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# URBAN REAL ESTATE FINANCE

## Importance of Real Estate Lending

Next to food, shelter is probably the most fundamental requirement of man. Modern civilization has added clothing to the list of fundamental wants, but primitive man undoubtedly was interested first in food and, second, in shelter. The provision of household shelter and for manufacturing, trade and business is, therefore, of utmost importance to the economic system. Similarly, the financing of this shelter constitutes one of the most important fields of finance.

At the close of June 1946, the volume of obligations secured by real estate mortgages amounted to more than $38 billion, or more than one-fourth of all private debts in the land. As of the close of the year it probably exceeded $40 billion. The total amount of interest paid on this mortgage debt at the present time probably ranges from $1½ to $2 billion per annum. Most of the mortgage debt is held by private lenders. Of the $38 billion on June 30, 1946, the commercial banks held nearly $6 billion or about 15 percent and the savings banks about $4¼ billion or about 11 percent, while life insurance companies and building and loan associations each held about $6½ billion or about 17 percent. About $2½ billion of the mortgage obligations were held by Federal agencies, chiefly the Federal Land Bank and the HOLC.

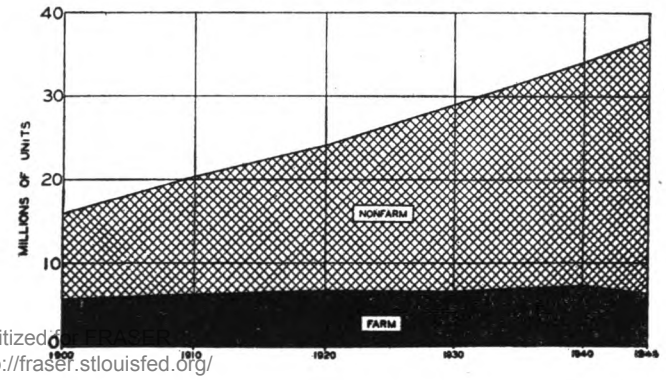
Of the $38 billion of mortgages, about $5 billion was on farm land and the remainder, about $33 billion, was on nonfarm properties.

## Housing Developments During the War

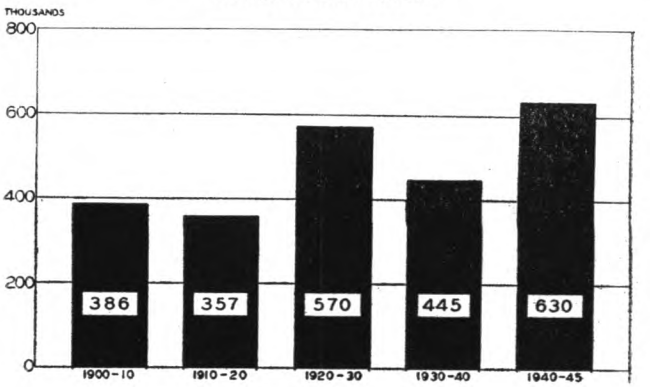
From 1940 to 1945 the number of occupied nonfarm dwelling units increased by 3,500,000, or an average of about 630,000 units per year. This compares with an average increase of about 450,000 per year in occupied nonfarm dwelling units during the decade of the 'Thirties and an average of less than 600,000 per year during the decade of the 'Twenties. Average annual increases during the past forty-five years are shown on an accompanying chart.

The data for 1945 are based on a sample survey and are subject to the errors of sampling which for totals are probably not unduly large. They show that the supply of dwelling units was increased during the five-year rearmament and war period at a more rapid rate than during any preceding decade of the Twentieth Century. Notwithstanding the record-breaking increase in supply, the improvement in

**Occupied Dwelling Units**




**Occupied Nonfarm Dwelling Units**
**Average Annual Increase**



**Occupied Dwelling Units**
(in thousands)

| | Total | Nonfarm | Farm |
|---|---|---|---|
| 1900..... | 15,964 | 10,274 | 5,690 |
| 1910..... | 20,256 | 14,132 | 6,124 |
| 1920..... | 24,352 | 17,600 | 6,751 |
| 1930..... | 29,905 | 23,300 | 6,605 |
| 1940..... | 34,855 | 27,748 | 7,107 |
| 1945..... | 37,600 | 31,281 | 6,319 |

Source: Bureau of Census—Statistical Abstract 1944-45, p. 910; Housing Census, 1940, Volume II, Part I, United States Summary, Table II, p. 3; and Special Reports Series H-46, No. 1.

(These data are not strictly comparable throughout the entire period but they probably give a fair indication of the trend.)

quality of dwelling units, and the induction into the armed forces of about 12,000,000 persons, a severe housing shortage developed which, by the close of 1945, had become almost the major political issue of the day. Many returning veterans have experienced difficulty in finding places in which to establish homes, and urban real estate prices have been rising.

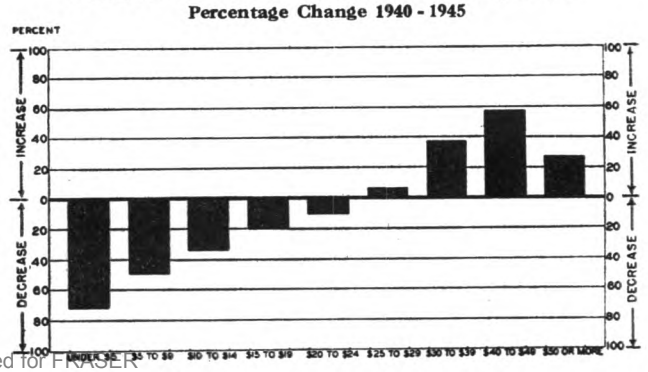
The development of this shortage during a record-breaking expansion in the number of occupied dwelling units may be attributed to four closely related factors:

1. An unprecedented growth of incomes.
2. A "spreading out" or "thinning out" of families among the available dwelling units, a trend made possible by higher incomes.
3. The character of rental and housing controls imposed as a wartime necessity.
4. The ready availability of relatively cheap money for financing the purchase of real estate.

## The Unprecedented Growth in Incomes

In 1940, income payments to individuals amounted to about $76 billion. The volume of income payments increased sharply each year thereafter until it reached the level of $164 billion in 1946, more than double that of 1940. Even though taxes also increased and a much higher proportion of income was put into savings during the war years, consumers' disbursements for goods and services including housing and shelter (but not repayment of mortgage debts) increased by 60 percent or from about $65 billion in 1940 to about $105 billion in 1945. During 1946, consumer expenditures were higher than in any other year of record, increasing further the pressure on available housing.

**Number of Rented Nonfarm Dwelling Units**
**Percentage Change 1940 - 1945**




The growth in incomes appears to have been general throughout the income scale. Individuals who generally have very low incomes received larger incomes and those farther up the income scale also received much larger incomes. While the data are not too reliable, nonetheless it is apparent that fewer persons or family units received low incomes while the number receiving incomes in excess of $2,000–$3,000 increased.

## Spreading Out of Families

This expansion in incomes occurred at a time when the supply of consumer goods and services was restricted, when supplies were rationed, and when prices of most consumers' goods were controlled and rents were frozen. As a consequence, those who received higher incomes had more money to spend on housing and sought better accommodations than they had heretofore been able to afford. There was a reduction in the number of tenant-occupied low-rental units and an increase in the number of tenant-occupied high-rental units.

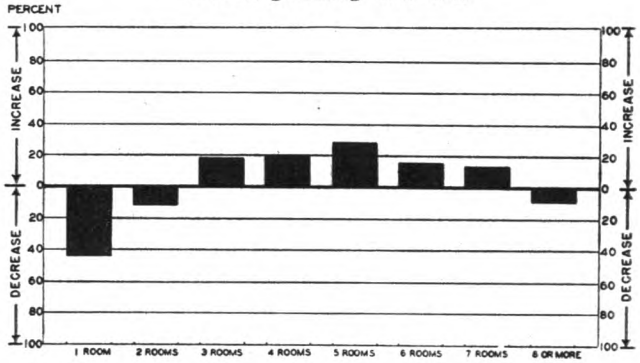
The changes are shown in the following table and on an accompanying chart. In this and the following tables, some of the variation shown may be attributable to errors of sampling, but it is highly unlikely that this factor seriously affects the broad picture shown.

