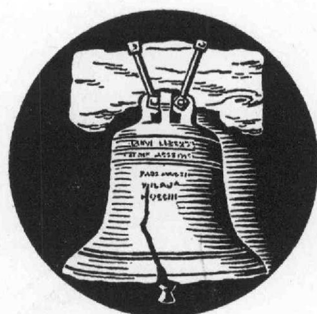
JULY 1949

THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



THE BUSINESS SITUATION: A MID-YEAR VIEW.

In the last six to eight months
virtually every business barometer
has receded from its post-war peak.
The most descriptive term for this process
is "adjustment."
Some war and post-war distortions
are being ironed out. For the most part,
recent declines have been orderly,
and banking has taken the changes in stride.
Unemployment, a serious problem
in some communities, has been growing.
Still, 60 million people are at work,
and thus far, crisis is not imminent.
Monetary and fiscal policies
are being adapted to the new situation.
Moreover, institutional changes
in our economy tend to minimize
the danger of another 1929.
Yet corrections are still necessary,
and are often painful.
We must be on guard
lest they become cumulative
and proceed too far.

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THE BUSINESS SITUATION: A MID-YEAR VIEW

The business atmosphere is a little clearer today than it was in the second half of 1948. The view may not be so pretty as some would like but, at least, the fog has lifted somewhat. In the last six to eight months, virtually every business barometer has receded from its post-war peak. Fortunately, the readjustments which have occurred have been orderly and, for the most part, salutary. They have affected both the production of goods—supply—and the volume of money and its use—demand. Basic elements of strength in the business outlook and certain institutional changes in our economy seem to preclude at this time the type of cumulative decline which has characterized previous depressions.

WHAT DOES ADJUSTMENT MEAN?

Many terms have been used to describe the changing business situation, ranging from "disinflation" to "recession" and "depression." But probably the most popular and descriptive are "adjustment" and "correction." We would have a much better understanding of what is going on in our economic world if we knew just what is being "corrected" and how the "adjustment" is taking place.

There is an inclination to assume that the adjustment is mainly in magnitudes. "What goes up must come down," or "you can't expect a boom to last indefinitely" are comments most frequently heard. But one of the main reasons prosperity never has lasted indefinitely is because various *parts* of the economic machine fail to function satisfactorily with the others. If the output and efficiency of the machine decline, it is because of maladjustment among the parts. The correction, in other words, is a problem not primarily of magnitudes but of relationships.

The war and post-war period created, broadly speaking, two main types of distortions which needed to be corrected: (1) distortions in the over-all relationship between money, goods and prices; and (2) distortions *within* demand, supply, and prices. Because of the way the war was financed and, later, because of private borrowing from commercial banks, the volume of money held by individuals and business is over two and a half times as great as that at the end of 1939. The physical volume of production, on the other hand, is less than double what it was before the war. This, in greatly over-simplified terms, was a basic distortion which needed correction.

Left alone, our economy has its own way of correcting maladjustments such as these, but sometimes such readjustments can be extremely painful. We have been trying for years to learn both how to prevent economic distortions from becoming serious and how to help correct them once we discover them. Our price system is most important as an adjusting mechanism. The price inflation which we experienced after the war was a sign that the economy was ironing out the distortion between goods and money by marking up the value rather than increasing the physical supply of goods. Unfortunately, however, this "automatic" adjustment often produces other distortions which make new corrections necessary. We are experiencing some of them now.

In addition to maladjustments between money and goods, there have been distortions of the second variety —those *within* demand, supply, and prices. During the war, people were unable to make many customary purchases of consumers' goods, particularly durables. So they spent more heavily for nondurables and saved what they could not spend. Similarly, businesses were prevented from making many ordinary expenditures on plant and equipment and they, too, saved. After the war, businesses spent heavily for capital goods, expanding their capacity. Individuals exercised long-deferred demands for automobiles, radios, and other durables. Because such goods provide services over a period of years, purchases are made only occasionally. It would be hardly likely, therefore, that such heavy investment expenditures and purchases of consumers' durables would continue at the same rate. A return to a more "normal" pattern of expenditures between durable and nondurable goods is to be expected. Likewise, in production similar adjustments have been taking place and more are to be expected. Nondurables, which were so active during the war and afterwards, made their adjustments fairly

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early. Adjustment in some durables is already taking place. During the war and in the post-war inflation, some prices, wages, and incomes rose more rapidly than others. Some of those most "out of line" have tended to come back more nearly to their former position.

All this does not mean that there has ever been a really normal relationship among the various economic factors. Something is always out of kilter and adjustments are constantly being made. Many corrections are beneficial, but often painful. The danger which we must guard against is that they may become cumulative and proceed too far or give rise to new distortions which require further correction.

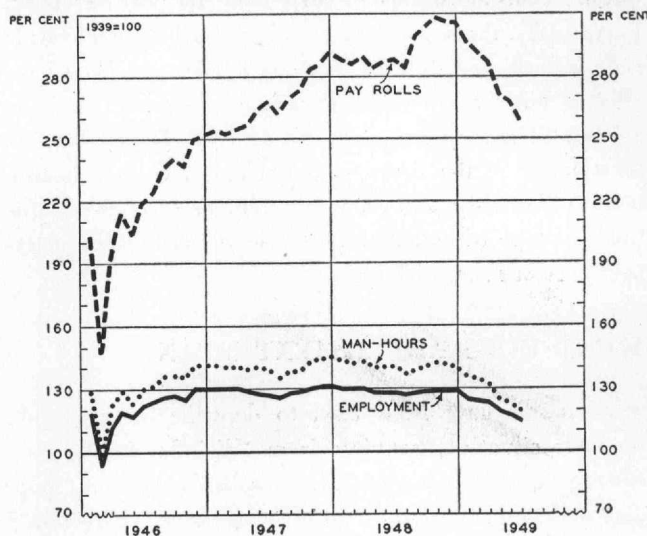
PRODUCTION RECEDES

The post-war peak of business activity was reached in the fall of 1948. In October and November of last year the Federal Reserve index of industrial production reached a peak of 195. Mineral and durable manufactures output hit a high point at about the same time, while nondurables production, though still at a very high level, was slightly below its spring 1948 record. In October, taking seasonal factors into account, a record of 46 million workers were employed in nonagricultural establishments and, on the average, factory employees worked about 40 hours a week. Construction activity had just passed its seasonal peak, far above that of the first two post-war years. The number of new housing starts was declining, but employment in the construction industry was at its post-war peak. Unemployment throughout the nation was close to the post-war low—under 2 million. An increase of over a million in the civilian labor force had been absorbed without difficulty during the preceding twelve months.

In the manufacturing industries, new orders appear to have begun a slow decline at the beginning of 1948, especially in the durable goods industries. This movement was accelerated after October and continued at a rapid rate into the first quarter of 1949. Manufacturers' sales went down when new orders began to fall sharply, and output dropped off shortly thereafter.

The Federal Reserve index of manufacturing production fell 11 per cent from October to May. The cut in production was accomplished, to some extent, by reducing the hours of work—by spreading the work—and to some extent by layoffs. The Pennsylvania situation, illustrated in the chart, is typical. Average weekly hours have been reduced gradually from 40 at the end of 1948 to 38.3 in May, thus reducing man-hours worked at a faster rate than employment. Therefore, although hourly wage rates have not changed materially, there has been a decline in average weekly wages as well as in total pay rolls. The weekly pay check in Pennsylvania factories is close to $51 now, compared with $53 at the October peak.

