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MONEY MARKET IN JANUARY

Demand for Treasury bonds broadened during the past month, and price advances were general throughout the list, although quotations turned irregular in the last few days of the month. Commercial banks widened their operations in Government bonds to include the longer-term eligible issues. In the market for restricted bonds, the demand from savings banks continued, but this market also tended to spread out, with other nonbank investors taking a somewhat more active part in the buying. Insurance companies, however, remained generally inactive as either buyers or sellers.

While prices of all maturities of Treasury bonds rose, gains were most substantial among the longer-term bank-eligible issues. Commercial banks, which had previously confined their operations to bonds of intermediate maturities, reached out for longer-term, higher-yield issues, including the 2¼'s of 1956-59 and the 2½'s of September 1967-72. In part, the funds for these purchases represented the proceeds of sales of short-term Treasury obligations and, in part, they became available as a result of the post-Christmas return of currency from circulation and various other money market transactions. This lengthening of maturities of bank portfolios apparently reflected growing confidence in the stability of the Government bond market as well as the uncertainty surrounding the business outlook. Many of the banks entering the long-term bond market for the first time in many months had experienced, or were anticipating, a decline in commercial loans and were rearranging their portfolios to counteract either an actual or a prospective decline in income.

While a more diverse group of nonbank investors than in the preceding two months manifested interest in the long-term ineligible issues, the savings banks continued to be the backbone of the market in ineligibles. Increases, actual or prospective, in the dividend rates of many New York savings banks, along with seasonal and other factors, attracted deposits to those institutions. During the past month, therefore, the savings banks were able to make sizable net additions to their holdings of Government bonds, as well as to continue to acquire long-term restricted issues with the proceeds of the sale of intermediate and long unrestricted bonds. Some savings banks also disposed of shorter-term restricted bonds in order to buy the long issues.

The supply of Treasury bonds from market sources remained light even at rising prices, and the Federal Reserve System met part of the demand. The System's net sales of bonds in the four weeks ended January 26 amounted to 736 million dollars, of which almost half was disposed of in the last week. All but 67 million of the bonds sold by the System during this period had maturities of more than five years. Since November 1948, when its bond holdings reached a peak, the Reserve System has sold a net total of 959 million dollars of Government bonds of all maturities, or almost one tenth of the increase (10.5 billion dollars) in its holdings during the year following the start of support purchases in November 1947.

As shown in the following chart, Federal Reserve net purchases of bonds since October 1947 have consisted primarily of securities maturing in more than five years. Since during this period a substantial amount of these holdings passed into the shorter maturity class, actual purchases of the Reserve System in the over-five-year category were larger than the net change in its holdings would indicate. By the same token, the System's purchases of bonds maturing in five years or less, which represent a small fraction of its total holdings, have been smaller than the net gain in the System's holdings.

System purchases of the longer maturing bonds, as shown in the chart, were concentrated in two periods between which

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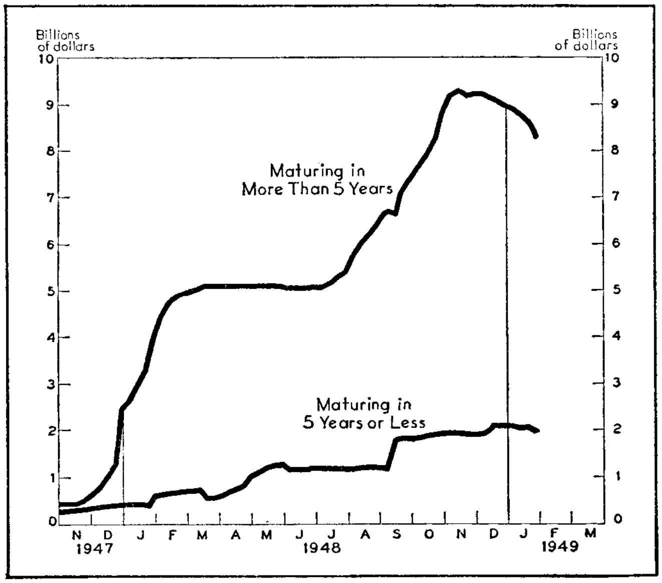
Bond Holdings of the Federal Reserve System by Maturity (Weekly, October 29, 1947-January 26, 1949*)



* Wednesday dates.

its holdings remained rather stable. Between November 1947 and the middle of February 1948, the System's holdings rose 4.5 billion dollars, and in the second period, between early July and the middle of November 1948, the increase was 4.2 billion. The commercial banks supplied a substantial amount of the bonds bought by the System in the first period and curtailed their liquidation sharply thereafter. A large part of the proceeds were used to acquire short-term Treasury obligations, chiefly from the Reserve System, or were absorbed by increases in reserve requirements.

The bulk of the System's purchases of longer bonds, however, came from nonbank investors. In part, the selling of these nonbank holders reflected a lack of confidence in the maintenance of the long-term interest rate and, as a result, a considerable portion of the proceeds of selling found its way into short-term and nonmarketable Government securities. A sizable part of the funds obtained by selling long Government securities, however, was reinvested in new corporate securities, satisfying that part of the demand for capital which was in excess of the public's current savings. The fact that many institutional investors have not been active sellers in the Government bond market since early November may be indicative of either a reduction in business demands for capital (seasonal and otherwise) or a tighter screening of demands and the filling of such needs as remain out of current income and funds accumulated from prior sales of long-term Government bonds.

Member Bank Reserve Positions

Member bank reserve positions were, for the most part, easy during the first three statement weeks of the past month, reflecting the effects on member bank reserves of net Treasury disbursements and a heavy return flow of currency from circulation. The ease in the money market was especially marked early in January, as indicated by the rate on immediately available Federal funds, which fell to 1/8-1/4 per cent. Reserve positions tightened noticeably in the last week of the month, when final tax payments on 1948 income grew heavy. Substantial Federal Reserve sales of Treasury bonds absorbed reserves throughout the month.

The first and third weeks of the month were the periods of greatest ease. Although Treasury calls upon War Loan deposits amounted to 689 million dollars in the earlier week, Government expenditures were 333 million dollars larger than receipts. These funds together with a 174 million dollar reduction in the public's need for currency furnished the banks with substantial additions to their reserves, since, in the aggregate, offsetting transactions were not very large. The banks used these net gains of funds to reduce their borrowings from the Federal Reserve Banks and to add to their holdings of Government securities, particularly Treasury bills, part of their purchases coming from the Reserve System. In the third week (ended January 19) the same influences were generally operative, although the magnitudes were smaller.

During the second week of January (ended January 12) the commercial banks in the aggregate gained a moderate amount of reserves. However, the gains were unevenly distributed and, in fact, the larger city banks were pressed for reserve funds as a result of the Government security operations of the smaller country banks. For the banks as a whole, the reserve-lifting effects of a large decrease in outstanding currency were approximately counterbalanced by the drain on reserves caused by a sizable decline in Federal Reserve "float," while the loss of bank reserves resulting from the Treasury's retirement of 100 million dollars of a maturing issue of bills held by the Reserve Banks was more than offset by a considerable reduction in required reserves and by other transactions bolstering reserve positions. Because of the uneven distribution of the funds gained, however, the larger city banks in general and the New York City banks in particular found their reserve positions under pressure. Early in the week, the New York metropolitan banks made substantial purchases of the new Treasury bill issue on tender, investing a large part of their substantial excess reserves carried over from the previous week. Thus, they were not in a favorable position to meet subsequent large transfers of funds to other parts of the country as well as considerable purchases of Treasury bonds by nonbank investors and by correspondent banks with funds kept on deposit in New York. A large portion of these bond purchases was supplied from the Reserve System's portfolio, and the resultant drain on the reserve positions of the New York banks compelled those institutions to increase their borrowings from the Reserve Bank and to dispose of sizable amounts of short-term Government securities.

