MONTHLY REVIEW

*Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 29 | APRIL 1947 | No. 4

# MONEY MARKET IN MARCH

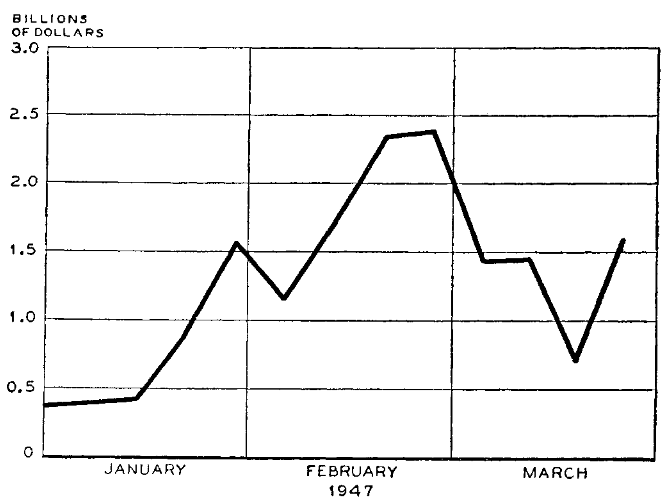
Through the redemption of a substantial volume of maturing certificates and notes and payments of interest on the public debt, the Treasury returned to the banks during the past month a large portion of the funds it had accumulated with the Reserve Banks, primarily out of tax receipts, in earlier weeks of the year. These payments substantially exceeded tax collections in March and the money market consequently was greatly eased. Thus Treasury operations, which in the first two months of the year caused a persistent drain on the reserves of the banks, had the reverse effect in March, at least until the latter part of the month. In the first three weeks of the month the banks relinquished a substantial volume of Federal Reserve credit, by purchasing Government securities directly or indirectly from the Reserve Banks. In effecting this retirement of Federal Reserve credit, the banks were aided by a decline in their reserve requirements, by payments from foreign and other deposits with the Reserve Banks, and by receipt of the proceeds of an increase in the monetary gold stock. There was also, of course, a reduction in the volume of Federal Reserve credit in use, as a result of the redemption of Federal Reserve Bank holdings of maturing Treasury securities.

Member bank reserve positions were considerably eased on the first day of the month when the Treasury paid off, in cash, 1 billion of a 3.1 billion dollar issue of maturing certificates. At the middle of the month an entire issue of 1.9 billion dollars of 1¼ per cent Treasury notes was redeemed. As a result of these redemptions, together with payments of interest on the public debt in excess of 400 million dollars, Treasury deposits with the Reserve Banks dropped 965 million dollars in the week ended March 5 and 716 million in the week ended March 19—the latter despite large income tax collections and Treasury withdrawals of about 700 million dollars from War Loan deposits in the banks. Member banks were quick to utilize the funds placed at their disposal and made heavy purchases of Treasury bills from the Federal Reserve Banks, acquired more moderate amounts of Treasury certificates in the open market (most of which were furnished by the Reserve System), and reduced their indebtedness to the Reserve Banks.

In the intervening week (ended March 12) there was little net change in the volume of Federal Reserve credit outstanding. For member banks in the aggregate, gains of reserve funds from some transactions were approximately counterbalanced by losses from others. But for individual banks and groups of banks the gains and losses did not balance, so that some banks were in need of reserves and sold substantial amounts of Treasury bills to the Federal Reserve Banks, while others purchased considerable amounts of certificates in the open market, most of which came indirectly from Federal Reserve holdings

Tax collections were heavy in the latter part of the month and, as Government disbursements were not unusually large after the public debt operations at the middle of the month, funds accumulated rapidly in the Treasury's deposit accounts with the Reserve Banks. In the week ended March 26, these deposits again rose above 1½ billion dollars. Despite a drop in reserve requirements resulting from the heavy tax payments, a reduction in currency circulation, and net gains of funds from gold and foreign account operations, member banks experienced heavy losses of funds on balance in that week, and adjusted their reserve positions through sales of short term Treasury securities to the Reserve Banks and in the open market, and through increased borrowings.

**Treasury Deposits with Federal Reserve Banks***




* Wednesday dates; latest figure is for March 26.

In view of the renewed accumulation of funds in its deposit accounts and the improved budgetary outlook for the current fiscal year, the Treasury announced that it would redeem 1½ billion dollars of maturing certificates on April 1. Although a moderate withdrawal from War Loan deposit accounts is to be made on that date, the net effect of the Treasury's operations again will be to return to the banks a substantial portion of the reserves which they have lost recently as a result of tax collections. Thereafter, Treasury receipts and disbursements are expected to be in closer balance, so that the week-to-week swings in reserve positions of the member banks due to Treasury transactions should be narrowed considerably.

New York City banks felt the effects of Treasury disbursements in connection with debt retirement operations in the first and third weeks of March to a greater extent than other banks. As usual, large amounts of the redeemed Treasury securities were concentrated in the New York money market, but the transfers of business and banking funds out of New York to other parts of the country, which are usually associated with such debt transactions, were much less pronounced than on many occasions in the past. In fact, there was no net outflow of funds to other parts of the country in connection with the redemption of the maturing certificates on March 1. Throughout most of the month, the metropolitan banks had the benefit of substantial payments out of foreign deposit accounts at the Reserve Banks. In the final week of that period, however, the New York City banks sustained rather large losses of reserves through heavy income tax collections and related transfers of funds to other parts of the country. Consequently, they found it necessary to resell to the Reserve Banks substantial amounts of the Treasury bills they had purchased earlier in the month.

### Business Loans

The expansion of commercial, industrial, and agricultural loans at weekly reporting member banks was accelerated in the first quarter of 1947. In the four weeks ended March 19, business loans at those banks rose 429 million dollars, as compared with about 200 million dollars or less in each of the preceding three periods of like duration. Business borrowing from the reporting banks since the end of December increased 826 million dollars, an increase of distinctly greater than seasonal proportions.

The growth of business loans in this period was particularly rapid among the New York City reporting member banks. In fact, the rate of growth at the City banks was half again as rapid as in the period from May through December last year when the largest part of the 1946 expansion of business loans occurred. In contrast, weekly reporting banks in the 100 other cities showed a distinct slowing down (by about one third) in the rate of gain in their outstanding business loans.

The factors behind the expansion of business borrowing from the banks last year was discussed at some length in the November 1946 and previous issues of this *Review*. They included the increased volume of business in many industries, heavy expenditures for reconversion and capital expansion, higher wages and material costs, heavy strike expenses and increased operating costs resulting from material shortages and recurrent production bottlenecks, the expansion of inventories, the rise in book credit extended by business to customers, and the increase in retail charge account sales and instalment credit granted by retailers.

The more recent expansion of loans may be associated in part with the renewed rise in prices, as inventories acquired at lower prices have had to be replaced at higher values, necessitating increased financing. A great variety of industries has been represented in the extensions of bank credit in recent months. To a large extent, however, the current increase in outstanding business loans apparently reflects a decline in the rate of repayment of loans rather than a rise in the volume of new borrowing. Some confirmation of this tendency is given by the reports of the volume of new business loans (including renewals) at 10 leading cities during March 1-15; these reports showed little change from the December 1-15 volume. The decline in the rate of repayment may reflect the large proportion of term loans made in 1945 and early 1946, on which, because of their longer maturity, repayments are much smaller in relation to the outstanding volume than on short term loans.

