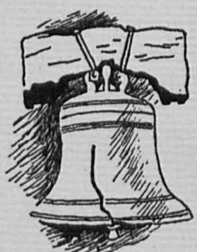
LIQUIDITY

its impact on SPENDING

and its implications for

STABILITY



The Thirty-fourth Annual Report of the

FEDERAL RESERVE BANK

OF PHILADELPHIA . . . 1948

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To Member Banks in the
Third Federal Reserve District:

Economic stability at high levels of production, employment, and income has long been the goal of business and Government. Yet it became increasingly apparent during 1948 that the step from inflation to stability is a precarious one. One of the many factors hindering its achievement was the large amount of liquid funds in the hands of the public—a condition which has prevailed since the war.

The public's large holdings of money and other liquid assets contributed to a heavy volume of spending. And inasmuch as industry could not always produce rapidly enough to meet the demand for goods and services, this situation helped to sustain inflationary pressures, especially during the second and third quarters of the year. Anti-inflationary policies were employed within the limits imposed by maintaining a stable Government security market. The Treasury's large cash surplus, rising short-term interest rates, and other anti-inflationary policies were successful in reducing somewhat the volume of money held by the public.

Although inflationary forces were still dominant during 1948, more and more soft spots appeared in the economy as the year progressed. By the end of the year some observers believed that we were on the verge of stability, others thought we had already entered a recession, and a few believed it quite possible that inflationary dangers were not over. The year's experience suggested, however, that liquid assets may not have the stabilizing influence that had been generally expected.

The questions raised by this problem of increased liquidity are likely to remain for some time to come. For without a decline in money supply or repayment of nonbank-held Government debt, liquid assets of individuals and businesses do not disappear. They may be shifted from one holder to another, but they remain with us and continue to raise problems for the economy as a whole, and particularly for the monetary authorities.

Alfred H. Williams

President.

Liquidity, Spending, and Federal Reserve Policy

To achieve a transition from inflation to stability, we must have the proper balance between the flow of money and the flow of goods and services. If there is too much money and too few goods, the problem is one of damping down spending to prevent rising prices and inflation. If, however, there is too little spending and goods are glutting the market, the problem is to stimulate the money flow to check falling prices and prevent a depression. The achievement of stability requires flexibility—action to restrict spending when it is excessive and measures to bolster spending when our economy is tending to run down from lack of demand.

The factors influencing the total volume of spending are numerous, but they all operate either through changes in the money supply or its rate of circulation. Of the factors influencing the volume of spending, the monetary authorities are particularly concerned with the actual and potential supply of money. They have no means of influencing directly the rate at which holders choose to circulate money. Moreover, it was primarily the great wartime growth in the money supply and in assets readily convertible into money which created the problem of inflation and which is making the achievement of stability so difficult.

The inter-relationships between the money supply, "near money" assets, and spending are the result of countless decisions. Since payments are made in money, the volume of spending is influenced greatly by the available money supply, usually considered to be currency plus commercial bank deposits. An increase in the money supply is usually accompanied by an increase in spending and a decrease by a reduction in total spending. This is not always true, however. Money is desired not only as a means of payment but also for building up a reserve of buying power. There is a widespread desire to accumulate a reserve fund which will provide protection against unforeseen emergencies — the proverbial "rainy day." Others may accumulate a reserve to take advantage of better buying opportunities expected in the near future. When we build up our money reserves, for whatever reason, spending is reduced unless there is a corresponding increase in the money supply. When as a group these money reserves are drawn down the tendency is to increase the total volume of spending even though there is no change in the total money supply.

The demand for a reserve of buying power can be satisfied by assets other than money. To serve adequately as a reserve against contingencies, however, an asset must be convertible into money at such times as additional funds may be needed. The ability of the holder to convert assets into money without loss of time or principal—usually referred to as liquidity—has an important influence on the selection of assets to be held as a reserve fund. There are certain types of non-monetary assets, such as United States savings bonds, Treasury bills, bankers acceptances, which are so liquid that they are sometimes referred to as "near money." From "near money" assets at one extreme there is a whole series of gradations of liquidity to assets which have no ready market and which frequently cannot be converted into cash without substantial effort and possible loss of both time and money. In general, the net yield of assets varies inversely with their liquidity, so that liquidity usually is acquired only by sacrificing some yield. Thus, every individual and business firm is confronted with the problem of arranging assets in such a way that money may be obtained as needed and yet so as to provide the maximum income consistent with safety and liquidity.

There has been a substantial growth in cash and assets with a high degree of liquidity, especially during the war period. Total private holdings of money, Government securities, and savings and loan association shares increased about $168 billion from the end of 1939 to the end of 1947. Of this total, about $65 billion was in currency and demand deposits, about $29 billion in time deposits, $69 billion in United States Government securities, and $5 billion in shares in savings and loan associations. Government security holdings have become particularly important, the gross direct Federal debt accounting for 62 per cent of total public and private debt at the end of 1947, the latest date for which data are available, as compared to 23 per cent at the end of 1939.

The volume of spending, then, is affected not only by the money supply in active circulation, but also by the total reserve of buying power which is being held for use at such times as the holders may choose. The accumulation of idle money balances withdraws money from the spending stream and tends to decrease total expenditures. An increase in idle balances is reflected in a decline in the average rate of circulation of the total money supply. On the other hand, the return of idle balances to active circulation tends to increase the velocity of circulation and swell the spending stream even though there is no change in the total money supply.

Liquid assets other than money—the potential money supply—may also influence the volume of spending. To the individual holder, of course, they represent a source of buying power which may be drawn on as needed. But the sale of such assets to some other individual or business firm does not increase total spending power. The seller has more money to spend but the buyer has less. Total spending is affected only to the extent that liquid assets influence the rate of use of money balances already held or result in changes in the supply of money available for expenditure.

It is possible that a large volume of liquid assets may tend to increase spending by causing the money supply to circulate more rapidly. As liquid assets become larger in relation to expected needs, holders may spend a larger proportion of their current income. But the effect of liquid asset holdings on the willingness of consumers and businessmen to spend is not likely to be constant. For example, if prices are expected to rise, idle currency and deposit balances may be brought into use, increasing spending and the average rate of turnover of the total money supply. On the other hand, idle balances are likely to be increased when prices are expected to fall in order that the holders will be in a better position to take advantage of the better buying opportunities which are anticipated. Such withholding of money from the spending stream tends to decrease total spending and the average rate of turnover of the money supply.

The volume of spending may be influenced also through the effect of liquid assets on the money supply. As indicated previously, the shifting of such assets among nonbank holders has no effect on the total supply of money, but if liquid assets other than money are shifted into or out of the banking system there is a corresponding change in total deposits. And a change in the money supply tends to bring about a similar change in the total volume of spending. It is apparent, however, that as a group, holders can convert their liquid assets into money only to the extent the banking system is able and willing to create the additional currency and deposits.

Federal Reserve and liquidity The liquidity of assets, that is the ability of holders to convert them into money, ultimately depends on Federal Reserve policy. A general movement from assets into money is possible only if the Federal Reserve Banks purchase them or are willing to supply the reserves that commercial banks must have to back the deposits created when they purchase them. The high degree of liquidity of Government securities is due mainly to the willingness of the Federal Reserve Banks to buy them at the support prices. In reality, therefore, the *liquidity* of assets, and not merely their *shiftability* among nonbank holders, is determined by the policies of the commercial banks and in the last analysis by the policies of the Federal Reserve System.

The Federal Reserve's influence over the volume of spending depends largely on the liquidity it imparts to assets. If the System stands ready to convert certain assets into money in unlimited quantities on terms which result in little, if any, loss to holders, such assets become practically the equivalent of cash. But the supply of money which can be created at the initiative of the public is limited only by the amount of such assets held. Thus, the Federal Reserve makes assets more liquid only by sacrificing some control over the money supply and spending.

The large growth in Government securities has greatly increased the importance of public debt management. If the structure of the debt, as to maturity, interest rate, and so on, conforms to the preferences of those who are accumulating liquid assets, shifting of the debt among ownership groups will be held to a minimum. If it does not, selling pressure will force down the price of some securities. Such price declines can be prevented only by having some agency such as the central bank stand ready to buy whatever amounts are necessary to support existing prices. But such purchases increase the money supply.

