

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 30

DECEMBER 1948

No. 12

MONEY MARKET IN NOVEMBER

The first half of November witnessed a certain amount of shifting in the attitude of investors toward Government securities, which was reflected in the open market operations of the Federal Reserve System. The selling of Treasury bonds, particularly of long-term restricted issues, which had resulted in substantial purchases of these securities by the Federal Reserve Banks in recent months, almost ceased immediately after the elections. In fact, a modest demand for taxable and partially tax-exempt Treasury bonds developed, which at times had to be met by sales from the System portfolio, and prices of all bond issues rose. The tendency of banks and other investors to "shorten" maturities also waned, and the previous trend away from longer maturities of Treasury certificates and notes to the shortest issues was actually reversed.

Market sentiment shifted again following the disclosure, in the System's weekly statement as of November 17, that the Federal Reserve Banks had been selling Government bonds. Selling pressure reappeared, prices declined, and purchases of Treasury bonds by the System were resumed, but on a much smaller scale than for some time past.

According to reports in the market, the more optimistic feeling, during the first part of November, regarding the trend of bond prices was a quick reaction to the outcome of the national elections. This was construed as involving a combination of factors which might result in some curtailment of capital expansion programs, a reduced corporate demand for funds, and a consequent reduction in the selling of restricted Government bonds by institutional investors seeking the higher yields offered by corporate securities. The fact that less than 70 per cent of the total amount of proposed State and municipal bond issues was approved by voters in State and municipal elections also indicated a somewhat smaller demand for investment funds than had been expected.

This hasty market reappraisal did not, of course, establish a Government security market of breadth and strength. Primarily, it discouraged selling of both restricted and eligible bonds, without creating a greatly increased demand for these securities. Technical factors within the market supported the

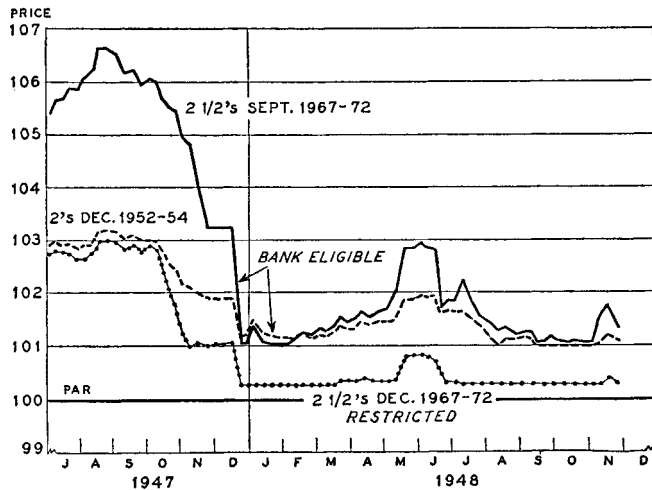
main trends. It was known, for example, that some nonbank investors had previously sold Government securities well ahead of their needs for cash to meet other investment demands. In the shorter sector of the bond market the Treasury's decision to retain the 1¼ per cent rate on new one-year issues of certificates reversed an earlier tendency to anticipate a decline in prices as a result of expected higher short-term rates. Finally, brokers and dealers added to their positions. Loans to brokers and dealers, on Government securities, of the New York City weekly reporting member banks rose 181 million dollars in the three weeks ended November 17; a large part of this increase was required to carry expanded holdings of short-term Treasury securities but some of it reflected a rise in long positions in Government bonds. (Such loans rose another 213 million dollars in the week ended November 24, again owing chiefly to dealer operations in short-term issues.)

The peak of Government security prices for the month was reached on November 16 for most issues. Quotations on taxable bank-eligible bonds were then 1/32 to 31/32 above the levels prevailing at the beginning of the month, and advances in the restricted issues ranged from 1/32 to 11/32. Reflecting demand from commercial banks and others, as a hedge against possible higher corporation income taxes, partially tax-exempt bonds scored sharper gains in prices than did the taxable issues.

These price gains were largely reversed during the following week when it became known that, in view of the small market supply and in order to avoid price gyrations not indicative of underlying market conditions, the Federal Reserve System had sold 67 million dollars of Treasury bonds, most of which had maturities of more than five years. Market offerings continued light but demand evaporated and quotations were marked down. Most of the restricted bond issues reached earlier support prices by November 23 and prices of eligible issues also declined. Toward the close of the month, bond prices recovered slightly.

On November 16 the Treasury announced that it would issue a 1¼ per cent, one-year certificate, in exchange for a 571 million dollar issue of 2 per cent bonds maturing

Prices of Selected Treasury Bonds*



* Averages of closing bid and asked prices, Wednesday dates; latest figures are for November 24, 1948.

December 15 and a similar security in exchange for 6,127 million dollars of $1\frac{1}{8}$ per cent certificates and notes maturing January 1, 1949. This announcement put an end to speculation which had been widespread, particularly before the election, that another increase in short-term rates was an immediate prospect. As a result, yields on the longer issues of certificates and notes moved lower (prices rose), and fairly sizable demand for these issues developed from commercial banks and from industrial corporations investing temporarily idle funds. The Federal Reserve System supplied part of this demand for longer-dated certificates and notes and acquired some of the shorter maturities, thus reversing the recent character of its operations in this area of the market.

