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*Business  
Review*

JULY 1952

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**FINANCE • INDUSTRY • AGRICULTURE • TRADE**

FOURTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

## Flexible Credit

RECENT months have seen the demise of the bulk of the structure of selective credit controls imposed since Korea. The restoration of greater freedom of action in the specific areas of real estate and consumer credit, together with the suspension of voluntary restraints on business, state and local government financing, reflect improvements in supplies of materials, stability or softness in consumer demand, and an improved over-all relationship between the demand for, and supply of, money and credit.

For the purposes of analysis, the factors affecting the demand for, and supply of, liquid funds can be conveniently segregated into those arising from business, government, and consumer activities.

### DEMAND FOR SAVINGS

**Business** In the business sector of the economy the main demands for financing arise from the three factors indicated in the accompanying chart. Expenditures for producers' durable equipment reached new record levels in the first half of 1952, and although a reduction in the volume of these expenditures may occur in the second half of the year should the steel strike result in a substantial shortfall of material supplies, such expenditures will probably continue to represent one of the major claims on the savings of the community. Business spending on construction also rose to a record annual rate (after adjustment for seasonal variation), thus adding to the income-generating effect of durable equipment expenditures and constituting a further claim on savings.

In contrast to the essential stability at high levels

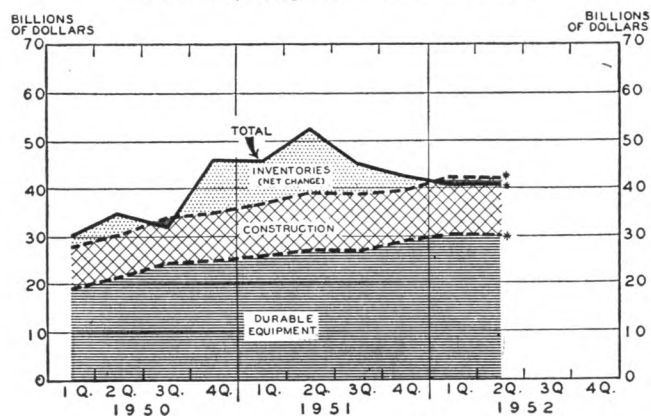
of these two elements in business investment, inventory accumulation slowed down sharply in the second half of last year and on a seasonally adjusted basis had turned into a slow liquidation by the early part of this year.

**Government** Tending to offset the disinvestment in business inventories has been the continuing gradual acceleration in the rate of Government expenditures for national security. Although little further gain in expenses for military personnel is likely since the armed services are close to their manpower quotas, the take of military hard goods is still rising and will continue to do so as a natural consequence of moving from the tooling-up stage to full scale production schedules. In this respect, the military aircraft program offers a striking example of the lag between the approval of initial blueprints and the final mass output of modified versions of the prototype.

**Consumers** By the fall of 1951 the demands of consumers for goods to be used over an extended period of time had been sharply curtailed from the unprecedented rates of the immediate post-Korean period, partly as a result of consumer indigestion and restrictions on the availability of credit. The easing of supplies and controls in recent months has coincided with a moderate upturn in the demand for funds to finance purchases of such goods, particularly houses.

Taken as a whole, business and government demand for products which do not add immediately

**BUSINESS INVESTMENT (Gross)**  
**Quarterly 1950-1952**  
 (Seasonally Adjusted, Annual Rates)



... business expenditures on construction and durable equipment were at a record rate in the first part of 1952. Inventories were being slowly liquidated, however, in contrast to the rapid accumulation a year ago.

\* 2nd quarter, 1952 estimated.

Source: U. S. Department of Commerce through 1st quarter, 1952.

to the volume of supplies for civilian consumption, and consumer demand for durable goods, rose moderately early this year, closely approximating the year-ago demand.

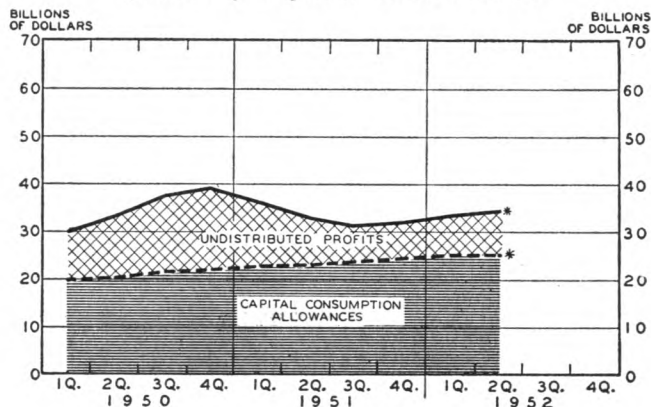
In contrast to the experience of early 1951, however, heavy investment demands have not this year been accompanied by any sharp expansion of bank credit. Higher incomes coupled with less urgent consumption and stockpiling demands made available a greater supply of savings during 1952 to date than was the case in the comparable period of 1951.

### SOURCES OF SAVINGS

**Business** One of the major sources of savings is the depreciation allowances of business firms. Provision for these tax-free allowances continued to expand in the early part of this year, facilitated in some instances by the Government policy of permitting accelerated amortization of facilities closely related to the defense effort. Undistributed profits, another major source of business saving, suffered somewhat during the latter part of 1951 because of the cumulative demands of taxation and stockholders, and the reversal of inventory profits into losses. Although this form of business savings showed a slight rise during the early part of this year, undistributed profits were still far below year-ago levels.

**Government** In the first half of this year, the Government ran a substantial surplus largely because of the seasonally high first-half tax payments. The natural buoyancy of revenue under conditions of rising prices and incomes, however, has

**BUSINESS SAVING**  
**(Selected Sources)**  
**Quarterly 1950-1952**  
 (Seasonally Adjusted, Annual Rates)



... business earnings retained to provide against the consumption of capital continued to rise moderately in the early part of this year. Undistributed profits also increased somewhat from the relatively low levels of late last year.

\* 2nd quarter, 1952, estimated.

Source: U. S. Department of Commerce and Council of Economic Advisers through 1st quarter, 1952.

been a less important factor in expanding Government revenues this year than in 1951, and in the second quarter of the year the Government resorted to borrowing.<sup>1</sup> Such borrowing is, of course, equivalent to dissaving by the Government, but a substantial part of the funds thus acquired are for use in the second part of the year. The net effect of this borrowing to date has been largely a process merely of transferring private savings to public ownership in return for various types of securities.

