

MONTHLY
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Review*

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CONTENTS

| | |
|---|-------|
| Industrial Review and Outlook | 1 |
| Variations Among Banks | 3 |
| Sales Trends of Competitive Retail Outlets | 6 |
| Rubber Act of 1948 | 9 |
| District Statistical Tables | 12-13 |
| National Business Conditions | 14 |

FINANCE • INDUSTRY • AGRICULTURE • TRADE

FOURTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

Industrial Review and Outlook

IN GENERAL, employment, payrolls, and industrial production were maintained at a high level in the second quarter of the year in the Fourth Federal Reserve District. While there were some temporary curtailments in metal fabricating plants due to lack of iron and steel as a consequence of the coal strike, the over-all effect of the stoppage upon industry was not great.

The second quarter was featured by a change in business psychology and expectations concerning the ability of business to maintain its high rate of activity for the balance of the year. From an attitude of doubt and mild pessimism there was a swift return of confidence and the developing belief that only manpower and material shortages would prevent further gains in industrial production. Price weakness of the first quarter evaporated and wholesale and retail prices turned upward again.

There were several important factors that generated this change in attitude. First was the Administration's request for an expansion in expenditures for the armed forces to meet the tense international situation and the apparent willingness of Congress to go along with this view. Second was the reduction in personal income taxes that promised to increase consumer expenditures and to curtail the Treasury's debt reduction program. Third was the passage of the European Recovery Program which would act as a brake to check declining exports. In addition, coal production was resumed before the strike had materially impaired the general level of industrial production.

The optimism generated by these events has more recently been reinforced by a recovery of retail trade from the disappointing Easter season, a renewed vigor in the security markets, and the continued

activity in the over-all construction industry. Failure of the Treasury to advance the rate on certificates, as had been generally anticipated, may have some implication with respect to the cost of borrowing for industrial and commercial purposes, at least for the near term.

The Third Round

A further fillip to inflationary forces and psychology was the two-year wage agreement signed in late May by a leading automotive manufacturer which tied the wage rate to the so-called "cost of living" index as well as granted a "standard of living" increase. The immediate wage increase amounted to 11¢ an hour and was divided into two parts of 8¢ and 3¢ to apply respectively to these two factors. Employees' hourly wages are thereby supposedly equal to their 1940 purchasing power. Further quarterly wage adjustments of 1¢ an hour are to be made with each 1.14 points change in the "cost of living" index.

The inflationary importance of this particular wage settlement did not rest upon the immediate increase itself (since wages in the automobile industry had generally risen less percentage-wise since 1940 than in other industries) but in the fact that a united front by large employers, to slow down the wage-price spiral, had been broken. This break has been followed by the granting of wage increases by other companies in the automobile, electrical equipment, and rubber fields, and it appears likely that many contracts providing for no wage changes or merely nominal increases will be reopened in the near future and will thus further implement the wage-price spiral.

The cost of living feature based upon 1940 relationships is not apt to prove attractive to other unions since wages generally other than white-collar, cleri-

cal, and professional have risen more than have retail prices. Likewise, many unions are not in favor of an escalator clause that could carry wages down as well as up.

Although the regular ten-day vacation of the coal miners which began June 26 will temporarily reduce steel production due to low coke supplies, the new wage contract should result in sustained steel production for the balance of the year. The increase in wages of \$1 per day and the additional 10-cents-a-ton welfare payment will probably cause coal prices to rise and may instigate a reappraisal of the steel companies' wage and price policies.

At the present time there is probably greater agreement among economists and businessmen that business activity is going to remain at a high level for the balance of the year than at any time since the end of the war. They also share the belief that prices will not decline during this period and are likely to advance further. The disturbing fact about this consensus is that such unanimity usually precedes a sharp change in business activity and price levels.

UNFAVORABLE FACTORS

Consumers' Position There are a number of weaknesses in the economic structure that are in danger of being glossed over in building the case for further price rises and increased industrial production.

For example, much emphasis is being placed on certain aspects of the findings of the Survey of Consumer Finances recently released by the Board of Governors of the Federal Reserve System. The Survey discloses that consumers are optimistic about their future incomes and future business conditions and that their buying intentions for new cars, homes, and durable goods remain high. The deterioration of consumers' liquid asset position and increased use of credit by higher income groups has not been stressed by many writers for trade and business publications.

The prices of all but the lowest-priced automobiles are quite beyond the reach of most consumers. A popular "medium" priced car with the usual extras now delivers in this area for about \$2,100 and requires a down payment of \$700. On an 18-month instalment contract, the buyer would be required to make monthly payments of about \$89, which would include insurance and interest at 4 percent. Such a burden is not economically feasible unless weekly income is close to \$100.

Other signs of weakening in the consumers' position are abundant and include a decline in proportion of cash sales at department stores, a slackening in collections of accounts receivable and instalment accounts, a continuing excess of series E savings bond cash-ins over sales, stabilization of savings accounts in commercial banks, and the steady expansion of consumer credit.

Decline in Exports Another adverse factor of considerable importance is the marked recession of United States exports from the high levels reached last year, and the increase in restrictions by non-European nations upon imports from this country. By any standard, exports from the United States are still very high, but they will not be as large in 1948 as they were in 1947 despite the appropriations to finance the Economic Cooperation Administration. Exports are being screened carefully to eliminate all nonessentials and, as a consequence, many manufacturers have found their markets seriously reduced. Food requirements from this country, too, will be lower this year and may have a softening effect upon agricultural prices, especially if anticipated crops materialize.

Construction Trends The high rate of building activity is an expansionary factor in the current state of business activity. Close analysis, however, indicates that the increase in construction over last year is largely due to the surge in governmental or public building projects that can no longer be deferred. Private building thus far in 1948 is about equal to last year's dollar rate of activity, and construction of industrial or manufacturing facilities is below 1947. Total construction contracts awarded in this District are about 18 percent ahead of a year ago.

The situation with regard to construction of new dwelling units is mixed. The Bureau of Labor Statistics estimates that 356,000 nonfarm dwelling units were started in the first five months of the year, an increase of 28 percent over the same months in 1947. In an area roughly equivalent to the Fourth District, however, the F. W. Dodge Corporation estimates that dollar value of residential contracts awarded was 15 percent below a year ago, and the number of dwelling units decreased 26 percent in the first five months.

Since the need for housing remains acute in this area, the slackening must be due to one of two factors, or a combination of both. First, contractors are becoming skeptical as to the ability of prospective buyers to pay current asking prices and have experienced a decline in effective demand, or second, there is a general anticipation that prevailing prices cannot long be maintained and that an adjustment is imminent. Tightening of appraisal standards by banks, and demands for higher down payments have undoubtedly reinforced the decisions of both contractors and buyers. Since business activity and employment are just as high or higher than elsewhere in the country, it is difficult to understand why this trend should be evident here and not elsewhere. Conceivably, the drop in residential construction in the Fourth District may be a prelude to similar consequences in other parts of the country and could

(Continued on Page 11)

Variations Among Banks

PUBLISHED banking series such as the composite condition report of the weekly reporting member banks in leading cities are widely used in analyses of contemporary banking trends. Judgments of the banking situation likewise are frequently formulated on the basis of familiarity with current changes at a few banks, on the assumption that trends in those banks are typical of banking conditions generally.

Both approaches have a common shortcoming which has its roots in the fact that over a period of time marked variations occur from bank to bank in the direction and size of changes in balance sheet items. An average bank, or a bank which would always experience changes in condition about in proportion to the changes underway in the banking system as a whole, is a rarity if it exists at all.

