MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 30 | MAY 1948 | No. 5

MONEY MARKET IN APRIL

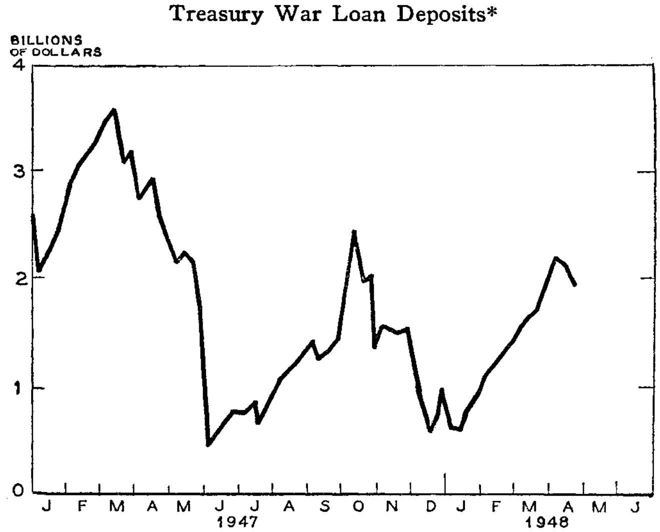
With the passing of the period of very heavy tax receipts in the first quarter of the year, Treasury revenues fell off sharply in April, necessitating a marked reduction in redemptions of public debt. During the first three months of the year approximately 4.5 billion dollars of marketable securities were retired. An additional 470 million dollars of marketable Government securities were paid off during the first part of April by redeeming parts of maturing issues—100 million dollars of Treasury bills and 270 million of unexchanged certificates on April 1, and another 100 million of bills on April 8. No further retirements were made after April 8, although the Treasury had at its disposal relatively large cash balances, and the pressure on bank reserves, which had been exerted in the first quarter by the Treasury surplus and its use to redeem securities held by the Reserve Banks, came to a halt.

At the end of March Government deposits with the Reserve Banks, reflecting the first quarter's heavy net receipts, were unusually large, amounting to almost 2 billion dollars. A substantial part of these balances (more than 800 million dollars in the week ended April 7) was used with current receipts to redeem both marketable and nonmarketable securities and to meet the usual concentration of Government disbursements at the beginning of the month. Funds available for retirement of debt during the rest of the year, however, will be substantially reduced by the recent cuts in the Federal income tax and by the new defense and foreign aid expenditures voted by Congress. Expenditures that are not met by taxes and other revenues will have to be made out of existing cash balances. Debt retirement therefore is likely to be confined almost solely to redemptions of maturing and called securities whose owners may prefer cash to the securities offered in exchange for their holdings.

In fact, it is to be expected that current Government expenditures will exceed current receipts in most months, except income tax months, during the remainder of 1948. That was the case in April. However, the Treasury adopted a procedure which, as long as it can be continued, will counteract the effect on bank reserves of Government expenditures in periods when they exceed current cash receipts of the Treasury. In the two weeks ended April 21, the Treasury withdrew close to 675 million dollars from War Loan deposit accounts in the banks to offset net Government expenditures, and thus forestalled a substantial easing of member bank reserve positions. Such equalizing withdrawals from War Loan accounts presumably can be continued for some time to come.

Treasury War Loan deposits in commercial banks, like Treasury deposits in the Reserve Banks, were unusually large at the end of March because the heavy tax receipts of the first three months of the year had permitted the suspension of calls for payments between January 3 and April 8, while funds continued to accumulate steadily in the accounts through deposits of the proceeds of sales of Savings bonds and notes and (to a much smaller extent, beginning on March 22) of withheld taxes. As illustrated in the chart, the net accumula-

Treasury War Loan Deposits*



*Wednesday dates; latest figure is for April 21, 1948.

tions in War Loan deposit accounts were larger in the first quarter of this year than in the corresponding period of 1947. A peak was reached on April 7, when such deposits amounted to 2.2 billion dollars. Near the end of April, despite the substantial withdrawals by the Treasury, total War Loan accounts still amounted to a little over 2 billion dollars, and continuing deposits in these accounts will enable the Treasury to continue to make withdrawals for the purpose of offsetting net Government expenditures for some months.

Government Securities Market

A growing conviction in the market that the rate on one-year Treasury certificates will be raised from 1⅛ to 1¼ per cent in June or July, when large amounts of certificates and bonds mature, led to considerable shifting of portfolios by commercial banks to take advantage of the anticipated rate increase. Commercial banks reduced their holdings of short-term bonds—those maturing or callable through 1950—and purchased sizable amounts of Treasury bills and of certificates maturing June 1 and July 1 next. To a much smaller extent, some of them also shifted into Treasury bonds of intermediate maturities. For the most part, the latter securities were supplied by other commercial banks, which apparently used the proceeds to retire indebtedness at Federal Reserve Banks, to purchase short-term securities, or (in the first half of the month) to add to their excess reserves.

The Federal Reserve System was the major purchaser of short bonds; although the System's bond purchases were somewhat greater during April than in the preceding month, all the bonds were of short maturities. Intermediate and longer term issues continued above the System's support prices. The Reserve System also acquired Treasury certificates of the longer maturities and notes, but supplied a large part of the demand for bills and short-term certificates. Sales of bills and short certificates exceeded purchases of other types of Treasury securities by a wide margin and, together with redemptions in the early part of the month, resulted in a further net reduction in total Government security holdings of the Reserve Banks; this was the fourth successive monthly decline in System holdings.

Commercial bank holdings of Treasury bills increased by a greater amount than Federal Reserve holdings decreased (after allowance for redemptions). The additional supply came directly or indirectly from nonbank investors, particularly those in the Chicago area, who had acquired a large volume prior to April 1 in order to avoid the Cook County personal property tax as of that date. These investors quickly disposed of their Treasury bills after the tax date, through sales or redemptions, thus making a larger supply available to banks and others.

Government bond prices retained the buoyancy displayed in March, except for a slight and temporary decline in intermediate and long-term issues in the third week of the month. Price changes were more marked in the bank-eligible issues than in the ineligible securities. High grade corporate and municipal bonds were likewise firm during most of the month, and prices of lower grade corporate bonds rose rather sharply in sympathy with the substantial advance in stock prices.

Member Bank Reserve Positions

Member bank reserve positions were noticeably easier in the first week of April, and were subject only to temporary fluctuations thereafter. The substantial excess of Treasury disbursements over receipts, which was reflected in the sharp reduction in Treasury deposits with the Reserve Banks in the week ended April 7, was the principal influence in that week, although a considerable part of the net payments went to the Federal Reserve Banks for the redemption of maturing Treasury bills and certificates which they held. The commercial banks' gains of funds from this source were supplemented by smaller gains from other sources, and offset by a wide margin their needs for reserves, occasioned chiefly by a sizable rise in required reserves. Being thus provided with a substantial volume of new funds, member banks promptly employed these funds to reduce their indebtedness to the Reserve Banks and to acquire a considerable volume of short-term Treasury securities, partly from the Reserve Banks and partly through direct bids for the new Treasury bill issue.