**Consumers** Saving by consumers continued to be one of the most important elements counteracting the inflationary pressure of high levels of investment, as has been the case since the latter part of 1951. Disposable personal income leveled off in the early part of this year, and while consumers' expenditures rose moderately, personal saving, nevertheless, was close to the record peacetime volume of late 1951.

**Financing Business** The achievement of a greater degree of balance between the investment demands and savings supply of the economy is indicated by the fact that there was virtually no net change in the volume of bank loans during the first half of this year. With the exception of the first half of 1949, loans have increased in every half-year period since World War II. The stability in loan

<sup>1</sup> Note: A major part of the borrowing was for payment on July 1.

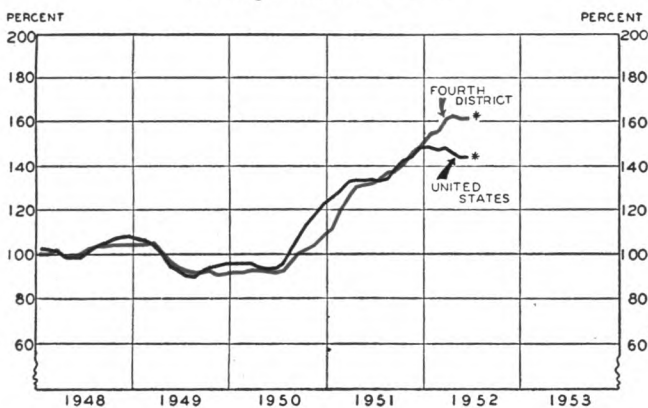
volume during 1952 to date partly reflects the previous expansion of the money supply. In addition, corporate businesses placed a higher volume of new securities with nonbank investors than in the same period of any other year since World War II. The bulk of the securities were issued by manufacturing concerns with the proceeds to be devoted to expenditures on plant and equipment.

Business indebtedness to banks declined approximately \$600,000,000 during the first six months of this year, contrasting with an increase of \$1,800,000,000 in the comparable period of last year. The overall decline in outstanding bank loans to business conceals noticeable differences between industries and regions. These divergent movements can be attributed largely to inventory liquidation or lower demands for working capital by retailers, for example, to a decline partly of a seasonal nature in the need for short-term funds by processors of food, liquor and tobacco products, and by commodity dealers, and to repayments of loans by sales finance companies. Producers whose activities are related closely to the defense effort, on the other hand, such as manufacturers of metal products and the extractive and chemical industries, have remained in the market for funds although their net new borrowing has been at a sharply reduced rate.

The Fourth District, with its high quotient of metal and manufacturing activities, is the only District in which business loans failed to decline in the

### INDEX OF COMMERCIAL, INDUSTRIAL AND AGRICULTURAL LOANS

Fourth District and U.S.—Weekly Reporting Banks  
Average 1948-1949=100



... throughout the country, commercial loans declined moderately during the second quarter of the year at banks, establishing a pattern similar to that of early 1950, whereas in the Fourth District, seasonal factors induced only a slight dip in May, and for the first half of the year as a whole a substantial net increase was registered.

\* June 1952 partially estimated—data plotted are based on monthly averages of weekly figures.

first half of this year. (See accompanying chart.) Substantial public utility borrowing also provided an important support to loan volume in this District, in contrast to net repayments by such enterprises in the country as a whole. The continued firmness of prices, both wholesale and retail, of most commodities with a metal of one variety or another as an important raw material, together with moderately expanding output of many "hard goods", undoubtedly contributed to the maintenance of demands for bank credit in this area. Many lines of "soft goods", however, together with such consumer durables as TV sets and appliances, continued to show price weakness at the retail level throughout the first half of this year. Production of many such items also failed to show any substantial pickup from the reduced levels reached toward the end of 1951. Working capital requirements of firms producing such articles were accordingly reduced. Nominal price increases recently imposed by makers of some textile products, and a rise in shipments of TV sets in April, offer only inconclusive evidence that a pickup in output and prices in the relatively depressed industries is in prospect for the near future.

### Financing State and Local Governments

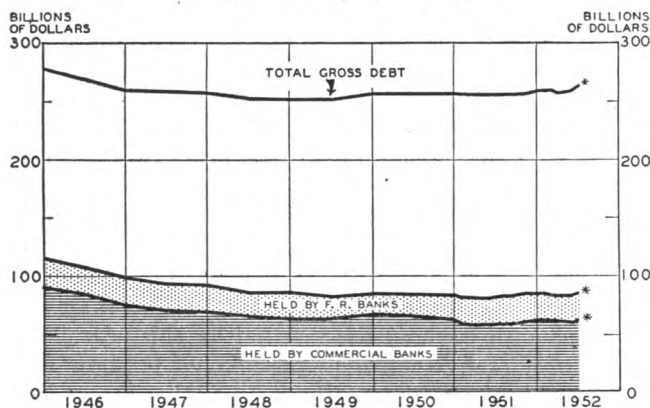
Bank investments in all types of securities other than U. S. Government continued the rapid expansion which was resumed late last year. This expansion, one of the most sizable for any six-month period since World War II, aggregated approximately \$700,000,000 in the first half of this year, reflecting primarily the acquisition of securities of states and municipalities. Fourth District banks, however, did not share in the net financing of state and local governments, showing virtually no net change in their portfolio of such issues in the first half of 1952.

State and local authorities raised new capital (over and above funds for refunding purposes) at an annual rate of nearly \$4,000,000,000 during the first half of this year. This volume of new financing substantially exceeded the volume of capital raised by security flotations of state and local governments in comparable periods of any other postwar year. Included in this total was the issuance of more than \$300,000,000 of bonds to finance the projected Ohio Turnpike.

A recent spur to the heavy local government financing presumably derived from the suspension on April 17 of the Program for Voluntary Credit Restraint, as applied to such borrowers, at the request of the President of the United States. Accordingly, issues which had previously been approved by voters, but whose sale had been postponed in accordance with principles established by the national committee, such as veterans' bonus and educational facility issues, became marketable.

## U. S. GOVERNMENT DEBT

Dec. 1945 to July 1, 1952



... although the gross public debt increased noticeably in recent weeks, the new issues initially were placed largely outside the banking system.