MEMBER BANK RESERVE POSITIONS

Money market conditions were somewhat tight at the beginning and toward the close of the period under review (the four weeks ended November 24), and easy in the intervening weeks. The major factors affecting member bank reserve positions were substantial net purchases of Government securities by nonbank investors from the portfolios of the Federal Reserve Banks (an influence largely operative early in the month), the Treasury's redemptions of maturing bills held by the Federal Reserve System (which were resumed toward the close of the period), the flow of currency into and out of circulation in a month containing three holidays, and the ebb and flow of Federal Reserve "float"—Federal Reserve funds credited to the banks against checks still in the process of collection. Despite the pull of these various forces in one direction and in another, over the entire period there was little net change in the reserve positions of the member banks and in Federal Reserve credit outstanding. System security portfolios fell 249 million dollars and loans to member banks rose 282 million.

Member bank reserve positions were under pressure in the week ended November 3, chiefly as a result of the Government security operations of nonbank investors. Federal Reserve System holdings of Government securities showed a small net decline of three million dollars in this week, but there were substantial shifts as between the types of issues held. The System's bond purchases during the week aggregated 454 million dollars (net), while bill holdings declined 388 million dollars, and notes and certificates fell moderately. Although a considerable portion of the increase in bonds represented sales of nonbank investors, the latter made much larger purchases of short-term securities, both from the Federal Reserve System and the commercial banks, resulting in a considerable decline in bank deposits and a loss of reserves. Member banks consequently disposed of Treasury bonds and bills in order to build up their balances to the required level.

The adjusted demand deposits of the weekly reporting member banks declined more than 800 million dollars and their net deposits due to other banks rose almost 270 million dollars in the week ended November 3. It therefore appears that most of the loss of funds fell upon the larger banks and that some portion of the securities purchased by nonbank investors came out of the portfolios of the nonreporting banks, thus increasing their reserves. These institutions apparently used these and other funds to increase their balances with the reporting banks.

During the following two weeks, ended November 17, money market conditions eased considerably. A sharp expansion of Federal Reserve "float," a net return flow of currency after Armistice Day, and disbursements by foreign central banks and governments of most of the proceeds of their gold sales to the Treasury provided more than enough reserves to counterbalance the effects of other transactions which absorbed reserves. Among the latter were net Treasury receipts, higher required reserves, and moderate net purchases of Treasury securities from the Federal Reserve System by nonbank investors. The banks used their net gains of funds chiefly to retire Federal Reserve credit, principally by acquiring Treasury bills from the System and repaying indebtedness to the Reserve Banks.

Member bank reserve positions came under some strain in the final week under review, as the retirement of 100 million dollars of Treasury bills held by the Reserve System, a contraction of Federal Reserve "float," and a pre-Thanksgiving holiday demand for currency more than offset gains of funds from other sources. Member banks met these drains chiefly by expanding their borrowings from the Federal Reserve Banks.

The New York City banks bore a large part of the loss of funds resulting from nonbank investors' net purchases of securities from the Reserve System early in the month, and they participated but slightly in the gains of funds of all mem-

ber banks in the two weeks ended November 17. Moreover, most of the drain on member bank reserves in the last week under review was centered in New York. The metropolitan institutions were therefore compelled to dispose of a sizable amount of Government securities in order to adjust their reserve positions. Total Government security holdings of the New York City weekly reporting banks fell 402 million dollars in the four weeks ended November 24, and borrowings rose 185 million.

REAL ESTATE LOANS OF SECOND DISTRICT COMMERCIAL BANKS

Since the end of the war the real estate market in this country has been exceptionally active. Stimulated by the acute housing shortages and the relatively easy mortgage terms permitted under the Veterans' and Federal Housing Administration programs, the number of dwelling units started has increased steadily. This year the total will probably exceed the previous peak of 937,000, established in 1925. The turnover of titles to old houses has likewise been very great. In addition, high levels of business activity have stimulated a large amount of commercial and industrial construction. The financing of this large volume of home purchases and new construction has meant a tremendous demand for mortgage loans from all types of lenders.

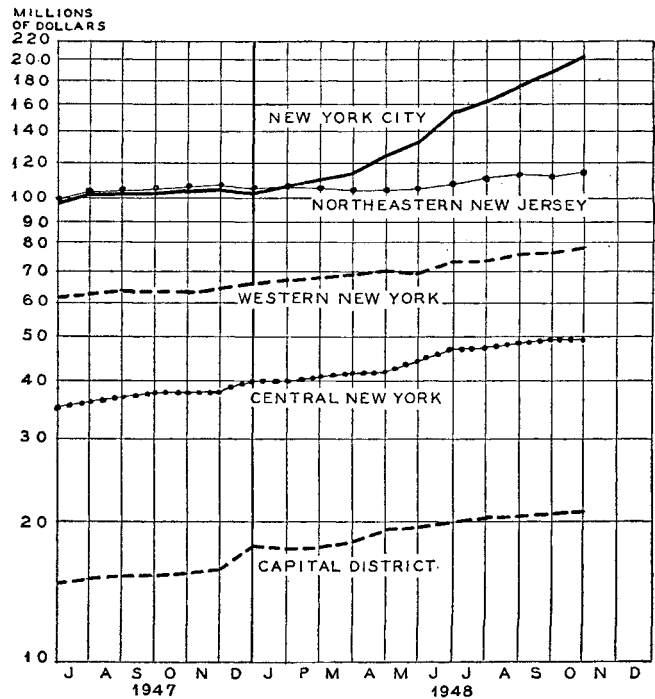
Real estate loans of the commercial banks, one of the most important groups of mortgage lenders, have, as a result, increased faster since the end of the war than any other type of loans extended by them, except consumer credit. In most parts of the country, the expansion of bank mortgage holdings was particularly rapid during the first two postwar years; more recently it has shown some signs of leveling off. At the end of December 1945 real estate loans outstanding of all insured commercial banks amounted to 4.7 billion dollars, or about 18 per cent of their total loan portfolio; by June 1948 this total had risen to 10.1 billion dollars, or more than 25 per cent of total loans outstanding.

