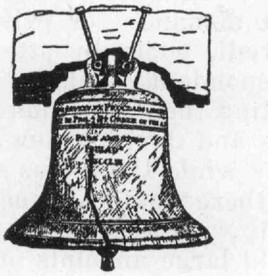
THE BUSINESS REVIEW



FEDERAL RESERVE BANK OF PHILADELPHIA

AUGUST 1, 1946

Business and Finance Since the War

Having achieved high levels of employment and income, we are still faced with the problem of economic balance. A review of our progress since V-J Day, made in the light of conflicting expectations, helps to focus attention on potentialities of strong and divergent forces now shaping our future. Now that the labor force is almost fully employed, the attainment of a larger and adequate flow of finished goods and services depends upon the improvement of our industrial efficiency. Restocking the channels of distribution and increasing production are stabilizing forces which help to neutralize the unstabilizing pressure exerted by the large supply of money. Achievement of economic balance calls for continued effort and cooperation on the part of all concerned.

Expectations for the First Year of Peace

To know where we are heading it is necessary to know whence we have come. Present economic conditions are to a great extent the result of plans and prophecies which were made prior to the end of the war. For it was in the light of predictions of what was to come that early reconversion policy was formulated. To be sure, such predictions are by nature uncertain but their use as a basis for policy is essential, and policies necessarily predicated upon them may have unfavorable consequences.

With the accelerated decline of munitions output after V-E Day the prospect for a post-war deflation loomed large. Many felt that the reduction of Government expenditures after the war might result in large declines in employment and pay rolls. The consequent drop in consumer purchasing power was seen as a deterrent factor in reconversion and a long-run threat to the achievement of a peacetime economy of full employment.

On the other hand, the accumulation of a record volume of savings during the war and the temporary inability of industry to meet the demands for consumers' goods presented inflationary possibilities. The need for replacing depleted inventories and the time requirements for plant reconversion, especially in durable goods industries, made shortages appear inevitable. It was estimated, and very accurately, that the physical aspects of reconversion could be completed within a few months; but the "catching up" period in which many necessary readjustments would impede production while consumers clamored for goods was viewed as a danger.

Many estimates and projections were made of the level of gross national product which would be required to provide full employment. These estimates varied from $155 billion to $220 billion at current prices. Full employment for a post-war labor force of 60 million was generally taken to mean 57 million at work with 3 million unemployed due to seasonal factors and normal frictions. Many observers doubted that the first year after the war would see the attainment of high levels of income—predictions of four, six, and even eight million unemployed were not uncommon. But side by side with expectations of unemployment was the anticipation of a possible price inflation during the reconversion period, especially an inflation that would affect only narrow segments of the economy.

Recommendations for fiscal and monetary policy reflected the expectations for both inflationary and deflationary tendencies. Because no one was certain what the future would bring, attempts were made to devise policies which would cover any eventuality. Some authorities recommended that Government expenditures be reduced but that a program of public works be kept on the shelf in case recession threatened. Post-war tax plans appeared in large numbers, all endeavoring to devise a tax system that would stimulate full employment as well as prevent inflation. The public debt, it was believed, should be reduced but there was some skepticism as to the possibility of pursuing an anti-inflationary debt policy without disturbing refunding operations.

Monetary policy, it was frequently emphasized, should continue to be directed toward the maintenance of low interest rates in order to hold down the cost of servicing the public debt and to stimulate business activity. Yet it was becoming apparent that maintenance of the pattern of rates on Government securities complicated the problem of restricting monetary expansion.

In the field of banking, plans for the first post-war year centered about the return to peacetime bank lending, relatively little attention being paid to the possible inflationary effects of such lending. Temporary problems of reconversion credit were approached through the establishment of the T-loan arrangement to provide credit to war industries upon termination of war contracts. The longer-run problem revolved about the basic function of banking—would commercial banks be content to provide riskless credit on the basis of Government securities, or would they take vigorous action to provide credit to private enterprise in their own communities? The problem of credit for small business and marginal enterprises formed a special aspect of this problem and provoked discussion of Government lending activities and guarantee devices. By way of answering these questions, banks prepared to meet demands for private credit by establishing credit pools, by attempting to revitalize correspondent banking relationships, and by indicating their intention of expanding into new fields and devising new lending techniques. All the while there was some question as to whether there would be much demand for bank loans. It was known that business and individuals held large amounts of liquid assets but there was no information on the distribution of those assets. At any rate, banks were prepared to supply whatever credit might be demanded by private enterprise—one of the few instances in the economic picture where supply was more certain than demand.

Since it was felt that loans might increase and since it was thought likely that banks would be called upon to absorb more Government securities when nonbank investors liquidated some of their holdings, the probability was that bank deposits would not decline and might even increase. The return of a substantial volume of currency from circulation was considered to be another factor likely to increase deposits. Deposit shifts among areas, among banks, and among owners were expected, however, and banks were encouraged to anticipate future movements by adjusting their loan and investment policies accordingly.

Developments in the Early Months of Reconversion

De-control Precipitates a Wage-Price Crisis

Basing their actions upon the need for counteracting deflationary tendencies, Government war agencies moved speedily to relax restrictions on industry and labor immediately after V-J Day. All but a few critical materials were exempted from rationing, allocation, or priorities control in order to avoid hampering reconversion in any way. Restrictions on construction, first industrial construction and later all building, were withdrawn in an effort to stimulate capital investment and to provide for plant reconversion and alteration. Manpower controls and the War Labor Board were abolished and wages were again made subject to collective bargaining between employers and employees. Price control was retained as a lone protector of price stability.

The Government reconversion wage-price policy had been announced in the second quarter of 1945. In order to compensate for decreased take-home pay, some wage rate increases were believed necessary. It was hoped that the return to the conditions of peacetime production would permit this to occur within the general framework of existing prices. The Office of Price Administration was ready to make adjustments in individual cases but it was determined to hold the price line against the inflationary pressures which might be generated by shortages. Thus prepared to combat both deflationary and inflationary developments, the Administration sought to stabilize business conditions while peacetime production got under way.

During the last quarter of 1945 numerous wage increases were granted. Hundreds of strikes occurred in instances where price ceilings compelled employers to resist increased wages. The effect of work stoppages on a productive system whose inventories were depleted and whose distribution pipe lines were dry was immediate and severe. Although working time lost directly as a result of strikes was not serious in the last quarter of 1945, materials shortages resulting from strikes delayed production and resulted in "lost motion" in many industries. Physical reconversion of plants for peacetime operation had been nearly completed by the end of the year. But instead of greater efficiency and a steadily rising flow of products which might make wage boosts possible, industry was faced with the shortages, uncertainties, and interruptions which make for higher operating costs. Strikes generated more strikes. Although a steadily increasing share of total output was for civilian consumption, industrial production fluctuated erratically and failed to make substantial gains. It became apparent that higher wages would mean higher prices.

