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THE BUSINESS REVIEW



FEDERAL RESERVE BANK OF PHILADELPHIA

OCTOBER 1, 1946

Deposit Trends and Ownership in 1946

Bank deposits are reflecting the basic re-adjustments involved in the termination of war and the resumption of peacetime activity. The Government has been reducing its working balance to a level consistent with the smaller volume of expenditures, and in doing so has effected a reduction in total bank deposits. On the other hand, where the Treasury's debt retirement program has involved holdings of non-bank investors, it has caused a shift of funds from inactive War Loan Accounts to active private accounts. Deposits of individuals and businesses continue to expand.

Trends

The most significant development in the field of bank deposits during 1946 has been a decline of 6 per cent in total deposits of member banks between the last half of December 1945 and the last half of August 1946. The expansion in deposits which was practically continuous for eight years has been halted. During the war and for months after its close, the dominant factor in deposit expansion was the growth of public credit extended by banks—that is, bank purchases of Government securities and bank loans to individuals for the purchase of such securities. Private credit extended by banks declined during the war and thus ex-

erted a dampening effect on the growth of deposits.

For the past several months the exact opposite has been the case. The volume of public bank credit has been shrinking as a result of Treasury retirement of maturing obligations and repayment by individuals of their loans on Government securities. This decline in public bank credit has been partially offset by an expansion of private bank credit—business loans, mortgages, consumer credit and non-Government securities.

Further indications of the influence of these factors on the trend of total deposits is provided by changes in the various types of deposits. These are shown for a number of years in the chart and for 1946 to date in Table 1. The drop in War Loan Accounts occasioned principally by the Treasury's redemption operations has been the outstanding factor contributing to a decline in total deposits. From the inauguration of the redemption program in March through the recent operation on October 1, the Treasury will have retired \$17.5 billion of its maturing obligations in cash, and a large proportion of the funds needed for these transactions has come from bank War Loan Accounts. Time deposits and demand deposits

other than War Loan Accounts, on the other hand, have continued to rise but at a slower rate than in the past.

Although the trend in total deposits has changed and although the various influences affecting deposit trends are now the reverse of what they were during the war, one major wartime deposit trend has continued during 1946. Throughout the war, deposits of the smaller outlying banks grew more rapidly than those of the larger city banks. In recent months deposits of country banks have continued to expand somewhat while deposits of reserve and central reserve city banks declined. One reason is that War Loan Accounts represent a smaller segment of deposits at small banks than at large banks so that their decline has had less effect on total deposits. Perhaps a more significant contrast between the experiences of the larger and smaller banks, however, is that time deposits and demand deposits other than War Loan Accounts still tended to increase more rapidly at country banks than at central reserve and reserve city institutions.

In the Third Federal Reserve District deposits during 1946 have dropped somewhat less

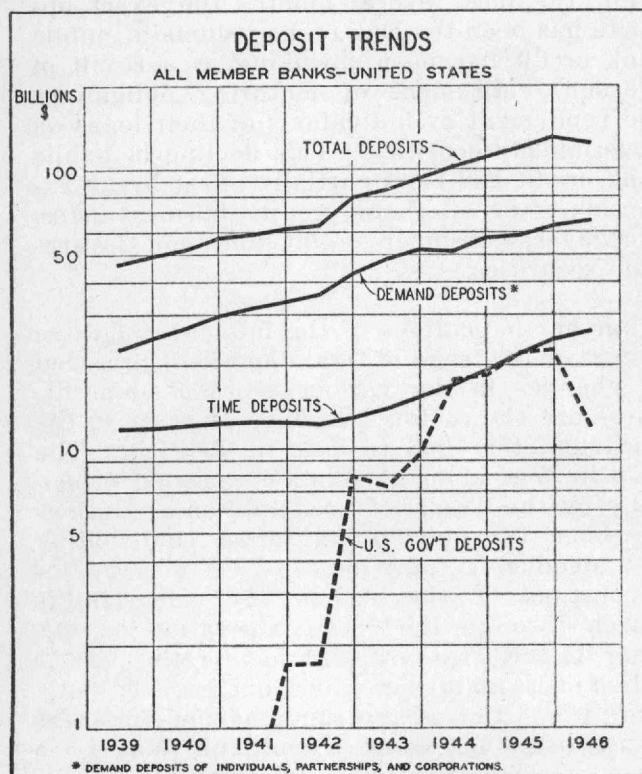


Table 1
DEPOSIT CHANGES IN 1946
(Last half of December 1945 to last half of August 1946)

(Member banks)	United States		Third District	
	Billions \$	% Change	Billions \$	% Change
Type of deposit:				
War loan deposits.....	-12.7	-58	-6	-58
Other demand deposits.....	+ 2.5	+ 3	+1	+ 3
Time deposits.....	+ 2.6	+11	+2	+14
Total.....	- 7.6	- 6	- .3	- 4
Area:				
Central reserve city.....	- 4.8	-13	.....	.....
Reserve city.....	- 3.2	- 7	- .4	-12
Country.....	+ .4	+ 1	+ .1	+ 2
Total.....	- 7.6	- 6	- .3	- 4

sharply than for the nation as a whole. Although total deposits of member banks in Philadelphia have declined more than in other reserve city banks, they did not fall as much as was the case in central reserve city banks; at country member banks in this district deposits increased at a faster rate than at country banks in the United States as a whole. The net result of these changes has been that banks in this district now hold a slightly larger proportion of the nation's deposits than at the end of 1945. During the war years the less rapid deposit expansion here compared to the rest of the country lowered the share of total deposits held by Third District banks and it was expected that a return to more normal peacetime conditions might bring about a flow of deposits to this area even if the over-all deposit level remained constant. No substantial inflow has yet taken place, but the wartime trend has ceased and the district's share of deposits has remained fairly constant.

Over the coming months deposits in this district will be affected by the same general influences which will be at work nationally. Any retirement in cash of some of the \$10¾ billion of Government certificates and notes maturing during the remainder of the year will act to reduce total deposits both locally and nationally, but will raise deposits other than War Loan Accounts. A further expansion of loans will tend to increase deposits. This district's share of the nation's deposits may rise during the rest of the year if loans expand at a faster rate here than in the rest of the country, as was the case during the first half of the year, and if the revival of more normal conditions of production and trade provide the district with a favorable balance of payments in its transactions with other sections of the country.

Ownership

The latest survey of the ownership of demand deposits,* made as of July 31, 1946, indicates that personal deposits in all commercial banks of the Third Federal Reserve District are still expanding at a rate faster than business deposits. The fact that personal accounts grew almost three times as rapidly as business balances in the two and one-half years between July 1943 and January 1946 was largely attributable to the high wartime incomes of individuals and the dearth of consumers' durable goods. Individuals were forced to save.