In the following three weeks, the policy of closely balancing Treasury expenditures with receipts, through withdrawals from War Loan accounts in depositary banks to supplement current tax receipts, was followed. In this period, Government disbursements exceeded revenues by approximately 600 million dollars, but the difference was met by War Loan calls. Thus, Treasury deposits with the Federal Reserve Banks remained little changed at around 1,200 million dollars. Other factors affecting member bank reserves, such as further redemptions of Treasury bills held by the Reserve Banks, changes in member bank required reserves and in Federal Reserve "float", a further return of currency from circulation, and disbursements of funds from foreign deposits with the Reserve Banks, were about in balance during the first two weeks of this period, but led to a sharp (but probably temporary) rise in excess reserves in the final week.

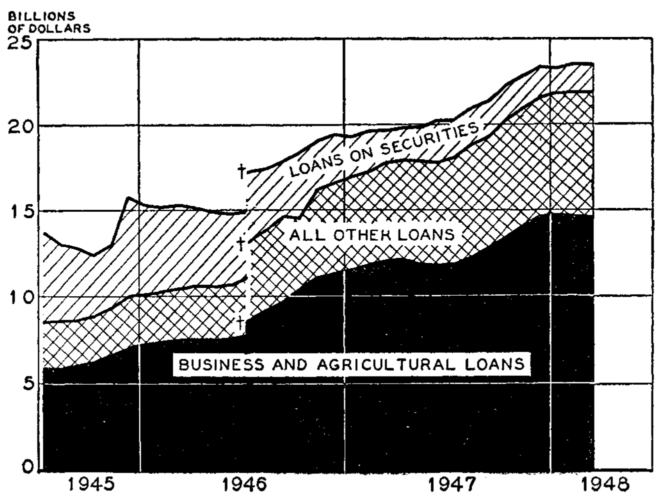
Demands for Federal Reserve credit were therefore comparatively small. Individual banks adjusted their reserve positions largely by buying or selling short-term Government securities, or by drawing upon their excess reserves. On the whole, however, the volume of Federal Reserve credit in use declined moderately.

MEMBER BANK LOANS

Total loans of weekly reporting member banks since the turn of the year have shown little change, following the rapid increase in the last half of 1947. A slackening in the rate of loan expansion in the early part of the year has been an annual occurrence since the end of the war, but has been much more pronounced this year than last. In fact, business loans of the weekly reporting banks in the third week of April were nearly 450 million dollars less than at the end of December, whereas in the corresponding period last year they showed an increase of nearly one billion dollars.

The stair-step growth of loans other than those on securities has been largely confined to the weekly reporting member banks in the larger cities; in the last half of 1947 the acceleration in the growth of loans was almost wholly restricted to these institutions. Loans of other member banks increased at a fairly steady pace throughout 1947 and continued to grow in the first quarter of 1948. This difference in the behavior of the loan portfolios of reporting and nonreporting banks is largely accounted for by differences in the types of business done by the two groups of banks. Business loans, which have exhibited a more definite seasonal pattern than other types of loans, bulk much larger in the portfolios of the weekly reporting member banks. Moreover, business loans show more pronounced seasonal swings in the weekly reporting member banks than elsewhere. While in the weekly statistics business loans are combined with agricultural loans, the latter contribute probably very little to the seasonal behavior of the loans of the weekly reporting group, as they undoubtedly represent only a minor fraction of the total business and agricultural loans of this group of banks. At the end of 1947, agricultural loans of all member banks (other than loans on farm land) were only a little over a billion dollars compared with nearly 17 billion of business loans, and some of the agricultural loans, possibly half or more, were held by banks which do not report weekly.

Total Loans of Member Banks in Leading Cities*



* Monthly averages of Wednesday dates.
† New series based on revised list of reporting banks.

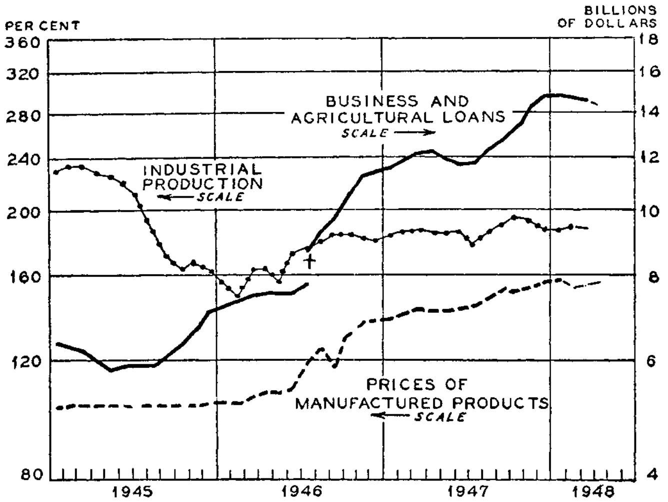
The differences in the rate of growth of business loans reflect largely variations in the composition of commercial and industrial loan portfolios in leading cities and in the rest of the country. According to the Federal Reserve survey of business loans of member banks as of November 20, 1946, 43 per cent of business loans were made to firms engaged in manufacturing and mining, and the proportion tended to rise with the size of the bank. Since the weekly reporting institutions are essentially the larger banks, the more pronounced swings in their business loans probably reflect in the main changes in amounts advanced to this group of borrowers.

In the last half of 1945, i.e., during the period of reconversion when production was falling, manufacturing and mining firms were in need of private credit to replace Government financing. In each of the two following years, a rise in the physical volume of production occurred during the late summer and fall. The sharp expansion in the second half of 1946 was attributable to the production of minerals and durable goods which had been held back by strikes in the early part of the year. In 1947, the expansion in production was largely in minerals and nondurable goods. The percentage rate of growth in production in the second half of either year, however, was inadequate to account fully for the movements in business loans, especially in 1947 when the production level in the last half of the year averaged only about 2 per cent higher than in the first half.

Another factor that was closely associated with variations in the volume of business loans in 1946 and 1947 was the price level of manufactured commodities. The demise of the O.P.A. and increases in wage rates were followed by a rapid rise in the prices of industrial commodities in the second half of 1946. By the early part of 1947 pipelines had been nearly filled and production was little interrupted by work stoppages. Labor, however, gained further wage increases which, although smaller than in 1946, contributed to new advances in the cost of manufactured goods, which again were reflected in a rise in prices in the second half of the year.

