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FINANCE • INDUSTRY • AGRICULTURE • TRADE
FOURTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

Trade Volume in a Period of Falling Prices

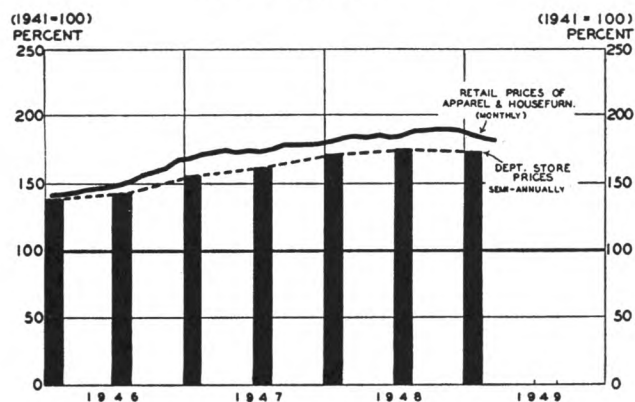
DURING periods of deflation the declines in the physical volume of department store sales, as well as in retail trade generally, are never quite as sharp as the drops in the dollar value of sales. The use of an offset for price changes has a favorable effect on estimates of the physical volume of trade, just as it has an unfavorable effect during periods of inflation.

At the present time, with a downward trend in prices having been evidenced for a number of months, there is a justifiable tendency in trade circles to take comfort from this adjustment factor in appraising the general situation and outlook. Trade statistics, however, are customarily expressed in dollars rather than in physical units and a rather laborious computation is required to leap from dollars

to physical volume. Hence in the present situation there is a certain danger of over-hasty conclusions about the effect of an adjustment for price change upon the widely published figures of trends in dollar sales, as suggested by recent unconfirmed statements to the effect that sharp year-to-year declines in dollar sales may be accompanied by a maintenance of physical volume.

The likelihood of distortions arising from overstating the current allowance to be made for lower prices may, in fact, become as great as the parallel danger of overlooking the price adjustment factor during an inflationary period. What is needed is some measure of the effect that should be ascribed to recent price changes whenever the changes in dollar volume of sales are being interpreted.

DEPARTMENT STORE PRICES
and
RETAIL PRICES OF APPAREL AND
HOUSEFURNISHINGS^a
United States, 1946-49



Measures of Department Store Prices An accompanying chart indicates how the average of department store prices rose during most of the past three years, but turned gently downward toward the end of 1948. Two series of indexes are used for this purpose, both yielding essentially the same picture. The bars in the chart depict the course of department store prices as shown in the department store inventory price index, issued semi-annually by the Bureau of Labor Statistics of the U. S. Department of Labor.⁽¹⁾ The curve in the chart shows the monthly trend of retail prices of apparel and housefurnishings, drawn from

(1) This is a relatively new index, designed primarily to assist retailers in using the LIFO method of inventory accounting for tax purposes. Its use for the present purpose is qualified by the fact that the weights of the commodity lines are based on their proportions of store inventories rather than store sales. For further discussion of the use of this index in connection with sales data, see Federal Reserve Bank of Cleveland, *Monthly Business Review*, May 1948, p. 7-12.

... prices of goods sold by department stores have recently edged downward after a long period of rise.

the consumers' price index (cost of living) also published by the Bureau of Labor Statistics. Apparel and housefurnishings prices are here combined in the proportions of three to one, respectively, since these are approximately the proportions in which the two types of goods are sold by department stores. The curve applies, however, to the prices of these goods as they appear in the budget of moderate-income families, whether or not the goods are purchased from department stores.

Both devices portrayed in the chart bring out clearly the fact that the decline in department store prices started relatively recently, and so far at least has not been very sharp on the average.

Price Allowances for May

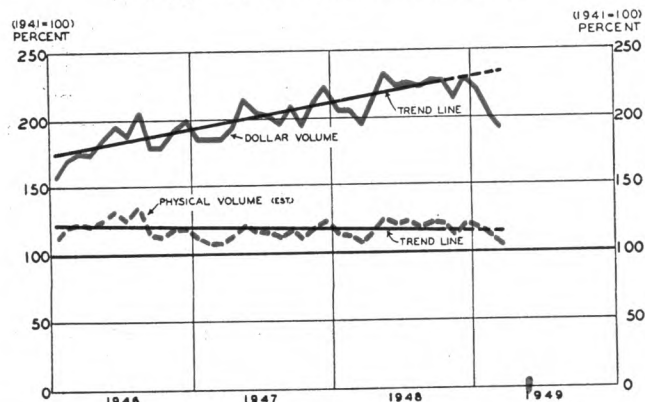
It will be seen on a moment's reflection that if the level of department store prices during this May is compared with that of May a year ago, the current prices are being compared with pre-peak levels. The full decline since the peak of late 1948 cannot be taken into account in adjusting May-to-May comparisons of dollar volume of sales. In all probability the year-to-year price comparison for May will show an average price decline less than 5 percent.⁽²⁾

It follows that if department store sales for any given week of May should be announced as being 10 percent below a year ago, expressed in dollar volume, then less than half of this decline could be ascribed to the price factor. Physical volume of sales

(2) The latest monthly price data available at press time shows that the apparel-housefurnishings price index for March was less than 2% below year-ago March. Continuation of the recent rate of decline would yield a figure for May about 4% below year-ago levels.

DOLLAR VOLUME AND ESTIMATED PHYSICAL VOLUME^b

Fourth District Department Store Sales, 1946-49
(Adjusted for Seasonal Variation)



... the dollar volume of department store sales rose sharply until the fall of 1948, whereas the trend of physical volume of sales has been almost horizontal.

would still be well below last year's level. (Conversely, a 5 percent year-to-year gain in dollar sales would be the equivalent of no more than a 10 to 11 percent gain in physical volume). By the same reasoning, if the price decline continues at the recent rate during the coming months, it will not be until September, approximately, when a 10 percent decline in dollar sales would be the equivalent of unchanged physical volume.

In spite of the fact that the use of price adjustments as a correction factor for dollar sales results at present in only a small sales boost to physical volume estimates, it is highly significant that a downward adjustment of physical volume is no longer required because of the price factor. This represents a marked change over the situation during the three years 1946 through 1948, when a realistic appraisal of the mounting dollar sales of department stores called for substantial deductions in order to arrive at estimates of physical volume—an exercise in calculation which was more often honored in the breach than the observance.

Fourth District Physical Volume

The main significance of the changed position probably lies in the fact that physical volume of sales has changed over the years much less drastically, both on the up side and the down side, than has the dollar volume of sales. This is shown in an accompanying chart, which depicts estimates of physical volume of sales of Fourth District department stores from early 1946 to the present, plotted in comparison with dollar sales.

It is clear from the chart that the course of seasonally adjusted dollar sales tended sharply upward until the fall of 1948, and that since then dollar sales have been on a downward path in accordance with what may be the beginning of a new trend. The trend of physical volume, on the other hand, has been almost horizontal during the entire period. The best year for physical volume appears to have been 1946. The years 1947 and 1948 followed a

FOOTNOTES FOR CHARTS

a Sources: Retail prices of apparel and housefurnishings, monthly, from components of consumer price index, Bureau of Labor Statistics (Apparel weighted 3, housefurnishings 1.) Department store prices, semi-annually from "department store inventory price index," Bureau of Labor Statistics.

b Dollar volume, seasonally adjusted, from Federal Reserve series. Estimated physical volume obtained by dividing dollar volume series by indexes of retail prices of apparel and housefurnishings, monthly, as noted in a.