The rate of accumulation in personal deposits in the six months from January to July 1946 was slower than in the past. Incomes continue at high levels and spending, while heavier, has not reached the point of cutting into accumulated deposits. The supply of durable goods in the market, purchases of which might be expected to entail drafts upon accumulated funds, has not yet reached large proportions, and credit is being used in considerable measure to finance the purchase of such goods as are available.

Business deposits as a whole exhibited no particularly new trends between January and July. As during the war period, they expanded less rapidly than personal deposits and demand

deposits as a whole. But among the various types of business accounts there were several significant developments. Deposits of manufacturing and mining concerns were unchanged, in contrast with a substantial decline in the previous six-month period, when output and income declined and industrial outlays were being made to effect the change-over to peacetime production. During the latest period most of the expenditures for reconversion apparently had been completed and production, despite a lapse in the first quarter of the year, reached new peacetime peak levels. Moreover, deposits continued to be sustained by increased bank borrowings to finance inventories and current operations.

Another significant change took place in deposits of wholesale and retail trade enterprises. In each survey of deposit ownership, from July 1943 to January 1946, these deposits consistently grew faster than total deposits. Between January and July 1946, however, they expanded less rapidly. Trade concerns may have been drawing upon their bank balances to finance larger inventories as goods gradually became more plentiful. The fact that they accumulated deposits more rapidly than most other types of businesses during the war suggests that many concerns may prefer to make use of these funds before resorting to bank borrowing, although undoubtedly some of the recent expansion of business loans is accounted for by trade enterprises.

* In the discussion of deposit ownership the term "demand deposits" refers to demand deposits of individuals, partnerships, and corporations.

Table 2
OWNERSHIP OF DEMAND DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS
THIRD FEDERAL RESERVE DISTRICT

	Dollar Amounts (millions)			Percentage Distribution			Percentage Change	
	July 31, 1943	Jan. 31, 1946	July 31, 1946	July 31, 1943	Jan. 31, 1946	July 31, 1946	July 1943 to Jan. 1946	Jan. 1946 to July 1946
Domestic business:								
Nonfinancial:								
Manufacturing and mining.....	808	875	875	27.1	22.0	21.2	+ 8.3	.....
Public utilities.....	249	230	231	8.4	5.8	5.6	- 7.6	+ 0.4
Trade.....	351	561	578	11.8	14.1	14.0	+59.8	+ 3.0
Other nonfinancial business.....	145	187	210	4.9	4.7	5.1	+29.0	+12.3
Total nonfinancial business.....	1,553	1,853	1,894	52.2	46.6	45.9	+19.3	+ 2.2
Financial:								
Insurance companies.....	81	93	90	2.7	2.3	2.2	+14.8	- 3.2
Other financial.....	137	235	236	4.6	5.9	5.7	+71.5	+ 0.4
Total domestic business.....	1,771	2,181	2,220	59.5	54.8	53.9	+23.2	+ 1.8
Trust funds.....	207	226	257	7.0	5.7	6.2	+ 9.2	+13.7
Nonprofit associations.....	82	137	145	2.8	3.4	3.5	+67.1	+ 5.8
Personal, incl. farmers.....	912	1,430	1,497	30.7	36.0	36.3	+56.8	+ 4.7
Foreign.....	2	3	3	*	.1	.1	**	**
Grand total.....	2,974	3,977	4,122	100.0	100.0	100.0	+33.7	+ 3.6

* Less than 0.1 per cent.

** Because of rounding small totals, percentage changes are meaningless.

The data on deposit ownership also serve to explain disparate deposit trends as between large and small banks. The types of deposits which increased most rapidly—personal and trade accounts—are also those which are relatively more important at small than large banks; the deposits which remained practically unchanged or which declined—manufacturing and mining, public utility, and insurance company accounts—tend to be more important at large banks. Added to this fact, deposits in almost all categories of ownership tended to expand more rapidly the smaller the bank (Table 3).

Table 3

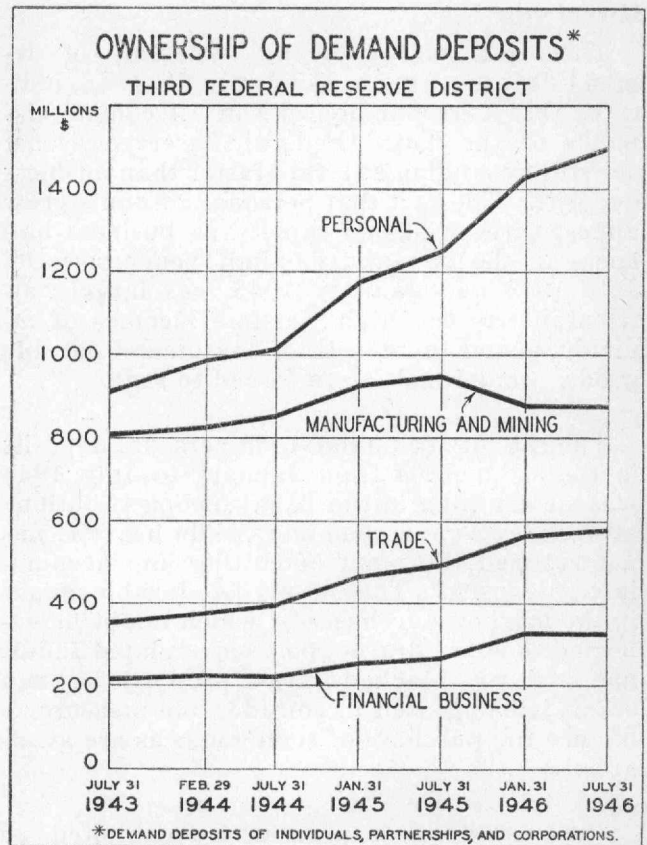
CHANGES IN DEPOSIT OWNERSHIP BY SIZE OF BANK

Percentage Changes from January 31, 1946 to July 31, 1946

	Banks with Demand Deposits of Individuals and Businesses			
	Under \$1 million	\$1 million to \$10 million	\$10 million to \$100 million	Over \$100 million
Domestic business:				
Nonfinancial:				
Mfg. and mining.....	- 5.4	+ 6.3	+ 1.7	- 3.2
Public utilities.....	+57.6	+14.7	+ 3.3	- 4.7
Trade.....	+13.9	+ 5.3	+ 1.2	- 1.9
Other nonfin. business.	+56.1	+13.1	+17.5	- .1
Total nonfin. business	+15.2	+ 7.2	+ 3.5	- 3.0
Financial:				
Insurance companies..	+18.2	+ 8.5	+16.7	-13.1
Other financial.....	+27.9	+ 2.7	+ 7.7	- 7.2
Total domestic bus...	+15.8	+ 6.9	+ 4.6	- 4.1
Trust funds.....	+78.3	+20.1	+14.9	+10.9
Nonprofit associations...	- 1.4	- 2.4	+ 2.0	+17.4
Personal, incl. farmers...	+11.7	+ 8.5	+ 4.9	- 4.9
Foreign.....			- 6.3	+ 2.7
Grand total.....	+12.6	+ 7.9	+ 5.2	- 2.5

