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MONEY MARKET IN JANUARY

During the past month there has been the heaviest post-Christmas return flow of currency from circulation ever recorded. This, together with a sizable increase in the monetary gold stock, provided member banks with a substantial volume of reserves, enabling them not only to meet losses of funds through Treasury and other transactions, and a reduction of Federal Reserve float, but also to reduce their indebtedness to the Federal Reserve Banks and to purchase short term Treasury securities directly and indirectly from the Reserve System, during the four weeks ended January 22. In the week ended January 29, heavy Treasury quarterly income tax collections brought a substantial drain on member bank reserves which offset gains from other sources, including a further decline in currency in circulation and a further increase in the gold stock, by a wide margin. Federal Reserve credit outstanding fluctuated widely from week to week, showing a net reduction of about 400 million dollars (exclusive of changes in the "float") over the four weeks ended January 22 and a net increase of more than 500 million dollars in the following week.

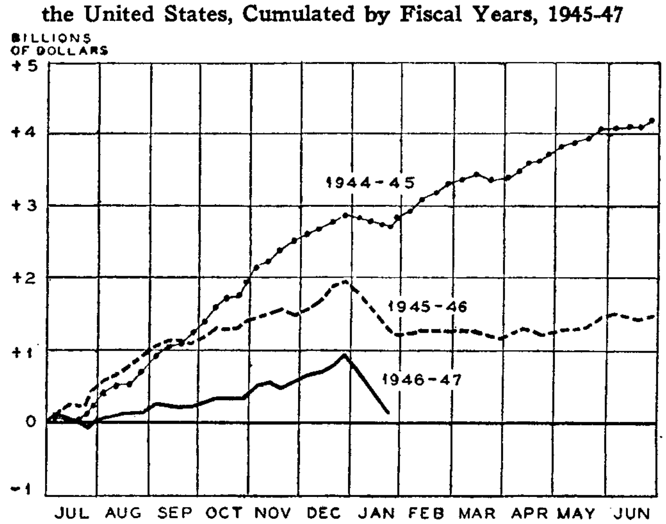
The return flow of currency to the Federal Reserve Banks amounted to nearly 900 million dollars in the five weeks ended January 29, and was 165 million dollars larger than in the corresponding weeks of the preceding year. As illustrated in the accompanying chart, which shows cumulative weekly changes in currency circulation for recent years beginning with July 1, the decrease in the weeks following Christmas of 1946 canceled most of the expansion of the preceding summer and fall. The post-Christmas return flow of currency increased progressively in the two postwar years while the outflow during the summer and fall diminished progressively in those years. This is concrete evidence that the influences making for constant expansion in the volume of the public's holdings of cash, during the war, have lost most of their force.

Although the payment in January of fourth-quarter instalments of 1946 personal income taxes may have contributed to this year's post-Christmas return of money to the banks, the decline in circulation was largely seasonal. The fact that it was about 400 to 500 million dollars greater than the prewar seasonal experience is probably attributable almost entirely to the much larger volume of currency in circulation and the substantially higher dollar volume of business and incomes.

Member banks also had the benefit of disbursement of the proceeds of a 280 million dollar expansion in the country's gold stock during the five weeks ended January 29. This increase brought the gain in the nation's gold holdings to close to 780 million dollars from the low point in the first week of December 1945. Thus, there has been a definite reversal of the wartime loss of gold, which resulted from heavy military expenditures abroad and large imports while exports were chiefly on a lend-lease basis. Cash, or commercial, exports have risen sharply in the postwar period and have been substantially higher than payments for imports of goods and services. However, part of the cash sales of goods to foreign countries have been paid for with the proceeds of foreign dollar credits extended here (including lend-lease "pipeline" credits) or with previously accumulated dollar balances, and therefore have involved no gold shipments from abroad or releases from earmark. Thus the increment in the gold stock has been modest in relation to the country's "favorable" balance of international trade.

Treasury transactions took considerable amounts of funds from the banks in the period under review, particularly in the

Weekly Changes in the Volume of Currency in Circulation in the United States, Cumulated by Fiscal Years, 1945-47



second half of the month when final quarterly payments of personal income taxes for 1946 were received. Following a substantial excess of cash expenditures over receipts in the last week of 1946, Treasury cash receipts and disbursements were approximately equal in the next two weeks. In the first of these two weeks, however, because of the redemption of about 200 million dollars of tax notes and a like amount of unexchanged Treasury certificates maturing January 1 and other disbursements, the Treasury supplemented its current revenues with withdrawals from War Loan deposits amounting to 735 million dollars. A part of the Treasury's disbursements, on the other hand, did not immediately reach the money market, as it represented a further payment to Great Britain under the Anglo-American credit arrangement. Thus, member banks sustained some loss of reserves as a result of these Treasury transactions. In the week ended January 22, the market felt the full impact of the collections of quarterly income tax checks. Government receipts exceeded expenditures by a wide margin and Treasury balances with the Reserve Banks rose more than 450 million dollars. Tax collections continued heavy in the following week, during the course of which the Treasury's accounts with the Reserve institutions rose above 1½ billion dollars.

This unusually large balance enabled the Treasury to effect its announced retirement of 1 billion of a 5 billion dollar issue of certificates of indebtedness maturing on February 1 without making a call on depositary banks for funds. Since the redemption will be effected with balances previously built up in the Federal Reserve Banks, the retirement of maturing certificates held by the Reserve Banks will not result in a loss of reserves to member banks, but will only reduce the amount of funds returned to the banks.

Despite the generally easier reserve position of member banks in the aggregate during most of the month, the changes in outstanding Reserve Bank credit were very irregular, reflecting unevenness in the timing and distribution of the gains and losses of reserve funds and the effects of Government security operations of the banks and their customers. Discounts and advances of the Federal Reserve Banks declined 103 million dollars, certificate holdings 219 million, and bills 74 million in the four weeks ended January 22. The decrease in loans was especially pronounced near the end of 1946 as member banks sought to minimize their indebtedness prior to the publication of year-end condition statements. With the passing of the year-end date, new borrowing was resumed but on a much smaller scale. In the final statement week of the month, owing to the strain on member bank reserves, Federal Reserve System loans rose 79 million dollars and bill holdings increased more than 500 million, while certificates held decreased another 70 million dollars.

Reserve Bank dealings in Treasury bills were particularly large during the month, and heavy sales in one week were followed by substantial purchases in the next. A 400 million dollar decrease in Federal Reserve holdings in the week ended December 31 reflected purchases of bills by member banks seeking temporary outlets for funds. In part it reflected the general ease of the commercial banking position but also investment operations by New York City banks which brought their reserves substantially below requirements. In the following week Reserve Bank holdings rose substantially, despite large maturities which were not replaced by bills of the new issue. As usual, a large part of that issue (the January 2 issue) went to Chicago banks which were preparing for extensive temporary demands for these bills just before April 1, when their customers seek to minimize their liabilities under the Cook County, Illinois tax on personal property holdings. The Chicago banks then sold large amounts of these bills to the Chicago Reserve Bank under repurchase options. The New York banks also sold large amounts of Treasury bills to the Reserve Bank in that week to bring their reserves to required levels, and banks in other parts of the country in need of reserves sold bills to their respective Reserve Banks. Sales of Treasury bills to the Reserve Banks by member banks were especially large in the week ended January 29, particularly by New York City banks.

At the year end the Reserve System absorbed small amounts of certificates of indebtedness offered in the open market, chiefly by out-of-town banks in need of funds to adjust reserves to required levels, and New York City banks also added to their certificate holdings in this period. In the subsequent three weeks, however, the Federal Reserve System sold certificates on an increasing scale in response to an active demand in the market, which apparently came largely from banks outside New York City and from nonbank investors. Federal Reserve holdings of certificates also declined moderately in the week ended January 29, despite the severe strain on bank reserves. This decrease, however, reflected sales in the early part of the week while the banking position was still relatively easy.

