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CONTENTS

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FOURTH FEDERAL RESERVE DISTRICT

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Banking Developments During 1949

ONE of the words most frequently used to describe the economic developments of the past year is "readjustment", in the sense of a series of cuts in production of nondurable and some durable goods, and a moderate step-down in the price level in line with revised conceptions of peacetime normality both by business and the public, and the waning influence of accumulated war and reconversion demand. In Government circles the readjustment took the form of a somewhat delayed reversal of anti-inflationary policy and propaganda, and then a rapid switch to deficit financing. The Board of Governors of the Federal Reserve System began a program of easing restraints on credit early in the year, and by August had given evidence of an active easy-money policy. Both Government and Federal Reserve actions were taken under the aegis of the Employment Act of 1946.

Contraction of Commercial Loans

One of the most noticeable adjustments in banking developments was the decline in the volume of outstanding commercial, industrial, and agricultural loans. At weekly reporting banks in the Fourth District these loans had expanded more than 150 percent from the end of the war to reach a peak in March 1949. The rapid contraction which then ensued was slowed down, halted, and reversed temporarily during the summer and fall, largely due to seasonal influences, but these failed to prevent a further contraction, not wholly attributable to the recent steel strike, to the lowest point in over two years, and more than 15 percent below the March peak. For weekly reporting banks in leading cities throughout the country,[1] a decline of 18 percent was registered from the December 1948 peak to the low point of August this year. Since then a considerable recovery has been evident, due partly to the delayed operation of seasonal factors and to the expansion of Commodity Credit Corporation loans in predominantly agricultural districts. At the end of November, outstanding commercial loans were 12 percent under the December 1948 peak. A comparison of the movements of commercial loans at weekly reporting banks in the Fourth District with those in New York City reveals an earlier turning point, a steeper decline, and a sharper recovery at New York City banks (see accompanying chart).

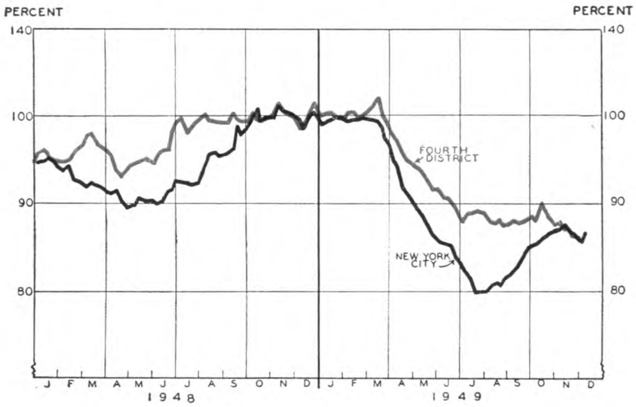
The $2.8 billion contraction in bank credit to business and agriculture from the December 1948 peak to the August low at weekly reporting banks throughout the country, was generally ascribed to inventory liquidation and the utilization of large cash reserves to reduce bank debt. These same factors were also applicable to the $134 million shrinkage in so-called business loans at weekly reporting banks in the Fourth District in approximately six months from the March peak. It is improbable, however, that continued inventory liquidation was responsible for the resumption of the downtrend towards the end of the year. A further contributing factor, in addition to the general effects of declining prices, production, and employment, may well have been the fact that the bond market, which for some time had been under pressure from the liquidation of

[1] Weekly reporting banks in leading cities account for about 75 percent of commercial, industrial, and agricultural loans outstanding at insured commercial banks.

INDEX OF COMMERCIAL, INDUSTRIAL, AND AGRICULTURAL LOANS AT WEEKLY REPORTING BANKS

(Fourth District and New York City) 1948 and 1949

(Average last quarter 1948 = 100)



. . . the drop in business loans in the first half of 1949 was not so pronounced in the Fourth District as in New York City, but the upturn which followed at New York City banks approximately equalized the net changes for the past two years.

U. S. Government securities, firmed considerably, thus creating more propitious conditions for corporations to bring out new long-term issues and to place long-term loans with nonbank institutional investors. Currently the failure of the upturn in business lending to be sustained may be due in some part to the operation of seasonal influences, which usually provide little impetus for the extension of credit during December.

Expansion of Mortgage Lending Movements in other types of bank lending have evidenced no deflationary trend, but to some extent have offset the commercial loan contraction. Real estate loans, after remaining on a plateau during the first four months of the year, advanced steadily at weekly reporting banks in this District, probably reflecting increased confidence of price stability among potential home-owners. The expansion in real estate loans at reporting banks since June was almost equal to the increase in the last half of 1948, and in the last few weeks of the year proceeded at a faster rate than a year ago. Nevertheless, the over-all expansion was less than half that which occurred last year when the mortgage lending boom was in full swing. Data from other large mortgage lending institutions in this District indicate a similar slowing down in the rate of growth of the mortgage loan portfolio. The increase in outstandings at leading member banks, however, amounted to 6.5 percent in the Fourth District as against the rise of only 5.7 percent recorded in the country as a whole.

Consumer Credit Expansion The "all other loans" category showed a substantial rise at the weekly reporting banks in this District. Consumer credit, both instalment and single-payment, forms a considerable portion of this class of loans, and instalment credit (as evidenced by data from a different sample of banks reporting monthly) expanded almost 21 percent from the end of February to the end of November (latest available). A record volume of direct loans for automobile purchases provided the main impetus for the expansion of instalment credit, which was also encouraged by some relaxation of terms. In general, repayment terms on automobile purchases do not appear to have been extended beyond 24 months to any considerable degree, while down payments of 25 to 33⅓ percent are fairly representative.

Retail automobile instalment paper held by the reporting banks increased 28 percent from February to the end of November while direct automobile instalment credit showed a gain of 36 percent in the same period. In 1948, bank holdings of this type of paper more than doubled while direct loans increased 54 percent. Moreover, in 1948 the increase in paper held by the banks was almost equal in amount to the increase in direct loans, whereas in 1949 direct automobile instalment loans increased more than twice as much as holdings of purchased paper. This is indicative of the reluctance of banks to accept much more generous terms than the maximums allowed under Regulation W, and their relatively cautious attitude has probably served to restrict the amount of purchases financed under arrangements of the no-down-payment and 36-months-to-pay variety.

With the pickup in sales of furniture, bedding, and major household appliances since early spring, instalment credit for the purchase of durable consumers goods other than automobiles also expanded appreciably at the reporting banks. The increase was almost wholly in retail paper purchased by the banks, and this may have been due in some measure to the rapid increase in television sales, which now represent a sizeable proportion of total appliance sales, and the terms and down payments on which were, in general, acceptable to banks. Further, it appears that frequently the ultra-easy terms offered in some advertisements were primarily sales leads, and were not truly representative of the financing arrangements which the sellers desired to make.

Outstanding loans for repair and modernization purposes increased 21 percent from the beginning of the year to the end of November, but personal instalment loans registered only a slight gain. Throughout the postwar period personal instalment credit, though considerable in amount, has expanded at a noticeably slower rate than all other types of instalment credit. The rate of partial repayments and pay-offs[2] of all types of instalment loans in the first quarter of the year was running somewhat below year-ago levels. For the rest of the year, the rate of repayment was virtually the same as a year ago, due mainly to an increase in the rate at which paper purchased was paid off, or sold by the banks.

