

# MONTHLY REVIEW

## *Of Credit and Business Conditions*

FEDERAL RESERVE BANK OF NEW YORK

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### MONEY MARKET IN DECEMBER

An increase in the possible alternative uses of funds by nonbank investors, pressure on the reserve position of the commercial banks, and uncertainty about the future course of interest rates, led to a change in the character of the Government bond market (and of other security markets) during October which was accentuated in November, and continued in December. Whereas during the earlier months of the year the pressure of buying tended to advance prices, and almost 1.8 billion dollars of Government bonds were sold to the market from Treasury investment accounts, in addition to about 900 million dollars of a special offering of long term bonds which was made available primarily to investing institutions, there now appeared an excess of selling orders which moved prices downward. The likelihood of a continued heavy demand upon the savings institutions of the country, by business and mortgage borrowers, gave support to this trend. At the same time both the power of the commercial banks to help meet this demand, and the desirability of their doing so, were brought into question by the emphasis on the inflationary problem in the President's message to the advanced session of Congress. Subsequent discussion of possible anti-inflationary measures in the field of credit policy and debt management gave the market reason to believe that the large Treasury surplus in prospect during the first months of 1948 would be used in considerable part to retire Government obligations held by the Federal Reserve Banks, and that commercial banks would be under continuing pressure to sell Government securities (or to sell other securities or reduce loans) in order to maintain their reserve positions. The Federal Reserve Banks began, in the week ended November 19, to give such support to the Government security market as was required to maintain orderly markets in medium and longer term Treasury bonds at about the price levels then prevailing. Reserve Bank purchases were supplemented by purchases for Treasury investment accounts.

With the prospect of continued need for Reserve Bank purchases of Government securities—a need which had to be compromised with restraint on further expansion of bank credit—and in the light of the fact that maintenance of premium prices (rather substantial premiums for some issues) appeared to be encouraging profit-taking sales by some

investors, a reconsideration of the prices at which Treasury bonds would be purchased by the Federal Reserve Banks was required. On December 24, after the completion of the Treasury's current refunding operations, the support levels were lowered—in most cases to prices slightly above par for medium and long term, fully taxable Treasury bonds. The fixing of premiums for special features of particular issues, such as partially tax-exempt issues, was left for determination by the market. At the same time, the market was given clearly to understand that the abrupt change in prices did not represent a step in a retreat from a policy of supporting the Treasury bond market, but had been decided upon in lieu of a gradual recession in support prices over an extended period. By word and action it was also made clear that, whereas previously the Reserve System had been a reluctant buyer, it would now buy Treasury bonds aggressively, at the new price levels, in such amounts as might be necessary to clear the market.

The abrupt reduction in support prices came as a surprise to the market and a period followed in which the selling of Treasury bonds by banks and other investors increased considerably, partly as a consequence of confusion as to the purpose of the action and its future implications. In the period from December 26 to 30, inclusive, Reserve Bank holdings of Treasury bonds increased by 970 million dollars (reflecting deliveries of securities purchased on December 24 through 29). These large purchases made it evident that the Reserve System was prepared to buy Treasury bonds freely at the new prices. At the same time the amount of securities offered to the System in this period was not so large as had been rumored in the market, and it was noted that the increase in Reserve Bank holdings was not directly comparable with the increases in preceding weeks, as purchases for Treasury investment accounts were suspended during this latest week. In the last few days of the month the volume of Treasury bonds offered for sale in the market declined and more transactions were cleared by the market without recourse to the Federal Reserve Banks. In addition to selling induced by market uncertainty and anticipation of future needs for funds, there were also substantial sales by commercial banks—reflecting, at least in part, the taking of losses to offset profits taken earlier in the year, in order to reduce income tax liabilities. Sales by other

large institutional investors appeared to be smaller in the closing days of December than before the lowering of support prices.

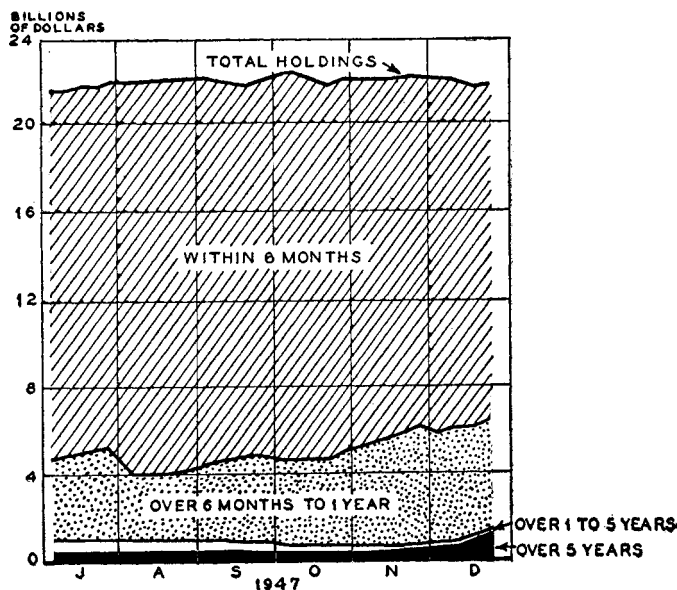
It is important, under present circumstances, of course, that over a period these Reserve Bank purchases of Treasury bonds be offset by the sale or redemption of other Government securities so that reserve funds may not be put into the market unnecessarily. During the first five weeks of the System's market stabilizing operations in medium and long term Treasury bonds, from November 12 to December 17, purchases of bonds were more than offset by sales and redemptions of short term issues, so that the System's total holdings showed a net reduction of about 400 million dollars. In the week before Christmas, however, bond purchases by the Reserve Banks were only partly offset by sales of short term securities, as there was a heavy drain on bank reserves, caused by corporation tax payments and the final heavy demands for currency for the holiday trade. Again in the last week of December, sales of Treasury bills and certificates were considerably short of the large purchases of bonds, and member banks accumulated substantial amounts of additional reserves. The increase in bank reserves may prove to be temporary, however, as the Treasury issued a call for the payment by depository banks of about 500 million dollars from their War Loan accounts on January 2, the greater part of which will be used to redeem 400 million dollars of the certificate of indebtedness maturing on that date, held by Federal Reserve Banks. Furthermore, it appears likely that considerable amounts of the latest issue of Treasury bills will be absorbed by the banks, resulting in a corresponding reduction in Reserve Bank holdings and in the excess reserves of member banks.

The effects of recent purchases of Treasury bonds and of earlier transactions in other types of Treasury securities on Federal Reserve holdings of Government securities, classified

by maturity, are shown in the accompanying chart by weeks from the beginning of July 1947 through December 24. As illustrated in the chart, Federal Reserve holdings of Treasury obligations maturing within six months have declined since early in July, and those maturing in over six months to a year have increased, as a result of commercial bank shifts from the longer term certificates and notes into shorter term certificates, redemptions of maturing securities (chiefly Treasury bills and certificates), and sales of bills and short certificates indirectly to nonbank investors as well as banks having available funds for temporary investment. This tendency is obscured somewhat by shifts of securities from one maturity group to another caused by the passage of time. For example, a large certificate issue entered the "within six months" category early in August, causing a sharp rise in Federal Reserve holdings of the shortest maturity group during the week ended August 6, while holdings of securities maturing in over six months to one year showed a corresponding reduction.

The line for securities with final maturities extending beyond five years began to rise toward the middle of November, and Federal Reserve Bank holdings of such issues increased 600 million dollars between November 12 and December 17. Purchases of longer term Treasury securities were more than offset by sales of the shortest term Treasury securities outstanding and by redemptions of maturing issues, however, so that Federal Reserve holdings of the latter fell about 1 billion dollars. In this period the decline in the total Federal Reserve portfolio was about 400 million dollars. In the last two weeks of the year, however, the volume of Federal Reserve acquisitions of Treasury bonds maturing in over five years exceeded sales of shortest-dated issues by about 900 million dollars. Treasury purchases of longer term Government bonds were also substantial in November and in the first three weeks of December, but such purchases in effect represented the return of tax and other Treasury receipts to the market and could not be considered as adding to the money supply.

Federal Reserve System Holdings of Government Securities by Maturity, 1947\*



\* Wednesday dates; latest figures are for December 24.