Reserve positions of the New York City banks were fairly easy on the whole during the four weeks ended January 22. Metropolitan banks had the benefit of substantial disbursements out of foreign accounts, a sizable decrease in currency circulation, and a modest decline in reserve requirements. Gains of reserves from these sources more than offset losses of funds resulting from an outflow of funds to other sections of the country in the early part of the month, particularly withdrawals of the proceeds of the sale of Treasury securities in the New York market. During this period, therefore, the New York banks were able to retire a substantial volume of Reserve Bank credit. In the last week of the month, however, the metropolitan banks were forced to seek additional Federal Reserve credit and sold more than 350 million dollars of Treasury bills under option. While the direct loss of reserves through Treasury transactions was only moderate, the indirect loss from this source was substantial. Out-of-town banking institutions withdrew funds on deposit in New York in addition to the proceeds of the sale of short term Treasury securities, to meet losses resulting from tax payments by their customers. These securities were purchased largely by dealers with funds borrowed from the New York banks.

SURVEY OF COMMERCIAL LOANS AT MEMBER BANKS

A nation-wide loan survey of the commercial and industrial loans of member banks outstanding on November 20, 1946 has been made by the Federal Reserve System. The purpose of the survey was to obtain comprehensive information on the nature of recent commercial and industrial lending by member banks, and to determine the part these banks are playing in the financing of postwar business activity. Information supplied by participating banks in this District permits analysis of about 20,000 individual loans with respect to the business of the borrower, interest rate charged, maturity of loan, asset size of borrower, security pledged as collateral, and other related matters. The material here presented represents the first part of a report on the results of the survey in this District.

Reports were obtained from all the largest banks in the District, and smaller banks included in the survey were selected on a sampling basis. Table I shows the relationship of the 264 reporting banks to all member banks in the District, both as to number of banks and as to dollar volume of commercial loans. The procedure followed insured the inclusion of the banks that hold the major part of the dollar volume of commercial and industrial loans in the District, and at the same time an adequate sample of the loans in the smaller banks. The reporting banks held 97 per cent of the total amount of commercial and industrial loans outstanding at all member banks on June 29, 1946. In drawing the sample of member banks with total deposits of less than 100 million dollars, the banks were grouped according to volume of deposits and subgrouped according to geographic location, and the banks needed for the sample were then drawn at random from each subgroup. Banks with total deposits of more than 100 million dollars reported all of their commercial and industrial loans amounting to 1 million dollars or more and every sixth loan of less than 1 million. Banks with total deposits ranging between 10 and

Table I
Number of Banks and Volume of Commercial Loans in Sample Banks Compared with All Member Banks in the Second District

Size groups (Measured by total deposits)	Number of member banks		Commercial and industrial loans outstanding June 29, 1946		
			Millions of dollars		
	All members	In survey sample	All members	In sample banks	Per cent in sample banks
Over $500 million....	14	14	$2,896	$2,896	100
$100 to $500 million..	22*	21	356	356	100
$10 to $100 million...	187	119	271	214	79
$2 to $10 million.....	425	87	67	17	25
Under $2 million.....	155	23	7	1	14
Total.........	803	264	$3,597	$3,484	97

* One bank in this group had no commercial loans.

Table II
Commercial and Industrial Loans Outstanding on November 20, 1946 at All Member Banks in the Second District* by Business of Borrowers and Size of Banks

Business of borrower	Number of loans						Dollar amount of loans, in millions					
		Banks with total deposits, in millions						Banks with total deposits, in millions				
	All member banks	Under $2	$2 to $10	$10 to $100	$100 to $500	Over $500	All member banks	Under $2	$2 to $10	$10 to $100	$100 to $500	Over $500
Manufacturing and mining—total	22,756	286	2,362	6.912	3.727	9.469	2,189	1	16	108	222	1,842
1. Food, liquor, tobacco	2,103	54	206	575	224	1,044	607	**	2	15	39	551
2. Textile, apparel, leather	7.930	0	320	2,280	1.674	3.656	224	—	3	29	38	154
3. Iron, steel, nonferrous metals and their products; electrical and other machinery; automobiles and other transportation equipment and parts.	4.908	46	687	1,708	772	1.695	607	**	5	37	87	478
4. Petroleum, coal, chemicals, rubber	1,426	8	314	393	165	546	458	**	2	7	29	420
5. All other (including lumber; furniture; paper; printing and publishing; stone, clay, glass)	6.389	178	835	1.956	892	2.528	293	1	4	20	29	239
Wholesale trade—total	17,209	340	2,229	5,267	2,201	7,172	817	1	11	68	70	667
6. Food, liquor, tobacco, drugs	4,242	69	652	1,245	679	1,597	297	**	4	18	22	253
7. Apparel, dry goods, shoes, related raw materials	4,066	8	129	1,129	560	2,240	330	**	1	15	23	291
8. Home furnishings, furniture, electrical appliances; hardware; machinery, metal products; lumber, building materials; plumbing and heating equipment	3,894	62	526	1,360	421	1,525	59	**	2	16	9	32
9. Automobiles and parts, petroleum	893	108	262	382	66	75	25	**	1	5	1	18
10. All other (including farm feed, fuel, jewelry, paper)	4.114	93	660	1.151	475	1,735	106	**	3	14	15	73
Retail trade—total	40.245	2.396	10,291	16,598	3.667	7,293	333	5	34	75	34	185
11. Food, liquor, tobacco, restaurants, drug stores	14,746	742	3,710	6,343	1,218	2,733	92	2	11	22	8	49
12. Apparel, dry goods, shoes, department stores, mail-order houses, variety stores, general stores	6,843	255	1,262	2,562	655	2,109	149	**	5	16	17	111
13. Home furnishings, furniture, electrical appliance stores; hardware and farm implement dealers; lumber, building material dealers; plumbing and heating equipment dealers	7,804	603	1,959	3,284	774	1,184	37	1	7	15	4	10
14. Automobile dealers, auto accessory stores, filling stations	5,772	441	1,781	2,554	540	456	26	1	6	13	3	3
15. All other (including farm feed, fuel dealers, jewelry stores)	5,080	355	1,579	1,855	480	811	29	1	5	9	2	12
Other—total	34,113	1,299	7,741	12,969	3,396	8,708	1,276	3	31	112	151	979
16. Transportation companies (railroad, etc.), communication companies, other public utilities	4,831	255	1,251	1,650	508	1,167	582	1	5	10	35	531
17. Services (including hotels; repair services; amusements; personal and domestic services; medical, legal, other professional services)	13,695	541	3,244	5,259	1,256	3,395	132	1	12	26	20	73
18. Building and road construction contractors and sub-contractors	5,935	201	1,550	2,824	498	862	58	**	5	27	9	17
19. Sales finance companies	1,275	0	87	303	322	563	307	—	1	20	67	219
20. All other (including forestry, fishing, real estate)	8,377	302	1,609	2,933	812	2,721	197	1	8	29	20	139
Total, all borrowers	114,323	4,321	22,623	41.746	12,991	32,642	4.615	10	92	363	477	3,673
Number of banks	803	155	425	187	22	14	803	155	425	187	22	14

* Estimated on basis of sample banks; includes real estate loans for commercial purposes. ** Less than half-million dollars.

100 million dollars reported every loan of 100 thousand dollars or more and every sixth loan of less than 100 thousand, while the smaller banks listed all of their commercial and industrial loans regardless of size. From the data reported by the selected banks, estimates of the number of loans and the dollar volume of loans of all member banks were computed and are used in the accompanying tables.

On the basis of these reports, it is estimated that all member banks in this District had on their books a total of more than 114,000 loans to commercial and industrial concerns, amounting in the aggregate to over 4.6 billion dollars, on November 20, 1946. While two thirds of the dollar volume represented the financing of borrowers with total assets in excess of five million dollars, extensive financing of small and medium size businesses is indicated by the fact that member banks of the District had an estimated total of 101,500 loans to concerns with total assets of less than 250 thousand dollars on that date. More than 76,000 loans were to concerns with total assets of less than 50 thousand dollars.

Table II shows a breakdown of the number and dollar amount of loans by business of borrower and by size of bank. As would be expected, the 14 largest New York City banks, those with deposits over 500 million dollars, accounted for the greatest dollar volume of loans, representing about 80 per cent of the total amount in the District; and when combined with all other banks with deposits greater than 100 million dollars constituted 90 per cent of the total. In number of loans these two groups of large banks had about 40 per cent of the total for all member banks in the District. The great dollar volume of the loans in the New York City banks is, of course, explained by their financing of large companies doing a nation-wide business.