Total Loan Portfolios The continuing strong demand for mortgage credit, the record volume of automobile sales, consumer acceptance of television, recovery in the household appliance market, easier terms for instalment purchases, and a moderate increase in collateral loans have combined to offset the effects of a bearish attitude to prices manifested by large sections of business and industry, particularly during the first half of the year which brought about a sharp contraction in business borrowing. As a result of these divergent forces, the total loan portfolio of the weekly reporting banks in this District was depleted by about 3 percent during the year, and by less than 6 percent from the March peak. For all member banks in the Fourth District, the shrinkage in outstanding loans was less than 1 percent from the end of January to the end of November (latest available). This was due primarily to a 5 percent increase in loans at other than reserve city banks since June, reflecting a considerable volume of agricultural debt backed by the Commodity Credit Corporation.

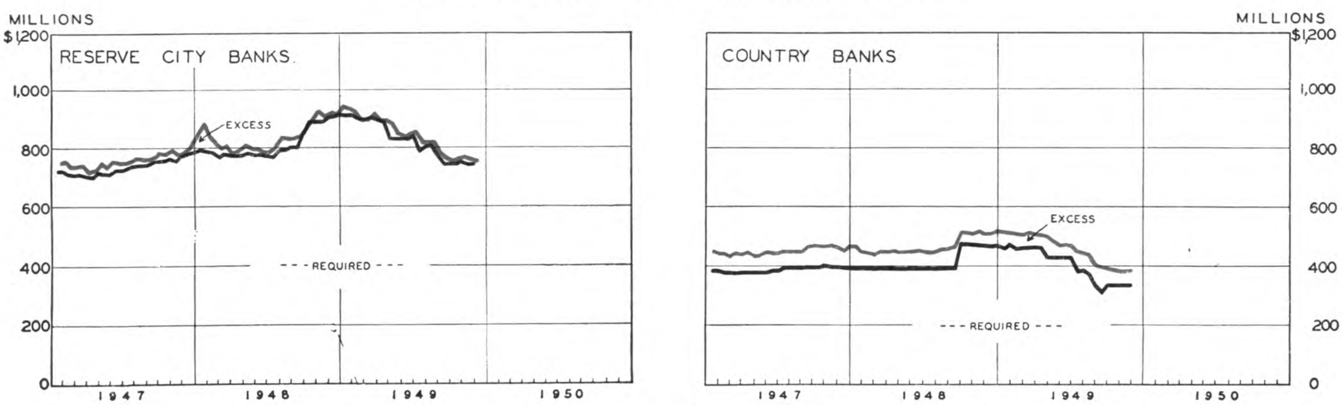
Changes in Federal Reserve Policy Other major factors affecting bank earning power during the year were the reductions in required reserves, due firstly to the anticipation of the expiry on June 30 of the temporary authority to increase reserve requirements above the statutory limit, and secondly to the adoption of a positive easy-money policy by the Board early in the summer. Between May 1 and September 1, the reductions in reserve requirements, amounting to 4 percent against net demand deposits and 2½ percent against time deposits, made available to Fourth District member banks approximately $310,000,000 of funds for lending or investment. For all member banks in the country, about $3.8 billion of resources were freed.

Increase in Investments The first cut in reserve requirements on May 1 tended to halt the moderate decline in holdings of U. S. Government securities at the larger metropolitan banks in this District which had been apparent during the first quarter of the year. Purchases of $60 million of Treasury bonds within two weeks restored the Government security portfolio of the weekly reporting banks to the level maintained at the beginning of the year. Certificates of indebtedness were also favored by these banks, but liquidation of Treasury bills continued until the announcement on June 28 by the Federal Open Market Committee that System Open Market Operations would be conducted "with primary regard to the general business and credit situation," and that some degree of flexibility in security rates would be permitted.

The timing of this announcement, just before the automatic release of further reserves on June 30, created easier conditions in the money market, with banks seeking immediate outlets in Government securities. Under the impetus of further reductions in reserve requirements in August and the continuing decline in commercial loans, demand was maintained throughout the rest of the year. By early December, total investments in Government securities by weekly

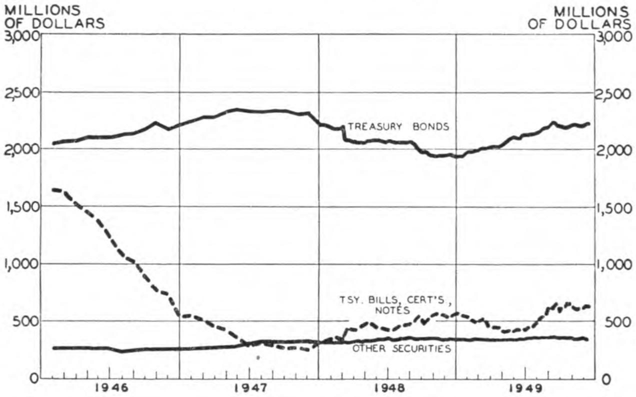
[2] Expressed as a percentage of loans outstanding at the beginning of the month.

RESERVE POSITION OF MEMBER BANKS



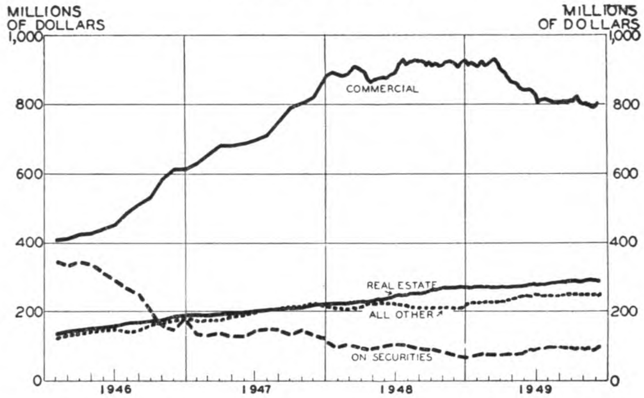
. . . reserve requirements of all member banks are now the lowest in nearly three years, primarily as a consequence of the reductions in percentage requirements effected during the past summer. Reserve city banks have continued to follow a policy of comparatively full investment while by comparison country banks are carrying a relatively large volume of excess reserves.

INVESTMENT OF REPORTING MEMBER BANKS (Fourth District)



. . . holdings of Government securities are now the largest in almost three years, mainly as a consequence of the series of reductions in reserve requirements between April and September.

LOANS OF REPORTING MEMBER BANKS (Fourth District)



. . . commercial loans are at a two-year low, chiefly as a result of the sharp spring decline, while other types of loans continued to grow throughout the year.

