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THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

1952: DEFENSE WITH OR WITHOUT INFLATION?

Defense contributed only indirectly to inflation last year, and price increases were small. In 1952 the defense program, directly or indirectly, will be a more dominant force in the economy than in 1951. Capital expenditures will be large and incomes are likely to rise further. Some of the forces which held down inflation in 1951 appear to be weakening. After a lull in the early months of this year, inflationary pressures are likely to become stronger than the deflationary forces.

CURRENT TRENDS

Most business indicators in November showed little inclination to advance. Production, employment, construction contract awards, and mining declined. Department store sales and consumer prices rose slightly, and the money supply continued upward. In December, bank lending increased for both the district and the nation.

1952: DEFENSE WITH OR WITHOUT INFLATION?

January is the month of gates and doors named after an ancient Roman deity who was in charge of these barriers to passageways. Janus enjoyed the convenience of two faces—one for looking backward, one for looking ahead. Janus-like, we are giving over this issue of the Business Review *to a quick look back at 1951 and a longer contemplation of business prospects in 1952.*

The 1951 passageway through which we have just trod was an orderly and rather pleasant march, on the whole. To be sure, there were some squawking and occasional gaps or crowding in the ranks, but squawking is part of a democracy and "goose stepping" is not.

It is too early to report the grand total of last year's business activity, but enough returns are in already to know that it will add up to about $325 billion worth of goods and services produced. Roughly speaking, only one-eighth of that was for defense which, together with the civilian seven-eighths, was produced with only moderate inflation.

The year 1952 will be different in at least one important respect: the defense program, either directly or indirectly, will dominate the economy to a greater extent than it did in 1951. Because of defense needs, the Government will absorb a larger part of our national output. Business will require a large volume of resources for the construction of plant and equipment essential for defense. Civilian consumers will get whatever is left—in many cases less than was available in 1951. Inflationary pressures are likely to be resumed. How strong they will be and how much they will be reflected in rising prices will depend on many things which cannot be foreseen now. From where we stand at present, it seems that inflationary pressures may not begin to reassert themselves until, perhaps, mid-year, and that they should not be so great as to produce runaway price increases. But this picture could change suddenly. We should be prepared to hit inflation if it rears its head in 1952.

At the outset of 1952, the year before us can be viewed in three closely related ways. One important aspect of it is largely physical—the production of goods. Another is to a large extent financial—the spending for goods. Finally, there is the problem of how to deal with inflation. Let us take up each of these three problems in turn.

PRODUCING GOODS

Production for defense promises to be the keynote of business for 1952. This, of course, is based on the assumption that Congress will not alter the present defense schedule downward in spite of slow peace-making developments of almost a half-year's duration in Korea.

The defense bill of goods is big. Since it is "classified" information, we do not know the specific amounts and kinds of trucks and tanks, planes and missiles, electronics and pyrotechnics, and related battle gear; but we do know that it adds up to a huge sum of money. Charles E. Wilson, Director of Defense Mobilization, stated that contracts were being let at the rate of $4 billion a month, that deliveries were emerging at the rate of $5 billion a quarter, and that deliveries would reach a quarterly rate of $10 billion to $11 billion by the third quarter of 1952. Such are the magnitudes of the defense mobilization program.

The program is behind schedule. Defenders point out that the schedule is too rigorous in view of the galloping technology in machinery of war, with new and unusual machine tool requirements, the outrageous demands for kilowattage and related difficulties of a technical nature. Side-line critics point the finger at Congress, at the Pentagon, and at the vast multitude of people with an attitude of me-first-and-after-that-defense, which excludes almost no one. Whatever the answer to this problem, the fact is that defense activity will increase in 1952. That will have a direct effect upon business and it will permeate the entire economy, directly or indirectly.

By all indications, 1952 promises to be a busy year. To produce all the goods and services required by the Government, plus all things required or desired by consumers, plus all materials and services required by businessmen in their efforts to serve both masters—military and civilian—calls for a huge output. That output may be contemplated in terms of gross national product—

$350 billion, more or less—or it may be contemplated in its various non-monetary measures, such as man-hours of toil (approximately 120 billion) or an index of physical production like the Federal Reserve Board's (probably 230 vs. last year's 220).

Whether total output will measure up to the magnitudes cited above as tentative goals or schedules depends upon our capacity to produce. Capacity is an elusive concept. It sounds so simple, but it is so full of complexities. The defense schedule, to begin with, is full of complications. Designs and specifications for things like jet planes are hard but not fast; that is, the parts consisting of new hard alloys require new machine tools, jigs, and fixtures which in turn take a lot of designing and engineering talent and before the new planes come off the final assembly line, plane designers come up with new and improved designs for yet more battle-worthy fighter craft. Such are the woes of production for defense—some of them.

Another major complication imposed by the expanding defense program upon total capacity is the matter of materials. All production lines feed on basic materials like aluminum, copper, iron, lead, magnesium, steel, tin, and zinc. Capacity to produce these and other basic items is inadequate, and the process of expanding capacity momentarily accentuates the shortages because these same materials go into the new plants being constructed and equipped. The Controlled Materials Plan—an evidence of the over-all shortages—is a device for directing available materials into most urgent channels.

Another element of capacity is power—electrical energy. Aluminum, so vital for defense, requires a huge amount of electricity to extract the metal from the ore. Below-normal rainfall in the Pacific Northwest last summer slowed down the electric generators and knocked thousands of tons of aluminum out of the schedule.

Still another indispensable ingredient of capacity is labor power. A national labor force of 64 million people sounds impressive, particularly when accompanied by an almost all-time low unemployment, but big aggregates like 64 million leave a lot untold. Modern technology, especially the technology of defense, imposes a heavy burden on high and rare skills. Of technicians and skilled workers there is a serious shortage, and training is time-consuming. Moreover, much defense work is also time-consuming because specifications are so precise and workmanship so exacting.

SPENDING FOR GOODS

Whether we will see a revival of inflation in 1952 and, if so, how much, will depend on the vigor with which Government, businessmen, and consumers spend for the limited amount of goods available. All three groups will be in the market, and if we have inflation it will be because buyers backed by too much purchasing power will be trying to bid the limited amount of goods away from each other.

Government policies will have a great influence on the spending picture. During 1951, Federal, state and local government purchases of goods and services took about $63 billion, or one-fifth of all goods and services produced. In the coming year, Government will spend a much larger amount and will take a greater share of the gross national product. It is important, therefore, that Government spending and taxing policies be designed to hold down inflationary pressures rather than contribute to rising prices. More of this later.

