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FEDERAL RESERVE BANK OF PHILADELPHIA

1949: Is Recession "Just Around the Corner"?

Analysis of the business outlook suggests that recession will stay "just around the corner" in 1949. Prices, on the average, are likely to move sidewise. But there will be many ups and downs in individual lines, and soft spots will show up more frequently. The relationship between money and goods is likely to be better balanced than it has been for several years. Yet holdings of money and other liquid assets are huge, and money turnover is increasing. Inflationary forces are still present. Neither boom nor slump is "inevitable" unless we make the error of relaxing, thinking that stability can be achieved without effort.

1949: IS RECESSION "JUST AROUND THE CORNER"?

Prosperity was first declared to be "just around the corner" in 1930—and it stayed there for almost a decade. Recession, in like manner, has been "just around the corner" for three years now. There have been times, it is true, when our economy really seemed to have reached the turn. For example, in 1947 the end of "filling the pipelines" was expected to bring the recession, yet in our January 1948 *Business Review* we were able to characterize 1947 as "the year of the slump that never came." Doubts returned early in 1948 after a sharp break in the commodity markets, but business rebounded with the aid of a tax cut and new plans for armament and foreign aid. In short, this country has had three post-war boom years, despite the constant prospect of "imminent" recession. All this is clear and simple—in retrospect.

Most observers now look toward 1949 with serious misgivings, and there are some reasons for believing that current pessimism has sounder basis than that of early 1947 and 1948. Perhaps the most significant is the fact that 1948 was generally a year of slowing down. While most of the important indicators of business and financial activity continued upward during the year, they exhibited a definite tendency to slow down and level off. This alone is not conclusive evidence that recession is coming in 1949. The other possibilities are that business will level off on a high plateau or that current doubts are a symptom of just one more—but perhaps a more significant—period of hesitation in the rising trend.

The analysis which follows suggests that recession will stay "just around the corner" during 1949. The trend, in broad aggregates, is likely to be sidewise. Divergent tendencies, however, will be in evidence to a greater extent than in 1948. Both inflationary and deflationary forces will be at work. The two should be in close balance but if they are not, it is the inflationary forces which are likely to be the stronger particularly in the latter part of the year. This conclusion is derived by measuring the flow of money against the flow of goods. Since the war, spending has increased more rapidly than the physical output of goods and services, and prices have risen. The money-goods equation is likely to be in better balance during 1949 than it has been for several years. Prices, on the average, are likely to be fairly stable, though there will be numerous departures from the general trend by individual commodities.

BUSINESS AND FORECASTING

A note as to the nature of this forecast. The problems of business and government require a continuous appraisal and re-appraisal of the business outlook in the light of changing conditions and policies. A once-a-year prophecy is dramatic, but of questionable practical value. The business outlook as it is developed in this article should be regarded as part of a continuing analysis, not as an unconditional prediction-of-things-to-come.

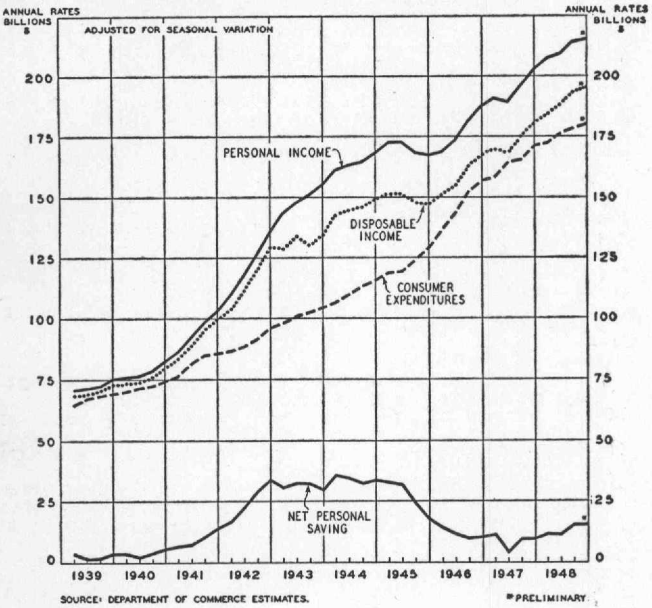
Prediction necessarily accompanies the making of decisions. An estimate of the future effect of today's actions is usually the most important influence on one's final judgment. The more careful the analysis of what is to come, the better the decision is likely to be.

A forecast of business activity, therefore, should be a tool for business and government policy makers. As such, its worth cannot be measured by matching it against the events that actually occur. A good forecast is one that helps in making the right decisions—right, that is, with respect to some stated objective. To cite a common example, the banker who on the basis of current sales trends and other indications, predicts in January that his borrower's inventory will be unbalanced in June, advises steps designed to avoid that probability. If the borrower takes those steps and is successful in keeping his stocks in line, then, come June, his business is safe and profitable. The forecast was a good one. It helped achieve the desired objective. It is this kind of forecasting-with-action that the Federal Reserve and the business community must engage in. They are actors as well as observers in the economic scene and cannot be indifferent to what they see ahead. Some of the strategic factors bearing on expenditures of money and production of goods in 1949 are analyzed below.

CONSUMPTION EXPENDITURES

By far the largest segment of gross national expenditure is consumer spending for goods and services. A glance at the accompanying chart will show that such spending has increased steadily throughout the war and post-war periods—since the beginning of 1947, at a slowly declining rate. Consumption expenditures depend on three basic factors. One is personal income—wages, dividends, net farm income, and other receipts by individuals. In the fourth quarter of 1948 it was estimated at a rate of

PERSONAL INCOME, CONSUMPTION, AND SAVING



$216 billion a year—over 6 per cent ahead of the same quarter in 1947—reflecting higher wage rates, bigger profits, and greater employment. The second factor is personal taxes. Taxes took less spending power away from individuals in the fourth quarter of 1948 than in the previous year, the rate of federal taxation having been reduced in the spring of 1948. Disposable income, therefore, the amount consumers have available to spend, has increased at a somewhat faster rate than income before taxes—8 per cent in a year. Actual spending did not increase as fast as disposable income, however; and this was because of the influence of the third factor—saving.

Not every family has been saving, of course; some have spent more than their current incomes by drawing on past savings or by using consumer credit. Consumer credit outstanding has established new record highs month after month. But for this, total net saving might have been almost $3 billion greater during the past year. Nevertheless, all consumers, taken together have been saving increasing amounts of their incomes since 1947. On the basis of the best estimates now available, the ratio of net savings to disposable income in the fourth quarter of 1948 was 7.9 per cent. This was the largest dollar amount of savings since the beginning of 1946, some time before the post-war buying spree hit its full stride. Ordinarily, it is safe to say that, over the long pull, retail sales and payments for services vary directly with disposable income. But the events of recent months have shown that in the short run, at least, they need not vary in a fixed proportion. And a real "buyers' strike," if it occurred, could cause an inventory pile-up, cut-backs on orders, and serious lay-offs.

RETAIL SALES

In this connection, the trend of retail sales during the last few months is noteworthy. In the first ten months of 1948, retail sales had been running about 11 per cent ahead of the same 1947 period. Department store sales were behind that rate of advance. The retail sales index had moved sidewise for some time, however, indicating that a leveling off point might have been reached. And when in November, department store sales began to show declines from year-ago levels week after week, some thought that a definite downturn had begun. In the Third Federal Reserve District, November department store sales were off 12 per cent from October on a seasonally adjusted basis, and were 4 per cent below the previous year. Preliminary estimates for December show substantial improvement in that month, but it is doubtful that the Christmas season of 1948 exceeded the record of 1947 by a significant margin. All retail sales, as reported by the Department of Commerce, including automotive, building materials, and food sales, did not slump so badly in November as department store items, but the index was below the average of the preceding months.