The percentage increase in bank real estate loans in the Second District, which in June 1948 accounted for roughly 10 per cent of the national total, has been somewhat less than in most other sections of the country. Between December 1945 and June of this year, total real estate loans of Second District member banks increased approximately 105 per cent, while for the country as a whole the increase was closer to 115 per cent. Residential mortgages, which currently account for more than three quarters of the Second District banks' total mortgage portfolio, increased during the same period by 117 per cent in this District compared with 125 per cent for the country as a whole. Mortgages on other nonfarm property increased only 69 per cent in the Second District compared with an increase of 114 per cent for the country. Al-

though farm real estate loans of the District banks nearly doubled, the increase is not necessarily significant in view of the smallness of the total amount in this category (only 29 million dollars at the end of last June).

While the pattern of real estate loan growth in the District as a whole has been not unlike that in the rest of the country, there have been differences among the various sections of the District in the rate at which real estate loans have been expanding in recent months and in the extent to which banks have invested in mortgages. Real estate loans of the New York City banks have always been an insignificant proportion (2 to 4 per cent) of the total loan portfolio of the City banks. Some of the City banks do not make real estate loans at all. For the ones that do, the increase in mortgage holdings during the first two years after the end of the war was fairly moderate, and proportionately less than the increase in the rest of the District or in other parts of the country. During 1948, as the accompanying chart illustrates, the total more than doubled. However, a substantial portion of this sharp increase represents construction loans under Title VI of the National Housing Act to builders of large apartment and other housing projects, some of which are located outside this District. As the projects are completed, these loans are likely to be taken over by other mortgagees, including life insurance companies.

Real Estate Loans of Selected Banks in Five Second District Areas* (Monthly, June 1947-October 1948†)



* New York City, Northeastern New Jersey, Western New York (Buffalo, Niagara Falls, and Rochester), Central New York (Binghamton, Elmira, Syracuse, and Utica), and the Capital district (Albany, Schenectady, and Troy). Plotted on ratio scale to show proportionate changes.

† Figures are for the last Wednesday in each month.

Reporting member banks in the cities of Northeastern New Jersey, have, as a group, made relatively substantial investments in mortgages, since real estate loans account for approximately a third of their total loan portfolios. During the last year and a half,¹ however, their total mortgage holdings have fluctuated within fairly narrow limits, and have shown little net increase. Real estate loans of the reporting banks in Western New York (Buffalo, Niagara Falls, and Rochester) have shown a fairly steady but moderate increase since June of 1947; between that date and the end of October 1948 the total outstanding rose about 28 per cent. Since the increase has just kept pace with the expansion of other types of loans by the same banks, mortgages have continued to account for slightly less than a quarter of their total loan portfolio.

Mortgage portfolios of banks in the Central (Binghamton, Elmira, Syracuse, and Utica) and Capital (Albany, Schenectady, and Troy) areas of New York State both increased about 40 per cent between June 1947 and October 1948. In the Central section the proportion of mortgages to total loans for the reporting banks rose during these sixteen months from 30 to 35 per cent, and in the Capital district from 18 to 21 per cent.

If figures for the State banks and trust companies in New York are indicative of the experience of the other banks in the District as well, both the amount and percentage of new mortgage loans insured by the Federal Housing Administration have been rising since the end of the war. The volume of loans to veterans, however, dropped off during 1948. Insured loans accounted for slightly less than half of the total amount of new mortgages made during the past year.

Most of the loans made by the State banks on 1 or 2-family houses since the end of the war have been made on existing houses, primarily in connection with title transfers, but since 1947 the amount of loans on new units has also been increasing rapidly. During the 12 months ended September 30, 1946, mortgages on new units accounted for only 7 per cent of the total mortgages placed on 1 to 2-family residences, while during the year ended September 1948, they accounted for over a third of the total.

The share of commercial banks in total mortgage lending in this District can be estimated only roughly from the available statistics. However, the proportion appears to have risen since the war. For the country as a whole, the proportion of total mortgage loans held by the commercial banks has increased markedly since the end of the war, although there are some indications that it may have declined slightly this year. At the end of 1939 commercial banks in the United States held 12 per cent of total urban real estate mortgages outstanding, at the end of 1945 they held 13 per cent, and at the end of 1947, 19 per cent. At the close of last year, their holdings of mort-

gages on multifamily residential and commercial properties totaled 3.4 billion dollars, and on 1 to 4-family houses, 5.2 billion. As Table I shows, this was 22 per cent and 17 per cent, respectively, of the total amounts outstanding in the two categories.