**Distribution of Tenant-Occupied Urban and Rural Nonfarm Dwelling Units (According to Contract Monthly Rent: 1945 and 1940)**

| | Estimated Number | | Increase, 1940-1945 | |
|---|---|---|---|---|
| | 1945 | 1940 | Number | Percent |
| | 000 omitted | | | |
| TOTAL..... | 15,403 | 16,335 | −932 | −5.7 |
| Monthly Rent Per Dwelling Unit: | | | | |
| Under $5..... | 251 | 900 | −649 | −72.1 |
| $ 5 to $9..... | 991 | 1,962 | −971 | −49.5 |
| $10 to $14..... | 1,518 | 2,305 | −787 | −34.1 |
| $15 to $19..... | 1,790 | 2,238 | −448 | −20.0 |
| $20 to $24..... | 1,812 | 2,031 | −219 | −10.8 |
| $25 to $29..... | 1,979 | 1,854 | 125 | 6.7 |
| $30 to $39..... | 3,488 | 2,546 | 942 | 37.0 |
| $40 to $49..... | 2,066 | 1,310 | 756 | 57.7 |
| $50 or more..... | 1,508 | 1,189 | 319 | 26.8 |

Source: Bureau of Census, Special Reports—Housing, Series H-46, No. 1, Table 13.

**Size of Occupied Dwelling Units**
**Percentage Change 1940 - 1945**



The table and chart show reductions in the number of units renting for less than $25, whereas gains occurred in the number renting for $25 or more. Furthermore, the decreases recorded in the number of units under $25 were particularly sharp in the lowest rental categories. In the over $25 brackets, the largest gains occurred in the $40-$49 classification.

The largest number of units in any class was in the group renting for $30-$39. Nearly one-fourth of all rental units was in this class and the number showed an increase of 37 percent over 1940.

People not only demanded more expensive places in which to live; they also demanded more space and put fewer persons in that space. One- and two-room units were reduced sharply in number (by ¾ million) while the number of three-, four-, five-, and six-room units increased substantially (four million). This includes both owner-occupied and tenant-occupied units. The data are shown in the following table and on an accompanying chart.

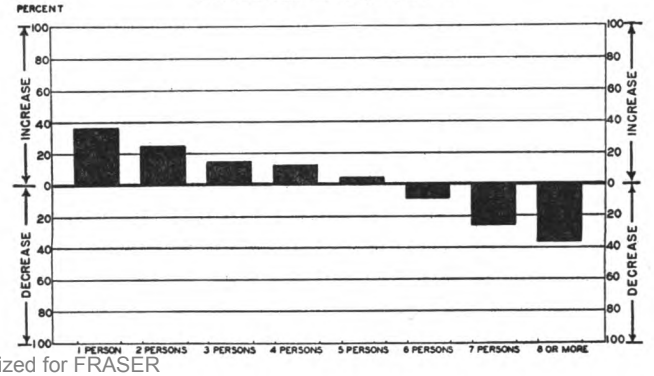
**Distribution of Occupied Urban and Rural Nonfarm Dwelling Units By Number of Rooms: 1945 and 1940**

| | Estimated Number 1945 | 1940 | Increase, 1940-1945 Number | Percent |
|---|---|---|---|---|
| | 000 omitted | | | |
| TOTAL | 31,281 | 27,748 | 3,533 | 12.7 |
| Number of Rooms In Unit: | | | | |
| 1 room | 560 | 994 | −434 | −43.7 |
| 2 rooms | 2,009 | 2,288 | −279 | −12.2 |
| 3 rooms | 4,622 | 3,909 | 713 | 18.2 |
| 4 rooms | 6,064 | 5,055 | 1,009 | 20.0 |
| 5 rooms | 7,573 | 5,908 | 1,665 | 28.2 |
| 6 rooms | 5,888 | 5,094 | 794 | 15.6 |
| 7 rooms | 2,399 | 2,129 | 270 | 12.7 |
| 8 or more rooms | 2,166 | 2,371 | −205 | − 8.7 |

Source: Bureau of the Census, Special Reports—Housing, Series H-46, No. 1, Table 11.

The number of persons per dwelling unit was reduced. The number of units occupied by one or two persons increased sharply (about 30 percent or an increase of more than 2,500,000 units). The number occupied by three or four persons increased by 14 percent or 1,500,000, while the number occupied by six or more persons declined substantially (22 percent or 800,000 units). The data are shown in the following table and on an accompanying chart.

**Size of Households**
**Percentage Change 1940-45**




**Distribution of Occupied Urban and Rural Nonfarm Dwelling Units by Size of Household 1945 and 1940**

| | Estimated Number 1945 | 1940 | Increase, 1940-45 Number | Percent |
|---|---|---|---|---|
| | 000 omitted | | | |
| TOTAL | 31,281 | 27,748 | 3,533 | 12.7 |
| Number of Persons in Houseold: | | | | |
| 1 person | 3,158 | 2,316 | 842 | 36.3 |
| 2 persons | 9,044 | 7,242 | 1,802 | 24.8 |
| 3 persons | 7,330 | 6,383 | 947 | 14.8 |
| 4 persons | 5,693 | 5,063 | 630 | 12.4 |
| 5 persons | 3,198 | 3,066 | 132 | 4.3 |
| 6 persons | 1,522 | 1,704 | —182 | −10.7 |
| 7 persons | 672 | 912 | −240 | −26.3 |
| 8 or more persons | 664 | 1,062 | −398 | −37.5 |

Source: Bureau of the Census, Special Reports—Housing, Series H-46, No. 1, Table 10.

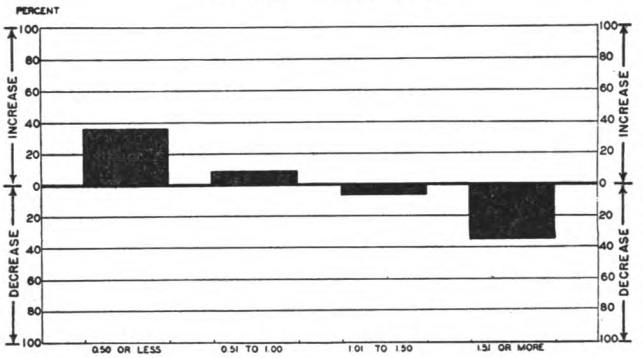
As a result of these changes in occupancy of existing dwelling units, available space is used much less intensively today than in prewar years. From 1940 to 1945, there was an increase of 36 percent, or more than three million, in the number of dwelling units with one-half or less persons per room. These units constituted two-fifths of all occupied dwelling units. Eighty-seven percent of all occupied nonfarm dwelling units were occupied by one or less persons per room. All of the increase in dwelling units was in those occupied by one or less persons per room. These units increased by 4½ million. The number of dwelling units occupied by more than one person per room was reduced by one million. The figures are presented in the following table and the changes are shown on an accompanying chart.

**Distribution of Occupied Urban and Rural Nonfarm Dwelling Units According to Number of Persons Per Room: 1945 and 1940**

| | Estimated Number 1945 | 1940 | Increase, 1940-1945 Number | Percent |
|---|---|---|---|---|
| | 000 omitted | | | |
| TOTAL | 31,281 | 27,748 | 3,533 | 12.7 |
| Number of Persons per Room | | | | |
| 0.50 or less | 12,109 | 8,888 | 3,221 | 36.23 |
| 0.51 to 1.00 | 15,197 | 13,972 | 1,225 | 8.76 |
| 1.01 to 1.50 | 2,712 | 2,908 | −196 | − 6.75 |
| 1.51 or more | 1,263 | 1,980 | −717 | −36.22 |

Source: Bureau of the Census, Special Reports—Housing, Series H-46, No. 1, Table 12.