An analysis of departmental sales in Philadelphia during the November slump and the December recovery suggest some possible explanations for the disappointing season. They do not point to any such conclusion that the consumer has used up all his money and has stopped buying for good. Men's clothing sales were off in November, perhaps in anticipation of drastic price cuts. Men's furnishings were not. Extensive price reductions in men's clothing drew a truly phenomenal response in December. Women's coat and fur sales were poor in November, but dresses and, particularly, suits made a good showing. In this case the weather is a logical explanation. Jewelry, books, and other items that are usually sensitive to an income squeeze, did well in comparison to the previous nine-month period. The same was true for eating and drinking places among all retail stores.

The poorest sales performance in November, continuing into December, was in major appliances—refrigerators, washing machines, and other household equipment, and in radios and phonographs. Some observers attribute this to the influence of Regulation W, Federal Reserve control over instalment credit, which was re-imposed in September. Department store credit statistics would seem to bear out this interpretation. Although charge-account credit continued to account for a rising proportion of total sales, October saw a significant decline in the relative share of instalment sales. However, furniture sales, which are also subject to the regulation, showed little deviation from recent trends, indicating that factors other than Regulation W may be important. With immediate delivery on almost all items, for instance, a seasonal buying pattern may be reasserting itself.

The experience of one or two months cannot explain away a real squeeze on consumer incomes if it exists, but neither can it be cited as definite evidence of recession. Certainly it does not negate the facts of record employment, high (and still rising) wages, growing dividend payments—all making for new highs in total personal income and disposable income. Nor does it offset the existence of large liquid asset holdings which, although they may be somewhat less evenly distributed than a year ago, nevertheless provide a considerable support for spending. Reductions in farm prices have reduced the share of national income going to farmers; but this may mean a shift of spending power to city dwellers who typically buy goods and services more readily than rural consumers. This is not to deny the existence of real hardship on the part of a sizable—and, perhaps, growing—group of families whose incomes have not kept pace with prices. So far, however, this group has been a relatively small minority and it does not appear to be a controlling factor in the situation.

Reports of lay-offs and work-week reductions have been frequent in recent weeks, particularly in soft goods industries. Whether these will become sufficiently important to impair wages and salaries significantly in 1949 depends on many developments elsewhere in the economy. They are not sufficiently important now. Moreover, barring widespread unemployment, gradually rising wage rates seem destined to push earnings up in many lines for some months to come. If a "fourth round" of national proportions occurs, it is not likely to begin until mid-year, and, if food costs decline further, union demands are likely to be moderate. There is little doubt among leading industrialists in this area, however, that the demands will come; and there is little doubt that moderate demands will be met. Congressional minimum wage legislation appears at this time to be a probability. A 75-cent minimum wage, as proposed by the President, would increase average pay in several industries, especially in "low-wage" districts.

Farm income, another large segment of total personal income, is expected to decline somewhat in 1949. The price support program, however, will limit the decline and mitigate the possible ill effects on farm purchasing power.

On balance, it now appears that the drop in expenditures at the end of 1948 was more a temporary result of special events than the start of a general downturn in retail sales. Any rise in personal incomes is likely to be slower in 1949 and will probably be interrupted more frequently than it was in 1948. Increases in dollar sales over 1948 also are likely to be small. Tax policies of Government, the price-wage actions of business and labor, and credit policy will be big factors to watch.

INVENTORIES AND ORDERS

The year-end decline in sales apparently has had a marked effect on the department stores' purchasing policies. Reports from large stores in the Third District indicate that they have shortened up on their commitments and have made every effort to keep inventories low. In spite of their extreme caution, the stock-sales ratio at the end of November climbed a little above the level of 1947. However, as the result of four successive months in which new orders were held below those of the previous year, outstanding orders were down so far that the ratio of stocks-plus-outstandings to sales was at the lowest point for any November in eight years. A mid-winter sales recovery may reveal that the department stores are in a "short" position, and could relieve suppliers of some of the pressure they have felt in the last six months.

This would be a temporary situation. On the whole, inventories at all levels of trade and manufacture are now adequate. A few lines—mainly steel products—are low; several—like men's clothing—are, or were, a little higher than their owners would like to see them. But, in general, it seems that businessmen have attained and have become accustomed to stocks-sales ratios slightly below those of the pre-war period. Inventory accumulation will probably be moderate from now on. In the near future, at least, the strong financial position of business will preclude forced liquidation of inventories in any appreciable amount, though it may be expected that more competitive conditions will bring about a continued, though gradual, rise in the failure rate.

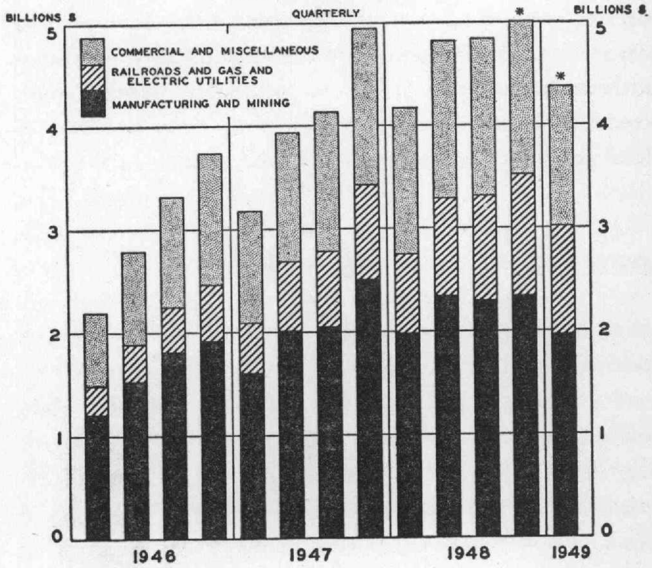
Most order backlogs declined during 1948 and will probably continue to decline as production expands in 1949. Manufacturers' new orders were well above 1947 for the year, but the fact that they have not continued to rise has caused some concern. The backlogs will be filled some day. Will new orders then be sufficient to keep industry running at capacity? Merely matching backlogs against orders will not give the solution to the problem. New orders figures are difficult to interpret. The effect of defense expenditures and new capital outlays is uncertain. The year 1949 will undoubtedly see the return of seasonal fluctuations in output in many industries, and the average level of unemployment may creep upward slowly from its present minimum; but as long as over-all demand remains near present levels, peak or near-peak production probably will be maintained in most important lines.

CAPITAL OUTLAYS

All observers agree that the volume of expenditure for plant and equipment during 1949 will be a crucial factor in shaping future trends. Large capital outlays stimulate the heavy goods and construction industries and are a very powerful expansionary force. As business expanded and modernized during 1946 and 1947, expenditure for new factories, machinery, railroad cars, and stores grew steadily. Despite high costs this trend continued into 1948; but by the middle of the year it was evident that the increase had leveled off. Fourth-quarter outlays appear to have just about equaled those of the previous year. Many of the estimates made early in 1948, however, have proved too low. Investment plans did not dry up as many had feared. Far from it. Total expenditures for new plant and equipment by American business in the past year are now estimated by the Department of Commerce at $18.8 billion—15 per cent above 1947. This is the largest annual private capital investment in the nation's history, in physical as well as in dollar terms.