A crisis in wage-price policy came during the first quarter of 1946. Nation-wide walkouts in basic industries, including steel, automobiles, and electrical equipment, precipitated a sharp decline in industrial production. In February an impasse was overcome by the issuance of a new stabilization order which granted price relief to hard-pressed producers who raised wages. A definite limit was placed on the amount of wage increase which the Wage Stabilization Board would allow, and once new prices were set they were to be held. Some degree of wage control had been reestablished. Stability was sought through a realignment of wages and prices which, it was hoped, would establish more equitable and more workable economic relationships at a slightly higher price level. The settlement of disputes in steel and other important industries subsequent to the promulgation of the February stabilization order enabled production to recover to the level it had reached before the wave of strikes began.

Controls were reestablished in another area during the first quarter of the year. The acute housing shortage, accentuated by the needs of returning veterans, required priorities assistance for residential building.

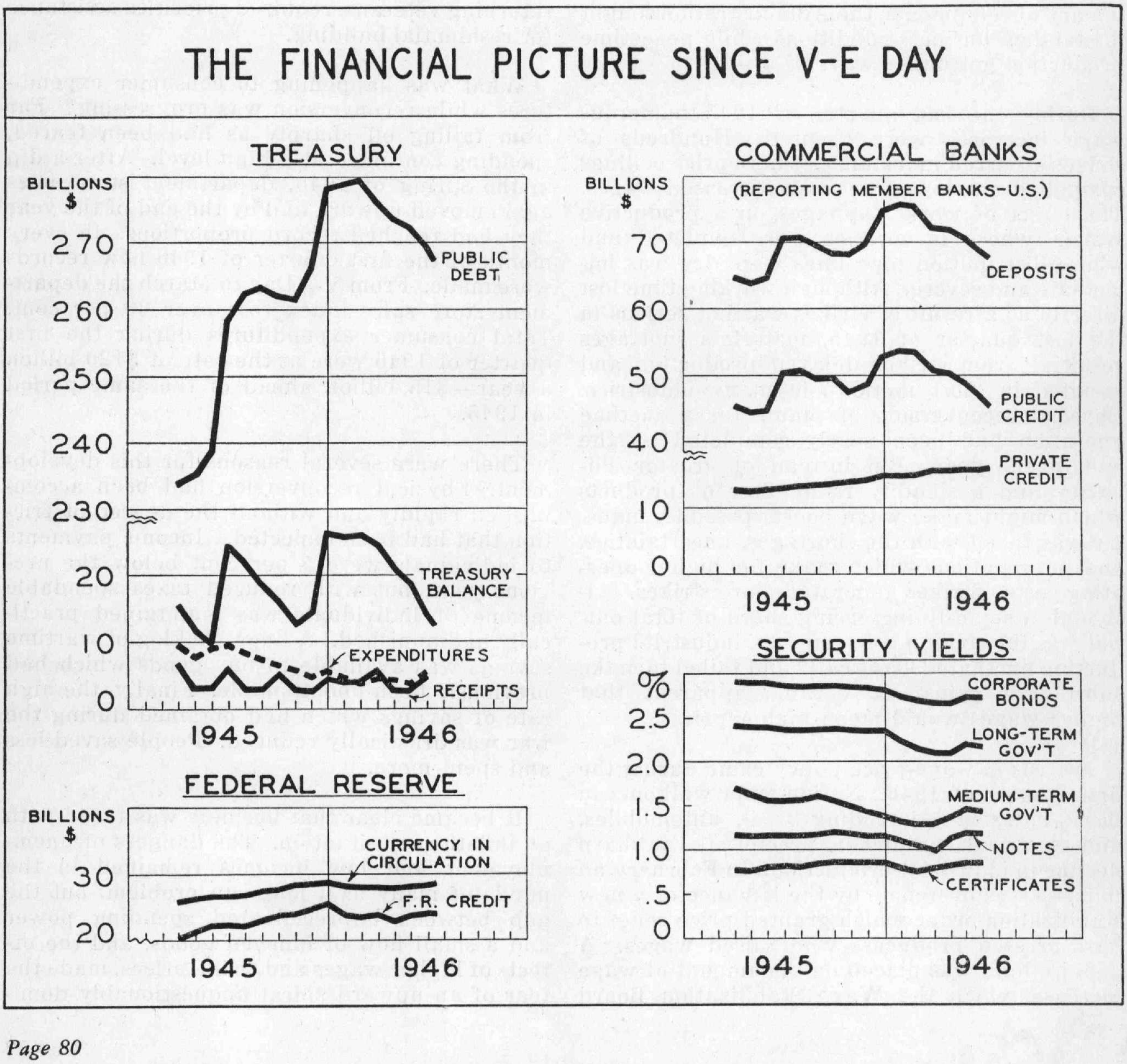
What was happening to consumer expenditures while reconversion was progressing? Far from falling off sharply as had been feared, spending continued at a high level. After a dip in the spring of 1945, department store sales again moved upward and by the end of the year they had reached record proportions. In every month of the first quarter of 1946 new records were made. From V-J Day to March the department store sales index rose over 30 per cent. Total consumer expenditures during the first quarter of 1946 were at the rate of $120 billion a year—$15 billion ahead of the same period in 1945.

There were several reasons for this development. Physical reconversion had been accomplished rapidly and without the degree of friction that had been expected. Income payments to individuals were 5 per cent below the previous year, but with reduced taxes spendable income of individuals was maintained practically undiminished. A huge backlog of wartime savings was available to buy goods which had previously been unobtainable. Finally, the high rate of savings which had obtained during the war was drastically reduced. People saved less and spent more.

It became clear that business was faced with an inflationary situation. The dangers of unemployment and low incomes remained in the minds of many as a long-run problem, but the gap between unprecedented spending power and a small flow of finished goods, and the effects of higher wages and rising prices, made the fear of an upward spiral unquestionably dominant. The upward movement of wholesale prices accelerated during the first quarter of 1946. In nine months OPA had authorized over 500 industry-wide price increases, and more were on the way. In the urban real-estate market, where prices were not controlled, prices which had risen at the annual rate of almost 7 per cent during the preceding 5½ years increased 18 per cent in five months after V-J Day. In the absence of supplementary wage, rationing, and allocation controls and with a let-down in wartime restraint, it became increasingly difficult for OPA alone to hold the price line until supply might catch up with demand.

