

# MONTHLY *Business Review*

**JANUARY 1953**

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**FINANCE • INDUSTRY • AGRICULTURE • TRADE**

FOURTH FEDERAL RESERVE DISTRICT

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Federal Reserve Bank of Cleveland

Cleveland 1, Ohio

## Banking Review—1952

**A**LTHOUGH demands for credit continued heavy in the first full year of flexible monetary policy in more than a decade, private credit probably played one of its least inflationary roles of the postwar period.

"Gradualism" was the keynote of the over-all increase for the year in production, income and consumer prices. In line with the improved demand-supply relationships reflected in the largely sidewise movement of output, consumption and consumer prices, the over-all expansion of bank loans during 1952 was noticeably smaller than in the previous two years, and about on a par with the gains in 1946 and 1948.

### Loans

Bank loans of practically every type increased further during 1952 but, with the exception of consumer loans, the gains were generally smaller than in the previous two years. This experience was felt both throughout the country and in the Fourth District. In the latter part of the year, all the major loan categories reached new record levels, with the sole exception of collateral loans. These last-named loans were at a peak during World War II as a result of the heavy deficit financing of the war years.

### Business Loans

An accompanying chart indicates the trend of business loans at weekly reporting banks in the Fourth District and in the United States for several years.

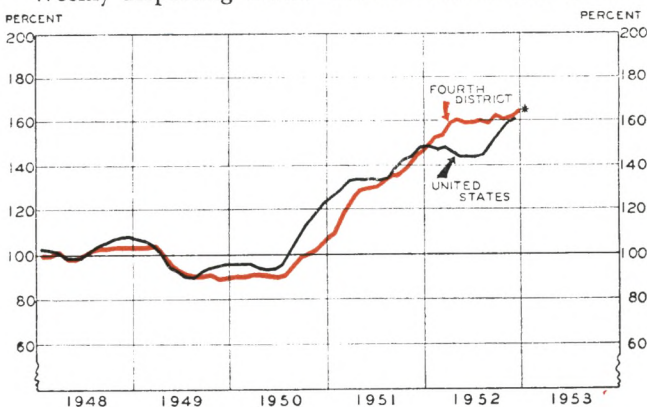
The net gain in these loans at weekly reporting banks during 1952 was virtually the same, percentage-wise, in this District as throughout the country,

being close to 9 percent. In the two and a half years since the outbreak of hostilities in Korea, business loans at large city banks in this District increased nearly 80 percent, slightly more than the country-wide experience.

Most of the Fourth District advance occurred in 1951, and was presumably related to the expanded level of defense activities, necessitating additional funds for inventory requirements and working capital. The rapid expansion carried through the early months of 1952, but in the spring and summer

### INDEX OF BUSINESS LOANS

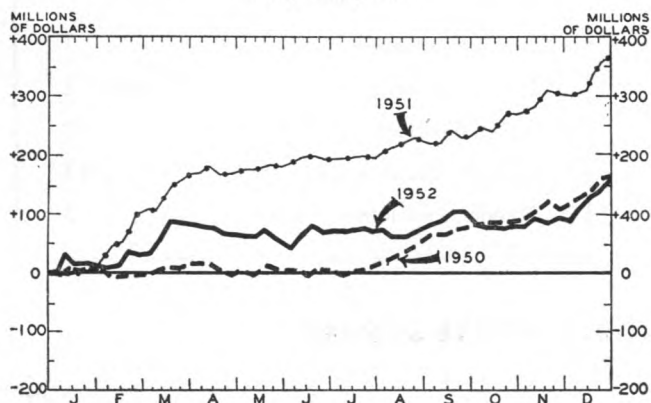
Weekly Reporting Banks—Fourth District and U. S.



. . . 1952 was the third consecutive year of expansion in business loans. In the Fourth District most of the 1952 increment occurred early in the year, whereas nationally a strong seasonal rise featured the closing months.

NOTE: Data plotted are monthly averages of Wednesday figures.  
\* December 1952, partially estimated.

**CUMULATIVE NET CHANGE IN BUSINESS LOANS**  
**Weekly Reporting Banks—Fourth District**  
**1950, 1951, 1952**



... the rise in business loans at Fourth District reporting banks in all of 1952 was scarcely as large as that which occurred during the second half of 1950 alone, and fell far short of the 1951 record.

NOTE: Last two weeks of December 1952, estimated.

seasonal influences reasserted themselves and business loans leveled off for several months. The curtailment of output during the summer as a result of the steel shutdown was also a factor reducing the demand for bank credit.

Toward the end of the year, bank loans to business resumed their upward movement, partly reflecting the usually higher level of productive and distributive activity during the fall and winter months.

**Types of Business Borrowers, Fourth District**

The sources of the upswing in business loans in this District during the latter part of 1952 were very different from those of the previous year, as indicated in the table below. Producers of metals and metal products ceased to be the major borrowers. They accounted for only about one-third of the increase in business loans during the second half of 1952 in contrast to three-fourths of the gain in the comparable period a year earlier. A special and presumably non-recurring factor retarding the Fourth District loan expansion was a noticeable shrinkage during October in the indebtedness of public utility companies to reporting banks. Previously such companies had been fairly consistent net borrowers.

The reduced demand of these two business groups for bank credit locally may be attributable, in part, to programs of refunding short-term debt with long-term capital, either of a debt or equity nature. Furthermore, although expenditures on new plant and equipment continued at very high levels during 1952, particularly in the so-called basic industries which figure prominently in the Fourth District economy, it is probable that the fulfillment of earlier

expansion programs resulted last year in a flow of current cash receipts more closely approximating the aggregate of both current and capital cash expenditures, than was the case earlier in the post-Korean period. Higher depreciation provisions and, in the latter part of the year, lower tax requirements probably enabled liquid funds to be retained at least temporarily and used for seasonal working capital requirements.

Among the less "essential" sectors of the economy, the demand for additional bank credit was markedly stronger than in the latter part of 1951. Stockpiling, production and sale of consumer goods and commodities involved increased financing by commodity dealers, retailers and wholesalers, and sales finance companies. At least partial recovery of the textile industry from its inventory recession resulted in stability of such firms' loans at Fourth District banks in contrast to their almost continuous reduction a year earlier. These less "essential" industries and businesses are of relatively greater importance outside the Fourth District. This was probably a major factor in the much more rapid country-wide expansion of commercial loans in the last four months of the year than in this District.

