

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 29

DECEMBER 1947

No. 12

MONEY MARKET IN NOVEMBER

During the past month, the money market continued to react to measures taken to restrain unnecessary expansion of bank credit. Short term interest rates continued to rise and this rise, together with the further pressure brought to bear on bank reserves through redemptions of maturing Treasury securities held by the Reserve Banks and developments in the corporate and municipal security markets, contributed to a further increase in yields of all types of long term bonds.

The rise in short term interest rates was confined largely to rates on short term Treasury securities, although at least two banks announced increases in their rates on loans secured by Treasury obligations and one large New York bank revised upward its buying rates on bankers acceptances. The average yield on new Treasury bills rose from 0.87 per cent for the last issue in October to 0.94 per cent for the last issue in November. Yields on outstanding certificates of indebtedness and Treasury notes rose following the announcement that an issue of 13-month, $1\frac{1}{8}$ per cent notes dated December 1 would be offered in exchange for the $\frac{7}{8}$ per cent certificates maturing December 1 and an issue of 2 per cent bonds maturing December 15 (with an adjustment for accrued interest in the case of the bonds). The terms of the new offering were interpreted in the market as forecasting a $1\frac{1}{8}$ per cent rate for one-year money, and dealers' bid prices of the two issues of one per cent certificates and one issue of one per cent notes, all three of which mature October 1, 1948, fell below par.

Redemption, with funds withdrawn from War Loan deposit accounts, of approximately 200 million dollars of Federal Reserve Bank holdings of Treasury certificates maturing November 1, which were not exchanged for the new certificate issue that was offered, and of about 100 million dollars weekly of expiring Treasury bill issues, most of which were held by the Federal Reserve Banks, brought continuous pressure on member bank reserve positions from this source throughout November. The Treasury also exerted some pressure on bank reserves by maintaining its balances with the Reserve Banks considerably above the one billion dollar level during most of the month, replenishing them through withdrawals from War Loan accounts when Government disbursements tended to produce a substantial net excess of expenditures. Thus, the

War Loan call of 548 million dollars scheduled for December 1 was made largely in anticipation of sizable cash redemptions for Federal Reserve Banks and nonbank investors of maturing certificates as well as other disbursements. By issuing this call the Treasury forestalled any easing of the money market through a net excess of disbursements of previously accumulated funds on deposit with the Reserve Banks.

Another step to combat undue expansion of bank credit came in the form of a joint statement of Federal and State bank supervisory authorities, calling upon the banks to curtail loans for the financing of speculative activities and generally to exercise extreme caution in their lending policies. The text of this statement appears on another page of this *Review*.

In response to the steps taken to keep bank reserve positions under some pressure, the banks lightened their portfolios of some types of Treasury securities and continued to reduce the average maturity of their remaining holdings. They made substantial sales of Treasury notes and the longer-dated certificates, the July 1 and particularly the October 1, 1948 maturities, and purchased short term certificates and Treasury bills, most of the supply coming indirectly from the Federal Reserve System. In this way, the banks placed themselves in a more favorable position to take advantage of any higher rates the Treasury might offer in subsequent short term financing and to meet any further pressure on their reserves resulting from Treasury debt retirement operations or other transactions.

Even in periods of temporary easing of reserve positions, such as occurred in the week ended November 19 because of a return of currency from circulation and an unusually large increase in Federal Reserve "float" which resulted from delay in air shipments of checks collectible throughout the country, the commercial banks continued to make net sales of Government securities. In that week, however, they repaid a substantial portion of their borrowings from the Federal Reserve Banks. In the four weeks ended November 26, the Federal Reserve System made large purchases of Treasury certificates and notes, but these purchases were more than offset by redemptions and sales of Treasury bills. Part of the Treasury bills appear to have been absorbed by nonbank investors.

The rise in interest rates, together with the increased availability of corporate securities and mortgage loans, caused further unsettlement in the bond market and prices of Treasury bonds of all maturities except the very shortest as well as corporate obligations of all grades showed sizable declines. Partially tax exempt Government issues were particularly depressed, partly because they had been high relative to taxable issues and partly because the market in such issues is particularly thin. Long term "bank eligible" issues also were weak as the banks tended to shorten their bond portfolios. Sales of the shorter bond maturities were fairly large at times, reflecting chiefly adjustments of bank reserves. The long term restricted issues also declined—the June and December 2½'s of 1967-72 to about 101.

The Treasury bond market continued to be characterized by absence of demand and in order to maintain orderly market conditions, the Federal Reserve System made purchases of 220 million dollars in the three weeks ended November 26. In the first week when 30 million of Treasury bonds were acquired, they were all short maturities and reflected mainly adjustments of bank reserves to required levels. In the second and third weeks, however, the purchases included about 163 million dollars of bonds with final maturities beyond five years. Prices of the long term restricted issues held steady after the second statement week of the month (ended November 12). Bank eligible issues, particularly the longer maturities, on the other hand, continued to recede during the following weeks.

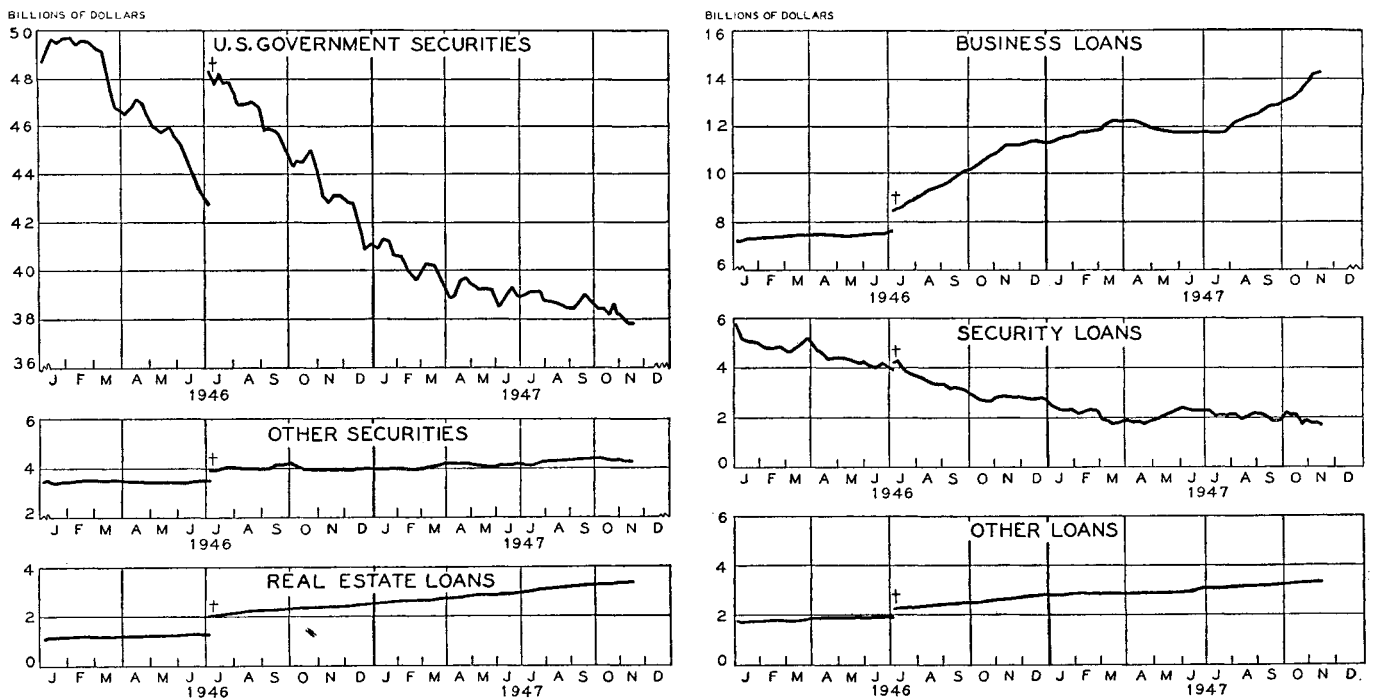
MEMBER BANK CREDIT

Growing concern with the continuing increase in bank credit has been related to the fact that the resultant increase in the volume of the means of payment has not been accompanied by any appreciable expansion in the volume of goods available for consumption. Rapidly expanding bank loans have accompanied higher commodity prices.

