

MONTHLY

# Business Review

MARCH 1948

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FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

Vol. 30—No. 3

Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

## The Inventory Situation

### MANUFACTURERS' INVENTORIES

**M**ANUFACTURERS' inventories have gone through a period of remarkable expansion since the end of the war. It is estimated that the rise over the two and a half years amounts to approximately \$12 billion, and that total stocks of raw material, goods-in-process, and finished goods in the hands of manufacturing enterprises stands in the neighborhood of \$24 billion at the present time. The wartime peak was around \$17 billion, and the prewar (1939) average was roughly \$10 billion.

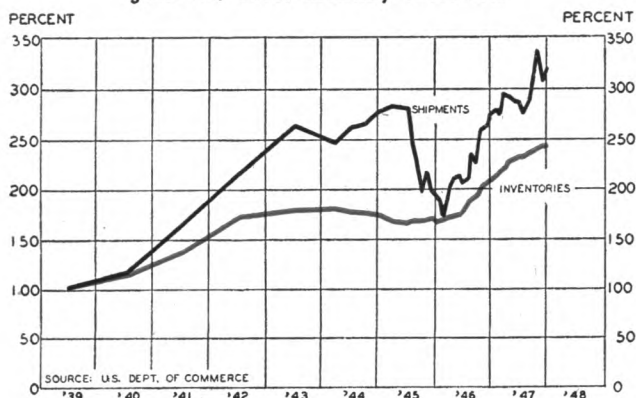
Thus manufacturers' inventories today, measured in dollars, are nearly two and one half times as large as prewar. Whether that constitutes an untenable

level depends not only upon differences among industries but is also closely related to the future trend of sales in the respective industrial groupings.

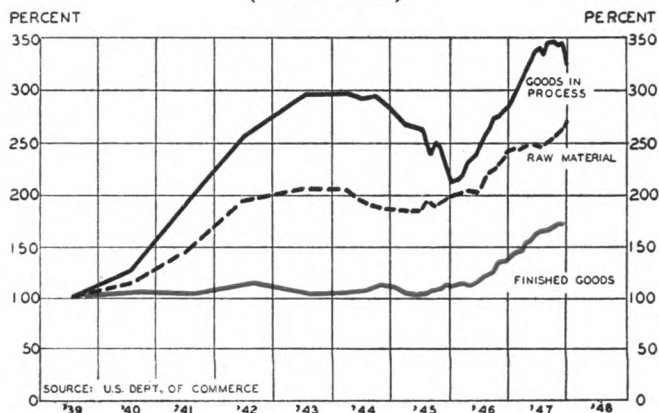
**Incentives** The motives underlying the postwar inventory increases were of several kinds and were present in varying degrees and at different times during this period. The first bulge occurred during the reconversion phase when speedy resumption of production of civilian type goods made it necessary to accumulate considerable stocks of raw materials to assure continuity of operation and to sustain a larger volume of work in process. Catering to civilian requirements and tastes necessitated, in

### MANUFACTURERS' SHIPMENTS AND INVENTORIES (Dollar value)

Annual average, 1939-43; Quarterly average to June 30, 1945; monthly thereafter



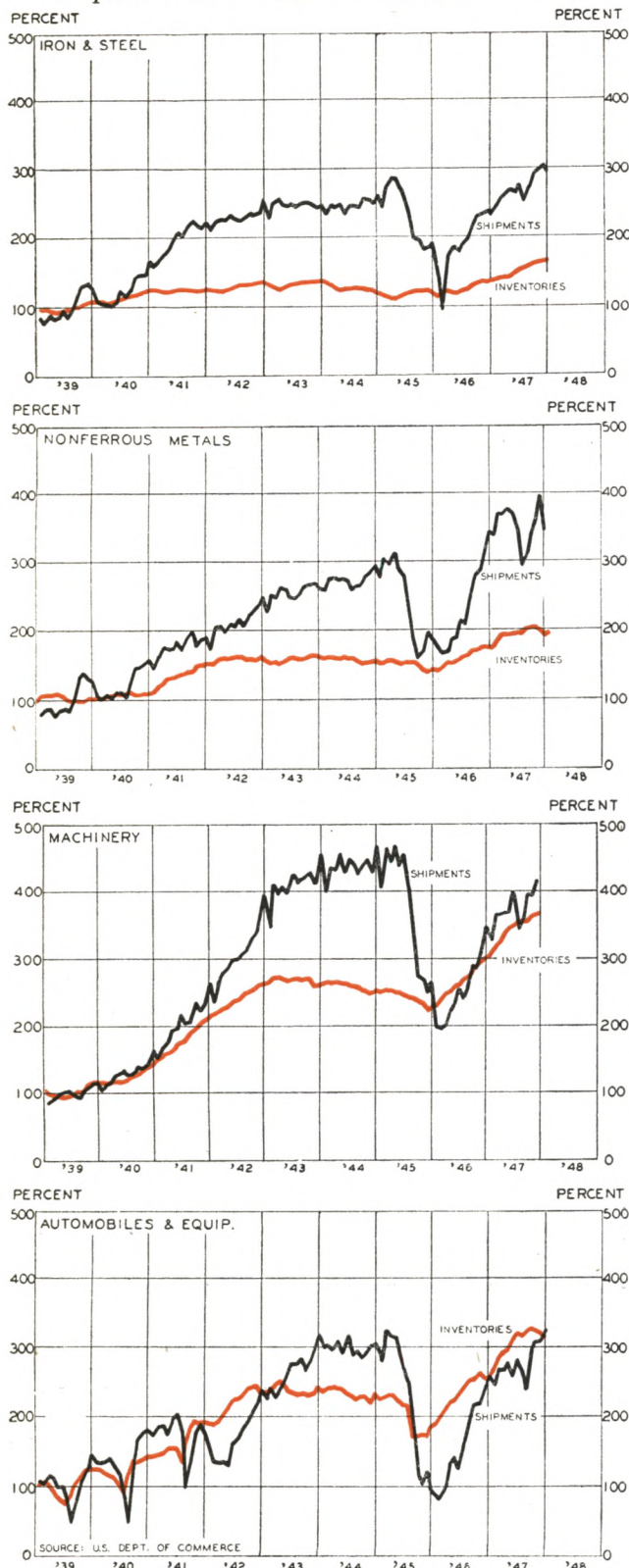
### MANUFACTURERS' INVENTORIES BY STAGE OF FABRICATION (Dollar Value)



inventories have been rising less rapidly than shipments, during the past eighteen months. Both are largely a reflection of price increases.

... the postwar expansion in finished goods inventories started from a relatively low base and currently stocks are only 75% above 1939 while shipments are up more than 200%.

### DURABLE GOODS Shipments and Inventories of Selected Industries



... inventories of machinery and automotive industries have virtually paralleled the post-war rise in shipments, while inventories of iron and steel, and nonferrous industries have lagged behind shipments.

many industries, a widening in the variety, quality, and other characteristics of the finished product. This in turn increased the volume of goods-in-process the volume of which is geared to the length of the manufacturing cycle as well as to the rate of shipment of the finished product.

In the course of time, fears of shortages led to attempts to increase holdings of scarce goods and to duplicate ordering to obtain sufficient supplies. Shortages also led, in many instances, to involuntary accumulation as exemplified by the closing of assembly lines for want of a strategic part even though other components and materials continued to arrive. Buyers were reluctant to cancel or reduce orders through fear of losing position on the sellers' books.

Anticipated price changes likewise had a marked effect upon decisions either to enlarge or to reduce inventories. The constantly rising price level since late 1945 was an enticing inducement to add to stocks. Moreover, this very rise in prices automatically marked up the value of existing inventories month by month, however static the trend in physical volume.