**Real Estate Loans**

The use of bank credit by consumers throughout the country primarily to finance additions to and replacements of their stock of durable goods, was substantially higher in 1952 than in the previous year when nonessential and postponable expenditures suffered somewhat from a mild but sustained bout of indigestion, following the immediate post-Korean buying orgies. A further factor assisting the 1952 recovery, which was concentrated largely in the second half of the year,

**TABLE I**  
**CHANGES IN LARGE BUSINESS LOANS**  
**BY BUSINESS GROUPS**  
**7 Months 1951 and 1952**  
**(Reporting Banks — Fourth District)**

BUSINESS GROUPS	May 28- Dec. 24 1952	May 30- Dec. 26 1951
(000,000 omitted)		
<b>HEAVIER BORROWING IN 1952</b>		
Sales Finance Companies.....	+\$ 38	—\$ 1
Petroleum, Coal, Chemicals & Rubber..	+ 22	— 6
Trade.....	+ 26	+ 13
Commodity Dealers.....	+ 17	+ 6
Textiles, Apparel & Leather Products..	— 2	— 13
<b>LIGHTER BORROWING IN 1952</b>		
Food, Liquor & Tobacco.....	+\$ 18	+\$ 24
Metals & Metal Products.....	+ 42	+ 146
Public Utilities.....	— 16	+ 30
<b>TOTAL CLASSIFIED LOANS.....</b>	<b>+\$145</b>	<b>+\$199</b>

was the progressive relaxation and ultimate suspension of selective controls on consumer credit terms. Regulation X, together with companion regulations, specified easier terms throughout the first half of 1952 than during most of 1951, was further eased in June and subsequently suspended, in accordance with Congressional dictum.

In comparison with the previous year's expansion of bank loans for consumption purposes, the gain was concentrated primarily in short-term instalment credit, while long-term credit, as represented by residential real estate loans, increased about the same amount as in 1951.

The volume of new residential mortgage loans written reached record levels during 1952, but a higher volume of repayments helped to hold the net expansion in such loans outstanding at banks to an amount similar to that of the previous year.

Factors of relative yield and liquidity were probably of particular importance in restraining the expansion of real estate credit at banks in the early part of 1952. At large banks in the Fourth District, as well as throughout the country, real estate loans showed a smaller gain in the first half of 1952 than in the comparable period of nearly every other postwar year. Curtailment of F.H.A. and V.A. insurance activity, and of F.N.M.A.'s operations in providing a secondary market for mortgage loans, due to reduced funds, may have restrained mortgage lending by banks to whom liquidity was a primary current requisite. The higher yields prevailing on federal, state and local government securities may have caused a diversion of potential insured mortgage money to these investment outlets by banks to whom earnings were of primary importance.

In the latter part of the year, real estate credit agencies of the Government had more funds at their disposal for use in nondefense housing. The inflow of long-term money to banks in the form of time deposits continued to show great strength, and some stimulus to demand presumably derived from the permission of lower down payments and longer maturities.

The trend of real estate loans at large commercial banks swung upwards sharply in the second half of the year, but for the year as a whole the net gain in real estate loans at these banks fell short of the year-ago figure, and was substantially less than in all other postwar years except 1949. In the early postwar years, of course, repayments were much smaller in relation to new loans than is currently the case.

At smaller banks in the Fourth District, where real estate loans constitute a larger proportion of the loan portfolio than at the large city banks, total loans appear to have risen continually throughout 1952 at virtually the same pace as in the previous year. However, since agricultural lending, in forms eligible for Government guarantee, is known to have

been considerably more active in the latter part of 1952 than a year earlier, it is probable that the net gain in real estate loans at these banks in the Fourth District was somewhat smaller than in 1951.

### Consumer Loans

Short-term bank credit to consumers, largely in the form of instalment credit on automobiles, household appliances, furniture and other durable goods, rose sharply to new record levels in 1952. Banks currently finance a major part of the total instalment purchases for consumer purposes, either by extending credit directly, or indirectly by purchasing instalment paper from dealers, or by extending credit to sales finance companies.

The upswing in outstanding instalment credit began early in the year, following a period of virtual stability (net) during 1951 and a moderate seasonal shrinkage in the first three months of 1952. Beginning as a largely seasonal expansion, the movement apparently received a marked stimulus from the termination of Regulation W in May. The rapidity of the expansion was tempered somewhat in mid-summer, when shortage of steel curtailed automobile output, but subsequently resumed. It is estimated that by the end of the year, the aggregate of outstanding instalment credit had risen about \$2½ billion during 1952, an amount approximately equivalent to the record expansion of 1950.

The trend of instalment credit was, of course, dominated by its movement at commercial banks. The movement at Fourth District banks closely followed the national pattern.

Credit for all types of consumer goods and purposes expanded continuously and substantially. Dollar-wise, automobile credit showed a larger gain than credit extended for any other purpose, reflecting higher prices as well as perhaps an increased volume of used car transfers. Credit used to finance purchases of other consumer durables, primarily related to household operation, such as refrigerators, stoves and washers, and the newer range of items such as air-conditioning units, T.V. sets and freezers, received an expansionary impetus from a pickup in unit sales volume. Credit related to household maintenance, in the form of repair and modernization loans, evidenced a pronounced seasonal movement in climbing to new peaks.

In all instances, it is probable that a major cause of the bulge in outstanding instalment credit at banks, other financial institutions, and dealers, was the lengthening of maturities following the termination of Regulation W. Lower down payments, stimulated by competitive selling to move substantial inventories, increased the average loan volume per unit sale. The continued creeping rise in consumer prices throughout most of 1952 may have induced a desire for less cash and longer time financing by

consumers afflicted by sticky wages. Furthermore, it appears to be an integral part of the psychology of many consumers to accept the so-called easiest terms available when obtaining credit, and it is probable that refinancing also contributed to the bulge in instalment credit, as well as to the record volume of new loans.

In recent months, comments made at bankers' meetings in various parts of the country have indicated a full awareness of the possible economic and financial dangers inherent in a large volume of instalment credit on terms which permit the borrowers' equity to be zero, or even less. Bankers have been urged to watch collection data with particular care, and to review the quality of their portfolios perhaps more frequently and intently than in the past. Certainly it is highly improbable that further laxity in down payment or maturity requirements will add new stimulus to the growth of instalment credit, while repayments may be expected to achieve a more stable relationship to new loan volume than in 1952.

### Investments

Total investments of commercial and savings banks are estimated to have increased approximately \$3 billion during 1952. The only other postwar year during which bank investments rose was 1949. In both years, the chief cause of the expansion was deficit financing by the Treasury.

Last year's expansion in bank holdings of Treasury securities occurred entirely in the second half of the year, reflecting in large part the inverse relationship between the pattern of Treasury tax receipts and its borrowing requirements. The gradual move toward the concentration of corporate tax payments in the first half of the year accentuates the Treasury's need to borrow in the second half of the year. On the other hand, the lower proportion of corporate tax payments required in the second half of the year makes it probable that a larger proportion of the borrowing can be accomplished via nonbank investors.

### Treasury Securities

An accompanying chart indicates the trend of investments at large banks in the Fourth District. The net increase in total investments in 1952 was relatively small and was fairly representative of the course of investments at similar banks throughout the country. In the money market centers, however, particularly New York, sharper fluctuations were evident as a result of the close participation of banks in these centers in Treasury financing operations. At smaller banks, located in medium and small sized urban localities and in rural areas, greater stability was apparent in investments. Holdings of U. S. Government securities by New York City banks declined slightly for the

year as a whole. Holdings of Governments at "reserve city" and "country" banks, on the other hand, rose moderately. In the Fourth District, "country" banks showed a fairly continuous expansion in the Government securities portfolio.