## INTEREST RATES CHARGED ON BUSINESS LOANS BY MEMBER BANKS IN THE SECOND DISTRICT[1]

The interest rate charged on each loan reported was a part of the information supplied by the member banks in this District who participated in the recent survey of commercial and industrial loans outstanding on November 20, 1946. From these reports it is possible to estimate the average interest rates charged on all business loans made by banks of various size, as well as the average rates paid by the different types of borrowers. These data indicate that, in general, interest rates charged by member banks varied considerably between loans (and borrowers) of different size and, partly for that reason, between banks of different size. Rates were also influenced to a lesser extent by the business of the borrower and the maturity of the loan. Average rates charged by the larger banks were generally lower than the rates charged by the smaller banks, chiefly because much of their business is with large borrowers with high credit ratings, although their rates tend to be somewhat lower for borrowers of comparable size. This is particu-

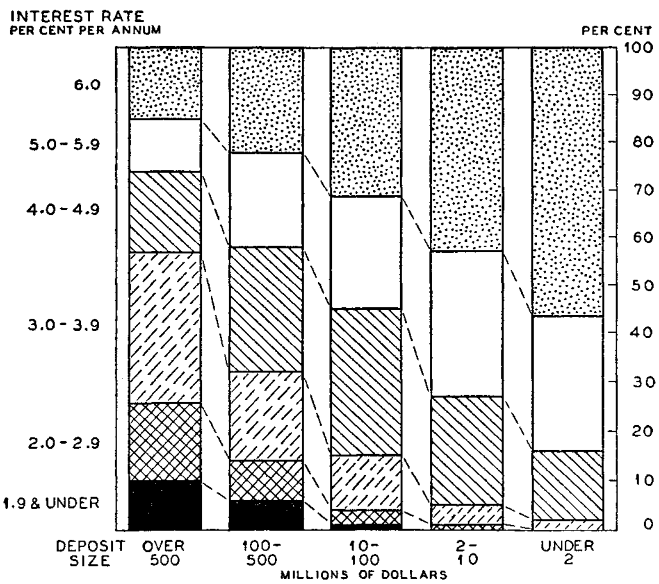
[1] This is the third of a series of articles covering the results of a survey of commercial loans of member banks in this District. The first article appeared in the February 1947 *Review* and the second in the March 1947 *Review*.

larly true in the 14 New York City banks with total deposits of more than 500 million dollars, whose average rates were the lowest of any group of banks.

The interest rate pattern in the District ranged from slightly less than 1 per cent to 6 per cent, but the average rate charged on all business loans by all member banks was 2.3 per cent, owing to the substantial dollar volume of large loans made at less than 2 per cent by the 14 largest New York City banks. Exclusive of these banks the average rate was 3.4 per cent. About half of the estimated 114,323 business loans outstanding on the survey date carried interest rates of 5 per cent or more, while only 4 per cent of the number were made at less than 2 per cent. As Chart I indicates, 10 per cent of the loans of the largest banks were made at rates under 2 per cent, and about 57 per cent carried rates below 4 per cent. The proportion of higher-rate loans increased steadily as the size of bank diminished until, in the smallest banks, 98 per cent of the loans were made at rates of 4 per cent or more and more than half were at 6 per cent.

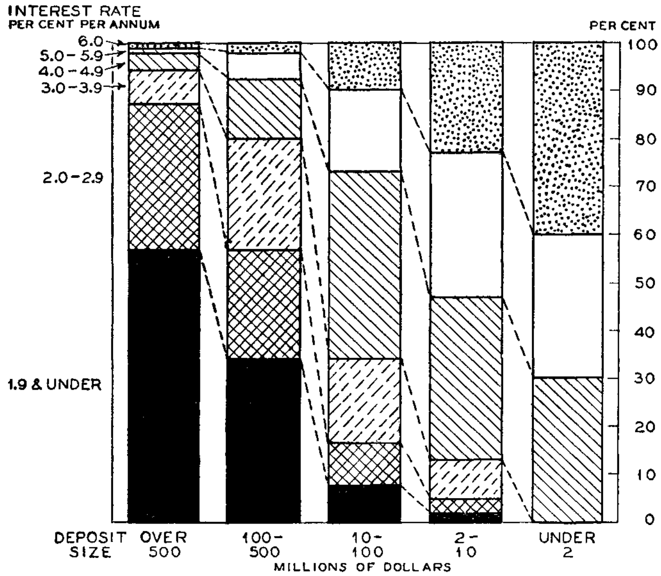
The lower average interest rates reported by larger banks do not necessarily imply that small banks would charge a higher rate on any given loan. The differences in the results appear to be largely traceable to differences in the character of their commercial lending. Average rates at the larger banks were lower, at least in part, because more of the loans made by these banks were large, and were made to large concerns with a nation-wide scope and high credit rating. Thus the costs of appraising the applications and servicing the loans, relative to the amounts involved, tend to be considerably lower at the large banks, and the risks also are less. The available data do not permit study of all separate factors influencing the level of interest rates at banks of various size, but such factors as competition among big banks for business loans of the highest grade are undoubtedly of considerable importance.

**Chart I**
**Interest Rates Charged on Business Loans by Second District Member Banks of Various Size—Percentage Distribution of Number of Loans***




* Data derived from survey of commercial and industrial loans outstanding on November 20, 1946.

**Chart II**
**Interest Rates Charged on Business Loans by Second District Member Banks of Various Size—Percentage Distribution of Loans by Dollar Volume***




* Data derived from survey of commercial and industrial loans outstanding on November 20, 1946.

Measured by dollar volume, there was a much greater concentration of loans at the lower rates, as Chart II indicates. Nearly half of the estimated 4,615 million dollars of commercial and industrial loans outstanding on November 20, 1946 at all member banks in this District were made at less than 2 per cent. Of this amount about 91 per cent were in the 14 largest New York City banks; these banks loaned some 50 per cent

**Table I**
**Average Interest Rates Charged on Commercial and Industrial Loans Outstanding on November 20, 1946 at All Member Banks in the Second District* by Size of Banks and Business of Borrowers**
(Per cent per annum)

| Bank size groups (Measured by total deposits) | All borrowers | Business of borrower: Manufacturing and mining | Wholesale trade | Retail trade | Other |
|---|---|---|---|---|---|
| Over $500 million | 2.0 | 2.0 | 2.3 | 3.0 | 2.3 |
| $100 to $500 million | 2.6 | 2.7 | 2.5 | 3.2 | 2.4 |
| $10 to $100 million | 3.9 | 4.0 | 3.9 | 4.0 | 2.7 |
| $2 to $10 million | 4.6 | 4.7 | 4.3 | 4.1 | 3.4 |
| Under $2 million | 5.1 | 5.6 | 4.7 | 4.4 | 4.0 |
| Total, all banks | 2.3† | 2.2 | 2.3 | 3.1 | 2.3 |

* Estimated on basis of loans reported in survey; includes real estate loans for commercial purposes.
† Includes a small amount of loans not classified by business of borrower.

of their dollar volume at interest rates between 1.1 and 1.9 per cent. In fact, 87 per cent of the dollar volume of all business loans handled by the largest New York City banks were made at less than 3 per cent. On the other hand, nearly all of the loans made by the smallest banks, those with deposits under 2 million dollars, were made at 4 per cent or higher rates.

Table I shows the average rate charged by size of banks and business of borrowers. It indicates that the largest (New York City) banks received an average of 2 per cent on all business loans, while successively higher rates were obtained as the size of banks diminished, the smallest banks receiving an average of 5.1 per cent. Loans to borrowers engaged in manufacturing and mining showed the widest variation in rates, ranging from an average of 2 per cent at the largest banks to 5.6 per cent at the smallest banks. The spread between the average rates to retailers was the narrowest of the major business groups—less than 1½ per cent—the largest New York City banks averaging 3 per cent and the smallest banks averaging 4.4 per cent. The average rates to wholesalers ranged from 2.3 per cent to 4.7 per cent at the different groups of banks. At all banks sales finance companies were consistently low-rate borrowers.

These differences between banks of various size in interest rates charged on loans undoubtedly are explained in large measure by differences in the size of loan, which, of course, is closely related to the size of the business of the borrower. Table II shows the average interest rates by size and business of borrowers. It indicates that businesses with assets exceeding 5 million dollars paid on the average 1.8 per cent for their loans. The average rate increased with each succeeding reduction in the size of borrowers, and the average for all banks reached a maximum of 4.5 per cent for borrowers with assets of less than 50 thousand dollars. With minor variations a similar rate pattern was evident in each of the major business groups. The largest wholesalers borrowed at the lowest average rate (1.6 per cent), which may be explained in part by their large proportion of short term loans.