Country banks drew down their balances with correspondent banks in other large cities also, in order to purchase eligible long-term Government bonds. These demands were satisfied, partly out of the holdings of the Reserve System and partly by sales of nonbank investors who, in turn, acquired restricted issues from the System. Thus, a considerable portion of the funds withdrawn from the larger correspondent banks (including the New York City institutions) did not return to the money market.

System holdings of Treasury securities fell 454 million dollars in the week ended January 12, reflecting considerable sales of bonds in the market and to an even larger extent substantial redemptions of Federal Reserve holdings of the maturing Treasury bill issue, resulting from the fact that commercial bank subscriptions for the new issue were considerably in excess of their holdings of the maturing issue.

In the last report week of the month (ended January 26) the money market tightened perceptibly. Treasury receipts rose substantially as the result of remittances by many taxpayers of the final payments on their 1948 incomes. The return of currency from circulation continued to add to reserves, but a sharp decline in Federal Reserve "float" and purchases of Treasury bonds by banks and others from the Reserve System (which were particularly large in this week) continued to absorb reserves. Member banks borrowed heavily from, and sold substantial amounts of short-term Government obligations to, the System. The latter's sales of bonds, however, exceeded its purchases of short-dated securities by a small margin, bringing the decline in total System security holdings in the four weeks ended January 26 to 1.3 billion dollars.

GOLD INFLOWS AND THEIR EFFECT ON MEMBER BANK RESERVES

The postwar inflow of gold[1] to this country continued during 1948, but was on a substantially lower level than in 1947. Net imports, valued at 1.7 billion dollars, were only about one-tenth smaller than in 1947. However, as the accompanying table indicates, the total amount of gold earmarked here for foreign account during 1948 exceeded the amount released from earmark, whereas in 1947 the total amount released was in excess of earmarkings. Actual purchases of foreign-owned gold by the Treasury in 1948, therefore, were about 1.4 billion dollars smaller than in 1947.

The postwar movement of gold to the United States was at its peak in 1947, when foreign countries drew heavily on their gold reserves to help finance their huge volume of imports. The gold reserves of many countries were, consequently, severely depleted. Various measures that have been taken since 1947, in particular the adoption of the European Recovery Program, lessened the strain on foreign gold reserves. Europe's dollar payments for imports from the United States were thus reduced very substantially, while offshore purchases under the program also resulted in some increase in the dollar receipts of certain Western Hemisphere countries. Exports of goods and services to this country, meanwhile, rose considerably. As a result, gold sales to this country began to decline toward the level of current world gold production (outside of Soviet Russia).

[1] Consisting of net imports, adjusted for net changes in the total of gold earmarked for foreign accounts at this bank.

Analysis of Increases in United States Gold Stock, 1946-48
(In millions of dollars)

	Monetary gold stock		Selected factors of change			
	End of year	Increase	Net imports	Reduction in gold earmarked for foreign accounts*	Decrease in Stabilization Fund	Total
1946	20,529	464	312	368	−159#	521
1947	22,754	2,225†	1,866	1,057	63	2,986
1948	24,243	1,489	1,701	− 195‡	n.a.	n.a.

n.a. Not yet available.
* Excludes gold held for international account.
\# Increase in Stabilization Fund.
† Includes transfer of 687.5 million dollars gold subscription to the International Monetary Fund.
‡ Increase in earmarkings.

Even though gold sales to this country last year were considerably smaller than in 1947, they constituted a problem of some magnitude for the Federal Reserve System since they tended to increase member bank reserves by a like amount. Every such addition to reserves in the past year, when average reserve requirements varied between roughly 20 and 25 per cent, became the base for a potential four to fivefold increase in credit to the public. It is appropriate, therefore, to review in some detail the process by which gold imports—the most important source of additions to the gold stock—result in added bank reserves, and what steps can be and have been taken to offset such a growth in the credit base.

Some of the gold imported into this country is purchased by the Treasury immediately; most, however, is placed under earmark. When imported gold is earmarked, it is physically set aside in the vaults of the Federal Reserve Bank of New York (which acts as the agent for the whole Federal Reserve System in international banking transactions) and does not enter into the gold stock of the United States. It becomes available for purchase by the Treasury only when the foreign country involved decides to release the gold from earmark in order to acquire dollars.

The general account balances of the Treasury with the Reserve Banks tend to decline as the Treasury makes payments for the gold so purchased. At the same time, there is a rise in the dollar balances owned by the sellers of gold at the Federal

Reserve Bank of New York. Normally there is at least a short interval between the time when the dollar accounts of foreign authorities are credited with the proceeds of their gold sales and the date when the proceeds are used for the payment of American goods and services. Ultimately, however, the foreign balances at the Federal Reserve Bank are drawn down and member bank deposits and reserves are correspondingly increased. These increased reserves provide the base for potential credit expansion.

To examine the procedure in more detail, the purchase of gold by the Treasury involves two additional steps not mentioned above. First, when the Treasury purchases gold, Treasury cash holdings[2] increase by the amount of the purchase, while total Treasury funds (including bank balances) remain unchanged. Gold simply replaces balances with the Reserve Banks on the books of the Treasury. The second step is the Treasury's issuance of gold certificates to the Federal Reserve System. Upon their issuance, Treasury cash is reduced by an amount equal to the gold certificates issued (since the gold is no longer considered as cash but as a 100 per cent backing for the gold certificates) and balances with the System are restored. This process of transferring gold into and out of the General Fund of the Treasury has no effect on member bank reserve balances. Member bank reserves are affected only at the time when the proceeds of the gold sales are paid out by foreign monetary authorities.

When the Treasury has completed the operation by replenishing its balances with the Reserve Banks through issuance to them of gold certificates in the amount of the gold purchased, there is of course no net drain on Treasury deposits with the Federal Reserve System. In the meantime, member bank deposits and reserves have been increased by the amount of the Government gold purchases (as foreign holders spend the proceeds of gold sales in the market), and thus a potential basis for increasing bank credit has been provided.

The effects of an increase in the monetary gold stock on bank reserves are no different today, when the Treasury alone may buy gold, than under the system that existed prior to 1933, when the commercial banks were the major buyers and sellers of gold. Under the former procedure, a commercial bank paid for gold purchases by crediting the accounts of foreign sellers, with a resultant increase in the money supply. While the bank's required reserves also rose, this deficiency was normally made good through the sale of the gold to the Reserve System. Most of the proceeds of the sale, however, became available as excess reserves for a multiple expansion of bank credit and the money supply.

There are, however, alternative possibilities open to the Treasury for avoiding the inflationary effects of gold purchases under the present gold bullion standard. One of these methods, which was resorted to under quite different circumstances in 1936-38, is the sterilization of gold: if the Treasury's net receipts are sufficient to cover the cost of the gold purchased, it can refrain from issuing gold certificates. The Treasury can instead transfer funds to the Federal Reserve Banks from its commercial bank accounts in order to rebuild its balance with the Reserve Banks.

The effect on bank reserves of the gold purchase by the Government is completely neutralized by the sterilization operation. As already noted, after the Treasury pays for the gold it has purchased, the sellers in all probability transfer the proceeds to commercial banks (from their accounts in the Federal Reserve Bank of New York). If the Treasury now withdraws from the commercial banks an amount sufficient to replenish its Federal Reserve balances, the commercial banks are left with no greater reserves than they had prior to the gold purchase by the Government. This method of offsetting gold inflows is particularly effective if the Treasury receipts used to pay for the gold are obtained from the public (from sources such as individual income taxes and sales of Series E Savings bonds); then deposit growth is arrested at the same time.

Sterilizing gold with funds obtained from the public, therefore, involves: (1) no change in Treasury balances at the Federal Reserve Banks; (2) no change in member bank reserves; (3) no increase in gold certificates facilitating monetary expansion; and (4) no increase in the publicly-held money supply.