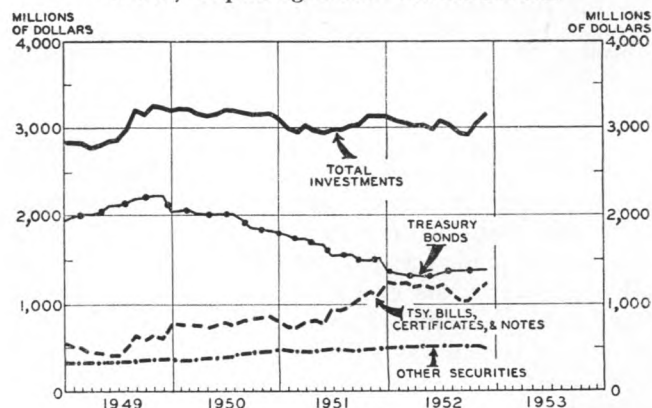
About the middle of the year, the two and a half year shrinkage in the Treasury bond portfolio of large Fourth District banks was halted, and moderate net purchases were made. (The shrinkage in the bond portfolio in earlier years reflected the Treasury's refunding of callable bonds with notes and certificates, as well as net sales and turn-ins by the banks.)

The initial rise in bond holdings in June was presumably associated with the termination of restrictions on bank purchases of certain securities which were suitable to the investment needs of banks. In July, money market banks' portfolios bulged temporarily through purchases of the well-received 5-year, 11½-month, 2¾% bonds, which represented the first cash financing by the Treasury with a marketable security of more than a year's maturity since the Victory loan drive at the end of 1945.

Toward the end of the year, bank portfolios of bonds may have been sustained by a desire to lengthen maturities at prices recommended as favorable by several of the market advisory services. Uncertainty as to the sustaining influence of the defense program and the prospective level of capital and consumer expenditures appear to have caused anticipation of a rising bond market by these analysts. In December, a slight decline was evident in bond portfolios of the larger banks, where business loans continued to expand rapidly.

Fluctuations in bank holdings of short-term Governments were closely related to changes in the

INVESTMENTS, 1949-1952  
Weekly Reporting Banks—Fourth District



... despite a continuing demand for loans, Fourth District reporting banks closed the year with virtually no net change in investments. The composition of investments likewise was essentially unchanged.

NOTE: Data plotted are as of Wednesday nearest end-of-month. Last data plotted are for end-November, 1952.

Treasury bill portfolio. In the spring, the first part of the Treasury's 1952 deficit financing took the form of weekly increases in bill offerings. In October and November, \$4½ billion of tax-anticipation bills were sold. Initially, most of these were purchased by banks, for whom they were apparently a desirable source of temporary investments. Banks may buy these bills by crediting the Treasury Tax and Loan Account on their books. Subsequently, as the Treasury calls for the funds so credited, banks usually dispose of these bills to corporate investors, who later (say, in March or June 1953) will present them to the Treasury in payment of taxes.

Largely as a result of purchases of tax bills, as well as of earlier refundings of bonds with notes and certificates, total holdings of short-term Governments (bills, certificates and notes) by weekly reporting Fourth District banks in December reached the highest level since the end of World War II.

**State and Municipal Securities** Financing of public expenditures by state and local governments for such services as highways, educational and recreational facilities, continued at a high level during 1952, with the volume of new borrowed capital raised for such purposes exceeding the previous year's total. Bank participation in this financing was again substantial, and in the early part of the year was shared by all categories of banks.

In the second half of 1952, however, banks in the larger cities reduced their holdings of state and municipal obligations, and for the year as a whole, the estimated net increase of approximately \$1½ billion in bank holdings of these securities fell short of the record 1950 gain, and was attributable almost solely to "country" banks and savings banks.

In the Fourth District, the larger banks as a whole at no time added noticeably to their holdings of state and local government securities, and at the end of the year held a nominally smaller volume of such issues than at the end of 1951. Smaller banks, on the other hand, showed a consistent moderate expansion in these investments.

### Monetary Policy and Treasury Finance

The year 1952 was noteworthy in the banking history of the United States in that it marked the first time in more than a decade when traditional general credit controls were the protagonists of the current performance on the central monetary stage.

**Termination of Selective Controls** Throughout the year, the comprehensive system of selective credit controls created since the start of the Korean war was progressively weakened and ultimately abandoned.

Regulation W, specifying minimum down payments and maximum maturities for financing the

purchase of a wide variety of consumer durable goods, had been reintroduced soon after the Korean outbreak. Its chief objective was to restrain the expansion of credit for nonessential consumption expenditures, thereby modifying inflationary pressures.

During 1951 the Regulation was revised to permit more liberal financing terms, partly because of the apparent achievement of a closer balance between demand and supply of automobiles, household appliances and other listed articles. On May 7, 1952, the Regulation was suspended in its entirety and it was left to competition between lenders to set the range and level of terms.

An effort had also been made to apply the principles of short-term consumer credit regulation to the debt financing of longer-term investment, in the form of new residential real estate credit. Regulation X, whose provisions also applied to a limited range of commercial properties, underwent modification in 1951 and early 1952, partly because of an apparent softening of demand in some areas of the real estate market.

A formula written into the Defense Production Act Amendments of 1952, enacted June 30, provided that residential real estate credit controls be relaxed whenever the number of new residential starts in each of three consecutive months should fall below an annual rate of 1,200,000 (seasonally adjusted). In accordance with this formula, Regulation X was suspended in its entirety on September 16, and companion F.H.A. and V.A. regulations were also relaxed.

In an attempt to ensure that nonconsumer credit would be diverted from nonessential and inflationary uses, the Voluntary Credit Restraint Program had been organized at Presidential request early in 1951. (A fuller description of the scope of this program was given in the June 1951 issue of this *Review*.)

National and regional committees were organized to issue general directives as to the types of credit which were least desirable from an over-all economic standpoint, particularly with a view to restraining inflation. The committees were composed of representatives of commercial, savings, and investment banking, insurance, and savings and loan associations. They also issued recommendations concerning specific loans or security issues if requested by the prospective lender. The Program contained no element of compulsion.

In May 1952, following a modification of the Program at Presidential request, the formal organization was suspended in all phases.

By the last quarter of 1952, there remained only one type of selective credit control, namely, the margin requirements on stock exchange transactions. The equity margin required to be maintained in a customer's account remained at 75 percent, as specified originally in January 1951.

# 1952 Department Store Trade in Review

**D**EPARTMENT STORE trade during 1952 was characterized by the same relatively high level of activity as was apparent in other phases of the nation's economy. Certain abnormalities which had developed shortly after the beginning of hostilities in Korea were ironed out early in the year and many prewar relationships between the various components of department store trade showed signs of being re-established during 1952.