Equation of trend lines, Jan. 1946 thru Sept. 1948:

$$\text{For dollar volume: } y = 199.8 + 1.595x$$

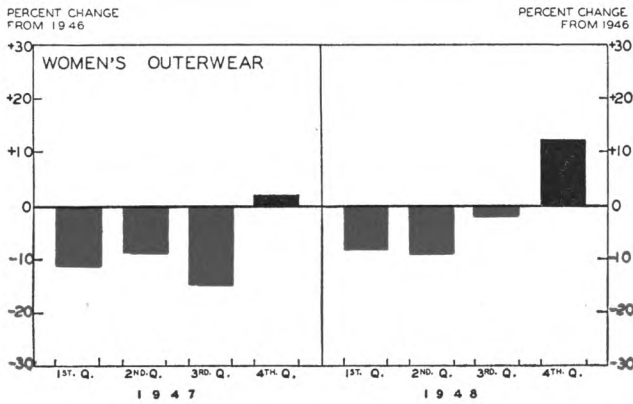
$$\text{For physical volume: } y = 118.9 - 0.152x$$

c Changes in dollar sales as reported to Federal Reserve, corrected for price changes as measured by department store inventory price index, noted in a. The semiannual data on prices provided by the inventory price index are shifted to a quarterly basis by interpolation, guided by the changes in the monthly series noted in a.

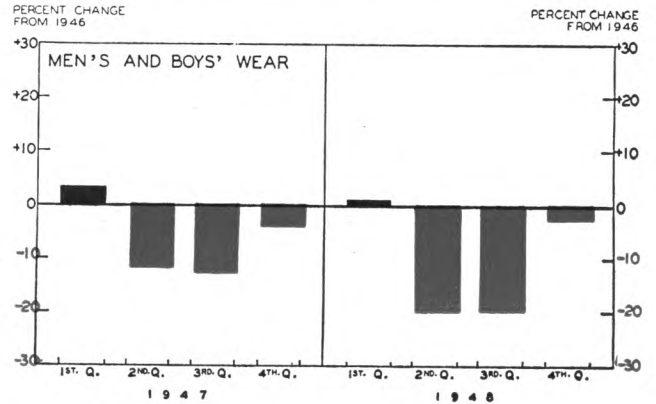
ESTIMATED PHYSICAL VOLUME OF SALES, SELECTED DEPARTMENTS^c

Fourth District Department Stores, 1947-1948

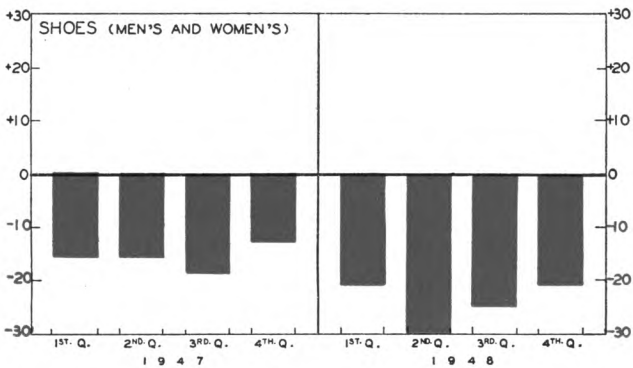
Increase or Decrease Quarterly from Corresponding Quarter of 1946



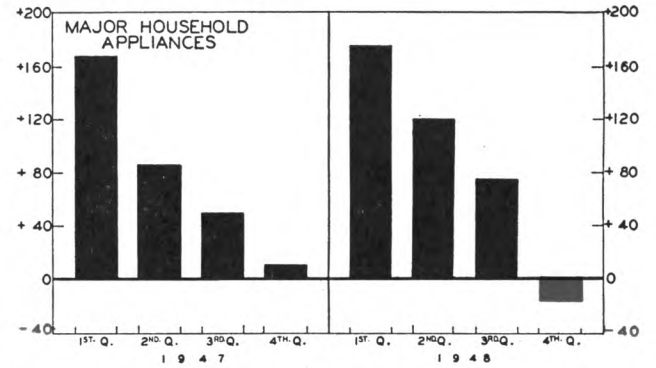
... in physical volume, sales of women's outerwear lost ground in 1947 but showed a marked pickup in the second half of last year.



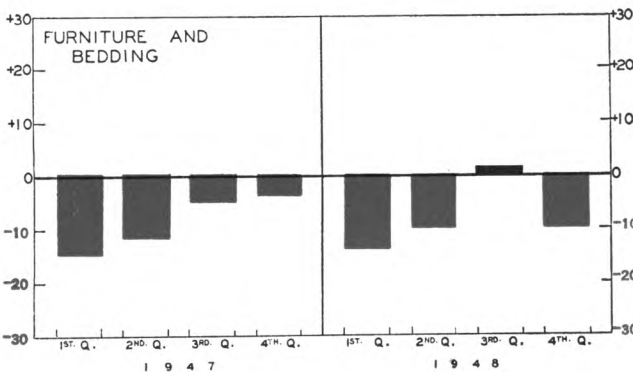
... unit sales of men's and boy's wear slipped back for two successive years; weakest period last year was the second and third quarters.



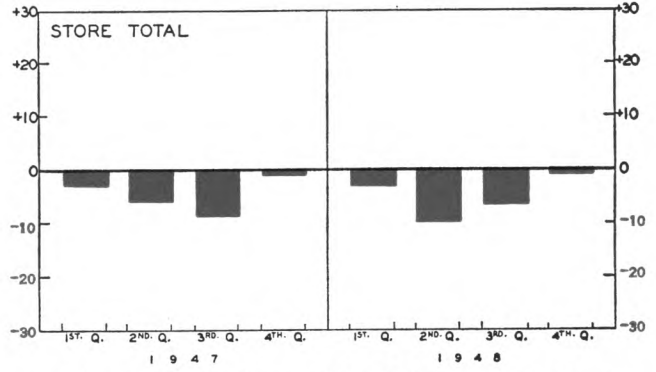
... unit sales of shoes by department stores during the last two years were from 13% to 30% below corresponding quarters of 1946.



... spectacular increases in sales of household appliances gave way in the final quarter of last year to a unit sales position below the fourth quarter of 1946.



... sales of furniture and bedding, in physical volume, have shown moderate losses from 1946; the best comparison with 1946 was made in the third quarter of last year.



... the physical volume of total department store sales during each of the past two years ran below 1946 levels, especially during the second quarter of 1948 when physical volume was nearly 10% below the level of two years previous.

fairly steady course slightly under the 1946 level. The most recent direction of physical volume, as well as dollar volume, has been downward. By comparison with levels prevailing during the past two years, however, the recent decline in physical volume has not been large.⁽³⁾

Effects of Stable Physical Volume The fact that physical volume tends to hold up better than dollar volume in a period of falling prices has certain implications for department store management as well as for the economy as a whole. In the first place, store management becomes confronted with a new phase of payroll problems, insofar as more transactions are required on the average to yield a given dollar volume of receipts. Either the work burden per employee is raised or payroll costs in proportion to income are boosted. Over-all financial considerations may suggest advisability of staff reductions at the same time that consideration of personnel policy as well as the physical burden of work point to staff retention.

