THE BUSINESS REVIEW

FEDERAL RESERVE BANK
OF PHILADELPHIA

AUGUST, 1948

Bank Loans and Earnings

Mid-year reports show . . .

—loans still going up but not as fast
—earnings boosted by rising loans

Prospects are for . . .

—more loan expansion
—higher earnings and expenses

Continuing need . . .

—a cautious lending policy

Report on Inventories

First quarter bulge is flattening out . . .
—but the situation bears close watching

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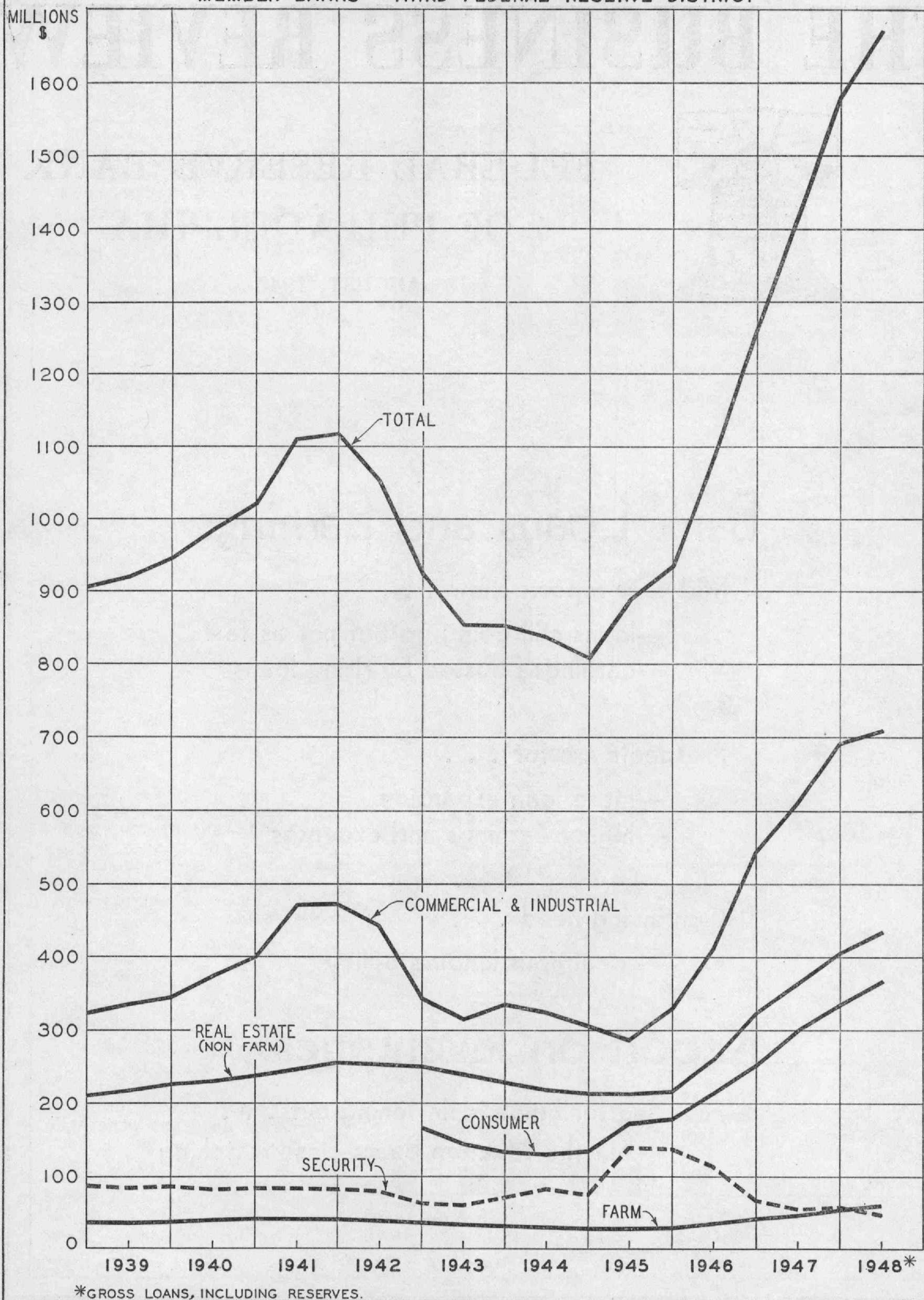

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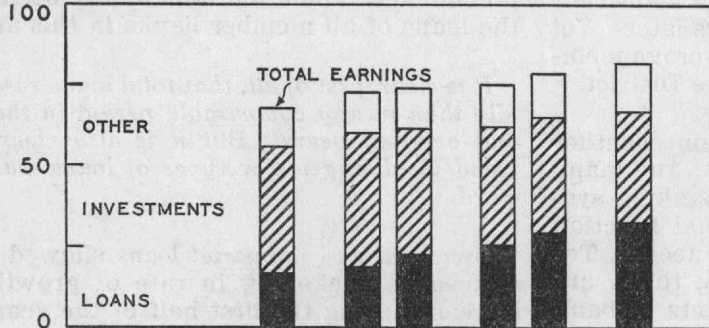
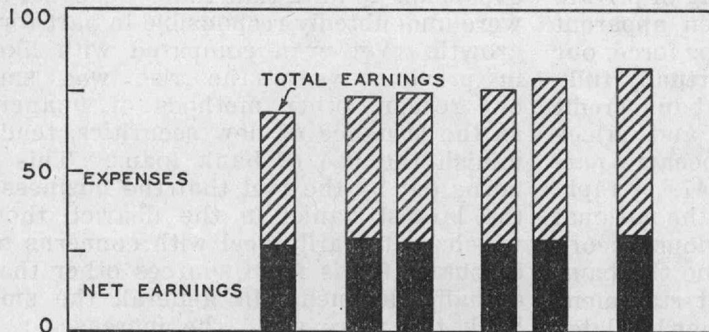
EARNINGS AND EXPENSES: POSTWAR