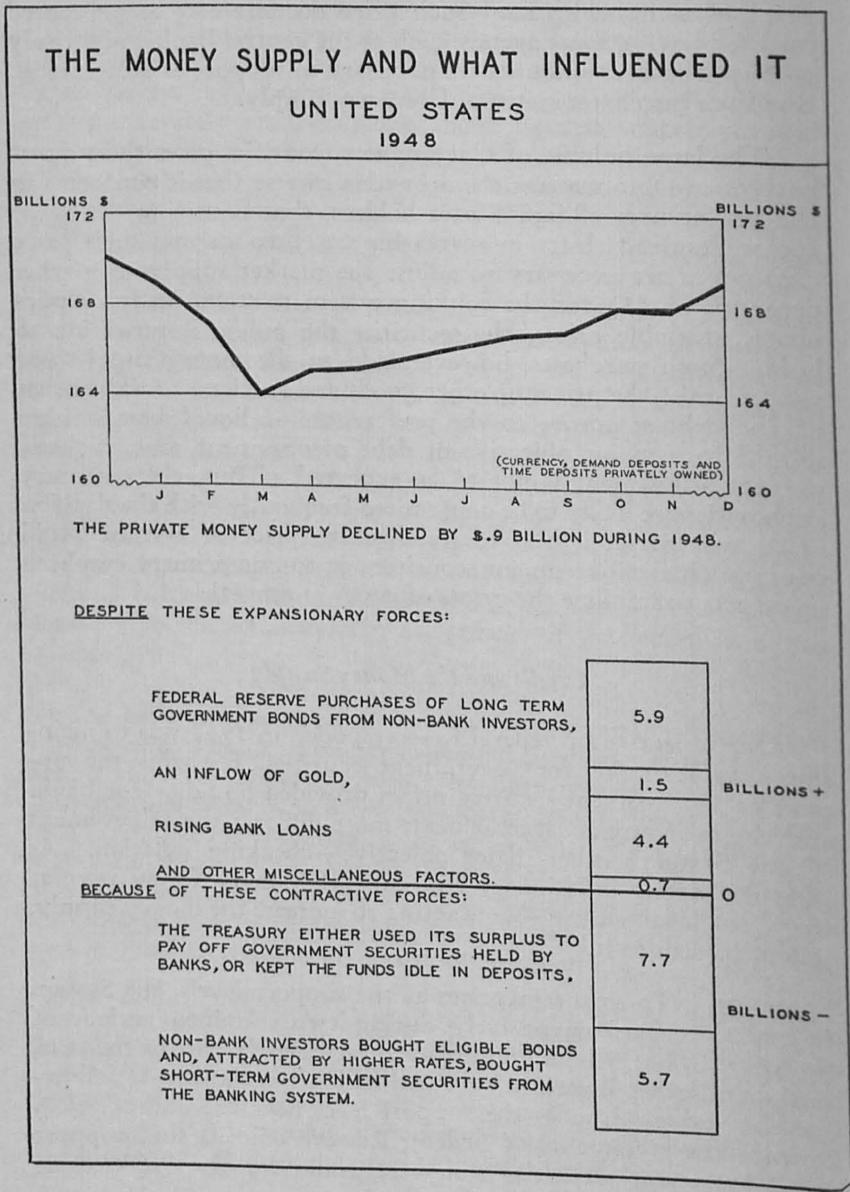
The large volume of Government securities poses these alternatives: (1) to manage the debt structure so that it conforms to the preferences of liquid asset holders, thus removing the cause for widespread shifts in ownership; (2) to permit such price changes as are necessary to adjust the market supply to market demand; or (3) for the banking system to stand ready to purchase, at stable prices, the securities the public is unwilling to hold. Such purchases, however, add to the money supply and tend to raise the prices of other goods and services. Adjustments of the debt structure to the preferences of liquid asset holders should be a major objective of debt management, but, even so, perfect adjustment is not to be expected. Thus, the monetary authorities are likely to be confronted frequently with the decision as to whether it is best to stabilize the price of certain liquid assets, such as Government securities, or to put primary emphasis on efforts to stabilize the prices of goods in general.

Credit and the Money Supply

One objective of Federal Reserve policy in 1948 was to maintain a stable market for Government securities. But while the support of Government security prices provided liquidity for banks and the economy at large, it made more difficult the achievement of the System's other major objective—checking inflation. As a result, strong inflationary and anti-inflationary forces were at work at the same time—some acting to increase the money supply, others to reduce it.

Supporting the bond market

To maintain prices at the support levels, the System acted aggressively during two sustained periods of heavy bond liquidation. In the early part of the year, banks and other investors were still selling large amounts following the sudden drop in the support level near the end of 1947. Despite the statements of Federal Reserve officials that support of Government securities would continue for the "foreseeable


THE MONEY SUPPLY AND WHAT INFLUENCED IT
UNITED STATES
1948
BILLIONS $
172
168
164
160
BILLIONS $
172
168
164
160
(CURRENCY, DEMAND DEPOSITS AND TIME DEPOSITS PRIVATELY OWNED)
J F M A M J J A S O N D
THE PRIVATE MONEY SUPPLY DECLINED BY $.9 BILLION DURING 1948.
DESPITE THESE EXPANSIONARY FORCES:
FEDERAL RESERVE PURCHASES OF LONG TERM GOVERNMENT BONDS FROM NON-BANK INVESTORS,
5.9
AN INFLOW OF GOLD,
1.5
BILLIONS +
RISING BANK LOANS
4.4
AND OTHER MISCELLANEOUS FACTORS.
0.7
0
BECAUSE OF THESE CONTRACTIVE FORCES:
THE TREASURY EITHER USED ITS SURPLUS TO PAY OFF GOVERNMENT SECURITIES HELD BY BANKS, OR KEPT THE FUNDS IDLE IN DEPOSITS,
7.7
BILLIONS −
NON-BANK INVESTORS BOUGHT ELIGIBLE BONDS AND, ATTRACTED BY HIGHER RATES, BOUGHT SHORT-TERM GOVERNMENT SECURITIES FROM THE BANKING SYSTEM.
5.7

future," some investors apparently were fearful of a further drop in prices. In March, heavy tax payments squeezed the reserve positions of banks, forcing them to sell some more Government bonds. By mid-year the volume of bonds being bought by the System had diminished; but a second wave of liquidation began in July and lasted until November. While some selling was still being done by investors concerned about the future of support prices, the principal sellers were insurance companies and other nonbank investors disposing of their Governments to obtain funds for more profitable lending to individuals and businesses. This selling was supplemented somewhat in September by banks raising funds to meet the higher reserve requirements. However, toward the end of the year, bond prices rose so that the Federal Reserve was able to sell some bonds. Investors had apparently interpreted election results as an indication that support prices would be maintained. More fundamental, however, was the fact that loans and other alternative outlets for funds were leveling off, so that banks and other investors turned more to Government securities.

The bond support program was inflationary. In buying almost $6 billion of long-term Government bonds from nonbank investors the Federal Reserve System generated directly an equivalent amount of new money. As this money was deposited, it provided member banks with a volume of reserves sufficient to support a further large expansion of deposits. In buying Government bonds from commercial banks the System added that much more to bank reserves. All in all, the policy of supporting the bond market tended directly to increase the money supply by almost $6 billion and, indirectly through its addition to reserves, made possible a further expansion of several times that amount.

Gold inflow; bank lending

Additional money and reserves were generated by a $1½ billion inflow of gold. Inasmuch as the Federal Reserve System has no control over this, it was fortunate that the inflow was slowing up during 1948. Our export surplus was declining and our assistance to foreign countries reduced the necessity for them to make payments to us in gold.