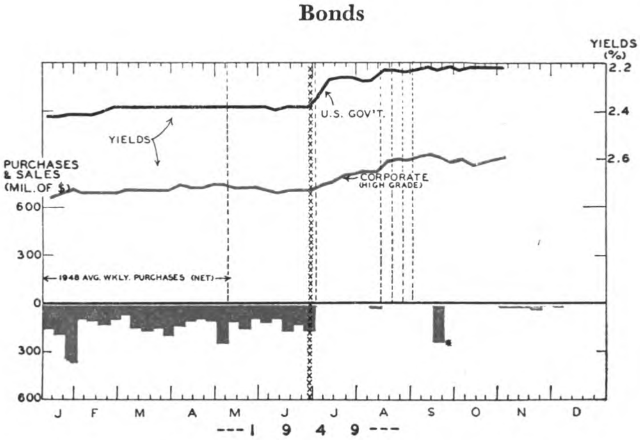
reporting banks in this District had reached the highest point in almost three years. More than half the increase was in the Treasury bond portfolio which showed a gain of $216 million (almost 11 percent) since the end of April to a two-year high. A marked expansion in holdings of certificates of indebtedness was also sustained, while holdings of bills, into which most of the freed funds were diverted in August, were subsequently reduced substantially. The size of the bill portfolio showed little net change from the beginning to the end of the year. For the country as a whole, the increase in Government securities held by weekly reporting banks in leading cities was centered mainly in short-term issues. From the end of April to the end of November, total holdings of U. S. Government securities increased $4.3 billion, of which $3.3 billion was in short-term Governments and $1.0 billion was in Treasury bonds.

Increased bank purchases of corporate, state, and municipal issues can also be attributed in part to the greater availability of funds, and the improved liquidity position of the banks. Holdings of these types of securities by reporting banks in this District were virtually unchanged until May. Throughout the rest of the year they rose consistently to record a gain of over $30 million (9 percent) by early December. The expansion of investments in Government and other securities more than offset the decline in the loan portfolio, and early December figures showed a rise of more than 8 percent in total earning assets at reporting banks during the year, and a 6 percent increase to the end of November for all member banks in the District.

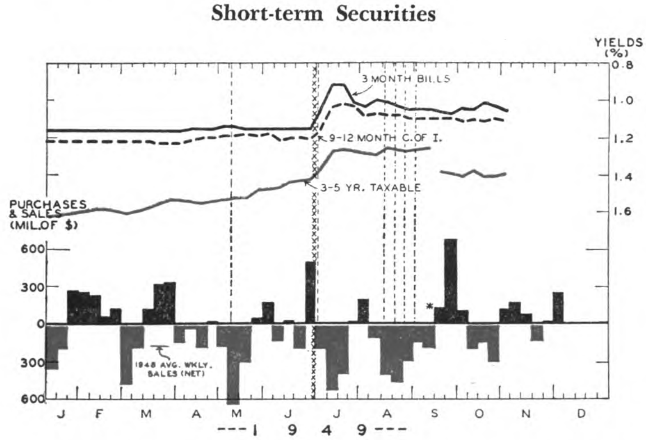
Fluctuations in Yields Counteracting the growth in volume of bank earning power to some extent, a noticeable drop in security yields followed the adoption of a more flexible open-market policy by the Federal Reserve. As can be clearly seen in the accompanying charts, in which the vertical broken lines represent cuts in reserve requirements and the "x" line records the announcement of a more flexible policy by the Federal Open Market Committee, the demand for Treasury bonds during the first half of the year was largely met by System sales in sufficient volume to maintain a fairly stable level of bond yields and prices. These sales stand in sharp contrast to the support operations of 1948, which caused an average net weekly increase of over $150 million in the System bond portfolio. After the end of June, the infrequent actions of the Federal Open Market Committee in the bond market were to sell only token amounts, and, under the pressure of a large volume of funds seeking investment, yields of long-term Treasury bonds dropped from 2.38 percent to 2.26 percent in three weeks. A further decline to 2.22 percent, at which level reasonable stability was maintained, was occasioned by the August reductions in required reserves. The influence of the Government security market on the capital market as a whole is apparent from the similar pattern traced by the average of high-grade corporate bond yields.

Somewhat smaller fluctuations occurred in the yields on short-term Governments. The sharp drop in yields on bills and certificates from 1.158 percent to 0.923 percent in early July was promptly met by the release of over $1.0 billion of short-term Government securities from the System portfolio in three weeks, under the pressure of which an appreciable downward reaction of prices took place. Subsequently, a further moderate rise in yields was stimulated by large sales from System Account during August. Operations since that time have indicated a desire to maintain a fairly stable bill rate around

CHANGES IN HOLDINGS OF U. S. GOVERNMENT SECURITIES BY THE FEDERAL RESERVE SYSTEM AND YIELDS OF SELECTED SECURITIES — 1949



. . . net sales of Treasury bonds, by the Federal Reserve System, which totaled $3.2 billion during the first half of the year, were reduced to token amounts after June, and bond yields declined appreciably.



. . . some degree of fluctuation was allowed in the pattern of rates after June, but alternating sales and purchases of short-term securities by the Federal Reserve System were large enough to prevent wide deviations.

Source: Federal Reserve Board.

* Exchange of $237 million of maturing bonds for certificates of indebtedness.

1.06 percent with very little spread between yields on bills and certificates.

The easy-money policy pursued by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee during the second half of 1949 was in accord with both counter-cyclical monetary policy and the Treasury's debt-management policy, and undoubtedly facilitated the refunding and new borrowing task undertaken by the Treasury toward the end of the year. Direct effects of plentiful and cheap credit on the business situation are difficult to measure, and spectacular results do not manifest themselves. It is reasonable to assume, however, that placement of the large volume of local, municipal and state issues authorized in recent elections has been and will continue to be facilitated by the amplitude and low cost of funds. Some slight shading of interest rates has occurred, and it is not improbable that some of the upswing in business borrowing during the summer may be attributable to this factor. The incentive for banks to pursue their credit rationing policy with less severity, rather than to cause an actual decrease in rates, is likely to have had the most significant effect, however.

Sterilization of Reserves The inflationary potential of the release of $3.8 billion of reserves, which from a purely theoretical standpoint could have resulted in an expansion of about $23 billion in the money supply (currency in circulation, demand and time deposits), was largely siphoned off through Federal Reserve sales of Government securities. Between April 27 and September 7, the Federal Reserve portfolio of Governments was reduced by almost $3.8 billion. This retirement of Reserve Bank credit, together with a net increase of $190 million in other sources of reserves, and an increase of $580 million in non-reserve uses, chiefly in Treasury deposits with the Federal Reserve Banks, resulted in a reduction of member bank reserve balances by more than $3.0 billion. Excess reserves increased approximately $400 million in the same period, and though this margin of difference was subsequently narrowed, the average volume of idle balances appears to have remained slightly above the average for the early months of the year, both nationally and in this District.

Money Supply Changes in Demand Deposits Contraction of the nation's money supply during the early months of the year, due both to a $1 billion retirement of the national debt and to the sharp decline in commercial loans, was slowed down during the early summer months. In so far as some of the released reserves not retired by contraction of Reserve Bank credit formed a base for bank purchases of marketable Government securities from corporations and other nonbank investors, some expansion of private deposits was possible. Government balances registered a $2.2 billion expansion from the end of June to the end of September (latest available) due primarily to new borrowing through sales of $2.0 billion

(CONTINUED ON PAGE 12)

Department Store Trade in Review

THE past year in department store trade featured a continuation of the downward trend in sales which began late in 1948. On a seasonally adjusted basis, sales dipped sharply during the first three months, but the Easter season was relatively successful. Easter, however, was followed by a steady decline which lasted until late summer. August and September saw the beginning of a slight recovery, but a combination of the steel strike and unseasonably mild weather throughout most of the country during October forced the national index of department store sales for that month to a two and a half year low. Trade during November remained at low levels, but from information available at the time of publication, sales during December showed an appreciable gain. Sales for the year as a whole were probably about 7 percent below 1948.

