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MONEY MARKET IN DECEMBER

Renewed strength developed in the Treasury bond market during December and prices of all issues rose. All of the longer-term issues advanced, and closed the month at levels ranging from $2/32$ to $17/32$ above the highest points attained in November. Unlike the November upswing, which took place in a thin market as a consequence of a diminution of selling pressure, the December rise reflected a broadening of demand as well as the absence of sales by some institutional investors which, until November, had been consistent sellers. Accumulating evidence that inflationary pressures were subsiding somewhat, and the less tangible influence of opinion with respect to future fiscal and monetary policy, contributed to the more favorable estimates of future price movements in the Government security market.

Other factors lent strength to the main trend of the market. The receding dimensions of the seasonal increase in business loans of the banks during November and December, particularly when compared with the soaring advances in the corresponding periods of the preceding two years, was considered both a confirmation of a weakening of demands for credit and a portent of greater interest of the commercial banks in Government securities of somewhat longer maturities. There were few large offerings of new corporate issues after the first week of the month and, concurrently, the sales of Treasury bonds to obtain funds for new investment purposes declined noticeably. The large life insurance companies refrained from selling long-term restricted Government bonds and—temporarily at least—appeared to have withdrawn from the market. Some investors, mindful of the heavy reinvestment demand for securities that normally occurs in January, purchased securities in December in order to “beat the gun,” and contributed to the market’s strength.

Much of the activity in the Government bond market was centered in the trading of savings and commercial banks, which tended to lengthen the maturities of their portfolios. Indicative of a marked change in investment policy by the savings banks was the sale of certificates of indebtedness and the pur-

chase of long-term ineligible bonds with the proceeds. The savings banks also continued to shift from long-term eligible to ineligible issues. Commercial banks were more cautious about lengthening their portfolios; their operations involved, in part, switching from the short end of the list of intermediate-term bonds to the long end. Commercial banks also continued to acquire partially tax-exempt bonds as a hedge against the possibility of higher corporation income taxes.

Prices of all intermediate and long-term Government bonds rose considerably. All the ineligible issues but the $2\frac{1}{4}$ ’s of 1959-62 (which were temporarily in supply) advanced above their recent support prices during the first half of the month, and the $2\frac{1}{4}$ ’s subsequently moved free. The Federal Reserve System made small net purchases in support of one or two longer-term issues of which modest amounts were overhanging the market in the first part of December. But in the second half of the month, the System made moderate net sales of long-term ineligible bonds. Unlike the System sales of long-term bonds in November, these sales did not cause a decline in prices.

Trading in the short-term Government security market tended to reflect mainly changes in the banks’ reserve positions. The demand for bills and longer certificates was strong during periods of money market ease, and weakened as pressure on bank reserves increased, particularly after the 15th of the month when quarterly tax collections grew heavy.

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MEMBER BANK RESERVE POSITIONS

Treasury operations and the pre-Christmas demand for currency were the chief influences affecting the money market during December. Treasury transactions included the retirement of about 200 million dollars of bills held by the Federal Reserve System (100 million each in the weeks ended December 8 and 15), the payment of more than 600 million dollars of interest on the public debt on the 15th of the month, withdrawals from War Loan deposits aggregating 1.1 billion dollars in the first half of December, and receipts of fourth-quarter instalment payments of income taxes, most of which reached the Treasury's accounts with the Federal Reserve Banks in the week ended December 22. Seasonal demands for currency prior to Christmas, which were smaller than in any year since the end of the war, resulted in a total of 238 million dollars being paid out between December 1 and 22; as usual, currency began to return to the banks after the holiday.

In the week ended December 8, the beginning of the holiday outflow of currency together with the Treasury's retirement of 100 million dollars of maturing Treasury bills out of Federal Reserve holdings brought moderate pressure on member bank reserve positions. But the money market eased considerably in the following week, when the regular disbursements of the Treasury for defense, foreign aid, crop support, and other purposes were heavy and were supplemented by payment into the market of the interest on the public debt due at the middle of the month. Because of these factors and because the withdrawals from the Treasury's War Loan deposits at commercial banks were limited to 450 million dollars, Treasury disbursements in the week ended December 15 exceeded receipts by more than 550 million dollars. Approximately 100 million dollars of the Treasury's disbursements were used to retire bills held by the Reserve Banks, however, and so did not reach the money market.

In addition to the substantial net Treasury disbursements, member banks during the second week of December had the benefit of a large increase in Federal Reserve "float" and of a small, contraseasonal return flow of currency from circulation—the latter being an unusual development during the Christmas shopping season. Because a large part of the net gains of funds occurred on the last day of the statement week, most of these gains augmented excess reserves, which rose almost 600 million dollars. Borrowings from the Federal Reserve Banks were reduced 133 million dollars.

Thus, in the following week, the banks were in a favorable position to meet the heavy losses of deposits which accompanied the payment of fourth-quarter instalments of Federal income taxes. Additional pressure on member bank reserve positions was exerted in that week by a resumption of the seasonal outflow of currency and by sizable purchases, by non-bank investors, of Treasury obligations from the Federal Reserve System. The heavy drains of funds quickly tightened

the money market, absorbing most of the previous week's accumulation of excess reserves and compelling the banks to borrow almost 160 million dollars from the Reserve Banks and to sell Government securities, some of which were absorbed by the Reserve System. However, the System's sales of Treasury issues, mostly bills and longer-term bonds, to nonbank investors exceeded its purchases from the commercial banks and total System holdings consequently fell nearly 150 million dollars.

The heavy flow of tax checks to the Treasury subsided in the week ended December 29, and currency returned to the Federal Reserve Banks in considerable volume after the Christmas holiday. At the same time a substantial shrinkage in "float", interdistrict flows of funds, and preparations for year-end statements resulted in temporary but large-scale borrowing from the Reserve Banks early in the week which was subsequently repaid out of the proceeds of substantial sales of short-term securities by commercial banks, and the money market was rather tight.

MEMBER BANK CREDIT

Government security holdings of the weekly reporting member banks declined moderately in the four weeks ended December 15. A modest increase in certificates and bonds (taken together because of the exchange offering of certificates for bonds due on December 15) and a moderate gain in notes were more than offset by a decline in bills reflecting pressure on reserve positions. Although the data are obscured by the December 15 exchange, it appears that the banks made small net purchases of Government bonds in the four-week period, interrupting the downward trend of their bond holdings that had been in progress throughout the year.

