

April 16, 1946.

Mr. Earl M. MacIntosh,
c/o Weaver Brothers,
Washington Building,
Washington, D. C.

Dear Earl:

In accordance with your telephone request,
I am enclosing herewith two memoranda - "The B.L.S.
Consumer Price Index" on the cost of living and "The
B.L.S. Wholesale Price Index" on wholesale price data.

Sincerely yours,

4/16/46
Earl M. - Intosh

THE B.L.S. WHOLESALE PRICE INDEX

The Bureau describes this index in its current publications as follows:

The Bureau of Labor Statistics' wholesale price data, for the most part, represent prices in primary markets. In general, the prices are those charged by manufacturers or producers or are those prevailing on commodity exchanges. The monthly index is calculated from a monthly average of one-day-a-week prices.

The wholesale price index measures average changes in the prices of a uniform group of commodities weighted according to the quantities marketed in the years 1929 to 1931. The accompanying table shows the relative importance of the major groups of the wholesale price index in the 1926 base period and the changes shown by these groups and the total index from 1939 to the latest month for which data are available -- February 1946. The attached chart shows the course of the index and two of its principal components for the period since 1913. The Bureau also compiles weekly indexes from which it is possible to estimate that the index for the current month probably will be about 2 per cent higher than in February and about 4 per cent higher than at the end of the war. The Bureau also publishes indexes for about 50 subgroups of commodities and several economic classes like raw materials and manufactured goods. Nearly 900 price series are used in constructing the wholesale price index.

During the war period wholesale price series for a number of fabricated products were no longer available on a comparable basis and the Bureau has carried the quotations for these products unchanged. It is planned to reintroduce actual changes for these series as soon as possible into the index. The coverage of the index is rather uneven especially for new products and for such products as women's clothing and machinery which are difficult to price even in peacetime.

Probably a larger proportion of the price series in the wholesale price index is nominal than the price series used to compile the consumer price index. It appears certain that the wartime increases in wholesale prices for most groups of industrial commodities are understated by the indexes published by the Bureau. On the other hand, prices of farm products and foods have shown much larger rises during the war than prices of industrial commodities. Since the Bureau's index probably assigns heavier weights to agricultural commodities than they should receive, the total wholesale price index probably does not understate the wartime rise in wholesale prices as much as the understatement of the industrial price rises would indicate.

An important distinction between the wholesale price index and the consumer price index is that the former covers only commodities, both for producer and consumer use, while the latter covers both goods and services, but only those purchased by consumers.