Indirectly, Government policies will also have a profound effect on how much business and consumers spend. Goods and services that businessmen buy from each other may be considered in two broad categories: inventories, and outlays for plant and equipment, commonly called capital expenditures.

Total business inventories, exclusive of those on farms, are estimated to be $70 billion—the dollar valuation, unfortunately, being the only way of consolidating the heterogeneous materials in the hands of the country's almost 4 million business enterprises consisting chiefly of manufacturers, wholesalers, and retailers. With minor exceptions here and there, business inventories are high but probably not too high in view of things to come. There does not seem to be much prospect that inventories will go much higher in physical quantities this year, though the total valuation is subject to considerable change depending upon the course of prices.

Business expenditures for plant expansion and modernization of equipment were also high last year, and promise to go still higher this year. Last year's outlays totaled $23 billion, a record, and outlays for the first quarter of 1952 are estimated to be almost $6 billion, or 18 per cent above the first quarter of last year, according to the S.E.C.-Department of Commerce. In manufacturing, the big expanders are the steel, transportation equipment, petroleum, and chemical industries. In Philadelphia, by way of contrast, the outlook is just the opposite, according to our own survey as reported in our November *Business Review.* Local manufacturers are apparently planning to cut back their capital outlays about 20 per cent below last year's expenditures. The local survey was confined to Philadelphia proper, however, and we know of large expansion projects within the larger Philadelphia metropolitan area of which the new Fairless steel mill is the major project.

More money was spent on construction during 1951 than ever before. Expenditures amounting to nearly $30 billion were up 7 per cent from the 1950 total, but the margin of gain was entirely absorbed by higher construction costs. Much larger outlays of public funds directed chiefly toward defense plant, institutional, and military construction accounted for the year's increase in dollar volume. Expenditures of private funds were virtually the same as in 1950. In this category outlays for housing, retail stores, and recreational buildings declined rather sharply in 1951, but the loss was offset by the virtual doubling of expenditures for industrial construction. Restrictions on housing and commercial building and delays on other types of non-defense projects attributable to material shortages produced a gradual decline in total construction expenditures during the second half of 1951. These same factors are likely to have a further dampening effect on construction activity during the coming year.

How much consumers will spend this year is one of the most important factors in the outlook, but unfortunately one of the most difficult things to predict. You never can tell exactly which way the consumer is going to "jump." If you have been watching him recently, however, you became more and more convinced of one thing: the consumer has lived through several years of inflation and is now ready to look out for his own interests if prices rise. Soon after the communists invaded South Korea, the American consumer invaded the stores, expecting many goods to become scarce or completely unavailable. When he realized that shortages were not developing, he scaled down his spending only to resume about a year ago when the Chinese entered the war.

Last year consumers spent slightly over $200 billion, of which a little over half was for nondurable goods, about one-eighth for durable goods, and about one-third for services of various kinds. Throughout the year, spending did not maintain the vigor exhibited at the outset. This tendency was observed with considerable chagrin by department store merchants. Department store sales in the Philadelphia Federal Reserve District, expressed in an index anchored to 1947-1949 as 100, declined from a peak of 125 in January to a low of 103 in June, after which there was some recovery but by no means enough to bring cheer to the merchants. True, the January high was quite unusual, but so was the late-year low. For almost nine months, people have been somewhat parsimonious in their patronage at the stores in view of the high consumer income. By invoking the alleged law of action and reaction a good case could be made for an early resumption of increased consumer spending. But we do not want to press the case too hard because many so-called economic laws always seem to reserve the right to depart from custom at will and without warning.

In recent months, merchants have succeeded in reducing their formerly heavy inventories to a lower and somewhat more comfortable relationship to sales. Inventories, still somewhat heavy in certain items, might be translated into shortages quickly, if some incident were to stampede consumers into a buying wave like last winter's, or slowly, if the expanding defense program encroaches upon civilian life step by step. If the consumer should again begin to fear rising prices and widespread shortages, he might well go on another desperate buying spree. Whether or not we have more inflation, therefore, will depend a great deal on whether consumers can be convinced that there need be and that there will be no more inflation.

It All Takes Money

Spending is the result of two things: willingness and ability. Business and Government apparently are willing, but consumers are more in doubt. How about ability to spend? All this spending takes money, and how much business, consumers, and Government will spend during the coming year will depend on the total amount of money available for spending and the rapidity with which this money is used. During the early months of 1951, the rate at which money circulated continued an upward trend, reflecting the spending spree after the Chinese entered the war. Since March, however, the rate of money turnover has declined and for the year as a whole there has been practically no net change in the rate.

Spending, of course, will not necessarily be limited to the money already on hand. By borrowing from the commercial banks, business, consumers, and Government obtain new money which results in an expansion in the total money supply. When this happens, inflationary pressures are increased unless production also increases. During eleven months of 1951, total deposits and currency outside banks expanded by about $6 billion, mostly reflecting increased lending by commercial banks.

Business continued its borrowing from banks in the early months of 1951, a period when such borrowing usually declines. After leveling off for about four months, business loans again rose in the latter part of 1951 about as much as they usually do at this time of the year. For 1951 as a whole, the increase in business loans at weekly reporting banks in the United States was about the same as for 1950, but was substantially less during the last three quarters than in the same period of 1950. The percentage increase in the Third District was somewhat greater than in the United States. A large part of the lending to business, of course, was either directly or indirectly for defense work. At the weekly reporting banks in the Third Federal Reserve District, loans to finance defense or defense-supporting activities rose rather steadily from May to the end of the year. Lending for non-defense activity, on the other hand, remained low during May, June, and July and subsequently rose more rapidly than defense loans.

Consumers have been erratic in their spending, and may be so again in 1952. Their decisions will have an important bearing on the flow of money through the economy. During 1951, consumer personal incomes rose steadily. After buying freely during the first quarter of the year, however, consumers spent a fairly constant amount. The result of rising incomes and a fairly constant level of spending, of course, was more saving. Some of these savings has been put into liquid assets of one kind or another—bank deposits, saving and loan shares, and insurance.

Some of the savings went to repay debt. Evidence of this is the fact that for the first calendar year since World War II the volume of outstanding consumer credit failed to rise substantially. One reason for this, of course, is that consumers did not continue to spend all of their increasing income. Regulations on consumer credit helped to dampen the demand for consumers' durable goods. Pursuant to the Defense Production Act of 1950, the Board of Governors reissued its Regulation W in September of 1950 and further tightened the terms in October of that year. From October of 1950 to July 1951 the outstanding instalment credit declined by about half a billion dollars. In renewing the Defense Production Act last summer, however, Congress provided that the Regulation could not be more restrictive than certain specified down payment and maturity provisions provided in the Act. This, of course, necessitated the relaxation of the Regulation, the new terms becoming effective at the end of July. Partly for this reason, the volume of instalment credit rose somewhat between July and the end of the year.