#### MEMBER BANK RESERVE POSITIONS

In the three statement weeks ended December 17, net Treasury disbursements were substantial. Disbursements included the usual large payments of interest on the public debt around the middle of the month, which amounted to approximately 700 million dollars, and were further enlarged by substantial cash redemptions of certificates of indebtedness maturing December 1 and smaller redemptions of bonds maturing December 15, and by the payment of 100 million dollars to Great Britain following the unfreezing of the remaining 400 million dollars of the United States credit to that country. Despite the fact that a very substantial proportion of these disbursements were financed through withdrawals of more than 1.2 billion dollars from War Loan accounts with depository banks, and that a large part of the funds disbursed for the redemption of securities went to the Federal Reserve Banks, and thus did not reach the commercial banks, the net effect of Treasury operations in this period was to provide member banks with additional reserves. Treasury deposits with the

Reserve Banks fell from 1.3 billion dollars on November 26 to 600 million on December 17.

Continued increase in the monetary gold stock and a sharp expansion of Federal Reserve float, particularly around the middle of the month, reflecting the extraordinarily heavy volume of checks presented for collection and the slowness of the mails during the holiday season, also provided the banks with additional reserve funds. These funds, together with those obtained through Treasury operations, were more than sufficient to meet seasonal currency demands and a large rise in reserve requirements resulting from deposit growth related to a further increase in bank loans and to the sale by nonbank investors of Government bonds. Thus, the banks were able to retire a substantial amount of Federal Reserve credit, reducing their borrowings by about 200 million dollars and purchasing a large volume of Treasury bills (either directly from the Treasury, thus reducing allotments of new bill issues to the Reserve Banks, or indirectly from the System through the open market), and at the same time to increase their excess reserves by 200 million dollars.

In the week just before Christmas, pressure on member bank reserves was renewed as Treasury balances with the Reserve Banks rose substantially as a result of tax receipts, pre-Christmas demands for currency reached a peak, and Federal Reserve float was reduced. Bank needs for reserve funds were substantial and were met largely by a decrease of about 130 million dollars in excess reserves, by an increase of 115 million in member bank borrowing from the Federal Reserve Banks, and by receipt of the proceeds of net purchases of Government securities by the Federal Reserve System.

In the last week of the month, the pressure on reserves was eased by the substantial postholiday return of currency from circulation, a moderate net excess of Treasury expenditures, and the substantial purchases of securities by the Federal Reserve System. Member banks used a considerable part of their gains of funds to reduce their borrowings from the Federal Reserve Banks so as to show a minimum of indebtedness on their year-end published statements, and to purchase short term Treasury securities in the open market, most of which were supplied by the Federal Reserve System. Excess reserves nevertheless were temporarily increased by a substantial amount.

### THE SECURITY MARKETS

During the last quarter of 1947 prices of stocks continued their indecisive course, and for the year as a whole they showed virtually no change. Public interest in stocks was at a low ebb, and the volume of trading fell more than a third from the total for 1946.

Although stock prices moved in a narrow range during the past year, variations among different industry groups were wide. The most conspicuous gains occurred in the prices of coal mining shares, which advanced to a new postwar high point in November, when prices of most other stocks were considerably below their 1946 peaks. Coal mining shares ended the year about two-fifths higher in value than at the end of 1946. Among

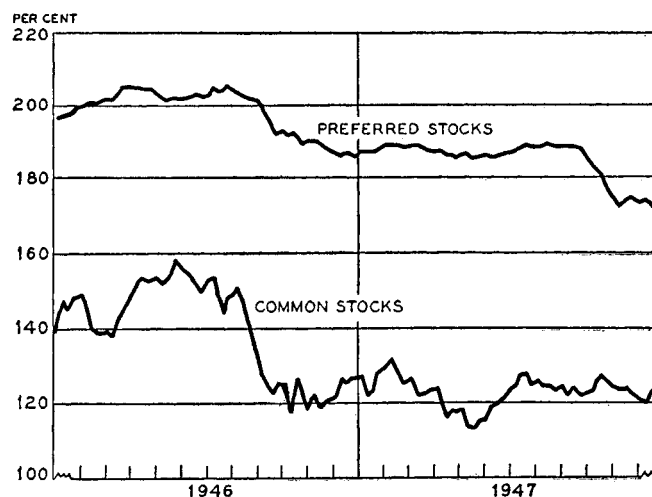
the other groups, stocks of companies in the farm machinery, cotton, rayon and silk, fertilizer, carbonated beverage, automobile, shipping, leather, and petroleum industries made the largest relative gains in prices. Rising stock values reflected expanding or continued high level demand or sharply higher prices for the products of the respective industries. The largest proportionate losses occurred in the motion picture, drugs and cosmetics, distillery, air transportation, mining and smelting, rubber tires, printing and publishing, metal fabricating, and public utility groups. Declining prices reflected reduced product demand (distillery, motion picture, and drugs and cosmetics industries), relatively fixed selling prices and higher costs (air transportation and public utility companies), and other factors.

Preferred stock issues were particularly weak during the last quarter of 1947. Standard and Poor's index of high grade preferred stocks fell from 188 toward the close of September to about 173 toward the middle of November, and fluctuated irregularly in subsequent weeks. Common stock prices, on the other hand, were virtually unchanged in the same period, as shown in the accompanying chart.

The weakness in high grade preferred stocks in 1947 reflected the firming of interest rates and high grade bond yields. In the case of noncallable preferred issues, prices had risen sharply during the period of falling interest rates, since there was no ultimate call or maturity price or date to restrain the advance. When interest rates rose, therefore, prices of these issues declined relatively rapidly. The high grade callable issues, on the other hand, had tended to rise to and fluctuate about their call prices during the period of falling money rates, with many issues being called and refunded with lower dividend-bearing securities. When money rates turned firmer, these issues in many cases fell below their call prices.

In recognition of the susceptibility of preferred stocks to relatively wide fluctuations and particularly of their vulnerability in the event of an upswing in interest rates, investors,

Weekly Indexes of Prices of Preferred and Common Stocks, 1946-47\*  
(1935-39=100 per cent)



\* Wednesday dates; latest figures are for December 24, 1947.  
Source: Standard & Poor's Corporation.

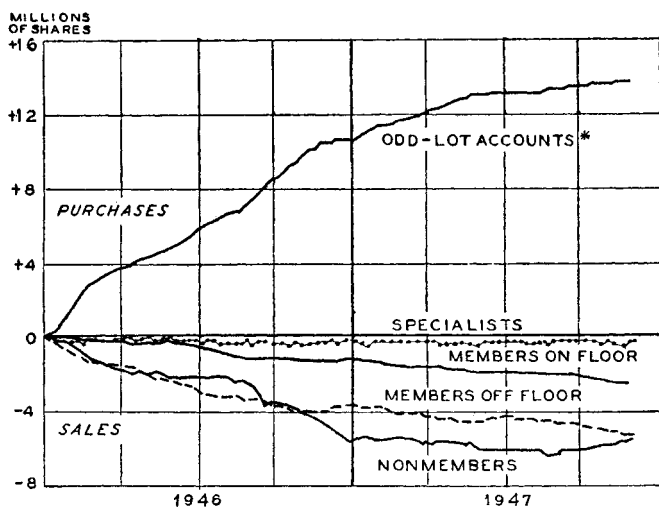
especially institutional investors, have tended in the case of new offerings to require that corporations provide annual sinking funds for the retirement of their preferred issues over a period of years. Industrial companies have been issuing sinking fund "preferreds" for the past two years, but public utility corporations have only recently begun to adopt this feature.

#### STOCK TRADING BY GROUPS

In 1947, as in 1946 and other recent years, small investors—those trading in transactions of less than 100 shares (odd lots)—constituted the chief support of the market (measured by the number of shares rather than their value). As illustrated in the accompanying chart, odd-lot customers purchased 3.1 million shares of stock (net) on the New York Stock Exchange in the first eleven months of 1947. Most of these securities were acquired from members of Stock Exchange firms, who sold 1.7 million shares (net) in transactions initiated off the floor of the Exchange, and 1.3 million shares in trading initiated on the floor. Round-lot transactions of the public (shown in the chart as nonmembers of the Exchange) resulted in net sales of less than 100,000 shares.