Inventory changes are also related to anticipated sales. In many lines, sales expanded steadily and were limited primarily by inability to procure enough raw materials. Under such circumstances, stocks of materials were increased as rapidly as possible. It is because of this combination of circumstances that manufacturers' stocks of all kinds of material and merchandise have risen to the present unprecedented levels.

An accompanying chart depicts the estimated total dollar volume of manufacturers' shipments and inventories from 1939 through 1947. During 1939 average monthly shipments equaled \$4.7 billion and average monthly inventories were \$10.0 billion. Inventories thus represented about 2.1 months' shipments.

By the close of 1947, shipments and inventories had climbed to \$15.1 billion and \$23.7 billion, respectively. At this date, inventories amounted to only 1.5 months' shipments, or substantially less than the prewar relationship. Since both series are expressed in terms of unadjusted dollar values, there is no need to make allowances for changes in prices in order to appraise the relative physical volumes involved.

Shipments expanded steadily from 1939 and reached a peak in the first quarter of 1945, about 18 months after the wartime crest in inventories had been attained. In this connection it should be recalled that allocations for critical materials were in effect by the beginning of 1942, and that by the end of that year, most of the important war contracts had been awarded. Thus during the latter war period, inventories were easing off while shipments continued to rise.



The 85 percent advance in shipments since February 1946 has greatly exceeded the concurrent rise in inventories which gained only 43 percent.

**Lag in Finished Goods** The composition of manufacturers' inventories by stage of fabrication is more informative than the aggregate as it gives an indication as to the areas of inventory change. An accompanying chart shows the trend of raw or purchased materials, goods-in-process, and finished products from 1939 to the latest date available.

Inventory changes of goods-in-process are very similar to those of shipments, except that they anticipate or precede a change in shipments by several months. From the low point in December 1945, the value of goods-in-process has risen about 54 percent.

The postwar bottom for raw materials was reached in September 1945, or three months ahead of goods-in-process. The advance from that point has been about 42 percent. A temporary plateau was established in the first quarter of 1947 and again in late summer, while goods-in-process and shipments continued to go up rapidly.

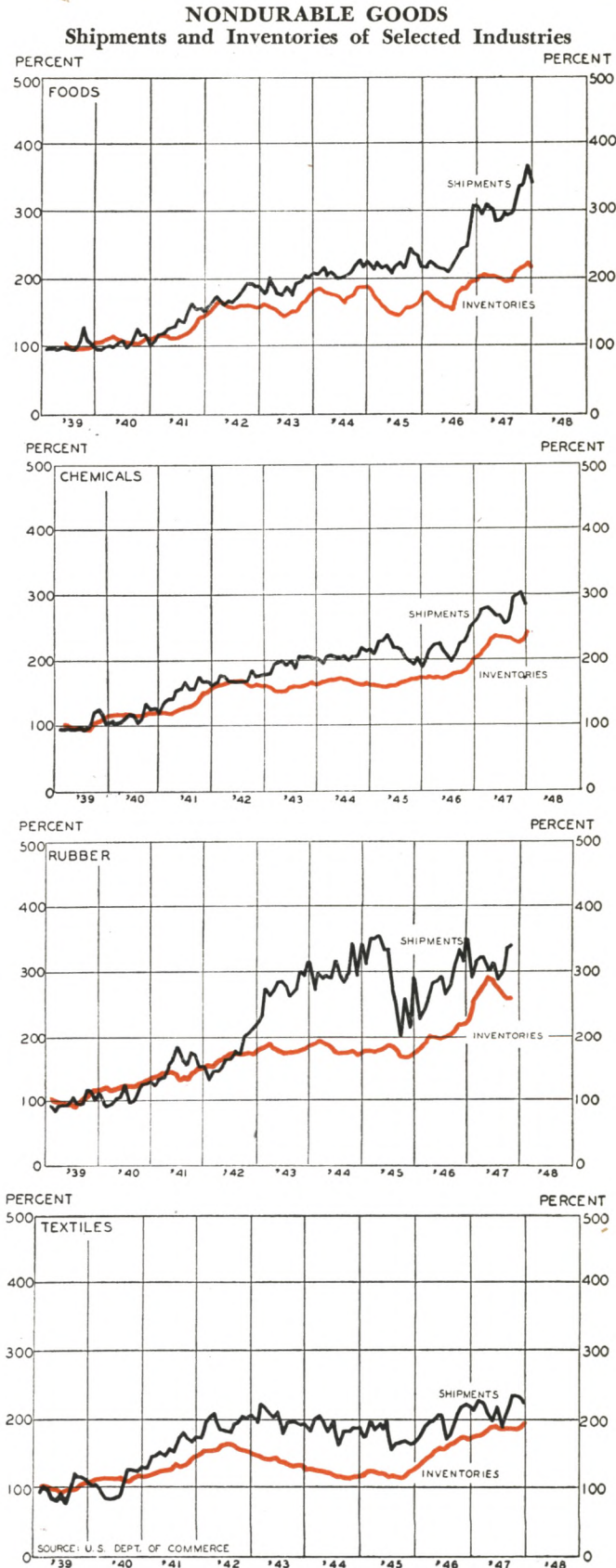
Inventories of finished goods remained relatively unchanged throughout the war period. Although finished stocks have increased steadily since late 1945 as manufacturers sought to achieve a reasonable balance as to price lines, styles, and models, by December 1947, stocks of finished goods were only 75 percent greater than in 1939, in the face of a sales volume that had increased by 218 percent.

The relative shrinkage in stocks of finished goods can be illustrated in another manner. The following table shows the proportions that raw materials, goods-in-process, and finished goods bore to total manufacturing stocks in 1939 and in December 1947.

	Monthly Average 1939	December 1947
Raw materials .....	40.0%	45.1%
Goods-in-process .....	16.8	23.0
Finished goods .....	43.2	31.9
Total .....	100.0	100.0

In this comparison, 43 percent of manufacturers' inventories in 1939 were made up of completed products, whereas by late 1947, this proportion had declined to 32 percent. The greatest increase was in goods-in-process which is a reflection of the higher rate of production and shipments and perhaps of an increase in the length of the processing cycle.

On the basis of the prewar relationship between shipments and stocks of finished goods, it would appear that stocks are too low at the present time. The same is true if finished goods are compared with



total inventories. A continuation of recent trends, however, could bring about a reversal in this relationship. During 1947 inventories of finished goods rose 22 percent while manufacturers' sales increased only 14 percent. Obviously, stocks of finished merchandise are catching up with sales volume.

While overall comparisons of shipments and inventories of the entire manufacturing structure of the nation are helpful in obtaining a general picture of conditions, they tend to conceal diverse trends in individual industries. On an adjacent page are charts showing inventories and shipments for four leading durable goods industries and four leading nondurable goods industries. The industries are iron and steel products, nonferrous metals and products, machinery (including electrical), automobiles and equipment, food and products, textile mill products, chemicals and products, and rubber products.

#### **Inventories in Durable Goods Industries**

Each of the durable goods industries is well represented in the Fourth District and two of the nondurable goods fields, chemicals and rubber, are also of major importance in this area.

Although postwar shipments of iron and steel products were adversely affected by the successive steel and coal strikes which reduced sales in early 1946 to a level below the 1939 average, dollar value of shipments forged steadily ahead in 1947 and by September had surpassed the best war month and continued to mount. December shipments were valued at about 195 percent above the 1939 average.

