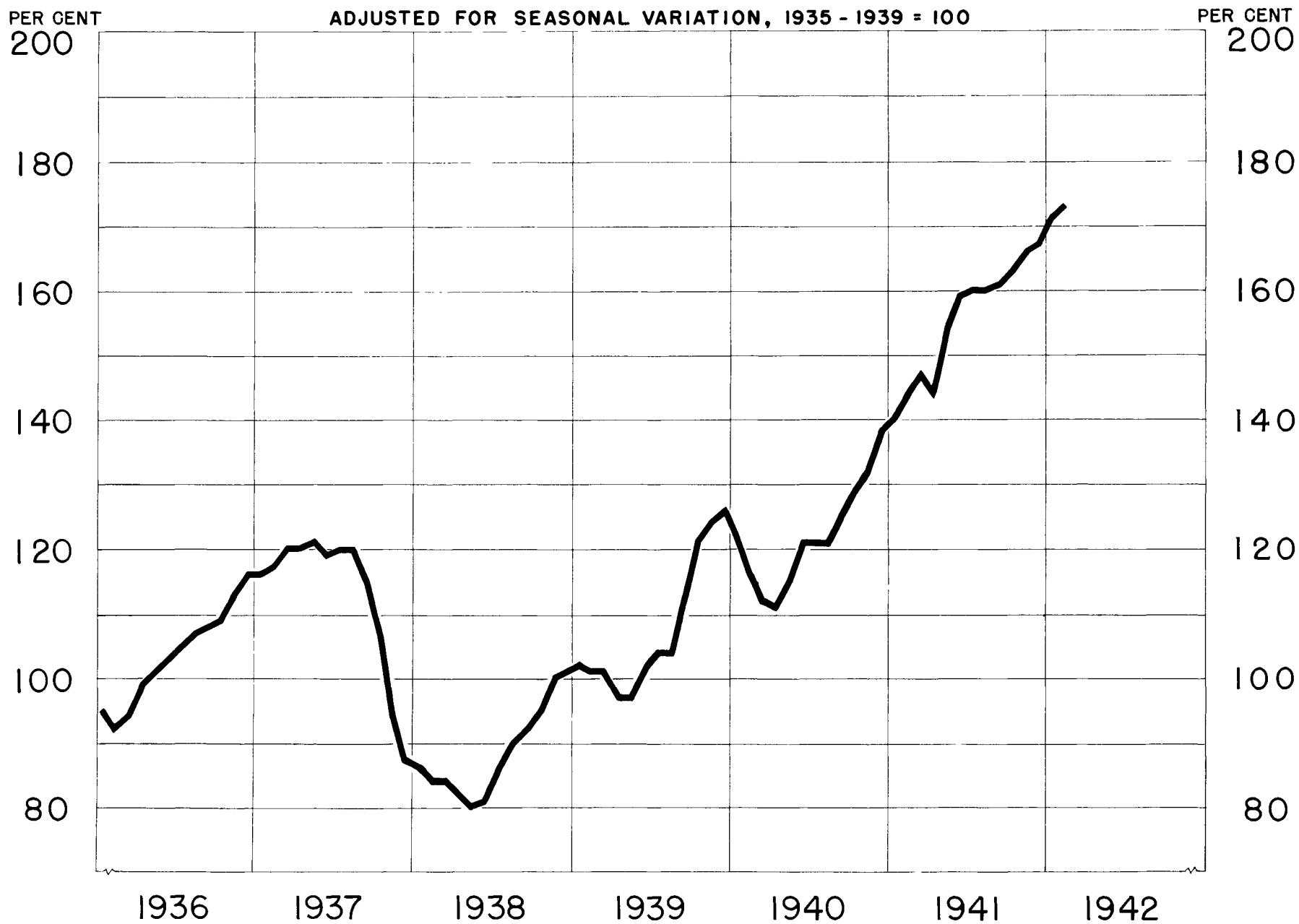


INCOME PAYMENTS

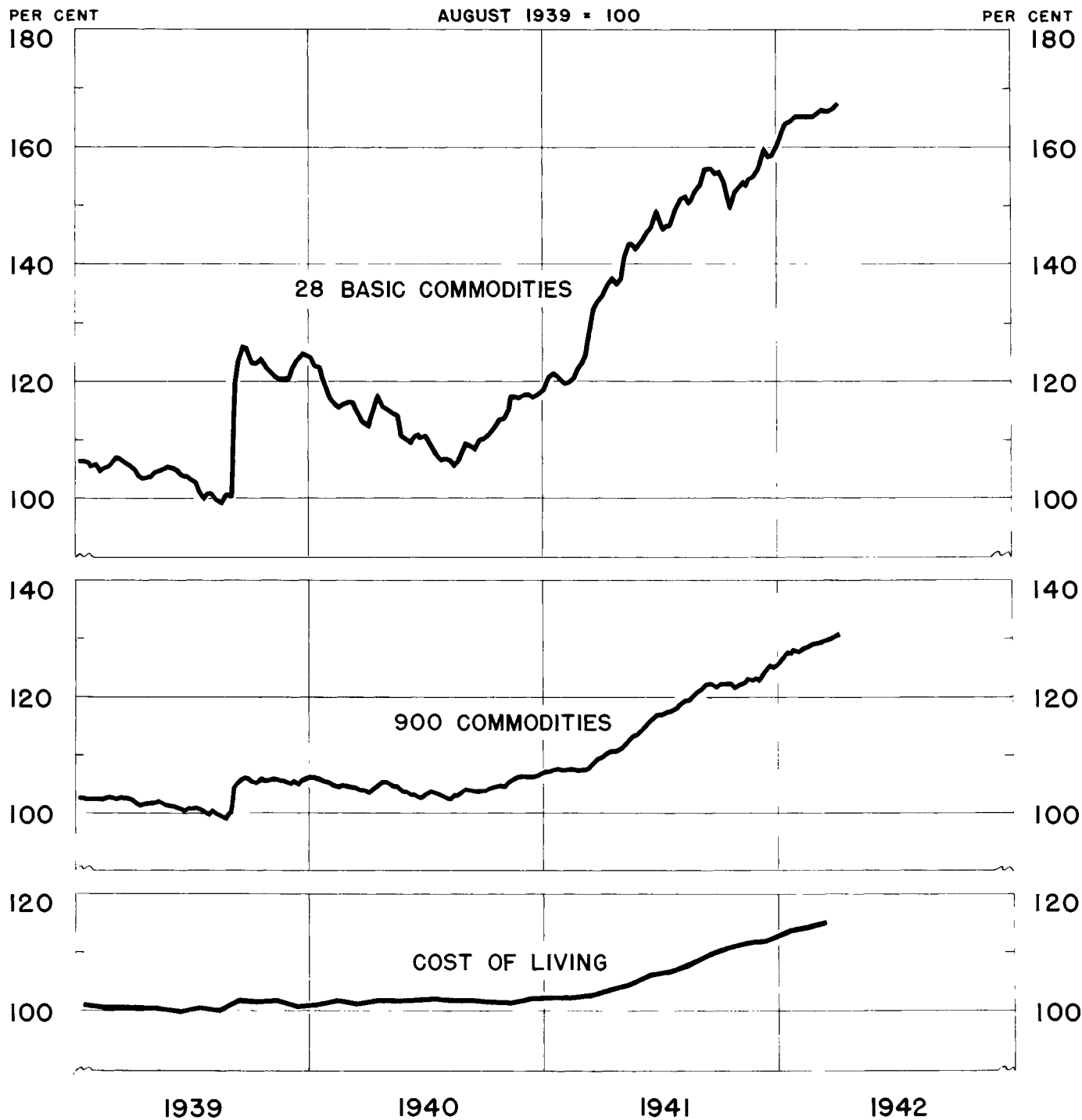
MONTHLY



INDUSTRIAL PRODUCTION

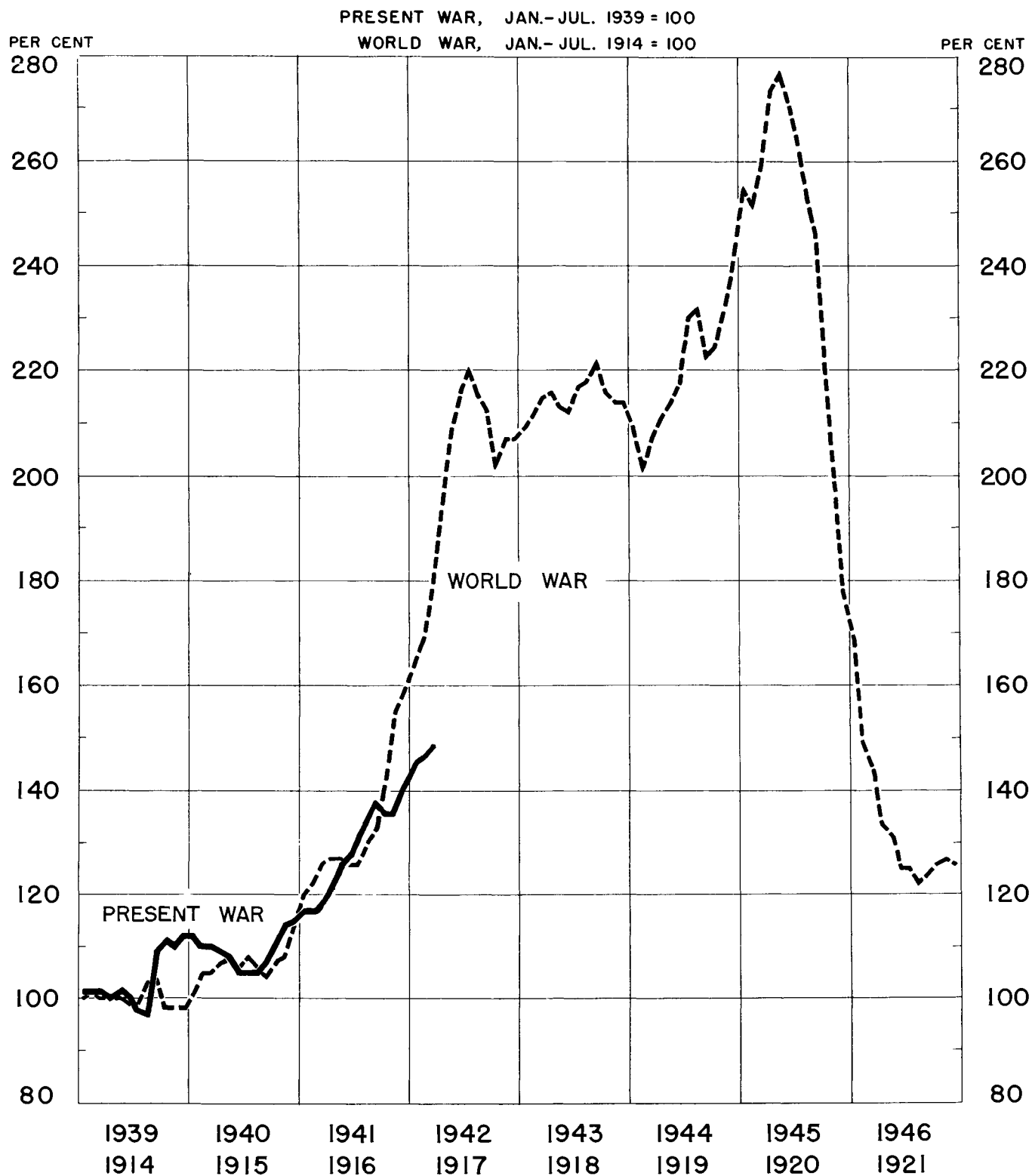


COMMODITY PRICES



THE BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

PRICES OF 40 BASIC COMMODITIES



FEDERAL RESERVE INDEXES BASED ON DATA COMPILED BY
GENERAL MOTORS CORPORATION AND CORNELL UNIVERSITY.
JUNE ESTIMATE BASED ON DATA FOR FIRST WEEK.

THE BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

BANK HOLDINGS OF U. S. GOVERNMENT SECURITIES AND DEMAND DEPOSITS AND CURRENCY