What are the possibilities for further shifts in deposit ownership over the coming months? A recent survey of liquid assets indicated that individuals expected to meet one-fourth of their expected expenditures for consumers' durables during 1946 by drawing upon accumulated liquid assets. And most individuals indicated they would be more willing to draw down their bank balances than to cash their war bonds. It is possible, therefore, that personal deposits will shrink as more and more consumers' durables come on the market. The fact that individuals intended to meet one-third of their expenditures for durable consumers' goods by borrowing, however, will act as a stimulus to deposits generally, depending on how extensively banks participate directly or indirectly in such consumer lending.

When individuals draw upon their balances,



the deposits generally are not extinguished but are passed on to other owners. Businesses will receive some of these funds and will use them to meet various expenditures. Under conditions of prosperity, deposit funds will flow throughout the economy, among businesses and individuals, in a manner which facilitates high levels of productive activity. If production and incomes fall off materially, it is possible that funds might tend to accumulate in the hands of business; individuals would be forced to fall back on their accumulated bank balances to meet current expenses, and a part of the funds would pass to businesses which, seeing few opportunities for profit, might allow the funds to remain idle or reduce indebtedness.

The current situation, however, is quite different. The immediate danger is that deposit funds will become greater and will circulate at an increasing rate. One way to avoid such a development is for businesses to use their funds with restraint, abstaining from a scramble for inventories, and for consumers to refrain from excessive spending.

Inventories and the Business Outlook

In an era of economic record breaking it may be no surprise to find that business inventories reached an all-time high in July. Yet, inventories occupy such a strategic position in the structure of our economy that changes in their size and composition merit close attention. There appear to be two opposite views of current developments: one, that the present rate of inventory accumulation indicates an inflationary movement which may have the same unfavorable consequences as the boom of 1920; another, that the inventory bulge is merely part of the transition to higher levels of production and sales.

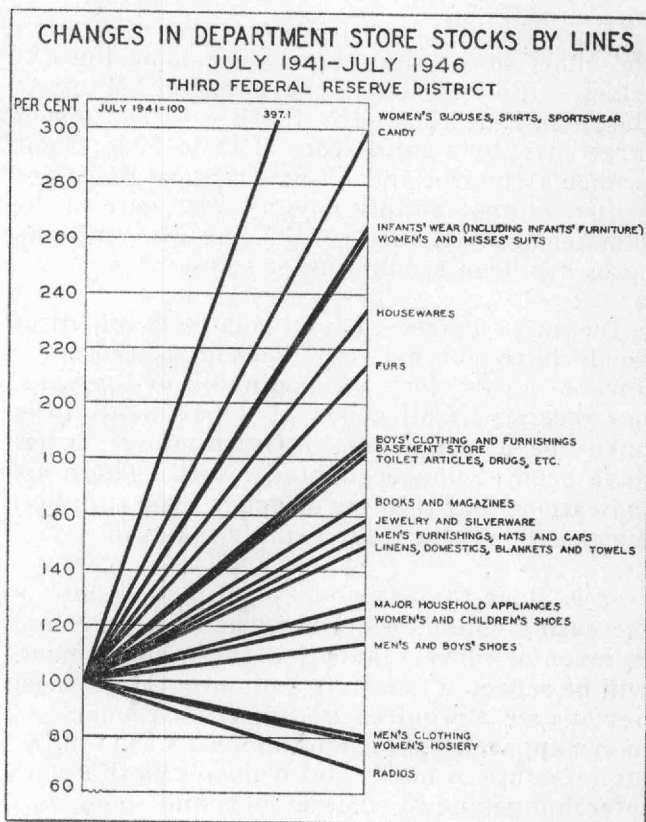
The Current Inventory Situation

The persistence of irritating shortages of many goods has to some extent obscured the huge expansion in supplies available for consumer purchase during recent months. Within the past year, stocks of wholesalers and retailers have increased nearly \$2 billion—almost 20 per cent—with most of the increase coming within the last six months. The value of department store stocks has risen over 30 per cent since January, and in July stood 122 per cent above the 1935-1939 average. Such stocks in the Philadelphia Federal Reserve District are higher than at any previous time. A more significant measure, however, is the relationship of inventory supply to consumer demand. As in the case of total retail trade, the ratio of stocks to sales in department stores is still below pre-war levels. For all types of goods combined, Philadelphia district stores had 3.5 months' supply on hand in July 1946 compared to 3.7 in July 1941, which was also a period of great activity.

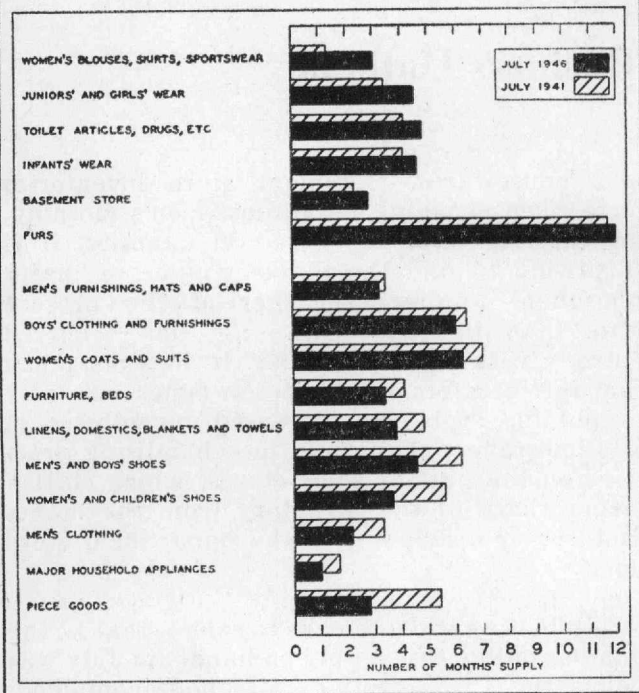
A comparison of the dollar volume of department store inventories in July 1941 with stocks in July 1946 by lines, reveals that the increases in supplies have not been even. The accompanying charts show a significant picture. Increases in women's and children's clothing have been large, as have gains in jewelry, books,

and housewares. Basement store inventories have risen sharply, but radios, men's clothing, and hosiery have decreased in quantity. It is surprising to find the dollar volume of major household appliances larger at the present time than in 1941. The gain has occurred entirely within the past year. It does not mean that refrigerators and carpet sweepers are easy to obtain. Probably, increased inventories in this line reflect changes in merchandising practices on the part of some stores, which shift a larger share of the inventory from the manufacturer or distributor to the department store itself.