Bank lending, too, slowed down during 1948, rising only two-thirds as much as in the year before. A slackening in the demand for credit was apparent in all major types of bank loans, particularly in the last quarter of the year. Business loans, where activity slowed down the most, reflected the leveling off in prices and a slackening in the rate of inventory accumulation and plant expansion in some areas. Mortgages increased less rapidly as many of the more urgent demands for houses were met and many other potential buyers were priced out of the market. The slackening in consumer lending reflected, among other things, the weakening of the market for many consumers' durables.

The supply of credit generally was becoming tighter. Banks themselves continued to exercise considerable caution in granting credit of all kinds. Rates on many business loans were raised, other terms were tightened, and more applications were turned down. Banks, less attracted by the rates on guaranteed mortgages or finding themselves "loaned up," became more reluctant to make mortgage loans. They required larger down payments, shorter maturities, and stricter appraisals.

Another reason for the leveling off in bank loans was the increasing use of other sources of funds. Businesses themselves continued to supply out of earnings a large proportion of the funds for capital expansion and they floated over $5.9 billion of securities for new money. Other lenders, particularly insurance companies, expanded their lending activity. And this expansion of nonbank lending was, in many cases, as inflationary as the expansion of bank loans. For every dollar's worth of Government securities that insurance companies and other institutional lenders sold to the Federal Reserve in order to make loans, they added directly one dollar to the money supply and made possible an even greater expansion of the money supply on the basis of newly created reserves.

These three factors—Federal Reserve purchases of long-term bonds from nonbank investors, the inflow of gold, and the expansion of bank loans—plus other miscellaneous factors tended to increase the money supply by $12½ billion.

Restraining the money supply

Fortunately, the monetary and fiscal authorities had some weapons available to combat these inflationary forces. They had no direct control over the spending of money, but they could reduce the liquidity of certain assets held by the public. Among other things, they could induce people to give up money for "near money" by pushing the sale of United States savings bonds. Because savings bonds can be redeemed on demand after a short waiting period, and without loss of value, they are very close to being money. But the public apparently does not think of them as such; people are reluctant to draw on their holdings of savings bonds except for major expenditures. Consequently, the amount by which sales of savings bonds to nonbank investors exceeded redemptions was directly anti-inflationary, reducing the volume of readily spendable money.

The most effective weapon, however, was the Treasury's cash surplus. Despite reduced tax rates, higher exemptions, and other changes designed to lighten the tax burden, good business and high incomes kept the Treasury's cash receipts at a high level. And while the Government, like every other segment of the economy, was spending tremendous amounts of money it was, nevertheless, spending less than it was taking in. The result was a cash surplus of $8 billion, most of it acquired in the first quarter of the year.

The raising of this money was a directly anti-inflationary force. For when the Treasury collected the taxes, it drained off spending power from individuals and businesses. And the authorities pursued a consistent policy of preventing these funds from being returned either to the public or the commercial banks, using most of the funds to retire Federal Reserve Bank-held debt or holding them idle in Treasury deposits.

The Government security holdings of the Federal Reserve Banks were reduced not only by cash retirements, but also by sales of short-term issues to banks and other investors. This was made possible by a continuation of the rising trend in short-term interest rates. The yield on Treasury bills rose from .952 to 1.16 during the year. The rate on certificates of indebtedness was raised in January from 1 to 1⅛ per cent, and in the fall of the year to 1¼ per cent. In keeping with this policy, the Federal Reserve Banks also raised their discount rates at about the same time—first from 1 to 1¼ per cent, then to 1½ per cent. Although banks were borrowing little from the Reserve Banks, the discount rates had to be kept in line with other short-term rates lest this be a source of cheap credit. Moreover, the increases in discount rates had the psychological effect of demonstrating official concern over inflationary tendencies. Higher short-term rates spread over into the private credit field where loans became more expensive and harder to obtain.

Supplemented by two increases in reserve requirements of central reserve city member banks, involving $500 million each time, the Treasury surplus and rising short-term interest rates exercised a substantial restraint over bank reserves and deposits during the first half of the year. But the prospects during the second half were for renewed vigorous expansion of bank credit and the money supply. The major weapons of the monetary authorities by that time had been pretty largely exhausted—there would be little Treasury cash surplus; bank reserve requirements were practically at their legal limits; and, inasmuch as banks were obtaining only a small part of their additional reserves by borrowing, the discount rate had practically no direct effect. The Federal Reserve System accordingly asked Congress for the power to raise reserve requirements against demand deposits an additional 10 percentage points, and against time deposits an additional 4 percentage points. Congress granted the Board authority to increase requirements 4 percentage points and 1½ percentage points against demand and time deposits, respectively. The Board took action under this authority, effective in September, raising requirements against time deposits to their new legal maximum and against demand deposits by 2 percentage points, involving $2 billion of reserves in all. In order to meet these requirements, banks sold a large volume of Government securities. But they did not meet all of the additional requirements through resort to Federal Reserve credit, and the higher reserve requirements had some restrictive effect.

Regulation W Although by no means the most important of the System's anti-inflationary weapons, the power to specify limits on consumer credit terms is its closest approach to a direct influence over consumer expenditures—the largest segment of total spending. By specifying minimum down payments and maximum periods over which credit may be repaid, the System can exercise some influence over the volume of consumer credit and the demand for consumers' durable goods, particularly those in short supply. Stricter terms necessarily require more saving before purchases are made and during the early period of consuming the goods. Those unable or unwilling to do this saving are prevented from entering the market for such goods. Consumer credit controls thus help to counteract the normal tendency of consumers to buy extensively on credit in booms and to pay off (or default on) their debts in depressions.

During three-fourths of the year 1948, consumer credit controls were absent. The total volume of such credit rose by $1.4 billion during that period, reaching a record peak of more than $14.8 billion. The fastest expansion took place in credit for the purchase of durable goods, particularly automobiles. After controls had been removed late in 1947, there was a general relaxation of terms. Down payments for new automobiles were still large, but payments generally were spread over twenty-four months. Major appliances were usually bought with 10 per cent down and twelve to eighteen months to pay. By mid-1948, credit was expanding rapidly and the prospects were for further growth. Consumers were expected to continue buying heavily, apparently willing to spend beyond their incomes to do so. Accordingly, the Federal Reserve System requested, and received, renewed authority over consumer instalment credit.

Regulation W was reimposed in September, requiring a one-third down payment for the purchase of automobiles and one-fifth for the purchase of eleven other durable items. Credit of less than $1,000 was required to be paid off within fifteen months, and amounts from $1,000 to $5,000 were limited to eighteen months. In the last quarter of the year, under the renewed controls, consumer credit continued to rise, almost reaching $16 billion by the end of the year. But compared with the previous year the rate of growth slackened markedly. One reason was undoubtedly the return of seasonal influences, as in the case of used cars. Automobiles, however, were also experiencing the gradual return to buyers' markets, as were major appliances. Regulation W undoubtedly played a part, but it is impossible to determine how much.

Third District banking trends Banking developments in the Third District during 1948 reflected the restraining forces which were operating nationally. Member bank reserves were under pressure, loan expansion slowed up, holdings of Government securities decreased, and demand deposits were off slightly.

There is one important difference, however, in that member bank reserves in this district were influenced significantly by the interdistrict flow of funds. The major source of reserve funds was a gain of $925 million in private commercial and financial transactions with other districts. This is the largest gain from this source since 1945, when interdistrict transactions resulted in a $944 million inflow of funds. The net inflow of funds represents the combined effect of a great variety of commercial and financial transactions. A significant factor, for example, is the purchase of Government securities by the Federal Reserve System which puts funds into the New York market. These funds are then redistributed via commercial and financial transactions, a part of them finding their way into this Federal Reserve District. Heavy purchases were made by the Federal Reserve System in supplying member banks with reserve funds during the war and more recently in supporting the price of Government securities. A return of currency from circulatoin was another factor tending to build up reserve funds.

The effect of the inflow of funds to the District was nearly offset, however, by a drain of over $900 million due to Treasury operations. The Treasury takes funds out of the market by tax collections and receipts from the sale of new securities. It puts funds into the market when it pays its expenses and redeems its securities for cash. In this district, there has been a substantial excess of Treasury receipts over disbursements during the war and post-war periods.

