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MONEY MARKET IN SEPTEMBER

The principal influence in the money market during September was the action of the Board of Governors of the Federal Reserve System raising the legal reserve requirements of member banks, under the additional credit control powers granted in legislation enacted by the special session of Congress. The increases amounted to 2 percentage points on demand deposits and $1\frac{1}{2}$ percentage points on time deposits of all classes of member banks. This action brought the required ratio on time deposits to the new legal limit of $7\frac{1}{2}$ per cent, which is uniform for all member banks, and raised the required ratios on demand deposits of the reserve city and country banks to 22 and 16 per cent, respectively (or within 2 points of the new maximum limits for those two classes of banks), and the central reserve city banks' legal requirements to 26 per cent (as compared with the new maximum of 30 per cent).

The higher requirements became effective during the reserve computation periods beginning September 16 for the country member banks and September 24 for the other two classes. Confronted with the sizable task of raising approximately 2 billion dollars of additional reserves during these periods, member banks, in the aggregate, appear to have disposed of approximately that amount of Government securities, although minor adjustments in their reserve positions were also made in other ways. The member banks sold mainly short-term securities, but they also sold sizable amounts of bank eligible bonds; in both cases, some of these securities were purchased by nonbank investors who, in turn, sold restricted bonds. In addition, there was continued selling of restricted bonds by institutional investors and others who either found what seemed more profitable uses for their funds or who became fearful that new measures of credit restraint might endanger the support program for Treasury bonds. Thus, sales of restricted bonds by the member banks must have been negligible, especially since they held only small amounts of such issues, and most of the bonds acquired by the System during the month were restricted issues maturing in more than five years.

Pressure on the bond market was substantial in the weeks

following the announcement on September 8 of the change in reserve requirements. As prices of restricted issues were already at their support levels, this pressure was evident only in small price declines in bank eligible bonds, the section of the market in which trading was lightest. In the last statement week of the month (ended September 29), selling of long-term restricted issues receded and total Federal Reserve purchases of Treasury bonds were considerably lower than in the previous two weeks. While prices of the ineligible issues remained unchanged, quotations on the eligible bonds rose slightly.

MEMBER BANK RESERVE POSITIONS

Money market conditions during the past month were also responsive to heavy net Treasury disbursements in the first half of the month, and heavy net Treasury receipts in the second half, as well as to the increase in member bank reserve requirements and the large-scale sales of long-term Treasury bonds by nonbank investors.

Substantial net Treasury disbursements, together with large sales to the Federal Reserve System of long-term Treasury bonds by institutional and other nonbank investors, only a part of which were reinvested in Treasury bills acquired directly or indirectly from the banking system (including the Reserve System), brought substantial ease to the money market in the first half of September. The banks' needs for reserves were small in this period, stemming principally from an increase in required reserves. Thus, the banks were able to retain most of their gains of funds, a portion of which they invested in Treasury bills and other short-term securities purchased from the Reserve System. Much the larger part of the banks' gain in funds was allowed to remain uninvested, and excess reserves rose 900 million dollars in the two weeks to 1.8 billion on September 15. This increase in idle funds was in recognition of their temporary character, as they were largely consumed by heavy payments of quarterly income tax instalments beginning at the midmonth and by the increase in legal reserve requirements of the country member banks. A part of this

temporary gain in excess reserves represented funds deposited with the Reserve Banks by the larger city banks against the temporary accumulation of demand deposits by their country correspondents, but most of the increase represented funds held by the country banks directly with the Reserve System.

In the second half of the month, the money market was under severe strain. In addition to the increase in legal reserve requirements of member banks, the flow of Government receipts increased rapidly as tax collections rose; Treasury disbursements fell, and in the third and fourth weeks of September Treasury operations absorbed reserve funds approximately equal in volume to those placed at the banks' disposal in the first two weeks of the month. Thus, Treasury balances with the Reserve Banks toward the close of September were practically unchanged from the total at the beginning of the month. The banks' reserve position also derived less benefit from the continued large nonbank investor sales of restricted bonds to the Reserve System than in some past weeks, since such sales were more closely balanced by purchases of Treasury bills from the banking system or directly from the Treasury on subscription (thus reducing the share held by the banks, including the Reserve Banks). In addition, a substantial amount of Treasury bills was acquired by nonbank investors out of funds previously deposited in the banks.

The pressure on member bank reserves was so heavy that member banks were compelled to dispose of very large amounts of Government securities, temporarily increase their borrowings from the Reserve Banks, and draw down their excess reserves sharply. A major part of the adjustment in member bank reserve positions in the week ended September 22, during which most of the increase in the legally required reserves of the country banks was effected, came in the form of a 700 million dollar drop in excess reserves. Besides drawing upon their idle balances at the Reserve Banks, country member banks sold moderate amounts of bank eligible bonds and substantially reduced their balances on deposit in reserve and central reserve city member banks. Thus, they shifted part of the adjustment of their reserve positions on to the latter banks, which were compelled to sell short-term Treasury securities (principally bills) to meet the withdrawals of their correspondent banks and the large tax payments of their customers.

The strain on the reserve and central reserve city banks became more severe in the following week when they had to meet the increase in their own reserve requirements, especially because, in contrast to the country banks, they had had comparatively small amounts of excess reserves in the preceding week. Liquidation of holdings of Treasury bills and other short-term Government securities, mainly by the reserve and central reserve city institutions, was therefore particularly large and many of these banks increased their borrowings from the Reserve Banks sharply for a few days. (Most of these loans

they paid off by the close of the month so as to show a minimum of indebtedness in their third-quarter financial statements.) Federal Reserve credit outstanding consequently increased sharply.

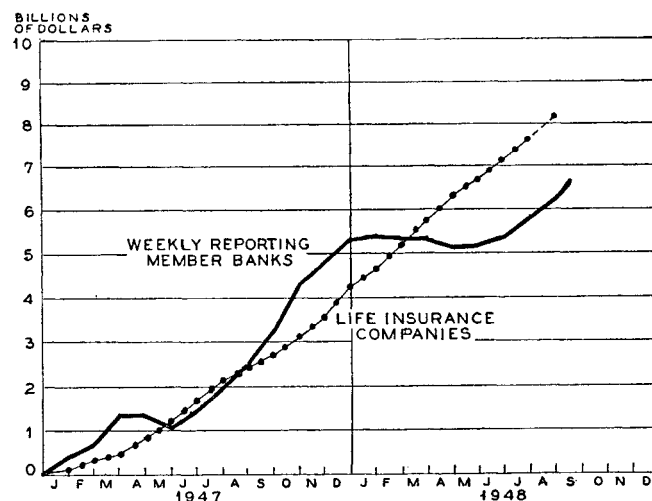
Inasmuch as the reserve and central reserve city member banks bore the brunt of the adjustment, their sales of short-term Treasury securities, principally to the Reserve System, were very large. Their holdings of such issues consequently fell to such low levels relative to long-term securities and other less liquid assets that it may well be that their initial adjustment to the increased requirements may prove to be temporary.

MEMBER BANK CREDIT

Government security holdings of the weekly reporting member banks rose substantially in the first half of September, reflecting the ease of reserve positions, but declined sharply in the succeeding two weeks as the money market tightened. Although all other earning assets continued to expand rather rapidly, the increase was not so large as in September 1947 (see the accompanying chart).

That the demand for funds upon the part of business and others, however, is actually larger than before appears to be indicated, in part, by the fact that new corporate security flotations in the first nine months of this year were considerably larger than in the same period of 1947. Apparently other financial institutions, including the insurance companies, are meeting a larger share of these needs, and in fact there ap-

Cumulative Net Changes in Loans and Investments (other than Government Securities) of the Weekly Reporting Member Banks and of Life Insurance Companies*
(Cumulated from December 31, 1946)



* Weekly reporting member bank data also exclude loans on Government securities and are as of the last Wednesday in the month (except for the last figure plotted which is for September 15). Life insurance company data are as of the last day of the month and cover 49 companies holding 90 per cent of the admitted assets of all American life insurance companies. The changes in life insurance company holdings for January 1947 and August 1948 were estimated by the Federal Reserve Bank of New York.

