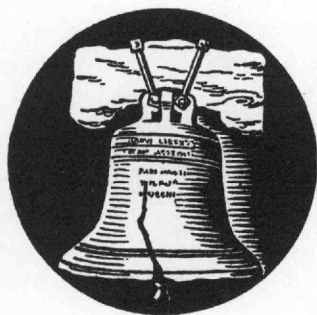


THE

# BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



## 1950: YEAR OF TROUBLED PROSPERITY

*Nineteen-fifty abounded with prosperity but it was a year of troubled prosperity. With the outbreak of war in Korea moderate expansion in the economy became a sharp scare-born boom. Increasing production and employment were accompanied by rising consumer spending and greater outlays by business for inventories and new equipment. Greater borrowing fed the spending stream to add to inflationary pressures that broke out in an upsurge of prices. A huge defense program superimposed on an economy operating near top capacity calls for controls and higher taxes we may not like but cannot avoid.*

## THE MONTH'S STATISTICS

*November output and employment attained higher levels followed by a record Christmas season and increased business loans in December.*



## 1950: YEAR OF TROUBLED PROSPERITY

Nineteen-fifty was a bountiful year. It was full of accomplishments, proud performances, and brand-new business records. We built more homes, made more automobiles, installed more television sets, produced more steel, wrote more mortgages, made more profits, and earned higher wages than ever before. It was a year full of building and investing, lending and spending, borrowing and buying. It was a year of prosperity, but a troubled prosperity.

Surveyors of the business scene, at the outset of the year, doubted whether the prevailing prosperity could long endure. Good sailing for at most six months was predicted, but anytime thereafter slackening sails and slackening speed might be expected. For almost six months we progressed with moderate acceleration. Then, instead of running into the doldrums, we picked up a strong Korean breeze. Fighting had broken out on the 38th parallel.

Sensitive commodities and sensitive consumers were quick to react. A small United Nations force was losing ground. Reinforcements changed the outlook. Lost ramparts were regained and the Communists were in retreat. Scare buying came to an end and normal buying was resumed. But business faced heavier demands, orders kept coming in, prices rose, and so did employment, wages, loans, inventories, and costs.

Congress imposed restraints on construction, and re-imposed restraints on instalment buying. Then came materials shortages and still higher prices, restrictions on civilian use of strategic materials, a million Chinese Communists, military reverses for the United Nations, bigger defense appropriations, higher taxes, higher prices, a National Production Authority, price controls, rollbacks, the declaration of a national emergency, more inflation, still more appropriations; and so the year came to an end with business girding itself, as best it could, to serve two masters—civilian and military. The outbreak of hostilities at mid-year galvanized business from a state of mild expansion in the first half to vigorous activity in the second half of the year.

### PRE-KOREAN BUSINESS MILDLY EXPANSIONARY

Business during the first half of 1950 was characterized by rising activity. Employment, production, and income

had already made substantial recovery from the mild recession of 1949 and continued to make moderate advances during the first six months of 1950. Disbursement of approximately \$2.9 billion of national service life dividends to veterans in the early months of the year gave a fillip to consumer spending, but there were some fears that business activity might taper off as soon as the veterans had spent most of these funds. Business spending for plant expansion and renovation had apparently passed its peak, business inventories seemed adequate for prevailing sales volume, and prices displayed no unusual strength. Furthermore, while unemployment was not serious, there was some question at the outset whether new entrants into the labor force could be readily absorbed.

### Construction

The housing boom was the most powerful force in the overall business situation during the first half of the year. The boom which began in mid-1949 had already established a record of over a million new residential starts for that year, and for precisely that reason it was doubted whether it could continue much longer. However, the demand for housing continued unrestrained. It was nurtured by favorable terms of Government home mortgage insurance and guarantees, and building activity was favored by a mild winter. Housing starts made new records month after month, and by mid-year it was predicted that new starts in 1950 would easily amount to 1¼ million or more. Though suppliers of building materials were geared to high-volume operations, some had difficulty in meeting the unusual demand.

Numerous communities throughout the Philadelphia Federal Reserve District participated in the boom. In the first six months, building permits for new residential construction in the Philadelphia-Camden metropolitan area were more than double those of the first half of 1949. Despite the volume of construction, most new houses built in this area were sold before completion, according to a mid-year survey in which this Bank participated. Unlike the year before, there was no inventory of finished but unsold new houses.

The nation-wide building boom stimulated scores of industries that make building supplies, as well as the pro-

ducers of basic raw materials like lumber, steel, copper, and glass. In like manner, it created huge demands for home-furnishings like furniture, floor coverings and draperies, and home appliances such as ranges, heating units, refrigerators, and other necessities for household operation.

### Automobiles

People were just as eager for new cars as they were for new homes. As in the case of housing, it was thought that the motor car boom was approaching its end; before long the industry would settle down to something like a replacement demand. Again the calculations were wrong. The industry kept increasing its output and demand seemed insatiable. Ever faster moving assembly lines in the automobile plants required a rising stream of parts and supplies from the supporting industries that made the tires, batteries, upholstery, and electrical installations. Increased shipments had to come from industries that made the steel, lead, copper, fibers, glass, and all the other basic items. Prosperity in the automobile industry spread far and wide by reason of its huge size and ramifications.

### Business Spending

Business spending for inventories also contributed more to the slowly rising level of business activity during the first half of the year than was anticipated at the outset. Inventories are the wellsprings of production. Just as liquidation of inventories, accompanied by easing of sales and prices, was largely responsible for the mild recession of 1949, so the expansion of inventories accompanied by a strengthening of sales and prices contributed to the business expansion in the first half of 1950. At mid-year, business inventories were \$2½ billion higher than at the outset. While higher prices accounted for some of the increase, most of it represented larger physical volume.

Businessmen also began to spend more money for new machinery and equipment. Expenditures for producers' durable equipment increased almost 20 per cent between the recession low in the fourth quarter of 1949 and the second quarter of 1950, when such outlays amounted to more than 8 per cent of the gross national product. Capital expenditures on new plant and equipment amounted to \$8 billion during the first half of the year. Although business expenditures for this purpose were a billion dollars less than during the half-year preceding, it nevertheless contributed materially to the total volume of business activity.

### The Rise in Output

The flow of goods, as measured in physical units of output, was rising almost without interruption. In June, the volume of goods produced, according to the Federal Reserve Board's index, was up 11 per cent for the half-year. The greatest gains had taken place in the manufacturing industries making durable goods such as transportation equipment, industrial and household equipment, and in the basic metal industries. Smelters and refiners were turning out non-ferrous metals in volume 26 per cent greater than at the beginning of the year, and demand for steel, funneling in from all sources, required the mills to operate near their rated capacity. Producers of nondurable manufacturers like textiles, chemicals, leather, foods, and paper, likewise participated in the generally rising expansion but to a smaller extent. The output of nondurables, as a whole, increased about 5 per cent in the half-year.