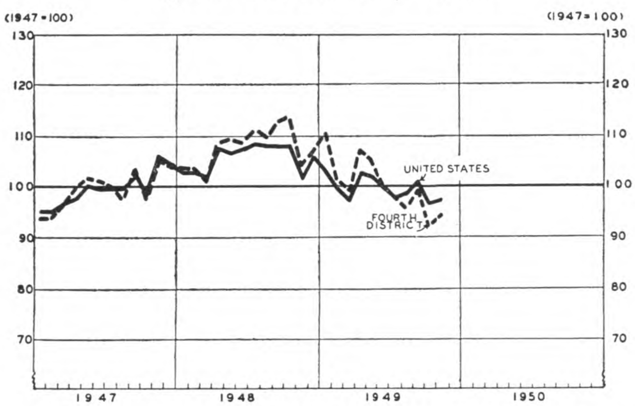
Sales by Fourth District department stores generally moved in the same direction as the national average, with the exception of highly successful clearance sales in January and a slower start in the fall pickup. The magnitude of the movements, however, was more pronounced in the Fourth District than in the rest of the country. It has been demonstrated in the past that sales in the heavily industrialized Fourth District advance at a faster rate than the national average during a general upward movement, and contract at a faster rate during a downward movement. Such was the case in the three years presented in the accompanying chart. From the year 1947 (arbitrarily chosen as the base year) to the middle of 1948, when the national average reached its peak, Fourth District sales increased at a noticeably faster pace than the national average. Conversely, beginning with April of 1949, Fourth District sales fell off much more sharply than the national average. The October steel strike had a much greater effect on sales in this District than on the national average.

Inventories A year ago extensive January promotions were inaugurated in order to reduce stocks which had accumulated during several preceding months. More conservative inventory policies were adopted thereafter and declines in sales were followed by corresponding decreases in stocks. In July, despite slow sales, the Fourth District seasonally adjusted index of department store inventories dropped to the lowest point in almost two years. Then, in response to an improvement in sales, inventories moved upward for two months. Inventories continued to move upward in October and November, although much of the inventory accumulation in those months was probably involuntary.

For the year as a whole the inventory-sales ratio remained approximately at prewar levels, although during the latter part of the year the ratio tended to fluctuate somewhat below the prewar average.

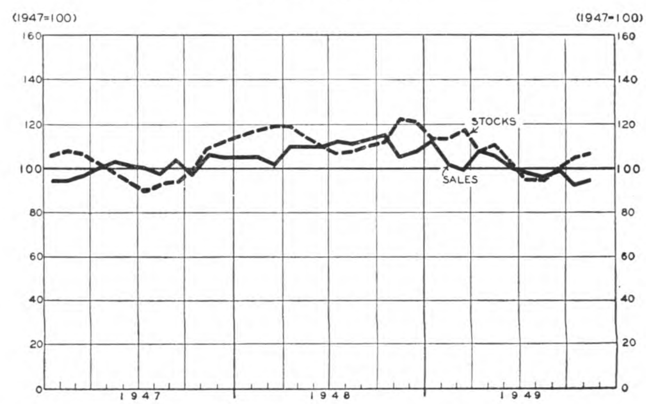
Physical Volume Thus far in reviewing trends in sales and stocks, reference has been made only to fluctuations in dollar volume of sales and dollar value of stocks. Perhaps a more significant measure of trends, in view of the volatile nature of prices during the past few years, is physical volume—the actual number of units sold. It is extremely

DEPARTMENT STORE SALES IN THE UNITED STATES AND IN THE FOURTH DISTRICT
Adjusted for Seasonal Variation



. . . sales by Fourth District department stores led the national average when sales were at their highest level, in 1948, but slipped faster than the national average during the 1949 downtrend.

DEPARTMENT STORE SALES AND STOCKS
Adjusted for Seasonal Variation
(Fourth District)



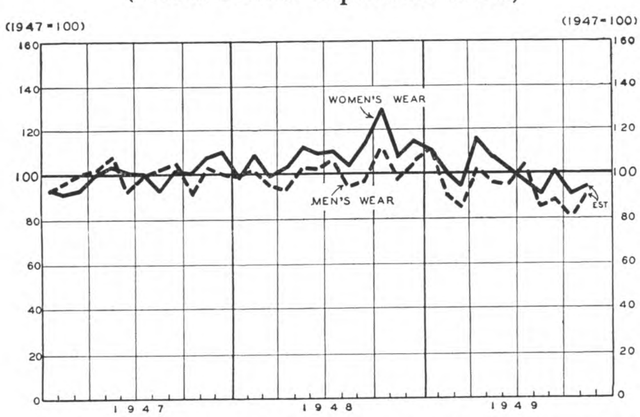
. . . the decline in sales after late 1948 was accompanied by an equivalent reduction in inventories.

difficult, however, to obtain a precise measure of physical volume in view of the many problems faced, such as the effects of special sales and of changes in quality and in proportions of goods sold in the different lines. A rough approximation to a physical volume index may be obtained by adjusting the District sales indexes for price changes. An attempt has been made to do this through utilization of the department store inventory price index compiled by the Bureau of Labor Statistics. This index is computed only semi-annually, but in order to provide a more continuous series of data it was necessary to adjust the index to a quarterly basis.

The results, as presented in the accompanying chart, show that the number of units sold has remained relatively stable for the past three years. Although dollar sales established an all-time record in 1948 it now appears that physical volume in 1948 was scarcely, if any, higher than in 1947; and although dollar volume showed an appreciable decline in 1949, the number of units sold in that year was only slightly below the number sold in 1948. All physical volume estimates are adjusted for seasonal variation, as are the dollar sales figures.

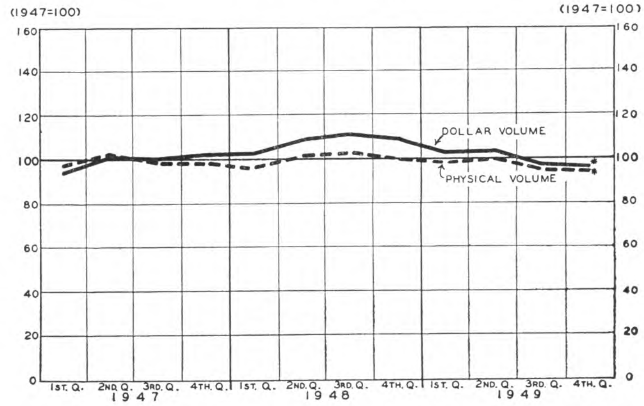
Trends in Major Departments The year 1949 affords an example of the shifts that often occur within the total sales figures of department stores. During the first part of the year, the decline in total sales was slowed considerably by continued strength in women's wear and some other soft goods categories. Then in the middle of the year a shift in buying took place. Weakness appeared in sales of soft goods, while at the same time sales of hard goods (such as major household appliances), which had skidded sharply earlier in the year, began to pick up.