From the standpoint of the economy as whole, the fact that physical volume of trade holds up better than dollar volume has at least two favorable consequences. Maintenance of employment levels in the service trades, for the reason already indicated, is more likely than a mere consideration of dollar sales figures would indicate. Fully as important, perhaps, is the fact that the flow of orders to manufacturers is maintained in physical terms to a greater degree than dollar trade figures would suggest, thus assisting to support general levels of industrial activity and employment. The last-mentioned sequence depends, of course, upon retail inventory policies which avoid ultra-caution in times of falling prices.

Physical Volume by Departments When attention is paid to changes in the physical volume of sales of the various lines of goods carried by department stores, some striking differences emerge. This may be seen with respect to a number of selected departments in an accompanying series of bar charts, which show changes over the past three years in estimated physical volume of sales by Fourth District department stores. In each case the change in dollar sales as reported by the stores to the Federal Reserve System is corrected for price-level differences as measured by the department store in-

(3) Trend lines in the chart are computed from January 1946 through September 1948. Dotted lines beyond September are extensions of the trend, indicating the extent of the recent decline as measured from the past trend.

The comparative heights of the two curves from the 1941 base (160 to 235 for dollar volume; about 120 for physical volume) is not the main point under consideration. Cumulative errors in the estimates of physical volume might impair the accuracy of this comparison, whereas the trends of the two curves would remain little affected.

ventory price index, previously mentioned. The latter index is useful at this point because it shows breakdowns of price data for department store classifications of goods. The resulting figures are considered as quarterly estimates of changes in physical volume of sales for the named departments, measured in each case from the corresponding quarter of the previous year, or two years previous, as designated.⁽⁴⁾

Clothing Sales of women's outerwear, for example, when measured in physical volume were lower during each of the first three quarters of 1947 than they had been in the corresponding quarters of 1946. The final quarter of 1947 and the second half of 1948 witnessed substantial gains in unit sales of outerwear. Only the last quarter of 1948 showed an appreciable gain in physical volume over the corresponding quarter of 1946, as indicated by the final bar on the chart for women's outerwear.

The physical volume pattern of sales in the men's and boys' wear group of departments shows a different course. Here, unit sales tended to slip back for two successive years. The weakest showing was

(4) Measures of department store price changes for the Fourth District as such are unavailable. In using nation-wide price data to correct changes in Fourth District dollar sales volume, an element of error is obviously introduced. It is believed, however, to be not so large as to render invalid the broad conclusions as to trends in physical volume which are suggested here.

(Continued on Page 12)

DESCRIPTION OF THE TABLES

The accompanying tables show the data plotted in the departmental bar charts as well as certain additional data. Table 1 shows for the various departments the rates of change in dollar sales, price and physical volume of sales for each quarter of 1948 and for the year as a whole, as compared with the corresponding periods of 1947. The price changes are used to correct the changes in dollar sales so as to arrive at physical volume, as shown by the following example: For women's outerwear, first quarter, 112.0 is divided by 107.9, yielding 103.8%, or an estimated increase in physical volume of 3.8% over the first quarter of 1947. Likewise for men's and boys' wear, third quarter, 96.3 is divided by 104.9, yielding 91.8, or an estimated decrease in physical volume of 8.2% from the third quarter of 1947.

Table 2 shows for the various departments the estimated rates of change in physical volume for each quarter of 1948 as compared with the corresponding quarter of 1947; the same for the 1947 quarter as compared with the 1946 quarter; and the same for the cumulative change between the corresponding quarters of 1946 and 1948. The second and third of these three columns are the ones which are shown in the accompanying bar charts.

Physical volume data for a number of departments, in addition to those shown in the charts and tables, have been computed and are available upon request. These include women's underwear, small wares, piece goods, homefurnishings (floor coverings, china, etc.) soft goods departments as a group, and hard goods departments as a group.

Table 1
DOLLAR SALES, PRICE, AND PHYSICAL VOLUME OF SALES
Fourth District Department Stores, 1948
Increase or Decrease from Corresponding Period, 1947

	Women's Outerwear			Men's and Boys' Wear			Shoes (Men's and Women's)		
	Dollar Sales	Price	Physical Volume	Dollar Sales	Price	Physical Volume	Dollar Sales	Price	Physical Volume
1st Quarter.....	+12.0%	+7.9%	+ 3.8%	+ 3.1%	+5.0%	-1.8%	+8.8%	+15.7%	- 6.0%
2nd Quarter.....	+ 7.6	+7.1	+ 0.5	- 5.4	+4.3	-9.3	-4.6	+14.9	-17.0
3rd Quarter.....	+20.7	+4.9	+15.1	- 3.7	+4.9	-8.2	+0.8	+ 9.7	- 8.1
4th Quarter.....	+13.6	+2.9	+10.4	+ 4.3	+3.0	+1.3	-1.6	+ 7.5	- 8.5
Year.....	+13.4%	+5.6%	+ 7.4%	+ 0.2%	+4.3%	-3.9%	+0.3%	+11.8%	-10.3%
	Major Household Appliances			Furniture and Bedding			Store Total		
	Dollar Sales	Price	Physical Volume	Dollar Sales	Price	Physical Volume	Dollar Sales	Price	Physical Volume
1st Quarter.....	+ 7.9%	+5.1%	+ 2.7%	+ 7.8%	+7.5%	+0.3%	+9.8%	+ 9.8%	-0-
2nd Quarter.....	+23.7	+4.2	+18.7	+10.2	+7.1	+2.9	+5.1	+ 9.0	- 3.6%
3rd Quarter.....	+19.5	+2.0	+17.2	+11.9	+5.3	+6.3	+9.7	+ 7.2	+ 2.3
4th Quarter.....	-24.3	+0.3	-24.5	- 2.2	+4.0	-6.0	+5.5	+ 5.3	+ 0.2
Year.....	+ 5.7%	+2.8%	+ 2.8%	+ 7.1%	+5.9%	+1.1%	+7.2%	+ 7.8%	- 0.6%

Table 2
ESTIMATED PHYSICAL VOLUME OF SALES
Fourth District Department Stores, 1948
Increase or Decrease from Corresponding Period of Previous Year and Two Years Ago

	Women's Outerwear			Men's and Boys' Wear		
	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946
1st Quarter.....	+ 3.8%	-11.0%	- 7.6%	- 1.8%	+ 2.6%	+ 0.8%
2nd Quarter.....	+ 0.5	- 9.2	- 8.7	- 9.3	- 12.2	- 20.3
3rd Quarter.....	+15.1	-14.5	- 1.6	- 8.2	- 12.9	- 20.0
4th Quarter.....	+10.4	+ 1.6	+12.2	+ 1.3	- 4.1	- 2.9
Year.....	+ 7.4%	- 7.9%	- 1.1%	- 3.9%	- 7.5%	- 11.1%
	Shoes (Men's and Women's)			Major Household Appliances		
	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946
1st Quarter.....	- 6.0%	-15.5%	-20.6%	+ 2.7%	+167.5%	+174.7%
2nd Quarter.....	-17.0	-16.4	-30.6	+18.7	+ 85.3	+120.0
3rd Quarter.....	- 8.1	-18.7	-25.3	+17.2	+ 49.1	+ 74.7
4th Quarter.....	- 8.5	-13.1	-20.5	-24.5	+ 9.0	- 17.7
Year.....	-10.3%	-15.9%	-24.6%	+ 2.8%	+ 53.4%	+ 57.7%
	Furniture and Bedding			Store Total		
	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946	1948 compared with 1947	1947 compared with 1946	1948 compared with 1946
1st Quarter.....	+ 0.3%	-14.5%	-14.2%	-0-	- 3.2%	- 3.2%
2nd Quarter.....	+ 2.9	-12.3	- 9.8	- 3.6%	- 6.2	- 9.6
3rd Quarter.....	+ 6.3	- 5.0	+ 1.0	+ 2.3	- 9.4	- 7.3
4th Quarter.....	- 6.0	- 4.1	- 9.9	+ 0.2	- 0.9	- 0.7
Year.....	+ 1.1%	- 9.1%	- 8.1%	- 0.6%	- 4.8%	- 5.4%

