MONTHLY REVIEW
Of Credit and Business Conditions
FEDERAL RESERVE BANK OF NEW YORK
VOLUME 30 JUNE 1948 No. 6

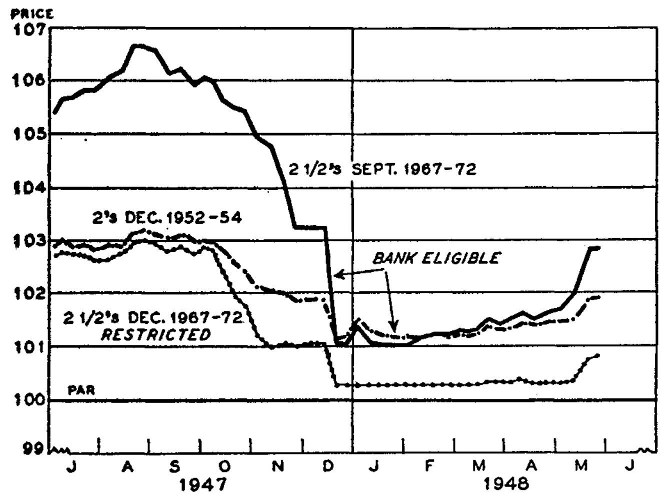
MONEY MARKET IN MAY

The announcement on May 13 that the Treasury had decided to refinance its certificates and bonds maturing in June, and also the July certificates, with 1⅛ per cent one-year certificate issues, occasioned some surprise in the market. Previous discussion had inclined investors to the belief that the Treasury would offer a 1¼ per cent one-year certificate issue in exchange for the 1.8 billion dollars of ⅞ per cent certificates maturing June 1 and the 3.1 billion dollar issue of 1¾ per cent bonds falling due on June 15, or alternatively that it might offer a 1⅛ per cent security of shorter maturity, preparatory to a 1¼ per cent, one-year issue on July 1. The Treasury's action was followed by a sharp rise in prices of Treasury bonds in a thin market.

Even before the announcement, however, there had been a strengthening of the demand for longer-term, bank-eligible bonds accompanied by rising prices, possibly reflecting in part some doubt concerning the prospect for a rise in short-term interest rates, and in part the belief of investors that the prices of longer-term bonds would not recede, even though the certificate rate were advanced. On the day of the announcement, there was a sharp rise in prices of bank-eligible bonds, particularly the longer-term issues. The price advances among restricted issues and long-term, partially tax-exempt bonds were somewhat smaller. Volume of trading in all issues was not large. The immediate advance in prices was temporarily interrupted by reports that the Federal Reserve System was selling bonds, but was resumed at a somewhat slackened pace in the next four trading days ending with Wednesday, May 19. Prices then leveled off, except for the longer-term, partially tax-exempt bonds which rose further on concentrated buying.

In all groups, the long-term issues showed the largest price gains. As illustrated in the accompanying chart, covering selected Treasury bonds which may be considered representative of the general trend of prices for fully taxable issues, the sharp run-up in quotations brought the longest-term, bank-eligible and ineligible bonds close to levels prevailing before the Federal Reserve System lowered its support prices on December 24 of last year. All bonds, however, still remained substantially below their 1947 peaks.

Prices of Selected Treasury Bonds*



* Averages of closing bid and asked prices, Wednesday dates; latest figures are for May 26, 1948.

Trading in Treasury bonds, especially in the early stages of the price rise, was reported to have been largely professional. Turnover was light because of the small supply of bonds available for sale and because the sharp rise in quotations tended to create investor resistance. Holders of bonds were not inclined to sell, and the large investors were not able to acquire substantial amounts of bonds without running prices up to levels which they were unwilling to pay. Nevertheless, a moderate amount of trading developed, a considerable amount of which represented switching by investors from one type of Treasury security to another.

The commercial banks, which had sold large amounts of short-term bonds and the longer-term certificates in order to buy the securities to be exchanged for new issues of certificates in June and July, lost some income as a result of the failure of a higher certificate rate to materialize. Some institutions in

Changes in Treasury Bond Prices for Selected Periods in 1948*
(In 32nd's of a point)

Type of issue	Range from			
	May 5 to May 12	May 12 to May 13	May 13 to May 19	May 19 to May 26
Restricted				
Callable 1959 and later.......	0 to + 5	+ 4 to + 8	+ 8 to +14	+ 1 to + 5
Bank eligible				
Due or callable prior to 1952.	− 1 to + 2	+ 1 to + 6	0 to + 6	− 2 to 0
Callable 1952-55...........	− 1 to + 2	+ 4 to + 6	+ 5 to + 7	0 to + 1
Callable 1956 and later.......	+ 6 to +10	+10 to +13	+12 to +17	− 1 to + 2
Partially tax-exempt				
Due or callable prior to 1952..	− 1 to 0	0 to + 3	0 to + 8	−1½ to 0
Callable 1952-55...........	+ 2 to + 6	+ 2 to + 6	+10 to +12	0 to + 6
Callable 1956 and later......	+ 6	+ 6 to +10	+12 to +26	+ 6 to +10

* Averages of closing bid and asked prices in 32nd's of 1 point; data are the ranges of change for a varied number of bonds in each group.

this position subsequently sought to make good this loss by purchasing bonds, particularly the intermediate and long maturities, with funds obtained by the sale of short-term securities. Such transactions were restricted by the limited supply of longer-term bonds offered for sale, although a moderate supply of bank-eligible issues became available from nonbank investors, chiefly from savings banks switching into ineligible bonds.