While department stores in the Fourth Federal Reserve District last year fell short of matching the record dollar sales of 1951 by a narrow margin, the volume was the second highest on record. Estimates of physical volume of department store trade (making allowance for moderate price reductions during the year) indicate a volume in 1952 at least equal to that of the previous year.

Excess inventories which were accumulated during the early months of the Korean War had been worked off by the beginning of the year and the relationship of sales to inventories was resuming the early postwar pattern. The absence of scare buying or shortages of merchandise during the year coupled with a strong demand for goods resulted in a close relationship between sales and stocks.

The use of credit by department store customers tended to increase throughout the year while collection ratios on credit accounts were reduced from levels of previous years. Movements in both the use of credit and in credit collections reflected tendencies toward re-establishment of prewar habits in this

phase of department store trade rather than signs of approaching difficulties on the part of consumers to maintain high levels of purchasing.

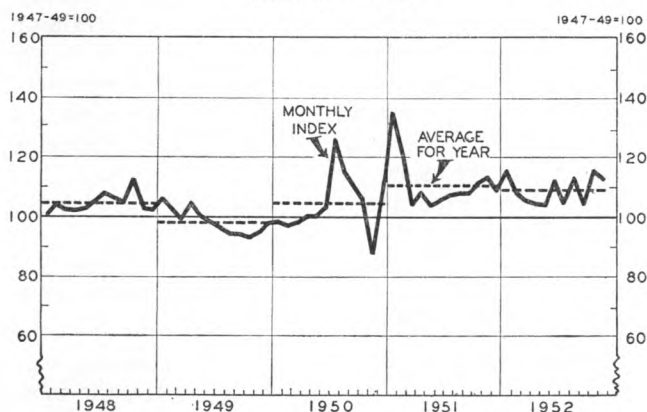
## Total Sales

The solid line on the accompanying chart shows the seasonally adjusted sales index for Fourth District department stores for each month of the years 1948 through 1952. The broken lines on the chart represent the annual averages of the monthly indexes for each of the five years. A comparison of the annual indexes shows that while department store dollar sales last year failed by 1% to match the record level of 1951, the volume was well above that of any earlier year.

While department stores rolled up the second largest sales volume in history during 1952, the record was established without benefit of extraordinary spurts in consumer buying such as occurred in July 1950 and again in January 1951. Seasonally adjusted sales during the first month of the year were exceptionally strong—the result of intensive promotional activity as department stores attempted approximation to the previous January's record. After the strong January showing, seasonally adjusted sales declined for four successive months. A bumpy but nevertheless genuine pickup in adjusted sales began during June. The adjusted index alternately rose and fell each month for the remainder of the year with the net effect being to raise the annual average to the near-record level. The series of upward and downward movements in the adjusted sales index

## SALES

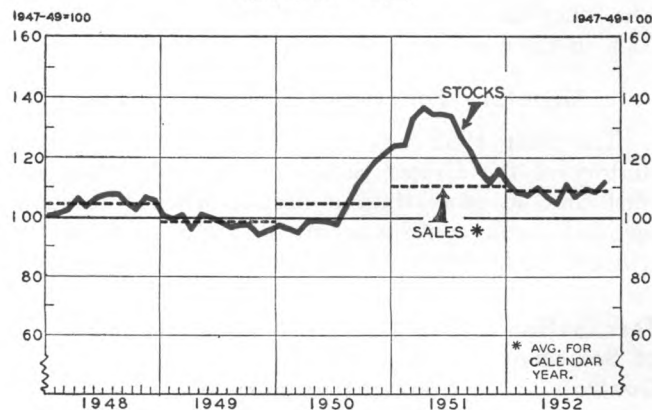
Fourth District Department Stores  
Seasonally Adjusted by Months  
(1947-49 = 100)



... sales by Fourth District department stores during 1952, while failing by 1% to match the 1951 record, were still well above any earlier year.

## STOCKS

Fourth District Department Stores  
Seasonally Adjusted by Months  
(1947-49 = 100)



... by early 1952, the post-Korean bulge in department store stocks had been worked off and subsequently the ratio of stocks to sales has been similar to earlier postwar years.

could perhaps be linked to such external influences as the midsummer steel strike, political conventions, national elections, and unseasonably warm weather which extended into November and tended to cause postponement of Christmas shopping until late in the season.

**Inventories** By early 1952, the abnormally high level of department store stocks in relation to sales, such as existed throughout 1951, had been worked off. During the year, inventories maintained about the same relationship to sales as in earlier postwar years. A graphic presentation of the sales-inventory relationship is shown by the second chart. The solid red line on the chart shows seasonally adjusted department store stocks indexes for each month of the years 1948 through 1952. The broken black lines on the chart represent the annual averages of sales indexes for these years.

Month-by-month comparisons of sales-inventory ratios during late 1952 show closer relationships between the two than had existed during the first two years of the Korean War. The alternate upward and downward movements in sales indexes during each of the later months of the year were reflected immediately by opposite movements in the adjusted stocks indexes. The extreme sensitivity of department store inventories to sales changes was indicative of the cautious stock policy which prevailed throughout 1952.

**Use of Credit** A large proportion of department store sales usually involves extension of credit to the customer. Over the past five years, credit sales, on the average, have accounted for about 62%

of total sales. By far the most popular form of credit offered to customers is the charge account, and over one-half of all department store sales involve the use of this type of credit. Instalment accounts are customarily used to handle slightly more than 10% of department store sales, while the remaining 38% is ordinarily transacted on a cash basis.

Fourth District department store customers paid cash for a slightly smaller percentage of their total purchases in 1952 than in the preceding year. An accompanying chart shows the average ratio of cash sales to total sales during each of the five years 1948 to 1952. As seen from this chart, cash sales have accounted for about the same share of the total in each of the past three years, but the ratios are considerably below those of earlier postwar years. Conversely, credit sales during the past three years have averaged a larger share of the total than was the case before 1950.