As indicated in the accompanying chart, the major factor in the expansion of bank credit since 1945 has been the rise in the volume of bank loans, particularly commercial, industrial, and agricultural loans, and to a lesser extent real estate and other loans. In the first half of 1946, the growth in these types of loans was just about offset by a contraction in security loans, especially loans on Government securities. The expansion of loans other than security loans was greatly accelerated in the last half of 1946 and in 1947, however, more than counter-balancing the continued reduction in security loans. "Commercial" loans in particular advanced rapidly, the weekly reporting member bank data showing new high records each week for the nineteen weeks through November 19. Purchases by commercial banks of unrestricted Treasury bonds from nonbank investors also added to the volume of demand deposits of individuals, partnerships, and corporations in 1946 and 1947, as did their (net) purchases of corporate and State and municipal issues.

Large-scale Treasury redemption of maturing or called obligations held by the banking system was the most important

Loans and Investments of All Weekly Reporting Member Banks, 1946-47*



* Wednesday dates; latest figures are for November 19, 1947.
 † New series based on revised list of reporting banks.

single factor restraining the expansion of bank credit and deposits. Redemption of securities in 1946 was effected principally with funds previously accumulated in War Loan deposit accounts from the sale of Victory Loan issues to the public. A large part of the retired securities were held by the banks so that their redemption did not add to deposits of the public; but to the extent that the securities were held by nonbank investors additions to the volume of private deposits did result. In 1947, however, debt redemption came principally from net tax receipts so that the retirement of Treasury securities held by nonbank investors merely resulted in a shift of deposits from taxpayers to investors, while the payment of securities held by the banks effected a reduction in deposits.

As a result of redemptions and sales directly and indirectly to the Federal Reserve System, the decline in short term Government security holdings of the reporting banks exceeded the net expansion of all other types of bank credit in the eighteen months ended June 30, 1947, and it was not until after the middle of this year that the expansion of loans brought an increase in the over-all total of loans and investments. Demand deposits of individuals, partnerships, and corporations, however, rose gradually throughout this period, except for a rather sharp temporary decline in the first quarter of this year which was attributable to large Treasury receipts.

STATEMENT BY BANK SUPERVISORY AUTHORITIES

A joint statement was issued on November 24, by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks, as follows:

Our country is experiencing a boom of dangerous proportions. The volume of bank credit has been greatly inflated in response to the needs for financing the war effort. Domestic and foreign demands for goods and services are exerting a strong upward pressure on prices in spite of the high volume of our physical production. These demands would be inflationary without any further increase in the use of bank credit, but the demand is being steadily increased through continued rapid expansion in bank loans, in addition to other factors outside the control of the banking system.

A substantial increase in production, agricultural as well as industrial, would be highly beneficial. However, increases can only take place slowly and to a limited degree. In industry, they are dependent upon corresponding increases in the available supply of basic raw materials, plant capacity, and the number and productivity of the labor force. Therefore a further growth of outstanding bank credit tends to add to the already excessive demand and to make for still higher prices.

The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks are unanimously of the view that present conditions require the bankers of the country to exercise extreme caution in their lending policies. It is at times such as these that bad loans are made and future losses become inevitable.

It is recognized that a continued flow of bank credit is necessary for the production and distribution of goods and services. The banks of the country have adequately met this important need in the reconversion period. Under existing conditions, however, the banks should curtail all loans either to individuals or businesses

for speculation in real estate, commodities or securities. They should guard against the overextension of consumer credit and should not relax the terms of instalment financing. As far as possible extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand.

The bank supervisory authorities strongly urge directors to see that their banks follow these policies and maintain adequate capital in relation to risk assets.

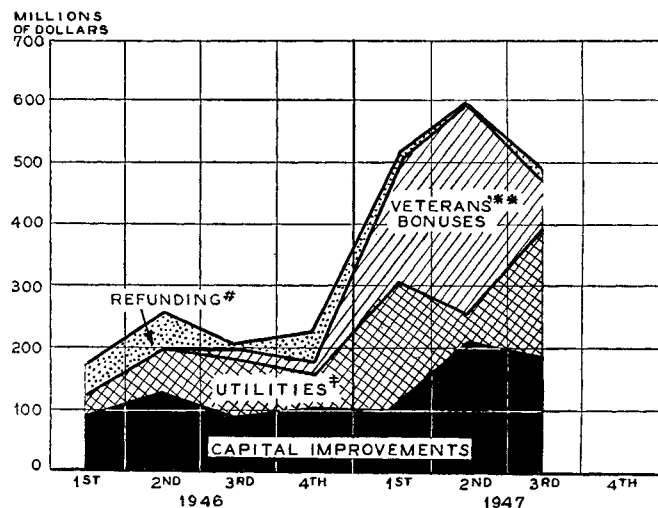
MUNICIPAL FINANCING IN THE POSTWAR PERIOD

The undertaking of projects postponed during the war and of capital improvements and extensions of services made necessary by war and postwar growth and geographic shifts of population, and the payment of bonuses and other benefits to veterans have brought State and local governments into the capital market for a record volume of funds. Offerings of new municipal government¹ securities rose sharply following the end of the war. In the first ten months of 1947 the value of new municipal issues exceeded the amount sold in any previous full year on record.

In spite of the growth of substantial postwar reserves, capital expenditures and payments to veterans by State and municipal governments since the war have been so large as to require substantial financing in the capital market. The volume of new municipal security issues, exclusive of refunding issues, rose from one-half billion dollars in 1945 to about one billion in 1946, and exceeded 2 billion dollars in the first eleven months

¹ The term "municipal" securities will be used in this article to denote those of both State and local governments.

New State and Local Government Bond Issues by Major Purpose, 1946-47 Quarterly Totals*



* Issues of \$100,000 and over through January 1947 and \$500,000 and over thereafter, maturing in more than one year.

Includes small amount of funding issues.

** Includes small amount of non-bonus issues.

‡ Includes issues for miscellaneous and emergency purposes.

Source: Compiled by Federal Reserve Bank of New York from data published in *The Bond Buyer*.

of 1947. The trend of new municipal issues classified by purpose of issue is shown for the larger nationally distributed issues in the preceding chart, by quarters for 1946 and the first three quarters of 1947. As illustrated in the chart, the major purpose of the new offerings has been to finance capital improvements, including new schools, hospitals, public buildings, street and highway construction, and facilities for recreation, and expansion of municipal utilities such as sewer and water systems, garbage disposal facilities, airports, and transit systems (including purchase of the privately-owned transit system by one large municipality in 1947). Veterans' benefit bonds consisting almost entirely of bonus issues also bulked large, exceeding 680 million dollars in 1947 through November as compared with 92 million in 1923, the previous peak. Bonus issues are likely to surpass this year's figure in 1948, if all the bonus bonds voted at the last election are issued in the coming year.

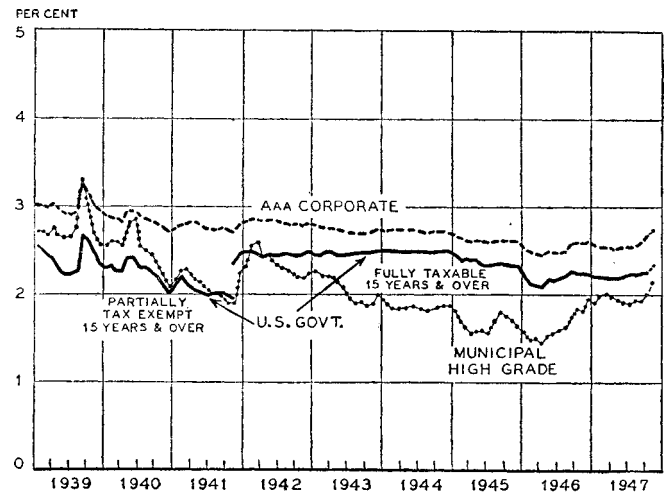
On the whole, the capital market has received the heavy volume of new municipal financing very well, although a few periods of congestion have arisen when the volume of new issues temporarily expanded beyond the absorptive capacity of the market. To some extent, these congested conditions coincided with pronounced declines in prices of outstanding issues and were both cause and effect of such declines. Thus, from time to time, underwriters' inventories of undigested issues rose to substantial totals, and markdowns often had to be taken in order to reduce them.

The slump in prices and the uncertainty concerning future developments led to a demand for shorter term maturities and the longer issues became harder to dispose of. A few offerings of new issues by municipalities (all of which are made through competitive bidding) failed to receive bids at such times and had to be withdrawn. To some extent, this experience paralleled that in the underwriting of new corporate securities. However, since the Banking Act of 1933 does not prohibit underwriting of new municipal issues by commercial banks, the volume of underwriting capital available is larger in the municipal than in the corporate market, and the potential capacity for holding unsold issues pending stable market conditions is greater.