Absorption of shares by odd-lot investors in dealings on the Stock Exchange was considerably smaller in 1947 than in 1946, when more than 10.5 million shares of equity securities were absorbed in this manner. Practically all the net purchases during the past year, furthermore, were made from members of the Exchange, whereas in 1946 large nonmember traders were also substantial net sellers of stocks. In both years, Exchange members were merely the channels through which ownership of corporate business passed from one section or group of nonmember investors to another—chiefly from large to small investors (odd-lot traders)—and through which corporations seeking funds tapped the resources of savers of moderate means. It is believed that the net sales of stocks by members of the Exchange consisted in substantial part of stocks

**Cumulative Net Purchases or Sales of Stocks on the New York Stock Exchange by Investor Groups, 1946-47**  
(Round-lot transactions cumulated weekly from January 1, 1946)



\* Transactions (in round lots) of odd-lot dealers and specialists for accounts of odd-lot customers.  
Source: Securities and Exchange Commission.

acquired over the counter by member firms acting as participants in syndicates underwriting secondary offerings of shares by large stockholders or new issues of corporations raising additional capital.

Included in the figures for nonmember trading (both odd-lot and round-lot accounts) are the transactions of foreigners. The dollar value of foreigners' net sales of domestic stocks in the first ten months of 1947 was almost twice that of their net sales in all of 1946, when prices averaged substantially higher than in 1947. This liquidation of stocks of American companies by foreigners reflected, in many cases, compulsion exercised by governments in the effort to meet part of their needs for dollars by this means. Thus, it appears that the repatriation of domestic stocks and the continued liquidation of equity securities by large investors through the medium of Stock Exchange member firms were the principal sources of pressure on the market.

#### BOND MARKET

The intermittent decline in bond prices (rise in yields) which began early in 1946 gained momentum in the last quarter of 1947, and toward the close of the year yields on corporate issues approached prewar levels and the rate of return on municipals reached the highest point since the middle of 1942. Yields on long term Treasury bonds approached the levels of the summer of 1945 late in November 1947 and were held there during most of December by extensive Treasury and Federal Reserve purchases in the open market; some further rise took place in the last week of the year when the Federal Open Market Committee reduced the prices at which it purchased Treasury bonds in the market.

The rise in municipal bond yields has been relatively larger than that in corporate bond yields, which in turn have increased more sharply than Government bond yields. As a result, there has been a gradual widening of the spread between high grade corporate and Treasury bond yields, and a marked narrowing of the differential between municipal and Treasury yields to a point where the return on municipal issues exceeded that on long term Treasury bonds. In late December the average yield on Moody's list of Aaa corporate issues was 50 basis-points (0.50 per cent) greater than the average yield on taxable Treasury bonds due or callable in 15 years and over. This was the largest spread since the fall of 1941, when the Treasury bond taxable yield series first became available. The yield on Standard and Poor's average of high grade municipal bonds rose so markedly during the past year that it reached a level 5 basis-points (0.05 per cent) above the average yield on long term, taxable Treasury issues in the final week of December 1947. Thus, by December tax-exempt high grade municipal bonds had fallen in price to a level where they yielded a greater return than long term taxable Treasury obligations. To a large extent, these changes represent a return to more normal yield relationships, which had been distorted during the war by the large volume of funds available for investment, by a dearth of new corporate and municipal bonds, and

by a greatly increased supply of new Treasury issues. In the case of municipal bonds, high personal income and excess profits taxes had also increased the demand for such securities and depressed their yields abnormally during the war.

**NEW ISSUES**

The weakness in the market for outstanding bonds apparently had little effect on the volume of new corporate securities offered during the last quarter of 1947. Close to 1.9 billion dollars of corporate securities were floated for new capital purposes; this was the highest amount since the second quarter of 1930. Refunding issues, however, fell to 184 million dollars, the lowest quarterly total since the first three months of 1943. Thus, aggregate business demands for long term funds exceeded 2 billion dollars in the last quarter of 1947.

Total sales of bond issues (for new money and refunding) during the final quarter of 1947 amounted to 1.6 billion dollars, or about two-thirds more than the total of the preceding three months; new stock issues, at 486 million dollars, rose in similar proportion. The increase in stock offerings was confined to common stocks and accompanied the stabilization of prices of outstanding common shares. Flotations of preferred issues fell off owing to lack of demand for securities having a fixed return and no fixed call or maturity date in a period of rising interest rates.

A comparatively few large issues, principally of telephone and electric and gas utility corporations, and petroleum companies, accounted for the bulk of financing during the final quarter. About a third of the total volume of securities offered in the last three months of the year were sold directly to the issuers' security holders, and another third were sold privately to insurance companies and other large investors. In large part these methods of financing probably reflected the unsettlement in the security markets. Insurance companies are reported to have a large backlog of applications for long term loans from large corporations.

During the entire year about 6 billion dollars of new corporate securities were offered in the capital market. The decrease of 400 million from the 1946 figure was entirely attributable to a falling off in the flotation of refunding issues to 1.4 billion from 2.9 billion. One billion more of "new money" was raised in 1947 than in the previous year. Bond

issues for both refunding and new capital purposes came to about 4.5 billion dollars, a gain of close to 200 million dollars over the 1946 total, while stock financing at 1.5 billion was about 600 million dollars or somewhat more than a fourth below the previous year's figure. Public utility and petroleum companies accounted for about two fifths and one eighth, respectively, of the new money issues; the former also accounted for half of all security flotations.

In the municipal section of the new issues market, the weakness in outstanding issues brought a sharp curtailment of new offerings in the last three months of the year. Total flotations amounted to approximately 300 million dollars, or only about one-half the volume of the preceding quarter. In many instances, bids for new issues were not forthcoming and other bids were rejected pending stabilization of the bond market. Inasmuch as most State and local governments do not have the alternative sources of funds that are open to business corporations, unsettled capital market conditions are more apt to lead to postponement of capital projects by many such governmental units than in the case of private enterprise. However, there has been a tendency recently of some State and other local governments to finance their needs through issuance of shorter term notes, to be funded at some later date when market conditions become more stable.

In spite of the falling off in new issues in the last quarter of the year, State and municipal financing for the year as a whole came to 2.2 billion dollars, a new all-time high record.

**STATUS OF SAVINGS BOND PROGRAM**

In recent Congressional hearings both the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System have emphasized that an increase in sales of Savings bonds to individuals would be one of the most effective means of relieving the pressure on prices. It may therefore be useful to review the status and progress of the Savings bond program.

Since the end of the war there has been a sharp reduction in the amount of Savings bonds sold, but sales have been more than sufficient to offset redemptions, contrary to rather general expectations. There has also been a significant change in the composition of the investors purchasing these bonds. Among the more important factors in these changes have been the shifts in the geographic distribution of income payments, the rising cost of living, the increasing availability of consumers' durable goods, and a decline in the use of payroll deduction plans. Also, large groups of the population evidently feel that it is less important to buy bonds now than it was during the war years.

During 1946, the first full peacetime year, sales of Savings bonds dropped 43 per cent below the amounts sold in 1945. At the same time, redemptions increased, so that net investment in these bonds was reduced from 7.4 billion dollars in 1945 to 1.0 billion in 1946. Sales of Series E bonds during that year declined even more sharply to a point where redemptions exceeded sales by nearly one billion dollars. During 1947

**New Security Issues\***  
(In millions of dollars)

Period	Corporate					Municipal
	New capital			Refunding	Grand total	
	Stocks	Bonds	Total			
<b>Quarters, 1947</b>						
First.....	132	548	680	273	954	619
Second.....	351	752	1,103	601	1,705	726
Third.....	288	595	863	387	1,250	600
Fourth#.....	455	1,417	1,872	184	2,056	292
<b>Annual totals</b>						
1947#.....	1,206	3,312	4,518	1,445	5,963	2,237
1946.....	1,468	2,038	3,506	2,914	6,420	1,160

\* Figures do not necessarily add to totals because of rounding.  
# December estimated by the Federal Reserve Bank of New York.  
Source: *Commercial and Financial Chronicle*.