Actually, in recent years the Treasury and the System have adopted another procedure which, though its aims are much broader, also achieves the sterilization of gold. This procedure consists of the retirement of Government securities held by the Federal Reserve System. To the extent that Treasury net cash receipts are available for this purpose, maturing Government securities are redeemed out of Treasury balances transferred from deposits with commercial banks; these deposits are obtained from tax collections and security sales mainly to nonbank investors. Thus, the reserves that are created by the Treasury's gold purchases are absorbed and cannot serve as a basis for credit expansion.

In 1948, one factor alone—the retirement of Government securities held by the Federal Reserve Banks—reduced bank reserves by three and a half times the increase in the United States monetary gold stock during the year. Thus debt and monetary policy is not only sterilizing the Treasury's gold purchases but is also offsetting in substantial part the various other factors which have tended to expand bank reserves, such as Federal Reserve support purchases of Government bonds and the decline in currency in circulation.

[2] Treasury cash includes free gold, Federal Reserve notes, and Treasury currency in the General Fund of the Treasury.

THE PRESIDENT'S BUDGET MESSAGE

In view of the uncertainties in the domestic economic outlook as well as in the international political situation, the budget which President Truman submitted to Congress on January 10 must be regarded as a more than usually tentative estimate of the Government's fiscal activities in the twelve months beginning July 1, 1949.

The budget presented anticipates for the fiscal year ending June 30, 1950 receipts of 41.0 billion dollars and expenditures of 41.9 billion dollars, leaving a deficit of nearly 900 million. Estimates of receipts are based on existing tax legislation and on the assumption that the current high levels of income and employment will continue. A continuation of the current level of economic activity has been assumed consistently in recent years by the Treasury in estimating receipts. Mainly as a result of this assumption, substantial increases in the original official estimates have usually been made both at the beginning and at the middle of recent fiscal years (even when there has been no change in existing legislation). For example, in the budget message submitted in January 1947, receipts from taxes on corporations in the fiscal year ended June 1948 were estimated at 8.3 billion dollars. Successive increases in this original estimate raised it to 9.5 billion in the message submitted in January 1948. Actual receipts amounted to 10.2 billion. While during a period of rising prices and increasing income, such as we have experienced in the past decade, use of the level of activity current at the time of forecasting results in an underestimation of receipts, in a period of falling activity the reverse would be true, i.e., Government receipts would tend to be overestimated.

Table I
U. S. Budget and Cash Receipts and Expenditures
Fiscal Years 1948-50
(In billions of dollars)

	Actual 1948	Estimated 1949	Projected 1950	Change 1949 to 1950
Budget receipts	42.2	39.6	41.0	+1.4
Trust account receipts	6.5	6.0	8.8*	+2.8
Less: noncash receipts	3.4	2.6	2.6	†
Cash receipts	45.4	42.9	47.2	+4.3
Budget expenditures‡	33.8	40.2#	41.9	+1.7
Trust account expenditures and investments	6.8	6.0	8.8*	+2.8
Less: noncash expenditures**	4.6	5.6	4.9	−0.7
Cash expenditures##	36.5	40.1	45.7	+5.6
Excess of cash receipts	8.8	2.8	1.5	−1.3

* Includes proposed changes in the social security programs.
† Decrease of less than 50 million dollars.
‡ Includes net expenditures of wholly-owned Government corporations and credit agencies.
# Expenditures made from the Foreign Economic Cooperation Trust Fund (representing 3.0 billion dollars of the 1948 budget surplus) are included in the budget outgo for fiscal 1949.
** Net of noncash expenditures and investments and of net market sales and redemptions of obligations of Government corporations less cash redemptions of noncash issues. The net of market transactions in obligations of Government corporations is included with cash repayments of the public debt.
Includes adjustments for the clearing account.
Note: Because of rounding, figures may not add to totals shown.
Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1950*, and Bureau of the Budget, *Receipts from and Payments to the Public*, Special Study No. 1, January 1949.

The bulk of the expenditures anticipated in the budget are subject to Congressional approval in the form of appropriations, while some 6.2 billion dollars, representing proposed new Governmental activities, will require authorizing legislation as well as appropriations. Of the expenditures calling for new legislation, an allowance of 4.3 billion dollars to continue the European Recovery Program constitutes the major portion. An additional 355 million is provided for other foreign assistance programs, which currently include aid to Greece, Turkey, China, and Korea. Proposed new programs for national defense include 600 million for universal military training, as well as 385 million for adjustments in military pay and to provide for certain military public works, including the construction of needed family housing and research and development facilities. The remaining proposed expenditures cover mainly added Federal aid for education and for slum clearance and other low-cost housing programs, and the cost of a stand-by anti-inflation program—all of which had been recommended in the President's earlier messages to Congress. A proposed increase in postal rates providing some 250 million in revenue would partly offset these increases in expenditures.

An additional request for funds to provide military supplies for countries important to the security of the North Atlantic area may be made later, the President indicated. Also, if 1949 agricultural production should equal the 1948 crops, larger expenditures for price supports than are now estimated may become necessary in fiscal 1950.

Declaring that a surplus in the budget accounts in a period of high prosperity is essential for sound public policy, the President recommended new tax legislation to raise revenues by 4 billion dollars, without, however, making any detailed recommendations with respect to the desired tax program. In the State of the Union speech made several days earlier, the President had suggested that added revenue should come principally from corporations and that consideration should also be given to raising personal income tax rates in the middle and upper bracket levels and to revising estate and gift taxes. He later defined the middle bracket as covering incomes of $6,000 to $25,000 or $30,000 per annum. Even if such a tax program were adopted by July 1949, however, the revenue from these additional taxes in the fiscal year 1950 would be considerably less than 4 billion dollars, reflecting the normal lag in collections. (Unofficial estimates place the additional revenue in fiscal 1950 at 2 billion dollars.)

In addition to the above changes in direct taxes, the President called for new payroll taxes to provide some 2.2 billion dollars for proposed broadening of the social security program. Payments of additional benefits under the enlarged program would absorb nearly 1.7 billion of these receipts. Such receipts and expenditures involve the Government trust accounts and thus are not included in the budget figures. The net additional receipts of 500 million that the proposed program is estimated to yield are, however, included in the estimated cash surplus for fiscal 1950, discussed below.

The Budget Accounts

The President expects budget receipts during fiscal 1950 to exceed those of the current fiscal year by 1.4 billion dollars. Receipts from individual taxes (at 19.8 billion) are set nearly 500 million higher than in the current fiscal year. Payments in the current fiscal year will be somewhat lower than would be expected with the current levels of income, since many taxpayers can apply overpayments, which were made prior to the enactment of the Revenue Act of 1948, against final payments due in March 1949. No such tax credits will be available in fiscal 1950. Also, salaries and wages of the armed forces will be subject to withholding for the whole fiscal year compared with only half of the current fiscal year. Corporate taxes, at 12.3 billion, are expected to be some 550 million higher in fiscal 1950 than in the current fiscal year, since aggregate corporate profits in the combined calendar years 1948 and 1949, on which collections in fiscal 1950 are based, are expected to exceed those in the combined calendar years 1947 and 1948. Slightly more is expected to be obtained from excise taxes and net employment taxes (collections less offsetting appropriations to trust funds). Miscellaneous receipts will be down, as receipts from sales of surplus property are expected to dwindle. The decline in miscellaneous receipts may, however, be more than offset by smaller tax refunds; the treatment of refunds as a deduction from receipts, rather than as an item of expenditures, is an innovation in the budget this year.