THE RISE IN MUNICIPAL BOND YIELDS

The current heavy supply and the prospects of a continued large volume of new issues constitute only one of three major forces which have been working toward lower prices and higher yields of municipal securities since early 1946. The other two are the intermittent but rather general rise in interest rates and the declining value of the tax exemption privilege enjoyed by municipal bonds. The value of the tax exemption has been reduced as a result of reduced personal income tax rates and the elimination of the excess profits tax, and may be reduced more if there are further reductions of personal income tax liabilities.

Yields on Long Term Treasury Bonds and High Grade Municipal and Corporate Bonds, 1939-47



Source: U. S. Government bonds, Treasury Department; Aaa corporate bonds, Moody's Investors Service; municipal high grade bonds, Standard & Poor's Corporation. November 1947 preliminary.

As a result of the operation of these factors, yields on high grade municipal bonds have risen sharply. At the same time the spread between the yields on better quality municipal issues and the yields on long term Government bonds and high grade corporate bonds has narrowed, as illustrated in the accompanying chart. Standard and Poor's average yield on high grade municipal bonds rose from a low point of 1.45 per cent in April 1946 to slightly over 2 per cent in March 1947 and to 2.15 per cent in November of this year (preliminary).

At the current yields, municipals have become more attractive to individual investors in the higher income brackets and to corporate investors subject to a 38 per cent tax. To produce an equivalent net return, yields of corporate or taxable Treasury bonds for individuals in the \$25,000 surtax bracket, and for corporate taxpayers would have to be approximately 4.9 and 3.5 per cent, respectively, or well above the yields at which high grade corporation or Government bonds are currently selling in the market. It is possible, therefore, that the reaction in municipal bond prices during the past 18 or 19 months has discounted, at least in part, the effects of a future lowering of the individual income tax burden. However, there is still the possibility of unsettling effects on the market if new issues are brought out too fast for the absorptive capacity of the market.

DISTRIBUTION OF OWNERSHIP

The distribution of the ownership of municipal bonds is influenced to a considerable extent by the advantages arising from their exemption from Federal and local income taxes. Whereas a large part of the investment of the public's savings in other types of instruments of indebtedness is effected through intermediaries such as life insurance companies and mutual

savings banks, a considerable part of the investment in municipal issues is made directly by individuals, largely those in the higher income brackets, and by personal trust funds. As shown in the accompanying chart, individuals, partnerships, and personal trust accounts have owned more than 40 per cent of the municipal debt outstanding in most of the years since 1936, and more than 50 per cent of all such debt privately held in all of the years since 1936. Holdings of this group of investors declined during the war but at a slower rate than the retirement of State and local government debt. However, the very high level of taxation in recent years has greatly reduced the potential accumulation of savings by individuals in the upper income brackets, and thus has apparently reduced this most important single market for municipal securities, although it has strengthened the incentive to invest in tax-exempt securities.

Commercial banks rank second as investors in municipal bonds. In view of the decline in total outstanding municipal debt and of the fact that bank holdings increased, it appears that commercial banks apparently were net purchasers of such issues during the war. The banks normally tend to hold the shorter maturities (up to 10 years). The high excess profits tax apparently was one cause of the increase in bank holdings of municipals toward the close of the war when more and more banks reached the excess profits tax brackets. But the tax exemption value of such securities is still substantial and some commercial banks have been among the most vigorous buyers of municipals since the repeal of that tax.

Insurance companies, and especially the mutual savings banks, have become minor factors in the market for municipal bonds in recent years. Having little to gain from the tax exemption privilege, they took advantage of the strong market

in municipals during the war to sell them at substantial profits to those who had much to gain. Undoubtedly they also failed to replace some of their holdings of matured issues. Since these institutions are primarily long term investors, their absence from the market has thrown the major burden of absorbing new long term securities on individual investors and personal trust accounts. The recent rise in the yields on high grade municipal bonds, however, has increased their attractiveness relative to the yields on Treasury bonds and high grade corporate issues.

UNITED STATES TRADE WITH THE "MARSHALL PLAN" COUNTRIES

One of the most striking factors in Europe's failure to regain economic stability since the war is the lagging of its exports to the United States. These are still far below prewar not only in volume, but even in most cases in value, notwithstanding the rise in prices. This lagging of exports to this country is particularly serious because the European economic problem today takes the form so largely of a dollar shortage and therefore is greatly aggravated by Europe's inability to restore its sales to this country.

United States exports to the so-called "Marshall Plan" countries—those included in the European Recovery Program—and their dependencies in the third quarter of 1947 were more than 300 per cent above the 1936-38 rate, less than half of this increase being attributable to higher prices.¹ Our imports from these countries, on the contrary, expanded only 28 per cent in value during the same period. Since United States import prices as a whole have risen about 111 per cent, these imports in terms of physical volume are actually running at least one-third under the prewar level.

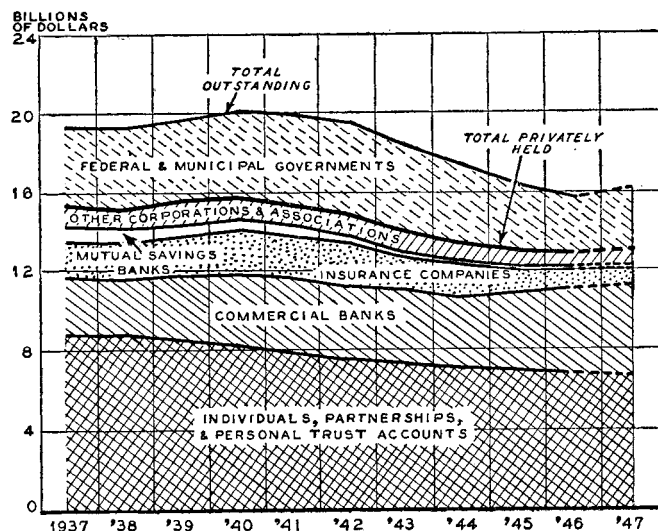
Because of the importance of the dollar shortage and of the program to meet it now being considered by Congress, the current foreign trade of the United States with the various "Marshall Plan" countries is of particular interest at this time. A comparison with prewar trade has therefore been summarized in the accompanying table. Not only are the sixteen countries and Germany shown, but their dependencies as well, since the latter cannot be excluded from any consideration of the dollar shortage.² The postwar trade figures for Germany, although nominally for the entire country, cover for practical purposes only Western Germany.

As there seems to have been a turn downward in the trend of United States trade toward the end of the first half of 1947, especially as to exports, data are given separately for the first half and for the third quarter of this year. These are expressed

¹ The Department of Commerce's unit value index of all domestic exports in July-September averaged 194 per cent of the 1936-38 average.

² French Indo-China and the Netherlands East Indies, although shown separately, are not included in the totals because of the present political uncertainties in these regions.

Distribution of Ownership of State and Municipal Bonds, June 30, 1937-47



Source: *Annual Report of the Secretary of the Treasury, 1946*; June 30, 1947 estimated by the Federal Reserve Bank of New York.

Effects of the War on U. S. Trade with the "Marshall Plan" Area
(In millions of dollars; exports include re-exports; imports comprise general imports)