Inflation Emerges as the Main Financial Problem

Financial developments after V-J Day reflected the continuation of certain wartime policies as well as the revival of typically peacetime activities. Toward the end of 1945 tax burdens were made considerably lighter, partly in an effort to facilitate rapid reconversion and resumption of peacetime production. Individual income taxes were reduced by raising exemptions and making other adjustments; the excess profits tax was repealed, rates were reduced, and various other changes made in corporation



CHANGES IN PUBLIC AND PRIVATE BANK CREDIT SINCE V-J DAY

(Reporting member banks in 101 cities—United States)

	Aug. 15, 1945 to Feb. 27, 1946		Feb. 27, 1946 to July 17, 1946	
	Percentage change	Percentage distribution of the total increase	Percentage change	Percentage distribution of the total decrease
Goverment securities	+ 6%	+ 54%	− 14%	− 94%
Bills	− 7	− 2	− 26	− 5
Certificates	+ 24	+ 49	− 26	− 45
Notes	− 17	− 32	− 37	− 40
Bonds	+ 8	+ 40	− 1	− 4
Guaranteed	− 46	*	− 14	*
Loans on Goverment securities	+ 17	+ 11	− 34	− 18
Total public credit	+ 7%	+ 65%	− 15%	−112%
Loans (excluding Government securities loans)	+ 17%	+ 32%	+ 7%	+ 12%
Commerical, industrial, and agricultural	+ 24	+ 28	+ 6	+ 6
Real estate	+ 7	+ 1	+ 16	+ 2
Other	+ 4	+ 2	+ 9	+ 4
Non-Goverment investments	+ 4	+ 3	*	*
Total private credit	+ 13%	+ 35%	+ 6%	+ 12%
Total loans and investments	+ 8%	100%	− 11%	100%

*Less than 0.5 per cent.

taxes. The Treasury continued to borrow and to maintain a large working balance. Government expenditures for war purposes, of course, were reduced rapidly after the cessation of hostilities, more than offsetting a rise in non-war expenditures.

The continuation of wartime fiscal and monetary policies contributed to the extension of basic wartime trends in banking and the security markets. Deposits still rose as a result of bank extension of public credit—that is, purchases of Government securities and loans made for the purchase of Government securities. Member bank reserves were supplied by Federal Reserve operations designed to offset the demand for currency and to maintain the pattern of rates on Government securities. The large bank demand for Governments and the pressure of nonbank funds extended the downward trend of interest rates to the lowest levels on record.

Although this expansion of public credit represented almost two-thirds of the total increase in bank credit during the six and a half months after the end of the war, private credit was growing steadily during the same period at a rate considerably more rapid than that of public credit. Banks already were returning to risk lending. This incipient revival of private risk credit extended by banks sharpened problems of the adequacy of bank capital, reserves for losses, and competition for new business.

Industry, setting out to reconvert, replace worn-out plant and equipment, and expand operations, obtained part of the necessary funds from banks. Commercial, industrial, and agricultural loans, as shown in the accompanying table, rose by one-fourth from August 15, 1945 to February 27, 1946. Another part of the funds for business financing during the reconversion period was supplied by the businesses themselves. Demand deposits of manufacturing and mining concerns held by Third District banks, for example, declined by 8 per cent between July 1945 and January 1946. Still another part of the funds required by industry was obtained by the issuance of securities. In the second half of 1945 the average monthly volume of corporate security issues for new money was almost one and a half times the average monthly volume during 1941. Banks increased their holdings of these and other non-Government securities, partly because they were searching for higher yields than those offered by eligible long-term Governments.

In addition to supplying credit to business, banks expanded their outstanding volume of consumer credit, despite continued shortages of consumers' durables. Real-estate loans also rose somewhat, reflecting the revival of construction activity as well as rising real estate prices.

The perpetuation of many wartime policies, the continued growth of public credit extended by banks, and the revival of private credit resulted in a persistent expansion of the money supply. By early 1946, financial developments definitely reflected the fact that the immediate threat was inflation, not deflation.

Steps Toward Stability

Production Gathers Momentum

The achievement of economic balance involves the problems of the rate and efficiency of production as well as the supply and the use of money. The increasing flow of goods available to meet the demands of both individuals and businesses during the second quarter of the year marked an important step toward stability. For the first time in a year the total output of the civilian economy increased. Gross national product reached a rate of $185 billion a year—a record peacetime level, even allowing for price changes.

Industrial production to be sure was interrupted in April and May. The soft coal strike, coming just as industry had recovered from the February steel dispute, set production back by forcing a gradual shut-down of iron and steel output. But the settlement of the coal dispute and other important strikes brought production up sharply by the end of the quarter. Preliminary estimates of the Federal Reserve Board place June production at a new post-war peak—170 per cent of the 1935-1939 average. In the Third Federal Reserve District, where manufacturing industries are for the most part a few steps removed from the output of primary materials, the effects of the coal strike were felt somewhat later, and full recovery had scarcely been achieved by the middle of the year. The prospect for the immediate future, however, is for much greater production.

It is important to emphasize that "soft" goods continued to reach the markets steadily in large quantities. Almost the entire impact of the strikes was felt in the durable goods industries. Most likely a supply-demand balance will be achieved first in the nondurable fields. Since purchases of many items in this category are of the non-deferrable type—clothing, fuels, and foods, for instance—this would be a most important contribution to the establishment of more stable conditions.

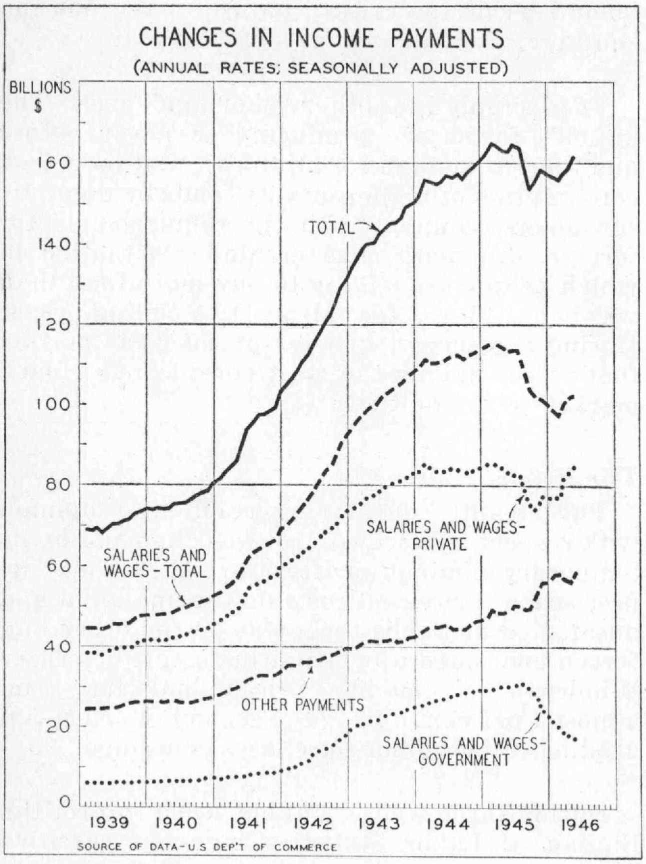
Contributing to the smoother flow of goods through the country's channels of production and distribution was an appreciable increase in business inventories. Although there may have been some hoarding of finished goods toward the end of the period in anticipation of price increases, all evidence points to the fact that such withholding has not been excessive and that most of the increase has been in raw materials and goods in process. With industry's pipe lines filling up, the output of finished consumers' goods should accelerate greatly in the coming months. Such interruptions in production as may occur will be cushioned to a greater extent.