About 26 per cent of total nonfarm mortgage recordings of \$20,000 or less last year was made by commercial banks. A substantial proportion of these recorded loans, however, were apparently taken over later by other investors (or sold to the Federal National Mortgage Association, a Government agency which acts as a secondary market for insured loans), since the figures on mortgages outstanding at the end of the year on 1 to 4-family houses show that the commercial banks held only 17 per cent of the total (see Table II) compared with 16 per cent at the end of 1946. Part of the difference between the proportion of mortgages acquired and the proportion held by

Table I
Percentage Distribution of Outstanding Mortgages by Type of Property and Type of Mortgagee
(December 31, 1939, 1945, and 1947)

Type of mortgagee	One to four-family houses			Multifamily residential and commercial real estate		
	1939	1945	1947 ^p	1939	1945	1947
Savings and loan associations*	20	27	30	—	—	—
Insurance companies	8	11	12	28	32	28
Mutual savings banks	15	13	10	18	14	11
Commercial banks	10	13	17	15	14	22
Others#	47	36	31	39	40	39
Total United States	100	100	100	100	100	100

^p Preliminary.

* Savings and loan associations do not usually make multifamily or commercial real estate loans.

Includes Home Owners' Loan Corporation.

Source: *Survey of Current Business*, October 1948.

the commercial banks may also reflect the banks' faster repayment schedules. Generally, nowadays, mortgage loans of the commercial banks are made on an amortized or instalment basis, while those of insurance companies and some other investors are sometimes repayable in one lump sum at the end of the term.

No figures on outstandings by type of mortgagee comparable to those for the country as a whole are available for the Second District. What figures there are, however, indicate that commercial bank mortgage credit has been leveling off recently, except in New York City. In contrast to the situation in many other sections of the country, the mutual savings banks are still the largest mortgage lenders in this District, although their total holdings have not increased as rapidly as have the commercial banks' holdings since the end of the war. At the end of 1947 mortgage loans of the New York savings banks totaled 3.1 billion dollars compared with only 1.0 billion for all member banks in the District, their closest competitors.

Figures on nonfarm mortgage recordings of \$20,000 or less during 1947 in Connecticut, New Jersey, and New York indi-

¹ Data for this section, and for the other sections of the District outside New York City, have been tabulated separately only since June 1947.

Table II
Percentage Distribution of Total Nonfarm Mortgage Recordings of \$20,000 or less in the United States and in Second District States by type of Mortgagee, 1947

Type of mortgagee	Mortgage recordings, 1947				Mortgages outstanding, December 31, 1947* United States
	Connecticut	New Jersey	New York	United States	
Savings and loan associations.....	19	24	25	31	30
Insurance companies.....	7	6	3	7	12
Mutual savings banks.....	27	7	26	5	10
Commercial banks.....	22	25	18	26	17
Others.....	25	38	28	31	31#
Total.....	100	100	100	100	100

* Preliminary. The series on mortgage recordings and mortgages outstanding are not strictly comparable. The mortgage recordings figures, while primarily home mortgages, also include all other types of mortgages. The other series covers exclusively home mortgages.

Includes Home Owners' Loan Corporation.

Source: Home Loan Bank Board (*Statistical Summary, 1948*) and U. S. Department of Commerce (*Survey of Current Business, October 1948*).

cate that the proportion made by the commercial banks in this District is somewhat below that for the country as a whole; in New York it was only 18 per cent compared with 26 per cent for all banks. From December 1947 through September 1948 real estate loans of the weekly reporting member banks in the Second District outside New York City rose 11 per cent, and those of reporting banks in the City, 76 per cent. Preliminary figures indicate that the outstanding mortgage loans of the New York savings banks increased only about 9 per cent during the same period, and those of the New York State chartered savings and loan associations about 12 per cent.

BRITAIN'S ECONOMIC PROSPECTS

Two months have passed since the publication of the British White Paper on the United Kingdom's postwar balance of payments¹ gave rise to a flurry of optimism concerning Britain's immediate economic prospects. The information that the White Paper conveyed and the comments that it provoked were indeed very encouraging. Great Britain's over-all balance-of-payments deficit was reported as having declined from 630 million pounds in 1947 to an estimated 280 million pounds in 1948. Although this result was to a large extent attained by a severe cutting of imports (to 80 per cent of their 1938 volume), the development on the receipts side appeared rather favorable. Not only did exports (as estimated) increase in 1948 to 30 per cent over the 1938 volume, but other items, such as income from foreign shipping, insurance, etc., showed a marked recovery as compared with 1947. The situation appeared less satisfactory so far as the dollar segment of Britain's international accounts was concerned. While the 1948 dollar deficit promised to be smaller than the peak figure of 1,024 million pounds in 1947, it was still expected to

¹ "United Kingdom Balance of Payments 1946-1948", September 1948, Cmd 7520.

amount to approximately 500 million pounds. Nevertheless, its drastic decline suggested the possibility that in a not too distant future Britain's further efforts, together with the beneficial effects of the economic recovery of the world as a whole, would eliminate Britain's deficit on both the over-all and the dollar accounts.

However, careful study of British and world economic trends, and of data published since the White Paper, indicates that these expectations are somewhat premature. While the progress made with respect to the balance-of-payments position is undoubtedly a major accomplishment, it would not seem to call for a fundamental reappraisal of the longer-run British economic position.