SALES OF WOMEN'S WEAR AND MEN'S WEAR
Adjusted for Seasonal Variation
(Fourth District Department Stores)



. . . sales of both men's and women's apparel have declined more or less steadily since reaching record peaks in October of 1948.

DEPARTMENT STORE SALES AND PHYSICAL VOLUME
Adjusted for Seasonal Variation
(Fourth District)

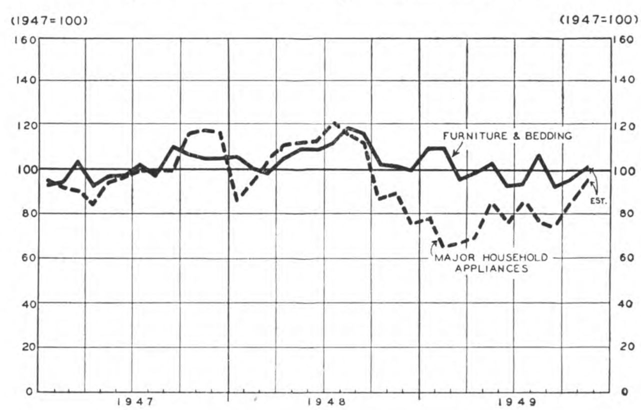


. . . the physical volume of sales has been steadier than the dollar volume over the past three years.

* 3rd and 4th Quarters 1949 estimated.

The two accompanying charts show sales of men's wear and women's wear, and sales of furniture and bedding and of major household appliances during the years 1947 through 1949. The data plotted in both charts are adjusted for seasonal variation. Sales of men's wear and women's wear advanced more or less steadily through 1947 and 1948 until all-time peaks were reached in October of that year. Then sales in both groups began slides which carried through October of 1949, although they were interrupted briefly by an Easter season in which apparel lines moved briskly. Sales of furniture and bedding, closely related to the rate of completion of housing

SALES OF FURNITURE AND BEDDING AND MAJOR HOUSEHOLD APPLIANCES
Adjusted for Seasonal Variation
(Fourth District Department Stores)



. . . furniture sales are still close to 1947 levels, while appliance sales have only partially recovered from the sharp slump of a year ago.

units, reached a high in August of 1948 and then declined steadily until the middle of 1949. Recently there has been some sign of firmness in these lines. Sales of major household appliances reached their peak in July of 1948 and then declined drastically until April of 1949. Since then sales have been expanding substantially, probably in response to widespread promotions and price reductions although only about one-half of the previous decline has been recovered.

Sales trends in departments not presented in the charts displayed diverse characteristics. Sales of women's and misses' accessories have held up much better than sales of women's apparel. Correspondingly, sales of men's furnishings have not declined as much as sales of men's wear. Sales of television sets showed a tremendous upsurge beginning with the fall season. Sales of domestic floor coverings have been receding since August of 1948, although sales in recent months seem to indicate that the tide of downtrend has been stemmed. Sales of small wares exercised an upward influence on total sales throughout the year, whereas piece goods sales exerted a downward pull. Much of the decline in piece goods sales, however, may be attributed to price cuts.

In attempting to interpret movements in total store sales in the light of performance in the various departments it should be remembered that soft goods make up the bulk of department store sales. Thus, although the hard goods lines made noteworthy gains last autumn, these gains were more than offset by shrinking sales in the more preponderant soft goods lines.

Instalment Sales The volume of instalment sales, as shown in the accompanying chart, has become an increasingly large segment of total sales since the war, with the exception of a brief period toward the end of 1948 when the imposition of consumer credit controls temporarily arrested the upward trend. Probably a considerable part of the late 1949 upsurge in instalment sales can be attributed to the lengthening of credit terms. The ratio of instalment sales to total sales has just recently passed above the prewar 1941 level.

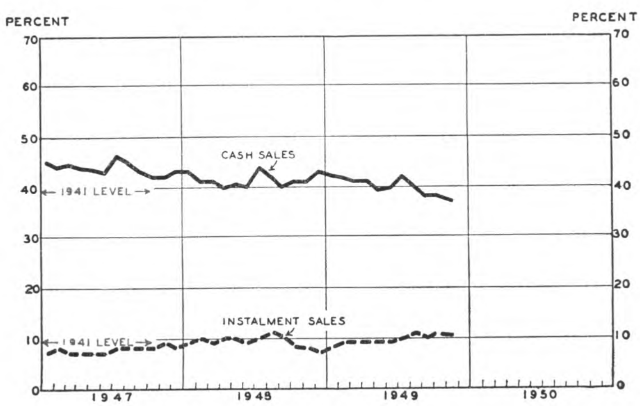
Instalment receivables, as evidenced by the second chart in this section, have also been increasing since the war. Beginning with summer of 1949, however, there was a noticeable slowing in the rate of expansion. This suggests that the gradual completion of instalment contracts which originated in the 1947-8 sales boom may have begun to catch up with current acquisition of new instalment contracts to some extent.

The final chart in this section also shows that the rate of collections on instalment accounts is falling off. Once again the slowing can be attributed in some measure to easier terms inasmuch as collections on regular charge accounts show only the slightest evidence of a downtrend.

Store executives report that collections have not been a serious problem in 1949. The level of collections on instalment accounts has just recently edged

INSTALMENT SALES AND CASH SALES BY DEPARTMENT STORES

(As a percentage of total sales)
(Fourth District)

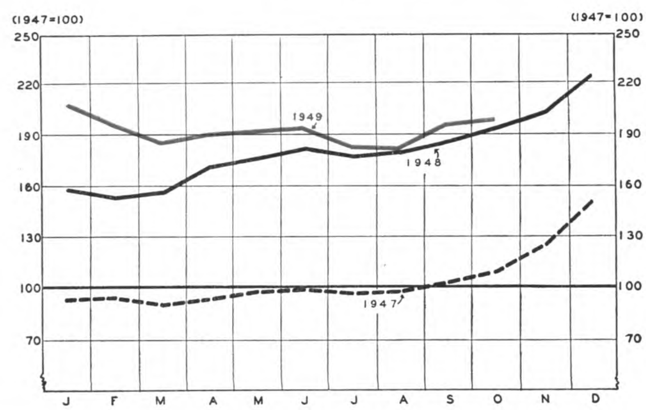


. . . cash sales now represent less than 40 percent of total sales, while instalment sales are growing in importance. The temporary reimposition of consumer credit regulations is reflected in late 1948 fluctuations.

INSTALMENT RECEIVABLES

End of Month

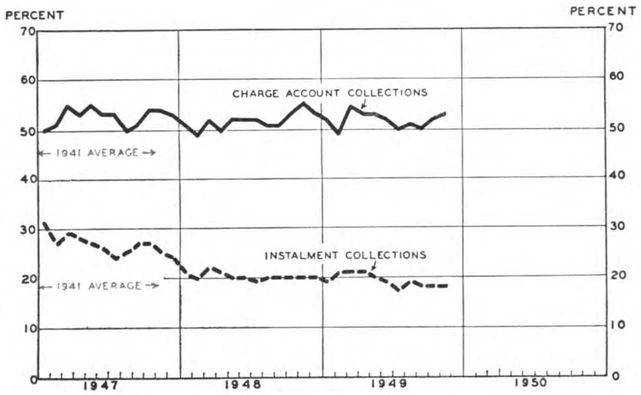
(Fourth District Department Stores)



. . . after a sharp drop early in 1949, the volume of instalment accounts receivable leveled off and then tended to expand in the latter part of the year.