Limitations of Composite Banking Figures

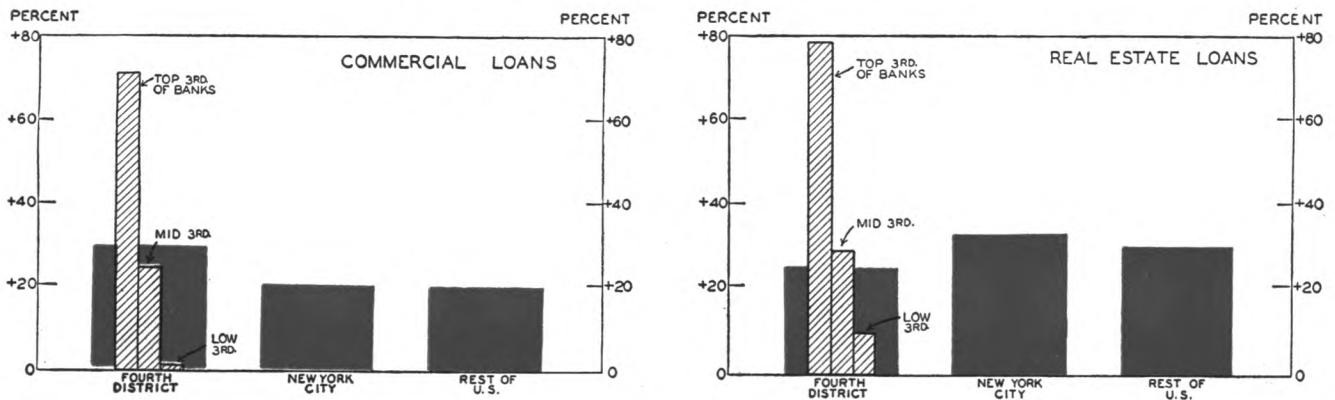
Aggregate figures are an acceptable measure of the overall direction of banking trends, and as such are a useful tool in evaluating general economic conditions. The interpreter of the composite figures, however, should constantly keep in mind that individual bank deviations from the overall trends usually are numerous and sizeable.

For example, nationwide deposit figures may run unchanged over a given period of time, yet in one district or city deposits may be rising and in another falling, large banks may be gaining deposits while smaller banks report reductions, or two banks of comparable size in the same locality may be experiencing sharply divergent deposit trends. These variations are a reflection of the dynamic nature of our economy and are attributable to such considerations as geographical and seasonal factors, to differences in the interests and skills of bank managements, or perhaps to changes in the welfare of major customers of the respective banks.

Importance of Individual Bank Data

Individual bank variations are a constant problem to those charged with supervision of the monetary and banking system, for measures which seem quite appropriate on the basis of aggregate banking figures often involve serious difficulties when their effects are considered at the individual bank level. For example, a major objection to most proposals for changes in the method of computing required bank reserves is that whereas the changes would accomplish desired objectives at an "average" bank, some banks temporarily would experience

PERCENT GAINS IN COMMERCIAL AND REAL ESTATE LOANS*
Weekly Reporting Member Banks—May 1947 to May 1948



... gains in commercial and real estate loans of around 70 and 80 percent were experienced by a third of the Fourth District reporting banks over the past twelve months, but only nominal changes occurred at another third of the banks.

* In all the charts accompanying this article, the red bars indicate the percent change in the combined dollar figures of all reporting banks in the respective localities. The black bars superimposed on the Fourth District columns designate the average percent change among the top third of the Fourth District banks when arrayed by size of percent change, the average change among the middle third of the banks, and the average change for the lowest third. In computing average changes each bank was given equal weight. Percentages were derived from monthly averages of Wednesday figures.

undeserved hardships, while another group of banks would enjoy unexpected windfalls.

An awareness of the way individual banks differ is likewise of importance to bank stockholders, for although composite reports may indicate a broad expansion in banking activities generally, it by no means follows that all banks are enjoying such a trend. Recognition of the tendency for banking conditions to vary sharply from bank to bank also could prove useful to bank customers, for the borrower who hears of tight credit conditions in the banking system considered as a whole may nevertheless find localities or individual banks where credit is readily available.

Usefulness of Composite Series

Whereas erroneous impressions of conditions at individual banks may result from concentrating attention exclusively on aggregate banking figures, equally serious mistakes with regard to overall banking developments are possible if impressions are derived purely from an acquaintanceship with trends at individual banks. Yet it is probable that a great many opinions of general banking conditions are formulated merely by reliance on personal knowledge or even word of mouth as to what is going on at a few banks. Obviously, if individual bank deviations from the "average" are the rule rather than the exception, some reference to overall banking figures is necessary if accurate impressions are to be formed of general conditions.

Banking series which describe changes at a large number of banks are useful as a measure against

which any banker can compare his own bank's operations and also as an indicator of nationwide trends that inevitably have an influence on the individual bank. Such series are invaluable to those responsible for the over-all functioning of our money and credit system, inasmuch as they are particularly concerned with the effect of general banking conditions upon the economy as a whole.

Examples of Individual Bank Variations

The accompanying charts illustrate the variations in banking trends among individual banks.

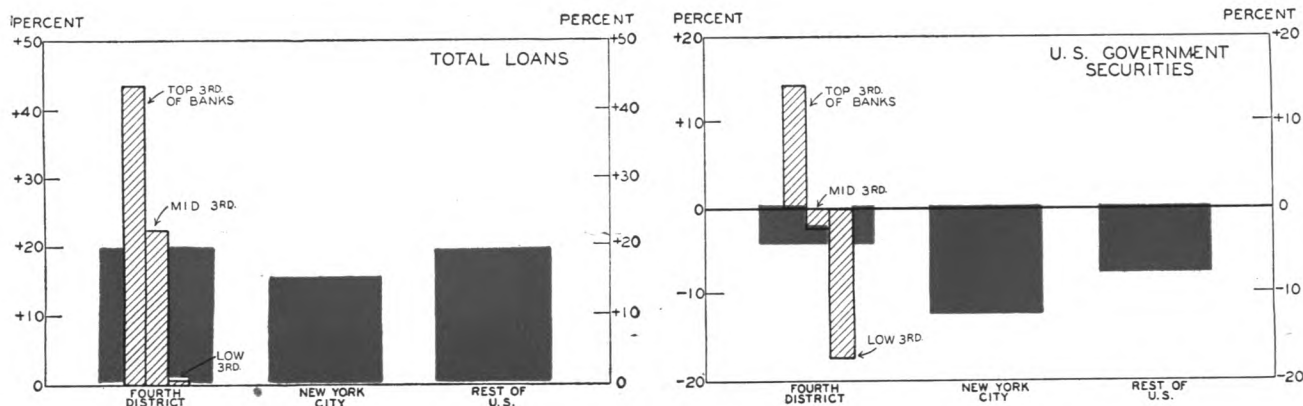
The charts portray aggregate changes over the past year in deposits and earning assets of the weekly reporting member banks located in the Fourth District, in New York City, and in the rest of the United States, together with an analysis of the varying degrees of change among the Fourth District banks.

The chart on commercial loans, for example, indicates that the aggregate figure for this loan classification at the Fourth District weekly reporting member banks advanced 28 percent from May 1947 to May 1948. The comparable gain in New York City and in the rest of the United States came to 19 percent. But when the individual Fourth District reporting banks are arrayed in order of percent gain in this loan category, it is found that the top third increased 71 percent on the average, the middle third experienced an average gain of 24 percent, while virtually no change occurred in the lowest third of the banks.

Marked variations are also indicated by the charts

PERCENT CHANGES IN TOTAL LOANS AND IN HOLDINGS OF U. S. GOVERNMENT SECURITIES*

Weekly Reporting Member Banks—May 1947 to May 1948

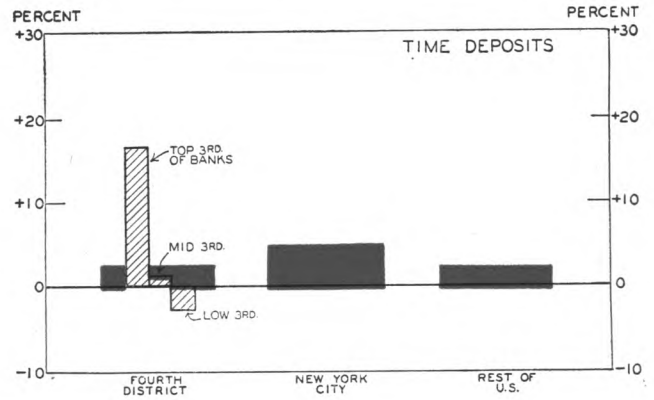
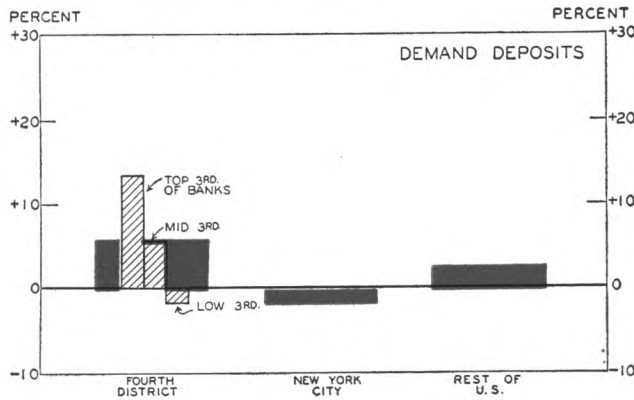


... some divergence in total loan expansion occurred throughout the country in the past twelve months, but variations within the Fourth District were far more striking.