A similar development occurred in the field of real estate credit during 1951. The Defense Production Act of 1950 authorized the imposition of restraint on real estate credit, and in October of that year the Board of Governors issued its Regulation X applying to credit in connection with new homes and additions and improvements to existing homes. At the same time, the Housing and Home Finance Agency issued regulations restricting credit on houses financed with Government guarantee and insurance. In January 1951 the regulations were extended to multi-family dwellings and in February to non-residential construction. Through August the number of private housing starts in 1951 fell below the preceding year by progressively larger percentages. The volume of mortgage lending remained high, but in some cases not as high as in 1950.

Although the large volume of outstanding commitments made the regulation necessarily slow in taking effect, Regulation X and its companion restrictions undoubtedly contributed to a lower volume of construction activity for non-defense purposes and a lower volume of mortgage lending. Congress, in fact, decided that the regulations had been too restrictive, for in the Defense Housing Act it, in effect, relaxed the Regulation by providing that terms could not be more restrictive than certain specified down payment and maturity provisions in the Act. Probably even more important in slowing down the volume of mortgage lending was the accord reached by the Federal Reserve and the Treasury and subsequent developments in the Government securities market. Insurance companies and other lenders had become heavily committed to make mortgage loans, expecting to meet many of these commitments by selling Government securities. When prices of Government securities dropped below par, these lenders became cautious in making new commitments. The result was that the supply of funds in the real estate market became considerably tighter, particularly in the field of loans guaranteed by the Veterans Administration where the rate is fixed at 4 per cent.

DEALING WITH INFLATION

The torrent of buying touched off by the outbreak of fighting in Korea in mid-1950 hit the economy when it was already operating close to capacity. Although the physical output of goods and services rose, it was insufficient, as we have seen, to absorb the upsurge in spending without prices being pushed upward during the second half of 1950 and the early part of 1951.

Wholesale prices bounded upward in the latter part of 1950 and reached their peak in March of last year. After March there was a slow but fairly steady decline until September. The all-commodity index has been stable during the last few months at a level about 13 per cent above June 1950. Prices of raw materials and semi-finished goods moved more rapidly and through a wider range than finished goods. Since last March these two groups have registered appreciable declines. The prices of finished goods, however, moved up more slowly and did not reach their peak until May. Since May they have declined much less than raw materials and semi-finished products.

The rise in consumer prices lagged behind that of wholesale prices but continued longer. The index of consumer prices reached a plateau in May, about 9 per cent above June 1950, where it remained through the summer months. It resumed its upward trend in the fall. Wearing apparel, food and housefurnishings cost the consumer about one-seventh more at the end of 1951 than in June 1950. Rent, fuel and electricity were up about 6 per cent.

Causes of Inflation

Are inflationary or deflationary pressures likely to prevail in 1952? It may throw some light on this question to examine why total spending became generally excessive in the last half of 1950 and in early 1951. In examining the causes of inflation, it will be convenient to consider two segments of the spending stream—private and Government.

The first upsurge of inflation, following Korea, was brought on by the torrent of private spending which arose from the speculative reaction of consumers and businessmen. In an effort to "stock up," consumers and businessmen not only spent most of the current income at their disposal, they borrowed heavily and dipped into their savings, as was pointed out above. Borrowing from the banks—whether by consumers, business firms, or the Government—places new deposits at the disposal of the borrower, and the quantity of money available to spend is increased. The essence of the borrowing device is that it enables one to convert a part of his future income into money which can be used to meet current expenditures. The rate of turnover of deposits also rose. An increase in the number of times a dollar passes from buyer to seller in a given period of time pushes up total spending just the same as an increase in the total quantity of dollars available to spend.

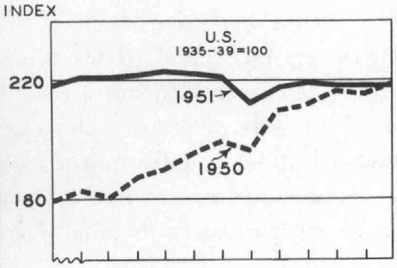
The defense program, which contributed only indirectly to inflation last year, may well be a direct source of inflationary pressure in the near future. Every dollar paid out by the Government for tanks, guns, airplanes, food, clothing, and the many other things required for defense, gives someone another dollar to spend. But defense production does not put any more goods in the stores for these dollars to buy. It fact, by diverting raw materials from civilian to defense purposes it reduces the supply of goods which otherwise would be available to civilians. Unless, therefore, the Government siphons back as many dollars as it pays out, it tends to create an inflation gap between buying power and the supply of goods available for purchase.

Measures to Curb Spending

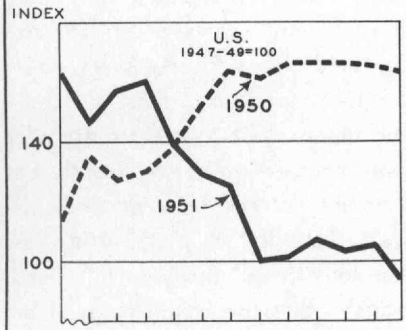
Whether we have inflation in 1952 will depend in part on whether effective steps are taken to deal with inflationary pressures should they re-emerge. The only real preventive or cure for inflation is to remove the causes. As we have seen, one important cause lies in the monetary sector—a more rapid rate of turnover of deposits, and a substantial increase in the amount of money available to spend as a result of borrowing. Since people themselves decide how rapidly they will spend the money they have, private spending can be curbed only by limiting the amount of funds placed at their disposal. This can be accomplished both by restricting credit expansion and by the adoption of appropriate financial policies by the Government.

