APRIL 1951

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

The Trend of Business

A Temporary Easing of Upward Pressures

A minor abatement of upward pressures has characterized general business trends during recent weeks. The price rise has slowed down, particularly at the raw material and wholesale levels. Order bookings are accumulating less rapidly. Consumer purchases still are strong, and personal income continues to rise, but scare buying psychology has subsided, at least temporarily. Production continues high, and finished inventories, particularly of most hard goods, are described as ample. In some lines, such as television sets and refrigerators, sales and advertising efforts are being intensified.

These developments are of insufficient magnitude to warrant comparison with softening tendencies which took place during the first half of the year in 1947 and 1948. Although declines occurred during the February-April periods of those years, the spring developments did not accurately portend the trend for the year as a whole. No declines have yet appeared in over-all measures of business for 1951, and in view of the large scale military expenditures and extensive outlays for business plant and equipment to come later in the year, the outlook is still one of inflationary pressure.

BUSINESS MEASURES CONTINUE STRONG

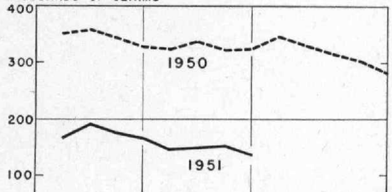
Prices—Consumer prices have continued to move upward during recent weeks, but at somewhat slower rates. Direct price controls and relaxed pressures on basic commodities appear to be reflected in this trend. The weekly U.S. Bureau of Labor Statistics Wholesale Price Index dropped very slightly from mid-February to mid-March. Declines in the prices of farm products and foods were responsible for the change. However, during the same period, prices of most items comprising the Basic Commodity Index underwent minor softening. In the light of the more specific price controls soon to be imposed, these developments may indicate slower price movement in the months ahead.

Employment—Seasonally adjusted employment continued at record high levels during March. This was undoubtedly a reflection of record civilian production upon which has been superimposed some military production, and of substantial tooling up of plants for future production of war goods. There was evidence in Seventh District plants, however, that production of civilian goods is not undergoing quite as much pressure as existed in previous months. Most employers are retaining their standards when hiring new workers—an indication that manpower pressures are not unduly great—and declines in overtime have been quite generally reported.

Consumer Purchases—Department store sales in the Seventh District continue above the year-ago level, by about 25 per cent on a dollar basis. A significant part of this increase results from price rises during the year, but unit sales undoubtedly are above last year. Reports indicate, however, that consumers are showing less urgency to buy durable goods. Stocks of major household appliances are being displayed in large volume, and this fact appears to have dampened somewhat the earlier consumer notions of imminent shortages. Used car sales continue slow, and stocks of some makes of new cars at dealers' showrooms have increased, but these are expected seasonal developments.

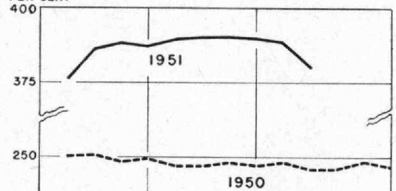
Inventories—Stocks of processed parts and subassemblies have continued to increase, in addition to the rise in stocks of finished goods. Most raw materials, however, remain tight. Much of the shortage of basic raw material supply appears to relate to distribution. Obviously, manufacturers are getting, or previously have stocked these supplies—else production could not continue at current rates. High production during recent months unquestionably has been at the expense of raw materials inventories in many cases. In light of recent indications that production cutbacks may not be as great as earlier expected, many businessmen are taking a "new look" at their finished and in-process inventories.

NO LABOR SLACK
UNEMPLOYMENT INSURANCE CLAIMS
SEVENTH DISTRICT STATES



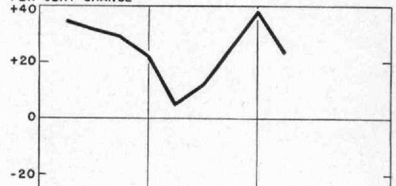
SOURCE: U.S. BUREAU OF EMPLOYMENT SECURITY.

RAW MATERIAL PRICES HALT CLIMB
BASIC COMMODITY INDEX*
(AUGUST 1939 = 100)



* DAILY INDEX NUMBERS FOR 28 COMMODITIES.
SOURCE: U S BUREAU OF LABOR STATISTICS.

SALES CONTINUE HIGH
DEPARTMENT STORE SALES
COMPARED WITH YEAR AGO*



* SEVENTH DISTRICT SALES.

1950: Year of the Big Loan Rise

Chicago Banks Lead District Loan Boom But Lag in Profits

Throughout much of the postwar period member banks in the Seventh Federal Reserve District have been setting new records in one year and breaking them in the next. The year 1950 was no exception. Most previous highs toppled in quick succession as District banks helped to finance the rising tempo of pre-mobilization activity after the outbreak of hostilities in Korea. Bank asset totals grew and the increase placed more deposit money at the disposal of Seventh District businesses and consumers than ever before in history. Earnings rose even faster under the influence of large and higher-yielding portfolio holdings. Behind all these developments, of course, lay the spectacular increase in bank loans.

BUSINESS BORROWINGS BOOM

Actually, loan expansion in District banks had proceeded at a relatively moderate pace during the first half of 1950. The increase in that period was not quite 210 million dollars, mostly in banks outside the major financial centers. After June 28, however, the picture changed abruptly. Total loans of District banks rose by an unprecedented 940 million in the final six months of the year.