... although portfolios of Government securities have shrunk throughout the nation, a third of the Fourth District banks experienced gains of around 14 percent in the year ended in May.

**PERCENT CHANGES IN ADJUSTED DEMAND DEPOSITS
AND TIME DEPOSITS***

Weekly Reporting Member Banks—May 1947 to May 1948



... some Fourth District banks reported gains in demand deposits averaging 13 percent, but a third of the banks experienced an average reduction comparable to that which occurred in New York City.

... although the aggregate gain in time deposits at Fourth District banks was of moderate proportions, a third of the banks enjoyed increases of about 17 percent.

dealing with total loans, real estate loans, deposits, and holdings of U. S. Government securities. With regard to the portfolios of Government securities, an average gain of 14 percent occurred at a third of the banks whereas another third contracted holdings by 17 percent. With respect to time deposits, it may be noted that there has been considerable discussion of late concerning the leveling off of time deposits, as indicated by the rather moderate gain of 3 percent at all Fourth District reporting member banks combined from May 1947 to May 1948. Yet the top third of the reporting banks from the standpoint of percent change in time deposits report an average increase of 17 percent.

the District contraction in holdings of Government obligations has been of comparatively small proportions.

The causes of the expansion from May 1947 to May 1948 of demand deposits at all reporting banks in the country combined are attributable to such complex interacting forces as gold imports, the expansion of bank loans, and a higher price level. The fact that the combined Fourth District banks experienced a somewhat larger expansion is chiefly a reflection of a net flow of funds into this District from the rest of the nation.

Variations Among Districts

The charts indicate that the small gain in the aggregate time deposit figure for Fourth

District banks has been about on a par with the experience of the rest of the nation. The Fourth District total for adjusted demand deposits, however, has moved up somewhat more rapidly than has been the case in New York City and the rest of the United States. In keeping with this greater gain in demand deposits, the Fourth District expansion in total loans has run moderately ahead of national figures, and

But as the accompanying chart suggests, the variations between the District and the rest of the nation are nominal in degree when compared with the differences among individual banks. These individual bank differences in many cases may be accounted for by such considerations as differing philosophies of bank management, changes in the economic welfare of the various localities, or perhaps seasonal considerations. Clearly, if a knowledge of banking conditions is to be accurate and practicable in application, an understanding both of over-all banking trends and of the varying positions of individual banks is required.

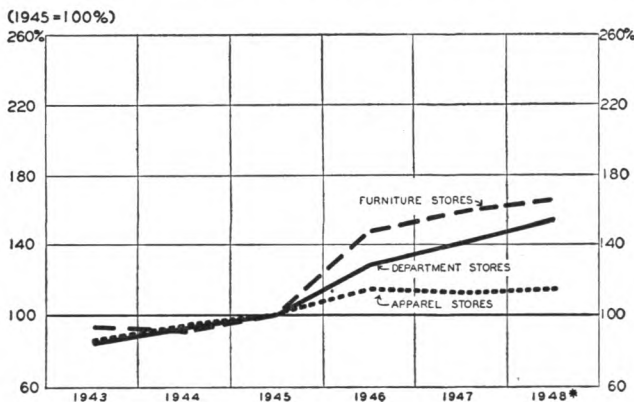
Sales Trends of Competitive Retail Outlets

A SUBSTANTIAL proportion of total retail trade, exclusive of food sales and auto sales, is found in that sector of retailing which includes department stores and the more specialized stores, such as apparel and furniture stores, with which to some extent they are in competition. At the same time, department stores of the "independent" or non-chain type are in keen competition with local outlets of the large mail order chains. How these various groups have fared within the Fourth Federal Reserve District in the general rise of retail sales since the war, can be indicated by a comparison of the annual percentage changes in sales since 1945 reported by sample stores in each group, as shown in the accompanying charts.

Furniture, Apparel, and Department Stores Fourth District department stores have registered greater postwar gains in sales than apparel stores, but smaller gains than furniture stores. The differences are explainable in considerable measure by the lines of goods carried by the respective stores. Department stores typically sell about three dollars worth of soft goods to one dollar of hard goods. Such a ratio (which is a very rough approximation) helps explain why the increase in total department store sales in the postwar period has been less than the boost in furniture store sales, since it is the recovery of the civilian hard-good lines from their wartime eclipse that has provided the most spectacular feature of the retail boom.

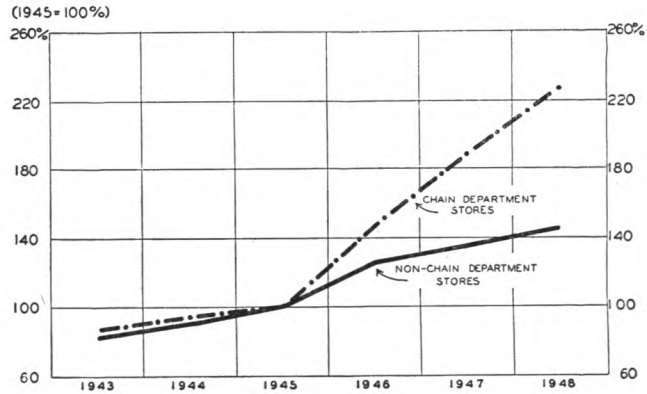
Sales by furniture stores scored their greatest

FURNITURE STORES, APPAREL STORES AND DEPARTMENT STORES
Total Sales, 1943-48 *
Fourth Federal Reserve District



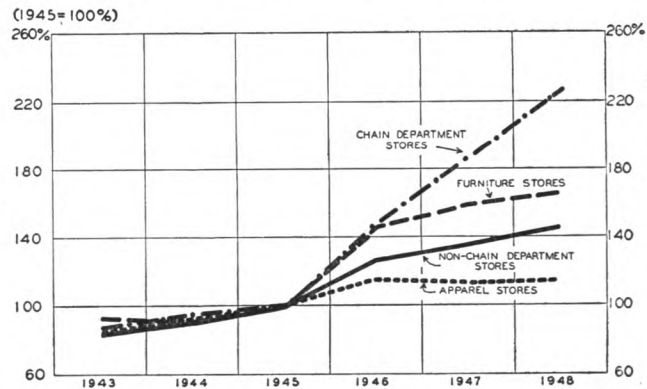
... furniture stores have scored very large postwar gains in sales; department store sales are still rising while apparel store sales have levelled off.

CHAIN AND NON-CHAIN DEPARTMENT STORES
Total Sales, 1943-48 *
Fourth Federal Reserve District



... chain department stores have outstripped the non-chain department stores in postwar rates of increase in sales.

FOUR TYPES OF RETAIL OUTLETS
Total Sales, 1943-48 *
Fourth Federal Reserve District



... of the four types of outlets, chain department stores have shown the largest sales increases, while apparel stores have shown the smallest.

* 1948: first four months, annual rate seasonally adjusted.

annual rate of gain between 1945 and 1946. Since then the rate of increase has slowed down markedly. In fact, many of the furniture stores have experienced stationary or falling sales so far this year, as compared with the corresponding period of 1947. This has been especially true of the type of store which is limited chiefly to a line of upholstered and case-goods furniture. The stores whose sales include a high proportion in major household appliances or certain types of homefurnishings such as carpeting, more often have been able to show a sustained rate of sales increase during the current period. In physical volume of sales, furniture stores as a group,

along with department stores and apparel stores, have tended to lose ground during the last year or more.

The difference in postwar sales trends between soft goods and hard goods also helps to explain why department stores have enjoyed greater percentage increases in sales than apparel stores during the same period. Approximately one-fourth of total department store sales, including among others such recent sales leaders as domestic appliances, have been in hard lines which are not carried by apparel stores. The latter stores, in fact, have failed to show any average annual increase in dollar sales since 1946, if the sample of reporting firms can be taken as representative of apparel stores in the District.