For the coming year there is evidence that spending for plant and equipment may not change materially from

BUSINESS EXPENDITURES ON NEW PLANT AND EQUIPMENT



*ANTICIPATED BY BUSINESS.
SOURCE: SECURITIES AND EXCHANGE COMMISSION AND DEPARTMENT OF COMMERCE ESTIMATES.

present levels. In manufacturing, the largest single segment of the total, there have been many reports that existing post-war plans are nearing completion. The results of a survey of Philadelphia manufacturers made by the Federal Reserve Bank of Philadelphia in October indicated that capital outlays during the following twelve months would be less than the previous year's by about 16 per cent. Experience with previous surveys has shown that the expenditure estimate for Philadelphia may understate considerably the national trend. It is significant, moreover, that in Philadelphia some lines—notably iron and steel and apparel—expect increasing expenditures, partially offsetting sharp declines in such industries as paper and printing and textiles.

Utilities and railroads in the Philadelphia area expect to maintain a volume of plant and equipment expenditure in 1949 which is close to that of last year's. Quarterly estimates by the Securities and Exchange Commission and the Department of Commerce for the nation show, in fact, that, unlike manufacturing, these two segments of industry continued to expand their capital outlays during 1948. Wartime shortages did not permit these industries adequately to maintain existing facilities, let alone to keep up with population and general industrial growth, and their backlog of needed capital expansion and improvements remains large.

The fact that some industries are still expanding their plant and equipment programs will prevent a decline in total capital expenditures, at least during the early part of 1949. Preliminary estimates for the first quarter, based on anticipations of business firms, place the total somewhat above the dollar volume of first quarter 1948. Notwithstanding many arguments to the contrary, it is difficult to believe that later reductions will be sharp.

DETERRENTS TO INVESTMENT

High costs of construction are frequently cited as a compelling reason for curtailment. Undoubtedly this has been and is now an all-important consideration for many firms. Yet many have built and will continue to do so despite it. Against the cost of acquiring new equipment must be set the competitive costs of not acquiring it. This principle is most obvious, perhaps, in the case of merchandising. A new store front down the street may make several stores undertake new improvement programs regardless of their original intentions. Against the cost of acquiring new equipment, too, must be set the expectation of reward from its use. When one is uncertain as to how long it will be before construction costs come down substantially, if they come down, the prospect of high profits is a powerful incentive to expand or modernize.

The profit incentive was very great throughout 1948. By the third quarter, corporate profits after taxes had reached a record rate of nearly $22 billion a year. Granted that this figure includes nonrecurring "inventory profits" and reflects, in some cases, inadequate depreciation allowances, it is nevertheless an excellent showing. It represents a higher percentage of income originating in corporate business than has been the case in any year since the end of the war—even if all "inventory profits" were subtracted. But although there is often a tendency to do so, today's rate of profit cannot be extended indefinitely into the future and many businessmen doubt that 1948 profits can be maintained, either by reason of increased taxes or diminished business activity. In connection with the latter, it is pointed out that break-even points are high in many industries and cannot stand production or price cut-backs. This may, indeed, be true in some degree, though the extent of the problem is difficult to determine. Yet even this may encourage investment under present circumstances. In order to increase efficiency and cut unit costs, more firms may be induced to invest in new machinery and plant modernization.

This raises another question, one that was prominent throughout 1948. Will there be sufficient capital available to finance large-scale investment in the months to come? Shortages of funds, general credit stringency, have been characteristic of the peaks of former booms and have heralded their collapse. Some observers claim to have had glimpses of this situation in 1948; but at the end of the year it seemed that these must have been fleeting. A record volume of investment had been financed without difficulty, and a capital funds shortage was far from being imminent. Most plant and equipment expenditure is financed out of internal funds—undivided profits, depreciation allowances, and liquid asset holdings. Philadelphia manufacturers expect to finance 90 per cent of their 1949 outlays with their own funds, indicating very little reliance on the market or the banks. Thus current profits are not only an incentive to further investment, but also an important source of funds—a source which seems now, along with others, to be adequate to support substantial plant and equipment expenditures. Government security holdings of corporations are smaller than last year, but they are still quite large. Corporate issues for new capital in eleven months of 1948 were 40 per cent larger than the previous year, and although these included a higher proportion of debt issues than many would like to see, the upward trend in interest rates was too mild to be a very effective deterrent to larger borrowings.

Despite low interest rates, however, many firms are reluctant to borrow, and for them the level of corporate taxation in 1949 is particularly important. Many projects have been delayed pending the Congressional decision on taxes. How large a tax boost would be required to freeze out substantial expenditures is difficult to say, but there is no doubt that corporate taxation at this stage is a powerful instrument of economic policy. It is difficult to tell, too, to what extent an increase in tax rates has been anticipated by certain firms. The possibility should not be ruled out that an increase in taxes which is smaller than expected may actually give rise to new expansion plans.

HOUSING AND OTHER CONSTRUCTION

November 1948 was the sixth consecutive month of the decline in non-farm housing starts. It was the fourth month in which fewer homes were started than in the corresponding period in 1947. Although the 925,000 new non-farm dwelling unit starts in 1948 exceed those of the previous year by about 10 per cent, it appears that the first post-war housing boom has passed its peak. Residential construction contract awards in the fall were close to the level of 1947, but the trend was down. The Departments of Commerce and Labor estimate that despite the probability of a slightly higher average cost of construction during 1949, private housing expenditures will be about 8 per cent below last year.

A slowdown in housing construction will occur not because the backlog of housing needs has been filled nor because materials and labor will not be available, but because the most urgent and the higher-priced demands have been met. Today's buyers, and tomorrow's, will require a lower-priced home than most of those now available. At lower prices, and rentals, the demand for housing will undoubtedly be strong and the apprehension with which many mortgage lenders view the present market may be somewhat diminished. The level of actual housing expenditures during 1949 may well depend on the ability of the construction industry to build a truly low-cost unit.

Legislation which may be passed during 1949 places a big question mark in the housing picture. Last year FHA Title VI, section 608, insurance on large rental projects, was restored and extended until March 31, 1949, and other lending and guarantee provisions were liberalized. The net effect of this legislation is not clear. The *Business Review* for September 1948 pointed out that although some buyers had been forced out of the market, due to their inability to obtain credit on easy terms, mortgage credit outstanding had been steadily increasing. It questioned the proposition that measures which merely stimulated the flow of credit could increase materially the volume of construction. Although materials supply conditions will be easier in 1949, the same question will be pertinent. Legislation which merely eases credit may increase price more than volume.

Direct public housing construction may be authorized during 1949 and, if so, might add to the number of low-cost units being built. Such a program, if undertaken at all, would probably be extremely limited in scope and considerably delayed. Other types of public construction, however—hospitals, schools, highways—will certainly increase greatly. State and local governments, as well as the Federal Government, have postponed many necessary projects which can be put off no longer. For many of these, expenditures have already been authorized and contractors are being sought. The Federal Works Agency estimates that public construction outlays will increase by 25 per cent in 1949, bringing the total to about $5 billion.

Prospective increases and decreases in the various categories of private and public construction expenditures in 1949 point to the possibility of a moderate increase in the total over the past year. This may mean very little change in the physical volume of work accomplished. Construction cost trends, legislation, and the nature and scope of the defense program will be important influences. So will the profit expectations of business. Private "investment construction" is undoubtedly the most uncertain element in the entire situation.