### Employment

Rising physical output was obtained by no magic, but with steadily increasing labor effort. The work-week was lengthened slightly, but most of the increase in output came through the addition of more workers. Some increased employment occurred in practically all major categories of industry, trade, and Government service. Manufacturing industries, especially the producers of durables, absorbed most of the increase. Of the country's civilian labor force of almost 65 million people in June, 61.5 million had jobs. Expanding labor requirements had absorbed practically all the people who had entered the labor force in the half-year, so that unemployment in June at about 3½ million was practically unchanged from that of December 1949. Rising employment resulted in larger payroll disbursements and correspondingly greater consumer buying power.

### Sources of Buying Power

The rising spending stream which characterized the first half of the year had three origins. With employment at a high level and rising and with steadily advancing wage payments, disposable income reached an annual rate of almost \$196 billion in the second quarter—about \$9 billion higher than the prevailing rate in the last quarter of 1949. Moreover, there was a pronounced disposition by individuals to spend a greater proportion of their "take home" pay. Liquid savings by individuals were 41 per cent smaller

during the first half of the year than during the first six months of 1949. The average monthly sale of E Bonds was about 9 per cent smaller than in the first half of the previous year.

Individuals not only saved less but they drew upon savings they had already accumulated. More Savings Bonds were turned into cash; redemptions of E Bonds were 4 per cent greater than during the first half of 1949. Withdrawals of savings and loan shares were 19 per cent greater than during the first six months of 1949, and 31 per cent above the same period in 1948.

The use of credit provided another source of buying power. Loans of weekly reporting member banks in the United States rose \$700 million, or 3 per cent. The increase during the first half of the year was due chiefly to a rise in consumer and real estate loans. On June 28, 1950 the total volume of unclassified loans outstanding at all reporting member banks, consisting primarily of consumer loans, was 10 per cent greater and the volume of real estate loans was 8 per cent greater than on December 28, 1949. In contrast with these developments, commercial, industrial, and agricultural loans reported by weekly reporting member banks were down 2 per cent during the first half of the year.

Member banks in the Third Federal Reserve District, however, reported an increase in business loans. All other loans, consisting chiefly of consumer loans, and real estate loans rose about 7 per cent.

A substantial volume of credit is extended to the consumer by non-banking institutions, although their operations depend to an important extent upon bank credit. The total amount of consumer credit outstanding increased 5 per cent during the first half of the year. Instalment credit for the purchase of automobiles displayed the greatest vitality, but every category of instalment credit, including loans, either advanced more rapidly or declined to a lesser extent than from January to June 1949.

Real estate credit is also extended by considerable numbers of non-banking institutions and by individuals. The savings of individuals channeled into these institutions, such as life insurance companies, provide the bulk of the funds from which real estate loans are made, but bank credit also plays a not inconsiderable part in the extension of credit for the purchase of real property. Recordings of non-farm mortgages of \$20,000 or less during the first half of 1950 were 35 per cent higher than in the same period in 1949 and 23 per cent above the first half of 1948.

Inasmuch as the downward trend in commercial loans and Government securities tended to counteract the increase in loans to consumers and to buyers of real estate, the aggregate money supply displayed little change from December 31, 1949 to June 30, 1950. Deposits, however, were used more actively during the first half of 1950 than during the same period in 1949. The turnover of demand deposits, seasonally adjusted, was 4 per cent greater in New York City and 2 per cent greater in other leading cities than during the first half of 1949.

### Prices

Prices, the most sensitive indicators of the drift of business, reflected the mildly expansionary character of business during much of the first six months. In wholesale markets, most commodities rose but, with few exceptions, the advances were not very large. The all-commodity index of wholesale prices went up 4 per cent. Farm products, with gains of 7 per cent, registered the largest advances among the major classes of items. Substantial increases in prices of livestock and poultry were chiefly responsible for the more-than-average gains in prices of farm products. As usual, prices of raw materials rose more than prices of manufactured products. Among raw materials, the most striking gain took place in rubber and steel scrap. Small declines in textiles and chemicals were contrary to the prevailing trend of generally rising prices.

Consumers' price indexes reflected some increases in the cost of living but, on the whole, the increases were rather mild. Food prices rose the most, and rents crept up slowly but persistently. Costs of apparel and house-furnishings remained virtually unchanged.

### SHARP BUSINESS EXPANSION AFTER KOREA

The outbreak of hostilities in Korea caused a sharp acceleration of business activity in this country. Consumers rushed out to the stores and bought. Businessmen placed larger orders for inventories and equipment, production schedules were stepped up, employment was increased, wage rates went up, prices jumped sharply, and materials became scarce. The rising output of goods and services enlarged the flow of income. The spending stream was fed by increased borrowing, reduced savings, and redemption of Government securities. Money flowed freely. In the fourth quarter, personal income and employment reached all-time highs. So did prices and the gross national

product. At the year's end we faced a grave international situation, and the national economy, approaching the full stretch of its capacity, was menaced by inflationary troubles.

### **Consumer Spending**

The shooting in Korea touched off a tidal wave of consumer spending. Almost overnight, retail stores were deluged with customers. They bought household appliances, television receiving sets, furniture and bedding, floor coverings, hosiery and shoes, towels, sheets—almost any non-perishable that might get scarce. The department stores did a huge volume of business. In one month, sales jumped from the 300 level to 362, according to the index. Scarce buying did not last long. In three months it was all over. However, merchants, anticipating a good Christmas season, placed heavy replenishment orders. Heavy consumer buying was not confined to the department stores. Automobile dealers reported a huge volume of business and so did the stores handling building materials and hardware, furniture and household furnishings, foods, and general merchandise. Dollar volume of all retail sales in the third quarter was almost one-fifth greater than that of the corresponding quarter of the preceding year.

### **Rising Business Expenditures**

The upsurge of consumer spending was accompanied by rising business expenditures for inventories and increased capital outlays for plant expansion and modernization of equipment. Increasing civilian demands for goods and services of all kinds precipitated a heavy flow of new orders all along the line from retailer to wholesaler, to manufacturer, to primary markets for raw materials. Greater demand required increased production, and that in turn called for larger inventories. For a while, increased shipments came out of inventories of finished goods, but inventories of goods in process and raw materials were increased almost immediately. At \$56 billion, the book value of business inventories in September were \$2 billion higher than in June, and further expansion took place during the fourth quarter.