While the ratio of stocks to sales—that is, the number of months' supply on hand—in July was below the 1941 level for all goods combined,



MONTHS' SUPPLY OF DEPARTMENT STORE STOCKS
THIRD FEDERAL RESERVE DISTRICT



the chart shows that there were some lines in which supplies were more plentiful. Many of the plentiful items are those which showed large inventory gains from 1941 to 1946. Some women's apparel and basement store items are in just as good supply now as they were in the summer of 1941, even considering what in some cases has been a doubling of sales.

Increases in receipts of relatively plentiful goods have not been so marked as those for durable goods since the beginning of the year, but receipts of all goods at department stores have been increasing. Outstanding orders have been at unprecedented levels. There are indications that receipts of goods from suppliers may soon be rising more rapidly than sales.

It is clear that as goods continue to flow in increasing volume there must be an adjustment in inventory levels, and that these adjustments will be reflected in orders and output. The most obvious shift required is that from women's to men's apparel. Labor and materials used in the manufacture of men's and women's clothing are interchangeable to some extent, and some shift

of productive resources from one to the other may be practicable. As time goes on and stocks are replenished in one industry after another, more shifts may be expected to take place, but with increasing difficulty.

During the war there was a seemingly insatiable demand for all types and grades of goods; but the day is approaching when the return of a buyers' market will again force producers to seek out profitable ventures carefully and will penalize misguided production. Increases in sales in certain lines may not continue without interruption. In fact, for some goods present sales may not be sustained. As automobiles, refrigerators, and appliances come into the market in increasing volume the sale of soft goods may suffer. Inventory plans which merely project the trends of the immediate past and do not take such factors into account, may lead to over-expansion.

The situation with regard to manufacturing inventories is different and somewhat more complicated than that for trade. The basic difference is that while the dollar value of wholesale and retail inventories remained at 1941 levels until the upturn at the beginning of this year, manufacturing inventories rose steadily until 1944. Early in 1946, after the liquidation of war-goods inventories had been completed, manufacturers held a substantially greater value of stocks than they had in the middle of 1941. The ratio of inventories to sales in manufacturing declined during the war, as it did in trade, but there is a significant difference in the composition of the inventories of durable and nondurable goods industries. The value of finished goods stocks showed little change in both industry groups since 1941 and is now low in relation to current production. But while inventories of raw materials and goods in process of manufacture at the end of June bore a normal relationship to the output of non-durable goods, such inventories in the durable goods industries were considerably above pre-war proportions.

In part, this difference may be easily explained. In order to increase the flow of finished goods it is necessary, first, to build up a sufficient stock of raw materials. Once this is done, goods partially processed are moved onward through successive stages of refinement and "goods in process" inventories fill up.

Finally, stocks of finished goods are built up from which wholesalers and retailers receive their supplies. In many of the nondurable goods industries this process went on fairly smoothly even during the war. After V-J Day it was not necessary for "soft" goods industries, as it was in the case of durable goods, to liquidate supplies of war materials and solve other knotty reconversion problems before civilian goods could be restocked. As indicated above, nondurable goods are already reaching consumers' hands in large volume. Part of the in-process inventory bulge in the durable lines, therefore, represents the preliminary stock-building process required before goods can be shipped to users. Another part reflects inventory unbalance—the filling of warehouses with nearly-finished goods which lack some unobtainable part, or the pile-up of materials awaiting processing by unobtainable men and machines. This unbalance is abnormal only in the sense that it is a result of great and sudden change. Actually it appears to be characteristic of periods of rapid business expansion. Persistently unbalanced inventories are liable to degenerate into excessive inventories.

During pre-war years nearly half of all manufacturers' inventories was finished goods. Such inventories are little more than a fourth today and, since they are so close to the consumer, they will be the last to fill up. The \$480 million rise in nondurable manufacturing inventories during July, after a slight decrease in the first six months of the year, may indicate the beginning of the process. Prior to that month the rise in nondurable stocks appeared to be leveling off, while durables were growing.

The increase of \$1.3 billion in business inventories reported by the Department of Commerce for the month of July was unprecedented. It is doubtful that that rate of growth will be sustained. Preliminary estimates of manufacturing inventories for August show a \$325 million increase for the month—less than half the increase in July. However, manufacturers' stocks, which were less than \$14 billion in July 1941 and are about \$18.3 billion now, still were growing at a rapid rate. There is undoubtedly a substantial price rise hidden in the dollar figures. Physical expansion is somewhat smaller than indicated. But it is in terms of dollar value that the goods will be bought and sold, and it is the level of demand *at current prices* which will determine their marketability. Are inven-

tories increasing too rapidly? Is our economy faced with another 1920, when excessive inventories toppled into the markets, causing gluts and stoppages in the flow of trade and production?

The Role of Inventories in Our Economy

In considering these questions it is well to review some of the basic factors which must be considered in determining the adequacy of the inventory level. Our industrial system cannot be likened to a well-regulated assembly line where component parts feed smoothly into the finished article according to engineers' plans. Buying and selling in competitive markets is a distinguishing characteristic of our business organization; and the exigencies of the marketplace, stimulating and, in the long run, efficient though they may be, preclude an "engineered" flow of trade. In a dynamic economy of rapid fluctuations and frequent shifts, it is necessary to anticipate sales and to accumulate stocks to meet demands whose volume is uncertain.

While the basic short-term consideration in determining the appropriate size of inventories for a business unit or for an entire industry may be the actual and expected rate of sales, there are certain long-run factors concerned with the physical and organizational aspects of the productive system which are also influential. First and most obvious of these is the technique of manufacture. If, through the introduction of new machinery, the length of the production process is decreased, the need for inventories of finished goods will be diminished—additional goods can be produced on shorter notice. Goods-in-process inventories can be smaller because of shorter production time. Improvements in methods of transportation and communication also tend to reduce the required level of inventories. Orders may be transmitted and delivered more rapidly and there is a saving on the amount of goods in transit.

Another group of influences which contributes to the determination of the inventory level is composed of so-called institutional factors—conventional policies, practices, and organizations by which trade is carried on. Industrial integration and large-scale organization generally tend to decrease the need for stand-by stocks. Close scheduling of production from one stage of processing to another, centralized purchasing and control of stocks, and geograph-

ical dispersion of distribution outlets spread inventories thinner for a given level of output or sales. In fact, wherever scientific management—the engineering approach—is introduced, advance planning is likely to make for more efficient use of inventories.