**Charge Account Sales** The black lines on the chart below show the annual ratios of charge account sales to total sales in Fourth District department stores for each year from 1948 through 1952. As seen from this chart, charge sales made up a slightly smaller proportion of the total last year than during the previous year. Nevertheless, charge accounts have maintained a fairly steady level of importance in the total sales picture during the past four years. The abrupt increase in the use of charge accounts after 1948 reflects more a re-establishment of prewar habits in charge account

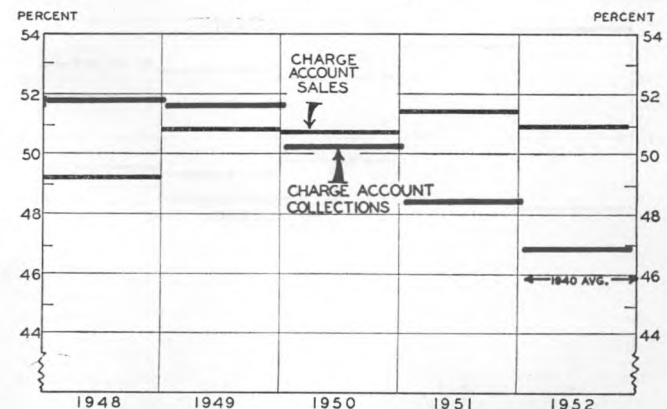
### CHARGE ACCOUNT SALES AND COLLECTIONS

Charge Account Sales as a percent of Total Sales;  
Charge Account Collections as a percent of Receivables  
Fourth District Department Stores  
(Annual Averages)

CASH SALES AS A PERCENT OF TOTAL SALES  
Fourth District Department Stores  
(Annual Averages)



... cash sales accounted for less than 37% of total sales in 1952. That ratio is considerably below either 1948 or 1949.



... customers charged about the same proportion (51%) of their total dollar purchases in 1952 as in the three previous years. Collections on the accounts, however, were less than 47% of outstandings, or the lowest in the post-war period.

buying than a new record in the use of this type of credit.

While charge account purchases showed a slight decrease in their relative importance in the total sales picture between 1951 and 1952, the ratio of collections on charge accounts to charge receivables experienced a substantial decline between the two years. The red lines on the accompanying chart picture year-by-year declines in the rate of charge account collections.

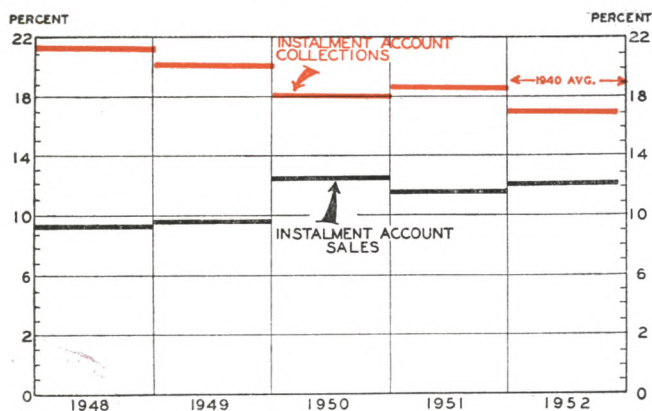
The reduced rate of charge account collections shows, to a considerable degree, a return to prewar paying habits on the part of customers. For several years after the removal of government regulations on charge accounts, consumers continued meeting their monthly obligations on about the same basis as they had during the war years. The average rate of charge account collections in 1940 is shown on the chart and serves as an indication of prewar paying habits.

### Instalment Account Sales

Instalment sales during the past five years have averaged a little more than 10% of total department store sales in the Fourth District. During 1952, instalment sales accounted for about 12% of the total—higher than the previous year's ratio and well above the five-year average. (See chart.) The increased use of instalment accounts by department store customers has been in evidence since mid-1950.

### INSTALMENT ACCOUNT SALES AND COLLECTIONS

Instalment Sales as a percent of Total Sales;  
Instalment Collections as a percent of Receivables  
Fourth District Department Stores  
(Annual Averages)



... for the third successive year instalment sales accounted for around 12% of total sales in contrast to less than 10% in 1948-49. Collections during 1952, however, represented a smaller proportion of receivables than in any postwar year.

The high level of instalment buying during 1952 was the result of a substantial increase in the use of this type of credit during the second half of the year. Instalment sales averaged 11% of total sales during the first six months of the year while the average ratio advanced to 13% during the later months. Several factors have been influential in bringing about this increase in instalment purchases. Federal restrictions on consumer credit were abandoned in May. The continued high level of business activity with corresponding optimism on the part of consumers regarding their ability to meet future obligations, as well as some relaxation of credit policies by the stores themselves, have contributed to the increased importance of instalment sales.

While instalment sales were increasing in 1952, the rate of collection on these accounts was somewhat slower than in past years. The red lines on the chart referred to above indicate the average ratios of instalment account collections to receivables for each of the past five years. The chart shows the year-by-year decline in the rate of instalment collections extending into 1952—with the exception of a slight rise in the ratio for 1951.

The rate of instalment collections is normally dependent upon both down payment requirements and the length of maturity of the instalment contract. During the latter months of 1952, the absence of Federal restrictions on consumer credit made possible the granting of lower down payment requirements and longer maturities on consumer instalment contracts. The granting of somewhat more liberal credit terms during 1952 has had the effect of lowering the rate of instalment collections during the year as compared with previous years.

As was the case with charge account collections, the reduced rate of collections on instalment accounts during 1952 represents more a return to prewar paying habits than indications of consumer inability to meet financial obligations.

### Individual Cities

An accompanying table shows the average monthly department store sales index for each of the five years 1948 to 1952 for major Fourth District reporting centers. While department store sales in the Fourth District last year were slightly below the previous year's record, sales by individual cities show varying movements between the two years. From 1948 to 1951, annual sales changes in all cities have reflected the same direction of movement as the District total. In 1952, however, four cities experienced increases in sales over 1951 while the others have shown either no change or declines in sales. Columbus department stores experienced the largest year-to-year gain in sales while the volume in Akron, Erie, and Wheeling also increased. Cincinnati had as good a year dollar-wise as in 1951, while sales in all other cities declined.

**Individual Departments** An extensive treatment of Fourth District department store trade by individual departments was published in an earlier issue of the *Review*\*. An accompanying tabulation lists the five departments which showed the greatest increases in sales last year over the previous year. Also shown are the five departments in which the greatest losses in sales between the two years were reported. In general, the largest sales gains were made by those departments handling soft goods merchandise as against losses reported by most hard goods departments. The neckwear and scarfs department led all others in year-to-year gains followed by toys and games. Radios and television lost the most ground, reflecting a leveling off of the market for this type of goods since the fulfillment of heavy postwar demands.

The major household appliance and the carpet departments also showed sales losses during 1952 as compared with 1951. Both of these departments handle durable goods which were in short supply during the war years. Having supplied pent up demand during the earlier postwar years, current sales of these goods are becoming more dependent upon replacement buying with consequent year-to-year declines in dollar volume.

\* *Monthly Business Review*, Federal Reserve Bank of Cleveland, November 1952.

### SALES BY DEPARTMENTS

Percent Increase or Decrease in 1952 as Compared with 1951<sup>(1)</sup>

Fourth District Department Stores

DEPARTMENT	% Change from 1951 (2)
Neckwear and Scarfs.....	+11
Toys and Games.....	+ 9
Aprons, Housedresses and Uniforms.....	+ 8
Blouses, Skirts and Sportswear.....	+ 8
Records, Sheet Music and Instruments....	+ 8
.....	...
.....	...
.....	...
Women's and Misses' Suits.....	-12
Major Household Appliances.....	-15
Domestics.....	-16
Rugs and Carpets.....	-20
Radios, Phonographs and T.V.....	-32

(1) Departments shown are those reporting the greatest increase or decrease.

