MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

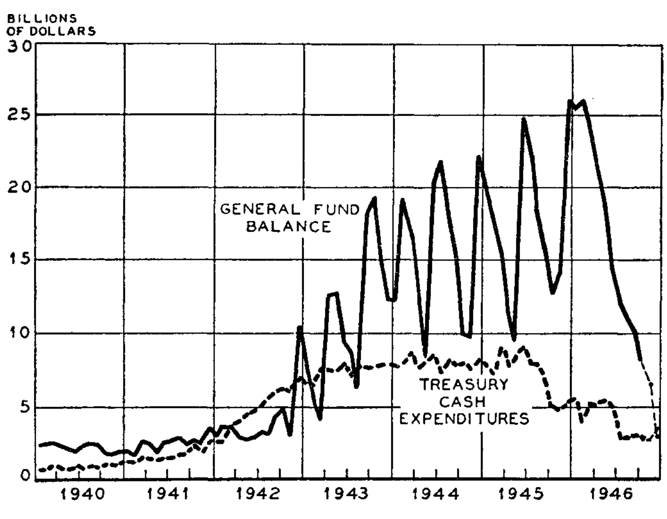
Vol. 28 DECEMBER 1946 No. 12

MONEY MARKET IN NOVEMBER

The announcement on November 18 that the Treasury will redeem the entire December 15 maturity of Treasury notes, amounting to 3,261 million dollars, probably represents the conclusion of the Treasury's program of using surplus funds which, in effect, were obtained during the Victory Loan drive a year ago, to retire outstanding Government debt. This operation, together with the redemption of approximately 500 million dollars of unexchanged certificates of indebtedness which mature on December 1, will reduce the general fund balance of the Treasury by the end of December to 2½ to 3 billion. And these December redemptions will increase to about 23 billion dollars the total amount of marketable Government securities retired by the Treasury since the program started on March 1.

End-of-month figures for the general fund balance are shown, together with monthly data on cash expenditures of the Government, in the accompanying chart for each month since the beginning of 1940. As these data indicate, the general fund balance of the Treasury was usually maintained at a level in excess of monthly cash disbursements until 1942, when the rapid development of the war program caused a sharp rise in the rate of Government expenditures. With the adoption of the War Loan drive method of financing, it became necessary for the Treasury to acquire enough funds in each drive to meet the estimated excess of expenditures over current tax receipts for several months ahead, as well as to assure ample funds with which to meet any unforeseen requirement. The Treasury balance rose far above the current monthly rate of Government expenditures following each War Loan drive, and was drawn down rapidly in subsequent months, but even at the low points before each succeeding War Loan the balance remained far larger than before the war.

Treasury Cash Expenditures and General Fund Balance*



* Expenditures are monthly totals; balances are end-of-month figures. November and December 1946 estimated by Federal Reserve Bank of New York. In the December estimate for general fund balance, no allowance is made for any effect of Treasury transactions in connection with this country's subscription to the International Monetary Fund.

The final drive, the Victory Loan, in November and December 1945, was intended to provide enough funds to complete the financing of war expenses, but in view of the rapid shrinkage in the rate of Government disbursements, the goal for the drive was reduced to 11 billion dollars. The unexpectedly heavy oversubscriptions, amounting to more than 10 billion dollars, raised the general fund balance at the end of December 1945 to approximately 26 billion dollars, a record level and an amount far in excess of the Treasury's prospective requirements, especially in view of the fact that Government expenditures were falling more rapidly, Savings bond redemptions were smaller, and Government revenues were better sustained than had been anticipated earlier. As a result, it was apparent that a large volume of funds was available for the retirement of outstanding Government debt.

The program which was initiated in March was directed to the redemption of securities held largely by the banks in order to avoid an accentuation of inflationary pressures by adding to the already large money supply in the hands of the public through the retirement of securities held by nonbank investors. The redemption of securities held largely by the commercial and Federal Reserve Banks has made possible the extinguishment of very large amounts of Treasury deposits in the banks without adding very greatly to the amount of deposits owned by the public. As a result, commercial banking statements now show rather generally substantial reductions in total earning assets and total deposit liabilities compared with a year ago.

With the reduction of the general fund balance of the Treasury to an amount, at the end of December, which may be regarded as approaching a current peacetime level, further redemptions of bank-held Government securities will depend upon the availability of funds from an excess of tax receipts over Government expenditures, or from an excess of sales of Savings bonds and other securities over redemptions at the initiative of the owners.

Member Bank Reserve Positions

Pressure on member bank reserves was renewed in the first half of November, as the effects of sizable payments of funds out of foreign deposits with the Reserve Banks were outweighed by substantial needs for reserve funds resulting from transactions in connection with the first-of-the-month redemption of about 2 billion dollars of Treasury certificates, relatively large Treasury receipts from Social Security and withheld income taxes, and an increase in currency in circulation and in reserve requirements. The strain on member bank reserve positions was relaxed temporarily after the middle of the month, when Treasury cash receipts and expenditures were approximately in balance, currency in circulation declined moderately, and further payments from foreign deposits in the Federal Reserve Banks were offset by a continued increase in reserve requirements. Member bank demands on Federal Reserve credit consequently were substantial in the first half of the month and fell off in the second half.