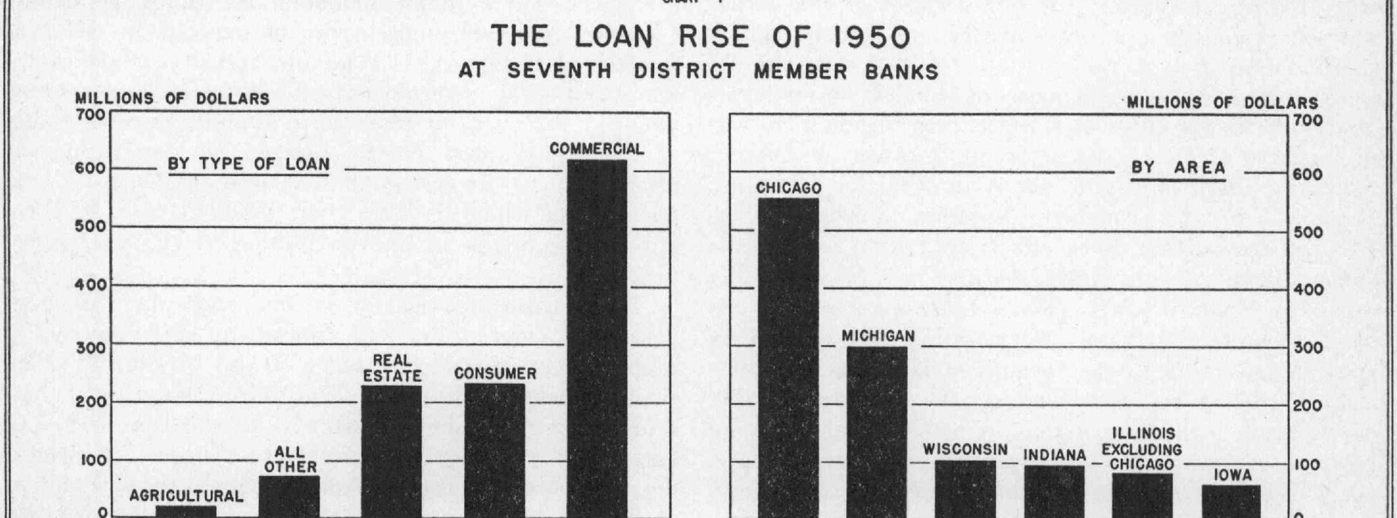
The greatest element in this change was the widely publicized upsurge in lending to commercial and industrial concerns. Business loan totals had contracted slightly (although less than usual) in the first half of the year, but expanded by a record 654 million between June and December as the need for funds by businesses rapidly outgrew the limits of their internal resources. Roughly half of the increase in District business borrowing in the last half of the year was used to finance additional investment in inventories, needed as a result of larger physical holdings as well as higher materials prices. Moreover, as is usual in a period of sharp rise in prices and business activity, the primary producers and processors who borrow principally in major financial centers were among the first to require additional funds. Consequently, 586 million, or 90 per cent, of the total second half District rise in business loans centered in five major financial centers in the area—Chicago, Des Moines, Detroit, Indianapolis, and Milwaukee. Chicago banks alone accounted for 473 million of this increase.

OTHER LOANS SHOW STEADIER RISE

While the swelling total of loans to business was the center of attention in the late months of 1950, the combined increases in other forms of bank lending added nearly as large a total to bank earning assets over the entire year. Expanding in slower but steadier fashion, loans on real estate and loans to individuals shared about equally in the one-half billion dollar increase in all other types of loans between December 1949 and December 1950.

The larger share of the increase in real estate loans came in the late summer months. This was more the result of usual seasonal developments than of reaction to the international conflict. A six per cent increase in loans on farm land and an 11 per cent growth in loans on commercial property between June and December may have reflected in part increased selling and construction activity as a result of the Korean war,

CHART 1



but the dollar total of these increases was small. Borrowing on residential property—four-fifths of total District real estate lending—was apparently as much discouraged as encouraged by the prospect of partial defense mobilization. Such loans increased 22.5 per cent during the year, but this large rise was a natural result of the record levels of residential construction which were maintained throughout the first nine months of 1950. In the final quarter, mortgage credit extensions dropped off considerably, but this resulted primarily from the usual seasonal decline in construction which has marked every postwar year except 1949. The imposition of Regulation X, restricting terms of housing credit, had little effect in holding down late 1950 mortgage lending because of the existence of a large backlog of preregulation financing commitments.

REGULATION W SLOWS CONSUMER BORROWING

Much more apparent in the year's statistics were the effects of Regulation W upon consumer instalment borrowing. Loans to consumers had grown steadily in importance in all classes of District banks since the war, and in 1950 banks both in the major financial centers and outside increased their instalment loans outstanding by about one-third. A 40 per cent increase in retail automobile instalment lending and a 60 per cent increase in other retail instalment lending helped to raise total bank loans to individuals past the billion dollar mark by the end of the year. Almost all of the year's 231 million increase, however, occurred before the tightening of allowable terms on consumer credit in mid-October. In the first six months of 1950, loans to individuals rose 107 million, primarily in banks outside the major financial centers. In the following three months, the rate of expansion was twice as rapid, concentrated over this period in the major urban centers where consumer buying was most pronounced. In the final quarter of 1950, loans to consumers, made for the most part under stricter credit terms, grew by only 22 million. Such a rise was still in contrast to the year-end declines of the earlier postwar years, but the slow-down in late 1950 was much sharper than in late 1949.

Almost the only increase of modest proportions among the major types of bank lending during 1950 was in loans to farmers. Farm credit granted by District banks increased only nine per cent over the past year. Even within this category, however, substantial increases occurred but were offset by a drop in Government-guaranteed crop loans. Because of high and rising prices for farm products, loans to farmers guaranteed by the Commodity Credit Corporation and secured by stored crops totaled only 16 million dollars at the year-end, 34 million below a year ago. On the other hand, partly because they did not resort to CCC financing and partly because of large dollar purchases of livestock and machinery, farmers increased their direct borrowing from banks by 53 million, or 30 per cent, during the year. A substantial part of this increased credit was extended by rural banks in the fall months, when a good many farmers were purchasing new stocks of high-priced feeder cattle before disposing of current holdings.