(2) Figures are for January through November.

### SALES INDEXES BY CITIES

Annual Averages

Fourth District Department Stores

(1947-49 = 100)

CITY	1948	1949	1950	1951	1952 <sup>(1)</sup>	% Change from 1951 to 1952
FOURTH DISTRICT.....	105	98	105	111	109	-1
Akron.....	105	97	105	113	115	+2
Canton.....	107	96	106	113	108	-4
Cincinnati.....	104	97	104	105	104	-0
Cleveland.....	105	97	106	111	109	-2
Columbus.....	105	100	102	106	112	+5
Erie.....	105	102	111	119	120	+1
Pittsburgh.....	105	98	101	108	103	-4
Springfield.....	103	97	100	103	97	-5
Toledo.....	105	98	104	110	104	-5
Wheeling.....	105	96	102	104	105	+1
Youngstown.....	107	97	106	117	113	-3

(1) Average of first eleven months; adjusted for seasonal variation.

**BANKING REVIEW—1952**

(CONTINUED FROM PAGE 5)

**General Controls** With the abandonment of the system of selective restraint, the central market place was left as the focal point for Reserve Bank influence on the flow of credit traffic, while regional offices in other major cities of the country conducted local supporting measures.

Selective credit control is aimed at specific groups of *borrowers*, whose access to the money and capital markets is restricted, at least temporarily, by predetermined legal standards.

General control, on the other hand, aims at regulating *lenders* as a group, leaving decisions as to the extension of credit to individual borrowers to be made by individual lenders. The basis for the individual decisions is financial, rather than legal.

The effectiveness of general regulation depends largely upon the degree to which changes in the liquidity position of lenders can be induced in the desired direction. Throughout practically the whole of the postwar period, one objective of monetary policy has been to reduce the liquidity of lenders. A major step in this direction was taken in March 1951, when bond prices were permitted to fluctuate within a considerably wider range than formerly. As a result, the marketability or shiftability of bonds was left virtually unchanged, but the greater possibility of incurring a capital loss by selling bonds reduced their liquidity. The perfect liquidity of money derives not only from the fact that it is acceptable by all persons in a community, but also from the fact that its price is immutable.

**Federal Reserve Banks' Operations in Governments**

The implementation of policy decisions designed to regulate the supply, availability and price of credit in the central market, in the best interests of the economy was in the hands of the Federal Open Market Committee. Since March of the previous year, the Committee had been free to permit the market to regulate itself within fairly broad limits, determined by the need to maintain orderly conditions in the market and to assist the Treasury in completing a heavy schedule of refunding and new financing operations.

Direct intervention by the System through its open market operations was confined almost exclusively to the area of short-term trading. Operations by the System in this area of the market reflected to a high degree seasonal variations in the demand for money and credit.

In the early months of the year, Federal Reserve holdings of U. S. Government securities declined by more than \$1 billion, as certificates and bills were sold to mop up the reserve funds accruing to member banks as a result of the return of currency from cir-

ulation. During the spring and early summer, Federal Reserve Banks' holdings of Governments showed practically no net change, but in the second half of the year a renewed expansion was evident which canceled the earlier shrinkage and lifted the portfolio to near-record levels in December. The net year-to-year gain at the end of 1952 is estimated to have been slightly more than \$1 billion. Bills and certificates, including issues carrying a repurchase option, provided the chief medium for System acquisitions during the second half of the year.

Major factors in the extension of reserves to the market through security purchases may have been the largely seasonal expansion of commercial loans and currency in circulation, both of which reached new record levels in December.

Treasury financing operations were also a major factor in the timing and extent of System Open Market Operations during 1952. Approximately \$30 billion of Treasury issues, chiefly certificates, were refunded during the year in addition to the weekly roll-over of more than \$1 billion of Treasury bills. Practically all of the refinancing was accomplished with new short-term issues carrying rates similar to or slightly higher than those on the maturing issues. The total attrition on the refunded securities was approximately 5 percent. During several of the refunding operations, active support was extended by the System through purchase of maturing issues from investors who preferred cash or other investment media to the new securities. In large measure, the System was able to make offsetting sales of other issues of certificates to stabilize its portfolio.

Besides its heavy refinancing program, the Treasury anticipated its forthcoming income in the first half of next year, and also made at least partial provision for the anticipated fiscal '53 deficit, by borrowing, net, nearly \$7 billion from the public in the second half of the year.

Tax-anticipation bills, placed initially with commercial banks, and a cash offering of a 5-year, 11½-month bond carrying 2¾%, were the chief sources of this additional revenue. The 2¾% bond was initially financed largely by collateral loans extended by banks to dealers and other investors. However, the temporary bulge in credit caused by this financing was soon flattened out.

**Borrowings from F. R. Banks**

Partly as a result of the unwillingness of the System to intervene in the market except on occasions of particular need, and for limited periods of time, bank reserves were under considerable pressure throughout most of the year, particularly in the second half.

By midyear, the inflow of gold had ceased, and Federal Reserve float was held below the year-ago level. Currency in circulation rose gradually and then spurted to new all-time high levels, exceeding \$30 billion.

Needed reserves were, consequently, obtained largely by borrowing from the Federal Reserve banks. The volume of such borrowing reached long-time high levels in the latter part of 1952, in the Fourth District as well as in the country as a whole. Outstanding discounts and advances frequently and for considerable periods of time were substantially greater than the volume of member banks' excess reserves. Occasionally, toward the end of the year, such borrowings totaled close to \$2 billion, in contrast to their nominal volume during most of the postwar period.

The discount window performs two main functions. It facilitates the accommodations of loan applicants at commercial banks, for a fixed, known charge to the banks. On the other hand, it tends to restrain commercial bank lending practices by imposing a price penalty on the reserve funds obtained by banks in this manner, and by extending short-term credit only. Moreover, commercial banks traditionally are reluctant to carry a sustained volume of such borrowing on their books.

Indications of the adequacy of accommodation of the credit requirements of private businesses may be found in the volume of nonbank purchases of marketable Governments in the second half of 1952, and in the general firmness of the market for intermediate and long-term Governments toward the end of the year in the face of a steady fall in short-term security prices.

For commercial banks as a whole, the discount windows of the Federal Reserve banks provided a sustained and substantial supply of reserve funds, thus lending a more permanent character to such borrowings than was the typical case for individual banks. For the year as a whole, compared with 1951, an average of approximately \$500 million more reserve funds were supplied each day through discounts and advances to member banks.

**Money Rates** Money rates generally resisted the upward pressure of heavy demands for credit from private business, consumers and governments.

Having fluctuated mildly throughout 1952 with a general pattern of first-half decline and second-half rise, indexes of long-term corporate bond yields showed very little net change for the year as a whole, tending to be nominally below the year-ago level in December. This stability contrasted with a rise in yields on the Baa bonds from 3.20% in December 1950 to 3.62% in December 1951, as indicated in an accompanying chart.