Total holdings of Government securities of the weekly reporting member banks in mid-December were about 4.2 billion dollars less than at the same date in 1947. This decline reflected the effects of redemptions of commercial bank-held Treasury obligations and the pressure maintained on bank reserves through Treasury retirement of issues held by the Reserve Banks and through increases in legal reserve requirements. The banks shortened their portfolios considerably during the year in order to strengthen their holdings of liquid assets in view of uncertainties concerning their reserve requirements, to place themselves in a more favorable position to obtain the higher rates offered on new short-term Treasury issues, and also to avoid possible losses on longer-term bonds. Treasury bill holdings rose during the 12-month period under review by 0.9 billion dollars. An increase of 1.5 billion dollars in certificates was not fully offset by a drop in note holdings. The major change was in bond holdings, which declined 5.5 billion dollars during the year.

Total loans of the weekly reporting member banks rose to a new high record of 25,529 million dollars (gross) on December 15, or 336 million dollars above the November 17

total and 1,884 million dollars larger than a year earlier. Most of the increase in the four weeks ended December 15 was accounted for by an expansion of security loans to brokers and dealers in connection with their increased position in Government and new corporate securities. Both real estate and all other (including consumer) loans continued their gradual advances to new peak levels.

It was, however, the unexpectedly small seasonal rise in commercial, industrial, and agricultural loans which received most attention. Business loans rose only 27 million dollars in the four weeks ended December 15; in the corresponding weeks of 1947, they had gained 416 million (see the accompanying chart). In fact, such loans actually fell 124 million dollars between the November 10 peak and December 8, whereas they had shown a rapid rise between the corresponding dates in the two preceding postwar years. Only a sharp upturn in the week of December 15 brought the commercial loan figure into new high ground.

This lag in the expansion of commercial, industrial, and agricultural loans has been generally interpreted as reflecting a slackening of activity in a wider and wider area of business, cessation of the rise in wholesale prices, and cautious inventory practices. This view was strengthened by the fact that the totals for this category of bank loans have been sustained during the year's final months by a heavy seasonal expansion of crop loans made under the guarantee of the Commodity Credit Corporation. Even though the weekly reporting member banks comprise only the larger institutions of the country and account for only a small proportion of total crop loans,

the large seasonal expansion of such credits this year influenced the week-to-week changes in the combined commercial, industrial, and agricultural loans reported by these banks. On the other hand, the expansion of purely commercial and industrial loans has been retarded to some extent by the repayment of outstanding bank debt, by large corporations, with the proceeds of loans arranged directly with life insurance companies and of securities offered in the capital market. The fact that the most noticeable lag in loan expansion has been in the loan portfolios of New York City banks tends to confirm the evidence of some shift in the sources of borrowed funds.

CORPORATE WORKING CAPITAL

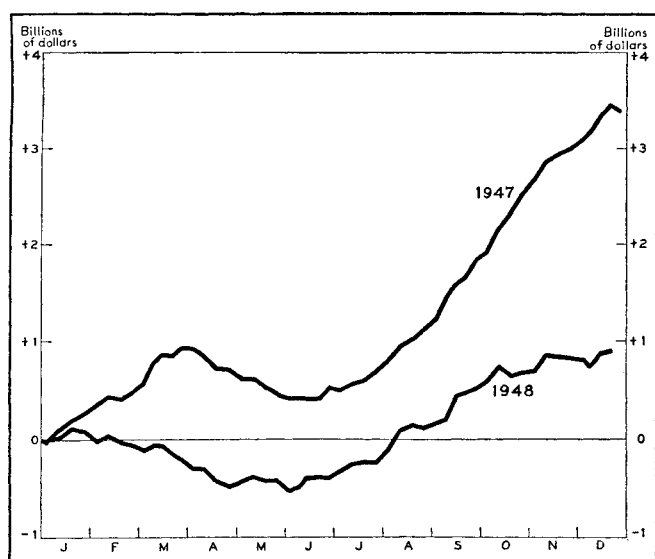
Despite their exceptionally liquid position at the end of the war and the retention since then of large amounts from current earnings, American business corporations have had to seek unprecedented amounts of working capital funds from banks and from institutional and other investors during the past three years.

At the end of the war, corporate enterprise in the aggregate probably enjoyed the most liquid financial position in history. Working capital¹ of all business corporations (exclusive of banks and insurance companies) totaled 97.8 billion dollars at the end of 1945, exceeding current liabilities by 51.6 billion dollars. Cash on hand and in the banks plus Government security holdings comprised 44 per cent of total quick assets, reflecting in large part limited investment opportunities during the war and the fact that the Treasury had financed a large part of the wartime working capital needs of industry. These liquid assets, amounting to 42.8 billion dollars, were sufficient to pay off all but 3.4 billion dollars of total corporate obligations due within one year. Inventories and accounts receivable, while considerably above the 1939 figures, were unusually low in relation to total working capital.

Working balances of 1,122 corporations which are registered on national security exchanges and for which there is a breakdown by industry showed no significant deviation, industry by industry, from working capital patterns of all business corporations, other than such deviations as are characteristic of the operations of individual industries. For the most part, at the end of 1945 each of the major industries showed substantial accumulations of liquid assets, a low level of inventories and receivables, and a wide margin of quick assets over liabilities.

With industry in such strong financial condition, it appeared as though a very considerable expansion of business activity could be financed with funds on hand and with retained current profits. Indeed, toward the close of 1945, prospects for an increase in commercial loans and security issues seemed

Cumulated Net Changes in Commercial, Industrial, and Agricultural Loans, Weekly Reporting Member Banks, 1947 and 1948*



* Cumulated from Dec. 31, 1946 and Dec. 31, 1947. Wednesday dates; latest figure is for Dec. 22, 1948.

¹ The sum total of current assets, sometimes known as gross working capital.

remote. Within two short years (in fact within the very next year), however, it was necessary for business to seek additional funds. The very large volume of liquid assets proved insufficient to meet the heavy needs for working capital and other funds that developed after the war. In the aggregate, business corporations except banks and insurance companies increased their total current assets to 118.4 billion dollars on June 30, 1948, a gain of over 20 per cent from the 1945 year-end total. The increase in working capital came primarily in inventories and receivables, the two components which had grown least during the war. In the 2½-year period corporations added 16.7 billion dollars to their inventories—8.5 billion in 1946 and 5.8 billion in 1947. According to preliminary indications, nearly five billion more was added in 1948 (2.4 billion in the first six months). Between the end of 1945 and June 30, 1948, customer financing rose 12.4 billion dollars, practically all of which was in the first two years.