B.L.S. WHOLESALE PRICE INDEX
1926 = 100

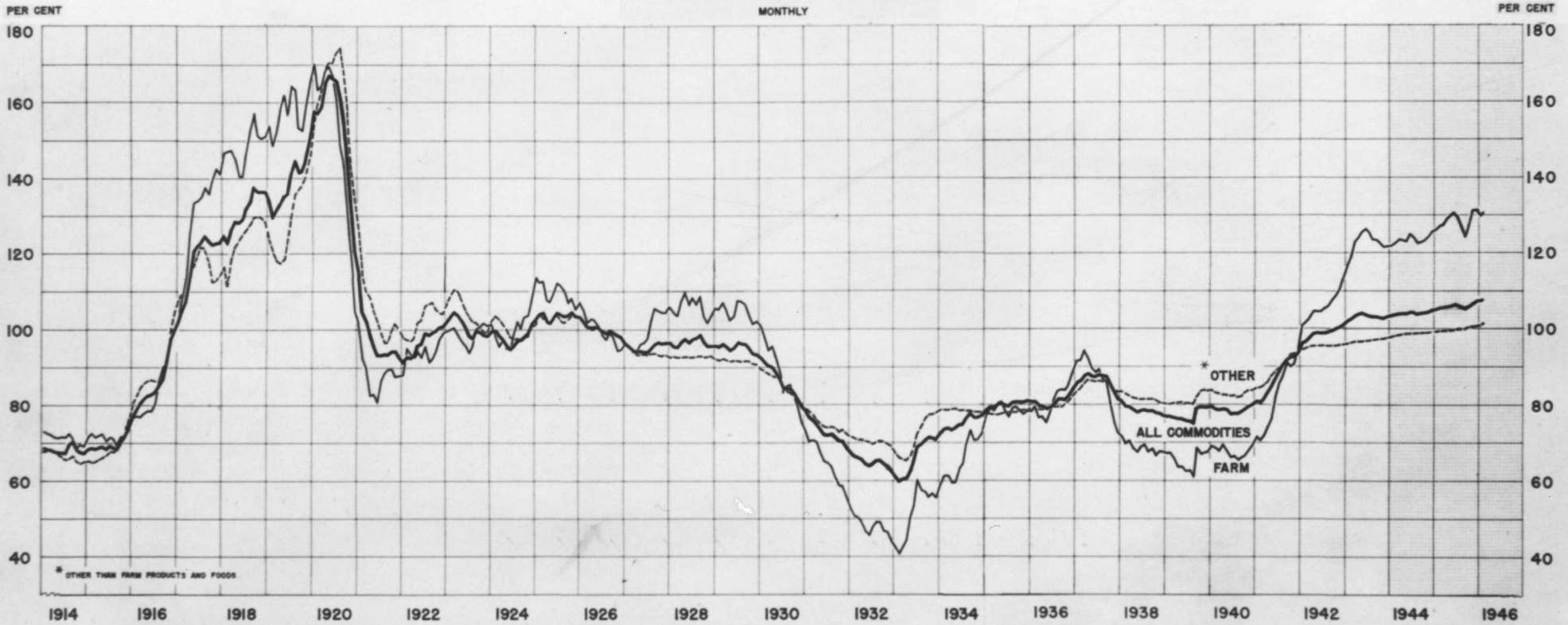
	Weight*	1939 average	1946 Feb.	Percent increase
Total	100	77.1	107.7	40
Farm products	17	65.3	130.8	100
Foods	19	70.4	107.8	53
Other products, total	64	81.3	101.3	25
Hides and leather	3	95.6	119.6	25
Textiles	10	69.7	102.2	47
Fuel and lighting	15	73.1	85.1	16
Metals	16	94.4	106.6	13
Building	6	90.5	120.9	34
Chemicals and drugs	2	76.0	95.9	26
Housefurnishings	3	86.3	106.5	23
Miscellaneous	9	74.8	95.6	28

* Relative importance of groups in 1926 base period.

WHOLESALE PRICES

BUREAU OF LABOR STATISTICS INDEXES, 1926 = 100

MONTHLY



BUREAU OF GOVERNMENT OF THE FEDERAL RESERVE SYSTEM

7/16/46
C. and M. as Interest

THE B.L.S. CONSUMER PRICE INDEX

The Bureau describes this index in its current publications as follows:

The "consumers' price index for moderate-income families in large cities," formerly known as the "cost of living index," measures average changes in retail prices of selected goods, rents and services, weighted by quantities bought by families of wage earners and moderate-income workers in large cities in 1934-36. The items priced for the index constituted about 70 per cent of the expenditures of city families whose incomes averaged \$1524 in 1934-36.

The index only partially shows the wartime effects of changes in quality, availability of consumer goods, etc. The President's Committee on the Cost of Living has estimated that such factors, together with certain others not fully measured by the index, would add a maximum of 3 to 4 points to the index for large cities between January 1941 and September 1944. If small cities were included in the national average, another 1/2 point would be added. If account is also taken of continued deterioration of quality and disappearance of low-priced merchandise between September 1944 and September 1945, the over-all adjustment for the period January 1941 to September 1945 would total approximately 5 points. As merchandise of prewar quality and specifications comes back into the markets and the Bureau is able regularly to price it again, this adjustment factor will gradually decrease and finally disappear.

The accompanying table shows the relative importance in the 1935-39 base period of the groups of items separately published. Indexes for these groups are based on prices of about 200 goods and services and in addition rental rates are collected for a large number of dwelling units in each of the cities surveyed. The table also shows the indexes for 1939 and the latest date available -- February 1946 -- and the advances recorded for that period. The total index for April is likely to be a point or two higher than in February.

The course of the index and of its major components is shown on the attached chart for the periods from 1914 to 1922 and since 1939.

The major part of the wartime rise in the cost of living occurred from the beginning of 1941 to the end of 1943 and was used in the application of wage rate controls. As a result the changes shown by the index during that period were subject to considerable study. The Bureau's index advanced 23.4 per cent from January 1941 to December 1943 while studies made jointly by the A.F. of L. and the

C.I.O. placed the rise at 43.5 per cent. The President's Committee concluded that an allowance of 3 or 4 points should be made for changes not reflected in the Bureau's index. The Bureau made special efforts to meet the unusual problems of price measurement in wartime and developed new techniques to take care of a number of special wartime problems. Most users of the index, however, regard the wartime rise in prices to be understated by the index.