Federal Reserve System purchases of longer-term certificates and notes and short-term bonds, and sales of short-term certificates and bills continued in substantial volume up to the time of the Treasury's announcement. But subsequently all bond purchases ceased as prices rose sharply, and the System sold some of the longer-term bonds from its portfolio. Federal Reserve System dealings in short-term Treasury securities during the latter part of the month reflected chiefly operations to assist member banks in adjusting their reserve positions.

Member Bank Reserve Positions

Money market conditions were easy at the beginning of the month as a result of net Treasury disbursements, a large increase in Federal Reserve "float", and net payments out of foreign and other deposit accounts in the Reserve Banks during the week ended May 5. A month-end increase in currency in circulation and a small rise in required reserves absorbed only a minor part of the funds gained by the banks. The commercial banks, therefore, were able to retire a substantial volume of Federal Reserve credit through net purchases of short-term Government securities and repayment of borrowings.

Reserve positions of the banks were under pressure during the remainder of the month. Drains on bank reserves resulted mainly from Treasury withdrawals from War Loan accounts with depositary banks, which amounted to 978 million dollars in the three weeks ended May 26, and together with direct tax receipts exceeded current expenditures of the Government by 675 million dollars. Government deposits with the Reserve Banks rose by a like amount to almost 1.8 billion dollars on May 26. Federal Reserve "float" declined irregularly during this period, absorbing another 90 million of reserve funds. On the other hand, disbursements out of foreign and other deposit accounts in the Reserve Banks, a resumption of the decline in currency in circulation, and a small decrease in required reserves provided the banks with some reserve funds, but the gains from these sources were far below the banks' losses. As a result the banks had to bolster their reserves through increased use of Federal Reserve credit.

In the week ended May 12 the banks sold Treasury securities indirectly to the Reserve System and increased their borrowing from Federal Reserve Banks. In the following week, however, they not only failed to take action to offset their losses of reserves but also acquired substantial amounts of securities from the Reserve Banks and paid off a small part of their borrowings. As a result, there was a temporary, sharp decline of about 600 million dollars in excess reserves of member banks to 330 million dollars, the smallest amount since May 17, 1933. About half of this reduction reflected the operations of the central reserve New York City banks and to a lesser extent those in Chicago, both of which had sizable deficiencies in their reserves on May 19. These institutions had acquired substantial excess reserves early in the statement week and, toward the end of the period, they drew upon their reserves to repay indebtedness and to buy large amounts of Treasury bills and other short-term Government securities, in the process of bringing their average holdings of reserves into line with their average requirements over a week's time. In the week ended May 26, this process was reversed and largely as a result member bank excess reserves in the aggregate increased to 700 million dollars. The banks sold large amounts of short-term securities, chiefly Treasury bills, and Reserve Bank holdings increased by nearly 500 million dollars. In addition, member bank borrowings increased by nearly 100 million dollars.

Near the end of the month it appeared that member bank reserve positions might be eased during the week ending June 2. Treasury withdrawals from War Loan deposit accounts were scheduled in the amount of approximately 390 million dollars, but it seemed likely that Government disbursements, augmented by cash redemption of substantial amounts of Savings notes and maturing certificates, would be even larger. And other factors affecting bank reserves, such as month-end currency demands, were not expected to constitute more than a partial offset to net Government expenditures.

On June 2 the Board of Governors of the Federal Reserve System announced an increase from 22 to 24 per cent in reserve requirements on demand deposits in central reserve city banks in New York City and Chicago. The higher rate becomes effective June 11.

Member Bank Credit

Bank deposits rose markedly in April after three months of steady decline brought about chiefly by heavy net tax receipts by the Treasury during the first quarter of the year. Adjusted demand deposits of all member banks fell 4.8 billion dollars during the quarter to 68.7 billion on March 31, and then rose 1.3 billion through April 28. Part of the decline in the first quarter of the year was temporary and was occasioned by purchases, toward the end of March, of short-term Government securities by customers of the Chicago banks, in order to avoid the Cook County tax on deposits and other personal property held on April 1. A large part of the gain in member bank deposits in April, therefore, was the result of the reverse process, the redemption or sale of short-term Treasury securities after April 1, and the absorption of corresponding amounts of Treasury securities (chiefly bills) by the banks. Judging from the figures for the weekly reporting member banks, however, the renewed growth in adjusted demand deposits was halted in May.

Total loans and investments of all member banks also turned upward in April, following the sharp contraction of the first quarter, but the increase appears to have been limited almost exclusively to short-term Government security holdings. Small reductions were reported in holdings of other securities and in loans. Much the same tendencies prevailed at weekly reporting member banks during May, although there was a sharp (but probably temporary) increase in loans to Government security dealers at the end of the month.