Long-term Treasury bond yields receded noticeably in the first half of 1952 from the previous year-end highs, but recovered in the second half to establish new records. The new highs, however, were only slightly above the year-ago figures, with the 2½'s of September 1967-72 yielding an average of 2.75% in December, as against 2.67% a year earlier. The Federal Reserve System did not buy long-term Treasury bonds in 1952.

In the short-term area of the market, where seasonal influences exert a more pronounced influence, the expansion of commercial loans and the Treasury's substantial net borrowing contributed to a further substantial increase in the cost of money. Following a seasonal dip early in 1952, yields on securities with between 9 and 12 months' maturity rose from 1.60% in April to about 2.03% in December. The comparable yield in December 1951 was 1.77%. Year-end tightness due to such factors as the Christmas expansion of the currency circulation, to the window-dressing liquidity requirements of banks, and to business needs for cash for payment of taxes, dividends, and bonuses, resulted in a sharp and presumably temporary rise in the average issue yield on new bills in December to a twenty-year high of 2.13%, as compared with 1.73% a year earlier.

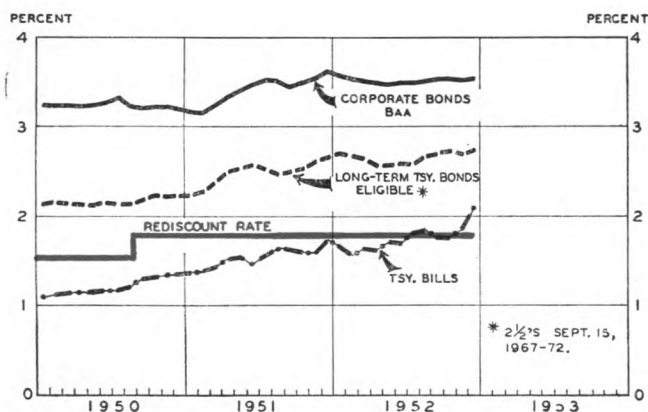
### Money Supply

The firm tone generally evident in medium and long-term security prices reflected in large part the continued high rate of saving by the private sector of the economy. The total money supply, including private and governmental demand and time deposits at commercial and mutual savings banks, as well as currency in circulation, is estimated to have registered a near-record postwar expansion in 1952 of close to \$9 billion (nearly 5 percent). However, nearly half of this expansion, \$4 billion, was estimated to have been in the form of time and savings deposits, a record postwar gain. Private demand deposits, on the other hand, rose approximately \$3 billion, or about half as much as in the two previous years.

The rise in demand deposits is illustrated in an accompanying chart, which compares the trend of these deposits at large banks in the Fourth District and throughout the country. In both instances it can be seen that the rate of expansion was noticeably slower than in the previous two years. The net gain for 1952 was approximately the same at Fourth District banks as throughout the country, whereas in earlier years the Fourth District gain was noticeably more rapid than in the country as a whole.

Declines in wholesale and commodity prices were presumably contributing factors to the slowness of the 1952 expansion in cash balances of businesses. Since the level of physical productive activity also

### YIELDS ON SELECTED SECURITIES 1950-1952



... short-term rates, as represented by Treasury bills, rose to a twenty-year high late in 1952. The rise in longer-term yields on governments was more moderate, and in the case of Baa bonds, the yield actually declined.

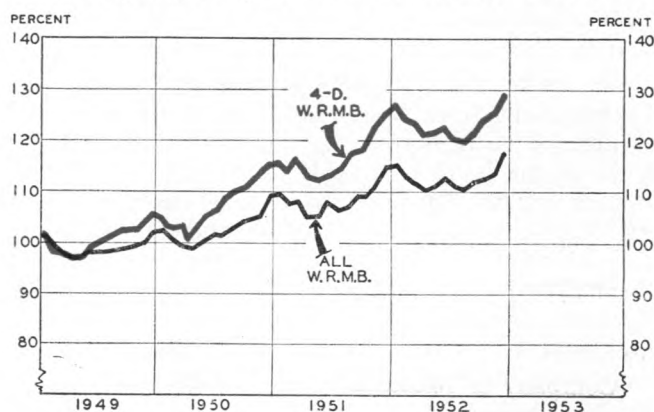
NOTE: Data plotted for December are partially estimated.

showed only a slight rise over 1951, it may be presumed that cash balances had previously been rebuilt to levels reasonably adequate for the current rate of operations and prevailing conservative inventory policies.

The sharper-than-usual dip in adjusted demand deposits in July to the lowest monthly figure of the year may have been caused in part by the steel strike and perhaps also by the higher proportion of 1951 corporate taxes falling due in June this year.

The rapid increase in time and savings accounts was part of a universally high inflow of long-term funds at all types of financial institutions. Life insur-

### INDEXES OF ADJUSTED DEMAND DEPOSITS 1949-1952 Weekly Reporting Banks—Fourth District and U.S.



... adjusted demand deposits advanced less rapidly (net) during 1952, and the gain for the year was approximately the same in the Fourth District as for banks throughout the country.

NOTE: Data plotted are monthly averages of weekly figures. December 1952, partially estimated.

ance companies and savings and loan associations also reported a record or near-record accumulation of funds in 1952.

In the Fourth District, the growth of time deposits at a large sample of banks in cities of varying size was continuous throughout the year, apart from a slight seasonal decline in November. The increase was the most persistent and the largest (more than 4 percent) in at least five years, and was shared by banks in all areas of the District. The record of deposits and share purchases at savings and loan associations was even more impressive, with private savings and capital rising a record 14 percent in the first eleven months of 1952.

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Member, Federal Advisory Council—1953

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The Cleveland Trust Company  
Cleveland, Ohio

## SUMMARY OF NATIONAL BUSINESS CONDITIONS

By the Board of Governors of the Federal Reserve System

Industrial production, employment, and incomes increased somewhat further in November and December, and Christmas retail sales were in record volume. Wholesale prices of agricultural commodities declined further, while industrial commodities continued to show little change. Consumer prices in November increased slightly and were back at their August high. Bank expansion continued after mid-November, and common stock prices rose further.

### Industrial production

The Board's industrial production index rose 4 points in November to a postwar record of 233 per cent of the 1935-39 average. Output of both durable and nondurable goods expanded moderately further, and minerals production recovered sharply to the high September level. Industrial production in December was maintained at about the November rate and was about 7 per cent above a year ago.

Activity in machinery industries generally expanded further in November. Output of household appliances and radio and television showed substantial gains, with television output continuing at unusually high levels in December. Despite some interruptions owing to model changeovers, passenger auto assembly during November and December was maintained at advanced rates. Steel production continued at peak rates. Output of nonferrous metals except aluminum expanded further in November, and lumber production showed much less than the usual seasonal decline.