The postwar expansion of working capital stemmed principally from the need for funds to reorient production and distribution into normal peacetime channels after several years of military production. During the reconversion period certain industries required additional cash because sales were low and expenditures comparatively high. Inventories increased at all levels of the productive and distributive system. Since the national output was no longer directed preponderantly toward meeting the needs of a single buyer (the Federal Government) with known requirements and delivery schedules, a peacetime variety and balance in stocks had to be re-established, and depleted "pipelines" had to be filled. As private buyers, unlike the Federal Government, did not make payments in advance of delivery, credit to customers expanded

sharply. Financing of American export trade gradually shifted back to private channels, although the Government still plays a very important role in this field.

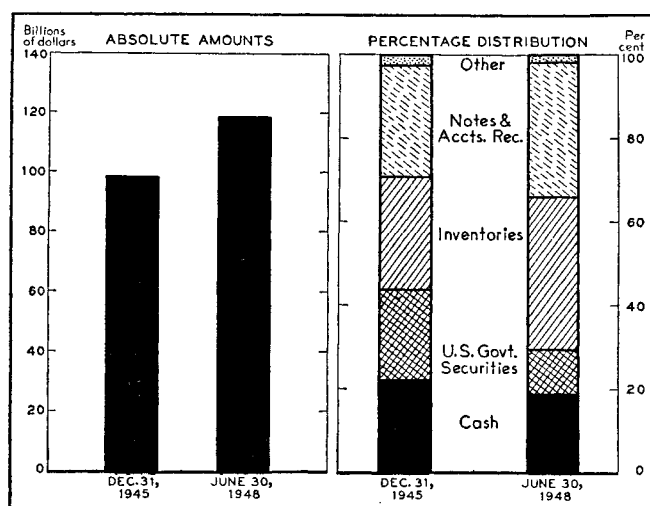
On top of these needs for funds arising from the return to peacetime patterns of production and channels of distribution, working capital was required to meet the steadily rising cost of goods and services. Three rounds of postwar wage increases raised the cash requirements for payrolls, while the upsurge in prices which followed the removal of price controls raised inventory costs. Higher prices of industrial materials reflected wage increases as well as acute demand and shortages of supply, the latter resulting in part from the presence of production bottlenecks. Since one concern's selling price is another's cost, a rise in prices tends to become cumulative throughout the various stages of production and distribution. Thus the need for additional working capital arose from the price element as well as from the physical accumulation of inventories.

How was this growth of working capital financed, and did the methods of financing used contribute to the process of inflation?

The very process of inventory accumulation, of course, tends to be inflationary since it creates incomes without making goods available for immediate consumption. The inflationary significance of the growth of working capital depends, however, on the manner in which the larger working capital needs have been financed. To the extent that the additional funds come from nonbank investors, no new income is generated in the inventory accumulation process except when idle balances are activated. In the main, postwar needs of American business for expanding working capital have been met through (1) the sale of Government security holdings, (2) increased short-term borrowings from the banks, (3) an increase in trade payables, and, (4) long-term borrowing, sales of securities in the capital market, and, most important, retained earnings and other internal funds (designated "all other sources" in the accompanying table).

On the whole, it appears that the financing of enlarged inventories and corporate trade receivables has been inflationary to a moderate degree only. As shown in the accompanying table, corporate sales of Government securities (8.5 billion dollars in the 2½ years ended June 30, 1948) accounted for over a fourth of the total funds required. About three fourths of these sales were made during the first postwar year, when the Treasury retired large amounts of maturing or called issues with funds which had been raised through the sale of Government obligations to nonbank investors in the Victory Loan drive. Thus, it is probable that the bulk of the Treasury securities which corporations liquidated did not find their way into bank portfolios. However, Government War Loan deposits which might otherwise have lain idle were put into more active use as a result of such liquidation.

Total Current Assets of U. S. Corporations*
(December 31, 1945 and June 30, 1948)



* All U. S. corporations except banks and insurance companies.
Source: Securities and Exchange Commission.

**Uses and Sources of New Working Capital Funds of
Business Corporations***
(In billions of dollars)

Uses	1946	1947	First half of 1948	1946- first half of 1948#
Increase in cash.....	0.0	1.2	0.0	0.7
Increase in customer financing.....	6.0	5.9	0.5	12.4
Inventory accumulation.....	8.5	5.8	2.4	16.7
Repayment of bank and trade debt.....	0.0	0.0	1.5	0.0
Reduction in taxes due Federal Government.....	2.5	0.0	0.0	0.2
Decrease in other liabilities.....	0.0	0.0	0.3	0.0
Total.....	17.0	12.9	4.7	30.0
Sources				
Decrease in cash.....	0.3	0.0	0.2	0.0
Liquidation of Government securities.....	6.2	1.5	0.8	8.5
Decrease in other assets.....	0.7	0.1	0.0	0.8
Increase in bank and trade debt.....	5.2	4.0	0.0	7.7
Increase in taxes due Federal Government.....	0.0	2.1	0.2	0.0
Increase in other liabilities.....	0.0	1.1	0.0	0.8
All other sources†.....	4.6	4.1	3.5	12.2
Total.....	17.0	12.9	4.7	30.0

* All corporations other than banks and insurance companies.

Data in this column show net changes in asset or liability items for the 2½-year period and are not summations of the items in the preceding columns.

† Retained profits, increases in reserves, long-term loans, and sales of new security issues.

Source: Securities and Exchange Commission.

More than one fourth of the postwar needs for working capital funds were obtained through the expansion of notes and accounts payable. Unfortunately, no breakdown between short-term bank borrowings and indebtedness to suppliers is available. However, it is known that business loans of the banks rose sharply in 1946 and 1947 and accounted for a sizable part of the total expansion of corporate payables, which amounted to 7.7 billion dollars in the period under review. The decline in business loans during the first half of 1948 was largely seasonal. Probably more than half the postwar expansion of corporate payables was indebtedness to suppliers. Corporate trade receivables expanded much more than corporate trade payables, however, so that credit extended by corporations to individuals and unincorporated business increased substantially. This together with the rise in intercorporate indebtedness (that part of the increase in the volume of corporate trade receivables financed by a rise in corporate trade payables)² resulted in a larger volume of sales being carried on without any change in the money supply, thus causing the velocity or turnover of money to increase somewhat. The extension of trade credit by corporations to individuals and unincorporated business has tended to reduce the need of the latter groups for additional outside financing, including bank loans. However, such outside financing may not otherwise

² In the data for all corporations, *intercorporate* accounts receivable and payable are necessarily equal; the difference between total accounts receivable and total accounts payable (almost always an excess of receivables) represents credit extended by corporations to individuals and unincorporated business or indebtedness of the former to the latter.

have been available, in whole or in part, to small business and others.