That position remains essentially unchanged. Great Britain no longer receives net income from foreign investments, shipping, and other service transactions in the proportions that enabled it before the war to nearly cover its import surplus. Nor is there much prospect that increased income from these sources will in the future do more than offset the substantial payments that will have to be made on the debts to the United States and other countries incurred during and since the war. This loss of foreign revenue, in conjunction with price developments in world markets that are highly unfavorable to Great Britain, has resulted in an over-all shrinkage in the volume of foreign supplies for which the United Kingdom is able to pay. Quite apart from the fact that the prices received for British exports have increased less than the prices of what Britain has to import, the fact that the world price level has nearly trebled has in itself increased greatly the deficit in the British balance of trade. At the same time, since a large part of British foreign investment is of the fixed return type, income derived from foreign assets has hardly risen despite the general price increase, so that such income has offset a smaller part of the balance-of-payments gap than before the war.

On the other hand, total requirements of the United Kingdom have increased markedly. The population of the British Isles has grown by about 2 per cent since prewar. In order to preserve health and efficiency, the meagre living standards of the war years had to be substantially raised in the first two years after the war. The tense international situation, moreover, has forced the British Government to retain in the armed forces large numbers of men who would otherwise be productively engaged, and to devote a large share of the national resources to the maintenance of an elaborate military establishment. The impossibility during the war of carrying out the normal replacement of worn-out equipment, the replenishment of depleted inventories, and the usual housing repairs, has entailed exceptionally large outlays for these purposes since the end of hostilities.

Barring a major improvement in the terms of trade, the only way to attain some sort of balance between these expanded needs and the greatly reduced supplies—apart from borrowing

abroad or liquidating foreign assets—is a drastic increase of domestic output. Yet, with the labor force fully employed, a significant rise in total output can hardly be attained without a thorough modernization and reequipment of Britain's productive apparatus. This in turn is predicated upon large-scale investment in plant and facilities. The problem faced by Britain is thus somewhat similar to that of the so-called underdeveloped countries: large investments are needed to increase output; but in the absence of an inflow of capital from abroad, only an increase in output can yield the wherewithal for a large investment program.

The economic policy of the British Government has accordingly been directed toward two objectives: (1) to secure such help from abroad (primarily from the rest of the British Commonwealth and from the United States) as is obtainable; and (2) to press the productive utilization of domestic resources to the limits of political and social feasibility. These efforts have been crowned with considerable success thus far. Since the war, not only have the other members of the British Commonwealth willingly cooperated with the United Kingdom in not demanding repayment of their sterling balances in London, and in reducing to a minimum their claims on the sterling area's dollar pool, but they have actively supported Great Britain with substantial loans and grants. The United States has agreed to a generous settlement of the British lend-lease account, has provided a loan of 3,750 million dollars, and has allotted to the United Kingdom a large part of the first ERP appropriation.

Britain's progress on the domestic production front also has been pronounced. Total manufacturing output in 1947 was about 20 per cent above the prewar volume, while exports exceeded their 1938 volume by 9 per cent. Further progress was reported for the first half of 1948: the volume of manufacturing output exceeded prewar by 26½ per cent in the second quarter of 1948, and export volume in the third quarter climbed to 38 per cent above prewar.

At the same time, the disinflation policy of the government, by siphoning off a large part of the excess purchasing power, has reduced the effective demand for nonessentials and has given powerful support to the policy of concentrating productive resources on exports and investment projects.

It is perhaps not surprising that this sequence of successes has been expected to continue. The rate of growth during the first three postwar years has tended to generate hopes that Britain will soon outgrow its economic difficulties and that by continued austerity and further expansion of output and exports it will be able to close the gap between the resources at its command and national requirements.

Such anticipations, however, appear to overlook some very serious hurdles which obstruct the road to Britain's recovery. The early successes in increasing industrial production were to a large extent due to the return of more normal economic

conditions attained in the course of postwar reconversion. Men were demobilized and returned to productive work. Slack in the utilization of plant, machinery, and labor was progressively removed. Bottlenecks in the supply of raw materials, power, parts, etc., were gradually eliminated. It is obvious that this phase had eventually to come to an end. Further progress will have to break new ground and can be made only by increasing the country's productive capacity.

That the end of the first stage is rapidly being approached is strikingly demonstrated by the economic program for July 1, 1948-June 30, 1949, which the British Government submitted to the Organization for European Economic Cooperation in October.² As set forth in this program, the curve of growth that so far has been rapidly mounting is now distinctly flattening out. The index of manufacturing production in the year ending June 30, 1949 is to average between 125 and 130 per cent of the prewar level; this is hardly an increase over mid-1948. Similarly, total exports are to attain 137 per cent of the prewar volume, which is actually a step backward compared with the 138 per cent attained in the third quarter of 1948. Indeed, it would seem that, so far as exports are concerned, the program represents possibly a downward revision of the earlier targets of 150 per cent of prewar volume by the end of the current year and 155 per cent by the end of 1949.

The conclusion seems inescapable that major increases in output can no longer be squeezed out of Britain's present economic system, unless there is an increase in productivity through a far-reaching reorganization of British industry and through new investment in plants and facilities.

The prospects for increased productivity, however, are by no means clear. At the annual average rate of 2 to 3 per cent that was the British and American experience before the war, the growth of total output would only slowly enable Britain to narrow the gap between available supplies and even the present drastically curtailed national requirements. It would not suffice to reestablish Britain's "viability" by 1951—the last year of the European Recovery Program.