Treasury transactions were principally responsible for the pressure on the money market in the two weeks ended November 13. A considerable part of the 2 billion dollars withdrawn from War Loan deposit accounts in connection with the retirement of a like amount of certificates maturing on November 1 was not returned to the commercial banking system owing to large Reserve Bank holdings of the redeemed securities. Furthermore, the deposit in the banks of the proceeds of nonbank investor holdings of retired certificates brought an increase in reserve requirements of almost 60 million dollars in the week ended November 6. In the following week, as a result of heavy Social Security and withheld income taxes Treasury receipts exceeded expenditures by a wide margin and Treasury balances in the Reserve Banks increased.

The drain on member bank reserves was heightened in this period by a further substantial increase in currency in circulation which, for the first time this year, carried the volume of outstanding currency above the peak established toward the close of 1945. As the funds gained from payments out of foreign deposit accounts with the Federal Reserve Banks fell far short of their needs, member banks bolstered their reserve positions through resort to the credit facilities of the Federal Reserve System. Member bank borrowing from the Reserve Banks rose about 160 million dollars to nearly 400 million on November 13, highest since the elimination in April of the preferential discount rate on advances secured by short term Government obligations. Member banks also sold substantial amounts of Treasury bills and other short term Treasury obligations directly and indirectly to the Reserve Banks. Despite the substantial redemption of maturing Treasury certificates held by the Reserve Banks, their Government security holdings rose 76 million dollars.

The pressure on member bank reserve positions relaxed considerably in the third week of November. Treasury cash receipts and expenditures were more nearly in balance, and gains of reserves resulting from payments of funds out of foreign deposit accounts with the Federal Reserve Banks approximately offset a further increase in reserve requirements. The rise in currency in circulation was temporarily halted, and in the week ended November 20, 72 million dollars of currency was returned to the Reserve Banks, an unusually large return flow of currency for this time of the year. The net effect of these transactions was to reduce substantially the need for reserves and for Federal Reserve credit. Federal Reserve Bank loans and discounts and Government security holdings declined in the week ended November 20, as the member banks, particularly in New York City, used their excess reserves to retire Federal Reserve credit. Loans and discounts declined further in the following week but Government security holdings rose substantially when some banks had to correct reserve deficiencies and there was a renewed rise in currency circulation.

The New York City banks gained substantial amounts of reserves through the redemption of Treasury certificates on November 1, because of the large amounts of these securities held in New York. But a heavy withdrawal of funds to other parts of the country during the early part of the month more than offset the reserves gained from Treasury operations as well as from disbursements out of deposit accounts maintained by foreign central banks and governments with the Reserve Bank. Consequently, the metropolitan banks sold short term Treasury securities directly and indirectly to the Reserve System, and increased their borrowings, in order to adjust their reserves to required levels.

Around the middle of the month a sizable return flow of funds to New York caused a temporary accumulation of excess reserves in the New York City banks. The banks repaid their borrowings and bought large amounts of Treasury bills from the Reserve Bank, allowing their reserves to fall substantially below their requirements on November 20. A renewed outflow of funds from New York together with a loss of reserves resulting from net Treasury receipts forced these banks again to resort to Federal Reserve credit in substantial amounts in the final week of the month.

Member Bank Credit

Total loans of the weekly reporting member banks rose in the four weeks ended November 20, with "commercial" loans continuing to show the widest gains. Less than one third of the increase of about 500 million dollars occurred among reporting member banks in New York City. Real estate and "other" loans continued to increase principally among out-of-town institutions. Government security holdings of all weekly reporting member banks fell about 1.7 billion dollars reflecting the cash redemption of Treasury certificates maturing November 1. This decline brought the volume of Government obligations held by these institutions to 37.9 billion dollars, or to the levels existing around the beginning of the Fifth War Loan drive in June 1944. The decrease in holdings since the beginning of the Treasury's retirement program on March 1 amounted to approximately 11½ billion dollars.

CONSUMER CREDIT SINCE THE END OF THE WAR

The announcement by the Board of Governors of the Federal Reserve System of the removal on December 1 of most of the credit restrictions under Regulation W and the modification of those remaining in force has focused attention on recent developments in the consumer credit field. Under the latest amendment of the regulation, all restrictions on charge accounts and single-payment loans have been lifted. Instalment sales of and loans on all but 12 major categories of consumers' durable goods which are still in short supply are also freed from controls. Minimum down payments have been reduced to 20 per cent in the case of rugs and have been maintained at that figure for furniture but are still 33⅓ per cent for the remaining ten categories of durable goods. The maximum permissible length for all new instalment contracts has been increased from 12 months to 15 months.

