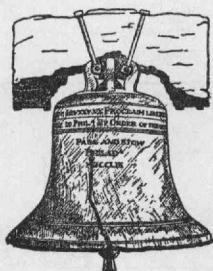


THE BUSINESS REVIEW



FEDERAL RESERVE BANK OF PHILADELPHIA

JULY, 1948

THE BUSINESS PULSE AT MID-YEAR

BUSINESS has been suffering from a chills-and-fever inflation. At no time was this more apparent than during the first half of the year.

In January, business was active. Prices hit a new peak; the fever was raging. Chill set in suddenly in February; the sharp break in prices of farm commodities raised serious doubts about the immediate future. But optimism, particularly in the stock market, began to return in March. And in April the tax cut and more concrete plans for European aid and rearmament dispelled the last vestiges of February chill.

May introduced a new look in the post-war scene—a semblance of economic equilibrium. The National City Bank Letter for that month observed that “. . . deflationary and inflationary forces are temporarily in fair balance.” Mr. Emil Schram expressed the view before the Joint Committee on the Economic Report that “we have emerged from the period of shortages and unless the Congress permits the budget to become unbalanced again, I firmly believe we have already entered the post-war period of stabilization.”

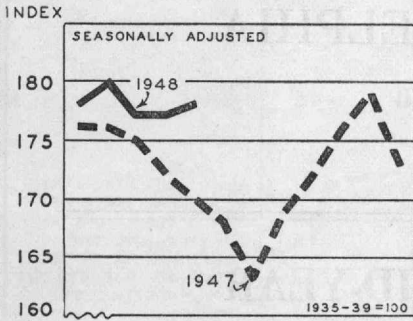
The following mid-year review and preview attempts to find out how close we have really come to achieving over-all economic balance and what are the chances for maintaining it during the rest of this year.

In an uncontrolled economy, supply and demand are always brought into approximate equality — at some price. During a period of inflation, equality is achieved largely by rising prices. To achieve a desirable balance, however, we must have equality between supply and demand at stable prices. This can come about by making supply “catch up” with demand, or by restricting demand to meet the available supply of physical goods and services, or by doing both.

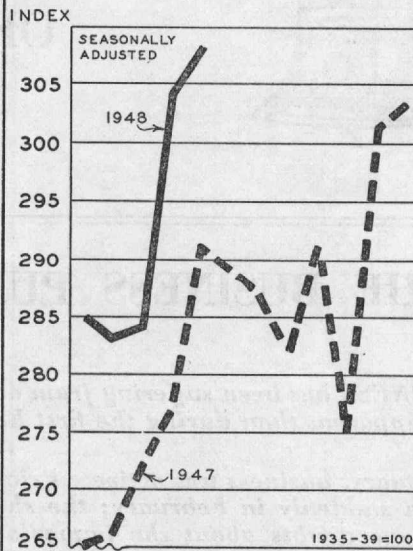
Economic balance has not been achieved and is not likely to be achieved during the rest of the year. We are liable to have more fever before the year is over—and the more we have the more vulnerable our economy becomes.

RECENT BUSINESS TRENDS

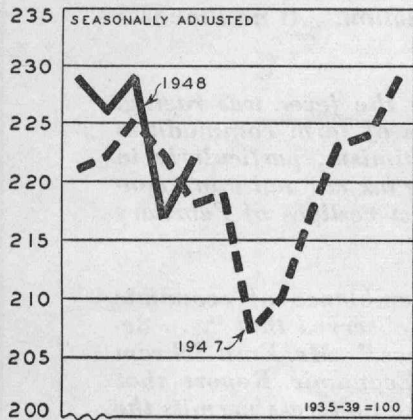
UNITED STATES



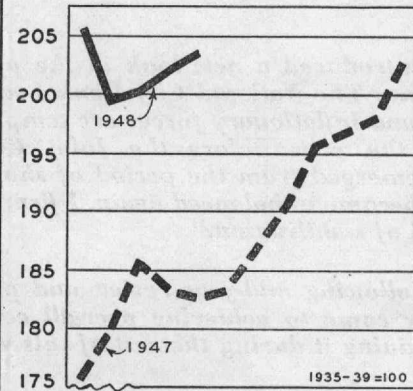
WE ARE TURNING OUT MORE **NON-DURABLES** THAN LAST YEAR.



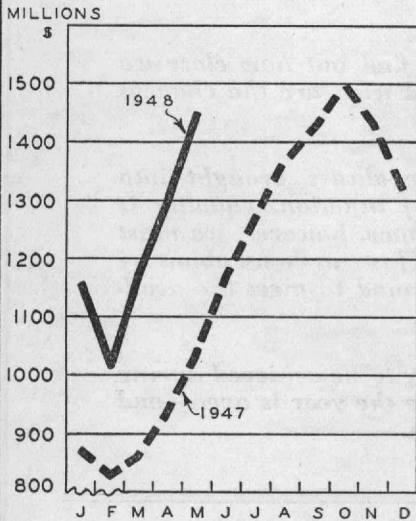
DEPARTMENT STORE SALES ARE HIGHER THAN EVER.



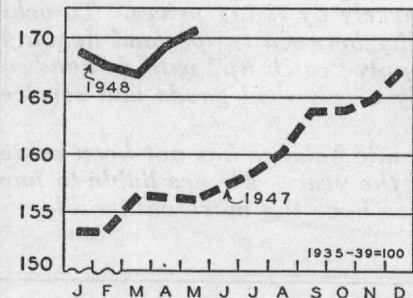
OUTPUT OF **DURABLES** DECLINED WHEN THE COAL STRIKE DEPLETED FUEL SUPPLIES.



WHOLESALE PRICES ARE RETURNING TO THE JANUARY POST-WAR PEAK.



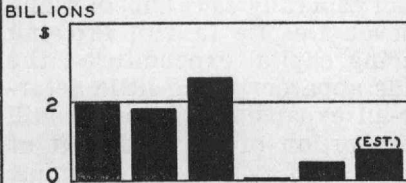
NEW CONSTRUCTION EXPENDITURES ARE PUSHING TOWARD A NEW PEAK.