**Persons Per Room**
**Percentage Change 1940-45**



The spreading out reflected in part the ability of many families, members of which had been inducted into the armed services, to maintain themselves in their original quarters and in part a tendency of some to maintain dwellings in more than one place because of their war work. It also reflected the efforts of many whose incomes had increased to improve their standards of living. The return of veterans to civilian life and and the release of others from war work during 1946 served on the one hand to increase again the rate or intensity of occupancy, and on the other, to increase substantially the demand for housing.

### Character of Rental and Housing Controls

Population shifts accompanying industrial conversion to a wartime basis, coupled with expanding incomes and purchasing power, increased the demand for housing accommodations.

Several alternatives were available for allocating the existing supply of housing of which the following represented the two extremes:

1. Rents could have been left free to rise until they absorbed the ability of people to pay more so that everyone would have found shelter at some price. Concurrently with this, of course, real estate prices would have been left free to rise. This would have been the traditional method of allocating resources through the price mechanism. The objection to this device was that it would have led to competitive bidding for resources needed in the war effort. Some form of housing control was necessary in order to prevent an undue diversion of productive resources from war purposes to housing. Construction was therefore controlled by a system of priorities.
2. At the opposite extreme rents and sales prices could have been controlled and the existing supply of dwellings could have been rationed to assure the housing of the population.

Actually neither of these extreme but logically consistent courses was taken. The nature of the compromises adopted has resulted in a real estate boom of record proportions. Rents were controlled, but people were left free with higher incomes to seek more spacious quarters.

The resulting pressure on facilities led to increased demand for nonrental housing. While rents were controlled, sales and sales prices were not, and prices of nonrental properties increased. Advancing prices for real estate coupled with rigid rent controls led to the sale of properties heretofore held for rent as investment property. As a consequence, the supply of rental units was reduced.* While the total number of occupied nonfarm dwelling units increased from 1940 to 1945 by 3,500,000, the number occupied by tenants was actually reduced by 932,000, while the number occupied by owners increased by nearly 4,500,000. The proportion of dwelling units that were owner-occupied has increased from about 40 percent in 1940 to over 50 percent in 1945 while the proportion occupied by tenants has been reduced from about 60 percent to less than 50 percent.

* An additional factor that may have affected some decisions was that the profits from sales of real estate were taxed at the preferential rates of capital gains, whereas the rents received were taxed at high wartime income tax rates.

### Availability of Cheap Money

The expansion of deposits and savings which resulted primarily from deficit financing placed mortgage lenders in supply of large quantities of funds to invest.

At the close of 1946, nongovernment institutional lenders alone had a mortgage lending capacity of at least double their holdings of mortgages. At the same time, Federal insurance or guaranty provisions for reducing the risk of mortgage lending have been liberalized. The G. I. Bill of Rights has been enacted with guaranty provisions to help veterans acquire homes.

These developments have driven interest rates on mortgage loans down and have increased further the already expanded purchasing power available for expenditure on shelter. This purchasing power has been increased not only by the expansion in incomes and the reduction in interest rates, but also because longer maturities on loans reduced the size of payments required on a mortgage of a given amount. Put in other terms, consumers have been able to capitalize their monthly expenditures into larger and larger amounts.

### The Present Situation

These forces have generated a real estate boom with some unique characteristics. The boom has been accompanied by a very high level of building output as measured by starts but a very low level of activity as measured by completions. More than one million dwelling units were started during 1946. That figure includes conventional houses, factory-built houses, trailers, and structures to be reconditioned or remodeled for use as dwellings including temporary reuse. While the number of permanent units started was less in 1946 than in 1925, the peak year of the 1920 boom, the number of permanent and temporary units started appears to have been higher in 1946 than in any other year.** The number of completions, however, was only about 650,000 for 1946. A large number, possibly one-fifth or more, of these completions represented starts in 1945.

Apparently in housing as in other industries, we have been accumulating a sizable inventory of "goods in process." The number of units in process might be as high as 350,000. Should building materials become plentiful, a record number of dwelling units may be completed within the next year or two. In fact, the volume of new housing may become great enough to drive selling prices well below current levels.

The present boom market is also characterized by the highest level of real estate transfers on record, by sharply advancing prices, and by a rapid expansion of mortgage debt at a time when the supply of properties is expanding very slowly.

** In proportion to the total number of family units, activity was not as high in 1946 as in the building boom of the 'Twenties.

The expansion in nonfarm real estate debt has been more rapid in 1946 than in any other year on record. This growth in debt without a corresponding increase in new properties to be financed indicates that *people are taking their money out of nonfarm real estate and the lenders are putting it in.*

People are buying real estate; but they are borrowing to do it. The persons to whom they pay the money are taking that money out of real estate. The seller may put his money back into real estate, but that only means that someone else takes the money out. While some of the money may be used to pay off a previous mortgage, if the total of mortgage debt outstanding increases, the money is being taken out of real estate by investors more rapidly than it is being put in. Under such circumstances the lenders are assuming greater and greater proportions of the risks.

If the expansion in mortgage loans accompanies the financing of new properties, the money that is "taken out" of real estate is used directly to pay for wages, for materials and for the enterprising effort that produced the structures. However, when the expansion in loans is predicated upon transfers of existing properties at ever higher prices, the money that is "taken out" of real estate does not represent a payment for production purposes. The real wealth of the nation has not been increased, but the lenders' risk has.

It is difficult to measure the extent of price advances of nonfarm real estate. Costs of construction are higher now than they were in the 'Twenties and four- to eight-room houses generally have been selling at prices substantially above replacement costs less depreciation. The greatest rise in prices has been in the class of home that could qualify for purchase by veterans under provisions of the G. I. Bill of Rights. When the supply of dwelling units increases or the demand for housing decreases, these prices will decline to the level of reproduction costs and ultimately, because of the character of much of the construction of these smaller units, may go to fairly substantial discounts below reproduction costs of new similar sized units. Larger, more expensive structures have not participated in the boom to the extent characteristic of the smaller structures.

## Factors Affecting the Outlook

The present real estate boom appears to have reached record-breaking proportions. In the past, culmination of such booms has been attended with crises, liquidation, losses, and bankruptcy. Whether or not the present boom can be liquidated without serious loss to property owners and to the financial community must depend upon the efficacy of the following:

1. Widespread use of amortization.
2. Improved appraisal and lending practices.
3. Adequacy of mortgage insurance and devices for Government financial support.
4. Policies with regard to losses and trouble loans.
5. Economic stability in the nation.

### Amortization

The practice of amortizing mortgage loans is now widespread, whereas in the 'Twenties and the early 'Thirties it was the exception rather than the rule among lenders other than building and loan associations. Amortization undoubtedly does reduce risk but does not appear to be sufficient in itself to assure avoidance of difficulties. The building and loan associations which used the amortized loan in the 'Twenties did not escape trouble in the 'Thirties. The bulk of the loans in institutional hands in the early 'Thirties had been made within the five years immediately preceding the onset of difficulties. If these loans had had an average maturity of 15 years, the reduction in principal would have averaged about 20 percent or 25 percent. Those loans were made generally at 50, 60, and 66⅔ percent of appraisal in the 'Twenties.

During the present boom loan repayments have been so accelerated that loans have been turning over at a three-to-five-year rate. This rapid rate of payment may be attributed to a number of factors of which three may be enumerated:

a. Sales of properties with resulting payoff or transfer of mortgage. This does not appear to be very important and is, of course, offset by the new loans extended to the buyers of the properties.

b. Payment of temporary borrowing used to finance real estate transfers. It is not uncommon for a purchaser to buy a house before he sells his currently-held property. In such a case he finds it necessary to contract an unusually large mortgage loan to finance the purchase before receipt of proceeds from sale of the previously-held property. The proceeds are deposited with the lender (usually within 30 to 60 days) for liquidation of the excessive* part of the loan and the borrower is left with a more customary mortgage debt.

c. High levels of income and a shortage of other goods to compete for the consumer's dollar. The slowness with which household equipment and other durable goods became available in 1946 was a disappointment to many. It is possible that some savings and incomes originally intended for expenditure on durable goods have been used to reduce mortgage debt either because the expected articles did not materialize, or because of the inflation in prices. When the supply of consumers' goods increases, purchases of those goods can be expected to increase, and accelerated payments on mortgages to diminish.