Equity funds and long-term borrowing (including retained earnings, other internal funds set aside in various reserves, and the proceeds of new security issues in the capital market) provided most of the remaining working capital needs. In the 2½ years ended in mid-1948, 12.2 billion dollars of new working capital were received from these sources by American corporations. In addition, of course, a substantial part of corporations' internal funds and of the proceeds of their security issues was used to finance the unprecedented expansion of plant and equipment.

Although a clear-cut answer cannot be given, it appears that on the whole the increase in corporate working balances has not been one of the main factors exerting inflationary pressures on the pricing system during the postwar years.

What is the present position of industry with respect to working capital and what are the prospects for further expansion of working capital needs?

In spite of the large volume of expenditures made, corporations have actually added 700 million dollars to their holdings of cash since the end of 1945 (an increase of 3 per cent). The liquidation of Government security holdings has continued, but on a sharply diminished scale. Thus, despite a 40 per cent decline in Government securities since the end of 1945, corporate liquid assets still totaled 35 billion dollars on June 30, 1948, when they accounted for 30 per cent of total working capital. Current assets are still more than twice quick liabilities. They should provide an ample cushion against the contingency of substantial losses through shrinkage of inventory values.

While it is apparent that in the aggregate corporate working capital is ample and liquidity high, the position of individual industries and of individual enterprises is not uniformly favorable. For the 1,122 large corporations registered on national security exchanges, it appears that ample working capital margins prevail in all of the major industries and that liquidity remains high (except among trade corporations and sales finance and personal loan companies, where there is less need for liquidity). This is not necessarily true for the smaller corporations.

The expansion of corporate working capital was most rapid during 1946 and 1947. Preliminary data for 1948 indicate considerable reduction in additional working capital needs, reflecting the filling of "pipelines" and the lessened impact of price increases on inventories. With the return of buyers' markets in more and more industries and the continuation of selective price declines, it appears likely that there will be some further lessening of demands for working capital funds for the further accumulation of inventories and for customer financing.

PRICE TRENDS DURING 1948

At the end of 1948, the over-all level of wholesale prices was slightly lower than that which prevailed at the start of the year, making 1948 the first year since 1938 in which wholesale prices failed to show a net advance. The U. S. Bureau of Labor Statistics' new weekly index of wholesale prices was 163.5 per cent of the 1926 average in the week ended December 28, compared with 164.5 for the last week of 1947 and the all-time high of 169.7 set in the week ended August 17, 1948. The year's net decline in prices was not, however, a general one; instead it was mainly a drop in prices of farm products and foods which offset the continued firmness in prices of other commodities, as shown in the accompanying chart.

At the end of 1948, farm products as a whole were selling at about 13 per cent below the peak reached near the start of the year. The course of farm prices during the year was characterized by the divergence between the price movements of grains and other crops, on the one hand, and those of livestock and livestock products, on the other. Grain prices broke sharply in late January and early February, dropping 20 per cent in four weeks. There was a partial recovery in March and April, but, as the new crops reached the market, grain prices started a steady downward movement which persisted until, by mid-October, all grains except rice were at or below the level (90 per cent of parity) at which Government supports generally become operative. The record size of some crops and near-record size of others caused a shortage of approved storage facilities, which forced some farmers to sell their grain below the prices at which the Government would make loans on properly stored grain.

Wheat prices, which at one time in Kansas City were 17 cents below the support price equivalent, strengthened as harvesting was completed and heavy exports relieved some of the pressure on storage space. During most of November and December, wheat prices were as much as 10 cents above support levels. The margin by which prices must exceed support levels to make it profitable for a farmer to repay a grain loan increases with the passage of time. It is estimated that approximately 16 cents per bushel above support prices are required to pay principal, interest, and storage charges on a wheat loan which has run for six months.

Corn prices dropped sharply in September and October, and at election time hit a low of \$1.35 per bushel at Chicago, or about 20 cents below the support level. By late December, corn prices had risen about 14 cents, but the problem of adequate storage was still acute.

Cotton prices followed somewhat the same pattern as that of grains, with a peak early in the year, a sharp drop to less than support levels when the new crop came on the market, and a subsequent partial recovery in the latter part of the year.

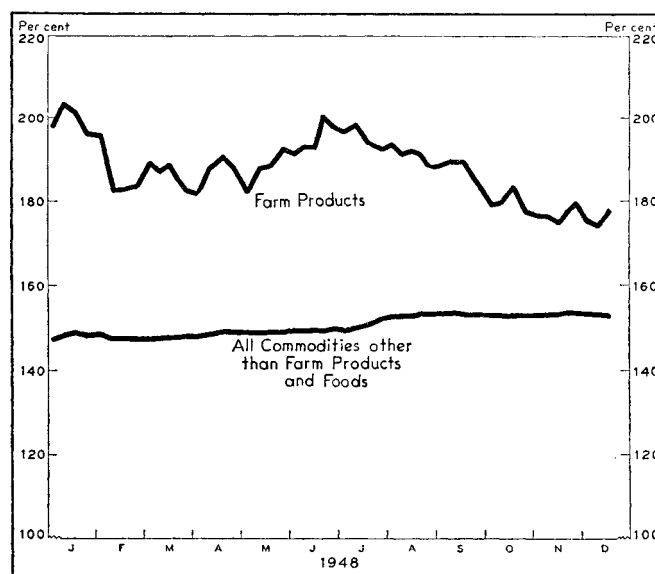
The recent increase has been spurred by improved export prospects, the large proportion of the crop going into loan, and the emergency program for advances on farm-stored cotton instituted by the Department of Agriculture to protect farmers against the necessity of selling below loan levels.

One interesting result of the downward movement in grain prices has been the narrowing of the gap between prices for near and distant future delivery contracts on the major grain exchanges. In the case of wheat, the gap narrowed by the end of 1948 to approximately one-half what it had been a year earlier, while for corn and oats the price differential was only about one third of the margin prevailing a year earlier.

The decline in grain prices also caused a correspondingly rapid drop in feed prices. Since the Second Federal Reserve District is in general a feed-consuming, rather than grain-producing, area, the result has been lower feed costs for the dairy farmers and poultry and livestock raisers in this area.