**Table II**

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

**(Per cent per annum)**

| Size of borrower (Measured by total assets) | All borrowers | Business of borrower: Manufacturing and mining | Wholesale trade | Retail trade | Other |
|---|---|---|---|---|---|
| Over $5,000,000 | 1.8 | 1.9 | 1.6 | 2.0 | 1.8 |
| $750,000 to $5,000,000 | 2.6 | 2.6 | 2.3 | 2.6 | 2.9 |
| $250,000 to $750,000 | 3.3 | 3.2 | 3.3 | 3.6 | 3.4 |
| $50,000 to $250,000 | 3.9 | 3.9 | 3.8 | 4.1 | 3.8 |
| Under $50,000 | 4.5 | 4.4 | 4.5 | 4.6 | 4.5 |
| Total, all borrowers | 2.3† | 2.2 | 2.3 | 3.1 | 2.3 |

* Estimated on basis of loans reported in survey; includes real estate loans for commercial purposes.
† Includes a small amount of loans not classified by asset size and business of borrower.

As shown in Table III, the difference between rates charged on short term loans and the rates charged on longer term loans was quite small—the average rate charged on all business loans maturing in 1 year or less was 2.1 per cent, compared with an average of 2.5 per cent on all loans maturing over 1 year. A spread of at least 2/5 of 1 per cent between loans with maturities under and over 1 year existed for borrowers of all sized groups. At some groups of banks, however, the average rates on term loans were actually lower than on loans maturing in less than 1 year. This may be explained by such factors as differences in the credit ratings of the borrowers. A more complete breakdown of average rates based on varying maturities over 1 year revealed no definite rate pattern related to length of maturity.

**Table III**

**Average Interest Rates Charged on Commercial and Industrial Loans Maturing under and over One Year Outstanding on November 20, 1946 at All Member Banks in the Second District* by Size of Borrower and Size of Bank**

**(Per cent per annum)**

| Size of borrower (Measured by total assets) | Loans maturing in 1 year or less: All member banks | Banks with total deposits, in millions: Under $2 | $2 to $10 | $10 to $100 | $100 to $500 | Over $500 | Loans maturing over 1 year: All member banks | Banks with total deposits, in millions: Under $2 | $2 to $10 | $10 to $100 | $100 to $500 | Over $500 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Over $5,000,000 | 1.6 | — | — | 2.1 | 2.2 | 1.6 | 2.0 | — | — | 1.7 | 1.7 | 2.0 |
| $750,000 to $5,000,000 | 2.4 | — | 2.6 | 3.4 | 3.1 | 2.3 | 2.8 | — | 3.9 | 3.2 | 2.7 | 2.9 |
| $250,000 to $750,000 | 3.1 | — | 3.7 | 4.2 | 3.6 | 3.0 | 3.5 | 5.1 | 4.4 | 3.7 | 3.3 | 3.6 |
| $50,000 to $250,000 | 3.6 | 4.3 | 4.4 | 4.2 | 4.1 | 3.5 | 4.1 | 5.3 | 4.3 | 4.2 | 3.9 | 3.8 |
| Under $50,000 | 4.3 | 4.7 | 4.7 | 4.4 | 4.3 | 4.1 | 4.7 | 5.3 | 5.1 | 4.6 | 4.2 | 3.8 |
| Total, all borrowers | 2.1† | 4.6 | 4.5 | 4.1 | 2.6 | 2.0 | 2.5† | 5.3 | 4.6 | 3.9 | 2.7 | 2.1 |

* Estimated on basis of loans reported in survey; includes real estate loans for commercial purposes.
† Includes a small amount of loans not classified by asset size of borrower.

## NEW YORK STATE INDUSTRIAL BANKS

In the last eight or ten years the type of business transacted by industrial banks in New York State has undergone a fundamental change. Originally these institutions were organized to accept savings deposits and to make small ($100 to $5,000), amortized loans to individuals. The experience of the industrial banks with the small instalment loan proved its soundness and profitability; and in the early 1930's, when the demand for business accommodation fell off sharply, a number of commercial banks entered the consumer loan field in search of additional earnings. These commercial banks were in a position to offer borrowers lower interest rates than industrial banks, which obtained funds chiefly from interest-bearing time accounts or investment certificates. It soon became obvious that industrial banks could survive this competition only by expanding the scope of their operations. The New York State banking law was accordingly amended in 1937 to permit industrial banks to accept demand deposits against which checks could be drawn. At the same time, other changes in the State banking law were made which authorized industrial banks to engage in almost every type of activity permitted to commercial banks. Today the lines of demarcation between the two sorts of institutions have almost disappeared. The services offered to the public by the industrial banks now include almost all of those offered by commercial banks of comparable size.

At the present time only 14 industrial banks, with deposits ranging from less than 1 million to 64 million dollars and aggregating a little over 150 million dollars, operate in the State, compared with over 900 commercial banks which have deposits totaling more than 30 billion dollars. In recent years, however, the volume of business of industrial banks, with the notable exceptions of their consumer loans and time deposits, has been growing at a much more rapid rate than that of commercial banks. Today in some localities these institutions compete actively with commercial banks.

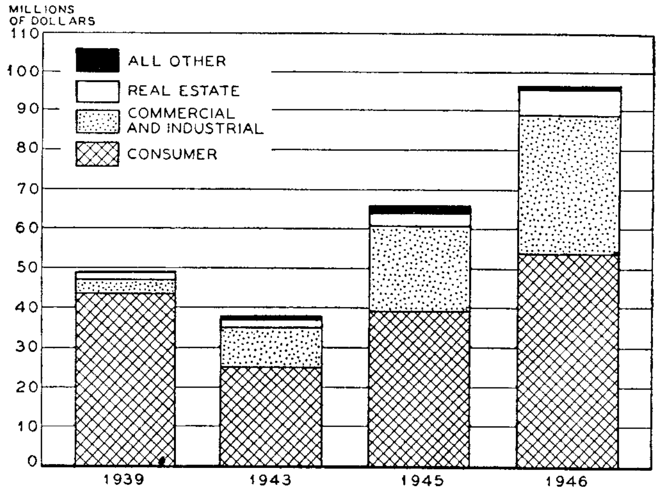
Relatively early in their history the industrial banks found that the demand for small loans was not sufficient to employ all their deposits. They began to purchase limited amounts

**Percentage Increases in Selected Balance Sheet Items of New York State Industrial Banks and All Member Banks in the Second District, December 1939-46**

| Item | Industrial banks | All member banks |
|---|---|---|
| Total loans and discounts | 97 | 87 |
| Commercial and industrial loans | 843 | 128 |
| U. S. Government securities | 1,827 | 220 |
| Total deposits | 197 | 86 |
| Demand deposits of individuals, partnerships, and corporations | 1,123 | 105 |
| Time deposits of individuals, partnerships, and corporations | 86 | 124 |
| Total capital accounts | 75 | 40 |

Source: New York State Department of Banking and Board of Governors of the Federal Reserve System.

**Total Loans Outstanding of New York State Industrial Banks by Type of Loan, December 31, 1939-46**




Source: New York State Department of Banking.

of retail automobile or other similar paper and to make, in addition to small loans, certain types of loans which were outside the usual field of commercial banking operations because of their longer maturity or their unconventional collateral provisions, such as loans against trust funds. The industrial banks were able to extend such accommodation because of the relative stability of their time deposits. However, until shortly before the war their operations were restricted for the most part to "consumer banking."

In the seven years from the end of 1939 to the end of 1946, total loans outstanding of New York industrial banks nearly doubled, rising from 49 to 96 million dollars.[1] The most significant part of this increase was the rise in commercial and industrial loans. At the end of 1939 credits extended to commercial enterprises accounted for only 8 per cent, or approximately 4 million dollars, of the total volume of loans on the books of the industrial banks; at the end of 1946 they accounted for over a third of those banks' loan portfolios. This rate of expansion, as the accompanying table indicates, was nearly seven times as great as that which occurred during the same period in the business loans of commercial banks which are members of the Federal Reserve System in the Second or New York District. The accompanying chart, also, shows clearly the steady progress which the industrial banks have been able to make along this line. Notwithstanding this progress, the volume of commercial and industrial loans made by industrial banks accounted at the end of 1946 for only a negligible proportion of such loans outstanding in this State.

[1] It is a common practice among industrial banks simultaneously with the granting of a loan to have the borrower open an hypothecated account in which he agrees to deposit a stated amount at regular intervals during the life of the loan. When the loan matures, the funds accumulated in the hypothecated account are used to pay it off. The amounts so accumulated have been deducted in arriving at the loan and deposit figures used in this article.