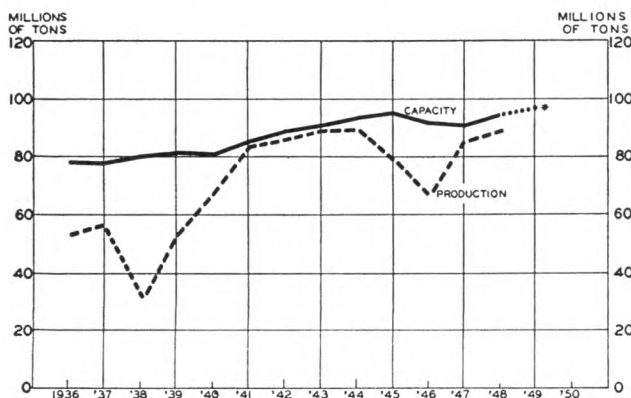
The Scope of Postwar Steel Expansion

DURING the year 1950, the iron and steel industry will be in a position to produce around 8 million more tons of raw steel than were produced in 1948 which was the greatest peacetime steel year in history.

That 8 million tons represents a margin of roughly 9 percent over the rate of output in the peak postwar year of 1948, and may be more than ample protection against the recurrence of a steel shortage in the visible future. Some day the ability to produce 96 million tons of steel ingots (assuming an uninterrupted flow of coal, ore, limestone, and scrap) will not be enough, but it is not within the scope of this article to develop any long-range hypotheses regarding the future demand for, and supply of, steel. This discussion deals primarily with the questions of when, where, and how the current margin was brought about and why further expansion was undertaken.

Primarily in response to wartime governmental encouragement, ingot-making capacity registered a net increase of about 14 million tons from 1940 to 1945. The Second Revenue Act of 1940 provided that private enterprises, which undertook approved plant expansion, might amortize the cost for income tax purposes in 5 years instead of 20 years. In other cases, the government underwrote the entire financing of new steel furnaces or loaned money to companies willing to expand. This wartime expansion of iron and steel facilities cost somewhere over \$2.5 billion, of which slightly more than half was financed by the government.

STEEL CAPACITY AND PRODUCTION
Ingot and Steel for Castings
(millions of tons)



... by the end of 1949 steel ingot capacity is expected to reach an all-time high, above the wartime peak.

* Estimated.

Source: American Iron & Steel Institute.

By the close of the war steel capacity had reached a wartime peak of 95½ million tons. After the protracted period of overload production, however, worn-out and obsolete facilities had to be retired which dropped capacity down to about 91 million tons by the end of 1946, or more than 4 million tons below the wartime peak. That setback now has been more than recovered.

The big postwar drive toward increasing steel capacity began in 1947. In that year there was a net increase in capacity of steel furnaces of about 3 million tons. To provide additional pig iron for the increased open-hearth, electric furnace, and bessemer converter capacity, blast furnace capacity also was increased by about 1.7 million tons. Annual blast furnace capacity then totaled 67.4 million tons.

In addition to two tons of iron ore, and about one-half ton of limestone, approximately one ton of coke is needed to make one ton of pig iron. Coke oven capacity was increased slightly over 2 million tons in 1947.

1948-49 Increases Partly due to the installation of new melting furnaces and partly because of improved technology, over-all steel ingot capacity scored another 2 million-ton gain during 1948. Blast furnace capacity registered a net gain of almost 3 million tons, and coke oven capacity recorded a net gain of 2½ million tons.

On an annual basis, construction of new furnaces accounted for about half of the 2-million-ton gain in ingot capacity during 1948. About 688,000 tons of electric furnace capacity and 400,000 tons of open-hearth capacity were added last year.

New furnaces under construction and to be put into use this year are expected to result in a net increase of 976,000 tons in electric furnaces and 308,000 tons in open hearths. The construction of a new 325,000-ton bessemer converter is also anticipated.

The popularity of electric furnaces, which account for more than 60 percent of the new furnaces, is primarily due to the fact that ingot capacity can be increased more rapidly with a lower investment per ton by installing these furnaces as compared with open hearths. Electric furnaces allow higher temperatures than are economical under the open-hearth process. An electric furnace requires about four hours to complete the refining of a charge, while open-hearth operations take from 8 to 10 hours. Instead of building additional furnaces, most open-hearth operators are attempting to increase output from existing facilities through improved technology.

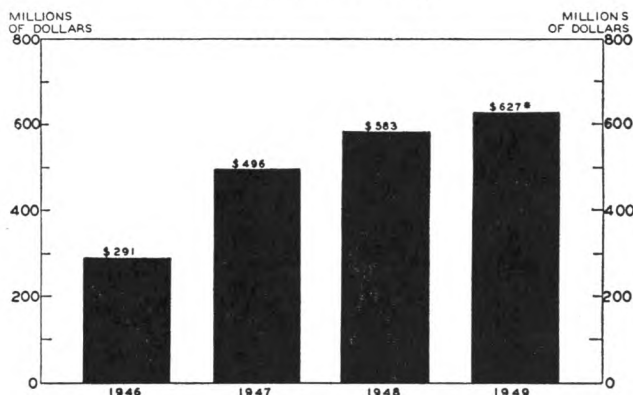
Technological Improvements Improvements in preparation and production processes were responsible for about 1.3 million tons of increased steel capacity last year, and are expected to make possible an additional million tons of capacity during 1949. Among the most important technological improvements in expanding capacity are the new coal washing facilities installed by some of the major steel companies. As a result of the increased use of automatic mining machinery, which is non-selective in its coal digging, coking coal as it comes to the ovens retains many impurities. Additional coal washers will remove these impurities and improve the coke yield.

Although still in the experimental stage, the use of oxygen in open hearths and electric furnaces is said not only to reduce time per heat but also to improve quality. Some companies have successfully increased capacity by high top pressure blast furnace blowing. It has been estimated by steelmen that this practice may result in an increased yield from blast furnaces of as much as 20 percent. Better scrap preparation and improved material handling in charging of electric furnaces and open hearths are further avenues through which capacity has been stepped up.

Cost of Expansion Trade sources indicate that by the end of 1949, postwar expenditures for improved steel-making equipment will total about \$2 billion. The accompanying chart shows that from the end of the war through 1948, about \$1.4 billion was spent in building up additional steel capacity. It is estimated that an additional \$627 million will be spent in 1949. These estimates were based on cost of new construction and improvements actually under way or on the drawing boards. The \$2 billion total covers new open hearths, electric furnaces, bessemer converters, blast furnaces, and coke ovens as well as the numerous technological improvements mentioned earlier. One source reported that the construction cost of new capacity before the war was about \$50 per ton, while today costs run over \$200 per ton, whereas the price of finished steel has increased only some 75 percent.