Similarly, the abundant supply and lower cost of feed are expected to promote increased supplies and lower prices of livestock and meats by late 1949. Until the last few months of 1948, however, the low livestock population and the large consumer demand at high income levels had pushed meat prices to new peaks. During the spring, livestock and meat prices had fallen together with grain prices. Later, when livestock prices were depressed because labor-management disputes had reduced the meatpacking industry's ability to absorb the livestock brought to market, meat remained relatively scarce and high-priced. During the summer and early

Weekly Indexes of Wholesale Prices of Farm Products and of All Commodities other than Farm Products and Foods, 1948*
(1926 average=100 per cent)



* Tuesday dates; latest figures are for December 21, 1948.
Source: U. S. Bureau of Labor Statistics.

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fall, both meat and livestock prices reached new peaks. As the fall marketing season got under way, prices declined appreciably, but they still remained well above parity levels. The decline, which exceeded normal seasonal expectations, reflects to some extent consumer resistance to high prices; the Bureau of Agricultural Economics expects that meat consumption per person in the fourth quarter of 1948 will prove to have been about two pounds less than the 40.8 pounds per capita consumed in the last quarter of 1947. Livestock and meat prices are expected to rise seasonally in the next few months; ordinarily hog prices increase about 15 per cent between December and March, while beef cattle rise about 7 per cent in the same period. After that time, however, livestock should be more plentiful as the new pig crops, fattened on lower-priced corn, come on the market.

As shown on the accompanying chart, prices of commodities other than farm products and foods during 1948 were, as a group, remarkably steady. Except for the rise around mid-year, reflecting the third round of wage increases and higher raw material costs, there has been little fluctuation in the weekly index of these prices. The main sustaining factor in this group has been metals and metal products. Demand for nearly all types of metals is still in excess of supply, and metal prices moved upward substantially during the year, as indicated in Table I. There has been no increase in basic steel prices since July, but charges for "extras" (special grades and shapes of steel) were boosted substantially in recent weeks. An increase of about 10 per cent in tin plate prices, effective January 1, was also announced recently. Among the nonferrous metals, lead, zinc, aluminum, mercury, and cadmium all advanced in price during the final quarter of 1948.

The next greatest year-to-year gain was registered by the fuel and lighting material group. The average for this group

Table II
Weekly Wholesale Prices by Major Commodity Groups

Group totals and selected items	Index, 1926 average = 100			Percentage change, Dec. 30, 1947 to Dec. 28, 1948
	Dec. 30, 1947	1948 peak Index Date*	Dec. 28, 1948	
All commodities.....	164.5	169.7 Aug. 17	163.5	- 0.6
Farm products.....	199.0	203.3 Jan. 13	177.4	-10.9
Grains.....	248.2	261.3 Jan. 13	170.9	-31.1
Livestock.....	250.3	280.0 July 13	221.4	-11.5
Foods.....	179.2	191.0 July 20	173.6	- 3.1
Meats.....	238.4	282.9 Sept. 21	228.7	- 4.1
All commodities other than farm products and foods.....	146.7	153.5 Sept. 14	152.5	+ 4.0
Textile products.....	149.4	151.8 June 1	145.6	- 2.5
Fuel and lighting materials.....	127.7	136.9 Aug. 3	136.9	+ 7.2
Metals and metal products.....	151.9	173.8 Nov. 23	173.8	+14.4
Building materials.....	192.6	203.9 Sept. 14	200.3	+ 4.0
All other.....	137.5	140.4 Jan. 20	132.8	- 3.4
Hides and skins.....	245.4	240.8 Jan. 20	192.5	-21.6

* Week first attained.

Source: U. S. Bureau of Labor Statistics.

is, however, still one of the lowest relative to the base period, as shown in Table II. Most of the gain in fuel and lighting material prices during 1948 occurred in the first seven months of the year, when coal and petroleum prices rose. Since then the index has remained quite stable, although recently reductions have been made in some prices for crude oil and petroleum products. The building material group was the only other major category to show a year-to-year advance in prices, and here too the increase was arrested in the latter part of the year, chiefly as a result of a softening in lumber prices. Prices of textile products, another component, have in some cases declined very sharply; spot prices of certain cotton yarns and fabrics are down close to, or even below, the levels prevailing immediately before OPA controls were lifted in November 1946. Nevertheless, the textile product group as a whole had declined only 4 per cent by the end of 1948 from its June 1 peak.

Retail prices at the end of 1948 were somewhat higher than a year earlier, but the peak for 1948 had been reached in August. Retail food prices declined during September, October, and November, and it seems likely that the decline continued into December. The sharp drops in grain prices have not yet resulted in similar declines in grain products at the retail level, in large part because of higher processing costs, but prices of meat, butter, and eggs have recently reflected the declines at wholesale of livestock and products. On the whole, the other commodities in the BLS consumers' price index—apparel, housefurnishings, fuel, and miscellaneous—continued to increase. Near the end of the year, however, the relatively poor sales showing of department stores and other retail outlets increased the pressure for lower-priced consumers' goods, particularly apparel. The number of promotions in soft goods lines appears to be increasing, and special discounts and trade-ins are reported to be more prevalent for major appliances; such developments are ordinarily not fully reflected

Table I
Spot Prices of Selected Foodstuffs and Industrial Commodities
December 31, 1947—December 30, 1948

Commodity	Unit	Price in dollars December 30, 1948	Percentage change	
			December 31, 1947 to December 30, 1948	Highest 1948 price to December 30, 1948
Foodstuffs				
Barley.....	bu.	1.450	-46	-47
Corn.....	bu.	1.490	-42	-47
Lard.....	lb.	.162	-39	-44
Butter.....	lb.	.659	-25	-26
Wheat (winter).....	bu.	2.275	-22	-26
Hogs.....	cwt.	22.375	-19	-23
Steers.....	cwt.	28.000	-10	-24
Industrial commodities				
Print cloth.....	yd.	.158	-44	-44
Cotton.....	lb.	.322	-11	-17
Copper.....	lb.	.234	+ 9	0
Tin.....	lb.	1.030	+10	0
Steel scrap.....	ton	44.500	+11	- 1
Lead.....	lb.	.215	+43	0
Zinc.....	lb.	.182	+64	0

Source: U. S. Bureau of Labor Statistics.

in official price indexes. Lower cotton textile prices will also be instrumental in reducing apparel prices for the coming season. To some extent, a decline in consumers' prices from this direction may be offset in the next few months by the seasonal rise in meat prices noted earlier. There have also been requests for increases in utility rates, freight rates, and railway passenger and commutation fares, while pressure for upward adjustment of rent ceilings likewise persists.