Curbing Credit Expansion. The problem here is to prevent borrowing from generating an excessive amount

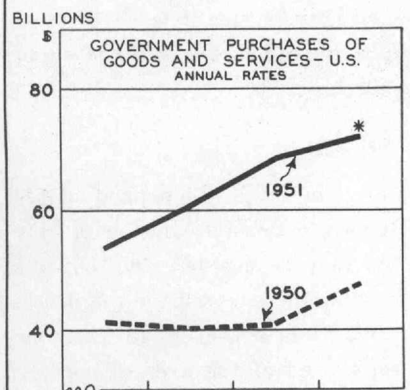
BUSINESS DEVELOPMENTS IN 1951



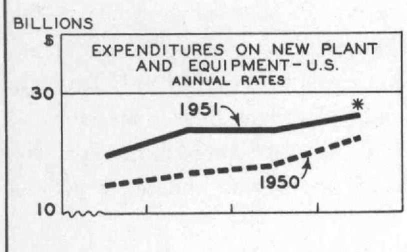
Total INDUSTRIAL PRODUCTION did not increase in 1951 . . .



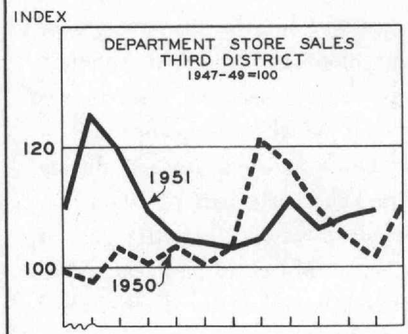
. . . partly because of a drop in the OUTPUT OF DURABLE CONSUMERS GOODS.



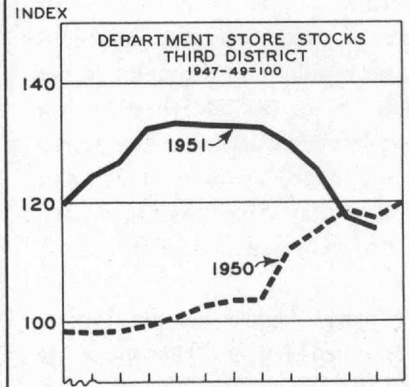
GOVERNMENT spent increasing amounts . . .



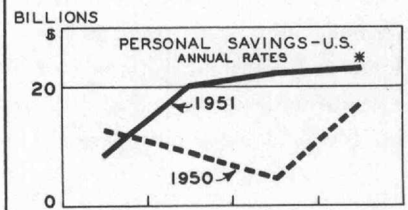
. . . as did BUSINESS.



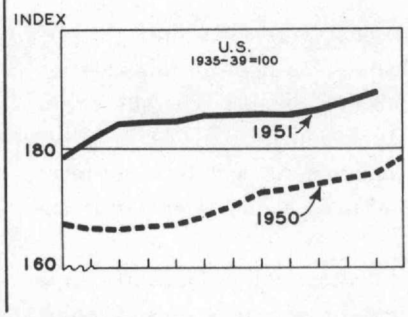
But CONSUMERS did not spend as freely as expected . . .



. . . and stores wrestled with large INVENTORIES.



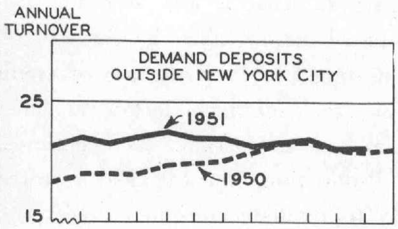
The fact that people were SAVING more helps to explain why . . .



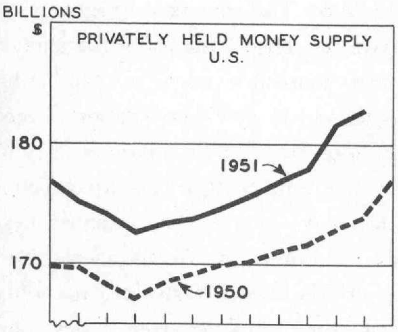
. . . CONSUMER PRICES did not rise more.

*FOURTH QUARTER ESTIMATE

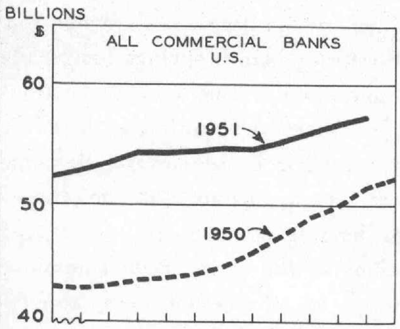
FINANCIAL DEVELOPMENTS IN 1951



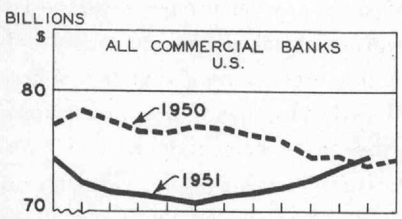
Although DEPOSIT TURNOVER remained fairly constant . . .



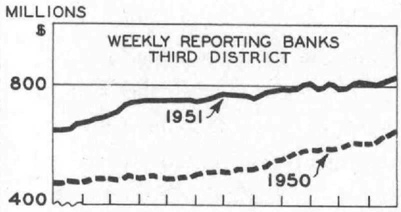
. . . the privately held MONEY SUPPLY continued to rise.



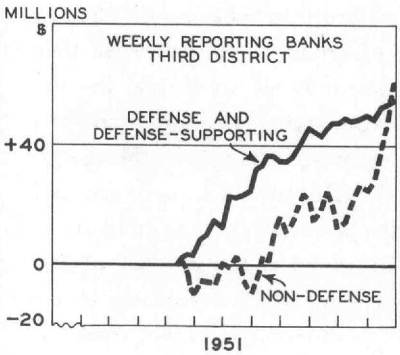
BANK LOANS increased . . .



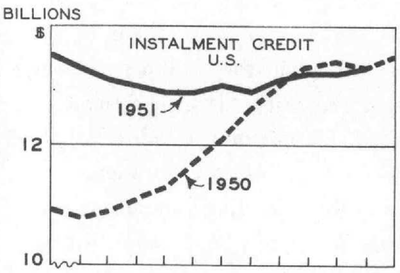
. . . but INVESTMENTS showed little net change.



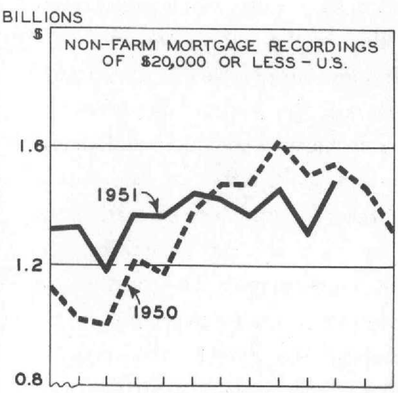
BUSINESS LOANS rose . . .



. . . for both DEFENSE and NON-DEFENSE purposes.



CONSUMER INSTALMENT CREDIT . . .