Budget expenditures in fiscal 1950 as estimated are nearly 1.7 billion higher than in the current fiscal year, a sizable increase for national defense and smaller increases in several other activities being only partly offset by declines in other items, mainly in veterans' benefits and foreign aid. The large increase of 2.5 billion for national defense brings total spending for this purpose up to 14.3 billion dollars. This sum is, however, within the limit set by Dr. Nourse, Chairman of the Council of Economic Advisers, as compatible with an economic policy free from strict regimentation. The objective towards which the budget recommendations in this field are pointed is "to build a foundation of military strength which can be sustained for a period of years without excessive strain on our productive resources, and which will permit rapid expansion should the need arise." Aside from the proposed 985 million dollars to be spent for universal military training and for adjustments in military pay and additional public works, as mentioned above, the largest dollar increase in defense spending is expected for aircraft procurement, which may rise about 500 million dollars to a total of 1.7 billion. Only a small increase in the number of military personnel is expected; their pay and maintenance, at 5 billion, are scheduled to be only slightly higher than this year, but will still constitute the largest outlay for defense. In addition, the civilian components may require 760 million, or 30 per cent more than in the current fiscal year, mainly for drill and training pay and maintenance. Stockpiling of strategic and critical materials is scheduled for a 50 per cent rise, making the total proposed outlay for this item 525 million dollars in fiscal 1950. All other military programs and projects, requiring some 5.1 billion, show a combined rise of about 500 million over fiscal 1949.

International affairs and finance, the second largest class of expenditures, are expected to show a decline of about 500 million dollars, to 6.7 billion in fiscal 1950. The decline is based largely on a reduction (700 million) in foreign relief (relief in occupied areas, assistance to China, and other programs, mostly post-UNRRA) which is partly offset by increased spending for reconstruction and military aid (mainly Export-Import Bank loans and proposed aid other than the European Recovery Program). As pointed out previously, no allowance has been made in this estimate to cover possible expenditures for a new program of providing military supplies to strategic countries.

Veterans' benefits and services may require about 1.3 billion less than in the current fiscal year, but even so spending for this purpose will amount to 5.5 billion dollars. The anticipated drop reflects mainly the virtual exhaustion of unemployment and self-employment allowance claims and an expected sharp decline in educational training programs. Veterans are, however, scheduled to receive about 2 billion dollars as an initial dividend on their national service life insurance. This expenditure will be made from a trust account, and thus will not affect the budget deficit, but it will raise the Government cash outgo.

Interest payments are due to show a small rise to a total of nearly 5.5 billion dollars. The increase will reflect largely the higher rates at which interest is accrued on Savings bonds as these approach maturity, and interest on a growing volume of special issues.[1] The Government's interest payments have been little affected by the increases in rates on short-term Government marketable issues that were initiated in July 1947 as a part of the Federal Reserve program of credit control. Those increases have been largely offset by a reduction in the volume of Treasury marketable debt and by the refunding of maturing bonds into short-term issues bearing lower rates.

The four items discussed above—defense, foreign aid, veterans' aid, and interest—reflecting largely the aftermath of war constitute over three quarters of the expenditures budgeted for fiscal 1950. Other budgeted expenditures call for slightly over 9.9 billion dollars and thus may be nearly 850 million higher than in the current year, mainly because of new programs requiring 600 million dollars. However, among the existing programs, expenditures by the Commodity Credit

[1] Special issues are held by Government trust funds. They bear relatively high coupon rates which are, in part, fixed by statute.

Corporation for price support and by the Reconstruction Finance Corporation for purchases of mortgages are scheduled to decline while other existing programs are slated for a combined rise of over 750 million dollars; the latter increases relate mainly to the development of natural resources, the promotion of public health, and additional public assistance.

The Cash Position

In recent years, the budget figures have included large amounts of noncash expenditures and a small amount of noncash receipts from Government agencies. Noncash expenditures are for the most part accruals of funds to be paid to the public in cash at a later date and consist mainly of transfers and interest payments to trust accounts and net accrued interest on Savings bonds. On the other hand, in addition to their noncash receipts from the Treasury, the trust accounts receive payments from the public in the form of payroll taxes collected for old-age insurance, deposits from State unemployment trust funds and the Railroad Retirement Board, cash premiums from veterans, and several minor items. These funds are partly invested in Government securities and partly disbursed as cash benefits and refunds. A better over-all view of the impact of current Treasury operations on the private economy is obtained when the budget figures are adjusted to a cash basis and the receipts from and payments to the public which flow through the trust accounts are also taken into account.

On this basis, some 47.2 billion dollars are expected to be collected from the public in fiscal 1950—about 4.3 billion more than in fiscal 1949. One third of this increase is expected from the budget receipts, reflecting mainly higher levels of income and lower tax refunds, while an additional 2.9 billion dollars are anticipated from trust accounts. The latter rise is based largely on the proposed new or higher social security taxes. The old-age account alone would receive 1.7 billion dollars more if the President's proposals were enacted. These proposals involve extending the old-age insurance coverage to 25 million additional workers, raising the maximum tax base (possibly from $3,000 to $4,800 annual salary), making a scheduled increase in the tax rate from 1 to 1½ per cent effective July 1, 1949 instead of six months later, and adding a new tax for disability insurance. Another 500 million would be raised by a new tax for medical insurance and by extending unemployment insurance to cover workers in small establishments, Federal employees, and certain other types of workers.

In addition to 39.1 billion in cash payments to the public in fiscal 1950 from the budget accounts, an additional 6.6 billion will be disbursed from trust accounts. The total outgo of 45.7 billion dollars is some 5.6 billion higher than estimated cash payments in the current fiscal year. Apart from the increases in budget accounts already discussed, the higher estimate reflects mainly the anticipated payment of 2 billion dollars, as already mentioned, to World War II veterans of dividends accumulated during the past several years, and proposed additional social security benefits of 1.7 billion dollars.

Table II
Change in the Public Debt, Fiscal Years 1948-50
(In billions of dollars)

	Actual 1948	Estimated 1949	Projected 1950
Excess of cash receipts*	− 8.9	− 2.8	− 1.5
Change in Treasury cash balance	+ 1.6	− 0.9	− 0.5
Repayments to the public#	− 7.3	− 3.8	− 2.0
Noncash borrowing†	+ 1.4	+ 3.1	+ 2.4
Change in the public debt‡	− 5.9	− 0.6	+ 0.4
Public debt at end of year**	252.3	251.6	251.9
Treasury's balance at end of year	4.9	4.0	3.5

* Includes receipts from seigniorage on silver amounting to about 37 million dollars annually.
\# Mainly cash retirement of Treasury marketable debt, net market sales and purchases by Government agencies and trust funds, and net sales and redemptions (purchase price) of Savings bonds. Also included are a small amount of sales and redemptions of obligations of Government corporations and net changes in a few minor debt items.
† Increases in special issues, noncash securities issued in payment for budget expenditures, and accrued discount on Savings bonds less redemptions of noncash issues and interest paid on Savings bonds redeemed.
‡ Gross direct public debt and both guaranteed and nonguaranteed obligations of Government corporations and credit agencies held by the public.
** Gross direct public debt and guaranteed obligations only.
Note: Because of rounding, figures may not add to totals shown.
Source: Same as for Table I.

The Public Debt

Without the suggested increase in direct taxes, and not counting on any net sales of Savings bonds, repayments of debt held by the public amounting to 2.0 billion are expected to be made in fiscal 1950. This reduction will be more than offset by an estimated rise in noncash borrowing. Thus, the direct and guaranteed public debt at the end of June 1950 would amount to 251.9 billion, or 350 million higher than the estimated level at the end of June of this year.

Because of withdrawals to cover part of the cash retirement of debt, by the end of June 1950 the Treasury's cash balance in the General Fund is expected to be down to 3.5 billion, from 4.2 billion dollars at the beginning of January this year.

The Current Fiscal Year

The President's budget message contained an upward revision of estimates for the current fiscal year, ending June 30, 1949. Budget receipts are now placed at 39.6 billion and expenditures at 40.2 billion dollars, compared with 37.9 billion and 39.4 billion, respectively, in the previous estimates (August 1948). The higher estimate of receipts reflects the continued rise in both personal and corporate income during the past six months, while the increase in expenditures was caused mainly by a rise in Commodity Credit Corporation expenditures for the support of agricultural prices.