Reasons for Capacity Increases A dominant factor in the \$2 billion postwar expansion is not only the 12 percent increase in population since 1939, but also the tendency for the consumption of products made of steel to increase on a per capita basis. The average automobile today, for example, contains about 200 pounds more steel than did the late prewar models. Not only is more steel used in home appliances, but also the use of different kinds of appliances is steadily widening. It has been estimated that almost four times as many home appliances made of steel are in use today as compared with 1939. Steel for railroads, construc-

POSTWAR OUTLAY FOR NEW EQUIPMENT BY STEEL INDUSTRY (millions of dollars)



... postwar steel expansion will total over \$2 billion, of which nearly one-third is being installed this year.

* Estimated.

Source: American Iron & Steel Institute.

tion, and containers are other important categories in which there has been an increase in per capita steel consumption.

Gas and oil pipeline expansion, prefabricated steel houses, and the substitution of steel for other materials have also increased the nation's steel requirements. In 1941 steel pipe production amounted to 5.7 million tons, and last year this category totaled about 7.5 million tons, an increase of 32 percent. Not only are prefabricated houses being made of steel, but also more steel is being used in conventional residential building. Before the war, about 2 tons of steel went into each housing unit, while today 3 or more tons of steel are used in the construction of the average house.

Steel consumers used a record 66 million tons of finished steel in 1948. The accompanying table shows the growth in steel consumption from 1940 to 1948 by the four leading industries. Last year, the automobile industry took 15 percent of total finished steel output as compared with 13 percent in 1940. The 10.1 million tons used in 1948, however, represented an increase of 68 percent above 1940 and a 15 percent gain over 1947.

The construction industry was the second largest consuming industry. It absorbed about 11% of all steel produced or 5.3 million tons. Consumption gained 46 percent from 1940 and was up 16 percent from 1947.

In 1948 the container industry and the railroad industry each consumed about 8 percent of the total finished steel output. In 1948, the container industry used 6 percent more steel than in 1947, and 77 percent more than in 1940. Railroads accounted for a 6 percent increase in consumption over 1947, and 41 percent more than in 1940.

**Steel Distribution
By Consuming Industries**

Industry	1948		1947		1940	
	Millions of Tons	% of Total	Millions of Tons	% of Total	Millions of Tons	% of Total
Automotive.....	10.1	15%	8.8	14%	6.0	13%
Construction.....	7.3	11	6.3	10	5.0	11
Container.....	5.3	8	5.1	8	3.0	7
Railroad.....	5.2	8	4.9	8	3.8	8
Machinery, tools....	3.1	5	3.0	5	1.9	4
Agriculture.....	1.4	2	1.2	2	.9	2
Oil, gas, mining....	1.1	2	1.2	2	1.1	3
Exports.....	3.3	5	4.2	7	8.1	18
To jobbers.....	11.3	17	10.5	17	6.7	15
All Others.....	18.0	27	17.9	27	9.4	19
TOTALS.....	66.1	100%	63.1	100%	45.9	100%

Source: American Iron & Steel Institute.

Fourth District Capacity

Last year the Fourth District, which contains about one half of the nation's steel capacity, accounted for 48 percent of the additional steel capacity. On an annual basis, over 500,000 tons in electric furnace capacity and 200,000 tons in open-hearth capacity were installed. Improvement in melting shops, new

coke ovens, and the use of oxygen for carbon reduction by various companies throughout the District accounted for an additional 500,000 tons of steel capacity. This year new steel furnaces and further technological improvements are expected to add more than one million tons to existing capacity.

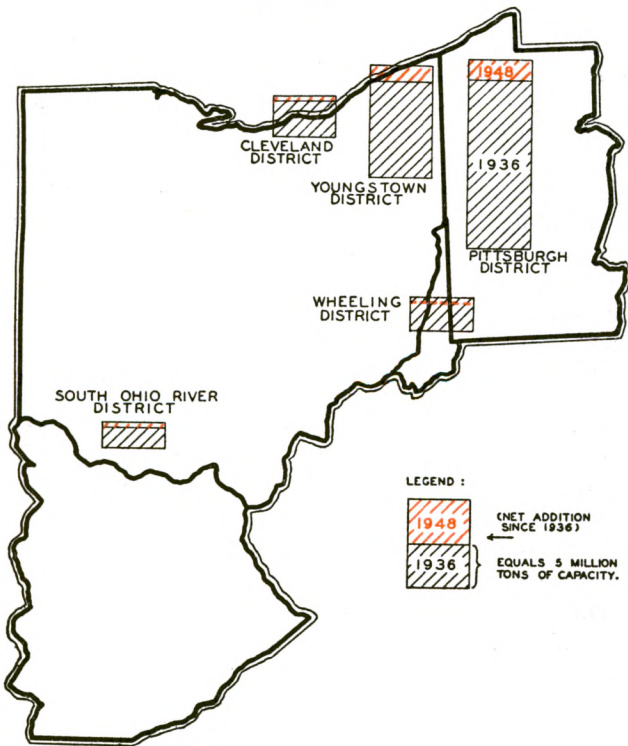
The accompanying table shows that the steel ingot capacity of the District declined from over 46 million tons in 1945 to about 44 million tons in 1948, or about 4 percent. The decline is largely the result of taking out of service two obsolete plants in the Pittsburgh area following their intensive use during the war.

**Fourth District Steel Ingot Capacity
(in thousands of net tons)**

Steel District	1948		1945		1936	
	Net Tons	% of Total U.S.	Net Tons	% of Total U.S.	Net Tons	% of Total U.S.
Pittsburgh.....	20,829	22.10	22,521	23.58	18,555	23.83
Youngstown.....	12,644	13.42	13,208	13.83	10,787	13.86
Cleveland.....	4,224	4.48	4,541	4.75	4,071	5.23
Wheeling.....	3,495	3.71	3,320	3.48	3,662	4.70
South Ohio River....	2,933	3.11	2,760	2.89	2,379	3.06
TOTALS.....	44,125	46.82%	46,350	48.53%	39,454	50.68%

Source: Iron Age.

**FOURTH DISTRICT STEEL INGOT CAPACITY
1936 and 1948**



... although the largest tonnage expansion occurred in the Pittsburgh area, ingot capacity also was increased in three other steel-making regions in this District.

Source: Iron Age.

In the middle 'Thirties the District accounted for about 51 percent of the steel capacity in the country. Last year the District's share dropped to about 47 percent. The basic reason for the percentage decline was the development of West Coast steel plants during the war. In 1936 Far West plants had a rated annual capacity of slightly over 2 million tons, but last year capacity amounted to almost 6 million tons. In the same period national capacity increased from 78 million tons to 94 million tons, or a gain of 21 percent.

Current Steel Production

For the first quarter of 1949 the steel industry turned out over 24 million tons of ingots, or 2 percent more than the previous record established in the last quarter of 1948. During the first three months of this year, steelmaking furnaces operated at an average of 101.5 percent of capacity. This was the first time that the 100-percent mark had been exceeded for such a long period.

For the twelve months ended March 31, output of raw steel was more than 90 million tons, a record unequalled in any previous twelve consecutive months. In March new records for tonnage at 8.4 million and for operations at 102.7 percent of rated capacity were established.

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for publication April 27, 1949)

Industrial output continued to decline in March and apparently also in April. Value of department store trade remained below the corresponding period of last year. Prices of industrial commodities generally declined in March and April with sharp reductions in metal scrap and nonferrous metals. Prices of most farm products and foods showed little change.

Industrial Production

Industrial production declined further in March, and the Board's seasonally adjusted index was 184 per cent of the 1935-39 average. This compares with 189 in February and with the postwar peak rate of 195 in October and November 1948. Output of manufactures declined about 2 per cent in March and work stoppages at coal mines for two weeks sharply reduced minerals production. Although coal output was restored in April, present indications are that total industrial output has declined further.