FOREIGN INVESTMENT

Expenditures by foreigners for the products of American business declined in 1948. Net foreign sales by private business dropped to $1.8 billion from nearly $9 billion in 1947. Restricted buying and greater selling by foreign nations were responsible for much of the drop, but in part the decline reflects a shift in the financing of exports—from loans, which show up in "private" economic accounts, to grants which appear as Government expenditures. Any increase in our export surplus—public and private—during 1949, as aid programs hit their full stride, is likely to be slight.

GOVERNMENT SPENDING

The last and, in many ways, the most critical area of expenditure is Government spending. Unfortunately, it is also among the most uncertain. But one thing is fairly sure: spending by states and local governments is likely to continue rising rapidly. This is no small item, running at an annual rate of over $15 billion currently, or two-fifths of all Government purchases of goods and services. Ever since the end of the war these expenditures have been rising at a rapid rate, reflecting increased current expenses such as salaries and wages and large capital outlays for roads, schools, and the like. As noted earlier, there are still many essential needs, accumulated during the war period, for new institutions and improved highways which cannot be postponed. These alone will help to sustain the boom. It is to be hoped that state and local governments will confine themselves to the most urgent expenditures until materials become more readily available and price pressures subside. In the event of a slump, a backlog of public works could be helpful in restoring prosperity. If, however, state and local governments are unable to hold off and, instead, bid competitively for scarce materials, they will further aggravate inflation.

It is also quite certain that Federal Government spending will increase. The real question is, how much? After the war, declining defense expenditures made Government spending a much less important part of the economic picture than it had been for a number of years. But despite efforts to economize, total budget expenditures have been considerably larger than generally expected for a peacetime economy. The truth is that we have not returned to the type of peacetime economy which we used to have. The effects of war are still very much with us. Of total budget expenditures during the first eleven months of 1948, over one-fourth was for national defense, another sixth was for the Veterans Administration, and more than one-tenth was for payment of interest on the national debt. Furthermore, the problem has become more than one of economizing in existing activities, for international developments in early 1948 called for new programs of foreign aid and domestic rearmament which have increased total spending once more. Neither of these is by any means completed, so that a further rise in the rate of spending seems virtually assured for the next few months at least. Beyond that a great deal will depend on national policies which will be subject to change depending on current developments. Continued international tension would help support inflation, tending to counteract any weaknesses which may develop in the private sector of the economy. And even there, declines may be offset by other Government action. An outstanding instance is the support of farm prices, which may require increased Government spending during the coming months.

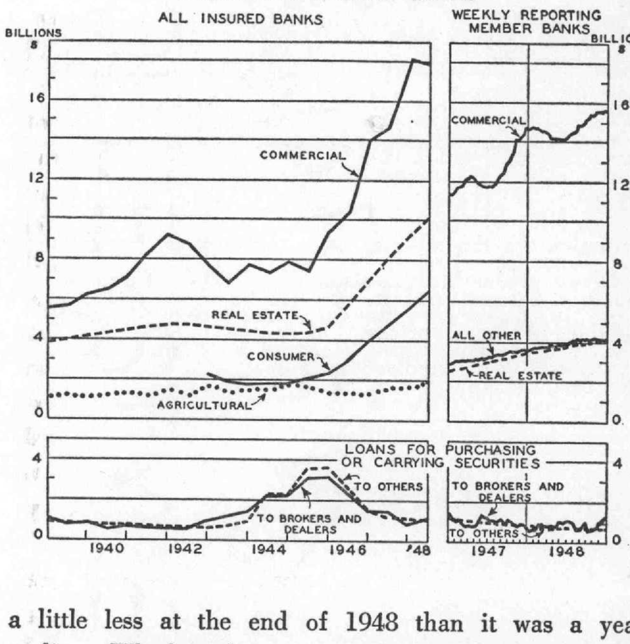
The prospect, then, is that Government spending will be more of an inflationary influence in 1949 than it was in 1948—just how much more it is impossible to say until congressional intentions are made clear.

THE MONEY FOR SPENDING

The several types of expenditures discussed above all involve the use of money. The money supply and the rapidity with which money is passed from hand to hand will have a strong influence on business developments during the new year.

As can be seen in the chart, the total amount of money available for spending by individuals and business was

COMMERCIAL BANK LOANS



a little less at the end of 1948 than it was a year earlier. Whether the money supply continues at this level during 1949 will depend primarily on three important factors: the inflow of gold, the trend of bank lending, and fiscal-monetary policies.

The inflow of gold, which in 1948 added $1½ billion to bank deposits and reserves, has been slowing down and is not likely to be so large in 1949. Similarly, the growth of bank loans has recently become a less important inflationary force. During the first half of 1948, bank lending experienced a definite slow-up, having risen less than three-fourths as much as in the comparable period of 1947. Several explanations were advanced: bankers were exercising more caution, pressure was being applied by the authorities, and some companies were raising funds through issuance of securities rather than bank borrowing. During the third quarter of the year, however, loans rose rapidly again at about the same rate as in 1947. In the last few months of the year the trend defied the usual seasonal pattern and once more indicated a definite slackening in lending activity. In the second half of 1948, loans rose only about half as much as in the same period of 1947. Business loans have increased less. Some prospective home owners have been priced out of the market, many of the more urgent needs for mortgage credit have been met, some banks are approaching their mortgage lending limits, and banks in general have tightened their lending terms. Lending to consumers, particularly for purchases of used cars, experienced a marked slackening after Regulation W was put back into effect in September.

It is too easy to conclude from these trends, however, that lending has ceased to be an inflationary problem. For although activity of banks has slackened, lending by nonbanking institutions has continued at a rapid rate. In order to make many of these loans, insurance companies and other such lenders have sold Government securities. In the absence of other buyers, the Federal Reserve has bought these securities to support their price. These purchases have increased bank deposits directly, and by increasing bank reserves have made possible even further expansion of bank lending.

ACTION TAKEN IN 1948

The problem of maintaining orderly conditions in the Government securities market and at the same time restricting the expansion of the money supply was, in fact, at the core of fiscal-monetary policies during 1948. In the process of supporting the market, the Reserve Banks increased their holdings of Treasury bonds by $8.1 billion, adding to the reserves of member banks. These reserves made possible a much larger expansion of private credit and the money supply. To a considerable degree, therefore, fiscal-monetary policies were concerned with offsetting in one way or another these additions to bank reserves.

The Treasury's cash surplus (the amount by which cash receipts from the public exceeded cash payments to the public) was the strongest anti-inflationary weapon available in 1948. In the first quarter of the year it rose to an unprecedented $6.4 billion. The principal reason for the large surplus was that tax receipts were maintained at an extremely high level by high tax rates and large incomes. But a tax bill, originally estimated to result in a loss of more than $5 billion, was passed in April and made applicable to the entire year. Exemptions were raised, rates were reduced, and other changes were introduced to lighten the tax burden.

The cash surplus was directly anti-inflationary because by draining off funds from individuals it removed money from the spending stream. But the monetary consequences were much more far reaching than that. When the Treasury transferred funds to its accounts in the Federal Reserve Banks it reduced bank reserves. These funds were prevented from returning to the reserves of commercial banks when they were used to retire Government securities held by the Reserve Banks. This policy put continuous pressure on member bank reserves, making it more difficult for banks to expand credit and inducing bankers to be more cautious.