The structure of the market for the product of a particular business or industry is significant in appraising inventory needs. Many buyers, with many different needs and desires, require a supplier to keep larger stocks on hand than few buyers. During the war years, for instance, the fact that the Government was for many firms the sole purchaser of standardized equipment on advance orders enabled the manufacturing industries to cut the proportion of finished goods inventories held by nearly one-half. The shift from Government to private markets will doubtless necessitate a sharp increase in manufacturers' stocks of finished goods.

The Inventory Cycle

By far the most decisive factors, and the most difficult to appraise in determining inventory requirements, are the continual fluctuations in the demand for goods and the ups and downs of the price level. The problem of cyclical movements is of primary importance in answering the question—are we going too far, too fast?

Increased sales, or the expectation of them, prompt businessmen to increase inventories. Merchants and manufacturers, anticipating profits, may borrow from banks—or sell investments that banks buy—to obtain some of the necessary funds. The process of increasing inventories through the creation of funds by the banking system enlarges the money supply, generates additional income and greater purchasing power. During a period of rising business activity, therefore, the attempt to accumulate larger stocks increases the flow of income faster than the flow of finished goods. Competition among buyers forces prices up. Because increasing sales again make inventories inadequate, merchants and manufacturers again borrow from banks—but at a higher price level. More money is thereby created, there is still greater demand for goods at rising prices, producers place advance orders with their suppliers and borrow additional funds from banks. Once started, the expansion of credit and accu-

mulation of inventories feed on each other.

The industrial mechanism rolls along with powerful momentum. Even after stocks are more than sufficient there is a tendency for output to continue at high levels. Producers have new and efficient equipment, new firms compete for business, and the process of filling advance orders continues. Merchants who had placed duplicate orders with several suppliers when goods were scarce are swamped by deliveries. Orders are cancelled, prices fall, bank credit contracts, unemployment develops and a cumulative downward movement begins in which businessmen buy only “from hand-to-mouth” and seek to unload inventories.

For many years banking was strongly influenced by the belief that credit arising solely from “productive” activities was non-inflationary. Such credit would increase when trade and production expanded and would be extinguished when activity fell off. Short-term, self-liquidating bank loans constituted the essence of this theory. But the “productive credit” concept overlooked the self-inflamatory nature of bank credit. Regardless of how “sound” bank loans may be, they can aggravate inflation. For credit which is created for productive purposes is used many times over—perhaps for speculative purposes—before it is extinguished. In practice, many loans are only nominally short-term and are renewed several times before being eventually liquidated.

The “boom and bust” period after World War I demonstrated that loans ostensibly for productive activity could be as inflationary as speculative loans. Moreover, it was discovered that even though loans were short-term, a sudden large-scale liquidation had serious repercussions on the economy. Short-term, self-liquidating loans now constitute a small part of bank business, and the “productive credit” concept has been proved an unreliable fetish for preventing booms and depressions. Yet the current situation shows some evidences of a hang-over of such thinking.

The Outlook

The general business situation has many parallels with the 1919-1920 period. Yet it is dangerous to attempt to fit present-day conditions to the previous pattern and expect events to follow in order. There are too many differ-

ences between this post-war period and the last. Prices have thus far behaved differently; labor is in a stronger bargaining position; our place in international affairs has changed. The banking system now deals mainly with Government investments rather than self-liquidating "productive" credit. Through the Civilian Production Administration, the Government maintains controls designed to mitigate shortages and prevent deliberate hoarding of scarce goods. Inventories themselves have shown different trends. While the value of manufacturers' stocks increased steadily during and after the first world war, there was a decline in inventories in 1944 and 1945. The increase in department store stocks during 1919 is almost matched by the increase during the past year. Inventory accumulation leveled off before the 1920 crash due to price declines, but in the present period, price weaknesses have not appeared. However, business inventories are now accumulating rapidly. How far can they go before a danger point is reached?

As after the first world war, commercial and industrial loans have been expanding. At reporting member banks in the Third District, the rise has amounted to 75 per cent since the low point in mid-1945. In order to fill the gaps in information on current lending, a number of Philadelphia bankers were interviewed concerning their recent experiences in lending for inventory purposes and their appraisal of the present situation and future prospects. In general, the feeling prevails that the expansion of loans for inventory purposes has not been disproportionately large. Indeed, some bankers indicate that the rise has not been so great as they had expected. One reason given is that scarcities still persist. Another is that business is in a fairly good cash position and has not felt the need to borrow heavily. Most of the borrowing for inventory apparently has been by manufacturers and to some extent by wholesalers. Although some retail stores may be starting to borrow, most establishments have not been able to get sufficient supplies to require bank funds.

All of the bankers interviewed agree that business men are not conscious of being inventory speculators. Business men who build up supplies in excess of need to avoid running the risk of buying later at a higher price, or per-

haps getting no delivery at all, feel that they are merely protecting themselves in a tight situation. But it is important to recognize that, despite the absence of conscious speculation, an inventory "boom and bust" can arise from just such policies.

The usual measure of inventory adequacy is the relationship of stocks to sales. Use of this measure alone may be misleading at the present time. It has been pointed out above that it may overestimate stock needs in cases where demand is the result of temporary abnormalities. It may also underestimate requirements. The present ratio of inventories to sales in manufacturing industries, for instance, is close to that of pre-war years. But inventories are not wholly adequate for full production. The fact is that lack of parts and vital materials is keeping large quantities of nearly-completed goods off the market. Sales are limited and inventories grow. If durable goods could be finished and offered for sale in a steady flow, sales volume in many lines would probably expand to a point where present inventories would still be relatively low. Some bankers feel that further interruptions of production which would aggravate the problem of unbalance might require that banks supply the necessary funds to carry customers over the shortage period.

A rough measure of the over-all adequacy of business inventories might be their relationship to gross national product—the total of all goods and services produced. On this basis, 1941 proportions would call for manufacturing inventories of \$21 billion instead of \$18 billion in July, retail inventories of \$10 billion instead of \$7.5 billion. The differences are not large, but no forecast of early excesses can be made on this basis alone. Although inventories are accumulating rapidly now, the rate may decline. Gross national product is increasing. Demands for producers' goods and construction may accelerate its growth. Incomes and purchasing power may continue to increase. The long-range factors previously mentioned are still operative and will assume great importance in the rapidly advancing technology which is in prospect. With so many variables to consider, it is not possible to find a formula which will tell precisely when there are enough goods in our warehouses.