Retail and wholesale trade (and therefore financing of inventories and receivables) account for a larger proportion of business loans in the banks outside the weekly reporting group. Banks in this group are the smaller institutions with deposits averaging less than 10 million dollars. According to the survey quoted above, about 50 per cent of the business loans of banks of this size were made to retail and wholesale trade firms. Inventory increases, of course, are related to price

Business and Agricultural Loans of Member Banks in Leading Cities, Industrial Production, and Prices of Manufactured Products*



* Loans are monthly averages of Wednesday dates in billions of dollars; industrial production and prices of manufactured products are monthly index numbers (not adjusted for seasonal variation) on a 1935-39 base. April figure for loans is estimated, for manufactured products, preliminary. Plotted on ratio scale to show proportionate changes.

† New series based on revised list of reporting banks.

Source: Board of Governors of the Federal Reserve System and U. S. Bureau of Labor Statistics.

and production movements, but only with a time lag of indefinite length. In the early part of 1946, when production was falling and business loans of the weekly reporting banks increased only modestly, shipments of civilian goods rose on the whole, and trade inventories, especially at the retail level, increased rapidly. In the second half of 1946, a more rapid increase in these inventories was reflected in the business loans of these banks. In the first half of 1947 the rate of increase in loans and trade inventories slackened, even though the effect of price increases was spreading. A further but more moderate slackening of the rise in trade inventories was evident in the second half of 1947, and business loans of the banks which do not report weekly followed the same course.

Prices of manufactured goods and inventories continued to rise in the first few months of 1948, while production leveled off; business loans of the weekly reporting banks turned down, in contrast to the corresponding period last year when the pace of increase only slackened. The decline in the volume of business loans at these banks this year may be explained at least in part by the efforts that have been made to restrain further expansion of bank credit, by the pressure on the banks' reserve positions which was generated by the use of the surplus revenues of the Treasury to retire securities held by the Reserve System, and by the campaign of the banks themselves under the leadership of the American Bankers Association to promote greater selectivity in the granting of credit.

Another important influence, however, probably came from the demand side. Developments in the corporation securities markets in the last few months of 1947, when the largest quarterly volume of new capital issues since the boom days of 1929 was sold, substantially improved the cash position of many companies and lessened their need for bank credit. Such security issues in the first quarter of 1948, although showing a considerable reduction from the preceding quarter, again reached very large volume, amounting to twice the total for the first quarter of 1947.

Funds from these sources undoubtedly contributed in two ways to the decline in business loans during the early months of this year. In the first place, the proceeds of some of the new issues were used, at least in part, to retire loans previously obtained from the banks. Secondly, financing through the capital market provided some businesses with funds which they might otherwise have sought to obtain through bank loans. Almost the entire decline in the business loans of all weekly reporting member banks in the first part of this year occurred at New York City and Chicago banks, a large proportion of whose loans go to corporations with nationwide operations and relatively easy access to the new capital market.

INTERNATIONAL TRADE ORGANIZATION

The signing of the Final Act of the United Nations Conference on Trade and Employment held at Havana, Cuba from November 21, 1947 to March 24, 1948, marks the conclusion of nearly three years' effort to establish an International Trade Organization. This result, however, is only tentative inasmuch as the signatures of the 54 delegations, out of the 56 that participated in the drafting of the document, do not prejudge the final verdicts of their governments. The International Trade Organization will not come into being, nor the ITO Charter into force, until the latter has been ratified by a majority of the countries whose signatures appear on the Final Act, that is, by at least 28 countries. If, however, after one year this majority has not given its approval, there is provision for the Charter to come into effect when the number of ratifications reaches twenty.

Many countries apparently will not be able to place the Charter before their legislative bodies before the second half of 1949, in which case the document, even if confirmed by a sufficient number of countries, might not become binding until late in 1949. Of crucial importance, of course, will be the attitude of the United States Congress, for it can hardly be expected that the Charter will find approval in many countries should the United States choose to reject it. Not only is the United States the most important trading power in the world, but it is mainly American initiative that was responsible for the sustained effort that resulted in the comprehensive document agreed upon at Havana.

This initiative goes as far back as the Atlantic Charter in 1941 and the master lend-lease agreement concluded between the United States and the United Kingdom in February 1942. Both documents set forth as among the most important post-war goals a far-reaching liberalization of international trade on a nondiscriminatory basis, the reduction of tariffs and trading barriers, and "the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement, and social security". These objectives were subsequently reiterated in the lend-lease agreements signed with other "United Nations" and at various international conferences, including the United Nations conference at San Francisco and the Bretton Woods conference which drew up the agreements under which the International Bank and International Monetary Fund were established.

In December 1945, the United States Government submitted to members of the United Nations its "Proposals for Expansion of World Trade and Employment", recommending the establishment by the United Nations Economic and Social Council of an International Trade Organization and suggesting the principles of its Charter. Released at the same time as the Anglo-American Financial Agreement, these "Proposals" were accompanied by an endorsement on the part of the British Government.[1]

In the following eight months, the State Department elaborated the "Proposals" into a "Suggested Charter for an International Trade Organization"—a detailed code of international trade and economic cooperation. This document served as the working paper for the first meeting of the Preparatory Committee of the International Trade Organization, held in London in October and November 1946. Set up by the Economic and Social Council of the United Nations, the Preparatory Committee consisted of representatives of Australia, Belgium-Luxembourg, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, the Netherlands, New Zealand, Norway, South Africa, the United Kingdom, and the United States.

Subsequent meetings of the Preparatory Committee were held in New York in January-February 1947, and in Geneva in April-October 1947, in the course of which the "Suggested Charter" was redrafted and developed in greater detail.[2] The Havana Conference, to which practically all countries except the USSR and Yugoslavia sent delegates, devoted itself to the consideration of the Geneva draft, upon which substantial agreement had been reached previously by the members of the Preparatory Committee.

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

[2] Also at Geneva a General Agreement on Tariffs and Trade lowering tariffs between twenty-three countries was negotiated.

The expectations of an early approval by the Havana Conference of the Preparatory Committee's draft proved ill-founded. Although large portions of the Charter were rapidly accepted, others gave rise to considerable disagreement. So complicated was the solution of some of the difficulties encountered that a deadlock appeared at times imminent. All of the differences were composed at the end, but the resulting Final Act bears all the marks of hard bargaining and of strenuously attained compromise.