Apparently, businessmen fully appreciated the gravity of the international situation for they stepped up not only their short-run expenditures for inventories but also their longer-run expenditures for plant expansion and new equipment. Expenditures on new plant and equipment

were increased from \$8 billion in the first half of the year to \$10 billion in the second half, according to the joint estimates of the Department of Commerce and the Securities and Exchange Commission. Capital outlays in the fourth quarter of last year and estimated expenditures in the first three months of 1951 were \$5.4 billion and \$4.8 billion, respectively, or about 17 and 30 per cent above comparable quarters a year ago. According to a survey made by this Bank, manufacturing concerns in Philadelphia plan to spend \$110 million on new plant and equipment in the year ending September 1951, or 16 per cent more than was spent in the year preceding. Whether the enlarged programs can be realized may very well depend upon the availability of materials.

### **Expanding Production and Employment**

Strong and persistent demands for both consumption and producers' goods during the second half were accommodated by steadily increasing production and expanding employment. Toward the end of the year, practically all major industries were turning out a considerably larger physical volume of goods than at mid-year. In November, over-all industrial output was 8 per cent above the June level and producers of durable goods made the largest gains. Output of machinery, which includes a broad classification of products ranging from heavy industrial equipment to light household appliances, rose 17 per cent. Producers of non-durable goods also shared in the expansion. Substantial gains were made in rubber, leather, and textile products.

Rising output in the second half required considerable increase in employment and extension of working time. Between June and November, non-farm employment, seasonally adjusted, increased almost 1½ million to a record total of over 45 million workers. Over three-quarters of a million workers, or more than half of the net increase, were absorbed by manufacturing industries. By November, employment in construction, finance, trade, and state and local government was at or near an all-time peak. Moreover, the armed forces increased from 1½ million men in June to 2¼ million by the end of November. Unemployment was down to 2.2 million in November, and practically all surplus labor market areas throughout the country had disappeared. Working time was steadily increased during the second half, and in November the work-week in manufacturing industries averaged over 41 hours. At year's end, skilled labor was getting scarce and stock-piles of strategic raw materials were running low.

### The Swollen Spending Stream

The causes for the rise in the spending stream during the third and fourth quarters of the year are to be found in the swollen nature of its three tributaries: income, the use of savings and credit. Record employment at rising wage rates produced a record level of disposable income. Less of the income received was saved during the last half than in the first half. The sale of E Bonds was smaller than in the latter half of either of the two preceding years.

Individuals dipped into savings to a much greater extent for the purchase of goods, the supply of which might be affected by defense preparations. Time deposits at commercial and mutual savings banks declined \$460 million from June through November, and redemptions of E Bonds exceeded purchases by an average of \$87 million a month. Withdrawals of savings and loan shares from July through October were 39 per cent greater than in the same period in 1949 and 51 per cent greater than during the same months in 1948.

The accelerating expansion of business stimulated by the Korean war was accompanied by a rapid and continuous rise of commercial loans. Commercial loans of weekly reporting member banks throughout the country expanded \$4.2 billion, or 31 per cent. On December 27 such loans totaled \$17.8 billion, or 28 per cent larger than a year earlier. Following the national trend, member bank commercial loans in the Third Federal Reserve District also expanded, but at a slower rate.

Scare buying intensified the drive for consumer durables and drove the volume of consumer credit up \$1.2 billion in July and August. In an effort both to restrain the mounting inflation and to assist in the diversion of essential materials to war production, Congress on September 8 authorized the reimposition of controls over consumer credit. The Federal Reserve System was again assigned the task of regulating consumer credit, and Regulation W was reinstated on September 18. Credit terms were stiffened on October 16 and now affect loans and instalment credit for the purchase of a substantial list of consumer durables selling for \$50 or more retail. The momentum of the buying wave carried the total volume of consumer credit outstanding to a new record of \$19.4 billion on November 30, but the rate of increase declined sharply after the reestablishment of controls.

As the demand for homes continued high well into the closing months of the year, recordings of non-farm mortgages of \$20,000 or less rose to a plateau about 40

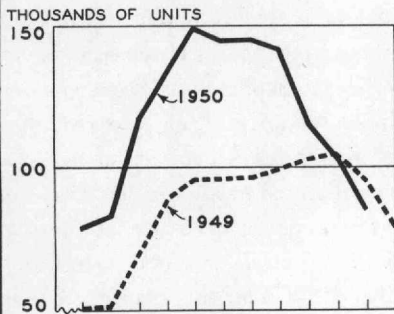
per cent above recordings during the same period last year. To facilitate the transfer of men and materials from the residential construction field to defense, tighter credit terms were imposed by the FHA and the VA on July 19, and the Federal National Mortgage Association was directed to hold its secondary market activity down to a minimum. The latter agency reduced its purchases of mortgages 27 per cent from June to September. These steps were supplemented by the imposition of controls over real estate mortgage credit under the Defense Production Act. The Federal Reserve System, directed to administer these controls as they applied to credit, not insured or guaranteed by the Government, for new residential construction, instituted Regulation X on October 12. Under this regulation, maximum loan values were set on new residential property ranging from 90 per cent of the value of a home costing not more than \$5,000 to 50 per cent of the value of a residence costing more than \$20,000. Similar restrictions were imposed on Government insured and guaranteed loans for new home construction. The objective of these regulations is to reduce the number of new dwelling units started in 1951 to about 850,000.

As the boom accelerated, a greater supply of dollars was made available by the banking system and each dollar was spent more frequently. The expanding volume of bank loans raised the level of demand deposits, and the total money supply on November 30 was \$4 billion, or about 3 per cent greater than a year earlier. The turnover of seasonally adjusted demand deposits also jumped sharply, the rate in August, for example, being 9 per cent higher in leading cities except New York than before the Korean outbreak. While the rate of use of deposits declined after August, it was still 19 per cent above a year ago in October in New York and 14 per cent higher in other leading cities.

### The Bulge in Prices

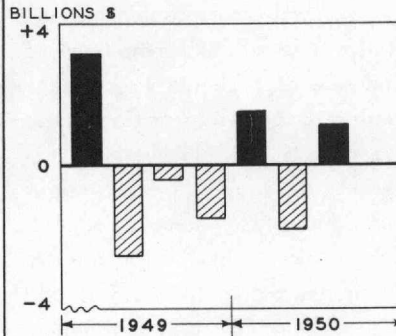
Expanding business activity following the outbreak of hostilities was reflected in sharply rising prices. A strong upsurge occurred in the markets of practically all raw materials. Prices of raw materials imported from the eastern hemisphere took wings; in the half year, wool tops were up 70 per cent, the price of tin jumped over 90 per cent, and rubber 160 per cent. Industrial metals were in great demand; the price of lead rose 55 per cent, steel scrap rose more than 25 per cent, accompanied by smaller price increases for zinc and copper, the prices of which had already made substantial increases prior to June. The price