If, for any reason, national income declines and purchasing power falls off, inventories may

become excessive within a short time. While most of the bankers interviewed feel that inventories are not yet excessive, several believe that they are becoming so. All agree that it is one of the most important things for banks to watch. For, if excessive credit pours in to inflate prices, inventory appreciation may continue for a while but will result in readjustment which may be painful. In 1920 the overstocking of goods at rising prices prolonged the boom after consumer purchases leveled off. Such a development must be guarded against now.

As a solution to this problem, interviews with bankers indicated that they are pursuing precautionary policies. One is to make no loans for the acquisition of inventories in anticipation of price rises. Another is to impress borrowers with the possibility of a future decline in sales, emphasizing that a large part of the accumulated demand may represent padding and duplication of orders. They are advising customers to buy limited amounts of supplies instead of acquiring inventories in excess of need.

Some stipulate that borrowers may not buy far ahead. In cases where inventories appear likely to remain unbalanced for some time, banks are encouraging firms to get rid of surplus stocks.

No banker knowingly grants credit which enables prices to be bid out of reach of the consumer, no businessman deliberately overstocks his shelves. But in the past it has not been possible to tell when inventories were too high until it was too late. An appraisal of the soundness of inventory positions requires not only statistical tools, like a ratio of stocks to sales, but also psychological tools which measure the temper of the business community. A composite judgment of informed business people responsible for making day-to-day decisions would be such a measure. In the absence of such a yardstick, each businessman must exercise conservative judgment in the appraisal of his own needs, and, similarly, each banker must discriminate between reality and illusion so as not to pour fuel on the fires of inflation.



BUSINESS STATISTICS

Production Philadelphia Federal Reserve District

Employment and Income in Pennsylvania

Indexes: 1923-5 = 100	Adjusted for seasonal variation					Not adjusted			
	Aug. 1946	July 1946	Aug. 1945	Per cent change		Aug. 1946	July 1946	Aug. 1945	
				Aug. 1946 from Mo. ago	1946 from 8 mos. 1945				
									Year ago
INDUSTRIAL PRODUCTION	107p	109	117r	- 2	- 9	- 22	107p	104	118r
MANUFACTURING	108p	109	120r	- 1	- 10	- 24	107p	104	120r
Durable goods	112p	115	167r	- 3	- 33	- 46			
Consumers' goods	102p	102	86r	- 1	+ 18	+ 9			
Metal products	122	127r	134r	- 4	- 9	- 38	128	123r	141r
Textile products	76p	76	63	+ 1	+ 21	+ 10	72p	70	60
Transportation equipment	168p	161	403	+ 4	- 58	- 60	162p	157	394
Food products	127p	136	111	- 6	+ 14	+ 5	118p	124	114r
Tobacco and products	117	99	89	+18	+32	+27	125	107	95
Building materials	43p	45	34	- 4	+ 26	+ 19	49p	48	38
Chemicals and products	142p	147	167r	- 4	- 15	- 16	143p	145	167r
Leather and products	74p	74	66	0	+ 13	- 1	77p	68	68
Paper and printing	120	121	105	- 1	+ 15	+ 19	117	117	102
Individual lines									
Pig iron	105	97r	106	+ 9	- 1	- 14	92	89r	93
Steel	103	110r	113r	- 7	- 9	- 32	105	100r	115r
Iron castings	82	78	66	+ 5	+ 24	+ 8	79	75	64
Steel castings	99	101	155	- 2	- 36	- 55	95	90	149
Electrical apparatus	171	175r	189r	- 2	- 9	- 46	190	184r	210r
Motor vehicles	23	22	52	+ 8	- 54	- 45	20	22	43
Automobile parts and bodies	139	127	119	+10	+18	- 19	131	122	112
Locomotives and cars	62	58	76	+ 6	- 19	- 44	62	58	77
Shipbuilding				0	- 70	- 66			
Silk manufactures	91	88	83	+ 3	+ 10	+ 3	88	86r	81
Woolen and worsteds	68p	74	55	- 8	+ 25	+ 17	70p	70	56
Cotton products	56	56	46	+ 1	+ 22	+ 16	51	48	41
Carpets and rugs	86p	79	53	+ 8	+ 61	+ 32	80p	74	50
Hosiery	89	90	68	- 1	+ 31	+ 16	77	74	59
Underwear	153	170r	131	-10	+17	+ 6	143	141r	122
Cement	61p	62	37	- 1	+ 68	+ 91	77p	73	46
Brick	58	60r	45	- 2	+ 28	+ 5	61	57r	47
Lumber and products	23	26	26	-11	- 10	- 16	26	29	28
Bread and bakery products				- 4*	- 12*	- 7*	107	112	122
Slaughtering, meat packing	102	135	87	-24	+ 18	+ 13	90	121	78
Sugar refining	75	102	127	-27	- 41	- 15	64	104	109
Canning and preserving	221p	223	142r	- 1	+ 56	+ 16	188p	176	157r
Cigars	117	99	87	+18	+ 34	+ 29	125	107	93
Paper and wood pulp	90	92	82	- 2	+ 10	+ 7	90	88	82
Printing and publishing	126	127	109	0	+ 16	+ 21	122	123	106
Shoes	103	98	83	+ 6	+ 24	+ 6	110	91	89
Leather, goat and kid	47p	52	49	-10	- 5	- 13	45p	46	47
Explosives	80	79	193	+ 1	- 58	- 65	80	78	193
Paints and varnishes	97	103	89	- 5	+ 9	+ 1	99	96	91
Petroleum products	184p	194	210r	- 5	- 12	- 3	185p	195	211r
Coke, by-product	166p	162	154	+ 2	+ 7	- 23	162p	159	151
COAL MINING	79	86	68	- 7	+ 17	+ 7	79	84	67
Anthracite	75	81	64	- 7	+ 17	+ 10	75	81	64
Bituminous	116	125r	97	- 7	+ 19	- 12	109	110r	91
CRUDE OIL	313	293	331	+ 7	- 6	- 7	313	293	331
ELECTRIC POWER	444	439	423	+ 1	+ 5	- 3	422	408	402
Sales, total	441	429	431	+ 3	+ 2	- 4	419	404	410
Sales to industries	301	294	300	+ 2	0	- 13	310	300	309
BUILDING CONTRACTS									
TOTAL AWARDS†	156	218	70	-28	+122	+148	152	201	68
Residential†	132	182	8	-27	**	**	148	206	9
Nonresidential†	163	204	120	-20	+ 36	+ 90	150	188	110
Public works and utilities†	185	243	164	-24	+ 13	- 27	161	209	143