Another step, a continuation of a policy begun in mid-1947, was to raise rates on short-term Government securities. This made short-term Governments more attractive to investors, enabling the Federal Reserve Banks to dispose of some of their large holdings and thus put additional pressure on bank reserves. At the same time, rising rates on short-term Governments spread to commercial paper and other types of private credit which became more expensive and more difficult to obtain.

Largely as a result of the higher rates on short-term Governments, the Federal Reserve was able to dispose in the market of $2.2 billion of these securities during 1948. Holdings of commercial banks and other investors rose correspondingly. Thus, market sales together with cash retirements enabled the Reserve Banks to reduce substantially their holdings of short-terms, exercising a significant dampening effect on bank reserves.

As short-term rates rose, the Reserve Banks increased their discount rates twice during 1948. Although banks were not borrowing much from the Reserve Banks, the discount rate had to be kept in line with other short-term rates to prevent banks from resorting to heavy borrowing. Moreover, a rise in the discount rate had the psychological effect of being another official indication that credit expansion was considered too rapid.

A third step was to raise reserve requirements. During 1948 reserve requirements were raised three times, involving in all approximately $3 billion of reserves. During the first half of the year higher reserve requirements for central reserve city member banks, together with the Treasury surplus and higher short-term rates, put considerable presssure on the reserve positions of member banks—more than offsetting the inflationary effects of an inflow of gold and currency and Federal Reserve purchases of Government bonds.

The prospects for the second half of the year, however, were not so bright. The large Treasury surplus would not be available; reserve requirements were at their legal limits except for two percentage points for central reserve city banks; and as long as the System supported the Government security market it stood ready to buy whatever Governments lenders wished to sell in order to expand private credit. In view of these limitations and the prospect for a renewed expansion of credit, the System asked Congress for additional authority to raise reserve requirements. The Board of Governors was granted temporary authority to raise maximum reserve requirements against demand deposits by as much as four additional percentage points, and against time deposits by one and one-half additional percentage points.

In September the Board took action under this new authority, raising requirements against time deposits the full one and one-half points, and against demand deposits by two points. Reserve requirements were increased by almost $2 billion, or approximately the amount by which total reserves have risen since the new legislation was passed. Thus, while higher reserve requirements and an outflow of currency, together with net sales and retirement of Federal Reserve-held securities were putting pressure on bank reserves, funds were being supplied by gold imports and Federal Reserve purchases of bonds.

ALTERNATIVE ACTIONS FOR 1949

To the extent that the dual policy of the Federal Reserve —a policy of restraining credit expansion and at the same time maintaining orderly conditions in the Government security market—is carried over into 1949, steps similar to those taken in 1948 may be necessary as an offsetting measure.

The Treasury's net cash surplus during the first half of 1949 is likely to be considerably less than in the same period of 1948, but will be higher than originally estimated. In the second half, however, there is likely to be a substantial cash deficit. Precise estimates are impossible, but the general prospect is that a cash surplus cannot be the major anti-inflation weapon that it was in 1948.

In addition to taxes, of course, the Treasury will take in some cash from sales of savings bonds. During 1948, sales exceeded redemptions by $2.2 billion. To a considerable extent this was made possible by special sales of over $1 billion of bonds to financial institutions during the Security Loan Drive, but the level of sales to individuals exceeded redemptions throughout the rest of the year as well. The trend of net sales will depend primarily on the trend of personal incomes which may very well still be upward, but probably not at the rapid rate of the recent past. On the other hand, there have been some indications recently that consumers are saving more of their incomes and spending less—a trend favoring sales of savings bonds. Nevertheless, everything considered, it is likely to prove more difficult to maintain net sales of savings bonds in 1949 than it was in 1948.

During the new year, Treasury policy cannot be used as effectively as it was in 1948 to combat inflationary forces. What other instruments might be available to combat such inflationary pressures as may arise? In the first place, short-term rates could be allowed to increase further. Inasmuch as large-scale cash retirements will be impossible in 1949, any substantial reduction of the Federal Reserve short-term portfolio will have to be through market sales. The next maturing issue is in February; following that there will be marketable securities (besides Treasury bills) maturing every month except May, August, and November. Whether the rates are raised further will depend to a large extent on the business outlook and the need for further pressure on bank reserves. If short-term rates rise, the authorities also have the power to advance the discount rates of the Reserve Banks further. Finally, the Board of Governors still has the power to raise reserve requirements against demand deposits of member banks in central reserve cities by four additional percentage points, and of reserve city and country member banks by two percentage points. Such action would increase requirements by about $2 billion at current deposit levels.

VELOCITY

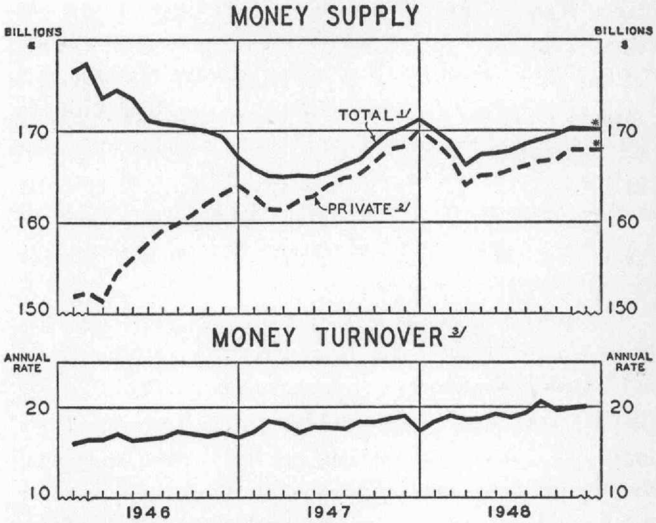
Trends in the money supply itself are not the only things to be considered. The rapidity with which money turns over has been becoming an increasingly important factor. Demand deposits of banks in large cities outside New York turned over, on the average, 19.4 times in the first eleven months of 1948 as against 18.1 times in 1947. The velocity of money is reaching pre-war levels once more after a substantial decline during the war. Its behavior during 1949 will depend to a large extent on the attitudes of business and consumers. If they believe, as has been suggested recently, that prices are due to decline, they are likely to postpone purchases and reduce the turnover rate of money. On the other hand, the public has enjoyed nearly a decade of prosperity; over one-third of the wage earners have never been through a depression; accumulated savings still provide a comfortable backlog. So there are strong reasons why the current uncertainty could be dispelled by a return of boom conditions. In this event velocity is likely to increase further. In either case—whether we have deflation or more inflation—velocity may prove an aggravating factor which can be extremely important.

MONEY, GOODS, AND PRICES

The entire economic picture for 1949 is brought into focus in the relationship between money and goods. Whether we have inflation, deflation, or stable prices during 1949 will depend on the relationship between money and goods. For example, a rise in the volume of money being spent without a corresponding increase in the physical production of goods and services will force prices further upward.

Analysis of the money side of the money-goods equation reveals definite indications of a slackening in some of the forces making for inflation. Yet inflationary influences are still with us. Some types of expenditures are still increasing. And even if, as some believe, increased production of goods and the rise in prices may have balanced the money-goods equation, we should keep in mind the tremendous volume of spending power latent in the public's holdings of liquid assets. A wave of optimism could increase substantially the rapidity with which money is used.

What can be expected in the way of production to meet demands from consumers, business, and Government?