\* Partially estimated for 2nd quarter, 1952. End-month data plotted semi-annually 1946-1950, monthly 1951-52.

NOTE: Last plot is for July 1.

Subsequently, on May 12, the Voluntary Credit Restraint Program was shelved in its entirety, and financing institutions were relieved of their responsibility to screen applications for credit from the standpoint of the over-all impact of proposed financing upon the economy.

### Financing Federal Government

Demand for external financing to supplement current revenues, both for immediate and subsequent expenditure, arose from the U. S. Government in the second quarter of this year, as well as from smaller governmental bodies. A reduction of \$1,300,000,000 in the public debt of the United States in the first three months of this year was followed by an increase of roughly \$5,000,000,000<sup>2</sup> in the following three months. The bulk of the new issues were in the form of marketable securities. In April, the Treasury began to increase its weekly offerings of Treasury bills by about \$200,000,000 more than the amount of the maturing issue. By the end of June, \$1,600,000,000 in cash had been raised through this medium.

In June, a 6-year bond carrying a 2 $\frac{3}{8}$  percent coupon was offered in the amount of \$3,500,000,000. The term and rate on this bond were closely aligned to market conditions, and the issue was heavily oversubscribed on the offering day. Because of the heavy subscriptions, a greater volume of these bonds was allotted than had been originally offered. Commercial banks were allotted only minimum amounts, as more than \$3,500,000,000 was subscribed by nonbank in-

<sup>2</sup> Mainly on July 1.

vestors. The new issue was immediately quoted at a premium.

The willingness of the market to purchase this new bond contrasted with investor apathy toward the Treasury offering in May of a long-term nonmarketable bond at 2 $\frac{3}{4}$  percent in exchange for a minimum of 25 percent cash and the balance in a number of long-term bank restricted marketable issues. Nonmarketable public issues of Treasury obligations constituted a net drain on Treasury finances during the first half of the year, primarily because businesses turned in more tax and savings notes in payment for taxes than they purchased.

On May 1, the long-standing 2.9 percent savings bond was modified to carry a 3 percent rate and to yield a substantially higher interest return for short-term holding than did the old bond. The maximum limit on individual holdings of savings bonds was also raised. Although it is too early to know whether the more attractive provisions of these bonds has been a decisive factor in stimulating private savings in this medium, preliminary figures for June indicate that sales of savings bonds were noticeably above the year-ago volume, in contrast to the nearly continuous year-to-year declines during the previous year and a half.

### Open Market Operations

The banking system as a whole held less Government securities at the end of June than at the beginning of the year, by reason of a sharp decline in Federal Reserve Bank holdings in the early months, followed by a persistent gradual reduction in the second quarter. The decline in the System Open Market Account portfolio mopped up reserve funds accruing to commercial banks from the return flow of currency and a continued inflow of gold in the early months of the year. Subsequently, public demand for currency and coin constituted a drain on reserve funds, and in the second quarter, the nine months' inflow of funds from abroad slowed to a trickle.

The Federal Reserve System, however, continued to pursue an essentially neutral open market policy during the second quarter of the year, and indicated unwillingness to add to its portfolio of Governments. As a result, member banks had to borrow reserve funds from each other and from the Federal Reserve System in order to meet their requirements. During May and June, the volume of Federal Reserve loans to member banks, which on some days exceeded \$1,000,000,000, was higher than the concurrent volume of excess reserves for considerable periods of time.

Conditions in the money market, accordingly, were generally tight during the second quarter and short-term rates rose noticeably, although remaining gener-

(CONTINUED ON PAGE 10)

# Physical Volume of Department Store Trade

**D**URING the past year when there have been traces of dullness in department store sales, numerous observers have voiced a suspicion that the sales picture would be dark indeed if dollar-volume reports were discounted for the current high level of prices. A special survey of this question, however, indicates that on the whole such suspicions are not well founded. Recent sales, on an estimated physical volume basis, appear to be reasonably favorable as judged by high postwar standards, although they fall far short of the feverish peaks attained during the two post-Korean scare buying episodes.

In order to estimate recent changes in the physical volume of department store sales and inventories, in the face of a lack of direct reports on the number of units of various commodities sold, it becomes necessary to measure the extent of price changes involved and then apply this measurement as a corrective to the dollar volume of sales or the dollar volume of stocks at any particular time. This has been done for department store trade of the Fourth Federal Reserve District, and the results are presented below.<sup>(1)</sup> The time span covered is the period from 1948 through early 1952, using quarterly averages throughout. The information applies to total sales and inventories of Fourth District department stores, and also to three selected groups of departments.

**All Departments** On the extreme left of the accompanying set of charts may be seen the estimated physical-volume data applying to the total sales and stocks of Fourth District department stores, including all departments. The first chart refers to *sales*. As in all the other charts the entries are made quarterly (after seasonal adjustment) and are in terms of percentage relation to the average of the years 1947 through 1949, taken as base. The solid line indicates the dollar volume of sales; the speckled band indicates the extent of correction needed for upward or downward change in price from the base-period position; the broken line indicates the estimate of the trend in physical volume of sales.

During 1948, as prices were rising, the effect of the price correction is to bring the line for physical volume somewhat below the line for dollar volume. During most of 1949 and early 1950, on the other hand, department store prices were sagging; as a

consequence the correction for price change results in an upward adjustment of dollar sales in order to arrive at estimated physical volume.

The historic "scare buying" periods which followed the outbreak of the Korean War and the entry of Chinese forces into the war are shown on the chart by the sharp peaks of sales occurring in the third quarter of 1950 and the first quarter of 1951, respectively. In terms of dollar volume, the second peak was higher; in terms of physical volume the first peak was higher. (Prices rose in the interval between the two episodes.) During the last three quarters of 1951, when department store sales had resumed lower levels, an appreciable deduction for price change takes place, reflecting the cumulative post-Korean price rise as measured against the base period of 1947-49. Even so, the physical volume of sales as well as the dollar volume were maintained at positions about equal to, or above the 1947-49 average.