Government security holdings of all member banks increased 900 million dollars in April, following the reduction of 3.5 billion dollars in the first quarter of the year owing to the same factors operating to depress the volume of deposits. A large part of the April gain in member bank holdings of Government securities came in Chicago, because of the local tax day situation there, although all classes of member banks except the "country" banks made net purchases of Treasury securities during the month. Judging from data for the weekly reporting member banks, total Government security holdings continued to rise irregularly during the first three weeks of May. Most of the increase in security holdings of the weekly reporting banks in the last two months has been in Treasury bills and other short-term securities, the largest part of which was acquired indirectly from the Reserve Banks.

Changes in the loan accounts of all member banks during April continued in the pattern set during most of the preceding three months; loans declined slightly in all classes of member banks but the "country" banks. (Nonmember banks' loans also rose in these four months.) If the experience of the weekly reporting member banks is applicable to that of all other members, the two per cent decline in total loans of the central reserve and reserve city banks in the first four months of the year came primarily in business loans. Increases, principally in mortgage and "other" loans, offset in part the decrease in commercial credits. Business loans moved irregularly in May, suggesting that the decline might be coming to an end. Loans on real estate and all other loans continued to expand during May, reflecting continued demand for mortgage and consumer credit.

BUSINESS CAPITAL EXPENDITURES

Since the end of the war, domestic capital formation has greatly contributed to the maintenance of high levels of production and employment. The fears entertained earlier in some quarters that wartime expansion of production facilities would result in excess capacity in some lines and that surplus war plants and tools would be a drag on the market for capital goods have proved to be groundless. In every year since the end of the war, American industry has increased its outlays for new capital. During the current year, American business enterprises plan to spend for this purpose 18.7 billion dollars, according to joint estimates of the Department of Commerce and the Securities and Exchange Commission. The expected outlays are 15 per cent above the previous record of 16.2 billion dollars of actual expenditures in 1947.

The estimates for the current year are based on stated intentions of business firms; similar surveys for recent quarterly periods indicate that business organizations tend to underestimate their capital expenditures, partly because of the continued rise in construction and equipment costs. As postwar business conditions have proved to be more stable than was generally anticipated, some firms have probably stepped up their expansion plans beyond original expectations.

The postwar capital reequipment and expansion programs of manufacturing enterprises got off to an early start after the war because many of these industries had difficult reconversion problems. In some manufacturing industries, postwar expansion and improvement plans are nearing completion, while others have either started later or still have considerable backlogs. During the current year manufacturing enterprises anticipate expenditures aggregating 7.8 billion dollars, a gain of 300 million dollars or only 4 per cent over actual expenditures in 1947. While the share of manufacturing in total capital expenditures has been declining since the end of the war, it is still expected to account in 1948 for 40 per cent of the national total. Mining firms, which account for less than 5 per cent of total expenditures planned for 1948, expect no change in the volume of their expenditures from the preceding year's level.

To a certain extent, capital expenditures of other industries, including the electric and gas utilities, railroads, and other groups, were delayed until the reconversion of the manufacturing industries (particularly of those producing durable goods) was well advanced. Thus, the capital expenditures of nonmanufacturing corporations were slower to expand after the war and are scheduled to increase more rapidly during 1948. The utilities and the commercial and miscellaneous class of industry (which includes trade, service, finance, communications, and transportation other than railroads) each are planning to spend 20 per cent more on facilities than in 1947, and the railroads 75 per cent more. The very striking increase scheduled for railroads reflects in part the lagging of their postwar improvement and reequipment program behind that of most other industries. The very high levels of freight traffic, after several years of reduced replacements and maintenance during the war years, apparently have made necessary a substantial volume of expenditures, not only for new rolling stock but also for replacement of worn-out rails and ties, for new signal equipment, etc.

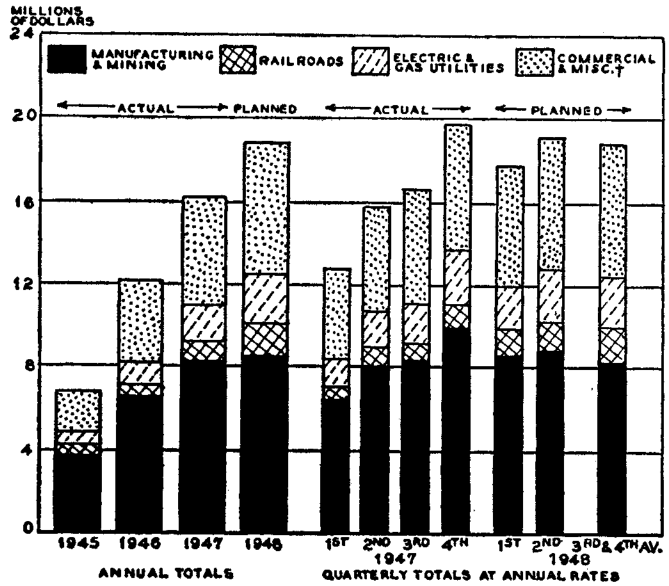
During the war, a disproportionately large volume of war facilities was built in the Pacific States and in the West South Central and the South Atlantic States. In some of these areas, wartime population growths have proved to be more than temporary gains. The resultant creation and expansion of markets have naturally been followed during the postwar years by large-scale construction in these areas of peacetime facilities by manufacturers, distributors, and service industries. In the three years, 1945-47, the total volume of new industrial and commercial buildings and public utility construction authorized in these States accounted for about 40 per cent of the aggregate for the entire country.