Region	U. S. exports				U. S. Imports				Increase in U. S. export surplus over 1936-38*		
	1936-38 average	1946	Annual rate as of		1936-38 average	1946	Annual rate as of		1946	Jan-June 1947 (annual basis)	July-Sept. 1947 (annual basis)
			Jan-June 1947	July-Sept. 1947			Jan-June 1947	July-Sept. 1947			
Austria	2.8a	45.8d	45.2d	14.0d	4.9a	1.5	3.0	4.4	+ 46.4	+ 44.3	+ 11.7
Belgian area	78.9	302.9	528.8	589.2	60.8	95.9	70.8	112.0	+ 188.9	+ 439.9	+ 459.1
Belgium and Luxembourg	77.0	279.1	474.2	537.2	58.6	77.4	54.2	55.2	+ 183.3	+ 401.6	+ 463.6
Belgian Congo	1.9	28.8	51.6	52.0	2.2	18.5e	16.6e	56.8e	+ 5.6	+ 38.3	+ 4.5
British area	579.8	1,031.1	1,662.6	1,541.6	415.2	380.6	726.8	553.6	+ 485.9	+ 771.2	+ 823.4
United Kingdom	499.2	855.6	1,240.4	1,124.4	178.8	156.4	202.0	205.6	+ 373.8	+ 713.0	+ 693.4
Other†	80.6c	175.5	422.2	417.2	241.4e	224.2	524.8	348.0	+ 112.1	+ 68.2	+ 290.0
Denmark	18.1	38.1	93.8	69.6	4.4	4.3	6.0	3.6	+ 20.1	+ 74.1	+ 52.3
Eire	15.9	28.2	80.6	116.0	1.3	2.2	2.4	3.2	+ 11.4	+ 63.6	+ 98.2
French area	158.7	867.0	1,090.6	882.0	76.2	81.6	78.6	50.4	+ 702.9	+ 929.5	+ 749.1
France	142.6	712.0	819.8	745.6	65.0	62.8	59.0	38.4	+ 571.6	+ 789.2	+ 629.6
Other†	16.1	155.0	170.8	136.4	11.2	18.8	25.6	12.0	+ 131.3	+ 140.3	+ 119.5
French Indo-China§	2.9	8.1	20.8	30.4	6.0	41.8	6.2	3.6	+ 30.0	+ 11.6	+ 23.7
Germany	114.1a	82.3d	162.2d	144.8d	86.1a	3.2	4.2	7.2	+ 51.1	+ 130.0	+ 109.6
Greece	6.7	142.8	179.4	163.2	14.3	23.7	20.4	4.0	+ 126.7	+ 166.6	+ 166.8
Iceland	0.1	11.6	17.8	16.4	1.1	5.9	4.0	2.0	+ 6.7	+ 14.8	+ 15.4
Italy	64.7	370.7d	574.2d	370.0d	43.2	68.7	43.0	29.2	+ 280.5	+ 509.7	+ 319.3
Netherlands area	112.3	259.8	471.8	396.8	66.0	75.2	105.0	114.8	+ 138.3	+ 320.5	+ 255.7
Netherlands	31.2	221.7	386.4	350.0	44.9	22.9	19.4	38.8	+ 162.5	+ 350.7	+ 254.9
Other¶	31.1	38.1	85.4	66.8	21.1	62.3	85.6	76.0	+ 24.2	+ 10.2	+ 19.2
Netherlands East Indies§	22.1	73.3	128.8	76.4	34.6	55.8	35.8	20.8	+ 102.0	+ 155.6	+ 118.1
Norway	20.1	78.9	162.0	169.6	21.1	13.2	19.6	16.8	+ 66.7	+ 143.4	+ 153.8
Portuguese area	19.4	74.6	124.4	127.6	7.2	43.4	36.4	21.2	+ 19.0	+ 75.8	+ 94.2
Portugal	11.5	60.0	97.2	94.8	6.6	28.3	21.8	13.6	+ 31.8	+ 70.5	+ 76.3
Other#	7.9b	14.6	27.2	32.8	0.6b	20.1	14.6	7.6	+ 12.8	+ 5.3	+ 17.9
Sweden	57.3	206.2	448.4	428.0	50.6	47.1	69.2	133.2	+ 152.4	+ 372.5	+ 288.1
Switzerland	9.3	108.4	185.4	188.8	23.5	98.5	83.8	74.0	+ 24.1	+ 115.8	+ 129.0
Turkey	11.5	36.7	94.6	67.6	15.5	68.3	71.4	12.0	+ 27.6	+ 27.2	+ 59.6
Total "Marshall Plan" area§	1,269.7	3,685.1	5,921.8	5,285.2	891.4	1,013.3e	1,344.6e	1,141.6e	+2,293.5	+4,198.9	+3,765.3
"Commercial" trade only**	1,269.7	5,248.5	6,687.6	5,146.8p	891.4	1,013.3e	1,344.6e	1,141.6e	+1,866.7	+3,864.7	+3,626.9p
Per cent of "Marshall Plan" area to world total	42.8	37.8	39.2	38.7	55.8	20.6	23.6	21.6	—	—	—
All other areas††	1,696.8	6,054.3	9,186.0	8,375.2	1,597.4	3,894.9e	4,380.6e	4,178.4e	+2,060.0	+4,706.0	+4,097.4
World total††	2,966.5	9,739.4	15,107.8	13,660.4	2,488.8	4,908.2e	5,725.2e	5,320.0e	+4,353.5	+8,904.9	+7,862.7

* Or decrease in U. S. import surplus; — = decrease in U. S. export surplus or increase in import surplus.
† Comprises all British dependencies and mandates except Newfoundland and the Anglo-Egyptian Sudan; also excludes Australia, Canada, Eire, India (and Pakistan), New Zealand, and the Union of South Africa.
‡ Comprises all French dependencies except French Indo-China; excludes Syria and Lebanon.
§ French Indo-China and the Netherlands East Indies are not included in area totals.
¶ Comprises Curacao (Netherlands West Indies) and Surinam (Dutch Guiana); excludes Netherlands East Indies.
Comprises Portuguese dependencies.
** Excludes "noncommercial" exports, i.e., UNRRA and private relief, shipments under Greek-Turkish aid and post-UNRRA programs, and such lend-lease exports as are not to be paid for.
†† Includes "noncommercial" exports.
a. 1936-37 average.
b. Excludes Portuguese Asia.
c. Excludes Burma.
d. Excludes shipments to U. S. armed forces for distribution to civilian population.
e. Excludes shipments of uranium and related commodities; such shipments are currently excluded from all United States trade data.
p. Preliminary.

throughout, however, in terms of their annual rates so as to facilitate comparison with 1946 and with the 1936-38 average. Finally, in order to bring out the combined effects of the changes in exports and imports as factors in the dollar drain, the net change from the prewar United States trade balance with each country is shown as of 1946 and, in terms of the annual rate, as of the first half and the third quarter of 1947.

What stands out from these figures is that by the first half of this year the United States export balance with the "Marshall Plan" countries was at the rate of nearly 4.6 billion dollars annually, compared with less than 400 million before the war—an increase of 4.2 billion in the annual rate. Even at the lower third-quarter trade level, the export balance was still at the annual rate of nearly 4.1 billion.³ This was more than accounted

³ Even on a so-called "commercial" basis—i.e., excluding United States exports under the various forms of private and Governmental aid—the deterioration of the trade balance as of the two periods was still 3.9 billion and 3.5 billion, respectively, as shown in the table.

for by the very sharp rise in our exports to the area—a rise that aggregated 4.7 billion dollars annually as of the first half of 1947 and was still 4.0 billion as of the third quarter.⁴ Such a rise of course was largely unavoidable if European reconstruction was not to be indefinitely delayed.

United States imports from these countries were only 453 million dollars a year above prewar as of the first half of this year, and only 250 million as of the third quarter. This obviously contributed little toward covering the greatly expanded dollar requirements of the area. Under prewar conditions, a level of economic activity in this country as high as in 1947 would have led to United States imports far above present levels, and the dollar problem would have been proportionately reduced.⁵ Assistant Secretary of Commerce Bruce recently stated that the normal (i.e., prewar) relation of imports to

⁴ Or 4.3 billion and 3.7 billion, respectively, on a "commercial" basis.

⁵ Under "normal" conditions, the import requirements of the "Marshall Plan" countries of course would also have been much less.

industrial activity in the United States would have called, under the domestic conditions now prevailing, for total imports into this country at the rate of 9 billion dollars annually instead of the 5.7 billion rate at which they were actually running during the first half of this year. Not all of this disparity, of course, is attributable to the "Marshall Plan" area, since other parts of the world also have failed to expand their exports to the United States in anything like the same proportions as their imports from us. However, the "Marshall Plan" countries, which supplied us with 35.8 per cent of our total exports in 1936-38, furnished only 23.5 per cent in the first half of 1947 and 21.5 per cent in the third quarter. Were our imports running at a "normal" level in terms of our present rate of domestic business activity, and were those countries supplying the same proportion of the total as before the war, they would now be supplying us with goods at the rate of 3.2 billion dollars a year, or close to 2 billion dollars more than the actual rate in the first half of 1947, a difference that would obviously have greatly relieved their dollar problem.

Wide differences of course prevail between the respective performances of the exbelligerents, neutrals, and dependencies, that make up the "Marshall Plan" area. All the neutrals are exporting to us far more in value and probably more in volume than before the war.⁶ The various dependencies likewise have greatly increased their sales to us. But apart from the United Kingdom, and also Iceland, not one of the other countries is currently exporting to us as much, even in value, as in 1936-38,⁷ and probably not half as much in terms of volume. The United Kingdom, it is true, has succeeded in raising its sales to us to a level about 12 per cent above prewar, but even this, in terms of volume, represents a loss of close to 40 per cent.