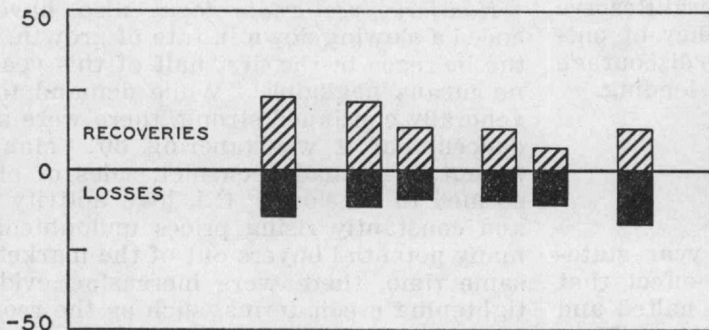
MEMBER BANKS THIRD FEDERAL RESERVE DISTRICT



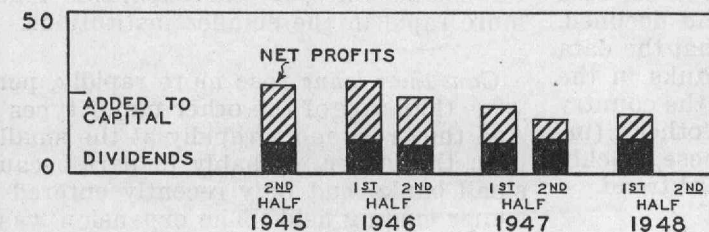
TOTAL EARNINGS ROSE FURTHER DURING THE FIRST HALF OF 1948 AS INCREASING RETURNS FROM LOANS MORE THAN OFFSET DECLINING EARNINGS FROM INVESTMENTS.



AND NET EARNINGS INCREASED DESPITE RISING EXPENSES.



BUT LOSSES AND CHARGE-OFFS (INCLUDING ADJUSTMENTS FOR RESERVES FOR LOSSES ON BAD DEBTS) SUBSTANTIALLY EXCEEDED RECOVERIES AND PROFITS ON SALES OF SECURITIES WITH THE RESULT THAT...



...NET PROFITS ROSE ONLY SLIGHTLY. DIVIDENDS WERE WELL SUSTAINED.

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BANK LOANS AND EARNINGS

AT the end of the war few bankers would have predicted that for every $10,000 in loans they would have almost $19,000 three years later. Yet that has been the experience of the average member bank in the Third Federal Reserve District.

In 1945, indeed, it was a question whether loans would expand very much at all. And many observers were concerned that the banking system might not return to its traditional function of supplying the community's credit needs. Today many observers, bankers among them, are concerned about the inflationary effects of bank lending.

The need for restraint in the granting of private credit by commercial banks has been apparent for some time. The fact that our labor force, our factories, and our farms are being virtually fully utilized means that an expansion of bank credit tends to increase spending power and prices rather than production. This fact became particularly clear in the latter part of 1947. A rapid upsurge in bank lending was pushing the national total of bank loans above the previous record peak established in 1929. At that time the bank supervisory authorities issued a joint statement urging cautious lending policies. Somewhat later the American Bankers Association inaugurated an intensive campaign to induce bankers to screen their loans carefully. The Federal Reserve and the Treasury intensified their policy of putting pressure on bank reserves so as to discourage any further rapid expansion of bank lending.

Results of Restraining Efforts

Throughout the first half of this year statements frequently were made to the effect that the upward trend of loans had been halted and reversed. They were only partly right. They usually were based on the observation that business loans of weekly reporting banks in selected large centers of the United States had declined. Apparently they overlooked the fact that the data for this selected group of member banks in the large cities did not reflect the trend of the country banks and that the real estate and "other" (including consumer) loans of even these weekly reporting banks continued their upward trend.

The record for the first half of the year, at least as far as the Third Federal Reserve District is concerned, is revealed more accurately by a preliminary tabulation which has been made of the loans of all member banks in this area.

It is clear, first of all, that total loans rose less rapidly than in any comparable period in the last two and one-half years. But it is also clear that the trend in all the major types of loans was still upward.

Commercial and industrial loans showed the most noticeable slackening in rate of growth. Their increase during the first half of the year was the least of the three major types of loans and stood out in sharp contrast to their exceptionally rapid expansion up until that time. Seasonal influences were undoubtedly responsible in part for the slow growth. Yet even compared with like periods in previous years the rise was small. For one reason, other methods of financing, such as the issuance of new securities, tended to diminish the use of bank loans. This is partly borne out by the fact that the business loans of the largest banks in the district, those banks which customarily deal with concerns more able to obtain funds from sources other than banks, actually declined. In general, the smaller the bank the more rapid the increase—a tendency in evidence ever since the war.

Non-farm real-estate loans also have experienced a slowing down in rate of growth, although the increase in the first half of this year was by no means negligible. While demand for homes generally continued strong, there were some evidences that it was tapering off. Many of the urgent needs had been met, sales of old homes seemed to be slower, G.I. loan activity declined, and constantly rising prices undoubtedly forced many potential buyers out of the market. At the same time, there were increasing evidences of tightening credit terms, such as the requirement of larger down payments. These developments apparently affected the larger banks more than the smaller ones, for the expansion tended to be more rapid in the smaller institutions.

Consumer loans rose more rapidly, percentagewise, than any of the other major types of loans. And they rose more rapidly at the smaller banks than the larger, probably in part because many small banks had only recently entered the consumer lending field. The expansion was particularly marked in automobile and other retail sales paper, and in repair and modernization loans.

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Farm loans continued to rise, partly for production purposes and partly because of the advance in farm mortgages spurred by rising real-estate prices.

Loans to purchase securities were the only type which declined, and this was a continuation of the general trend in evidence since 1945.

Loan Trends & Earnings

Thanks to the rising volume of loans and in some cases higher loan rates, the growing earnings from loans more than offset the declining returns from Government securities. In addition, Philadelphia banks enjoyed a considerable increase in earnings from miscellaneous sources, so their total earnings rose relatively more than those of country banks.

Expenses continued to mount, but not as rapidly as they had been. Net earnings, therefore, rose more than in any comparable period in the last two years.

Losses and charge-offs, however, substantially exceeded recoveries and profits on sales of securities. A considerable proportion of these charge-offs probably reflects the transition to the new method of setting up reserves for bad debts. But it is quite possible that losses on loans are beginning to increase; moreover, a number of banks experienced a depreciation in their security portfolios as prices of bonds declined.

Despite the larger losses and charge-offs, net profits increased over the second half of last year. But net profits in that period were temporarily low; in comparison with the first half of 1947, net profits this year are off substantially. Yet, dividends have been increased.