FACTORY EMPLOYMENT, PAY ROLLS AND MAN-HOURS IN PENNSYLVANIA



The description of broad trends should not obscure the differences from one industry to another. For some, like steel and cement, the downturn came not in December but in the second quarter of 1949. Many nondurable goods lines began their decline in the spring of 1948 or earlier, and might or might not have had a spurt prior to the fall slump. In a few industries, possibly shoes, transportation equipment, and some major appliances, it is possible that a long decline has been arrested. Newsprint consumption and food products output have as yet shown little effect of the general downward trend. Despite all the differences among industries, however, it is now clear that a peak in total manufacturing activity was reached in the fall and that the first half of 1949 witnessed a steady decline.

Minerals output has also declined during the last six months. Coal mining "holidays" in March brought first-quarter production down sharply, but coal was piling up at the mines and a substantial production cut-back probably would have occurred in any event.

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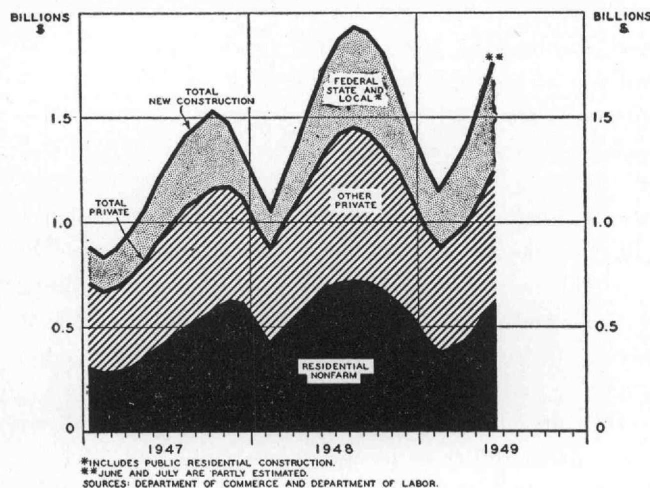
Crude petroleum output was reduced 12 per cent between the end of 1948 and April 1949. Metals mining has fluctuated widely during the past year. In 1949 it has moved counter to the prevailing trend and actually reached a new peak in April. A high rate of steel and nonferrous metals output in the early part of the year made this possible, but falling steel output and lower prices for other metals may have reversed the trend by now. In any case, the importance of fuels greatly overshadows that of the metal mining industries.

NEW CONSTRUCTION IN THE UNITED STATES



The real-estate market has shown some weakness in the first half of the year, and private construction activity has been below that of 1948. A huge increase in public construction—about 37 per cent more than the first half of last year—has offset the decline in private construction, so that builders and contractors have nearly the same amount of work this year as last. But despite what appears to be a better-than-seasonal upturn in May and June, private residential, industrial and commercial building—the fields most sensitive to business developments—are lagging somewhat. Institutional and public utility construction gains have not been enough to offset the declines in those fields.

THE SPECTRE OF UNEMPLOYMENT

The decline in production in itself is not nearly so important in the minds of the general public as its consequence—unemployment. More dramatic than any of the economists' charts and tables is the number of people without jobs.

In June the Bureau of the Census estimated that about 3.8 million people seeking employment did not have jobs. Nearly 2.5 million who wanted steady work were in part-time jobs or on a curtailed work-week. A year before, the jobless numbered 2.1 million, and in the fall of 1948 less than 2 million had been unemployed—just about the bare "frictional" minimum necessitated by moving from job to job, pre-job training, and other unavoidable factors· In a little more than six months, unemployment had doubled. The bulk of the increase came among workers in the manufacturing industries where technological efficiency, as well as declining demand, gave rise to lay-offs. Government, both Federal and local, increased the number of workers on its pay roll to a total of nearly 6 million.

These changes could be interpreted as the beginning of a correction of unbalanced output in the post-war period. "Catching up" in the manufacturing industries is nearing completion. The famine of goods caused by the war is over. Less efficient workers and machinery can be dispensed with. The service industries and agriculture, relatively under-manned during and after the war, are now getting the help they need.

It is not surprising, and perhaps it is actually a good sign, that the recent increase in unemployment has caused a degree of concern which, in some quarters, verges on alarm. Some unofficial estimates place the total number of jobless far above the Government figure, and some observers anticipate sharp increases in the near future. Without attempting to minimize the seriousness of growing unemployment, it would be well to put the current total—as estimated by the Bureau of the Census—in proper perspective.

Granted that there is a margin of error in the Government estimates, growing out of the sampling technique used, it is nevertheless apparent that eight months after the peak of post-war business activity, unemployment has not yet reached what was regarded as the "danger point" in many previous discussions. June was the first month in which the total of all employed persons dipped significantly below that of the previous year. Until June, the 1.7 million increase in the number of jobless over the previous year was just about matched by a similar increase in the civilian labor force. Employment rose in June, for the most part on farms but also in Government and service lines. It did not rise sufficiently, however, to absorb the influx of new workers, many of them temporary, into the labor market, and it did not rise enough to equal the 1948 total. Still,

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60 million people are at work and although this figure must be modified by the increase in part-time jobs, and although certain communities have been exceptionally hard hit, the general situation *thus far* does not approach a crisis.

MONETARY ADJUSTMENT

On the money, or demand, side of the economy, adjustments include a decrease in loans, strength instead of weakness in the Government bond market, a change in the Treasury's budget position, and a shift in monetary-fiscal policy.

Bank Loans and Investments. For three post-war years, the primary factor increasing the money supply was the expansion of lending activity by commercial banks. This slowed down noticeably toward the end of 1948 and has ceased altogether in 1949. Total loans of all commercial banks declined about $1.5 billion in the first six months of this year, practically all of the decline being accounted for by commercial, industrial, and agricultural loans. Working capital needs have been reduced by declining prices, hand-to-mouth buying, and reduced inventories. Business concerns needing less working capital have been paying off old loans faster than they have been getting new ones. Longer-term capital requirements are probably less because of the slight decrease in capital expenditures and the tendency toward financing a larger proportion of capital outlays from internal sources, particularly depreciation reserves, and from new security issues.

Mortgage loans of banks are still increasing, but at a slower rate. Declining real-estate activity, high prices, and an unwillingness of lenders to make certain types of mortgage loans have combined to hold down the volume of lending generally. Moreover, banks are now making a declining proportion of the new mortgage loans. Similarly, while their volume of consumer loans is still rising, it is increasing less rapidly than a year ago and constitutes a declining proportion of total consumer credit outstanding.

The decrease in the demand for loans, together with lower reserve requirements, on the other hand, have resulted in a strong demand for Governments. Total Government security holdings of weekly reporting banks in leading cities rose $1.2 billion in the first half of the year, reflecting increases of $1.5 billion in bonds and $600 million in certificates, and a decrease of $900 million in Treasury notes. Moreover, holdings of securities other than United States Government increased $400 million. The rise in investments just about offset the decrease in loans, with the result that total earning assets remained about the same.