The nation's civilian labor force increased substantially during the second quarter of this year. For the most part this was due to the continuing return of veterans, but the return of women to the agricultural labor force, which began in March, also swelled the total. The size of the civilian labor force—estimated at 59,300,000 in June—is significant in that it promises an over-all adequacy of manpower to do the job that is required. The improving composition of the labor force, however, is even more important. Over-age workers have dropped out. Men are available to replace women in heavy work undertaken by the latter during the war. Less efficient workers may be down-graded as skilled men return to civilian jobs. Nevertheless, labor shortages persist in some lines. A decline of women in nonagricultural jobs has created a tight situation in certain "soft" goods industries. In the Philadelphia area the United States Employment Service reports openings in nearly 100 different occupations, with critical needs developing in a number of skilled jobs. While these conditions are troublesome, a general manpower shortage is not expected to limit production in the immediate future.

The flow of greater quantities of materials, restoration of industrial peace, accumulation of larger inventories, and more adequate manpower will all contribute to increased industrial efficiency for the production of more goods at lower cost. Before the pattern of industrial output was so drastically altered by the war the introduction of improved methods and machines increased the efficiency of production year after year. As civilian products once again begin to roll from the assembly lines in large quantities and as working crews become "grooved" into their jobs, there is every reason to believe that productivity will resume its upward trend. Increased industrial efficiency, as well as increased efficiency in the service fields, will be an important stabilizing factor in the immediate future.

The Demand for Goods and Services

The highest level of productive activity in the nation's peacetime history is matched by un-



precedented demand. Consumers' goods of many kinds are snapped up as soon as they appear on dealers' shelves, and backlogs of orders for producers' goods are large. In the Third Federal Reserve District department store sales have risen to the highest level of all time. The index for the month of June was 78 per cent above the average for the year 1941.

Demand arises out of urgent need supported by accumulated wartime savings, high levels of current income, and reenforced optimism concerning future business. In June almost everybody had a job. Unemployment was only 2½ million. Average weekly earnings of manufacturing workers were somewhat below the levels of 1944 and 1945 but they were much higher than at any time prior to the war and were increasing. The average hourly wage rate of $1.07 in May was an all-time record. Farm income also was very high. Income payments to individuals in May were at a rate of $161 billion a year, an increase over all of the preceding nine months. There has also been a reshuffling of incomes since the war, tending toward a more normal pattern, as the accompanying chart shows. Government pay rolls have declined sharply. But salaries and wages in private industry and trade have recovered since last fall. Other payments, including dividends, profits, unemployment compensation, and veterans' mustering out pay, have also risen. The net result is a level of income payments very close to the wartime peak of February 1945.

If kept within bounds, the strong demand for goods generated by high incomes can be the basis for stabilization at a level of production high enough to sustain full employment. However, if competition for goods among consumers and business enterprises should lead to inordinate bidding up of prices, a disastrous inflation may be touched off. A speedy, uninterrupted output of goods thus is of paramount importance.

Toward Financial Stability

Beginning in March, the Treasury pursued a policy of reducing the public debt by drawing on its working balance. About $13½ billion of maturing marketable Governments was retired between March 1 and August 1. The retirement of securities held by commercial banks together with the repayment of some of the loans for the purchase of Government securities reduced the volume of public credit outstanding at commercial banks and contributed to a decline in the total money supply.

Just as incomes derived from private activity continued to increase while incomes from Government pay rolls declined, private credit still rose when public credit declined. But the growth of private credit was considerably less rapid between February and June 1946 than between August 1945 and February 1946 and reflected a different situation among the various types of private credit. Commercial, industrial, and agricultural loans rose less rapidly in the second period than in the first, while real-estate loans and consumer credit expanded at an accelerated rate.

In the spring of this year there were some indications that the downward trend of interest rates had ceased. The chart illustrates the upward turn of yields on various types of Government securities as well as corporate bonds. In April the Reserve Banks eliminated the preferential discount rate of ½ of 1 per cent on advances to member banks secured by Government obligations due or callable in not more than one year. Leading banks in the money centers raised their rates on loans to brokers and dealers for the purchase of Government securities. Several of the Federal Reserve Banks recently increased their minimum buying rates for bankers' acceptances. Finally, call money rates have risen after remaining unchanged for some years.

During the coming months any further retirement of Government securities held by commercial banks would be anti-inflationary. The effect of such action on the volume of bank deposits however, probably still would be offset to some extent by continued growth of private credit. Over the remainder of the year more than $18 billion of marketable Governments other than bills will fall due. The Treasury has just redeemed in cash about one-half of the $2½ billion of certificates maturing on August 1 but thus far has not announced its plan for handling later maturities. High taxes and reduced federal expenditures will help curb inflationary pressures by helping to balance the federal budget. Intensive efforts to sell savings bonds to nonbank investors through pay roll deductions should be continued as an important part of the anti-inflationary program, and to the extent that holdings of the federal debt can be shifted from the banks to individuals, a reduction in money supply will have a stabilizing influence.

The Inflationary Tug of War

Persistence of Shortages

Despite record production in many fields, some critical shortages persist. The output of many types of consumers' goods is far short of requirements. Some of these products are actually being turned out at well above the pre-war rate. Other items, of which motor vehicles are the most conspicuous, still lag far behind. Residential building is proceeding at a rate which is better than that of 1941, but the industry has a long way to go to meet minimum housing requirements. Nonresidential construction has been drastically curtailed by the Veterans Housing Program, and a large backlog of building requirements exists for business and industry. Although recent legislation has stimulated the output of building materials and the recruiting of construction workers, the attainment of a balance is a long way off. The current real estate boom reflects the critical nature of the housing shortage.

