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MONEY MARKET IN FEBRUARY

The money market was under considerable pressure during February until late in the month. Chief among the transactions absorbing bank reserves were substantial net Treasury receipts, augmented by continued collections of personal income taxes early in the period. While the Federal Reserve System continued to sell sizable amounts of Treasury bonds, such sales were at a slower pace than in January. As income and other tax payments reduced demand deposits, required reserves of the member banks fell substantially, thus providing the chief offset to the pressure on the bank reserves. A persistent drain of funds from New York City to other parts of the country placed a large part of the burden of adjusting reserve positions upon the City banks, at the same time easing, in part, the position of the other banks. There was a considerable demand for Federal Reserve credit, and excess reserves declined markedly.

The post-Christmas return flow of currency came to an end late in January. During the following weeks, seasonal factors that had a tightening effect upon member bank reserves, such as net Treasury receipts, assumed more importance. Treasury tax receipts were heaviest in the early part of the month and fell off subsequently. However, a moderate withdrawal of funds from the Treasury's War Loan accounts in depository commercial banks in the middle of the month and a decrease in Government expenditures prevented any material easing of the money market until late in the month. In the three weeks ended February 16, Treasury deposits with the Federal Reserve Banks rose about 620 million dollars, to 1,754 million dollars. In addition, about 90 million dollars of funds withdrawn by the Treasury from the money market were absorbed by retiring Federal Reserve System holdings of certificates of indebtedness maturing February 1. The Treasury's substantial net excess of cash receipts from the money market coincided with other transactions, such as sizable purchases of Government bonds by nonbank investors from the Reserve System, that caused further losses of reserves by the banks.

The pressure on reserve positions was only partly eased by other money market factors, among which were the reduc-

tions in required reserves accompanying the collection of income and other tax checks and a moderate decline in currency in circulation.

Although the Treasury paid out more funds than it took in during the last statement week under review (the week ended February 23), member bank reserve positions remained tight until the latter part of the week. The banks' required reserves continued to decrease, but there was a substantial contraction of Federal Reserve "float" (Federal Reserve funds credited to banks against checks still in the process of collection) and a further loss of reserves through a moderate rise in currency in circulation. The uneven distribution of these gains and losses of funds tended to put pressure especially on the reserve positions of banks in certain sections of the country, while in other areas, particularly in New York City, the banks' position was more comfortable. In the closing days of the month, the money market was easier than in several weeks.

Demands for Federal Reserve credit were continuous throughout most of February but were heaviest in the early part of the month. Member banks obtained such credit largely by selling substantial amounts of short-term Treasury securities, although they borrowed sizable amounts temporarily from the Reserve Banks at times. In the three weeks ended February 16, they also drew heavily upon their excess reserves (by 380 million dollars). However, a part of these and other funds were used to reduce indebtedness to the Reserve Banks, which declined 220 million dollars, net, in this period. Most

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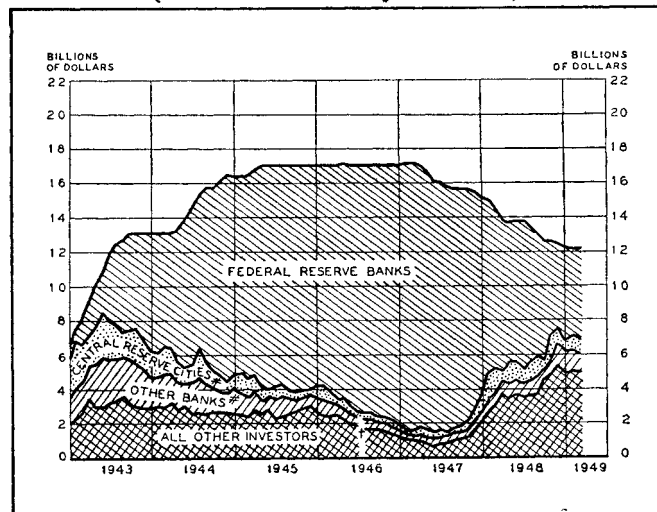
of the decrease in excess reserves and member bank borrowing occurred in the week ended February 2. In the week ended February 23, both the excess reserves and the borrowings of member banks increased moderately and the System continued to purchase short-term Treasury securities. Over the entire four-week period, the System purchased (net) 414 million dollars of certificates and 327 million of bills, and sold 343 million dollars of bonds and 78 million dollars of notes.

Although still sizable, Federal Reserve System sales of Treasury bonds during the past month were on a much reduced scale as compared with January, reflecting the decrease in market activity. Savings banks apparently did not purchase long-term restricted Treasury bonds as vigorously as in the previous month, presumably in part because their deposit gains were smaller. Switching operations of these institutions are reported to have continued on a sizable scale. However, the commercial banks did not appear to be as eager as before to take the eligible issues which the savings banks offered in order to obtain additional funds for the purchase of ineligible securities. Prices of eligible bonds declined slightly during the second half of the month. Thus, the past month saw an abatement of the commercial banks' tendency to resume their war and early postwar practice of reaching out for longer-term bonds with funds raised principally through the sale of short-term Government securities to the Reserve System.