### Improved Appraisal and Lending Practices

Appraisal and lending practices are believed to be better today than in previous booms. More consideration is being given to location and neighborhood trends, to reproduction costs, to the sources of funds for repayment of debt, and to the ability of borrowers to meet their obligations. Present tendencies in lending practices, however, raise some questions with respect to risk in mortgage lending. If credit is

*The term "excessive" is not used here in a legal or bank supervisory sense.

extended more liberally because of better appraisals, what is the combined effect on risk of loss today as compared with earlier periods? If loans are made on an amortized basis for a higher proportion of the value of a presumably more accurately appraised property and for longer maturities with consequent slower rates of payoff, what is the combined effects of these changes on risk?

### Implications of Mortgage Insurance and Government Financial Support

Approximately 25 percent of the nonfarm mortgage debt on one-to-four-family residential structures held by institutional lenders is protected by FHA insurance or by Veterans Administration guaranties. This represents protection against loss. Such insurance reduces the hazard of concentration of risk to the individual lender. The insurance premium required on FHA loans forces the lender and the borrower to recognize the possibility of risk by setting aside a small sum to pay losses.

Insurance and Government guaranties reduce the direct risk borne by the lender. They do not, however, eliminate or reduce the over-all risk of mortgage financing. The FHA mutual mortgage insurance plan has been very successful over the past twelve years, a period in which the ability of debtors to pay debts has improved almost continuously. Very few mortgage loans went into default between 1923 and 1929.

While Government guaranties may reduce the direct risk borne by each lender, they may actually increase the risk or hazard of private finance generally. Should the Government be called upon to make good those guaranties and thus protect the financial system from losses resulting from that system's mistakes, while individual borrowers, many of them veterans, were sustaining heavy losses, the political repercussions might be serious. A financial system that substitutes Government guaranties for sound lending practices, collects income and profits on its loans but transfers losses to the Government, may not survive as private enterprise.

### Policies With Regard to Losses and Trouble Loans

Success in dealing with adverse developments will depend first on the efficacy of policies followed on loans which get into trouble and on the extent to which lenders have made provision for absorbing losses. The ability of lenders to absorb losses is dependent on their capital and on the extent to which reserves are accumulated during good times to meet the losses which must be taken during bad times. The regular setting aside of a part of interest income as a reserve for losses is a recognition that a part of the charge for the use of money is a premium for risk. Formal accounting anticipation of the losses inherent in the risks of financing increases a lender's ability to meet those losses when they occur.

The manner in which lenders deal with borrowers who during periods of adversity may have difficulty in meeting their obligations in full, and the manner in which lenders handle the real estate which they find necessary to take over, will affect market developments and influence the course of any general business recession which may occur. To the extent that temporary modifications and adjustments are feasible, the interests of both borrowers and lenders can be protected, forced liquidation with its attendant losses avoided, and human suffering alleviated. Where properties must be taken over, the skill with which liquidations are handled so as to avoid accumulative market pressures during the most adverse periods will have an important bearing on the welfare of finance and business in the community.

### Economic Stability in the Nation

Economic fluctuations and the instability which accompanies them are the most important factors affecting mortgage loan experience. Shelter costs and property operating costs are for the most part relatively stable. Such items as interest, amortization, taxes, utilities and heating vary but little. Cost of services, maintenance, and repairs fluctuates somewhat more. Consumer incomes and rents, however, out of which must be paid shelter costs, fluctuate considerably. Consumer costs or prices for such items as food, clothing, and other essentials also fluctuate considerably. A decline in incomes and rents could affect adversely the ability of borrowers to meet their obligations. A decline in incomes could lead to doubling-up of families, reducing the demand for housing, relieving the existing shortage and could thus precipitate a sharp decline in real estate prices. An increase in other consumer prices or costs might have a similar effect.

Higher rents might result in more intensive use of existing space, thus reducing the pressure on existing housing facilities. Higher rents would also affect the family budget. Should increased expenditure on rent exceed anticipated reductions in expenditures for food, the demand for other products might be reduced with adverse effects on the business situation and employment and with a consequent reduction in level of incomes.

## Conclusion

The record with regard to the financing of nonfarm real estate will depend chiefly on the future course of employment, incomes, construction, housing costs, and other consumer expenditures. A decline in employment and incomes can reduce the ability of consumers to maintain housing expenditures and can bring about a sufficient amount of doubling-up to alleviate the housing shortage and cause declines in real estate prices. Such a development might jeopardize loans made on the basis of scarcity value. The maintenance of a high level of construction will tend to sustain employment and incomes and bring about a more gradual elimination of the housing shortage and of the scarcity premiums on existing housing. Increases in rents and in other consumer prices and costs will affect adversely the demand for housing and may tend to reduce the premium on existing housing. Loans that involve commitments that borrowers can meet out of incomes only with severe sacrifice will in general be the first to get into difficulties.

# THE OUTLOOK FOR PRICES

Recent declines in open market prices of some basic commodities have encouraged the belief that prices in general are close to the postwar peak and that the entire price structure will be subject to some downward adjustment in the coming months.

Such a direct inference, however, is subject to the qualification that significant changes in prices are not necessarily accomplished in unison. The various sections of the market are not all exposed to the same set of influences. The forces which determine prices differ among markets.

As a matter of fact, there is no single comprehensive index by which changes in the so-called general price level can be measured. Current and prospective price changes can be described only in terms of those commodities and services which possess a common denominator. One of these denominators is the kind of market in which any given prices are recorded, such as the organized commodity markets.

Another common quality that ensures some degree of homogeneity is the stage of the production and distribution process at which prices are measured. A third common denominator is end use, as in the case of commodities and services which are purchased by individuals for personal use and consumption.

The best known statistical devices for measuring price changes within these three significant areas are known more specifically as the "28 Basic Commodity" series compiled by the Bureau of Labor Statistics, The Department of Labor's Wholesale Price Index, comprised of 889 series, and the Consumers' Price Index published by the same Department.

## Basic Raw Materials

The Daily Spot Market Index of 28 Basic Commodities measures price changes of basic raw materials. Many of these items are quoted on organized commodity exchanges and are very sensitive to changes in market conditions both at home and abroad. Of the 28 commodities, 18 are important in world trade. Eleven are imported into the United States in large quantity. About two-thirds of the commodities are the product of agriculture.

The following table indicates the varying rates at which prices of these 28 basic commodities rose from 1939 to date:

**28 Basic Commodities—Spot Market Prices**

| | Percentage Change | | | |
|---|---|---|---|---|
| | Aug. '39 to Nov. '41 | Nov. '41 to June '46 | June '46 to Nov. '46 | Aug. '39 to Nov. '46 |
| 28 Basic Commodities | +55% | +27% | +48% | +190% |
| Imported | +56 | +10 | +65 | +183 |
| Domestic | +54 | +39 | +37 | +195 |

Even before this country became involved in hostilities, the 28 basic commodities advanced 55 percent in the two years prior to November 1941. It should also be recalled that nearly all industrial raw materials had been brought under either informal or formal price control by August 1941. Domestic agricultural products were not controlled, however, until the General Maximum Price Regulation was promulgated early in 1942.

Price control slowed the advance to 27 percent from November 1941 to June 1946. It should be noted, however, that this was accomplished through heavy subsidization of imported items. Essential and strategic foreign materials were acquired abroad by the Government regardless of cost and then resold on the domestic market at fixed prices. Domestic prices of imported raw materials were thereby held to a 10 percent rise, while raw materials produced in the United States increased 39 percent.