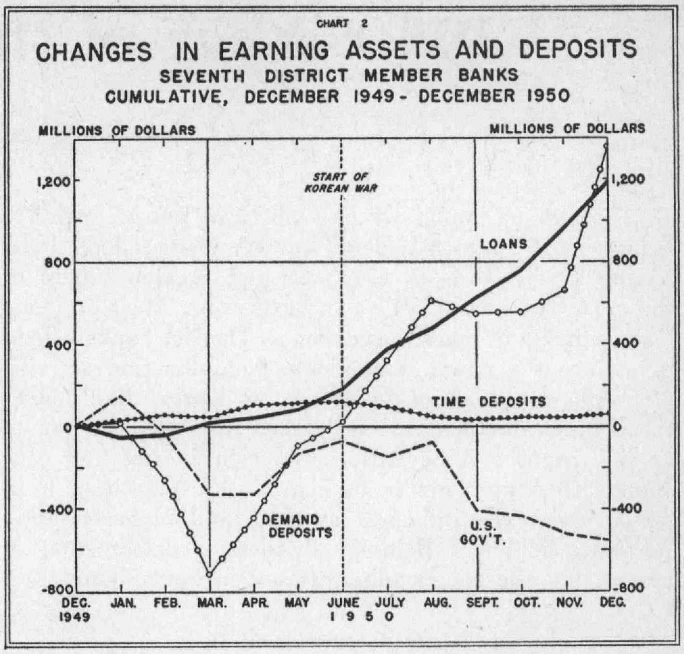


CHART 2
CHANGES IN EARNING ASSETS AND DEPOSITS
SEVENTH DISTRICT MEMBER BANKS
CUMULATIVE, DECEMBER 1949 - DECEMBER 1950

For the year as a whole, total loans increased 28 per cent in Chicago and the other four major financial centers, compared with a 20 per cent rise in all other banks in the District. Moreover, between the end of May and the end of December, loans in reporting member banks in the District's leading centers rose nearly one-third more rapidly than did loans of all reporting banks in larger centers throughout the nation. Thus, banks in the District's major financial centers led not only outlying banks in this District, but also the average for the nation's leading cities, in the loan boom of 1950.

SQUEEZE ON GOVERNMENT HOLDINGS

The very high levels of financial activity in 1950 placed District banks in need of funds during most of the year. Three major demands for funds appeared: (1) the usual seasonal decline of deposits in the first quarter of the year, (2) sizable security offerings by state and local governments and business corporations, and (3) the need for reserves to support growing totals of deposits created in the process of loan expansion after midyear. To satisfy these competing demands, District banks whittled down their holdings of U S. Government securities in uneven fashion as the year progressed.

Deposit withdrawals for income and other tax purposes cut District demand deposit totals by over 700 million dollars between January 1 and March 29. Particularly because of large-scale withdrawals for more than a few days in avoidance of April 1 personal property tax assessments, Chicago member banks alone experienced a deposit loss of 628 million, and accounted for 300 million of the 334 million net sales of Government securities by District member banks during this period. Despite complete replacement of these deposit losses in the succeeding three months, original levels of Government holdings were never fully restored.

Loan demand, starting to grow rapidly in June, soon began to make renewed liquidation of Governments necessary. The major portion of this liquidation came in September, when District banks redeemed and sold 333 million of Governments during the period of Federal Reserve market support in connection with Treasury refunding operations. Some of the funds thus obtained were temporarily retained in anticipation of increases in percentage reserve requirements, but by the end of the year most free cash reserves had been absorbed by the large loan and deposit expansion of late fall. In addition, throughout the year banks engaged in moderate but steady switching operations out of Governments and into state, municipal, and corporate securities. By the year-end, District holdings of "other" securities had risen 285 million, primarily in Michigan and Illinois banks.

Over the year as a whole, District banks disposed of 554 million of Government securities, five per cent of their total holdings. Because both early deposit drains and second-half loan expansion were most pronounced in Chicago, liquidation by banks in that city was twice as great as the District average. On balance, only Indiana banks outside Indianapolis, Michigan banks outside Detroit, and banks in Des Moines were small net purchasers of Governments over the year.

HIGH ACTIVITY BOOSTS EARNINGS

Holdings of a larger and higher-yielding total of earning assets funneled a record 458 million of gross earnings into District banks during the past year. Salary costs and other expenses continued to mount, and a record sum was paid in taxes, but the reported 105 million of profits after taxes was still a postwar high. When allowance is made for tax-deductible additions to loan reserves being made by many banks under the permissive regulation of the Bureau of Internal Revenue, 1950 net profits considerably exceeded the previous all-time peak of 108 million set in 1945.

As the accompanying table indicates, banks in Des Moines, Detroit, Indianapolis, and Milwaukee reported the greatest gain in profitability. Loan income in these banks advanced 20 per cent, and net current earnings rose 23 per cent. Chicago banks reported an increase in loan earnings only half as large, but the unusually small rise in their expenses enabled the gain in net operating earnings by these banks to match the District average.

In nonoperating accounts, banks outside Chciago reported actual losses and charge-offs lower than a year ago, while making only moderate changes in deductions for bad debt reserves. Accordingly, net profits after taxes for these banks were reported one-sixth higher than 1949 levels, in spite of sharply higher income tax levies. Chicago banks, on the other hand, again reported large nonoperating profits and recoveries but more than offset the gain in this category by very large increases in additions to bad debt reserves. Consequently, with higher income tax liabilities, Chicago bank profits after taxes dropped 11 per cent below a year ago.

This drop in net profits stands in surprising contrast to the large increase in loans at Chicago banks during the year. In part, of course, this contrast is illusory, resulting from the "bookkeeping" reduction in profits produced by large additions to loan valuation reserves. More importantly, however, much of the income-creating effect of the fall loan expansion will be carried over into 1951. The general rise in interest rates last fall will also serve primarily to raise bank incomes in 1951. Both these influences will affect banks in Chicago more than others in the District and should thereby tend to produce a relative improvement in the earnings position of Chicago banks in the current year.