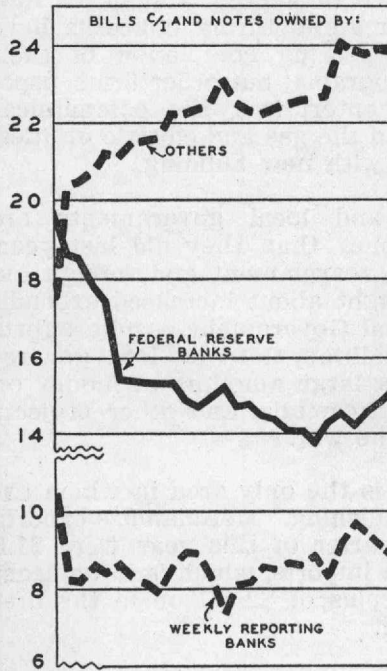
CONSUMER PRICES HAVE ATTAINED THE HIGHEST LEVELS ON RECORD.

RECENT FINANCIAL TRENDS

UNITED STATES



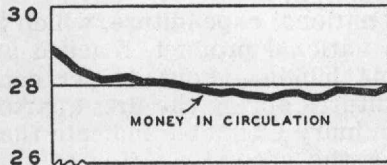
A TREASURY CASH SURPLUS...



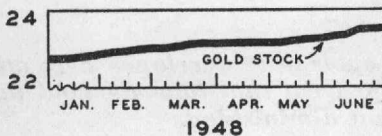
...MADE POSSIBLE THE RETIREMENT OF \$3.8 BILLION IN SYSTEM HOLDINGS OF SHORT-TERM GOVERNMENTS.

AN ADDITIONAL \$.9 BILLION WERE SOLD TO BANKS AND OTHER INVESTORS.

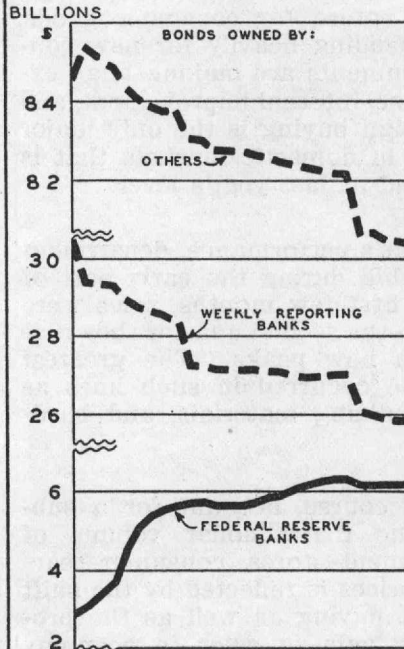
THIS REDUCTION IN SHORT-TERMS WAS DEFLATIONARY. BUT...



... A RETURN FLOW OF CURRENCY, AND...



AN INFLOW OF GOLD WERE INFLATIONARY.

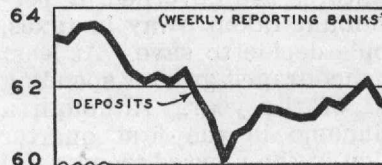


ALSO INFLATIONARY WERE THE SALE OF BONDS BY BANKS AND OTHERS, AND THE PURCHASE OF THESE BONDS BY THE SYSTEM IN SUPPORTING THE MARKET.

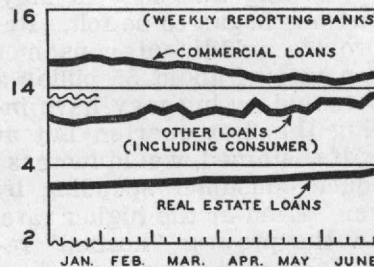
RESULT:



RESERVES...



... AND DEPOSITS DECLINED...



... BUT COMMERCIAL LOANS WERE THE ONLY TYPE OF LOANS REDUCED.

Review of the First Half — 1948

Demand Falling Off?

Demand, as reflected in current expenditures for goods and services, is still rising. People are spending as never before for consumer goods, businessmen are spending heavily for new construction and governments are making huge expenditures for defense, internal improvement, and public works. Foreign buying is the only major source of spending in domestic markets that is not being maintained at last year's levels.

Repeating last year's performance, department store trade had a chill during the early part of this year. For the first few months, sales were disappointing, but in the second quarter they rose sharply to establish new peaks. The greatest gains in retail trade occurred in such lines as housefurnishings, building materials, and hardware.

Higher prices, of course, account for a substantial part of the rising dollar volume of business. At department stores, consumer reaction to ever rising prices is reflected by the shift from cash to credit buying as well as the proportionately greater gain in sales in economy basements in contrast to main store business. Although many families are being "squeezed" between the higher prices and their limited income, consumers generally are spending more liberally than ever before.

Consumers' expenditures are governed by personal income, the amount taken away in taxes, and the amount people decide to save. At least two of these factors encouraged greater spending during the first half of the year. Although a lower agricultural income in the first quarter caused some hesitation in the upward trend, total personal income for the period was substantially higher than in the preceding months. In May, the effect of tax reductions began to be felt. Reduced taxes will provide additional consumer purchasing power at a rate of about \$5 billion a year. The rate of personal saving may have increased slightly during the first quarter, but at most this higher rate, if sustained, would increase total saving and reduce consumer spending by about \$2 billion a year. Even at the higher rate, saving remains below the pre-war "normal" relationship to income. Increased use of consumer

credit, of course, will also add to consumer spending power.

Business expenditures for plant and equipment and new construction generally were substantially above last year's level. Despite talk of growing difficulties in financing capital expenditures, the alleged lack of funds apparently had little deterring effect on over-all expansion. Business still financed a great proportion of its needs out of depreciation reserves and withheld earnings. Borrowing from banks was less than it had been, but an improved situation in the capital market favored the issuance of a large volume of new securities. Some manufacturing concerns have completed or are nearing completion of their plant expansion programs; but other firms, especially commercial enterprises, the communications industries, and the gas and electric utilities, are moving ahead with new building.

Federal, state, and local governments are spending more money than they did last year. The impact of the rearmament and foreign aid programs has brought about increased expenditures by the Federal Government despite efforts to economize. In addition, state and local governments are spending large amounts of money on highways, schools, hospitals, and other projects postponed during the war.