Fiscal and Monetary Policies. Actions by the fiscal and monetary authorities affecting the money supply have shifted from a program of restraint toward one of ease. The cash operations of the Treasury were mildly deflationary but considerably less so than during the same period last year. The net cash surplus for the first six months of 1949 was less than $1 billion, as compared to $7.6 billion for the same period last year. Cash receipts were substantially less—$22 billion as compared to $25 billion—and expenditures rose from $17.6 billion to $21 billion. Expenditures are rising principally as a result of higher military outlays and foreign aid. On the other hand, revenues are below last year largely because of the reduction in taxes and may be expected to decline further, reflecting the recent decreases in personal incomes. The inevitable result of a continuation of the trend of declining revenues and increasing expenditures is a Treasury deficit, which will be an expansionary rather than a deflationary force.

The anti-inflation policy of raising rates on short-term Government securities to encourage banks and other investors to buy and to enable the Reserve Banks to sell these securities ceased last fall. Since the Treasury's announcement in mid-November, the coupon rate on new issues of certificates of indebtedness has been maintained at 1¼ per cent. The yield on Treasury bills remained around 1.15 per cent between November and June, but during July declined to .99 per cent.

There has been a decided shift in the open market operations of the Federal Reserve System. The Federal Reserve has been selling Government bonds ever since last November. The bond holdings of the Reserve Banks have declined from $11 billion at the end of December to $7.8 billion at the end of June—a drop of $3.2 billion. Bills, certificates, and notes were off $600 million, resulting in a total decrease of $3.8 billion in the System's Government portfolio. In a period of readjustment the sale of bonds tends to reduce bank reserves and the money supply, and thus reflects exactly the same dilemma, except in reverse, which the System faced in trying to check inflation while supporting the prices of Government bonds. Bond prices have been rising because banks and others are turning to Government securities as other outlets for their funds

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shrink. The System has been selling bonds in order to keep bond prices from rising excessively, and in doing so has tended to reduce the volume of bank reserves and the money supply.

The Federal Open Market Committee observed recently, however, that "under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased." It announced, accordingly, that "with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture" it would be the policy of the Committee to direct the purchases and sales of Government securities by the Federal Reserve Banks "with primary regard to the general business and credit situation." However, the policy of maintaining "orderly conditions in the Government security market and the confidence of investors in Government bonds will be continued."

Just as the Board of Governors raised reserve requirements during inflation to restrain bank lending and to immobilize reserve funds created by supporting the Government security market, it has lowered them to promote more ready availability of credit and to offset the deflationary effects of selling bonds. Early in May, requirements on time deposits were lowered from 7½ to 7 per cent for all member banks. Requirements on demand deposits were reduced from 26 to 24 per cent for member banks in central reserve cities, 22 to 21 per cent for member banks in reserve cities, and 16 to 15 per cent for country member banks. On June 30, the temporary authority to raise reserve requirements granted last year expired and the requirements against demand deposits were automatically reduced to 20 per cent for member banks in reserve cities and 14 per cent for country member banks, and from 7 to 6 per cent against time deposits for all member banks. Requirements against demand deposits for central reserve city members continue at 24 per cent.

Another move in recognition of changing conditions in consumer markets was the easing of requirements for down payments and contract maturities for consumer instalment credit. In early March, minimum down payments on all regulated articles except automobiles were lowered from 20 to 15 per cent, and in late April to 10 per cent. Maximum contract maturities on all articles were lengthened from 15 to 21 months and then to 24 months. Regulation of consumer credit was terminated June 30, the temporary authority granted the Board last year having expired on that date. In the other field of the System's selective control—stock market credit—margin requirements at the end of March were reduced from 75 to 50 per cent.

Money Supply and Velocity. The net result of financial developments was less money available for spending. In the first six months of this year, deposits and currency privately held declined about $3 billion. The main reasons were the Treasury surplus in the first quarter and the decline in bank loans. Most of the decline took place in demand deposits, although the public's holdings of currency declined slowly also. Time deposits were still rising gradually.

The fact that the demand for goods depends on how rapidly money is used as well as the total money supply is often forgotten. A $1 bill used ten times does the work of a $10 bill used once. During the post-war inflation, one of the contributing factors—and potentially one of the most dangerous—was the rising velocity at which money was circulated. Between 1945 and 1948 the average turnover of demand deposits (in reporting banks outside New York City) rose from sixteen times a year to nineteen. Since 1948 it has leveled off, reflecting changing habits of business and consumers in spending and saving.

TO SPEND OR NOT TO SPEND

It is no surprise to find that the recent declines in employment, production, and income have taken the edge off consumer spending. People just are not spending with quite the same gusto as formerly. However, the figures on the ledgers of the retailers show much smaller declines than the impression created by words in the press. True, total dollar sales of all retailers throughout the country were slightly smaller for the first five months of this year than for the corresponding period of last year, but the difference was slight. That is the over-all view. If we examine different parts, we see different things. For example, dollar sales of nondurables during the first five months of this year were almost $1 billion less than during the comparable period of last year, but that was matched by an increase of almost like amount in sales of durables.

Department store people have somewhat greater cause for complaint than retailers generally. In the fall of 1948 their dollar sales occasionally went above three times the pre-war level. By the spring of this year their sales had receded to points as low as 2¾ times that level—a trend

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they naturally dislike and are trying to reverse. By midsummer, some improvement had been made.

In this district, department store sales for the first half of this year likewise receded to a low point as of last March and subsequently recovered rather substantially. For the entire six months of 1949, dollar volume of department store sales in the Third District was 3 per cent below the first half of 1948. The latest reports from our department stores show continued weakness in the sale of housefurnishings and especially major household appliances, as items in which people still seem to be surfeited. Sales of women's and misses' ready-to-wear apparel, always the "bread and butter" of department store trade, have been holding up to last year's record—no better, no worse. The fact that sales in the main stores are running farther behind expectations than sales in economy basements seems to indicate that people either must buy or prefer to buy more carefully than heretofore. The low ratio of goods-on-shelf plus goods-on-order to sales shows that merchants are continuing to operate very cautiously.

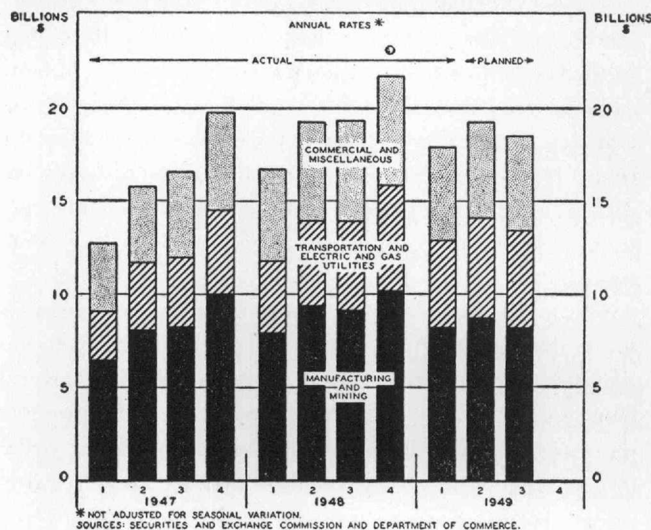
Saving is More than just Not Spending. The rate of personal saving rose rather sharply last year, but the process was not exactly what it may seem at first glance. Most of us think of saving as the accumulation of liquid assets, such as currency and bank deposits. In that sense the public as a whole, on balance, did much less saving last year than in 1947—$1.4 billion against $5 billion. The increase in total savings took the form of purchases of homes by individuals and the acquisition of plant and equipment by unincorporated business enterprises.