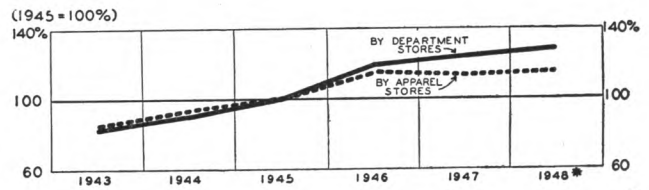
Chain and Non-Chain Department Stores

Retail outlets of the large department store and mail order chains have shown sharp increases in sales during the postwar period, as is generally well known. Some indication of the postwar rate of growth in business done by stores of this type in the Fourth District is given in the second chart, which also shows the more modest rate of increase scored by non-chain department stores of the District. It should be understood that the "non-chain" stores whose sales trend is depicted in the chart are in many cases affiliated in ownership with a number of stores in other cities. Thus, although they are not "independent" stores, their locally managed operations contrast with the highly centralized management of the large mail-order and department store chains. Consequently they are classified here with the "non-chain" group rather than with the chain group.

The fact that postwar rises in sales have been much sharper in the chain department-store group than in the non-chain group is traceable to a number of circumstances. In the first place, comparisons with 1945 levels of sale are influenced by the fact that during the war the chains had lost some ground to the non-chains. Thus the high rates of gain shown by the chain department stores since the war represent, in part at least, recapture of a position previously held. (1) Second, the relative importance of hard goods and soft goods plays an important part here, as in the case of other types of stores. The chain department store outlets, as a group, are much more heavily committed to hard lines than are the non-chain stores. Some of the chain units are entirely specialized in the hard-good lines which have enjoyed the recovery boom since the war. Finally, there is a complex set of merchandising factors within

SALES OF APPAREL BY DEPARTMENT STORES AND BY APPAREL STORES 1943-48 *

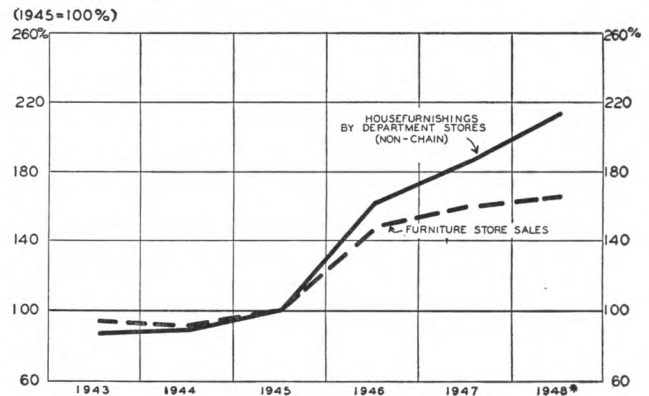
Fourth Federal Reserve District



... in the sale of apparel, the specialty or apparel stores have lagged somewhat behind the department stores.

SALES OF HOUSEFURNISHINGS BY DEPARTMENT STORES AND TOTAL SALES OF FURNITURE STORES 1943-48 *

Fourth Federal Reserve District



... housefurnishings sales by department stores have risen faster than sales by furniture stores.

* 1948: first four months, annual rate seasonally adjusted.

which competition operates between chain and non-chain department stores wherever similar lines of goods are carried by the two types of stores located in a given community.

Chain Store Competition

Among the merchandising factors which are involved in the competition between chain and non-chain department stores, the element of price is clearly important although it is practically impossible to measure with respect to equivalent qualities of goods. The price advantage still appears to lie with the chains as a group, in spite of whatever offsets may have occurred from new economies in merchandising which have been developed by the non-chain department stores, especially some of the larger ones. (2)

(2) It has been noted that chain stores in general have shown smaller cyclical swings than independents. Their proportion of total sales in the past has tended to rise during downswings in national income. C. Winston and R. L. Osborne, "The Pattern of Chain Store Sales in Retail Distribution", Survey of Current Business, U. S. Department of Commerce, June 1947, p. 11.

(1) Use of a pre-war base period would have resulted in a gap between the two series from 1946 to 1948 narrower than the one shown in the chart. Relative rates of gain, however, would not be altered by a change in the base period. Data from reporting stores in the Fourth District are inadequate for construction of a pre-war base for these series.

Other competitive factors have also been of great importance in the postwar period. Typical location of the chain department stores, removed from the center of city congestion, have made for important parking and transportation advantages. In many cases the chains have gained substantial business by keeping open during evening hours. On the other hand, the non-chain stores more frequently have the advantage of long-established customer relationships. They also provide more charge-account facilities than the chains, although both groups have made large use of installment credit. Non-chain department stores tend to offer their customers a greater selection of nationally-known branded articles than do the chains. In certain cities such as Cleveland, where there is a marked downtown cluster of large department stores, it is reported that the customers' opportunity to select among nearby stores is an important factor favoring the non-chain downtown department stores as a group. The latter factor may perhaps be considered as a partial offset to the parking and transportation advantages of the chain stores' location.

Apparel and Furniture Competition

Since the lines of goods offered by apparel stores and furniture stores only partially overlap the offering of department stores, the first chart in the accompanying series fails to reflect the relative sales performance for similar lines of goods. The last two charts are designed to show comparisons of sales with respect to broadly comparable classes of goods. One chart shows that apparel stores in the Fourth District appear to have registered smaller sales gains than have the department stores *in respect to sales of apparel*. Similarly, another chart shows that furniture stores as a group have failed to match the increase in *sales of housefurnishings* made by the department stores. ⁽³⁾

A number of factors have been advanced to explain such a leading position of the department stores. The greater "traffic" in the department stores may have exerted an upward influence on sales of particular department groups. Thus the popularity of household appliances in the postwar period may have attracted certain purchasers of apparel to the department stores, who otherwise would have gone to the specialized apparel stores. An even more important factor is that of "sales promotion". It is recognized by leading merchants in all three types of stores that heavier use of advertising has characterized the promotion programs of department stores as against those of apparel or furniture stores. This factor in turn is linked with physical store expansion and financial growth.

The following tabulation contains all of the data plotted in the charts used in this article:

ANNUAL SALES BY TYPES OF RETAIL OUTLETS
Fourth District, 1943-1948
% of 1945 Sales

| | 1943 | 1944 | 1945 | 1946 | 1947 | 1948* |
|--|------|------|------|------|------|-------|
| Department Stores (total) | 83 | 91 | 100 | 128 | 141 | 153 |
| Chain Department Stores | 87 | 95 | 100 | 149 | 189 | 229 |
| Non-Chain Department Stores | 83 | 90 | 100 | 126 | 135 | 145 |
| Furniture Stores | 92 | 90 | 100 | 147 | 159 | 165 |
| Apparel Stores | 84 | 92 | 100 | 115 | 113 | 114 |
| Housefurnishings Sales by Department Stores | 86 | 88 | 100 | 161 | 185 | 211 |
| Apparel Sales by Department Stores | 81 | 89 | 100 | 117 | 122 | 127 |

* First four months, annual rate seasonally adjusted.

Composition of the Samples

A supplementary note on the composition of the samples which provided the above data may be of service in drawing conclusions from the analysis.

The total department store sample is composed of 97 stores located in the Fourth Federal Reserve District. Of these, 38 are in the chain store group. They are outlets of three centrally-operated national chains, two of which are the large mail-order companies. Store units of the latter, which predominate in the chain-store sample, include a considerable number which handle hard goods exclusively as well as the larger chain units which carry a full "department store line" of soft goods and hard goods.

The other 59 stores of the department store sample are in the "non-chain" group. They include stores with certain outside affiliations, but whose management is primarily local in character. Large as well as small department stores are included in this group. In many cases they are the largest stores in their respective cities. The total department store sample is weighted much more heavily by the 59 non-chain stores than by the 38 chain outlets.

The sample of furniture stores includes 40 stores of varying size which are characteristically independent in ownership and operation. No outlets of large furniture chains are included. Household appliance stores, as such, are excluded.

The sample of apparel stores comprises 13 stores in the Fourth District. While many of these sell both men's and women's apparel, 11 are primarily women's apparel stores, while only 2 would be classed as men's apparel stores. No outlets of large apparel-store chains are included. While this sample is much smaller than would be desirable as representative of Fourth District apparel stores, there are grounds for believing that its representative quality, at least for the broad trends described above, is better than the number of stores would indicate. The preponderance of women's apparel stores in the sample should be taken into account, however, in evaluating the data shown in the charts.

⁽³⁾ These are the non-chain department stores. The chain department stores do not report separately on sales of apparel and housefurnishings.

Rubber Act of 1948

AFTER months of hearings and debate, Congress recently enacted new rubber legislation to replace the temporary law that expired on March 31. The Rubber Act of 1948 is to be effective until June 30, 1950. It is designed to provide the means for a final settlement of the problems that arose from the wartime creation of a Government-owned synthetic rubber producing industry.