Foreign demand is the only area in which expenditures are diminishing. Merchandise exports during the first quarter of this year were \$1.5 billion greater than imports, which is in contrast with an export surplus of \$2 billion in the first quarter of last year.

The combined expenditures of individuals, business, and government pushed through to a new high during the first half of this year. During the first quarter, gross national expenditure, which is the same as gross national product, reached an annual rate of \$244 billion—about 10 per cent higher than expenditures during the first quarter of last year. Preliminary estimates indicate that expenditures during the second quarter of this year were running just as high, and probably higher, than the rate prevailing during the first three months.

Although "soft" spots have developed here and there, it is quite apparent that total demand has been increasing—not diminishing.

How Much Money to Spend?

Behind demand lies the money supply. And basically it is the excessive supply of money in relation to goods and services which is at the root of our inflation.

Efforts to stem the public's demand by restraining the growth in the volume of spending power had proved only moderately successful during 1947. The money supply had risen by \$6 billion and was being used more rapidly. At the beginning of 1948, individuals and businesses had \$170 billion worth of deposits and currency which they could spend.

Recognizing the fact that the expanding money supply since the war has been closely related to the growth in bank loans, the American Bankers Association inaugurated an intensive campaign to urge bankers to exercise extreme caution in granting credit. Individual bankers thus were made aware of the fact that unless the expansion of loans brought forth a corresponding increase in the production of goods and services, the result would probably be higher prices.

But a program of voluntary restraint could not do the whole job. The individual banker is seldom in a position to appraise the effect of his loans on the entire economy. Moreover, competition usually forces him to take care of his customers or else lose business to the bank across the street.

The major responsibility for restraining the expansion of credit and the money supply, therefore, rested with the Reserve authorities and the Treasury. Their basic approach was to put pressure on bank reserves, for the banking system cannot expand deposits unless it has the requisite volume of reserves behind them.

They used four main weapons:

The strongest was the unprecedentedly large cash surplus of the Treasury. When the Treasury received tax payments and the funds were deposited in the Federal Reserve Banks it reduced member bank reserves. And when it used the funds to retire Governments held by the Federal Reserve Banks it extinguished those reserve funds permanently. The Treasury surplus was greatest in the first quarter, and that was the period of most rapid retirement of Federal Reserve-held securities. In the second quarter, tax receipts, as usual, were much smaller than first quarter receipts and the lower taxes were already beginning to reduce Treasury revenues. Sales of savings bonds during the Security Loan drive

were not nearly enough to make up for the declining operating surplus. And even though beginning in March the Treasury could accumulate withheld taxes in War Loan accounts and thus achieve better timing of its withdrawals, a large part of the deflationary impact of the Treasury surplus has been exhausted.

Second, the Federal Reserve sold short-term Governments to banks and other investors. These issues had become more attractive as an investment since their rates had risen beginning in mid-1947. The fact that commercial loans were declining may also have caused some banks to look to short-term Governments as a temporary investment. At any rate, the sale of these issues by the Reserve Banks exerted an anti-inflationary influence because they tended to reduce bank reserves. Around mid-May, however, the Treasury surprised the market by announcing that June and July financing would be carried out at the existing rate of $1\frac{1}{8}$ per cent, not $1\frac{1}{4}$ per cent as the market expected. Short-terms no longer seemed so attractive and prices of bonds were immediately bid up.

Third, the rise in short-term rates which had taken place in the second half of 1947 was followed, in January of this year, by an increase in the discount rate from 1 per cent to $1\frac{1}{4}$ per cent. This had the psychological effect of serving notice that the System was concerned about the excessive credit expansion, and it probably injected some caution and uncertainty into the market. Yet, few banks were borrowing, so that the effect of a higher discount rate could, at best, be only indirect.

Fourth, reserve requirements were increased for member banks in central reserve cities. Effective February 27, requirements against demand deposits were increased from 20 to 22 per cent, and on June 11 were further raised to 24 per cent. On each occasion the higher requirements involved approximately \$500 million of reserves.

These four steps, taken alone, put considerable pressure on bank reserves and tended to curtail further credit expansion. Unfortunately, however, three other developments tended to counteract these efforts to restrict credit expansion:

First, the System increased its holdings of Government bonds by \$3.3 billion in the process of supporting the market. Banks were selling partly because of the need to get reserves and to make loans. Nonbank institutional investors were selling bonds—and had been ever since the fall of 1947—to make loans to individuals and businesses and to buy private securities. Some bond

selling was speculative in nature, being stimulated by the drop in support price on December 24. The System bought aggressively to maintain the new support level.

Second, \$1.1 billion of currency returned to the banks, increasing reserves and enabling the banks to expand credit further.

Third, \$800 million of gold coming into the country expanded member bank reserves and deposits.

What was the net result of all these developments?

Member bank reserves declined \$491 million. Tax collections reduced the deposits owned by individuals and business. Loan expansion was not nearly so rapid as in the comparable period a year earlier. And there was considerable talk of tighter terms, particularly in the mortgage market.

These were the favorable results. But on the other side of the picture—

Reserves were always readily available to banks willing to sell their Governments. The rise in privately held deposits probably was halted only temporarily. Moreover, the turnover, or the rapidity with which money was used, continued to rise. Although loans rose less rapidly, they did expand further, and a large part of the decline in commercial loans was either seasonal or attributable to special factors such as unusually heavy security flotations. Real-estate and consumer loans continued upward. Finally, a part of the anti-inflationary weapons available to the monetary authorities had been expended or were being almost fully utilized.

Trends on the Supply Side

Industrial production ever since the end of the war has been like a steeplechase—one obstacle after another. Whenever we really seem to get going we run into another difficulty, such as shortage of a strategic material or a labor-management dispute in some basic industry. After numerous ups and downs, industrial production in May was back to 192 percent of the pre-war average. January to May averaged 2 per cent above the first five months of last year, but there were substantial differences in the rates of output among the various industries.

The impression that markets are filling up is probably based more on the recent trends in output of nondurable goods, rather than durables. While the output of nondurables, as a whole, is

now somewhat below recent peaks, it is still being maintained well above the volume of the first six months of last year. But there are important differences to be noted in the various lines of nondurables. Some cotton goods, like grey cloth, print cloth, and sheetings, are more plentiful and their prices have declined recently; but worsted cloth for men's suitings is still scarce and the prices are firm. Paperboard products are easier to obtain; however, newsprint paper is still scarce. Wheat and flour are more plentiful but there is no abundance of meat and dairy products. Production of footwear is declining, but not in all cases for lack of demand; some shoe factories are unable to run full time for lack of sufficient leather. Automobile tire stocks are piling up, largely because the automobile industry has never got into high gear since the end of the war.