. . . and MORTGAGE LENDING fell below a year ago.

of spending for the available supply of civilian goods and services. Three broad types of measures are being used to restrict credit expansion—two by the Federal Reserve System and one by the voluntary cooperation of the major lending agencies themselves.

One series of actions by the Federal Reserve System is designed to limit the total amount of credit and of new deposits made available to borrowers. Since member banks are required by law to keep a certain percentage of their deposits on reserve with the Federal Reserve Banks, the amount of new deposits they can create via loans and investments is limited by the reserves they have available or can obtain from the Reserve Banks. By limiting the supply of reserves and by making reserves more difficult to obtain, the System can restrict the amount of credit banks extend to their borrowers. Soon after the outbreak in Korea, the discount rate was increased, making it more expensive for member banks to get more reserves by borrowing from the Reserve Banks. In January 1951, the percentage of deposits member banks were required to hold in reserves was increased. This reduced the amount of free reserves available for new loans and investments. It also immobilized the reserves acquired by member banks as several hundred million dollars of currency in circulation flowed back to the banks, and from them to the Federal Reserve Banks, following the holiday season.

The policy of supporting the prices of Government securities frequently resulted in substantial additions to bank reserves during the post-war period. As banks, insurance companies, and other lending agencies sold Governments to get funds for loans and other investments, Federal Reserve purchases in supporting the prices of Government securities were often substantial. These purchases gave the banks more reserves and tended to increase the money supply. After the accord with the Treasury last March, the Federal Reserve System began directing its purchases and sales of Government securities more toward their effect on the supply and availability of bank reserves and less toward maintaining pegged prices for Government securities. By limiting its purchases of Governments the System reduced the supply of reserves it made available to the banks. Reduced purchases by the System also resulted in a decline in the price of Government securities, several of the longer-term issues dropping below par. Lending institutions became less willing to use this source of funds as the prices of Government securities declined. The tendency, therefore, was for lending agencies to limit the amount of credit extended to private borrowers to the amount of new funds becoming available from savings and repayments on old loans. These actions by the Federal Reserve tended to reduce the total supply of credit without regard to what it was used for.

A second broad type of action taken by the Federal Reserve System was designed to limit the use of credit in particular areas—the stock market, selected consumer durable goods, and new construction. As mentioned earlier, the Defense Production Act of 1950 restored the System's authority to regulate consumer credit and gave it the new responsibility of regulating credit (not guaranteed or insured by the Government) for most types of new construction. The defense program, as pointed out above, requires large quantities of metals and other essential raw materials used in producing durable consumers' goods and in new construction. There was a special reason, therefore, for Regulations W and X which limit the use of credit to buy certain consumers' goods on the instalment plan and to purchase new homes by establishing minimum down payments and maximum repayment periods. These restraints not only help to curb spending, they tend to free labor and materials needed for defense purposes.

The Voluntary Credit Restraint Program was a third approach to the problem of limiting credit expansion. Commercial banks, investment banks, savings banks, life insurance companies, and savings and loan associations have banded together on their own initiative to reduce the amount of credit extended to borrowers. Regional committees have been set up throughout the United States and cooperating lending agencies are encouraged to refer loan applications to the appropriate committee when there is any doubt as to whether these applications conform to the principles of the program.

Financing Defense. The defense program will increase the amount of money people have available to spend, unless the Government takes back as many dollars as it pays out. A first step in removing this source of inflation is to hold Federal expenditures to an absolute minimum. Once they have been reduced to a minimum the only alternative remaining if the Government is not to contribute to inflation is for the Treasury to dip enough out of our incomes by taxation and borrowing from non-bank sources to meet all of its expenditures.

The defense program did not contribute directly to inflation during the first year following the outbreak in Korea. The tax increases voted by Congress were sufficient to provide the Treasury with a substantial excess of cash receipts over cash payments in the fiscal year ending June 30, 1951. The rise in tax receipts was an important factor in curbing consumer spending by draining off private purchasing power. During the first quarter of 1952 a substantial Treasury surplus will help hold down inflation. The longer-run outlook, however, is for mounting deficits during the next two fiscal years unless expenditures are held below current estimates or unless taxes are increased still further. With incomes after taxes still at record levels and with a Federal debt of $259 billion, a "pay-as-we-go" policy is most desirable. Such a policy would require large sums in terms of dollars but not so much in terms of our total output of goods and services. It has been estimated that defense will take only about 14 per cent of the total output of goods and services in the current fiscal year. This is far below the 41 per cent devoted to defense in fiscal year 1945—the peak year for World War II. To the extent, however, that it may be necessary to resort to borrowing, the funds should be drawn from non-bank sources; otherwise, the Government will be financing a part of its expenditures with new money, increasing the amount of money people have to spend.

Price and Wage Controls

Government regulation of prices and wages is a stabilization device basically different from the monetary and fiscal measures explained above. Monetary and fiscal measures are directed toward removing excess purchasing power which is a major cause of inflation. Price and other direct controls, however, which do not get at the sources of inflation, only dam up excess demand behind a wall of regulations. Such controls are designed as a direct check on the rising price-wage spiral rather than as a remedy for the causes of inflation.

To the extent that direct controls are effective in damping down prices and wages and therefore the dollar volume of business, they also help curb the demand for credit and reinforce measures to restrict credit expansion. Unless, however, monetary and fiscal measures are effective in preventing the creation of excess purchasing power, direct controls are unlikely to be successful in holding the line on prices and wages, especially in a partially mobilized economy. It does not do much good to clamp the lid on the kettle as long as a hot fire is burning underneath.

CONCLUSIONS

Strong counteracting forces which have given us several months of relative stability at high levels of production and employment are likely to continue a few months longer. Rising defense expenditures, a record volume of business capital expenditures, and a steadily rising volume of personal income after taxes have been exerting strong upward pressures. Hesitant consumer buying, liquidation of inventories, cut-backs involved in shifting from civilian to defense production, and credit restrictions have exerted a downpull tending to offset the upward pressures. The result has been a period of relative stability.

The prospects for 1952 are for rising defense expenditures, another record volume of business capital expenditures, and rising personal income, reflecting both a high level of employment and another round of wage increases. Some of the counteracting forces appear to be weakening. Consumers have the ability to spend and a greater willingness may emerge at any time. Inventory liquidation and shifting from civilian to defense production should be largely completed soon. The large excess of Treasury cash receipts over expenditures in the first quarter will tend to hold down total spending. After a lull in the early months of the year, however, it appears that inflationary pressures are likely to become stronger than the deflationary forces.