The British Government's goals, it is true, are more ambitious. In planning an annual investment of about 20 per cent of the national income, it obviously expects productivity to advance more rapidly than in the past. In agriculture the long-term plan envisages that production by 1952 will equal 150 per cent of the prewar level. About 25 million pounds are to be invested in the coal industry, continuing the current increase in mechanization. Major investments, aggregating nearly 200 million pounds, are scheduled in the electricity, steel, and chemical industries. Yet this whole investment program does not promise to affect the volume of output significantly until the end of the ERP period.

Consumption, at least for the duration of ERP, will thus have to be held down to its present level, and the balance-of-

² "European Cooperation", October 1948, Cmd 7545.

payments deficit can hardly be expected to decline much further in the immediate future.

It is quite conceivable that, granted a steady growth of its total output and with rigid limitations of consumption, Britain will be able to balance its foreign accounts a few years after the end of ERP. This would presuppose, however, that world markets continue as receptive to British exports as they have been since the war and as they still appear to be. Whether this assumption is realistic is difficult to say. The reappearance of Germany and Japan as major exporters will undoubtedly confront Britain with serious competition. A decline of domestic demand in the United States would also strengthen American pressure on export markets while at the same time reducing American imports from Great Britain. Under such conditions a possible improvement of the British terms of trade might be more than offset by a serious decline in the volume of British foreign sales.

There are no present indications that the British balance-of-payments deficit that would persist in that case could be balanced by private capital movements. Should the private capital market continue to be unwilling to supply the necessary funds, the United Kingdom would have to continue to depend on intergovernmental loans and grants.

These are indeed not bright prospects, but there seems no reason to regard them as unrealistic. It will require all the planning skill of the government, all the ingenuity and flexibility of management, all the cooperation of labor, and all the endurance of the consumer to keep the British balance-of-payments gap down to manageable proportions.

DEPARTMENT STORE TRADE

Sales at Second District department stores during November showed much less than the usual pre-Christmas rise, in large part because of the unusually mild weather which prevailed practically throughout the month. As a result, seasonally adjusted sales showed a sizable decline, accentuating a trend that began six months ago. Sales were also lower in dollar volume than in November of last year, even though there was an additional shopping day this year. In 1947, however, because of the warm weather that had prevailed during much of September and October, a large volume of fall buying spilled over into November, making that month (seasonally adjusted) the best of the entire 1947 fall-winter season.

There is considerable speculation in trade circles as to whether the disappointing November sales figures are due exclusively to warm weather or whether they result partly also from more fundamental factors such as mounting consumer resistance to prices (most recently for men's clothing), filling up of consumers' inventories, and the effect of the high cost of food.

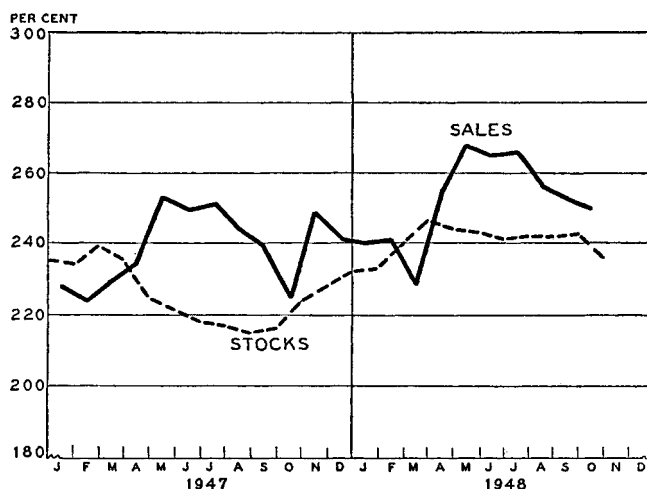
RECENT TRENDS IN STOCKS AND ORDERS

During the 18 months preceding November 1948 the value of stocks in Second District department stores fluctuated on a lower level relative to the 1935-39 averages than sales, as is shown in the accompanying chart. Once the "ersatz" goods of the war and immediate postwar period were cleared out by extensive markdowns and special sales at the beginning of the 1947 spring season, this bank's index of stocks remained below that of sales, particularly during the stock-pruning period in the middle of 1947. Only following a poor pre-Easter selling season in 1948 did the stock index for a brief period exceed that of sales. Since then stocks have moved mostly sidewise but with some downward tendency. The recent movements of stocks indicate in part cautious buying by store managers, despite over-all inflationary tendencies in the economy, and in part a continuation of the downward trend in the stocks-sales ratios.¹

The extent to which the stores are endeavoring to avoid inventory accumulations is indicated by recent changes in order positions. The reporting group of the larger District stores reduced outstanding orders at the end of October by fully one-fifth below last year's levels (as was the case at the end of September). As a matter of fact, not since February (when the increase was only 2 per cent) have outstandings been as much as one per cent greater than in 1947. During October, for the third consecutive month, these same stores placed new orders (net of cancellations) for a significantly smaller amount

¹ For a detailed analysis of this shifting relation of stocks to sales, with particular emphasis on Second District stores, see Clement Winston and Marie L. Puglisi, "Inventory Turn-Over in Retail Trade," *Survey of Current Business*, June 1948.

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



* Seasonal factors used to adjust stocks have been revised, as announced in the November 1948 issue of this Review.