The net cash income in the second half (January-June) of the fiscal year should amount to 2.3 billion, compared with only 500 million collected during the first half. Receipts are normally greater in the second half of the fiscal year, and it can reasonably be expected that the estimated net cash receipts for the full fiscal year will be realized.

LATIN AMERICAN EXPORT CREDIT INFORMATION

Shortly after the war, when American exports to Latin America were expanding rapidly, it was felt by some observers that more comprehensive information on Latin American credit conditions would be welcome to both the export trade and the banks. Although the data available through banks and trade channels were already plentiful and seemed destined to remain the primary source of information, broadening American interests in the export field made an addition to the existing information seem desirable. It was thought by many, moreover, that the course of economic events after World War II might resemble that which had followed World War I and that similar problems would have to be faced by the export trade. The outstanding feature of the earlier period had been the very sharp price decline that took place in the middle of 1920 and which, in the export field, gave rise to heavy losses through cancellations of orders, rejections of shipments, bankruptcies, and similar circumstances arising out of the financial condition of individual customers. With these ideas in mind, the Federal Reserve Bank of New York, after exhaustive discussions with banks and exporters, inaugurated in May 1947, its statistical series, "Export Credit Information on Latin American Countries," which since has been released to the press each month. This monthly survey is made possible by the cooperation of twelve New York City banks doing a large foreign business, who voluntarily compile the necessary data.

Although the experience following World War II has been by no means free from problems, their nature has in fact proved to be quite different. Up to the present time, at least, there has been no general fall of prices, and consequently there have been no serious problems of cancellations, rejections, and other factors reflecting the condition of individual export accounts. In contrast, the exporting community has been beset by difficulties arising out of exchange shortages in numerous countries, which have caused payment delays even though individual customers usually were able to make prompt payment in local currency. The export credit survey, although originally designed to deal with problems of the post-World War I type, appears to have proved its value in the face of the new difficulties, as is attested by the 4,500-odd copies of the report now being mailed out monthly by this bank in response to requests received from exporters, banks, trade associations, Federal Government offices, and many others.[1]

Contents of the Series

The report classifies collections upon individual countries into the following categories: (1) prompt; (2) up to 30 days slow; (3) 31 to 60 days slow; (4) 61 to 90 days slow; and (5) over 90 days slow. The collections included in this breakdown are exclusively collections *paid,* not collections *outstanding.* While the use of detailed data relating to collections outstanding would make the report slightly more complete, their compilation would involve a considerably heavier burden upon the reporting banks. In practice, it has been found that, for a study of trends, little is lost by centering attention upon an analysis of collections paid rather than of collections outstanding. In each category of promptness the report shows the percentage of the total *number* of collections paid by each country, not the percentage of their dollar value. If the classification were made on the basis of dollar value, there would be a danger that a few large collections, whether prompt or not, might unduly color the picture in one direction or another.

In addition to the classification with respect to promptness, the report shows, for each country: (1) the total number of collections paid during the month; (2) the total dollar value of collections outstanding at the end of the month; and (3) the total dollar value of unused confirmed letters of credit outstanding. All of these data are useful in interpreting the trend of collection conditions and the general export credit situation.

The classification of collections paid into various categories of promptness is made on the basis of a schedule indicating the period within which a collection must be paid in order to be considered prompt; this schedule likewise appears in the report. According to the schedule, a collection on a distant country such as Argentina is considered prompt if paid within two months, whereas for nearby Cuba a maximum of three weeks is allowed. This schedule was prepared after detailed consultation with the reporting banks, and represents general agreement as to what was to be considered prompt at the time it was made up in the spring of 1947. Some changes probably would have to be introduced from time to time if an attempt were made to adapt the schedule to continually varying shipping and other conditions. Such changes, however, would hamper the comparability of recent data with earlier ones and thus destroy, at least for some time, the possibility of analyzing trends. Such trend analysis, rather than reliance upon isolated figures, is perhaps the most valuable use to which the series can be put.

Because the schedule inevitably introduces an element of arbitrariness into the data relating to each individual country, comparisons between countries as to promptness are inadvisable except in a very general sense. The fact, for instance, that one country shows 80 per cent of its collections in the prompt category and another country only 70 per cent may reflect, not a real difference in promptness, but the effects of a slightly tighter schedule in the case of the seemingly slower country. Larger differences, of course, are almost certainly significant.

Interpretation of the Data

For the proper interpretation of the series it is important to bear in mind the fact stressed earlier, that the report

[1] A copy of the monthly press release is available upon request to the Federal Reserve Bank of New York, Research Department, Financial Statistics Division.

endeavors, not to supplant, but to supplement the information available to exporters from their banks and other sources. The collection picture must be viewed always against the broader background of trade conditions and regulations in each country. For instance, the slowing up of collections in a country where no exchange shortage is known to exist may be taken to indicate a tighter financial condition of individual accounts, but where exchange shortages and controls prevail, slowness more likely reflects the exchange situation as a whole. Furthermore, in countries where priorities are granted to imports on the basis of essentiality, the average collection experience is not necessarily indicative of what exporters of high or low priority goods may expect.

In addition to relating the data of the report to other economic and financial facts, it is necessary to relate the various parts of the report to one another. For example, the decline in the proportion of collections paid promptly and the increase in the slower categories, that have on the whole marked the past year, point to deteriorating conditions; and so does the increase in the amount of collections outstanding (see the accompanying chart and Table I). The sudden increase in the proportion paid over 90 days slow, however, that has occurred in a few countries in recent months, indicates that the efforts in those countries to pay long overdue collections are proving successful and that conditions to that extent are improving. This indication can be verified by observing the trend in the number of collections paid and in the dollar value of collections outstanding. A rise in the former and a fall in the latter, for instance, would be indicative of a general improvement in the situation.

Since the inauguration of the monthly reports in May 1947, the trend of promptness has been downward for most countries. Under such conditions it is almost inevitable that the new warning signals provided by the reports should contribute to a more cautious attitude on the part of exporters and hence to a reduction in the aggregate volume of credit available to the importing countries. The better protection against delays and perhaps losses that exporters have thus obtained is, of course, the primary motive for issuing the reports. It would be unfortunate, however, if, over a period of time comprising both upswings and downswings, the net effect of the reports should prove to be a reduction in the total volume of credit.

Export Collections on Latin American Countries
(As reported by twelve New York City banks)

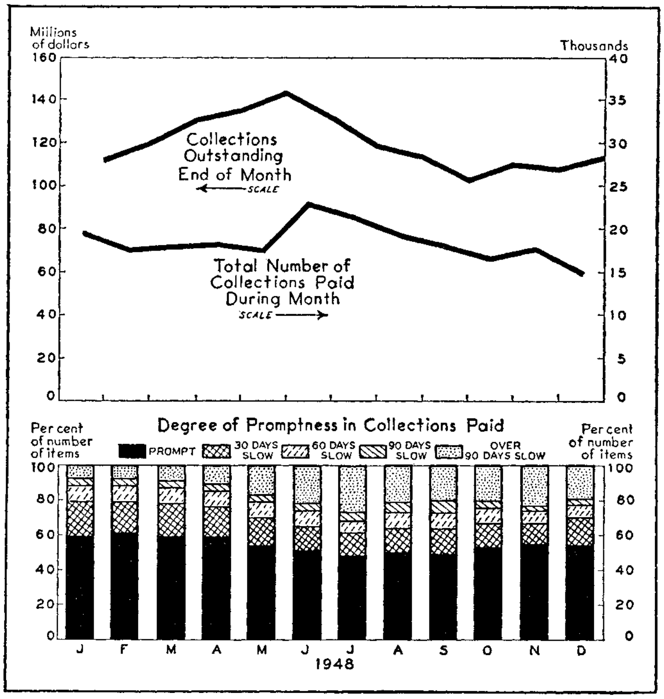


Table I
Number of Collections Paid Promptly as a Percentage of Total Number of Collections
Paid by Individual Latin American Countries, as Reported by Twelve New York City Banks, January to December 1948
(Collections classified according to the schedule of promptness for each country)