COLLECTIONS ON INSTALMENT ACCOUNTS AND CHARGE ACCOUNTS

As percentages of accounts receivable (Fourth District Department Stores)



. . . the rate of collections on charge accounts has remained relatively stable, whereas with respect to instalment accounts the rate has declined to less than 20 percent of current outstandings, presumably in part because of a lengthening of terms.

below that of prewar 1941, but the trend of these collections will be closely watched during 1950.

Sales by Cities Despite the decided effect that the October steel strike had on department store trade, sales in Pittsburgh managed to keep pace with the year-to-year average percentage change in total sales of Fourth District department stores during the first ten months of 1949. This marked the third successive year in which Pittsburgh equaled or bettered the District average percentage change.

Trade in Cleveland for the first ten months of the year showed a smaller-than-District-average decline from year-ago levels. Sales during July and August were somewhat below the District average, but the September recovery was greater in Cleveland, and the immediate effects of the steel strike were somewhat less.

Sales declines in Cincinnati equaled the District average decline of 7% for the ten-month period. Trade was relatively slow during most of the year, with the exception of a successful summer season.

Erie led the smaller cities, with a decline from a year ago limited to 3 percent for the first ten months of 1949. On the basis of year-to-year percentage changes, Erie has had the best record of any city in the District for the past three years.

Columbus and Toledo reported declines of 5% and 6%, respectively, for the ten-month period. Columbus has been at the top or near the top of the array of Fourth District cities in almost every month of 1949, while Toledo showed notable sales strength in the third quarter.

Akron and Springfield matched the District average decline, with Springfield exhibiting strength late in the year and Akron making its best showing somewhat earlier.

Sales decreases in Wheeling, Youngstown and Canton were greater than the 7% drop recorded for the District, although last year's Easter trade in Wheeling can probably be considered as having been the most favorable in any city in the District. Canton's comparatively large year-to-year drop can be partly attributed to the excellent volume of trade in that city in 1948. Youngstown was exceptionally hard hit by the steel strike. Department store sales in that city in October were 37 percent below October of a year ago.

ANNUAL COMPARISON OF FOURTH DISTRICT DEPARTMENT STORE SALES BY CITIES

(percentage change from preceding year)

	1947	1948	1949*
Akron	+ 6	+ 7	-7
Canton	+10	+12	-10
Cincinnati	+ 9	+ 7	-7
Cleveland	+ 8	+ 7	-6
Columbus	+ 5	+11	-5
Erie	+13	+12	-3
Pittsburgh	+11	+ 8	-7
Springfield	+ 8	+ 3	-7
Toledo	+ 9	+ 9	-6
Wheeling	+ 2	+ 7	-9
Youngstown	+11	+10	-8
District	+10	+ 7	-7

* first 11 months only

SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for publication December 30, 1949)

Industrial production increased moderately in November and the early part of December. Department store sales showed more than the usual sharp pre-holiday rise. Commodity prices were generally stable. Prices of long-term Treasury bonds and common stocks rose to the highest levels in over a year.

Industrial Production

With settlement of the steel labor dispute and temporary full-scale operations at coal mines, the Board's seasonally adjusted index of industrial production increased in November to 171 from 166 in October. Indications are that the December index will be slightly above the September figure of 174.

Durable goods output rose about 3 per cent in November as large increases in production of steel ingots, lumber, and copper and copper products more than offset decreases in most metal fabricating activities. Reduced steel stocks resulted in a substantial curtailment in output of fabricated iron and steel products and contributed to reductions in activity in machinery and transportation equipment industries. In the automobile industry assembly operations were substantially curtailed by model changeovers. In the machinery group, output of most types of producers equipment was reduced, while production of consumer appliances was maintained.

In December steel ingot output was scheduled at 93 per cent of capacity, the highest rate since last May and substantially above the November level of 52 per cent. Automobile assemblies increased considerably in the middle of December.

Output of nondurable goods declined slightly in November. There were small further gains in activity at textile, paperboard, and chemical plants and a sharp recovery in coke production, while output of manufactured food products and printing and publishing activity declined somewhat. Activity in the canning industry showed much more than the usual seasonal decrease. Output of most other nondurable goods was unchanged.

Minerals output rose sharply in November as bituminous coal mines were returned to full-scale operations for three weeks ending November 30, and as output of crude petroleum and iron and copper ore increased. In December, minerals production decreased as coal miners returned to a reduced work-week and output of crude petroleum was curtailed about 3 per cent.

Construction

Value of construction contracts awarded in November, according to the F. W. Dodge Corporation, declined seasonally from the exceptionally high autumn level but was still about one-half again as large as in November 1948. The volume of new housing starts, as estimated by the Bureau of Labor Statistics, continued unusually large in November, totaling 93,000 compared with 100,000 in October and 64,000 in November 1948.

Employment

Total employment in nonagricultural establishments showed a rise of about 120,000 from mid-October to mid-November, after allowance for seasonal changes. The return to work of 335,000 bituminous coal miners was partly offset by employment declines in industries producing nondurable goods and in trade and Federal government establishments. Employment in other lines was maintained at October levels.

Distribution

Department store sales, which had shown a less than seasonal rise in October, increased by more than the usual amount after the middle of November. Value of sales in the first 24 days of December was about 3 per cent below the high level in the corresponding period in 1948; sales in the first 11 months of the year had been at an average level 6 per cent lower than in 1948. Prices at department stores are generally lower than they were a year ago.

Railroad revenue freight traffic recovered considerably in November to about the levels prevailing before the steel and coal labor disputes. While coal shipments declined again in early December, loadings of steel products continued to rise and most other shipments showed largely seasonal changes.

Commodity Prices

The average level of wholesale prices continued to decline slightly from mid-November to the third week in December, reflecting chiefly a decrease of 4 per cent in meat prices and a 34 per cent drop in egg prices. On December 21 it was announced that the Federal egg support level would be reduced about one-fifth in 1950. Prices of most steel products for domestic shipment were raised and there were also some selective increases in prices of other industrial commodities. Prices of steel scrap weakened and tin and lead were reduced further.

Bank Credit

Business loans, real estate loans, and loans to consumers continued to expand at banks in leading cities during November and the first three weeks of December. Holdings of U. S. Government securities increased on balance over the period. Deposits at banks increased sharply from the middle of November to the middle of December and there was the usual pre-Christmas increase in currency in circulation.

The currency demand absorbed reserve funds and the growth in deposits required banks to hold additional reserves. While net expenditures by the Treasury supplied funds during the first half of the month, large Treasury receipts from quarterly income tax payments tended to reduce bank reserves after the middle of the month. Substantial purchases of Treasury bills and certificates by the Federal Reserve were necessary to supply banks with reserves required to meet these drains.