Manufacturing and mining companies borrowed about 47 per cent of the dollar volume of all business loans, and about 84 per cent of their borrowing was handled by the 14 largest New York City banks. Heavy borrowers were the groups including food, liquor, and tobacco companies, the petroleum, coal, chemical, and rubber companies, and the durable goods group including the manufacturers of iron, steel, nonferrous metals, automobiles, and machinery. Wholesale trade represented about 18 per cent of the total amount of all loans, and its borrowing also was heavily concentrated in the 14 large New York City banks, where some 82 per cent of the loans were handled. Large borrowers in this group were wholesalers of food, liquor, tobacco, drugs, apparel, dry goods, and shoes. The dollar amount advanced to retailers was the smallest of the major business groups, totaling about 7 per cent of all loans in dollar amount, but about 35 per cent in number, and the loans were more widely distributed among banks of the various size groups. While banks with deposits of less than 100 million dollars accounted for only 10 per cent of the total of loans to all business, they accounted for more than one third of the aggregate amount of loans to retailers. This is readily explained by the local nature of the retail business.

Table III
Commercial and Industrial Loans Outstanding on November 20, 1946 at All Member Banks in the Second District*
by Business and Asset Size of Borrowers

Business of borrower	Number of loans						Dollar amount of loans, in millions					
	All borrowers	Assets of borrower, in thousands					All borrowers	Assets of borrower, in thousands				
		Under $50	$50 to $250	$250 to $750	$750 to $5,000	Over $5,000		Under $50	$50 to $250	$250 to $750	$750 to $5,000	Over $5,000
Manufacturing and mining—total	22,756	10,089	7,371	1,856	1,632	1,808	2,189	50	138	93	240	1,668
1. Food, liquor, tobacco	2,103	545	473	234	334	517	607	3	9	19	59	517
2. Textile, apparel, leather	7,930	3,381	3,346	691	385	127	224	20	65	31	45	63
3. Iron, steel, nonferrous metals and their products; electrical and other machinery; automobiles and other transportation equipment and parts	4,908	1,883	1,450	432	477	666	607	10	30	20	65	482
4. Petroleum, coal, chemicals, rubber	1,426	493	413	156	95	269	458	4	7	5	26	416
5. All other (including lumber; furniture; paper; printing and publishing; stone, clay, glass)	6,389	3,787	1,689	343	341	229	293	13	27	18	45	190
Wholesale trade—total	17,209	8,333	5,701	1,752	1,006	417	817	49	104	99	140	425
6. Food, liquor, tobacco, drugs	4,242	1,967	1,334	461	295	185	297	8	25	26	56	182
7. Apparel, dry goods, shoes, related raw materials	4,066	1,795	1,461	418	210	182	330	23	34	30	40	203
8. Home furnishings, furniture, electrical appliances; hardware; machinery; metal products; lumber, building materials; plumbing and heating equipment	3,894	2,108	1,290	386	94	16	59	9	19	19	7	5
9. Automobiles and parts, petroleum	893	590	254	17	30	2	25	2	4	1	5	13
10. All other (including farm feed, fuel, jewelry, paper)	4,114	1,873	1,362	470	377	32	106	7	22	23	32	22
Retail trade—total	40,245	33,614	5,516	527	408	180	333	82	58	17	39	137
11. Food, liquor, tobacco, restaurants, drug stores	14,746	13,039	1,485	113	72	37	92	33	12	4	5	38
12. Apparel, dry goods, shoes, department stores, mail-order houses, variety stores, general stores	6,843	5,222	1,143	139	210	129	149	14	13	6	24	92
13. Home furnishings, furniture, electrical appliance stores; hardware and farm implement dealers; lumber, building material dealers; plumbing and heating equipment dealers	7,804	6,469	1,189	110	28	8	37	13	13	4	2	5
14. Automobile dealers, auto accessory stores, filling stations	5,772	4,783	893	82	14	0	26	12	12	1	1	0
15. All other (including farm feed, fuel dealers, jewelry stores)	5,080	4,101	806	83	84	6	29	10	8	2	7	2
Other—total	34,113	24,279	6,616	1,221	828	1,169	1,276	116	89	68	145	858
16. Transportation companies (railroad, etc.), communication companies, other public utilities	4,831	3,332	642	196	119	542	582	18	8	13	37	506
17. Services (including hotels; repair services; amusements; personal and domestic services; medical, legal, other professional services)	13,695	11,558	1,722	203	128	84	132	37	19	6	18	52
18. Building and road construction contractors and sub-contractors	5,935	4,036	1,534	269	94	2	58	10	23	12	11	2
19. Sales finance companies	1,275	170	270	146	256	433	307	2	7	17	38	243
20. All other (including forestry, fishing, real estate)	8,377	5,183	2,448	407	231	108	197	49	32	20	41	55
Total, all borrowers	114,323	76,315	25,204	5,356	3,874	3,574	4,615	297	389	277	564	3,088

* Estimated on basis of sample banks; includes real estate loans for commercial purposes.

"All other" business was responsible for about 28 per cent of all loans in dollar volume. Large borrowers in this group, chiefly in New York City, were transportation and communication companies, other public utilities, and sales finance companies.

Table III shows the estimated number and dollar amount of commercial loans by type of business and size of borrower. It indicates that the smaller concerns obtained by far the greatest number of loans. Of the more than 114,000 loans outstanding, borrowers with assets of less than 50 thousand dollars accounted for 67 per cent of the total number, while only 3 per cent went to borrowers with assets of over 5 million dollars. On the other hand, large borrowers naturally predominated with respect to dollar volume. Of the 4,615 million dollars of loans outstanding, about 67 per cent went to borrowers with assets over 5 million dollars, while only 6 per cent of the total amount went to borrowers with assets of less than 50 thousand dollars.

Borrowers engaged in retail trade constituted in number 35 per cent of all loans covered by the survey; manufacturing and mining, 20 per cent; wholesale trade, 15 per cent; and all other borrowers, 30 per cent. Food, liquor, tobacco, restaurants, and drug stores were responsible for more than one third of the number of loans made to retail business. In the manufacturing and mining group, a little more than one third of the number of loans went to the textile, apparel, and leather businesses.

THE PRESIDENT'S BUDGET MESSAGE

In view of the current demands in Congress that income taxes and Government expenditures be cut, the President's budget submitted on January 10 must be regarded as a tentative estimate of the cost of the Government's activities during the fiscal year ending June 30, 1948.[1] The Congressional committees on the budget now scrutinizing its details must approve or recommend new maximums for Congressional approval by February 15. As presented, the budget calls for receipts of 37.7 billion dollars and expenditures of 37.5 billion, leaving a surplus of 202 million. During the current fiscal year ending June 30, 1947, receipts as now estimated should amount to 40.2 billion dollars and expenditures to 42.5 billion dollars, leaving a deficit of 2.3 billion.

Including trust fund cash receipts, but deducting certain payments of interest and principal from Government corporations, total cash receipts from the public during fiscal 1948 are estimated at 40.7 billion dollars. Similarly, deducting such noncash expenditure items as interest accruals on Savings bonds, terminal leave bonds, and transfers to Government corporations, but adding disbursements from trust accounts, total payments to the public are estimated at 37.8 billion dollars. Thus net cash receipts from the public of approximately 3 billion dollars are indicated, as compared with the estimated budgetary surplus of only about 202 million dollars.

[1] Unless otherwise stated, references to specific years in this article mean the fiscal year, that is, the twelve-month period ending June 30.

An estimated net outgo of trust accounts, amounting to 414 million dollars, will more than absorb the net budgetary surplus of 202 million; the remaining 212 million dollars, together with a 200 million reduction in the gross public debt, is expected to reduce the Treasury's cash balance by 412 million during fiscal 1948. During the current fiscal year it is estimated that the budgetary deficit of 2.3 billion, combined with a trust account net outgo of 407 million and net reduction in the public debt of 9.0 billion dollars, will reduce the Treasury's cash balance by 11.7 billion dollars. On this basis, the public debt will amount to 260.4 billion on June 30, 1947, and 260.2 billion dollars at the end of June 1948.