The Reserve System sold Treasury bonds and purchased certificates in each week of the month. The certificate purchases in considerable part reflected investor preferences for other types of Government securities, particularly Treasury bills and bonds. Member banks in need of reserves adjusted their positions through the sale of certificates, particularly the longer-dated issues, and invested in Treasury bills funds which they expected to retain only a short time. In recent months the steady rise in the rate on three-month Treasury bills to 1.16-1.17 per cent (while one-year certificates have remained on a 1¼ per cent basis) has favored the use of bills as a medium of short-term investment.

As shown in the accompanying chart, Treasury bill holdings of commercial banks and nonbank investors have risen substantially since July 1947, when the Treasury bill rate was "unpegged". Many industrial corporations, attracted by the higher rate, have invested idle demand deposits at least temporarily in Treasury bills. The combined bill holdings of nonreporting banks and nonbank investors (representing mostly the holdings of the latter) have in recent months been at the highest level on record. The increase in bill holdings of the weekly reporting member banks, which usually are fairly representative of changes at all banks, has been less rapid. In October 1948 the holdings of those banks had regained the levels of early 1945, but they declined subsequently owing to the pressure on bank reserves. The Federal Reserve System, which early in 1947 held close to 90 per cent of all Treasury bills outstanding, had by February 16, 1949 reduced its hold-

Ownership of Treasury Bills
(As of last Wednesday of month*)



* Latest figures, February 16, 1949, are preliminary.

Weekly reporting banks.

† New series based on revised list of reporting banks.

ings to 43 per cent. Part of the decline reflects Treasury cash retirement of bills held by the System, but an equally large part has resulted from the shift in ownership of bills to the commercial banks and other private investors. Thus, to a large extent, the expectation that Treasury bills would again become an important money market investment instrument, once their rates were "unpegged", has been realized.

MEMBER BANK CREDIT

Reflecting the generally tight money market conditions, the weekly reporting member banks in 94 cities reduced their holdings of Treasury bills and certificates by 1,100 million dollars during the four weeks ended February 16. Their Government bond holdings continued the rise which had begun shortly after the national elections. During the four-week period, the rise amounted to 300 million dollars, or to one per cent of their total Government bond portfolios. Total Government securities held by the weekly reporting banks declined by 859 million dollars. Since the Federal Reserve System's portfolio in this period showed an increase of 915 million dollars in bills and certificates and a decrease of 610 million in bonds, it appears that the reporting member banks bore a large share of the loss of reserves resulting from purchases of Government bonds by nonbank investors and from various other transactions.

About half of the decline in the weekly reporting banks' Government security portfolios during the four weeks occurred among the New York City banks. The New York institutions, however, acquired only a nominal amount of bonds (net). On the other hand, the liquidation of Treasury bills and certificates by reporting banks in the 93 other cities was accompanied by a rise of nearly 300 million dollars in their holdings of Treasury bonds. Thus it appears that those banks

disposed of part of their short-term holdings to acquire longer-term bonds. Compared with a year ago, however, the Government security holdings of all weekly reporting banks decreased by 3,744 million dollars, and the decline came almost entirely in Government bonds (3,594 million dollars), the highest yielding type of security.

Commercial, industrial, and agricultural loans of the weekly reporting member banks continued their seasonal decline with a further decrease of almost 150 million dollars in the four weeks ended February 16. This brought the contraction of business loans from the December 22, 1948 peak to about 370 million dollars. In the same period last year, the decrease was less than 100 million dollars. Almost the entire decline in such loans in recent weeks has occurred among the reporting banks located outside New York City. Banks in the City reported only a nominal decline in the four weeks ended February 16. Since February 2, in fact, business loans of the reporting banks in New York City have shown a small increase. On February 23, they were only 27 million dollars below the December 22, 1948 level (and only 76 million below the peak level in the City of November 10, 1948).

The only other noteworthy development during the month was the continued gradual decline in all other loans (including consumer loans) of the weekly reporting banks. Total loans of all weekly reporting banks remained 1.5 billion dollars higher on February 16, 1949 than on the corresponding date in 1948. A large part of the increase was in commercial and real estate loans, although there was a substantial net increase also in the "other loans" category, which includes instalment and other loans to consumers.

POSTWAR CHANGES IN THE VELOCITY OF DEPOSITS

The money supply is one of the factors mentioned most frequently in discussions of the causes and manifestations of inflation. Of considerable significance also, but less frequently discussed, is the velocity or rate at which money turns over. If the money supply were contracting at the same time that turnover was increasing, the sum total of all payments in the economy might remain the same and the price level would then be unaffected.