At the beginning of 1949, there seem to be definite signs of weakness in the price structure. Although similar signs appeared to a greater or less extent near the start of 1947 and 1948, this time the durable goods lines as well as the non-durables are affected. Only in the case of goods for which demand is still well in excess of supply, such as basic metals and new lower-priced passenger cars, is there continued upward pressure on prices, and even in these lines open and concealed premiums are of considerably less importance than they were a year ago. Despite the weakening of inflationary pressures, however, there are sustaining factors in the situation, such as the relative absence to date of speculative inventory accumulation, the prospect of large Government expenditures on defense and foreign relief, and the existence of a support program which should prevent any considerable further decline in farm prices.

DEPARTMENT STORE TRADE

December buying in Second District department stores showed some improvement, but was little if any greater than in 1947, according to preliminary information. Combined sales in the two final months of the year were certainly less than in the corresponding months a year previous, for the first time in 10 years. November sales had lagged behind those of the same month in 1947 by fully 4 per cent. Not until the last calendar week before Christmas Day—which included two more pre-Christmas shopping days than in 1947—did sales again rise above those of the previous year.

However, sales in December expanded considerably more from November's unexpectedly low volume than can be accounted for by the measures of seasonal variation derived from data for other postwar years. Owing to wartime scarcities of goods, which in some cases continued into the postwar period, consumers until 1948 started Christmas buying much earlier in the season than they did before the war. This past season they have apparently shifted back to the prewar habit of concentrating Christmas shopping in December.

National sales of the leading mail-order houses and of many variety chains specializing in items of low unit price also experienced in November a year-to-year sales decline, in some cases for the first time in more than three years. And, as discussed below, basement sales in this District did little better in November than upstairs departments.

The unseasonably warm weather in November, by keeping shoppers out of the stores, undoubtedly affected more than the sales of winter items alone. The failure of December sales to rise markedly above 1947, however, weakens the explanation that lower sales in November were due primarily to weather conditions. When the weather did turn cool in the early weeks of December, sales did not expand to 1947 levels in all areas of the country. And in those areas where the cooler weather was accompanied by a pick-up in sales, gains were not as great as in earlier months.

To what extent resistance by price-conscious consumers was involved is not entirely clear. On several earlier occasions there have been reports of widespread price resistance, while department store sales were maintaining a fairly stable rate of increase (as they were during much of 1948). The composition of total sales, however, has at times reflected price considerations: luxury lines have either declined or have failed to match the pace set by more essential merchandise or by goods for which a deferred demand existed. Considerable price resistance has undoubtedly been a factor in the stores' willingness to promote or mark down slow-moving goods.

Since November is a large volume month, the decline in sales offset much of the gain of the preceding two months, as shown in the table. Thus, for the three-month period ended in November, dollar sales were only one per cent greater than in 1947. Considering the decline in November sales, the year-to-year increase in stocks shown for the end of November was small, reflecting the cautious policy of store managers. The drastic decline in outstanding orders at the end of that month compared with one year previous indicates clearly the quick action which merchants are taking when prospects for sales are questionable. Notwithstanding the relatively low sales volume in November, the outstanding order-sales ratio dipped well below that of the year before.

THE PATTERN OF THE NOVEMBER SALES DECLINE

The decline of sales in November as compared with November 1947, although rather general in Second District department stores—extending even to basement lines—was not shared by all departments. The few year-to-year gains which

Sales, Stocks, and Orders of Second District Department Stores*
(Percentage change, 1947 to 1948)

Period	Sales	Stocks	New orders	Outstanding orders
September.....	+ 5	+10	-13	-20
October.....	+ 5	+ 4	- 6	-20
November.....	- 5	+ 5	-17	-35
Three-month average	+ 1	+ 6	-12	-24

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

were made, however, were with rare exception smaller than in immediately previous months. In some departments the rate of increase had begun to narrow in earlier months. A great many departments showed sharp declines in November after having exceeded 1947 sales by substantial margins during the retail fiscal quarter ended in October 1948.¹

Basement sales dipped below those of a year before almost to the same extent as the main store sales. The gap between the greater relative increases of the lower priced downstairs departments and the main store increases had been closing since mid-spring, partly because of the exceptional improvement in basement sales during 1947. When the extraordinary increases of main store sales made during the first postwar year tapered off, basement store sales soared. In November, however, the weakening of sales in higher priced lines was not accompanied by a further rise in basement sales.

Women's wear as a whole had been characterized by a gradual improvement during the third quarter months August-October, when they averaged at least 5 per cent greater in dollar volume than a year earlier. The rising trend was abruptly reversed in November, when sales fell some 8 per cent behind those of the year before, accessories falling off somewhat more than apparel. Although of lesser magnitude, the decline in apparel was a greater reversal, for it was apparel which accounted entirely for the gain noted for the total women's wear departmental group during the third quarter. (In October women were spending one-sixth more on apparel than they had spent in the year before.) Accessories had been lagging all along.

The dress department, after having previously improved over 1947, was the largest volume apparel department to show a decrease in November. Sales of inexpensive dresses fell off along with those of better quality dresses. Furs had a poor response from shoppers throughout most of 1948. November fur sales were off still more acutely from the year before—42 per cent below the level of November 1947.

Coats and suits sold better this past November than in the same month of 1947, but the rate of increase contracted abruptly from the third fiscal quarter. Differences in style acceptance as between dresses and coats and suits may have accounted for the maintenance of at least a small gain for coats and suits in November. It may be noted that during the third quarter, also, the year-to-year improvement in coats and suits

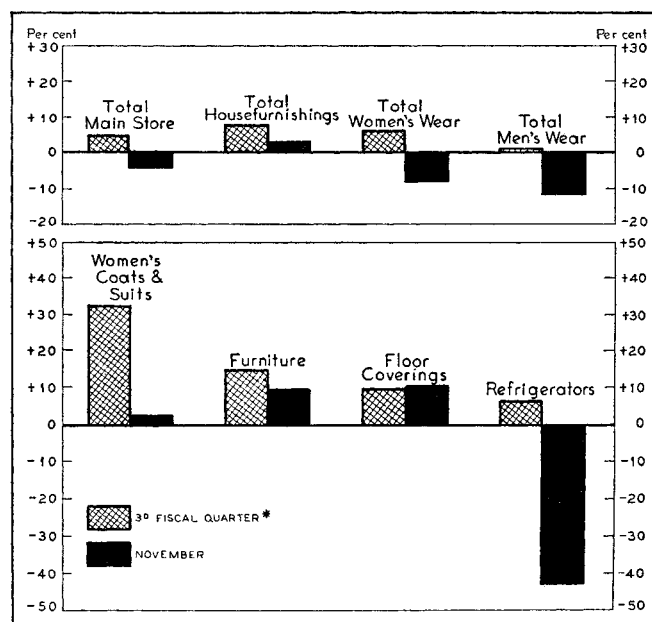
was far more substantial than for dresses (32 against 5 per cent).