EARNINGS, EXPENSES, AND PROFITS OF SEVENTH DISTRICT BANKS
1950 COMPARED WITH 1949

(Amounts in millions of dollars)

Item	All District Member Banks		Chicago		Other Four Centers*		Balance of District	
	1950	Per Cent Change From 1949	1950	Per Cent Change From 1949	1950	Per Cent Change From 1949	1950	Per Cent Change From 1949
Interest and discount on loans	196.5	+14.7	60.8	+9.3	42.6	+20.3	93.1	+16.0
Interest on U. S. Government securities	155.0	+3.2	60.5	+3.9	36.3	+3.5	58.1	+2.2
Total earnings	457.8	+9.7	168.5	+8.0	96.3	+12.0	193.0	+10.0
Total expenses	291.4	+5.7	106.3	+2.9	61.9	+6.6	123.2	+7.6
Net current earnings	166.4	+17.5	62.2	+17.9	34.4	+23.1	69.8	+14.5
Losses and charge-offs (−) or recoveries and profits (+), net	−17.1	(−$8.5)	−4.1	(−$10.1)	−4.4	(+$.9)	−8.6	(+$.7)
Taxes on net income	44.6	+39.1	17.4	+33.9	10.5	+74.0	16.7	+28.2
Net profits after taxes	104.6	+3.7	40.7	−11.0	19.5	+17.1	44.4	+15.2
Cash dividends declared on common stock	37.5	+6.1	16.7	+2.1	7.7	+7.2	13.0	+11.0

* Des Moines, Detroit, Indianapolis, and Milwaukee.

Meat Price Controls Reappear

Are Meatless Days on the Horizon?

Most discussions of present day living costs tend to center on meat, reflecting the important position of this item in consumer budgets. Over and above its actual importance in budgets and diets, however, there has been a tendency to make meat a symbol of the "cost of living," a barometer of the general well-being of consumers. Most Americans like meat and, although they may object vigorously to rising meat prices, are willing to spend a substantial portion of their income to obtain it.

Meat supplies, unfortunately, do not change rapidly in response to increased demand. This results in large price increases such as occurred in the last half of 1950 and the early months of 1951. These, of course, were distasteful to consumers and resulted in the imposition of ceilings on meat prices. With ceilings in effect, memories of the meatless days and "black market" episodes experienced during and following World War II are revived. Thus, a question is raised as to whether we are again on the brink of a similar situation.

DEMAND FOR MEAT MAY RISE FURTHER

Meat has in recent years recaptured its pre-World War I popularity. Per capita consumption of red meat exceeded 163 pounds in 1908 but declined steadily over the succeeding three decades and averaged only 126 pounds for the drouth-ravaged 1935-39 period. The 1940 average was 142 pounds and with the advent of World War II, consumption per capita continued to rise, reaching 155 pounds in 1947, but declined moderately to 145 pounds in 1950.

Poultry meat (chicken and turkey) consumption per capita was a record 34 pounds in 1943, but was down to 31 pounds in 1950. The record year for all meats was 1944 when nearly 185 pounds were consumed. This compares with 176 pounds in 1950 and a prospective 180 pounds for the current year.

The retail value of meat consumed per person is a reasonably good indicator of meat demand and normally is between five and six per cent of disposable income. This fell below 4.5 per cent during World War II, but available data probably are not reliable for this period since such relationships were greatly influenced by price controls, rationing, and unreliable reporting due to "black market" operations. Following the removal of price controls in 1946, the percentage relationship rose well above six per cent for both 1947 and 1948. In 1949 and the first half of 1950, retail value was at about an average relationship to incomes, but increased in the second half of the year. With rising Government expenditures for defense mobilization, demand in 1951 should continue very strong, both in terms of actual dollar expenditures for meat and in relation to consumer income.

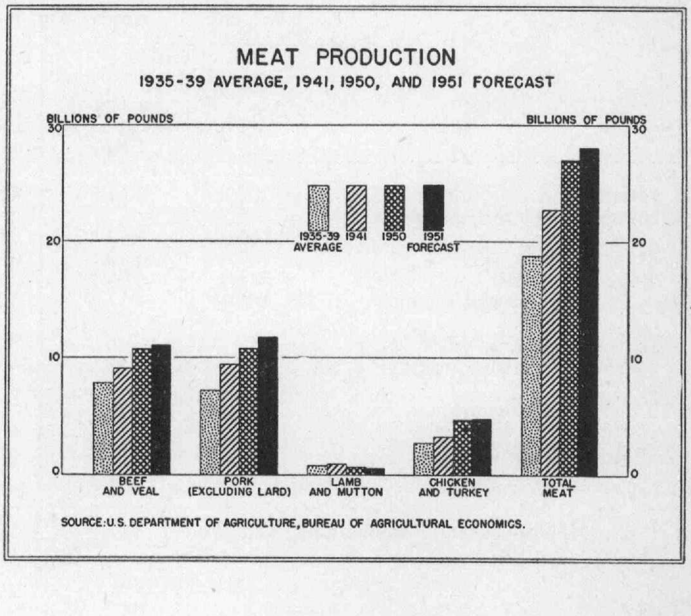
Factors tending to maintain a strong demand situation for meat include the indicated cutback in consumer durable goods production, a large amount of liquid assets available for spending, rising levels of employment and payrolls, and an over-all large supply of money in circulation. The rapidly increasing population and the increase in size of the armed forces will also contribute to increased meat demand.

Offsetting factors in the demand for meat would include measures, such as increased taxes, tending to decrease consumer incomes. In addition, an increase in saving would leave less current income available for buying meat. Increased competition from other foods, eggs, for example, or abundant supplies of civilian goods in general, would also serve to lessen the demand for meat. A widespread and sustained boycott of high meat prices by housewives could also decrease demand. However, there is little indication at this time that any of these factors will develop sufficiently to overshadow those supporting increased demand.

MEAT SUPPLIES WILL INCREASE

Meat production (excluding poultry) was a record 25.2 billion pounds in 1944, but dropped to a postwar low of 21.4 billion in 1948. Production has increased steadily since then, to 22.3 billion in 1950 and with 23.4 billion in prospect for the current year. The indicated 1951 production is five per cent above that of last year and seven per cent below the peak year of 1944. This forecast is based on the increased numbers of meat animals, particularly beef cattle and hogs, and the feeding of livestock to heavier weights.

Poultry meat production in 1950 totaled 4.7 billion



pounds, about double the 1935-39 average and nearly four per cent above the 1949 production. Production is estimated to increase slightly in the current year mainly because of increased commercial broiler operations. Ample poultry meat supplies, of course, would tend to exert a downward pressure on prices of beef and pork.