PROSPECTS FOR SECOND HALF

The fact that total loans experienced a rapid upsurge in the second half of 1947 does not necessarily mean, of course, that the same thing will happen this year. Nevertheless, it is quite likely that history will repeat. Seasonal borrowing usually tends to expand loan volume in the latter part of the year. And the business situation thus far has been quite similar to 1947. There was the same uncertainty in the early months, and there are many indications of the same inflationary forces which finally emerged dominant in the latter half of last year. Business loans of the weekly reporting banks apparently have begun to turn upward once again.

Loan Demand

Most of the forces on the demand side will act to expand bank lending activity.

Fixed capital needs are likely to require more credit. Although some industries have almost completed their plans for expansion of plant and machinery, indications are that capital expenditures will be maintained at a high level during the rest of the year, particularly as prices of steel and other materials rise. A large part of these expenditures, of course, will be financed internally as in the past, especially if profits remain high and corporations continue conservative dividend policies. And depreciation reserves, although in many cases now inadequate in relation to higher replacement costs, will still continue to finance a large part of capital expenditures. Nevertheless, business will seek a substantial volume of funds from outside sources and bank loans will undoubtedly remain a significant source of capital financing.

Working capital financing is also likely to involve a substantial demand for bank loans. Although there may no longer be much need for credit because physical inventories are unbalanced or inadequate, the mere fact that prices are apt to rise further will tend to boost the dollar volume of inventories and the use of bank financing. To the extent that soft spots in various lines become severe enough to cause slow-moving inventories, bank credit may be needed temporarily. Receivables are likely to increase further, and as wages rise business concerns will have to meet larger pay rolls.

Consumer sales credit seems destined to increase as the flow of automobiles and other durable consumers' goods expands, and the depletion of liquid assets owned by many individuals will tend to stimulate instalment buying. As more and more people are squeezed by rising prices they will also need credit to meet financial emergencies.

Mortgage lending alone seems to involve some doubt about the immediate future. And even in this case it is not mainly a problem of demand but of supply. The demand for homes is strong, despite high real-estate prices and building costs.

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Loan Supply

Any tendency for lending activity to slacken, therefore, will arise principally from difficulties in supplying credit.

There has been some talk about banks reaching their legal limits in mortgage lending. While this situation is undoubtedly true in a number of individual cases, it does not yet appear widespread enough to cause a significant slackening in mortgage lending.

Restraints on the supply of credit, rather, seem to come mainly from two other sources:

1. Restrictive policies of the Federal Reserve and the Federal Government.

To the extent that the Reserve System can maintain pressure on bank reserves it will tend to restrain the over-all expansion of loans. This will be difficult to do in view of the System's responsibilities for maintaining an orderly Government security market. However, the recent legislation permitting further increases in reserve requirements is intended to enable the System to offset whatever increases in reserves arise from its support operations. Bank examiners can do much to prevent over-lending in individual instances, and anti-inflationary policies of the Government in loan and guarantee activities could help materially. However, the recent housing legislation is likely to ease rather than tighten the supply of mortgage credit.

2. Restraint initiated by the banks themselves.

In part, this will reflect a genuine concern about the inflationary consequences of bank lending, and in part it will stem from a growing recognition of the need at this time for conservative banking. Whatever the motive, the important point is that conservative banking practices today not only serve the best interests of the banks but also the community at large.

Even now there are "good" loans on the books which will turn out to be "bad" when the going gets rough. As inflation progresses, more and more weak spots will develop. Break-even points are higher, making many businesses vulnerable to a decline in output. With such a rapid growth of plant and equipment, it is inevitable that some concerns have over-expanded. Inventories are not now excessive but could become so if sales fell off suddenly. Receivables collections are slowing up. A drop in real-estate values and incomes could seriously threaten the mortgage market. For the first time since the war the financial position of consumers generally has become weaker.

These are all factors calling for conservative banking. A careful appraisal of risks such as these not only protects banks against loss and keeps borrowers out of trouble, but helps to restrain the inflationary expansion of bank loans.

While banks are responsible for the quality of their assets, they also face the problem of making a profit. If, as seems likely, the loan volume rises further during the remainder of the year, earnings from loans will continue to increase. On the other hand, interest from Government securities will probably decline further, despite the recent rise in short-term rates, as a result of any retirements the Treasury chooses to make, and as banks sell their Governments to get reserves to make loans. All in all, it seems quite possible that total earnings will rise as larger returns from loans more than offset declining returns from Governments.

But the "squeeze" resulting from a faster rise in expenses than earnings may become even greater. As banks feel this squeeze they may tend to raise their loan rates. The Treasury's recent announcement of an increase in the rate on short-term securities should also result in slightly higher rates on bank loans. This development in itself may have the beneficial result of restricting the supply of credit. Banks no longer seem so enthusiastic, for example, about 4 per cent mortgages or term loans at very low interest rates. On the other hand, the search for higher earnings may lead to the assumption of greater risks. This way out of the squeeze is deceptively simple, but it is likely to involve greater losses to the banks, and financial difficulties of borrowers in the future.

The battle against inflation is not easy. Nor is there any single solution to the many problems which inflation has imposed upon the banks. Yet the one thing banks themselves can do to solve both these problems, benefiting themselves as well as the community at large, is to continue the cautious lending policies which have long been their tradition.

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REPORT ON INVENTORIES

Inventories have received as much—perhaps more attention than any other single aspect of the post-war business scene. Several factors are responsible. First is the recognition by individual firms and by bankers of the importance of inventory policy and the need for inventory planning and control. Second is the general awareness of the role of inventories in business cycles and of the similarities between this period and that preceding the 1921 slump. Third is the publication of comprehensive inventory data and the publicity given the problem by the Department of Commerce and other agencies.

Recently, however, it has seemed that many have become accustomed to new record levels of inventory values month after month. Possibly there is some feeling that the cry of "wolf" has been raised falsely and that the repeated warnings have been unnecessary. The fact that the rate of inventory accumulation in the first quarter of 1948 was reported to be one of the highest on record did not cause nearly the concern which it might have occasioned in the tense business climate of the previous year. At the end of May the book value of manufacturers', wholesalers', and retailers' inventories was well in excess of $50 billion compared with a total of about $40 billion at the end of 1946 and about $20 billion at the end of 1939. There is no reason for the business community to relax its vigilance on inventories.