As for men's wear, a poor spring-summer selling season was followed by considerably more favorable sales in the early fall months. But sales of men's wear, like those of women's wear, contracted sharply in November, falling more than 10 per cent below the figures for the year before. Men had been limiting their purchases of clothing more than their buying of the lower unit-priced furnishings—contrary to the experience in women's lines—and in November they spent on outerwear fully one-fifth less than the amount spent in 1947.

The housefurnishings group was the only major departmental group to score an improvement in November sales, as the accompanying chart shows. But the gain in November was less than half that reached in the third quarter as a whole. Apparently demand is leveling off even for these lines. In fact, a preliminary estimate for November indicates that in many areas outside this District there was a year-to-year lag in sales of housefurnishings greater than for soft lines.

There were widely divergent trends among the components of the housefurnishings group in this District's stores. Some "big-ticker", large volume departments, notably furniture and floor coverings, continued to improve markedly in November. The expanding sales of these commodities are of course closely

Recent Changes in Department Store Sales
Second Federal Reserve District
(Main store only; percentage change, 1947 to 1948, for
third fiscal quarter* and November)



* August, September, and October.

¹ November 1948 had one more shopping day, but one less Saturday, than November 1947. Probably, therefore, increases from the year before are slightly overstated, and decreases slightly understated, in this review of the recent past and in the accompanying chart, both of which are based on monthly totals.

related to the high rate of completion of new dwellings. Sales of floor coverings actually showed a slightly greater improvement in November than in the third quarter. The District gain in both furniture and floor coverings exceeded the average gain for the country. Sales of major household electrical appliances fell off sharply during November; this was true in particular of refrigerator sales, where the change is in sharp contrast to the average increase noted for the third quarter. The remarkable success of television receivers, however, caused November sales of the radio department to exceed those of the year before, although to a lesser extent than in the months just preceding. A special survey of December sales

in New York City department stores indicates a further narrowing of the year-to-year gain. In many areas outside this District, however, particularly where television broadcasting is not yet very extensive, radio departments failed by a wide margin in November to equal their dollar sales volume of a year previous.

Among the miscellaneous departments, even toys and games suffered a sharp year-to-year drop in November. Piece goods and household textiles failed to continue the improvement made during the third quarter, both groups declining by about 5 per cent in November. Silverware and jewelry, despite widely reported consumer resistance, had shown at least a small average gain for the third quarter, but in this department, too, a year-to-year decrease occurred in November.

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

Locality	Net sales		Stocks on hand Nov. 30, 1948
	Nov. 1948	Jan. through Nov. 1948	
Department stores, Second District....	- 4	+ 5	+ 6
New York City.....	- 5	+ 4	+ 4
Northern New Jersey.....	- 5	+ 5	+ 8
Newark.....	- 6	+ 3	+ 5
Westchester County.....	- 1	+ 3	+ 1
Fairfield County.....	- 4	+ 1	+ 4
Bridgeport.....	- 6	- 1	+ 1
Lower Hudson River Valley.....	- 4	+ 7	+ 8
Poughkeepsie.....	- 1	+10	+ 7
Upper Hudson River Valley.....	+ 1	+ 8	+10
Albany.....	+ 1	+ 7	+10
Schenectady.....	+ 3	+10	+10
Central New York State.....	- 4	+ 5	+11
Mohawk River Valley.....	- 6	+ 7	+11
Utica.....	- 5	+ 7	+11
Syracuse.....	- 4	+ 5	+11
Northern New York State.....	-11	+11	-
Southern New York State.....	- 4	+ 9	+11
Binghamton.....	- 2	+11	+10
Elmira.....	-11	+ 8	+22
Western New York State.....	0	+10	+ 9
Buffalo.....	+ 1	+10	+ 3
Niagara Falls.....	-	-	-
Rochester.....	0	+10	+21
Apparel stores (chiefly New York City).....	-10	- 1	+ 8

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

Item	1947	1948		
	Nov.	Sept.	Oct.	Nov.
Sales (average daily), unadjusted.....	323	257	280	298
Sales (average daily), seasonally adjusted..	249 ^r	252	250	229
Stocks, unadjusted.....	263	256	267	278
Stocks, seasonally adjusted*.....	228	243	236	242

^r Revised.

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

Indexes of Business

Index	1947	1948		
	Nov.	Sept.	Oct.	Nov.
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	192	192	195	194 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	235	252	253	255 ^p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	211	201	209 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	323	340	338	334 ^p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	161	165	163	161 ^p
New York State, 1935-39 = 100..... (N.Y.S. Div. of Place. and Unemp. Ins.)	132	128	127	125 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	353	382	382 ^p	
New York State, 1935-39 = 100..... (N.Y.S. Div. of Place. and Unemp. Ins.)	294	306	294	301 ^p
Personal income*, 1935-39 = 100..... (Department of Commerce)	294	313	314 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	182	194	194 ^p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	165	175	174	172
Velocity of demand deposits*, 1935-39 = 100..... (Federal Reserve Bank of New York)				
New York City.....	97	104	109	101
Outside New York City.....	89	93	93	93

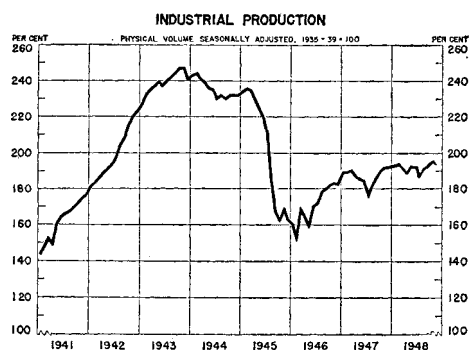
* Adjusted for seasonal variation.