Perhaps one reason why the rate at which money circulates through the economy is not given more attention in discussions of inflationary developments is the difficulty of measuring it. In particular, there are no statistical data with which to measure the rate of turnover of banknotes and coins. However, a fair idea of the rate at which bank deposits are being used can be had from published data on the ratio of bank debits to deposits. Such ratios are even more significant if limited to demand deposit accounts, since a very high proportion of payments in this country is made by means of checks against demand deposits, while rates of turnover of time deposits are much less subject to rapid change. Also, changes

over a period of time in the rate of deposit turnover are more important than the absolute rate at any given time. In addition to check payments, reported debits include transfers of funds between accounts of the same holder, withdrawals of currency, and other nonpayment transactions, so that the computed rates of turnover are really indices, rather than actual measures of velocity of deposit money.

Normally, deposits, debits, and the rate of turnover move in the same direction, with debits (and therefore the rate of turnover) moving somewhat more rapidly than deposits. When business is good or improving, the use of bank credit (and deposits) expands and money is spent more rapidly. In a recession, both the money supply and the rate at which it circulates tend to decline. During the middle 1930's, however, the increases in total deposits and debits were just about parallel, so the turnover rate remained fairly constant. After 1937 velocity began to decline and, with the brief exception of 1941, continued to decline through 1945. The reason why the turnover rate during the 1930's remained unchanged, or declined, was that the large additions to bank deposits resulting from a heavy inflow of gold and from the Government's deficit financing program were not related to business demands for money and therefore were often held idle.

During the war, the rate of deposit turnover continued to fall off primarily as a result of three factors. First, since the Government was then the sole purchaser of roughly two fifths of the goods and services produced within our economy, a number of intermediary transactions were eliminated that would otherwise have taken place and given rise to bank debits between the time of production and the final consumption stage. In the second place, deposits continued to grow rapidly as the Government continued to finance a large part of its deficit by borrowing from banks. Finally, as a result of a combination of high incomes and a shortage of producers' and consumers' goods, both business concerns and individuals tended to hold larger idle deposit balances than usual.

Since the end of the war, some of the factors which tended to reduce the velocity of money have been reversed. Goods and services for civilian use, with very few exceptions, have become more plentiful. The importance of the Federal Government as a buyer of goods has declined; its share of the gross national product dropped from 42 per cent in 1944 to 8 per cent in 1948. Deposits have fluctuated within relatively narrow limits since 1945, and business activity has continued to remain on a very high level. As a result, both debits and deposit turnover showed a fairly steady increase from the end of the war until very recently.

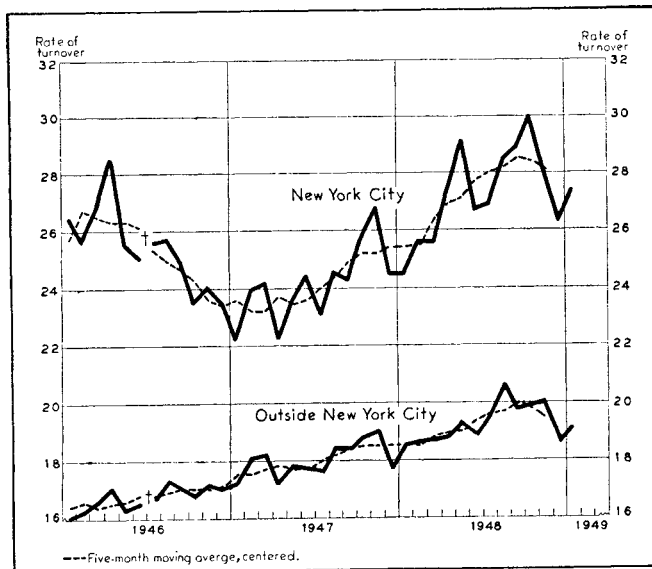
During the middle 1930's, total deposits (after deducting interbank deposits and collection items) at all commercial banks turned over on the average 15 or 16 times a year. By 1945 the rate had declined to less than 11 times a year. While final figures for 1948 are not yet available, the rate probably

rose to approximately 14 times, about the same as that prevailing in 1939 and 1941. The velocity of demand deposits is, of course, much greater than that of time deposits, but the short-run fluctuations in the series for total and for demand deposits are very similar. In 1929 the velocity of demand deposits of all commercial banks reached a peak of 54. In the middle 1930's the average turnover was around 25 or 27 times a year. At the end of the war it was down to 13½, but it has since recovered to about 20. The decline in velocity has been larger for demand than for total deposits because most of the increase in deposits in the past 15 years has been in demand balances and a large part of these balances have been held relatively idle.

The accompanying chart shows monthly fluctuations in the velocity of demand deposits at the weekly reporting member banks in New York City and outside New York from the beginning of 1946 to date (adjusted for seasonal variation). The rise in velocity can be seen clearly from the five-month moving average, which has been plotted as a dashed line. Both curves seem to indicate that the velocity of demand deposits reached a peak in the fall of 1948, and turned down somewhat at the year end.