The compromise character of the Charter will undoubtedly cause some disappointment among many of those who originally endorsed with enthusiasm the idea of an International Trade Organization. Instead of relatively few, simple, and easily comprehensible rules of international economic conduct, the Charter contains many highly complicated and involved provisions, exceptions, and escape clauses which leave it open to a variety of interpretations. While committing its members to the principles of multilateral trade, nondiscrimination, and the reduction of barriers to world commerce, the Charter leaves considerable room for commercial policies that have little in common with these basic rules. Thus, all existing preferential agreements, such as those of the British Commonwealth, the French Union, and the United States, are explicitly left in force. The continuation or imposition of quantitative restrictions—a major topic of disagreement between the representatives of highly developed and underdeveloped countries—remains possible under a variety of broadly defined circumstances. Even discriminatory bilateral agreements can be reconciled under many circumstances with the text of the Charter.

Yet the Charter certainly represents the best that could be accomplished at the present time. Under prevailing conditions in the world economy, with the foreign trade of most countries still shattered by the war, with balance-of-payments difficulties besetting nearly all of Europe and the British Commonwealth as well as some other countries, with political friction hampering even such resumption of international economic relations as is now possible — stronger commitments to freedom of trade and to the principles of nondiscrimination and multilateralism would hardly be acceptable to most countries.

Not unlike the International Monetary Fund, the International Trade Organization, if it is to accomplish its purpose, is predicated upon an eventual state of normalcy in international economic relations that still is quite remote. This is not to imply that the time devoted to the elaboration of the Charter has been wasted or that the resulting document is of no value. The ITO may well prove an important factor in future international cooperation, particularly when the exchange controls still permitted under the Articles of Agreement of the International Monetary Fund have been removed. The United States' insistence on abolition of quantitative restrictions stemming from its adherence to the general principles of multilateralism and nondiscrimination refers more to the future than to a world in which the desire to buy American goods is curbed only by the shortage of dollars. At the same time the defense by other countries of their right to resort to protective measures may sound rather untimely when their most urgent requirement is for maximum imports, but is explained by current balance-of-payments difficulties and by efforts toward greater economic self-sufficiency.

If the Charter were to be considered as referring merely to the immediate problems facing the world economy, it might well appear to be out of place. The fact is that it is not designed to provide a remedy for short-term economic difficulties. Its intent is the formulation of a code of international economic behavior which is to prove its importance and usefulness long after the present postwar difficulties have been overcome. Serving as a world economic supreme court, the International Trade Organization is to deal with individual cases in the light of its basic principles, and the system of decisions that it hopes eventually to evolve may overshadow the significance of the Charter itself. The mere fact of the Organization's existence may in the end become an important preventive of wasteful economic warfare.

But like all international law, the International Trade Organization's Charter cannot be expected to mold underlying economic relations. All that can be hoped for is that once these relations are normalized and the world community of national economic interests is at least to some extent recognized and reestablished, the International Trade Organization may develop into a helpful clearing house for the peaceful settlement of inevitable misunderstandings and conflicts.

RETAIL CREDIT SURVEY—1947[1]

The year 1947 was a period of increasing incomes, prices, and retail sales, as well as a period of credit expansion. Industrial production set new peacetime records during the year, while prices climbed steadily higher. In absorbing this greater dollar volume of goods, consumer expenditures throughout the nation showed an increase over 1946 which was nearly 4 billion dollars greater than the increase in estimated disposable personal incomes. This excess of expenditures was financed in part by a reduction in the current rate of saving, but to a large extent also by a broader use of consumer credit. In the country as a whole, instalment sales credit outstanding increased 1.3 billion dollars during 1947, charge account credit rose 558 million dollars, and total consumer debt reached a new all-time record. Retailers likewise increased their indebtedness to finance a greater volume of inventories and accounts receivable.

[1] A reprint of this article, containing additional information by localities, is obtainable on request from the Domestic Research Division, Research Department, Federal Reserve Bank of New York.

During the war, the disappearance of many types of consumers' durable goods from the market, together with the operation of consumer credit controls, had resulted in a substantial reduction in the use of consumer credit, despite steadily rising retail sales. In the immediate postwar period, the use of large wartime accumulations of savings in the scramble to acquire scarce goods led to still further increases in cash transactions. In 1947, however, the increase in credit sales was marked. This expansion of consumer credit was partly a reflection of the increasing availability of automobiles, furniture, and major household appliances, which because of their high unit value are customarily purchased on credit. It also reflected the cumulative drain of higher prices and living costs on current incomes and wartime savings. Other contributing factors in last year's consumer credit expansion were the traditionally greater willingness of consumers to take on new commitments in times of rising incomes and the active promotion of credit sales by retailers.

The impact of these developments on retail trade in the Second Federal Reserve District is revealed by the sixth annual Retail Credit Survey recently completed by the Federal Reserve Bank of New York. Data were collected from nine lines of credit-granting stores accounting for the bulk of retail credit transactions; more than 750 stores, with aggregate sales of nearly 1.6 billion dollars in 1947, cooperated by submitting reports usable in one or more phases of the inquiry.

Cash and Credit Sales at Credit-Granting Retail Stores in the Second Federal Reserve District
Percentage Change, 1946-47

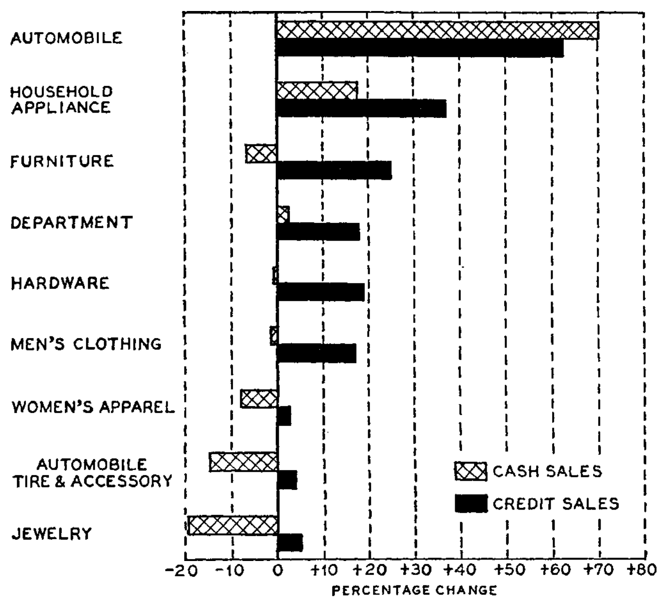


TABLE I

Retail Sales by Type of Store, Second Federal Reserve District, 1946 and 1947

Type of credit-granting store	Number of stores	Percentage change, 1946 to 1947: Total sales	Cash sales	Charge account sales	Instalment sales	Per cent of total sales: Cash sales 1946	Cash sales 1947	Charge account sales 1946	Charge account sales 1947	Instalment sales 1946	Instalment sales 1947
Automobile	83	+68	+70	+46	+101	70	71	21	18	9	11
Household appliance	72	+29	+18	+38	+ 34	42	39	39	42	19	19
Furniture	118	+16	− 6	+16	+ 27	29	23	12	13	59	64
Department	87	+ 7	+ 3	+14	+ 36	70	67	24	26	6	7
Hardware	24	+ 7	*	+15	+101	63	59	35	38	2	3
Men's clothing	59	+ 4	− 1	+14	+112	70	67	29	31	1	2
Women's apparel	71	− 3	− 8	+ 3	+ 15	53	50	46	49	1	1
Automobile tire and accessory	70	− 5	−14	− 4	+100	52	47	44	45	4	8
Jewelry	88	− 6	−20	−10	+ 19	45	38	26	25	29	37
All types#	672	+17	+13	+16	+ 39	60	58	28	28	12	14

* Change of less than 0.5 per cent.