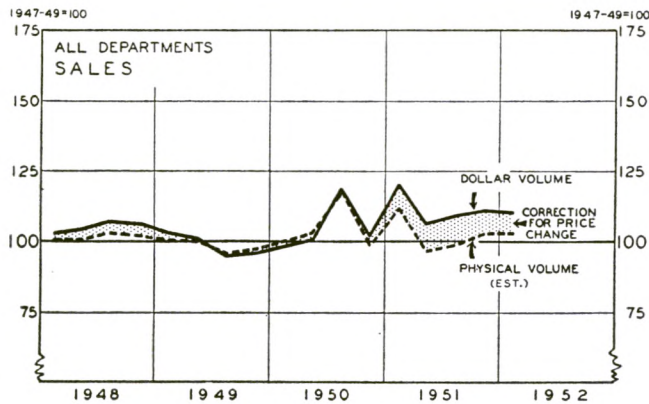
For the first quarter of 1952, which is the latest date for which estimates of this type are available, the sales position was 10 percent above the base period in dollar volume and 3 percent in physical volume. Between the final quarter of 1951 and the first quarter of this year, department store prices were easing slightly, as indicated on the chart by a slight narrowing of the speckled band.

Immediately under the chart just described is one showing the course of department store *inventories* (all departments) both in dollar volume and estimated physical volume. The sharp rise in inventories during late 1950 and early 1951 marked the fear of renewal of wartime shortages. After the inventory turnabout in the second quarter of last year, department store inventories were sharply reduced both in dollar volume and in physical volume. By the first quarter of this year the dollar volume of stocks had dropped to a position about 11 percent above that of the base period while estimated physical inventories were 4 percent above the base period. (Quarterly averages of end-of-month inventories are used.)

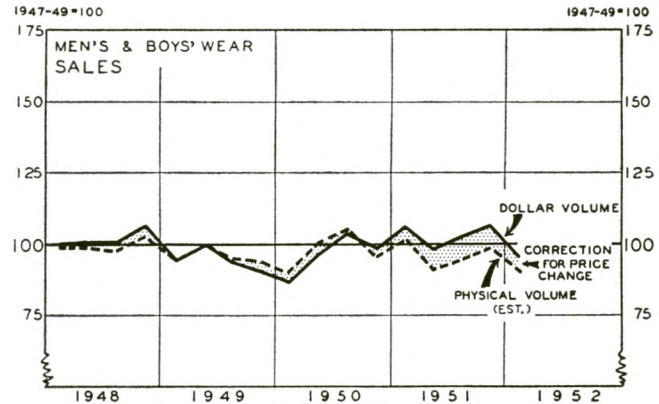
The third chart in the group applying to all departments, located at the extreme lower left of the series, brings together the physical volume estimates both for sales and for stocks. (The broken lines are the same as shown in the two preceding charts.) Such a comparison of inventory and sales trends, both expressed in physical volume, shows that by the first quarter of this year inventories had returned to

<sup>(1)</sup> An explanation of how this is done is given in "Note on Method" at the end of the article.

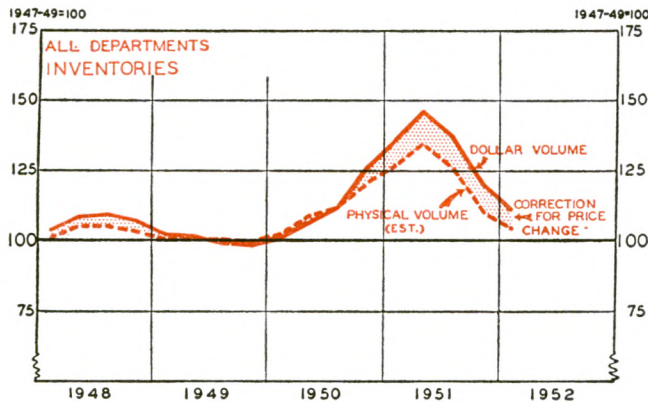
DOLLAR VOLUME AND ESTIMATED PHYSICAL VOLUME  
Fourth District Department Store Trade  
Quarterly Averages, Seasonally Adjusted



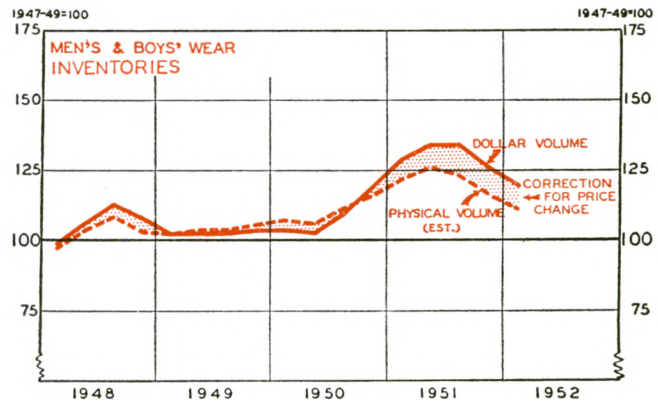
... during the first quarter of this year the physical volume of sales of Fourth District department stores was slightly above the average 1947-49 level; dollar volume exceeded that of the base period by a larger margin.



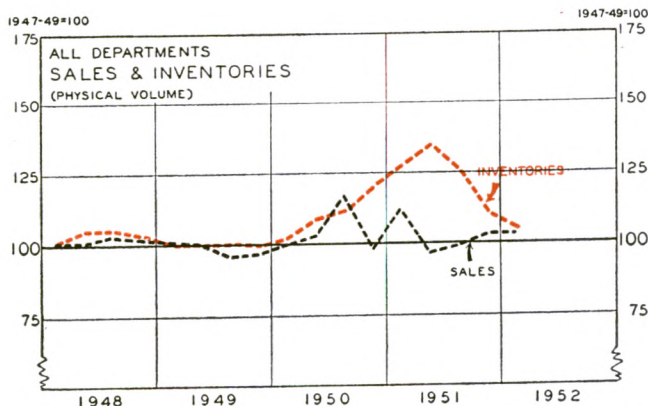
... the dollar volume of sales of *men's and boys' wear* has recently been somewhat below the 1947-49 position; physical volume has lost more ground.