In a sense, these war and postwar developments were a continuation of the prewar tendency of manufacturing corporations to decentralize their operations. Manufacturers have established branch factories, sub-assembly and assembly plants in the rapidly growing areas, frequently locating new facilities outside the large urban centers. The quest for more economical operations, more stable labor relations, and new markets, as well as the lure of considerable tax savings, have been among the main causes of this decentralization movement.

Research and development of new labor-saving equipment and machinery have been going forward, and it is to be expected that producers will introduce a variety of new capital equipment with radical design changes and of greatly enhanced performance enabling substantial reductions in manufacturing and distributing costs. Such new developments may help to sustain the volume of capital expenditures after initial postwar plans for expansion and modernization of plants have been completed.

Although the dollar volume of business capital outlays in 1948 is expected to exceed 1947 expenditures, both in the aggregate and in most industry groups, it is expected to run below the rate for the fourth quarter of 1947. The rate of planned outlays in the second half of 1948 is in turn expected

Business Expenditures on New Plant and Equipment*



* Exclusive of agriculture.

† Includes trade, service, finance, communication, and transportation other than railroads.

Source: Securities and Exchange Commission and Department of Commerce.

to fall somewhat below that for the second quarter of this year. The decline in the last half is likely to occur chiefly in the manufacturing and mining industries, while the rate of expenditures in all other industries will remain substantially unchanged, and the railroads are expected to spend more than in any previous postwar half-year period.

From the trend of estimated outlays for the present year, it would appear that in a number of industries postwar capital expansion plans may be approaching completion and that the demand for industrial capital goods may decline after 1948. It should be recalled, however, that these figures merely measure intentions and that the latter may be changed by subsequent developments. On balance, the favorable developments—enactment of enlarged foreign aid, increased defense expenditures, reduced taxes, wage increases, and rising common stock prices (which if maintained will facilitate equity financing and perhaps stimulate some capital projects that might not otherwise be undertaken)—seem to outweigh the unfavorable factors. The improved outlook for sustained prosperous business conditions may well result in more optimistic appraisal of future capital needs.

If the plans for 1948 are fulfilled, industry will have spent 47 billion dollars for new plant and equipment in the first three calendar years after the war. Much of this impressive total represents merely reconversion and replacement of worn-out or obsolete facilities. Allowing for depreciation of plant and equipment (conservatively estimated for 1946-48 at roughly 18 to 19 billion dollars), net *additions* to capital assets appear to have been comparatively modest, particularly in view of the growth of population and reduced investment during the depression years. When further consideration is given to the fact that depreciation is calculated on the basis of the considerably lower original costs, while new plant and equipment are valued at the much higher prices of the postwar period, it would appear that the net physical additions to domestic capital equipment in the postwar period have been of much smaller proportions than might be suggested by the gross dollar figures.

It is interesting to note, furthermore, that despite the billions spent on manufacturing and other facilities in 1946, 1947, and early 1948, the Federal Reserve index of industrial production (seasonally adjusted) has risen only 6 per cent from the 1946 peak of 183 in November (1935-39=100) to the 1948 peak of 194 (in February). Thus, it appears that the very large output of the country's plants in postwar as compared with prewar years has been as much or more the result of the fuller utilization of productive capacity than additions to its industrial facilities.

Judging from data available for the corporate sector of business, the bulk of the financial requirements of business organizations have been met through retention of earnings, after dividends and entrepreneurial withdrawals, and from depreciation allowances. According to estimates of the Department of Commerce, retained profits and depreciation charges of all nonfinancial corporations were about ⅔ larger than external sources of financing through bank loans or securities in 1946 and twice as large in 1947.[1] In 1946, however, corporations financed a larger part of their needs through the sale of Government securities (which represent in part retained earnings of the war years) than in 1947.

The outstanding feature of the financing of corporate capital investment since the war, aside from the heavy reliance on current earnings, has been the large dependence on debt financing. When bond issues and loans from banks and insurance companies (including the indirect form of debt financing whereby corporations sell capital assets to insurance companies or other institutions and rent them on long-term leases) are taken into account, debt financing has far exceeded equity financing (including common and preferred stock issues). For all nonfinancial corporations net equity issues came to approximately 20 per cent of total external financing through security issues and bank and other loans in 1946, and to more than 15 per cent in 1947. The dearth of new common stock issues is ascribable primarily to the depressed condition which has prevailed in the stock market most of the time since the summer of 1946 and has severely restricted this source of funds. Since common stock flotations tend to increase substantially during sustained periods of rising stock prices, the recent upswing in the market, if maintained, may eventually increase the contribution of this source of corporate funds.

[1] U. S. Department of Commerce, *Survey of Current Business*, "Business Financing in the Postwar Period," by Irwin Friend, March 1948, p. 10.

UNITED STATES ASSISTANCE TO CHINA

In view of the inclusion of China under the Foreign Assistance Act of 1948, an act otherwise restricted to Europe, a review of the purposes of the 463 million dollar authorization for China may be appropriate.