Cold storage holdings of red meats in public, private, and semi-private cold storage houses and meat packing plants on January 31 totaled 958 million pounds, about 13 per cent above a year earlier and 15 per cent above the 1946-50 average for the same date. Including cold storage holdings of chicken and turkey meat of slightly over 275 million pounds on the same date, total meat stocks were 1,233 million pounds, a little over four per cent of expected total meat production of 28.1 billion pounds this year (see accompanying chart). However, these stocks do not take into consideration meat supplies in the many cold storage lockers, deep freeze units, and refrigerators owned by farmers and other consumers, for which reliable statistics are not available. These larger than usual storage holdings may reduce the effects of the seasonal decline in production during the summer.

The demand for meat probably will continue to increase relatively more rapidly during 1951 than total meat production. Price increases on effectively controlled markets will, of course, be at a minimum. However, a "black market" in meats appears almost certain if demand increases further and present and prospective price controls are no more effective than during and after World War II. The four to five per cent increase in total meat production will not be uniform throughout the year. Supplies should increase moderately from now until midyear with a seasonal decline likely in July, August, and early September. This latter period will severely test meat price controls, for, in addition to seasonally reduced meat supplies and the expected rise in consumer income, the effects of a shortage of civilian goods will probably show up more than before. After mid-September, a large part of the year's increase in meat will be available, and supplies should be more nearly in balance with demand.

MORE CONTROLS COMING

Meat shortages during World War II encouraged a great increase in livestock slaughtering outside of usual market channels and reduced considerably the supplies available to Federally inspected packers, the only ones authorized to make interstate meat shipments. This led to severe shortages in centers outside surplus producing areas. In order to combat this situation, compulsory licensing of slaughterers and identification of all meat sold were made mandatory. Meat rationing was also undertaken, and some attempts were made to limit farm slaughter. However, these measures were far from fully effective and the "black market" flourished.

Why were "black market" operations attractive? Primarily because public support for the price and ration controls was weak and because public agencies kept controls to a minimum. These agencies lacked the manpower, experience, and, in some cases, the legal authority to set up the necessary controls at all levels of processing and distribution. Concessions made to satisfy various groups plus the failure to centralize the administration of controls in a single agency were also vital factors contributing to the situation. Little or no social condemnation of violators occurred, and most operators apparently felt that the profitableness of the "black market" more than repaid the inconvenience of the light penalties imposed on them when detected. Furthermore, large numbers of consumers had no qualms about seeking out "black market" supplies.

The Economic Stabilization Administration's (ESA) order of January 26 put all meats under price control, ceilings being set at the highest prices of the December 19-January 25 period. Live animal prices were not controlled directly, but controls on meats do provide some indirect control of livestock prices. In an order issued February 9, slaughter of meat animals was prohibited by anyone not in the slaughtering business between January 1, 1950, and February 9, 1951. All slaughterers, except farmers, were to be licensed by ESA by March 15. Newcomers to the slaughtering business will be granted a license only by showing they are essential.

Starting April 1 each slaughterer will be given a quota based upon his 1950 slaughter experience. In order to combat an increase in farm slaughter and to keep the present pattern of meat distribution as stable as possible, a farmer is prohibited from selling meat to anyone for resale unless the buyer secured meat from him in 1950. Also, a farmer may not sell more than 3,000 pounds of meat in any six month period and his meat sales must not exceed those of the same period a year earlier.

Other controls include a quota designed to force packers and other distributors to make the same geographic distribution of products as they made in 1950. Controls on live animal prices are expected to be announced soon; in fact, some slaughter houses have threatened to cease operations unless live animal prices are controlled. They insist that buying livestock at uncontrolled prices and selling meat under ceilings are inconsistent policies and will invite "black markets."

Despite present regulations to keep distribution of meat in legitimate channels, it will be difficult to control slaughtering by farmers and small butchers. Therefore, it seems we are once again following the general pattern of the World War II experience. If so, rationing is one of the next steps; in fact, there is little likelihood of meat price controls being effective unless accompanied by rationing and strict policing of regulations to keep meat in legitimate trade channels. There is some doubt, however, that the staff necessary for effective policing will be provided. Therefore, "black market" operations in meat may become again a serious problem in the American economy, since meat production probably will not increase as rapidly as demand. In this circumstance, unless primary reliance is on monetary and fiscal measures rather than direct price controls as a means of minimizing inflationary increases in income, meatless days are likely to reappear.

Michigan Leads District in Population Growth

Seventh District Mirrors National Trends in 1950 Census

The resumption of population growth experienced by the nation during the 1940's was paralleled by similar trends in the Seventh Federal Reserve District, according to preliminary counts now available from the 1950 Census of Population. The increase of nearly 19 million persons from 1940 to 1950 for the whole country amounted to about 14 per cent, and the 2.7 million increase for the District was likewise about 14 per cent. Today, as in 1940, the District contains about 15 per cent of the country's inhabitants.

The growth pattern has differed significantly from state to state, as well as within each of the five District states. The population of the District portions of Illinois, Indiana, and Wisconsin, which contains at least four-fifths of the total for each of the states, increased by percentages approximating the District average—12 per cent in Illinois, 16 per cent in Indiana, and 11 per cent in Wisconsin. Iowa's population remained at virtually the same level throughout the period, increasing by less than three per cent. In Michigan's lower peninsula, on the other hand, the increase was considerably greater than typical for this region—about 22 per cent.