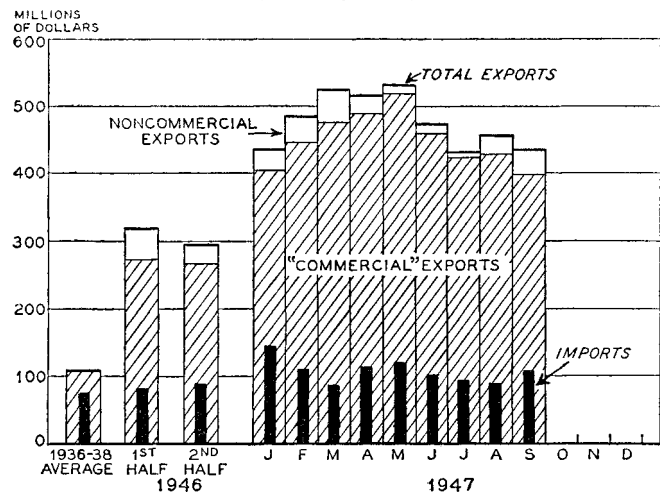
The reduced exports of the exbelligerents and their extremely large reconstruction needs, however, are by no means solely responsible for the extent to which the total United States export balance with countries of this area has increased.⁸ The trade balances of the former neutrals have turned adverse on a scale quite comparable, in proportion to the size of their trade, to that of the exbelligerents. For although their exports to the United States have in most cases shown far more substantial increases, their purchases in this country have increased so greatly, even though they do not have the same urgent reconstruction needs, that their favorable export performance has been far more than offset. In the event, however, that they are compelled by lack of dollars to curtail their purchases

⁶ The low level of imports from Turkey in the third quarter apparently reflects merely a temporary hiatus in the tobacco movement.

⁷ The irregular character of Greek exports, largely consisting of tobacco, makes difficult any accurate estimate of Greece's current annual rate of sales to the United States.

⁸ United States exports to Austria, Germany, Greece, Italy, and Turkey include appreciable—in some cases predominant—amounts of noncommercial shipments in various forms of private and Governmental aid from this country.

United States Foreign Trade with the "Marshall Plan" Area
(Monthly basis)



Note: "Noncommercial" exports comprise shipments under UNRRA and private relief, under the Greek-Turkish aid and post-UNRRA programs, and under lend-lease to the extent that payment is not called for.

Source: Compiled by Federal Reserve Bank of New York from U. S. Department of Commerce data.

here, they will at least be able to do so at less cost to their economies than can the exbelligerents.

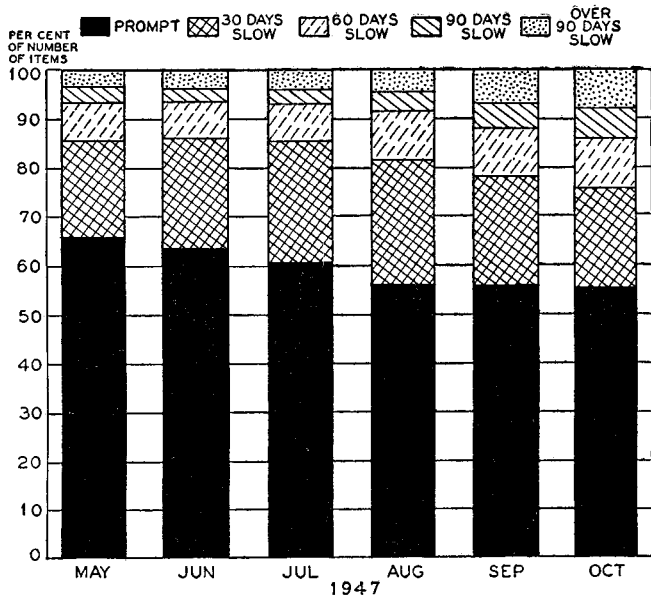
As the summary data at the bottom of the table indicate, the United States export balance with the rest of the world and its increase over prewar levels have both been about as large as in the case of the "Marshall Plan" countries.⁹ Many of the other countries, however, accumulated substantial amounts of dollar balances and gold during the war, and hence have been better able to pay for a large volume of imports from the United States. Nevertheless such countries in a number of cases have been exhausting their supplies of dollars and gold with such rapidity that they have been impelled to impose import restrictions in recent months. This situation is reflected to some extent in the figures for the third quarter of 1947.

⁹ This reflects in part those former belligerents and occupied areas in Eastern Europe and in Asia that are outside the "Marshall Plan" area.

EXPORT CREDIT INFORMATION ON LATIN AMERICAN COUNTRIES

In May 1947, this bank with the cooperation of 12 New York City banks inaugurated a series of reports designed to supplement the available information on export credit conditions in Latin American countries. Under this plan the 12 banks report monthly their draft collection experience in each Latin American country, listing the number of collections that are paid promptly and the number that are paid in various degrees of slowness. In addition, each bank lists the dollar amount of collections outstanding at the end of each month and the dollar amount of confirmed letters of credit outstand-

Degree of Promptness in Collections Paid by Latin American Countries as Reported by Twelve New York City Banks
(In per cent of number of items paid)



ing. From these reports this bank prepares a monthly press release which is available upon request¹.

In the first press release covering this series the hope was expressed that the information would be useful to all segments of the export community in that it would point out any trends that might develop in the promptness in which Latin American collections were paid, and that it would also permit studies of the growth or contraction in the volume of collections and confirmed letters of credit outstanding at the 12 banks. While it is still too early in the series to appraise fully the worth of these data, it is possible to observe certain trends from the first six months. There is definite evidence of a slowing down in the payment of collections in Latin America during this period, although in the past two months the change has been slight. There has also been a continuous decline in the volume of confirmed letters of credit outstanding at the 12 banks and a rise in total collections outstanding. However, in using these figures it must be emphasized that they are meaningful only when used with other available data on credit conditions in Latin America. The imposition of new exchange regulations in a number of Latin American countries has resulted in some cases in a slowing down of collections in those countries. As a result of these regulations, the speed of collection has become more closely allied to the degree of essentiality of the goods shipped and the ease with which foreign exchange licenses may be obtained. Therefore in using these data it is necessary to bear in mind, among other factors, the exchange regulations in particular countries as they affect particular merchandise,

¹ The July issue of the *Monthly Review* explained the nature and purpose of this series.

the dollars available in the country, and other pertinent data relating to the general economic condition of the country.

The general slowing down in the payment of collections in Latin America—at least in those items handled by the 12 reporting banks which comprise a large share of Latin American business transacted in New York City—is reflected in the accompanying chart. The chart shows the percentage of total Latin American collections *paid* promptly during each of the six months under study, and the percentage of items that were 30, 60, 90, and over 90 days slow. It indicates that the percentage of collections *paid* promptly for Latin America as a whole declined from 65.7 per cent during May to 55.4 per cent during October. However, the rate of decline has slowed down and between August and October the proportion of prompt collections declined less than one percentage point. Collections paid 60 days slow accounted for 7.6 per cent of the total in May, compared with 10.6 per cent in October; items 90 days slow rose from 3.4 per cent to 6.1 per cent; and those over 90 days slow increased from 3.4 per cent in May to 7.9 per cent of all collections paid in October.