Despite the constant plea for more steel that was heard on every hand during the past year, and the reports of production being held up for the lack of steel, the value of shipments rose 20 percent from January through December. In the same interval, inventories rose the same amount and were only 68 percent greater than in 1939, while supporting shipments 195 percent larger. On this basis, it would appear that current inventories of iron and steel products are below normal and probably poorly balanced.

Nonferrous metal and product inventories have remained relatively stable since 1942 as a result of severe supply limitations. Since the spring of 1946, inventories have risen only 29 percent, and since January 1947, only 4 percent. In terms of physical units, inventories are probably considerably lower than a year ago and substantially below the prewar relationship to sales. At the end of November, the value of nonferrous stocks was only 87 percent higher than the 1939 average, whereas shipments were 240 percent greater.

Manufacturers of machinery (including electrical) built up inventories rapidly during the early war years to reach a peak in late 1943 in response to a

four-fold expansion of shipments. A gradual reduction then took place to the close of 1945. Since the spring of 1946, however, stocks have been accumulated steadily. Compared with 1939, machinery shipments in December were about four times as large, while inventories were three and a half times greater. A relatively small drop in shipments would restore the prewar inventory-shipment ratio and to this extent, the inventory position of this group is more vulnerable than that of other classes of heavy industry.

Automobile and equipment manufacturers' inventories tend to fluctuate widely and in conjunction with the seasonable pattern of auto production. In prewar years, inventories were built up in advance of new model production and turned down after the assembly lines reached high gear. This seasonal pattern reasserted itself in 1946 and 1947 and inventory additions led production by a considerable margin. The year-end reduction did not take place in 1946, however, as most companies continued production with a minimum of model changing and downtime.

Despite fluctuations in shipments during 1947, inventories were accumulated steadily until the end of September, when a slight downturn took place. By the end of December, stocks in the hands of auto and parts manufacturers were about 35 percent higher than in the largest war production year (1944), while monthly average shipments were 6 percent smaller. In relation to sales volume, inventories in the automotive industry appear to be relatively more excessive than in previously discussed fields.

#### **Nondurable Goods Inventories**

Chemical and allied product manufacturers' inventories reached an all-time high nearly a year ago and then leveled off despite—or because of—a further substantial gain in shipments. Physical stocks of such items as alcohol, cottonseed oil, linseed oil, rosin, and sulphur are noticeably lower than a year ago.

The rubber industry reconverted to postwar production more quickly than did the major durable goods industries, and shipments began to rise rapidly in October 1945 to attain their postwar peak in December 1946. Since that date, shipments have declined somewhat irregularly. Inventories in the industry, however, began to climb in December 1945 and attained the all-time peak in May 1947, five months after the crest of shipments. In the case of finished goods, for example, current stocks of pneumatic casings at the close of 1947 were 185 percent higher than a year earlier, although only about two-thirds the prewar average. A rapid decline in rubber sales from present levels might find inventories in an unwieldy position.

Stocks of food manufacturers have been moving up slowly from the low level of mid-1945. Despite



the record rise in prices of farm products, value of stocks increased only 7 percent in the twelve months ending December 1947 while the value of shipments rose 10 per cent in the same interval. At this point, inventories were 116 percent above the average 1939 level while shipments were 237 percent above 1939. Inventory accumulation has thus lagged far behind sales and inventory policy appears to have been more than conservative. This situation, however, is tempered somewhat by the fact that meat and wheat supplies are considerably higher than a year ago.

Inventories of textile mill product manufacturers have increased much more rapidly than shipments since the end of the war. From the postwar low in September 1945, the value of stocks rose 67 percent to the end of December 1947, whereas shipments advanced only 37 percent. In the past several

months inventories have not increased, presumably as a consequence of some decline in shipments. The current relationship between inventories and sales appears to be about in line with the prewar ratio. As long as sales hold to the 1947 level, present stocks are quite normal. It may be pertinent that although such items as hosiery are in greater supply than a year ago, physical stocks of domestic cotton, rayon (filament yarn), and raw wool are measurably smaller than at the same time a year earlier.

The variations noted above make it difficult to generalize regarding the inventory outlook for manufacturing as a whole. In some industries, such as the automotive and rubber group, inventories have gained on sales in recent months, whereas in other cases, stocks appear to be relatively scant under present conditions of demand.

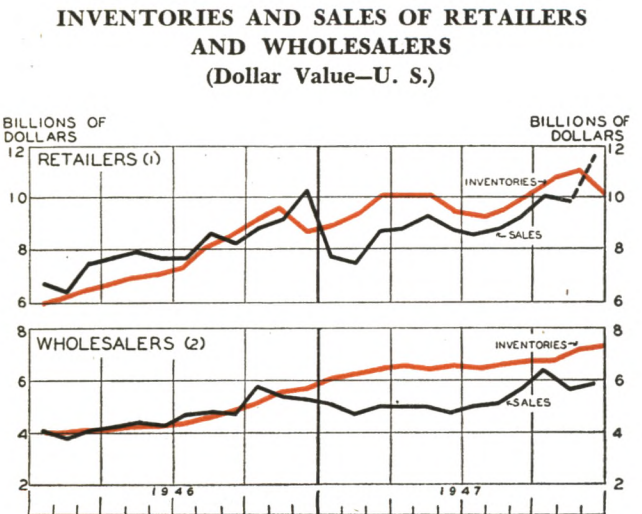
TRADE INVENTORIES

**Inventories of Wholesalers** At the close of 1947, inventories of wholesalers were approximately 25 percent higher than a year ago, as a result of a gradual but persistent rise throughout the year. Some of the gain undoubtedly stemmed from requirements for restocking war-depleted warehouses. Most of it, however, was merely a reflection of the pronounced upward trend of prices. In terms of monthly sales volume, inventories of wholesalers appear to be somewhat higher than at this time last year. An accompanying chart shows the course of wholesalers' inventories and sales during 1946 and 1947.

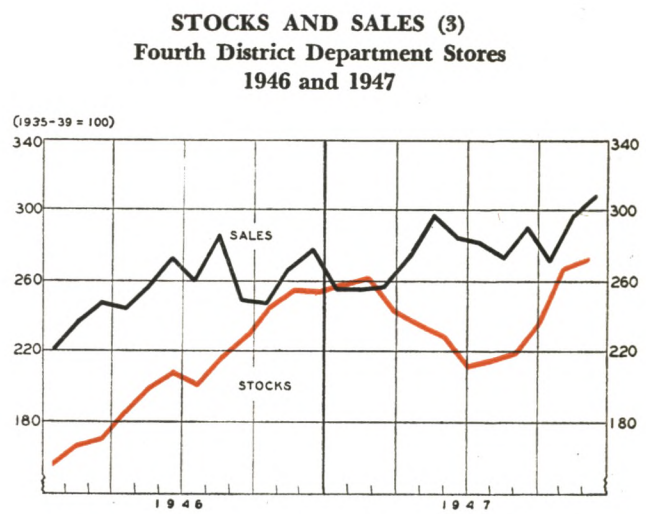
Among the wholesale lines which showed greatest

inventory additions during 1947 are shoes, up 53 percent, and meats, up 51 percent. The electrical group showed an increase of 48 percent, while hardware stocks rose 32 percent. Important lines which registered increases of less than 10 percent in stocks were groceries, dry goods, drugs, and tobacco products.