Source: Board of Governors of the Federal Reserve System and the Life Insurance Association of America.

pears to have been a considerable shift of borrowing from the banks to other institutions. Life insurance companies, for example, have increased their loans and investments other than U. S. Government securities by about 3.9 billion dollars in the first eight months of 1948 in contrast to an increase of 2.5 billion in the same period of 1947. The corresponding figures for the weekly reporting member banks were 1 billion dollars and 2.4 billion dollars in the first eight months of 1948 and 1947, respectively. The smaller rise in 1948 at the reporting banks was attributable in part to a more prolonged seasonal decline in business loans early this year than in 1947. More important, however, is the fact that the decline probably reflects a substantial refunding of bank loans by corporate borrowers with the proceeds of credit extended, directly or indirectly, by other lenders.

INCREASE IN RESERVE REQUIREMENTS OF SECOND DISTRICT NONMEMBER BANKS

The increase in legal reserve requirements during the past month has not been confined to the member banks. Banking authorities in several States have taken similar action with respect to the legal reserve ratios of nonmember commercial banks. State banking boards of two of the three States that are included in whole or in part in the Second Federal Reserve District have already increased the legal reserve ratios that nonmember institutions are required to maintain against their deposits.

On September 30, the State Superintendent of Banks in New York announced an increase, effective the next day, of 1½ percentage points in reserve requirements against time deposits, i.e., from 6 per cent to the legal maximum of 7½ per cent, and a rise of 2 percentage points to the 26 per cent maximum on demand deposits of all nonmember banks with offices in Manhattan. No change was made in the legal ratios against demand deposits of reserve city and country nonmember banks in New York State, since these were already at their upper limits of 20 and 14 per cent, respectively. However, it was also announced that the Banking Department would, at the next session of the State legislature in January, seek additional powers over the reserve ratios of the nonmember banks.

The Connecticut banking authorities have lifted the legal reserve requirements of nonmember commercial banks, also effective October 1, from 12 to 16 per cent on demand deposits and from 6 to 7½ per cent on time deposits.

Up to the end of September, the New Jersey banking authorities had given no public notice of intention to raise the reserve requirements against demand and time deposits of nonmember banks in that State beyond the existing levels of 15 and 3 per cent, respectively. The legal maxima are 30 and 6 per cent on demand and time deposits, respectively, but may not exceed the reserves currently required of the member banks in that State.

GOVERNMENT SUPPORT OF FARM PRICES

The bumper crops that are being harvested throughout the country have brought prices of some farm products down to the levels at which the Government's agricultural price support program becomes effective. This situation contrasts sharply with that in recent years, when the wartime and postwar increase in domestic and foreign demand pushed prices of most agricultural commodities well above support levels. An understanding of the existing legislation relative to the support of agricultural prices is particularly important today because price support for this year's crops may necessitate the spending, lending, or pledging of hundreds of millions of dollars. To the extent that this program involves expenditure of public funds, the Treasury's cash surplus will be reduced, further weakening an important anti-inflationary weapon. And finally, and perhaps most important, is the concern of the public with the present level of prices and the maintenance of economic stability.

The principal points involved in price support policy are the basic concept of parity for agricultural prices, the techniques by which support levels are determined and prices are supported, and the effects on the economy in general and agriculture in particular.

THE MEANING OF PARITY

In the price break following World War I, prices of farm products fell much more sharply than other commodity prices, and throughout the twenties and thirties farm prices remained low in comparison with other prices. In response to the demand for a comprehensive statistical measure of the position of farm prices relative to other prices, the concept of "parity" was gradually evolved. As defined in the Agricultural Adjustment Act of 1938, "Parity", as applied to prices for any agricultural commodity, shall be that price for the commodity which will give to the commodity a purchasing power with respect to the articles that farmers buy equivalent to the purchasing power of such commodity in the base period." Thus the parity formula aims to relate the prices which farmers receive to the prices farmers pay. In other words, a farmer selling his products at the parity prices would receive for each unit an amount sufficient to purchase the same quantity of consumer goods or farm equipment as the proceeds of the same unit bought during some past period which has been accepted as a fair standard. For many commodities, the base period that is in use covers the five years from August 1909 through July 1914, a period free from major economic and political disturbances and characterized by relative stability in both farm and nonfarm prices. This period was generally a favorable one for agriculture.

The parity price formula is not intended to assure farmers a certain level of income or a stable standard of living.

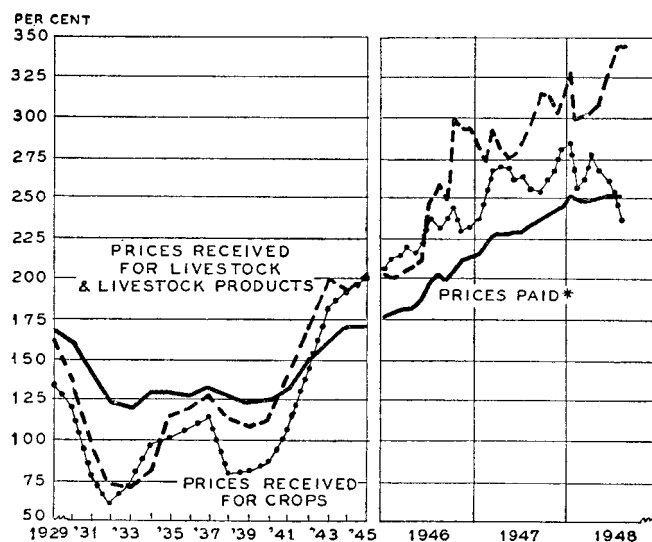
Since parity prices are expressed only as prices per bushel, per pound, or per bale, a farmer's total income naturally depends on the quantities marketed as well as on the parity prices for his crops, while his net return is also dependent upon his efficiency of production. The formula does not attempt to equalize the living standards of farm and non-farm families; it is devised to indicate the prices of farm products which will give farmers about the same purchasing power per unit of output as they had in the base period.

COMPUTATION OF PARITY PRICES

Parity prices are calculated in terms of the prices received by farmers in the local markets in which they ordinarily sell. In computing the parity price of a commodity, the first step is to determine the average price during the base period, which for many commodities consists of the 60 months beginning August 1909 and ending July 1914. For instance, wheat averaged 88.4 cents per bushel at that time, corn was 64.2 cents per bushel, and cotton was 12.4 cents per pound. The base prices for tobacco and many fruits and vegetables are calculated for later periods owing to lack of adequate data in the prewar period, to extensive changes in consumer demand, or, in the case of some minor crops, to the influence of pressure groups seeking a more favorable base period for their product.

As a second step, the relationship between the prices paid currently by farmers and the prices they paid in the base period is established by calculating an index of prices paid by farmers. This index covers retail prices for 86 items used in family living (food, clothing, furniture, household sup-

Index of Prices Paid by Farmers and Prices Received by Farmers for Crops and for Livestock and Livestock Products 1929-45 Annually, January 1946-August 1948 Monthly† (August 1909-July 1914 average = 100 per cent‡)



* Prices paid by farmers for commodities used in family maintenance and in production, including interest and taxes.

† Data for September 1948, received too late for inclusion in the chart, accentuate the recent shifts, as follows: prices paid, 250; prices received for crops, 231; prices received for livestock and products, 343.