Insofar as we can tell, people's savings habits of last year are continuing into 1949, at least they have during the first three months for which we have rather positive evidence. Again it was not by a process of storing up currency and bank deposits, but rather by the purchase of homes and business equipment over and above the increase in mortgage and other indebtedness. During the first quarter, people were saving at the rather phenomenal rate of $21 billion a year—slightly better than 10 per cent of the disposable personal income.

Plant and Equipment Wear Out. Business expenditures for new plant and equipment have that "over the hump" appearance, as shown in the accompanying chart. Last year's expenditures were almost four times the 1939 outlay. Spending at this rate may not go on forever, but the really surprising thing is how well it holds up.

In the first half of this year, businessmen spent 3 per cent more than in the first six months of last year for new plant and equipment, according to preliminary estimates. The stratification in the chart plainly shows that the manufacturing and mining concerns were the biggest spenders for expansion and modernization during the earlier postwar years, and that they are now either getting finished or getting cautious. The utility people are not all of the same mind. Railroad and other transportation concerns seem to have passed the peak of their renovation and improvement programs but not the utilities—gas and electric. They are still stepping up their expenditures. Many concerns in the commercial and miscellaneous category seem to be approaching completion of their programs.

PLANT AND EQUIPMENT EXPENDITURES



Less Spending for Inventory. Business inventories are not behaving like last year's. In 1948, businessmen were forever warning and worrying each other about rising inventories. But not until the end of March, 1949, did total business inventory values show a sizable decline. Actually, manufacturers' inventories began to decline a month earlier, but that was eclipsed very largely by continued inventory accumulation at retail establishments. With minor exceptions here and there, inventories are not thought to be out of line with sales and it is almost universally agreed that the inventory situation is not as vulnerable as it was in 1920-1921. Certainly the downward readjustment which now seems to be in progress is taking place in a quite orderly fashion. In contrast with wholesalers and retailers, it seems to be the manufacturers, generally, who are facing and are undergoing the greatest readjustment.

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Government Spending Increases. Cash payments made to the public by the Federal Government during the first six months of 1949 are estimated at $21 billion, or 20 per cent above the same period in 1948. The largest increases were purchases on account of defense, international affairs, and finance and construction programs of resource conservation and development, highways, and similar purposes. Expenditures on farm price support programs also ran larger than expected because of continued weakness in prices of agricultural products. Expenditures by state and local governments are also estimated to be running higher than last year. Outlays during the first half of this year are about 10 per cent above the same period last year.

Business on Foreign Account. From about mid-1948 to about mid-1949 our surplus of exports over imports has been increasing. The rising surplus is accounted for by expanding exports of goods rather than services, and declining imports. Much of the increase in merchandise exports has gone to Asia and western Europe. While the surplus of exports over imports has served to buoy the sagging domestic business structure, practically all of the surplus was financed by ERP or other Government aid. In recent months, Government-financed aid almost equalled the export surplus.

PRICES IN SLOW RETREAT

August 1948 was the apparent post-war peak in prices. At that time, wholesale prices were about 120 per cent above the 1939 level, and consumers' prices were about 70 per cent above. Since that time, prices have been in general retreat, but with very few exceptions it has been an obstinate retreat. In June of this year, wholesale prices were 9 per cent below the peak—5 per cent below the New Year's level. Consumers' prices in May were a mere 3 per cent below the peak, and only a hair's breadth below that of the turn of the year.

In January, prices of agricultural products stumbled badly as they did also a year before. But, again, they recovered their equilibrium fairly well. Metal prices and particularly scrap metals also took a sharp slide early this year and showed no signs of stiffening until mid-year. At that time, scrap steel was selling at less than half the price prevailing last Christmas. Price increases announced by some producers in July indicated an apparent change in the market for nonferrous metals that had been anemic for six months. Prices of manufactured products, generally, declined less than prices of raw materials, which is the customary relationship. However, among manufactured products, price changes differed considerably. Some of the largest declines occurred in foods, chemicals, and hides and leather. Sharp differences were noticeable in price changes of fabricated metal products; for example, automobile prices declined very little, but prices of some appliances were reduced substantially. Consumers enjoyed declining prices for food and apparel during the first half of 1949, but their good fortune was spoiled in part by rising rents.

The price of labor, one of the least quoted but one of the most important of prices, has changed very little during the first half of 1949. In June, average hourly earnings of factory workers in Pennsylvania were $1.33—only a few cents lower than last January. Wages paid in other lines of business such as mining, public utilities, and retail establishments are also near or above rates prevailing at the beginning of the year.

WILL HISTORY REPEAT?

By now the dangers of analysis by historical analogy are well known. Business activity of the last three years has not followed the "post-war pattern," insofar as such a pattern could have been derived directly from the records. There have been many similarities, to be sure, but to lean too heavily on these is misleading. As the National Bureau of Economic Research pointed out over a decade ago in connection with business upturns . . . "One of the clearest teachings of experience is that every business cycle has features that are peculiar to it. Accordingly, no one who knows the past expects that what happened during any earlier business revival will repeat itself exactly during the next revival." The same applies to business slumps.

But while it is recognized today that the severity of the 1920-21 recession, say, need not be repeated merely because of certain superficial similarities, there is some tendency, just as futile, to take uncritical and comfortable refuge in the many differences between current business events and those of the past. Some of the differences which exist are significant; but merely pointing them out does not tell whether their consequences will be good or bad.

The Serial Readjustment. One important idea that has gained popularity is that the current readjustment is "serial" in nature—that the "buyers' market," so-called, has not come in all lines simultaneously but has gradually taken hold in one industry after another. Total production has not fallen abruptly because some goods re-

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mained scarce long after other types piled up on dealers' shelves. The implication of the "serial readjustment" idea is that some industries will turn upward before others get very low and that a recession will be cushioned at all times. The record of production shows that a few soft goods industries hit their post-war peaks as far back as 1946. In 1947, stone, clay, and glass products, nonferrous metals, machinery, and furniture turned downward. Most of the production peaks came in 1948—the nondurables at the beginning of the year, the durables later. Iron and steel output did not turn downward until the second quarter of 1949, and the automobile industry and the construction industry are still going strong at mid-year. Price adjustments began at the end of 1947 and continued throughout 1948, the process becoming more rapid in the fall. The prices of metals, rayon and nylons, woolens, and coal did not start down until early this year. In a few lines, prices have not receded at all.

Thus the impression that we have been going through a piecemeal readjustment is quite correct. The degree to which this process differs from that of previous recessions, however, is not quite clear. It does appear that production cutbacks have been spread over an exceptionally long period this time, though they have never come simultaneously. In the case of the 1929 downturn, for instance, the construction industry and related lines turned downward long before the "crash." As far as prices are concerned, even in the sharp drop of 1920-1921 a little over half the price peaks, roughly speaking, were spread over a period of eight months. Many were outside this period, of course, and only a quarter of them fell within the two months during which the peak of business activity in general might be said to have occurred.

Granting that 1949's decline has been gradual and orderly, however, it is still not certain whether the nature of the readjustment is "serial"—in the sense that those lines which were first to go down will be first to recover—or "snowballing"—in the sense that the recession is gathering momentum. Recently there have been signs of increased activity or, at least, of leveling off in some of the slower industrial lines. Transportation equipment (excepting automobiles), shoe manufacture, some apparel and textile lines, and even certain types of machinery have given evidence of increased activity. Residential construction has made a good showing in the last two months. Nonferrous metals prices have firmed after a long, sharp decline . . . prices of copper and lead, frequently regarded as business bellwethers, advanced in July. But, encouraging as these signs are, they are not yet sufficiently pronounced nor of long enough duration to be conclusive. The statistics alone are not a justification for complacence. The "serial readjustment" remains, for the time being, no more than a reasonable hypothesis.