**Table I**  
Sales and Redemptions of Savings Bonds by Series, 1945-47  
(In millions of dollars)

Series	Sales	Redemptions	Net receipts
All series*			
1945.....	12,937	5,558	7,379
1946.....	7,427	6,427	1,000
1947#.....	6,690	5,090	1,600
Series E			
1945.....	9,822	4,963	4,859
1946.....	4,466	5,423	— 957
1947#.....	4,060	3,910	150
Series F			
1945.....	595	106	489
1946.....	325	189	136
1947#.....	350	210	140
Series G			
1945.....	2,520	264	2,256
1946.....	2,637	426	2,211
1947#.....	2,280	500	1,780

\* Includes redemptions of Series A-D, which are not shown separately.  
# Estimated by the Federal Reserve Bank of New York.  
Source: U. S. Treasury Department.

total Savings bond sales declined somewhat further (see Table I), but redemptions fell sharply, and the Treasury's net receipts from the sales increased to 1.6 billion dollars. Savings bonds, as Table II shows, were the only major form of individual savings to register a larger gain in 1947 than in 1946. The net increase during 1947 in the dollar amount of Savings bonds held by individuals was exceeded only by the increase in the assets of life insurance companies.

During the war years, a very substantial proportion of Savings bonds was purchased by wage earners in industrial areas. Currently, however, statistics on sales by denomination and by States appear to indicate that the proportion of bonds purchased by industrial wage earners is declining while the proportions purchased by farmers and others in the middle and upper income groups are increasing.

In 1945, as Table III shows, the \$10 and \$25 denominations, those which are most often purchased through the payroll savings plan and by individuals in the lower income brackets, accounted for 34 per cent of the amount of Series E bonds sold. By 1947 this percentage had dropped to 18. On the other hand, the \$500 and \$1,000 denominations, which accounted for only 32 per cent of the amount sold in 1945, last year represented 56 per cent of the total. This, however, is still a considerably smaller percentage than in 1939 and 1940, when

**Table II**  
Annual Increases in the Major Types of Individual Savings, 1945-47

Type of saving	Dollar increase (In millions)		
	1945	1946	1947 <sup>e</sup>
Savings bonds*	7,412	1,497	2,250
Commercial bank time deposits#	5,988	3,505	1,380
Mutual savings banks†	2,009	1,484	830
Savings and loan associations**	1,060	1,183	1,080
Postal savings†	592	351	140
Life insurance##	3,915	3,465	3,070

\* Outstanding amounts of Series E, F, and G bonds held by "all other investors" as reported by the U. S. Treasury Department.

# Time deposits of all commercial banks less interbank and Government deposits and deposits of States and political subdivisions in all insured commercial banks, from *Federal Reserve Bulletin*. Includes an unknown amount of business deposits.

† From *Federal Reserve Bulletin*.

\*\* From Federal Home Loan Bank Administration.

## Admitted assets less policy loans and premium notes, from Institute of Life Insurance.

<sup>e</sup> Estimated by Federal Reserve Bank of New York.

**Table III**  
Percentage Distribution of Sales of Savings Bonds  
by Denominations, 1945-47\*

Series	Denomination					Total#
	\$10 and \$25	\$50	\$100 and \$200	\$500 and \$1,000	\$5,000 and \$10,000	
Series E						
1945.....	34	14	20	32	—	100
1946.....	27	12	17	44	—	100
1947*.....	18	9	17	56	—	100
Series F and G						
1945.....	†	—	3	37	60	100
1946.....	†	—	2	37	62	100
1947*.....	†	—	2	38	61	100

\* Figures for 1947 cover only first nine months.

# Because of rounding, the percentages do not necessarily add to 100.

† Less than one half of one per cent.

Source: U. S. Treasury Department.

75 per cent of this type of Savings bonds sold were of the \$1,000 denomination. Sales of F and G bonds are also showing increased concentration in the large denominations.

The decline in sales of Series E bonds between the first half of 1945 and the first half of 1947<sup>1</sup> was much less marked in the Midwest farm States than in the large industrial and war production centers. Total sales of series E bonds in Massachusetts, New York, New Jersey, Michigan, Ohio, and California during the first six months of 1947 were 65 per cent below the amounts sold in the corresponding period of 1945. In Illinois, Iowa, Kansas, Missouri, and Nebraska, however, total sales were only 42 per cent under 1945. Sales in these five farm States accounted for 21 per cent of the total amount of Series E bonds sold during the first half of 1947, compared with 15 per cent in the first half of 1945.

The Treasury is currently asking Congress for more funds to promote the sales of Savings bonds; promotion through payroll deduction plans is a special aim, as it is believed that in this field a relatively small concentrated effort could produce a significant boost in sales totals. The amount of Series E bonds purchased through payroll deductions declined from 6.8 billion dollars in 1945 to an estimated 1.1 billion in 1947, or from two thirds to one third of the total amount of this series sold.

While it is to be expected that holders will redeem a certain amount of Savings bonds each year before maturity in order to meet emergencies or for other special purposes, there is evidence that a good proportion of the "weak holders," including individuals who bought bonds under pressure during War Loan drives and others who had no intention of holding their bonds to maturity, have already been "shaken out," so that in the future redemptions will probably be smaller than in recent years. Of the Series E bonds sold during 1943-45, over 40 per cent have already been redeemed, and not all of the remaining bonds issued in those years will be held until maturity. In contrast, only 26 or 27 per cent of the prewar issues which matured between 1945 and 1947 were redeemed before maturity. Savings bonds today are being sold to a much wider group of investors than they were in the 1930's and a higher percentage of redemptions than in the case of prewar

<sup>1</sup> No later breakdown by States is available.

issues is probably to be expected, but coming years should see the over-all redemption ratio decline from the levels of recent years. The fact that the drop in redemptions during 1947 was very largely due to a decline in redemptions of small denomination Series E bonds is indicative of this trend.

There has been some discussion recently of the effects that a further increase in long term interest rates might have on the Savings bond program and particularly on redemptions. A review of the yields to maturity of outstanding Savings bonds makes it clear that it would not be profitable for individuals to redeem their bonds in order to reinvest the proceeds in marketable securities unless there should be a much greater rise in interest rates than has occurred thus far or appears to be in prospect for the foreseeable future. This is illustrated by Table IV. For example, one year after purchase a \$100 Series E bond can be redeemed for \$75.50; the \$24.50 interest which would accrue on that bond during the succeeding nine years, if it were held to maturity, would be equal to a compound annual rate of 3.15 per cent on the \$75.50. The annual rate of interest accrual to maturity, similarly calculated, on a Series E bond which has been held for 6 years is 4.41 per cent; after 6 years the redemption value of a \$100 bond is \$84.00 and from then until maturity interest is credited at the rate of \$4.00 a year.

The annual rate of interest accruals to maturity on the current redemption values of approximately 85 per cent of the total amount of Savings bonds outstanding today is 3.00 per cent or more per annum. Only on Series E bonds which have been held less than six months and on Series F and G bonds which have been held less than 3 or 2½ years, respectively, is the rate less than 3 per cent. Only about 1½ billion dollars of the former and somewhat more than 6½ billion dollars of the latter are outstanding. The total amount of Savings bonds of all series now outstanding is about 52 billion dollars.

**Table IV**  
Average Annual Rate to Maturity of Interest Accruals or Payments on Current Redemption Values of Savings Bonds, by Series  
(In per cent)

After bond has been held	Series E	Series F	Series G
1 year.....	3.15	2.73	2.73
2 years.....	3.38	2.91	2.94
3 years.....	3.58	3.07	3.13
4 years.....	3.75	3.20	3.26
5 years.....	4.01	3.27	3.32
6 years.....	4.41	3.29	3.33
7 years.....	4.31	3.32	3.35
8 years.....	4.21	3.40	3.39
9 years.....	4.12	3.54	3.46
10 years.....	—	3.72	3.60
11 years.....	—	3.91	3.94

Source: U. S. Treasury Department.

## CURRENCY REFORM IN THE USSR

Rarely has an internal currency reform in a foreign country aroused as much interest as the one recently promulgated in the Soviet Union. Widely reported and commented upon, it was generally interpreted as an indication of Russia's economic difficulties during and since the war and even, at times, as evidence that her postwar reconstruction would be subject to additional delay and obstruction. This latter evaluation of the

measures decreed in Moscow on December 14, 1947 is, however, hardly borne out by analysis. Part of the misunderstanding stems from focusing attention exclusively on the monetary aspects of the legislation, without giving sufficient consideration to the simultaneously announced abolition of consumers' rationing. Yet the two are closely interrelated and together form an important point of departure toward a normalization of Russia's economic life.