‡ See footnote 1 in the text.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

Average Prices Received by Farmers and Average Support Prices for Selected Commodities, 1947-48 and 1948-49 Market Years

Commodity	Unit	1947-48 Market year		Average price September 15, 1948	Average support price 1948-49 market year
		Season average price	Average support price		
"Basic" commodities					
Wheat.....	bu.	\$ 2.29	\$ 1.83	\$ 1.97	\$ 2.00
Corn.....	bu.	2.26 ^p	1.37	1.78	1.44
Cotton*.....	lb.	.3193	.2794	.3094	.3074
Tobacco#.....	lb.	.412	.400	.467	.439
Rice.....	bu.	2.76	1.69	2.16	1.84
Peanuts.....	lb.	.101 ^p	.100	.104	.108
"Steagall" commodities					
Flaxseed†.....	bu.	6.375	6.00	6.00	6.00
Soybeans.....	bu.	3.28 ^p	2.04	2.45	2.18
Dry peas.....	cwt.	5.37	4.33	4.99	4.72
Dry beans.....	cwt.	12.00 ^p	7.15	8.33	7.61
Hogs.....	cwt.	24.10	15.60-16.15†	27.30	16.84**
Irish potatoes.....	bu.	1.62	1.53	1.53	1.67
Other commodities					
Oats.....	bu.	1.05	.63	.687	.70
Barley.....	bu.	1.70	1.03	1.08	1.15
Wool.....	lb.	.420	.420	.463	.423

^p Preliminary.

* Average prices refer to all types; support prices are the average rate for 15/16 inch middling cotton.

Flue-cured tobacco only.

† U. S. No. 1 flaxseed, Minneapolis basis.

‡ \$15.60 in April-September 1947; \$16.15 in October 1947-April 1948.

** April-September 1948.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

plies, etc.) and 93 items used in farm production (feed, fertilizer, farm machinery, trucks, equipment, seed, etc.). When the base period used is that of 1910-14, interest charges and taxes are also included in the calculation of the index. On September 15, 1948, the index based on the 1910-14 average stood at 250 per cent.¹

The parity price is the average base period price adjusted to the level indicated by the index of prices paid by farmers. For wheat the parity price as of September 15 would be 250 per cent of the base price of 88.4 cents, or \$2.21 per bushel, and, similarly, for cotton and corn the parity prices (250 per cent of the base prices) would be 31 cents per pound and \$1.60 per bushel, respectively. Since base prices for all products are fixed, any changes in parity prices are wholly dependent on the movements of the index of prices paid by farmers. Thus, while the increase in support levels for the "basic" commodities shown in the accompanying table is the direct result of the rise in the parity price of each commodity, the parity price rise in turn was occasioned by the year-to-year gain of nearly 10 per cent in the index of prices paid by farmers.

The parity relationships for American agriculture as a whole may be measured (as is done in the accompanying chart) by

¹ Since monthly figures on prices paid by farmers were not available for the period August 1909-July 1914, annual data for the five calendar years 1910-14 were used instead.

expressing prices paid and prices received by farmers as index numbers having equivalent base periods. When the index of prices received by farmers is the same in relationship to the base period as the index of prices paid, farm prices are at parity. Until 1941, the indexes of prices received for crops and livestock (including livestock products) moved below the index of prices paid, indicating that prices of both types of farm products were below parity as measured by the 1909-14 relationship. Since the lifting of price controls in July 1946, prices of livestock and livestock products have shown a greater relative increase than prices of crops, and they are now at record levels. Crop prices, on the other hand, have been dropping steadily for the past four months, and in August they averaged below parity for the first time in six years.

DETERMINATION OF PRICE SUPPORT LEVELS

The purpose of the price support program is to place a floor under farm prices by assuring farmers minimum prices for their commodities. During the war, the Government encouraged high levels of agricultural output by guaranteeing that prices for certain commodities would be maintained at not less than 90 per cent of the parity price. In order to facilitate orderly adjustments from greatly expanded wartime farm production to normal peacetime demand, these supports were also guaranteed for at least two full years following the end of hostilities. For about 20 major commodities, price support has been mandatory, while optional supports authorized by the law have been extended to various other commodities to the extent that available funds permitted. Although a great many different commodities have received price support at one time or another, not all important farm products are supported each year. In the past year, for instance, there was no support program for beef cattle or for apples. Furthermore, although support programs may be announced for certain commodities, market prices may be so high that operations are negligible. Although support prices were announced for numerous commodities last year, the only items on which support operations were needed in any substantial volume were potatoes, eggs, and wool.

Support prices are generally computed by taking a certain percentage (usually 90 per cent) of the parity price for a specific date in the month preceding the marketing season. Thus the wheat support level is 90 per cent of the parity price prevailing on June 15. Since on that date in 1948 the parity price of wheat was \$2.22 per bushel, the average support price for the 1948-49 crop has been set at \$2.00. This represents the average rate to the farmer at local markets. Actual support prices vary according to the location of the crop and the quality of the grain; for instance, No. 1 hard winter wheat is supported at \$2.24 per bushel at the terminal market in Kansas City, while the same type and grade of wheat at the local markets in western Kansas and Nebraska is supported at only \$1.96 to \$1.98, the difference representing largely freight

costs. For some commodities, such as potatoes, hogs, and eggs, the support prices are varied throughout the year according to normal seasonal fluctuations.

Prices of the six "basic" crops (wheat, corn, cotton, tobacco,² rice, and peanuts) are supported at the fixed level of 90 per cent of parity, except in the case of cotton, for which support levels are set at 92.5 per cent of parity. For a group of fourteen leading commodities,³ known as "Steagall" commodities, support prices are required to be not less than 90 per cent of parity. Since it was particularly desired to expand output of these commodities during the war, the Secretary of Agriculture was empowered in 1941 to set as high a support price as was necessary to obtain production of the needed amount; this power he still retains. Thus, while the parity price for flaxseed (the source of linseed oil used in paint) was only \$4.24 per bushel on August 15, 1948, the support price this season has been established at \$6.00 per bushel, or more than 140 per cent of parity. Under the Wool Price Support Act of 1948, the price of wool must be supported at a level which will furnish wool growers a return equivalent to that received for the 1946 clip. To the extent that funds are available, other commodities may be supported in order to bring their prices into a fair relationship with the "basic" and "Steagall" commodities.

METHODS OF SUPPORTING PRICES

Once the level at which prices for a given commodity will be supported has been determined, there are several methods by which the support can be made effective. The principal method, particularly for "basic" commodities, has been the nonrecourse loan. The Government will make a loan to the farmer, or will guarantee a loan made by a local bank or other private lending agency, in an amount calculated at the support price, secured by a chattel mortgage or a warehouse receipt covering certain commodities, provided they have been stored under specified conditions. If the price rises above support levels, the farmer can sell his crop at the higher price and pay off the loan plus interest; if the price stays low, the Government takes the commodity as full payment at maturity or extends the loan.

Another method, relatively new, is the purchase agreement. When the Government signs such an agreement with the farmer, it stands ready during a limited period of time to purchase at the support price a specified quantity of grain of marketable quality, not exceeding the farmer's total crop. The farmer pays a small charge for this guarantee, and, de-

² For certain types of tobacco (fire-cured and dark air-cured) support prices are fixed as a percentage of the support price for burley tobacco.

³ These commodities include potatoes, sweet potatoes, hogs, milk, butterfat, eggs, chickens (weighing over 3½ pounds), turkeys, certain varieties of dried peas and beans, peanuts (for oil), flaxseed, soybeans, and American-Egyptian cotton.

pending on market conditions, he may decide to sell to the Government all, or part, or none of the specified quantity.

Other methods of supporting the market, employed chiefly in the case of perishable commodities, have included direct purchase programs, loans to dealers who paid support prices, and inventory take-out commitments to processors or dealers, i.e., promises to purchase inventories of commodities for which farmers were paid support prices or of products made from such commodities. Milk prices are supported through marketing orders which fix minimum prices to producers at a level tending to yield a parity return after allowing for feed prices and other economic factors.