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

Local Business Conditions*

Percentage change— August 1946 from month and year ago	Factory employment		Factory payrolls		Building permits value		Retail sales		Debits	
	July 1946	Aug. 1945	July 1946	Aug. 1945	July 1946	Aug. 1945	July 1946	Aug. 1945	July 1946	Aug. 1945
	Allentown	+ 2	-12	+ 4	- 5	- 26	+332	+18	+42	+ 9	+45
Altoona	+ 5	- 6	+12	+10	- 76	+ 35	+19	+52	- 3	+23
Harrisburg	+ 4	0	+ 6	+10	+416	+216	+13	+38	- 4	+23
Johnstown	0	+13	+ 5	+25	+ 16	- 4	+17	+41	- 1	+24
Lancaster	+ 2	- 4	+ 5	+ 5	- 53	+ 59	+19	+45	+ 1	+29
Philadelphia	0	- 7	+ 2	- 7						
Reading	0	+ 6	+ 5	+29	+ 85	+ 96	+16	+55	0	+32
Scranton	- 2	-15	- 2	-11	+184	+335	+20	+52	+ 2	+26
Trenton					+102	- 41	+18	+65	+ 1	+20
Wilkes-Barre	+ 3	-10	+ 6	0	**	**	+18	+49	- 1	+25
Williamsport	+ 1	+ 2	+ 4	+17	- 11	+339			+10	+38
Wilmington	+ 1	-21	- 2	-13	+105	**	+28	+55	- 9	+ 7
York	+ 2	+ 6	+ 5	+14	- 48	- 26	+20	+46	+ 2	+12

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

Industry, Trade and Service

Indexes: 1932 = 100	Employment			Payrolls		
	Aug. 1946 index	Per cent change from		Aug. 1946 index	Per cent change from	
		July 1946	Aug. 1945		July 1946	Aug. 1945
GENERAL INDEX	130	+ 1	+ 6	326	+ 5	+16
Manufacturing	163	+ 1	- 1	430	+ 5	+ 6
Bituminous coal mining	100	0	+43	557	+22	+80
Building and construction	68	+ 3	+38	162	+ 7	+53
Quar. and nonmet. mining	102	+ 2	+32	384	+11	+57
Crude petroleum prod.	149	+ 1	-13	268	0	+ 3
Public utilities	116	+ 1	+18	190	+ 1	+32
Retail trade	125	0	+ 8	205	- 1	+24
Wholesale trade	120	+ 1	+16	193	- 0	+27
Hotels	127	- 1	+19	248	- 6	+31
Laundries	103	- 4	+ 6	220	- 6	+27
Dyeing and cleaning	105	0	+ 9	224	- 8	+31

Manufacturing

Indexes: 1923-5 = 100	Employment*			Payrolls*		
	Aug. 1946 index	Per cent change from		Aug. 1946 index	Per cent change from	
		July 1946	Aug. 1945		July 1946	Aug. 1945
TOTAL	105	+ 1	- 1	175	+ 5	+ 6
Iron, steel and products	109	+ 1	- 2	219	+ 5	+ 2
Nonferrous metal products	193	+ 1	- 4	429	+ 5	+ 8
Transportation equipment	92	+ 4	-29	164	+ 8	-26
Textiles and clothing	83	0	+11	150	+ 3	+37
Textiles	77	- 1	+12	141	+ 2	+37
Clothing	105	+ 1	+ 8	192	+ 6	+38
Food products	118	+ 1	- 1	202	0	+12
Stone, clay and glass	106	+ 4	+29	183	+10	+47
Lumber products	55	0	+14	100	+ 6	+40
Chemicals and products	113	+ 2	+ 1	201	+ 1	- 3
Leather and products	84	- 1	+17	142	+ 4	+28
Paper and printing	122	- 1	+18	214	+ 4	+32
Printing	119	- 1	+19	200	+ 4	+34
Others:						
Cigars and tobacco	54	0	+20	89	0	+34
Rubber tires, goods	105	+ 1	-23	240	+ 3	-17
Musical instruments	112	+ 1	+34	198	+ 4	-81

* Figures from 2748 plants.

Hours and Wages

Factory workers Averages August 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	39.4	- 5	\$1.152	+ 8	\$45.22	+ 3
Iron, steel and products	38.9	- 7	1.238	+ 9	48.02	+ 1
Nonfer. metal prods.	39.2	- 6	1.126	+13	44.11	+ 6
Transportation equip.	40.5	+ 7	1.294	+ 4	52.44	- 3
Textiles and clothing	39.0	+ 7	.933	+15	36.38	+23
Textiles	39.9	+ 4	.958	+18	38.22	+22
Clothing	36.8	+14	.863	+10	32.37	+26
Food products	41.4	+ 1	.950	+15	39.80	+16
Stone, clay and glass	39.1	- 1	1.093	+14	42.70	+14
Lumber products	42.1	+ 9	.915	+20	38.19	+28
Chemicals and prods.	39.8	-11	1.231	+12	48.99	- 1
Leather and products	37.8	- 4	.885	+14	33.57	+ 8
Paper and Printing	42.2	- 3	1.119	+17	47.28	+12
Printing	41.2	- 3	1.287	+15	53.09	+12
Others:						
Cigars and tobacco	38.1	- 5	.789	+18	30.05	+12
Rubber tires, goods	41.1	- 6	1.242	+15	51.00	+ 8
Musical instruments	43.6	+14	1.058	+19	46.06	+36

* Figures from 2604 plants.

† Figures from 2748 plants.

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change		
	Aug. 1946 from		1946 from 8 mos. 1945
	Month ago	Year ago	
Sales			
Total of all lines.....	+ 5	+ 46	+29
Boots and shoes.....	+79	+ 72	.....
Drugs.....	-14	+ 13	+16
Dry goods.....	- 9	+ 57	+38
Electrical supplies.....	+ 3	+ 53	.....
Groceries.....	+ 8	+ 46	+28
Hardware.....	+12	+ 51	+39
Jewelry.....	+23	+ 67	+75
Paper.....	+32	+ 41	+14
Inventories			
Total of all lines.....	- 2	+ 51	.....
Dry goods.....	+ 2	+104	.....
Electrical supplies.....	+11	+ 58	.....
Groceries.....	+ 6	+ 47	.....
Hardware.....	- 2	+ 26	.....
Paper.....	- 9	+ 15	.....

Source: U. S. Department of Commerce.