Food supply is another "shortage" area. The nation's farms are producing as never before and there is enough for all to eat. But increased consumption of higher quality foods by domestic consumers, coupled with the requirements for foreign shipments, has created a situation in which people are willing to buy more food than was being offered for sale at OPA ceiling prices. During the second quarter of the year certain foods were among the most conspicuous "black market" commodities.

The Price Crisis

The steadily developing conflict of opinion with respect to price control was climaxed by its temporary elimination after the end of June. The pressure of increased costs on the one hand and unsatisfied demands for goods on the other had forced continued upward adjustments of prices. Wholesale commodity prices had increased almost 4 per cent during the second quarter. Upgrading of consumer purchases continued.

During three weeks without price control the Bureau of Labor Statistics index of sensitive wholesale commodity prices showed an increase of almost 25 per cent. The rise was led by foods and grains where subsidies had been eliminated, but many other commodities subsequently joined the upward trend. Reactions were varied. According to the *Journal of Commerce,* hides jumped 67 per cent; cotton print cloth rose over 18 per cent; and metals rose about 7 per cent.

The interim without OPA control was too short and too uncertain to indicate the course of "free" prices. It appeared that while the price rise was sharp at the beginning of the period and was still continuing when controls were reinstated, there was a tendency for those prices which had risen fastest to level off. Consumer resistance to high prices was scattered and, for the most part, unorganized; but in some areas prices of meat and dairy products were forced down as store shelves filled up. While most general merchandise at the retail level had not yet been affected by the up-swing, department store sales in July showed the usual seasonal decline, indicating caution on the part of buyers rather than a stampede of "scare" buying. Manufacturers and businessmen generally made a genuine effort to hold prices in check and did not take advantage of the opportunity for speculative profits.

How effective the new price control legislation will be will not be known for some time, but the manifestations of business and consumer restraint in the recent past are encouraging. Rapidly rising prices forestall the attainment of stability. Without definite knowledge of production costs, industrial planning is difficult. There is a tendency for hoarding of inventories to take place at all stages of production. Labor, faced with mounting living costs, eventually would demand higher wages which in turn would mean higher and higher prices. Self-reenforcing interruptions of output, labor unrest, and hoarding of goods would culminate in painful readjustment.

The Role of Money and Credit

Any inflationary spiral which might ensue from the failure of price controls will complicate existing anti-inflationary monetary and fiscal policies. Press reports have indicated that several measures might be considered in the event of runaway prices. Among these are a request for higher tax rates, revival of the excess profits tax, postponement of state aid grants for public works, and a halt in further debt retirement and maintenance of a high Treasury balance as long as uncertainties continue. The President just recently has called for a reduction in Government expenditures.

Further expansion of private credit extended by banks will be as inflationary as further monetization of the public debt, particularly if such credit is used for inventory speculation or excessive expansion of productive capacity or the purchase of scarce consumers' goods. The possibilities of growth in consumer debt once consumers' durables become available in large volume are of particular importance. Much will depend upon the behavior of individuals and business. The use of vast holdings of liquid assets for consumer purchases and unrestrained business expenditures not only would tend to raise prices but also might necessitate further bank purchases of Governments in refunding operations. There is reason for suspecting that liquid assets are not distributed as broadly as has usually been assumed, so that the inflationary danger of the masses of the population unloading liquid assets may not be so great as once believed; instead the danger may be in a few large holders using their liquid assets for speculative purposes. However, if great numbers of the population possess no liquid assets to speak of, the demand for consumer credit may be all the larger. In the long run a high level of income is essential to sustain the purchasing power of those individuals who have accumulated little or no savings. In the short run, however, the danger of inflation from the use of liquid assets hinges largely upon the degree of restraint exercised by the holders of such assets.

Just as moderation on the part of individuals and business will prevent the bidding up of prices, restraint on the part of banks in extending credit will limit the growth of the money supply. For, as the Board of Governors pointed out in its last Annual Report, ". . . the money supply can . . . be increased on the volition of the banks irrespective of national monetary policy and without control such as exists in other principal countries." In order to regain such control and yet prevent the interest payments on the public debt from rising above those now being paid, the Board of Governors has submitted to Congress certain credit control proposals involving the grant of additional power to the Board to cope with the situation.

Conclusion

With the upturn of production in the second quarter of 1946 we have reached a level of national income and employment which is unprecedented in our peacetime history. Our economy has achieved a rate of gross national product which approaches or exceeds many of the calculations set forth as desirable goals for full employment. However, the fact that the recuperative powers of this nation are so great that production records have been attained more quickly than many had anticipated is no assurance that this position will be maintained without vigilance and effort.

If prices and wages continue to play leap-frog on an ascending stairway of excessive credit expansion, the type of collapse which followed World War I may eventually come. On the other hand, if a balance among wages, production, prices, and money supply can now be achieved, and if cooperation and restraint on the part of business, banking, labor, and other groups are obtained, we may be well on the way to economic stability at a level higher than has been known heretofore.

BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Indexes: 1923-25 = 100	Adjusted for seasonal variation						Not adjusted		
	June 1946	May 1946	June 1945	Per cent change: June 1946 from Mo. ago	Per cent change: June 1946 from Year ago	Per cent change: 1946 from 6 mos. 1945	June 1946	May 1946	June 1945
INDUSTRIAL PRODUCTION	**96p**	**96**	**129r**	**0**	**−26**	**− 25**	**94p**	**91**	**128**
MANUFACTURING	**97p**	**96**	**132**	**+ 1**	**−26**	**− 27**	**95p**	**90**	**130**
Durable goods	**92p**	**90**	**189**	**+ 2**	**−52**	**− 50**	.....	.....	.....
Consumers' goods	**99p**	**100**	**92**	**− 1**	**+ 8**	**+ 6**	.....	.....	.....
Metal products	93	92r	161	+ 1	−42	− 47	94	73r	163
Textile products	73p	73	66	+ 1	+11	+ 8	71p	70	64
Transportation equipment	143p	135	430	+ 6	−67	− 60	144p	141	430
Food products	120p	125	123r	− 4	− 2	+ 1	107p	116	112
Tobacco and products	104	121	89	− 15	+16	+ 26	112	118	96
Building materials	39p	36	38	+ 9	+ 2	+ 15	42p	37r	41
Chemicals and products	138p	129	159r	+ 7	−13	− 18	139p	131r	160r
Leather and products	83p	88	80r	− 6	+ 4	− 3	81p	80	77r
Paper and printing	119	114	100	+ 5	+19	+ 21	118	115	99
Individual lines									
Pig iron	80	68r	101	+ 18	−21	− 20	76	71r	96
Steel	86	82r	128	+ 5	−32	− 39	88	86r	130
Iron castings	81	73	73	+ 11	+12	+ 3	80	76	72
Steel castings	94	110	169	− 15	−45	− 59	97	114	176
Electrical apparatus	110	116r	249	− 5	−56	− 57	110	106	249
Motor vehicles	17	16r	51	+ 3	−67	− 44	20	21r	62
Automobile parts and bodies	104	88	125	+ 18	−17	− 28	104	93	125
Locomotives and cars	54	63	91	− 14	−41	− 47	56	62	94
Shipbuilding	.....	.....	.....	+ 4	−74	− 65	.....	.....	.....
Silk manufactures	91	91	88	0	+ 3	+ 2	86	87r	84
Woolen and worsteds	72p	73	64	− 2	+13	+ 14	69p	69	62
Cotton products	53	51	46	+ 5	+15	+ 15	50	50	44
Carpets and rugs	71p	67	56	+ 6	+27	+ 22	69p	66	55
Hosiery	81	76	66	+ 6	+22	+ 14	79	76	65
Underwear	146	142	135	+ 3	+ 8	+ 3	146	143	135
Cement	46p	44	36	+ 3	+26	+ 91	55p	50	44
Brick	51	38r	51	+ 35	+ 1	− 1	53	40r	53
Lumber and products	28	29	32	− 4	−14	− 18	29	27	33
Bread and bakery products	.....	.....	.....	− 5*	−13*	− 6*	111	117	127
Slaughtering, meat packing	80	108	111	− 26	−28	+ 7	76	108	107
Sugar refining	94	105	52	− 11	+80	− 20	100	129	56
Canning and preserving	202p	194	179	+ 4	+13	+ 6	145p	147	129
Cigars	104	122	88	− 15	+17	+ 27	112	118	95
Paper and wood pulp	89	88r	86	+ 1	+ 3	+ 7	88	88r	85
Printing and publishing	125	119	103	+ 5	+22	+ 23	124	120	102
Shoes	115p	124	104	− 7	+11	+ 3	110p	113	99
Leather, goat and kid	52p	54	57r	− 3	− 7	− 13	53p	49	57r
Explosives	71	66	201	+ 8	−64	− 67	71	67	201
Paints and varnishes	91	86	91	+ 7	0	0	93	91	93
Petroleum products	207p	193	188	+ 7	+10	0	207p	194	189
Coke, by-product	80p	74	159	+ 8	−50	− 38	80p	77	159
COAL MINING	**62**	**73**	**86r**	**− 15**	**−28**	**+ 5**	**60**	**73**	**84r**
Anthracite	55	79	82r	− 30	−33	+ 11	55	79	82r
Bituminous	117	23	114	+410	+ 3	− 22	103	21	100
CRUDE OIL	**303**	**295**	**323**	**+ 3**	**− 6**	**− 6**	**315**	**307**	**336**
ELECTRIC POWER	**426**	**429**	**449**	**− 1**	**− 5**	**− 5**	**405**	**399**	**427**
Sales, total	422	419	446	+ 1	− 5	− 6	410	402	433
Sales to industries	307	283	341	+ 8	−10	− 15	310	288	344
BUILDING CONTRACTS									
TOTAL AWARDS†	206	208	78	− 1	+163	+137	210	199	80
Residential†	235	223	4	+ 6	**	**	249	236	5
Nonresidential†	164	160	72	+ 3	+130	+ 106	168	168	73
Public works and utilities†	197	223	334	− 11	− 41	− 44	188	156	317

* Unadjusted for seasonal variation.
† 3-month moving daily average centered at 3rd month.
** Increase of 1000% or more from the low level of a year ago.
p—Preliminary.
r—Revised.

Local Business Conditions*

Percentage change—June 1946 from month and year ago	Factory employment		Factory payrolls		Building permits value		Retail sales		Debits	
	May 1946	June 1945	May 1946	June 1945	May 1946	June 1945	May 1946	June 1945	May 1946	June 1945
Allentown	+ 2	−21	+13	−28	− 1	+ 42	+ 7	+32	− 4	+ 3
Altoona	+ 1	−11	− 2	− 3	+ 14	+145	+ 8	+47	+ 5	+ 8
Harrisburg	+ 2	− 6	+ 9	−12	+353	**	+13	+40	− 3	−10
Johnstown	− 1	+11	+32	− 3	− 66	+ 1	+ 2	+31	0	− 5
Lancaster	+ 3	− 8	0	−10	− 81	− 19	− 2	+32	+ 2	− 1
Philadelphia	0	−15	0	−25	+ 12	+ 90	+ 1	+36	+ 9	−13
Reading	+ 1	+ 3	+ 2	+ 7	− 26	+ 4	+ 6	+40	+ 6	+ 4
Scranton	0	−17	+ 4	−11	**	**	− 2	+36	− 1	+ 8
Trenton	.....	.....	.....	.....	− 31	− 4	+ 4	+45	−19	−20
Wilkes-Barre	+ 3	−22	+ 3	−31	0	+ 10	+12	+45	+ 1	+ 7
Williamsport	+ 1	− 7	+ 3	0	+ 54	+107	.....	.....	+ 2	− 1
Wilmington	+ 5	−27	+ 7	−29	− 9	+927	− 2	+45	+21	−17
York	+ 3	0	+ 7	− 7	− 45	+174	+ 4	+34	+ 4	− 7

* Area not restricted to the corporate limits of cities given here.
** Increase of 1000% or more from the low level of a year ago.

Employment and Income
in Pennsylvania

Industry, Trade and Service

Indexes: 1932 = 100	Employment			Payrolls		
	June 1946 index	Per cent change from May 1946	Per cent change from June 1945	June 1946 index	Per cent change from May 1946	Per cent change from June 1945
GENERAL INDEX	**125**	+ 3	− 2	300	+ 8	− 6
Manufacturing	154	+ 1	− 9	389	+ 2	−16
Bituminous coal mining	75	+137	+ 4	461	+441	+27
Building and construction	66	+ 3	+38	144	+ 4	+23
Quar. and nonmet. mining	96	+ 3	+25	331	+ 10	+30
Crude petroleum prod.	147	0	+13	276	+ 4	+ 6
Public utilities	113	+ 2	+18	184	+ 2	+23
Retail trade	129	0	+ 7	208	+ 2	+26
Wholesale trade	119	+ 1	+15	188	+ 1	+22
Hotels	128	+ 2	+21	257	+ 1	+37
Laundries	108	+ 3	+ 6	239	+ 3	+30
Dyeing and Cleaning	105	+ 1	+ 5	246	+ 2	+28