*PRELIMINARY
1/TOTAL DEPOSITS AND CURRENCY OUTSIDE BANKS.
2/EXCLUDING UNITED STATES GOVERNMENT DEPOSITS.
3/TURNOVER OF DEMAND DEPOSITS. SEASONALLY ADJUSTED. OUTSIDE NEW YORK CITY.

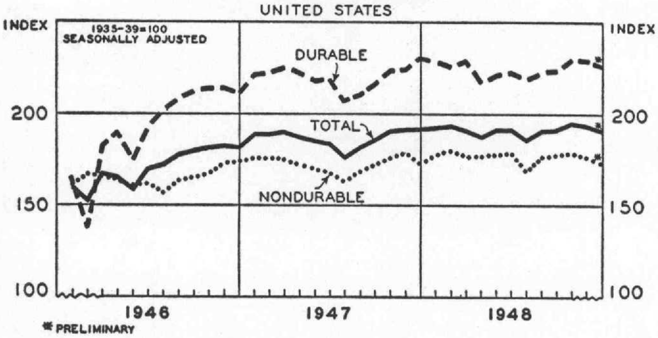
In wartime, or even as late as last year, this was simply a problem of estimating physical capacity. The pressure of demand was so strong in all lines that full utilization of plant and labor force was assured. This is not completely true for 1949. As has been said, most important industries will be required to work at or near peak capacity. But we have already experienced sporadic cutbacks in soft goods lines because of insufficient demand, and there are indications that output of some appliances may be near the saturation point. To an increasing extent, though the problem may not attain major proportions in 1949, the volume of output will depend on the ability and willingness of industry to lower prices. The alternative may be less production.

At about 191 in December 1948—still short of doubling the pre-war rate—the index of industrial production was close to the year-ago level. The average for 1948 was well above 1947, but the rate of output had not shown an appreciable rise for many months. To a minor degree, especially toward the end of the year, this was due to deliberate curtailment in nondurable industries. But for the most part, it was simply a reflection of the fact that existing equipment could not produce any faster. The construction industry and the utilities seem to have made greater gains, but these were minimized by shortages of both materials and labor. Agricultural output was up appreciably. The nation was working, perhaps not as hard as it might, but obviously as hard as it wanted to. Reports of increased efficiency were more numerous. Over a million and a half workers were added to the labor force during 1948, bringing the total to 61.4 million. Less than 2 million were unemployed at the end of the year. Projecting these trends into the future, a reasonable guess might place the maximum possible overall increase in physical output at not over 5 per cent in 1949.

Future price levels cannot be determined with accuracy, but this analysis suggests that *on the average,*

INDUSTRIAL PRODUCTION

UNITED STATES



prices may be expected to move sidewise during 1949, with the possibility of an upturn, especially in the second half of the year—stronger than that of a decline. Recent trends support the "leveling off" idea and indicate that prices are likely to be "soft" in the early months of 1949.

The consumers' price index has declined since September and at the end of the year was only about 3 per cent higher than at the end of 1947. Wholesale prices have declined since August, and in December were actually slightly below the previous year's level.

Not all prices will move with the average. In fact, it is likely that there will be considerable divergence among the various groups of commodities and services. Some lines have already experienced a readjustment and may not decline further. Others, like building materials, which have just passed a peak, may continue downward for some time. Prices of metals and metal products, which rose all during 1948, may continue moderately upward. Farm products showed the greatest decline during 1948. On the average they are still about 9 per cent above parity and they can, and probably will, decline further before the support program stops them.

* * * * *

A "forecast" derived by measuring the flow of money against the flow of goods suggests that economic barometers are leveling off, but that inflationary forces are still decidedly present. Although the possibility of recession exists, the threat of inflation is not over. This does not mean, of course, that either of these unfavorable developments must occur. The forecast points to the wisdom of being prepared for them. Policies designed to combat both must be flexible and actions must be delicate. Certainly it would be unwise to relax on the assumption that stability will be achieved and maintained without effort.

BUSINESS STATISTICS

Production

Philadelphia Federal Reserve District

Indexes: 1923-25 = 100	Adjusted for seasonal variation						Not adjusted		
	Nov. 1948	Oct. 1948	Nov. 1947	Per cent change: Nov. 1948 from Mo. ago	Per cent change: Nov. 1948 from Year ago	Per cent change: 1948 from 11 mos. 1947	Nov. 1948	Oct. 1948	Nov. 1947
INDUSTRIAL PRODUCTION	111p	109	111	+ 2	0	+ 2	113p	114	113r
MANUFACTURING	112p	110	113	+ 2	0	+ 2	115p	116	115
Durable goods	125p	122	121	+ 2	+ 4	+ 4	.....	.....	.....
Consumers' goods	102p	100	102r	+ 2	− 1	+ 2	.....	.....	.....
Metal products	145	141r	141	+ 3	+ 3	+ 2	146	147r	142
Textile products	71p	71	71r	0	0	+ 7	74p	75	74r
Transportation equipment	123p	129	140r	− 5	−12	− 4	118p	123	132r
Food products	125p	122	134	+ 2	− 7	− 3	129p	137	137
Tobacco and products	126	109	113	+15	+11	+ 4	150	134	135
Building materials	55p	51	53r	+ 8	+ 4	+ 7	55p	55	52r
Chemicals and products	178p	169	169r	+ 5	+ 6	+ 7	178p	172	169r
Leather and products	99p	89	102	+10	− 3	+ 1	94p	95	97
Paper and printing	112	115r	120	− 2	− 7	− 2	113	116	121
Individual Lines									
Pig iron	100	101r	107	− 1	− 7	0	101	100r	108
Steel	126	121r	120	+ 4	+ 5	+ 4	121	121r	115
Iron castings	85	91	80	− 6	+ 7	0	87	96	81
Steel castings	107	115	96	− 7	+12	− 2	100	109	89
Electrical apparatus	202	197r	202	+ 3	0	0	215	214r	214
Motor vehicles	25	29r	49r	−12	−49	−34	22	26	43r
Automobile parts and bodies	107	106r	143	+ 1	−25	−14	98	100	132
Locomotives and cars	71	73r	64	− 3	+11	+10	66	69	60
Shipbuilding	.....	.....	.....	− 8	+ 6	+11	.....	.....	.....
Silk and rayon	88	89	87	− 1	+ 2	+ 6	89	90	88
Woolens and worsteds	75p	72	69r	+ 5	+ 9	+11	82p	79	75r
Cotton products	32p	34	39	− 4	−16	−14	34p	35	41
Carpets and rugs	97p	103	92r	− 6	+ 5	+21	108p	114	101r
Hosiery	73	75	72	− 2	+ 2	+13	83	83	82
Underwear	133	111r	148	+20	−10	− 1	134	121r	150
Cement	97p	83	86r	+16	+12	+15	95p	93	84r
Brick	61	60r	60	0	+ 1	+ 1	60	61	60
Lumber and products	28	27r	29	0	− 6	+ 3	28	29	30
Bread and bakery products	.....	.....	.....	− 3	− 2	− 1	111	114	113
Slaughtering, meat packing	104	105	112	− 1	− 8	+ 3	113	110	123
Sugar refining	48	75	156	−36	−69	−17	31	63	102
Canning and preserving	217p	194	217r	+12	0	− 3	237p	259	236r
Cigars	127	110	113	+15	+12	+ 5	153	136	136
Paper and wood pulp	91	88	98	+ 4	− 7	+ 3	91	90	98
Printing and publishing	116	120	125	− 3	− 7	− 3	117	121	126
Shoes	103p	94	111	+10	− 7	+ 1	97p	102	105
Leather, goat and kid	94p	85	92	+11	+ 2	+ 2	91p	88	90r
Explosives	106	113	93r	− 7	+14	+15	106	114	93r
Paints and varnishes	107	106	103	+ 1	+ 3	+ 8	110	113	106
Petroleum products	242p	225	231	+ 8	+ 5	+ 6	242p	227	232
Coke, by-product	197p	181	181	+ 9	+ 9	+ 3	189p	178	174
COAL MINING	74p	76	77	− 3	− 5	− 1	75p	76	78
Anthracite	73	74	75	− 1	− 3	0	73	74	75
Bituminous	80p	90	94	−11	−16	−10	88p	96	104
CRUDE OIL	290	273	282	+ 6	+ 3	0	281	273	274
ELECTRIC POWER—Output	498	490	467	+ 1	+ 7	+ 7	517	505	486
Sales, total	511	507	471	+ 1	+ 8	+10	526	507	485
Sales, to industries	368	382	368	− 4	0	+ 8	376	370	375
BUILDING CONTRACTS									
TOTAL AWARDS†	172	180	132	− 5	+31	+54	187	186	143
Residential†	154	152	109	+ 1	+40	+45	172	175	123
Nonresidential†	168	164	168	+ 2	0	+57	168	158	168
Public works and utilities†	236	263	125	−10	+89	+49	272	277	144