Activity in the machinery and iron and steel fabricating industries showed a substantial additional decline in March. In the automobile industry activity was maintained at a high level as reductions in output of trucks and of automotive parts were offset by an increase in the number of passenger cars assembled. Production of iron and steel and nonferrous metals, on the other hand, increased further in March. Open hearth steel production was up 2 per cent to a new record level, but output of electric steel declined 5 per cent from the February peak rate. During the first three weeks of April, however, steel production has been scheduled about 4 per cent below the March rate. Lumber production increased in March from the reduced rate reached in February.

Output of nondurable goods receded about 3 per cent in March, reflecting chiefly marked reductions in activity in the textile, paper and chemical industries. Rayon production and deliveries to textile mills were sharply curtailed in March, and, according to trade reports, have been reduced considerably further in April. Activity in the woolen and worsted industry has also declined substantially from the February rate, according to preliminary indications. Paperboard production in March and the first half of April was about 6 per cent below the February rate and 15 per cent below the level in the same period a year ago. Output of most other nondurable goods in March apparently was maintained at about the February rate.

Minerals production during March was reduced about 10 per cent, mainly because of the two-week work stoppage at most coal mines, which curtailed coal output for the month by 34 per cent. In early April coal production recovered to a level somewhat above the February rate. Crude petroleum output in March declined 4 per cent more and in early April was reduced further by about the same percentage, bringing the current rate to a level 13 per cent below the high rate at the end of 1948.

Employment

Employment in nonagricultural establishments, as reported by the Bureau of Labor Statistics, continued to decline in March, although a small rise is usual at this season. Manufacturing employment showed a further marked reduction and was about 720,000, or 4 per cent, less than in March a year ago.

Construction

Value of contracts awarded, as reported by the F. W. Dodge Corporation, was one-third larger in March than in February, owing mainly to seasonal increases in most types of private contracts. As compared with a year ago, total private awards were 8 per cent smaller, which public awards were substantially larger. Private residential building contracts were 20 per cent smaller in value than in March 1948.

Distribution

Value of department store sales in March and the early part of April remained below year-ago levels, after allowance is made for the later date of Easter this year. Sales of appliances and other durable goods at department stores continued substantially below the exceptionally high levels reached in the second and third quarters of last year.

Railroad shipments of coal dropped sharply in March and recovered in early April. Carloadings of other classes of freight during this period were at an average level about 5 per cent below the seasonally adjusted volume of shipments last autumn.

Commodity Prices

Prices of scrap metals, which had been at exceptionally high levels in the latter part of 1948 and had declined early this year, showed a further sharp drop from the early part of March to the third week of April. Prices of nonferrous metals were reduced substantially for the first time since before the war and prices of a number of metal products, including some makes of automobiles, were also reduced. Prices of most other industrial commodities continued to decline moderately; gasoline prices, however, were raised.

Meat prices advanced somewhat further from mid-March to mid-April, while prices of most other foods and farm products showed little change. Prices of hogs, however, declined again in the third week of April.

The consumers' price index rose slightly in March, reflecting chiefly higher meat prices and further slight increases in rents and miscellaneous items. Retail prices of apparel and housefurnishings declined somewhat further.

Bank Credit

Business loans decreased by nearly 700 million dollars at banks in leading cities during March and the first half of April and other loans generally declined moderately. Banks continued to purchase Treasury bonds, but they sold short-term securities, and their total portfolio of Government securities declined somewhat. Demand deposits of individuals and businesses contracted about 1 billion dollars in the six-week period, reflecting the large income tax payments in March and repayments of bank loans.

The Treasury reduced its deposits at the Reserve Banks during the first three weeks of April in order to retire securities and to meet current expenditures in excess of receipts. Banks were supplied with reserves as part of these funds were deposited in private accounts. At the same time reserves were absorbed by Federal Reserve sales of Treasury bonds in response to a market demand. Federal Reserve holdings of Government securities were also reduced through cash retirement of System-held bills.

DEPARTMENT STORE TRADE STATISTICS

Sales by Departments—March 1949

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

(Compiled April 26, and released for publication April 27)

Radios, Phonographs & Television.....	+49
Art Needlework.....	+22
Lamps and Shades.....	+11
China and Glassware.....	+10
Gift Shop.....	+7
Linens and Towels.....	+6
Draperies, Curtains, etc.....	+6
Woolen Dress Goods.....	+2
Costume Jewelry.....	+2
Aprons, Housedresses and Uniforms.....	+2
Toilet Articles and Drug Sundries.....	+2
Blankets and Comforters.....	+2
Coats and Suits (Women's and Misses').....	+2
Housewares.....	+2
Domestics, Muslins and Sheetings.....	+1
Luggage.....	+1
Books and Stationery.....	-1
Furniture and Bedding.....	-2
Silverware and Clocks.....	-3
Inexpensive Dresses (Women's and Misses').....	-3
Notions.....	-3
Juniors' Coats, Suits and Dresses.....	-3
Domestic Floor Coverings.....	-6
Blouses, Skirts and Sportswear.....	-7
Underwear, Slips and Negligees.....	-7
Records, Sheet Music and Pianos.....	-8
Corsets and Brassieres.....	-8
Better Dresses (Women's and Misses').....	-10
Silks, Velvets, Synthetics.....	-10
Fine Jewelry and Watches.....	-12
Cotton Wash Goods.....	-12
Sporting Goods and Cameras.....	-13
Infants' Wear.....	-14
Toys and Games.....	-18
Furs.....	-18
Hosiery.....	-18
Men's Furnishings and Hats.....	-19
Shoes (Women's and Children's).....	-20
Men's Clothing.....	-21
Girls' Wear.....	-22
Millinery.....	-22
Neckwear and Scarfs.....	-24
Handbags and Small Leather Goods.....	-27
Handkerchiefs.....	-27
Shoes (Men's and Boys').....	-27
Boys' Wear.....	-32
Major Household Appliances.....	-34
Laces and Trimmings.....	-36
Gloves (Women's and Children's).....	-40
Candy.....	-47

GROUP TOTALS

Small Wares.....	-2
Piece Goods and Household Textiles.....	-3
Housefurnishings.....	-5
BASEMENT STORE TOTAL.....	-8
GRAND TOTAL (reporting stores).....	-10
MAIN STORE TOTAL.....	-11
Women's Apparel and Accessories.....	-12
Miscellaneous Merchandise Departments.....	-17
Men's and Boys' Wear.....	-23

Sales during March by Fourth District department stores increased less than seasonally in most departments of the store, and were substantially lower than a year ago. Thirteen individual departments reported sales which were 20% or more below last year. The average 10% decline from year-ago March was due in part to difference in the Easter dates of the two years, although even on a seasonally adjusted basis, total sales were 2% below last year.

Sales of the men's and boys' wear group of departments were 23% below a year ago, with individual departments reporting declines from 19% to 27%. Men's clothing, down 21%, was the only department in the group where some slight margin over sales of two years ago was achieved.

In the women's apparel and accessories group, where sales averaged 12% below a year ago, only two departments showed year-to-year gains in sales. These were women's and misses' coats and suits, and aprons, housedresses and uniforms, each of which was up 2%. Declines were heaviest in the accessories departments, reaching as far as 40% below a year ago in the case of gloves, where sales dropped to a new six-year low for the month. Altogether five accessories departments reported sales at their lowest levels for any March in the last three to six years.