Inventories are a matter of concern from the viewpoint of the economy as a whole in several ways. If stocks accumulate to a point where businessmen find them excessive, new orders are sharply curtailed and a spiral of liquidation may be started. Regardless of the level of inventories, however, the rate at which stocks are being accumulated or liquidated is also very important. Investment in additional inventory during a boom intensifies inflationary pressures. A leveling off in inventory volume, even before stocks appear excessive, means that business has ceased that type of investment expenditure and has, therefore, withdrawn a stimulant to business activity.

What The Record Shows

The record of inventory accumulation since the war reveals a changing situation. Liquidation of munitions inventories at the end of the war offset the rapid accumulation of civilian goods stocks during the latter part of 1945, with the result that there appeared to be a slight net decline in physical, non-farm inventories for the six months ending December 1945. What accumulation did occur was largely confined to the nondurable goods lines. Inventory accumulation picked up speed during 1946, however. The total for the year (adjusting for price increases during the year) was $5 billion, nearly 20 per cent of all private domestic investment. In the first quarter of 1947 the seasonally adjusted rate increased to $6.8 billion a year. This rate, which also is adjusted for price changes during the period, is, of course, lower than the rate of change in book value of inventories. It includes relatively minor changes in stocks held by construction, service industries, mining, and other non-manufacturing, non-trade companies.

In the second and third quarters of 1947 a dramatic development took place. Non-farm inventory accumulation fell to almost zero. Continued, though slower, increases in physical stocks of durables and manufacturers' inventories in general were offset by declines in trade inventories, especially nondurables. What had happened was not that stocks had suddenly "caught up" with sales, but that businessmen, particularly retailers, on the basis of bearish expectations which developed during the first quarter, had cut orders and had made every effort to clear out "ersatz" goods. They did not wait for consumers to curtail buying abruptly or for stocks to rise sharply, as usually occurs after the peak of a boom has passed, though a pile-up was evident in a few soft goods and luxury lines. To a large extent they anticipated trouble on the basis of early symptoms and acted accordingly. Undoubtedly, the availability of inventory statistics which called attention to the rapidity of the prior accumulation was influential in the decision.

The recession did not materialize. During the summer of 1947, sales reached new peaks and business optimism returned. As stocks were drawn upon, new orders rose; but, taking seasonal factors into account, deliveries could not be prompt enough to prevent a small amount of unintentional inventory reduction in the third quarter. One significant thing about the cessation of inventory accumulation over part of 1947 was that it did not signal the start of a decline in business activity, as many observers had expected. Plant and equipment expenditures, net

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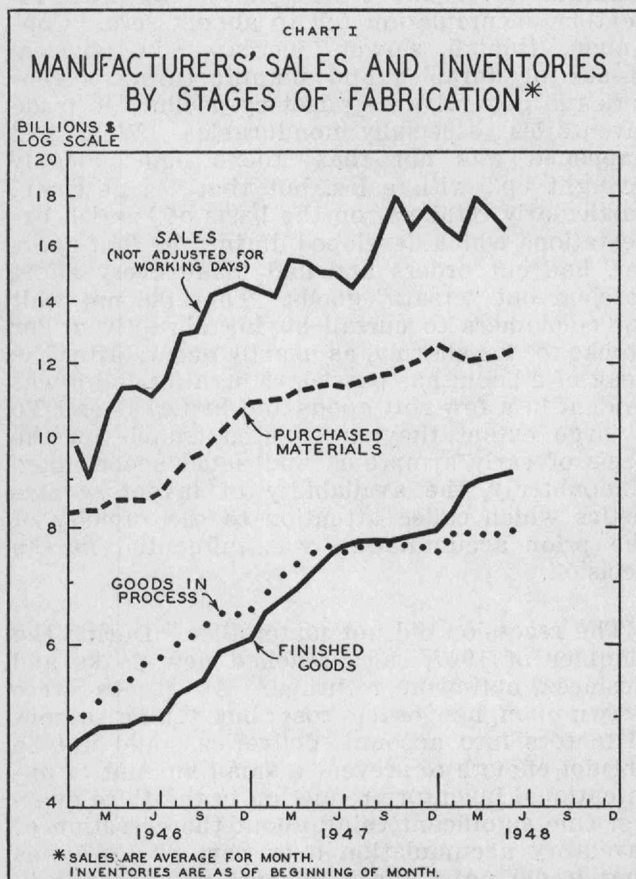
exports, and consumer expenditures took up what slack there might otherwise have been. In fact, to a large extent, the 1947 decline in inventory accumulation was of the type that might be considered a result of active demand, rather than the type of intentional liquidation associated with a business slow-down. The inventory decline might not have occurred at all had other business activity not increased.

Non-farm inventory accumulation was resumed in the fourth quarter of 1947 at a rate of over $4 billion a year, and continued at a high rate in the first quarter of 1948. As far as manufacturing inventories are concerned, inventory accumulation during this period was different from previous post-war movements. Manufacturers' inventories are composed of three segments—purchased materials (which are raw materials and component parts purchased from others); goods in process of production; and finished goods ready for shipment. As the accompanying chart shows, the leveling off of sales at the end of 1947 was combined with an increase in purchased materials stocks. As goods moved into the production process during the first quarter a sharp increase in stocks of finished goods occurred. Goods in process, closely reflecting the rate of production, could not increase greatly. Purchased materials stocks declined, indicating renewed caution in buying for future production.



Source: U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

The trends shown in the chart are not adjusted for price changes. The Department of Commerce, which is responsible for the collection of these inventory statistics, cautions that prices may change in varying degrees and at different times among the various categories, making possible some distortion. Over a short period this is probably not a serious defect, however.

Recent Developments

In contrast with previous periods of accumulation, when goods in process and purchased materials increased and manufacturers were trying hard to build up working stocks, the first quarter spurt in finished goods holdings, especially in nondurable lines, may represent the first unintentional accumulation of stocks in the post-war period. As such, it was obviously not of serious proportions; nevertheless, it might have suggested a significant change in the business scene. Currently, finished goods stocks are over 30 per cent of total manufacturing inventories. By prewar standards that is a low proportion; but it has increased from 26 per cent at the end of 1946, indicating better balance and less need for additional restocking.

Within the last year the book value of manufacturers' inventories has increased $3 billion—over 11 per cent, as compared with a 10 per cent gain in sales. The amount of change varies among industries. The value of durable goods stocks rose 8 per cent compared with a 5 per cent increase in sales. In the textile-leather-apparel group of industries, stocks rose 20 per cent and sales rose 10 per cent.