Promptness has varied considerably from one country to another, as may be seen in Table I. In Brazil and Colombia, there has been a substantial decline in the proportion of prompt payments. Collections in Brazil declined from 61 per cent prompt in May to 33 per cent in October, while during the same period prompt collections in Colombia declined from 65 per cent to 40 per cent. The number of collections paid in Brazil during October reached the lowest level since May. Brazil, however, presents a special case owing to the introduction of new exchange regulations in June of this year. An immediate slowdown of collections appears to have resulted, which will continue to be reflected in the figures until the backlog has been liquidated. From the data reported by the banks

Table I
Number of Collections Paid Promptly in Percentage of Total Number of Collections Paid by Individual Countries, May to October 1947
(According to the schedule of promptness for each country)

Country	Prompt payment	May	June	July	Aug.	Sept.	Oct.
Argentina.....	2 months	44.7	41.8	40.6	35.0	43.7	33.3
Bolivia.....	2 months	50.0	73.3	55.9	61.0	41.6	55.7
Brazil.....	6 weeks	61.0	60.5	47.5	38.3	38.1	33.2
Chile.....	2 months	48.6	53.3	51.5	48.6	43.2	46.4
Colombia.....	7 weeks	64.8	53.1	55.7	39.6	44.0	40.0
Costa Rica.....	2 months	27.4	46.6	32.8	48.2	25.5	23.3
Cuba.....	3 weeks	86.5	79.5	79.9	83.7	77.9	79.0
Dominican Republic...	1 month	76.8	65.6	76.5	82.8	78.7	70.8
Ecuador.....	6 weeks	60.6	51.7	55.6	44.3	43.6	47.8
Guatemala.....	6 weeks	73.0	61.7	78.0	73.6	67.3	60.9
Haiti.....	1 month	81.5	76.0	65.6	70.8	76.8	75.7
Honduras.....	1 month	58.8	57.6	56.5	57.3	56.0	58.3
Mexico.....	1 month	74.3	71.8	70.2	69.9	73.1	69.2
Nicaragua.....	6 weeks	79.0	73.5	74.0	63.3	77.9	79.8
Panama.....	1 month	86.5	80.8	85.4	73.4	83.1	86.3
Paraguay.....	2½ months	39.3	58.4	81.3	54.7	28.2	31.3
Peru.....	2 months	59.5	58.7	60.6	51.3	55.7	67.2
Salvador.....	1 month	53.4	68.7	61.4	48.3	47.0	60.2
Uruguay.....	2 months	49.4	43.4	48.1	50.3	53.1	44.4
Venezuela.....	6 weeks	66.5	65.6	61.2	64.9	59.0	61.5
British Guiana.....	6 weeks	69.2	74.0	58.0	56.6	64.9	61.5
Dutch Guiana.....	5 weeks	57.8	58.5	39.8	39.1	49.4	67.3
French Guiana.....	5 weeks	—	—	—	100.0	—	50.0
All countries.....	—	65.7	63.0 ^r	60.6	56.1	55.8	55.4

^r Revised.

Table II
Collections Outstanding and Confirmed Letters of Credit Outstanding as Reported
by Twelve New York City Banks, May to October 1947
(End-of-month data in thousands of dollars)

Country	Collections outstanding						Confirmed letters of credit outstanding					
	May	June	July	August	September	October	May	June	July	August	September	October
Argentina.....	11,880	12,456	12,682	13,332	13,739	13,164	154,083	143,705	144,615	136,979	137,022	138,688
Bolivia.....	1,722	1,763	1,609	1,573	1,786	1,925	5,323	4,659	5,687	5,159	6,483	6,091
Brazil.....	44,927	46,900	52,473	49,791	47,437	50,460	39,302	38,033	31,630	32,488	32,318	31,390
Chile.....	5,509	6,027	6,677	7,292	7,161	8,607	11,823	11,479	10,771	9,010	6,685	5,863
Colombia.....	8,104	8,879	7,755	7,913	7,223	6,300	22,254	18,031	16,991	16,034	16,317	15,453
Costa Rica.....	2,176	2,410	2,284	2,378	2,220	2,412	343	311	550	528	419	468
Cuba.....	4,791	4,793	5,044	4,759	5,073	5,319	12,003	11,688	11,612r	9,004	14,598	15,674
Dominican Republic.....	250	247	233	322	269	367	345	643	440	489	373	474
Ecuador.....	1,779	1,921	1,776	1,584	1,598	1,584	3,871	3,190	2,716	3,493	2,365	2,511
Guatemala.....	282	373	625	645	633	686	592	625	660	527	475	610
Haiti.....	138	56	83	228	255	539	115	155	272	154	139	139
Honduras.....	432	493	623	497	521	492	535	508	423	431	410	439
Mexico.....	4,957	4,985	5,383	4,926	5,126	4,835	31,288	28,618	28,414	34,441	33,964	34,201
Nicaragua.....	236	197	236	319	297	237	359	235	112	78	75	47
Panama.....	1,209	1,289	1,504	1,321	1,312	1,361	3,788	3,040	3,203	2,825	3,060	2,889
Paraguay.....	372	408	413	447	397	307	1,381	1,770	1,974	1,910	1,322	1,611
Peru.....	4,121	3,582	3,298	3,603	3,958	4,127	1,798	1,870	2,245	3,188	3,237	2,044
Salvador.....	236	248	425	581	580	556	1,389	1,560	1,825	1,638	1,701	1,913
Uruguay.....	649	1,117	1,694	2,741	3,001	1,906	12,339	10,656	9,707	8,447	4,983	5,465
Venezuela.....	6,024	6,480	7,316	7,150	7,053	7,338	23,379	26,026	22,123	23,673	22,154	18,245
British Guiana.....	96	74	96	174	156	117	—	—	—	—	—	—
Dutch Guiana.....	201	212r	196	259	194	173	472	420r	336	298	181	112
French Guiana.....	5	5	2	11	6	5	—	—	—	—	—	—
All countries.....	100,096	104,915r	112,537	111,906	109,995	112,787	326,956	307,191r	296,189r	290,912	289,296	284,327

r Revised.

it cannot be determined whether current collections in Brazil are being liquidated more rapidly than those of several months ago. However, it is believed that the payment of collections is apt to be more prompt on merchandise which is considered essential under the Brazilian regulations and on which exchange licenses can be readily obtained. Costa Rica throughout the entire six months showed the largest percentage of payments over 90 days slow. In October, more than half the collections paid through the reporting banks by Costa Rica were over 90 days slow. During the entire six months under review Cuba, Dominican Republic, Haiti, Mexico, Nicaragua, and Panama led in paying promptly, ranging from about 63 per cent prompt to nearly 87 per cent prompt.

Table II lists, by countries, the total collections and confirmed letters of credit outstanding at the 12 banks at the end of each month from May through October. It shows that total Latin American collections outstanding at these banks increased from 100.1 million dollars in May to 112.8 million dollars at the end of October. Outstanding collections on exports to Brazil rose more than 5½ million dollars during this six months' period and accounted for the largest part of the over-all increase; Chile increased more than 3 million dollars in outstanding collections while Argentina, Uruguay, and Venezuela showed rises of over 1 million dollars. These increases in collections outstanding reflect, in part, the growth in the amount of unpaid and overdue collections. The increases are even more significant when it is recalled that the decline in exports to Latin America in recent months, according to United States Department of Commerce figures, should have produced a shrinkage in collections outstanding if promptness had been well maintained.

Confirmed letters of credit outstanding (Table II) at the 12 banks declined rather substantially during the past six months from a total of 327.0 million dollars outstanding at the end of May to 284.3 million dollars at the end of October. The largest declines occurred in Argentina, Brazil, Chile, Colombia, Uruguay, and Venezuela. Offsetting this decline somewhat was an increase of about 3 million dollars in the credits outstanding for Cuba and Mexico. The decline in letters of credit has been the result, partly of the over-all reduction in exchange availabilities, and partly also of the greater selectivity in the allocation of exchange for different categories of imports. This is particularly applicable to those countries having the largest declines in outstanding credits. In addition, because of the uncertain economic conditions in some countries it may have become more difficult to establish letters of credit.

From May through July there was an increase of 4 per cent in the number of Latin American collections paid through the 12 banks (the number of collections is not published with the monthly reports). However, since July the number of collections paid has been lower in each succeeding month and the total for October was some 24 per cent lower than in May. A reduction in the number of collections paid in Brazil accounted for nearly half of this decline.

DEPARTMENT STORE TRADE

During November, department store sales in the Second Federal Reserve District rose sharply and on a seasonally adjusted daily average basis were some 13 per cent above October's sales, reversing consecutive declines for the three previous months. It is estimated from preliminary returns that daily average sales were close to 10 per cent above Novem-

Changes in Sales, Stocks, and Ratios of Stocks to Sales by Selected Departments at Second District Department Stores