**Inventories of the Retail Trade** Stocks of merchandise in retail outlets increased about 15 percent during 1947. Fluctuations within the year, however, were large and not altogether in line with usual seasonal patterns. The dollar volume of retail inventories and sales, as



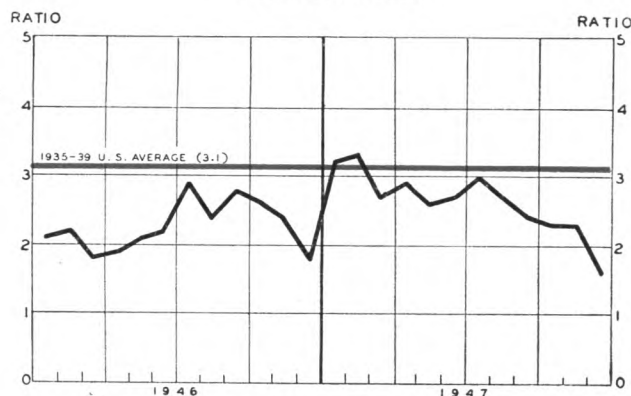
... the dollar value of wholesalers' and retailers' inventories tended to rise with sales during the past two years, although retailers' stocks were temporarily reduced at certain intervals during 1947.



... a sharp reduction in department store stocks occurred during the second quarter of 1947, interrupting the upward trend of the past two years.

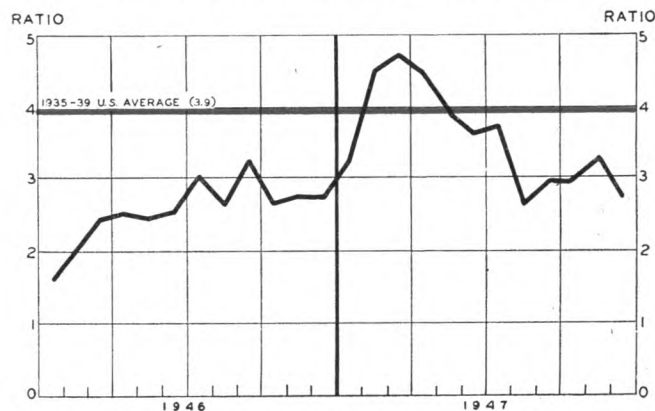
**RATIO OF STOCKS TO SALES (4)**  
Fourth District Department Stores—1946 and 1947

**TOTAL STORE**



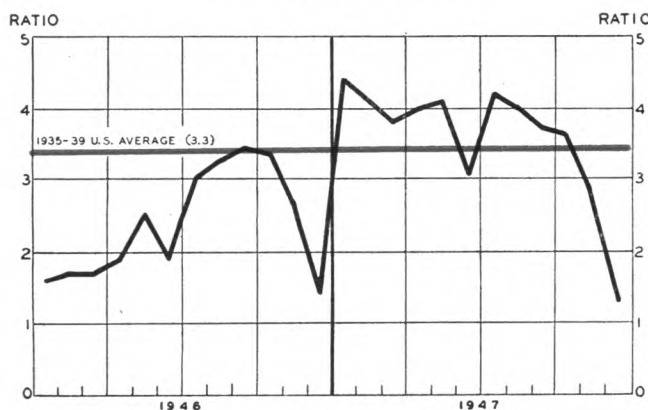
... the department store ratio of total stocks to total sales has been lower than usual prewar experience; the ratio moved down during most of 1947, largely because of expanding sales.

**LINENS, DOMESTICS AND BLANKETS**



... the linens, domestics, and blankets department is one which compared closely with the pattern of the storewide ratio throughout most of 1946-47.

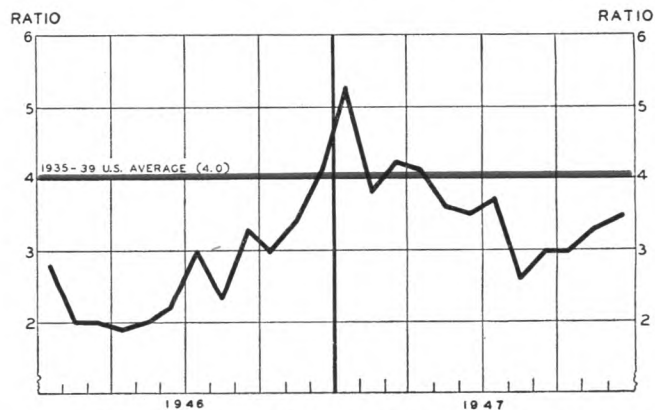
**MEN'S FURNISHINGS**



... the men's furnishings department had an unusually high stock-sales ratio during most of 1947.

For footnote see Page 8

**FURNITURE, BEDS, MATTRESSES, SPRINGS**



... the stock-sales ratio for furniture, beds, mattresses, etc., unlike that for most other departments, was climbing during the last four months of 1947.

shown in the chart, is unadjusted for seasonal variation.

A year ago at this time retailers were fairly well stocked in relation to late winter sales volume. The possibilities of an industrial recession later in 1947 were likewise being given serious consideration with the result that during the April-August interval, retailers trimmed their inventories somewhat, perhaps more effectively than was the case in wholesale trade. During the fall months retail inventories rose with sales. At the close of 1947 retail stocks were pulled down again by an unexpectedly large volume of Christmas sales, whereas wholesale stocks at the year end were at an all-time peak.

**Department  
Store Stocks**

Among retailers, the department store group may be selected for particular attention because it covers a

wide range of goods for which reasonably complete inventory and sales data are available.

At the beginning of the current year as department store sales moved into the period of post-Christmas dullness, the general level of store stocks was regarded in the trade, as well as by outside observers, as fairly conservative. A review of trends in stocks and sales during the past two years serves on the whole to confirm a picture of relatively low inventories as compared with sales. Such a relationship holds true for the stores in the Fourth Federal Reserve District as well as for those of the country as a whole.

Two important qualifications, however, should be kept in mind as the figures are examined. First, the inventory position of the various departments within the stores is far from uniform. Second, the new year so far has seen a greater than seasonal loss of sales,



as compared with the closing months of 1947, even though dollar totals have run higher than the corresponding months of early 1947. Increasing attention has been paid to the drop in physical volume of sales. Accordingly, department store inventories are once again the subject of careful scrutiny.

On balance, the year 1947 witnessed a welcome recovery in department store inventories from the inadequate levels of 1946, especially with respect to the hard goods lines. Important changes within the year, however, were apparent. As shown in the accompanying chart, the seasonally adjusted index of stocks held by Fourth District department stores rose in the early months, at a time when the sales boom was faltering. During the second quarter a wave of buying caution characterized the inventory policies of the trade, and pushed down sharply the seasonally adjusted index of stocks. By the time the trend was reversed in the third quarter, as business optimism renewed, it was too late for some of the departments, such as toys and games, to restock with complete adequacy to meet the huge Christmas demand. On the whole, the closing months of 1947 were marked in the trade by concern over shortages rather than by fears of vulnerably high inventories.

**The Stock-Sales Ratio** Perhaps the most trustworthy way of arriving at the real significance of inventory figures, under conditions of rising prices, is to compute for any given month the ratio between the dollar value of stocks at the beginning of the month and the dollar value of sales during the month, both of which are presumably equally affected by the uptrend of prices. Such a stock-sales ratio for the department stores of

the Fourth District tended to ease downward during 1947, as shown in an accompanying chart.\* Although the ratio averaged somewhat higher during 1947 than during 1946, in both years it was substantially below the usual prewar level, as indicated by the fact that the 12-month average for 1947 was 2.6 while a national five-year average for the years 1935-39 was a ratio of 3.1. Thus during the late 'thirties the department stores of the country had an average of about three months' supply on hand at each month's beginning. (See red line on chart). During the war years a sharp drop occurred in the ratio. The rise during 1946 and early 1947 failed to carry the ratio back to prewar levels, at least so far as total operations of the department stores are concerned. During the latter part of 1947 the stock-sales ratio fell largely because of rising sales, not because of falling inventories.