A sharp increase in the book value of trade inventories during the first quarter of 1948 also lends support to the possibility that inventory accumulation at that time was in large measure unintentional. At the end of March, retail inventories were over $14 billion and had increased, on a seasonally adjusted basis, by about 8 per cent since the beginning of the year. This was a larger increase than took place in the first quarter of 1947, when the inventory situation caused great concern. This year, as in 1947,

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large accumulations of goods among retailers of the building materials and hardware group made for relatively larger increases in stocks held by durable than by nondurable goods stores. Most of the increase in nondurables was in apparel and general merchandise stores. Inventories of wholesalers also increased substantially.

To a greater extent than in manufacturing, inventories of wholesalers and retailers have increased more rapidly than sales within the past year, and if the rapid inventory accumulation of the first quarter had continued, it might have caused a serious cut-back in new orders. The record for April and May shows, however, that stocks of wholesalers and retailers have actually declined and that moderate gains in the book value of manufacturers' inventories are mainly in purchased materials and goods in process. Preliminary estimates foresee a much lower rate of inventory accumulation in the second quarter as a whole. Buyers have not made drastic cuts in new orders but they have been cautious. The Department of Commerce index of manufacturers' new orders edged downward in April and May, although the only large drop appears to have taken place in some types of machinery. New orders by department stores are running somewhat ahead of the 1947 level.

First quarter inventory experience was not unsettling. A high level of consumer spending and the start of the rearmament program quickly relieved the pile-up, and generally rising prices for non-farm commodities minimized any feeling of vulnerability. It will tend, however, to reinforce restrictive inventory policies on the part of individual firms and may serve to prevent speculative stock piling which might otherwise be encouraged by rising prices.

Are Inventories Too High?

The answer to this question obviously depends on the standard of judgment that is adopted. It is clear that inventories must be related to sales; and the usual procedure compares the current stocks-to-sales ratio with that prevailing at some previous period which is thought to be "normal."

By this standard—which may or may not be appropriate—inventories are not high. The accompanying chart of retail stocks and sales shows that although the stock-sales ratio has risen within the past year, it is still below that of the pre-war years. For department stores in the Third Federal Reserve District at the end of June, the stock-sales ratio was lower than for the corresponding month in 1941 or 1947. Recent monthly ratios of stocks plus outstanding orders to sales have been somewhat higher than in 1941 because of the longer average period required to fill orders at the present time, but they are much lower than in 1946 and show little change from last year.

The ratio of stocks to sales in manufacturing is also below that of pre-war years. There is evidence, however, based on experience since 1926, that the stock-sales ratio in manufacturing declines as sales increase. This is to be expected because a higher and uninterrupted production rate and boom conditions make for relatively smaller stocks of finished goods and more efficient use of inventories in general. Even with this adjustment, present inventories are no larger than historical relationships indicate they should be.

Another standard sometimes used is the relationship of total inventories to the level of gross national product. Inventories appear to be higher in relation to national product this year than last, but are still somewhat below the 1939 ratio.

No Set Rule

Extreme caution is necessary in using any fixed standard as a measure of inventory adequacy, and the events of the first quarter emphasize this. The stock-sales ratios most often used have many serious shortcomings. Mechanically applied, they may give rise to a false sense of security. First of all, past records show that the stock-sales ratio is low when the top of the inventory cycle is reached. It does not become obviously excessive until it is too late to do anything about it. Clearly, there must be other factors to watch. Maintenance of 1939 or some other period's relationships is not a magic protector.

Secondly, the appropriate ratio may be expected to vary over a period of time, with changes in technology, trade practices, transportation, and other factors. It is obvious from Chart II that the long-term trend of the retail stock-sales ratio has been downward. The 1939 ratio is not necessarily a suitable standard for 1948! In manufacturing, the composition of output is very significant. Greater importance of the transportation equipment industry now than before the war, for instance, would be expected to bring about some increase in the durable goods inventory-sales ratio.

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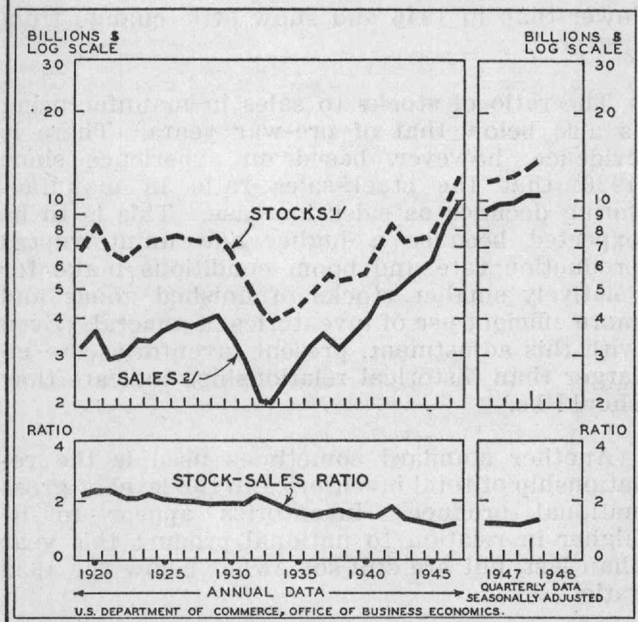

[1] Data are end of month average for the year or quarter.
[2] Data are monthly average for the year or quarter.

The inventory-sales ratio refers to the current level of sales, whereas what we really should be concerned with is prospective sales—and prospective prices. Retailers must make an estimate of consumer purchases, taking into consideration income prospects and the potential demand for particular items. In a recent study, Mr. L. Jay Atkinson, of the Department of Commerce, made estimates of the existing backlogs of various consumer durables and of the varying periods of time in which they would be filled. The backlog demand for vacuum cleaners, for instance, is practically filled. Automobiles will probably be the last to catch up.

A sharp eye must be kept on new orders figures. In 1937, although some materials appeared to be in short supply and inventories did not appear large with respect to production until the fall, new orders had begun to decline in the spring, making a sharp readjustment inevitable. Overall new orders figures now available are not conclusive, but they do not yet show a significant decline.

A word of warning is in order on inventory statistics now in use. In spite of great care exercised in the collection of data and in the unavoidable process of estimation, recent revisions of Department of Commerce figures emphasize the necessity for taking into account the possibility of a considerable margin of error. For purposes of observing short-term trends, such error is probably not of great significance; but in making comparisons over periods of several years, the statistics are less reliable.