It should be recognized that this index is a measure of average changes in prices paid by consumers for a uniform list of goods and services and not a measure of aggregate changes in the cost of living, including changes in living standards. While allowances are made for nonavailability of items that make up the index, no allowance is made currently for shifts in the choices of consumers as their incomes change.

B.L.S. CONSUMER PRICE INDEX
1935-39 = 100

	Weight*	1939 average	1946 Feb.	Percent increase
All items	100	99.4	129.4	30
Food	35	95.2	139.6	47
Clothing	11	100.5	149.9	49
Housefurnishings	4	101.3	148.4	47
Fuel and light	7	99.0	111.0	12
Rents	19	104.3	108.3**	4
Miscellaneous	24	100.7	125.1	24

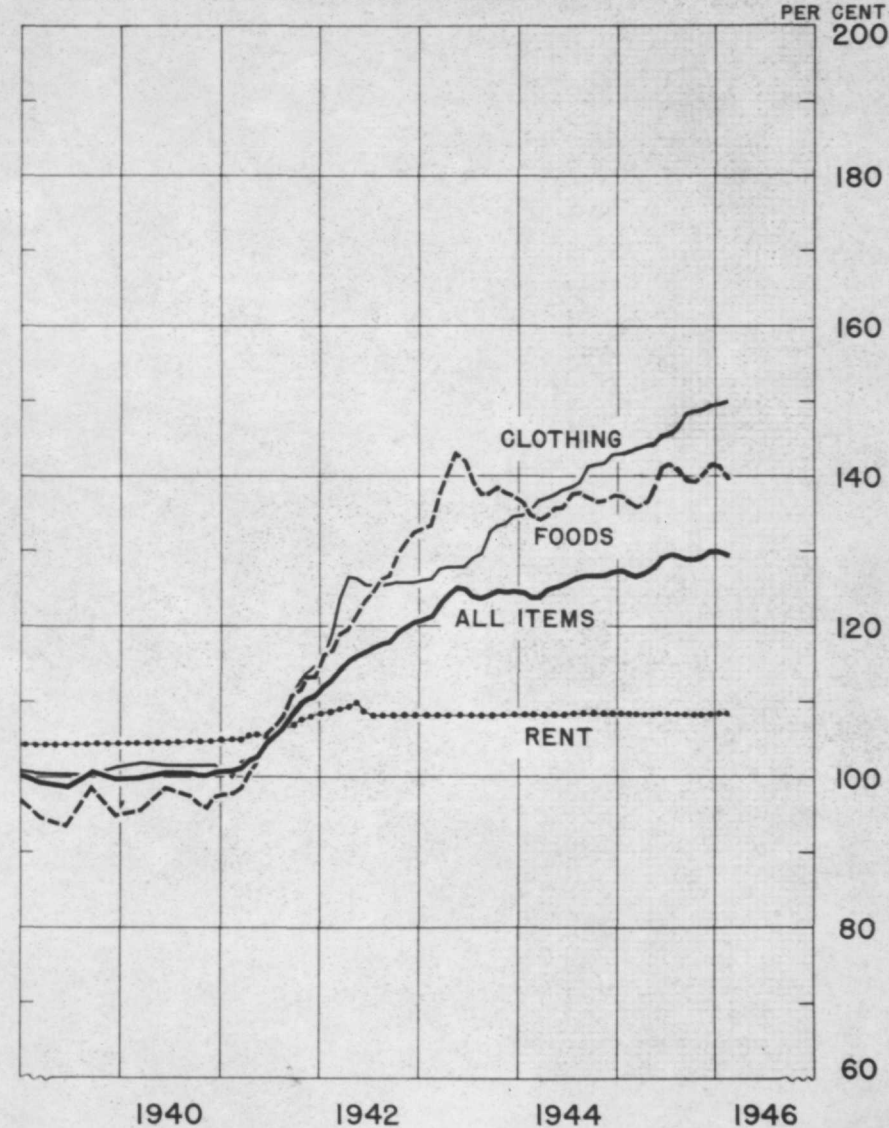
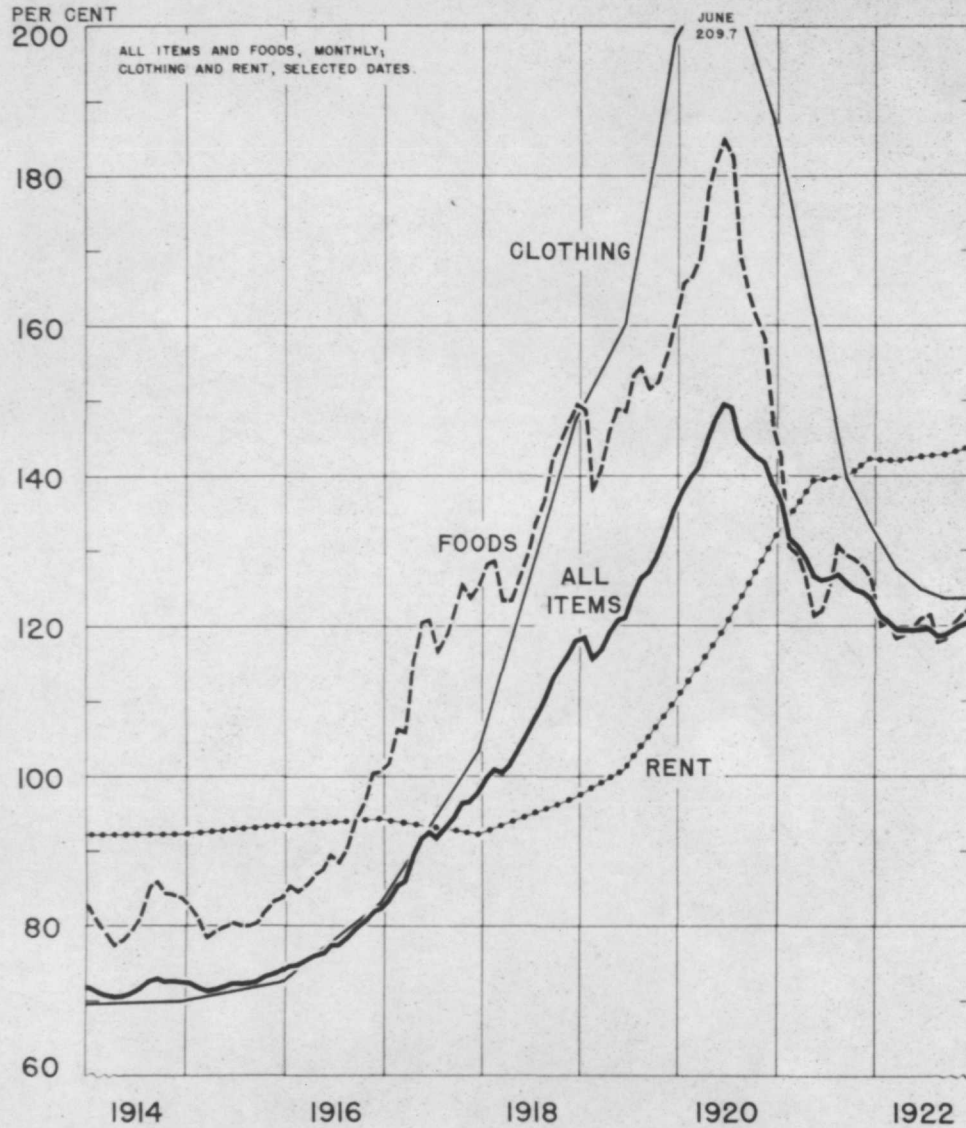
* Relative importance of groups in the 1935-39 base period.

** Latest month available for rents is December 1945.

COST OF LIVING

BUREAU OF LABOR STATISTICS INDEXES, 1935 - 39 = 100

QUARTERLY THROUGH SEPTEMBER 1940: MONTHLY OCTOBER 1940 -



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April 17, 1946

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Board of Governors
Federal Reserve System
Washington 25, D. C.

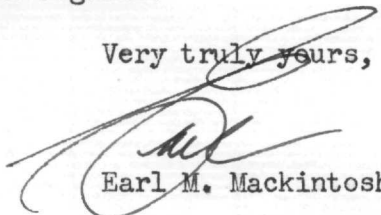
Dear Marriner:

I wish to thank you for your letter of April 16th in which you inclosed two memoranda, "The B.L.S. Consumer Price Index" and "The B.L.S. Wholesale Price Index".

These will be very helpful to me in my present lease problem. I do appreciate your courtesy and I hope that your secretary was able to find an apartment. However, if I can be of any further service to you, please command me.

With kindest personal regards.

Very truly yours,



Earl M. Mackintosh

EMM:am