Rationing had been reintroduced in the Soviet Union immediately after the Nazi invasion of that country. For over six years it covered the bulk of consumers' goods purveyed to the population by the State-owned and cooperative-owned retail trade system. The prices charged for the allotted rations were increased during the war, but on the whole remained low. Yet the rations of food, clothing, tobacco, etc., although differentiated according to their recipients' contribution to the war effort, were just barely sufficient to maintain the working capacity of the Russian population. Unable to provide larger rations and to furnish in this way the necessary incentives for harder work and better performance, the government relied upon patriotic appeal and liberal disbursements of monetary premiums, bonuses, etc., to induce the maximum exertion on the part of industrial workers, governmental employees, and others who were essential to the war effort. The funds so supplied to the urban population went into "open markets" where peasants were offering their scant surpluses at very much higher and ever rising prices.<sup>1</sup> The share of income freely paid out to the urban population, and of the remittances which members of the Armed Forces sent home, that could not be spent on rationed goods thus found its way to a considerable extent into rural villages. There the money remained. The peasants in their turn were unable to spend it on goods that they required. The production of civilian clothing, household necessities, and other such goods all but ceased during the war. To the extent that the peasants could acquire secondhand items from other private citizens, the proceeds once more found their way to the countryside in exchange for food.

While thus serving as an important mechanism for providing the receivers of higher wages, prizes, premiums, and the like with some additional food supplies, the open markets were at the same time a source of major annoyance. Making use of their powerful bargaining position, the peasants hardly bothered to carry their wares to the cities. Essential munition and transportation workers, highly skilled specialists, and responsible officials spent valuable time and energy in procuring food in distant villages. In 1944 the government therefore established so-called "commercial stores" which sold, without regard to quantity, rationed and other consumers' goods at prices resembling those prevailing on the open market. Since, however, these stores were few and far between, and since their managers were authorized to replenish the store inventories by buying in

<sup>1</sup> Members of collective farms and such individual peasants as survived were (and presumably still are) permitted to sell freely whatever they could spare after completing their prescribed deliveries to the government.

the open markets, this innovation hardly reduced the flow of money into the rural communities.

When at the end of the war the task of rehabilitation and reconstruction called urgently for the restoration of normal incentives to replace the waning patriotic appeal, the abolition of rationing and the expansion of the flow of consumers' goods became a matter of foremost political and economic importance. Yet the government was faced with formidable obstacles. The resumption of consumers' goods output proceeded only slowly. The severe drought that hit large parts of Russia in the summer of 1946 considerably damaged crops and seriously reduced the available food supplies. At the same time the population's demand for all kinds of consumers' goods, which had been barely satisfied before the war and largely neglected during the war, could be expected to assume large proportions. Even if backed only by currently earned income, the demand for consumers' goods would exceed the current supply. In fact, however, the popular quest for more food, clothing, hardware, furniture, and the like was supported by very large amounts of liquid assets accumulated during and after the war.

The volume of these hoards is difficult to estimate. Statistics on money in circulation in the Soviet Union have not been published since 1937, and any estimates are necessarily based on circumstantial evidence. However, it would appear that, in spite of increased taxation, of intensified bond sales campaigns, and of pressure for contributions to Defense Funds, total governmental receipts from the population in the years 1941-47 were probably about 350 billion rubles smaller than the total governmental additions to the income stream. This sum, which exceeds the entire present annual budget of the USSR, must have been secured from the State Bank of the USSR or issued directly by the Finance Ministry. Taking into account the money hoards that had existed already before the war, and uncollected claims against the government on account of back pay, vacation allowances, etc., the total purchasing power in the hands of the public at the end of 1947 may well have amounted to over 400 billion rubles. To complicate matters further, most of this amount was concentrated in the hands of one part of the population—the peasantry.

Under such circumstances an outright abolition of rationing was quite impossible. The opening of stores to all who would pay would necessarily have been followed by a run on the distributive system. The sparse supplies of consumers' goods gradually appearing on the market would have been immediately submerged by the demands of a goods-starved population with large amounts of cash at its disposal. The resulting "first come, first served" distribution would not only have been inequitable, but would have defeated a major objective of derationing: the strengthening of incentives for work and initiative.

A modification of this procedure by a sharp increase of all prices with a view to equating supply and demand would hardly have produced better results. The stratum of the population possessed of the largest cash hoards—the peasants—would have been able to purchase whatever the stores had to offer,

while the bulk of the urban population, not wealthy enough to pay the high prices, would have had to go without many necessities (at least in the absence of a very drastic upward revision of wages and salaries). Such a course, in addition to being inadequate so far as the incentives aspect is concerned, would have caused serious resentment among Soviet citizens. They would have found it hard to comprehend why the peasants, who had fared economically best during the war, should continue to enjoy a large advantage over the hard pressed urban dwellers, who had had to bear the brunt of wartime privations.

The policy actually adopted by the government was an attempt at an intermediate solution.

The abolition of rationing effective December 16, 1947 was accompanied by a conversion of the Soviet currency. The conversion implies no external devaluation; the ratio of the Russian ruble to gold and foreign exchange remains in general unchanged, and the commitments of the Soviet Government with respect to foreigners are unaffected. Equally unaffected are the current incomes of Soviet citizens. Wages, salaries, pensions, stipends, grants, and social security benefits will continue to be paid after conversion in the amounts in which they had been paid prior to the conversion.

What is being drastically reduced is the purchasing power of savings accumulated by the Russian population. These savings are treated in three different ways: (1) The largest part of savings—hoards of cash—is treated most severely. All cash was called up for presentation at the offices of the State Bank of the USSR or its appointed agents to be converted in the ratio of 10 old rubles to 1 new ruble of the "1947 model". After the conversion period is over (one to two weeks following the announcement of the decree, depending on the locality) the old money ceases to be legal tender. (2) Savings held in the form of deposits with banks or savings institutions are treated much more leniently. Balances up to 3,000 rubles retain their full value. Balances between 3,000 and 10,000 rubles are reduced in the ratio of 3 old rubles to 2 new rubles. Balances above 10,000 rubles are revalued at 2 old rubles to 1 new ruble. (3) All government bonds will be exchanged during 1948 for a new conversion issue at the rate of 3 rubles face value of the old bond to 1 ruble face value of the new bond.<sup>2</sup> The conversion issue moreover will pay only 2 per cent annual interest while the average interest rate on the securities subject to conversion was approximately 4 per cent.

At the same time the prices of consumers' goods are being drastically revamped. The multitude of price levels existing before—ration prices, commercial store prices, open market prices, special discounts, etc.—is replaced by a unified price structure. While the majority of staple foods such as bread, cereals, meat, fish, fats, milk, eggs, sugar, tea, potatoes, and vegetables are to be sold at or somewhat below the moderate prices

<sup>2</sup> There are a few exceptions to this rule: the loan currently on tap as well as the 1937 loan remains unaffected by the conversion. The 1938 loan on the other hand will be exchanged either for the 1937 loan in the ratio of 5 rubles to 1 or redeemed in the same ratio for cash. The reasons for the special treatment of the 1937 and 1938 issues have not been revealed.



previously prevailing in ration stores, manufactured consumers' goods such as fabrics, clothing, footwear, etc., are to be offered at prices higher than the ones formerly charged in ration stores but about 65 per cent lower than those of the commercial stores.

The combined effect of these measures on the welfare of Soviet citizens will probably be rather uneven. The peasants obviously are hit hardest. Through the conversion of their cash hoards, partly offset by the reduction of prices for the commodities which they require, they lose about two thirds of their previously accumulated purchasing power. Moreover, the virtual disappearance of open markets that is bound to result from the abolition of rationing, and the stabilization of food prices on the low level previously prevailing in ration stores will cut sharply their current receipts.<sup>3</sup> It is very likely nevertheless that in spite of these blows the peasantry on the whole will remain in a better economic position than the majority of the urban population.

A group which will continue to fare badly is that of the urban dwellers who are at the very bottom of the income pyramid and whose cash receipts were just sufficient to purchase whatever supplies were issued at ration prices. They will still be able to buy the same quantities of food, but clothing, footwear, etc., now more expensive than previously in the ration stores, will be largely beyond their reach. From what little we know about present Soviet income distribution it appears probable, however, that wartime upgrading and wage increases markedly reduced the size of this group.