Industrial banks' real estate loans have been small throughout most of their history. However, the amount of residential real estate mortgages held by these banks increased sharply during 1946 and is continuing to grow.

Consumer loans still account for the greater part of the credits extended by the New York industrial banks; but because of the relatively high interest rate which these institutions charge, such loans have not been expanding as rapidly as either the other types of loans made by the same institutions or the consumer loans of the commercial banks. During 1946 the increase in the dollar volume of industrial banks' consumer loans outstanding was only 37 per cent compared with 65 per cent for member banks in this District. The industrial banks hope to improve their competitive position in the consumer loan field once their demand deposits have increased sufficiently to enable them to reduce loan rates. A considerably larger proportion of the consumer loans made by industrial banks are instalment credits than is true in the case of the commercial banks, but the latter are currently putting increasing emphasis on instalment credits.

The rapid growth of deposits at industrial banks during the war years, when the demand for consumer credit was curtailed, resulted in increased holdings of Government securities, which rose from less than 3 million dollars at the end of 1939 to a peak of over 77 million dollars at the end of 1945. This is a relatively much greater increase than occurred in the holdings of member banks in this District. During 1946 because the industrial banks were able to expand their loan portfolios more rapidly than the commercial banks, they sold a somewhat larger proportion of their Government obligations than did the member commercial banks. As the result of both sales and redemptions, the industrial banks' holdings of Government securities declined to about 50 million dollars at the end of last December.

The most striking indication of the change that has taken place in the operations of New York industrial banks is the increase in their private demand deposits. At the end of 1939 demand deposits of individuals, partnerships, and corporations, at 5 million dollars, were equal to only 10 per cent of their total deposits. By obtaining new accounts and expanding loans, industrial banks in the succeeding years increased their private demand deposits to approximately 63 million dollars at the end of 1946, or to 41 per cent of their total deposits.

Time deposits of the industrial banks, on the other hand, failed to keep pace with the growth in savings accounts in the commercial banks during the war, and recently their rate of growth has fallen behind that of the New York savings banks as well. This slower progress may be partially explained by the fact that the interest rates paid by the industrial banks do not average much over 1 per cent. While this is fairly close to the rate paid by the commercial banks, it is below that paid by most other savings institutions in the State. In spite of the sharp increase in their demand liabilities, the proportion of time deposits to total deposits still is higher for the industrial banks than for most commercial banks in this District; at the end of last December, the proportion was 55 per cent.

The earnings record of the industrial banks has paralleled that of the member banks, although the ratio of net profits to average capital accounts was somewhat higher for industrial than commercial banks in the early years of the war, when the industrial banks held a higher proportion of their earning assets in loans than the commercial banks. In 1945 the ratio of net profits to capital accounts averaged 11.5 and 11.6 per cent, for the industrial and member banks, respectively. Industrial banks, however, are required by law to maintain a ratio between their capital accounts and net demand deposits of at least 1 to 10.[2] (Commercial banks may be under pressure from supervisory agencies to maintain adequate capital funds, but they are under no legal compulsion to maintain a fixed capital-deposit ratio.) In 1946 the industrial banks had to sell a relatively substantial volume of capital notes and stock to bring the total of capital accounts up to the required level and their rate of profits for the year, therefore, will probably show some decline when the figures become available. The industrial banks, like the commercial banks, have followed conservative dividend policies, retaining the greater part of their earnings to strengthen their capital structures.

[2] Total deposits and unpaid dividends less net amount due from banks and cash items in the process of collection.

## CHECK ROUTING SYMBOL PROGRAM

During the past year or so, substantial progress has been made in the introduction among member and other par clearance banks of the check routing symbol. This symbol or code is a three or four digit number imprinted on bank checks for the purpose of identifying the Federal Reserve Bank or branch at which checks on given banks are receivable for collection—that is, the Reserve Bank head or branch office in the territory in which the commercial bank is located. A detailed description and discussion of this device for facilitating the sorting, collecting, and clearing of checks between Federal Reserve Districts appeared in the July 1946 issue of the *Review*.

A growing number of banks, and of businesses and individuals who have their own checks printed, have had the new symbol imprinted on their checks, so that a considerable increase in the circulation of checks with the symbols took place during 1946. A survey at the end of 1946 indicated that 84 per cent of all par clearance banks in the country had some checks in circulation bearing the routing symbol in the approved location on the check, as against 50 per cent shown in a survey made in February 1946. In the Second District, 97½ per cent of the banks showed some checks in use bearing the routing symbol at the end of 1946. In actual volume, however, the proportion of checks carrying the new symbol was much smaller, owing to the fact that many banks and depositors are using up supplies of checks printed before the new symbols were adopted.

Widespread adoption of the new symbol both by the banks and by customers using custom-made checks is essential to realize the full economy of time and money made possible under the new plan. Reduction in sorting time, in sorting errors and misrouting, and thus in the length of time required to collect checks, with consequent reduction in operating costs and improvement of service to bank depositors, should be the eventual outcome of the general use of the new symbol.

## LIBERALIZATION OF WORLD TRADE POLICIES

In December 1945 the State Department issued its *Proposals for Expansion of World Trade and Employment,* recommending establishment by the United Nations of an International Trade Organization and suggesting detailed rules of trade policy for incorporation into its charter.[1] Acting upon this recommendation, the Economic and Social Council of the United Nations appointed shortly thereafter a Preparatory Committee of experts, comprising representatives of the United States, United Kingdom, U.S.S.R., and fifteen other countries, to draft such a charter for presentation to a prospective International Conference on Trade and Employment. This Preparatory Committee, from which Russian representation had been meanwhile withdrawn, convened in London on October 15, 1946, accepting as a basis for its discussions a second State Department document, *A Suggested Charter for an International Trade Organization,* which was presented by the American delegation.

Wide agreement was reached by the Preparatory Committee upon all of the major policy issues involved in the *Suggested Charter,* with the exception of those arising out of State trading monopolies and relations with nonmembers of the ITO. The eight chapters of the ITO charter recommendations of the Preparatory Committee may be summarized as follows:

The purpose of the ITO is to provide machinery for international collaboration in reducing trade barriers and discrimination in international trade and in encouraging general economic development. All countries which are represented at the proposed International Conference on Trade and Employment and which accept the charter by a certain date will become original members. Subject to the approval of the Organization, membership will be subsequently extended to other nations accepting the charter.

Full employment and rising effective demand are recognized as necessary conditions for the expansion of international trade. Each member country further recognizes its responsibility for fulfilling such conditions by measures appropriate to its political and economic institutions and consistent with other objectives of the ITO. Members agree to assist in the economic development of backward countries, which in turn agree to limit new protective measures to those authorized by the charter or approved by the Organization.

All members undertake to negotiate most-favored-nation tariff reductions, which shall operate automatically to reduce existing margins of tariff preference. Quantitative restrictions are barred, subject to numerous exceptions to meet special circumstances such as balance of payments difficulties. Restrictions imposed under such authorized exceptions may not be discriminatory, however, unless so required in order to support exchange controls permitted by the International Monetary Fund, or intergovernmental commodity agreements and other restrictive arrangements authorized by the ITO. Export subsidies are prohibited after a transitional period of three years, although subsidization of output for domestic consumption is subject to no more than consultation (in the event of damage to other members). State trading enterprises are required to determine their purchases or sales solely by "commercial considerations" and to negotiate reductions of margins between the foreign and domestic prices of commodities traded by them. Emergency provisions permit members to withdraw concessions that prove damaging, and with ITO approval, to withdraw concessions to any member which fails to observe its charter obligations. (Consideration of *Suggested Charter* proposals requiring nations maintaining complete trading monopolies to agree to minimum import levels has been postponed to the next meeting of the Preparatory Committee, together with other provisions regulating trading relations with nonmembers of the ITO.)

Members agree to take appropriate action to eliminate business practices (e.g., cartel arrangements) that, after investigation by the ITO, are proved to have a restrictive effect upon international trade. The Organization is empowered to convene intergovernmental commodity conferences for regulation of certain primary commodity markets when there is a failure or threatened failure of natural economic forces to produce a satisfactory equilibrium. In all such agreements, consuming countries are to have a voice equal to that of the producing countries.

The principal organs of the ITO are to be a Conference; an Interim Tariff Committee; an Executive Board; Commissions on Commercial Policy, Business Practices, and Commodity Agreements; and a Secretariat.