In applying the statistics to his own firm, the individual businessman has all these difficulties and more. The general inventory situation must be a part of his calculations, but the aggregate ratios that describe it are not sufficient to analyze his own position. Mr. Moses Abramovitz, in a study of the role of inventories in business cycles recently published by the National Bureau of Economic Research, has clearly pointed out that for purposes of inventory analysis there are many categories of stocks and that each behaves in its own way. The national statistics now available are broken down by broad industrial lines and are extremely helpful, but they are not yet adequate for every situation.

It would be misleading for the individual firm to use its own inventory position in a previous period as a standard without considering surrounding circumstances. Businessmen generally try to maintain the minimum stocks consistent with uninterrupted production or sales requirements. But, while there might be little disagreement with this principle, it is doubtless subject to wide differences in interpretation. Production and sales estimates, price trends, the structure of the market, all must be taken into consideration. There is great leeway in buying practice.

Many businessmen and bankers are fully aware that inventory policy is not subject to text-book formularization. Every firm must make a thorough analysis of its own situation and must constantly review the forecasts and assumptions on which it is based. It must examine carefully the habits created during nine years of rising prices. Further large-scale accumulation of inventories during the next six months might be a sign that that job had not been done.

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BUSINESS STATISTICS

Production
Philadelphia Federal Reserve District

Indexes: 1923-25 = 100	Adjusted for Seasonal Variation						Not Adjusted		
				Per cent change					
				June 1948 from		1948 from 6 mos. 1947			
	June 1948	May 1948	June 1947	Month ago	Year ago		June 1948	May 1948	June 1947
INDUSTRIAL PRODUCTION	111p	112	109	— 1	+ 2	+ 2	110p	110	107r
MANUFACTURING	113p	114	111	— 1	+ 2	+ 3	111p	111	109
Durable Goods	118p	122	118r	— 3	0	+ 5	—	—	—
Consumers' Goods	107p	106	102	+ 1	+ 5	+ 2	—	—	—
Metal products	137	142	140	— 3	— 2	+ 1	138	141	141
Textile products	77p	78	68r	— 1	+15	+ 8	75p	75	65r
Transportation equipment	123p	123	132r	0	— 7	+ 2	125p	129	135r
Food products	134p	128	138	+ 4	— 3	— 4	119p	117	122
Tobacco and products	110	118	102	— 7	+ 8	0	119	115	110
Building materials	50p	51	46	— 2	+ 8	+12	55p	53	51
Chemicals and products	183p	177	171r	+ 3	+ 7	+ 8	184p	180	172r
Leather and products	92p	97	92	— 6	— 1	+ 8	90p	88	91
Paper and printing	119	117	119	+ 1	— 1	— 1	117	118	118
Individual Lines									
Pig Iron	112	94r	115	+18	— 3	0	106	98r	110
Steel	113	114r	115	— 1	— 2	+ 3	115	120r	117
Iron castings	93	83	86	+12	+ 9	— 2	92	86	85
Steel castings	93	108	82	—14	+14	0	97	112	85
Electrical apparatus	200	216r	207	— 8	— 3	— 1	200	199r	207
Motor vehicles	27	25r	41r	+ 7	—35	—33	33	32r	50r
Automobile parts & bodies	110	106r	131r	+ 4	—16	— 6	110	111r	131r
Locomotives and cars	57	61	55	— 6	+ 4	— 5	59	59	56
Shipbuilding	—	—	—	— 2	+ 6	+22	—	—	—
Silk and rayon	96	94	85	+ 2	+13	+ 5	91	91	81
Woolens and worsteds	84p	85	70r	— 2	+19	+12	80p	80	68r
Cotton products	37p	38	42	— 4	—12	—16	35p	37	40
Carpets and rugs	112p	112	92r	0	+22	+26	108p	110	88r
Hosiery	83	79	64	+ 5	+30	+15	81	79	62
Underwear	128	131	123	— 2	+ 5	+ 7	128	132r	123
Cement	77p	79	67	— 1	+15	+23	93p	89	81
Brick	57	56r	56	+ 2	+ 1	+ 2	59	59	58
Lumber and products	29	31r	28	— 7	+ 5	+ 6	30	29r	29
Bread & bakery products	—	—	—	+ 1*	+ 4*	— 2*	116	114r	112
Slaughtering, meat pack.	114	128	116	—11	— 1	+ 8	109	128	111
Sugar refining	85	67	63	+27	+35	— 8	91	82	67
Canning and preserving	226p	203	248	+11	— 9	— 7	162p	153	178
Cigars	111	119	102	— 7	+ 9	+ 2	120	116	110
Paper and wood pulp	101	100	95	+ 1	+ 6	+ 8	100	100	94
Printing and publishing	122	120	124	+ 1	— 2	— 2	121	122	123
Shoes	100p	95	91	+ 5	+10	+ 5	95p	86	86
Leather, goat and kid	84p	99	94	—15	—11	+11	85p	90	95
Explosives	106	102r	106	+ 3	0	+23	106	103r	106
Paints and varnishes	116	111r	109	+ 5	+ 7	+ 7	118	117r	111
Petroleum products	250p	247	233r	+ 1	+ 7	+ 8	250p	247	234r
Coke, by-product	184p	164	164	+12	+12	+ 2	184p	171	164
COAL MINING	72	78	74	— 8	— 2	— 1	70	77	72
Anthracite	66	73	69	—10	— 4	+ 5	66	73	69
Bituminous	120	120	111	+ 1	+ 8	—13	106	108	98
CRUDE OIL	280	277	278	+ 1	+ 1	0	291	288	289
ELECTRIC P'W'R—OUTPUT	514	507	464	+ 1	+11	+ 9	489	472	441
Sales, total	518	508	465	+ 2	+11	+10	503	487	451
Sales, to industries	354	372	330	— 5	+ 7	+ 9	358	379	334
BUILDING CONTRACTS									
TOTAL AWARDS+	252	243	157	+ 4	+60	+59	257	233	160
Residential+	145	144	80	+ 1	+80	+30	154	152	85
Nonresidential+	319	306	165	+ 4	+93	+76	325	321	169
Public works & utilities+	417	370	378	+13	+10	+71	397	259	359