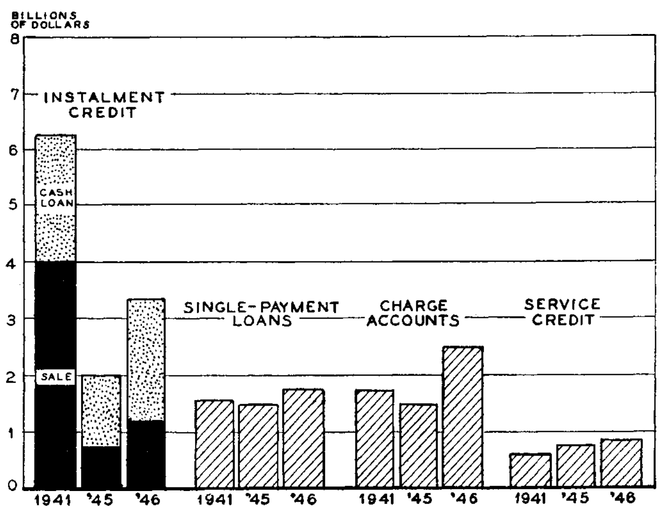
In announcing these changes, the Board of Governors stated:

> This revision narrows the scope of the regulation to what the Board considers a minimum consistent with the exercise of a stabilizing influence in this area of the economy. In this form, the Board believes the regulation can be better understood and its merits and defects better appraised. When present inflationary pressures have subsided, the terms of the regulation would need to be modified further.

Over the past twenty years consumer loan techniques have been refined and their field of application has been expanded. In the years from 1929 through 1941 the total amount of consumer credit outstanding was equal to about 8 to 11 per cent of consumers' disposable income, the percentage rising in times of high national income and falling in periods of recession. When business prospects appear to be good, the average consumer is willing to mortgage a part of his future income to obtain immediate use of goods, particularly of durables, which he cannot afford to purchase out of current income. When the business outlook is clouded or clearly unfavorable, he hesitates to make new commitments of this sort, and lenders are less willing to extend credit. During the war, while incomes rose to unprecedented levels, the decline in the production of consumers' durable goods, together with Government credit restrictions, caused a sharp reduction in the volume of consumer credit outstanding. The ratio between consumer indebtedness and disposable income declined to 3.8 per cent in 1944, the lowest ratio for the entire period for which such statistics are available. Since V-J Day consumer credit has been rising faster than incomes, but the ratio between them is still far below the prewar figure. The total volume of consumer credit currently outstanding could more than double before the prewar relationship between consumers' disposable income (at the present level) and consumer credit outstanding would be restored.

Although still low in relation to consumers' current income, the total volume of consumer credit outstanding has shown a tremendous increase since the end of the war. Between the end of September 1945 and the end of September 1946, the amount outstanding rose nearly 2.7 billion dollars, or 47 per cent, the largest 12-month increase ever recorded. As the accompanying chart shows, all major components of the total except instalment credits are now above their 1941 peaks. Normally instalment credits constitute the most important form of consumer indebtedness, but currently, because of the very restricted supplies of such durables as automobiles, they account for only about 40 per cent of the total amount outstanding, compared with 62 per cent in September 1941, and are only about half of their peak volume.

Consumer Credit by Major Types
(Estimated amount outstanding end of September 1941, 1945, and 1946*)



* September 30, 1946 preliminary.

The largest part of the year's increase in total consumer credit outstanding, nevertheless, was the 1.3 billion dollar increase in instalment credit. Somewhat over 400 million dollars of this rise represented a net increase in the direct consumer instalment cash loans of commercial banks. This increase in the loans of commercial banks, while small in relation to the increase in total consumer credit, represented a doubling of the volume of this kind of business handled by the banks and has attracted widespread interest. The proportion of consumer instalment cash loans originated by the commercial banks grew very rapidly in the decade preceding Pearl Harbor. The war sharply reduced their volume, but in the last two years through persistent efforts the banks have been able to resume expanding their consumer loan volume at a rate faster than any of the other lenders in the field. By the end of last September, according to the Board's estimates, the commercial banks accounted for nearly 39 per cent of the total volume of consumer instalment cash loans outstanding, a slightly higher proportion than at the end of 1941. Some of this increase may, strictly speaking, represent loans to small business rather than consumers, but the amount is probably small. Today over 10,000 commercial banks are operating consumer loan departments or have announced their intention to do so.

In the past year, in addition to increasing their direct consumer loans, the commercial banks have also substantially expanded their purchases of automobile and other retail instalment paper and more than doubled their outstanding volume of repair and modernization loans.

Commercial banks in the Second District have shown even greater proportionate increases in their consumer instalment loans than the banks in the rest of the country. Most of the expansion in their portfolios has been in personal instalment cash loans and in repair and modernization loans. Percentagewise, the automobile paper held by these banks increased particularly sharply, but it still constitutes only a very small proportion of their total volume of consumer loans. Reports from 37 member banks in this District indicate that at the end of September retail automobile paper accounted for 7 per cent of the amount of their consumer credit outstanding compared with 32 per cent for the country as a whole.

The expansion in the instalment cash loans of other lenders during the year ended September 30, 1946 was much more moderate. Small loan companies showed the biggest dollar increase, amounting to approximately 157 million dollars net. The rise in instalment credits granted by most retail dealers during the year continued to be restricted by the shortage of consumers' durable goods. Automobile paper, which increased more than any other type, rose about 230 million dollars to a level of approximately 430 million. This was more than double last year's volume, but still less than 20 per cent of the 1941 figure.