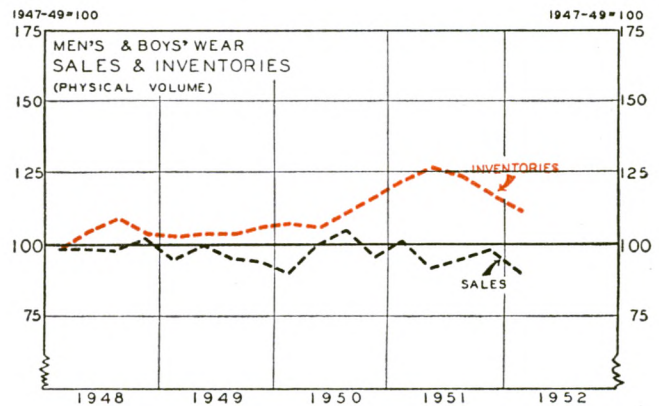
... the rise and fall of inventories last year was sharp; by the first quarter of this year the physical volume of inventories had returned nearly to the base-period position.



... stocks of *men's and boys' wear* rose and fell last year, but are still appreciably above the 1947-49 level, judged by either dollar volume or physical volume.



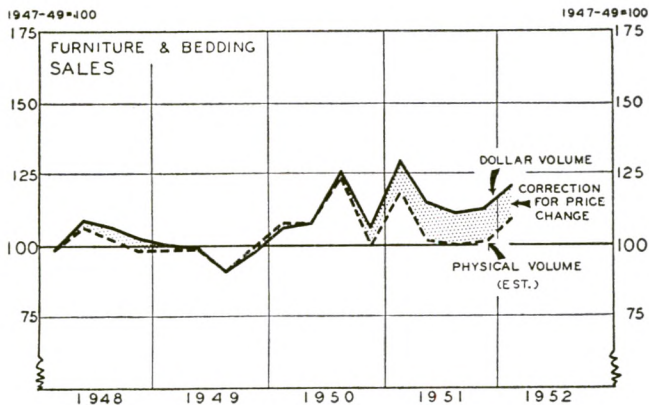
... when the physical volume of inventories is shown on the same chart as physical volume of sales, it is apparent that the 1947-49 relationship between the two has finally been restored.



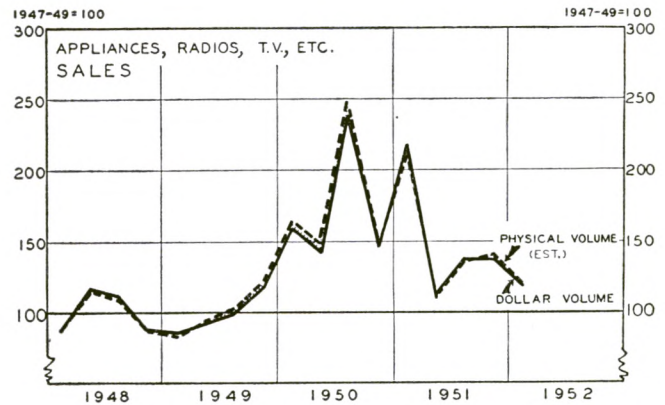
... physical inventories of *men's and boys' wear* have not returned to their base-period relation to sales; they are still high by 1947-49 standards.

DOLLAR VOLUME AND ESTIMATED PHYSICAL VOLUME

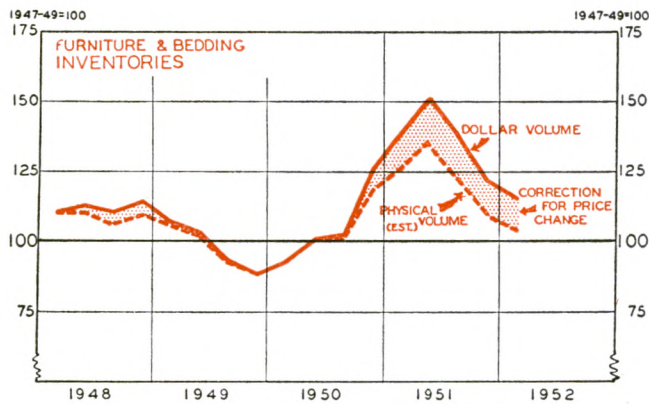
Fourth District Department Store Trade  
Quarterly Averages, Seasonally Adjusted



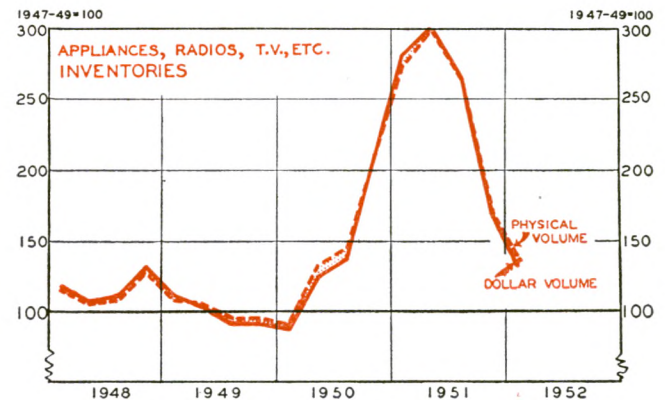
... the physical volume of *furniture and bedding* sales fell to its base-period level during the second half of last year, but recently has shown an improvement.



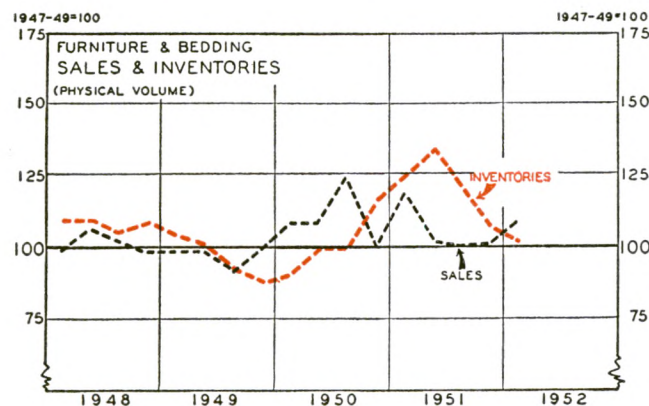
... sales of *household appliances, radios, phonographs and television* have shown wide fluctuations in recent years; price changes during much of the period were downward, thus showing physical volume in a slightly more favorable light than dollar volume.