In the first place, it clearly is anticipated that the forthcoming aid will contribute to the rehabilitation of the Chinese economy only to a limited extent. President Truman, in recommending on February 18 that Congress authorize a China-aid program, indicated that he regarded the program as no more than an effort to combat further economic deterioration. He stated that since General Marshall's return, "we have hoped for conditions in China that would make possible the effective and constructive use of American assistance in reconstruction and rehabilitation. Conditions have not developed as we had hoped, and we can only do what is feasible under circumstances as they exist. We can assist in retarding the current economic deterioration and thus give the Chinese Government a further opportunity to initiate the measures necessary to the establishment of more stable economic conditions". That the aid was approved without any belief that it would contribute materially to economic recovery in China was also clearly reflected in the Senate Foreign Relations Committee's report on the program, which pointed out that "some of the basic ingredients for recovery and cooperative effort, which in a short time might respond to American aid, do not exist in the project for China. But . . . the committee believes it is sufficient to encourage the constructive, democratic elements in China to 'carry on' ". In the introductory clause of the act itself, the emphasis is upon the international implications of a Communist victory in China in these days of political tension, and the consequent desire for the administrative integrity of China under a democratic government .

The actual purposes of the act are three. In the first place, it seeks to lend moral support to the Chinese Government in its civil war, on the assumption that a Communist victory would draw China into the Russian orbit. In addition, the act provides for tangible assistance to the Chinese Government in the form of military supplies. Finally, it will furnish some consumer goods and a small amount of industrial machinery in an effort to retard the rapid economic deterioration, and so provide a breathing space in which the Chinese Government may initiate steps toward stability.

The larger part of the assistance authorized for China under the act consists of 338 million dollars to be handled by the Economic Cooperation Administrator. About this sum the Senate Committee stated "that in view of the financial situation of the National Government it is probable that the great proportion of the assistance contemplated in this bill will have to be advanced in the form of grants", rather than loans. The second part comprises 125 million dollars in outright grants for which the President, rather than the Economic Coordination Administrator, will be responsible. Although the use to be made of this 125 million is not explicitly indicated in the act, the Senate Committee report states that "in view of the Chinese requirements for military supplies, it may be assumed that the Chinese Government, on its own option and responsibility, would seek this grant for such supplies".

It is probable that the 338 million dollars will be utilized for goods in roughly the same proportions as were suggested by the State Department when it drew up a list of imports for China on the basis of a 570 million dollar aid program.[1] The 60 million dollars earmarked by the State Department for key reconstruction projects will, however, be retained in full. This will leave 278 million dollars, of which about 60 per cent may be used for wheat, rice, cotton, and fertilizer, about 6 per cent for tobacco and pharmaceuticals, 21 per cent for petroleum, 5 per cent for metals and coal, and about 6 per cent for replacement parts for capital equipment.

The urgent reconstruction projects to be financed with the 60 million dollars include the building of an electric generating plant in Shanghai to replace part of the generating capacity destroyed by the Japanese, the rehabilitation of the important Hankow-Canton-Kowloon railroad, and the mechanization of four coal mines to serve central and southern China—areas that have heretofore obtained most of their coal from North China and Manchuria. A good part of the other import needs, especially cereals, cotton, tobacco, and coal, arise primarily from the interruption by the civil war of the normal trade of North China and Manchuria (the usual sources of a large part of these commodities) with the coastal cities. It is in these cities, rather than the interior of China, that most of the food and other commodities are to be distributed.

The new aid is only the latest instalment of the assistance that has been flowing from the United States to China since the beginning of the Sino-Japanese War. This assistance will reach, with the current program, a total of more than 3½ billion dollars, as detailed in the table. Nearly 60 per cent of this total, or over 2 billion dollars, has been provided subsequent to V-J Day, since the ending of the war with Japan brought no letup in the need for foreign aid.

Among the prospective effects on China of the current program, probably the most important are the repercussions on its foreign trade balance. During 1946 and 1947 China incurred import surpluses of 400 million and 300 million dollars, respectively, the decline in 1947 reflecting principally the imposition of import controls. Available figures for the first five months of 1948 indicate a continuation of the downward trend. The twelve months' authorization of 278 million dollars for goods primarily for current consumption thus would probably cover the nonmilitary import deficit for one year. This would leave for the government's expenditures on foreign military supplies its remaining foreign exchange holdings, which totaled 274 million dollars at the end of 1947,[2] plus any additional accruals from overseas remittances.[3]

Internally, the Chinese economy will benefit from the forthcoming assistance to the extent that sale of the imported commodities drains off some of the excess currency in circulation. At the present official exchange rate, the 278 million dollars of aid is equivalent to 130 trillion yuan; at the black market

[1] The 570 million dollar aid plan originally outlined by the State Department, but rejected by Congress, covered a fifteen-month period instead of the twelve-month period actually adopted, and was intended for nonmilitary purchases exclusively.

United States Government Aid to China, July 1937-April 1948

Type of aid	Millions of dollars
Lend-lease	849.4
Export-Import Bank credits	120.0
1942 Congressional credit	500.0
Total pre-V-J Day	1,469.4
Lend-lease (including civilian pipeline credit)	777.6
Export-Import Bank credits	82.8
Naval aid	17.7
Surplus property credits (estimated)	222.4
UNRRA*	470.5
United States foreign relief program	45.7
United Nations International Children's Emergency Fund*	2.1
Foreign Assistance Act of 1948	463.0
Total post-V-J Day	2,081.8
Total	3,551.2

* United States contribution.