These direct support measures are often supplemented by various indirect means, such as purchases by the Government for the armed services and for foreign relief. Other farm-aid legislation facilitates the support of farm prices by limiting disposal of the Government's stocks of farm products, regulating production and marketing of agricultural commodities, or encouraging their consumption.

Funds available for carrying out these programs total billions of dollars. The Commodity Credit Corporation, which has responsibility for price support operations, has authority to borrow 4,750 million dollars "on the credit of the United States" to finance its operations. The CCC has a capitalization of 100 million dollars and a reserve of 430 million for post-war price support operations. Any impairment of the capital of the CCC must by law be restored annually by the U. S. Treasury.

Since most of the loans under the price support program are guaranteed by the Government rather than made directly, any substantial increase in such commodity loans would be reflected in an expansion of private credit rather than in increased Government outlays. However, should the banks need these funds for other purposes or become dissatisfied with the 1½ per cent interest which they receive on the guaranteed loans, the CCC must be ready to purchase the loans on demand; in any case the CCC takes over unredeemed loans at maturity. Since this season's loans and purchase agreements for wheat do not mature until next spring and those for cotton and corn mature next summer and fall, sizable outlays by the Government may not be necessary until some time in 1949.

The Department of Agriculture may require certain conditions of eligibility for price-supporting loans on the basic commodities. When it appears that the supply of a commodity will be excessive, the Government may try to bring supply into line with demand by proclaiming acreage allotments or marketing quotas for the next crop year. Producers not cooperating with respect to these allotments or quotas are not eligible for regular loans or purchase agreements; they can obtain loans on only a portion of their crop and only at a substantially lower price. Marketing quotas are subject to the

approval of at least two thirds of those voting in a referendum of the producers of the commodity involved. If more than one third disapprove, no quotas are imposed, but in such a case the Government has no obligation to support prices. Marketing or acreage restrictions have not been imposed on major crops since the war, except that potato producers have had to conform to acreage requirements before obtaining support benefits, while tobacco producers have approved marketing quotas.

THE AGRICULTURAL ACT OF 1948

Under the terms of the Agricultural Act of 1948, the support program for "basic" commodities will continue in its present form until June 30, 1950, except that the 1949 cotton crop will be supported at only 90 per cent of parity. The supports for several "Steagall" commodities (milk, hogs, chickens, and eggs) will be maintained at 90 per cent of "parity or comparable price"⁴ until January 1, 1950. Irish potatoes will be supported at 90 per cent until the crop harvested before January 1, 1949 is marketed. Potatoes harvested after that date, and the other "Steagall" commodities, will be supported through January 1, 1950 at not less than 60 per cent of parity and not more than the support level in 1948.

The Agricultural Act of 1948 also contains a long-range program. One principal change in this program involves adjusting parity prices for each crop to reflect the relationship during the past ten years between the level of prices for that commodity and the level of all farm prices. In general, parity prices for livestock and livestock products will be raised by the new formula, while the parities for grains will be lowered. Another change will make the level at which support prices are established dependent upon the relationship of current supply to "normal" supply and upon whether or not marketing quotas have been voted. Without marketing quotas, minimum support levels will range from 60 per cent of parity when supply is over 130 per cent of normal to 90 per cent when supply is 70 per cent or less of normal; when supply is equal to "normal", the support level in most cases will be 75 per cent of parity.

If and when this new system of revised parity prices and variable support levels takes effect, it should answer many, though not all, of the criticisms which have been made of the present price support program. By taking into account the recent price experience of each product in determining its parity, the parity formula will make allowance for changes in production techniques and for shifts in consumer demand between the different types of agricultural products. But in continuing to link parity for all farm products combined to

⁴ "Comparable prices" are established for products when a lack of data or highly significant economic changes affecting the price of a commodity necessitate use of an alternative method in computing base period prices.

the 1909-14 relationships with the prices paid by farmers, the new formula fails to take into account the relative changes in farm and nonfarm production and distribution techniques—and consequently in farm and nonfarm price relationships—over a period of nearly 40 years. Nor does the new parity formula revise the index of prices paid by farmers to allow for changes in the relative importance of the items farmers buy or to include factors not presently covered by the index, such as farm wages.

ECONOMIC EFFECTS OF PRICE SUPPORTS

The relatively high levels of support prices during the war may have been helpful in insuring the nation against possible shortages of essential food, and they may have served the same purpose in the postwar period, when foreign demands were so pressing. It can also be argued that there is considerable justification for the continuation of support prices during a period of transition on a basis that will enable farmers who increased their production to meet war demands to readjust to peacetime conditions without undue loss. Continuation of the present program of high support prices, however, might have the effect of perpetuating wartime production patterns rather than encouraging a shift to meet peacetime demands. A long-term program, similar to that in the Agricultural Act of 1948, embodying relatively low levels of support prices which vary according to the size of the supply and which are geared to a modernized parity formula, would seem more likely to bring supplies into line with current levels of domestic and foreign demand.

The farm price support program has been criticized in recent years as a cause of high food prices. However, since 1942, prices of crops and livestock have been on the whole well above levels necessitating support operations except for the past few months, so that any influence of the support program on the general level of food prices must have been indirect. Prices of most major crops averaged well above support levels during the 1947-48 season, as shown in the accompanying table. Only a few crops, notably potatoes, required extensive support directly resulting in higher prices to the consumer than would normally have been the case. But for the bulk of the food items in the consumer's budget, the price rises of the postwar years have arisen from causes largely independent of the farm price support program. In fact, by encouraging increased production, the support program during and after the war may have resulted in less extreme prices than would otherwise have been the case. It is possible, however, that the influence of price supports in the coming year may keep farm prices higher than they otherwise might be, although in some cases the magnitude of the current harvest and the lack of suitable storage space have actually driven prices below support levels.

ERP—THE FIRST SIX MONTHS

Since last February, when its underlying rationale and principles were discussed in these columns,¹ the European Recovery Program has formally come into existence and a new stream of aid to Western Europe has started to flow. The decisive step was taken on April 2, when Congress passed the Foreign Assistance Act of 1948. Within a week thereafter, an Economic Cooperation Administration had been set up, Mr. Paul G. Hoffman had been appointed Administrator, and the new organization had commenced its aid program by authorizing the procurement of 21 million dollars of food for particularly needy European countries.

That the new agency was able to begin operations so quickly was due to the fact that considerable spade work had been done in Paris by the Committee of European Economic Cooperation and in Washington by various branches of the Government, and that personnel of other agencies, especially the State Department, was at the ECA's disposal for the initial operations. The ECA, however, had to build up its own organization, not only in Washington and in Paris—the headquarters of the United States Special Representative in Europe, Mr. W. Averell Harriman—but also in the individual recipient countries, where missions were established. This organizational process, which even to date has not been fully completed, tended to slow down operations in the first months of the ECA's operations.

The money for the first year of ERP operations (April 3, 1948 to April 2, 1949), moreover, was not appropriated until June 20, when Congress passed the Foreign Aid Appropriation Act, 1949. Thus, uncertainty with respect to the amount which Congress would actually appropriate was another factor slowing down operations of the ECA in its first months. The ECA was in a position to authorize immediate aid in favor of the recipient countries only because Congress, in an earlier measure, had appropriated stopgap aid of 55 million dollars (which was distributed by the State Department in collaboration with the ECA), and, in the Foreign Assistance Act of 1948, had authorized the Reconstruction Finance Corporation to advance 1 billion dollars to the ECA, pending appropriation of ERP funds by Congress.

Disregarding the 55 million dollars of stopgap aid, the ECA has at its disposal for the year ending April 2, 1949 an aggregate of 5 billion dollars. Of this total, 4 billion dollars has been appropriated, and 1 billion has been authorized as the amount which the ECA may borrow from the Treasury for the granting of ERP loans through the Export-Import Bank until April 2, 1949. The 4 billion dollars is available until June 30, 1949, with the qualification that the entire amount may be obligated and expended during the 12 months ending April 2,

¹ *The European Recovery Program*, in the February 1948 issue of this *Review*.