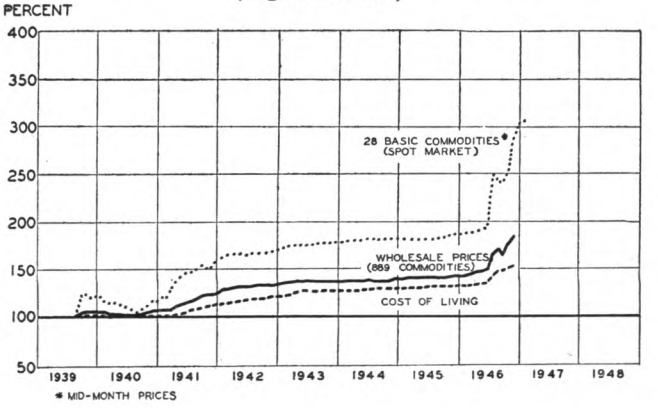
The artificiality of the prices of imported raw materials became apparent when price controls lapsed in June 1946. In five months, those prices spurted an additional 65 percent, while domestic raw materials increased 37 percent. A large part of this increase was due to the elimination of subsidy payments and the reinstatement of tariffs which were virtually suspended while the Government was the sole importer. World-wide shortages of most of the imported materials were also a decided factor. Over the entire period from August 1939 to November 1946 the 28 basic commodities advanced nearly 200 percent.

Taken as a group, there is evidence that the 28 raw materials are near the top of their advance. The accompanying charts illustrate the divergent price movements of seven of the commodities included in the index.

Steel scrap held to its ceiling price of $18.75 a ton until early November when a sharp rise began, carrying the price to $31.00 by the end of December for a gain of 65 percent within a few weeks. Continued shortages and heavy demand may push ferrous scrap prices still higher.

Lead prices have jumped from 8.2 cents per pound to 12.6 cents, or an increase of 54 percent. One-fourth of this, however, is due to reimposition of the tariff of 1.0625 cents per pound. Lead and other nonferrous metals may continue to rise as a result of unprecedented demand, and in some cases, war-damaged supply facilities.

**Comparative Changes in Various Price Indexes**
**(August 1939=100)**



Agricultural prices, on the other hand, are already below the peaks of October and November. Butter, for example, rose 73 percent above the June average and then lost nearly half of that gain under the combined weight of consumer resistance and increased supply. Prices were still decreasing in January. Corn prices, at the close of December, were 8 percent below the June level after an initial spurt in July. Wheat prices are below the July high, and it is apparent that Government buying for export purposes is serving to maintain that market.

Hide prices doubled with the final removal of controls in November, but buyer resistance as well as increased offerings have tended to push prices down again. Textile materials are also under pressure. Supplies of non-mineral oils are low but increasing steadily, and prices appear near their peaks. Natural rubber is below the wartime high and synthetic competition should hold it in line. All indications, therefore, point to a gradual decline in basic commodity prices through 1947. They will be the first to reflect the balancing of supply and demand of basic raw materials and point downward as shortages are overcome and as stockpiles are replenished.

## Wholesale Prices

The movement of wholesale prices is usually described in terms of the Wholesale Price Index of 889 commodities compiled by the Department of Labor. The accompanying table indicates the changes that have taken place in the general wholesale prices and in four major subdivisions:

**Wholesale Prices—889 Commodities**

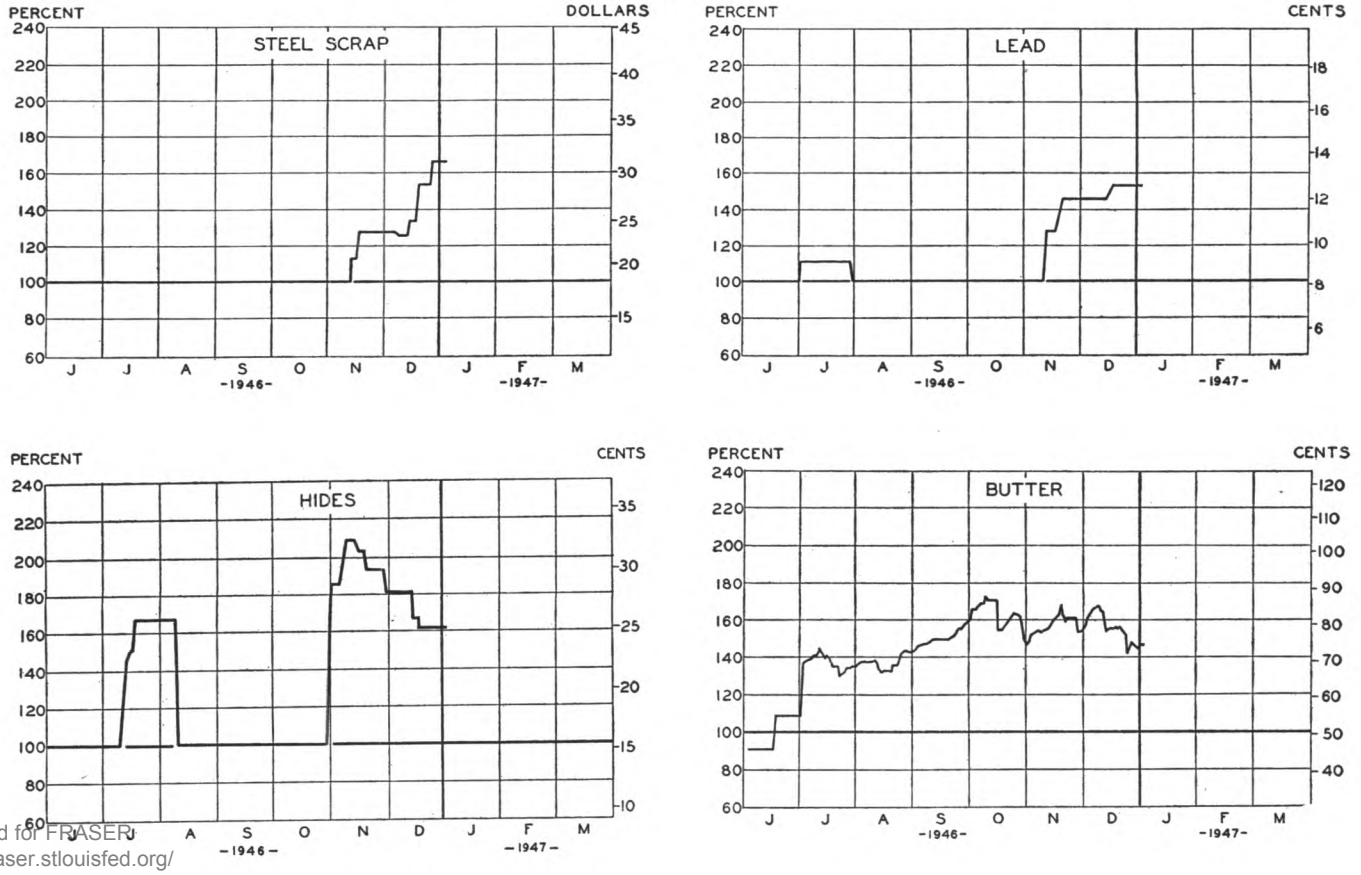
| | Percentage Change | | | |
|---|---|---|---|---|
| | Aug. '39 to Nov. '41 | Nov. '41 to June '46 | June '46 to Nov. '46 | Aug. '39 to Nov. '46 |
| All products—889 | +23% | +22% | +24% | + 86% |
| Raw materials | +36 | +40 | +21 | +131 |
| Manufactured products | +19 | +14 | +25 | + 70 |
| Farm products | +49 | +55 | +21 | +178 |
| Products other than farm | +19 | +15 | +24 | + 70 |

The entire index has risen about the same proportion in each of the periods, that is, prewar, war-and-postwar price control, and price freedom. In the seven years, wholesale prices have risen 86 percent, but within this broad grouping, different classes of goods have advanced at much different rates.

Products of agriculture moved upward most rapidly over the entire interval. Farm products rose 49 percent in the two-year period prior to the war. During the war and up to the end of price control, this group advanced an additional 55 percent, and from June through November another 21 percent rise took place. Over the entire period, farm products skyrocketed 178 percent.