Institutional Changes. There are, however, differences between the present situation and previous turning points which while they may appear to yield less tangible results to the analyst than the juxtaposition of statistical series, are nevertheless very important and, for the most part, favorable. The absence of excessive speculation during the boom is a factor making for easier readjustment. Market shake-downs need not be so severe and confidence in a new price level may be obtained more quickly. In part, the comparative lack of speculation arose out of persistent, and incorrect fears of imminent recession during virtually the entire post-war period, which recalled the slump of 1921-1922. In part, it was due to the availability of better business information which seems, in general, to promote cautious attitudes rather than extremes of optimism and pessimism. Insofar as the latter factor is responsible, more stable markets might be a result of a significant change in economic institutions—better economic research facilities and more reliance on them.

Other institutional differences embrace the many ties between Government and the economy which have grown within the last fifteen years. Unemployment compensation and other social security payments are cushioning the current decline in income. The farm price support program helps maintain rural purchasing power. The general responsibility of the Government for the maintenance of high-level employment, as stated in the Employment Act of 1946, makes possible Government action of many kinds designed to combat recession. Irrespective of the merits or deficiencies of any particular program, and despite the irksomeness of what many may feel is unwarranted "red tape" or "interference," the feeling is prevalent that somehow the Government will not permit unemployment to reach serious proportions. Government "undermining of business confidence" is more often discussed but is possibly offset in some degree by confidence *in* Government on the part of the general public, including many businessmen.

The labor unions of 1949 will be influential in shaping future events. Wholesale wage-cutting, such as was practiced in the early 'twenties and 'thirties, appears to be a thing of the past. The impact of this change on the business situation is debatable. Maintenance of existing wage rates

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tends to maintain the incomes of those who are employed. Failure to make required adjustments, however, could lead to lower employment and lower total income. An analogous problem, though not a new one, is presented in the field of business price policy. To the extent that prices can be "administered" by large firms, price stability may be fostered; but price stability should not be sought at the expense of production and employment. Big business and big labor are not in themselves forces making for either stability or depression. Each has an obligation to use its power wisely in order to minimize business fluctuations.

Changes in Banking and Finance. Some of the most important fundamental differences between the present situation and apparently comparable periods in the past lie in the field of banking and finance. On the whole, these differences will help to minimize any decline in business activity, or at least will prevent a decline from being aggravated by monetary factors to the extent that was true in the past.

Three things have been basic to most of our modern business recessions: (1) a sharp drop in the money supply; (2) a liquidity panic; and (3) a decline in money velocity. From mid-1929 to mid-1933 the money supply fell by one-fourth. There are good reasons for expecting no such decline in the event of another business recession. Before the great expansion of the public debt during World War II, commercial bank assets consisted largely of loans. And as banks made loans they created new deposits, expanding the money supply. As they contracted their loan volume, they reduced the money supply. Traditionally, the unique function of commercial banks was to make short-term, self-liquidating, commercial loans. When economic activity increased and business needed more working capital, the banks met this need. When activity declined, bank loans were liquidated. For example, total commercial bank loans rose from $25 billion in 1922 to $36 billion in 1929 and then dropped to $15 billion in 1934.

The difficulty with this arrangement was that bank lending had a cumulative and aggravating effect on the business cycle. On the upswing, bank lending increased the money supply, augmented demand, and, as soon as productive factors became fully employed, tended to raise prices rather than foster more production; higher prices meant larger loans to carry on the same volume of business—and so on in an inflationary spiral. On the downswing, a contraction of loans forced liquidation, contracted the money supply, and thus reduced demand at a time when demand needed bolstering.

Today only 36 per cent of commercial bank earning assets consists of loans as compared with 72 per cent in 1929 and 78 per cent in 1920. And a smaller proportion is of the short-term self-liquidating variety, a larger share consisting of term loans and mortgages, many of the latter being guaranteed by the Government. Today most of the remaining 64 per cent of earning assets consists of Government securities. Banks create deposits and expand the money supply when they acquire Government securities, just as they do when they make loans, and the money supply is reduced when bank holdings decline. But there is little likelihood that bank holdings will be reduced substantially, and this adds an important element of stability to the money supply. Moreover, we have learned much in recent years about managing the public debt in a manner such as to counteract rather than aggravate swings in business activity. It is likely that in the event of a serious recession the fiscal and monetary authorities would take more vigorous steps to increase the money supply and stimulate demand.

Closely related to the declines in the money supply were the liquidity panics which were apt to occur in past recessions. Fearing the future, businesses and individuals tried to convert non-liquid assets into cash. But there was not enough cash available for everyone, so there ensued a scramble for liquidity. The tradition of self-liquidating commercial loans was an integral part of the picture. As loans were called there was often much selling at a loss and bankruptcy. Bank runs, high interest rates, and rationing of funds were typical.

A repetition of such a liquidity panic is unlikely for a number of reasons. The Federal Reserve System, the ultimate provider of liquidity, is much more able to meet such a situation than it was in the past. It is no longer narrowly restricted in what assets are eligible for security on loans to banks. It is committed to maintaining orderly conditions in the Government security markets; thus banks and others can sell Governments for cash at prices which do not fluctuate widely. It has ample room to expand bank reserves on the basis of its present 25 per cent gold certificate reserve requirements. There are other Government organizations, such as the Federal Deposit Insurance Corporation, which also will minimize banking difficulties such as we had in the past. Moreover, banks are stronger than ever and are more able and willing to help their borrowers out of difficulty. To the extent they are unable or unwilling, the Government is likely to step in with guarantees or some other device to forestall disastrous losses and cumu-

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lative failures. It may well be that the really serious and long range problem is not the possibility of a liquidity panic, but rather an *excess* of liquidity.

The third factor—a decline in money velocity—is also closely related to the first two. As the supply of money declines and as people desire cash instead of non-liquid assets, they hoard. This diminishes the rate at which money circulates and reduces demand. From 1920 to 1921 the turnover of deposits in all commercial banks declined by one-eighth. From 1929 to 1932 it dropped one-half. There are a number of factors governing the public's desire for cash, but the most important is what the people think of business prospects. It is fortunate, for example, that during the past several years many have constantly feared a depression. Otherwise, spending would have been much greater, speculation would have become common instead of exceptional, and the velocity of money would have risen substantially rather than moderately. On the other hand, it is significant that over one-third of the wage earners have never been through a depression. And incomes and liquid assets are much more widely distributed than ever before. It is to be hoped that the public has learned much from the past, and will avoid the excesses of spending and hoarding that have been so disastrous.

Strengths and Weaknesses. One of the most disturbing elements in the business scene is the prospect of readjustment in the steel and automobile industries. In the former, the process, complicated by strikes or threats of strikes, appears to be under way. The latter has not yet begun to feel the results of "catching up." It is not possible to say how extensive these readjustments will be. The stock of over-age automobiles and other durable equipment is large. But large-scale cut-backs in automobiles and steel, even though they might be temporary, could add seriously to the unemployment lists, which might then lead to a cumulative deepening of recession. This danger is real and it will persist for some time, yet it is substantially mitigated by the other points of strength.