Changes in Member Bank Reserves and Related Items

Third Federal Reserve District

(Millions of dollars)

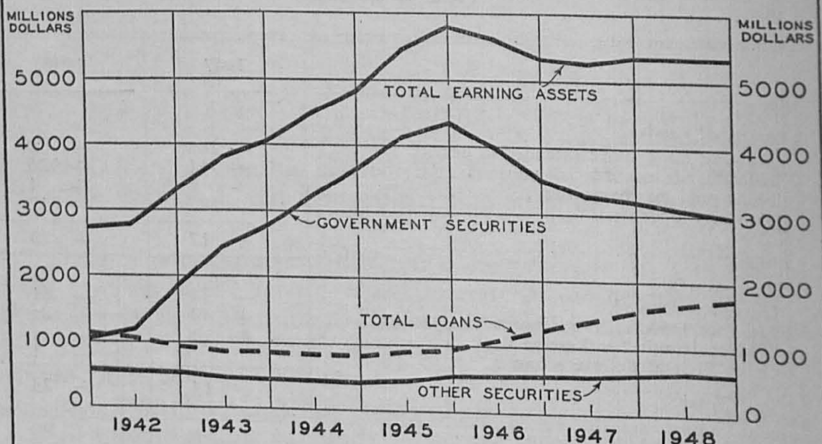
	1947	1948
Sources of funds:		
Reserve Bank credit extended in district	— 148	+ 9
Interdistrict commercial transfers	+ 751	+ 925
Mint gold purchases, net	+ 1	+ 1
Treasury operations	— 587	— 912
Total	+ 17	+ 23
Uses of funds:		
Currency demand	— 34	— 61
Member bank reserve deposits	+ 49	+ 84
"Other deposits" at Reserve Bank	+ 2	+ 1
Other Federal Reserve accounts	......	— 1
Total	+ 17	+ 23

Resources of district member banks totaled nearly $7.1 billion at the end of the year. This represents practically no change in the total as increases in cash assets and loans were nearly sufficient to offset the decrease in investments. Cash assets were up $32 million and represented about 23 per cent of total resources at the end of the year. Member bank loans amounted to $1.7 billion at the end of the year—a gain of $160 million in 1948 as compared to about $319 million in 1947. Nearly all of the increase in loans was accounted for by the rise in business, real estate, and consumer loans. Business loans, which at the end of the year made up about 44 per cent of total member bank loan portfolios, increased $52 million. This was substantially less than the $158 million rise in the previous year. Real estate loans on residential property were up $53 million, and instalment loans to individuals gained $56 million. The expansion in real estate and instalment loans slowed up also but not as much as in the case of business loans.

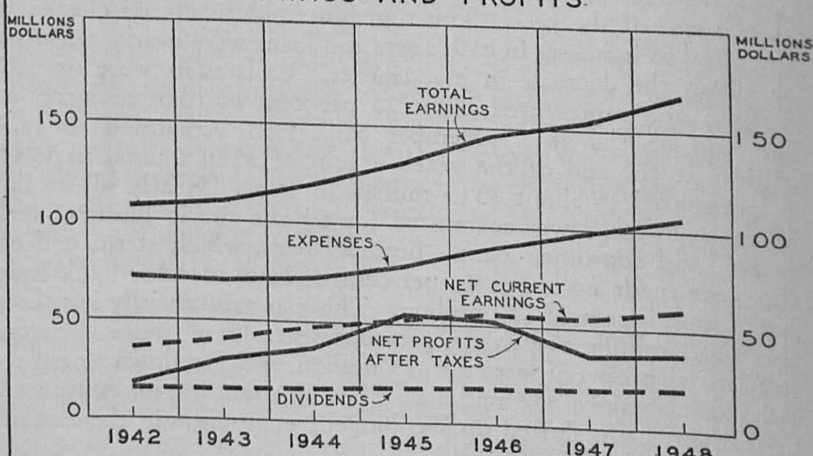
MEMBER BANKS

THIRD FEDERAL RESERVE DISTRICT

EARNING ASSETS



EARNINGS AND PROFITS



The decrease in investments was the big factor tending to pull down bank resources. Member bank holdings of Government securities in this district dropped $201 million, bringing the total decline since the end of 1945 to about $1,362 million. The cash redemption of Government securities, directly and indirectly, was the major factor tending to reduce member bank investments. Of the national total of $8.3 billion redeemed in 1948, a small part was held by the commercial banks. These cash redemptions resulted in a direct decrease in Government security holdings. A more important factor, however, was the drain on reserves which resulted from the redemption of about $5.5 billion of securities held by the Federal Reserve System. To replenish reserves, both member and nonmember banks sold some of their Government securities.

There was little change in the maturity distribution of Government security portfolios of member banks in this district. Over $100 million of Treasury bills were added to member bank holdings as the rise in short-term rates made them more attractive. Holdings of short-term bonds decreased, however, with the result that the proportion of Governments maturing or callable within five years changed little. There was a slight increase in the proportion of Governments maturing or callable within 5-10 years, and a slight decrease in the over-10-year group. Member bank holdings of securities other than Governments showed little change in this district.

Earnings of member banks continued to rise despite a slight decline in earning assets largely because of the continued shift from Government securities to higher yielding loans. Total earnings went up to $167 million—8 per cent over 1947, and despite a further rise in expenses, most banks reported an increase in net current earnings before income taxes. Net profits after taxes showed little change in the aggregate despite a substantial increase in transfers to valuation reserves under the new ruling with respect to reserves for bad debt losses on loans.

Spending and the Flow of Income

The year 1948 ended with \$.9 billion less money in the hands of individuals and businessmen than at the beginning of the year. Total spending increased, however, as the money supply was being used more rapidly. The turnover of demand deposits (in leading cities outside New York City) averaged 19.2 in 1948 as compared with 18.0 in 1947, and once more was approximating the pre-war level. While qualms of pessimism entered the economic picture during the commodity price break in February and again toward the end of the year, the outlook during 1948 as a whole was optimistic. Individuals and businesses had larger incomes than ever before, were spending heavily, and planned to continue to do so. The rapidity with which money was being used was a reflection of the heavy spending by all segments of the economy—the thing which most characterized the business situation during most of 1948.

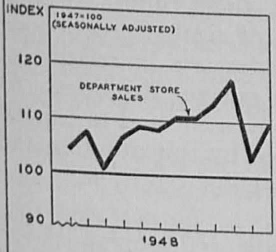
The gross product of the American economy amounted to \$255 billion, which was 10 per cent more than the year before. This is viewing business from the standpoint of expenditures for all goods and services produced. Consumers did most of the spending; their expenditures amounted to about 70 cents out of every dollar of total outlay. Business expenditure on plant and inventories plus investment in housing amounted to almost 16 cents, Government expenditure 14 cents, and foreign buyers spent less than one cent net.

The problem of liquidity had an immediate bearing on business trends in 1948. The extent of the influence is uncertain, but there is little doubt that the possession of large amounts of liquid assets by individuals and businesses had an important effect upon total spending and upon the production and employment which spending called forth. The fact that many buyers were in comfortable liquidity positions contributed in general to the willingness to spend; but it is probable, too, that this influence was not steady and that it might have been extremely sensitive to the public's sometimes erratic and always volatile business expectations. Small wonder, then, that under circumstances in which

BUSINESS DEVELOPMENTS IN 1948

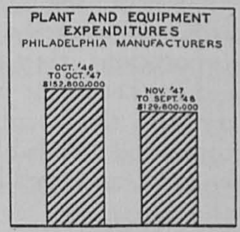
THIRD FEDERAL RESERVE DISTRICT

SPENDING

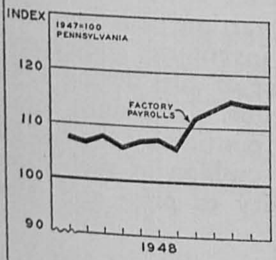


IN THE STORES IT WAS ON THE INCREASE UNTIL NOVEMBER.