Department	Percentage change in sales, Feb.-Oct. 1946 to Feb.-Oct. 1947	Percentage change in stocks, Oct. 31, 1946 to Oct. 31, 1947	Ratio of October stocks to sales*		
			1935-39	1946	1947
Total store#.....	+ 8	+ 18	2.7	2.9	2.6
<i>Main store#.....</i>	+ 7	+ 19	n.a.	3.0	2.7
Major household appliances..	+103	+250	3.0	0.9	2.1
Sheets and pillow cases.....	+ 32	+201	3.9	1.6	3.4
Domestic floor coverings.....	+ 28	+ 73	3.0	2.7	1.7
Radios and other musical instr.	+ 24	+ 96	1.6	2.5	3.4
Men's clothing.....	+ 22	+129	3.8	1.7	3.1
Furniture.....	+ 18	+ 10	2.4	5.3	2.4
China, glassware.....	+ 14	+ 53	5.7	5.2	4.5
Luggage.....	+ 14	+ 28	5.5	4.7	4.0
Housewares.....	+ 8	+ 10	2.4	4.8	2.8
Men's furnishings.....	+ 5	+ 25	3.9	3.3	3.9
Lingerie.....	+ 5	+ 47	3.3	2.1	3.0
Women's and children's shoes..	+ 5	+ 50	4.6	2.6	3.5
Blankets, spreads.....	+ 5	+ 49	2.7	2.3	2.9
Millinery.....	+ 3	+ 7	0.6	0.9	0.9
Juniors' and girls' wear.....	+ 2	+ 8	1.7	2.6	2.1
Blouses, skirts, sportswear...	+ 2	+ 18	1.8	3.1	2.0
Silverware.....	+ 2	+ 6	4.7	3.4	3.1
Toys, games.....	+ 1	+ 40	5.1	5.0	4.9
Boys' clothing, furnishings...	0	+ 10	3.1	3.9	4.2
Men's and boys' shoes.....	0	+ 74	4.9	2.7	6.2
Dresses.....	- 1	+ 23	1.1	1.4	1.6
Yard goods.....	- 1	+ 36	2.6	2.5	2.8
Aprons, housedresses.....	- 1	+ 1	2.1	2.6	2.3
Hosiery.....	- 2	+ 46	2.1	1.2	1.4
Pictures, mirrors.....	- 2	+ 9	3.3	6.0	3.8
Women's coats, suits.....	- 4	+ 6	1.3	1.5	1.5
Jewelry.....	- 6	+ 20	4.8	4.6	4.0
Oriental rugs.....	- 17	+ 19	0.9	0.7	0.5
Wines, liquors.....	- 18	+ 2	3.6	10.2	8.6
<i>Basement store#.....</i>	+ 22	+ 11	n.a.	2.6	2.1
Men's, boys' wear.....	+ 49	+ 38	n.a.	2.6	2.4
Shoes.....	+ 38	+ 35	n.a.	3.2	3.1
Blankets, linens, sheets.....	+ 31	+ 22	n.a.	2.8	2.1
Homefurnishings.....	+ 22	+ 7	n.a.	4.0	1.7
Women's wear.....	+ 13	+ 4	n.a.	2.3	1.9

* Number of months' supply at the October rate of sales.

Based on sales and stocks data of Second District stores reporting by departmental classifications; includes departments other than those shown separately. n.a. Not available.

ber last year. This year-to-year improvement is noteworthy, for sales during November last year were stimulated by the end of the trucking and delivery strikes in New York City and Newark. This bank's seasonally adjusted index of department store sales for November is expected to be within a few points of the year's high reached in July when the index stood at 255 per cent of 1935-39 average sales.

The major factor in the increase in department stores sales this November was probably the development of very seasonable shopping weather during a large part of the month, following an unusually lengthy warm spell early this fall. The improvement from October was general, and trade sources indicate that a good showing was made in women's wear departments, particularly coats. As indicated below, women's wear departments had made below average gains through October of this year. Homefurnishings departments also made substantial gains over October. The gain in men's wear departments—where sales have been particularly good this year—seems to have been modest during November.

SALES TRENDS IN MAJOR DEPARTMENTS

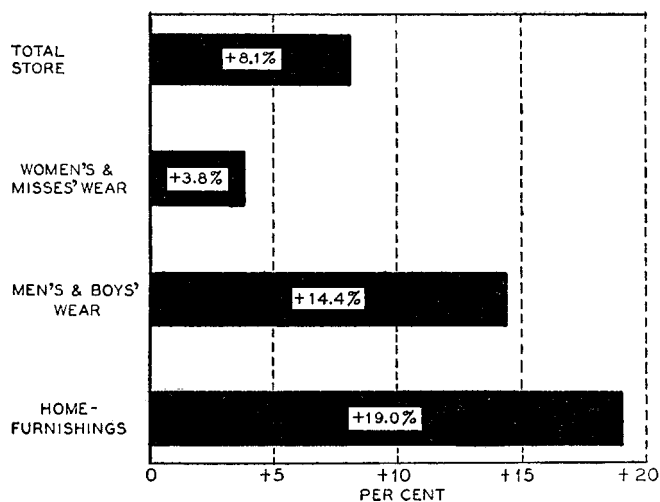
The demand for homefurnishings and the generally greater availability of such merchandise have been the dominant influences in the expansion of department store sales so far this

year. During the first nine months of the current department store fiscal year (February through October), store-wide sales volume in dollar terms in the Second Federal Reserve District was 8 per cent larger than for the same nine months of 1946. Homefurnishings departments accounted for almost three fifths of this year-to-year total dollar gain; departments specializing in women's wear, on the other hand, which include a much larger proportion of store volume than homefurnishings departments, contributed only about one fifth of the increase.

Increased sales of homefurnishings have been largely concentrated in furniture, domestic floor coverings, radios, and major household appliances. There is still a deferred replacement demand for such goods, and the completion of new dwelling units, most of which give rise directly or indirectly to purchases of new furnishings, has become of increasing importance. A sustained demand for these items is expected for some time to come, particularly now that stores are tending to relax their instalment terms. It is reported, however, that there is growing resistance to the high priced models of such items as stoves, and a concentration of demand on the medium and lower priced lines. With the exception of oriental rugs—a high priced luxury item—the picture and mirror department has been the only one in the homefurnishings group to show a decline from a year ago during the period under review.

Durable consumers' goods are probably the principal class of merchandise where increased dollar volume of sales has outstripped price rises, i.e., where physical volume may actually have increased. The more modest sales increases in other lines apparently have been largely or more than offset by rising prices, indicating in some cases a decline in unit sales volume.

Percentage Increases in Department Store Sales by Major Departmental Groups,* Feb.-Oct. 1946 to Feb.-Oct. 1947



* Main store and basement combined; total store figures include departmental groups other than those shown separately.

The gain in sales of almost 4 per cent made by women's wear departments, shown in the accompanying chart, can be credited largely to increased basement store sales. All lines of women's wear have shown increases in basement store sales, while in the main store sales declined 4 per cent in the women's coat and suit department during the period under review, and 1 per cent in the dress department. The relatively small gain in sales of women's wear follows several years of large volume, and the new styles do not thus far appear to have stimulated sales greatly. However, autumn this year was unseasonably warm until November and this undoubtedly retarded fully effective promotion of the changed styles.

As shown in the accompanying chart, sales of men's wear stand in sharp contrast to sales of women's wear. As in the case of women's wear, the gain for men's wear so far this fiscal year has been more considerable in the lower priced basement departments; yet, on a store-wide basis, sales of men's clothing and furnishings increased by 14 per cent, considerably more than the average for all departments. Sales in these departments during 1947 have exceeded last year in every month

except August. Supplies were tight in the case of men's wear during 1946 and a large backlog of demand for replenishment of depleted wardrobes was carried over into 1947.

Elsewhere in the store, the most substantial improvements in sales were made in two groups of departments: domestics (blankets, linens, sheetings, and like merchandise)—items closely related to the sort of merchandise department stores otherwise classify as homefurnishings—and cameras and luggage.

Not many departments other than the women's wear departments already mentioned showed sales declines during the period under review. Sales of oriental rugs declined 17 per cent from last year, contrary to the strong upward movement of homefurnishings generally. Trade sources acknowledge that high prices have been the main cause, particularly in view of the lower prices of domestically manufactured floor coverings.

The most substantial departmental decline in sales (18 per cent) has been in wines and liquors. Sales of the jewelry department declined 6 per cent from a year ago, and sporting goods sales were down 5 per cent.

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

Locality	Net sales		Stocks on hand Oct. 31, 1947
	October 1947	Jan. through October 1947	
Department stores, Second District....	+24	+10	+17
New York City.....	+36	+11	+27
Northern New Jersey.....	+25	+8	-3
Newark.....	+30	+6	-5
Westchester County.....	-2	+9	+9
Fairfield County.....	+9	+7	+13
Bridgeport.....	+7	+7	+11
Lower Hudson River Valley.....	+6	+11	+11
Poughkeepsie.....	+6	+8	+9
Upper Hudson River Valley.....	+4	+8	+3
Albany.....	+4	+8	+3
Schenectady.....	+1	+6	-2
Central New York State.....	-4	+7	+3
Mohawk River Valley.....	+4	+9	+10
Utica.....	+3	+9	+8
Syracuse.....	-7	+6	-1
Northern New York State.....	+9	+19	-
Southern New York State.....	+1	+9	+7
Binghamton.....	+2	+5	+1
Elmira.....	-1	+7	+20
Western New York State.....	+9	+8	+13
Buffalo.....	+13	+9	+20
Niagara Falls.....	+9	+7	+4
Rochester.....	+4	+8	+2
Apparel stores (chiefly New York City).....	-3	-5	-6

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

Item	1946	1947		
	October	August	Sept.	October
Sales (average daily), unadjusted.....	203 ^r	179	244	253
Sales (average daily), seasonally adjusted..	179	246	234	223
Stocks, unadjusted.....	217	215	227	253
Stocks, seasonally adjusted.....	192	206	210	224

r Revised.