Sales of furniture and bedding and of domestic floor coverings were down 2% and 6% respectively from a year ago. This showing was close to the average for the housefurnishings group as a whole, where sales were down 5% from a year ago. As has happened frequently in recent months, however, certain individual departments in the housefurnishings group showed extreme year-to-year gains or losses in sales. Sales of radios, phonographs and television, for example, were 49% above a year ago. New highs for the month were reached in sales of lamps and shades, up 11%, and draperies, curtains, etc., up 6%. At the other extreme, sales of major household appliances were 34% below a year ago.

All comparisons refer to dollar volume, without adjustment for price changes.

Inventories by Departments—March 31, 1949

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

(Compiled April 26, and released for publication April 27)

Toys and Games.....	+25
Laces and Trimmings.....	+18
China and Glassware.....	+16
Coats and Suits (Women's and Misses').....	+16
Woolen Dress Goods.....	+14
Millinery.....	+12
Men's Clothing.....	+9
Blouses, Skirts and Sportswear.....	+9
Shoes (Women's and Children's).....	+8
Girls' Wear.....	+8
Candy.....	+8
Juniors' Coats, Suits and Dresses.....	+7
Handbags and Small Leather Goods.....	+7
Gloves (Women's and Children's).....	+7
Boys' Wear.....	+6
Sporting Goods and Cameras.....	+5
Books and Stationery.....	+4
Gift Shop.....	+3
Shoes (Men's and Boys').....	+3
Inexpensive Dresses (Women's and Misses').....	+3
Silks, Velvets and Synthetics.....	+2
Housewares.....	+1
Furs.....	+1
Fine Jewelry and Watches.....	-0
Cotton Wash Goods.....	-0
Domestic Floor Coverings.....	-0
Silverware and Clocks.....	-0
Major Household Appliances.....	-2
Costume Jewelry.....	-2
Better Dresses (Women's and Misses').....	-3
Luggage.....	-3
Linens and Towels.....	-3
Records, Sheet Music and Pianos.....	-4
Notions.....	-4
Men's Furnishings and Hats.....	-4
Hosiery.....	-4
Underwear, Slips and Negligees.....	-5
Toilet Articles and Drug Sundries.....	-6
Draperies, Curtains, etc.....	-7
Domestics, Muslins, Sheetings.....	-8
Lamps and Shades.....	-8
Furniture and Bedding.....	-8
Art Needlework.....	-8
Corsets and Brassieres.....	-10
Infants' Wear.....	-10
Handkerchiefs.....	-10
Neckwear and Scarfs.....	-10
Aprons, Housedresses and Uniforms.....	-11
Radios, Phonographs and Television.....	-14
Blankets and Comforters.....	-18

GROUP TOTALS

Miscellaneous Merchandise Departments.....	+6
Men's and Boys' Wear.....	+3
Women's Apparel and Accessories.....	+2
MAIN STORE TOTAL.....	-0
GRAND TOTAL (reporting stores).....	-1
Small Wares.....	-2
Housefurnishings.....	-3
Piece Goods and Household Textiles.....	-4
BASEMENT STORE TOTAL.....	-6

Inventories of Fourth District department stores rose during March as is seasonally customary. Inasmuch as the peak of this year's Easter trade still lay ahead at the end of the month, it appears that the March rise in stocks was not out of line with the conservative inventory policies evidenced in recent months. At month's end stocks were 1% under the year-ago level. Main store stocks were unchanged from a year ago, while basement store stocks were down 6%.

Although inventories in the women's apparel and accessories group were only 2% above last year's level at the close of the month, certain departments within the group showed large year-to-year rises. Stocks of women's and misses' coats and suits, for example, were up 16% and millinery stocks were up 12%. Stocks of women's and children's shoes, up 8% from a year ago, were at a new all-time high. The total stocks of dresses, although no higher than last year's at this time, were equal to the all-time peak for this department. By contrast, however, five departments in the women's wear group showed year-to-year inventory trimming amounting to 10% or more.

Stocks in the men's and boys' wear group of departments averaged 3% higher than a year ago. Men's clothing stocks were up 9%, while inventories of men's furnishings and hats were down 4%.

Within the housefurnishings group, where stocks averaged 3% below a year ago, the china and glassware department reported stocks at a new all-time high, 16% above year-ago levels, in spite of the fact that the March sales report for this department was favorable. For most of the departments in the housefurnishings group, however, stocks at the close of March were moderately lower than year-ago levels. Sharpest year-to-year drop was recorded by radios, phonographs and television, where stocks were 14% below a year ago.

All comparisons refer to dollar value of inventory at retail, without adjustment for price changes.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits—12 Fourth District Cities

(Compiled April 6, and released for publication April 8)

City and Number of Banks	Time Deposits Mar. 30, 1949	Average Weekly Change During:		
		March 1949	February 1949	March 1948
Cleveland (4)	\$ 902,618,000	-\$ 72,000	+\$3,596,000	-\$449,000
Pittsburgh (12)	458,382,000	+ 435,000	+ 349,000	- 124,000
Cincinnati (8)	182,438,000	+ 81,000	+ 113,000	- 124,000
Akron (3)	103,675,000	- 14,000	+ 10,000	- 34,000
Toledo (4)	100,661,000	+ 144,000	+ 59,000	- 42,000
Columbus (3)	83,360,000	+ 92,000	+ 114,000	- 67,000
Youngstown (3)	65,000,000	+ 24,000	+ 8,000	+ 2,000
Dayton (3)	47,014,000	+ 21,000	+ 8,000	- 72,000
Canton (5)	43,678,000	+ 96,000	+ 13,000	- 39,000
Erie (4)	39,391,000	+ 45,000	+ 52,000	- 36,000
Wheeling (5)	28,401,000	+ 40,000	+ 21,000	+ 5,000
Lexington (5)	10,590,000	- 13,000	+ 6,000	+ 5,000
TOTAL—12 Cities	\$2,065,268,000H	+\$837,000	+\$4,323,000	-\$975,000

H—Denotes new all-time high.

Time deposits increased at the rate of \$837,000 per week during March, as against a contraction of \$975,000 per week in the same 1948 period, at the 59 reporting banks of the District.

This was the third successive month in which savings increased more rapidly than a year earlier. At 41 out of the 59 reporting banks, time deposits were higher on March 30 than on February 23, the preceding reporting date, which indicates that the uptrend in savings was quite general in scope.

Individual Cities

In Pittsburgh total time deposits increased \$435,000 per week during the five week period, and reached a new all-time high of over \$458,000,000.

In Toledo time deposits expanded at all four banks at a rate of \$144,000 per week which placed the total above \$100,000,000 for the first time.

The \$92,000 weekly expansion at the three Columbus banks also lifted that city's total to a new record high.

In Youngstown, total time deposits at the three reporting banks established a new all-time high as a consequence of the \$24,000 weekly gain.

In Cleveland, Akron, Dayton, and Lexington, time deposits declined fractionally, but in most instances the shrinkage was less noticeable than a year ago.