Prices	Aug. 1946	Per cent change from		
		Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100).....	241	0	+31	+141
Wholesale (1926 = 100).....	129	+ 4	+22	+ 72
Farm.....	161	+ 3	+27	+164
Food.....	149	+ 6	+40	+122
Other.....	112	+ 3	+12	+ 39
Living costs (1935-1939 = 100)				
United States.....	144	+ 2	+11	+ 46
Philadelphia.....	144	+ 3	+12	+ 46
Food.....	169	+ 5	+22	+ 82
Clothing.....	156	0	+ 6	+ 58
Rent.....	107	0	0	+ 4
Fuels.....	120	0	+ 6	+ 24
Housefurnishings.....	160	+ 1	+11	+ 59
Other.....	127	+ 1	+ 4	+ 25

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation						Not adjusted		
	Aug. 1946	July 1946	Aug. 1945	Per cent change			Aug. 1946	July 1946	Aug. 1945
				Aug. 1946 from		1946 from 8 mos. 1945			
			Month ago	Year ago					
RETAIL TRADE									
Sales									
Department stores—District.....	250p	254	176r	- 1	+ 42	+ 28	195p	175	137r
Philadelphia.....	208	231	157	- 10	+ 32	+ 25	156	148	118
Women's apparel.....	293	302	197	- 3	+ 49	+ 34	232	169	156
Men's apparel.....	256	221	141	+ 16	+ 81	+ 36	188	147	103
Shoe.....	237p	205	180	+ 16	+ 32	+ 37	194p	158	147
Furniture.....				+ 2*	+ 58*				
Inventories									
Department stores—District.....	199p	203	159	- 2	+ 25	.....	207p	192	165
Philadelphia.....	195	198r	154	- 1	+ 27	.....	205	182r	162
Women's apparel.....	282	293	220	- 4	+ 28	.....	273	220	213
Shoe.....	80p	73	61	+ 9	+ 31	.....	79p	63	60
Furniture.....				+ 8*	+ 81*				
FREIGHT-CAR LOADINGS									
Total	148	143	131	+ 4	+ 13	- 12	149	146	133
Merchandise and miscellaneous.....	132	129	114	+ 2	+ 16	- 11	136	129	118
Merchandise—l.c.l.....	95	94	81	+ 1	+ 16	+ 7	95	94	81
Coal.....	181	171	159	+ 6	+ 14	- 6	164	162	145
Ore.....	187	186	173	+ 1	+ 8	- 35	279	278	258
Forest products.....	204	191	176	+ 7	+ 16	- 34	190	176	164
Coke.....	89	117	93	- 24	- 4	- 4	108	131	113
Grain and products.....	125	115	169	+ 9	- 26	+ 12	121	154	164
Livestock.....	130	196	122	- 34	+ 7	+ 6	125	169	117
MISCELLANEOUS									
Life insurance sales.....	224	215	126r	+ 4	+ 78	+ 67	188	205	106r
Business liquidations									
Number.....				- 60*	+300*	+106*	6	15	1
Amount of liabilities.....				- 93*	+16*	+630*	3	41	2
Check payments.....	213	227	182	- 6	+ 17	+ 8	189	216	162

* Computed from unadjusted data.

p—Preliminary.

r—Revised.

BANKING STATISTICS

MEMBER BANK RESERVES AND RELATED FACTORS

Reporting member banks (Millions \$)	Sept. 25, 1946	Changes in—	
		Five weeks	One year
Assets			
Commercial loans.....	\$ 349	+\$35	+\$131
Loans to brokers, etc.....	41	- 3	- 3
Other loans to carry secur.....	38	- 3	- 16
Loans on real estate.....	47	.....	+ 15
Loans to banks.....	1	- 2	.....
Other loans.....	162	- 4	+ 38
Total loans.....	\$ 638	+\$23	+\$165
Government securities.....	\$1552	-\$66	-\$385
Obligations fully guar'eed.....			
Other securities.....	202	+ 6	+ 20
Total investments.....	\$1754	-\$60	-\$365
Total loans & investments.....	\$2392	-\$37	-\$200
Reserve with F.R. Bank.....	432	+ 9	- 4
Cash in vault.....	32	.....	.....
Balances with other banks.....	94	+ 9	+ 12
Other assets—net.....	43	- 5	- 3
Liabilities			
Demand deposits, adjusted.....	\$1805	+\$ 2	-\$ 52
Time deposits.....	273	+ 5	+ 55
U. S. Government deposits.....	255	- 44	- 212
Interbank deposits.....	363	+ 4	- 3
Borrowings.....	9	+ 7	- 1
Other liabilities.....	26	+ 1	+ 5
Capital account.....	262	+ 1	+ 13

Third Federal Reserve District (Millions \$)	Changes in weeks ended—					Changes in five weeks
	Aug. 28	Sept. 4	Sept. 11	Sept. 18	Sept. 25	
Sources of funds:						
Reserve Bank credit extended in district.....	-19	+44	-47	-21	+19	- 24
Commercial transfers (chiefly interdistrict).....	+18	+27	+29	+24	+ 6	+103
Treasury operations.....	+ 4	-58	+13	- 3	-28	- 72
Total.....	+ 3	+13	- 5	.....	- 3	+ 8
Uses of funds:						
Currency demand.....	+ 1	+ 3	- 4	- 3	.....	- 3
Member bank reserve deposits.....	+ 2	+ 9	- 1	+ 3	- 3	+ 10
"Other deposits" at Reserve Bank.....	.....	+ 1	.....	.....	.....	+ 1
Other Federal Reserve accounts.....	.....	.....	.....	.....	.....	+ 1
Total.....	+ 3	+13	- 5	.....	- 3	+ 8

Member bank reserves (Daily averages; dollar figures in millions)	Held	Re- quired	Ex- cess	Ratio of excess to re- quired	Federal Reserve Bank of Phila. (Dollar figures in millions)	Sept. 25, 1946	Changes in—	
							Five weeks	One year
Phila. banks								
1945: Sept. 1-15.....	\$420	\$413	\$7	2%				
1946: Aug. 1-15.....	416	409	7	2				
Aug. 16-31.....	412	405	7	2				
Sept. 1-15.....	417	410	7	2				
Country banks								
1945: Sept. 1-15.....	\$346	\$283	\$63	22%				
1946: Aug. 1-15.....	384	328	56	17				
Aug. 16-31.....	386	329	57	17				
Sept. 1-15.....	394	333	61	18				
Federal Reserve Bank of Phila.								
Disc. and advances.....	\$ 18						+\$ 2	+\$ 4
Industrial loans.....	1						.....	- 1
U. S. securities.....	1664						+ 26	+ 35
Total.....	\$1683						+\$28	+\$ 38
Fed. Res. notes.....	1650						+ 7	+ 68
Member bk. deposits.....	806						+ 11	+ 25
U. S. general account.....	58						+ 24	.....
Foreign deposits.....	52						- 3	- 36
Other deposits.....	3						.....	- 1
Gold certificate res.....	892						+ 7	+ 22
Reserve ratio.....	34.7%						- 0.3%	+ 0.1%