Receipts have been estimated on the assumption that business activity will average slightly higher than in the calendar year 1946, when national income amounted to 164 billion dollars. If a recession should occur, the budget forecast contemplates that it would be of a temporary character which would not require a change in budget policy. Supporting expenditures, such as public works and aids to agriculture, are stated to have been held to a minimum consistent with public health and safety.

On the basis of the expected high income level and current tax rates, direct taxes on individuals are estimated at 19.1 billion dollars, compared with 18.6 billion dollars estimated for fiscal 1947. These taxes would provide nearly half of estimated cash receipts in fiscal 1948, compared with over 40 per cent in 1947 and 20 per cent in 1941. Reflecting the repeal of the excess profits tax, direct taxes on corporations are expected to decline to 8.3 billion dollars from 9.2 billion during the current fiscal year. Excise taxes are expected to raise 6.1 billion dollars, compared with the all-time high of 7.3 billion estimated for fiscal 1947; restoration of wartime rates would add 1.1 billion dollars to receipts. Employment taxes (including old-age and survivors insurance) are expected to provide another 2.7 billion, customs 517 million, and miscellaneous receipts close to 3 billion dollars. Projected employment taxes are 739 million higher than estimated for 1947, reflecting both the expected higher payrolls and an assumed increase from the present rate of 2 per cent to 5 per cent, effective January 1, 1948.[1]

Miscellaneous receipts include proposed nontax receipts amounting to 379 million dollars. If Congress approves, the Treasury would receive repayments of 100 million dollars of capital from the Federal Deposit Insurance Corporation and of 28 million advanced to the Federal Reserve System for direct loans to industry. In addition, it is proposed that 112 million of the gold increment fund now reserved for such loans be released, and that the Federal Reserve System be authorized to turn over to the Treasury 139 million which it is to receive from the Federal Deposit Insurance Corporation in repayment for capital furnished.

In order to offset the Post Office Department's growing

[1] During previous sessions, Congress has repeatedly postponed the scheduled increases in these taxes.

operating deficiency, estimated at 352 million in 1948, the President suggests that postal rates be raised. This proposed increase in revenue has not, however, been included in the estimated receipts.

Expenditures are grouped in this budget under new headings. National defense, international affairs and finance, and the items referred to formerly as "the aftermath of war"—veterans' services and benefits, interest on the public debt, and tax refunds—account for over three quarters of the budgetary expenditures proposed for fiscal 1948. National defense alone amounts to 11.3 billion dollars. It includes expenditures for military and naval defense, terminal leave, and stockpiling of strategic and critical materials. These would be offset to a small extent by a return of funds from the RFC and the War Shipping Administration. The RFC transfer includes a 210 million dollar profit made by the War Damage Corporation. The 1948 projected expenditures for national defense are 3.5 billion lower than estimated expenditures for the current fiscal year, but the decline is due principally to large reductions in terminal leave payments and lend-lease expenditures, and a shift of expenditures for atomic energy development to another classification. In fiscal 1941 national defense expenditures amounted to 6.4 billion and in fiscal 1939 they were 1.1 billion dollars. Pay, upkeep, and travel costs for military personnel alone are estimated at 5.2 billion, or at an annual average of 3,100 dollars per man. Army strength in fiscal 1948 is projected at 1,070,000 men throughout the year, and Navy and Marine strength at an average of 571,000. In 1947 the combined strength will average about 2,108,000 men. Other items under military and naval expenditures include procurement, research, expansion of citizen-reserve organizations, terminal leave payments, and construction, operation, and maintenance.

Veterans' services and benefits, covering readjustment benefits, pensions, insurance, hospital construction, other services, and administrative costs, will require 7.3 billion dollars in 1948, compared with estimated 1947 expenditures of 7.6 billion. The 1948 expenditures include a transfer of only 53 million to the National Service Life Insurance Fund compared with nearly a billion for this item in 1947; but construction expenditures and pensions are each up over 300 million from 1947, the higher pension outlay reflecting the 20 per cent rise approved last session by Congress. Readjustment benefits continue at the high 1947 level of 3.5 billion. An allowance for the purchase of veterans' guaranteed mortgage loans from private lenders is included in housing expenditures in another classification. No new major programs of assistance to veterans are anticipated.

Interest on the public debt, the next largest and probably the least flexible item, is expected to be 5 billion dollars in 1948, about the same as in 1947. In commenting on the interest burden, the President pointed out that the interest amounts to less than 3 per cent of our current national income. The Government's "debt management policy is designed to hold interest rates at the present low level and to prevent undue fluctuations in the bond market."

Budgetary expenditures of 3.5 billion dollars for international affairs and finance in 1948 are only a little more than half the estimated 1947 expenditures. The decline is due largely to the nonrecurrence of subscriptions to the International Fund and Bank, which added 1.4 billion to 1947 expenditures. On a cash basis, however, provision for the redemption of notes issued to the International Bank during 1947 adds nearly 500 million dollars to the 1948 budgetary expenditures. Expenditures of 305 million dollars for UNRRA (down 1.2 billion dollars from 1947) are required for the completion of that program. Export-Import Bank loans are scheduled at 730 million, nearly 300 million less than those estimated for 1947, and estimated advances of 1.2 billion under the Treasury's loan to the United Kingdom are also 300 million less than in fiscal 1947.

Refunds of receipts continue as a large item in expenditures and at 2.1 billion dollars in fiscal 1948 are only slightly below those estimated for 1947. They will arise largely from overpayments of individual income taxes under the current payment system and refunds of wartime corporate income and profits tax liabilities. Refunds to corporations are expected to continue for several years, since the application of carry-back and other relief provisions in many cases requires time. If the wartime excise tax rates are continued, refunds will be 123 million dollars less. The recent Treasury ruling that corporations may charge wage payments arising out of portal pay suits against their income in the years for which pay claims are made will increase refunds above present estimates, if these suits are upheld by the courts.

Other activities in fiscal 1948 will require 8.3 billion dollars, or 1.6 billion more than estimated for 1947, when repayments received by Government corporations provided a half-billion dollar offset to expenditures. In 1939 these activities required 6.4 billion dollars. Increased outlays are budgeted for transportation and communications (+625 million), natural resources not primarily agricultural, including development of atomic energy (+373 million), finance, commerce, and industry (+343 million), agriculture and agricultural resources (+264 million), social welfare, health, and security (+84 million), and education and general research (+17 million). Small declines are indicated for housing, labor, and general government.

In 1947, the total cash surplus and the receipt of 1.8 billion from the Stabilization Fund, totaling 5.7 billion dollars, would raise the Treasury's cash balance to 19.9 billion, but the budget provides for the retirement of nearly 17.4 billion dollars of the debt held by the public during this year. Net noncash borrowings, representing sales of special issues to Government trust funds and the issuance of other securities, mainly terminal leave bonds and notes for the International Bank and Fund, will amount to 8.4 billion dollars; therefore, the net reduction in gross public debt will be cut to 9 billion, and by June 30, 1947 the estimated total gross public debt will amount to 260.4 billion. The Treasury's cash balance should then be 2.5 billion dollars.

During 1948, the expected net cash receipts of nearly 3 billion dollars, together with 400 million from the Treasury's cash balance, will be used to retire 3.4 billion of the debt held by the public. Offsetting net noncash sales (mainly sales of special issues to trust funds) are estimated to be 3.2 billion, so that by June 30, 1948 the gross public debt would stand at 260.2 billion dollars and the Treasury's cash balance at 2.1 billion dollars.

The President has proposed repeal of the authority of wholly-owned Government corporations to issue Government guaranteed obligations to the public. During the war, in order not to interfere with the Treasury's debt operations, these corporations borrowed their funds directly from the Treasury. It is now proposed that these agencies be authorized to obtain funds solely from the Treasury but at a rate equivalent to the current average market rate paid by the Treasury instead of at the wartime rate of 1 per cent charged by the Treasury when a large part of their activities were non-income producing.