Security Markets

On December 1, the Treasury announced the offering of a new 1⅜ per cent, 4¼ year note in exchange for bonds and certificates maturing on December 15 and of a new 1⅛ per cent, 1 year certificate in exchange for the certificates maturing January 1, 1950. During the first three weeks of December prices of long-term Treasury bonds rose to the highest levels in more than two years and yields on short-term Treasury securities also declined. In the same period common stock prices rose in an active market to the highest level in more than a year, while prices of high grade corporate bonds increased only slightly.

FINANCIAL AND OTHER BUSINESS STATISTICS

Time Deposits at 58 Banks in 12 Fourth District Cities

(Compiled December 8, and released for publication December 9)

City and Number of Banks	Time Deposits Nov. 30, 1949	Average Weekly Change During: Nov. 1949	Oct. 1949	Nov. 1948
Cleveland (4)	$ 891,932,000	—$299,000	—$470,000	—$140,000
Pittsburgh (11)	456,863,000	— 757,000	+ 38,000	— 101,000
Cincinnati (8)	178,953,000	— 617,000	+ 58,000	— 735,000
Akron (3)	102,333,000	+ 26,000	— 47,000	+ 40,000
Toledo (4)	101,792,000	— 96,000	— 49,000	— 25,000
Columbus (3)	83,190,000	+ 71,000	— 27,000	+ 97,000
Youngstown (3)	62,432,000	— 169,000	— 37,000	+ 57,000
Dayton (3)	44,844,000	— 117,000	— 2,000	— 67,000
Canton (5)	41,605,000	— 152,000	— 18,000	— 13,000
Erie (4)	38,529,000	— 388,000	+ 49,000	+ 78,000
Wheeling (5)	27,023,000	— 147,000	+ 24,000	— 114,000
Lexington (5)	10,633,000	— 38,000	+ 20,000	— 41,000
TOTAL—12 Cities	$2,040,129,000	—$2,683,000	—$461,000	—$964,000

During the month of November (actually the five weeks ended November 30) time deposits at leading banks in this area were reduced at the rate of $2,683,000 per week, as against $964,000 per week in a similar period a year ago.

While this contraction amounted to less than seven-tenths of one percent (0.7%) of total time deposits, it was nevertheless the largest on record since the inception of this series early in the postwar period. At only 14 of the 58 reporting banks was there any increase in time deposits during this most recent interval.

Unemployment caused by work stoppages in coal and steel is believed to have been the major factor in the decline in savings, inasmuch as **Cincinnati** and **Lexington** were the only cities where the movement was positive in relation to a year ago.

November typically is a month of contraction in time deposits, but in ten cities the shrinkage was noticeably greater than during November 1948.

Akron and **Columbus** are the only cities in which time deposits actually expanded during November, but the gains were smaller than in the corresponding period in 1948.

Changes in Consumer Instalment Credit November 1949

25 Fourth District Member Banks

(Compiled December 20, and released for publication December 21)

New Loans Made Compared With Mo. Ago	Yr. Ago	Type of Credit	Outstanding at End of Mo. Compared With Mo. Ago	Yr. Ago
— 4.2%	+ 6.0%	Total consumer instalment credit	+1.0%	+19.4%
— 1.2	+ 3.2	Personal instalment cash loans	—0.6	+ 4.5
—12.5	+20.2	Repair and modernization loans	+0.8	+20.2
		Direct retail instalment loans		
—15.5	+15.2	(a) Automobile	—0.1	+36.3
— 3.7	+14.6	(b) Other	+3.8	+ 0.9
		Retail instalment paper purchased		
— 8.6	—51.1	(a) Automobile	+2.6	+16.8
+14.3	+92.9	(b) Other	+2.9	+29.8

The volume of new consumer credit extended by 25 leading banks in the Fourth District during November exceeded that of a year ago in nearly every category.

The largest year-to-year gain occurred in purchases of appliance and other non-automotive paper, which were nearly 93 percent above the year-ago total, and the largest monthly amount on record.

Repair and modernization loans, while down from October, bulked 20 percent larger than in the comparable 1948 month. Direct automobile loans declined seasonally but were some 15 percent ahead of last year's November figure.

The 51 percent drop in purchases of automotive paper is merely a reflection of an unusually heavy month last year. November volume was only about 8½ percent below that of the immediately preceding month.

With respect to outstandings, the year-to-year gain has narrowed to 19.4%, but the total is roughly 78 percent greater than on the same date in 1947.

The rate of repayment during November was approximately 12 percent of outstandings at the beginning of the month as compared with 11½ percent in the same period last year.

Bank Debits*—November 1949 in 31 Fourth District Cities

(In thousands of dollars)
(Compiled December 13, and released for publication December 14)

No. of Reporting Banks		Nov. 1949	% Change from Year Ago	3 Months Ended Nov. 1949	% Change from Year Ago
191	ALL 31 CENTERS	$6,256,410	—15.5%	$19,535,369	—11.0%
	10 LARGEST CENTERS:				
5	Akron, Ohio	$ 230,791	+ 0.6%	$ 690,516	— 3.0%
5	Canton, Ohio	92,932	—21.3	298,713	—16.3
16	Cincinnati, Ohio	835,949	— 8.9	2,557,691	— 7.1
10	Cleveland, Ohio	1,573,408	—17.6	4,989,093	—12.9
7	Columbus, Ohio	548,584	—12.3	1,627,770	— 3.9
4	Dayton, Ohio	216,425	— 8.2	658,654	— 5.4
6	Toledo, Ohio	317,911	—10.1	991,173	—10.4
4	Youngstown, Ohio	124,836	—25.1	427,112	— 9.7
6	Erie, Penna.	80,452	—11.7	247,909	—10.8
51	Pittsburgh, Penna.	1,651,702	—21.5	5,258,226	—14.9
113	TOTAL	$5,672,990	—16.0%	$17,746,857	—11.2%
	21 OTHER CENTERS:				
9	Covington-Newport, Ky.	$ 37,469	+ 0.3%	$ 111,789	— 4.3%
6	Lexington, Ky.	54,822	— 9.2	163,361	—12.1
3	Elyria, Ohio	17,530	—13.8	52,117	—14.1
3	Hamilton, Ohio	39,176	— 2.4	114,607	— 0.8
2	Lima, Ohio	40,045	— 8.4	125,389	— 3.3
5	Lorain, Ohio	15,822	—22.5	50,479	—16.7
4	Mansfield, Ohio	40,824	— 8.4	120,929	— 8.6
2	Middletown, Ohio	34,287	+ 2.5	97,342	— 3.5
3	Portsmouth, Ohio	19,057	— 8.1	58,816	—12.3
3	Springfield, Ohio	43,083	— 2.4	130,729	— 3.7
4	Steubenville, Ohio	18,035	—22.0	58,319	—21.7
2	Warren, Ohio	33,054	—20.1	105,033	—10.0
3	Zanesville, Ohio	24,791	—10.3	76,184	— 8.6
3	Butler, Penna.	27,052	—14.0	85,388	—12.2
1	Franklin, Penna.	6,483	—13.5	19,410	—14.3
2	Greensburg, Penna.	17,582	—18.6	55,196	—17.2
4	Kittanning, Penna.	7,719	—22.9	26,210	—23.0
3	Meadville, Penna.	n.a.	n.a.	36,817	— 5.1
4	Oil City, Penna.	18,076	— 7.4	53,893	—11.8
5	Sharon, Penna.	20,847	—27.4	69,546	—19.9
6	Wheeling, W. Va.	54,000	— 7.6	176,958	— 1.5
78	TOTAL	$ 583,420	— 9.7%	$ 1,788,512	— 9.0%

*Debits to all deposit accounts except interbank balances.