On the financial side, there are good reasons for believing that the money supply will not decline much further, if at all, this year. Current trends point in the direction of a Treasury deficit rather than a surplus. The decline in bank loans thus far this year has been concentrated in the larger banks. Furthermore, the business loans of weekly reporting banks, while still declining, have shown tendencies recently of slowing down in rate of decline. The demand for loans will be determined largely by the course of business. If business activity and prices should continue to decline, the financial requirements of business, and perhaps the demand for credit, would be reduced. This would tend to be counteracted, however, by the seasonal upturn in loans which is typical of the second half of the year. Moreover, a contraction in loans, if it should occur, is likely to be offset largely by an increase in investments as in the first half of the year. Under such conditions, Federal Reserve policy would probably be directed toward keeping the banks supplied with ample reserves, and any reserve funds freed by a decrease in loans are likely to be employed in investments. Thus, total earning assets and the total volume of deposits are likely to show little change.

The velocity at which the money supply circulates will depend mostly on how individuals and businesses view the future. If consumers continue to expect lower prices, they are likely to hold back on spending, and velocity will be held down. It is possible, on the other hand, that really substantial price cuts could stimulate spending considerably and increase velocity.

Recognition of the dependence of velocity on spending psychology is behind the often-heard admonition that we may "talk ourselves into a depression." Pessimism in 1947 and 1948 failed to produce a slump in those years, and it is doubtful that mere talk can overcome strong upward pressures at any time. But it is undoubtedly true that business expectations and consumer attitudes may be a strong contributory factor in the determination of business trends, and may seriously aggravate either an inflationary boom or a recession. It is significant, therefore, that the 1949 Survey of Consumer Finance, conducted by the Board of Governors, revealed a strong financial position on the part of consumers generally, and a willingness to buy homes and durable goods in large quantity despite their expectation of a mild price decline. Rising unemployment may have changed some minds in the weeks that have gone by since the survey, but the underlying situation probably has not changed greatly. The good response to recent price cuts supports the contention of the Board that "the present situation would appear to highlight the need for more aggressive merchandising programs on the part of many manufacturers, distributors, and retailers to tap latent consumer demand."

How low must prices fall before consumers will buy more eagerly? At the moment this is a moot question. The issue will be decided by the consumers themselves in the market places. Suffice it to say that they will not be fooled by "token" price cuts.

Can business reduce prices far enough, fast enough?

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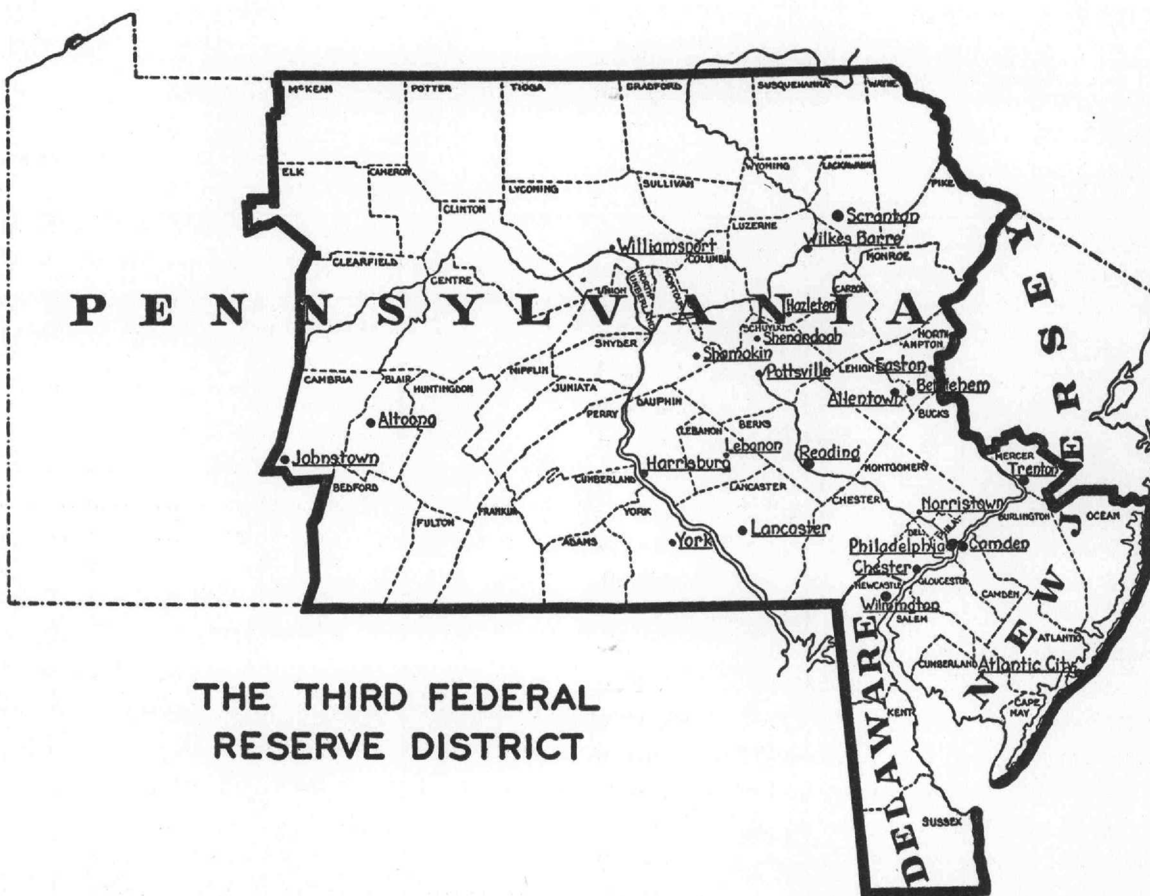
Another moot question, but one for which the early evidence indicates the possibility of an affirmative, if hesitant, answer. Some prices have already tumbled. Profits have been reduced, but are still far from the vanishing point. Despite relatively inflexible wage costs, the bogy of the advancing "break-even point" is apparently less formidable than it appeared when all costs were rising. Although the present picture is spottier than that of a year ago—more firms are in difficulty—the financial position of business in general is good. The combined current ratio of business corporations at the end of 1948 was the same as a year earlier, and the interest burden was only one-third that of the pre-war period. Some deterioration of unusual post-war liquidity has occurred, but few firms are feeling the pinch of inadequate working capital.

Recent reduction of inventories is both a strength and a weakness depending on one's view as to the nearness of completion of the process. The reduction of business spending involved in inventory liquidation contributes to a slower production pace, but the orderly reduction of stocks that has already taken place also means that a resumption of replacement buying is not far off. The National Association of Purchasing Agents reported in June that more than two-thirds of its members were buying on a less-than-thirty-day basis. The use of raw cotton has fallen to depression levels. Outstanding orders of Third District department stores in May were at the lowest level since 1941. The level of production cannot long remain below current consumption rates under present conditions.



THE THIRD FEDERAL RESERVE DISTRICT

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THE MONTH'S STATISTICS

Summary figures for May business activity in this area failed to show improvement over the preceding month, with few exceptions. Both physical output and employment declined further, and department store trade showed little change.

While there is little evidence to suppose that the adjustment period has run its course, detailed scrutiny of the month's statistics reveals signs of better business in some areas. In contrast with the preceding month, May production of nondurable goods generally increased. In fact, nine major industrial lines showed improvement in May compared with only two in April. Preliminary reports for June point toward increasing stability in the nondurable goods industries.