\# Percentages for "all types" of credit-granting stores have been computed from weighted averages, not from straight arithmetic averages of the reporting sample as in the past. Weights were based on the estimated relative share of each type of store in total sales of credit-granting stores.

Source: Compiled by Federal Reserve Bank of New York from reports of stores cooperating in the Retail Credit Survey.

Whereas in 1946 sizable gains in the dollar volume of sales were registered in every line of trade covered by the survey, in 1947 three types of stores (women's apparel, jewelry, and automobile tire and accessory stores) showed over-all declines in sales, and only automobile and household appliance dealers showed gains which were substantially in excess of the rise in prices. Even for automobiles and household appliances, the percentage rise in sales was only a fraction of the previous year's advance over the abnormally low wartime levels. Sales at men's clothing stores had shown substantial gains in 1946 owing largely to veterans' restocking of wardrobes, but by 1947 this influence had waned and sales were only 4 per cent above the previous year, despite rising prices. Similarly, the promotion of new styles failed to prevent women's apparel stores from showing an over-all decline in dollar sales volume.

While cash transactions declined in most lines, credit sales increased at every type of store. The accompanying chart, which depicts the year-to-year changes in cash and credit sales for each type of retail outlet, clearly shows the rôle of credit in sustaining the volume of sales during 1947. Only automobile dealers reported a greater increase in cash sales than in credit sales, but in this field a "cash" sale often indicates merely that the customer has obtained credit from some other source, such as a commercial bank, instead of financing the sale through the dealer. In six of the nine lines, cash sales actually declined from 1946 to 1947, and at jewelry stores the drop in cash sales amounted to 20 per cent. The free-and-easy spending for nondurables and luxury goods and the large volume of cash transactions which were phenomena of the immediate postwar period have apparently given way under the pressure of high living costs on income and the greater attractiveness of the long-scarce consumer durables.

In some respects the increased credit sales were an expression of the reduced buying power of consumers at current prices, but many stores actively promoted credit sales as a means of attracting and keeping customers and maintaining their competitive position. The increasing reliance on extension of credit to bolster sales was particularly noticeable at furniture stores. Out of 118 furniture stores in this District reporting a breakdown of sales, 105 showed a decline in cash sales; the offsetting increase in credit sales was so strong and widespread, however, that over 100 stores were able to report an increase in total sales. The same tendency prevailed to a lesser extent in each of the other types of stores surveyed.

The shift to credit sales is also evident in the percentage distribution of sales by type of transaction, shown in Table I.[2] In every case the share of instalment sales in the total was greater in 1947 than in 1946, although in several instances the gains were very slight. Charge account sales gained in im-

[2] Since the survey covered only the credit-granting stores, the proportion of cash sales in the aggregate of all retail transactions is understated. Similarly, the trends in sales volume and inventories may differ between stores granting credit and stores selling for cash only.

Table II

Accounts Receivable by Type of Retail Store, Second Federal Reserve District, 1946 and 1947

(Accounts receivable figures are based on end-of-year data; sales, on annual totals.)

Type of credit-granting store*	Accounts receivable, percentage change, 1946 to 1947: Total	Charge account	Instalment	Charge account receivables as per cent of charge account sales: 1946	1947	Instalment receivables as per cent of instalment sales: 1946	1947
Automobile	+18	+19	+ 1	10	8	2	1
Household appliance	+46	+37	+ 59	13	14	20	24
Furniture	+27	+ 8	+ 54	24	22	39	48
Department	+29	+19	+ 54	26	27	47	53
Hardware	+ 6	+ 6	#	14	13	#	#
Men's clothing	+25	+20	+167	19	20	18	23
Women's apparel	+12	+12	+ 36	24	26	34	39
Automobile tire and accessory	+35	+18	+174	12	15	17	24
Jewelry	+16	− 4	+ 37	23	25	35	43

* Type of store arranged in order of percentage change in total sales of stores reporting sales by type of transaction, 1946 to 1947, as in Table I.

\# Withheld because of smallness of reporting sample.

Table III

Percentage Change, 1946 to 1947, in Sales and Accounts Receivable by Type of Retail Store in Selected Cities, Second Federal Reserve District

(Sales of credit-granting stores are based on annual totals; accounts receivable, on end-of-year data.)

Type of store and locality	Sales				Accounts receivable		
	Total	Cash	Charge account	Instalment	Total	Charge account	Instalment
Automobile							
Buffalo	+57	+56	+58	+ 63	− 5	+ 5	#
New York City	+74	+80	+42	+107	+ 7	+ 7	#
Household appliance							
Binghamton	+31	− 3	#	+ 36	#	#	#
New York City	+25	+14	+41	+ 24	+46	+39	+ 53
Furniture							
Albany-Schenectady-Troy	+11	−15	#	+ 16	+40	#	+ 41
Buffalo	+10	−25	+60	+ 15	+40	#	+ 40
New York City	+18	− 4	#	+ 33	+52	#	+ 58
Rochester	− 2	−27	#	+ 10	#	#	#
Department							
Albany-Schenectady-Troy	+ 5	+ 2	+ 8	+ 38	+33	+19	+112
Bridgeport	+ 7	− 3	#	+ 49	#	#	#
Buffalo	+ 2	− 4	+ 9	+ 39	+28	+24	+ 49
Newark	+ 5	− 6	+19	+ 44	+28	+21	+ 67
New York City	+ 8	+ 5	+11	+ 34	+31	+16	+ 53
Rochester	+ 9	+ 1	+15	+ 60	+19	+15	+ 50
Syracuse	+ 2	− 5	+ 8	+ 27	+17	+14	+ 28
Hardware							
New York City	+ 6	+ 3	+15	+131	#	#	#
Rochester	+ 5	− 3	+26	#	#	#	#
Men's clothing							
Albany-Schenectady	+12	− 3	+28	#	+33	+33	#
Buffalo	+ 3	− 7	+18	#	+21	+21	#
New York City	+ 4	*	+12	#	+26	+19	#
Women's apparel							
Buffalo	− 5	−10	+ 2	#	+25	+25	#
New York City	− 5	−10	+ 1	+ 51	+10	+ 9	+ 43
Syracuse	+ 5	+ 2	+ 7	#	+20	+17	#
Automobile tire and accessory							
Albany-Schenectady-Troy	−14	−22	−15	+ 61	+45	+34	+158
Bridgeport	−10	−24	− 7	#	+ 9	+ 5	#
Buffalo	+ 6	+ 2	+10	*	+11	+ 6	+124
New York City	+ 1	+ 2	− 6	+347	+22	+10	+412
Syracuse	− 7	−40	+ 5	+ 31	+27	+25	+ 46
Jewelry							
Albany-Schenectady-Troy	− 3	− 9	+ 6	+ 13	+ 7	+ 7	#
Buffalo	−13	−25	#	+ 14	+34	#	+ 34
New York City	−14	−19	−10	+ 10	− 4	− 5	+ 15
Rochester	− 9	−12	− 9	#	+10	+ 4	#
Syracuse	− 8	−10	#	#	+11	#	#