Another element affecting the economic outlook, not considered above, is politics. Nineteen fifty-two is an election year. What is done and left undone will be influenced by sensitivity of office holders and candidates to presumed voter reaction. Voter reaction is not, however, predetermined. Of political oratory there will be no lull; that is a firm prediction. In November somebody is going to be elected or re-elected, and it will be time to take another look ahead along the road we will be traveling. Both the oratory and the results will influence the business outlook, but we are not quite sure how.

CURRENT TRENDS

Business activity in the Third Federal Reserve District was somewhat less spirited in November. Most indexes remained at the plateau reached a few months ago. Some changes were recorded, however, and among these were the substantial declines in coal mining and construction contract awards and the increases in bank loans and investments.

Activity in Pennsylvania manufacturing plants, with the exception of those engaged in defense and allied operations, was a bit dull. Production and employment declined during the month and were below November 1950 primarily due to continued curtailments in the nondurable industries. The more notable soft spots, some of which are seasonal, were food, apparel, and some of the building materials. The more direct effects of the mobilization program were apparent in the heavy goods group. The producers of primary metals, machinery and transportation equipment, all holders of heavy defense contracts, showed the greatest improvement over the previous year.

Department store sales advanced only 1 per cent from October to November but were considerably above last year's rather low level. Preliminary figures indicate that sales during the Christmas holiday season surpassed those of 1950 despite some weakness during the first week of December.

Consumer prices in Philadelphia advanced again during the month. The greatest rise occurred in the cost of miscellaneous items, but food, fuel and housefurnishings also increased. Local families were paying 9 per cent more for cost-of-living items than in November 1950.

Business loans of reporting member banks in the Third Federal Reserve District and the nation rose in the five weeks ended December 26, 1951. The loan rise, which is typical for this season, reflected borrowing by the food, liquor and tobacco groups, metals and metal products firms, and sales finance companies. During the same period last year, borrowing increased at a somewhat faster rate.

The nation's private money supply increased by a billion dollars in November. This was the eighth consecutive month that deposits and currency holdings of business and individuals advanced. Since mid-year the rise in the private money supply has reflected a seasonal increase in bank lending, substantial bank buying of Governments, a gold inflow, and a sizable decline in Treasury deposits.

SUMMARY	Third Federal Reserve District — Per cent change			United States — Per cent change		
	Nov. 1951 from		11 mos. 1951 from year ago	Nov. 1951 from		11 mos. 1951 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	−1*	− 3*	+ 9*	−1	+ 1	+11
Construction contracts	−8	−20	+ 8	−3	−12	+ 9
Coal mining	−4	+15	− 6	+2	+11	+ 5
EMPLOYMENT AND INCOME						
Factory employment	−1*	− 3*	+ 7*	−1	− 1	+ 7
Factory wage income	0*	+ 4*	+20*	....	....	....
TRADE**						
Department store sales	+1	+ 8	+ 4	+4	+ 9	+ 5
Department store stocks	−1	− 1	....	−3	− 4	....
BANKING (All member banks)						
Deposits	0	+ 3	+ 3	0	+ 6	+ 6
Loans	+1	+13	+21	+1	+12	+21
Investments	+2	− 4	− 8	+1	0	− 6
U.S. Govt. securities	+1	− 6	−11	+1	− 1	−10
Other	+3	+ 5	+ 4	+1	+ 7	+12
PRICES						
Wholesale	....	....	....	0	+ 4	+13
Consumers	+1†	+ 9†	+10†	+1	+ 8	+ 9
OTHER						
Check payments	− 7	+ 6	+ 11	− 5	+ 7	+13
Output of electricity	+ 3	+ 5	+ 7	....	....	....

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

LOCAL CONDITIONS	Factory* Employment — Per cent change Nov. 1951 from		Factory* Payrolls — Per cent change Nov. 1951 from		Department Store Sales — Per cent change Nov. 1951 from		Department Store Stocks — Per cent change Nov. 1951 from		Check Payments — Per cent change Nov. 1951 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	0	+ 1	+3	+10	....	....	....	....	− 6	+ 5
Altoona	0	−13	+3	− 9	....	....	....	....	− 5	+ 7
Harrisburg	0	+ 2	+4	+13	....	....	....	....	0	+15
Johnstown	+1	+ 4	+4	+14	....	....	....	....	− 3	+ 5
Lancaster	−1	− 2	−2	− 2	+54	+14	−6	− 2	−13	+ 2
Philadelphia	−1	− 3	+1	+ 3	+28	+ 6	+1	− 3	− 7	+ 6
Reading	−1	− 6	−2	−10	+28	− 2	−2	+ 2	− 1	− 3
Scranton	−2	− 8	−1	− 8	....	....	....	....	− 2	+ 5
Trenton	....	....	....	....	+25	+15	+4	+10	− 9	+ 4
Wilkes-Barre	0	+ 1	−2	0	+30	+ 5	−2	−14	0	+12
Williamsport	0	+ 4	+5	+ 5	....	....	....	....	− 2	+ 6
Wilmington	+1	− 3	+2	+ 3	....	....	....	....	−20	− 2
York	0	− 7	0	− 4	+26	+10	−3	− 6	−11	−10

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

MEASURES OF OUTPUT

	Per cent change: Nov. 1951 from month ago	Nov. 1951 from year ago	11 mos. 1951 from year ago
MANUFACTURING (Pa.)	− 1	− 3	+ 9
Durable goods industries	0	+ 2	+17
Nondurable goods industries	− 1	−10	− 1
Foods	− 4	− 5	0
Tobacco	− 1	− 4	+ 2
Textiles	+ 1	−25	−12
Apparel	− 4	−19	− 3
Lumber	− 6	−14	− 3
Furniture	+ 2	−23	−16
Paper	+ 1	−14	+ 3
Printing and publishing	− 1	+ 1	+ 1
Chemicals	− 1	+ 3	+11
Petroleum and coal products	− 1	− 2	+ 2
Rubber	+ 1	+ 5	+18
Leather	+ 6	−15	− 5
Stone, clay and glass	− 5	− 8	+10
Primary metal industries	+ 1	+ 6	+16
Fabricated metal products	− 1	0	+19
Machinery (except electrical)	+ 1	+ 3	+21
Electrical machinery	+ 2	0	+15
Transportation equipment	− 1	+25	+27
Instruments and related products	− 2	+ 2	+26
Misc. manufacturing industries	− 4	−17	+11
COAL MINING (3rd F. R. Dist.)*	− 4	+15	− 6
Anthracite	− 5	+18	− 7
Bituminous	− 2	+ 3	+ 7
CRUDE OIL (3rd F. R. Dist.)**	− 7	− 7	− 3
CONSTRUCTION—CONTRACT AWARDS (3rd F. R. Dist.)†	− 8	−20	+ 8
Residential	− 8	−17	0
Nonresidential	− 1	−20	+43
Public works and utilities	−23	−30	−25