* * * * *

A second meeting of the Preparatory Committee at Geneva in April 1947 will seek not only full agreement upon a com-

[1] The *Proposals* were summarized and discussed in the January 1946 issue of this *Review.*

plete charter text but also immediate, concerted negotiation of tariff reductions by all the governments represented on the Preparatory Committee. The initiative in scheduling such multilateral tariff negotiations for the Geneva meeting was provided by the State Department, which in December 1946 formally invited most of the nations represented on the Preparatory Committee to enter into such negotiations. If the Geneva tariff negotiations prove successful, the Preparatory Committee hopes to incorporate into a General Trade and Tariff Agreement, setting forth the new tariff schedules, the bulk of the commercial policy recommendations of the London meeting regarding preferences, quantitative restrictions, etc., as well as provision for an Interim Tariff Committee to administer the agreement until the ITO becomes effective. A definite date for the contemplated International Conference on Trade and Employment has not yet been fixed.

For the guidance of American representatives at the forthcoming Geneva meeting, the State Department has sought a full expression of both public and Congressional opinion regarding appropriate tariff concessions as well as the desirability of the ITO charter itself. Thus, in January 1946 public hearings on possible trade concessions were undertaken by the Committee on Reciprocity Information,[2] while in late February and early March informal hearings on the projected ITO charter were also held.

A degree of opposition which developed in Congress to the continuation of Presidential authority to negotiate tariff reductions appears to have moderated considerably following the issuance of an executive order by the President on February 25, 1947, introducing several procedural changes in the reciprocal trade agreements program. One such change is that all future reciprocal trade agreements must contain broad escape clauses of the type included in the Mexican Agreement, which permits suspension of tariff concessions damaging to the domestic economy. The executive order furthermore authorizes the Tariff Commission to investigate the operation of any trade agreement considered damaging to domestic industry, and to recommend such modifications as may be necessary.

On March 6, 1947 President Truman appealed for full support of Administration efforts to carry the Geneva tariff negotiations to a successful conclusion. Failure to do so, he warned, would seriously jeopardize not only international acceptance of the ITO and effective operation of the International Bank and Fund but also threaten the entire structure of cooperation among the United Nations.

2 The Committee for Reciprocity Information was established in 1934 to receive opinions and information from interested parties on existing or proposed trade agreements. Its membership includes representatives of the Departments of State, Commerce, Agriculture, Treasury, War, and Navy and of the Tariff Commission.

## WAR AND POSTWAR DEVELOPMENTS IN SECOND DISTRICT DEPARTMENT STORE SALES

The pent-up demand for consumer goods, especially hard goods, which resulted from wartime shortages is still the key factor in the continued high level of department store sales. Soft goods departments, with the exception of men's wear, now contribute less than normally[1] to the volume of department store sales in this District. This article presents an analysis of department store sales in the Second District since the outbreak of the war in Europe, based on new departmental data on stocks and sales recently completed by this bank.[2] The comparisons made in the following discussion are all based upon changes in the dollar volume of sales and stocks and should be viewed in the light of the price movements which have occurred in the past seven years.

**Table I**
**Changes in February Stocks and Ratios of Stocks to Sales by Departments at Second District Department Stores, 1939-47***

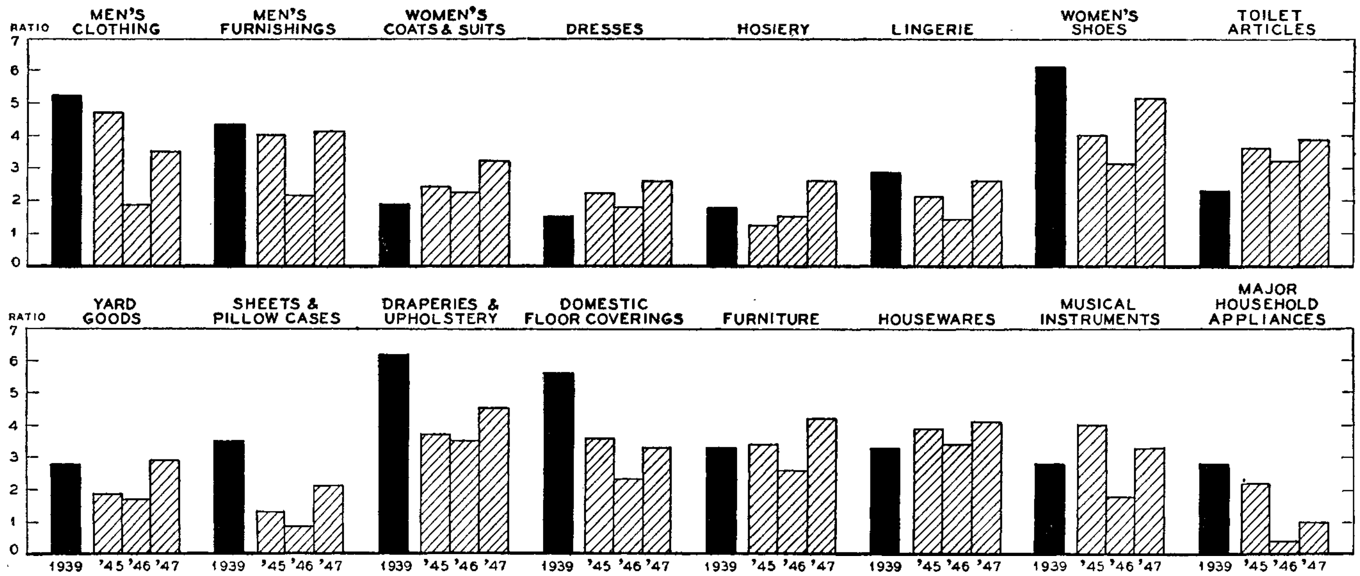
| Department | Percentage change in stocks February 28 | | Ratio of February stocks to sales # | | |
|---|---|---|---|---|---|
| | 1946 to 1947 | 1939 to 1947 | 1939 | 1946 | 1947 |
| Major household appliances | +583 | + 60 | 2.8 | 0.4 | 1.0 |
| Musical instruments | +208 | +452 | 2.8 | 1.8 | 3.3 |
| Men's clothing | +164 | + 47 | 5.2 | 1.9 | 3.5 |
| Sheets, pillow cases | +139 | + 70 | 3.5 | 0.9 | 2.1 |
| Men's furnishings | +117 | +137 | 4.3 | 2.1 | 4.1 |
| Linens, towels | +115 | +150 | 5.2 | 2.4 | 5.5 |
| Blankets, spreads | +111 | +205 | 5.3 | 2.7 | 5.2 |
| Yard goods | + 96 | +169 | 2.8 | 1.7 | 2.9 |
| Furniture | + 92 | +157 | 3.3 | 2.6 | 4.2 |
| Lingerie | + 91 | +156 | 2.9 | 1.4 | 2.6 |
| China, glassware | + 88 | + 25 | 6.7 | 2.7 | 4.3 |
| Gloves | + 83 | + 94 | 6.6 | 3.5 | 6.7 |
| Aprons, housedresses | + 77 | +206 | 2.0 | 1.6 | 2.8 |
| Wines, liquors | + 74 | +403 | 4.2 | 3.9 | 13.5 |
| Women's shoes | + 73 | + 83 | 6.1 | 3.1 | 5.1 |
| Domestic floor coverings | + 69 | + 37 | 5.6 | 2.3 | 3.3 |
| Hosiery | + 63 | +133 | 1.8 | 1.5 | 2.6 |
| Boys' wear | + 62 | +225 | 5.4 | 5.5 | 8.1 |
| Luggage | + 53 | +132 | 6.2 | 2.8 | 4.0 |
| Draperies, upholstery | + 46 | +119 | 6.2 | 3.5 | 4.5 |
| Corsets, brassieres | + 44 | +175 | 2.9 | 2.2 | 2.9 |
| Dresses | + 40 | +345 | 1.5 | 1.8 | 2.6 |
| Housewares | + 31 | +254 | 3.3 | 3.4 | 4.1 |
| Toys, games | + 29 | +112 | 6.1 | 4.6 | 5.8 |
| Lamps, shades | + 25 | +153 | 4.5 | 4.0 | 5.2 |
| Women's coats, suits | + 24 | +282 | 1.9 | 2.2 | 3.2 |
| Silverware | + 23 | +105 | 5.2 | 4.3 | 5.1 |
| Infants' wear | + 20 | +284 | 3.3 | 3.7 | 3.8 |
| Groceries, meat | + 19 | +147 | 3.1 | 1.5 | 2.0 |
| Millinery | + 13 | +273 | 1.0 | 1.9 | 2.2 |
| Toilet articles | + 13 | +113 | 2.3 | 3.2 | 3.9 |
| Handbags | + 12 | +204 | 2.4 | 3.1 | 3.2 |
| Notions | + 11 | +165 | 2.7 | 3.0 | 2.8 |
| Juniors' and girls' wear | + 6 | +360 | 2.6 | 3.8 | 4.2 |
| Blouses, sportswear | + 5 | +334 | 2.2 | 3.5 | 3.7 |
| Stationery | 0 | +171 | 3.1 | 3.7 | 2.7 |
| Jewelry | — 1 | +124 | 5.9 | 4.3 | 4.7 |
| Neckwear, scarfs | — 6 | +260 | 1.9 | 2.3 | 2.2 |
| Furs | — 18 | +105 | 2.9 | 3.2 | 2.2 |