Source: Amended Report of the Senate Committee on Foreign Relations on S. 2393, March 25, 1948.

[2] This total consisted of 138 million dollars in the form of dollar balances in the United States, 96 million in gold holdings in the United States and China, and the equivalent of 40 million dollars in sterling area currencies: *Text of Proposed China Aid Bill and Background Information on Economic Assistance Program for China,* submitted by the Department of State to the Committee on Foreign Affairs, February 20, 1948.

[3] Estimates of overseas remittances to China for the postwar period vary considerably, and because of the low official rate for the United States dollar, only a minor portion of the exchange from remittances enters official channels. Dollar exchange accruing to the government from remittances in 1946 and 1947 was probably in the neighborhood of 20 million and 10 million dollars, respectively.

rate it is about 356 trillion yuan.[4] Judicious and effective disposal of the imports could therefore absorb much of the note circulation were it not for the large government deficits. Note circulation at the end of March was increasing at a rate of more than 30 per cent per month largely because of the government deficits. The continuation of such deficits would result in the rapid dissipation of any Treasury revenues from the commodity sales.

Any internal reforms that might be initiated by the government, concomitantly with the distribution of the commodities provided through American aid, could have only transitory effects on the budgetary position under present conditions. The root cause of the financial chaos is the civil war which is absorbing about 80 per cent of the government's outlays, disrupting the normal flow of commerce within China, and presenting insuperable obstacles to the export trade.

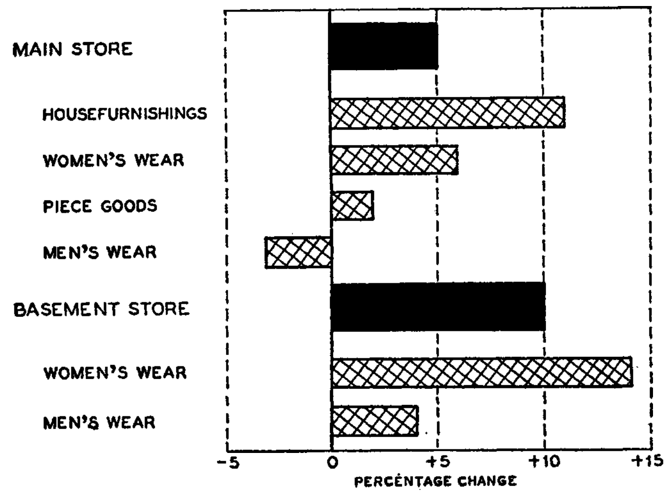
[4] The 60 million dollars that has been scheduled for spending on reconstruction projects is not included in the above because most of the capital equipment for which it will be used will probably be utilized directly by the government. The conversions are calculated at the open market rate of 474,000 yuan to 1 U. S. dollar instituted on May 17, 1948, and at the Shanghai black market rate of 1,300,000 yuan to 1 U. S. dollar on May 11.

DEPARTMENT STORE TRADE

Seasonally adjusted daily average dollar sales at Second District department stores increased further during May and are estimated to have broken the previous record established during the buying wave of August 1946. Consumers' response to extensive spring clearance sales, including many that were storewide, was strong. It is probable that the physical flow of goods also was at unusually high levels in April and May. Special sale prices reflected extensive promotions of merchandise furnished at concessions by suppliers as well as markdowns, particularly on fashion goods, taken on store inventories.

The department stores entered April with record stocks (seasonally adjusted and valued at retail prices). Although merchandise receipts during April were large, sales were so substantial that by the end of that month stocks declined contraseasonally by a small amount. At the end of the month they were, however, still 8 per cent higher than a year previous. The largest year-to-year increase occurred in housefurnishings. Stocks of housefurnishings increased sharply, even though during the first quarter of fiscal 1948, as the chart shows, this group made the greatest year-to-year gain in main store sales. The supply of housefurnishings is clearly improving, and prices of many major appliances — automatic washing machines, refrigerators, and radios for example — have recently been reduced. New models of some appliances, such as television

Changes in Main Store and Basement Store Sales, Second District Department Stores (first quarter fiscal year* 1948 compared with same quarter 1947)



* February, March, and April.

sets, are priced at lower levels. Consumers' interest is increasingly concentrating on medium priced merchandise, with correspondingly reduced emphasis on the top-quality, high-priced lines. In the apparel departments, stocks of men's wear increased more than inventories of women's wear.

The gap between main store and basement store year-to-year sales gains narrowed further during the first quarter of the store year (February through April). In fact, this gap has been narrowing for about a year. In April, basement sales increased 6 per cent and main store sales 5 per cent. The particularly narrow difference noted in the April year-to-year changes probably reflects special price inducements in the main store as well as the fact that basement store sales had made a fairly large gain the year before.