## BUSINESS DEVELOPMENTS IN 1950



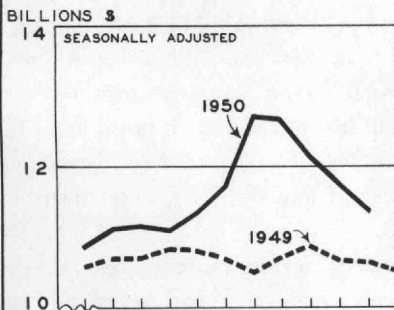
### HOUSING STARTS

attained new records



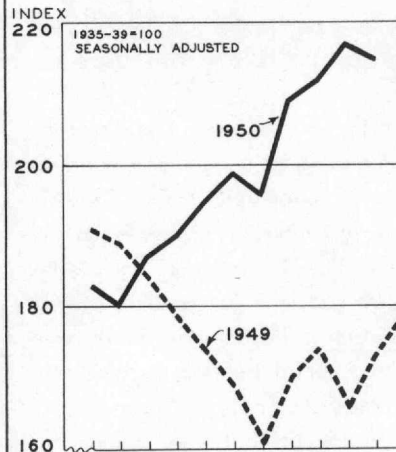
### FEDERAL CASH SURPLUS AND DEFICIT

a net surplus with lagging expenditures



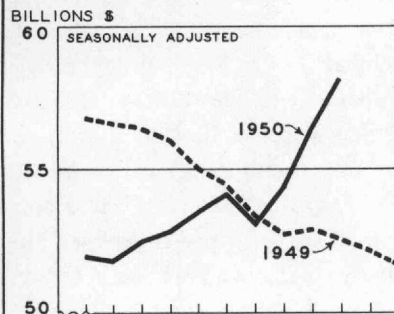
### RETAIL SALES

showed the effect of "scare buying"



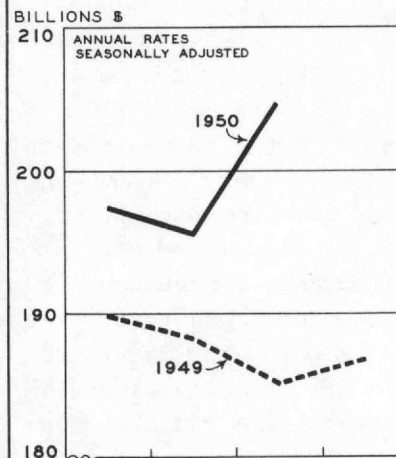
### INDUSTRIAL PRODUCTION

rose irregularly



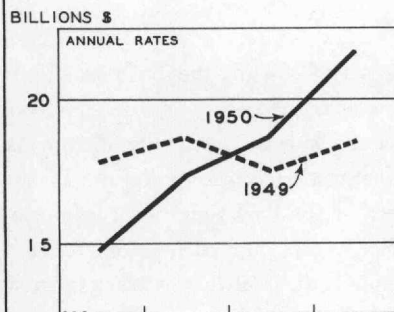
### BUSINESS INVENTORIES

rose sharply and



### DISPOSABLE INCOME

at higher levels

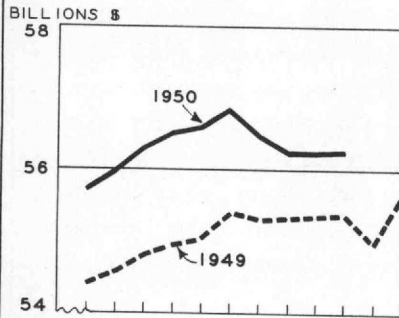


### EXPENDITURES FOR NEW PLANT AND EQUIPMENT

were increased substantially

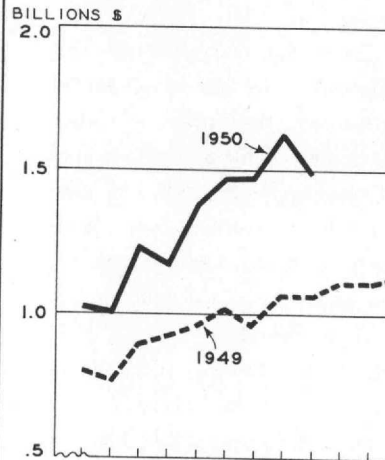


## FINANCIAL DEVELOPMENTS IN 1950



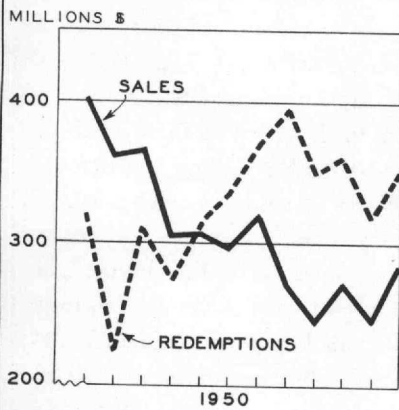
**TIME AND SAVINGS DEPOSITS**

declined after mid-year



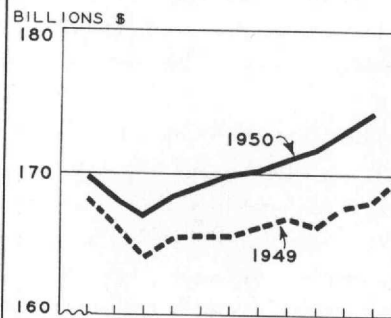
**REAL ESTATE CREDIT**

rose sharply



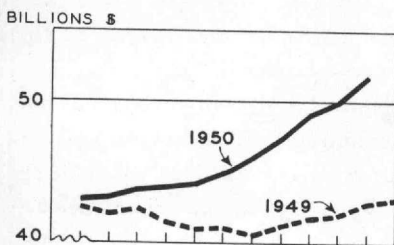
**E BOND SALES AND REDEMPTIONS**

Sales fell behind redemptions



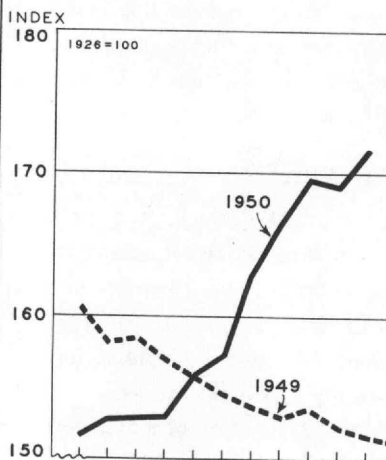
**MONEY SUPPLY**

was increased and



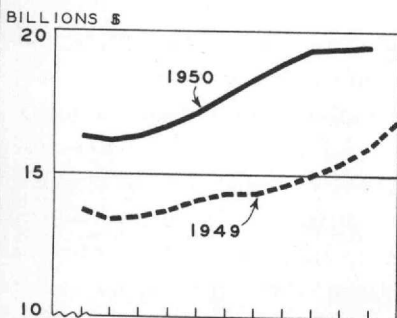
**BANK LOANS**

rose steadily



**WHOLESALE PRICES**

attained a new peak



**CONSUMER CREDIT**

continued to rise

of hides rose almost 50 per cent in the half year. A short cotton crop in the face of increasing demand for the fiber sent buyers scurrying for cotton, which was put under export control. By the end of the year the price of raw cotton was up more than 25 per cent, and prices of print cloth had advanced almost 50 per cent.