* Change of less than 0.5 per cent.

Withheld because of smallness of reporting sample.

portance except at jewelry stores and automobile dealers. In each category, cash sales accounted for a smaller share of the total in 1947 than in 1946; the sole exception was automobile dealers, and in this case, as noted above, changes in the proportion of "cash" sales reflect the effects of competition among different sources of credit rather than changes in consumer buying habits. In general, the changes during 1947 brought the cash or credit composition of sales closer to prewar patterns, although in most lines cash sales still exceed their 1941 proportion.

The rise in credit sales caused, of course, a rise in the accounts receivable carried by retailers. In each type of store except automobile dealers and hardware shops, total accounts receivable on December 31, 1947 showed an even greater percentage increase over the end of 1946 than did total credit sales during 1947 over 1946. Reflecting both more liberal terms and slowing up of payments by customers, the ratios of receivables to sales likewise increased generally between 1946 and 1947 for both instalment and charge account transactions, as shown in Table II.

Increased bad debt losses in all lines provide further evidence of the tightening in consumer finances. Bad debts at household appliance dealers and jewelry stores more than doubled in 1947, and in the latter case losses were nearly 1 per cent of total credit sales.

Sales of instalment paper by retailers to banks and finance companies increased during the year, but in general not as rapidly as instalment sales. Automobile dealers continued to sell instalment paper equal to more than 60 per cent of their total instalment sales, while smaller proportions of paper were sold by appliance, department, and furniture stores.

Data on retail sales and accounts receivable for various cities in the Second Federal Reserve District are shown in Table III. In general, these cities exhibited the same tendencies as characterized the District as a whole—sales increases were centered in consumers' durable goods lines and there was more extensive use of credit in all types of stores.

The increased volume of consumers' goods available in 1947 resulted not only in greater sales of those items for which there was still a sizable backlog of demand, but also in expansion of stocks to a more normal proportion of sales. Automobile and appliance dealers, hardware stores, and men's clothing shops all reported substantial gains in stocks from the 1946 level (which was still low in relation to sales). On the other hand, cautious purchasing policies at women's apparel and jewelry stores resulted in net reductions in inventories as sales slackened, and department store inventories showed little net change. Automobile tire and accessory shops found themselves with stocks more than a third larger in the face of a decline in sales; the tire industry was able to meet a large portion of the wartime backlog of demand for tires within

TABLE IV

Inventories by Type of Retail Store, Second Federal Reserve District 1946 and 1947

Type of credit-granting store	End-of-year inventories* percentage change 1946 to 1947	Inventory turnover rates#	
		1946	1947
Automobile	+40	13.6	12.0
Household appliance	+53	6.9	5.4
Furniture	+ 8	3.6	3.2
Department	‡	5.7	5.0
Hardware	+18	3.7	3.2
Men's clothing	+25	6.8	4.3
Women's apparel	−13	4.6	4.3
Automobile tire and accessory	+36	6.4	4.6
Jewelry	− 4	2.0	1.5

* At retail prices.

Inventory turnover based on ratio of total annual sales to the average of beginning-of-year and end-of-year inventories at retail. Turnover ratios for 1946 were obtained from a slightly different sample of reporting stores.

‡ Change of less than 0.5 per cent.

Table V
Sales and Inventories by Size* and Type of Credit-Granting Store
Second Federal Reservs District
(Sales figures are based on annual totals; inventories, on end-of-year data.)

Type of store	Percentage change, 1946 to 1947						Inventory turnover ratio, 1947†		
	Total sales			Inventories at retail					
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Department	+ 9	+ 8	+ 8	+17	+10	− 3	3.7	4.8	5.1
Men's clothing	+ 4	+ 4	+ 1	+29	− 2	‡	4.1	3.3	5.2
Women's apparel	− 2	− 1	− 5	+ 7	+ 7	−16	3.4	4.6	4.0
Automobile	+30	+50	+69	+70	+53	+36	9.0	9.8	12.4
Furniture	− 1	+14	+12	+17	+26	+10	2.0	2.8	2.9
Jewelry	−12	− 5	−12	+ 8	+ 6	−12	1.7	2.0	1.4
Hardware	+13	+ 8	+ 7	+26	+21	+ 9	2.9	3.0	3.3
Household appliance	+36	+50	+35	+54	+79	+24	3.8	5.6	5.0
Automobile tire and accessory	− 3	−17	− 8	+35	+52	+50	2.6	3.4	4.9

* Size classifications are based on 1947 sales and vary for different types of business; see footnote 3 for details. Figures for firms combining data on two or more stores in a single report were not classified by size but were included in Second District totals.
† Inventory turnover based on ratio of total annual sales to the average of beginning-of-year and end-of-year inventories at retail.
‡ Change of less than 0.5 per cent.

the first year and a half after the end of the war, and 1947 sales could not maintain the rapid pace of the immediate postwar period. The stock turnover ratios for 1947, shown in Table IV, indicate that in general average inventories were turned over three to five times per year. As in 1946, however, at the extremes were the automobile dealers, whose average turnover period was only one month, and the jewelry stores, whose stocks on the average turned over only 1½ times during the year.