**Variations Among Departmental Ratios** Stock-sales ratios for individual departments in some cases have shown a pattern quite similar to that of total store operations. An example may be seen in the ratio for linens, domestics and blankets, sometimes called the "household textiles" department. The stock-sales ratio for this department rose and fell during the two year period

\* These ratios are not comparable with the ratios of stocks to sales for department stores in the U. S., as published monthly in the *Federal Reserve Bulletin*. The latter ratios are obtained by dividing the stock at the end of the month by sales during the month.

The trend of the ratio during 1947, as shown in the chart, cannot be matched by inspection with the combined trends of the stocks and sales curves in the preceding chart, since the ratio is not adjusted for seasonal variation.

## RATIO OF STOCKS TO SALES \* • • FOURTH DISTRICT DEPARTMENT STORES

Selected Departments, 1947

	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	DEC.1946
TOTAL STORE.....	3.2	3.3	2.7	2.9	2.6	2.7	3.0	2.7	2.4	2.3	2.3	1.6	1.8
Coats and suits (Women's and misses').....	1.8	2.1	1.2	1.5	1.7	2.4	1.9	1.9	1.6	1.4	1.4	1.5	2.4
Blouses, skirts, etc.....	3.6	3.6	2.9	3.0	2.6	2.2	2.3	2.2	1.2	1.7	2.1	1.5	2.1
Juniors' and girls' wear.....	2.6	2.6	1.5	1.9	1.8	1.9	2.1	1.3	1.0	1.4	1.7	1.4	1.9
Hosiery.....	2.5	2.7	2.5	2.6	2.3	2.3	2.4	2.0	1.6	1.3	1.3	0.9	1.7
Women's and children's shoes.	4.1	4.8	3.1	3.4	3.3	3.8	4.8	3.8	3.1	3.5	3.8	2.9	2.5
Men's clothing.....	2.3	2.9	2.2	2.5	2.3	2.3	3.8	3.8	2.7	2.7	2.3	2.0	1.4
Men's furnishings.....	4.4	4.1	3.8	4.0	4.1	3.0	4.2	4.0	3.7	3.6	2.8	1.3	1.4
Linens, blankets, etc.....	3.2	4.5	4.7	4.5	3.9	3.6	3.7	2.6	2.9	2.9	3.2	2.7	2.7
Furniture, mattresses, etc....	5.3	3.8	4.2	4.1	3.6	3.5	3.7	2.6	3.0	3.0	3.3	3.5	4.1
Domestic floor coverings.....	3.4	3.7	3.1	2.7	2.5	3.0	3.7	3.6	3.3	2.9	3.3	3.3	2.7
Major household appliances..	0.9	1.5	1.3	1.3	1.4	1.4	1.4	1.3	1.2	1.2	1.6	1.5	0.6
Toilet articles, etc.....	4.2	4.6	4.1	4.6	4.6	4.3	4.1	4.0	3.5	3.2	3.7	1.8	1.8

\* Dollar value of stocks at beginning of month, divided by dollar value of sales during the month for identical stores.

Unadjusted for seasonal variation.

in much the same fashion as the ratio for the total store. During most of the period, the ratio was substantially below the 1935-39 average ratio (3.9) although for three months in early 1947 the ratio was noticeably above its prewar level. This department includes a number of items, such as cotton sheets, the production of which, at least until recently, failed to meet the requirements of postwar demand.

Other departments show a wide departure from the stock-sales ratio of the store as a whole, and may require special attention with respect to current inventory levels. An example is the men's furnishing department which includes such items as shirts, ties, pajamas, underwear, hats, caps, and hose. During most of 1947, with recovery of inventories, the stock-sales ratio of this department for Fourth District stores was substantially above the prewar average. An unusually heavy sales spurt during the Christmas rush brought the ratio down to a point near to that of the close of the preceding year. Including the Christmas showing, however, the average stock-sales ratio for this department during 1947 was 3.6, or appreciably higher than the five-year average for 1935-39 which was 3.3. During the early months of 1948, trade papers began to carry discussions of "surpluses" in men's shirts.

Another department where inventory problems may require special attention is that which handles furniture, beds, mattresses and springs. This is traditionally a slow-turnover department, potentially

vulnerable to inventory losses in a shifting market. Here the general level of the stock-sales ratio during 1947 was somewhat below the 1935-39 average. During the last quarter of the year, however, it was consistently rising. The recent inventory position of this department may be gauged in part by the fact that if sales during December 1947 had been about 10 percent less than they actually were, the stock-sales ratio for December would have been up to prewar average levels, and above the usual December level.

The table on page seven shows the stock-sales ratios for 1947, by months, for each of the departments covered by the charts, as well as for seven additional departments. The table also shows the ratios which prevailed for the same departments during December of the previous year.

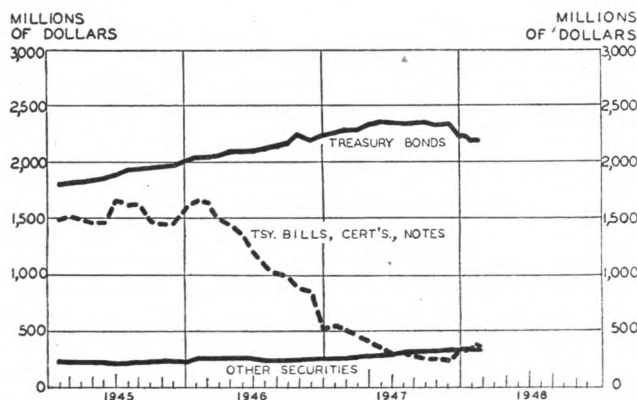
Footnotes for Pages 5 and 6

- (1) Source: U. S. Department of Commerce. Unadjusted for seasonal variation. For comparability with inventory data, the sales figures are those before the recent revisions by the Department of Commerce designed to reflect postwar expansion of retail outlets.
- (2) Source: U. S. Department of Commerce. Sales figures exclude sales by agents and brokers, petroleum bulk stations and manufacturer's sales offices.
- (3) Seasonally adjusted dollar volume; stocks at beginning of month; average daily sales during month.
- (4) Dollar value of stocks at beginning of month, divided by dollar value of sales during month, for identical stores. Unadjusted for seasonal variation. The 1935-39 average for the U. S. is based on stock turnover data from the Controllers' Congress, National Retail Dry Goods Association.

## Recent Banking Developments

**I**N recent months the banking situation in the Fourth District has been affected by the customary

INVESTMENTS OF REPORTING MEMBER BANKS\*  
Fourth District



... in recent months bond holdings have been reduced whereas portfolios of short-term obligations have expanded.

seasonal influences, the financial operations of the Treasury, and the upward movement in the level of interest rates.

**Shifts Among Investments** Until late last year, weekly reporting member banks of the Fourth District were generally maintaining or adding to their holdings of United States Government bonds, while reductions occurred in their portfolios of Treasury bills, certificates and notes.

These divergent trends resulted in part from a preference for the higher yields of the longer term securities, while another important factor was the relatively large scale retirement by the Treasury of short-term obligations held in large amounts by the commercial banks.