Bank Debits*—March 1949

(In thousands of dollars)

(Compiled April 8, and released for publication April 12)

	March 1949	% Change from Year Ago	3 Months Ended Mar. 1949	% Change from Year Ago
ALL 31 CENTERS	\$7,401,162	+ 3.8%	\$20,786,773	+ 4.5%
10 LARGEST CENTERS:				
Akron	235,505	+ 3.9%	663,069	+ 0.9%
Canton	117,465	+ 9.5	338,634	+ 8.7
Cincinnati	930,437	+ 0.2	2,607,440	- 2.4
Cleveland	1,857,226	+ 4.1	5,226,794	+ 4.7
Columbus	566,969	+ 1.0	1,557,684	+ 5.0
Dayton	229,504	- 4.5	664,629	- 3.2
Toledo	345,112	-10.7	1,003,699	-10.2
Youngstown	147,561	- 2.4	433,468	+ 0.5
Erie	88,977	- 3.3	251,844	- 1.6
Pittsburgh	2,226,257	+10.4	6,093,175	+12.4
TOTAL	\$6,745,013	+ 3.9%	\$18,840,436	+ 4.5%
21 OTHER CENTERS:				
Covington-Newport	\$ 39,940	- 3.5%	\$ 115,922	- 0—
Lexington	56,661	- 3.6	262,614	+15.0
Elyria	20,688	- 0.9	57,039	- 3.0
Hamilton	39,441	- 1.1	111,883	+ 2.3
Lima	43,293	+ 1.0	124,677	+ 1.4
Lorain	19,001	+ 2.4	53,951	+ 4.8
Mansfield	45,337	+ 9.2	123,788	+ 4.8
Middletown	37,028	+ 3.8	98,511	+ 4.9
Portsmouth	21,030	- 2.0	59,972	- 0.2
Springfield	45,601	- 2.9	130,307	- 2.1
Steubenville	22,754	+ 6.4	65,647	+ 3.3
Warren	38,644	+ 7.4	112,657	+ 6.7
Zanesville	28,406	+10.4	76,536	+ 2.8
Butler	31,278	+ 6.2	89,738	+ 4.1
Franklin	6,963	+ 4.1	21,080	+ 6.4
Greensburg	22,969	+ 8.4	61,846	+ 5.2
Kittanning	10,059	- 2.8	29,120	- 1.6
Meadville	13,479	+30.5	36,739	+12.0
Oil City	19,599	-16.5	55,036	- 8.3
Sharon	29,028	+10.9	82,850	+ 8.7
Wheeling	64,950	+12.0	176,424	+ 5.4
TOTAL	\$ 656,149	+ 3.1%	\$ 1,946,337	+ 4.3%

* Debits to all deposit accounts except interbank balances.

Debits to deposit accounts in 31 Fourth District cities during March totaled over \$7,400,000 for an increase of 3.8% over March of 1948, and the largest aggregate turnover on record for the month.

The rate of turnover, however, was almost identical with that of a year ago, in the ten larger cities combined. In the 31 smaller cities, the rate at which deposits were drawn upon was slightly less than last year in March.

For the first quarter of 1949 as a whole, the rate of turnover in the ten larger cities exceeded that of the comparable period of 1948, whereas in the smaller cities, both debits and deposits were higher by the same percentage, namely 4.3%, indicating no change in the turnover rate.

TEN LARGEST CITIES

Among the ten largest cities, March debits ranged from gains of around 10% over last year in Canton, and Pittsburgh, to a year-to-year decline of more than 10% in Toledo. Canton and Pittsburgh also ranked first in the quarterly figures.

TWENTY-ONE SMALLER CITIES

Meadville reported the largest year-to-year increase with a gain of over 30%. Debits in Wheeling, Sharon, and Zanesville likewise increased considerably more than the average for smaller cities.

For the entire first quarter, the largest gain over last year was reported from Lexington, where debits were 15.0% above a year ago.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

	Adjusted for Seasonal Variation			Without Seasonal Adjustment		
	March 1949	February 1949	March 1948	March 1949	February 1949	March 1948
SALES:						
Akron (6)	282	303	281	259	260	278
Canton (5)	361	320	346	314	249	336
Cincinnati (8)	283	286	304	269	235	313
Cleveland (10)	240	254	248	233	208	258
Columbus (5)	337	352	310	320	281	323
Erie (3)	309	317	296	281	254	293
Pittsburgh (8)	246	264	250	244	220	273
Springfield (3)	257	276	270	239	224	276
Toledo (6)	260	263	263	244	221	268
Wheeling (6)	238	233	253	214	191	264
Youngstown (3)	341	325	297	310	270	309
District (96)	265	277	270	254	227	284
STOCKS:						
District	285	275	298	282	255	287

Changes in Consumer Instalment Credit March 1949

25 Fourth District Member Banks

(Compiled April 27, and released for publication April 29)

New Loans Made Compared With Mo. Ago	Yr. Ago	Type of Credit	Outstanding at End of Mo. Compared With	
			Mo. Ago	Yr. Ago
+30.0%	+ 5.3%	Total consumer instalment credit	+1.0%	+ 29.9%
+31.5	- 6.9	Personal instalment cash loans	+1.0	+ 6.9
+23.6	-14.0	Repair and modernization loans	-1.1	+ 41.2
		Direct retail instalment loans		
		(a) Automobile	+4.2	+ 41.6
+62.8	+22.7	(b) Other	+3.7	- 2.5
+57.0	- 5.1	Retail instalment paper purchased		
		(a) Automobile	+2.9	+108.9
+44.9	+45.2	(b) Other	-0.8	+ 30.8
+24.4	+ 6.4			

For the first time in several months, the volume of consumer credit advanced by the 25 reporting banks of this District during March was larger than a year ago. The volume of new loans made (or purchased) was 5.3 percent greater than in March 1948.

Percentage-wise the largest year-to-year gain occurred in purchased paper, but direct retail instalment loans on automobiles also were nearly 23 percent larger than a year ago, representing the biggest monthly increment since the inauguration of this series.

On the other hand activity in the form of new personal instalment cash loans, and in repair and modernization credits, continued to lag behind the comparable 1948 level.

The rate at which existing loans (exclusive of purchased paper) were being paid off was approximately the same as in March of last year or about 12½ percent of the amount outstanding at the beginning of the month.

(Continued from Page 4)

during the second and third quarters of 1948, when the physical volume of sales was estimated to be about 20 percent below the corresponding quarters of 1946. Similarly, sales of shoes by department stores failed to regain 1946 levels. When corrected for the price factor, shoe sales were as much as 30 percent below 1946 levels during the second quarter of 1948, or approximately at 1941 levels.

Appliances and Furniture The meteoric rise and fall of appliance sales may be seen on the physical volume chart. During most of the period under review, the year-to-year rates of gains were so large percentage-wise (because of the very low wartime levels) as to require an alteration in the scale of this chart as compared with the others.⁽⁵⁾ During the final quarter of 1948, however, the physical volume of appliance sales dropped to a

level 25% below the corresponding quarter of the previous year, or 18% below the final quarter of 1946.

The physical volume of furniture sales also showed some deterioration in the final quarter of last year although this was not the first time since the war that furniture sales showed weakness. Thus during 1947 and the first half of 1948, furniture sales in physical volume were running below 1946 levels. The third quarter of 1948 showed a pick-up, while in the fourth quarter the physical volume of furniture sales dropped to a level about 6 percent below the final quarter of 1947, or 10 percent below 1946.

⁽⁵⁾ The zig-zag character of the bar chart for appliances is partly attributable to the fact that unit sales of appliances had been rising rapidly throughout 1946, taken here as the base year. Thus, while the fourth quarter of 1947 showed a much smaller year-to-year increase than the third quarter, unit sales of appliances actually increased between the third and fourth quarters of 1947. Note also that appliances here do not include radios, phonographs or television sets.