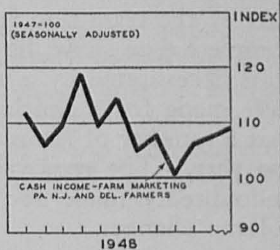
FOR PLANT AND EQUIPMENT IT WAS ON THE WANE.



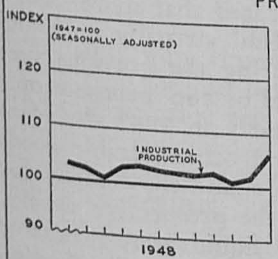
INCOME



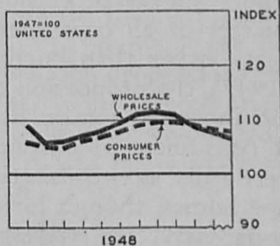
FACTORY WORKERS MADE MORE MONEY AND FARMERS ALSO HAD A GOOD YEAR.



PRODUCTION AND PRICES



LARGER PRODUCTION THAN IN 1947 BROUGHT RETREATING PRICES.



growing production, higher prices, and the filling of pipelines gave rise to business uncertainty the boom of 1948 proceeded by fits and starts.

At the beginning of 1948, American business held liquid assets, consisting mainly of bank deposits and Government securities, in the amount of nearly $65 billion. Even taking into account the great rise in prices since 1939, these funds, by usual standards, represented a liquidity cushion of sizable proportions. For corporations, they were more than adequate in relation to sales and far above the pre-war relation to current liabilities. At the very least, the incentive to buy new equipment and to expand inventories and receivables was not impaired by this situation and in early 1948, may well have been strongly enhanced by it.

Strong though they were at the start of 1948, the strength of corporate liquidity positions had declined from the previous year. To speak of this decline as a deterioration of the financial condition of corporations is misleading, since it was a necessary part of the transition from an abnormal wartime situation. Incomplete data show, however, that rising inventories and receivables necessitated by a higher dollar volume of sales during 1948 have made for a continuation of the decline. This must mean that a number of firms were in an uneasy position by the end of the year. The removal of the liquidity cushion in such cases undoubtedly made for increased sensitivity to price and sales volume changes.

Total liquid asset holdings of individuals at the beginning of 1948 were three times the pre-war level. The Board of Governors' survey of consumer finances indicated that more than a quarter of all consumer spending units held virtually no liquid assets, other than currency, and that during the previous year (1947) the proportion of liquid assets held by top income people had increased somewhat. Nevertheless, early in 1948 the plans of consumers to purchase automobiles and other durable goods were fully as enthusiastic as the year before, and the demand for new homes, though lower, still exceeded the prospective supply. Apparently, the widespread holdings of liquid assets available for spending and as a precautionary reserve were still effective stimulants to consumer buying at that time.

These spending plans were revealed at a time when most consumers expected active business conditions to continue and expected their incomes to rise—at a time when prices had been rising steadily and were expected to rise further. Such expectations may not have been sustained throughout the year. Fragmentary evidence indicates that the public may have been expecting lower prices at the year's end. This, combined with a continued, gradual weakening of the consumer's financial status, through a rise in debt and further loss of liquid assets by low-income groups, might have had an appreciable dampening influence on consumer spending.

Retail sales People did $130 billion worth of shopping in the stores last year. While retail trade for the year as a whole was up 10 per cent, merchants encountered substantial consumer resistance near the end of the year at the very time when further expansion from early Christmas shopping was expected.

The year-end slow-down in the momentum of spending occurred in many types of stores, including those selling drugs, building materials, hardware, home furnishings, jewelry, and general merchandise. As the year progressed, supply caught up with backlogs and consumers became harder to please with respect to both price and quality. Nevertheless, it was still the topmost year for spending.

People spent rather generously at department stores in this district throughout most of the year, that is until November when, for some peculiar reason, they suddenly stopped buying —or so it seemed to the merchants. During the first ten months, merchants were ringing up sales at a rate of about 5 per cent better than the year before. But November sales dropped sharply, and the backslide was not halted until merchants offered attractive price concessions. The fact that people later responded to price reductions seemed to indicate that it was not a matter of credit or weather, but high-price weariness.

As if endowed with a premonition of the approaching slump in consumer spending, merchants began reducing their inventories about mid-year. They reduced their commitments by placing smaller orders with their suppliers than they had in the previous year, and of course, quicker deliveries enabled them to operate on smaller inventories. By the end of the year the ratio of stocks-plus-goods on order to sales was at a low point.

The only thing we can really be sure of is that the year-end hesitation in consumer spending was not caused by a decline in consumer incomes. Like the flow of the tide, personal income kept rising from an annual rate of $207 billion in the first quarter of the year to $220 billion in the last quarter. People in the Third District enjoyed about the same measure of prosperity as elsewhere, judging by the flow of money income. Factory workers in Pennsylvania averaged better than $51 a week last year, which was 10 per cent over their average weekly earnings of the year before. Earnings were higher in all major industrial groups but one, and the increases ranged from 3 to 13 per cent. Employment declined in some industries but was compensated by higher employment in others, so that total employment in Pennsylvania factories continued near the high 1947 level. Farmers in Pennsylvania, New Jersey, and Delaware also had a good year. They marketed over $1¼ billion worth of agricultural products, which was 8 per cent better than the year before.

Business spending Business spending for inventories, plant, and equipment made a substantial contribution to the high level of business activity last year. Manufacturers, wholesalers, and retailers enlarged their inventories by $6 billion over and above the $8 billion of expansion that took place the year before. Rising prices accounted for slightly over half of the increased spending for inventories. In manufacturing, the lion's share of the increase in book values took place in finished goods—which might be interpreted as a caution signal. The expansion in total inventory values, however, was not out of proportion to the increased dollar volume of business sales.

Business firms really spent big money for plant expansion and modernization last year. Total outlays were almost $19 billion—enough to buy out a dozen companies the size of the United States Steel Corporation. Manufacturers, the biggest spenders, went in somewhat less for plant expansion and more for modernization of machinery and equipment. Expenditures by commercial enterprises, railroads, and utilities, were stepped up sharply and the utilities, especially gas and electric, gave strong indications that they had a long way to go before completion of their extension and improvement programs. True enough, labor and material costs were high. We do not know how many firms were scared out of spending for new equipment and more plant because of high costs. That many were not scared is plainly shown by the record.

Our own survey of Philadelphia seemed to indicate that postwar spending on plant expansion and renovation was apparently "over the hump." The $130 million outlay by manufacturing concerns between the fall of 1947 and the fall of 1948 was about 15 per cent below the expenditures of the preceding year. Nevertheless, in certain lines such as food and tobacco, chemicals and petroleum, iron and steel, contemplated outlays for 1949 were reported to be almost as large or larger than the sums spent last year. Local public utilities made heavy outlays for plant improvements and extensions, and they reported plans for continued expenditures throughout 1949 at a rate only slightly below that of last year.

No doubt one of the reasons for the large business spending was large business profits. Corporate profits after taxes were $20 billion, some 9 per cent over the former year. For many firms a lack of equity capital could not be considered a serious deterrent to investment. Internal funds, originating from retained profits, depreciation, and liquid assets, accounted for more than 65 per cent of all corporate funds used during the year. In this connection, manufacturing firms in Philadelphia that contemplated further capital expenditures during 1949 stated that they were in position to supply 90 per cent of the required funds from their own resources.

Government spending Government spending for goods and services was another powerful expansionary force. Spending on Federal Government account amounted to $36 billion—up almost 30 per cent from the year before. State and local governments increased their outlays on education, health, fire and police protection, highways, and other community needs. Maintenance programs long delayed by the war interlude were resumed, and growing communities resulting from increasing population called for additional facilities in the way of hospitals, schools, streets, water supply, sewage disposal systems, and other public works.

Federal Government expenditures rose last year under the double strain of paying for past wars and spending to avert future wars. While we were nominally at peace with the world, it was a fragile peace that had to be handled with care. Material aid to Western Europe was stepped up last spring when Congress authorized $5 billion for the European Recovery Program. Food and other essentials of life were provided for the people of Western Europe who were in desperation for lack of funds. In view of the heavy cost of foreign aid and defense, Federal expenditures for numerous civil programs were discouraged.