Turnover rates in New York City, as the chart also illustrates, are higher and often move quite differently from those in other parts of the country. This difference is largely attributable to the fact that financial transactions account for a much higher proportion of debits in New York City than elsewhere in the country. Financial accounts are the most active type of deposit account and are subject to especially wide fluctuations which are not necessarily related to changes in busi-

Annual Rate of Turnover of Demand Deposits* of Weekly Reporting Member Banks in New York City and Outside New York City
(Monthly, 1946-Jan. 1949; adjusted for seasonal variation)



* Excluding interbank and Government deposits.
† New series based on revised list of reporting banks.

ness conditions. The velocity of deposits in this City reached a low point of 17.1 in 1940, compared with over 30 in the middle 1930's. From the 1940 low, it increased gradually each year until 1947, when there was a slight decline, but in 1948 it again moved up fairly rapidly. The wartime increase in New York may partly reflect debits arising from the Treasury's War Loan financing and the large amount of transactions in outstanding Government securities which accompanied War Loan drives. Outside New York City the turnover of demand deposits at the weekly reporting member banks declined from around 22 or 23 times a year in the middle 1930's to 16.1 in 1945. Since then, the advance has been fairly steady. The average for 1948 was about 27 in New York and 19 outside New York.

A study of the velocity figures for each of the Federal Reserve Districts indicates that all sections of the country have participated in the postwar increase in turnover rates. The most substantial increases outside New York City were in the Cleveland, Dallas, Philadelphia, and Atlanta Reserve Districts. In all of these the velocity of adjusted demand deposits was roughly 8 to 10 per cent higher last year than in 1947. The smallest increases were in the Minneapolis, Richmond, and San Francisco Districts, where the rate of turnover in 1948 was only 2 or 3 per cent higher than in the preceding year. A leveling off of the rate toward the end of the year was also noticeable in all of the districts.

In those Second District cities outside New York City for which statistics are available, increases in the velocity of total deposits (other than interbank) during recent months have been quite small. Differences within the District in the annual turnover of total deposits, however, are considerable. The character of the economic activity in the community and the proportion of time deposits to total deposits have an important influence on the activity of deposit accounts. In communities which are primarily residential, such as Montclair, New Jersey, the turnover rate is low—for total deposits of all clearing house banks in such cities, it is currently around 5 or 6 times a year. In Binghamton and Bridgeport, which are industrial communities, it has been averaging approximately 10 times a year. In Albany, where debits and deposits are subject to special influences arising from the handling of State funds, the average last year was about 21.

Does this general increase in the velocity of deposits have any special significance beyond marking the postwar return to normal trade relationships and expenditure patterns? The accompanying table showing percentage changes during the three postwar years in the rate of turnover of demand deposits (other than interbank accounts and collection items) and in the money supply, gross national product, the volume of industrial production, and prices may help to answer the question.

In 1947 and 1948 both production and prices increased, but the money supply (demand deposits adjusted, U. S. Government deposits, and currency outside banks) showed little

Annual Percentage Changes in the Turnover of Commercial Bank Deposits and in Related Factors, 1946-48

Factor	1946	1947	1948 ^p
Gross national product.....	- 1.9	+10.7	+10.1
Industrial production.....	-16.3	+10.0	+ 2.7
Wholesale prices.....	+14.5	+25.6	+ 8.4
Consumers' prices.....	+ 8.5	+14.3	+ 7.5
Money supply*.....	+ 0.8	- 5.9	+ 0.4
Turnover of deposits#.....	+10.4	+15.4	+16.3

^p Preliminary.

* Demand deposits adjusted, U. S. Government deposits, and currency outside banks.

Demand deposits of all commercial banks, other than interbank deposits and collection items; 1948 estimated.

Source: Board of Governors of the Federal Reserve System, U. S. Department of Commerce, and U. S. Department of Labor.

change, owing primarily to policies adopted by the Treasury and the Federal Reserve System. In order to handle the larger volume of payments generated by higher production and price levels, the rate of turnover of deposits increased; deposits that had formerly been held idle were activated. This increase, as shown in the table, was roughly in line with the increases in production and prices. After the middle of 1948, prices, and consequently many value series, showed signs of leveling off after nearly a decade of practically uninterrupted increases. This leveling off has been reflected in the recent declines in the velocity of deposits.

THE OEEC INTERIM REPORT

As the first year of the European Recovery Program comes to a close and Congressional hearings on appropriations for the second year begin, the Council of the Organization for European Economic Cooperation (OEEC) has submitted a report to the Economic Cooperation Administration on the programs of the participating Western European countries for the achievement of "viability", i.e., independence from "extraordinary outside assistance" by 1952. The programs and conclusions set forth in the report are reviewed and commented upon below.

The plans of the participating countries are based on the following assumptions: (1) a continuation of peace; (2) a high level of employment throughout the world, and especially in the United States; (3) a high level of world trade; (4) the control of inflationary pressure; (5) continued mutual co-operation; and (6) United States assistance during the next three years "on a sufficient scale."

A large increase in Western Europe's industrial and agricultural output by 1952 is planned. Industrial output, on the basis of the national programs, is scheduled to rise about 30 per cent above the prewar level by 1952-53, or about 25 per cent above present levels. Agricultural output is to rise about 15 per cent above the prewar level. The increase in agricultural production over prewar is expected to be concentrated in the United Kingdom, France, and Turkey; the other countries plan merely to regain their prewar levels.¹

¹ The report points out that a 3 per cent increase in present agricultural output would eliminate 1 billion dollars' worth of imports, or virtually the whole estimated deficit of the area in 1952-53 with the outside world.