* February 1947 preliminary.
# Number of months' supply at the February rate of sales.

1 Whenever reference is made in this article to the normal or base period, the 1935-39 average is meant.

2 The analysis is based on new sales and stocks indexes for 55 departments compiled annually beginning in 1925 and monthly from 1935 to date. These and supplementary tabulations of: (1) annual rate of stock turnover, 1925-46; (2) annual receipts of merchandise, 1925-46; (3) distribution by departments of sales and stocks for selected years; and (4) estimated dollar volume of sales and stocks in the 1935-39 base period may be obtained upon request from the Research Department, Federal Reserve Bank of New York.

Chart I
Ratio of February Stocks to Sales by Departments at Second District Department Stores, 1945-47 Compared with 1939*
(Number of months' supply at the February rate of sales)




* Stocks as of February 28 each year; February 1947 preliminary.

Two thirds of the 8 per cent increase which Second District department store sales showed in February 1947 over February 1946 took place in 5 major departments which in 1939 accounted for only one sixth of the average store's total sales. In three of these departments—major appliances, domestic floor coverings, and men's clothing—consumers' demand still exceeds the supply available, although stocks of these items have increased substantially during the past year. Table I shows that in these three departments the dollar value of stocks at the close of February had increased much less over the February 1939 level than in most other departments. In the other two departments—furniture and musical instruments—stocks have increased sharply in spite of the high level of sales, and the ratio of stocks to sales is above that in 1939.

Sales of two women's wear departments—coats and suits and dresses—which normally account for about 10 per cent of department stores' volume, declined in February compared with a year ago. Increases in the sales of these departments during the war period had contributed substantially to the gain in total store volume. The dollar volume of stocks in these departments is now substantially higher than in 1939.

Current trends in department store sales by type of merchandise are to a large degree influenced by the pattern of the flow of goods to consumers and by the price developments that have taken place during the past few years. Table II shows the variations in sales increases during the seven years from the start of World War II to the end of the first year of reconversion (September 1939—August 1946) and the changes in the subsequent six months. Homefurnishings sales expanded sharply in the first two-year period ended August 1941. Normally this group accounts for less than one quarter of the stores' total volume, but in the 1939-41 period it contributed 35 per cent to the total gain in sales. Percentage increases were greatest in major appliances, floor coverings, and furniture. During the following four years, however, these departments experienced the greatest wartime shortages, and the group increase accounted for less than 10 per cent of the total sales gain. The draperies and upholstery department was the only one in the homefurnishings group to experience a sizable sales increase in this four-year period. During the first year of reconversion, housewares came on the market rather quickly and were followed by a limited supply of radios, major appliances, and furniture. The homefurnishings group as a whole contributed 35 per cent to the total increase in sales during this year. The proportion has steadily increased during subsequent months and reached 65 per cent in February.

Men's wear sales normally account for 8 per cent of the total department store sales volume. As millions of men joined the Armed Forces, this group contributed only 6 per cent to the total increase from August 1941 to August 1945. In the following year, sales of both men's clothing and men's furnishings rose sharply, and the group contributed 12 per cent to the average store's increase. By February the proportion increased to 20 per cent. In contrast, women's wear sales, which usually average 40 per cent of total store volume, accounted for 60 per cent of the gain from 1941 to 1945 as earnings of women increased sharply and thousands of additional women were drawn into employment. In 1946 this proportion dropped sharply, and by February it was about 15 per cent of the total increase. Among the individual departments included in women's wear, changes in sales experience varied widely. From 1941 to 1945, exceptionally large increases were experienced in infants' wear, juniors' and girls' wear, sportswear, neckwear, and lingerie. Gains reported for hosiery,

**Table II**
**Changes in Department Store Sales by Departments, Second Federal Reserve District, 1939-47**

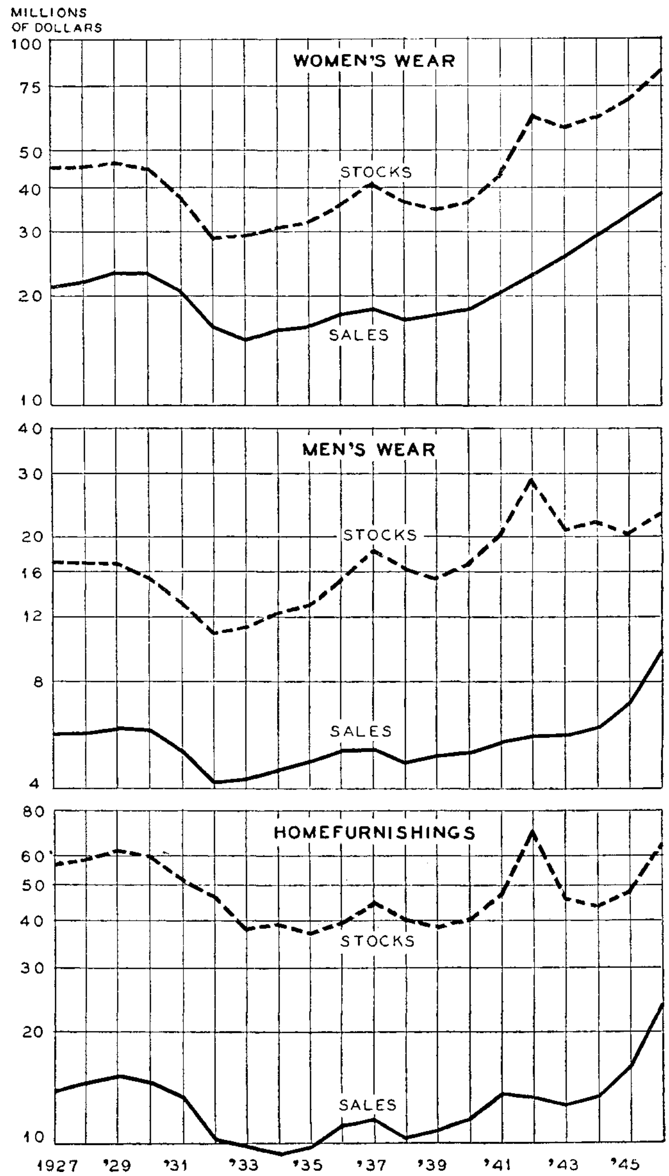
| Department | Percentage change | | | | |
|---|---|---|---|---|---|
| | Year ended August | | | | Six months ended February |
| | 1939 to 1941 | 1941 to 1945 | 1945 to 1946 | 1939 to 1946 | 1946 to 1947# |
| Total* | +16 | + 40 | + 27 | +106 | + 19 |
| *Women's and misses' wear* | | | | | |
| Coats, suits | +14 | + 65 | + 24 | +132 | + 9 |
| Dresses | + 7 | + 67 | + 25 | +123 | + 1 |
| Juniors' and girls' wear | +13 | + 98 | + 21 | +171 | + 7 |
| Blouses, sportswear | + 8 | + 99 | + 22 | +160 | + 3 |
| Aprons, housedresses | +12 | + 46 | + 23 | +100 | + 9 |
| Furs | +86 | — 10 | + 22 | +105 | + 19 |
| Neckwear, scarfs | +11 | +115 | + 19 | +184 | + 8 |
| Millinery | 0 | + 35 | + 18 | + 58 | + 10 |
| Handbags | + 4 | + 41 | + 23 | + 80 | + 15 |
| Shoes | + 6 | + 39 | + 31 | + 93 | + 19 |
| Hosiery | +23 | + 20 | + 4 | + 54 | + 31 |
| Gloves | + 1 | + 53 | + 8 | + 68 | + 4 |
| Lingerie | +11 | + 91 | + 10 | +132 | + 16 |
| Corsets, brassieres | + 6 | + 70 | + 25 | +126 | + 19 |
| Infants' wear | +12 | +113 | + 12 | +166 | + 15 |
| *Men's and boys' wear* | | | | | |
| Men's clothing | +12 | + 12 | + 40 | + 77 | + 32 |
| Men's furnishings | + 9 | + 21 | + 44 | + 90 | + 21 |
| Boys' wear | + 6 | + 66 | + 17 | +105 | + 11 |
| *Homefurnishings* | | | | | |
| Furniture | +23 | + 11 | + 44 | + 98 | + 11 |
| Domestic floor coverings | +31 | + 3 | + 44 | + 94 | + 37 |
| Draperies, upholstery | +12 | + 55 | + 26 | +119 | + 16 |
| Lamps, shades | +16 | + 28 | + 37 | +104 | + 7 |
| China, glassware | +18 | + 20 | + 29 | + 84 | + 10 |
| Housewares | +16 | + 19 | + 69 | +132 | + 20 |
| Major household appliances | +48 | — 85 | +672 | + 71 | +264 |
| Musical instruments | +23 | — 41 | +209 | +125 | +157 |
| *All other* | | | | | |
| Yard goods | — 2 | +118 | + 17 | +150 | + 17 |
| Linens, towels | +19 | + 33 | + 34 | +112 | + 18 |
| Sheets, pillow cases | +29 | + 7 | + 43 | + 96 | + 39 |
| Blankets, spreads | +22 | + 27 | + 42 | +119 | + 13 |
| Notions | +11 | + 46 | + 27 | +105 | + 21 |
| Toilet articles | + 7 | + 22 | + 12 | + 47 | 0 |
| Jewelry | +17 | + 82 | + 17 | +150 | + 6 |
| Silverware | +27 | + 17 | + 70 | +154 | + 38 |
| Stationery | +16 | + 59 | + 22 | +127 | + 3 |
| Luggage | +10 | + 30 | + 66 | +138 | + 31 |
| Toys, games | + 1 | + 36 | + 41 | + 94 | + 22 |
| Groceries, meats | +18 | + 84 | + 30 | +182 | + 2 |
| Restaurant, bakery | + 4 | + 46 | + 11 | + 69 | + 9 |
| Wines, liquors | +43 | + 73 | — 6 | +132 | — 24 |