Manufacturing

Indexes: 1923-5 = 100	Employment*			Payrolls*		
	June 1946 index	Per cent change from May 1946	Per cent change from June 1945	June 1946 index	Per cent change from May 1946	Per cent change from June 1945
TOTAL	**99**	**+ 1**	**− 9**	**159**	**+ 2**	**−16**
Iron, steel and products	97	0	−17	184	+ 1	−28
Nonferrous metal products	193	+ 2	−12	426	+ 2	− 6
Transportation equipment	87	− 1	−38	149	+ 2	−41
Textiles and clothing	83	+ 2	+ 9	149	+ 1	+22
Textiles	78	+ 1	+11	140	+ 1	+24
Clothing	103	+ 2	+ 4	189	+ 1	+16
Food products	118	− 1	− 2	195	0	0
Stone, clay and glass	100	+ 5	+22	164	+ 7	+24
Lumber products	53	+ 4	+ 3	90	+ 7	+ 3
Chemicals and products	108	− 1	− 5	187	0	−10
Leather and products	86	+ 1	+19	146	0	+20
Paper and printing	122	+ 1	+21	207	+ 1	+32
Printing	119	0	+24	194	+ 1	+38
Others:						
Cigars and tobacco	54	+ 2	+12	87	+ 2	+17
Rubber tires, goods	141	0	− 1	333	+ 1	+ 8
Musical instruments	115	+ 1	+39	197	− 2	+83

* Figures from 2763 plants.

Hours and Wages

Factory workers Averages June 1946 and per cent change from year ago	Weekly working time*		Hourly earnings*		Weekly earnings†	
	Average hours	Ch'ge	Average	Ch'ge	Average	Ch'ge
TOTAL	**38.7**	**−13**	**$1.119**	**+ 3**	**$43.27**	**−10**
Iron, steel and prods.	37.2	−19	1.213	+ 6	45.21	−14
Nonfer. metal prods.	40.4	− 9	1.103	+ 9	44.51	− 1
Transportation equip.	40.5	−11	1.281	− 2	51.83	−13
Textiles and clothing	39.3	− 1	.910	+12	35.72	+10
Textiles	40.2	− 1	.928	+12	37.37	+11
Clothing	36.7	− 2	.858	+ 8	31.94	+ 7
Food products	41.5	− 7	.915	+ 9	38.60	+ 2
Stone, clay and glass	38.0	−10	1.072	+12	40.59	+ 2
Lumber products	41.6	− 5	.869	+10	35.87	+ 3
Chemicals and prods.	39.6	−15	1.209	+12	47.90	− 4
Leather and products	38.8	−10	.876	+11	34.30	+ 1
Paper and printing	41.9	− 6	1.083	+16	45.54	+ 9
Printing	40.8	− 2	1.244	+14	50.79	+12
Others:						
Cigars and tobacco	38.4	−10	.766	+15	29.43	+ 4
Rubber tires, goods	42.8	− 5	1.222	+15	52.29	+ 9
Musical instruments	43.7	+13	1.024	+16	44.78	+31

* Figures from 2620 plants. † Figures from 2763 plants.

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change: June 1946 from Month ago	Year ago	1946 from 6 mos. 1945
Sales			
Total of all lines	+ 1	+ 33	+24
Boots and shoes	− 4	+102	.....
Drugs	− 5	+ 20	+14
Dry goods	− 9	+ 45	+33
Electrical supplies	− 7	+174	.....
Groceries	+ 2	+ 34	+24
Hardware	+12	+ 48	+37
Jewelry	−15	+ 81	+80
Paper	+ 3	+ 34	+12
Inventories			
Total of all lines	0	+ 49	.....
Dry goods	+ 6	+ 85	.....
Electrical supplies	−23	+ 36	.....
Groceries	0	+ 32	.....
Hardware	+ 6	+ 19	.....
Jewelry	+16	+302	.....
Paper	− 4	+ 23	.....

Source: U. S. Department of Commerce.

Prices	June 1946	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	197	+ 3	+ 7	+ 97
Wholesale (1926 = 100)	113	+ 2	+ 6	+ 51
Farm	140	+ 2	+ 7	+130
Food	113	+ 1	+ 5	+ 68
Other	106	+ 2	+ 6	+ 32
Living costs (1935-1939 = 100)				
United States	133	+ 1	+ 3	+ 35
Philadelphia	133	+ 1	+ 4	+ 35
Food	144	+ 2	+ 3	+ 54
Clothing	156	+ 2	+ 7	+ 57
Fuels	115	0	+ 5	+ 19
Housefurnishings	159	+ 2	+10	+ 58
Other	125	0	+ 3	+ 24

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: June 1946	May 1946	June 1945	Per cent change: June 1946 from Month ago	Year ago	1946 from 6 mos. 1945	Not adjusted: June 1946	May 1946	June 1945
RETAIL TRADE									
Sales									
Department stores—District	254p	232	186r	+ 10	+ 37	+ 26	229p	222	167
Philadelphia	238	220	176	+ 8	+ 35	+ 24	207	204	153
Women's apparel	271	250	198	+ 9	+ 37	+ 32	234	238	171
Men's apparel	205p	223	157	− 8	+ 31	+ 31	229p	207	175
Shoe	228	182	157	+ 25	+ 45	+ 40	243	226	168
Furniture	.....	.....	.....	− 2*	+ 53*	.....	.....	.....	.....
Inventories									
Department stores—District	189p	177	165r	+ 7	+ 14	.....	179p	179	156
Philadelphia	188p	179	161	+ 5	+ 17	.....	176p	177	151
Women's apparel	279	244	232	+ 14	+ 20	.....	228	235	189
Shoe	65	55	68	+ 18	− 5	.....	63	61	66
Furniture	.....	.....	.....	0	+ 21*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	130	96	146	+ 36	− 11	− 18	134	97	150
Merchandise and miscellaneous	120	102	133	+ 18	− 9	− 17	123	105	136
Merchandise—l.c.l.	100	92	89	+ 8	+ 12	+ 5	100	92	89
Coal	174	87	181	+100	− 4	− 11	156	77	163
Ore	132	77	198	+ 72	− 33	− 55	194	97	290
Coke	147	42	207	+249	− 29	− 46	137	36	193
Forest products	91	95	97	− 4	− 6	− 8	104	91	111
Grain and products	142	119	171	+ 20	− 17	− 8	123	110	148
Livestock	108	133	121	− 19	− 11	− 2	98	121	110
MISCELLANEOUS									
Life insurance sales	222	220	132	+ 1	+ 68	+ 65	226	217	135
Business liquidations									
Number	.....	.....	.....	− 60*	− 33*	+ 46*	3	7	4
Amount of liabilities	.....	.....	.....	− 84*	− 40*	+507*	3	17	4
Check payments	215	201	234	+ 7	− 8	+ 5	232	201	252

* Computed from unadjusted data. p—Preliminary. r—Revised.