With virtually zero capacity at the start of the war, Government financing amounting to about \$786 million lifted the annual synthetic producing capacity to approximately 1,000,000 long tons. About 60 percent of this was based upon petroleum as the raw material, and the remainder upon alcohol. Synthetic plants provided 85 percent of the rubber consumed during the war years.

The industry, which has yet to stand on its own feet and to be tested as to its ability to endure price and quality competition, would in all probability be this nation's chief or only source of rubber in the event of a national emergency. It is thus too vital to national defense to be cut adrift without adequate provision for its healthy survival.

In essence, the central question faced by the Congress was to decide whether to allow private enterprise to assume immediate control of synthetic rubber production, or to continue it as a Federally owned and operated industry. The answer as expressed in the Rubber Act is a modified affirmative in favor of private industry.

The Act states that the goal of strengthening national security through the continuance of an adequate synthetic rubber producing industry can best be reached through the development of a free, competitive, synthetic rubber industry and that it is essential that there be an end to Government ownership, production, and mandatory consumption requirements. The Act provides, however, that the goal be reached by progressive stages rather than by a sharp withdrawal of the Government. It represents a compromise stand on the two questions of Government ownership and active participation in the rubber-producing part of the industry, and Government control of the rubber-consuming part of the industry. The Government will retain some facilities but will sell others; it will produce rubber in some of its plants but will maintain the rest in stand-by condition; controls on that part of the rubber industry in private hands will continue but probably will be somewhat relaxed.

Retention of Plants The Act provides that the Government shall retain for approximately two years a productive capacity of 665,000 long tons of synthetic rubber, of which 600,000 tons is to

be GR-S (general purpose synthetic), and 65,000 tons is to be special purpose synthetic (butyl, neoprene or N types). Of the 65,000-ton special purpose synthetic capacity, at least 45,000 tons must be for a type of rubber suitable for use in pneumatic inner tubes. A provision as to type of plant requires that at least one plant for making butadiene (an intermediate product in the process of manufacturing synthetic rubber) from alcohol must be maintained in either operating or stand-by condition. It is more expensive to make butadiene from alcohol than from petroleum. However, in case of an emergency and insufficient supplies of petroleum, it appears to be prudent to preserve a part of the alcohol butadiene plant rather than to abandon this alternative method altogether.

Part of the plant making up the 665,000-ton capacity must be in operation to such an extent that there will be produced at least one-third of the rated capacity, or 222,000 tons annually, and consumption of that one-third is mandatory. The remaining plants making up the 665,000-ton capacity may be either operating or in stand-by condition. During 1947, 560,000 tons of synthetic rubber were used. If synthetic rubber consumption is maintained through 1948 at the rate experienced during the first four months of the year, annual consumption will approximate 425 - 450,000 long tons.

Disposal of Plants Prior to the effective date of the current law, no synthetic rubber plant with an original cost of more than \$5 million could be sold with the exception of a very few plants which were specifically exempted. Almost two-thirds of the rubber plants are in the cost category of \$5 million or more.

Under the new Act, the Government may dispose of any rubber producing plant not needed to make up the 665,000-ton required capacity. However, production from such sold or leased facilities may not be counted in computing the annual minimum 222,000 tons of synthetic rubber consumption. The mandatory consumption must come from the 665,000-ton capacity which is to be retained by the Government until 1950. Ultimately the facilities making up the 665,000-ton capacity are to be sold or leased and plans and preparations to this end are to be commenced immediately. A preliminary report is to be made within a year of the effective date of the Act, and by January 15, 1950, recommended legislation is to be presented to Congress regarding disposal.

Discussions of the disposal question brought forth expressions of conflicting opinions. There were those who proposed that all synthetic rubber plants be

offered for sale to private industry immediately. The stated reasons were as follows. The conduct of such activities properly belongs in the sphere of private industry. If there were to be a national emergency, there would be no reason why the rubber industry could not cooperate with the departments of national defense in the same way and to the same extent that other industries, such as steel, did during the past war. Furthermore, it was urged that privately owned, competitive companies would, as a matter of course, engage in a more progressive research program toward a better product than would be probable under public ownership.

On the other hand, some fear was expressed, particularly by smaller companies, that because only large rubber companies could buy the huge synthetic plants, a synthetic rubber monopoly would be created. The national policy as expressed in the Surplus Property Act of 1944 is that monopolies are not to be caused or strengthened through the sale of surplus war plants.

Patent Pooling

Insofar as possible without violating the purpose of the Act, the President is authorized and directed to take appropriate action for an immediate end to "further accumulation of technical information and rights to patents between the Government and others". This refers to a number of agreements which were entered into during the war by the Office of Rubber Reserve and members of the rubber industry whereby the industry participants bound themselves to make available to Rubber Reserve (or in some cases directly to each other) whatever inventions, patented processes, or other technical information they might develop during the life of the agreement. Rubber Reserve served as a clearing agent and channeled the information to other participants wherever appropriate. The expiration dates of some of the agreements have already passed but certain agreements were to run until 1951. As these doubtless had a dampening effect on postwar private research, the release of industry from compulsory exchange of technical information should stimulate its efforts toward developing an improved product.

Exploratory conferences have been held with industry to end patent pooling, but as yet no decision has been reached on the matter. It is understood that several smaller companies are opposed to terminating the pooling agreements at this time.

Further rubber research, both private and public, is strongly encouraged by the law, and the Government is authorized to engage in such activity. At present the Government is sponsoring research contracts with all major rubber companies and certain independent commercial research institutions. In addition, Rubber Reserve has awarded research fellowships at several universities and work is also going

forward in Rubber Reserve's own laboratory and pilot plant in Akron.

Government Controls

Authority for Government controls relating to allocations of the natural and synthetic rubber supply, inventory restrictions, and specifications as to required use percentages of both kinds of rubber are continued in the new law and meet with the general approval of the rubber industry. There is a distinction between rubber, as such, and finished rubber products and, in the new Act, authority for control of natural and synthetic finished rubber products is limited to regulations dealing with specifications. Authority to exercise allocation or inventory controls of finished rubber products is omitted. The Office of Domestic Commerce will administer the Act.

Throughout the period of Government control, the detailed regulations covering the rubber industry have been made known by means of Rubber Order R-I which has been revised and amended from time to time to meet changing conditions. The new R-I order, the first under the new Act, was issued May 7 by the Office of Domestic Commerce and amended on May 25.

The order provides for mandatory consumption of synthetic rubber in truck, bus, passenger, implement, tractor, motorcycle, industrial, and bicycle pneumatic tires; nearly all types of tubes except airplane and various safety or self-sealing tubes; tire flaps, and camelback. The proportion of synthetic rubber to be used is expressed as a minimum percentage of total new rubber hydrocarbon contained in each class of product and varies with each class of product. It varies, for example, from 3 percent for certain classes of truck tires to 80 percent for rear farm-tractor tires and other implement tires. Leeway is provided in manufacturing operations by setting up minimum specifications for group averages as well as individual tires. Rubber orders issued under prior legislation were expressed in terms of maximum percentages of natural rubber content to total rubber content.

Import restrictions have been placed on finished rubber products to the extent that importers are required to certify that the imported products contain the proportions of synthetic rubber required of specified domestic products.

Although the Rubber Act of 1948 permits the manufacture of products exclusively for export which do not conform to the requirements for domestic goods, the Rubber Order R-I, as amended, is silent on this point. Presumably a tire manufacturer could export 100 percent natural rubber tires if he desired to do so and had a market for the product.

Government-produced GR-S is sold to buyers by the Office of Rubber Reserve, Reconstruction Finance Corporation, on the basis of quarterly allo-

cations determined by the Office of Domestic Commerce. The basis for the allocation of GR-S to any person is his consumption of GR-S during the fourth quarter of 1947. At present, the supply of synthetic is adequate to meet current demand and there are no inventory restrictions in effect for either the synthetic or natural product.

Any person who consumed or owned stocks of the various kinds of rubbers in any given month (above minimums ranging from 5,000 to 15,000 pounds) is required to file a monthly report with the Office of Domestic Commerce covering consumption, stocks, receipts, production and shipments. Tire and camelback manufacturers are also required to

file detailed monthly reports on production, shipments, and inventory.