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

Local Business Conditions*

Percentage change—November 1948 from month and year ago	Factory employment		Factory payrolls		Building permits value		Retail sales		Debits	
	Oct. 1948	Nov. 1947	Oct. 1948	Nov. 1947	Oct. 1948	Nov. 1947	Oct. 1948	Nov. 1947	Oct. 1948	Nov. 1947
Allentown	0	− 3	− 2	− 1	− 28	+154	+ 7	+30	+ 8	+30
Altoona	+ 2	+ 2	− 1	+ 5	− 7	+120	+14	− 6	− 2	+16
Harrisburg	0	− 2	− 3	+11	+221	+151	+10	+ 1	− 7	+11
Johnstown	0	− 2	+ 1	+12	+128	+ 72	0	0	− 1	+16
Lancaster	0	+ 5	+ 1	+13	− 95	− 96	+ 9	− 2	−25	− 9
Philadelphia	0	− 2	0	+ 4	− 17	− 44	− 7	0	+ 2	+16
Reading	0	+ 2	+ 3	+14	− 33	− 54	+14	− 1	0	+ 7
Scranton	0	− 1	− 1	+ 6	+236	+246	− 1	− 5	0	+16
Trenton	.....	.....	.....	.....	− 20	+ 8	+ 4	− 3	+20	+15
Wilkes-Barre	0	+ 5	− 3	+11	+ 71	− 53	+ 3	− 2	− 4	+ 1
Williamsport	+ 1	+ 3	0	+10	− 42	+ 20	.....	.....	− 5	+ 5
Wilmington	0	+ 1	− 1	+10	− 64	+ 37	− 9	− 5	− 4	+29
York	− 1	− 5	− 2	+ 3	− 79	− 68	+ 1	− 4	+ 5	+17

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

Production Workers in Pennsylvania Factories

Summary Estimates—November 1948

	Employment	Weekly Payrolls	Weekly Man-Hours Worked
All manufacturing	1,106,700	$58,960,000	43,864,000
Durable goods industries	630,500	37,247,000	25,408,000
Nondurable goods industries	476,200	21,713,000	18,456,000

Changes in Major Industry Groups

Indexes (1939 average = 100)	Employment			Payrolls		
	Nov. 1948 Index	Per cent change from Oct. 1948	Per cent change from Nov. 1947	Nov. 1948 Index	Per cent change from Oct. 1948	Per cent change from Nov 1947
All manufacturing	129	0	− 1	306	−1	+ 7
Durable goods industries	156	0	0	354	−1	+ 8
Nondurable goods industries	105	−1	− 3	249	0	+ 5
Food	131	0	− 2	264	0	+ 5
Tobacco	105	+2	0	244	+4	+ 4
Textiles	84	0	− 2	224	+1	+ 7
Apparel	90	−2	− 6	225	0	− 3
Lumber	92	−2	− 3	206	−5	+ 1
Furniture and lumber prods.	97	0	− 5	239	+1	+ 1
Paper	121	0	− 1	279	+2	+ 8
Printing and publishing	134	−2	− 5	280	−2	+ 2
Chemicals	125	0	+ 3	267	−3	+11
Petroleum and coal prods.	157	+1	+ 6	329	+2	+21
Rubber	137	−3	−15	279	−2	− 8
Leather	86	−2	−12	186	−1	− 9
Stone, clay and glass	137	0	+ 1	309	−2	+10
Iron and steel	141	0	+ 1	327	0	+13
Nonferrous metals	141	+1	− 7	312	−3	+ 2
Machinery (excl. electrical)	207	−1	− 1	457	−2	+ 5
Electrical machinery	236	+1	+ 1	519	−1	+ 7
Transportation equip. (excl. auto)	246	+3	+15	478	−3	+19
Automobiles and equipment	127	−6	−30	270	−6	−30
Other manufacturing	139	0	+ 2	287	+7	+ 7

Average Earnings and Working Time

November 1948 Per cent change from year ago	Weekly Earnings		Hourly Earnings		Weekly Hours	
	Average	Ch'ge	Average	Ch'ge	Average	Ch'ge
All manufacturing	$53.28	+ 8	$1.344	+10	39.6	− 1
Durable goods indus.	59.07	+ 9	1.466	+ 9	40.3	0
Nondurable goods industries	45.60	+ 8	1.176	+10	38.8	− 2
Food	44.80	+ 7	1.106	+ 8	40.5	− 1
Tobacco	30.53	+ 4	.769	+ 3	39.7	+ 1
Textiles	47.49	+ 9	1.209	+11	39.3	− 2
Apparel	35.30	+ 3	.971	+ 9	36.4	− 5
Lumber	41.67	+ 4	1.062	+ 8	39.3	− 3
Furniture and lumber products	45.65	+ 7	1.061	+ 8	43.0	− 1
Paper	49.97	+ 8	1.140	+10	43.8	− 2
Printing & publishing	58.89	+ 8	1.580	+11	37.3	− 2
Chemicals	50.79	+ 8	1.281	+10	39.7	− 2
Petroleum and coal products	63.69	+14	1.618	+14	39.4	+ 1
Rubber	50.49	+ 8	1.459	+11	34.6	− 3
Leather	37.19	+ 4	1.041	+ 8	35.7	− 4
Stone, clay and glass	51.51	+ 9	1.271	+ 8	40.5	0
Iron and steel	62.32	+11	1.539	+ 9	40.5	+ 2
Nonferrous metals	57.62	+10	1.440	+11	40.0	0
Machinery (excl. elec.)	56.05	+ 6	1.387	+ 8	40.4	− 1
Electrical machinery	61.42	+ 5	1.530	+ 7	40.1	− 1
Transportation equip. (excl. auto)	59.25	+ 3	1.583	+ 9	37.4	− 5
Automobiles & equip.	58.31	+ 1	1.470	+ 8	39.7	− 6
Other manufacturing	43.16	+ 5	1.150	+ 8	37.5	− 2

Distribution and Prices

Wholesale trade Unadjusted for seasonal variation	Per cent change: Nov. 1948 from Month ago	Nov. 1948 from Year ago	1948 from 11 mos. 1947
Sales			
Total of all lines	0	+ 2	+ 3
Dry goods	− 5	−12	− 7
Electrical supplies	+15	+33	+ 7
Groceries	− 3	+ 1	+ 4
Hardware	+14	− 7	− 2
Jewelry	+20	+ 7	+ 9
Paper	−20	− 5	+ 1
Inventories			
Total of all lines	− 1	+12	.....
Dry goods	− 8	+17	.....
Electrical supplies	+13	+ 4	.....
Groceries	+ 7	+ 4	.....
Hardware	+ 1	+19	.....
Jewelry	− 9	+10	.....
Paper	− 4	+24	.....