**Daily Spot Market Prices for Seven Basic Commodities**

**June 1946=100**

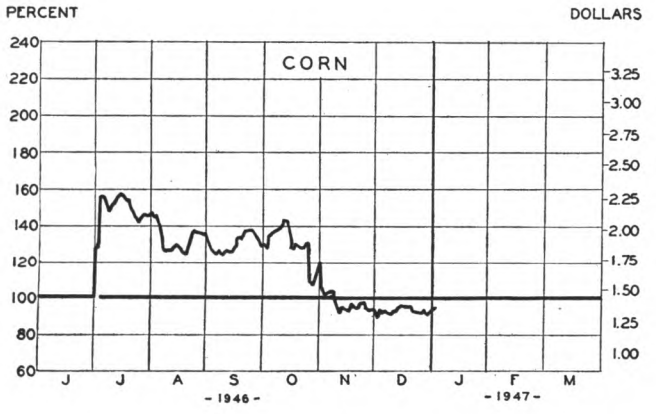


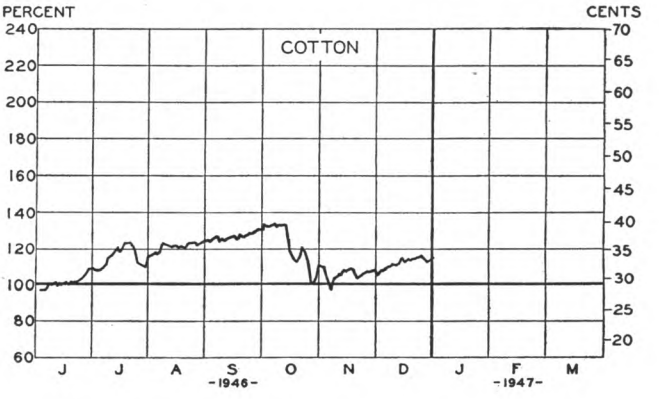
Compared to farm commodities, manufactured products behaved relatively mildly, going up only 70 percent in seven years. Nineteen percent of this took place before the war. Although in contrast to raw materials and agricultural products prices of manufactured goods have always fluctuated with smaller amplitudes, some of the disparity between the two rates of increase is the result of price control policies. Manufactured goods moved upward only 14 percent while raw materials jumped 40 percent and farm products increased 55 percent. When these higher material costs are considered in conjunction with greater labor costs, it is evident that maintenance of price ceilings on finished goods was becoming more difficult. After price controls were eliminated, prices of manufactured goods advanced 25 percent or only four percent more than the additional cost of raw materials. These price movements lend support to the belief that producers of many products have endeavored to hold prices at a level that would facilitate the marketing of a large output. As productivity increases and raw materials decline in cost, prices of manufactured goods should tend to recede.

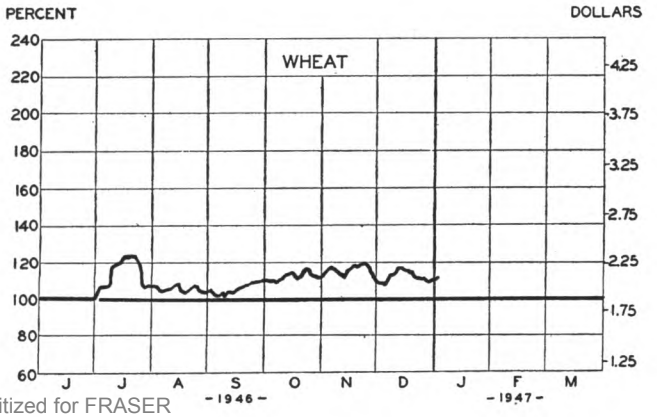
It appears that there is a relatively close correlation between the movement of the 28 basic commodities and wholesale prices. Although the basic commodities move more rapidly, the broader wholesale index usually follows the trend in basic commodities with only a slight lag in time. Therefore, it can be expected that when primary prices of raw materials and farm products turn down, wholesale prices will soon follow. However, if manufacturers' costs should rise sufficiently to endanger customary profit margins, some prices would rise thus offsetting the effects of declines in other commodities. Farmers could be squeezed as prices of their products decline and the cost of purchased processed goods advance. Such price changes would operate to raise parity or support prices for the basic agricultural commodities and retard the decline in prices generally.

## Prices Paid by Consumers

The United States Department of Labor's Consumers' Price Index reflects the rise in wholesale prices as it affected the retailer and in turn the consumer. The full impact of rising wholesale prices, however, cannot be seen in the consumers' price index since it includes among other elements, rental rates which have been held to only a four percent advance. Changes in the Consumers' Price Index are shown on the following page.




**Average Base Period (June 1946) Prices**

| | |
|---|---|
| Steel Scrap | $18.75 per ton |
| Lead | .082 per pound |
| Hides | .155 per pound |
| Wheat | 1.885 per bushel |
| Corn | 1.448 per bushel |
| Butter | .51 per pound |
| Cotton | .292 per pound |

Source: Bureau of Labor Statistics.

**Consumers' Price Index**

| | Percentage Change | | | |
|---|---|---|---|---|
| | Aug. '39 to Nov. '41 | Nov. '41 to June '46 | June '46 to Nov. '46 | Aug. '39 to Nov. '46 |
| Food | +21% | +29% | +29% | +101% |
| Clothing | +13 | +38 | + 7 | + 68 |
| Rent | + 3 | + 1 | -0- | + 4 |
| Combined Index | +12 | +21 | +14 | + 54 |

The substantial rise in farm prices discussed earlier is reflected in consumer food prices. Food costs have doubled over the entire period. They have advanced more than any other element in the index. Before the war, food costs were up 21 percent. Another 29 percent increase occurred under price control. A similar rise took place in the five months succeeding control. Part of this, of course, was due to the elimination of direct and indirect subsidies and the restoration of wider retail margins.

Clothing prices rose altogether 68 percent. If quality deterioration and the dropping of low and medium priced lines could have been accurately measured, the index would have been considerably higher. More than half of the measured increase took place under price control. Since June 1946 clothing increased only 7 percent, and much of this was due to improvement in quality over that of the war and immediate post-war period.

The composite index has risen 54 percent since August 1939 and now stands slightly higher than the peak reached after World War I. Wholesale prices, however, have not yet reached the crest attained in 1920.

The immediate future trend of consumers' prices is uncertain. Food prices have already turned down and undoubtedly will continue downward. On the other hand it is unlikely that present rent levels can long be maintained. It is reported that rent ceilings already have been raised in a few cities, and some authorities predict that if all rent controls were abandoned, rents would rise at least 25 percent, or perhaps enough to offset the expected drop in foods. Household furnishings, which include many consumers' durable goods, may also advance if manufacturers' labor and transportation costs increase and work-stoppages again operate to hold down supply. This may or may not be enough to offset declines anticipated in soft goods lines where competition has become quite keen. The first post-Christmas sales in many years are evidence of this fact.

Fuel costs, as represented by coal, may be expected to rise further in the spring. Electric utilities have been able to absorb their increased wage and material costs through more complete utilization of their facilities. However, expansion now taking place is at a much higher level of costs; wage rates may be expected to rise further. Continuation of these trends may bring about a revised rate structure in the not too distant future.

Further rises in consumers' prices could cancel the effective demand of a large segment of the consuming public and initiate a wave of unemployment, not only in over-priced durable goods lines, but also in the kinds of business supplying nonessential luxuries and services. Recent trends in fur and liquor sales are striking examples.

Declining prices nevertheless can be beneficial to the entire economy. If manufacturers were to achieve smooth flowing production lines and higher productivity from both their labor force and invested capital, unit costs would decrease and selling prices could be progressively reduced. Such action broadens the market, increases employment, and raises living standards generally. It also makes possible additional wage increases and stimulates expansion in capital goods investment.

In some lines of endeavor, profit margins have become unusually wide during the war and post-war periods because of the absence of effective competition or the artificial restriction of supply. In such cases increasing supply and competition for the consumers' dollar will result in lower prices and adequate profits from large volume rather than high unit mark-ups.

Likewise, lower prices for important raw materials and food products stimulate consumption. Within reasonable limits such price declines will not impair the incomes of the suppliers of these items.

Price declines of a moderate nature are a tonic to the entire economy. Their effects are far different when large groups of buyers (both industrial and retail) become convinced that certain goods are over-priced and abruptly refuse to buy. Such action can result in stagnation of markets, lay-offs in factories, and finally panicky price-cutting by sellers. As prices drop in response to such developments, buyers tend to postpone purchases awaiting further cuts thus accentuating deflationary tendencies. That type of downward spiral can be avoided. Intelligent action now, directed toward increased production at more efficient levels, can avert such an event.