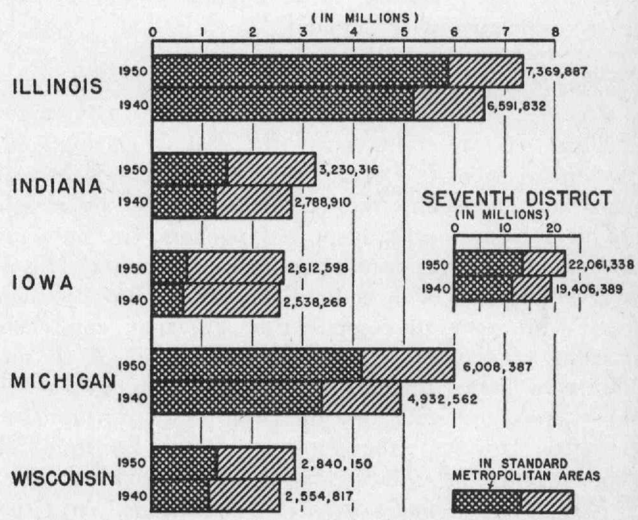
An analysis of population changes by intra-state economic areas which have relatively homogeneous agricultural, industrial, social, and demographic characteristics reveals a trend toward greater concentration in industrialized areas. Thus, gains of more than 10 per cent were recorded in southern and eastern Michigan, southeastern Wisconsin, northeastern Illinois, the northwest corner of Indiana and central Indiana, and a twelve-county section in eastern Iowa. Substantial losses occurred, however, in southern and western Iowa and in parts of southwestern and central Wisconsin. The largest increases were in Michigan, reflecting the wartime and postwar expansion of manufacturing industries in the cities in the eastern and southern portions of that state. This general change in the population pattern of the Midwest should prove to be of great advantage in the immediate future, when the manpower demands of manufacturing industries will be important to the rearmament effort.

Recently released figures on the population of standard metropolitan areas indicate that the District is predominantly an urban-oriented region. A standard metropolitan area consists of at least one city of 50,000 or more, the county containing the city, and any other contiguous counties closely integrated economically with the city. Almost 62 per cent of the population of this five-state area now resides in such metropolitan areas, as compared with slightly less than 60 per cent in 1940. For the nation as a whole, the corresponding figure is about 55 per cent currently. Within the District total, the fraction ranges from about one-fourth in Iowa through somewhat less than half in Indiana and Wisconsin to between 70 and 80 per cent in Michigan and Illinois (see the accompanying chart).

In all of the District states, the metropolitan area population increased more rapidly during the 1940's than did the total population. This continued a long-term trend toward increasing urbanization. Every census since 1880 has shown a decline in the percentage of the population in rural areas and an increase in the percentage in metropolitan areas. In 1880, about two-thirds of the population of the District states was rural and only about one-tenth lived in the larger urban areas. At present, the rural population is less than one-fourth of the total. The decline in the relative position of the rural population has been most spectacular in Illinois and Michigan, but it has been of major importance in the other three states as well.

Within the metropolitan areas, the increase during the last decade was considerably greater percentagewise in the suburban and other outlying sections than in the central cities themselves. In the Chicago area, for example, the increase amounted to about 6 per cent in the city and about 31 per cent in the outlying sections. For the Detroit area, the corresponding changes were 13 and 51 per cent. Of the 29 metropolitan areas included partially or wholly in the District, the pattern was reversed in only two cases. In one of these, a change in Census procedures produced this result.

POPULATION IN THE SEVENTH DISTRICT
1940 AND 1950



NOTE: INCLUDES ONLY THAT PART OF EACH STATE LOCATED WITHIN THE SEVENTH FEDERAL RESERVE DISTRICT.
SOURCE: U. S. BUREAU OF THE CENSUS.

Anticipatory Buying Influences 1950 Retail Sales

Durable Goods Lines Lead Retail Trade Expansion

The immense volume of consumer spending at retail stores during 1950 set many records. Concurrently, equally important developments occurred in the composition and seasonal variation of spending. These developments are illustrated by trends in (1) department store sales before and after the start of the Korean War, (2) sales of durable versus nondurable goods, and (3) consumer demand during the year's two waves of anticipatory buying.

Changing sales patterns developed against a background of greatly increased consumer demand during 1950 resulting in rapidly rising total sales of consumer goods. The increased desire of consumers to spend after midyear was supported by the high levels of current income received and by the use of past and future income by those who had liquid assets upon which to draw or credit against which to borrow.

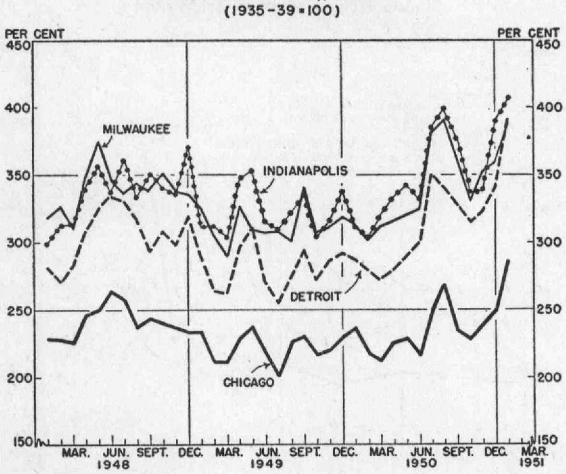
Although new records were set in many areas of consumer spending during the year, total department store sales in the District as well as the nation fell slightly below the record dollar volume of 1948. Department store sales in Detroit and Indianapolis last year were slightly in excess of 1948 totals. However, Chicago sales were below 1948, and Milwaukee sales were about the same.

Total retail sales during the first part of 1950 followed the usual seasonal pattern quite closely in both the nation and District (see Chart 2). Monthly totals were for the most part slightly higher than in the corresponding months of 1949 but substantially below the record postwar levels of 1948. In general, consumer spending appeared to be recovering from the relatively mild recession of 1949, and it was generally felt during the first two quarters that 1950 would be a "good" year for retail stores, but probably not a record one.

CHART 1

COMPARISON OF DEPARTMENT STORE SALES AT MAJOR DISTRICT CITIES

ADJUSTED INDEXES, 1948-51 (1935-39=100)



NOTE: ALL DATA SUBJECT TO REVISION OF SEASONAL FACTORS.