In addition, there are plans for increased production of food and raw materials in the dependent territories of the area. Although the full effects of many of these projects will not be felt for 10 or 15 years, significant gains are expected by 1952-53.

The OEEC, in examining the prospects for achieving the various production targets, concludes that "with some exceptions there will be enough food and raw materials physically available to support the production programs as a whole", assuming the countries are able to pay for the imports necessary for this output. Resources for capital investment, however, are likely to fall short of needs, and it is considered doubtful whether output per manhour will be increased the anticipated 15 per cent in the next 3½ years. The OEEC consequently regards it as unlikely that the production targets will be reached by 1952-53.

The most significant estimates in the report relate to the area's balance of payments. Imports from the outside world at the end of the European Recovery Program are placed at 99 per cent of 1938 in terms of physical volume, or 12.8 billion dollars at 1948-49 prices. Of the total imports in 1952-53, food is expected to account for 38 per cent, raw materials and fuel for 55 per cent, and manufactures for only 7 per cent. The current sources of imports differ widely from the prewar trade pattern, but it is planned to restore that pattern by decreasing imports from North and Central America and increasing them from other parts of the world, as shown in Table I.

The countries' estimates of the import goods that will be available in 1952-53 from areas other than North and Central America are considered by the OEEC as about 1 billion dollars too high, in the aggregate. Nevertheless, if the participating countries "are prepared to take positive action to encourage new production either by offering long-term contracts, individual or collective, or by investment or by any other method, the volume of supplies available may well be increased. However, in view of the time necessary to develop primary production, the full effects of plans made now may not be felt until after 1952."

Exports to nonparticipating areas are scheduled by the indi-

Table I
Sources of Imports of OEEC Countries from Outside World
Excluding Imports from Dependent Territories
(In per cent of total)

	1938	1947	1952-53 program
North and Central America . . .	31.5	58.4	29.7
South America	13.1	13.6	16.4
Nonparticipating sterling area* .	22.3	16.0	25.8
Eastern Europe	23.1	7.2	17.2
Middle East, Far East, etc. . . .	10.0	4.8	10.9
Total	100.0	100.0	100.0

* The nonparticipating sterling area includes the British Empire (except the United Kingdom, Eire, Canada, and Newfoundland), British Mandated territories, British protectorates, Burma, and Iraq.

Source: Organisation for European Economic Co-operation—Interim Report on the European Recovery Programme, Vol. I (December 1948).

vidual countries to aggregate 10.6 billion 1948-49 dollars in 1952-53, or 33 per cent more than in 1938. Manufactures are to comprise 80-90 per cent of the total. The changes from 1938 are to be as follows: increases of 46 per cent to North and Central America, 92 per cent to South America, and 65 per cent to the nonparticipating sterling area²; a decrease of 20 per cent to Eastern Europe; and an increase of 27 per cent to other areas. The OEEC comments regarding these estimates that if there are no significant changes in present national export policies, exports in 1952-53 actually are likely to amount to only 8.5 billion dollars. If, however, there are basic changes in the export policies of the participating countries, export earnings might reach 9.5-10 billion dollars.

"Invisible" earnings in 1952-53 are estimated by the participating countries at 1.2 billion dollars, in addition to 250 million dollars that French, Belgian, Dutch, and Portuguese dependent territories are expected to earn. The British territories are not included in these estimates, although they are expected to have a surplus with North and Central America of 0.3 billion dollars. The estimates are considered by the OEEC too high by about 10 per cent.

The deficit with the outside world in 1952-53 is expected by the participating countries to be reduced to an aggregate of 0.8 billion dollars, as shown in Table II, total earnings being expected to pay for 94 per cent of imports. The OEEC, on the other hand, forecasts that total earnings from exports and invisible items will be only 9.8 billion dollars if present export policies are continued. On the assumption of basically altered export policies, the OEEC estimates total earnings at about 11 billion, or enough only to pay for 85-90 per cent of programmed imports. This pessimistic conclusion, however, is subject to an important qualification: in the OEEC estimate based on fundamental changes in export policy, the effects of such changed policies on trade with the nonparticipating sterling area are not considered. The report merely states

² The nonparticipating sterling area includes the British Empire (except the United Kingdom, Eire, Canada, and Newfoundland), British Mandated territories, British protectorates, Burma, and Iraq.

Table II
Combined National Forecasts of Current Transactions of OEEC
Countries with the Outside World, 1952-53
(In billions of dollars at 1948-49 prices)

	North and Central America	South America	Nonpar- ticipat- ing ster- ling area	Eastern Europe	Middle East, Far East, etc.	Total
Import programs.....	3.8	2.1	3.3	2.2	1.4	12.8
Programmed exports plus net invisible earnings*	2.5**	2.0	4.0	2.1	1.4	12.0
Balance according to programs.....	-1.3**	-0.1	+0.7	-0.1	0.0	-0.8

* Including estimated balances of French, Belgian, Dutch, and Portuguese dependent overseas territories, amounting to 0.25 billion.