Price increases occurred in all major classes of commodities. Within five months after the shooting started in Korea, the all-commodity index of the Bureau of Labor Statistics was up 9 per cent, prices of farm products had risen 11 per cent, foods had gone up 8 per cent, and commodities other than farm and food products rose by an average of 10 per cent. The largest increases among the major classes of commodities had occurred in textiles and textile products and chemical products.

Consumer prices rose steadily and more moderately in the wake of sharply rising wholesale prices. In mid-November, the Bureau of Labor Statistics' index reached a new record high in excess of 175 per cent of the 1935-1939 average, or 3 per cent above the June level. Rising prices of foods, apparel, and household furnishings caused most of the increase; but some increases also took place in rents and fuel.

Rising wage rates also contributed to the higher costs of goods and services. In contrast with the generally stable level of wage rates prevailing in the first half of the year, numerous wage increases were granted in the second half, notably after August and September. Although there was no general pattern, leading concerns in many industries gave increases of 10 cents an hour, and numerous grants of 15 cents were also reported. Many workers also benefited by built-in clauses in their wage agreements, providing for automatic wage adjustments for increased productivity or changes in cost of living.

### THE ROAD AHEAD

While an appraisal of the business outlook is always fraught with hazards, at this juncture of domestic and foreign developments it is safe to make some assumptions about the road ahead. It is likely to be uphill, unpaved, ill-guarded, and poorly marked. It is not impassable, but we shall not travel as comfortably as we did last year.

Our economy produced about \$277 billion of goods and services last year and most of the product was for civilian consumption. To achieve that record volume of output we stepped up the utilization of our resources. When we encountered adversity in Korea, we directed more human and

material resources toward national defense. Congress passed the Defense Production Act of 1950, a National Production Authority was established to channel production and materials to defense purposes, an Economic Stabilization Agency was set up to control prices and wage rates, and stockpiling of strategic materials was accelerated. Production and employment were stepped up, mobilization of manpower for the armed forces was increased, more materials were earmarked for defense, and the President declared a national emergency. In the second half of 1950, Congress had appropriated \$33 billion for defense, foreign military aid, stockpiling, and atomic energy; and at the turn of the year, large additional defense appropriations were in process.

Defense, however, takes more than dollars. It takes manpower and materials—the same elements of production out of which civilian goods and services are made. Our economy is already operating near top capacity; the slack is small—smaller than it was the last time we faced a national emergency. At that time we had 8 million unemployed; today, we have 2 million. At that time we had much idle plant capacity; today, very little.

Expansion of the armed forces drains the civilian labor force and the most productive part of it. Replacements can and will be found, but shuffling people around is more than the paper work of reclassification. Army recruits and industrial recruits are not trained overnight. There may be pockets of transitional unemployment before all the manpower readjustments are completed.

Plant capacity is insufficient for all civilian demands and the additional defense requirements. Moreover, defense orders usually have more exacting specifications and require special equipment. When facilities are short, defense production takes priority and civilians wait or do without, or ride on re-treads.

Materials are also limited. Rubber, metals, fibers, and numerous chemicals are already being fenced in for defense. The list grows, and others may be added. Tougher controls may have to be instituted because defense must be sure. In times of emergency the allocation of strategic materials can not be left to dictates of competitive bidding. Prices have no patriotism. Shortages of some materials are bound to be more acute than others, and inventories are almost sure to become unbalanced at times. Production may not run as smoothly as it did last year, and plant shut-downs may take place here and there for lack of some essential raw material.

With more of our energies and resources going into defense, we shall not live quite so well as we have recently. Money incomes may be larger but the amount of enjoyable goods and services is very likely to be smaller. We face not only a lower standard but also a different pattern of living—particularly a curtailment of durable goods.

Two things are clear on the road ahead: (1) adequate materials and men must be diverted from civilian production to equip our military arm properly; (2) while this extraordinary effort is being made, the economy must be kept sound and strong. It will do no good to win the military battle and lose the war through the process of economic self-destruction which is called inflation.

Defense production adds to incomes but not to goods. Buying power increases in relation to the available supply of goods. An inflationary gap is created which grows wider as the defense effort is intensified and prolonged.

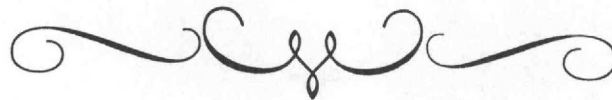
There are three ways of dealing with this problem. Timidity, inertia, and uncertainty as to the best method of dealing with the problem provoke a do-nothing attitude. Inflation is allowed to take its course and as the spending stream, generated by defense production, forces prices higher and higher, the limited supply of goods is rationed to the disadvantage of those with fixed incomes or with incomes which rise more slowly than prices. Experience has demonstrated that the prolongation of an unrestrained inflationary gap can incite a "flight from the dollar," with complete disruption of the financial system. Such a development is bound to give aid and comfort to the enemy.

A second method of approaching the problem of infla-

tion is to withdraw that income earned in the production of defense goods and services from the spending stream and to restrict the excessive use of credit by the use of fiscal and monetary actions. Taxation reduces the pressure on prices from income received in excess of the flow of goods. The sale of Government bonds to the non-banking investor reduces the income that will be used to swell the civilian spending stream. Restricting the total amount of credit prevents the use of future income for the purchase of an inadequate supply of goods now. These measures go straight to the heart of the problem of inflation, as they seek to hold the size of the spending stream down to the limited supply of goods. A vigorous application of monetary and fiscal instruments can remove the dangers of the inflationary gap.

If monetary and fiscal policies are not of sufficient vigor, it is of course necessary to apply direct controls. This is the third major approach to the problem of inflation. Price control, wage control, and rationing both curb the upward movement of prices and restrict the quantity of goods which can be purchased. Some direct controls may be necessary to channel materials into defense production. They do not, of course, go to the heart of the problem of inflation as do taxation and the restriction of credit. Direct controls merely delay inflation.

Attention has already been given to meeting this problem. It is obvious that further steps will be taken to gird the economy against inflation. The type of controls applied and the timing and vigor of their application will determine the success of the stabilization effort on the home front.