BANKING STATISTICS

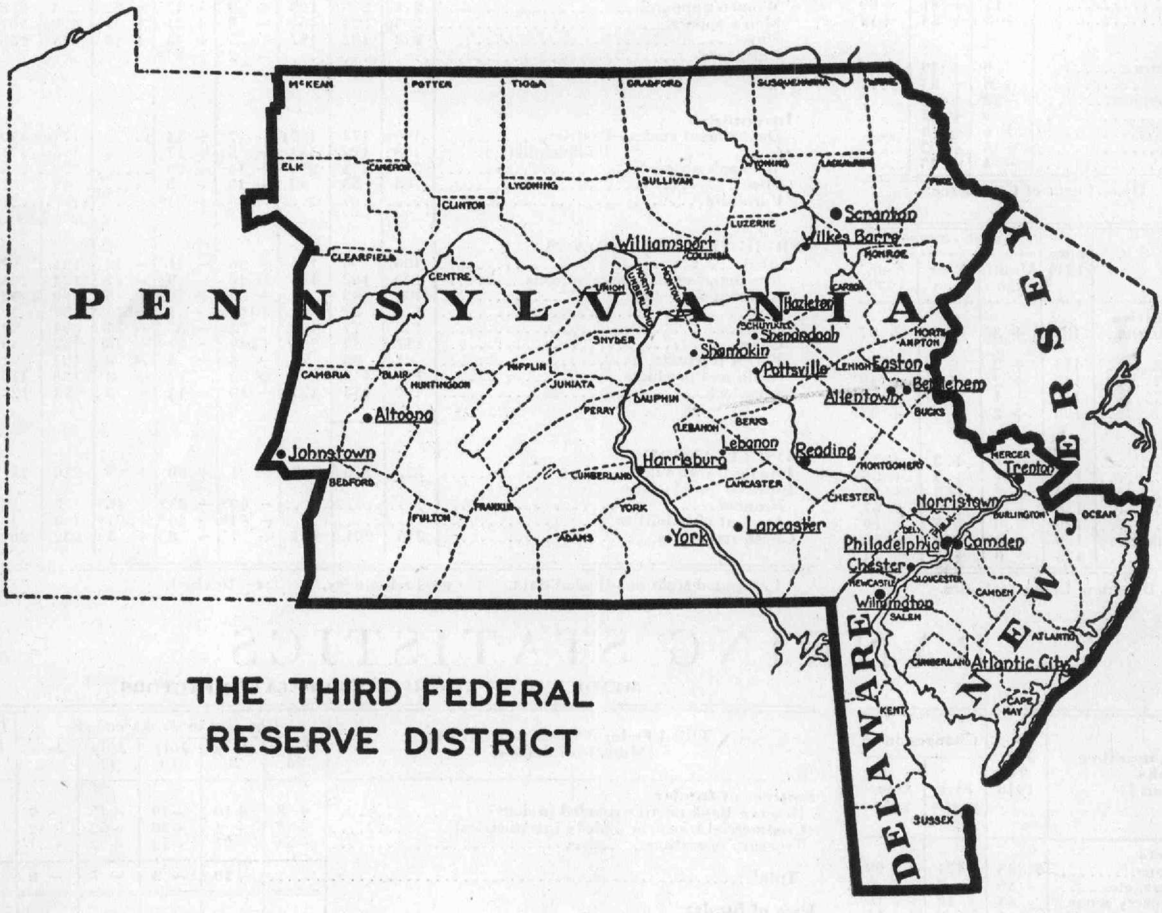
Reporting member banks (Millions $)	July 24, 1946	Changes in— Five weeks	One year
Assets			
Commercial loans	$ 303	+$21	+$ 99
Loans to brokers, etc.	50	+ 7	+ 6
Other loans to carry secur.	43	− 18	− 19
Loans on real estate	47	+ 3	+ 14
Loans to banks	1	.....	.....
Other loans	163	+ 4	+ 39
Total loans	$ 607	+$17	+$139
Government securities	$1686	−$79	−$390
Obligations fully guar'teed	.....	.....	.....
Other securities	196	+ 6	+ 18
Total investments	$1882	−$73	−$372
Total loans & investments	$2489	−$56	−$233
Reserve with F. R. Bank	429	− 6	+ 14
Cash in vault	31	− 1	+ 2
Balances with other banks	89	.....	+ 12
Other assets—net	44	+ 1	− 2
Liabilities			
Demand deposits, adjusted	$1842	−$10	+$104
Time deposits	267	+ 26	+ 57
U. S. Government deposits	326	− 60	− 382
Interbank deposits	358	− 19	− 8
Borrowings	5	+ 4	+ 2
Other liabilities	24	− 2	+ 7
Capital account	260	− 1	+ 13

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended— June 26	July 3	July 10	July 17	July 24	Changes in five weeks
Sources of funds:						
Reserve Bank credit extended in district	+ 8	+40	−19	+45	− 9	+ 65
Commercial transfers (chiefly interdistrict)	+47	+ 4	+38	−52	+32	+ 69
Treasury operations	−55	−25	−22	+ 2	−31	−131
Total	.....	+19	− 3	− 5	− 8	+ 3
Uses of funds:						
Currency demand	+ 8	+15	− 2	− 8	− 2	+ 11
Member bank reserve deposits	− 8	+ 2	+ 1	+ 3	− 6	− 8
"Other deposits" at Reserve Bank	.....	+ 2	− 2	.....	.....	.....
Other Federal Reserve accounts	.....	.....	.....	.....	.....	.....
Total	.....	+19	− 3	− 5	− 8	+ 3

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1945: July 1-15	$407	$394	$13	3%
1946: June 1-15	421	409	12	3
June 16-30	425	414	11	3
July 1-15	423	415	8	2
Country banks				
1945: July 1-15	$339	$262	$77	29%
1946: June 1-15	376	319	57	18
June 16-30	380	323	57	18
July 1-15	377	324	53	16

Federal Reserve Bank of Phila. (Dollar figures in millions)	July 24, 1946	Changes in— Five weeks	One year
Disc. and advances	$ 19	+$ 6	+$ 15
Industrial loans	1	.....	− 1
U. S. securities	1629	+ 61	+ 71
Total	$1649	+$67	+$ 85
Fed. Res. notes	1636	+ 17	+ 101
Member bk. deposits	796	− 8	+ 69
U. S. general account	46	+ 27	− 5
Foreign deposits	71	+ 28	− 22
Other deposits	4	+ 1	.....
Gold certificate Res.	911	+ 5	+ 73
Reserve ratio	35.7%	− 0.7%	+ 1.0%



THE THIRD FEDERAL RESERVE DISTRICT