First quarter gains in the women's ready-to-wear apparel and accessories departments, the largest group in sales volume, were particularly large in both the main and basement stores. Men's wear sales, on the other hand, were 3 per cent below last year's during the quarter in the main store (in none of the three months did sales increase over last year), and made less than the average increase in the basement. Piece goods and house-

Ratio of Outstanding Orders to Sales*
Second District Department Stores#

Month	1940	1946	1947	1948
January	0.98	3.55	1.93	1.93
February	1.09	3.84	2.06	2.00
March	0.78	3.03	1.23	1.07
April	0.74	2.51	1.01	0.95

* Outstanding orders at end of month divided by sales during month.
# For a group of stores whose sales in 1947 accounted for about 55 per cent of estimated total District department store sales.

hold textile sales showed a small gain for the quarter, owing chiefly to improvement in sales in April.

Outstanding orders for merchandise, at department stores which in 1947 accounted for over half of total estimated department store sales in this District, declined further during April, and were unchanged from a year ago. Nevertheless, the dollar amount of new orders placed during April was almost half again as large as the amount placed during April 1947, when the stores were limiting their purchases rather severely.

Receipts of merchandise against outstanding orders have been heavy in recent months, in comparison with the previous year. The ratio of outstanding orders to sales for March and April 1948, as shown in the preceding table, was somewhat lower than a year ago and substantially lower than in 1946. It was still moderately above the ratio in 1940, a year of relatively stable sales, and was about the same as for these months in 1941, when sales were increasing.

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

Locality	Net sales		Stocks on hand April 30, 1948
	April 1948	Jan. through April 1948	
Department stores, Second District	+ 6	+ 6	+ 8
New York City	+ 7	+ 5	+ 5
Northern New Jersey	+ 2	+ 5	+13
Newark	− 1	+ 5	+ 9
Westchester County	0	+ 3	+ 7
Fairfield County	0	+ 2	+13
Bridgeport	− 2	0	+11
Lower Hudson River Valley	+11	+10	+23
Poughkeepsie	+15	+13	+20
Upper Hudson River Valley	+11	+ 6	+18
Albany	+11	+ 3	+18
Schenectady	+11	+11	+15
Central New York State	+ 3	+ 8	+20
Mohawk River Valley	+ 7	+ 9	+28
Utica	+ 4	+ 8	+26
Syracuse	+ 1	+ 7	+16
Northern New York State	+12	+19	—
Southern New York State	+14	+11	+18
Binghamton	+15	+12	+12
Elmira	+17	+14	+37
Western New York State	+ 6	+11	+ 9
Buffalo	+ 7	+12	+ 7
Niagara Falls	+17	+ 7	+ 2
Rochester	+ 3	+11	+11
Apparel stores (chiefly New York City)	0	0	− 1

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

Item	1947	1948		
	April	February	March	April
Sales (average daily), unadjusted	223	202	234	237
Sales (average daily), seasonally adjusted*	235	241	229	255
Stocks, unadjusted	232r	232	254	251
Stocks, seasonally adjusted	230	250	255	249

r Revised.
* Seasonal adjustment factors for 1945-48 revised; available upon request from Research Department, Domestic Research Division.

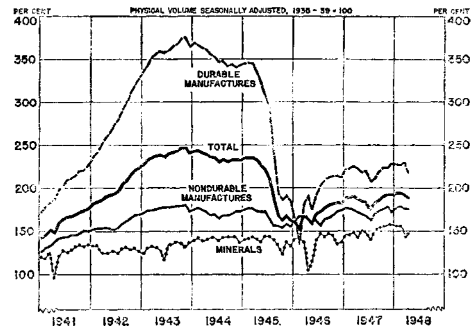
Indexes of Business

Index	1947	1948		
	April	February	March	April
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	187	194	192	187p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	224	247	245	244p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	197	209	182p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	298	322	327	334p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	153	156	157	153p
New York State, 1935-39 = 100 (*New York State Division of Placement and Unemployment Insurance*)	130	131	130	125p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	311	345	349p	
New York State, 1935-39 = 100 (*New York State Division of Placement and Unemployment Insurance*)	271	301	299	280p
Personal income*, 1935-39 = 100 (*Department of Commerce*)	276	303	304p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	171	184	185p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	156	168	167	169p
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	80	92	92	99
Outside New York City	80	89	87	88

* 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.

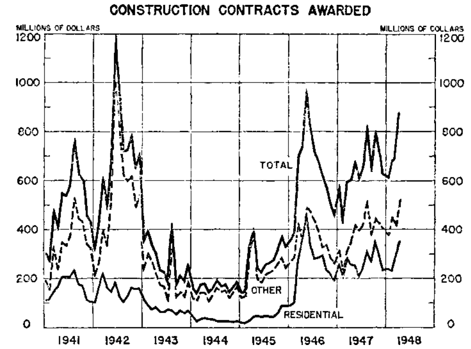
The Board of Governors of the Federal Reserve System announced on May 19 that it had appointed Robert T. Stevens of Plainfield, New Jersey, as a Class C director of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1950, and had designated him as Chairman and Federal Reserve Agent for the remainder of 1948. Mr. Stevens is Chairman of the Board of J. P. Stevens & Co., Inc., and a director of a number of other corporations. He was a Class B director from January 1, 1934 until January 8, 1942, when he resigned to enter active service with the United States Army.