The biggest job of production still lies in the area of durables. Pushing ahead as rapidly as their raw material and labor resources permitted, manufacturers of durable goods turned out a huge volume of products during the first quarter, but production declined sharply when the coal strike diminished their fuel supply. For lack of coal the output of steel was curtailed, and for lack of steel the output of automobiles declined. Work stoppages also hindered output in some lines. Most of the producers of durable goods are heavily dependent upon the steel industry, which at no time since the end of the war has been able to meet the demand for this basic industrial material. At mid-year, one of the leading automobile manufacturers was operating at only 60 per cent of capacity because of lack of steel. Of course, even if the industry had all the steel it could use, it might still fail to attain capacity operation for want of sufficient lead or copper or other raw materials.

Inventories at manufacturing plants are in better balance than last year, making for a smoother flow of production. Latest reports show book values aggregating \$29.5 billion, about 15 percent higher than the year before. Higher inventory values were reported in every major group of manufacturing among producers of both durables and nondurables. Although manufacturers generally have more money tied up in inventories than they did a year ago, it is doubtful whether physical inventories have increased very much.

New construction activity is running well ahead of last year. Activity is expanding in practically every category—commercial, educational, residential, and public works. Factory construction is about the only major class in which activity is not being maintained at levels prevailing a

year ago. Over 350,000 houses were started during the first five months of this year, which is an increase of almost one-third over the number of starts in the comparable period last year. The most serious shortages of building materials have been overcome, so that completion time has been reduced substantially. High costs of both labor and materials did not prevent growing activity in this field.

Has Production Caught Up With Demand?

If the statement that production has caught up or is catching up with demand means anything at all, it must mean that prices are leveling off.

The fact that one can now step up to a counter and buy many items for immediate delivery which were not available a year ago has led a few observers to say that production is already well caught up. Men's clothing is more plentiful. Some types of radios are waiting for buyers. With goods in sight, the business environment has become somewhat more competitive. Many others say that although production has not yet caught up with demand, it is rapidly catching up. There is some evidence to support this view. With the possible exception of automobiles, the backlog of anticipated demand for most consumers' durable goods has been substantially reduced. Seasonal clearance sales are again a common occurrence. Many manufacturers indicate that they have completed post-war plant and equipment expansion.

But this way of looking at the problem disregards price movements. In free markets, unless prices are deliberately administered by the seller, price brings supply and demand into balance. Over a period of time, falling prices mean that there is a tendency for supply continually to exceed demand. A tendency for demand to exceed supply, on the other hand, is reflected in rising prices. Unless prices are considered, therefore, one cannot tell just what it is that production is supposed to be catching up to!

In the early spring, the price situation was by no means clear. Prices of commodities other than farm products and foods stopped climbing, similar to the situation in the second quarter of 1947; and the sharp break in agricultural markets during February sent the average of all wholesale prices down with dramatic suddenness. It soon became evident, however, that the farm price break was in the nature of an adjustment long overdue, rather than the beginning of a general price decline.

Over the war period, prices of farm products had risen faster and farther than others and by the end of 1947 speculative activity had developed in anticipation of foreign needs and further price increases. Reports of favorable crops in the United States and abroad during January pricked the bubble, and dishoarding of grain stocks sent prices tumbling. Non-farm prices did not follow. Building materials, fuels, and metals especially remained very firm. By the end of June, prices of farm products had regained over half their loss and the average of all wholesale prices had reached a new post-war peak.

As during 1947, prices which some producers lowered at the beginning of the year were raised later on. Even prices of goods like shoes, which appeared to be plentiful, remained high. Such competition as did appear did not result in generally lower prices. In June, wholesale prices as well as prices of consumers' goods, were at an all-time high.

Demand did not stand still while the flow of production increased. Higher incomes and the ease of obtaining credit on the part of both consumers and business made buyers able and, in the economic sense, willing to pay higher prices. Purchasing power continued several jumps ahead of supply.

Another kind of price—the price of labor—also indicated a lack of balance during the first half of 1948. Wage rates increased steadily but slowly until June. For a time it appeared that industry might resist third-round wage demands. But rather than risk costly work stoppages, especially since wage boosts could be recaptured in higher prices, key firms gave in one by one and a clear trend was established. This part of the process of inflation continued.

The new surge in wage rates will be smaller than that of the previous rounds in 1946 and 1947. But in a few important instances, the tie between wage rates and the cost of living has been recognized explicitly in labor contracts and some further increases in wage rates may result from higher living costs alone. By and large, there is no reason to believe that the current round of wage increases will have a different kind of effect on demand or costs than its two predecessors.

As with monetary developments, even the appearance of balance in the first half of 1948 proved to be temporary. Production had not caught up with demand and it was questionable whether much progress, if any, had been made.

What's the Matter with Inflation?

Inflation of the chills-and-fever variety—a comparatively slow process—has become pleasant to many people. Nearly everybody who wants a job has one. Trade is active, dividends are high, and wages are rising. Perhaps, it has been said, a “controlled” inflation is merely a painless stimulant.

To an increasing extent, however, the business community, and especially bankers, have grave misgivings about the character of our “prosperity.” They feel that inflation cannot long remain “controlled,” and that the higher we go with the wage-price spiral the harder and the farther we shall fall.

The last is, admittedly, a “hunch.” Rising prices do not, in and of themselves, generate economic collapse. Surely it is not inevitable that a depression must follow the present boom. Yet, the feeling is not without basis. *The process of inflation creates distortions in economic relationships — stresses and strains — which render the system more vulnerable to shock and increase the danger of a serious decline.*

Strains arise, first of all, out of disproportionate changes in incomes. On the average, consumers' incomes have not lagged far behind prices, but many families are below average and are now feeling the pinch. A recent survey released by the Board of Governors states that although the financial status of most consumers is still strong, it showed the first signs of weakening in 1947. Fewer families had cash reserves and there was a substantial increase in total consumer indebtedness.