A good deal of dissatisfaction with the pricing policy of the Government was expressed at Congressional hearings although the subject was not covered in the law. Some members of the industry would like to have the Government cut its price on two counts, (1) by selling at cost and (2) by not including any war cost carryovers in its cost figures. The selling price of synthetic rubber produced in Government plants has been 18½ cents since April 1943, and whether or not this includes a profit depends on the method of determining costs, allocation of costs incurred during the war, and rates of depreciation.

INDUSTRIAL REVIEW AND OUTLOOK (Continued from Page 2)

signal a significant readjustment in general business activity.

Inventories and Backlog

The general economy has now operated at a level about 85 percent above prewar for nearly two years and inventory replacement by consumers and business is about complete. Both are now better prepared and able to postpone purchases than at any time since 1941, and so the stage is finally set for resistance to further price advances. Only with respect to automobiles and housing does consumer demand still outstrip available supply and there is evidence of weakening demand in both cases.

In the Fourth District, numerous manufacturers have satisfied the accumulated backlogs of demand for their products and production has returned to the normal seasonal pattern. Among these products are included heavy trucks and trailers, industrial

trucks, machine tools, bearings of all kinds, brick and tile, radios, work clothing, men's and women's shoes, plastic molding, glass tableware and containers, automobile and truck tires and tubes, small electric appliances, most types of paper and paper products, paint and varnish, and small electric motors.

Finally, much of the optimism concerning future rates of business activity and strength in the price structure is based upon anticipated increases in military preparedness. It is difficult to appraise the impact of military expenditures, particularly since they are likely to be centered in areas of short supply such as steel, aluminum and other nonferrous metals. Appropriations to date, however, indicate cash expenditures in the fiscal year of 1949 will be only about 15 percent above the requested armed forces budget figure of \$11 billion. An increase of this size may only partially offset declines experienced elsewhere.

DEPARTMENT STORE TRADE STATISTICS

Sales by Departments—May 1948

Percentage Changes from a Year Ago
(Fourth District Reporting Stores)

(Compiled June 25, and released for publication June 28)

| | |
|--|-----|
| Radios and Phonographs..... | +27 |
| Inexpensive Dresses (Women's and Misses')..... | +20 |
| Major Household Appliances..... | +16 |
| Domestic Floor Coverings..... | +13 |
| Hosiery..... | +13 |
| Gift Shop..... | +12 |
| Juniors' Coats, Suits and Dresses..... | +11 |
| Cotton Wash Goods..... | +10 |
| Lamps and Shades..... | +9 |
| Furniture and Bedding..... | +9 |
| Notions..... | +6 |
| Blouses, Skirts and Sportswear..... | +5 |
| Luggage..... | +5 |
| Aprons, Housedresses and Uniforms..... | +4 |
| Laces and Trimmings..... | +4 |
| Girls' Wear..... | +4 |
| China and Glassware..... | +2 |
| Housewares..... | +2 |
| Records, Sheet Music, Pianos, Etc..... | +2 |
| Domestics (Muslins, Sheetings)..... | +2 |
| Underwear, Slips and Negligees..... | +2 |
| Handbags and Small Leather Goods..... | +2 |
| Sporting Goods and Cameras..... | +1 |
| Neckwear and Scarfs..... | +1 |
| Linens and Towels..... | -1 |
| Books and Stationery..... | -1 |
| Better Dresses (Women's and Misses')..... | -2 |
| Silks, Velvets and Synthetics..... | -2 |
| Blankets and Comforters..... | -2 |
| Fine Jewelry and Watches..... | -3 |
| Draperies, Curtains, etc..... | -3 |
| Art Needlework..... | -3 |
| Toys and Games..... | -3 |
| Toilet Articles and Drug Sundries..... | -4 |
| Shoes (Women's and Children's)..... | -4 |
| Coats and Suits (Women's and Misses')..... | -5 |
| Corsets and Brassieres..... | -5 |
| Men's Clothing..... | -8 |
| Millinery..... | -8 |
| Men's Furnishings and Hats..... | -9 |
| Infants' Wear..... | -9 |
| Boys' Wear..... | -9 |
| Shoes (Men's and Boys')..... | -10 |
| Handkerchiefs..... | -10 |
| Costume Jewelry..... | -11 |
| Silverware and Clocks..... | -12 |
| Woolen Dress Goods..... | -12 |
| Gloves (Women's and Children's)..... | -13 |
| Candy..... | -14 |
| Furs..... | -23 |

About half of the departments among Fourth District reporting stores showed year-to-year gains in dollar sales during May. Basement store sales were 8% above a year ago in contrast with main store sales which were up only 1%.

Housefurnishing departments made the best showing, with a group increase of 8%. The leading department was **radios and phonographs** which reported a 27% increase over last year, thus confirming the recovery trend which was evidenced in April. Sales of **major household appliances**, up 16% from May 1947, were somewhat below the record sales of April. **Domestic floor coverings** scored a 13% increase over last year, setting a new all-time record.

Sales of **men's and boys' wear** dropped 8% from a year ago, although there was some increase from April levels. The four departments in this group shared about equally in the year-to-year declines.

Total sales of **women's wear and accessories** were up about 1% from a year ago although marked variations occurred among departments. Sales of **inexpensive dresses** jumped 20%, while sales of **better dresses** were down 2%.

Substantial increases were reported in sales of **hosiery**, up 13%, and **juniors' coats, suits and dresses**, up 11%, with both departments achieving a new high for the month. On the other hand, sales of **women's and misses' coats and suits** were off 5% from last year. Sharpest declines in this broad group occurred in such items as **furs, gloves, and handkerchiefs**, where sales decreases from last year were 10% or more. The last two of these departments, however, picked up some from April levels. **Fur** department sales slipped to a three-year low for the month of May, 23% below a year ago.

Among other departments, conspicuous year-to-year gains were made by **cotton wash goods**, up 10% for an all-time record; **notions**, up 6%; and **luggage**, up 5%. Both of the last named departments established new highs for May. By contrast, **candy** sales were down 14% from a year ago, and sales of **woolen dress goods** were off 12%.

Inventories by Departments—May 31, 1948

Percentage Changes from a Year Ago
(Fourth District Reporting Stores)

(Compiled June 25, and released for publication June 29)

| | |
|--|-----|
| Major Household Appliances..... | +81 |
| Men's Clothing..... | +50 |
| Cotton Wash Goods..... | +33 |
| Domestics (Muslins, Sheetings)..... | +30 |
| Domestic Floor Coverings..... | +30 |
| Infants' Wear..... | +24 |
| Shoes (Women's and Children's)..... | +22 |
| Furniture and Bedding..... | +22 |
| Sporting Goods and Cameras..... | +22 |
| Luggage..... | +21 |
| Records, Sheet Music, Pianos, etc..... | +21 |
| Hosiery..... | +19 |
| Inexpensive Dresses (Women's and Misses')..... | +18 |
| Silverware and Clocks..... | +18 |
| Fine Jewelry and Watches..... | +17 |
| Juniors' Coats, Suits and Dresses..... | +16 |
| Underwear, Slips and Negligees..... | +16 |
| Corsets and Brassieres..... | +15 |
| Silks, Velvets and Synthetics..... | +14 |
| China and Glassware..... | +14 |
| Shoes (Men's and Boys')..... | +13 |
| Coats and Suits (Women's and Misses')..... | +12 |
| Notions..... | +12 |
| Millinery..... | +11 |
| Lamps and Shades..... | +11 |
| Furs..... | +11 |
| Neckwear and Scarfs..... | +10 |
| Housewares..... | +10 |
| Girls' Wear..... | +9 |
| Aprons, Housedresses and Uniforms..... | +8 |
| Blankets, Comforters and Spreads..... | +7 |
| Linens, Towels..... | +5 |
| Toys and Games..... | +5 |
| Handbags and Small Leather Goods..... | +4 |
| Radios and Phonographs..... | +3 |
| Men's Furnishings and Hats..... | +3 |
| Art Needlework..... | +2 |
| Draperies, Curtains, etc..... | +2 |
| Boys' Wear..... | +2 |
| Gift Shop..... | -0 |
| Candy..... | -0 |
| Books and Stationery..... | -2 |
| Blouses, Skirts and Sportswear..... | -2 |
| Better Dresses (Women's and Misses')..... | -3 |
| Toilet Articles and Drug Sundries..... | -4 |
| Gloves (Women's and Children's)..... | -7 |
| Woolen Dress Goods..... | -8 |
| Costume Jewelry..... | -9 |
| Laces, Trimmings, etc..... | -10 |
| Handkerchiefs..... | -14 |

Inventories of Fourth District department stores during May receded slightly from the record high levels reported at the end of April. The decline was approximately in line with the usual seasonal swing. Stocks at the close of May, however, were at levels 14% above a year ago, both in the basement store and the main store.