Charge accounts have shown the largest percentage increase of any of the major types of consumer credit since the end of the war. Between the end of September 1945 and the end of September 1946 accounts receivable rose nearly 70 per cent, or 1.0 billion dollars, despite the adverse effects on trade in the New York and Pittsburgh areas of the trucking and power strikes in the latter part of September. This rise in charge accounts reflects the considerable increase in the dollar volume of total department store sales resulting from both the sharp rise in prices which has taken place in the past year and the marked postwar rise in the proportion of consumers' incomes being spent on nondurable goods. Department stores in general have been actively seeking new charge account customers and have succeeded in increasing charge sales relative to cash sales, though not yet to the extent of approximating the prewar pattern. In September approximately 38 per cent of total sales were charged compared with 32 per cent a year ago and a pre-Pearl Harbor average of close to 45 per cent. With the approach of the Christmas season and the lifting of Government restrictions on charge accounts, the volume of charge sales may by the end of the year reach levels far exceeding all previous records.

The other two major categories of consumer credit, single-payment loans and service credit, showed much smaller increases (both relatively and absolutely) during the year than instalment credits or charge accounts. Single-payment loans rose about 270 million dollars net to a level of approximately 1.7 billion dollars, which still represents a sizable proportion of the total volume of consumer credit outstanding. This type of loan is made largely by commercial banks. The relatively slow rise in the volume of such loans in recent months is attributable largely to the successful promotion by banks of instalment loan techniques, with the resulting shift in emphasis away from the single-payment type of loan. The net increase in service credit, as the chart shows, was less than 100 million dollars. While the volume of service credit does tend roughly to follow changes in incomes, consumers' needs for doctors, hospitals, laundries, and other services do not usually rise or fall in proportion to their incomes.

The unprecedented growth in consumer credit since V-J Day has been limited mainly by the available supply of durable goods. Regulation W has, of course, had an additional restrictive influence. The large amount of liquid funds in the hands of some groups of consumers may also have tended to restrict the demand for credit. Recent surveys of liquid asset holdings, however, would appear to indicate that not as large a proportion of the total volume of liquid savings as some have assumed is held by the income groups which in the past have bought the largest amounts "on time," and the sharp rise in prices in recent months may induce some consumers to borrow who might not otherwise have done so. In some instances, though, dealers have been and still are reluctant to sell on time as long as demand exceeds supply by a wide margin.

In the months ahead, all forms of consumer credit may be expected to continue to rise, particularly if the output of passenger cars reaches the goals now set. Whether the volume outstanding will attain the prewar relationship to disposable income is not certain. This will depend on a number of factors, including possible changes in consumer attitudes resulting from increased liquidity.

A YEAR OF PEACETIME PRODUCTION

The first part of November 1946 marked the climax of a year's progress in peacetime production since the low point of the reconversion period last fall. Although a series of industry-wide labor disputes hindered achievement of high rates of production in many lines during the winter and spring, thereafter total industrial activity began to rise steadily. In October, production (as measured by the Federal Reserve index of industrial production) had reached a point 12 per cent higher than a year earlier and 82 per cent above the prewar (1935-39) average. This high level of activity was maintained during November up to the beginning of work stoppages in the bituminous coal mines. The duration of the coal strike will determine the seriousness of the repercussions upon the nation's economy; if the strike is prolonged and coal shortages are intensified, hundreds of thousands, if not millions, may be temporarily thrown out of work. In any case, another series of labor disputes like last spring's would postpone for some time the prospects of surpassing October's high rate of civilian goods output.

The extraordinarily strong consumer demand for nondurable goods has been one of the major factors in maintaining the national output at a high level throughout the reconversion period. Output of textiles, clothing, and processed foods has been at a high rate, although production in some lines, such as meatpacking, flour milling, and leather tanning, has been curtailed by shortages from time to time.

The biggest reconversion problems, of course, were faced by the durable goods industries. These were also the industries most seriously affected by the labor disputes last winter and spring. Production of durable goods was impeded not only by strikes at the fabricating and assembling plants, but also by raw material shortages. Largely the result of extremely high industrial demands, these shortages were intensified by low price ceilings on some goods and by strikes (as well as by the effect of the coal strike) at steel mills and at nonferrous metal mines, smelters, and refineries. Nevertheless, output of many types of consumers' durable goods has recently reached or exceeded prewar levels. Passenger car production in the first two weeks of November was practically equal to the average 1941 rate, while truck output had earlier exceeded prewar records. Radios, washing machines, vacuum cleaners, electric ranges, electric irons, and passenger car tires were all coming out of the factories in September in far greater numbers than in 1940 and 1941. By October, the Federal Reserve index of durable goods manufacturing had risen 15 per cent above the year-earlier level and 55 per cent above the low point reached in February during the steel strike. Future advances in the index, on the assumption of continued consumer demand and comparatively peaceful labor-management relations, will be limited principally by the availability of basic raw materials, the domestic production of which has been near current capacity levels. Under present conditions of nearly full employment of the country's labor supply, increased output must come mainly from increased productivity. The already strained transportation facilities may become another limiting factor.