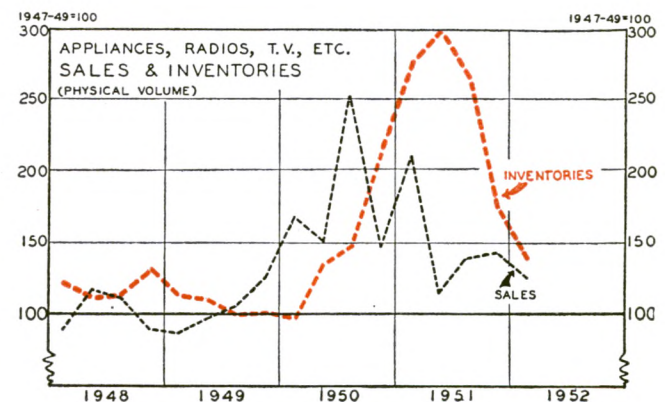
... heavy allowance for the cumulative effect of post-Korean price rises must be made when the physical volume of *furniture* inventories is appraised.



... stocks of *appliances, radios, television, etc.*, rose to about three times the 1947-49 volume during the second quarter of last year; since then they have fallen nearly to the base-period position.



... physical inventories of *furniture and bedding* are now approximately in balance with current sales, as judged by the 1947-49 relationship.



... physical inventories of *appliances, radios, television, etc.*, have returned approximately to their 1947-49 relation to current sales.

the same position in relation to sales as had been the case during the base period of 1947-49.

Trends in the physical volume of trade among the various departmental lines have been far from uniform. Although it is not practical to make estimates for each individual department, a few selected groups of departments, as described below, may serve to illustrate the contrasts.

**Men's Wear** The course of physical volume of sales and stocks in the *men's and boys' wear* group of departments is shown by the three righthand charts appearing on page 6. The first chart shows that the dollar volume of sales in this group of departments has recently been somewhat below the 1947-49 position, while the physical volume has lost more ground. The second chart shows that stocks of men's and boys' wear rose and fell last year but are still appreciably above the 1947-49 level, judged by either dollar volume or physical volume. The third chart in the men's and boys' wear series indicates that physical inventories of this line of goods have not returned to their base-period relation to sales; they are still high by 1947-49 standards.

It should be explained that the relatively high position shown for current inventories in the men's and boys' wear departments is partly due to the character of the base period with which comparison is made. It happens that in this particular group of departments, inventories during the year 1947 were still in process of recovering from wartime shortages. As a consequence, the entire 1947-49 average of stocks for this department is *low* in relation to sales, thus accentuating the apparent height of stocks today, when expressed as a percentage of base-period stocks. It is believed, however, that this technical factor does not entirely explain away the relatively high inventory currently shown by the men's and boys' wear group.

**Furniture** Trends in the physical volume of sales and inventories of the *furniture and bedding* department are shown by the three charts located on the left side of page 7. The physical volume of sales in this department fell to its base-period level during the second half of last year, but recently has shown an improvement. Heavy allowance for the cumulative effect of post-Korean price rises must be made in the case of the furniture and bedding department. This applies both to sales and to inventories, with the latter shown in the second chart of the group of three. The final chart in the furniture series shows that physical inventories of this department are now approximately in balance with current sales, as judged by the 1947-49 relationship. During the earlier post-Korean period, inventory fluctuations followed sales fluctuations after a noticeable lag.

**Appliances and TV** The final group of charts appearing on the right side of page 7 depicts the course of physical volume of sales and stocks of *major household appliances, radios, phonographs, and television sets*. This highly dynamic group of commodities represents a consolidation of two department store classifications.<sup>(2)</sup> In order to chart the fluctuations in its sales and stocks, it was necessary to reduce the chart scale for this group to half-size.<sup>(3)</sup>

Sales of the combined departments of household appliances, radios, phonographs, and television have shown wide fluctuations in recent years. Price changes for the entire group, however, have been moderate and during much of the period were downward, thus showing physical volume in a slightly more favorable light than dollar volume. The second chart of the group of three shows that inventories of these departments rose to about three times the 1947-49 volume during the second quarter of last year; since then stocks have fallen nearly to the base period position. Relatively small allowance for price changes (in the aggregate) need be made.

The final chart shows that physical inventories of appliances, radios, television, etc., have returned approximately to their 1947-49 relation to current sales. Once again it must be understood that the statement applies to a group average. Inventories of several important types of household appliances, such as refrigerators, are still substantially above base period in relation to sales.

#### Note on Method

Physical volume data mentioned throughout this article are referred to as estimates. The degree of reliability of such estimates may be better appreciated if the method of obtaining them is explained.

The price "deflators" applied to the dollar-volume series are taken from the Department Store Inventory Price Index, issued semi-annually by the Bureau of Labor Statistics of the U. S. Department of Labor. (Quarterly values are found by interpolation.) This is a special type of price index, which appeared first during the postwar period; it is designed primarily to assist retailers who have elected to use the LIFO method of inventory accounting for tax purposes. Its usefulness for the present purpose lies particularly in the fact that the price data apply exclusively to department stores, as distinguished from other retail outlets selling similar goods, and also to the fact that the departmental breakdowns in the index

(2) Consolidation was necessary because the appropriate information on price trends was available only for the consolidated classification. Separate information for the dollar volume of sales or of stocks is available for *major household appliances* on the one hand, and for *radios, phonographs and television*, on the other hand.

(3) In appraising the significance of fluctuations in any of these charts, allowance must be made for the fact that the bottom of the chart is higher than zero. The common practice of "cutting off the bottom", which is followed here for convenience of presentation, has the unfortunate consequence of exaggerating the apparent extent of fluctuation as compared with the total.



are reasonably close to those used in the regular sales or stocks summaries computed by the Federal Reserve System.

The use of such a price index for the purpose of "deflating" the dollar volume of *sales* is subject to two qualifications. The first is that in the Inventory Price Index, the weights of the commodity lines are based on their proportions of store inventories rather than of store sales. Actually, a department like furniture, for example, bulks somewhat larger in a store's dollar volume of inventory at any one time than it does in the sales total, for the reason that its turnover is slower than most apparel lines. The second qualification is that the Inventory Price Index applies to nationwide averages of prices, whereas the dollar data used in this study (both for sales and for stocks) are from the Fourth Federal Reserve District only.

The two qualifications are important. Nevertheless, repeated experiments with this method of estimating physical volume, as well as certain improvements in the method, have given ground for confidence that the results are significant and broadly accurate for the purpose at hand.