Changes in sales and inventories in small, medium, and large stores in the Second District are shown in Table V.[3] The large stores were definitely following a more cautious inventory policy in 1947. Whereas all types of small stores and most types of medium-sized stores showed greater increases in stocks than in sales, the large stores made more moderate increases or more extensive reductions in their inventories than occurred in their sales, except in the case of hardware and automobile tire and accessory stores. It is noteworthy that the largest stores surveyed (large department stores with annual sales of over 10 million dollars each) reduced their stocks by 3 per cent during 1947, despite a gain in sales of 8 per cent. In other words, as might be expected, the more careful inventory control practices prevailing in large stores resulted in a faster rate of inventory turnover than in small stores. Excepting the extreme ratios for automobile dealers and furniture and jewelry stores, the large stores turned over their stocks an average of 4 to 5½ times each year, while the average annual turnover at small stores was only 2½ to 4 times.

[3] Size classifications were based on 1947 sales and vary for different types of business as follows:

Type of store	Size classification (Annual sales for 1947 in thousands of dollars)		
	Small	Medium	Large
Department	Under 1,000	1,000 to 10,000	10,000 and over
Men's clothing	Under 250	250 to 1,000	1,000 and over
Women's apparel	Under 250	250 to 1,000	1,000 and over
Automobile	Under 250	250 to 500	500 and over
Furniture	Under 200	200 to 500	500 and over
Jewelry	Under 100	100 to 500	500 and over
Hardware	Under 100	100 to 500	500 and over
Household appliance	Under 100	100 to 250	250 and over
Automobile tire and accessory	Under 50	50 to 100	100 and over

DEPARTMENT STORE TRADE

Preliminary information indicates that sales at Second District department stores increased during April, although it is usual for sales to decline after Easter. Daily average sales during the month are conservatively estimated to have exceeded those of April 1947 (which included Easter and was a relatively good month) by more than 5 per cent. Gains in the latter half of the month, under the stimulus of favorable weather, were particularly large. When allowance is made for normal seasonal variations and the varying date of Easter, the daily average dollar volume of sales during April apparently rose markedly above that for March, and it is altogether possible that the dollar amount of sales approximated that of the best postwar months. It has been reported that this expanded volume of trade developed despite fewer markdowns and clearance sales than have occurred after Easter in some years.

The seasonally adjusted dollar volume of Second District department store stocks (end-of-month figures) was at a record level at the end of March, reflecting heavy receipts of merchandise and the failure of Easter sales to come up to expectations. Between July 1947 and March 1948, the value of stocks increased at an average monthly rate of 2 to 3 per cent to about 2½ times the 1935-39 average value. It may be noted that in this 8-month period seasonally adjusted sales tended to decline while stocks increased, as shown in the accompanying chart.

Outstanding Orders as a Per Cent of Total Commitments* for a Group of Reporting Department Stores in the Second Federal Reserve District, January-March of Selected Years

	1940	1946	1947	1948
January	27	60	40	43
February	24	60	37	39
March	21	58	31	29

* Stocks plus orders.

The dollar volume of outstanding orders at the end of March, on the other hand, showed an unusually sharp decline from the end of February, and was at a postwar low for the time of year, some 8 per cent below the March 1947 volume.[1] Although the volume of new orders placed by the reporting stores during March exceeded by 13 per cent the amount placed during the same month in 1947, as measured in dollars, receipts of merchandise were 22 per cent greater; hence the increase in stocks and the drop in outstanding orders. The physical volume of goods on order at the end of March presumably declined even more than their dollar value.

1 Outstanding orders are reported by a smaller sample of stores than sales and stocks.

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

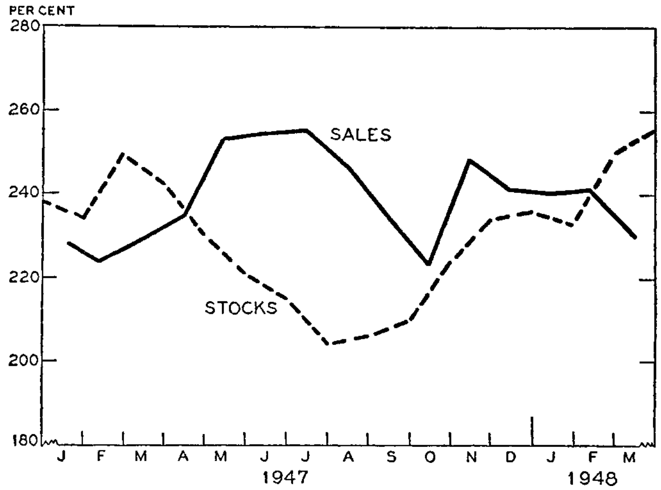
Locality	Net sales		Stocks on hand Mar. 31, 1948
	March 1948	Jan. through March 1948	
Department stores, Second District	+ 7	+ 6	+ 5
New York City	+ 4	+ 5	+ 2
Northern New Jersey	+ 7	+ 7	+ 9
Newark	+ 5	+ 6	+ 4
Westchester County	+12	+ 4	− 3
Fairfield County	+ 1	+ 3	+17
Bridgeport	0	+ 1	+17
Lower Hudson River Valley	+14	+ 9	+17
Poughkeepsie	+15	+12	+15
Upper Hudson River Valley	+ 9	+ 5	+14
Albany	+ 5	− 1	+15
Schenectady	+14	+11	+10
Central New York State	+ 6	+10	+12
Mohawk River Valley	+14	+11	+26
Utica	+10	+10	+28
Syracuse	+ 3	+ 9	+ 5
Northern New York State	+33	+25	—
Southern New York State	+18	+10	+18
Binghamton	+21	+11	+16
Elmira	+17	+12	+27
Western New York State	+16	+13	+ 9
Buffalo	+17	+14	+ 9
Niagara Falls	+ 8	+ 2	+ 2
Rochester	+16	+14	+ 8
Apparel stores (chiefly New York City)	− 1	0	− 5

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

Item	1947	1948		
	March	January	February	March
Sales (average daily), unadjusted	228r	192	202	234
Sales (average daily), seasonally adjusted	228r	240	241	229
Stocks, unadjusted	240r	205	232	254
Stocks, seasonally adjusted	242	233	250	255

r Revised.

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



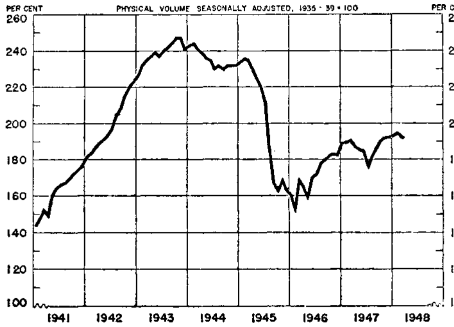
Despite the record level of stocks and sharply lower "goods on order" positions as of the end of March, stores still had a rather large proportion of their total commitments in the form of orders, as the table shows. March 1948 was, however, much less out of line with the comparable month of 1940 than was January or February.