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

Local Business Conditions*

Percentage change—June 1948 from month and year ago	Factory employment		Factory pay rolls		Building permits value		Retail sales		Debits	
	May 1948	June 1947	May 1948	June 1947	May 1948	June 1947	May 1948	June 1947	May 1948	June 1947
Allentown	— 1	— 4	— 4	+ 3	— 59	— 10	—12	+42	— 6	+30
Altoona	0	— 3	+ 1	+ 7	— 12	+ 37	— 1	+ 9	+ 6	+15
Harrisburg	+ 2	+ 1	+ 1	+12	— 75	— 76	— 3	+21	+10	+22
Johnstown	+ 2	+ 1	— 3	+ 8	+ 45	+241	0	+28	+ 8	+25
Lancaster	+ 2	+32	+ 3	+60	— 38	— 59	— 6	+17	— 5	+10
Philadelphia	— 1	— 1	— 1	+ 5	— 53	+ 4	— 4	+13	+13	+17
Reading	+ 1	+ 4	+ 4	+23	+ 24	+ 6	—10	+15	+ 4	+ 5
Scranton	0	+ 3	+ 1	+17	+ 33	— 55	— 3	+16	+18	+20
Trenton	—	—	—	—	+715	+811	— 2	+22	+ 6	+27
Wilkes-Barre	0	+ 4	— 2	+18	+127	— 50	+ 2	+17	+17	+25
Williamsport	0	+ 3	0	+10	**	+541	—	—	+ 6	+20
Wilmington	— 1	+ 5	0	+12	+ 30	+230	0	+28	+45	+50
York	+ 2	— 1	+ 1	+ 8	— 45	+ 18	— 9	+14	+17	+20

*Area not restricted to the corporate limits of cities given here.
**Increase of 1000% or more.

Production Workers in Pennsylvania Factories

Summary Estimates—June 1948

	Employment	Weekly pay rolls	Weekly man-hours worked
All manufacturing	1,097,000	$55,099,000	43,500,000
Durable goods industries	622,400	33,968,000	24,810,000
Nondurable goods industries	474,600	21,131,000	18,689,000

Changes in Major Industry Groups

Indexes (1939 average = 100)	Employment			Pay rolls		
	June 1948 Index	Per cent change from		June 1948 Index	Per cent change from	
		May 1948	June 1947		May 1948	June 1947
All manufacturing	128	0	0	286	0	+ 7
Durable goods industries	154	0	— 1	323	—1	+ 3
Nondurable goods industries	105	+1	+ 3	242	+2	+13
Food	123	+2	0	251	+4	+ 9
Tobacco	98	+3	0	215	+3	+ 2
Textiles	86	0	+13	220	+1	+34
Apparel	94	+1	+ 1	238	—1	+10
Lumber	95	+1	+ 7	215	+5	+21
Furniture and lumber products	95	—1	— 3	228	+5	+ 6
Paper	119	0	0	271	+3	+14
Printing and publishing	136	0	0	269	0	+ 7
Chemicals	119	+1	— 1	248	+1	+ 5
Petroleum and coal products	157	+3	+ 6	320	+5	+19
Rubber	147	+3	—11	282	+4	—16
Leather	89	+2	— 6	181	+6	— 2
Stone, clay and glass	135	0	— 2	291	0	+ 6
Iron and steel	139	0	— 1	289	—2	+ 3
Nonferrous metals	142	—1	— 8	288	0	— 1
Machinery (excl. elect.)	211	+1	+ 4	442	+1	+10
Electrical machinery	224	0	— 2	458	+1	— 1
Transportation equip. (excl. auto)	217	—1	+ 7	408	—2	+10
Automobiles and equipment	147	—2	—22	312	+2	—17
Other manufacturing	130	—3	— 6	255	—4	— 1

Average Earnings and Working Time

June 1948 Per cent change from year ago	Weekly earnings		Hourly earnings		Weekly hours	
	Average	Ch'ge	Average	Ch'ge	Average	Ch'ge
All manufacturing	$50.23	+ 7	$1.267	+ 7	39.7	0
Durable goods indus.	54.57	+ 5	1.369	+ 5	39.9	— 1
Nondurable goods industries	44.52	+10	1.131	+10	39.4	0
Food	45.48	+ 8	1.074	+ 8	42.3	0
Tobacco	28.89	+ 2	.756	+ 2	38.2	0
Textiles	45.64	+19	1.163	+15	39.2	+ 3
Apparel	35.78	+ 9	.962	+12	37.2	— 3
Lumber	42.37	+13	1.033	+16	41.0	— 3
Furniture and lumber products	44.23	+10	1.019	+ 7	43.4	+ 2
Paper	49.22	+14	1.108	+11	44.4	+ 2
Printing and pub.	55.82	+ 7	1.474	+ 9	37.9	— 2
Chemicals	49.59	+ 6	1.201	+ 6	41.3	0
Petroleum and coal products	62.15	+12	1.528	+10	40.7	+ 3
Rubber	47.52	— 6	1.316	0	36.1	— 6
Leather	35.08	+ 4	.966	+ 4	36.3	0
Stone, clay and glass	49.36	+ 8	1.212	+ 8	40.7	0
Iron and steel	55.95	+ 4	1.421	+ 5	39.4	— 1
Nonferrous metals	52.84	+ 7	1.335	+ 7	39.6	+ 1
Machinery (excl. electrical)	53.22	+ 6	1.323	+ 6	40.2	0
Electrical machinery	57.22	+ 1	1.452	+ 2	39.4	— 1
Transportation equip. (excl. auto)	57.36	+ 3	1.461	+ 5	39.3	— 2
Automobiles and equip.	58.45	+ 7	1.393	+ 9	41.9	— 3
Other manufacturing	40.99	+ 6	1.094	+ 7	37.5	— 1

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Distribution and Prices

Wholesale trade unadjusted for seasonal variation	Per cent change: June 1948 from Month ago	June 1948 from Year ago	1948 from 6 mos. 1947
Sales			
Total of all lines	+ 7	+ 4	+ 3
Dry goods	+ 6	— 8	— 8
Electrical supplies	+ 2	+ 5	0
Groceries	+ 6	+14	+ 9
Hardware	+ 4	0	— 3
Jewelry	— 3	+14	+ 7
Paper	+ 3	+ 6	+ 3
Inventories			
Total of all lines	+ 1	+14	—
Dry goods	0	+12	—
Electrical supplies	+ 1	+ 2	—
Groceries	0	+ 4	—
Hardware	+ 3	+34	—
Jewelry	+ 3	—13	—
Paper	+ 5	+34	—

Source: U. S. Department of Commerce.