Foreign investment Foreign spending in our markets was the only major class of expenditures that declined last year. Net foreign investment, which is that part of the export surplus not financed by Government or private gifts, declined from almost $9 billion in 1947 to approximately $1½ billion in 1948. However, this did not remove as much inflationary pressure as the figures might indicate because part of the decline was due to a shift from loans to grants; that is to say, compared with the year before we sold less to our neighbors but gave them more. Disbursements of nearly $2 billion under the European Recovery Plan, while a real stimulus to business, were nevertheless not as great a stimulus as the spending engendered by the loan of almost $3 billion to the British in 1947.

Production and Prices

The physical output of our national economy in 1948 is estimated to have increased about 4 per cent over the year before. This is a very real gain and was achieved by practically full utilization of our human and material resources. Toward the end of the year the word "bottleneck" had almost fallen into discard, except for steel and a few minor items. Since we produced more and sold or gave away less abroad, we had more for use at home. By the year's end, consumers could get immediate delivery on almost anything except certain lower-priced automobiles, and prices were retreating.

Production Under the stimulus of heavy consumer, business, and Government spending, our factories, forests, and mines turned out an enormous volume of products. For the year as a whole, the country's industrial output averaged 192 per cent of the pre-war volume—better than in 1947 both with respect to total output and regularity of flow. With the exception of certain appliances, durable goods were in heavy demand throughout most of the year, and backlogs were not completely wiped out in such lines as motor cars, housing, and railway equipment or in the industries making the basic materials required for their production, such as steel and the nonferrous metals. Nondurable goods were generally quite adequate, and in some lines surpluses appeared to the extent that producers had to resort to old-fashioned, pre-war methods of merchandising to dispose of their goods.

Industrial production in this district averaged slightly above that of the year before. The greatest gains in output were made by the producers of building materials, textiles, and chemicals; small declines in output occurred in transportation equipment, food products, and paper and printing. Seasonality, long buried under a heavy over-lay of war and post-war demand, began to reassert itself in some lines. Among minerals, anthracite held its own owing chiefly to rapid strides in mechanized extraction, but bituminous took a 10 per cent set-back. Coal exports declined as a consequence of greater over-seas production, and at home the railroads continued to shift from coal to oil-burning locomotives. Most of the district's 6 per cent gain in output of refined petroleum products came from the Philadelphia region, already one of the country's leading refining centers, and further expansion of capacity is in process.

Last year we came within a fraction of equaling the 1925 record of 937,000 new houses started. The large volume of construction was accomplished by steadily increasing production of construction materials and the employment of over 2 million workers on construction sites. Unlike the year before, when activity seemed to ignore seasonal patterns, building activity last year declined after reaching a peak in August. Rising costs of both labor and materials pushed up the costs of new housing into fancy brackets where some people would not and others could not pay the price.

Construction of housing in Philadelphia was eclipsed by greater activity in the adjoining surburban counties. Contract awards for all kinds of construction throughout the Third District amounted to almost four times the pre-war volume. This was well above the rate of increase for the entire area east of the Rockies, and activity in the local area was well distributed in all major categories—residential, nonresidential, public works, and utilities. A let-up in awards made after mid-summer occurred locally as elsewhere.

The country's 1948 agricultural output was about 10 per cent larger than the year before. Once again farmers had good luck on weather, so that their efforts were rewarded with the largest crops ever. All the storage bins in the country could not hold the largest corn crop in our history. However, production of livestock and livestock products was slightly lower, due chiefly to smaller herds and therefore less meat and milk production.

Farmers in the Third District had bountiful harvests. The corn and tobacco crops were the largest on record and large harvests were also obtained in potatoes, fruits, and vegetable crops generally. Output of dairy and poultry products equalled, and in some lines exceeded, the quantities marketed in 1947. Egg production was higher, and dairy farmers in Pennsylvania and New Jersey increased the size of their herds, contrary to the country-wide trend.

Prices The changing temper of the post-war boom in 1948 is reflected in the behavior of prices. Price-wise, the year ended just about where it began; but rising prices in wholesale markets during the first half of the year gave way to falling prices in the second half. There were many nonconformists to this pattern as various families of commodities parted company with each other. In 1948, prices of twenty-nine major classes of wholesale commodities rose and eighteen fell. The year before the figures were forty-four up, and four down. In other words, the inflationary-deflationary tug-of-war changed from a score of 11 to 1 in 1947 to a score of about 3 to 2 last year.

Prices of agricultural products suffered the sharpest declines. Under pressure of heaping harvests, agricultural prices began to slip in July, descending month by month to a point in December which was 13 per cent below the January peak. During the year, corn, wheat, cotton, and some minor crops were below support levels, which required over $1½ billion worth of Commodity Credit Corporation aid in the form of loans and purchase agreements. Wholesale prices of foods, naturally, declined along with prices of basic farm staples. Foods at the end of the year were about 10 per cent below their mid-year peak.

Unlike farm products, which needed Government price support, prices of other products, for the most part, moved up a few notches throughout the year. Prices of metals and metal products rose the most, which was indicative of continued inability to close the gap between demand and supply despite increased output and greater capacity. Abolition of the basing point pricing by the steel industry, following the Supreme Court decision in the cement case, resulted in higher costs of steel for some fabricators and lower costs for others, but had little to do with the simple and obvious fact that we just did not have enough steel. Even here there was some evidence, toward the end of the year, of a slight easing in demand as revealed by the shrinkage in premiums.

Building materials, like metals, displayed great strength, but, unlike metals, suffered small price declines during the last quarter. Prices of fuel and lighting materials rose substantially, kept their gains, and refused to decline. Advances also occurred in housefurnishings, but textiles, chemicals, and hide and leather products declined.

Consumer price changes, though less pronounced, generally followed in the wake of wholesale prices. By year's end, food costs had receded slightly from their July peak; rents were still rising, and prices of most other items in the households of moderate-income families were resisting decline stubbornly.

In the early months of 1949, fresh recessionary winds chilled the business atmosphere over a wide area. This was reflected in weakening prices, falling employment, faltering sales at department stores, and declining business loans. Perhaps the greatest decline occurred in that unmeasurable index—business and consumer confidence. Year-end financial statements reported abundant corporate profits. Yet, businessmen were apprehensive, especially the seasoned veterans of business who had lived through both lean and lush years. A large proportion of the business community consisted of the younger generation, whose only experience was to raise prices when rising costs impinged on profits. The veterans dreaded the day when profits had to be sweated out of falling prices and obstinate costs.

Federal Reserve Bank of Philadelphia

Operations Nineteen hundred and forty-eight was another active year in the operation of the Federal Reserve Bank of Philadelphia. The number of checks handled and pieces of currency counted ran somewhat ahead of 1947, and unit volume in fiscal agency activities taken as a whole did not change materially. In the coin division, some decline in volume occurred as further progress was made in arrangements for direct interchange between banks. In all branches of the work efforts continue to be made to improve handling and to promote efficiency through mechanization.

Purchases and sales of Government securities continued heavy. The Bank's holdings of Governments are in reality a participation in System holdings, which are administered by the Federal Open Market Committee in the interests of an orderly market for these issues and the maintenance of sound banking and business conditions. Direct advances to member banks dropped sharply in dollar volume and somewhat in number, but the number of banks accommodated during the year rose to 164 from 153 in 1947. Following approval by Congress and reinstatement of Regulation W by the Board of Governors of the Federal Reserve

System, the consumer credit department again was set up to administer the Regulation in this district.

No steps have been spared to promote mutual understanding between this Bank and the member banks in the district so that they may work shoulder to shoulder in the effort to promote those forces working for the good of the economy and restrain those which may do harm. As a step in this direction, the Bank resumed the practice in March, discontinued during the war years, of having members of its bank relations staff visit individually each of the banks in the district. And, for the third successive year, field meetings were held, each including bankers from one or more counties, for the consideration of current problems, reasons for actions that had been taken, and a general interchange of views. The entire round of twenty-eight meetings in 1948 covered every part of the district. A further feature of this aspect of our work has been the semi-annual meetings of the Federal Reserve Relations Committee, attended by representatives of bankers' associations and groups, and participated in by officers and staff members of this Bank.