The great intermediately placed bulk of the urban population will most likely have about as much or somewhat more real income than it had prior to the reform. The impact of the reform on individuals' real income will depend almost entirely on the quantity of clothing previously obtained by them at ration prices. That quantity is reported to have been very small, but its disappearance will nevertheless constitute a loss to some. The majority, however, which previously had to purchase a large part of its requirements in the commercial stores, will to that extent nearly treble its average purchasing power.

Most favorably affected will be the "aristocracy" of the Soviet society—highly skilled specialists, scientists, artists, writers, etc. In their income the outlay for rationed goods played only a subordinate role; most of their requirements were covered in the commercial stores. Their rubles will now go thrice as far as before the monetary conversion.

On the whole, the savings of the urban population will fare much better than those of the rural classes. To the extent to which these funds are kept in savings banks (total savings bank deposits are estimated to be about 13 billion rubles) or in government bonds (about 100 billion rubles' worth of securities are in the hands of the population, of which probably

75 billion are held in cities) they will be converted at the most advantageous rates. On the average their reduction in value should be smaller than the over-all decline in prices.

The conclusion has frequently been drawn that the Soviet monetary reform as a whole has regressive implications—penalizing the poor and treating leniently the rich. Such does not seem to be actually the case. It would appear rather that the over-all effect of the measures on the distribution of *incomes* is on the whole neutral. As far as the distribution of *wealth* is concerned, however, it distinctly discriminates against the rural population.

The impact of the reform on the future development of the Soviet economy is more difficult to assess. If the estimates mentioned above at all approximate reality, cash held by the population will after conversion be still about 40 billion rubles. Together with about 10 billion rubles deposited in savings banks this will make about 50 billion rubles of liquid assets. Total effective demand for consumers' goods may still continue to exceed their total supply. Prices may have to be raised, and measures may have to be taken to increase the output of consumers' goods beyond previously contemplated production goals. Even some shifts of resources from heavy industries to consumers' goods industries may become imperative if prices are to be held down.

There can be no doubt, however, that at the present juncture the reform constitutes a genuine improvement of the Soviet citizens' daily existence. In addition to widening the scope of consumers' choice, the abolition of rationing will render the process of procuring necessities less time consuming, less onerous, less aggravating. The possibility of readily securing goods for one's earnings, even at high prices, cannot fail to increase incentives and to improve morale among urban workers. The establishment of unified prices may go a long way toward restoring the "financial discipline" in enterprises that was severely shaken during the war. The curtailment of money supply should contribute to better husbandry of resources, and to more care in the expenditure of funds. Whether all this will materialize is impossible to predict. It may depend to a very large extent on the success of the present economy drive of the government, and on its ability to avoid further inflationary money issues in financing its ambitious industrialization program.

## PRODUCTION TRENDS IN 1947

Manufacturing activity in the last quarter of 1947 appears to have reached an even higher level than in the first quarter of the year. In November, the Federal Reserve index of industrial production advanced to a peacetime record and preliminary data for December indicate a high rate of activity, despite some seasonal declines. The November index indicated that the physical volume of production, although still well below the high levels maintained for more than three years during

<sup>3</sup> The improvement of the agricultural situation and the resulting increase in available food supplies would in any case have eventually weakened the bargaining position of the village and turned the "terms of trade" in favor of the cities.

the war, was 92 per cent greater than the average for prewar years (1935-39). The failure of present production to approach wartime levels is largely attributable to the smaller working force presently employed in manufacturing and the shorter average work week prevailing in American factories during 1947 as compared with the war years.

One of the major developments in 1947 was a temporary setback in the production of nondurable goods which (as described below) occurred in the spring and early summer. At the same time, shortages of raw materials, principally steel, and in a few instances labor disputes limited the output of durable goods. As a result, the Federal Reserve index of manufacturing production declined for four consecutive months, from 198 per cent of the 1935-39 average to 183. By November this fall in the level of production had been recovered in both the durable and nondurable goods groups, which equaled or surpassed their spring peaks.

At the end of 1946 and the beginning of 1947, nondurable goods production was close to the all-time record. Since durable goods at that time had not yet become available in sufficient quantities to meet the exceptionally high levels of consumer demand, sales of nondurable goods had been stimulated. By the end of the first quarter of 1947, however, the situation had been changed by the combined influence of several factors. Much of the accumulated demand for nondurable goods had already been filled. The increasing availability of durable goods and the rise in prices, particularly food prices, cut into consumer budgets and limited purchases of other nondurable goods. As sales slackened and the promptness of deliveries from manufacturers to distributors increased, retailers were enabled to reduce their outstanding orders and, later, their inventories. Meanwhile there was considerable discussion of the possibility of a widespread downward readjustment of prices, which culminated in a campaign to "talk prices down," sponsored by leading Government officials and businessmen. As a result, many consumers and retailers deferred purchases in the hope of obtaining lower prices later. Some manufacturers exhausted their backlog of orders and, especially in such lines as soft woolen textiles, curtailed or suspended operations rather than produce for inventory at current high prices.

In this same period, the prewar seasonal patterns reappeared in several industries, notably textiles and apparel. The New York City women's garment industry experienced its first major spring slump in employment since 1942. During the war and reconversion periods, in industries where demand was greater than supply, manufacturers were in a position to fix delivery terms and allocate quantities to their customers. As a result, production was stabilized to a much greater extent than had been possible under more highly competitive peacetime conditions. But in the spring of 1947, distributors of apparel apparently reverted to the prewar practice of placing partial orders at the start of the season and depending on reorders to maintain their stocks, thereby intensifying the overtime work at the peak of the season and curtailing work in the off-season.

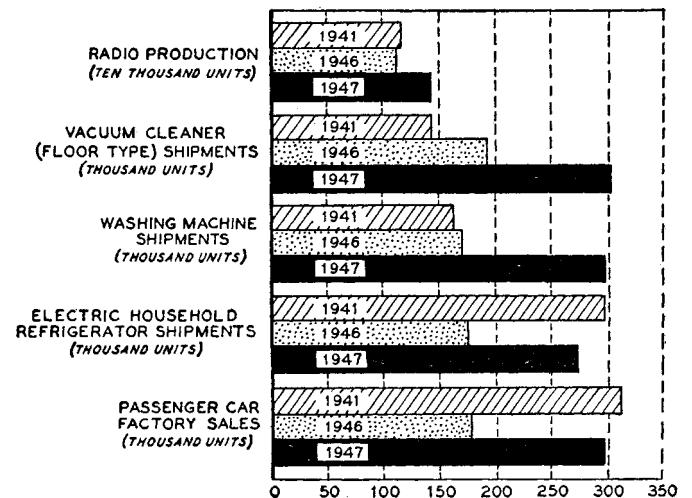
Altogether, employment in the textile and apparel industries dropped by 164,000 persons between March and July and the number of workers in shoe and rubber goods factories also decreased. In many cases the declines were spotty, the major reductions occurring in lines which had increased their share in these industries' production during the war, such as soft woolen textiles and "nonrationed" types of shoes. Inventories of nondurable goods in the hands of wholesalers and retailers dropped nearly one billion dollars, or 10 per cent, between the end of March and the end of July.

In the first half of the year, durable goods producers were plagued principally by shortages of raw materials which, in effect, put a ceiling on production. Steel output was maintained at an average rate of 93 per cent of capacity during the first half of the year, despite short supplies of steel scrap and coal. Yet this was not sufficient to meet the demand from makers of producers' and consumers' durable equipment, and from time to time production of finished goods was curtailed for lack of materials. On the whole, however, the flow of raw materials and component parts to manufacturers was much smoother than in 1946, partly because of the relatively small number of major labor conflicts in 1947. Consequently, as indicated in the accompanying chart, most consumers' goods industries have been able to show a good production record for the year, by prewar standards.

However, certain durable goods lines did experience declines in production and employment during the first half of 1947. Largely because of reduced demand, employment at factories making radios and some types of nonferrous metal products dropped, and output of building materials slackened.