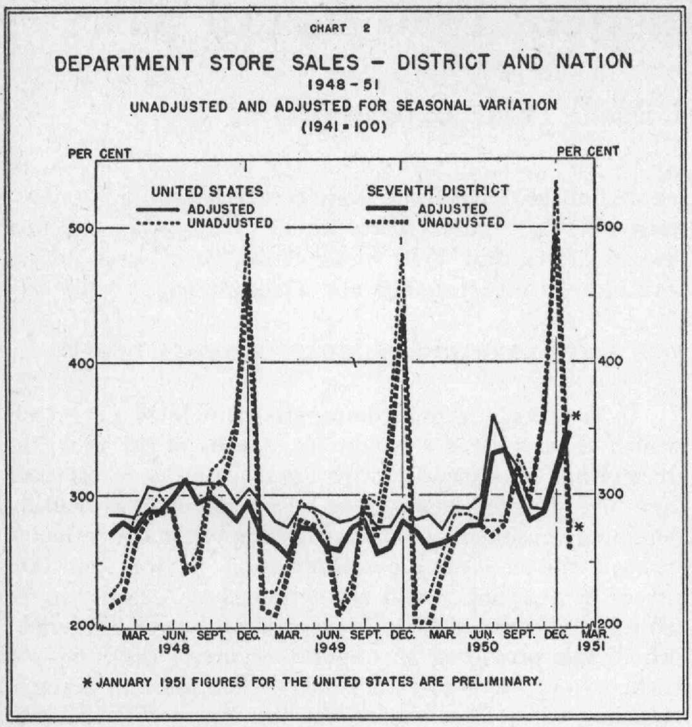
SALES ERRATIC DURING SECOND HALF OF 1950

In contrast to the comparative mildness of events which characterized the first six months of the year, the second half was studded with far-reaching developments, any one of which would have been capable of drastically affecting consumer spending. Fighting broke out in Korea toward the end of June. Regulation W was put into effect in September and strengthened in October in an effort to restrain the rapid expansion of consumer credit which was providing an important part of the funds for anticipatory buying by consumers. Tax rates on personal incomes were raised during the last quarter of the year and an excise tax was placed upon sales of television sets effective November 1. Late in the year, Communist China entered the battle in Asia. During December, extremely bitter weather brought to a close one of the most unpredictable six-month periods in many years. This combination of events, plus rapid price increases and growing rumors of coming austerity, produced two periods during which retail sales, especially at department stores, abandoned their usual seasonal pattern and took off skyward.

On the basis of the usual postwar seasonal sales pattern, June sales at department stores are usually slightly below those of May, followed by a considerable drop to two of the least active months of the year, July and August. From August to the end of the year, monthly sales can be expected to increase markedly.

The divergence from this seasonal pattern in the eventful months following Korea is indicated in Chart 2. Department store sales during July, instead of falling sharply, as would normally be expected, actually rose moderately. This fact accounts for the great rise in July in both the national and District adjusted indexes of department store sales, reflecting the anticipatory buying which resulted from the Korean affair. During August, department store sales remained abnormally high, but the trend of sales in the District and nation diverged, the former rising, the latter falling. In September, seasonally adjusted sales dropped from the abnormally high level of the summer months, and in October and November recovered rapidly. December sales in both the District and nation increased seasonally, even more than would be expected, to a new record for the month.

Although dollar sales always drop spectacularly from peak Christmas levels, January 1951 sales on a seasonally adjusted basis not only exceeded December figures but



equaled the all-time peak of last July for the nation as a whole. This wave of scare buying subsided somewhat in February and March, but sales continued to exceed those of 1950 by a substantial margin.

DURABLES VERSUS NONDURABLES

As has been the case during the postwar period in general, 1950 sales of nondurable goods failed to keep pace with those of durables. This trend is shown in Chart 3 for department stores and in Chart 4 as it appears at other types of retail outlets. At department stores, the radio-television category displayed the greatest strength, with household appliances trailing. The rise in furniture sales over the past five years has been moderate but steady. During 1950, all three categories advanced, the increase in radio-television and household appliances being spectacular. Sales of household appliances and furniture at outlets other than department stores displayed comparable trends.

Sales of nondurables at department stores and other establishments present an entirely different picture. Not only have they failed to share in the postwar surge of durables sales, but in some categories 1950 sales set a record postwar low. Needless to say, with spectacular exceptions, nondurables did not participate importantly in the forward buying which occurred in 1950.

Several reasons have been advanced for the failure of sales of most nondurable goods to participate to any great extent in the postwar boom. First, the early availability of such items and the high level of disposable personal income which has been an integral part of the postwar period allowed consumers to fill the backlog of demand for nondurables which existed in the early postwar years. Current demand originates principally from replacement needs, increasing population and, to some extent, from a tendency toward the purchase of higher quality apparel. Second, style change promotional activity has been less vigorous than immediately following the war.

Although many reasons are offered for the continued strong demand for consumer durables, the following appear to be most important. First, the postwar housing boom has increased the demand for durable goods with which to furnish and equip the new households. The increase in the number of family units during the same period has augmented this sector of the demand. Second, high incomes make possible a greater proportion of spending for "luxury" durables.

TWO WAVES OF ANTICIPATORY BUYING COMPARED

The first wave of anticipatory buying was concentrated in July and August. During these two months, consumers flocked to stores to buy goods, principally durables, which they feared would soon rise in price or be in short supply. During the third quarter of 1950, the nation's retail sales were almost 18 per cent in excess of the corresponding period of the previous year. This was in contrast to a modest six per cent year-to-year gain for the second quarter.

The list of goods which were hard to obtain during the second World War is startlingly similar to the list of goods on which consumers concentrated their spending during this period—automobiles and accessories, nylons, white goods, and some types of foods. In terms of dollars spent and length of the anticipatory wave, durables constitute the most important part of this list.