The flow of finished goods to the consumer in recent months has increased even more rapidly than is indicated by the index of industrial production, which, in effect, measures activity at all stages of production. In many lines, where data on output of finished goods are not available, the index measures monthly fluctuations in industrial activity by changes in the production or consumption of raw materials or in the number of man-hours worked. In the first half of this year, many man-hours of work went into reconversion, setting up assembly lines, and doing maintenance work. Raw materials and man-power have been used extensively both in the fabrication of goods which remained unfinished for lack of critical component parts and in the manufacture of spare parts for prewar models. With reconversion largely accomplished and a steadier flow of materials and component parts, the same number of man-hours of work should now result in a greater output of finished goods. Furthermore, in past months large quantities of goods have been absorbed in the replenishing of normal business inventories. As "pipelines" are filled and stocks of finished goods reach normal levels, a greater proportion of the output will be available for civilian consumption.

This accumulation of inventories has raised questions as to whether stocks are likely to become overexpanded and whether consumer demand will be sufficient to take up the slack once the absorption of goods into inventories tapers off. By the end of October, the value of manufacturers' inventories had reached the record level of 19.5 billion dollars, a net gain of 3 billion dollars over a year earlier, more than three quarters of which was added in the last four months. If the replacement of war materials with civilian goods is taken into consideration, the gain in manufacturers' inventories since V-J Day has actually been about 7 billion dollars, and if wholesalers' and retailers' stocks are included, the gross increase in this period was at least

10 billion dollars. However, much of the recent rise has been the result of increased prices as well as greater physical volume. On the whole, taken in relation to the present high level of shipments, the aggregate volume of stocks held does not appear excessive. Matters of more concern are the continuing high rate of inventory accumulation and the fact that stocks are unbalanced in the case of many individual lines. Because of the uneven flow of materials and component parts, many manufacturers hold expanded inventories of unprocessed and semi-processed goods. In 1939, 43 per cent of factory inventories were in the form of finished goods; by September 1946, only 29 per cent were finished goods. Despite an increase over 1939 of 127 per cent in the dollar value of shipments, the value of stocks ready for shipment was by September only 28 per cent greater, and the physical volume was probably less than in 1939.

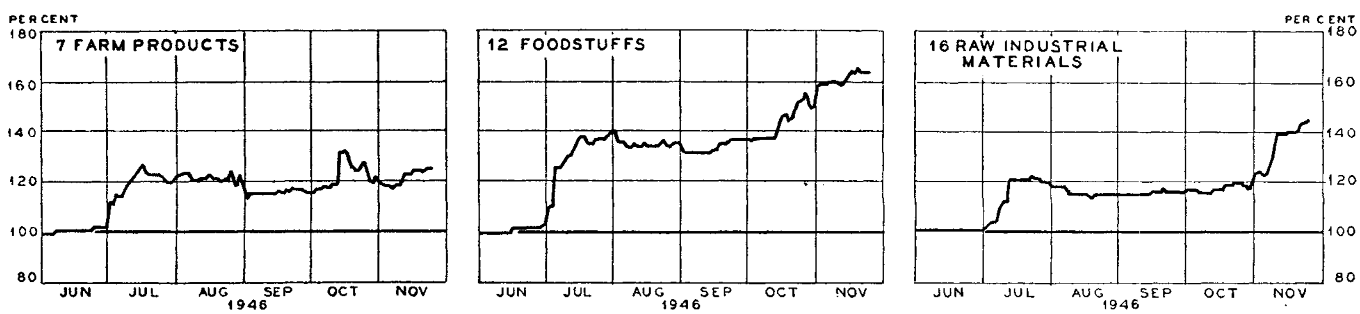
In the past year, the nation has achieved a high level of peacetime activity with less reconversion delays and unemployment than were generally expected. Despite a record amount of time lost by labor-management disputes and widespread shortages of materials, employment rose to a new peak and unemployment never exceeded 2.7 million persons. The total national output of goods and services is the highest it has ever been in peacetime, and income payments to individuals have likewise broken all records. Whether the nation will be able to consolidate these gains and achieve a stable prosperity will be largely dependent on whether consumer demand is maintained, prices are kept within reasonable limits, and more stable labor-management relations are achieved.

PRICES SINCE DECONTROL

On November 9, President Truman announced the immediate removal of practically all remaining controls over prices and wages. Pointing out that a large proportion of the economy had previously been freed from price control, he stated that any benefits derived from continuing the remaining controls would have been far outweighed by consequent distortions in production and by scarcities induced by withholding of goods from market in hopes of higher prices. At the end of August, the Office of Price Administration is estimated to have had under its control 60 per cent of the nation's economy, including the prices of about 70 per cent of all food products. Prices of livestock and meats were decontrolled in mid-October and most foods and many other commodities were freed from controls between that time and November 9. Prior to the decontrol order of November 9, department store executives estimated that as much as 95 per cent of their business was still subject to O.P.A. price regulations. After November 9, the only price controls still in effect were those on sugar, rice, and new residential construction, plus the ceilings on rents.