* Includes departments not shown separately.
# February 1947 preliminary.

shoes, millinery, and handbags during this period were considerably below the average. In general these departments were particularly affected by materials shortages. Fur sales in 1945 were actually below the 1941 volume. During the year of reconversion, hosiery continued in short supply, but during the past few months this item has become plentiful, the pent-up demand apparently having been satisfied. Immediately following the end of rationing, sales of shoes expanded sharply, and substantial increases in this department have continued to be reported during the past six months. Stocks of millinery and handbags remain more than adequate for consumers' needs. Price cutting in furs during the past few months resulted in sharp sales gains, and stocks at the close of February were almost 20 per cent below the year-earlier level.

All departments other than those included in the three major groups discussed above account normally for 25 per cent of department store sales in this District. They accounted for a corresponding share of the increase during the six war years. After September 1945 their contribution to sales increases declined, and in February they contributed nothing to the increase of 8 per cent in total sales. Among these miscellaneous departments diverse movements took place. Toilet articles and drugs, which in the prewar period accounted for almost 5 per cent of the total business of department stores, experienced the smallest increase for any department during the seven-year period. During January and February of this year, sales were substantially below the corresponding 1946 period. Declines in sales of jewelry and of groceries and meats have also been experienced during the past few months, while purchases of wines and

**Chart II**
**Estimated Dollar Volume of Second District Department Store Sales and Stocks by Major Departmental Groups, 1927-46***




* Monthly sales and end-of-month stocks are averages of fiscal years ending January 31 of the following year. District totals estimated from group of stores reporting sales and stocks by departmental classifications. Plotted on ratio scale to show proportionate changes.

liquors have been sharply lower following a small drop during the first year of reconversion. Sales of yard goods were exceptionally high during the war years, and the volume continued heavy, accompanied by considerably larger stocks. Sales of sheets and pillow cases were sharply curtailed during the war period because of inadequate supply. This department is currently experiencing one of the largest sales increases, and demand continues strong.

Although the dollar volume of total store stocks during 1946 was at an all-time high, merchandise turnover, at 5.0, was the fastest on record. It compares with a stock turnover rate of 4.7 in 1939. The accompanying Chart II shows that from 1927 to 1942 the dollar volume of homefurnishings stocks exceeded that of women's wear. Since 1942 the unprecedented dollar volume of total store inventories has been almost entirely due to the higher level of women's wear stocks. This type of merchandise, however, normally turns over more rapidly than either homefurnishings or men's wear. In 1946 the main women's ready-to-wear lines were comparatively slow moving departments.

## DEPARTMENT STORE TRADE

March sales of department stores in the Second Federal Reserve District are estimated to have been more than 10 per cent greater than in March 1946. When adjustment is made for seasonal variation, including the earlier date of Easter this year, the gain in sales compared with last year is somewhat smaller, although the seasonally adjusted index of sales rose from February to March. Increased sales in the furniture, major appliances, musical instruments, men's clothing, and yard goods departments are mainly responsible for the gain over a year ago. Sales of women's apparel compared unfavorably with sales of similar goods in March 1946, which were high as a result, in part, of abnormally warm weather.

The value of inventories of Second District department stores at the end of February was 49 per cent greater than on the same date a year ago. At that time, it is true, stocks were relatively low; merchants were clearing their shelves of wartime goods, the flow of postwar products into the market was still slow, and sales of postwar merchandise were taking place as rapidly as goods reached the counter. Nevertheless, the seasonally adjusted index of stocks for February is at an all-time high and exceeds the previous peak, reached at the end of December, by 5 per cent. The ratio of stocks on hand at the end of February 1947 to sales during that month was 3.7, a figure slightly higher than the last prewar February ratios (1940 and 1941) and considerably higher than the ratio of a year ago (2.7).

Outstanding orders placed by department stores continued to decline during February and at the end of the month were the lowest since May 1944. The ratio of outstanding orders to sales, at 2.2 for February, however, was still greater than in 1940 and 1941.

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

| Locality | Net sales | | Stocks on hand Feb. 28, 1947 |
|---|---|---|---|
| | Feb. 1947 | Jan. through Feb. 1947 | |
| Department stores, Second District | + 8 | +13 | +49 |
| New York City | + 9 | +14 | +48 |
| Northern New Jersey | + 2 | + 8 | +35 |
| Newark | 0 | + 6 | +39 |
| Westchester and Fairfield Counties | + 9 | +18 | +60 |
| Bridgeport | +10 | +17 | +43 |
| Lower Hudson River Valley | +14 | +15 | +55 |
| Poughkeepsie | +10 | +13 | +54 |
| Upper Hudson River Valley | +13 | +13 | +58 |
| Albany | +13 | +11 | +63 |
| Schenectady | +12 | +15 | +50 |
| Central New York State | +17 | +21 | +60 |
| Mohawk River Valley | + 5 | +11 | +40 |
| Utica | + 4 | +10 | +31 |
| Syracuse | +22 | +25 | +71 |
| Northern New York State | + 8 | +14 | — |
| Southern New York State | +13 | +18 | +61 |
| Binghamton | + 6 | +14 | +63 |
| Elmira | +15 | +15 | +58 |
| Western New York State | + 7 | +10 | +58 |
| Buffalo | + 2 | + 7 | +56 |
| Niagara Falls | +15 | +17 | +44 |
| Rochester | +14 | +15 | +66 |
| Apparel stores (chiefly New York City) | — 5 | + 2 | +57 |