** In addition, the dependent overseas territories of the United Kingdom are expected to have a surplus with North and Central America of 0.3 billion. This would increase earnings in North and Central America to 2.8 billion, and reduce the deficit there to 1.0 billion.

Source: Organisation for European Economic Co-operation—Interim Report on the European Recovery Programme, Vol. I (December 1948).

in this regard that: "since, however, it is the view of certain countries that the total trade, including both exports and imports, with this area may be capable of further expansion as a result of discussion with the countries concerned, the provisional estimates are not regarded as representing an upper limit of what may be possible."

The emphasis on the balance of payments with the outside world should not be allowed to obscure the importance of intra-OEEC trade (including that with the OEEC countries' dependent areas). In the program for 1952-53 such imports are expected to comprise 48 per cent of total imports. However, the programs of the individual countries are not completely reconcilable in this respect, since the aggregate intra-OEEC balance of payments on current account shows that the nonsterling participants expect in 1952-53 to export 394 million dollars more to one another than they expect to import from one another. The excess exports are only 7½ per cent of the total, but for certain individual commodities the discrepancy is much larger. Trade between the nonsterling participants and the sterling area is expected to be in broad balance, but the estimates of the distribution of trade made by the nonsterling participants are quite different from those made by the United Kingdom. Another difficulty in the intra-European trade program pointed out by the OEEC is that the Benelux countries (Belgium, Luxembourg, and the Netherlands) and the Bizone (the American and British-occupied zones of Germany) evidently expect to earn dollars in intra-European trade, but the other European countries are unlikely to be able to pay in dollars.

The OEEC feels that, in spite of the inconsistencies in the various national plans, some expansion of intra-European trade in excess of the programmed amount may be possible. Some of the plans did not take full account of the prospective availability of certain products, particularly food, within Europe. Increased trade in less essential products is also considered advantageous, so long as it does not involve dollar payments.

On the basis of the various national production and trade estimates, the participating countries expect their combined gross national product by the end of the Recovery Program to be about 20 per cent above 1938, or about 35 per cent more than in 1947. Consumption levels are to return almost to 1938, compared with present levels of around 20 per cent less. These increases are considered too great by the OEEC, mainly on the ground that the imports necessary to maintain the requisite high level of production probably cannot be paid for. The OEEC report estimates that the aggregate gross national product will probably be only 10 to 15 per cent above 1938, and consumption only 5 to 10 per cent above 1948 (or 12 to 16 per cent under 1938).

The OEEC thus paints a rather gloomy picture of European prospects in 1952-53, even though it considers the various programs likely to fall short of their goals by only small percentages. In appraising the OEEC's conclusions, it must be

borne in mind, however, that the figures are subject to a wide margin of error. In particular, the difficulties of forecasting the volume and direction of a major part of the world's trade four years hence are obvious. For example, a significant shift in the terms of trade alone might either double or wholly eliminate the gap between expected earnings abroad and the imports necessary to support the OEEC economies at full employment. Furthermore, relatively minor improvements in crop conditions, working hours, and the allocation of manpower might substantially increase the volume of domestic production and thus permit a reduction in imports, or an increase in exports.

The aggregative approach of the European Recovery Plan, while it has great virtues, obscures the fact that some of the problems of the OEEC area are the problems of a few individual countries only, not necessarily shared by the rest. For instance, the decline in "invisible" foreign income for the entire area from about two billion dollars in 1938 to an actual deficit of 750 million in 1947 is mainly a British and Dutch problem. If, as the British believe, they can solve their part of the problem by 1952, this particular difficulty is actually in good part taken care of. Similarly, the OEEC area's balance-of-payments deficit with the Western Hemisphere that will remain in 1952 will to a large extent be the problem of the Benelux countries and Germany. If the Benelux countries are able to shift some of their Western Hemisphere purchases to European sources, and if Germany also can make progress in that direction, the dollar problem, too, can thus be solved, at least in part, by the policies and actions of individual countries. Furthermore, the OEEC program includes, along with relatively strong countries, countries with special problems—chiefly Greece, Austria, and Germany, and perhaps also Italy—that may find it difficult to do without "extraordinary assistance" after 1952 unless circumstances are highly favorable.

It is important to note in this connection that the policies recommended by the OEEC include vigorous control of inflationary pressures, reexamination of investment programs to eliminate unnecessary duplication and to encourage those investments that will aid most in the attainment of viability, strenuous efforts to reduce dependence on imports that cost dollars, and "radical changes in export policy". What the OEEC means by "radical changes in export policy" is not fully defined, but the report says for instance that:

The power of Western Europe to regain lost markets will depend to a considerable extent on prices. The export prices of many OEEC countries are not in all cases competitive with those of the United States . . . It is unlikely that without a substantial reduction in relative prices, it will be possible to achieve the large export expansion planned. (Paragraph 191).