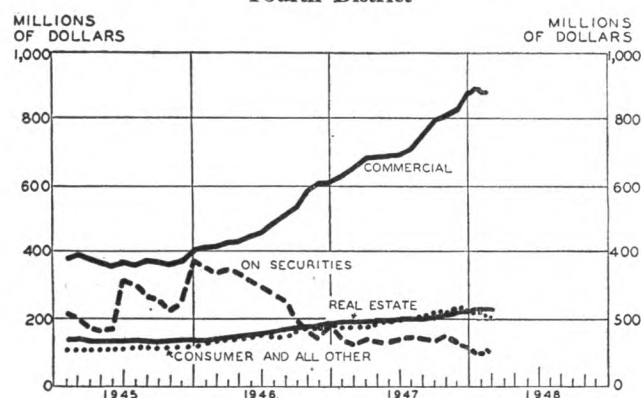
In the closing weeks of 1947 and early in 1948, however, these trends were reversed. Bond portfolios moved downward while the banks added to holdings of short-term obligations. One causal factor

\*Last Wednesday of month data, 1945-47. Weekly data, 1948.  
Last date plotted, February 18, 1948.



# LOANS OF REPORTING MEMBER BANKS\*

## Fourth District



... commercial loans have leveled off in the early weeks of 1948, but this trend is generally held to be seasonal in character.

was the exchange by the Treasury of short-term obligations for maturing bonds. For example, notes were offered in exchange for the 2's of December 1947, and certificates are being offered for the 2's and 2¾'s which are being redeemed this month.

But to a considerable degree this recent shift in the composition of portfolios also indicated doubts regarding the future prices of marketable Treasury bonds. In many instances commercial banks preferred to increase their holdings of short-term securities pending clarification of the outlook for interest rates. In this respect the policies of the banks were duplicated by the actions of non-bank investors, who likewise replaced some long-term holdings with short-term issues.

A further important consideration was the relatively great recent increase in the yields on short-term obligations, which made those highly liquid issues increasingly attractive from an income standpoint. The rate on Treasury bills, for example, advanced to almost one percent by mid-February compared with ¾ percent last summer. During the same interval the yield on long-term Government bonds moved up from about 2¼ percent to nearly 2½ percent.

During this rearrangement of investment portfolios by banks and other investors, a sizable reduction occurred in total Reserve Bank holdings of Government obligations. Bond holdings of the Reserve Banks expanded greatly, but the contraction of short-term issues through redemptions and net sales was on a scale sufficient to reduce the aggregate portfolio of all Government obligations by well over a billion dollars. This reduction served to offset the expansive effect upon reserves of gold imports and the seasonal drop in currency in circulation, and also contributed to some increase in member bank borrowing from the Reserve Banks.

Changes in commercial bank investment portfolios during the immediate future will continue to depend somewhat upon Treasury policies with regard to the retirement or refunding of maturing and called obligations, as well as upon the drain on bank reserves which is resulting from the high seasonal flow of cash receipts into the Treasury. This drain is already contributing to a moderate drop in total bank holdings of Government obligations and to an increase in member bank borrowing from the Reserve Banks.

Another factor that could assume some importance in the trend of bank investments is the interpretation by bank investment officers of the ultimate meaning of the recent declines in the stock and commodity markets.

For example, an expectation that the downward adjustments in commodity prices may be extended to business activity generally could encourage a resumption of bond purchases, in anticipation of a slackening of loan business. Such an expectation with regard to business activity likewise could stimulate bond purchases by pointing to an early halt or reversal of the recent trend toward higher interest rates.

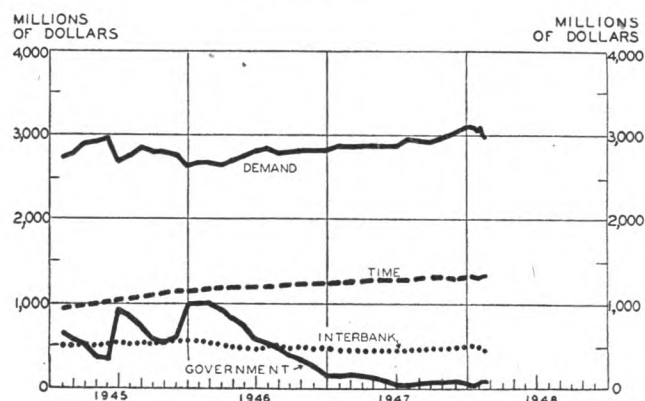
## Trends in Loans

The trend of commercial loans at Fourth District weekly reporting member banks in recent months has varied somewhat from the pattern of a year ago. The volume of commercial loans outstanding during January and early February was virtually unchanged, in contrast to a year ago when the total moved up rapidly.

The trend of recent months is adhering more closely to the customary seasonal pattern than did the movement of a year ago. The normal fall expansion of commercial loans usually continues until the end of December, followed by some contraction in January. Loans ordinarily begin moving

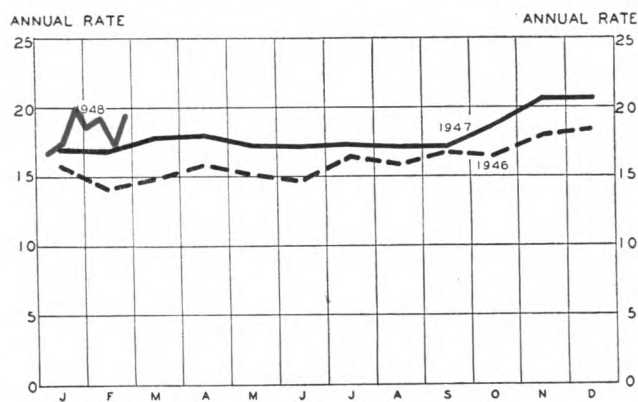
# DEPOSITS OF REPORTING MEMBER BANKS\*

## Fourth District



... large Treasury cash receipts have tended to contract adjusted demand deposits.

**ANNUAL TURNOVER RATE OF  
ADJUSTED DEMAND DEPOSITS\***  
(Weekly Reporting Banks—Fourth District)



... checking account balances continue to change hands more rapidly than a year ago.

up again in a seasonal advance by March, and such a trend may very well be followed this year provided there is no easing off in business activity. A declining tempo of business activity invariably results in reductions in the volume of commercial loans.

With regard to other types of loans, those on real estate have moved upward steadily throughout the winter, thus extending the advance which began shortly after the end of the war. In contrast, loans on securities, and particularly loans to non-brokers on United States Government obligations, have been declining in recent months, presumably as a consequence of the downward movement in bond prices.

**Stability of Deposit Liabilities** Large Treasury cash receipts during the first quarter of this year have the effect of curtailing demand deposits at commercial banks, inasmuch as funds paid to the Treasury are not all being returned immediately to the public through ordinary Treasury expenditures or through redemption of securities in the hands of holders other than the Reserve Banks or the commercial banks.

Last year this seasonal reduction at Fourth District weekly reporting member banks totaled about 3½ percent, but this year a considerably larger excess of Treasury cash receipts over expenditures may produce a somewhat greater contraction of deposits. Partially offsetting forces may be the

continued inflow of gold, net sales of Treasury bonds by investors other than banks, and a possible renewed expansion of loans. Deposits of Fourth District banks may likewise be bolstered by a net inflow of commercial funds from outside the District. The recent breaks in the commodity and stock markets have had no apparent effect upon the deposit totals of commercial banks.

With regard to the recent trend of time deposits, the slowing down in the wartime and postwar rate of expansion during 1947 has extended into the current year. The increases that did occur have generally been attributed to the payment of interest on accounts at the end of the year and to gains in state and municipal government deposits. Accounts of individuals, partnerships, and corporations at the Fourth District weekly reporting member banks have been stationary since the first of the year.

**Increase in Deposit Turnover** A reduced tendency to save can also be expressed as an increased propensity to spend. A higher tempo of expenditures is disclosed by recent data regarding the turnover of demand deposits at Fourth District weekly reporting member banks. The accompanying chart indicates that deposits changed hands more rapidly all through 1947 than in 1946, and in the early weeks of 1948 continued gains over year-ago figures are being experienced.