Through speaking engagements, service on committees, attendance at meetings, publications, and dissemination of the results of special studies, the Department of Research endeavors to keep the banking and business public supplied with information and comment designed to be helpful in planning operations.

Directors and officers George W. Reily and Albert G. Frost were reelected directors of the Bank for terms of three years, beginning January 1, 1949. Mr. Reily was chosen as a Class A director by the banks of Group 2, and Mr. Frost as a Class B director by Group 3 banks.

Thomas B. McCabe, a Class C director and Chairman of the Board of Directors from 1939 on, resigned in the spring of 1948 to take office as Chairman of the Board of Governors of the Federal Reserve System. In March of 1949, Warren B. Whittier was made Chairman, having served as Deputy Chairman since 1941. At the same time, C. Canby Balderston was made Deputy Chairman for the balance of the year, and Philip T. Sharples was appointed a Class C director for the unexpired portion of the term ending December 31, 1951.

By appointment of the Board of Directors of this Bank, Frederic A. Potts, President of the Philadelphia National Bank, represents the district on the Federal Advisory Council during 1949. He succeeds David E. Williams, President of the Corn Exchange National Bank and Trust Company of Philadelphia, who served for three successive years.

Effective May 1, 1948, Philip M. Poorman, Cashier of the Bank, was made Vice President and Cashier; James V. Vergari, an Assistant Vice President and Assistant Secretary, was made Counsel also; Richard G. Wilgus, an Assistant Cashier, was made Assistant Vice President; and Roy Hetherington, head of the Fiscal Agency Department, was made an Assistant Cashier. As of January 1, 1949, L. E. Donaldson, an Assistant Vice President, was made Vice President; at this time also, Mr. Vergari's title was made Counsel and Assistant Secretary.

Directors

as of April 1, 1949

	Group	Term Expires December 31
Class A:		
Archie D. Swift Chairman of the Board, Central-Penn National Bank, Philadelphia, Pennsylvania	1	1950
George W. Reily President, Harrisburg National Bank, Harrisburg, Pennsylvania	2	1951
John B. Henning President, Wyoming National Bank, Tunkhannock, Pennsylvania	3	1949
Class B:		
William J. Meinel President and General Manager, Heintz Manufacturing Company, Philadelphia, Pennsylvania	1	1949
Walter H. Lippincott President and Director, Lobdell Company, Wilmington, Delaware	2	1950
Albert G. Frost Chairman of the Board, The Esterbrook Pen Company, Camden, New Jersey	3	1951
Class C:		
Warren F. Whittier, Chairman Agricultural Consultant, Chester Springs, Pennsylvania		1949
C. Canby Balderston, Deputy Chairman Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania		1950
Philip T. Sharples Chairman of the Board, Sharples Corporation, Philadelphia, Pennsylvania		1951

Officers

as of April 1, 1949

Alfred H. Williams, *President*

W. J. Davis,
First Vice President

Ernest C. Hill,
Vice President

William G. McCreedy,
Vice President and Secretary

Robert N. Hilkert,
Vice President

Karl R. Bopp,
Vice President

Philip M. Poorman,
Vice President and Cashier

L. E. Donaldson,
Vice President

James V. Vergari,
Counsel and Assistant Secretary

Robert R. Williams,
Assistant Vice President and Assistant Secretary

Richard G. Wilgus,
Assistant Vice President

Wallace M. Catanach,
Assistant Cashier

Roy Hetherington,
Assistant Cashier

Norman G. Dash, *General Auditor*

APPENDIX

Statistical Tables

Statement of Condition

Federal Reserve Bank of Philadelphia

(000's omitted in dollar figures)	December 31		
	1946	1947	1948
RESOURCES			
Gold certificates	$ 858,145	$1,016,538	$1,011,054
Redemption fund—Fed. Res. notes	61,009	60,691	60,212
Total gold certificate reserves	$ 919,154	$1,077,229	$1,071,266
Other cash	19,235	14,687	17,967
Discounts and advances	15,547	6,841	17,495
Industrial loans	523	1,358	767
United States Government securities	1,645,130	1,565,522	1,666,658
Total loans and securities	$1,661,200	$1,573,721	$1,684,920
Due from foreign banks	8	8	4
Fed. Res. notes of other Fed. Res. banks	8,181	10,866	10,935
Uncollected items	157,813	192,379	173,597
Bank premises	3,170	3,182	3,053
All other resources	2,912	7,455	10,279
Total resources	$2,771,673	$2,879,527	$2,972,021
LIABILITIES			
Federal Reserve notes	$1,699,277	$1,681,880	$1,662,531
Deposits:			
Member bank reserve accounts	818,125	867,113	951,233
United States Government	34,511	77,363	104,176
Foreign	39,555	26,649	51,492
Other deposits	2,424	4,708	6,060
Total deposits	$ 894,615	$ 975,833	$1,112,961
Deferred availability items	122,081	164,635	134,950
All other liabilities	528	898	674
Total liabilities	$2,716,501	$2,823,246	$2,911,116
CAPITAL ACCOUNTS			
Capital paid in	$ 13,926	$ 14,370	$ 14,681
Surplus—Section 7	34,720	35,350	36,704
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	2,037	2,072	5,031
Total liabilities and capital accounts	$2,771,673	$2,879,527	$2,972,021
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	35.4%	40.5%	38.6%
Commitments to make industrial advances	$1,281	$490	$46

Earnings and Expenses

Federal Reserve Bank of Philadelphia

(000's omitted)	1946	1947	1948
Earnings from:			
United States Government securities	$10,600	$11,193	$21,349
Other sources	192	220	343
Total earnings	$10,792	$11,413	$21,692
Expenses:			
Operating expenses*	3,704	3,887	4,131
Cost of Federal Reserve currency	373	316	385
Assessments for expenses of Board of Governors	187	214	262
Total net expenses	$ 4,264	$ 4,417	$ 4,778
Current net earnings	6,528	6,996	16,914
Additions to current net earnings:			
Profit on sales of U. S. Government securities (net)	138	200	456
All other	89	5	3
Total additions	$ 227	$ 205	$ 459
Deductions from current net earnings	146	3	1
Net additions to current net earnings	$ 81	$ 202	$ 458
Transferred to reserves for contingencies	33	35	2,960
Paid to U. S. Treasury:			
Interest on Federal Reserve notes	0	5,672	12,184
Under Section 13b	0	7	0
Net earnings after reserves and payments to U. S. Treasury	$ 6,576	$ 1,484	$ 2,228
Withdrawn from surplus (Section 13b)	12	0	0
Dividends paid	814	854	874
Transferred to surplus (Section 7)	$ 5,774	$ 630	$ 1,354

*After deducting reimbursements received for certain fiscal agency and other expenses.

Volume of Operations

Federal Reserve Bank of Philadelphia

	1946	1947	1948
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	143,000	141,100	147,500
Government checks (paper and card)	34,400	23,900	20,800
Noncash items	*	*	700
Currency counted	243,600	253,400	270,500
Coins counted	540,700	463,400	391,800
Discounts and advances to member banks	1	2	1
Transfers of funds	39	42	44
Fiscal agency activities:			
Marketable securities delivered or redeemed	222	139	148
Savings bonds issued or redeemed—			
By agents	16,228	11,488	10,779
By Federal Reserve Bank	1,024	823	836
Coupons redeemed (Government and agencies)	1,403	1,378	1,151
Coupons cut from securities held	697	616	615
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	$33,693	$36,190	$39,221
Government checks (paper and card)	5,074	3,657	2,890
Noncash items	244	199	169
Currency counted	1,428	1,547	1,734
Coins counted	48	44	40
Discounts and advances to member banks	1,060	1,241	623
Transfers of funds	9,905	11,290	17,543
Fiscal agency activities:			
Marketable securities delivered or redeemed	*	*	7,132
Savings bonds issued or redeemed—			
By agents	724	592	594
By Federal Reserve Bank	350	276	308
Coupons redeemed (Government and agencies)	152	142	120
Coupons cut from securities held	75	67	61
Securities in safekeeping for banks (December 31)	2,783	2,518	2,311

*Not available.