A final explanation relates to the chart entries for the first quarter of 1952. For this period, the semi-annual

inventory price indexes were not yet available. Accordingly, the necessary estimates for the price deflators were obtained from the specific commodity components of the regular Consumers' Price Index of the BLS, using a link method for obtaining the net change of price between the latter part of 1951 and the first quarter of this year.

Previous articles on the physical volume of Fourth District department-store trade appeared in the following issues of this *Review*: May 1951, May 1949, and May 1948.

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## ANNOUNCEMENT

A new edition of "A Handbook of Department Store Statistics, Fourth Federal Reserve District" is now available upon request. Indexes of sales and stocks are shown for the period January 1929 through April 1952, using the new 1947-49 base period. Data apply to eleven cities of the Fourth District, as well as the District total. Included also are data on credits and collections, and sales by departments.

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## FLEXIBLE CREDIT

(CONTINUED FROM PAGE 4)

ally below the late 1951 levels. The Treasury's use of bills to raise new money contributed to the money market tightness. In the long-term area of the market, security yields continued to decline moderately until late in May. Competition for funds from corporations, states and municipalities, and home purchasers, however, exerted an increasing upward pressure on long-term yields toward the middle of the year.

**Financing Residential Real Estate** Consumer investment in housing in the early part of this year showed a noticeable pickup from the relatively low rate of last fall, although falling short of the record levels of late 1950 and early 1951. Stimulus to residential construction was given by the liberalization of Regulation X and companion regulations on September 1, 1951. Real estate controls were further eased this June.

The pickup in construction activity was accompanied by a record demand for residential real estate credit for the first half of the year, with savings and loan associations reporting a particularly noticeable gain over year-ago levels in the volume of loans made. The high level of new lending was achieved in the face of a year-to-year reduction in the volume of FHA insurance for all purposes other than property improvement, and in the volume of VA guarantees. Additions to the mortgage portfolio of the FNMA, however, showed a moderate rise in the first quarter of this year, but by April this agency's available funds were exhausted except for purchases of mortgages on defense area housing.

The funds for the high rate of mortgage lending during the first half of 1952 came primarily from current savings, including loan repayments, and involved one of the smallest net gains in outstanding commercial bank real estate loans for any comparable period since World War II. Increases in the mortgage portfolios of mutual savings banks, savings and loan associations, and life insurance companies

also were noticeably smaller than in the same period of last year.

In the Fourth District, weekly reporting banks have indicated a more rapid expansion of their mortgage loans this year than has been the case throughout the country, but here, also, the gain has been somewhat slower than last year.

**Financing Consumer Durables** The suspension of Regulation W on May 7, and the subsequent lengthening of terms and relaxation of downpayment requirements acted at least temporarily as a mild spur to sales of consumer durable goods and to the extension of an increased volume of consumer credit. New instalment lending by banks for all purposes, however, had been consistently above year-ago volume for several months prior to the suspension of Regulation W, partly on account of the progressive relaxation of the provisions of the regulation since July 31 last year. Outstanding credit rose moderately this year in contrast to the partly seasonal decline in the early months of 1951. A high rate of repayments was one of the main factors holding the volume of consumer instalment credit outstanding below the 1950 peak for nearly a year and a half, but as the average maturity on outstanding credit increases in coming months, the rate of repayment will automatically be reduced.

The high level of consumer investment in recent months has been financed not only by substantial debt repayments but also by a continuing high rate of liquid asset accumulation. Banks as well as savings and loan associations reported a postwar record or near-record first-quarter net inflow of private savings, and preliminary data for the second quarter of the year suggest that the accumulation of time deposits and shares has been substantially maintained. Contractual savings in such forms as insurance policy payments, and employee contributions to pension plans, also abetted the self-financing of consumer investment during 1952 to date.

# Fuels and Energy Supply

by CLYDE WILLIAMS, Director, Battelle Memorial Institute



In a recent movie, "The Day the Earth Stood Still", a visitor from another planet arrived on earth to make peace. He found it necessary to demonstrate to skeptical earth men the authenticity of his origin and the seriousness of his mission. At a specified hour, the visitor announced that something would happen to establish his identity and purpose beyond all doubt.

And happen it did. When the time arrived, all power-requiring activities on earth stopped for half an hour. From Washington to London, Bombay, Shanghai, and San Francisco, life came to a virtual standstill. The space visitor had signalled his planet to neutralize all power on earth.

This, of course, is an extreme example of what power means to modern civilization. Most of us, however, are inclined to take our power supply for granted. Fortunately, science and industry are constantly working to ensure us an adequate supply of energy-giving fuels. This is being done by adding to fuel reserves through exploration and through finding more efficient and economical ways of using existing fuel supplies.

In the past 25 years, this teamwork has enabled an unprecedented expansion in our economy. It has made it possible, for example, to increase our electric power output sixfold, to 370 billion kilowatt hours.

In the next quarter-century, it is estimated that the country will develop a need for 60 per cent more steel, perhaps 200 or 300 per cent more aluminum, and three to four times as much electric energy. We are confident that the industry-science team will ensure a fuels supply adequate to meet these and other needs.

One of the brightest spots on the fuels horizon is natural gas. Present production supplies nearly 20 per cent of the nation's total energy requirements, or more than double the share of 25 years ago. Vast reserves are already known. The most pressing problems are to provide economical means of transporting more of the gas to distant markets, and to develop low-cost methods of storage at the point of use. Ways of solving both of these problems are being actively sought.

Natural gas is particularly adapted to the needs of the small consumer. The residential market, which currently accounts for 20 per cent of total natural gas consumption, may increase as much as two times during the next 25 years. This rapid rise will probably be accompanied by a slower rate of increase in industrial uses.

No long-range program for strengthening the country's energy position can overlook the key importance of coal.

It is still our basic fuel resource. Coal supplies about 40 per cent of the country's total energy requirements.

A large portion of the rapidly expanding fuel requirements of the power-generating industry will be met by coal. Advances in fuel-burning equipment such as the spreader stoker and the cyclone furnace will ensure satisfactory combustion of coals of a variety of ranks and of poorer quality.

The trend toward the use of diesel fuel instead of coal or residual fuel oil to supply the energy for railroad locomotives will continue. Sometime during the next 25 years, however, economic conditions may lead to increased use of coal through the manufacture of synthetic diesel fuel, more extensive electrification, and the development of a coal-fired gas turbine.