The recent trend of national figures on currency in circulation also may be interpreted as indicating a declining inclination to save. Current figures have been running under year-ago totals for about four months, despite the fact that during this period prices and the volume of business activity have been generally higher than a year ago. This combination of circumstances suggests that many families who had been retaining their savings in the form of currency are dipping into those savings to meet various immediate needs for funds.

### ANNOUNCEMENTS

The First National Bank of Sebring, Sebring, Ohio, opened for business on February 7, 1948, as a member of the Federal Reserve System.

This newly-organized bank was established with capital of \$50,000 and surplus of \$50,000.

Officers of the new member bank are:

Mr. T. F. Shaffer.....	President
Mr. W. G. Millner.....	VicePresident
Mr. J. R. Sanders.....	Cashier

\*Monthly averages 1946-47. Weekly data, 1948.  
Last date plotted, February 18, 1948.



## FINANCIAL AND TRADE STATISTICS

## Bank Debits\*—January, 1948

(In Thousands of Dollars)

(Compiled February 11, and released for publication February 12)

	January 1948	% Change from year ago	3 Months ended Jan. 1948	% Change from year ago
ALL 29 CENTERS.....	\$6,786,355	+14.0%	\$20,856,426	+13.4%
10 LARGEST CENTERS:				
Akron.....Ohio	230,444	+ 1.0	701,191	- 1.5
Canton.....Ohio	107,331	+13.1	324,148	+11.8
Cincinnati.....Ohio	931,237	+14.2	2,769,234H	+14.3
Cleveland.....Ohio	1,707,265	+10.9	5,311,804	+12.0
Columbus.....Ohio	497,475	+23.3	1,529,286	+18.9
Dayton.....Ohio	244,428	+18.7	715,572H	+17.8
Toledo.....Ohio	372,407	+ 7.9	1,135,139	+ 3.4
Youngstown.....Ohio	150,766	+32.5	453,357	+31.1
Erie.....Penna.	87,660	+17.0	260,677	+13.0
Pittsburgh.....Penna.	1,806,746	+16.4	5,733,462H	+15.8
TOTAL.....	\$6,135,759	+14.2%	\$18,933,870	+13.5%

19 OTHER CENTERS:				
Covington-Newport.....Ky.	\$ 41,193	+13.7%	\$ 119,032H	+10.4%
Lexington.....Ky.	103,383	- 0.3	292,671	+ 9.2
Hamilton.....Ohio	37,399	+31.8	114,842	+32.6
Lima.....Ohio	42,084	+ 5.7	127,263	+10.2
Lorain.....Ohio	17,728	+20.0	54,983	+19.9
Mansfield.....Ohio	42,587H	+26.4	121,792H	+20.9
Middletown.....Ohio	30,668	+ 8.2	98,764	+11.6
Portsmouth.....Ohio	20,975	+16.2	63,474	+14.3
Springfield.....Ohio	46,327	+13.1	135,507H	+10.1
Steubenville.....Ohio	22,532	+13.1	68,960H	+14.9
Warren.....Ohio	38,197H	+14.3	112,022H	+12.9
Zanesville.....Ohio	25,850	+15.7	76,557H	+17.3
Butler.....Penna.	30,229	+ 7.7	89,827	+10.6
Franklin.....Penna.	7,163	+19.6	20,880	+ 8.7
Greensburg.....Penna.	20,347	+16.0	61,771	+15.5
Meadville.....Penna.	11,943	- 0-	34,255	- 1.4
Oil City.....Penna.	19,620	+ 3.3	58,639	- 1.4
Sharon.....Penna.	26,731	+26.1	79,995	+22.3
Wheeling.....W. Va.	60,640	+13.0	191,322H	+11.4
TOTAL.....	\$ 650,596	+11.8%	\$ 1,922,556H	+13.0%

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

\* debits to all deposit accounts except interbank balances.

Bank debits in the Fourth District during January were 14 percent higher than in the corresponding month last year. The total of \$6,786,000,000 was the third highest monthly figure on record, and has been exceeded only by the totals for last October and December. The January figure was roughly \$1 billion or 13 percent under the all-time high set in December, but this was a seasonal reduction of about normal proportions.

## TEN LARGEST CITIES

The outstanding year-to-year gain was recorded in Youngstown where the January figure was up 32.5% from a year ago. This city also led the other large centers in this respect during most of 1947.

The second largest increase over year-ago figures was reported by Columbus, with an advance of 23.3 percent. Other cities which exceeded the average 14.2 percent gain for all the large centers were Dayton (18.7%), Erie (17.0%) and Pittsburgh (16.4%).

## NINETEEN SMALLER CENTERS

Hamilton led the smaller centers for the third successive month in percentage gain over year-ago figures, this time with an increase of 31.8 percent. Other cities which reported large gains over a year ago were Mansfield (26.4%), Sharon (26.1%), Lorain (20.0%) and Franklin (19.6%).

New all-time highs were set during January in Mansfield and Warren.

The accompanying table shows the volume of debits to all deposit accounts (except interbank balances) in 29 cities of the Fourth District. Most of the debits represent transfers of funds by check although debits to (withdrawals from) savings deposits and U. S. Treasury deposits at reporting banks are also included.

## Time Deposits—12 Fourth District Cities

(Compiled February 5, and released for publication February 6)

City and No. of Banks	Time Deposits Jan. 28, 1948	% Change from year ago	Average Weekly Change During:		
			4 Weeks Ended Nov. 26, 1947	5 Weeks Ended Dec. 31, 1947	4 Weeks Ended Jan. 28, 1948
Cleveland (4)...	\$ 876,505,000	+3.0%	+\$431,000	+\$3,007,000	-\$704,000
Pittsburgh (12)...	405,335,000(a)	+3.0	- 28,000	- 318,000	+ 242,000
Cincinnati (8)...	181,897,000	+1.0	- 623,000	+ 80,000	+ 89,000
Akron (3).....	103,172,000	+4.2	- 85,000	+ 269,000	- 190,000
Toledo (4).....	96,620,000(b)	+3.2	- 5,000	+ 176,000	- 70,000
Columbus (3)...	73,029,000	+3.7	+ 23,000	+ 88,000	- 47,000
Youngstown (3)...	60,749,000	-0.5	+ 117,000	- 111,000(c)	- 126,000
Dayton (3).....	49,087,000	-0.5	- 79,000	- 27,000	- 68,000
Canton (5).....	42,833,000	-1.4	- 85,000	- 5,000	- 30,000
Erie (4).....	38,964,000	+6.9	- 14,000	- 207,000	+ 105,000
Wheeling (6)...	28,577,000	+0.7	- 87,000	- 107,000	+ 62,000
Lexington (5)...	10,701,000H	+3.2	+ 6,000	+ 16,000	+ 10,000
Total—12 Cities.	\$1,967,469,000	+2.4%	-\$429,000	+\$2,861,000	-\$727,000

H=new all-time high

(a)=Pittsburgh data fully adjusted for recent mergers.

(b)=Coverage of Toledo increased from 3 banks to 4.

(c)=Youngstown figure for December revised.

Time deposits at 60 Fourth District banks declined during January for the second reduction in the past three months and also the second decrease in the postwar period to date.

The average weekly change for the full three-month period of November-December-January, however, is on the plus side with an average gain of \$745,000 per week, largely reflecting a seasonal expansion of deposits during December. In the corresponding three months of a year ago, the average gain was \$2,815,000, or almost four times as large as the average weekly increase of recent months.