Country	Prompt payments	1948											
		Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
Argentina	2 Months	40.7	46.0	36.7	31.6	30.9	25.9	34.2	23.3	24.6	23.9	20.9	30.2
Bolivia	2 Months	55.5	62.0	72.6	66.9	57.2	61.4	63.7	58.0	51.6	46.3	45.9	54.9
Brazil	6 Weeks	30.2	25.6	19.4	11.3	7.2	7.1	2.6	3.7	3.7	4.8	4.7	7.7
Chile	2 Months	42.9	51.6	27.6	10.2	6.3	18.9	17.2	36.8	40.2	48.9	31.2	61.7
Colombia	7 Weeks	53.9	52.5	46.5	37.1	31.5	14.5	10.5	12.8	14.1	14.6	11.2	11.1
Costa Rica	2 Months	33.6	36.7	6.3	8.5	9.5	5.4	6.1	18.7	18.2	24.3	27.2	32.9
Cuba	3 Weeks	78.4	81.5	78.6	76.9	84.6	78.6	79.9	77.8	75.9	77.9	75.1	79.7
Dominican Republic	1 Month	77.8	70.5	79.8	77.7	80.2	78.9	76.7	72.4	68.6	60.1	60.6	70.0
Ecuador	6 Weeks	54.5	61.7	58.3	53.1	50.2	53.0	53.9	63.4	58.8	42.0	45.0	54.1
Guatemala	6 Weeks	55.6	68.2	61.4	68.0	75.7	77.3	66.3	59.8	64.3	58.4	67.1	66.1
Haiti	1 Month	83.2	75.8	78.7	85.3	79.5	81.6	90.5	88.2	87.4	69.3	66.4	80.4
Honduras	1 Month	63.6	53.9	48.3	48.9	52.7	50.9	54.5	51.8	43.0	44.3	45.6	49.7
Mexico	1 Month	73.7	77.9	77.6	79.6	80.7	79.6	80.3	78.4	67.9	72.6	75.9	75.6
Nicaragua	6 Weeks	78.1	67.8	83.1	78.3	71.4	81.0	89.1	78.7	71.5	72.8	68.6	71.1
Panama	1 Month	87.9	84.1	86.6	87.7	83.7	82.5	86.8	86.0	85.4	84.1	85.4	85.7
Paraguay	2½ Months	53.1	26.9	6.8	11.6	9.1	9.0	23.5	26.6	31.3	49.7	18.1	34.0
Peru	2 Months	65.9	50.2	50.9	48.3	59.2	58.4	55.0	55.5	52.3	39.9	34.5	25.7
Salvador	1 Month	61.5	65.9	58.3	57.2	57.7	58.1	59.7	52.1	55.0	45.6	65.2	54.1
Uruguay	2 Months	40.4	51.3	47.9	60.2	63.5	58.6	73.3	61.4	58.4	58.7	51.6	63.0
Venezuela	6 Weeks	65.8	65.8	69.3	72.4	68.7	72.3	68.5	68.0	62.9	66.1	69.1	62.2
British Guiana	6 Weeks	63.7	65.6	76.9	69.9	80.5	83.9	84.9	81.6	91.7	73.1	100.0	78.4
Dutch Guiana	5 Weeks	47.9	76.3	60.2	44.8	63.8	37.1	69.8	78.0	87.7	79.2	77.9	66.0
French Guiana	5 Weeks	—	—	—	100.0	—	—	100.0	—	—	—	—	—
All countries		59.0	60.8	59.2	58.9	53.5	50.7	47.6	49.7	49.0	52.5	54.7	54.3

Table II
Collections Outstanding on Latin American Countries, as Reported by Twelve New York City Banks, January to December 1948
(End-of-month data in millions of dollars)

Country	1948											
	January	February	March	April	May	June	July	August	September	October	November	December
Argentina	12.3	13.2	13.2	12.1	12.9	16.4	13.8	14.3	13.9	14.9	15.0	15.3
Bolivia	1.1	1.2	1.2	1.1	1.2	1.3	1.7	1.6	1.2	1.3	1.2	1.8
Brazil	52.2	59.1	67.2	75.0	79.9	66.6	57.7	53.4	48.7	51.7	52.8	57.2
Chile	9.5	8.8	9.1	7.6	6.7	5.6	5.3	4.7	4.4	4.9	4.6	4.4
Colombia	7.8	8.1	9.0	10.6	11.5	11.7	11.0	10.0	7.5	8.4	7.7	5.6
Costa Rica	2.3	2.2	2.2	2.2	2.0	1.5	1.2	1.0	0.9	0.7	1.0	1.4
Cuba	4.7	4.1	4.1	3.3	3.8	3.9	3.8	3.7	3.0	3.6	3.0	3.6
Dominican Republic	0.5	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.7
Ecuador	1.4	1.6	1.8	1.6	1.5	1.8	1.9	2.3	2.0	2.2	1.9	1.8
Guatemala	0.6	0.6	0.5	0.6	0.8	0.9	0.9	0.8	0.9	1.1	0.7	0.7
Haiti	0.2	0.1	0.3	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.3
Honduras	0.7	0.7	0.7	0.8	0.7	0.5	0.7	0.6	0.7	0.7	0.5	0.7
Mexico	4.4	4.1	4.0	3.8	3.8	3.6	3.4	3.3	2.9	2.8	2.6	2.9
Nicaragua	0.4	0.6	0.8	0.8	0.9	0.9	0.8	0.8	0.6	0.9	0.8	0.7
Panama	1.2	1.0	0.9	0.9	1.0	1.1	0.9	1.0	1.0	0.9	0.8	0.9
Paraguay	0.4	0.6	0.6	0.4	0.5	0.4	0.5	0.4	0.4	0.3	0.3	0.3
Peru	2.7	2.7	2.5	2.6	2.8	3.0	2.5	2.8	2.7	3.1	3.1	3.2
Salvador	0.6	0.5	0.6	0.7	0.7	0.9	0.9	0.9	0.8	0.8	0.8	0.6
Uruguay	1.4	1.7	1.6	1.6	1.9	1.7	1.8	1.6	1.5	1.8	2.0	1.0
Venezuela	7.4	7.2	8.5	8.1	8.9	9.4	9.5	9.5	8.6	9.3	8.6	10.0
British Guiana	*	0.1	0.1	0.1	0.1	*	0.1	*	*	*	*	*
Dutch Guiana	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
French Guiana	—	—	*	—	*	*	*	—	—	—	—	—
All countries	112.1	119.2	129.7	134.8	142.5	132.3	119.1	113.8	102.6	110.4	108.3	113.3

* Less than $50,000.
Note: Because of rounding, figures do not necessarily add to totals.

Perhaps it is not an unreasonable expectation that in the long run the more detailed information provided by the survey will enable exporters to take advantage of opportunities for sound credit extension that will, on the average, increase rather than reduce the total volume of export credit.

Experience during 1948

The accompanying chart showing the dollar amount of collections outstanding, the total number of collections paid, and the percentages paid with various degrees of promptness reflects the collection experience of the twelve reporting banks during 1948. Prompt collections declined from 59.0 per cent of the total paid during January to 54.3 per cent paid during December, while the percentage of collections paid over 90 days slow more than doubled. At the same time the total number of collections paid declined to the lowest level since this series of reports began in May 1947. Collections outstanding showed little net change in value for the year, the rise in the first few months being offset by a decline of about 40 million dollars from May to September. About 31 million dollars of this decline is accounted for by a decline in Brazilian collections outstanding.