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

| Item | 1946 | | 1947 | |
|---|---|---|---|---|
| | Feb. | Dec. | Jan. | Feb. |
| Sales (average daily), unadjusted | 174 | 392 | 182r | 188 |
| Sales (average daily), seasonally adjusted* | 207 | 232 | 228 | 224 |
| Stocks, unadjusted | 155r | 213 | 206r | 231 |
| Stocks, seasonally adjusted* | 167 | 238 | 234r | 249 |

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

**Indexes of Business**

| Index | 1946 | | 1947 | |
|---|---|---|---|---|
| | Feb. | Dec. | Jan. | Feb. |
| Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*) | 152 | 182r | 188 | 188p |
| Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | 185 | 213r | 220 | 224p |
| Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | 188 | 194 | 200p | 208p |
| Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*) | 243 | 270 | 276p | 277p |
| Factory employment | | | | |
| United States, 1939 = 100 (*Bureau of Labor Statistics*) | 122 | 150 | 150 | 151p |
| New York State, 1935-39 = 100 (*New York State Dept. of Labor*) | 112 | 131 | 132 | 133p |
| Factory payrolls | | | | |
| United States, 1939 = 100 (*Bureau of Labor Statistics*) | 211 | 300 | 300p | |
| New York State, 1935-39 = 100 (*New York State Dept. of Labor*) | 206 | 273 | 281 | 283p |
| Income payments*, 1935-39 = 100 (*Department of Commerce*) | 232 | 262 | 264 | |
| Composite index of wages and salaries*# 1939 = 100 (*Federal Reserve Bank of New York*) | 150 | 167 | 168p | |
| Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*) | 130 | 153 | 153 | 153p |
| Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*) | | | | |
| New York City | 90 | 84 | 84 | 86 |
| Outside New York City | 79 | 83 | 88 | 90 |

* Adjusted for seasonal variation. p Preliminary. r Revised.
\# A special monthly release tabulating the complete set of 15 indexes of hourly and weekly earnings 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, March 27, 1947)

INDUSTRIAL output and employment were maintained in February and the early part of March at the record peacetime levels reached in January. Value of department store sales has continued at a seasonally adjusted rate close to the level prevailing since early last summer. Wholesale commodity prices have advanced further.

## Industrial Production

Industrial production, as measured by the Board's seasonally adjusted index, was maintained in February at the January rate of 188 per cent of the 1935-39 average.

Output of durable manufactures was slightly above the January rate, owing mainly to increased activity in the automobile industry and to a somewhat greater than seasonal gain in production of lumber and other building materials. The number of automobiles and trucks assembled reached a new postwar peak which was about the same as the 1941 average.

The Board's index of steel production showed a slight gain in February as a 9 per cent increase in output at electric furnaces more than offset a 2 per cent decline in production at open hearth furnaces. In March scheduled operations continued to advance, reaching a new postwar high of 97 per cent of capacity in the last week of the month.

Output of manufactured food products declined somewhat in February, after allowance for the usual seasonal changes, owing largely to a reduction in the processing of fruits and vegetables. Activity showed little change at textile mills, and also in industries producing chemicals, rubber products, and most other nondurable manufactures.

Minerals production was maintained at the January rate, as a 6 per cent decline in coal output was offset in the total by increased production of crude petroleum and metals.

## Construction

Value of construction contracts awarded in February was about the same as in December, according to the F. W. Dodge Corporation. Awards in January had been about one-fourth higher, owing mainly to several large public and private projects. Value of awards for private nonresidential construction continued to show little change from the reduced levels reached in November. The maximum amount of this general type of activity permitted under Federal orders was raised substantially on January 10.

## Distribution

Department store sales in February and the first half of March showed about the usual seasonal advance and the Board's adjusted index of sales during the first quarter of the year is likely to be at about the same average level as during the fourth quarter of last year, when the index was close to 270 per cent of the 1935-39 average. Value of department store stocks showed a greater than seasonal increase in February and the preliminary adjusted stocks index reached a level of 280 per cent of the 1935-39 average.

Shipments of coal and most other classes of revenue freight declined somewhat in February, owing in part to severe weather conditions, and then advanced during the first two weeks of March. Loadings of forest products, however, were considerably above the January rate throughout this period.

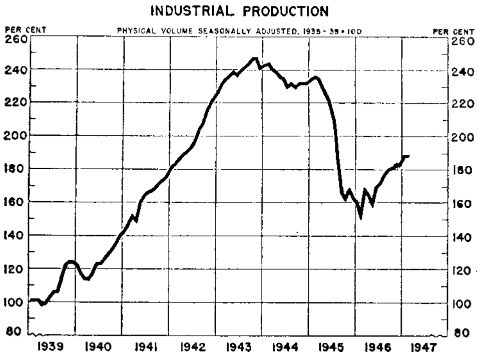
## Commodity Prices

Wholesale commodity prices continued to rise during February and the first half of March. The Bureau of Labor Statistics' index of wholesale prices at 149 (1926=100) was one-third above the level of last June. There were sharp increases to a new high level of 184 in the index for farm products and the average of prices of commodities other than farm products continued to rise.

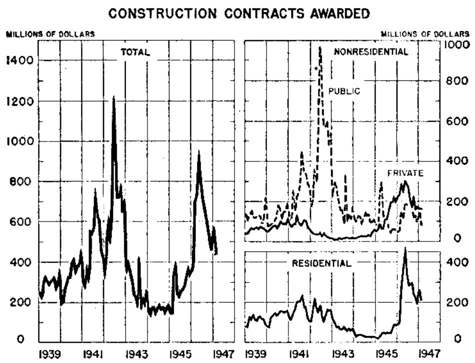
## Bank Credit

Deposits of businesses and individuals at commercial banks declined sharply and Treasury deposits at Federal Reserve Banks increased in February as a result of large tax payments. This shift of funds to Treasury accounts at the Reserve Banks put a drain on member bank reserves, which was offset in part by a decline in required reserves and in part by an increase in Reserve Bank holdings of Government securities. In the first half of March, however, when Treasury deposits at the Reserve Banks were drawn down in connection with cash retirement of about 3 billion dollars of maturing securities, member bank reserve positions were eased considerably and Reserve Bank holdings of Government securities declined sharply. Completion of the United States payment to the International Monetary Fund in February resulted in a decline in the total monetary gold stock of the Treasury and in offsetting changes in other Treasury and Federal Reserve accounts without affecting member bank reserve balances.

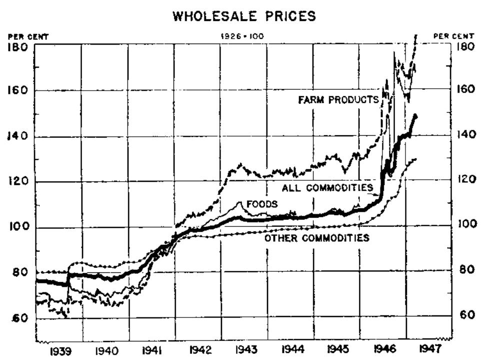
Commercial and industrial loans increased further at banks in leading cities. Real estate loans rose moderately. Holdings of Government securities were reduced further in February through sales to maintain reserve position and were increased somewhat early in March as purchases of Treasury bills and certificates were larger than the amount of retired issues held by these banks.



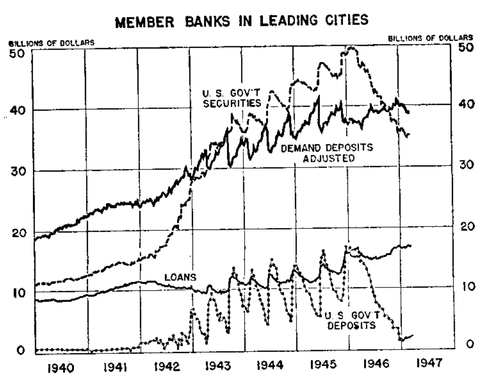

**Federal Reserve index. Monthly figures, latest figure shown is for February.**




**F. W. Dodge Corporation data for 37 Eastern States. Nonresidential includes awards for buildings and public works and utilities. Monthly figures, latest shown are for February.**




**Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ended March 15.**




**Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for March 12.**