## Indexes of Department Store Sales and Stocks

**Daily Average for 1935-1939 = 100**

| | Adjusted for Seasonal Variation | | | Without Seasonal Adjustment | | |
|---|---|---|---|---|---|---|
| | Dec. 1946 | Nov. 1946 | Dec. 1945 | Dec. 1946 | Nov. 1946 | Dec. 1945 |
| SALES: | | | | | | |
| Akron (6) | 290 | 288 | 246 | 458 | 340 | 389 |
| Canton (5) | 310 | 319 | 223 | 539 | 389 | 387 |
| Cincinnati (9) | 268 | 285 | 216 | 453 | 359 | 365 |
| Cleveland (10) | 255 | 269 | 193 | 403 | 307 | 305 |
| Columbus (5) | 303 | 335 | 242 | 533 | 402 | 426 |
| Erie (3) | 273 | 279 | 230 | 480 | 335 | 405 |
| Pittsburgh (8) | 247 | 272 | 190 | 395 | 324 | 303 |
| Springfield (3) | 257 | 287 | 234 | 457 | 324 | 417 |
| Toledo (6) | 255 | 268 | 211 | 434 | 319 | 358 |
| Wheeling (6) | 219 | 252 | 186 | 414 | 297 | 351 |
| Youngstown (3) | 284 | 293 | 236 | 460 | 352 | 382 |
| District (98) | 277 | 266 | 218 | 430 | 333 | 338 |
| STOCKS: | | | | | | |
| District | 258 | 249 | 149 | 214 | 263 | 124 |

## Bank Debits—December, 1946

### (29 Fourth District Cities)

Bank debits in twenty-nine Fourth District cities were at an all-time high during December. The December total was 15 percent higher than the November figure, 14 percent above the year ago volume and 9 percent above the previous all-time high set in June 1945. The total for the fourth quarter was also at a record high, exceeding the third quarter figure by 10 percent and the year ago aggregate by 20 percent.

The record high level was caused in part by high prices and the great volume of Christmas buying. Large scale debt retirement operations by the Treasury and December income tax payments likewise were important factors.

#### TEN LARGEST CITIES

In each of the ten large cities debits attained new quarterly highs and in eight cities new monthly records were established. The largest percentage increases over year ago figures, during December and the fourth quarter as well, were recorded in **Toledo** and Akron. **Canton** with a 25½ percent increase over a year ago ranked third among the ten cities. **Dayton** debits during the fourth quarter totaled nearly $600 million for a 29 percent increase over a year earlier.

#### NINETEEN SMALLER CITIES

**Homestead** and **Middletown** led the smaller cities in monthly and quarterly percentage gains over the totals for a year ago. **Oil City** ranked third in the list of monthly increases while **Mansfield** was third in the quarterly column.

The smaller centers in general recorded larger percentage gains than did the large cities. The fourth quarter debit total for the smaller centers was up 24 percent from a year ago, compared with 20 percent for the largest cities.

**(In thousands of dollars)**

| | December 1946 | % change from year ago | 3 months ended Dec. 1946 | % change from Year ago |
|---|---|---|---|---|
| **ALL 29 CENTERS** | $6,628,931 | +13.8 | $18,255,575 | +20.2 |
| **10 LARGEST CENTERS:** | | | | |
| Akron, Ohio | 254,795H | +31.3 | 736,305H | +33.0 |
| Canton, Ohio | 103,638H | +25.5 | 286,496H | +23.0 |
| Cincinnati, Ohio | 855,080H | +16.3 | 2,389,958H | +17.2 |
| Cleveland, Ohio | 1,715,178H | + 4.5 | 4,757,865H | +13.7 |
| Columbus, Ohio | 457,047 | + 1.0 | 1,320,356H | +14.2 |
| Dayton, Ohio | 206,042H | +22.0 | 596,755H | +29.0 |
| Toledo, Ohio | 402,305H | +42.1 | 1,109,322H | +46.4 |
| Youngstown, Ohio | 121,359 | +24.0 | 358,368H | +18.8 |
| Erie, Penna. | 84,931H | +13.4 | 230,464H | +20.3 |
| Pittsburgh, Penna. | 1,823,931H | +14.9 | 4,835,807H | +21.1 |
| Total | $6,024,306H | +13.3 | $16,621,696H | +19.8 |
| **19 OTHER CENTERS:** | | | | |
| Covington-Newport, Ky. | $ 37,121 | +12.9 | $ 105,696 | +17.5 |
| Lexington, Ky. | 105,605H | + 8.8 | 211,713H | +20.7 |
| Hamilton, Ohio | 31,244 | +29.4 | 88,743H | +25.4 |
| Lima, Ohio | 39,409H | +28.8 | 114,403H | +31.7 |
| Lorain, Ohio | 15,751H | +18.3 | 45,552H | +34.3 |
| Mansfield, Ohio | 35,353H | +32.7 | 99,176H | +35.5 |
| Middletown, Ohio | 30,559 | +36.5 | 89,427H | +38.6 |
| Portsmouth, Ohio | 19,497 | +23.1 | 57,072H | +26.6 |
| Springfield, Ohio | 41,878H | +20.0 | 122,266H | +20.2 |
| Steubenville, Ohio | 21,358H | +19.4 | 60,201H | +15.2 |
| Warren, Ohio | 32,722 | +26.2 | 99,577H | +34.0 |
| Zanesville, Ohio | 22,644H | +21.4 | 64,348H | +29.0 |
| Butler, Penna. | 28,509H | +32.8 | 80,543H | +28.1 |
| Franklin, Penna. | 6,998 | + 4.2 | 19,957 | - 3.8 |
| Greensburg, Penna. | 19,289H | +22.7 | 53,734H | +26.0 |
| Homestead, Penna. | 7,647H | +38.6 | 22,205H | +37.6 |
| Oil City, Penna. | 21,468H | +36.2 | 60,337H | +34.8 |
| Sharon, Penna. | 22,590 | +21.6 | 67,043H | +19.5 |
| Wheeling, W. Va. | 64,983H | + 1.5 | 171,886H | +10.5 |
| Total | $ 604,625H | +19.0 | $ 1,633,879H | +24.1 |

H denotes new all-time high for one month or quarter-year.

## Fourth District Business Statistics

**(000 omitted)**

| Fourth District Unless Otherwise Specified | December 1946 | % change from 1945 | November 1946 |
|---|---|---|---|
| **Retail Sales:** | | | |
| Department Stores—98 firms | $ 101,240 | +27 | 78,381 |
| Wearing Apparel—14 firms | 3,311 | +16 | 2,565 |
| Furniture—48 firms | $ 3,214 | +35 | 2,706 |
| Building Contracts—Total | $ 38,070 | −23 | 42,851 |
| —Residential | $ 12,878 | +34 | 19,397 |
| Commercial Failures—Liabilities | 673 | +370 | 2,158 |
| —Actual Number | 8 | +300 | 6 |
| **Production:** | | | |
| Pig Iron—U. S. Net tons | 3,992 | − 8 | 4,435 |
| Steel Ingot—U. S. Net tons | 5,701 | − 6 | 6,410 |
| Cement—O., W. Pa., W. Va. Bbls. | 1,483a | +83 | 1,557b |

a November.
b October

## Time Deposits*—12 Fourth District Cities

**(59 Banks)**

| City and Number of Banks | Time Deposits Dec. 24, 1946 | Average Weekly Change During: 1946 First Half | 1946 Second Half | 4wks. ended Dec. 24, 1946 |
|---|---|---|---|---|
| Cleveland (4) | $ 841,816,000 | +$1,509,000 | $ 927,000 | +$1,630,000 |
| Pittsburgh (13) | 325,600,000 | + 606,000 | + 429,000 | + 204,000 |
| Cincinnati (8) | 178,978,000 | + 410,000 | + 163,000 | + 313,000 |
| Akron (3) | 97,984,000 | + 202,000 | + 96,000 | + 168,000 |
| Toledo (3) | 88,248,000 | + 203,000 | + 92,000 | + 152,000 |
| Columbus (3) | 71,015,000 | + 122,000 | + 107,000 | + 101,000 |
| Youngstown (3) | 52,716,000 | + 81,000 | + 14,000 | − 29,000 |
| Dayton (3) | 49,188,000 | + 77,000 | − 6,000 | − 54,000 |
| Canton (4) | 39,514,000 | + 81,000 | − 16,000 | + 41,000 |
| Erie (4) | 35,964,000 | + 93,000 | + 28,000 | − 246,000 |
| Wheeling (6) | 28,103,000 | + 83,000 | − 1,000 | − 105,000 |
| Lexington (5) | 10,119,000 | + 32,000 | + 15,000 | − 12,000 |
| Total—12 Cities | $1,819,245,000 | +$3,499,000 | +$1,848,000 | +$2,163,000 |

*of Individuals, Partnerships, and Corporations.