*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: Nov. 1951 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: Nov. 1951 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: Nov. 1951	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: Nov. 1951	Average Hourly Earnings: % chg. from year ago
All manufacturing	136	−1	− 3	393	0	+ 4	$64.64	+ 7	$1.61	+ 9
Durable goods industries	168	0	+ 3	465	0	+11	71.25	+ 8	1.73	+ 9
Nondurable goods industries	106	−2	−10	300	−1	− 8	54.38	+ 2	1.41	+ 6
Foods	128	−2	− 2	313	−3	+ 3	54.63	+ 5	1.34	+ 6
Tobacco	90	+1	− 1	249	−1	+ 1	36.32	+ 2	.95	+ 4
Textiles	69	−1	−20	203	+1	−24	52.64	− 4	1.39	+ 2
Apparel	120	−6	−13	338	−1	−14	39.89	0	1.15	+ 5
Lumber	153	−2	−11	396	−6	− 9	45.07	+ 2	1.12	+ 5
Furniture and lumber products	119	+2	−22	357	+2	−21	55.26	+ 2	1.28	+ 4
Paper	139	+1	− 8	406	+1	− 8	63.10	0	1.52	+ 8
Printing and publishing	119	−1	− 1	314	0	+ 4	74.76	+ 5	1.91	+ 6
Chemicals	146	−1	+ 1	406	−2	+ 5	66.19	+ 4	1.61	+ 4
Petroleum and coal products	157	0	+ 1	423	−2	+ 5	81.18	+ 4	2.01	+ 6
Rubber	242	0	+ 3	751	0	+12	76.98	+ 8	1.83	+ 8
Leather	82	+2	−11	218	+7	−12	45.37	0	1.20	+ 3
Stone, clay and glass	139	−3	− 4	384	−5	− 3	63.15	+ 1	1.63	+ 6
Primary metal industries	143	+1	+ 7	403	+1	+18	78.43	+11	1.92	+11
Fabricated metal products	174	−1	− 1	488	−1	+ 6	66.58	+ 8	1.60	+ 8
Machinery (except electrical)	241	+1	+ 4	692	+1	+10	72.77	+ 6	1.70	+ 8
Electrical machinery	268	+1	+ 1	638	+3	+ 7	66.52	+ 6	1.63	+ 8
Transportation equipment	175	+1	+24	474	−1	+34	76.76	+ 7	1.90	+ 7
Instruments and related products	185	−1	+ 5	552	−1	+ 6	67.92	+ 1	1.61	+ 4
Misc. manufacturing industries	134	−3	−14	355	−4	−12	54.37	+ 2	1.30	+ 6

*Production workers only.

TRADE

Third F. R. District Indexes: 1947–49 Avg.=100 Adjusted for seasonal variation	Nov. 1951 (Index)	Per cent change: Nov. 1951 from month ago	Nov. 1951 from year ago	11 mos. 1951 from year ago
SALES				
Department stores	109	+ 1	+ 8	+4
Women's apparel stores†	95	+16	+ 4	+2
Furniture stores	......	+ 6*	+13*	+4*
STOCKS				
Department stores	115p	− 1	− 1	......
Women's apparel stores†	106	− 1	− 2	......
Furniture stores	......	0*	− 2*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended December 8	− 9
Week ended December 15	−11
Week ended December 22	+ 6
Week ended December 29	+ 6
Week ended January 5	−17

*Not adjusted for seasonal variation. p—preliminary.
†Philadelphia.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. Nov. 1951 from year ago	Sales: % chg. 11 mos. 1951 from year ago	Stocks (end of month): % chg. Nov. 1951 from year ago	Stocks: Ratio to sales (months' supply) November 1951	Stocks: Ratio to sales (months' supply) November 1950
Total—All departments	+ 6	+2	− 4	2.5	2.8
Main store total	+ 5	+1	− 3	2.7	2.9
Piece goods and household textiles	+ 2	+2	−13	3.5	4.1
Small wares	+ 6	0	− 7	3.2	3.6
Women's and misses' accessories	+ 7	+3	− 8	2.6	3.0
Women's and misses' apparel	+ 6	+5	− 1	1.9	2.0
Men's and boys' wear	+10	+4	+ 1	2.8	3.0
Housefurnishings	− 1	−2	0	3.3	3.2
Other main store	+ 6	+2	− 2	2.0	2.2
Basement store total	+ 9	+2	− 8	1.6	1.9
Domestics and blankets	+11	+2	−15	2.2	2.9
Small wares	− 2	−6	−25	1.6	2.1
Women's and misses' wear	+11	+3	−10	1.3	1.6
Men's and boys' wear	+14	+6	− 8	1.6	2.0
Housefurnishings	+ 5	−1	− 1	1.8	1.9
Shoes	+ 3	+4	+ 4	2.7	2.7
Nonmerchandise total	+ 6	+3	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receivables (end of month)
	% chg. Nov. 1951 from year ago	% chg. 11 mos. 1951 from year ago	% chg. Nov. 1951 from year ago
Department stores			
Cash	+ 8	+ 3	......
Charge account	+ 4	+ 5	+14
Instalment account	+17	− 8	− 7
Furniture stores			
Cash	+11	+ 7	......
Charge account	+14	+13	......
Instalment account	+41	+11	− 2

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. Nov. 1951 from year ago	% chg. 11 mos. 1951 from year ago	% chg. Nov. 1951 from year ago
Consumer instalment loans			
Commercial banks	+32	− 1	− 7
Industrial banks and loan companies	+39	+ 6	+ 4
Small loan companies	+22	+16	+12
Credit unions	+28	+ 8	+ 8

PRICES

Index: 1935–39 average = 100	Nov. 1951 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States	221	0	+ 4
Farm products	257	+2	+ 6
Foods	239	0	+ 8
Other	206	0	+ 2
Consumer prices			
United States	189	+1	+ 8
Philadelphia	190	+1	+ 9
Food	227	+1	+11
Clothing	204	0	+ 6
Rent	127	0	+ 3
Fuel	154	+1	+ 4
Housefurnishings	221	+1	+ 3
Other	172	+2	+11

Weekly Wholesale Prices—U.S. (Index: 1935–39 average = 100)	All commodities	Farm products	Foods	Other
Week ended December 11	220	255	238	204
Week ended December 18	220	254	239	204
Week ended December 25	220	257	239	204
Week ended January 1	220	255	239	204

Source: U.S. Bureau of Labor Statistics.