In the second half of the year, demand for most types of goods was strengthened when it became apparent that the gen-

Output of Selected Consumers' Durable Goods,  
1941, 1946, and 1947  
(Averages of monthly data; 1947 partly estimated)



Source: Radio Mfrs. Assn., Vacuum Cleaners Mfrs. Assn., American Washer and Ironer Mfrs. Assn., U. S. Department of Commerce, and Automobile Mfrs. Assn.

eral price level was more likely to rise than to decline. The chief factors in effecting this change of attitude were the rise in farm and food prices following short crops at home and abroad, and the generous bituminous coal wage settlement in July, which was followed by increased coal and steel prices. Buying for inventory was resumed in anticipation of still higher prices, and by the end of October manufacturers, wholesalers, and retailers each held a record-breaking dollar volume of inventories. However, when the rise in price level and the increasing dollar volume of sales are taken into account, overall inventories of these groups appear to be well in line with prewar sales-stock relationships. With steel output at a new postwar peak, durable goods production has been further stimulated, and output of automobiles and other consumer durables has reached new high levels.

As indicated in the accompanying table, a great many of the nondurable goods industries represented in the Board's index of industrial production did not exceed in 1947 the postwar peaks set in 1946, but only one component of the durable goods category (transportation equipment) failed to set a new peacetime record in 1947. Many of the components of the textile and manufactured food groups have not yet equaled their 1946 peaks. In the past two years metal-working industries have not come close to the highest points reached during the war, but most building material industries have surpassed their wartime peaks. Output in a large number of the nondurable goods industries represented in the index has risen to new peaks since the end of the war, particularly in the textile, petroleum product, and alcoholic beverage industries.

Although the aggregate volume of production currently is not much greater than at the start of 1947, it is much better balanced. Consumers can buy staples and most standard appliances, although supplies of a few things such as automobiles are still lagging behind demand; the pipe lines are almost all

filled; bottlenecks in production because of missing component parts are fewer. Similarly the labor force is better balanced. Most of the temporary wartime workers—women, children, and older persons—have left the labor force. Discharged veterans have been absorbed into the labor force with a minimum of difficulty, and most of those at work are acquiring further skills or renewing old ones.

This tendency toward a more homogeneous and more highly skilled working force than has prevailed in recent years will be an important factor in increasing productivity. The U. S. Bureau of Labor Statistics, on the basis of fragmentary data, estimates a median increase in productivity of about 2½ per cent between the average for 1946 and the average for the first nine months of 1947. However, there is considerable variation among industries, and the full effects of the vast capital expansion during and since the war are yet to be felt. Under present conditions of practically full employment, the principal means of raising output (or of reducing costs) will be the stimulation of increased worker effort, further investment in labor-saving machinery, and the introduction of new techniques. Recognition of the need for increasing productivity through capital investment as well as the necessity of expanding raw materials production if manufacturing output as a whole is to be substantially increased has been evident in the exceedingly high rate of domestic capital investment during 1947 and in the further expansion of plant and equipment anticipated for 1948.

#### DEPARTMENT STORE TRADE

Sales of Second District department stores during December 1947 surpassed in dollar volume those of any previous month. Total December sales appear to have been close to 190 million dollars, compared with close to 175 million dollars in December 1946. Some of the increase over December 1946 was due to the fact that December had one more shopping day in 1947 than in 1946. On a daily average basis, the December year-to-year increase was approximately 6 per cent, somewhat less than the increase of 9 per cent for the whole year 1947. When adjusted for the normal November to December seasonal increase, daily average sales were little changed from November.

The physical volume of sales in Second District department stores during 1947 appears to have declined below the quantities sold during 1946, despite an increase in the dollar sales volume. It is estimated that during the first 9 months of the fiscal year which began February 1, 1947 price increases on goods sold by department stores have more than offset the increase in dollar volume of sales over the corresponding 9 months of 1946, thus indicating a decline in unit sales. In fact, comparison of the two 9-month periods suggests that, although dollar volume was 9 per cent higher during 1947, unit volume was perhaps as much as 7 per cent below 1946, inasmuch as retail price indexes of apparel and home furnishings have risen by roughly 17 per cent on the average.

Highs and Lows for Recent Years for Selected Components of the Federal Reserve Index of Industrial Production  
(Adjusted for seasonal variation, 1935-39 average=100)

Series	Wartime	Postwar	1946	1947	
	high	low		High	High (month)*
Industrial production.....	247	152	183	192	Nov.
Manufactures.....	268	154	191	198	Nov.
Durable manufactures.....	376	138	214	225	Nov.
Steel.....	242	46	196	224	Oct.
Machinery.....	463	188	275	282	Nov.
Transportation equipment.....	786	199	245	239	Mar.
Nonferrous metals.....	292	128	197	206	Feb.
Lumber.....	136	72	135	138	Mar.
Cement.....	174	97	177	203	Feb.
Nondurable manufactures.....	180	154	173	177	Nov.
Cotton consumption.....	177	118	164	161	Feb.
Wool textiles.....	178	130	181	178	Feb.
Shoes.....	132	97	144	127	Oct.
Butter.....	116	58	79	85	July
Wheat flour.....	140	100	163	162	Jan.
Meatpacking.....	215	38	178	173	Nov.
Tobacco products.....	150	112	173	175	Oct.
Paper.....	156	129	145	152	May
Gasoline.....	156	129	149	163	Aug.
Chemicals.....	404	228	247	253	May
Minerals.....	144	104	146	156	Nov.
Fuels.....	150	108	153	164	Nov.
Metals.....	158	63	117	136	Apr.

\* When identical peaks were reached in two or more months, the latest only is shown.

Source: Board of Governors of the Federal Reserve System.

Department stores normally increase their stocks between August and November in anticipation of the peak seasonal selling months of November and December. As shown in the accompanying chart, however, department stores in the Second District increased their stocks at a considerably more than seasonal rate during the past few months. The seasonally adjusted retail value of stocks at the end of November was almost 15 per cent larger than at the end of July, the year's low point, and was 7 per cent larger than a year previous. Notwithstanding this rapid rise in stocks, the ratio of end-of-month stocks to sales during November stood at 2.3, in contrast to a 2.7 (November) average during 1935-39 and 2.6 in 1940.

Owing to greater availability of goods and more cautious merchandising policies on the part of stores, outstanding orders of a representative group of stores in this District at the end of November 1947 were 29 per cent below the figure reported for the end of November 1946. Merchandise receipts of this group of stores were exceptionally heavy during October and November and net new orders declined during November to an amount 18 per cent below a postwar peak in October.

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

Locality	Net sales		Stocks on hand Nov. 30, 1947
	Nov. 1947	Jan. through Nov. 1947	
Department stores, Second District...	+ 3	+ 9	+ 7
New York City.....	+ 3	+10	+ 7
Northern New Jersey.....	+ 2	+ 7	+ 2
Newark.....	- 1	+ 5	0
Westchester County.....	+ 4	+ 8	+ 7
Fairfield County.....	0	+ 6	+ 8
Bridgeport.....	- 2	+ 6	+ 6
Lower Hudson River Valley.....	+ 8	+10	+11
Poughkeepsie.....	+10	+ 8	+11
Upper Hudson River Valley.....	+ 5	+ 8	- 2
Albany.....	+ 7	+ 8	- 4
Schenectady.....	+ 1	+ 5	- 4
Central New York State.....	+ 3	+ 6	+ 3
Mohawk River Valley.....	+ 8	+ 8	+15
Utica.....	+ 9	+ 9	+12
Syracuse.....	+ 1	+ 6	- 3
Northern New York State.....	+24	+20	-
Southern New York State.....	+ 7	+ 8	+13
Binghamton.....	+ 5	+ 5	+ 7
Elmira.....	+13	+ 8	+28
Western New York State.....	+ 5	+ 8	+13
Buffalo.....	+ 5	+ 8	+19
Niagara Falls.....	+ 4	+ 7	+ 3
Rochester.....	+ 4	+ 8	+ 2
Apparel stores (chiefly New York City).....	+ 1	- 5	-13

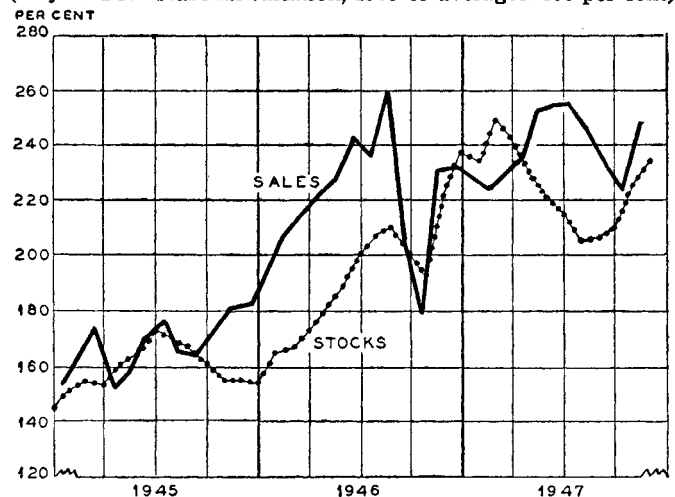
Indexes of Department Store Sales and Stocks  
Second Federal Reserve District  
(1935-39 average=100 per cent)

Item	1946		1947	
	Nov.	Sept.	Oct.	Nov.
Sales (average daily), unadjusted.....	301	244	253	323
Sales (average daily), seasonally adjusted..	231	234	223	248
Stocks, unadjusted.....	247	227	253	263
Stocks, seasonally adjusted.....	220 <sup>r</sup>	210	224	234

<sup>r</sup> Revised.