Disparities in price advances make it difficult for various segments of the economy to do business with each other. Profits of industries whose selling prices are relatively inflexible, like those of the utilities, are “squeezed.” In many cases break-even points advance, reducing margins of safety and exerting some degree of compulsion to continue expanding output with too little regard for longer-term considerations.

The process of inflation tends to shift buying power to producers. Expenditures for new plant and equipment take goods away from consumers who then spend their incomes on the smaller amount that is left. There is no doubt that after a long depression and a major war, our economy requires huge amounts of investment. But the rapidly rising prices of an inflationary boom are liable temporarily to distort the demand pattern and so increase the danger of misdirected capital investment which may later become “idle productive capacity.” Moreover, inflation intensifies the durable goods cycle, thus contributing to the development of unsettling peaks and troughs of production.

Although inventories are not excessive with respect to sales and receivables are not too high by comparison with past standards (which may not be adequate), the need for financing business operations at higher and higher prices is rapidly reducing business's “liquidity cushion.” For all United States corporations, the ratio of cash and Government securities to current liabilities at the end of 1947 was no higher than in 1939. This ratio now appears to be satisfactory, but the trend is in the wrong direction. As the structure of debt grows—and this includes credit of all kinds—our economy becomes more vulnerable, less able to resist cumulative liquidation if business adversity, say, a decline in the rate of investment, should develop.

Such stresses and strains are not precisely measurable, although their general nature is known. It seems likely that they have been increasing in intensity in recent months. Thus far, however, the “squeeze” on certain consumer groups has been offset by high incomes and expenditures elsewhere. The growth of the debt structure has fed inflation, not slowed it.

The distortions in evidence during the first part of 1948 were not sufficient to decrease total demand and cause a business downturn, but they bear close watching. The real danger is in allowing ourselves to slip into the comfortable belief that we have entered another “new era” in which the only direction we can go is up.

Preview of the Second Half—1948

As long as prices are rising rapidly it can not be said that we have attained economic balance. Prices generally are still rising, including the prices of some of the things that are alleged to be in abundance.

As we enter the second half of 1948 we are confronted with great obstacles in achieving economic balance; in fact, we seem to be headed for another turn of the inflation spiral.

A high level of business activity is feeding a huge stream of spending power into the hands of individuals, reinforced by consumer credit and by a \$5 billion tax cut. We are already committed to heavy rearmament expenditures and continued aid to friendly nations. We still have a long way to go to meet our housing requirements, industries have not completed their plant expansion and modernization programs, public utilities are behind schedule in expanding their facilities, and numerous public works programs are just getting under way.

It is important to observe the order of magnitude of increases in expenditure over last year. Consumer expenditures are currently running about 10 per cent higher than last year and there is every indication that consumers will continue to increase their expenditures during the remainder of this year. Construction expenditures so far this year are in the neighborhood of 40 per cent above last year's. Businessmen estimate their expenditures for plant and equipment will be 15 per cent higher. Government expenditures are also larger despite recent efforts to economize.

Prospective increases in production do not appear to equal the prospective increases in demand. Practically the entire available labor force is already employed, and virtually all of our productive resources are already in use. Additional increases in the flow of goods and services during the remainder of the year will be gradual. If by increased efficiency and the use of new plant, industrial production is increased by about 5 per cent, we will have done well. Last year, total physical output rose an estimated 7 per cent above the year before. It is unlikely that we can exceed that record by very much.

Admittedly, this is a much simplified approach to the problem. Although it is not possible to make a precise calculation, it appears that the present

tendency for demand to exceed supply will persist and force prices still higher.

The fact that the general price level may be rising does not preclude the possibility of downward readjustments in individual lines. Such readjustments have already occurred—the most recent and severe in agricultural products. Although recent events point toward still higher prices for some foods in the immediate future, the steady improvement of agricultural conditions abroad and large crops at home may bring about a reversal of the situation later on. Industrial prices appear to be very firm but they are not immune to price dips, particularly in lines in which scarcity premiums have been high.

In general, however, for the remainder of this year it appears that production and business activity will stay at peak levels and that there will be continued upward pressure on prices.

Banking and Credit

One of the most important factors preventing the achievement of balance in the second half of the year is the likelihood of further expansion of credit and the money supply.

If business activity continues to rise and prices and costs pursue their spiraling upward trend, businesses will need bank loans for fixed and working capital. Because of the improvement in the securities markets, businesses may meet a growing proportion of their needs by floating new issues. Nevertheless, banks will be a major source of funds either directly through loans or indirectly through purchases of corporate bonds.

Banks also are likely to buy an increasing amount of securities which states and municipalities issue to finance expansion programs. They will continue to extend credit, either directly or indirectly, to consumers. Consumer spending promises to remain large, and credit will be used more and more as the financial position of consumers weakens.

Banks are likely to expand their real-estate loans further if construction activity continues as strong as it has been, although more conservative

policies by lenders and recent housing legislation may tend to work in the opposite direction.

So the demand for loans is likely to increase. The Treasury and Reserve authorities will not have the strong weapons for offsetting credit expansion which they were able to use in the first half of the year. The Treasury will be without the substantial cash surplus which it enjoyed in the first quarter and, in fact, there are some indications that the Treasury surplus may turn into a deficit during fiscal year 1949. If so, the Treasury very likely will be unable to exercise a significant dampening influence on bank reserves and deposits.

A substantial reduction of Governments held by the Federal Reserve Banks, therefore, cannot come about through cash redemptions. Sales of short-terms to the market, such as those accomplished in the first half, would have a depressing effect on bank reserves and the money supply, but the ability of the System to sell short-terms depends on the willingness of investors to buy.

The statutory power to raise reserve requirements has been almost exhausted. The only remaining authority is to raise requirements of member banks in central reserve cities from 24 per cent to 26 per cent.

It will be very difficult to establish balance on the monetary front during the second half of the year. Yet the Reserve authorities must continue to use such powers as they have to pursue an anti-inflationary policy consistent with their responsibility for maintaining orderly conditions in the Government security market.

Prescription for Fever

There is no single, certain, painless cure for inflation.