WORLD PRICE TRENDS DURING AND SINCE THE WAR

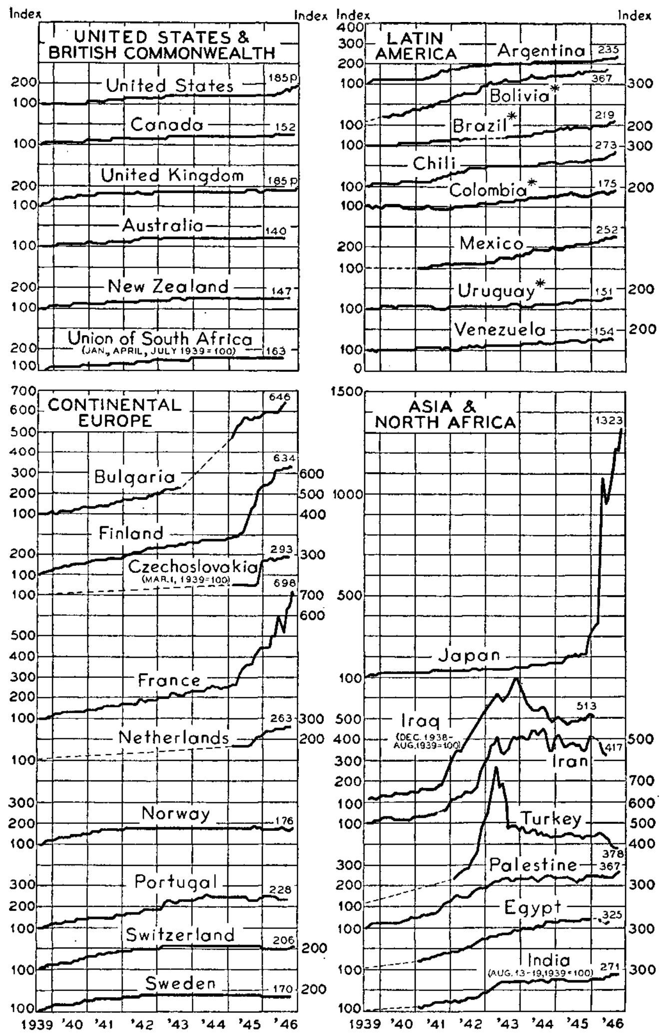
With the relaxing of price controls last summer the United States, virtually alone among the leading nations, returned to a relatively free-market economy. Such is this country's sheer economic weight, that the ensuing American price rise was bound to have wide-spread repercussions. Many countries have suddenly found themselves faced not only with the necessity of paying much higher prices for imports from the United States, but also with a tendency in some cases for their own export goods to reflect the American price advance. These changes in turn have exerted unwelcome upward pressure on the domestic price levels of such countries, in certain instances seriously threatening their efforts at stabilization. While the effects of recent American price developments on continued world recovery are not yet clear, a review of wartime and postwar price trends abroad should be of help in their appraisal.

Prices in foreign countries nearly two years after V-E Day continue to show a marked diversity of trend, but certain definite patterns are apparent. In some countries, such as the United Kingdom and the Dominions, Denmark, Norway, Sweden, and Switzerland, where there has been real political and social stability, and where at the same time strong economic controls have been successfully maintained, prices have been kept firmly in hand both during and after the war. However, in most of the actively belligerent countries—primarily the former Axis powers, but also such countries as Greece and China—the internal structure either was weak in the first place or seriously deteriorated during or after the war. These countries have been characterized by extensive wartime inflation, in some cases on an astronomical scale, which in most cases has continued in the postwar period.

In those areas—principally Latin America and the Near East—which did not participate actively in the war, but into which large sums were poured by the Allies for raw materials and other war needs, and where economic controls are relatively undeveloped and ineffectual, most of the war years were marked by very sharp price advances. These were succeeded in 1944 and 1945 by comparative stability or an actual decline—continuing in the Near East to the present, but followed in Latin America by a new advance in 1946.

The wartime and postwar price changes in forty-three countries are summarized in the accompanying table, and the month-to-month movements since 1939 for most of these countries are shown in the charts. Wholesale price indexes are used wherever possible; in some cases, where none exist, cost of living indexes are used instead. The latter, however, in most of these cases resemble retail price indexes rather than the much more comprehensive cost of living series used in the United States and the United Kingdom. The table shows the percentage changes of each index for the war period (to V-E Day), for the postwar period (May 1945 to the latest available month), and for the two periods combined. For

Wholesale Price Trends Since 1939
(January-June 1939=100, except as noted)



* Cost of living index.
Source: United Nations, U. S. Bureau of Labor Statistics, Dominion Bureau of Statistics, U. K. Board of Trade, Oriental Economist, and others.

the more advanced economies, these indexes as a rule possess a fair measure of reliability, but even so they are frequently inaccurate to the extent that they conceal the effects of subsidies, black-market operations, and the like. For many of the less developed countries—particularly in Latin America and the Near and Far East, as well as in parts of Europe—far more extensive reservations are often necessary. In those areas, not only may the prices at which goods actually change hands show a greater divergence from official prices, but the indexes themselves tend to vary substantially in technical quality, while in a few countries, in addition, there may even have been deliberate manipulation. For all these shortcomings, however, the data serve to indicate the direction and usually the general scope of price movements even in the least developed of the national economies.

Among the various groups of countries, it is in the United Kingdom and the British Dominions that price controls have operated most successfully. In no country of this group was the wartime rise other than relatively moderate; the greatest advance—73 per cent, in the United Kingdom—largely represented the effects of the 14 per cent depreciation of the pound at the beginning of the war and of the rise in ocean freight, insurance, and other importing costs that occurred in the first months after the outbreak of hostilities. Since V-E Day, price advances in these countries have been held to small percentages. The postwar rise in Canada is the largest for the group, but nevertheless amounts to only 8 per cent for the entire period from May 1945 to November 1946.

Prices in the United States, which had been virtually as stable as those of the British countries up to the initial lifting of price controls last summer, rose 25 per cent during the six months from June to December, according to preliminary data. This advance has posed serious problems for Canada, not to mention the United Kingdom and other countries. The 10 per cent appreciation of the Canadian dollar in terms of United States currency on July 5 was partly motivated by Canada's desire to escape the effects of the United States price rise on its own price level. Sweden is another country that has appreciated its currency in an effort to immunize itself against the American price rise. Several others are said to have considered similar action but have apparently decided against it.

Nowhere has economic collapse as a result of the war proceeded further than in Eastern Europe, where social and political disruption also has been marked. While no wholesale price index is available for Hungary, the cost of living index stood at an astronomical figure (16,600,000,000,000,000,000,000) in July 1946 compared with 100 on August 26, 1939. The Hungarian inflation was well advanced by the end of the war; the postwar months merely saw the deterioration accelerated.[1] Greece also suffered by a wartime economic breakdown, which continued without serious check through 1945; early in 1946, however, conditions were somewhat stabilized and have since been so maintained with foreign aid; in fact, the index of free-market retail prices in Athens actually declined 12 per cent during the first three quarters of 1946.[2] In Italy, too, the wartime inflationary rise has slackened somewhat, although a new upward trend appeared in November.

In Finland, the price level, which had tripled during the war, doubled again in the seventeen months after May 1945, but most of this postwar rise took place in 1945. Whether the more moderate advance of 1946 can be halted entirely will depend to a large extent on whether the country is able to

[1] Reports indicate that after the Hungarian monetary stabilization of last August, when the new "forint" currency was introduced, prices dropped sharply, although they seem to have subsequently increased again.

[2] There appears, however, to have been a fresh advance since September.