## Wholesale and Retail Trade

| | Percentage Changes from Preceding Year SALES Dec. 1946 | SALES year 1946 | STOCKS Dec. 1946 |
|---|---|---|---|
| **DEPARTMENT STORES (98)** | | | |
| Akron | +19 | +19 | +75 |
| Canton | +39 | +30 | a |
| Cincinnati | +25 | +31 | +77 |
| Cleveland | +32 | +29 | +73 |
| Columbus | +25 | +29 | +72 |
| Erie | +18 | +21 | +50 |
| Pittsburgh | +30 | +30 | +69 |
| Springfield | +10 | +14 | a |
| Toledo | +21 | +23 | +64 |
| Wheeling | +18 | +27 | +61 |
| Youngstown | +20 | +24 | a |
| Other Cities | +27 | +33 | +55 |
| District | +27 | +28 | +70 |
| **WEARING APPAREL (14)** | | | |
| Cincinnati | + 9 | + 8 | +52 |
| Cleveland | +20 | +24 | +70 |
| Pittsburgh | +17 | +16 | +55 |
| Other Cities | +13 | +10 | +31 |
| District | +16 | +15 | +53 |
| **FURNITURE (48)** | | | |
| Canton | +51 | +47 | +55 |
| Cincinnati | +26 | +43 | +74 |
| Cleveland | +38 | +44 | +73 |
| Columbus | +23 | +47 | a |
| Dayton | +30 | +59 | a |
| Pittsburgh | a | a | a |
| Allegheny County | +47 | +46 | a |
| Toledo | +25 | +47 | a |
| Other Cities | +33 | +58 | +85 |
| District | +35 | +48 | +73 |
| **WHOLESALE TRADE**** | | | |
| Automotive Supplies (3) | +64 | +54 | a |
| Beer (5) | −17 | − 6 | +55 |
| Clothing and Furnishings (3) | +37 | a | a |
| Confectionery (4) | +27 | a | a |
| Drugs and Drug Sundries (4) | +20 | +21 | a |
| Electrical Goods (5) | +107 | a | a |
| Fresh Fruits and Vegetables (13) | − 6 | -0- | +16 |
| Grocery Group (34) | +26 | +28 | +58 |
| Total Hardware Group (18) | +66 | +53 | a |
| General Hardware (6) | +70 | +71 | +56 |
| Industrial Supplies (6) | +64 | +19 | a |
| Plumbing and Heating Supplies (6) | +56 | +44 | a |
| Jewelry (7) | + 6 | +28 | a |
| Lumber and Building Materials (3) | +155 | a | a |
| Machinery, Equip. & Sup. (exc. Elect.) (4) | +61 | a | a |
| Paints and Varnishes (4) | +139 | +46 | a |
| Paper and Its Products (5) | +46 | +22 | a |
| Tobacco and its Products (17) | +28 | +31 | +31 |
| Miscellaneous (16) | +34 | +28 | +27 |
| District—All Wholesale Trade (152) | +30 | +31 | +39 |

** Wholesale data compiled by U. S. Department of Commerce, Bureau of the Census.
a Not available.
Figures in parentheses indicate number of firms reporting sales.

# SUMMARY OF NATIONAL BUSINESS CONDITIONS

*By the Board of Governors of the Federal Reserve System*

**(Released for Publication January 29, 1947)**

Industrial output declined slightly in December owing mainly to a temporary reduction in coal supplies and to holiday influences. Value of retail trade was maintained close to record levels. Wholesale prices of industrial products have advanced somewhat further in recent weeks; prices of some basic commodities, however, like butter, hides, and silver, have shown further marked declines.

## Industrial Production

The Board's seasonally adjusted index of industrial production was 179 percent of the 1935-39 average in December as compared with 182 in November.

Output of durable goods decreased somewhat, reflecting chiefly a decline in production of iron and steel owing to the bituminous coal work stoppage. In the early part of January, steel operations were raised to the peak rates prevailing in the middle of November. Activity in machinery and transportation equipment industries showed little change in December. Production of nonferrous metal products increased somewhat further. Activity in the furniture industry reached a new record level for the postwar period.

Output in industries manufacturing nondurable goods declined to 168 percent of the 1935-39 level, from 172 in November, owing in part to curtailed operations during the Christmas week. Production of textile products decreased about 7 percent. Meat packing activity declined from the sharply advanced level reached in November, while output of most other manufactured foods showed a small increase. Newsprint consumption increased, and production of most chemical and rubber products remained at advanced levels.

Output of minerals in December was at the November rate. Owing to the termination of the two-and-a-half week work stoppage in the bituminous coal industry on December 9 and the high rate of output in subsequent weeks, coal production was 9 percent larger in December than in November. Production of crude petroleum decreased slightly.

## Employment

Nonagricultural employment in December remained at the November level, after allowances for seasonal increases in trade and government post-offices and the usual decline in construction employment. Unemployment increased by about 200,000 persons.

## Construction

Value of most types of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in December, reflecting mainly seasonal influences. Residential awards and awards for public works and utilities, however, were more than double the amounts in December 1945. Value of other contracts was substantially smaller than in December 1945, but for the year 1946 exceeded all previous years except 1942.

## Distribution

Department store sales in December showed the usual sharp increase and the Board's adjusted index was 272 percent of the 1935-39 average. Total sales in the fourth-quarter holiday shopping season were 23 percent larger than in the same period in 1945 and for the year 1946 sales were 27 percent greater than in 1945. Sales in the first three weeks of January showed about the usual seasonal decline. Department store stocks showed a much smaller decline than usual in December and, according to preliminary figures, were 70 percent larger than at the end of 1945. Outstanding orders for merchandise continued to decline and were about 30 percent smaller than on December 31, 1945.

Loadings of railroad revenue freight in December and the first three weeks of January exceeded the volume shipped during the corresponding period in 1945-46 by about 10 percent. Loadings of grain products were the greatest on record for the month of December owing to large shipments for export.

## Commodity Prices

The general level of wholesale commodity prices advanced slightly further from the middle of December to the latter part of January reflecting increases in prices of industrial products, offset in part by decreases in prices of most livestock and poultry products, grains, cotton, and canned fruits and vegetables.

Among industrial products, prices of building materials and metal products generally showed the largest increases in the early part of January. Silver prices, however, declined considerably and a leading manufacturer of lower-priced automobiles reduced prices slightly.

Retail food prices declined somewhat further from earlier peak levels and clearance sales before and after the Christmas holiday resulted in substantial price reductions for various types of merchandise. Retail prices of most standard types of goods, however, were maintained or increased further in this period.

## Bank Credit

Real estate and consumer loans at banks in leading cities continued to increase during December and the first half of January. Commercial and industrial loans, following the rapid expansion of the summer and fall months, increased only slightly further. Substantial reductions in holdings of government securities reflected largely the 3.3 billion dollar treasury note retirement of mid-December.

Deposits at member banks increased in the early part of December, but declined in the latter half of the month as a result of income tax and other payments. Member bank reserve balances showed similar fluctuation with little net change for the period as a whole. Reserve funds which became available to banks through a post-holiday decline in currency in circulation and through increases in monetary gold stock were about offset by reductions in Government security holdings and an increase in Treasury deposits at the Reserve banks.