

~~CONFIDENTIAL~~

Fed Res Bd

August 9, 1950

RECENT ECONOMIC CHANGES

Since the outbreak of hostilities buying has increased sharply from the advanced levels reached in the second quarter and prices have risen considerably further. Seasonally adjusted purchases of goods at department stores rose 20 per cent in July -- an unprecedented increase for one month. Buying of major appliances in the third week of July reached a rate which was triple the level prevailing in June. In the fourth week of July, purchases of these and other department store goods showed little abatement. Likewise, demand for passenger cars and new houses has been maintained at peak rates and in excess of the supply available. Buying, however, of such foods as sugar and coffee apparently has declined to more normal levels during the past two weeks. Business purchases of materials and orders for capital equipment also expanded sharply in July. Orders for new freight cars, for example, increased to 30,000 from 2,200 in June.

This general upsurge in buying has been in anticipation of a return to wartime shortages of civilian goods and a resumption of generally advancing prices. The buying has been financed by high and rising levels of consumer and corporate incomes, by an accelerated expansion in bank loans to business and credit extensions to consumers for purchasing durable goods and homes, and by the spending of liquid assets. Partial data indicate some recent reduction in savings bank deposits. Also, the redemption of Series E Government savings bonds exceeded purchases by 50 million dollars in July, while last July people bought considerably more bonds than they cashed.

These increases in demand have stimulated activity in those lines which had not already been at current capacity levels in June. In manufacturing, further increases in output of such goods as textile, petroleum, and machinery products are possible and expected during the third quarter but production of these and other finished goods is limited by the supply of such basic materials as steel, nonferrous metals, lumber, cement, and rayon. Output of fuels and other minerals are rising and the Board's total index of industrial production in August is likely to be about 205 per cent of 1935-39 -- up 3 per cent from the peacetime record level in June and up one-fifth from a year ago.

Construction activity continued to rise in July and the volume of new contracts awarded indicates that building activity will be sustained at record levels in August. Prices of building materials have advanced further since June to new highs and property values are again rising.

Total nonagricultural employment has increased considerably and is close to the record level reached in mid-1948. Unemployment is still about 1 million greater than at that time reflecting the increase in the labor force. Average hours worked indicate that a substantial amount of overtime is being put in, particularly in the durable goods industries.

Agricultural production will be down somewhat this year. Total crop production was expected earlier to be 6 per cent below last year's large volume and recent crop developments have shown little improvement. Carryovers of basic crops, however, are larger than last season and stocks of livestock products are greater. Farm marketings of livestock products are running somewhat above last year's level.

Altogether, production of these and other goods and services were at record levels and rising before the Korean crisis. At the same time, however, over-all demands were also at advanced levels and rising. Consumer demands for automobiles and other durable goods were exceptionally active, reflecting the rising level of employment, the stimulus of the large veterans insurance dividends, and the widespread use of credit on easy terms. Consumer credit outstanding increased by about 550 million dollars in June to a level of 19.6 billion dollars. Mortgage and other credit similarly increased sharply. Business demands for inventories were expanding further and earlier plans for expenditures on plant and producers equipment were being revised upward. Government stockpiling activities were being stepped up, and various other developments, especially in the international sphere, also were expanding demands for goods in this country and abroad.

As a result of these upward pressures, wholesale prices, especially of imports, metals, lumber, and livestock, rose considerably in April and May and in June the consumers' price index increased further by 1 per cent. The upsurge in buying since that time has been followed by sharp rises in prices, especially of raw materials and foods. Basic commodities have risen 16 per cent and on August 8 were 25 per cent higher than in March. The sharpest advance has been in rubber to 61 cents per pound as compared with 29 cents in June and 20 cents in March. All commodities at wholesale by August 1 had risen 5 per cent in five weeks and were 8 per cent higher than in March. Wholesale prices of farm products and foods were up 12 per cent from March and industrial commodities, 5 per cent. Retail food prices now are nearly 10 per cent higher than in March and the total of consumer prices -- including controlled rents -- is probably up 4 per cent.

Since August 1 prices of domestic basic commodities have leveled off. Buying interest in these commodities has been reduced by actual and prospective increases in market supplies and growing sentiment for Federal action to curb inflationary developments. Prices of rubber and other imports, however, have continued to advance, scrap metal prices are now rising, and additional increases have occurred in prices of manufactured goods.

Division of Research and Statistics,
Board of Governors, Federal Reserve System.

Recent Changes in Prices

Series	Percent rise to Aug. 1, 1950 from:		
	Week ending		1948
	June 24	March 18	monthly highs
<u>Consumer Prices</u>			
All items	2	4	- 1
Foods	4	9	- 3
Apparel	0	0	- 8
Rent	0	1	4
<u>Wholesale Prices</u>			
All commodities	5	8	- 3
Farm products	8	12	-12
Grains	1	2	-35
Livestock	10	23	-12
Foods	8	13	- 8
Other commodities	3	5	0
Textile products	8	7	- 4
Chemicals	6	4	-14
Building materials	4	8	2
Metals and metal products	1	3	0
28 Basic commodities	15	23	-14
Selected items:			
Rubber	84	171	
Lard	39	41	
Print cloth	28	28	
Hides	26	28	
Tin	25	27	
Hogs	19	43	
Cocoa	18	71	
Wool tops	17	30	
Cotton	13	20	
Coffee	13	18	
Sugar, raw	7	12	
Steers	5	6	
Wheat	3	0	
Zinc	0	47	
Copper	0	22	
Steel scrap	- 2	39	

Note: Compiled from B.L.S. data. August 1 consumers prices estimated by Federal Reserve.

THE WHITE HOUSE
WASHINGTON

August 25, 1950

Dear Tom:

I want the members of the Federal Reserve Board and the members of the Federal Open Market Committee to understand that I approved on last Friday afternoon a refunding of United States Government securities involving Thirteen and a Half Billion Dollars (\$13-1/2 billion) of issues maturing between now and the late fall.

I understood from my conversation with you over the telephone that this action would have the complete support of all the agencies which have been granted responsibility in that line.

It is of paramount importance that confidence be maintained in the credit of the United States. I have discussed the matter with the Secretary of the Treasury since the Korean outbreak and we are in complete agreement.

I think it is imperative that at the earliest possible moment all operations of the Federal Reserve Board and actions relating to the market for Government securities be so adjusted that outstanding United States Government securities sell at par.

I want the situation maintained as it was when you and I had our conversation the other evening on the action to be taken by the Federal Reserve Board with regard to public credit.

Sincerely yours,



Honorable Thomas B. McCabe
Chairman, Board of Governors
of the Federal Reserve System
Washington 25, D. C.