**Ratio of Stocks and Orders to Sales
Second District Department Stores***
(Month of October for selected years)

	1940	1946	1947	1948
Stocks#.....	2.48	2.72	2.45	2.44
Outstanding orders#.....	0.95	3.29	1.53	1.17
New orders†.....	1.31	0.88	1.21	1.08

* For a group of the larger stores which in 1947 accounted for about 55 per cent of estimated total District department store sales.

Stocks and outstanding orders at end of month divided by sales during month.

† Net new orders during month divided by sales during month.

than last year, although orders increased more than seasonally above the particularly low level of September.

Because of year-to-year declines in orders at a time when sales were making gains, the ratio of outstanding orders to sales has continued to drop from the peak reached during the scramble for goods in 1946. At the end of October in that year, the ratio stood more than three times as high as its 1940 level of about 1.0. It was reduced sharply from 3.3 to 1.5 within one year, and by October 1948 the ratio was down to 1.2. While stores are reluctant to build up inventories, as is clearly indicated by the stocks-sales ratios in the accompanying table, the outstanding orders-sales ratio is still slightly higher than in 1940, since some order backlogs still exist for a few hard goods lines.

The new orders-sales ratios of recent months display a marked contrast to those of 1940. In only one month this year has the ratio been greater than during the corresponding

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

Locality	Net sales		Stocks on hand Oct. 31, 1948
	October 1948	Jan. through October 1948	
Department stores, Second District....	+ 7	+ 6	+ 5
New York City.....	+ 5	+ 5	+ 3
Northern New Jersey.....	+ 6	+ 6	+ 8
Newark.....	+ 3	+ 5	+ 5
Westchester County.....	+13	+ 3	- 2
Fairfield County.....	- 1	+ 2	+17
Bridgeport.....	- 2	0	+17
Lower Hudson River Valley.....	+15	+ 9	+ 8
Poughkeepsie.....	+20	+12	+ 9
Upper Hudson River Valley.....	+13	+ 9	+ 8
Albany.....	+13	+ 8	+ 6
Schenectady.....	+16	+11	+ 9
Central New York State.....	+11	+ 7	+11
Mohawk River Valley.....	+10	+ 9	+16
Utica.....	+12	+ 9	+15
Syracuse.....	+12	+ 6	+ 8
Northern New York State.....	+10	+14	-
Southern New York State.....	+ 8	+11	+12
Binghamton.....	+11	+13	+11
Elmira.....	+ 4	+10	+24
Western New York State.....	+13	+11	+ 7
Buffalo.....	+10	+11	+ 1
Niagara Falls.....	+11	+ 7	+ 2
Rochester.....	+19	+12	+19
Apparel stores (chiefly New York City).	+ 6	0	+ 5

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

Item	1947	1948		
	October	August	Sept.	October
Sales (average daily), unadjusted.....	252 ^r	187	257	280
Sales (average daily), seasonally adjusted..	225	256	252	250
Stocks, unadjusted.....	253	242	256	267
Stocks, seasonally adjusted*.....	224	242	243	236

^r Revised.

* Seasonal adjustment factors for 1946-48 revised; available upon request from Research Department, Domestic Research Division.

month of 1940, and in recent months the ratio has been decidedly lower than in corresponding months of 1940.

The full implications of these developments in the stock and order positions of department stores are not entirely clear. Apparently there still are some lines whose delivery periods are substantially longer than before the war. However, the recent stability of the stocks-sales ratio in the face of a decline in orders illustrates that supply conditions are continuing to improve and that the principal retail trade ratios are rapidly approaching prewar patterns.

Indexes of Business

Index	1947	1948		
	October	August	Sept.	October
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	190	191	192	195 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	228	253	252	253 ^p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	207	209	200 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	319 ^r	338 ^r	340	339 ^p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	160	162	165	163 ^p
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	132	126	128	127 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	350	375	382 ^p	
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	297	297	306	294 ^p
Personal income*, 1935-39 = 100..... (Department of Commerce)	292	313	313 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	181 ^r	193	194 ^p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	164	175	175	174
Velocity of demand deposits*, 1935-39 = 100..... (Federal Reserve Bank of New York)				
New York City.....	94	103	104	109
Outside New York City.....	88	96	93	93

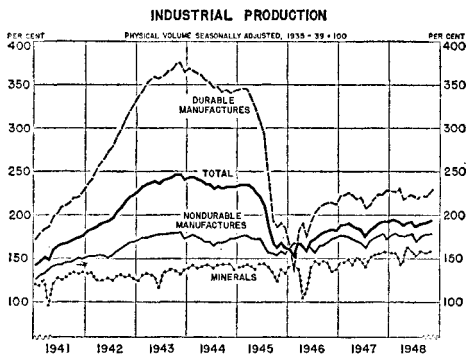
* Adjusted for seasonal variation. ^p Preliminary. ^r Revised.

† 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.