BANKING

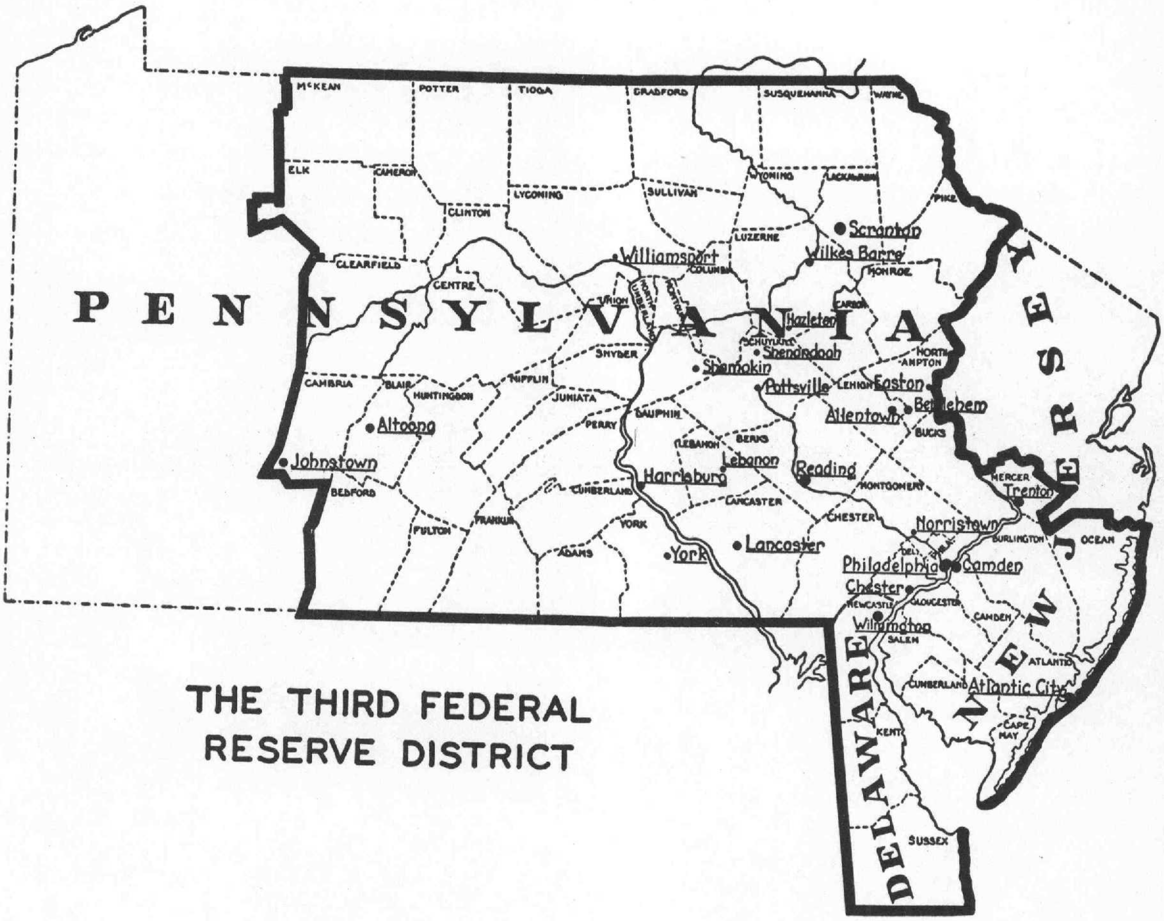
MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	Nov. 28 1951	Changes in—	
		four weeks	year
Money supply, privately owned	182.7	+1.1	+8.8
Demand deposits, adjusted	96.3	+1.3	+6.0
Time deposits	60.6	− .3	+1.9
Currency outside banks	25.8	+ .1	+ .9
Turnover of demand deposits	21.2*	0*	+1.0*
Commercial bank earning assets	131.9	+1.4	+6.5
Loans	57.3	+ .5	+5.8
U.S. Government securities	61.6	+ .8	− .1
Other securities	13.0	+ .1	+ .8
Member bank reserves held	19.6	+ .1	+2.8
Required reserves (estimated)	19.2	+ .2	+3.0
Excess reserves (estimated)	.4	− .1	− .2

Changes in reserves during 4 weeks ended November 28, reflected the following:

	Effect on reserves
Increase in Reserve Bank loans	+.3
Decrease in Reserve Bank holdings of Governments	−.3
Other Reserve Bank credit	+.3
Gold and foreign transactions	+.1
Increase of currency in circulation	−.3
Change in reserves	+.1

* 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. 26 1951	Changes in—	
		five weeks	year
Weekly reporting banks—leading cities			
United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	21.6	+ .7	+ 3.8
Security	2.1	+ .3	− .4
Real estate	5.7	0	+ .4
To banks	.6	− .1	+ .1
All other	6.0	+ .1	+ .1
Total loans—gross	36.0	+1.0	+ 4.0
Investments	39.4	+1.2	− .8
Deposits	84.9	+2.4	+ 4.3
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	838	+ 32	+190
Security	46	+ 1	0
Real estate	133	− 1	− 12
To banks	11	− 8	− 10
All other	398	+ 8	+ 17
Total loans—gross	1,426	+ 32	+185
Investments	1,539	+ 17	−208
Deposits	3,302	+ 87	− 6
Member bank reserves and related items			
United States (*billions $*):			
Member bank reserves held	20.2	+ .4	+ 3.0
Reserve Bank holdings of Governments	23.5	+ .2	+ 3.2
Gold stock	22.6	+ .2	− .2
Money in circulation	29.4	+ .7	+ 1.5
Treasury deposits at Reserve Banks	.3	− .1	− .5
Federal Reserve Bank of Phila. (*millions $*):			
Loans and securities	1,496	+ 14	+135
Federal Reserve notes	1,783	+ 54	+100
Member bank reserve deposits	923	+ 19	+137
Gold certificate reserves	1,236	+ 45	+ 29
Reserve ratio (%)	44.8%	+ .7%	− 1.9%



THE THIRD FEDERAL
RESERVE DISTRICT