Wartime and Postwar Price Increases in Foreign Countries
(In percentages)

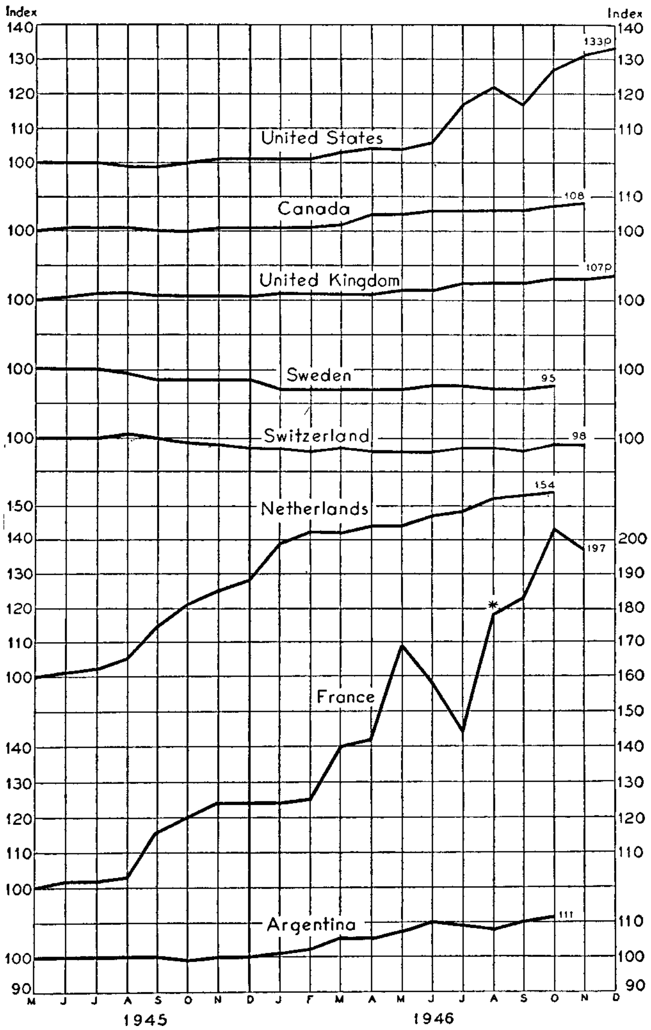
Country	Type of index and latest month available[1] 1946		Wartime increase; prewar to May 1945[2]	Postwar increase; May 1945 to latest month	Total increase; prewar to latest month[2]
United States and British Commonwealth					
United States	WP	Dec.	39	33*p*	85*p*
Canada	WP	Nov.	41	8	52
Newfoundland	CL[2]	July	61	2	65
United Kingdom	WP	Dec.	73	7*p*	85*p*
Australia	WP	July	39	1	40
New Zealand	WP	Sept.	50	— 2	47
Union of South Africa	WP[2]	July	58	3	63
Other Europe					
Hungary	CL[2]	July	6700*a*	*b*	*b*
Greece	CL[3]	Sept.	1444*c*	850	14572*c*
Italy					
Black and free markets	WP[2]	Nov.	4533*d*	19*d*	5402
Official and free markets	WP[2]	Nov.	2205*d*	28*d*	2853
Bulgaria	WP	Aug.	466	14	546
Finland	WP	Oct.	207	107	534
Czechoslovakia	WP[2]	Sept.	48	98	193
France	WP	Nov.	254	97	598
Netherlands	WP	Oct.	71	54	163
Denmark	WP	Nov.	99	2	102
Norway	WP	Nov.	83	— 4	76
Iceland	CL[2]	Sept.	175	10	202
Eire	WP	June	96	— 1	94
Spain	WP	Dec. '45	108	13	134
Portugal	WP	Sept.	147	— 8	128
Switzerland	WP	Nov.	109	— 1	106
Sweden	WP	Oct.	79	— 5	70
Asia and North Africa					
Japan	WP	Nov.	98	568	1223
Lebanon	WP[2]	Dec. '45	861	10	956
Iraq	WP[2]	Jan.	379	7	413
Iran	WP	May	378	—13	317
Turkey	WP	Sept.	339	—14	278
Palestine	WP	Oct.	233	10	267
Egypt	WP	July	232	— 2	225
India	WP[2]	Sept.	138	14	171
Latin America					
Ecuador	CL[4]	June	149	48	268
Bolivia	CL	June	236	9	267
Chile	WP	Sept.	116	26	173
Cuba	CL[5]	Oct.	109	26	163
Mexico	WP	Oct.	98	27	152
Peru	WP	Oct.	117	12	143
Argentina	WP	Oct.	111	11	135
Brazil	CL	Sept.	84	19	119
Costa Rica	WP	Nov.	88	8*p*	103*p*
Colombia	CL	Sept.	66	5	75
Venezuela	WP	Aug.	46	5	54
Uruguay	CL	July	30	16	51

[1] WP indicates wholesale price index; CL, cost of living index.
[2] "Prewar" is average for January–June 1939, except for the following: Newfoundland, September 1938; Union of South Africa, January, April, and July 1939; Hungary, August 26, 1939; Greece, October 1940; Italy, 1938; Czechoslovakia, March 1, 1939; Iceland, January–March 1939; Lebanon, June 1939; Iraq, December 1938–August 1939; India, August 13–19, 1939.
[3] Retail free-market prices in Athens; October 1940 = 100.
[4] Food, heating, and lighting only.
[5] Food only.
p Preliminary estimate.
(—) Decrease.
a July 1945 used instead of May 1945.
b Index (August 26, 1939 = 100) in July 1945 stood at 6800; in December 1945 at 2,400,200; in July 1946 at 16,600,000,000,000,000,000,000.
c October 1940 instead of January–June 1939 used for prewar.
d February 1946 used instead of May 1945.
Source: United Nations, U. S. Bureau of Labor Statistics, Dominion Bureau of Statistics, Board of Trade, Oriental Economist, etc.

fulfill Russian reparation requirements while meeting its minimum reconstruction needs at home. Czechoslovakia, having been integrated into the German economy during the war, experienced only a moderate wartime rise in official prices. After the end of fighting, these prices remained generally unaltered until December 1945, when in consequence of the devaluation of the koruna in the previous month and of the attempt to restore equilibrium between costs and prices, sharply higher official quotations were established for most products, as a result of which the price index virtually doubled. Black-market prices fell precipitously, however, and became less important in the national economy. Subsequently, Czechoslovak prices have been relatively stable.

Of the other European countries for which indexes are available, only France and the Netherlands have had significant price advances since the war. The French wholesale index practically doubled between May 1945 and November 1946, reflecting the franc devaluation of a year ago and the endeavor to bring costs and prices into better balance, and also in part

Postwar Wholesale Prices in Selected Countries (May 1945=100)



* France: Beginning August 1, 1946, includes certain free-market prices.
Source: United Nations, U. S. Bureau of Labor Statistics, Dominion Bureau of Statistics, U. K. Board of Trade, and others.

the price rise in the United States. The greater part of the Dutch postwar price advance took place in 1945 and January 1946; the rise has since continued, but at a slower pace. No price indexes are available for Belgium, but it is known that official prices of the principal commodities, which were raised as much as 50 per cent in the second half of 1945, remained unchanged thereafter until July 1946 (the latest date for which figures are available). In general, postwar price trends in both Belgium and the Netherlands have reflected essentially the same basic economic factors as in France, although the price rise has been much smaller than in France.

Denmark and Norway, as well as the two neutrals, Sweden and Switzerland, have benefited since V-E Day from continuing social and political stability which has helped to make possible the successful enforcement of stringent price controls. Thanks also to the reopening of foreign-trade channels, postwar prices in these countries either have recorded only nominal gains or have actually declined. Portugal and Eire, too, have enjoyed postwar price stability.

In China the wartime and postwar inflation has been extreme. No national price indexes are available, but the situation has long been so uncontrolled as to make refinements of statistical measurement of minor significance. Conditions, however, vary greatly between the different parts of China, one area frequently continuing to suffer from acute inflation at the same moment that another is actually undergoing a degree of temporary deflation. Military expenditures are currently the major inflationary influence, although the transport breakdown and the lack of production are also important. In view of the present political and economic unsettlement in China, the prospects for price stabilization there must be called obscure.

Wholesale prices in Japan were held to an advance of about 100 per cent during the war, but the official quotations appear to have understated the real rise. Controls, however, have deteriorated seriously since V-J Day, with the result that wholesale prices increased more than five times from November 1945 to November 1946.

Of the Near and Middle Eastern countries, India had the smallest wartime price increase, but the political difficulties of that country, the food shortages and general import scarcities, and more recently, the price advance in the United States, have resulted in a steady if moderate price rise in 1946.

The other Near and Middle Eastern countries experienced very large price increases during the war, the advances to May 1945 ranging from 232 per cent in Egypt to 861 in Lebanon, with 300 per cent not unrepresentative of the typical pattern. The rise was caused principally by the heavy war expenditures of the Allied Powers, although in contrast to Latin America the expenditures in this area were not primarily for the purchase of materials for export but for military and related activities on the spot. Such expenditures had dwindled well before V-E Day, and prices had reacted even by that time, although the major secondary factor in the advance—the shortage of imports—still remained unrelieved. Since V-E Day, the improvement in the import situation, along with better crops and the disappearance of Allied military expenditures, has resulted in a relatively stable price situation, net changes in the wholesale level since May 1945 ranging between a 10 per cent increase for Palestine and a 14 per cent decline for Turkey.