1949, if the President, upon recommendation of the ECA, deems such action necessary. That the full amount may in fact be spent within 12 months was suggested by the President's request in his midyear budget message for an additional 1.5 billion dollars to cover the months April-June 1949.

During the first three months of ECA operations, the participating countries could qualify for aid by signing so-called "letters of intent", in which they signified, in general terms, their adherence to the purposes of the Foreign Assistance Act of 1948, gave assurance of continuing efforts to accomplish a joint recovery program, and expressed their intention to conclude formal agreements with the United States as provided for in the Act. Such bilateral agreements, which qualified the participating countries for aid after July 3, 1948, were subsequently concluded between the United States and all the European countries receiving American aid under the ERP. These agreements specify the obligations of the contracting countries, including commitments regarding financial stability and the utilization of the so-called "counterpart funds" (the local currencies that are paid into special, restricted accounts in amounts equivalent to that part of ERP aid which is made available in the form of grants).

In its report of September 22, 1947, which formed the basis for the ERP discussions in Washington, the Committee of European Economic Cooperation had estimated the aggregate prospective balance-of-payments deficit of the cooperating countries with the Western Hemisphere in the years 1948 to 1951, but had not made any suggestions concerning the geographical distribution of the proposed American aid. On the basis of its own revision of the Paris estimates, however, the State Department released on April 8, 1948 a breakdown of the prospective aid by recipient countries. These estimates, while designated as "illustrative" and not intended to prejudge the views of the Administration, have become the pattern for future aid under the ERP.

To make planning possible on the side of the recipient countries, and to facilitate the work in the various divisions of its own organization, the ECA has made quarterly allotments permitting the commitment of funds on behalf of the various recipient countries. In this way the ECA has allotted to the individual recipient countries for the first three quarters of its operations (April to December 1948) a total of 4,332 million dollars in grants and loans, which, after allowance for 68 million of expenses and certain other outlays, leaves (of the total available 5 billion) an uncommitted amount of 600 million dollars for the first three months of 1949. For the last three months of the calendar year 1948, relatively liberal allotments (1,769 million) have been made in order to permit the foreign governments to adopt the practice of making forward commitments of funds in advance of purchase negotiations or contracts.

While the over-all programs for the distribution of aid have to date been worked out in Washington in cooperation with the recipient countries, the ECA has shifted the responsibility for planning aid distribution to the participating countries themselves through the medium of the Organization for European Economic Cooperation (OEEC), which those countries set up in Paris in April. In order to stimulate greater initiative and cooperation among its members, Mr. Hoffman requested the OEEC in June to draft a plan for the distribution of ERP aid from July 1, 1948 to June 30, 1949. On September 11 the OEEC released provisional distribution schedules aggregating 4,875 million dollars for that period. To become effective, however, these schedules still require the ECA's stamp of approval.

It is a well known fact that payment difficulties have slowed down intra-European trade and thus have contributed to an uneconomic use of European resources. The OEEC, in collaboration with the ECA, has, therefore, worked out a plan for increasing intra-European trade through mutual aid. Under this plan, participating countries with active current account balances vis-a-vis all other participants will receive part of their dollar aid in the form of so-called "conditional" allotments. In receiving these allotments, such countries must set aside equivalent amounts in their own currencies for the purpose of extending credits to participants with which they have active balances. The OEEC, in dividing the aid for the fiscal year 1949,

Table I
Over-all Program for the Distribution of ECA Aid by Countries
(In millions of dollars)

Recipient country	State Dept. program* April 1948 -Mar. 1949	ECA program (revised) [†] April- Dec. 1948	OEEC program (revised) July 1948-June 1949	
			United States aid	Intra-Euro- pean aid**
United Kingdom.....	1,250.9	1,235.0	1,263.0	-282.0
France.....	1,078.6	966.0	989.0	+323.3
Italy.....	664.9	541.0	601.0	-20.3
Netherlands.....	566.4	403.0†	496.0†	+71.7
Germany.....	502.4	440.3	514.0	-
U. S.-British Zone.....	413.7	363.0	414.0	-10.2
French Zone.....	88.7	77.3	100.0	+8
Belgium-Luxembourg....	280.7	106.0	250.0	+207.5
Austria.....	177.3	216.0	217.0	+63.5
Denmark.....	123.1	87.0	110.0	+6.8
Eire.....	108.4	60.0	79.0	-
Greece.....	98.5	162.0	146.0	+66.8
Norway.....	29.6	72.0	84.0	+31.8
Sweden.....	24.6	10.0	47.0	+25.0
Iceland.....	9.8	6.3	11.0	-
Turkey.....	9.8	10.0	50.0	-19.7
Trieste.....	-	17.0	18.0	-
Portugal.....	-	-	-	-
Switzerland.....	-	-	-	-
Total.....	4,925.0	4,331.6	4,875.0	-

* The figures in this column are recomputations of the State Department estimates. The latter estimates had been made on the assumption that Congress would make available 5,300 million dollars for the period April 1, 1948 to March 31, 1949. Of this amount 5,222 million dollars was allocated for aid to participating countries and 78 million for administrative and other expenses. Since Congress made available 5 billion dollars only, the State Department figures have been recomputed on the latter basis, after deducting 75 million for expenses.

† As of September 22, 1948.

‡ Including 30 million dollars for Netherlands East Indies for the last quarter of 1948.

† Including 84 million dollars for Netherlands East Indies.

** The figures for countries receiving "conditional dollar allocations" and granting intra-European aid are marked with a (-) sign; figures for countries which are recipients of such aid are marked with a (+) sign.

Table II
ECA Program and Procurement Authorizations by Countries

Recipient country	Contemplated aid program April-September 1948 (revised#)			Procurement authorizations April-September 22, 1948*		
	In millions of dollars			In millions of dollars	In per cent of total authorizations	In per cent of con- templated aid for each country
	Grants	Loans	Total			
United Kingdom.....	550.0	185.0	735.0	400.1	23.2	54.4
France.....	476.0	110.0	586.0	437.8	25.4	74.7
Italy.....	266.0	40.0	306.0	207.2	12.0	67.7
Netherlands.....	185.5	57.5	243.0	157.5	9.1	64.8
Germany.....	265.3	—	265.3	231.2	13.4	87.2
United States-British Zone.....	223.0	—	223.0	191.2	11.1	85.7
French Zone.....	42.3	—	42.3	40.0	2.3	24.8
Belgium-Luxembourg.....	4.0	37.0	41.0	12.5	0.7	30.5
Austria.....	131.0	—	131.0	107.6	6.2	82.1
Denmark.....	17.5	—	17.5	38.1	2.2	73.3
Eire.....	—	30.0	30.0	—	—	—
Greece.....	102.0	—	102.0	90.8	5.3	89.0
Norway.....	15.0	25.0	40.0	36.5	2.1	91.3
Sweden.....	—	10.0	10.0	—	—	—
Iceland.....	—	2.3	2.3	—	—	—
Turkey.....	—	10.0	10.0	—	—	—
Trieste.....	9.0	—	9.0	6.6	0.4	73.3
Portugal.....	—	—	—	—	—	—
Switzerland.....	—	—	—	—	—	—
Total.....	2,038.3	524.3	2,562.6	1,725.9	100.0	67.3

As of September 22, 1948.

* Latest available breakdown.

allocated, in addition to the direct aid granted by the United States, the aid which individual countries would give in local currencies on the basis of conditional allotments. An announcement concerning the latter is expected to be made by the ECA when the OEEC has completed a reconciliation of certain discrepancies in the estimated debit and credit positions of the countries in intra-European trade.