In the field of building and construction, public works and utilities are the tower of strength. In most other lines, contract awards are substantially below a year ago. Residential construction, however, is showing improvement both locally and nationally. Country-wide, new housing starts have been rising and by June had reached last year's level. Increased activity in residential construction is observable in this area as elsewhere.

In view of lagging business activity in numerous lines, consumer spending at department stores is holding up well. Dollar volume of sales for the first five months of this year was only 3 per cent below that of the corresponding period last year. The evidence shows that department store managers are "holding the line" on inventories. The May stock-sales ratio was the lowest since 1941. This apparently means that department stores have let their inventories run down about as low as is consistent with efficient operation.

SUMMARY	Third Federal Reserve District — Per cent change — May 1949 from mo. ago	Third Federal Reserve District — May 1949 from year ago	Third Federal Reserve District — 5 mos. 1949 from year ago	United States — Per cent change — May 1949 from mo. ago	United States — May 1949 from year ago	United States — 5 mos. 1949 from year ago
OUTPUT						
Manufacturing production	− 2*	−12*	− 7*	− 3	−10	− 4
Construction contracts	+ 7	−26	− 8	+ 4	− 7	− 6
Coal mining	+17	−11	−24	+ 2	−15	− 7
EMPLOYMENT AND INCOME						
Factory employment	− 2*	− 9*	− 6*	− 3	− 7	− 5
Factory wage income	− 2*	− 7*	− 1*	....	....	....
TRADE**						
Department store sales	− 1	− 5	− 3	+ 1	− 3	− 4
Department store stocks	− 2	− 6	....	− 2	− 6	....
BANKING (All member banks)						
Deposits	− 1	− 1	....	....	− 1	....
Loans	− 1	+ 4	+ 8	− 1	+ 3	+ 7
Investments	+ 1	− 3	− 4	+ 2	− 3	− 6
U. S. Govt. Securities	+ 1	− 4	− 5	+ 2	− 4	− 7
Other	+ 1	+ 4	+ 3	+ 1	+ 3	+ 1
PRICES						
Wholesale	....	....	....	− 1	− 5	− 3
Consumers	+ 1†	0†	+ 1†	0	− 1	+ 1
OTHER						
Check payments	− 2	0	− 2	0	+ 2	0
Output of electricity	− 5	− 6	− 2	....	....	....

* Pennsylvania ** Adjusted for seasonal variation. † Philadelphia.

LOCAL CONDITIONS	Factory* Employment — Per cent change May 1949 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change May 1949 from mo ago	Factory* Payrolls — year ago	Department Store Sales — Per cent change May 1949 from mo. ago	Department Store Sales — year ago	Department Store Stocks — Per cent change May 1949 from mo. ago	Department Store Stocks — year ago	Check Payments — Per cent change May 1949 from mo. ago	Check Payments — year ago
Allentown	− 2	− 9	− 1	− 5	....	....	....	....	− 1	−12
Altoona	− 1	− 8	− 5	− 5	....	....	....	....	+ 4	+ 5
Harrisburg	− 1	− 5	0	− 1	....	....	....	....	− 4	+ 2
Johnstown	+ 2	− 2	− 1	+ 5	....	....	....	....	− 4	+ 1
Lancaster	− 1	− 6	+ 2	− 6	− 8	− 8	− 2	− 5	+ 6	+ 1
Philadelphia	− 3	− 9	− 2	− 7	0	− 2	− 3	− 4	− 2	− 1
Reading	− 2	− 6	0	− 7	− 6	−10	− 8	− 5	−17	− 1
Scranton	+ 4	−10	+ 8	−12	....	....	....	....	+ 6	+ 4
Trenton	....	....	....	....	− 6	+ 1	− 6	− 8	+ 2	+ 6
Wilkes-Barre	− 1	− 6	+ 5	−10	− 3	− 4	− 3	−14	−10	− 6
Williamsport	− 3	−13	− 2	−12	....	....	....	....	− 4	− 3
Wilmington	− 3	− 2	− 2	0	....	....	....	....	− 5	− 1
York	− 7	−19	− 7	−24	−13	− 9	− 4	− 9	− 2	− 1

* Not restricted to corporate limits of cities but covers areas of one or more counties.

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MEASURES OF OUTPUT

	Per cent change		
	May 1949 from		5 mos. 1949 from year ago
	month ago	year ago	
MANUFACTURING (Pa.)*	− 2	−12	− 7
Durable goods industries	− 4	−13	− 7
Nondurable goods industries	+ 1	− 9	− 8
Foods	+ 2	− 6	− 5
Tobacco	+ 6	−13	−13
Textiles	+ 1	−23	−18
Apparel	+ 4	− 5	− 9
Lumber	− 6	−11	− 6
Furniture and lumber products	0	−21	−20
Paper	− 1	−14	−11
Printing and publishing	+ 1	0	− 2
Chemicals	− 2	− 5	− 1
Petroleum and coal products	+ 4	− 1	0
Rubber	− 6	−18	−20
Leather	+ 4	− 5	−11
Stone, clay and glass	+ 2	−14	− 9
Iron and steel	− 4	−11	− 3
Nonferrous metals	− 3	−17	−12
Machinery (excl. electrical)	− 7	−19	−11
Electrical machinery	− 5	−13	− 8
Transportation equipment (excl. auto)	+ 1	+ 5	+ 6
Automobiles and equipment	− 1	−27	−33
Other manufacturing	− 4	−22	−13
COAL MINING (3rd F. R. Dist.)†	+17	−11	−24
Anthracite	+19	− 9	−27
Bituminous	+ 3	−19	− 4
CRUDE OIL (3rd F. R. Dist.)††	0	−10	−10
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)**	+ 7	−26	− 8
Residential	+40	−25	−11
Nonresidential	+ 3	−50	−24
Public works and utilities	−10	+40	+21