INDUSTRIAL PRODUCTION



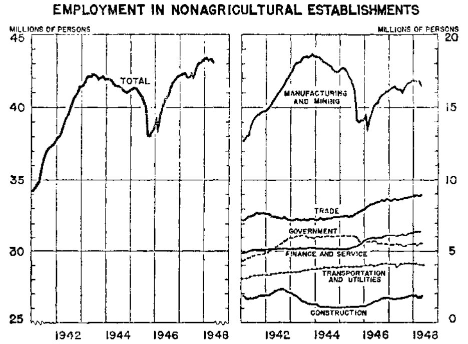
Federal Reserve indexes. Monthly figures; latest shown are for April.

CONSTRUCTION CONTRACTS AWARDED



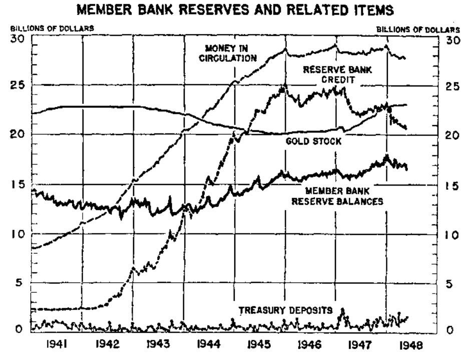
F. W. Dodge Corporation data for 37 Eastern States. Other includes nonresidential buildings and public works and utilities. Monthly figures; latest shown are for April.

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 April.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures; latest shown are for May 19.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, May 26, 1948)

INDUSTRIAL production decreased in April and increased in May owing chiefly to changes in coal production and supplies. Department store sales were at exceptionally high levels following the Easter shopping period. Wholesale and retail price levels were higher, reflecting chiefly increases in meat prices.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 5 points in April to 187 per cent of the 1935-39 average, reflecting chiefly lower output of iron and steel resulting from the labor dispute at coal mines, which began in the middle of March. Following settlement of the dispute around the middle of April, output of coal and steel increased and the total index in May is expected to be around 190.

Steel production reached a low point of 71 per cent of capacity in the third week of April, as compared with a March average of 95 per cent, then advanced rapidly to a rate of 97 per cent in the fourth week of May. Automobile output was substantially curtailed in the first 3 weeks of May, as pig iron and steel supplies continued short and a work stoppage began at the plants of a major automobile company. Lumber output, adjusted for seasonal variation, declined 9 per cent in April, owing in large part to work stoppages on the West Coast.

Output of nondurable goods showed a further slight decline in April. According to preliminary indications textile production was below the March level. Coke production was sharply curtailed because of reduced coal supplies. Activity in the rubber products industry and in some chemical industries declined. On the other hand, production of gasoline increased, and newsprint consumption showed somewhat more than the usual seasonal rise.

Coal production for the month of April was in about the same small volume as in March. Output of crude petroleum was maintained at a record level, and there was an exceptionally large increase in output of iron ore.

Construction

Value of construction contracts awarded expanded sharply in April, according to the F. W. Dodge Corporation, reflecting chiefly large increases in awards for private residential construction and for religious and other institutional buildings. Awards for manufacturing plants and public works and utilities showed little change from the levels prevailing in recent months.

Distribution

Department store sales, which usually decline after the Easter shopping season, were maintained this year and the Board's seasonally adjusted index rose from 284 in March to 299 in April, with some further rise indicated for May.

Railroad shipments of coal and coke showed a sharp increase in the latter part of April following the end of the coal strike. Shipments of perishable goods were curtailed temporarily in the middle of May in anticipation of a rail strike which was subsequently called off. Carloadings of most classes of manufactured goods continued to show little change in April and the first half of May.

Commodity Prices

Wholesale prices of meats, livestock, and vegetable oils advanced from the middle of April to the third week of May, while most other farm products and foods showed little change or declined somewhat.

Price changes were also mixed for industrial materials. Wool tops, coal, coke, and building materials were higher in this period, reflecting in part freight rate increases, while prices of steel, cotton grey goods, and certain other materials were reduced somewhat. Price reductions were announced for various electrical products.

Consumer prices in mid-April were 1.4 per cent higher than in March and exceeded slightly the previous peak reached in January. The advance in April reflected higher retail prices for foods, owing chiefly to reduced supplies of meats and fresh vegetables, and further rises in prices for various consumer services.

Bank Credit

Little change occurred in member bank reserve positions in the last half of April and the first two weeks of May. Treasury operations were largely neutral in their effect on total bank reserves. A further moderate gold inflow permitted a small reduction in Reserve Bank credit. In the third week of May member bank reserve balances were reduced considerably, in part as a result of a transfer by the Treasury of funds from War Loan accounts to its balances at Reserve Banks. In addition, member banks used reserve funds to purchase in the market Treasury bills held by the Reserve Banks, with the result that the reserves of many large city banks fell temporarily below requirements.

Real estate and consumer loans continued to expand at banks in leading cities during April and the first half of May. Commercial and industrial loans increased somewhat during May following a decline in earlier months of the year.

Security Markets

Prices of common stocks showed a marked further rise in the middle of May to a level 14 per cent below the high of May 1946, according to Standard and Poor's index of 90 stocks. Volume of trading was unusually large.

Following the Treasury announcement on May 13 that June and July certificate maturities would be refunded at $1\frac{1}{8}$ per cent, prices of Treasury bonds advanced sharply.