Indexes of Department Store Sales and Stocks,  
Second Federal Reserve District

(Adjusted for seasonal variation, 1935-39 average=100 per cent)



Indexes of Business

Index	1946		1947	
	Nov.	Sept.	Oct.	Nov.
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	183	186	190	192 <sup>p</sup>
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	212	238	228	235 <sup>p</sup>
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	188	203	206 <sup>p</sup>	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	267	290	291 <sup>p</sup>	
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	152	157	157	157 <sup>p</sup>
New York State, 1935-39 = 100..... (New York State Department of Labor)	131	130	132	132 <sup>p</sup>
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	298	337	342 <sup>p</sup>	
New York State, 1935-39 = 100..... (New York State Department of Labor)	269	288	297	295 <sup>p</sup>
Personal income*, 1935-39 = 100..... (Department of Commerce)	275	307	298 <sup>p</sup>	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	165 <sup>r</sup>	179	180 <sup>p</sup>	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	152	164	164 <sup>p</sup>	
Velocity of demand deposits*‡, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	87	88	94	97
Outside New York City.....	80	86	88	89

\* Adjusted for seasonal variation. <sup>p</sup> Preliminary. <sup>r</sup> 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.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, JANUARY 1948

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, December 24, 1947)

**I**NDUSTRIAL production expanded somewhat further in November. Department store sales showed more than a seasonal increase in November and the first half of December. Wholesale commodity prices generally continued to advance.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production advanced 2 points in November to 192 per cent of the 1935-39 average, a new postwar peak rate.

Output of durable goods expanded somewhat further, reflecting largely increases in activity in most machinery, transportation equipment, and nonferrous metal fabricating industries. Output of steel in November was at a slightly lower rate than in October, but in the early part of December scheduled operations rose to new postwar peaks. Motor truck assemblies were curtailed in November and early December, as a result of model changeover activity at plants of a major producer, while output of passenger cars increased. Output of lumber and other construction materials was maintained in large volume.

Manufacture of nondurable products continued to increase in November, reflecting mainly a further marked rise in activity at cotton textile mills and an expansion in the volume of live-stock slaughtered as a result of reduced feed supplies and high prices for feeds. Liquor production, which increased sharply in October, was curtailed in November in accordance with the Federal program to conserve grain.

Production of minerals rose somewhat further in November, reflecting further gains in output of bituminous coal as increased numbers of freight cars became available.

CONSTRUCTION

Values of most types of construction contract awards, according to the F. W. Dodge Corporation, showed seasonal declines in November and were substantially larger than a year ago. The number of dwelling units started during the month, as estimated by the Department of Labor, decreased from 94,000 in October to 82,000 in November; completions increased from 83,000 units to 86,000.

DISTRIBUTION

Department store sales showed a sharp seasonal increase in November and the Board's adjusted index rose to a new high of 300 per cent of the 1935-39 average, as compared with 275 in October and 291 in September. Value of sales continued at a high level in the first half of December and was 8 per cent above the corresponding period in 1946. Value of department store stocks has also increased in recent months and is above the corresponding period of a year ago.

Shipments of most classes of railroad revenue freight were maintained in large volume in November and the first half of December, after allowance for usual seasonal declines at this time of the year. Coal shipments continued to increase and were at the peak rate reached at the beginning of the year.

COMMODITY PRICES

Wholesale commodity prices generally advanced further in November and the early part of December. Crude petroleum prices were increased sharply and advances were announced in refined petroleum products, newsprint, rayon, textile products, shoes, and some metal products. Government disposal prices for Japanese silk were reduced by nearly one half. Prices of commodities traded in the organized markets rose further in November but showed little change in the first three weeks of December.

The consumers' price index was unchanged from September to October. Food prices generally showed little change in November and December, while additional increases occurred in retail prices of other goods and services.

BANK CREDIT

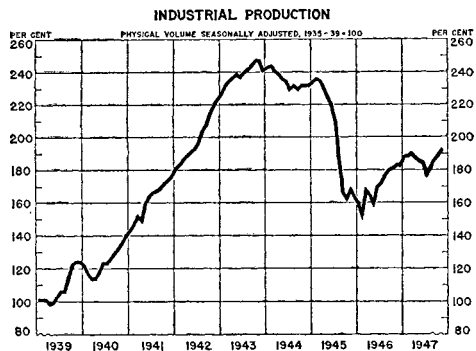
Loans to businesses, consumers, and real estate owners expanded further at banks in leading cities during November and the first half of December. Demand deposits of individuals and businesses increased 800 million dollars at these banks, and currency in circulation rose by 400 million.

In the four weeks ended December 17, member banks gained reserves as a result of a continued inflow of gold, Treasury transactions, and Federal Reserve purchases of Government securities. These sources of reserves more than offset the seasonal growth in currency.

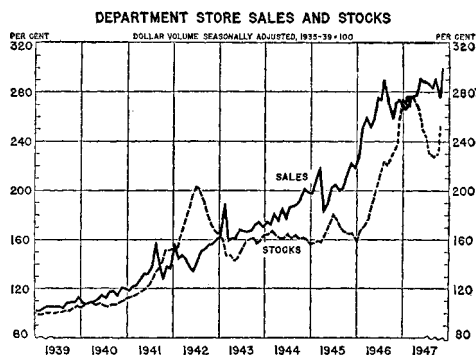
Reserve Bank holdings of Government securities declined in the four-week period, reflecting Treasury retirement of bills and certificates. The System also sold substantial amounts of bills and certificates in the market, but purchased larger amounts of notes and bonds.

INTEREST RATES AND BOND YIELDS

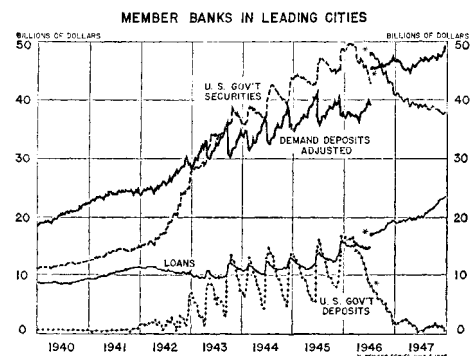
Prices of Treasury bonds, which declined sharply in October and November, were held firm after the middle of November by official support. Prices of corporate bonds declined further. Yields on Treasury certificates rose and a new issue of 1 1/8 per cent one-year certificates was offered in exchange for the issue maturing January 1.



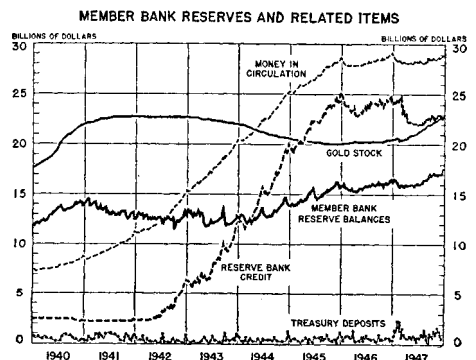
Federal Reserve index. Monthly figures; latest figure shown is for November.



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



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 December 10.



Wednesday figures; latest shown are for December 17.