* Temporary series—not comparable with former production indexes.
** Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.
† U. S. Bureau of Mines. ††American Petroleum Inst. Bradford field.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. =100)	Employment			Payrolls			Average Weekly Earnings		Average Hourly Earnings	
	May 1949 (Index)	Per cent change from		May 1949 (Index)	Per cent change from		May 1949	% chg. from year ago	May 1949	% chg. from year ago
		mo. ago	year ago		mo. ago	year ago				
All manufacturing	116	− 2	− 9	267	− 2	− 7	$51.34	+ 2	$1.340	+ 6
Durable goods industries	140	− 3	− 9	303	− 3	− 7	56.24	+ 2	1.461	+ 7
Nondurable goods industries	95	− 1	− 8	222	+ 1	− 7	44.91	+ 2	1.179	+ 5
Foods	116	0	− 4	240	+ 1	0	46.19	+ 4	1.140	+ 8
Tobacco	87	− 2	− 8	183	+ 5	−12	27.60	− 5	.766	+ 1
Textiles	71	− 2	−17	176	+ 1	−19	44.03	− 2	1.203	+ 5
Apparel	88	− 2	− 6	221	+ 4	− 8	35.63	− 2	.914	− 4
Lumber	88	− 2	− 6	197	− 2	− 4	41.67	+ 2	1.086	+ 8
Furniture and Lumber products	76	− 4	−20	176	− 1	−19	42.38	+ 2	1.008	+ 2
Paper	114	− 1	− 4	246	0	− 7	46.55	− 3	1.176	+ 8
Printing and publishing	137	+ 1	0	293	+ 1	+ 9	60.59	+ 8	1.616	+10
Chemicals	114	− 4	− 3	241	− 3	− 2	50.46	+ 2	1.289	+ 7
Petroleum and coal products	151	+ 1	− 1	328	+ 4	+ 7	65.94	+ 8	1.646	+ 8
Rubber	116	− 9	−19	228	− 8	−16	48.85	+ 4	1.360	+ 5
Leather	85	+ 1	− 2	177	+ 4	+ 4	35.73	+ 6	1.044	+ 8
Stone, clay and glass	120	+ 1	−11	266	+ 1	− 9	50.78	+ 3	1.267	+ 6
Iron and steel	130	− 4	− 7	280	− 5	− 5	58.13	+ 2	1.520	+ 7
Nonferrous metals	117	− 5	−18	259	− 3	−10	57.53	+ 9	1.437	+ 8
Machinery (excl. electrical)	184	− 5	−12	385	− 6	−12	53.02	− 1	1.407	+ 7
Electrical machinery	202	− 4	− 9	415	− 5	− 8	57.36	+ 1	1.531	+ 6
Transportation equipment (excl. auto)	249	0	+ 8	501	+ 1	+13	61.28	+ 4	1.588	+ 7
Automobiles and equipment	111	− 4	−26	239	− 2	−22	59.47	+ 5	1.469	+ 7
Other manufacturing	108	− 2	−19	214	− 5	−19	41.41	0	1.152	+ 5

* Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	May 1949 (Index)	Per cent change		
		May 1949 from		5 mos. 1949 from year ago
		month ago	year ago	
SALES				
Department stores	271	− 1	− 5	− 3
Women's apparel stores	244	− 6	− 2	− 1
Furniture stores	......	+ 6*	− 7*	− 5*
STOCKS				
Department stores	240p	− 2	− 6	......
Women's apparel stores	201	− 5	− 7	......
Furniture stores	......	− 5*	−10*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended June 4	− 3
Week ended June 11	+ 1
Week ended June 18	− 8
Week ended June 25	− 1
Week ended July 2	−12

* Not adjusted for seasonal variation. p—preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales		Stocks (end of month)		
	% chg. May 1949 from year ago	% chg. 5 mos. 1949 from year ago	% chg. May 1949 from year ago	Ratio to sales (month's supply) May	
				1949	1948
Total — All departments	− 3	− 4	− 5	2.7	2.8
Main store total	− 4	− 5	− 5	3.0	3.0
Piece goods and household textiles	− 1	− 3	− 8	3.1	3.3
Small wares	− 4	− 2	− 2	3.5	3.4
Women's and misses' accessories	− 5	− 4	− 1	2.7	2.6
Women's and misses' apparel	0	0	+ 6	1.8	1.7
Men's and boys' wear	0	− 4	− 5	3.8	4.0
Housefurnishings	− 8	−12	− 8	3.5	3.5
Other main store	− 4	− 9	− 8	3.0	3.2
Basement store total	+ 1	− 1	− 5	1.7	1.8
Small wares	−12	0	+ 3	2.2	1.9
Women's and misses' wear	0	+ 2	+ 3	1.2	1.2
Men's and boys' wear	+ 4	− 3	−12	2.0	2.4
Housefurnishings	+ 3	− 3	−13	2.1	2.5
Nonmerchandise total	− 2	− 1	......	......	......

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CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receivables (end of month)
	% chg. May 1949 from year ago	% chg. 5 mos. 1949 from year ago	% chg. May 1949 from year ago
Department stores			
Cash	−5	−4	....
Charge account	+1	0	+7
Instalment account	−2	−6	+9
Furniture stores			
Cash	+1	+2	....
Charge account	−14	−11	....
Instalment account	−12	−14	....

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. May 1949 from year ago	% chg. 5 mos. 1949 from year ago	% chg. May 1949 from year ago
Consumer instalment loans			
Commercial banks	+11	−1	+20
Industrial banks and loan companies	+6	−7	+3
Small loan companies	+23	+11	+8
Credit unions	+22	+13	+25

PRICES

Index: 1935-39 average = 100	May 1949 (Index)	Percent change from	
		month ago	year ago
Wholesale prices — United States	193	−1	−5
Farm products	225	+1	−9
Foods	207	+1	−8
Other	181	−1	−2
Consumer prices			
United States	170	0	−1
Philadelphia	170	+1	0
Food	198	0	−3
Clothing	188	0	−3
Rent	120	....	+2
Fuel	142	−1	+5
Housefurnishings	193	−1	−2
Other	157	+3	+6

Source: U. S. Bureau of Labor Statistics.

Weekly Wholesale Prices—U. S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended June 7	193	227	211	180
Week ended June 14	192	223	207	179
Week ended June 21	190	218	202	179
Week ended June 28	190	216	204	179
Week ended July 5	189	218	204	178

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	May 25, 1949	Changes in—	
		4 weeks	year
Money supply, privately owned	165.7	+.2	+.6
Demand deposits, adjusted	82.6	+.2	−.2
Time deposits	58.2	+.1	+1.3
Currency outside banks	25.0	+.1	−.4
Turnover of demand deposits	18.5*	−.5*	−1.1*
Commercial bank earning assets	113.4	+.9	−1.1
Loans	40.9	−.4	+1.4
U. S. Government securities	63.2	+1.3	−2.7
Other securities	9.3	+.1	+.2
Member bank reserves held	18.0	−1.0	+1.1
Required reserves (estimated)	17.2	−1.3	+1.1
Excess reserves (estimated)	.8	+.3	....

Changes in reserves during four weeks ended May 25 reflected the following:

	Effect on reserves
Decline in Reserve Bank holdings of Governments	−1.5
Net payments by Treasury	+.5
Other transactions	.....
Change in reserves	−1.0

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	June 29, 1949	Changes in—	
		4 weeks	year
Weekly reporting banks — leading cities			
United States (*billions* $):			
Loans —			
Commercial, industrial and agricultural	13.2	−.3	−1.1
Security	2.6	+.3	+.7
Real estate	4.1	....	+.3
To banks	.3	....	+.1
All other	4.0	+.1	+.3
Total loans—gross	24.2	+.1	+.3
Investments	38.7	+.2	−.2
Deposits	72.3	+.2	−.6
Third Federal Reserve District (*millions* $):			
Loans—			
Commercial, industrial and agricultural	460	−19	−37
Security	40	+8	+7
Real estate	93	+2	+9
To banks	19	+6	+17
All other	278	+3	+23
Total loans—gross	890	....	+19
Investments	1,665	+45	−10
Deposits	2,898	+54	−12
Member bank reserves and related items			
United States (*billions* $):			
Member bank reserves held	18.0	−.1	+.6
Reserve Bank holdings of Governments	19.5	−.2	−1.9
Gold stock	24.5	+.1	+1.0
Money in circulation	27.4	−.1	−.5
Treasury deposits at Reserve Banks	.5	−.1	−1.4
Federal Reserve Bank of Phila. (*millions* $):			
Loans and securities	1,335	−26	−213
Federal Reserve notes	1,615	....	−16
Member bank reserve deposits	863	+16	+32
Gold certificate reserves	1,247	+47	+167
Reserve ratio (%)	48.6%	+1.3%	+7.5%

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