Table I gives a survey of the original State Department program, the ECA program for the first three quarters of operations, and the OEEC program both for dollar aid and intra-European aid. The figures in the three sets of estimates are not strictly comparable, because the time periods to which they relate are not identical and the concept of aid has undergone a change. It is clear, however, that Britain and France are the largest recipients of aid. Other major recipients are the Bizone (i.e., the American and British-occupied zones of Germany), Italy, and the Netherlands.

As can be seen from Table II, a little more than two thirds of the ECA program for the first half year (April-September) had actually been carried out through September 22 through the issue of procurement authorizations.² Close to the average of authorizations for all countries were Italy and the Netherlands. Authorizations were above the average for Austria, Denmark, France, Greece, Norway, Trieste, and the Western Zones of Germany, but below the average in the cases of Belgium-Luxembourg and Britain. That the ECA, in its first half year of operations, reached only about two thirds of its goal may be attributed to a variety of circumstances, including organizational

² With procurement allocations lagging behind, actual expenditures have also lagged. Up to September 22 the Treasury had disbursed under ERP only 646 million dollars, which is about 38 per cent of the procurement authorizations issued up to that date.

difficulties, uncertainty concerning Congressional appropriations in the early months, procurement delays, and difficulties over loan negotiations with foreign countries.

"Offshore" purchases, i.e., purchases made with ECA dollars in countries other than the United States, had been estimated in the Administration's "Outline of a European Recovery Program" (December 1947) at about 40 per cent of the aggregate amount of ERP aid to be made available in the period April 1948-June 1949. Of the 1,124.2 million dollars of procurement authorizations (excluding freight) issued up to the end of August, 620.8 million or about 55 per cent had been issued for purchases in the United States, and 503.4 million or about 45 per cent for offshore purchases. The ratio of 40 per cent for offshore purchases originally envisaged by the Administration is, therefore, being roughly observed.

The largest beneficiaries of offshore procurement authorizations to date have been Canada, with 222.6 million dollars (mainly wheat, bacon, and aluminum), the "Bizone" with 43.1 million (mainly coal and coke), Iran with 34.3 million (petroleum), Belgium with 27.2 million (mainly equipment, steel, and phosphates), and the Netherlands West Indies with 21.7 million (petroleum). An aggregate of 146.4 million dollars was authorized in the participating countries themselves and 76.7 million in Latin America.³ Very little procurement has been authorized to date from Argentina because of price conditions, but on August 12 the ECA announced that it was giving serious study to procurement possibilities in Argentina in view of the fact that that country had declared its willingness to sell cereals and other products at world market prices.

³ This amount included 20.4 million dollars in Chile, 18.7 million in Mexico, 14.6 million in Venezuela, 11.5 million in Cuba, 6.7 million in Brazil, and 4.8 million in other Latin American countries.

In mid-September it was reported that freight cars had been ordered for the "Bizone" from Hungary (2.3 million dollars) and from Czechoslovakia (3 million dollars). These items represent the first large orders under the ERP from countries in the Russian sphere.

A breakdown by commodities of the 1,725.9 million dollars of procurements authorized by the ECA through September 22 shows that 422.0 million had been allocated for wheat and wheat flour, and 260.4 million for other foodstuffs. Other important items were coal (149.8 million), petroleum products (151.4 million), and nonferrous metals (117.5 million). Exports of machinery, vehicles, and equipment (85.3 million) and of such industrial raw materials as cotton (95.6 million), were still on a rather moderate scale.

The expected improvement in world supplies of cereals and later of dairy produce may allow certain ERP countries to economize in their use of dollars for imported foods. A shift in the commodity composition of ERP imports from food to equipment would, therefore, seem desirable. But such a shift assumes that equipment can be readily procured, which is doubtful in view of the existing heavy demands on the American steel industry. The prospect, therefore, is that the ERP nations may have to turn increasingly to one another in order to obtain the industrial equipment needed for reconstruction and development. This gives additional emphasis to the program of allocating ECA dollars in such a way as to foster intra-European trade.

As noted above, Congress has authorized the ECA to borrow 1 billion dollars from the Treasury for the granting of loans through the Export-Import Bank,⁴ and has appropriated an additional 4 billion for the ERP. While loans may also be made from the latter fund, it is generally believed that roughly four fifths of the total of ERP funds will be made available in the form of grants, and only about one fifth in the form of loans. As can be seen from Table II, the ECA has followed this ratio in its programming for the first half year of operations by allocating 2,038.3 million dollars to grants and 524.3 million to loans.⁵ According to these allocations, most countries will receive both loans and grants. Austria, Greece, Trieste, and the Western Zones of Germany will receive grants only; Eire, Iceland, Sweden, and Turkey will be given loans only; while Portugal and Switzerland will receive neither grants nor loans, but will be able to obtain American goods in short supply, otherwise unobtainable, through the procurement and allocation systems set up under the program.

⁴ The 1 billion dollar fund may be reduced by the amount of guarantees (of no more than 300 million) which the ECA may give to encourage private investment projects within the framework of the ERP.

⁵ The ECA's program for the last three months of 1948 has not yet been broken down by grants and loans. A breakdown will be released when the ECA has completed its review of the OEEC program for fiscal 1949.

To date, however, virtually all the aid actually extended by the ECA has taken the form of grants. The only country with which a loan agreement has been concluded is Iceland, which has borrowed 2.3 million dollars for the acquisition of fishing equipment. The loan agreement with Iceland provides for an interest rate of 3 per cent and for repayment in 10 years; principal payments are to start approximately three years from the date of the first advance under the credit. Negotiations on additional ECA loans, aggregating 700 million dollars, are reported to be under way with Britain, Denmark, Eire, France, Italy, the Netherlands, the Netherlands East Indies, and Norway.

FURNITURE STORE TRADE

Sales of furniture stores in the Second Federal Reserve District have continued to expand substantially in recent months, as have those of housefurnishings departments in the department stores and sales of durable goods generally. During the first eight months of 1948, furniture stores that report their sales to this bank did 15 per cent more business, measured in dollars, than in the same period of 1947. Inasmuch as the rise in average prices of furniture and of other housefurnishings was well below 15 per cent (as indicated by the best available price indexes), it appears that as much as half of this rise in dollar sales may be attributed to increased physical volume. The still considerable backlog in demand, the further rise of personal incomes, the growth of new housing, an easier supply of merchandise of improved quality, and the availability of consumer credit have all contributed to this increased volume of furniture store sales.

An expansion of credit sales, practically all on an instalment basis, has been a conspicuous factor in the growth of total sales. Whereas during the first eight months of this year credit sales of stores reporting by type of transaction increased 25 per cent over the corresponding period of 1947, cash sales were only 1 per cent larger and were actually less than in 1946. It may be noted that, although credit sales have expanded continuously since the end of the war, cash sales during 1947 had already declined below the 1946 volume. Cash sales in both July and August of 1948 were 24 per cent below cash sales in the corresponding months of 1946, in contrast to gains of more than 30 per cent in credit sales during the same interval. Credit sales during the first eight months of 1948 accounted for 79 per cent of total sales, against 75 per cent during the same period last year. However, in 1941, the only prewar year for which comparable data are available, credit sales accounted for the unusually large proportion of 88 per cent of that year's total sales.

Along with the growth of credit sales, both accounts receivable and collections have expanded. Because consumers have tended more and more to take advantage of the full life

Sales and Stocks of Second District Furniture Stores*

Month	Percentage change 1947 to 1948		Stock-sales ratio	
	Sales	End-of-month stocks	1947	1948
May.....	+14	+18	4.2	4.3
June.....	+17	+20	3.9	4.2
July.....	+13	+18	5.2	5.4
Aug.....	+14	+20	4.8	5.0

* Pertains only to the group of stores for which both sales and stocks data are available.

of purchase contracts rather than to repay ahead of schedule, and because in some cases there has been a lengthening of terms, accounts receivable have risen faster than collections. As a result, the collection ratio for an identical group of stores has fallen, on the average, from 16 per cent in the first eight months of 1947 to 14 per cent in the corresponding period this year.