The traditional remedy has been to allow the fever to burn itself out. But this has always been hard on the patient. It would seem much more desirable to bring inflation to a halt before the crisis is reached. This calls for a co-operative effort on all fronts:

Federal Reserve policies aimed to restrict the growth of the money supply.

Continuation of voluntary efforts of bankers to restrain unnecessary lending.

A consistent anti-inflationary policy of the Government in such fields as budget policy, loans, guarantees, subsidies.

Caution on the part of management and constant awareness of the growing weaknesses inherent in inflation.

Increasing productivity of labor.

Greater saving and less spending by consumers.

We must be careful, of course, that the cure does not bring on a reaction worse than the disease. Vigorous, yet flexible, anti-inflation policies should help our economy to come to a balance at a higher level of activity than we have ever before enjoyed in peacetime.



BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Production Workers in Pennsylvania
Factories

Indexes: 1923-25 = 100	Adjusted for Seasonal Variation						Not Adjusted		
	May 1948	Apr. 1948	May 1947	Per cent change		May 1948	Apr. 1948	May 1947	
				Month ago	Year ago				
INDUSTRIAL PRODUCTION MANUFACTURING	112p	111	109r	0	+ 3	+ 3	110p	108	106
Durable Goods.....	113p	114	111r	- 1	+ 2	+ 3	111p	110	108r
Consumers' Goods.....	121p	123	114r	- 2	+ 7	+ 6	.....	.....	.....
Metal products.....	106p	105	105r	0	+ 1	+ 1	.....	.....	.....
Textile products.....	142	144r	143	- 1	0	+ 2	141	139r	141
Transportation equipment.....	77p	78	72r	- 2	+ 8	+ 6	74p	75	69r
Food products.....	125p	123	122r	+ 1	+ 2	+ 4	131p	131	130r
Tobacco and products.....	127p	121	130	+ 6	- 2	- 4	117p	114	119
Building materials.....	118	127	125	- 7	- 6	- 1	115	115	122
Chemicals and products.....	48p	55	33	-14	+45	+10	50p	50	33
Leather and products.....	171p	166	163	+ 3	+ 5	+ 8	174p	168	166
Paper and printing.....	107p	96	96	+12	+12	+12	98p	94	87
Individual Lines	117	118r	120	- 1	- 2	- 1	118	120	121
Pig Iron.....	99	89r	94	+11	+ 6	+ 1	103	100r	97
Steel.....	113	108r	109	+ 5	+ 4	+ 5	119	113r	115
Iron castings.....	83	90	89	- 8	- 7	- 4	86	94	93
Steel castings.....	108	115	97	- 6	+11	- 3	112	117	101
Electrical apparatus.....	217	234r	229	- 7	- 5	- 1	200	204r	211
Motor vehicles.....	27	27r	42r	+ 1	-36	-31	34	34r	54r
Automobile parts & bodies.....	107	108	126r	- 1	-15	- 4	112	117	132r
Locomotives and cars.....	61	55	61	+ 9	- 1	- 7	59	59	60
Shipbuilding.....	.....	.....	.....	+ 1	+28	+26	.....	.....	.....
Silk and rayon.....	94	92	87	+ 2	+ 8	+ 4	91	90	84
Woolens and worsteds.....	83p	85	76r	- 2	+ 9	+ 9	78p	78	74
Cotton products.....	38p	37	44	+ 4	-14	-17	37p	38	44
Carpets and rugs.....	106p	109	97r	- 2	+10	+24	104p	104	94r
Hosiery.....	79	82	67	- 4	+18	-12	79	82	67
Underwear.....	131	147	122	-11	- 7	- 8	139	144	124
Cement.....	67p	97	19	-31	+247	+19	75p	76	22
Brick.....	55	54r	53	+ 2	+ 4	+ 3	59	57r	57
Lumber and products.....	32	31	29	+ 3	+ 8	+ 7	30	29	27
Bread & bakery products.....	.....	.....	.....	+11*	+5*	-3*	115	104	110
Slaughtering, meat pack.....	128	137	106	- 7	+21	+10	128	133	106
Sugar refining.....	67	79	82	-16	-18	-15	82	103r	100
Canning and preserving.....	201p	179	227	+12	-12	- 7	151p	151	171
Cigars.....	119	128	126	- 7	- 5	- 0	116	116	122
Paper and wood pulp.....	100	98	93	+ 2	+ 7	+ 8	100	99	93
Printing and publishing.....	120	121	125	- 1	- 4	- 2	122	124	126
Shoes.....	105p	93	97	+13	+ 9	+ 7	96p	93	88
Leather, goat and kid.....	109p	98	95	+11	+15	+17	99p	96	86
Explosives.....	99	108	96	- 8	+ 3	+29	100	109	97
Paints and varnishes.....	110	110	103	- 1	+ 7	+ 7	116	116	109
Petroleum products.....	242p	230	224	+ 5	+ 8	+ 8	242p	229	224
Coke, by-product.....	142p	133	158	+ 7	-10	- 3	148p	138	165
COAL MINING	79	66	71	+19	+11	- 0	77	65	69
Anthracite.....	73	66	65	+11	+12	+ 3	73	66	65
Bituminous.....	123p	66	117	+86	+ 5	-17	111	61	105
CRUDE OIL	277	288	281	- 4	- 1	- 0	288	297	292
ELECTRIC PWR-OUTPUT	507	501	468	+ 1	+ 8	+ 9	472	491	435
Sales, total.....	508	499	458	+ 2	+11	+10	487	514	440
Sales, to industries.....	372	349	316	+ 7	+18	+ 9	379	352	323
BUILDING CONTRACTS									
TOTAL AWARDS+.....	243	210	166	+15	+46	+58	233	202	159
Residential+.....	144	142	120	+ 2	+20	+23	152	132	127
Nonresidential+.....	306	227	146	+35	+110	+71	321	231	153
Public works & utilities+.....	370	364	374	+ 2	- 1	+101	259	335	262

* Unadjusted for seasonal variation. p Preliminary.
+ 3-month moving daily average centered at 3rd month. r Revised.