## CURRENT TRENDS

Further expansion occurred during November 1950 in numerous phases of business activity in the Third Federal Reserve District. Manufacturers hired more workers, stepped up production, and expanded payrolls, and bankers granted more loans; however, as in October, some easing of the general upward trend was evident. Coal and petroleum output dropped, and seasonally adjusted department store sales also declined. Residential construction, now under the credit restraints of Regulation X, continued above year-ago levels. Although the rate of expansion slackened somewhat during the month, business in general was substantially above that of 1949.

In the industrial field, the principal areas of strength appeared to be in the hard goods group. The labor force and physical output of these industries rose during November while in the nondurables, production dropped and the number of workers was unchanged. A combination of high employment, increased hourly earnings, and longer hours raised total payrolls of Pennsylvania manufacturers and weekly wage payments reached an all-time high.

Department store sales in November, after adjustment, were below those of the previous month but above the preceding year. The unfavorable weather during the week ended November 25 was partly responsible for the decline. Sales subsequently picked up and department store merchants reported increasing volume of business through the Christmas season, which topped that of 1949.

The wholesale price index for the nation, stimulated by rising prices of farm products, made further advances to a point 13 per cent above the level of last November. Nationally, the consumer price index inched forward from its record October level. In Philadelphia, the over-all index of consumer prices also crept upward, with costs of clothing, fuel, and housefurnishings somewhat higher.

Increases in business loans, investments, and deposits during December at Third District reporting member banks were the largest for any month of the year. Business loans reached a point 36 per cent higher than a year ago. The upsurge in investments—the first to occur since the outbreak in Korea—reflected the purchase of Government securities.

Loans of all commercial banks in the country rose again in November, and in the five months since Korea have increased by \$6.9 billion. In the same period, their holdings of Governments declined \$4.0 billion. The money supply expanded for the eighth consecutive month, largely in the form of an increase in demand deposits.

SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	November 1950 from		11 mos. 1950 from	November 1950 from		11 mos. 1950 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
<b>OUTPUT</b>						
Manufacturing production . . .	+ 1*	+28*	+ 6*	- 2	+26	+14
Construction contracts . . . . .	-16	+ 9	+35	- 8	+10	+41
Coal mining . . . . .	-16	-25	+ 3	-10	- 2	+14
<b>EMPLOYMENT AND INCOME</b>						
Factory employment . . . . .	+ 1*	+19*	+ 3*	- 1	+15	+ 5
Factory wage income . . . . .	+ 2*	+41*	+10*			
<b>TRADE**</b>						
Department store sales . . . . .	- 2	+ 2	+ 6	0	+ 5	+ 5
Department store stocks . . . . .	0	+23		+ 1	+22	
<b>BANKING</b> (All member banks)						
Deposits . . . . .	0	+ 5	+ 5	+ 1	+ 5	+ 4
Loans . . . . .	+ 2	+22	+13	+ 4	+22	+11
Investments . . . . .	- 1	- 2	+ 4	- 1	- 4	+ 4
U. S. Govt. securities . . . . .	- 1	- 5	+ 2	- 1	- 8	+ 2
Other . . . . .	+ 1	+10	+13	0	+22	+20
<b>PRICES</b>						
Wholesale . . . . .				+ 1	+13	+ 3
Consumers . . . . .	0†	+ 3†	0†	0	+ 4	+ 1
<b>OTHER</b>						
Check payments . . . . .	- 5	+22	+18	- 2	+24	+14
Output of electricity . . . . .	+ 2	+12	+ 8			

LOCAL CONDITIONS	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Per cent change Nov. 1950 from	
	Per cent change Nov. 1950 from		Per cent change Nov. 1950 from		Per cent change Nov. 1950 from		Per cent change Nov. 1950 from		Per cent change Nov. 1950 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown . . . . .	+ 1	+ 18	+ 4	+ 36					- 8	+31
Altoona . . . . .	+ 1	+150	- 4	+277					- 3	+30
Harrisburg . . . . .	0	+ 12	- 3	+ 32					+ 8	+27
Johnstown . . . . .	- 1	+ 16	+ 6	+ 37					- 2	+43
Lancaster . . . . .	+ 1	+ 5	+ 2	+ 26	+29	+5	-2	+15	- 5	+25
Philadelphia . . . . .	+ 1	+ 8	+ 2	+ 23	+25	0	-2	+24	- 6	+22
Reading . . . . .	0	+ 8	+ 2	+ 24	+33	0	+5	+23	+ 1	+13
Scranton . . . . .	- 1	+ 11	- 2	+ 25					- 8	+15
Trenton . . . . .					+14	-1	-1	+ 9	+ 9	+20
Wilkes-Barre . . . . .	- 3	+ 2	0	+ 17	+24	0	+4	+21	- 7	+ 8
Williamsport . . . . .	+ 1	+ 18	+ 4	+ 33					+ 2	+26
Wilmington . . . . .	+14	+ 24	+17	+ 42					-10	+28
York . . . . .	+ 3	+ 23	+ 5	+ 45	+25	+3	+3	+22	- 3	+18

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

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

MEASURES OF OUTPUT

	Per cent change		
	Nov. 1950 from		11 mos. 1950 from year ago
	month ago	year ago	
<b>MANUFACTURING (Pa.)</b> .....	+ 1	+ 28	+ 6
Durable goods industries.....	+ 2	+ 51	+ 8
Nondurable goods industries.....	- 1	+ 6	+ 3
Foods.....	- 3	0	- 1
Tobacco.....	+ 2	- 3	- 9
Textiles.....	- 1	+ 5	+ 6
Apparel.....	- 2	+ 5	+ 3
Lumber.....	- 3	+ 16	+ 5
Furniture.....	0	+ 20	+ 29
Paper.....	+ 8	+ 18	+ 10
Printing and publishing.....	+ 1	0	- 2
Chemicals.....	- 2	+ 15	+ 4
Petroleum and coal products.....	- 1	+ 6	+ 2
Rubber.....	- 4	+ 37	+ 23
Leather.....	0	+ 6	0
Stone, clay and glass.....	+ 4	+ 22	+ 3
Primary metal industries.....	+ 1	+ 106	+ 18
Fabricated metal products.....	0	+ 52	+ 9
Machinery (except electrical).....	+ 4	+ 50	+ 3
Electrical machinery.....	+ 2	+ 25	+ 6
Transportation equipment.....	+ 2	+ 19	- 16
Instruments and related products.....	+ 7	+ 33	+ 4
Misc. manufacturing industries.....	+ 4	+ 16	+ 10
<b>COAL MINING (3rd F. R. Dist.)*</b> ..	-16	- 25	+ 3
Anthracite.....	-18	- 28	+ 2
Bituminous.....	-11	+ 9	+ 10
<b>CRUDE OIL (3rd F. R. Dist.)**</b> ....	- 9	+ 10	+ 2
<b>CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)†</b> .....	-16	+ 9	+ 35
Residential.....	-21	+ 9	+ 70
Nonresidential.....	- 6	+ 29	+ 33
Public works and utilities.....	-24	- 18	0

\*U.S. Bureau of Mines.