Coal will continue to supply the basic energy for industrial heating and process steam. It will become increasingly important, indirectly, in the form of electricity for industrial furnaces. The development of automatic, coal-fired steam-generating plants may be achieved. These will include standard, packaged units capable of burning many grades of coal and equipped with mechanical coal-feeding and ash-removal systems.

Almost all of the metallurgical fuel will still come from coal. It may become feasible, economically, to derive even more chemicals from coal than now, either as by-products of coal's conversion to oil or gas or by direct conversion of coal to chemicals. Uses for fine coal, normally discarded, will be found.

Our supply of liquid fuels appears assured for an indefinite period of time. Crude oil is still the cheapest and most plentiful raw material for the manufacture of liquid fuels. Techniques have been developed, however, by which liquid fuels can be made from coal, natural gas, oil shale, tar sands, and various forms of vegetation. Should the cost of producing petroleum increase to a point where it is profitable to make an equivalent fuel from coal or other alternative sources, industry will be ready to assume the task.

Hydroelectric power resources supplied 27 per cent of the nation's electric energy in 1951. Unlike other power sources, hydroelectric power reserves are not depleted through exploitation. There are, however, two ways of improving on present usage. First, improvements in turbine design can be made, whereby more power can be generated from the same dollar investment in equipment. Second, private and government interests can more effectively coordinate hydroelectric power plants with other types of electric generating plants.

The total energy available from known reserves of coal, natural gas, petroleum, oil shale, and hydroelectric power is more than enough to meet the expanding needs of our economy. Industry and science, however, must continue to improve on the techniques of converting these known energy supplies to the most efficient and most economical end-power uses. Making the most of what we know we have is still the best insurance for an adequate power supply for the future.

Editor's Note—While the views expressed on this page are not necessarily those of this bank, the *Monthly Business Review* is pleased to make this space available for the discussion of significant developments in industrial research.

## SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

(Released for Publication June 27, 1952)

Industrial production continued to decline in May and June as labor disputes cut output sharply in steel and some other lines. Construction volume was maintained close to record levels in May, and retail sales, mainly of durable goods, expanded. Consumer prices rose further and were close to the January high. Wholesale commodity prices changed little in May and declined somewhat in June.

### Industrial production

The Board's preliminary seasonally adjusted index of industrial production in May was 214 per cent of the 1935-39 average, down 2 points from April and 8 points from last February and May 1951. Reflecting mainly the work stoppage at steel mills, a sharp further decline is indicated for June.

May output of durable goods was slightly lower than in April owing largely to a labor dispute in the lumber industry and to small further curtailments in activity in most industrial equipment lines. Production of trucks and passenger automobiles held steady, while output of major household durable goods declined somewhat further. As a result of the strike, steel production is estimated at about 20 per cent of rated capacity in June, as compared with 90 per cent in April and May—also affected by work stoppages—and with 102 per cent in March. Reflecting expanded supplies of aluminum and copper, the NPA in mid-June substantially increased the amounts of these metals that small users may obtain beginning in the third quarter, without requiring direct allocations.

A decrease of about 2 per cent in nondurable goods production in May resulted mainly from work stoppages at oil refineries, which were terminated by early June. Over-all activity at textile mills showed an important gain, while output of most other nondurable goods continued at earlier levels.

Minerals production declined in May and June as coal and crude petroleum output was reduced owing partly to the steel and oil refining disputes. Work stoppages resulted in a sharp curtailment of iron ore mining in June.

### Construction

Value of construction contract awards in May continued at the very high April level as awards for private construction increased further, offsetting the first decline this year in total public awards. The number of housing units started totaled 107,000 as compared with 108,000 in April, and 101,000 in May 1951. Value of new construction work put in place during May was a record for the month, as was each preceding month this year.

### Employment

Seasonally adjusted employment in nonagricultural establishments in May continued at 46.5 million, the same level as a year ago. The average factory work week at 40 hours was slightly above the reduced April level; average hourly earnings showed little change. At 1.6 million in May, the number unemployed was unchanged from a month earlier and a year ago.

### Distribution

Seasonally adjusted sales at department stores, which had increased moderately in May, continued to rise during the first two weeks in June. The rise reflected a less than seasonal decline in apparel sales and a marked upward shift in sales of appliances and television which had reached a low point in April. Sales by automotive dealers rose substantially further in May. Pickup in automotive and household durable goods sales reflects in part the May 7 suspension of credit controls under Regulation W.

### Commodity prices

The general level of wholesale commodity prices declined somewhat in June. Wheat prices declined as reports indicated a near record crop this year, one-third above last year, and there were decreases in prices of livestock. Prices of zinc were reduced 23 per cent and the previously announced reduction in the RFC resale price for rubber became effective. Meanwhile price ceilings on imported copper were suspended, lead prices were raised, following reductions in April and May, and prices of raw cotton and textile products advanced.

The consumers price index advanced .2 per cent in May, to about the peak level of January 1952. Rents and prices of foods and miscellaneous services increased while apparel and housefurnishings were reduced further.

### Money and credit

Bank credit outstanding increased somewhat during the latter part of May and early June, reflecting mainly bank purchases of U. S. Government, corporate, and municipal securities. Seasonal repayments of loans by commodity dealers and food, liquor, and tobacco manufacturers continued, but in smaller volume. In mid-June there was a sharp expansion in business borrowing from banks associated with quarterly income tax payments.

The total money supply increased in late May and early June owing largely to the bank credit expansion. Demand, time, and currency holdings of businesses and individuals expanded. The turnover of demand deposits outside New York City rose in May.

Bank reserve positions were tight up to mid-June when they eased temporarily, principally as a result of seasonal Treasury operations and some increase in Federal Reserve credit outstanding.

### Security markets

In the third week of June common stock prices regained the high level attained in the last week of January. Yields on Treasury bills increased steadily in late May and early June, and following a sharp decline in the mid-month, rose again to near the discount rate. Yields on certificates and notes increased while bond yields moved irregularly. On June 10 the Secretary of the Treasury announced the offering for cash of an intermediate bond in the amount of \$3.5 billion, or thereabouts, and the offering in exchange for the certificates maturing July 1, 1952 of an 11-month 1 $\frac{1}{8}$  per cent certificate maturing June 1, 1953. The new bond, which was a 2 $\frac{3}{8}$  per cent issue to mature in 1958, was heavily oversubscribed, and allotments of \$4.2 billion were made by the Treasury.