Note: Coverage of some of the operations in the table above differs somewhat from that in similar tables given in earlier reports, so that in such cases the figures are not entirely comparable.

Member Banks

Third Federal Reserve District

Statement of Condition

(Millions of dollars)	Dec. 31, 1948	Change from Dec. 31, 1947	Change from Dec. 31, 1945	Percent distribution Dec. 31, 1948	Percent distribution Dec. 31, 1945
Assets					
Loans and discounts	$1,742	+$ 160	+$ 808	24.6%	12.7%
U. S. Government securities	2,995	— 201	— 1,362	42.3	59.3
Other securities	606	+ 1	+ 99	8.6	6.9
Cash assets	1,645	+ 32	+ 189	23.2	19.8
Fixed assets	66	..	— 4	.9	.9
Other assets	26	— 4	— 1	.4	.4
Total	$7,080	—$ 12	—$ 271	100.0%	100.0%
Liabilities and capital accounts					
Deposits:					
Individuals, partnerships, and corporations—					
Demand	$3,714	—$ 88	+$ 335	52.5%	45.9%
Time	1,843	+ 25	+ 301	26.0	21.0
U. S. Government	115	+ 47	— 1,020	1.6	15.4
Bank	381	— 30	— 57	5.4	6.0
Other	363	+ 17	+ 94	5.1	3.7
Total deposits	$6,416	—$ 29	—$ 347	90.6%	92.0%
Other liabilities	38	— 2	+ 6	.5	.4
Capital accounts	626	+ 19	+ 70	8.8	7.6
Total	$7,080	—$ 12	—$ 271	100.0%	100.0%

Earnings, Expenses and Profits

(Millions of dollars)	1945	1946	1947	1948
Earnings				
On U. S. Government securities	62.5	65.8	57.8	54.3
On other securities	13.4	14.4	14.4	14.6
On loans	31.7	40.3	54.4	68.5
Other earnings	23.9	25.7	27.1	29.8
Total earnings	131.5	146.2	153.7	167.2
Current expenses				
Salaries and wages	34.8	40.4	44.4	49.1
Interest on deposits	12.2	14.2	15.9	16.2
Other expenses	32.1	35.2	38.2	41.3
Total current expenses	79.1	89.8	98.5	106.6
Net current earnings before income taxes	52.4	56.4	55.2	60.6
Net recoveries and profits on sales (+) or charge-offs (—)	+ 16.4	+ 13.5	— 1.3	— 9.1†
Taxes on net income	13.9	17.5	16.9	13.9
Net profits	54.9	52.4	37.0	37.6
Cash dividends declared	17.8	18.8	19.4	20.3

†Charge-offs include substantial transfers to reserves for bad debt losses on loans.

Employment and Earnings—Pennsylvania Factory Workers

	All Manufacturing			Durable Goods			Nondurable Goods		
	Employment*	Pay rolls*	Weekly earnings	Employment*	Pay rolls*	Weekly earnings	Employment*	Pay rolls*	Weekly earnings
Average:									
1939 ...	100	100	$22.42	100	100	$25.99	100	100	$19.24
1940 ...	108	117	24.22	118	129	28.40	100	103	19.82
1941 ...	130	168	29.02	154	204	34.33	108	124	22.22
1942 ...	140	219	34.95	178	283	41.19	106	141	25.59
1943 ...	147	268	40.85	195	356	47.37	104	162	29.91
1944 ...	142	278	43.81	189	369	50.63	101	169	32.33
1945 ...	127	240	42.26	162	299	48.10	96	168	33.52
1946 ...	120	219	40.69	141	241	44.27	102	192	36.25
1947 ...	129	268	46.47	156	305	50.85	105	222	40.69
1948 ...	129	294	51.22	155	337	56.31	105	243	44.50
1948:									
January . .	130	288	49.69	156	329	54.83	106	238	42.97
February .	130	286	49.50	156	324	54.07	106	241	43.55
March . . .	130	289	49.91	156	328	54.56	106	241	43.79
April . . .	128	284	49.63	155	321	53.96	105	239	43.93
May . . .	128	287	50.32	154	327	55.02	104	238	44.09
June . . .	128	288	50.38	154	326	54.83	105	242	44.53
July	127	284	50.25	153	322	54.66	104	239	44.44
August . .	128	299	52.20	155	345	57.64	104	244	44.98
September	129	304	52.73	156	349	58.26	106	250	45.47
October . .	129	308	53.39	156	358	59.56	106	248	45.24
November	129	306	53.24	156	354	59.06	105	249	45.54
December	129	306	53.39	156	357	59.31	104	245	45.44

*1939 = 100.

Production, Farm Income and Prices

1935-1939 = 100 (Adjusted for seasonal variation)	Industrial Production Third Fed. Res. District			Income from farm marketings N. J., Pa., and Del.*	Consumer prices in Phila.†
	Total	Durable goods	Consumer goods		
Average:					
1939	102	104	100	99	99
1940	109	133	95	104	99
1941	136	199	106	122	104
1942	162	289	101	155	115
1943	183	355	104	197	123
1944	178	333	106	199	124
1945	149	251	102	231	127
1946	128	160	113	268	138
1947	135	168	117	299	158
1948	137	175	120	323	171
1948: January	138	179	118	277	168
February	137	176	119	269	167
March	135	176	117	307	166
April	138	178	122	326	169
May	138	175	122	317	170
June	137	171	124	344	172
July	137	170	124	388	173
August	137	166	123	411	175
September	137	174	120	347	175
October	135	177	116	324	174
November	136	180	117	292	172
December	142	192	123	283	171

Sources: *U. S. Department of Agriculture. †U. S. Bureau of Labor Statistics.

DEPARTMENT STORE SALES

1935-1939 = 100 (Adjusted for seasonal variation)	Third District	Phila.	Lancaster	Reading	Trenton	Wilkes-barre	York
1939	104	101	104	103	110	101	107
1940	111	108	107	111	120	101	114
1941	129	124	129	133	140	118	133
1942	143	140	151	152	153	129	157
1943	151	147	165	165	177	145	177
1944	167	158	178	177	192	174	200
1945	184	172	190	185	223	206	220
1946	235	214	248	249	294	277	276
1947	261	238	276	274	321	304	281
1948	283	253	295	296	355	330	311
1948: January	272	246	278	291	350	331	290
February	280	250	290	285	304	325	303
March	263	239	271	270	317	304	283
April	278	238	286	304	335	321	307
May	284	261	293	314	359	351	311
June	283	250	308	284	343	333	295
July	288	240	339	302	410	346	324
August	289	263	263	290	370	332	312
September	295	269	289	303	409	343	310
October	307	267	324	335	388	359	343
November	269	246	269	283	334	306	264
December	287	260	310	294	359	324	333

DEPARTMENT STORE INVENTORIES

1935-1939 = 100 (Adjusted for seasonal variation)	Third District	Phila.	Lancaster	Reading	Trenton	Wilkes-barre	York
1939	96	92	101	106	97	93	108
1940	99	92	105	112	101	91	113
1941	119	110	120	141	141	113	137
1942	167	165	148	190	184	143	177
1943	141	138	127	158	162	134	161
1944	147	143	132	181	166	144	165
1945	150	146	129	191	167	154	159
1946	191	184	177	229	205	210	212
1947	220	207	218	255	244	249	228
1948	251	221	238	297	319	338	267
1948: January	243	214	232	297	309	339	268
February	254	228	238	317	318	325	277
March	261	226	245	336	328	354	297
April	264	233	250	322	341	349	294
May	257	229	247	293	327	338	282
June	248	218	236	279	326	343	252
July	238	209	230	262	331	316	252
August	236	204	221	261	298	330	243
September	238	209	229	281	300	304	242
October	251	220	240	305	311	345	259
November	264	235	244	312	323	349	276
December	256	231	240	303	332	369	278