Since the prices of most farm and food products had already been freed of controls, the principal reactions to the President's order occurred among basic industrial commodities and manufactured products. Prices of nonferrous metals rose sharply, bringing domestic prices of copper, lead, zinc, nickel, and tin closer to world levels. Steel scrap prices advanced about $5.00 per ton, or 25 per cent, but owing to the tendency to upgrade scrap under the O.P.A. ceilings, the actual increase in cost to mills was somewhat less. Hides, which had been decontrolled

Indexes of Daily Spot Market Prices of Selected Basic Commodities, June-November 1946*
(June 1946 average=100 per cent)



* Latest figures are for November 25.
Source: Actual data, U. S. Bureau of Labor Statistics; converted to June 1946 base by Federal Reserve Bank of New York.

at the end of October, more than doubled their old ceiling price but later declined somewhat because of resistance to the high prices. Quotations for wool tops, rayon yarn, and cotton fibre also rose in the week following decontrol. The Bureau of Labor Statistics index of spot market prices of 16 raw industrial materials rose sharply after decontrol and on November 25 was 43 per cent above the level prevailing at the end of June under the original price control act.

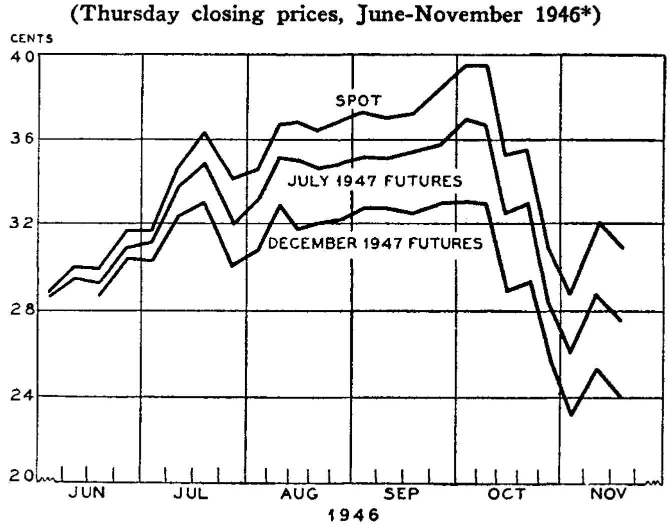
These increases in raw material costs are expected ultimately to have some effect on prices of manufactured goods. However, a number of manufacturers have announced that they are going to keep prices unchanged or keep increases to a minimum until the effects of higher raw material prices and prospective increases in labor costs become apparent. No general increase in steel prices has been made, but if coal prices advance further and another wage increase is granted by the steel mills, some price adjustments will almost certainly be made. This in turn would affect the prices of most durable goods. In some manufacturing lines, and also in construction work, hope has been expressed that part of the increased cost of materials may be offset by lower overhead expenses and increased physical output owing to a steadier flow of materials and a consequently higher rate of production. In other lines, however, where costs were already felt to be out of line with O.P.A. ceiling prices, numerous price increases have occurred since controls were lifted. Among the principal items which have shown price rises at the factory are some makes of automobiles, radios, and other consumer durable goods, as well as shoes, soap, carpets, and paints. At retail levels, similar price increases have also occurred, but retail food prices appear in many cases to have reached or passed their peak; in the case of some of these items, notably meat, consumer resistance has played a large part in reducing prices from the extreme levels reached shortly after decontrol.

The foregoing chart shows the daily movements of market prices of selected agricultural commodities since the expiration of the orginal price control law at the end of June. Prices of hogs increased nearly two thirds over the old ceiling price in the following five weeks. Nearly a month of fluctuation, mostly downward, ensued before the reinstatement of ceilings at the beginning of September. Thereafter for six weeks the official quotations moved on a plateau somewhat above the June level but well below the prices prevailing in August. Prices soared to a new record peak when controls were removed again, but soon receded to about the August level. Prices of steers have followed a similar pattern, and in the case of both hogs and steers prices rose during November. Corn prices, on the other hand, after rising abruptly upon decontrol, have fallen decidedly in the past six weeks and are now below the old ceiling prices. This decline reflects largely the heavy marketing of livestock since decontrol in mid-October, which entails a corresponding reduction in prospective demands for feed grains. Wheat prices, on the other hand, have stayed at a high level because of sustained export demand, and in the third week of November they were at the highest point in 26 years. A sizable drop in cotton prices in the last two weeks of October wiped out the advance of 33 per cent made in the previous four months; this decline was caused partly by the liquidation of speculative holdings.

Farm prices are generally not expected to advance much beyond their present levels. The Department of Agriculture estimates that prices received by farmers in 1947 may average 10 per cent below the present level and that prices for the 1947-48 marketing season may be as much as 15 to 20 per cent lower than at present. Such declines would be caused by continued high levels of production coupled with weakening in both domestic and foreign consumer demands. Traders' opinion of the prospect is indicated by the behavior of futures prices, which in some markets have been considerably below spot prices in recent months. The accompanying chart illustrates the case of cotton. Whereas in mid-June there was little more than a one-cent spread between the New York spot price and the various futures quotations, two months later the difference had widened to 4 cents, and by late November the December 1947 futures were selling about 7 cents below the spot market price. In other words, in the five months ended November 21, spot cotton prices made a net gain of about one cent, while July 1947 futures declined 1½ cents and December 1947 futures dropped 4½ cents in the same period.

A really severe drop in farm prices, however, would undoubtedly be prevented by Government price support activity, although an accompanying decline in prices of commodities bought by farmers would lower the price levels at which sup-

Spot and Futures Cotton Prices, New York City
(Thursday closing prices, June-November 1946*)



* Latest figures are for November 21.
Source: New York Cotton Exchange.

ports would become effective. Most farm prices are still materially above the existing support levels; the potato crop was the only one to require a considerable amount of price support in 1946. The Department of Agriculture estimates that Government supports would check a decline in farm prices about halfway between the peak and the prewar level, but the Department does not anticipate a decline of this magnitude in 1947.