The increased easiness of the furniture market at wholesale and manufacturing levels is suggested by the prevalence of enlarged store inventories despite rapidly advancing retail sales. As a matter of fact, stocks expanded even more than sales during late spring and early summer and the stock-sales ratio rose accordingly.

DEPARTMENT STORE TRADE

Sales at Second District department stores during September rose less than seasonally, according to preliminary reports. For the third quarter as a whole, sales on a seasonally adjusted basis were almost 10 per cent greater than in the first quarter, but somewhat less than in the second quarter.

Stocks increased somewhat more than seasonally during August and at the end of that month were 12 per cent greater in value than one year previous.

The dollar volume of new orders placed during August by a group of the larger stores was less than that of a year ago; this was the first year-to-year decrease in new orders in 12 months. As has been the case for most of 1948, these stores also reported a lower volume of outstanding orders for the end of August than for the corresponding time last year.

THE 1948 SPRING SEASON

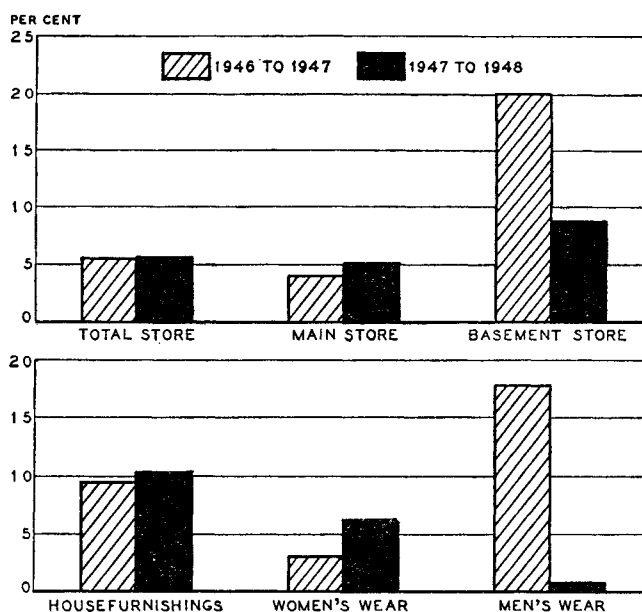
Second District department stores increased their dollar sales by 6 per cent during the 1948 spring selling season (February through July) in comparison with the spring season of 1947. This was much the same increase as had occurred last year, but the pattern of change among types of goods was quite different, as can be seen in the accompanying chart. Basement store sales this year did not duplicate the large gains made during the previous spring season, while main store sales conversely widened their gains. Housefurnishings exceeded last year's fairly large increase and accounted

for the largest share of this year's expansion of total sales. In apparel there was a decided shift towards women's wear, reflecting the success of the new styles which experienced their first spring season this year, the end of restocking by veterans, and some resistance to men's apparel prices. Owing to consumer resistance to advancing prices, the season was characterized by widespread promotions and intensified competition, particularly after the failure of Easter sales to meet expectations.

Accounting for close to one fourth of aggregate sales this season, housefurnishings contributed practically one half of the expansion in total sales. All departments in this group, with two minor exceptions (oriental rugs and linoleum), participated in the increase. Sales of basic furniture—bedding and upholstered pieces—were fully one-fifth larger than a year ago. After evidence of lagging consumer interest at the turn of the year, refrigerators made the most substantial gain in the entire store, although other major household appliances (washers, stoves, ironers) advanced but little. The radio department improved by more than 10 per cent, largely because of strong demand for television equipment. Trade sources report the market for conventional radios to be very slow.

While the new styles in women's clothing were generally accepted, as indicated by a much wider gain for apparel than for accessories, many customers were guided by price considerations. Inexpensive dress lines more than doubled the gain of better dress departments. Main store sales of coats improved only to the same extent as better dresses (6 per cent) and suits fell short of last year's sales, in sharp contrast

Spring Season Sales at Second District Department Stores*
(Percentage increase 1946 to 1947 and 1947 to 1948)



* The spring season covers the six months February through July.

Sales at Second District Department Stores During the 1948 Spring Season, by Major Departmental Groups

Group	Percentage distribution of sales	Percentage distribution of the increase in sales from 1947 to 1948
Total store.....	100	100
Main.....	89	82
Basement.....	11	18
Housefurnishings.....	27	48
Women's wear.....	41	46
Men's wear.....	9	1
All other.....	23	5

to basement sales, which showed a 13 per cent improvement in coats and suits combined. Fur sales declined by fully 15 per cent. In accessories, the best season-to-season improvement was in sales of hosiery, an item radically affected by the change in styles. Many other accessories departments declined or at best only equaled last year's performance. On the whole, sales of accessories were 3 per cent better compared with 8 per cent in the case of apparel.

Men's wear barely exceeded last year's dollar volume, and men actually bought fewer units of clothing than they did in the spring of 1947. In the spring of 1947 veterans were still replenishing wardrobes, consequently buying in greater quantity than normal replacement needs, and sales then were markedly above the preceding year's, as the chart shows. This year's sales are thus compared to those of an exceptional period. Furthermore, the general pressure on consumer budgets from other needs and from rising prices appears to have affected the family outlay for men's clothing. Retailing opinion is that reduced prices will greatly enhance sales of men's wear. This has been indicated to some extent by the rapid movement of specially promoted merchandise, and the better showing in basement departments.

Inventory was dollarwise 11 per cent greater at the end of the 1948 season than it had been a year before, when it reflected several months of deliberate stock pruning by the stores. Concerned over the possibility of price declines as well as the need to liquidate fashion stocks in preparation for the introduction of new styles in the following fall season, stores had reduced their inventories during the 1947 spring season. At the end of the spring season, inventories in physical terms may have been about 2 per cent larger than a year ago, judging by the LIFO department store inventory price indexes

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

Item	1947	1948		
	August	June	July	August
Sales (average daily), unadjusted.....	178r	246	181	187
Sales (average daily), seasonally adjusted..	244r	265	266	256
Stocks, unadjusted.....	215	228	215r	242
Stocks, seasonally adjusted.....	207r	237	228	232

r Revised.

of the U. S. Bureau of Labor Statistics. The sharpest gains were in housefurnishings departments, a result of greatly improved supply as well as continued consumer demand. Ready-to-wear stocks were in most instances enlarged, with the usual wide differences among departments.

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

Locality	Net sales		Stocks on hand Aug. 31, 1948
	August 1948	Jan. through August 1948	
Department stores, Second District....	+ 5	+ 6	+12
New York City.....	+ 3	+ 5	+10
Northern New Jersey.....	+ 6	+ 6	+16
Newark.....	+ 5	+ 5	+11
Westchester County.....	+ 9	+ 2	+ 8
Fairfield County.....	+ 5	+ 1	+21
Bridgeport.....	+ 7	+ 1	+21
Lower Hudson River Valley.....	+ 5	+ 9	+21
Poughkeepsie.....	+ 8	+11	+20
Upper Hudson River Valley.....	+15	+ 9	+22
Albany.....	+17	+ 7	+21
Schenectady.....	+12	+10	+20
Central New York State.....	+ 5	+ 6	+16
Mohawk River Valley.....	+ 5	+ 9	+22
Utica.....	+ 8	+ 9	+11
Syracuse.....	+ 6	+ 5	+12
Northern New York State.....	+ 0	+16	+20
Southern New York State.....	+ 8	+11	+14
Binghamton.....	+12	+13	+44
Elmira.....	+ 3	+12	+ 8
Western New York State.....	+13	+10	+ 2
Buffalo.....	+15	+10	+15
Niagara Falls.....	+ 2	+ 6	+18
Rochester.....	+11	+11	+ 2
Apparel stores (chiefly New York City).....	- 5	- 1	+ 2

Indexes of Business

Index	1947	1948		
	August	June	July	August
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	182	192	186	190p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	229	246	247	253p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	210	206	201p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	303r	337r	336p	
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	158	158	158	162p
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	127	123	122	126p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	332	359	360p	
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	276r	283	284	297p
Personal income*#, 1935-39 = 100..... (Department of Commerce)	278	309	308p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	177	188	190p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	160	172	174	175
Velocity of demand deposits*, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	88	98	97	103
Outside New York City.....	86	88	91	96

* Adjusted for seasonal variation.

p Preliminary.

r Revised.