Source: U. S. Department of Commerce.

Prices	Nov. 1948	Per cent change from Month ago	Year ago	Aug. 1939
Basic commodities (Aug. 1939 = 100)	307	0	−13	+207
Wholesale (1926 = 100)	164	− 1	+ 3	+119
Farm	181	− 1	− 4	+196
Food	174	− 2	− 2	+159
Other	153	0	+ 8	+ 91
Living costs (1935-1939 = 100)				
United States	172	− 1	+ 4	+ 75
Philadelphia	172	− 1	+ 5	+ 75
Food	202	− 3	+ 2	+117
Clothing	196	0	+ 5	+ 98
Rent	120	......	+ 3	+ 17
Fuels	143	0	+ 9	+ 48
Housefurnishings	203	− 1	+ 7	+102
Other	152	0	+ 8	+ 51

Source: U. S. Bureau of Labor Statistics.

Indexes: 1935-1939 = 100	Adjusted for seasonal variation: Nov. 1948	Oct. 1948	Nov. 1947	Per cent change: Nov. 1948 from Month ago	Nov. 1948 from Year ago	1948 from 11 mos. 1947	Not adjusted: Nov. 1948	Oct. 1948	Nov. 1947
RETAIL TRADE									
Sales									
Department stores—District	269	307	281r	−12	− 4	+ 9	356	322	370
Philadelphia	246	267	255	− 8	− 3	+ 7	335	296	347
Women's apparel —District	258	277	282	− 7	− 9	+ 3	294	307	322
Philadelphia	261	268	289	− 3	−10	+ 3	303	308	336
Furniture	....	....	....	+ 3*	−10*	......	....	....	....
Inventories									
Department stores—District	264p	251	239r	+ 5	+11	......	290p	287	263r
Philadelphia	235	220	225	+ 7	+ 5	......	259	253	247
Women's apparel —District	232	224	225	+ 4	+ 3	......	267	262	259
Philadelphia	253	248	251	+ 2	+ 1	......	291	290	289
Furniture	....	....	....	+ 1*	+ 5*	......	....	....	....
FREIGHT CAR LOADINGS									
Total	133	132	145	0	− 8	− 5	134	143	146
Merchandise and miscellaneous	121	124	133	− 2	− 9	− 6	125	132	137
Merchandise—l.c.l.	73	75	88	− 3	−17	−16	75	80	90
Coal	127	136	150	− 6	−15	− 6	138	149	162
Ore	221	176	184	+25	+20	+ 4	221	254	184
Coke	181	172	184	+ 6	− 1	+ 2	203	196	206
Forest products	74	75	100	− 1	−26	−11	71	88	96
Grain and products	139	160	121	−13	+14	− 9	157	160	137
Livestock	70	65	92	+ 7	−24	−23	80	76	105
MISCELLANEOUS									
Life insurance sales	195	189	231r	+ 3	−16	− 1	209	191	250
Business liquidations									
Number	....	....	....	0*	+14*	+37*	36	36	31
Amount of liabilities	....	....	....	−77*	−62*	+15*	40	172	104
Check payments	239	261	235r	− 8	+ 2	+13	253	250	249

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

BANKING STATISTICS

Reporting member banks (Millions $)	Dec. 29, 1948	Changes in— Five weeks	One year
Assets			
Commercial loans	538	+ 3	+ 24
Loans to brokers, etc.	18	+ 1	− 7
Other loans to carry secur.	10	......	− 7
Loans on real estate	91	......	+ 13
Loans to banks	12	+ 7	+ 11
Other loans	277	+ 2	+ 45
Total gross	946	+13	+ 79
Total net	938	+12	+ 74
Government securities	1313	−60	−135
Other securities	273	......	+ 3
Total investments	1586	−60	−132
Total loans & investments	2524	−48	− 58
Reserve with F. R. Bank	570	+15	+ 60
Cash in vault	50	+ 5	+ 9
Balances with other banks	105	+ 5	− 17
Other assets—net	49	− 2	− 6
Liabilities			
Demand deposits, adjusted	2111	+ 6	− 25
Time deposits	438	−10	+ 39
U. S. Government deposits	63	−15	+ 25
Interbank deposits	350	+12	− 57
Borrowings	4	−18	+ 4
Other liabilities	28	+ 2	− 1
Capital account	304	− 2	+ 3

MEMBER BANK RESERVES AND RELATED FACTORS

Third Federal Reserve District (Millions of dollars)	Changes in weeks ended— Dec. 1	Dec. 8	Dec. 15	Dec. 22	Dec. 29	Changes in five weeks
Sources of funds:						
Reserve Bank credit extended in district	− 8	− 9	+40	− 1	−31	− 9
Commercial transfers (chiefly interdistrict)	+30	+36	+10	+24	+46	+146
Treasury operations	−28	−26	−12	−20	−28	−114
Total	− 6	+ 1	+38	+ 3	−13	+ 23
Uses of funds:						
Currency demand	+ 2	+ 9	....	+15	−20	+ 6
Member bank reserve deposits	− 8	− 8	+38	−15	+10	+ 17
"Other deposits" at Reserve Bank	....	....	....	+ 3	− 3	....
Other Federal Reserve accounts	....	....	....	....	....	....
Total	− 6	+ 1	+38	+ 3	−13	+ 23

Federal Reserve Bank of Phila. (Dollar figures in millions)	Dec. 29, 1948	Changes in— Five weeks	One year
Discounts and advances	$ 18.9	$−18.4	$+ 8.4
Industrial loans	.8	− .2	− .5
U. S. securities	1667.6	+25.2	+ 97.9
Total	$1687.3	$+ 6.6	$+105.8
Federal Reserve notes	$1672.3	$+10.9	$− 18.1
Member bank deposits	963.5	+16.8	+ 81.6
U. S. general account	98.8	−40.2	+ 43.6
Foreign deposits	45.2	+ 8.7	+ 15.9
Other deposits	2.2	− .5	....
Gold certificate reserves	1089.6	−17.3	+ 22.1
Reserve ratio	39.2%	−.5%	− .9%

Member bank reserves (Daily averages; dollar figures in millions)	Held	Required	Excess	Ratio of excess to required
Phila. banks				
1947: Dec. 1-15	$428	$424	$ 4	1%
1948: Nov. 1-15	455	450	5	1
Nov. 16-30	457	450	7	1
Dec. 1-15	452	446	6	1
Country banks				
1947: Dec. 1-15	$392	$351	$41	12%
1948: Nov. 1-15	491	443	48	11
Nov. 16-30	484	442	42	9
Dec. 1-15	481	439	42	9