Debits to deposit accounts (other than interbank) in 31 Fourth District cities totaled only $6,256,000,000 during November, as against $7,400,000,000 in the same month in 1948, for a year-to-year decline of 15.5 percent.

This contraction of activity, primarily in checking account balances, is probably largely attributable to the effects of the coal and steel strikes. Communities most heavily dependent upon these two industries show the largest year-to-year declines in debit totals.

The aggregate of bank balances owned by individuals, corporations and other nonbank depositors was slightly larger at the end of November than a year earlier.

TEN LARGEST CITIES

The only major city in which the November debit total was above last year's, was **Akron** with a nominal gain of 0.6 percent. At the other extreme are such centers as **Canton, Pittsburgh,** and **Youngstown** where debits were more than 20 percent short of a year ago.

TWENTY-ONE SMALLER CENTERS

Both **Middletown** and **Covington-Newport** reported a November debit aggregate in excess of last year, whereas several other cities, such as **Kittanning, Lorain, Sharon, Steubenville** and **Warren,** experienced a contraction in excess of 20 percent.

Indexes of Department Store Sales and Stocks

Daily Average for 1935-1939=100

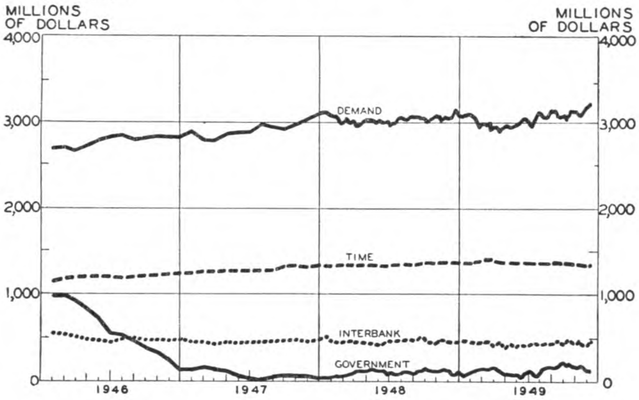
	Adjusted for Seasonal Variation: Nov. 1949	Oct. 1949	Nov. 1948	Without Seasonal Adjustment: Nov. 1949	Oct. 1949	Nov. 1948
SALES:						
Akron (6)	284	268	295	349	281	363
Canton (5)	312	309	368	387	325	457
Cincinnati (8)	291	289	309	375	304	399
Cleveland (10)	254	249	275	312	261	339
Columbus (5)	321	315	332	408	334	421
Erie (3)	311	315	335r	398	327	429
Pittsburgh (8)	238	237	272	302	251	346
Springfield (3)	282	288	284	342	294	343
Toledo (6)	255	249	285	324	266	361
Wheeling (6)	203	197	234	258	207	297
Youngstown (3)	283	227	333	354	241	416
District (96)	266	259	293	332	274	366
STOCKS:						
District	258	252	296r	279	287	319

r—Revised.

For back figures prior to June 1949, see August 1949 issue, page 7.

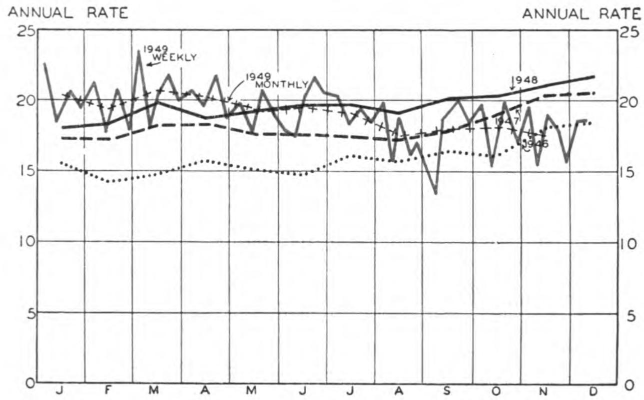
(CONTINUED FROM PAGE 5)

DEPOSITS OF REPORTING MEMBER BANKS
(Fourth District)



. . . adjusted demand deposits shrank early in the year but are now at the highest point on record. Time deposits maintained a slow downtrend, but dropped very little in actual amount.

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



. . . the turnover of demand deposits has fallen considerably below the 1947 rate. The November decline was partly attributable to the steel and coal strikes.

of tax-savings notes and $0.3 billion of savings bonds. Expansion of the national debt chiefly through non-marketable public issues served to limit the expansion of private deposits, which increased only $1.3 billion at all banks between the end of June and the end of September. Data for weekly reporting banks in leading cities of the country indicate a continued expansion of adjusted demand deposits, which rose $2.8 billion (6 percent) from the April low to early December, when they were virtually equal to the January level.

In the Fourth District, the shrinkage in demand deposits followed a pattern similar to that recorded in the country as a whole during the early months of 1949. The subsequent uneven rise from the April low was at a considerably faster rate than in the country as a whole. Adjusted demand deposits at the weekly reporting banks first established a new record at the end of August, and by early December the irregular expansion had lifted them to a point almost 11 percent above the April low, and about 5 percent above the level of early January. The sale of tax-savings notes was reflected in a rapid expansion of Government deposits from the relatively low levels maintained during most of the summer. Purchases of these notes, though at a somewhat slower rate, were maintained throughout the rest of 1949. In spite of the decision of the Treasury to include accrued interest in their price, the notes have remained an attractive investment.

Time Deposits The decline in time deposits at Fourth District member banks, which began in May, persisted throughout the year, though the drop in dollar volume was barely over 2 percent. The most pronounced drop occurred in November, and this may be accounted for by the special influence of work stoppages in steel and coal in this District. While some very slight decline in time deposits was recorded at all commercial banks in the country during the second half of the year, savings accounts at mutual savings banks continued to rise to new high levels.

Decline in Deposit Turnover In 1949 the rate at which cash balances were used, as indicated by the turnover of deposits, declined considerably. Turnover of checking account balances at weekly reporting banks in this District dropped sharply from an annual rate of 20.8 in March, when seasonal influences usually cause a relatively high rate, to 17.5 in August, normally a month of relatively low turnover. In each month after April, turnover was slower than a year earlier, with the margin of difference increasing steadily. Rates of between 17.9 and 17.5, registered since August, were below the corresponding figures for 1947. A fall in debit volume, more than the increase in deposits, was responsible for reduced rates of turnover. Debits to all deposit accounts (other than interbank) at the 192 reporting banks in this District registered an irregular downward trend during most of the year, and starting in June were consistently below the comparable 1948 volume. The year-to-year decline was more apparent in the smaller centers than in the larger metropolitan areas. In November, figures below those for 1946 were recorded, due in considerable part to the steel and coal shutdowns.