The anticipated effect of the European programs on the trade of the United States is rather striking. It is anticipated by the report that Western Europe will not, after 1952, be able to earn enough dollars to finance anything like the present

volume of imports from the dollar area. Imports from North and Central America are therefore scheduled to decline by 48 per cent (in terms of 1948-49 prices) between 1947 and 1952-53, i.e., from 7.3 billion dollars to 3.8 billion, or to less than the 4.1 billion imported in 1938. This would signify the perpetuation of discriminatory trade and exchange arrangements abroad, and a considerable loss in trade to the United States. To prevent this, it would be necessary for the European countries to conduct an aggressive sales campaign in this country at competitive prices, and for the United States to be willing to face increased foreign competition in the domestic market, unless this country is prepared to supply free aid indefinitely or to export capital on a very large scale.

POPULATION IN THE SECOND FEDERAL RESERVE DISTRICT, 1940-48¹

In the nine years since the last national Census of population was taken, both the Second Federal Reserve District and the United States as a whole have experienced a considerable increase in population. Although the figures needed for a thorough analysis of population developments will not be available until tabulation of the data from the 1950 Census is completed two or three years hence, the changes that have taken place since 1940 can be estimated from the current reports of the Bureau of the Census.

A sharp rise in the national birth rate during and since the war to levels that prevailed in the 1920's has belied predictions of an early leveling off or decline in population. Although the postwar peak in the rate of natural increase (the excess of births over deaths) seems to have been reached in 1947, absolute gains through natural increase continue to be substantial. The total population of the continental United States was estimated at about 148 million at the end of 1948, an increase of roughly 13 per cent, or 16 million, over the April 1, 1940 Census count. The principal factor in this increase has been the excess of births over deaths (including war losses), with immigration accounting for less than 10 per cent of the gain.

Population gains in the Second Federal Reserve District since 1940 have not been as great as in the rest of the country. In mid-1948 an estimated 18½ million people lived in this District. The increase of about 1½ million since 1940 represents a gain of approximately 8½ per cent, a rate of growth about 20 per cent less than for the country as a whole. This relatively slower rate of growth goes back to the depression decade. Up to about 1932 the rate of population gains in this District exceeded that in the rest of the country, but in the later 1930's the rate of growth here contracted even more sharply than it did nationally and this District's share of the country's population declined somewhat. (See Table I and the chart.)

¹ Copies of a more extensive analysis, on which this article has been based, may be obtained from the Domestic Research Division of this bank on request.

Table I
Total Population of New York State, the Second District,
and the United States*

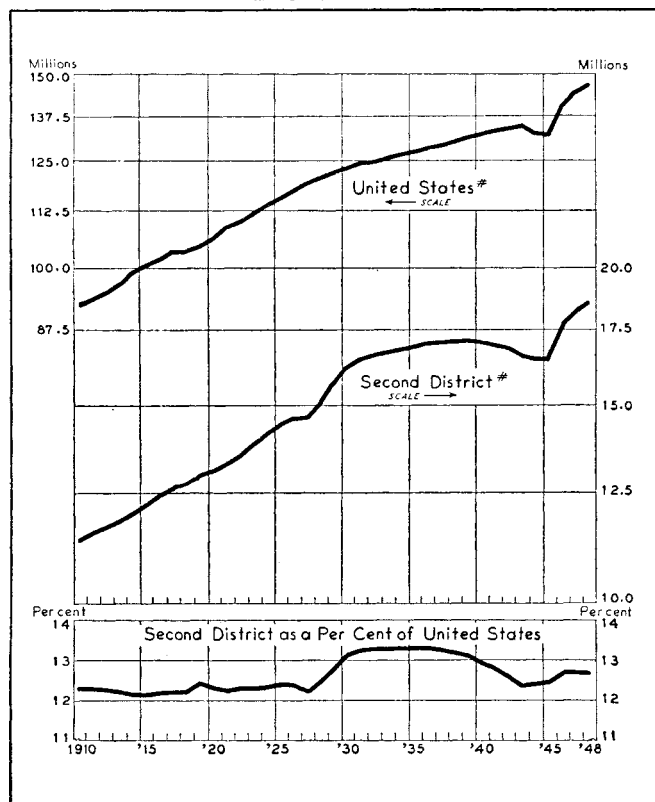
Date	Population (in thousands)			Second District as per cent of United States
	New York State	Second District	United States	
June 1, 1900...	7,269	8,887	75,995	11.7
April 1, 1930...	12,588	16,118	122,775	13.1
July 1, 1940...	13,460	17,107	131,954	13.0
July 1, 1944...	12,815	16,454	132,552	12.4
July 1, 1948...	14,386	18,557	146,114	12.7

* Excludes armed forces overseas.

Source: U. S. Bureau of the Census; Second District estimated by the Federal Reserve Bank of New York.