In Latin America, prices advanced during the war much less sharply than in the Near and Middle East, the increases to May 1945 extending from the exceptionally low 30 per cent for Uruguay to 236 for Bolivia, with 100 per cent perhaps the most representative figure. These advances, in an area not directly touched by the war or by the pressures of domestic war finance, reflected of course the piling up of funds within these countries as a result of the heavy wartime demand for Latin American products from the United States and its allies. An additional major cause was the inability of the area to obtain its accustomed imports of manufactures because of the shutting off of Continental Europe, the concentration of the United States and the United Kingdom on their own war needs, and the difficulties in obtaining shipment of such goods as continued to be available.

After V-E Day the typical Latin American pattern tended to be a temporary stabilization or decline of prices, succeeded in 1946 by a new advance of appreciable but not major proportions. The initial stabilization or decline reflected in general the drop in war exports following the end of hostilities, the expectation that imports would quickly become available again, and to some extent the liquidation of some of the speculative positions that had been built upon war demands and import stringencies. As 1946 came in, however, export demand was holding up better than had been anticipated, while the revival of imports proved unexpectedly tardy. The strengthening of prices that ensued was accentuated in the second half of 1946 by the sharp advance in the United States, although the latter as yet has been reflected only partially in the Latin American indexes. Consequently, whereas price changes over the May-December 1945 period included both advances and declines, of which none exceeded 10 per cent except in Ecuador, during 1946 on the contrary all changes were upward and ran as high as 28 per cent in the case of Cuba. The especially large postwar rise of 48 per cent reported for Ecuador reflects in part the fact that its index covers only retail food prices and fuel and lighting, and in consequence is especially responsive to the existing food shortage (which in turn is partly the result of the diversion of agriculture to rice and other export crops). The 27 per cent Mexican postwar rise reflects the inflationary and speculative boom in that country, stemming from both its wartime industrialization and its current food stringency.

DEPARTMENT STORE TRADE

Department stores in this District have resumed the prewar practice of January clearance and special promotion sales. The dollar value of January sales was approximately 18 per cent higher than a year ago, and the seasonally adjusted index of sales continued at the November-December level, 10 per cent below the all-time high reached last August.

Before the war, white sales accounted each year for a large part of January sales. During the past few years, however, shortages of merchandise have reduced the proportion of sheets and pillow cases, blankets, and linens sold to the aggregate of store sales. This year the supply is reported to be more than adequate in the higher priced lines of white goods, but shortages still exist in the medium grades. Activity in other departments continues to follow the pattern of the past few months. Sales of hosiery and men's clothing show significant gains owing to the pent-up demand, but stocks of both types of merchandise are nevertheless being built up considerably. Quality furniture at reasonable prices continues to be short relative to existing demand, although the aggregate dollar volume of stocks in this line is considerably above last year. Mechanical appliances, floor model radios, and other high-ticket durable goods are contributing substantially to the dollar volume of sales. The most urgent demand for such goods may be satisfied in the not too distant future, but at the present time no inventory accumulation is taking place in these departments. Sales of men's furnishings and housewares have tapered off in recent months, following a marked expansion early last year. Shortages of these items are no longer acute, except in a few well known brands.

At the close of the Christmas season the dollar volume of department store inventories was the highest for any year end on record. Availability of merchandise varied considerably, however, in different departments. Extensive clearances were advertised in women's dresses, coats, and furs. Stocks in these departments had been unusually large. Sales were particularly

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

Locality	Net sales		Stocks on hand
	Dec. 1946	Jan. through Dec. 1946	Dec. 31, 1946
Department stores, Second District	+28	+30	+56
New York City	+28	+29	+54
Northern New Jersey	+29	+33	+54
Newark	+26	+30	+54
Westchester and Fairfield Counties	+30	+37	+61
Bridgeport	+26	+33	+48
Lower Hudson River Valley	+26	+35	+55
Poughkeepsie	+23	+33	+56
Upper Hudson River Valley	+21	+34	+57
Albany	+26	+43	+57
Schenectady	+15	+24	+55
Central New York State	+31	+35	+72
Mohawk River Valley	+20	+27	+45
Utica	+21	+24	+38
Syracuse	+37	+38	+88
Northern New York State	+21	+34	—
Southern New York State	+21	+30	+72
Binghamton	+20	+30	+78
Elmira	+18	+22	+74
Western New York State	+27	+29	+63
Buffalo	+28	+29	+56
Niagara Falls	+11	+12	+63
Rochester	+27	+30	+77
Apparel stores (chiefly New York City)	+12	+24	+58

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

Item	1945	1946		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	307	202	301	392
Sales (average daily), seasonally adjusted*	182	179	231	232
Stocks, unadjusted	137r	217	247	213
Stocks, seasonally adjusted	150	192	217	234

r Revised.
* Seasonal adjustment factors for 1938-46 revised; available upon request.

Selected Indicators of Department Store Trade
Estimates for All Second Federal Reserve District Stores, 1941-46

Item	1941	1942	1943	1944	1945	1946
Sales*						
Cash	392	459	513	582	666	834
Charge account	199	188	178	187	209	299
Instalment	57	47	43	41	42	60
Average period outstanding#						
Charge accounts	72	65	59	57	55	59
Instalment accounts	10	8	7	7	7	7
Accounts receivable‡						
Charge account	56	42	41	46	51	77
Instalment	30	20	19	19	19	28
Inventories‡	161	181	170	158	166	260
Outstanding orders‡	48	63	161	186	233	175

* Annual totals in millions of dollars.
\# Annual averages; charge accounts in days, instalment accounts in months.
‡ End-of-year totals in millions of dollars.

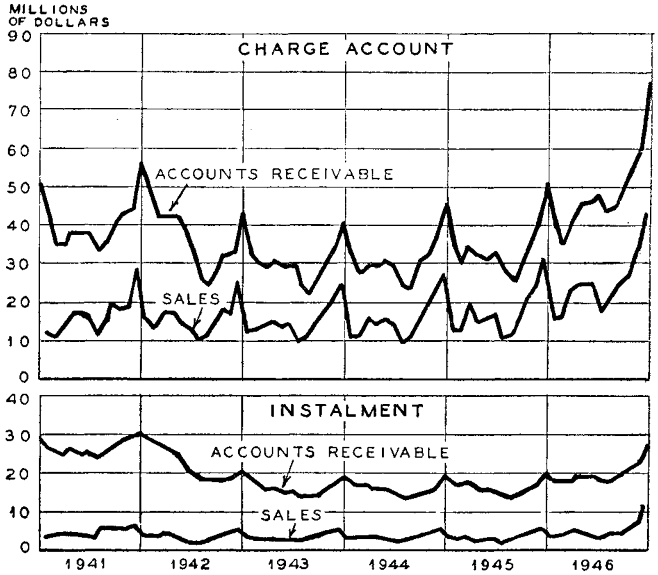
heavy in furs, as many customers took advantage of sharply reduced prices. Trade sources indicate that consumers are demanding better grade merchandise at reasonable prices, and January mark-downs were general for overpriced goods which will shortly have to meet the competition of better quality merchandise. During the last few months basement store sales have been gaining at the expense of the main store volume and their share in total sales is returning to the prewar ratio.

During 1946 Second District department store sales amounted to approximately 1.2 billion dollars. This exceeded the previous year's record by 30 per cent, the largest yearly gain ever made. The increase in dollar volume since 1941 amounts to 85 per cent. Credit purchases increased relatively in 1946, and total accounts receivable rose 50 per cent to a new high, about one-quarter above the previous peak at the close of 1941. Charge and instalment sales each increased more than 40 per cent during 1946, compared with a gain of 25 per cent for cash transactions. This was the first time since 1941 that cash sales had experienced a smaller gain than credit transactions. During the five-year period, however, cash sales more than doubled. Instalment sales, which had dropped sharply in 1942 because of the limited supply of durable goods, showed little change until last year, when they topped the 1941 peak by a small margin. Charge account sales, after declining slightly in 1942 and 1943, showed an upward trend which was accelerated in 1945, and the substantial increase in 1946 brought the five-year gain to more than 50 per cent.