Indexes of Business

Index	1946	1947		
	October	August	Sept.	October
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	182 ^r	182	186	189 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	206	229	238	228 ^p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	194	210	203 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	260	275 ^r	290	291 ^p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	150	154	157	157 ^p
New York State, 1935-39 = 100..... (New York State Department of Labor)	130	127	130	132 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	293	324	337 ^p	
New York State, 1935-39 = 100..... (New York State Department of Labor)	267	275	288	297 ^p
Personal income*, 1935-39 = 100..... (Department of Commerce)	268	284	307 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	165	177	179 ^p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	149 ^r	160	164 ^p	
Velocity of demand deposits*‡, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	86	88	88	94
Outside New York City.....	79	86	86	88

* Adjusted for seasonal variation.

p Preliminary.

r Revised.

† A monthly release showing the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, together with information on component series, sources, and weights, and reprints of articles describing the indexes may also be procured from the Research Department, Domestic Research Division.

‡ These are new series for the period 1935 to date based on "annual rate of turnover of demand deposits except interbank and Government" published by the Board of Governors. These rates have been adjusted for seasonal variation and placed on a 1935-39 base by this bank. Tabulations of monthly data, both adjusted and unadjusted, are available on request from the Research Department, Financial Statistics Division. The series formerly published was discontinued because of the revision in the weekly reporting member bank series.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, November 27, 1947)

INDUSTRIAL output increased further in October. Department store sales continued in large volume in October and the first half of November. The general level of wholesale commodity prices advanced slightly further.

INDUSTRIAL PRODUCTION

Production of manufactures and minerals continued to rise in October, and the Board's seasonally adjusted index of industrial production reached a level of 189 per cent of the 1935-39 average. This was the same as the rate prevailing during the first quarter of the year and 4 per cent above the third quarter average.

Output of durable goods increased further in October to about the level that prevailed in the early months of this year, owing mainly to larger output of iron and steel. Operations at steel mills were at 97.6 per cent of capacity, the highest rate since the end of the war, and this rate has been sustained in November. Activity in most branches of the machinery and transportation equipment industries increased somewhat further in October.

Production of nondurable goods showed a slight advance in October to a level of 173 per cent of the 1935-39 average, as compared with a rate of 176 at the beginning of the year. The rise in October reflected mainly increases in activity at cotton mills and in the printing and publishing industry. Cotton consumption in October was 10 per cent above the reduced rate prevailing during the third quarter but 10 per cent below the rate in October 1946. Newsprint consumption contained to expand and was 16 per cent larger than a year ago.

Minerals output advanced somewhat in October, owing to further gains in fuel production and was about 5 per cent above the level at the beginning of the year. Most of the rise this year has been due to a 10 per cent increase in crude petroleum output.

EMPLOYMENT

Nonagricultural employment continued to increase in October, owing mainly to the usual large pre-Christmas rise in wholesale and retail trade. In manufacturing, a seasonal reduction of nearly 150,000 workers in the canning industry largely offset further gains in most other lines.

CONSTRUCTION

Value of construction contract awards, according to the F. W. Dodge Corporation, rose sharply in October following a decline in September and was only slightly below the August peak. Awards for residential building and utility construction showed the largest increase. The Department of Labor estimated that work was begun on 92,000 dwelling units in October, the same number as in September, and 82,000 units were completed as compared with 77,000 in September.

DISTRIBUTION

Department store sales, according to the Board's seasonally adjusted index, were 278 per cent of the 1935-39 average in October as compared with 290 in September and an average of 280 during the first three quarters of the year. In the first half of November sales showed more than the usual seasonal increase and were 11 per cent larger than in the corresponding period of 1946.

COMMODITY PRICES

The general level of wholesale commodity prices increased slightly further in October and the early part of November, reflecting advances in industrial commodities. Average price levels for farm products and foods were unchanged, as increases in cotton, cereal products, and fats and oils were offset by declines in prices of livestock products from the advanced levels reached in September.

Retail prices, according to the consumers' price index, advanced 2 per cent in September, reflecting a rise of 4 per cent in foods, 2 per cent in rents, and an average increase of 1 per cent in prices of other items. In October retail prices of foods apparently declined somewhat while prices of various other items continued to advance.

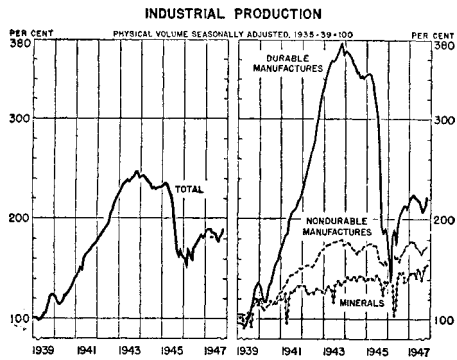
BANK CREDIT

Rapid expansion in commercial and industrial loans continued at banks in leading cities during October and the first half of November. Real estate and consumer loans also increased further.

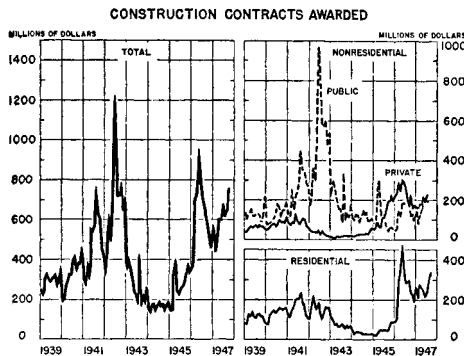
Transfer of funds by the Treasury from War Loan balances at commercial banks to Treasury accounts at Reserve Banks, together with Treasury retirement for cash of Government securities held by Reserve Banks, resulted in a drain on member bank reserves in late October and again in mid-November. Banks obtained reserves to meet this drain largely through further gold inflows and by selling Government securities to the Reserve Banks.

INTEREST RATES AND BOND YIELDS

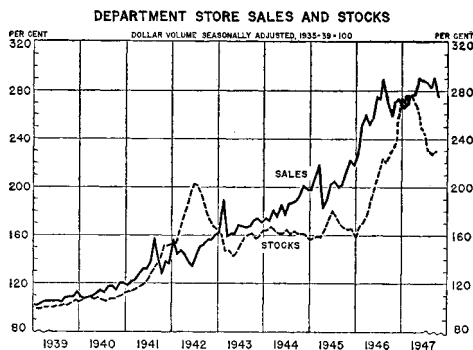
Prices of Treasury bonds declined considerably in October and November, following an earlier decline in corporate bond prices. The yield on the longest 2½ per cent issue rose to 2.44 per cent, compared with a low point for this year of 2.28. Average rates on Treasury bills have risen gradually since last summer to .94 per cent in November. A new 13-month 1½ per cent Treasury note has been offered in exchange for the ¾ per cent certificates maturing December 1.



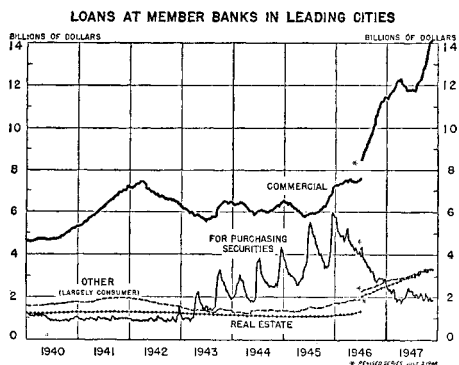
Federal Reserve indexes. Monthly figures; latest shown are for October.



F. W. Dodge Corporation data for 37 Eastern States. Nonresidential includes awards for buildings and public works and utilities. Monthly figures; latest shown for total and residential contracts are for October; latest for nonresidential private and public contracts are for September.



Federal Reserve indexes. Monthly figures; latest figure shown for sales is October, latest for stocks is September.



Excludes loans to banks. Wednesday figures; latest shown are for November 12.