\*\*American Petroleum Inst. Bradford field.

†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries*  Indexes (1939 avg. = 100)	Employment		Payrolls		Average Weekly Earnings		Average Hourly Earnings	
	Nov. 1950 (Index)	Per cent change from mo. ago	Nov. 1950 (Index)	Per cent change from mo. ago	Nov. 1950	% chg. from year ago	Nov. 1950	% chg. from year ago
All manufacturing.....	140	+1	377	+ 2	\$60.39	+18	\$1.478	+10
Durable goods industries.....	164	+2	418	+ 3	65.84	+20	1.582	+ 8
Nondurable goods industries.....	117	0	324	0	52.95	+11	1.330	+ 8
Foods.....	130	-3	299	- 2	51.49	+ 6	1.248	+ 5
Tobacco.....	91	+2	249	+ 2	35.82	+14	.906	+10
Textiles.....	87	-1	266	+ 1	54.97	+13	1.354	+ 9
Apparel.....	139	-1	388	- 1	39.57	+12	1.088	+10
Lumber.....	177	0	444	- 3	43.81	+10	1.051	+ 6
Furniture.....	153	0	450	+ 1	54.11	+ 7	1.228	+ 8
Paper.....	154	+6	448	+11	62.79	+13	1.397	+ 6
Printing and publishing.....	120	+2	302	+ 1	70.89	+ 7	1.800	+ 5
Chemicals.....	145	-1	387	- 2	63.70	+10	1.537	+ 7
Petroleum and coal products.....	155	0	398	+ 0	76.98	+ 6	1.881	+ 2
Rubber.....	229	-1	638	- 2	69.19	+21	1.648	+ 8
Leather.....	93	0	247	0	45.57	+16	1.158	+10
Stone, clay and glass.....	145	+5	395	+ 6	62.21	+18	1.539	+10
Primary metal industries.....	135	+1	341	+ 2	70.58	+26	1.733	+ 4
Fabricated metal products.....	178	+1	459	+ 1	61.38	+17	1.487	+ 8
Machinery (except electrical).....	232	+3	630	+ 7	68.89	+23	1.568	+ 8
Electrical machinery.....	262	+2	590	+ 3	62.95	+ 9	1.518	+ 5
Transportation equipment.....	141	-1	356	+ 1	71.86	+20	1.777	+ 6
Instruments and related products.....	176	+2	521	+13	67.51	+22	1.558	+11
Misc. Manufacturing Industries.....	155	+2	403	+ 4	53.11	+12	1.224	+ 8

\*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. = 100 Adjusted for seasonal variation	Nov. 1950 (Index)	Per cent change		
		Nov. 1950 from		11 mos. 1950 from year ago
		month ago	year ago	
<b>SALES</b>				
Department stores.....	273	-2	+ 2	+ 6
Women's apparel stores.....	231	+9	- 3	- 7
Furniture stores.....		-2*	- 4*	+ 6*
<b>STOCKS</b>				
Department stores.....	283	0	+23	.....
Women's apparel stores.....	234	-3	+20	.....
Furniture stores.....		+5*	+31*	.....
Recent Changes in Department Store Sales in Central Philadelphia				Per cent change from year ago
Week ended December 2.....				+ 2
Week ended December 9.....				- 1
Week ended December 16.....				+ 6
Week ended December 23.....				+14
Week ended December 30.....				+16

\*Not adjusted for seasonal variation.

Departmental Sales and Stocks of Independent Department Stores  Third F. R. District	Sales		Stocks (end of month)		
	% chg. Nov. 1950 from year ago	% chg. 11 mos. 1950 from year ago	% chg. Nov. 1950 from year ago	Ratio to sales (months' supply) November	
				1950	1949
<b>Total — All departments</b> .....	- 1	+ 3	+23	2.8	2.2
<b>Main store total</b> .....	- 1	+ 4	+23	2.9	2.4
Piece goods and household textiles.....	+ 4	+ 1	+28	4.1	3.3
Small wares.....	- 1	+ 1	+17	3.6	3.1
Women's and misses' accessories.....	0	+ 2	+22	3.0	2.4
Women's and misses' apparel.....	- 8	- 5	+18	2.0	1.6
Men's and boys' wear.....	+ 4	+ 4	+21	3.0	2.6
Housefurnishings.....	+ 1	+15	+31	3.2	2.5
Other main store.....	- 1	- 1	+14	2.2	1.9
<b>Basement store total</b> .....	0	- 2	+23	1.9	1.5
Domestics and blankets.....	+15	+11	+45	2.9	2.3
Small wares.....	- 2	+ 5	+12	2.1	1.8
Women's and misses' wear.....	- 2	- 6	+19	1.6	1.3
Men's and boys' wear.....	+ 5	+ 2	+26	2.0	1.7
Housefurnishings.....	- 3	+ 1	+29	1.9	1.4
Shoes.....	+ 1	- 1	+10	2.7	2.5
<b>Nonmerchandise total</b> .....	- 4	+ 2	.....	.....	.....

**CONSUMER CREDIT**

Sale Credit Third F. R. District	Sales		Receiv- ables (end of month)
	% chg. Nov. 1950 from year ago	% chg. 11 mos. 1950 from year ago	% chg. Nov. 1950 from year ago
	Department stores		
Cash	+ 1	- 1	.....
Charge account	+ 3	+ 6	+ 8
Instalment account	-14	+15	+22
Furniture stores			
Cash	0	- 2	.....
Charge account	- 6	+14	.....
Instalment account	-13	+10	+17

Loan Credit Third F. R. District	Loans made		Loan bal- ances out- standing (end of month)
	% chg. Nov. 1950 from year ago	% chg. 11 mos. 1950 from year ago	% chg. Nov. 1950 from year ago
	Consumer instalment loans		
Commercial banks	- 1	+50	+ 6
Industrial banks and loan companies	- 3	+ 6	+12
Small loan companies	-47	-37	+ 9
Credit unions	+18	+27	+33

**BANKING**

MONEY SUPPLY AND RELATED ITEMS United States (Billions \$)	Nov. 29 1950	Changes in—	
		five weeks	year
Money supply, privately owned	174.2	+1.2	+ 6.0
Demand deposits, adjusted	90.7	+1.3	+ 5.6
Time deposits	58.6	- .3	+ .6
Currency outside banks	24.8	+ .3	- .3
Turnover of demand deposits	20.9*	-2.8*	+13.6*
Commercial bank earning assets	125.5	+1.0	+ 5.8
Loans	51.6	+1.8	+ 9.0
U.S. Government securities	61.8	- .8	- 5.2
Other securities	12.1	0	+ 2.0
Member bank reserves held	16.8	+ .2	+ .8
Required reserves (estimated)	16.1	+ .2	+ .8
Excess reserves (estimated)	.7	0	0