DEPARTMENT STORE TRADE

The dollar volume of department store sales in the Second Federal Reserve District during November is estimated to have been about 25 per cent greater than in November of last year. This increase carries the seasonally adjusted index of sales to within 10 per cent of the all-time high reached in August. The November sales increase was in part a result of the public's postponement of buying during September and October because of the trucking and delivery strikes, but it also reflected further price increases, as well as buying in anticipation of price increases.

October sales of department stores in the Second District were only 3 per cent greater than in October 1945. The strike of United Parcel Service workers which affected stores in New York and Newark, with resulting curtailment of deliveries and picketing of receiving platforms, was the principal factor in the smallness of this increase, but shortages of merchandise caused by the trucking strike during September and unseasonably warm weather in October were also contributing causes. Receipts of merchandise at New York City department stores during October were nearly 20 per cent below last year's October receipts, while Second District stores outside New York City had receipts averaging 25 per cent higher than a year ago. Similarly, inventories on hand in New York City stores at the end of October were only 12 per cent greater than a year ago, while in stores outside the City inventories on hand had increased 43 per cent over the same period. The ratio of stocks on hand at the end of October to sales during the month was 2.6 for New York City stores, and 2.9 for stores outside the City. For the entire Second District, the stock-sales ratio at the end of October was 2.7, a figure slightly higher than the prewar level.

The merchandise which New York City department stores failed to receive because of the delivery workers' strike continued to be reported in outstanding orders. This resulted in a slight increase in orders outstanding from the end of September to October 31. Outstanding orders of Second District stores outside New York City declined about 10 per cent during October.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand
	October 1946	Jan. through October 1946	Oct. 31, 1946
Department stores, Second District	+ 3	+31	+24
New York City	— 7	+30	+12
Northern New Jersey	+ 1	+34	+45
Newark	— 6	+31	+46
Westchester and Fairfield Counties	+38	+38	+46
Bridgeport	+33	+34	+40
Lower Hudson River Valley	+30	+37	+42
Poughkeepsie	+27	+36	+44
Upper Hudson River Valley	+30	+36	+44
Albany	+34	+47	+47
Schenectady	+25	+24	+42
Central New York State	+33	+36	+45
Mohawk River Valley	+25	+28	+34
Utica	+19	+24	+34
Syracuse	+36	+39	+51
Northern New York State	+43	+37	—
Southern New York State	+34	+31	+43
Binghamton	+32	+34	+51
Elmira	+16	+22	+33
Western New York State	+21	+29	+39
Buffalo	+18	+30	+32
Niagara Falls	+ 9	+12	+34
Rochester	+26	+30	+53
Apparel stores (chiefly New York City)	+11	+28	+42

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(1935-39 average=100 per cent)

Item	1945	1946		
	October	August	Sept.	October
Sales (average daily), unadjusted	196	189	214	202
Sales (average daily), seasonally adjusted	172	259	202	177
Stocks, unadjusted	175	218	216	217
Stocks, seasonally adjusted	155	214	200	192

Indexes of Business

Index	1945	1946		
	October	August	Sept.	October
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	162	177	180	182*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	180	202	204	206*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	168*r*	194	198*p*	195*p*
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	208	261	257*p*	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	128	145	147	147*p*
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	116	127	129	130*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	223	278	284*p*	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	217	259	265	267*p*
Income payments*, 1935-39 = 100 (*Department of Commerce*)	231	252	246*p*	
Composite index of wages and salaries*#, 1939 = 100 (*Federal Reserve Bank of New York*)	146	161	163*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	129	144	146	148*p*
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	85	88	91	85
Outside New York City	68	85	85	83

* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
# A special monthly release tabulating the complete set of 15 indexes, supplanting the index of "wage rates" formerly computed by this bank, will be sent upon request. A general discussion of the new indexes appeared in the November 1946 issue of this *Review*. Tabulations of the monthly indexes, 1938 to date, and description of component series, sources, and weights may be procured from the Research Department, Federal Reserve Bank of New York. A mimeographed article discussing some of the technical problems involved is also available on request.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System)

OUTPUT and employment at factories were maintained at record peacetime levels in October. The total value of goods distributed was maintained at a high level but below the level of production, and inventories increased further. Prices in wholesale and retail markets generally advanced considerably following the lifting of controls.

Industrial Production

Output at factories and mines, as measured by the Board's seasonally adjusted index, increased slightly further in October and was at a level of 182 per cent of the 1935-39 average as compared with 180 in September. Production was maintained at this level in November up to the beginning of work stoppages in bituminous coal mines.

Production of nondurable manufactures in October was at a postwar peak rate of 169 per cent of the 1935-39 average. Output of manufactured food products rose sharply, reflecting chiefly the exceptionally large volume of meat production after the middle of October when Federal price controls were removed. The number of animals slaughtered under Federal inspection declined somewhat from late October levels during the first half of November. Output of textile products advanced in October to a level of 170 per cent of the 1935-39 average and there were also small gains in activity in some other nondurable goods industries.