Local Business Conditions*

Percentage change—April 1948 from month and year ago	Factory employment		Factory pay rolls		Building permits value		Retail sales		Debits	
	Apr. 1948	May 1947	Apr. 1948	May 1947	Apr. 1948	May 1947	Apr. 1948	May 1947	Apr. 1948	May 1947
Allentown.....	0	0	+ 5	+16	+ 24	+269	- 1	+41	- 0	+34
Alltoona.....	+ 1	- 4	- 2	+ 9	+ 3	+ 99	+ 7	- 6	- 6	+ 7
Harrisburg.....	+ 1	0	+ 4	+ 9	+ 53	+233	+ 7	+ 8	- 6	+ 8
Johnstown.....	+ 3	+ 4	+16	+15	- 2	+158	- 7	+ 8	+ 2	+ 8
Lancaster.....	0	+ 5	0	+15	- 69	- 27	+ 5	+ 5	-19	+11
Philadelphia.....	- 1	0	- 1	+ 6	+117	+151	+ 6	+ 2	- 7	+ 9
Reading.....	- 1	+ 3	0	+20	+ 9	+59	+ 2	+ 6	- 9	- 2
Scranton.....	0	+ 1	+ 2	+16	- 72	- 59	+10	+ 2	- 9	- 1
Trenton.....	.....	.....	.....	.....	- 82	+111	+10	+ 7	0	+13
Wilkes-Barre.....	+ 2	0	+ 2	+15	+ 9	+ 49	+ 2	+ 5	- 7	+ 6
Williamsport.....	+ 1	- 4	+ 3	+ 6	- 55	- 65	.....	.....	-10	+11
Wilmington.....	- 1	+ 3	- 2	+11	- 17	+ 38	+ 6	+ 7	- 2	- 8
York.....	- 2	- 1	+ 2	- 9	+104	+139	+ 5	+ 3	- 8	+ 4

* Area not restricted to the corporate limits of cities given here.

Summary Estimate—May 1948

	Employment	Weekly pay rolls	Weekly man-hours worked
All manufacturing.....	1,095,600	\$55,073,000	43,738,000
Durable goods industries.....	623,500	34,227,000	25,119,000
Nondurable goods industries.....	472,200	20,845,000	18,619,000

Changes in Major Industry Groups

Indexes (1939 average = 100)	Employment		Pay rolls	
	May 1948	Per cent change from	May 1948	Per cent change from
	Index	Apr. 1948 May 1947	Index	Apr. 1948 May 1947
All manufacturing.....	128	0	286	+1 + 9
Durable goods industries.....	154	0	326	+2 + 7
Nondurable goods industries.....	104	-1	239	0 +11
Food.....	121	+2	0 241	+5 +11
Tobacco.....	95	-5	0 208	-6 + 3
Textiles.....	86	-1	+ 7 217	-2 +23
Apparel.....	94	-1	+ 2 242	-2 +12
Lumber.....	94	+1	+ 6 211	+6 +24
Furniture and lumber products.....	90	5	- 4 210	-3 + 1
Paper.....	118	0	0 263	+1 +12
Printing and publishing.....	136	-1	0 270	-4 + 3
Chemicals.....	117	-2	- 3 244	-1 + 4
Petroleum and coal products.....	153	+2	+ 6 309	+6 +18
Rubber.....	145	-2	-15 274	+4 -17
Leather.....	87	-3	- 7 173	-2 - 7
Stone, clay and glass.....	136	+1	+ 2 292	+1 +16
Iron and steel.....	139	+1	- 1 294	+4 + 8
Nonferrous metals.....	144	-1	-12 291	-2 - 2
Machinery (excl. elect.).....	209	-1	+ 5 442	+1 +14
Electrical machinery.....	223	-1	- 5 456	-2 + 1
Transportation equip. (excl. auto).....	219	+1	+ 2 418	+1 +10
Automobiles and equipment.....	154	-3	-20 315	-2 -16
Other manufacturing.....	133	-1	- 8 263	+1 - 1

Average Earnings and Working Time

May 1948 Per cent change from year ago	Weekly earnings		Hourly earnings		Weekly hours	
	Average	Ch'ge	Average	Ch'ge	Average	Ch'ge
All manufacturing.....	\$50.31	+ 9	\$1.260	+ 9	39.9	+ 1
Durable goods industries.....	54.97	+ 9	1.365	+ 8	40.3	+ 1
Nondurable goods industries.....	44.15	+10	1.120	+10	39.4	0
Food.....	44.41	+11	1.057	+10	42.0	+ 1
Tobacco.....	28.91	+ 3	.758	+ 2	38.1	+ 1
Textiles.....	44.97	+15	1.147	+13	39.2	+ 2
Apparel.....	36.36	+10	.947	+ 9	38.4	+ 1
Lumber.....	41.95	+18	1.020	+15	41.1	+ 2
Furniture and lumber products.....	42.20	+ 5	.990	+ 4	42.6	+ 1
Paper.....	47.94	+12	1.092	+11	43.9	0
Printing and pub.....	55.98	+ 3	1.472	+ 7	38.0	- 4
Chemicals.....	49.48	+ 7	1.212	+ 8	40.8	- 1
Petroleum and coal products.....	61.29	+11	1.525	+10	40.2	0
Rubber.....	47.19	- 2	1.304	+ 2	36.2	- 4
Leather.....	33.94	0	.965	+ 7	35.2	- 7
Stone, clay and glass.....	49.18	+14	1.195	+10	41.1	+ 3
Iron and steel.....	56.77	+ 9	1.418	+ 7	40.0	+ 2
Nonferrous metals.....	52.50	+11	1.325	+10	39.6	+ 1
Machinery (excl. electrical).....	53.60	+ 9	1.318	+ 9	40.7	0
Electrical machinery.....	57.24	+ 5	1.444	+ 6	39.7	- 1
Transportation equip. (excl. auto).....	58.26	+ 8	1.467	+ 8	39.7	0
Automobiles and equip.....	58.39	+ 9	1.424	+15	41.0	- 5
Other manufacturing.....	41.55	+ 7	1.098	+ 9	37.8	- 2

Distribution and Prices

Wholesale trade unadjusted for seasonal variation	Per cent change		
	May 1948 from		1948 from 5
	Month ago	Year ago	mos. 1947
Sales			
Total of all lines	-3	+4	+1
Drugs	-2	+15	.....
Dry goods	+4	-8	-9
Electrical supplies	-21	+4	0
Groceries	-1	+12	+7
Hardware	-5	-5	-4
Jewelry	0	+5	+5
Paper	-11	-4	+2
Inventories			
Total of all lines	-2	+6	.....
Dry goods	0	+14	.....
Electrical supplies	0	+2	.....
Groceries	-6	-11	.....
Hardware	+2	+28	.....
Paper	+1	+45	.....