Revised beginning January 1944.

† A monthly release showing the 15 component indexes of hourly and weekly earnings in nonagricultural industries computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, may also be procured from the Research Department, Domestic Research Division.

FEDERAL RESERVE BANK OF NEW YORK

MONTHLY REVIEW, OCTOBER 1948

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, September 28, 1948)

INDUSTRIAL output in August and the early part of September regained most of the decline which occurred in July. Department store sales showed about the usual marked seasonal increase. Prices of some additional industrial products were raised, while prices of farm products and foods generally declined somewhat from the beginning of August to the latter part of September.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 190 per cent of the 1935-39 average in August, as compared with 186 per cent in July and 192 per cent in June. Most of the increase in August reflected larger output of nondurable goods, but activity in these lines was about 2 per cent below the June rate.

Steel production increased in August and was at a rate of 93 per cent of capacity. During September steel mill activity has been scheduled at a somewhat higher rate. Output of lumber and of stone, clay and glass products was somewhat larger in August than in the preceding month. Activity in the automotive industry, however, decreased in August and in the early part of September, primarily as a result of work stoppages at plants of parts suppliers and shortages of sheet steel. Output of most other durable goods continued in August at about the July rate.

Production in nondurable goods industries in August recovered most of the decline shown in July, when plant-wide vacations sharply reduced output of textiles, leather, paper, and some other products. Cotton consumption rose 11 per cent in August but was at a rate somewhat below the same month a year ago. Shoe production showed a marked seasonal gain in August, according to trade estimates. Activity also increased in the paper and printing, chemicals, and rubber products industries. Output of manufactured foods, on the other hand, declined in August, reflecting mainly a further sharp reduction in the volume of meat production and a less than seasonal rise in the canning industry.

Production of fuels increased in August and was at a rate 7 per cent above the same period a year ago. Output at metal mines remained at the July rate. In the early part of September crude petroleum output declined somewhat as a result of a West Coast refinery strike.

CONSTRUCTION

Value of construction contracts awarded in August, according to reports of the F. W. Dodge Corporation, declined moderately from the high levels of recent months. The number of new nonfarm dwelling units started in August was 83,000, as compared with 94,000 in July and a peak of 98,800 in April, according to preliminary estimates of the Bureau of Labor Statistics. Value of construction activity on jobs under way continued to increase during August.

DISTRIBUTION

Department store sales during August and the first half of September showed about the usual marked seasonal expansion and the Board's adjusted index for the third quarter is likely to be slightly higher than the level during the second quarter, when the index was 309 per cent of the 1935-39 average.

Loadings of railroad revenue freight increased in August, largely as a result of increased loadings of coal and miscellaneous merchandise. Shipments of grain decreased somewhat from the high July level, and livestock shipments increased less than normally for this season.

COMMODITY PRICES

The general wholesale price index declined 1 per cent in the latter part of August but advanced again in the middle of September, reflecting chiefly fluctuations in meat prices. In the latter part of September wholesale prices of farm products and foods, including meats, were somewhat lower than in the early part of August, while average prices of industrial products were higher.

The consumers' price index increased further by one-half per cent from mid-July to mid-August, reflecting advances in prices of all major groups of items except foods. Retail food prices, following a rise of 7 per cent from March to July, have apparently shown little change since that time.

BANK CREDIT

Federal Reserve System support purchases of United States Government bonds sold by insurance companies and other nonbank investors continued heavy in August and the first half of September. System sales of short-term Government securities both to banks and others were also large, and the total portfolio of Government securities was little changed. In the first half of September bank reserves were substantially increased by a decline in Treasury balances at the Reserve Banks, but in the third week of the month these balances were rebuilt by large tax receipts.

In the early part of September the Board of Governors announced an increase in reserve requirements of 2 percentage points on net demand deposits and 1½ percentage points on time deposits, effective September 16 for member banks outside reserve cities and September 24 for reserve city and central reserve city banks. This action increased by 2 billion dollars the amount of reserves that member banks are required to hold.

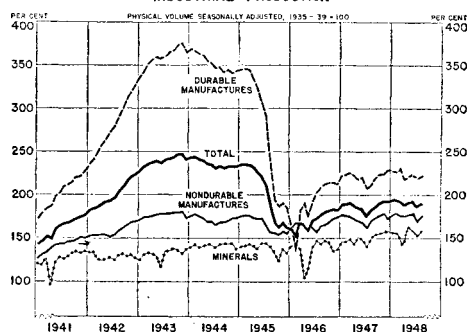
Pursuant to legislative authority granted in August, the Board of Governors reinstituted the regulation of consumer instalment credit, effective September 20.

Commercial and industrial loans increased by 700 million dollars at banks in leading cities in August and the first half of September. Real estate and consumer loans also expanded further. Bank holdings of Government securities were little changed, despite the retirement for cash of about 400 million dollars of bank-owned Government bonds on September 15.

INTEREST RATES AND SECURITY MARKETS

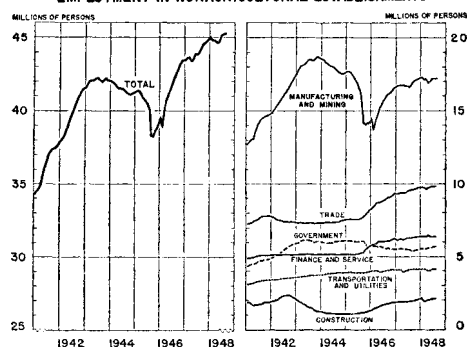
Interest rates showed little further change in the first three weeks of September, following a rise in short-term money market rates in August. Common stock prices showed further moderate weakness, but prices of high-grade corporate and municipal bonds changed only slightly.

INDUSTRIAL PRODUCTION



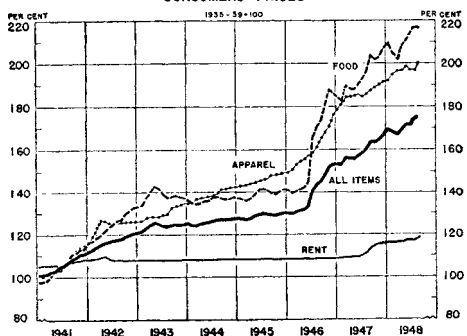
Federal Reserve indexes. Monthly figures; latest shown are for August.

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



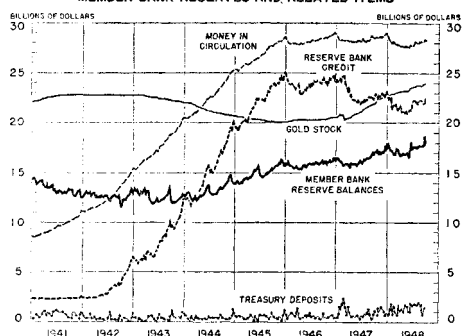
Bureau of Labor Statistics' estimates adjusted for seasonal variation by Federal Reserve. Proprietors and domestic servants are excluded. Mid-month figures; latest shown are for August.

CONSUMERS' PRICES



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

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures; latest shown are for September 22.