Output of durable manufactures increased slightly in October as activity in the nonferrous metals and machinery industries continued to advance. The number of passenger cars and trucks produced increased further to a rate 14 per cent above the 1935-39 average and continued to advance in the first two weeks of November. Activity in most other durable goods industries was maintained at about the September level. During the first three weeks of November steel output rose slightly to an average scheduled rate of 91 per cent of capacity, but in the fourth week output dropped sharply owing to a cessation of operations at most bituminous coal mines on Novetmber 21 as a result of work stoppages.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in October to a level two-fifths below the May peak, but they were still about double the 1939 average. Awards for residential building decreased by one fifth in October, more than offsetting an increase in the value of contracts awarded for factory construction.

Distribution

Department store sales, which usually increase from September to October, showed little change this year, and the Board's seasonally adjusted index declined to 258 per cent of the 1935-39 average as compared with 269 for September and 290 for August. Sales increased seasonally, however, in the first half of November and were 22 per cent larger than a year ago. Department store stocks continued to rise in October and the Board's seasonally adjusted index reached a new high of 235 per cent of the 1935-39 average, notwithstanding a further marked decrease in stocks in the New York City area as a result of a trucking strike.

During October and the early part of November railroad carloadings of livestock were in exceptionally large volume and shipments of most other classes of railroad revenue freight were also maintained at high levels.

Commodity Prices

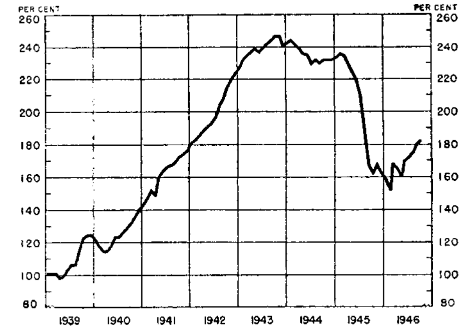
Following the initial sharp increases in prices of many basic commodities in October and the early part of November, after the lifting of controls, prices of some agricultural products, like cotton, corn, and poultry products, declined, while prices of wheat, flour, and sugar advanced. Initial advances in prices of nonferrous metals, steel scrap, and rayon were maintained, and in the latter part of November prices of some of these industrial materials advanced further. There were also reported in this period substantial increases in wholesale prices of a number of finished manufactured products.

Retail prices of foods and numerous miscellaneous products increased considerably further in October and November. Most of the increases occurred after the middle of October, at which time the consumers' price index was 2 per cent higher than in September and 15 per cent above the level at the end of the war.

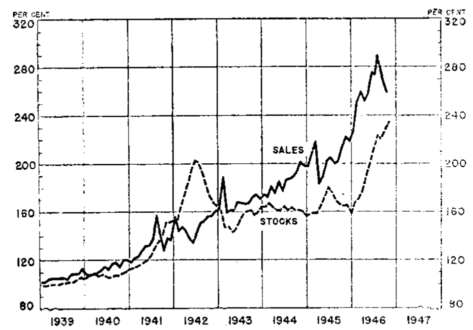
Bank Credit

Commercial and industrial loans at reporting banks in 101 leading cities showed further sharp increases in October and the first three weeks of November. Real estate and consumer loans also continued to increase steadily. Government security holdings declined further, reflecting principally Treasury debt retirement. Deposits of businesses and individuals have shown little further change.

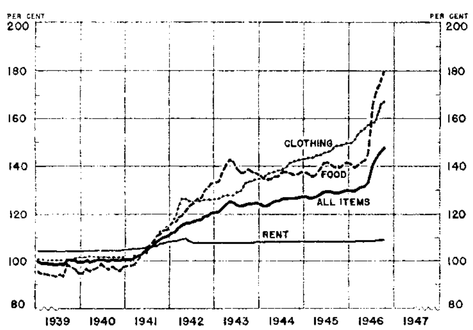
Member bank reserves showed little over-all change during October and the first three weeks of November. Losses of funds by member banks as a result of an outflow of currency and a transfer of deposits from member banks to Reserve Banks due to Treasury operations were about equal to the funds banks obtained by borrowing at Reserve Banks and from an inflow of gold. Government security holdings at Reserve Banks fluctuated considerably in October but were little changed over the period.



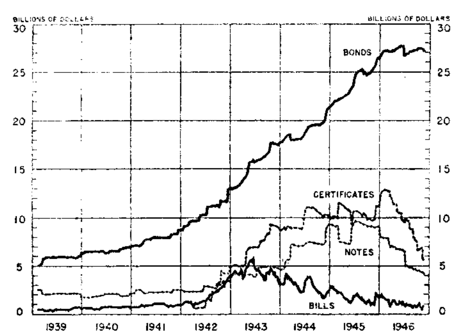
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of Value of Department Store Sales and Stocks, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



Indexes of Consumers' Prices as Compiled by Bureau of Labor Statistics. "All Items" includes Housefurnishings, Fuel, and Miscellaneous Groups Not Shown Separately (1935-39 average=100 per cent)



Government Security Holdings of Banks in Leading Cities. Excludes Guaranteed Securities. Data not Available Prior to February 8, 1939; Certificates First Reported on April 15, 1942