In the District, increases from year-ago levels of department store sales were led by sales of radios, television, and phonograph departments, with major appliances, furniture, domestic floor coverings, and household textiles lagging behind. For example, July sales of major house-

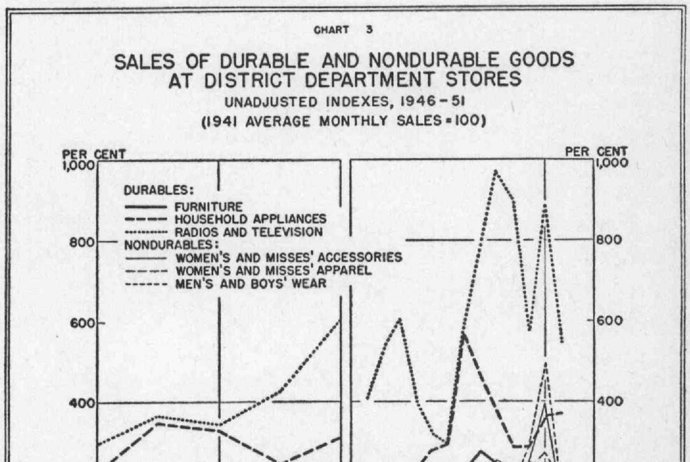
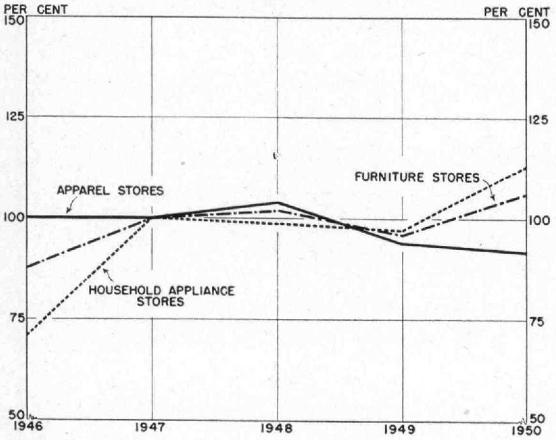


CHART 4

RETAIL SALES AT SELECTED STORES
SEVENTH FEDERAL RESERVE DISTRICT
(1947=100)



hold appliances, including refrigerators, washers, stoves, ironers, and cabinets, were more than double those of the corresponding month of 1949. Boosted by the long-run trend toward increased television set sales, July sales of the merchandising division of radios, television, and phonographs were over 150 per cent above July 1949. Muslins and sheeting sales were over 120 per cent above the previous year, and hosiery was up over 130 per cent.

In general, then, the July-August period was characterized by consumer eagerness to acquire goods which were hard to get during World War II. The dollar volume of sales was remarkable only because it was unseasonable; it did not approach the high sales volume which occurred during the Christmas season. A comparison with July and August of 1948, a year of similar total sales volume, shows the same general pattern as dces a comparison with 1949, but the magnitudes are not so great in the former case (see Chart 5).

The second wave of unseasonably high levels of buying occurred in December 1950 and January 1951. During this period, consumers concentrated their purchases on a wider range of products than during the July-August period. What preference they did show was primarily for better-known brands and for quality goods. At District department stores, sales of only a few minor categories failed to show increases over the corresponding month of 1949 and 1950, although the average excess was smaller than during the July-August period. On the other hand, piece goods and household textiles showed greater gains in all components than they showed during August. By the end of March, this wave of anticipatory buying appeared to be tapering off, although sales were still much higher than those of March 1950.

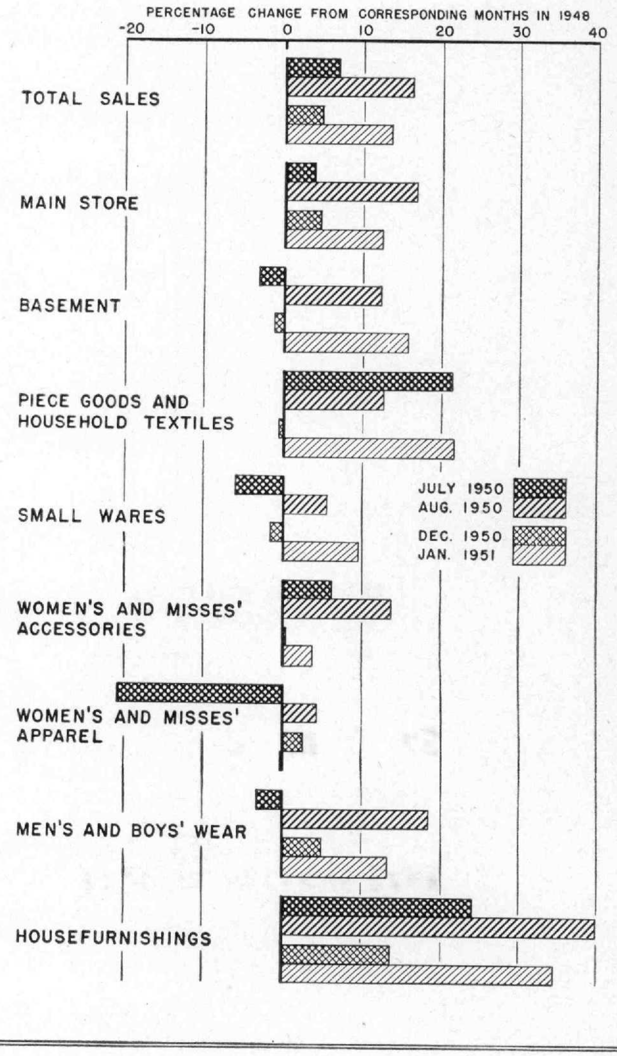
THE PLIGHT OF THE CONSUMER

At present, consumers are acquiring goods at near-record rates. It is difficult to see how this situation can last for many more months, since production of war materials at anticipated rates will interfere in many areas with the output of civilian goods. Increased personal incomes and declining civilian production will place great upward pressure on prices, despite the tempering effect of possible increases in tax rates.

The consumers' lot is not to be too unhappy a one, however, since production of most important consumer goods should be at worst comparable to pre-World War II levels and probably close to most postwar years except 1948 and 1950. Consumer stocks of durable goods are at all-time highs, and there is little prospect that they will decline in the months to come. It is possible that the production of consumer goods will return to levels comparable to 1950 within several years, assuming that the defense program is not expanded more than now anticipated, that contemplated new productive facilities are completed and utilized, and that efforts to minimize inflation are reasonably successful.

CHART 5

DEPARTMENT STORE SALES
SEVENTH FEDERAL RESERVE DISTRICT



SEVENTH FEDERAL

RESERVE DISTRICT