Indexes of Business

Index	1947	1948		
	March	January	February	March
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	190	193	194	192p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	227	246	247	245p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	216	192	206p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	291	324	322	324p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	154	157	156	157p
New York State, 1935-39 = 100 (*New York State Department of Labor*)	133	131	131	130p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	314	350	345p	
New York State, 1935-39 = 100 (*New York State Department of Labor*)	286	302	301	299p
Personal income*, 1935-39 = 100 (*Department of Commerce*)	278	308	302p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	170	183	184p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	156	169	168	167p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	86	88	92	92
Outside New York City	85	86	89	87

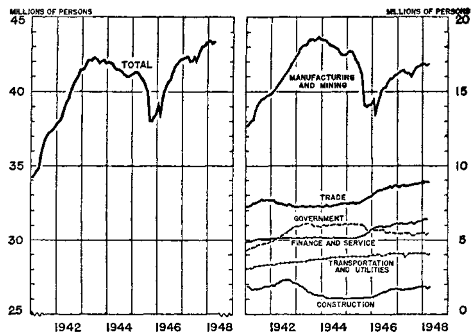
* Adjusted for seasonal variation. p Preliminary.
‡ A monthly release showing the 15 component indexes of hourly and weekly earnings computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, together with information on component series, sources, and weights,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

INDUSTRIAL PRODUCTION



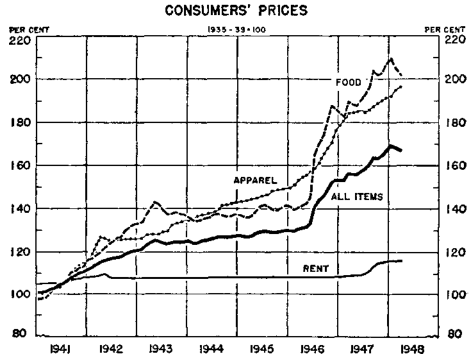
Federal Reserve index. Monthly figures; latest figure shown is for March.

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



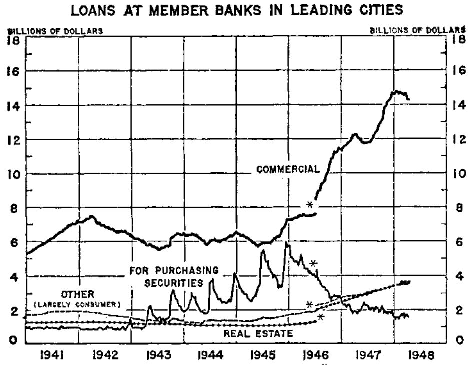
Bureau of Labor Statistics' estimates adjusted for seasonal variation by Federal Reserve. Proprietors and domestic servants are excluded. Midmonth figures; latest shown are for March.

CONSUMERS' PRICES



Bureau of Labor Statistics' indexes. "All items" includes housefurnishings, fuel, and miscellaneous groups not shown separately. Midmonth figures; latest shown are for March.

LOANS AT MEMBER BANKS IN LEADING CITIES



Excludes loans to banks. Wednesday figures, latest shown are for April 14.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, April 24, 1948)

CURTAILED coal output reduced industrial production in March and the early part of April. Value of department store sales continued at a level about 6 per cent higher than in the corresponding period a year ago. The general level of wholesale commodity prices increased somewhat.

Industrial Production

Industrial production declined slightly in March owing to a sharp reduction in bituminous coal output after the middle of the month; and the Board's seasonally adjusted index was 192 per cent of the 1935-39 average as compared with 194 in February. Continuation of work stoppages at coal mines in April has reduced total industrial production further this month.

Production of durable manufactures increased in March, mainly because of larger output of steel and automobiles. Steel production for the month was at a new record peacetime rate. Steel mill operations were somewhat curtailed at the end of March because of reduced supplies of coal and declined considerably in the first three weeks of April. Activity in the automobile industry expanded in March to earlier postwar peak rates, after being curtailed by fuel shortages in February. Production of machinery and most other durable goods was maintained at about the level of the preceding months.

Output of nondurable goods industries as a group decreased slightly in March. Activity declined in the cotton textile, rubber products, coke, flour, and meat packing industries, but increased in the rayon textile, paperboard, and alcoholic beverage industries. A substantial reduction in meat production under Federal inspection reflected work stoppages in plants of major packers beginning March 16. Paperboard production, following some curtailment in February, increased 7 per cent to a new record rate.

Output of minerals declined 10 per cent in March, reflecting a drop in coal production due to work stoppages at most mines beginning March 15. Coal mine operations continued at a very low level during the first two weeks of April, but subsequently increased sharply following settlement of an industrial dispute.

Construction

Value of construction contracts awarded, according to the F. W. Dodge Corporation, showed little change in March, as a decline in public awards offset a seasonal increase in private awards mainly for residential building. The number of dwelling units started in March, according to estimates of the Department of Labor, was 67,000 compared with 47,000 in February and 58,400 in March 1947.

Distribution

Department store sales in March and the early part of April showed little change from the average level of 284 per cent of the 1935-39 average for January and February, after allowance is made for the usual seasonal fluctuation. Value of department store stocks reached a new peak at the end of February, when the Board's seasonally adjusted index was 303 per cent of the 1935-39 average.

Work stoppages sharply reduced railroad shipments of coal and coke from the early part of March to the middle of April. Loadings of forest products and general merchandise continued to show little change.

Commodity Prices

The general level of wholesale commodity prices increased somewhat from the beginning of March to the third week of April. Cotton prices advanced sharply reflecting prospects of increased exports. Meat prices were also higher, owing to reduced supplies as a result of the strike in the packing industry. Hog prices, on the other hand, declined considerably further. Prices of other farm products and foods and industrial commodities generally showed little change.

A further small reduction in retail food prices from mid-February to mid-March lowered the consumers' price index from 167.5 per cent of the 1935-39 average to 166.9. Retail prices of apparel and home furnishings and rental rates rose somewhat further.

Bank Credit

During the first three weeks of April, in contrast to the situation in March, the Government's cash payments exceeded receipts and the Treasury's balance at Federal Reserve Banks declined sharply. As a consequence, commercial bank reserves and deposits, which had been under severe drain in March, increased somewhat in April.

Total Government security holdings of the Reserve Banks declined further by about one-half billion dollars during the first three weeks of April, following a small decline in March. Treasury retirement in March and early April of 1.3 billion dollars of securities held by Reserve Banks was offset in part by System purchases in the market.

Real estate and consumer loans at banks in leading cities continued to expand during March and the first half of April, while commercial and industrial loans declined somewhat. Holdings of Government securities were reduced over the period.

Security Markets

Prices of common stocks rose sharply in the last half of March and the third week of April. Trading in the New York Stock Exchange was more active. Prices of corporate bonds were firmer in the first three weeks of April, and prices of municipal bonds continued to advance.