Among individual departments, **domestics (muslins and sheetings)** reached a new high level for any month, with a year-to-year increase of 30%. About even with the previous record were **sport goods and cameras**, up 22% from last year, and **china and glassware**, up 14%.

Stocks of **housefurnishings** declined during May but nevertheless as a group were 20% higher than at the end of May 1947, with all departments sharing in the year-to-year rise. Largest increases were shown by **major household appliances**, up 81%, **domestic floor coverings**, up 30%, and **furniture and bedding**, up 22%.

Stocks of **men's clothing** were 50% over a year ago at the end of May, during which month sales had dropped 8% from last year. The May 31 level of stocks in this department, however, was slightly off from the record high at the end of April. At the same time, stocks of the other three departments in the men's and boys' wear group were up from last year by 2% to 13%, marking in all three cases a high for the season.

In the women's wear and accessories group, stocks of **infants' wear** increased 24% from last year, with levels of inventory at month end very close to the record high of April 30. Large year-to-year increases were shown also for stocks of **women's and children's shoes**, up 22%, and **hosiery**, up 19%. Stocks of four departments in the group were less than last year's, namely **blouses, better dresses, gloves, and handkerchiefs**.

In the piece goods departments, **cotton wash goods** showed a year-to-year inventory increase of 33%. By contrast, stocks of **woolen dress goods** were 8% lower.

No adjustment has been made for changes in price level.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits—12 Fourth District Cities

(Compiled June 4, and released for publication June 5)

| City and Number of Banks | Time Deposits May 26, 1948 | Average Weekly May 1948 | Change Previous Month | During Year Ago |
|--------------------------|----------------------------|-------------------------|-----------------------|-----------------|
| Cleveland (4) | \$ 871,426,000 | —\$105,000 | —\$828,000 | +\$278,000 |
| Pittsburgh (12) | 406,456,000H | + 463,000 | + 106,000 | + 269,000 |
| Cincinnati (8) | 181,819,000 | — 128,000 | + 178,000 | — 32,000 |
| Akron (3) | 102,333,000 | — 117,000 | — 163,000 | + 178,000 |
| Toledo (4) | 96,259,000 | + 31,000 | — 25,000 | + 50,000 |
| Columbus (3) | 73,295,000H | + 100,000 | + 38,000 | — 67,000 |
| Youngstown (3) | 61,214,000 | + 116,000 | + 14,000 | — 44,000 |
| Dayton (3) | 48,162,000 | — 14,000 | — 93,000 | + 70,000 |
| Canton (5) | 42,855,000 | — 4,000 | + 112,000 | — 7,000 |
| Erie (4) | 39,425,000H | + 135,000 | + 20,000 | + 19,000 |
| Wheeling (6) | 28,252,000 | — 142,000 | — 4,000 | + 20,000 |
| Youngstown (5) | 10,704,000H | + 18,000 | — 20,000 | — 29,000 |
| TOTAL—12 Cities | \$1,962,200,000 | +\$353,000 | —\$666,000 | +\$705,000 |

H=new all-time high.

Time deposits scored a moderate advance during May at 60 Fourth District banks and thereby reversed the downward trend which had been experienced in the two preceding months. The increase averaged \$353,000 per week and raised the total at the reporting banks to \$1,962,200,000, or less than a half of one percent below the all-time high established in December.

Substantial gains lifted time deposit figures to new all-time highs in Pittsburgh, Columbus, Erie and Lexington. The weekly rates of increase in Pittsburgh and Lexington were the largest experienced in over a year, while Columbus and Erie reported their largest advances since last fall. Time deposits also moved upward in Toledo, where a decline of four months was halted, and in Youngstown where the banks experienced their third successive advance.

Time deposits declined slightly during May in six cities, including Cleveland, Cincinnati, Akron, Dayton, Canton and Wheeling, but in each of these cities the current total is within two percent of the level which prevailed at the beginning of the year.

Bank Debits*—May 1948

(In thousands of dollars)

(Compiled June 9, and released for publication June 11)

| | May 1948 | % Change from Year Ago | 3 Months Ended May 1948 | % Change from Year Ago |
|---------------------|------------------|------------------------|-------------------------|------------------------|
| ALL 31 CENTERS | \$6,453,507 | + 5.9% | \$20,337,056 | +12.1% |
| 10 LARGEST CENTERS: | | | | |
| Akron | Ohio 225,045 | + 1.5% | 681,439 | —0% |
| Canton | Ohio 109,330 | + 7.1% | 330,174H | +11.1 |
| Cincinnati | Ohio 810,165 | + 2.6 | 2,608,889 | + 9.4 |
| Cleveland | Ohio 1,681,111 | + 5.5 | 5,196,647 | +12.5 |
| Columbus | Ohio 531,510 | +20.9 | 1,616,001H | +18.0 |
| Dayton | Ohio 225,009 | + 3.2 | 689,641 | + 5.7 |
| Toledo | Ohio 328,448 | — 2.3 | 1,074,447 | + 2.8 |
| Youngstown | Ohio 143,586 | + 2.0 | 444,486 | + 8.7 |
| Erie | Penna. 88,486 | + 7.4 | 266,663H | +11.7 |
| Pittsburgh | Penna. 1,697,645 | + 6.1 | 5,551,717 | +16.4 |
| TOTAL | \$5,840,335 | + 5.7% | \$18,460,104 | +12.1% |
| 21 OTHER CENTERS: | | | | |
| Covington-Newport | Ky. \$ 37,451 | + 7.6% | \$ 117,846 | +14.1% |
| Lexington | Ky. 55,455 | +11.0 | 169,724 | +10.4 |
| Elyria | Ohio 19,936 | + 6.7 | 60,374 | + 8.5 |
| Hamilton | Ohio 37,427 | + 4.9 | 115,962 | +16.1 |
| Lima | Ohio 40,507 | + 4.6 | 126,948 | + 8.5 |
| Lorain | Ohio 18,020 | + 9.3 | 55,651 | +17.1 |
| Mansfield | Ohio 42,030 | +17.1 | 126,071H | +20.5 |
| Middletown | Ohio 31,660 | +10.7 | 101,846H | +17.1 |
| Portsmouth | Ohio 20,812 | + 4.7 | 61,314 | + 4.1 |
| Springfield | Ohio 45,089 | + 7.2 | 137,485H | + 7.6 |
| Steuersville | Ohio 23,897 | +12.9 | 67,807 | +11.3 |
| Warren | Ohio 34,735 | + 0.1 | 108,177 | + 6.9 |
| Zanesville | Ohio 27,481 | +17.3 | 78,617H | +17.1 |
| Butler | Penna. 30,297 | + 7.3 | 91,836H | +14.6 |
| Franklin | Penna. 7,112 | + 4.9 | 20,915 | + 8.2 |
| Greensburg | Penna. 20,281 | +14.7 | 61,858 | +20.7 |
| Kittanning | Penna. 8,831 | + 2.2 | 28,249 | +13.2 |
| Meadville | Penna. 11,927 | +12.5 | 36,567 | + 6.9 |
| Oil City | Penna. 19,346 | — 5.9 | 64,661H | +14.9 |
| Sharon | Penna. 25,698 | + 5.2 | 76,981 | +12.3 |
| Wheeling | W. Va. 55,181 | + 8.2 | 168,063 | + 9.6 |
| TOTAL | \$613,172 | + 8.0% | \$1,876,952 | +12.2% |

* debits to all deposit accounts except interbank balances.

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

Bank debits during May in thirty-one Fourth District cities were 4 percent below the April level and 9 percent under the March figure, but the reductions may be due entirely to variations in the number of working days in the month. There were 20 days in May, exclusive of Saturdays, Sundays and holidays, compared with 21 days in April and 23 in March.