Source: U. S. Department of Commerce.

Prices	May 1948	Per cent change from		
		Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)				
Wholesale (1926 = 100)	322	0	+8	+222
Farm	164	+1	+11	+118
Food	189	+1	+8	+210
Other	177	0	+11	+164
Living costs (1935-1939 = 100)	149	0	+13	+86
United States	171	+1	+9	+73
Philadelphia	170	+1	+10	+74
Food	205	+1	+12	+120
Clothing	194	+1	+8	+95
Rent	118	0	+8	+15
Fuels	135	0	+10	+40
Housefurnishings	197	-1	+9	+46
Other	147	0	+7	+96

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation						Not adjusted		
	May 1948	Apr. 1948	May 1947	Per cent change			May 1948	Apr. 1948	May 1947
				May 1948 from Month ago	Year ago	1948 from 5 mos. 1947			
RETAIL TRADE									
Sales									
Department stores—District**	284	278	259r	+2	+10	+9	287	262	261
Philadelphia**	261	238	244	+10	+7	+7	254	229	236
Women's apparel—District	262	267	260	-2	+1	+2	251	240	250
Philadelphia	269	283	268	-5	0	+2	258	254	257
Furniture	.....	.....	.....	+8*	-1*	.....	.....	.....	.....
Inventories									
Department stores—District	254p	264	215	-4	+18	.....	257p	270	217
Philadelphia	228	233	206	-2	+11	.....	226	235	204
Women's apparel—District	209	253	202	-18	+3	.....	209	228	202
Philadelphia	237	291	236	-19	0	.....	232	256	232
Furniture	.....	.....	.....	-5*	+9*	.....	.....	.....	.....
FREIGHT-CAR LOADINGS									
Total	141	129	148	+10	-5	-8	143	122	150
Merchandise and miscellaneous	123	122	132	0	-7	-6	127	121	136
Merchandise—l.c.l.	79	79	94	0	-16	-15	79	79	94
Coal	187	148	187	+27	0	-12	166	118	166
Ore	217	361	222	-40	-2	+6	276	188	281
Coke	225	159	225	+42	0	-6	192	128	191
Forest products	90	90	97	0	-7	9	86	76	93
Grain and products	108	105	138	+3	-22	-21	100	98	128
Livestock	85	87	104	-2	-18	-22	78	80	95
MISCELLANEOUS									
Life insurance sales	202	210	194	-4	+4	0	200	210	192
Business liquidations	.....	.....	.....	+29*	+50*	+40*	40	31	27
Number	.....	.....	.....	+38*	+97*	+49*	75	54	38
Amount of liabilities	.....	.....	.....	-4	+12	+10	235	241	210
Check payments	235	246	210	.....	.....	.....	.....	.....	.....

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

** Indexes adjusted for seasonal variation have been revised; earlier data may be obtained upon request.

BANKING STATISTICS

MEMBER BANK RESERVES AND RELATED FACTORS

Reporting member banks (Millions \$)	June 23 1948	Changes in—	
		four wks.	One year
Assets			
Commercial loans	501	+5	+64
Loans to brokers, etc.	17	.....	-2
Other loans to carry secur.	15	.....	-4
Loans on real estate	79	+3	+3
Loans to banks	34	+26	+31
Other loans	252	.....	+44
Total	898	+34	+136
Government securities	1,392	+20	-72
Other securities	276	+6	+21
Total investments	1,668	+26	-51
Total loans & invest.	2,566	+60	+85
Reserve with F. R. Bank	464	-32	-13
Cash in vault	43	-1	+1
Balances with other bks.	103	+5	+9
Other assets—net	50	-8	+1
Liabilities			
Demand dep. adjusted..	2,032	-8	+3
Time deposits	443	-3	+21
U.S. Gov. Deposits	52	-5	+30
Interbank deposits	364	+41	+28
Borrowings	6	-1	-2
Other liabilities	27	.....	+1
Capital account	302	.....	+2

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended				Ch'ges in four weeks
	June 2	June 9	June 16	June 23	
Sources of funds:					
Reserve Bank credit extended in district	-7	+11	-13	+12	+3
Commercial transfers (chiefly interdistrict)	-5	-4	+21	-20	-8
Treasury operations	-19	+14	+10	-20	-15
Total	-31	+21	+18	-28	-20
Uses of funds:					
Currency demand	+6	+1	.....	+1	+8
Member bank reserve deposits	-37	+20	+18	-29	-28
"Other deposits" at Reserve Bank	.....	.....	.....	.....	.....
Other Federal Reserve accounts	.....	.....	.....	.....	.....
Total	-31	+21	+18	-28	-20

Member bank reserves (Daily averages; dollar figures in millions)	Held	Re- quir'd	Ex- cess	Ratio of excess to re- quired
1947 June 1-15	\$411	\$406	\$ 5	1%
1948 May 1-15	419	412	7	2
May 16-31	393	387	6	2
June 1-15	391	388	3	1
Country banks				
1947 June 1-15	\$375	\$333	\$ 42	13%
1948 May 1-15	392	350	42	12
May 16-31	405	365	40	11
June 1-15	408	365	43	12

Federal Reserve Bank of Phila. (Dollar figures in millions)	June 23 1948	Changes in—	
		Four weeks	One year
Discounts & advances	\$ 24.9	\$+ 5.8	\$+ 15.9
Industrial loans	.5	.....	- 1.2
U.S. securities	1,500.7	+ 29.8	-135.5
Total	\$1,526.1	\$+ 35.6	\$-120.8
Fed. Res. notes	\$1,632.0	\$+ 14.7	\$- 3.8
Member bank dep.	794.5	-28.0	- 6.5
U. S. general acct.	78.2	-90.1	+ 33.6
Foreign deposits	28.9	+ .3	- 2.5
Other deposits	2.0	+ .4	- .5
Gold cert. reserves	1,012.0	-140.8	+137.4
Reserve ratio	39.9%	-3.8%	+5.1%