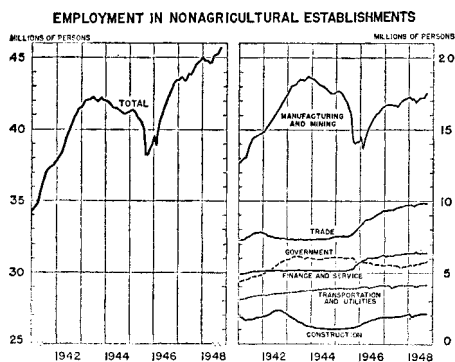
FEDERAL RESERVE BANK OF NEW YORK
MONTHLY REVIEW, DECEMBER 1948

National Summary of Business Conditions

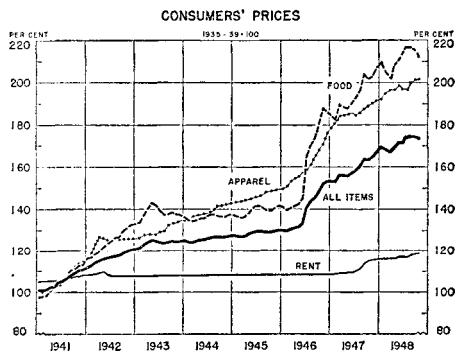
(Summarized by the Board of Governors of the Federal Reserve System, November 30, 1948)



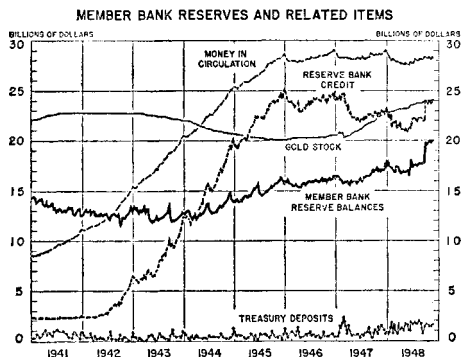
Federal Reserve indexes. Monthly figures; latest shown are for October.



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



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



Wednesday figures; latest shown are for November 17.

INDUSTRIAL production increased somewhat in October. Value of department store sales showed less than the usual seasonal rise in October and the early part of November. Prices of foods and some other products declined while prices of metal products advanced further. Growth of bank loans has slackened considerably since September, and in November sales of Government bonds by nonbank investors declined sharply. Bond prices advanced somewhat in November while common stock prices declined sharply.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production increased 3 points in October to a rate of 195 per cent of the 1935-39 average, owing mainly to a substantial gain in output of durable goods.

Activity in durable goods industries in October was at a new high rate for the postwar period, reflecting in large part a record volume of iron and steel output. Steel mill activity advanced 4 per cent in October to a rate of close to 100 per cent of capacity, and operations continued at about this level during November. Output of automobiles likewise showed a significant increase in October and reached a new postwar peak rate. Production of copper and railroad freight cars declined. Activity in most other durable industries in October was somewhat above the September rate.

Output of nondurable goods showed a slight further gain in October. Production of petroleum products recovered to the August level, reflecting settlement of labor disputes at West Coast refineries. Activity in the paper and publishing industries expanded moderately. Production of textile and leather products, on the other hand, declined in October, according to preliminary reports. Output of most other nondurable goods was maintained at about the September rate.

Minerals production recovered from the decline in September, which had reflected mainly a temporary curtailment of crude petroleum output. Bituminous coal production declined further in October and was 7 per cent below the same month a year ago. Output of metals was maintained at about the September rate.

CONSTRUCTION

Construction contracts awarded, as reported by the F. W. Dodge Corporation, increased slightly in October, reflecting chiefly large awards for publicly-financed housing projects and hospitals. Awards for private residential building and public works and utilities continued to decline. The number of new housing units started, according to Department of Labor estimates, dropped further in October to 72,000. This compares with 81,000 in the preceding month and 94,000 in October of last year.

DISTRIBUTION

Department store sales in October and the early part of November were below the advanced level of the preceding six months, after allowance is made for the usual seasonal changes. Value of sales in the first three weeks of November was 8 per cent less than during the corresponding period last year.

Shipments of most classes of railroad revenue freight in October and the early part of November were maintained at about the September level, after adjustment for seasonal changes. Total carloadings during this period were 4 per cent below the same period a year ago, reflecting mainly a smaller volume of shipments of coal and manufactured goods.

COMMODITY PRICES

The general level of wholesale commodity prices decreased somewhat further from the middle of October to the third week of November, reflecting mainly additional marked declines in prices of meat and livestock. Prices of grains and cotton strengthened in this period. Further advances were reported in metal prices.

Decreases in retail food prices lowered the consumers' price index by one-half per cent from September to mid-October. Retail prices of most other groups of items showed further small advances.

BANK CREDIT

Federal Reserve support purchases of long-term Treasury bonds from nonbank investors declined sharply in early November, following substantial purchases in October. In mid-November, as prices of Treasury bonds advanced somewhat, Reserve Bank holdings were reduced slightly. During October and the first three weeks of November the System sold a larger amount of short-term Government securities to banks and to other investors than it purchased of Treasury bonds, and total Government security holdings at the Reserve Banks declined.

Following the increase in reserve requirements in the latter part of September, total loans of all member banks showed little change in October. Loans to businesses increased further at banks in leading cities during October and the first three weeks of November, but the increase was considerably smaller than in the corresponding period last year. Holdings of short-term Government securities rose substantially over the period. Demand deposits at member banks increased sharply in October, as the result of Federal Reserve purchases of securities from nonbank investors, but declined somewhat early in November at banks in leading cities.

SECURITY MARKETS

Trading in Government bonds was in small volume in the first three weeks of November. Prices of high-grade corporate and municipal bonds advanced slightly. On November 16, the Treasury announced a one-year 1 1/4 per cent certificate issue in exchange for issues maturing in December and January.

Common stock prices declined about 10 per cent in early November, cancelling the advance that began in late September.