Table III
Confirmed Letters of Credit Outstanding for Latin American Countries as Reported by Twelve New York City Banks, January to December 1948
(End-of-month data in millions of dollars)

Country	1948											
	January	February	March	April	May	June	July	August	September	October	November	December
Argentina	118.6	117.1	114.3	114.6	99.7	84.0	70.9	64.9	61.4	58.6	58.6	54.3
Bolivia	6.0	6.9	5.9	4.9	5.1	5.0	4.6	5.1	4.6	8.6	10.1	7.5
Brazil	24.8	21.7	18.0	19.1	20.1	19.2	18.4	16.0	17.0	18.5	20.3	19.4
Chile	3.6	2.4	2.5	2.8	6.0	7.6	8.3	9.9	14.8	14.1	14.5	12.0
Colombia	16.6	15.8	18.0	15.8	16.4	16.3	15.7	16.5	16.0	15.5	16.8	14.7
Costa Rica	0.4	0.5	0.3	0.2	0.4	0.4	0.3	0.5	0.8	0.7	0.8	0.9
Cuba	11.5	15.4	12.7	16.1	9.9	10.1	6.3	6.4	8.4	11.0	11.7	8.8
Dominican Republic	1.3	0.8	0.6	0.4	0.5	0.7	1.7	1.8	1.6	2.8	2.6	2.8
Ecuador	2.1	2.2	1.7	1.6	2.0	2.0	1.8	2.0	2.0	2.0	1.6	1.2
Guatemala	0.6	0.7	0.6	0.7	1.2	1.1	0.8	0.7	0.7	0.8	0.8	0.9
Haiti	0.2	0.2	0.2	0.2	1.7	0.3	0.3	0.4	0.3	0.4	0.4	0.5
Honduras	0.3	0.3	0.2	0.2	0.4	0.8	0.3	0.3	0.2	0.2	0.3	0.4
Mexico	27.6	27.6	26.6	26.1	25.7	24.8	21.4	29.2	37.1	38.8	36.7	33.2
Nicaragua	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*	*	0.1
Panama	2.4	2.7	2.0	2.5	1.2	1.3	1.0	2.3	2.1	1.7	2.3	2.0
Paraguay	1.4	0.7	0.8	0.9	1.3	1.7	1.3	1.1	1.0	1.3	1.2	1.3
Peru	2.2	2.3	2.6	2.2	2.3	2.9	3.4	4.0	2.6	2.9	4.4	4.2
Salvador	1.3	1.4	1.0	1.2	4.8	1.3	1.3	1.3	1.6	1.4	1.3	1.1
Uruguay	5.4	5.3	7.4	6.8	6.7	7.7	7.9	6.8	6.7	5.0	4.8	5.5
Venezuela	18.8	19.1	19.7	23.7	20.6	21.8	20.1	20.7	22.0	22.0	22.8	19.5
British Guiana	—	—	—	—	—	—	—	—	—	—	—	—
Dutch Guiana	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.7	0.6	0.6	0.7
French Guiana	—	—	—	—	—	—	—	—	—	—	—	—
All countries	245.3	243.2	235.3	240.3	226.1	209.4	186.3	190.4	201.7	207.0	212.8	191.2

* Less than $50,000.
Note: Because of rounding, figures do not necessarily add to totals.

The declining trend in prompt payments in most countries of Latin America is also shown in Table I. Outstanding exceptions to the trend during 1948 were Chile and Uruguay, where the proportion of collections paid promptly increased by about 44 and 56 per cent, respectively, from January to December. Throughout the year Cuba and Panama showed a high degree of promptness in the payment of draft collections, Cuba paying better than 75 per cent of its collections promptly in every month of the year, and Panama better than 80 per cent.

The monthly collections outstanding (shown in the chart) and the confirmed letters of credit outstanding are broken down by countries in Tables II and III.

DEPARTMENT STORE TRADE

January sales at Second District department stores were about the same as December's, after allowance for the usual seasonal changes. Compared with January 1948, sales in the first month this year were only slightly better on a daily average basis, according to preliminary information. For the entire year 1948, sales averaged 5 per cent greater than in 1947, the smallest year-to-year increase since 1943.

Second District department stores as a whole held at the end of 1948 only 2 per cent more merchandise in stock (dollar volume) than at the close of 1947. As the table shows, however, there were wide differences among areas in the Second District. This small change in stocks, following a period of relatively slow sales, indicates that merchants are maintaining close control.

Recent Changes in Forward Buying

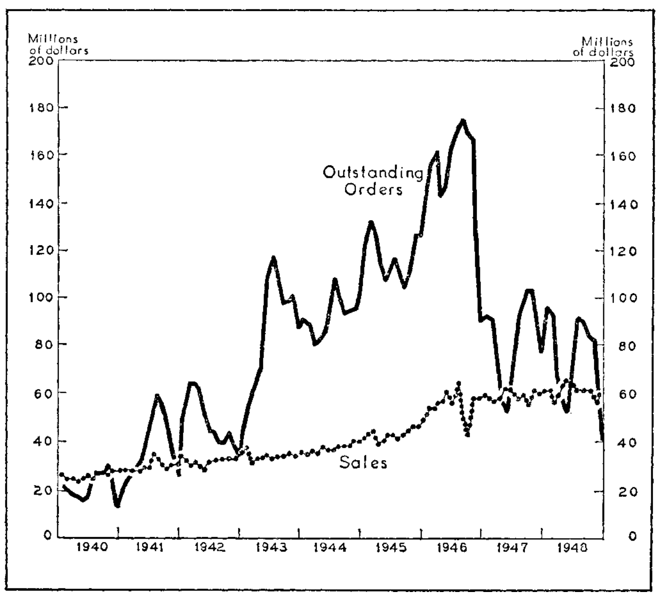
In 1948, the larger department stores in the Second District cut their order backlogs on the books of suppliers almost in half, continuing a trend which had begun in the fall of 1946. As the accompanying chart shows, not since 1942 have outstanding orders in dollar terms been so small as they were at the end of 1948. In view of the great rise in prices over this six-year interval, the physical volume of goods on order must have been greater at the end of 1942, in all likelihood, than at the corresponding time in 1948.

During the war years, when merchandise was increasingly difficult to obtain and delivery schedules increasingly uncertain, the stores had pushed commitments further and further into the future and duplicated orders with any source of supply which offered a possibility of delivery. Sales mounted rapidly during the first postwar year, inducing stores to extend their forward positions still further in an effort to obtain adequate stocks from a very tight market.

The pyramiding of orders ended rather abruptly in August 1946. Although seasonally adjusted sales reached a peak in that month, an increased stock-sales ratio indicated that stocks also had suddenly become relatively very large, owing to rapidly improving deliveries. Merchandise receipts during the three months ended August 1946 were about 15 per cent greater than sales. It was recognized, too, that a substantial proportion of the merchandise in stock was of inferior quality (frequently described in trade circles as "ersatz"). Store managers, conscious of the 1920-21 deflation of retail values, became somewhat afraid of a possible decline in prices. During the last four months of 1946, the reporting group of large stores in this District accordingly cut back their outstanding orders to a level 85 million dollars below the peak value of 175 million. While this sharp reversal of forward buying was partly attributable to seasonal factors, it represented mainly a change in policy. The fact that over-all economic activity continued to expand during a period when the stores reduced their commitments sharply indicates that they had had more goods on order than suppliers were geared to produce. Consequently, except in isolated apparel and related soft goods lines, no great shock was felt when the stores switched into more conservative positions.

Outstanding orders fluctuated around a declining trend in the subsequent two years. Although adequate data for a satisfactory adjustment for seasonal variation are not available, there is reason to believe that the changes in the value of outstanding orders shown in the chart for 1947 and for 1948 were much sharper than would be accounted for by seasonal factors alone. Retail thinking has alternated between optimism and pessimism depending on whether expanding or contracting forces appeared to be gaining in relative importance and the stores have adjusted their order backlogs in conformity with these swings in outlook.

Outstanding Orders and Sales of a Representative Group of Second District Department Stores*
(Monthly, 1940-48)



* For a group of stores whose 1947 sales equaled more than half of the Second District total. Sales are seasonally adjusted monthly totals, orders are actual end-of-month data.