Nondurable goods production rose somewhat further in November to a level 5 per cent above a year ago and close to earlier highs. Activity in the textile, shoe, paper, and rubber products industries increased and was substantially greater than in the same period last year. Output of industrial chemicals and petroleum products rose to new record levels. Production of meat and other manufactured food products was maintained in large volume.

Coal output recovered in November following the work stoppages in late October, and crude petroleum production rose somewhat further. In early December, however, output of mineral fuels declined moderately. Iron ore production since August has been in record volume for this season.

### Construction

Value of contract awards declined slightly in November, reflecting decreases in most types of awards for private construction. Total new construction work put in place declined less than seasonally from the advanced October level. Housing starts were at a seasonally adjusted annual rate of 1,160,000, about the same as in October and substantially higher than a year ago.

### Employment

Seasonally adjusted employment in nonfarm establishments rose again in November and was at a new high of 47.5 million. Average hours of work at factories were close to the high October level, and average hourly and weekly earnings continued to rise. Unemployment was little changed in November and at 1.4 million was close to the postwar low reached in October.

### Distribution

Seasonally adjusted sales at department stores in November were a little below their high October level but rose again in December. For the Christmas season, department store sales were at a record and considerably above a year ago. Sales of automobiles continued unusually large for this time of the year and dealers' stocks increased only moderately in November.

### Commodity prices

The average level of wholesale prices continued to decline in December reflecting mainly decreases in prices of foodstuffs. Lead prices were raised, while prices of other industrial materials and finished goods generally continued little changed.

The consumer price index in November rose very slightly to return to its August peak. Further increases in rents and prices of services in November were largely offset by decreases in apparel.

### Bank credit

Business, consumer, and real estate loans at commercial banks continued to increase in the latter part of November and the first half of December. Banks also added to their holdings of U. S. Government securities, largely through purchases of tax anticipation bills in the latter part of November.

Member bank reserve positions tightened further in late November and early December, due principally to a seasonal flow of currency into circulation and an increase in required reserves. Member bank borrowings averaged above 1.5 billion dollars during the period. The Federal Reserve also supplied some reserves through purchases of Government securities, including some securities acquired under repurchase agreements with dealers. In mid-December, reserve positions temporarily became somewhat easier as a result of the usual large pre-Christmas expansion in Reserve Bank float.

### Security markets

Common stock prices advanced during the first three weeks of December to their highest level since October 1929. Yields on high-grade corporate bonds and long-term Government securities rose somewhat. Treasury bill rates increased sharply and reached 2.23 per cent on the new issue awarded on December 22.

# ZIRCONIUM—Another Wonder Metal

by CLYDE WILLIAMS, Director, Battelle Memorial Institute



"What is not yet known about the uncommon metals will be vastly more important than what is known", a distinguished metallurgist has said.

In the last fifteen years, these prophetic words have rung particularly true of two of the "uncommon" metals, titanium and zirconium. Intensive research at Battelle and elsewhere has uncovered facts about these metals that have brought them both to a position of

commercial importance. The story of titanium's rise from a laboratory curiosity to commercial production has been told many times in the press over recent years.\*

Zirconium, benefitting considerably from research on titanium, is also coming out of the laboratory into commercial use. Although it will not be produced in quantities comparable to steel or aluminum, postwar discoveries have opened up a promising future for small tonnages of this wonder metal in highly specialized applications. These discoveries are now being applied to improvement of the nation's atomic-energy program. As cheaper and more efficient production methods are developed, the new discoveries will lead to expanded use of the metal by private industry.

The domestic supply of zircon, the mineral from which the metal zirconium is made, comes chiefly from beach-sand deposits in Florida. It is also imported from other lands, principally India and Australia. Known technically as a silicate of zirconium, zircon has an established and growing market for nonmetallic uses. It serves principally as a heat-resistant material or refractory. Zircon refractories are used in glass tanks for critical areas and are especially good in aluminum-melting furnaces. In metallic form, zirconium has been used in much smaller quantities, chiefly as a "getter" in the more expensive power-transmitting electronic tubes. The "getter's" job is to absorb gases that are released inside such tubes, thereby increasing the operating efficiency and life span of the tube.

Prospects for an expanded zirconium-metal industry began sometime after World War II as a result of development work on the atomic bomb project. Scientists were conducting studies on the atomic properties of the very rare metal, hafnium. These studies indirectly opened the way to zirconium's new feature. They revealed that the ability of hafnium to absorb neutrons was very high. Zir-

conium, it was known, usually carries about 3 per cent of hafnium as an impurity. By removal of the hafnium from the zirconium, it was then calculated that zirconium would have an extremely low ability to absorb neutrons. This characteristic is very desirable in materials used to construct nuclear power plants which depend heavily on neutrons for splitting the atom.

With its extremely low neutron-absorbing qualities now recognized, zirconium became of great interest to the Atomic Energy Commission because it also possesses other valuable properties. Zirconium has excellent corrosion resistance. The metal has sufficient strength to make it suitable for certain structural applications. This rare combination of properties makes zirconium "practically the perfect material of construction for nuclear reactors".

Although the present important use for zirconium is in the atomic energy field, numerous potential commercial uses exist. The most important of these is in the making of corrosion-resistant equipment. In combatting hydrochloric acid, zirconium is outstanding and may replace tantalum, which is  $2\frac{1}{2}$  times heavier and more costly on a per-pound basis. The chief applications for the metal in the hydrochloric acid field will be where good heat transfer is required, such as in condensers, boilers, and bayonet-type heaters.

More of the metal may be used as a gas "getter" in electronic tubes. Really extensive use for this purpose, however, must wait until zirconium alloys with improved high-temperature strength are developed. Promising applications are also seen in glass-sealing, and for making surgical instruments and metallic parts used in human bone surgery.

The chief role for technology in the future of the zirconium-metal industry is in finding ways to increase production and decrease the cost of the metal. Zirconium, like titanium, has a strong tendency to hold on to nonmetallic elements. The big job is to find a practical method for removing such impurities which cut down the metal's performance. Metallurgists are developing processes to meet this need. One of the most promising of these is known as the "Kroll process". Using this method, the price of ductile zirconium, produced on a large pilot-plant scale, has been brought down from \$300 per pound to \$15-20. Such success, credited to the U. S. Bureau of Mines, indicates real possibilities for lowering the price considerably more when the Kroll process is operated on a continuous production basis. Numerous technical problems, however, must be overcome before continuous operation can be achieved.

The Atomic Energy Commission, which has a priority on all present production of zirconium, is anxious to see the metal declared openly available for industry. An ample supply of zircon, available from domestic and foreign sources, can support such a development. Progress towards the goal is indicated by the success of new methods developed for producing zirconium metal, and by a growing interest on the part of industry in zirconium's usefulness for commercial applications.

\* "Titanium . . . A New Workhorse", appeared in this series in the *Monthly Business Review*, December, 1950.

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.