Prices	June 1948	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	330	+ 2	+10	+230
Wholesale (1926 = 100)	166	+ 1	+13	+122
Farm	196	+ 4	+10	+221
Food	181	+ 2	+12	+170
Other	150	0	+14	+ 87
Living costs (1935-1939 = 100)				
United States	172	+ 1	+ 9	+ 74
Philadelphia	172	+ 1	+10	+ 76
Food	209	+ 2	+12	+125
Clothing	193	0	+ 6	+ 95
Fuels	136	+ 1	+11	+ 41
Housefurnishings	197	0	+ 9	+ 96
Other	147	0	+ 6	+ 46

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: June 1948	May 1948	June 1947	Per cent change: June 1948 from Month ago	June 1948 from Year ago	1948 from 6 mos. 1947	Not adjusted: June 1948	May 1948	June 1947
RETAIL TRADE									
Sales									
Department stores—District	283	284	255r	0	+11	+10	266	287	238
Department stores—Philadelphia	250	261	232	— 4	+ 8	+ 8	235	254	216
Women's apparel—District	258	262	244	— 1	+ 6	+ 3	219	251	207
Women's apparel—Philadelphia	276	269	264r	+ 3	+ 4	+ 3	226	258	217
Furniture	—	—	—	— 9*	+12*	—	—	—	—
Inventories									
Department stores—District	251	257	212	— 2	+18	—	238	259	201
Department stores—Philadelphia	219	229	202	— 4	+ 8	—	206	227	190
Women's apparel—District	190	209	185	— 9	+ 3	—	181	209	176
Women's apparel—Philadelphia	203	237	213	—14	— 5	—	191	232	200
Furniture	—	—	—	— 2*	+ 8*	—	—	—	—
FREIGHT-CAR LOADINGS									
Total	139	141	141	— 2	— 2	— 6	143	143	146
Merchandise and miscellaneous	124	123	131	+ 1	— 5	— 5	126	127	133
Merchandise—l.c.l.	76	79	89	— 4	—14	—15	76	79	89
Coal	182	187	175	— 3	+ 4	— 9	164	166	157
Ore	203	217	196	— 6	+ 4	+ 6	299	276	288
Coke	195	225	182	—14	+ 7	— 3	181	192	169
Forest products	89	90	91	— 1	— 3	— 7	101	86	104
Grain and products	116	108	139	+ 7	—17	—20	100	100	121
Livestock	77	85	104	— 9	—26	—23	70	78	95
MISCELLANEOUS									
Life insurance sales	200	202	185	— 1	+ 8	+ 1	204	200	189
Business liquidations									
Number	—	—	—	—15*	+28*	+38*	34	40	27
Amount of liabilities	—	—	—	—19*	+42*	+47*	60	75	42
Check payments	247	235	215	+ 5	+15	+12	267	235	232

*Computed from unadjusted data. r Revised.

BANKING STATISTICS

Reporting member banks (Millions $)	July 28 1948	Changes in— Five wks.	One year
Assets			
Commercial loans	524	+20	+ 87
Loans to brokers, etc.	18	+ 1	— 5
Other loans to carry secur.	13	— 2	— 3
Loans on real estate	81	+ 2	+ 1
Loans to banks	2	—32	— 4
Other loans	261	+ 7	+ 50
Total (net)*	892	— 6	+122
Government securities	1,353	—39	—105
Other securities	280	+ 4	+ 20
Total investments	1,633	—35	— 85
Total loans & invest.	2,525	—41	+ 37
Reserve with F. R. Bank	472	+ 8	+ 8
Cash in vault	44	+ 1	+ 4
Balances with other bks.	101	— 2	+ 14
Other assets—net	54	+ 4	+ 1
Liabilities			
Demand dep. adjusted	2,012	—20	— 7
Time deposits	445	+ 2	+ 23
U.S. Gov. Deposits	57	+ 5	+ 38
Interbank deposits	341	—23	—
Borrowings	14	+ 8	+ 11
Other liabilities	25	— 2	— 2
Capital account	302	—	+ 1

*Total net after reserves; details gross, earlier dates partly estimated.

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended June 30	July 7	July 14	July 21	July 28	Ch'ges in five weeks
Sources of funds:						
Reserve Bank credit extended in district	— 3	— 12	+ 13	— 2	— 8	— 12
Commercial transfers (chiefly interdistrict)	+64	+ 24	+ 21	+ 3	—16	+ 96
Treasury operations	—25	— 33	— 33	— 9	+ 9	— 91
Total	+36	— 21	+ 1	— 8	—15	— 7
Uses of funds:						
Currency demand	—	+ 19	— 19	—13	— 6	— 19
Member bank reserve deposits	+36	— 40	+ 19	+ 6	— 9	+ 12
"Other deposits" at Reserve Bank	—	—	+ 1	— 1	—	—
Other Federal Reserve accounts	—	—	—	—	—	—
Total	+36	— 21	+ 1	— 8	—15	— 7

Member bank reserves (Daily averages; dollar figures in millions)	Held	Requir'd	Excess	Ratio of excess to required
Phila. banks				
1947 July 1-15	$420	$412	$ 8	2%
1948 June 1-15	391	388	3	1
June 16-30	403	394	9	2
July 1-15	395	391	4	1
Country banks				
1947 July 1-15	$376	$338	$ 38	11%
1948 June 1-15	408	365	43	12
June 16-30	409	365	45	12
July 1-15	412	367	45	12

Federal Reserve Bank of Phila. (Dollar figures in millions)	July 28 1948	Changes in— Five weeks	One year
Discounts & advances	$ 21.6	$— 3.2	$+ 12.2
Industrial loans	.5	—	— 1.2
U.S. securities	1,515.0	+ 14.2	—142.8
Total	$1,537.1	$+ 11.0	$—131.8
Fed. Res. notes	$1,627.8	$— 4.2	$— 1.4
Member bank dep.	806.8	+ 12.3	+ 13.8
U. S. general acct.	167.1	+ 88.8	+122.7
Foreign deposits	29.4	+ .5	— 14.8
Other deposits	2.0	+ .1	— .2
Gold cert. reserves	1,100.1	+ 88.2	+241.6
Reserve ratio	41.8%	+ 1.9%	+ 7.6%

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