Total time deposits at the 60 reporting banks now stand 2.4 percent higher than a year ago. Erie reports the largest percentage gain in total time deposits over this time last year with an increase of 6.9 percent, while Akron ranks second among the reporting cities with an advance of 4.2 percent. Time deposits at Cleveland, Pittsburgh, Toledo, Columbus, and Lexington are 3 to 4 percent above a year ago.

During January, the outstanding weekly gain occurred in Wheeling, where the rate of increase was the highest reported in more than a year. The advance in Erie was the largest since August. Lexington is the only city among the twelve where time deposits now stand at an all-time high. Other cities where increases occurred in January were Pittsburgh and Cincinnati. Seven cities experienced decreases.

## January Department Store Sales by Cities

(Compiled February 27, and released for publication February 28)

CITY	Total Sales % Change from		Sales During January* (January 1941=100)				
	Dec. 1947	Jan. 1947	1941	1945	1946	1947	1948
Cleveland.....	-52	+14	100	148	168	193	221
Cincinnati.....	-53	+ 9	100	163	187	224	244
Youngstown.....	-54	+11	100	178	199	237	263
Akron.....	-55	+ 8	100	196	214	228	247
Columbus.....	-55	+12	100	206	240	269	301
FOURTH DISTRICT	-55	+10	100	165	190	222	246
Pittsburgh.....	-56	+ 4	100	161	194	232	242
Canton.....	-57	+ 6	100	173	193	246	261
Toledo.....	-58	+16	100	188	197	226	263
Springfield.....	-59	+ 8	100	198	213	228	247
Erie.....	-60	+16	100	158	191	206	237
Wheeling.....	-65	+ 8	100	180	211	223	241

\* Based on daily average sales.

The December-January decline in total sales at department stores was somewhat greater than usual in nearly every major city of the District. Aggregate sales during January, however, exceeded the 1947 month by 10%, and daily average sales for the month were nearly 2½ times the January 1941 level.

## INDIVIDUAL CITIES

The post-holiday drop in sales volume in Cleveland, Cincinnati and Youngstown ranged from 52% to 54% as compared with the District average of 55%. The sharp December-January drop was registered in Wheeling where total volume was off 65%.

The widest year-to-year gains occurred in Toledo and Erie where January sales exceeded the 1947 month by 16%. Cleveland, Columbus and Youngstown also experienced a year-to-year improvement greater than the District as a whole.

In four of the eleven reporting centers, January daily sales averaged more than 2½ times the January 1941 figure. Columbus ranked first in this respect with January 1948 301% of January 1941, while in Canton, Toledo and Youngstown the ratio ranged from 261% to 263%.

## Retail Trade

	Percentage Changes From Preceding Year	
	SALES Jan. 1948	STOCKS Jan. 1948
DEPARTMENT STORES (95)		
Akron.....	+ 8	+11
Canton.....	+ 6	a
Cincinnati.....	+ 9	- 1
Cleveland.....	+14	+ 8
Columbus.....	+12	+ 1
Erie.....	+16	+19
Pittsburgh.....	+ 4	+ 5
Springfield.....	+ 8	a
Toledo.....	+16	+ 6
Wheeling.....	+ 8	+ 4
Youngstown.....	+11	a
Other Cities.....	+24	+19
District.....	+10	+ 6
WEARING APPAREL (13)		
Cincinnati.....	+ 7	+18
Cleveland.....	+10	+ 1
Pittsburgh.....	+ 4	+ 1
Other Cities.....	+10	+28
District.....	+ 8	+ 9
FURNITURE (51)		
Canton.....	-10	+16
Cincinnati.....	-10	+ 9
Cleveland.....	+ 4	+47
Columbus.....	+12	+ 5
Dayton.....	+14	a
Pittsburgh.....	a	a
Allegheny County.....	- 1	a
Toledo.....	-27	a
Other Cities.....	+ 4	+33
District.....	- 0-	+26

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 February 26, 1948)

Output and employment at factories and mines continued to show little change in January. Value of department store trade declined by more than the usual seasonal amount in January and the early part of February. Prices of farm products and foods decreased sharply in the early part of February, while prices of most groups of industrial products showed little change.

### Industrial Production

Industrial production was maintained in January at the level of the preceding two months, and the Board's preliminary seasonally adjusted index was 192 per cent of the 1935-39 average.

Activity in durable goods industries showed a slight decline in January. The decline reflected mainly some curtailment in production at steel and automobile plants in the latter part of the month owing to adverse weather conditions, which continued in the early part of February. Activity in nonferrous metals industries continued to increase in January; deliveries of copper and zinc to fabricators were at the highest level since the spring of 1947. Output of lumber and stone, clay and glass products was maintained at exceptionally high levels for this season.

Output of most nondurable goods recovered in January from the December decline. Activity at cotton textile mills reached the highest rate since the spring of 1947. Production at paper-board mills and printing establishments also increased. Petroleum refining activity rose further in January under the pressure of exceptional demands for fuel oil. Output of most other nondurable goods was maintained at the December rate or increased somewhat.

Production of minerals in January continued at the December rate. Bituminous coal output was restricted by weather influences on transportation and was 7 per cent smaller than in January 1947. Crude petroleum production continued to gain and was 14 per cent larger than a year ago.

### Employment

Employment in nonagricultural establishments was reduced by 1,100,000 persons from mid-December to mid-January, mainly because of the usual large seasonal reduction in trade and Federal post office activities. Construction employment was curtailed more than is usual in January, owing to exceptionally severe weather conditions. Employment in manufacturing industries showed about the usual small seasonal decline.

### Distribution

Department store sales showed more than the usual seasonal decrease in January and the Board's adjusted index declined to 282 per cent of the 1935-39 average, as compared with 303 in December and an average of 285 for the year 1947. Value of sales in the first half of February was 5 per cent above a year ago.

Total shipments of railroad revenue freight early in January equalled the volume for the corresponding period of 1947. In the latter part of January and in early February, however, loadings of most classes of freight were substantially curtailed as a result chiefly of weather conditions.

### Commodity Prices

The general level of wholesale prices declined about 4 per cent from the middle of January to the latter part of February, reflecting mainly sharp decreases in prices of farm products and foods. Prices of hides, print cloth, and some other industrial materials also showed marked declines. Prices of semifinished steel and worsted fabrics, however, were raised and prices of most other groups of industrial products showed little change.

Retail food prices declined about 4 per cent in February from the record level of 210 per cent of the prewar average reached in January.

### Bank Credit

Seasonally large Treasury receipts from tax collections and sales of savings bonds resulted in a substantial transfer of deposits from private accounts at commercial banks to Treasury accounts at the Reserve Banks during January and the first three weeks of February. Accompanying drains on bank reserves were met out of excess reserves, from funds received from the post-Christmas return of currency and further gold inflows, and from funds supplied by market purchases of Government securities by the Reserve Banks.

Sale of Treasury bonds by commercial banks and other investors continued in January and the first three weeks of February, and the Federal Reserve System purchased substantial amounts of these issues. Total holdings of Government securities by Reserve Banks declined, however, reflecting sales of bills and certificates in the market, as well as Treasury retirements of securities held by Reserve Banks out of surplus cash receipts.

Government security holdings at member banks in leading cities declined somewhat in January and the first half of February as continued sales of Treasury bonds were offset only partly by purchases of bills. Loans to businesses showed little further change, but real estate and consumer loans continued to expand.

Effective on February 27, 1948, the Board of Governors raised from 20 to 22 per cent the reserve requirements to be maintained on net demand deposits by member banks in central reserve cities.

### Security Markets

Common stock prices, which had moved downward during most of January, declined more sharply in the early part of February. Corporate bond prices were stable; yields on high-grade issues averaged about 27/8 per cent.