Changes in reserves during 5 weeks ended November 29 reflected the following:		Effect on reserves
(Billions \$)		
Increase in Reserve Bank holdings of Governments		+ .3
Increase in Reserve Bank loans		+ .2
Other Federal Reserve Bank credit		+ .2
Other transactions		+ .1
Increase of currency in circulation		- .4
Net payment to the Treasury		- .1
Gold and foreign transactions		- .1
Changes in reserves		+ .2

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

OTHER BANKING DATA	Dec. 27 1950	Changes in—	
		five weeks	year
Weekly reporting banks—leading cities United States (billions \$):			
Loans—			
Commercial, industrial and agricultural	17.8	+ .8	+ 3.9
Security	2.5	+ .3	+ .3
Real estate	5.3	+ .1	+ .9
To banks	.5	+ .3	+ .2
All other	5.9	+ .1	+ 1.5
Total loans—gross	32.0	+1.6	+ 6.8
Investments	40.2	+ .6	- 2.3
Deposits	80.6	+2.7	+ 4.4
Third Federal Reserve District (millions \$):			
Loans—			
Commercial, industrial and agricultural	648	+ 39	+171
Security	46	+ 1	+ 10
Real estate	145	+ 4	+ 37
To banks	21	+14	+ 3
All other	381	+ 2	+ 70
Total loans—gross	1,241	+ 60	+291
Investments	1,747	+16	-102
Deposits	3,308	+110	+203
Member bank reserves and related items United States (billions \$):			
Member bank reserves held	17.2	+ .6	+ .9
Reserve Bank holdings of Governments	20.3	+1.0	+ 1.5
Gold stock	22.8	- .3	- 1.6
Money in circulation	27.9	+ .5	+ .2
Treasury deposits at Reserve Banks	.8	+ .2	- .2
Federal Reserve Bank of Phila. (millions \$):			
Loans and securities	1,361	+ 67	+ 72
Federal Reserve notes	1,683	+ 45	+ 40
Member bank reserve deposits	787	+ 17	+ 22
Gold certificate reserves	1,207	- 49	- 76
Reserve ratio (%)	46.7%	- 2.5%	- 3.6%

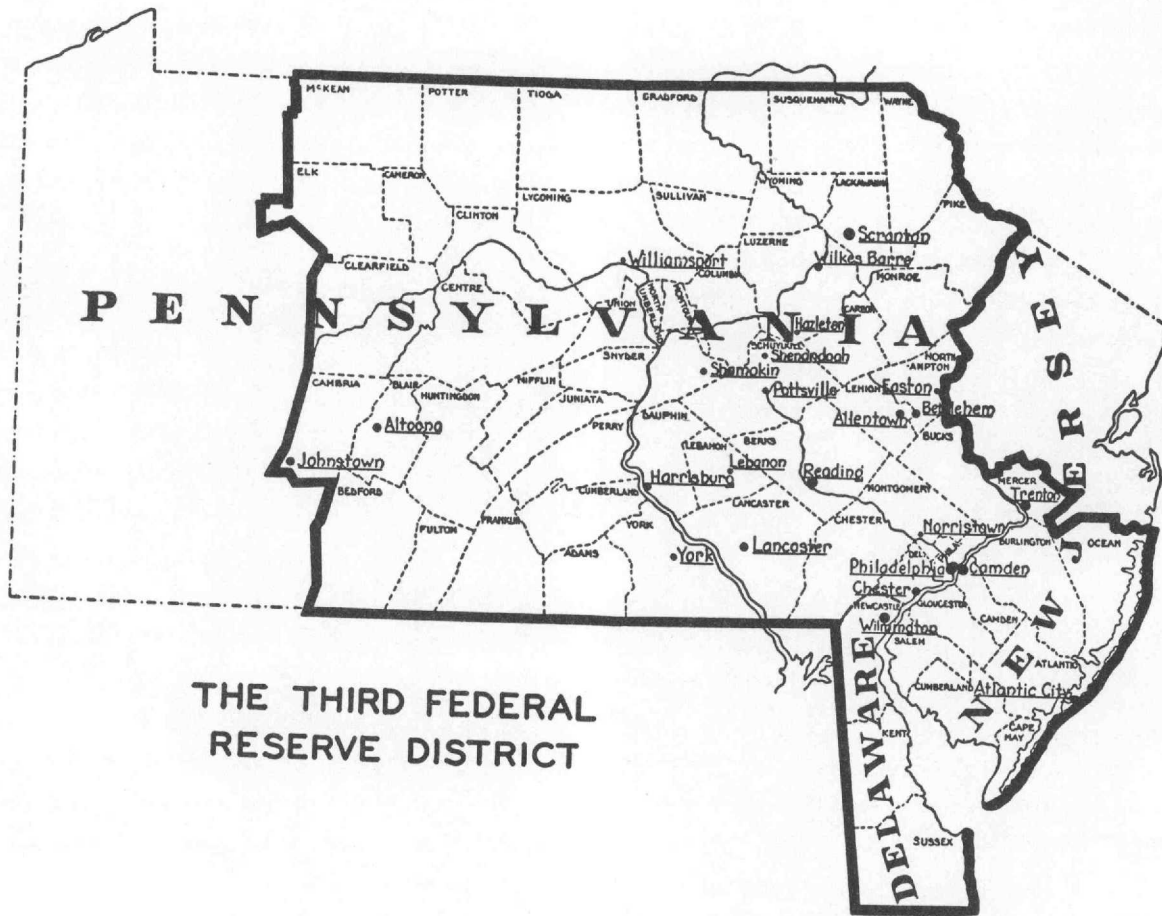
**PRICES**

Index: 1935-39 average = 100	Nov. 1950 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States	213	+1	+13
Farm products	242	+3	+17
Foods	221	+2	+10
Other	201	+1	+13
Consumer prices			
United States	176	0	+ 4
Philadelphia	174	0	+ 3
Food	204	0	+ 4
Clothing	192	+2	+ 4
Rent	123	0	+ 1
Fuel	148	+1	+ 1
Housefurnishings	213	+1	+11
Other	155	0	+ 2

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	Allcom- modi- ties	Farm prod- ucts	Foods	Other
Week ended December 12	215	245	228	203
Week ended December 19	217	248	229	203
Week ended December 26	218	252	230	204

Source: U.S. Bureau of Labor Statistics.



THE THIRD FEDERAL RESERVE DISTRICT