Both charge and instalment accounts receivable expanded sharply during 1946, as shown in the accompanying chart. Total receivables reached an all-time high owing entirely to the increase since 1941 in the volume of charge accounts outstanding; instalment receivables remained slightly below the 1941 high. The average duration of all accounts outstanding has changed little since 1942, when it dropped sharply following the adoption of consumer credit regulation.

Department stores' outstanding orders, which had been larger than the amount of stock on hand since the close of 1944, dropped sharply in the latter part of 1946, and at the year end commitments were the lowest for that date since 1943. Trade sources indicate that department stores generally are writing firm orders only, the usual delivery period in soft lines being

Estimated Dollar Volume of Credit Sales and Accounts Receivable of Second District Department Stores, 1941-46*



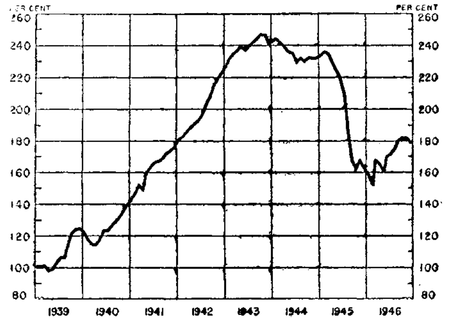
* Accounts receivable at end of month.

30 days; orders on which delivery is overdue are generally being taken off the books. The dollar amount of orders outstanding remains high in relation to the amount of stock on hand. At the close of 1946 outstanding orders represented two thirds of the value of stock on hand, or twice the ratio that existed at the end of 1941.

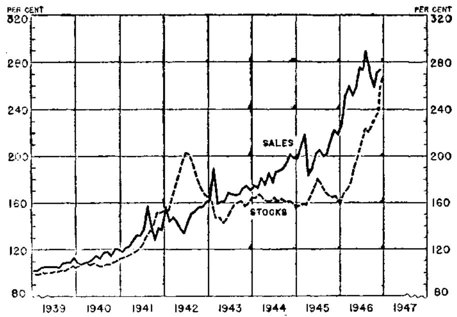
Indexes of Business

Index	1945 Dec.	1946 Oct.	1946 Nov.	1946 Dec.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	163r	181	182	179p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	187	206	212	217p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	181	194	186p	190p
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	217	260	273p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	128	147	149	150p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	118	130	131	131p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	226	286	291p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	224	267	269	273p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	234	255	259p	
Composite index of wages and salaries*# 1939 = 100 (*Federal Reserve Bank of New York*)	148	165	166p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	130	148	152	153p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	99	85	84	84
Outside New York City	83	83	87	83

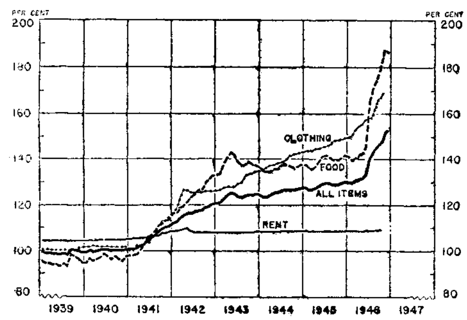
* Adjusted for seasonal variation. p Preliminary. r Revised.
\# A special monthly release tabulating the complete set of 15 indexes, supplanting the index of "wage rates" formerly computed by this bank, will be sent upon request. A general discussion of the new indexes appeared in the November 1946 issue 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.



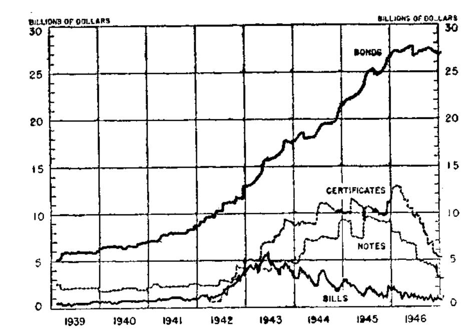
Index of Physical Volume of Industrial Production, Adjusted for Seasonal Variation (1935-39 average=100 per cent)



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



Indexes of Consumers' Prices 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 (Latest figures are for January 15)

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, January 29, 1947)

INDUSTRIAL output declined slightly in December owing mainly to a temporary reduction in coal supplies and to holiday influences. Value of retail trade was maintained close to record levels. Wholesale prices of industrial products have advanced somewhat further in recent weeks; prices of some basic commodities, however, like butter, hides, and silver, have shown further marked declines.

Industrial Production

The Board's seasonally adjusted index of industrial production was 179 per cent of the 1935-39 average in December as compared with 182 in November.

Output of durable goods decreased somewhat, reflecting chiefly a decline in production of iron and steel owing to the bituminous coal work stoppage. In the early part of January steel operations were raised to the peak rates prevailing in the middle of November. Activity in machinery and transportation equipment industries showed little change in December. Production of nonferrous metal products increased somewhat further. Activity in the furniture industry reached a new record level for the postwar period.

Output in industries manufacturing nondurable goods declined to 168 per cent of the 1935-39 level, from 172 in November, owing in part to curtailed operations during the Christmas week. Production of textile products decreased about 7 per cent. Meat packing activity declined from the sharply advanced level reached in November, while output of most other manufactured foods showed a small increase. Newsprint consumption increased, and production of most chemical and rubber products remained at advanced levels.

Output of minerals in December was at the November rate. Owing to the termination of the two-and-a-half week work stoppage in the bituminous coal industry on December 9 and the high rate of output in subsequent weeks, coal production was 9 per cent larger in December than in November. Production of crude petroleum decreased slightly.

Employment

Nonagricultural employment in December remained at the November level, after allowances for seasonal increases in trade and Government postoffices and the usual decline in construction employment. Unemployment increased by about 200,000 persons.

Construction

Value of most types of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in December, reflecting mainly seasonal influences. Residential awards and awards for public works and utilities, however, were more than double the amounts in December 1945. Value of other contracts was substantially smaller than in December 1945, but for the year 1946 exceeded all previous years except 1942.

Distribution

Department store sales in December showed the usual sharp increase and the Board's adjusted index was 272 per cent of the 1935-39 average. Total sales in the fourth-quarter holiday shopping season were 23 per cent larger than in the same period in 1945 and for the year 1946 sales were 27 per cent greater than in 1945. Sales in the first three weeks of January showed about the usual seasonal decline. Department store stocks showed a much smaller decline than usual in December and, according to preliminary figures, were 70 per cent larger than at the end of 1945. Outstanding orders for merchandise continued to decline and were about 30 per cent smaller than on December 31, 1945.

Loadings of railroad revenue freight in December and the first three weeks of January exceeded the volume shipped during the corresponding period in 1945-46 by about 10 per cent. Loadings of grain products were the greatest on record for the month of December owing to large shipments for export.

Commodity Prices

The general level of wholesale commodity prices advanced slightly further from the middle of December to the latter part of January reflecting increases in prices of industrial products, offset in part by decreases in prices of most livestock and poultry products, grains, cotton, and canned fruits and vegetables.

Among industrial products, prices of building materials and metal products generally showed the largest increases in the early part of January. Silver prices, however, declined considerably and a leading manufacturer of lower-priced automobiles reduced prices slightly.

Retail food prices declined somewhat further from earlier peak levels and clearance sales before and after the Christmas holiday resulted in substantial price reductions for various types of merchandise. Retail prices of most standard types of goods, however, were maintained or increased further in this period.

Bank Credit

Real estate and consumer loans at banks in leading cities continued to increase during December and the first half of January. Commercial and industrial loans, following the rapid expansion of the summer and fall months, increased only slightly further. Substantial reductions in holdings of Government securities reflected largely the 3.3 billion dollar Treasury note retirement of mid-December.

Deposits at member banks increased in the early part of December but declined in the latter half of the month as a result of income tax and other payments. Member bank reserve balances showed similar fluctuation with little net change for the period as a whole. Reserve funds which became available to banks through a post-holiday decline in currency in circulation and through increases in monetary gold stock were about offset by reductions in Government security holdings and an increase in Treasury deposits at the Reserve Banks.