Federal Reserve Bank of St. Louis

Changes in Consumer Instalment Credit
May 1948

26 Fourth District Member Banks*

(Compiled June 29, and released for publication June 30)

| Outstanding at End of Mo. Compared With | | Type of Credit | New Loans Made Compared With | |
|---|---------|-----------------------------------|------------------------------|---------|
| Mo. Ago | Yr. Ago | | Mo. Ago | Yr. Ago |
| + 4% | + 54% | Total consumer instalment credit | — 9% | +31% |
| + 3 | + 18 | Personal instalment cash loans | — 9 | + 3 |
| + 9 | + 77 | Repair and modernization loans | — 5 | + 5 |
| | | Direct retail instalment loans | | |
| + 3 | + 54 | (a) Automobile | —13 | +28 |
| — 1 | + 41 | (b) Other | — 8 | +13 |
| | | Retail instalment paper purchased | | |
| + 8 | + 85 | (a) Automobile | — 9 | +69 |
| + 4 | +106 | (b) Other | — 8 | +60 |

The postwar advance in consumer instalment credit outstanding continued during May at Fourth District banks. A gain of 4 percent at 26 reporting banks marked the 28th consecutive month of expansion and placed the total at a level more than half again as high as a year ago.

The volume of loans outstanding moved up in May notwithstanding the fact that the amount of new loans made was 9 percent lower than in April. This contraction in new lending, however, was due in large measure to variations in the number of working days in the month, inasmuch as there were only 20 days in May, exclusive of Saturdays, Sundays and holidays, compared with 22 such days in April.

The month-to-month contraction in new loans made occurred in loans of all types. A particularly sharp drop of 13 percent occurred in new direct loans on automobiles, possibly reflecting curtailed car production during May. The other loan classifications declined from 8 to 9 percent, except for repair and modernization loans where a comparatively small reduction was experienced. New loan figures for May were higher than a year ago in each loan category.

* The twenty-six banks, which are located in fifteen cities, represent about two-fifths of all member bank resources and about one-fourth of all consumer instalment loans outstanding at Fourth District member banks.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

| | Adjusted for Seasonal Variation | | | Without Seasonal Adjustment | | |
|-----------------|---------------------------------|------------|----------|-----------------------------|------------|----------|
| | May 1948 | April 1948 | May 1947 | May 1948 | April 1948 | May 1947 |
| SALES: | | | | | | |
| Akron (6) | 328 | 274 | 299 | 318 | 271 | 290 |
| Canton (5) | 402 | 375 | 361 | 386 | 345 | 347 |
| Cincinnati (8) | 319 | 315 | 303 | 326 | 289 | 309 |
| Cleveland (10) | 293 | 244 | 274 | 275 | 261 | 258 |
| Columbus (6) | 353 | 355 | 316r | 342 | 316 | 306r |
| Erie (3) | 336 | 318 | 312 | 316 | 308 | 294 |
| Pittsburgh (8) | 280 | 279 | 259 | 292 | 265 | 269 |
| Springfield (3) | 290 | 295 | 282 | 302 | 274 | 294 |
| Toledo (6) | 285 | 277 | 264 | 285 | 274 | 264 |
| Wheeling (6) | 253 | 243 | 231 | 271 | 219 | 248 |
| Youngstown (3) | 346 | 351 | 322 | 339 | 330 | 315 |
| District (97) | 320 | 295 | 298 | 304 | 280 | 283 |
| STOCKS: | | | | | | |
| District | 277 | 286 | 238 | 280 | 295 | 241 |
| r—Revised. | | | | | | |

When compared with a year ago, the May total of \$6,453,507,000 was up almost 6 percent, despite the fact that there was one less reporting day this year.

TEN LARGEST CITIES

Columbus, Dayton and Erie were the only large cities to report higher debit totals for May than for April. From the standpoint of year-to-year comparisons, Columbus was outstanding with an advance of about 21 percent. Debit totals in Canton, Columbus and Erie for the three-month period of March-April-May were at an all-time high.

In the largest cities of the District, Cleveland, Pittsburgh and Cincinnati, year-to-year gains ranged from 3 to 6 percent.

TWENTY-ONE SMALLER CENTERS

Zanesville and Mansfield led the smaller centers in percent gains over a year ago, with increases of 17 percent. New all-time highs for a three-month period were reported by six localities, including Mansfield, Middletown, Springfield, Zanesville, Butler and Oil City.

The coverage of smaller centers has been enlarged by the addition of Kittanning, Pa. Kittanning debits totaled \$8,831,000 in May, compared with \$8,638,000 a year ago.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for publication June 25, 1948)

Industrial output and department store sales increased in May and were maintained at advanced levels in the early part of June. The general level of wholesale commodity prices rose further in June, reflecting chiefly sharp increases in livestock. Substantial advances were announced in prices of automobiles and some other industrial products.

Industrial Production

The Board's seasonally adjusted index of industrial production advanced 4 points in May to a level of 192 per cent of the 1935-39 average, which was close to the record peacetime rate prevailing in the first quarter before output was curtailed by work stoppages at coal mines.

Production of durable goods in May was above the April rate but below first quarter levels. Production of iron and steel increased sharply as coal supplies were restored. Output of nonferrous metals and of stone, clay, and glass products was maintained at the high rate of recent months. Production of most other durable goods, however, declined further in May. Activity in the automobile industry was substantially curtailed as a result of steel shortages and a labor dispute at plants of a major producer, and the number of cars and trucks finished in May was about one-fifth below the first quarter average.

Output in most nondurable goods industries in May was maintained at the April level or advanced somewhat. Petroleum refinery operations increased further; output of gasoline and fuel oil was 16 per cent larger than in May of last year. Coke production recovered from the curtailment in April resulting from reduced coal supplies. Meat production showed a slight gain in May reflecting settlement of a labor dispute at major packing establishments on May 21. Activity at cotton textile and paperboard mills and at printing establishments was maintained at the April rate.

Minerals output rose to a new high level in May, owing mainly to a sharp increase in bituminous coal output and to a further rise in crude petroleum production to a new record level. Production of iron ore was maintained in exceptionally large volume.

Construction

Value of construction contracts awarded in May, as reported by the F. W. Dodge Corporation, increased further to a new postwar peak more than 10 per cent above April and slightly above the previous high in May 1946. The increase reflected mainly large gains in awards for public works and for educational and hospital buildings. Value of awards for commercial structures increased further in May to the highest level in more than two years. Private residential awards also continued to increase. The number of new dwelling units started, according to the Bureau of Labor Statistics, was 97,000 as compared with 90,000 in April and 73,000 in May 1947.

Distribution

Value of department store sales rose to a new high in May, after allowance for seasonal changes. The Board's adjusted index for the month is estimated to be 308 per cent of the 1935-39 average

as compared with 304 in April and an average of 284 for the first quarter. Sales in the first half of June continued near this advanced level.

Loadings of railroad revenue freight in May and the first half of June were in substantially larger volume than in the preceding two months, mainly because of a sharp rise in coal shipments. Grain shipments showed a marked further gain during this period, reflecting chiefly an unusually early movement of the new wheat crop. Total freight carloadings in May and early June were at about the same level as during this period a year ago.

Commodity Prices

The general level of wholesale commodity prices advanced further in June to about the peak reached in January. The rise reflected chiefly sharp increases in livestock prices following settlement of the meat packing strike. Prices of most other farm products and foods showed little change.

Prices of industrial materials continued to show mixed changes in June with further declines reported for cotton goods and some other items and marked increases in secondary aluminum, tin, and wool. Prices of automobiles and various other manufactured products were raised.

The consumers' price index increased .7 per cent in May, reflecting mainly further advances in retail prices of meat. Retail prices of most other groups of items showed little change or increased slightly.

Bank Credit

Substantial Treasury cash payments in excess of receipts during late May and the first half of June reduced Treasury balances at Reserve Banks by about 600 million dollars and increased the reserves of commercial banks. A large gold inflow also supplied banks with reserve funds, offset in part by a currency outflow over the Memorial Day holiday.

Effective June 11, the Board of Governors increased reserve requirements against net demand deposits at central reserve city banks from 22 to 24 per cent. These banks sold Government securities to the Reserve Banks as needed to meet the resulting increase of about 500 million dollars in their required reserves. An increase in Treasury deposits resulting from tax payments after the middle of June exercised a drain on bank reserves and caused additional sales of Government securities to the Federal Reserve.

Real estate and consumer loans continued to increase at banks in leading cities during May and the first two weeks of June. Commercial loans were maintained at about the volume outstanding in the last half of April.

Security Markets

Common stock prices advanced somewhat further from the middle of May to the third week of June, and trading remained relatively active.

The Treasury announced on June 10 increases in purchase limits for F and G bonds bought by savings institutions, during the period July 1-15. Prices of marketable Government bonds, which had risen during May, declined in June.