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

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

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

Item	1947 Dec.	1948 Oct.	1948 Nov.	1948 Dec.
Sales (average daily), unadjusted	408	280	298	414
Sales (average daily), seasonally adjusted	242r	250	229	245
Stocks, unadjusted	211	267	278	215
Stocks, seasonally adjusted*	232	236	242	236

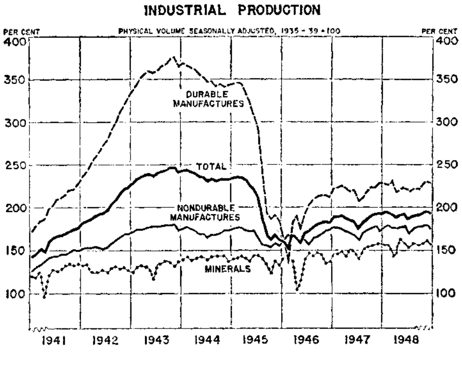
r Revised.
* Seasonal adjustment factors for 1946-48 revised; available upon request from Research Department, Domestic Research Division.

Indexes of Business

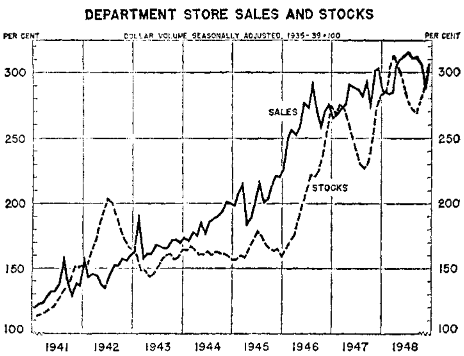
Index	1947 Dec.	1948 Oct.	1948 Nov.	1948 Dec.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	192	195	195	192p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	237	257r	255	257p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	204	208	191p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	329r	338	334	342p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	162	163	162	159p
New York State, 1935-39 = 100 (*N. Y. S. Div. of Place. and Unemp. Ins.*)	133	127	125	124p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	366	382	378p	
New York State, 1935-39 = 100 (*N. Y. S. Div. of Place. and Unemp. Ins.*)	304	294	301	298p
Personal income*, 1935-39 = 100 (*Department of Commerce*)	303	314	316p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	183	194	195p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	167	174	172	171
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	87	109	101	94
Outside New York City	81	93	93	86

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

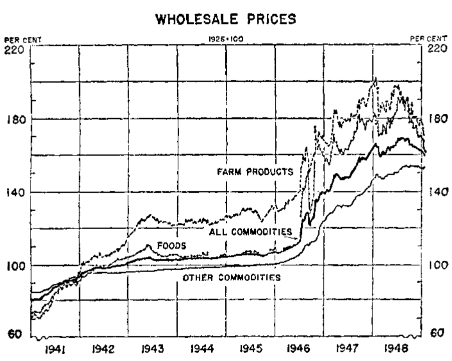
‡ A monthly release showing the 15 component indexes of hourly and weekly earnings in nonagricultural industries computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, may also be procured from the Research Department, Domestic Research Division.



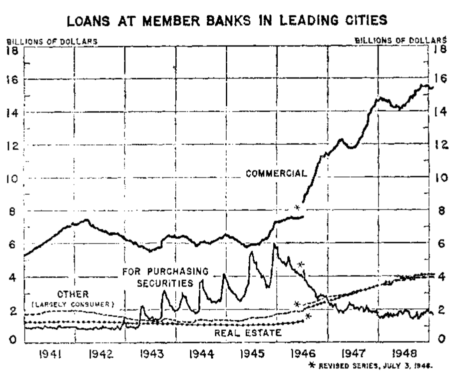
Federal Reserve indexes. Monthly figures; latest shown are for December.



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



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended January 18.



Excludes loans to banks. Wednesday figures; latest shown are for January 19.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, January 27, 1949)

OUTPUT at factories and mines declined somewhat in December. Department store sales in December and the early part of January were above the reduced November rate, after allowance for seasonal variation. Wholesale prices of farm products and foods showed further marked declines and retail prices of foods and some other goods were also reduced.

Industrial Production

The Board's seasonally adjusted index of industrial production declined 3 points in December to a rate of 192 per cent of the 1935-39 average, owing primarily to reduced output of nondurable goods. Output for the year 1948 was also 192, as compared with 187 in 1947.

Activity in durable goods industries was maintained in December at about the level of the previous month. Iron and steel production, after allowance for mill closings on Christmas continued close to the advanced November rate, and in the first three weeks of January rose to new record levels. Activity in most machinery and transportation equipment industries was also maintained at about the November rate, although output in some lines—mainly those producing household equipment—was curtailed further. Assembly of new automobiles in December was below the November rate, mainly because of model change-over activity at the end of the month. Passenger car production for the year was 3.9 million vehicles as compared with 3.6 in 1947 and 3.8 in 1941; the number of trucks produced in 1948 was at a record total of about 1.4 million. Output in the nonferrous metals, lumber, and stone, clay, and glass groups showed little change in December.

Output of nondurable goods in December, according to preliminary figures, was at a rate about 2 per cent lower than in the preceding month. Cotton consumption declined further in December, and for the entire year 1948 was at the lowest rate since 1940. Paperboard production was curtailed sharply at the end of December, and for the month was 6 per cent below the rate in December 1947. Activity in the petroleum refining industry increased further in December. Output in most other nondurable industries declined somewhat or showed little change.

Minerals production declined 3 per cent in December, mainly because of a considerable reduction in coal output. Production of crude petroleum was maintained at the November rate. In the early part of January coal production continued at a reduced level, about 12 per cent below the rate at the beginning of 1948, and crude petroleum output was curtailed somewhat.

Construction

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, rose contraseasonally in December, reflecting chiefly large awards for public works projects. Awards for most types of private construction were unchanged from November. The number of new nonfarm housing units started, according to the Bureau of Labor Statistics, declined further to 56,000 units as compared with 65,000 in November 1948 and 59,000 in December 1947; the total for the year was 927,000 units, almost 10 per cent more than the 849,000 started in 1947.

Distribution

Department store sales increased by more than the usual seasonal amount from November to December, and the Board's adjusted index was estimated to be 307 per cent of the 1935-39 average as compared with 287 in November and an average of 302 for the year. Inventories at department stores were at a high level at the year-end, while outstanding orders were the lowest in six years. In the first half of January value of sales was 7 per cent larger than in the corresponding period last year, reflecting partly the effect of more extensive promotional sales.

Shipments of railroad revenue freight showed the usual large seasonal decline in December and were 8 per cent smaller than in the corresponding period a year ago, mainly because of reduced loadings of coal and manufactured goods. In the early part of January rail shipments of manufactured goods declined somewhat further.

Commodity Prices

The average level of wholesale commodity prices continued to decline in December and the first three weeks of January, reflecting chiefly further marked decreases in prices of farm products and foods. Prices of alcohol, fuel-oil, scrap metals, and some other industrial commodities also declined in this period, while additional advances were announced for metal products, including some new models of automobiles.

In retail markets, prices of foods decreased somewhat further in December and January and special sales of apparel and household goods at reduced prices were widespread. Resale prices of passenger automobiles dropped further.

Bank Credit

A substantial post-Christmas return of currency from circulation and an excess of Treasury expenditures over receipts supplied reserve funds to member banks during the first three weeks of January. Banks used these funds to increase their holdings of Government securities.

Federal Reserve System holdings of Government securities were reduced by over one billion dollars in the first three weeks of January. Bond holdings declined further as market demand for Treasury bonds continued active.

Business loans at member banks in leading cities declined substantially over the year-end but increased somewhat in mid-January. Loans to brokers and dealers in securities were reduced considerably. Increases in bank holdings of Government securities reflected primarily large purchases of Treasury bills.

Security Markets

Prices of United States Government and high-grade corporate bonds continued to rise slightly in the first three weeks of January.