^p Preliminary.

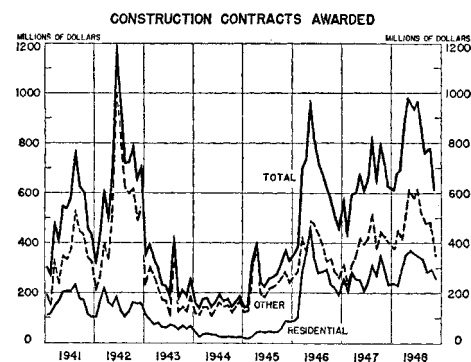
† A monthly release showing the 15 component indexes of hourly and weekly earnings in nonagricultural industries computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, may also be procured from the Research Department, Domestic Research Division.

National Summary of Business Conditions

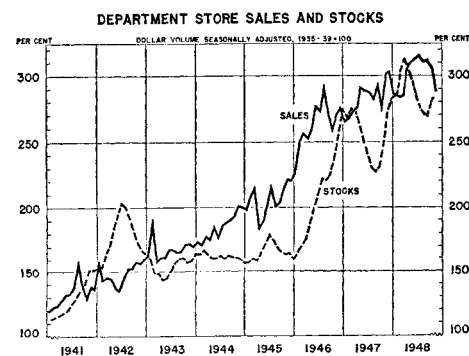
(Summarized by the Board of Governors of the Federal Reserve System, December 30, 1948)



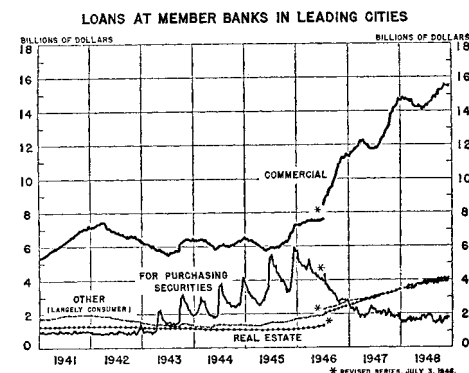
Federal Reserve index. Monthly figures; latest figure shown is for November.



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



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



Excludes loans to banks. Wednesday figures; latest shown are for December 15.

INDUSTRIAL activity was maintained in November at about the high October rate. Department store sales were 5 per cent below last year's level but in the early part of December sales increased more than a year ago. Commodity prices showed further moderate decreases in November and the first half of December.

INDUSTRIAL PRODUCTION

Output at factories and mines showed little change in November, and the Board's seasonally adjusted index of industrial production was 194 per cent of the 1935-39 average as compared with 195 in October and 192 in November 1947.

Activity in the automobile, machinery, and nonferrous metals industries showed small reductions in November, but output of most other durable goods was maintained at the level of the preceding month. The number of new automobiles assembled declined about 4 per cent in November, but rose again in the early part of December to a new postwar peak rate. Output for the year has been about 5,275,000 passenger cars and trucks, the largest annual total since 1929. Copper smelting was curtailed sharply in November as a result of a labor dispute affecting mine output. Steel production, on the other hand, showed a slight further gain, averaging 100.4 per cent of capacity in November as compared with 100 in October.

Production of nondurable goods declined slightly in November, reflecting in large part further curtailments in output of textile and leather products. Cotton consumption decreased 5 per cent and was 18 per cent smaller than in November 1947. Newsprint consumption was reduced somewhat from the peak rate reached in October. Activity at paper and paperboard mills continued at record levels, and output of most other nondurable goods was maintained at about the October rate.

Minerals production increased somewhat in November, reflecting a slight further gain in crude petroleum output and an unusually large volume of iron ore production for this season. Coal output was maintained in November at the October rate but declined about 5 per cent in the first half of December.

EMPLOYMENT

Employment in nonagricultural establishments showed a small decline in mid-November from the record level in October. The decline, which was unusual for this season, reflected mainly some further curtailment of employment in industries manufacturing nondurable goods. Trade employment continued to increase seasonally, although the gain was the smallest for November since 1942. Employment in most other lines showed little change.

CONSTRUCTION

Value of contracts awarded for most types of private and public construction declined more than seasonally in November, according to reports of the F. W. Dodge Corporation. The number of new housing units started decreased further in November to 65,000 as compared with 72,000 in October and 80,000 a year ago.

DISTRIBUTION

Value of department store trade in November showed less than the usual seasonal rise and the average daily rate of sales was 5 per cent smaller than a year ago. The Board's adjusted sales index was 287 per cent of the 1935-39 average as compared with the advanced level of about 310 which prevailed from April to October. Sales recovered to year-ago levels during the first half of December, however, and it is estimated that total dollar sales for the holiday shopping period will be near last year's record volume. Sales of appliances and various other durable goods except new automobiles have been below the exceptionally high levels prevailing at the end of last year.

Railroad carloadings of most classes of merchandise showed more than the usual seasonal decline in November and early December and total shipments were about 9 per cent below the same period a year ago. Loadings of coal were about 15 per cent below a year ago. Shipments of manufactured goods were down about 5 per cent, owing to a further diversion of freight to other forms of transportation and a reduction in the physical volume of goods shipped for export. This reduction was augmented in November by a maritime dispute.

COMMODITY PRICES

Wholesale prices and consumers' prices declined about 1 per cent from mid-October to mid-November, reflecting chiefly decreases in livestock and foods. In the first three weeks of December prices of foods continued to decline, various industrial materials weakened further, and prices of some appliances and textile, petroleum, and soap products were reduced. Additional advances were reported in prices of metals.

BANK CREDIT

Federal Reserve System holdings of Government securities were further reduced in the first three weeks of December, reflecting sales of Treasury bills, certificates, and bonds. These securities were purchased primarily by commercial banks, which had an abundant supply of funds as a result of a seasonal increase in the volume of checks in clearing and a further gold inflow. Absorption of bank reserves by the pre-Christmas outflow of currency was somewhat smaller than usual.

Loans and investments at banks in leading cities showed little change in November, but increased somewhat in the first half of December. Loans to businesses showed a much smaller growth than in the same period last year. Loans to brokers and dealers for purchasing Government securities rose sharply in November while bank holdings of Treasury bills declined. Deposits declined slightly at all commercial banks in November, but increased sharply at banks in leading cities during the first half of December.

SECURITY MARKETS

Prices of U. S. Government bonds and high-grade corporate and municipal bonds rose slightly during the first three weeks of December. Common stock prices were steady with a moderate volume of trading.