The decline in the Second District's share was further accelerated during the years 1941-44, when, in addition to losing more people to the armed forces than it gained in military personnel stationed here, the District also lost civilian population through out-migration to other areas (see Table II). During the defense period—July 1, 1940 to July 1, 1942—total population declined in the Second District, although in the rest of the country it increased 2 per cent. There was considerable out-migration of civilians to defense production centers, since this area, particularly New York City with its emphasis on consumers' nondurable goods manufacturing, did

**Total Population of the United States and the Second District*:
Second District as a Per Cent of United States
(July 1, 1910-48)**



* Excludes armed forces overseas.

Plotted on ratio scale to show proportionate changes.

Source: U. S. Bureau of the Census and Federal Reserve Bank of New York.

Table II
Percentage Changes in Total Population, Selected Periods 1940-48*

Area	Defense July 1, 1940 to July 1, 1942	War July 1, 1942 to July 1, 1945	Postwar July 1, 1945 to July 1, 1948	Total July 1, 1940 to July 1, 1948
New York.....	-2	-3	+12	+7
New Jersey.....	#	-1	+15	+14
Connecticut.....	+4	-1	+15	+18
Second Federal Reserve District.....	-1	-2	+13	+8
United States outside Second District.....	+2	-1	+10	+11
Total United States.....	+1	-1	+11	+11

* Excludes armed forces overseas.

Increase of less than 1/2 of 1 per cent.

Source: Computed from data of the U. S. Bureau of the Census by the Federal Reserve Bank of New York.

not share in the employment boom of the early years of defense and war production to the same extent as some other districts. In addition, large numbers went from this region to military establishments elsewhere in the United States. The tendency to locate large training camps away from the East Coast raised the ratio of military to total population in the rest of the country to almost double that in the Second District, particularly in 1943 and 1944.

Between mid-1944 and mid-1945, when the New York City area felt the full impact of the war production boom, the Second District's civilian population rose while the rest of the country continued to show an over-all decline. As reconversion progressed more rapidly in this area than in most other sections of the country, population gains from mid-1945 to mid-1947, reflecting increased in-migration as well as demobilization of the armed forces and a high rate of natural increase, surpassed those of the rest of the country. Nonetheless, this District has not fully recovered its prewar share of the United States population. Since mid-1947 population in the rest of the country has again begun to increase more rapidly than in the Second District, and it appears likely, as a result of more rapid expansion, both economically and in terms of population, in other sections of the country (particularly the Far West) than in this region, that the Second District will not regain the proportion of population it maintained in the early 1930's. The fact that this District contains a greater proportion of old people than does the country as a whole may contribute to the decline of its share in the total population of the country.

The most important factor in population growth in this District, as in the rest of the country, has been the excess of births over deaths, although the rate of natural increase here did not reach the levels achieved in the rest of the country. Net in-migration was of relatively minor importance in the population growth of this District, in contrast to the important role which it played in the population increases enjoyed by sections of the West. Nevertheless, the States which comprise the Second District ranked high in absolute annual increases in net in-migration during the later war years and the postwar period, reversing the prewar tendency to lose population

through migration. (Connecticut, however, had already shown a net increase through migration in the prewar period.) It is most likely (although the data are inadequate to fully substantiate this point) that a sizable share of net in-migration in this District represents foreign immigration, many of the immigrants of the late war and postwar periods apparently having settled in the Middle Atlantic States.

The very scattered and meager data on the characteristics of the Second District's population seem to indicate that the long-term tendency toward industrialization and suburbanization continued during the past nine years, especially after losses to the armed forces were recouped. There are even indications that highly industrialized cities like Buffalo and Syracuse, which either ceased growing or lost population during the 1930's, have recently enjoyed large increases in population which may be the beginning of a new upward population movement.

In the absence of precise data for the Second District, some conclusions may be drawn from figures for the larger geographic region of which the Second District is a part, namely, the Northeastern States.² This assumes that trends in the Second District were rather similar to those in the rest of the Northeastern area.

While the farm population in all sections of the country (except the Pacific States) declined by about 10 per cent on the average between 1940 and 1947, the rural-nonfarm population, both in the country as a whole and in the Northeastern States, made relatively greater gains than the urban population.³ The number of persons residing in rural-nonfarm areas in the Northeastern States increased far more rapidly than in the rest of the country—about 24 per cent in the former compared with about 11 per cent in the latter. Despite a slight decline in farm population, the rate of gain in total rural population in the Northeastern States was still $2\frac{1}{2}$ times as great as that for urban population, with the result that the urban proportion of the area's population declined from 77 per cent in 1940 to 75 per cent in 1947. The spectacular growth of rural-nonfarm areas may, at least in part, reflect the fact that some communities classified in 1940 as rural (and still considered as such for the 1947 estimate) have experienced considerable growth and have actually become suburban communities likely to be classified as urban in the next Census.

New York State data also seem to indicate that the rural-nonfarm population increased relatively more than the population in either urban or farm communities. On the whole, the industrial and suburban counties show greater population

gains than the less industrialized sections of the State. On the other hand, within these counties, small communities (those with populations of less than 10,000) grew more rapidly than the cities. The same tendency for the population to shift away from the most heavily populated areas may be observed in New York City. Since 1940, according to estimates of the Consolidated Edison Company, Manhattan's population has grown only 3 per cent, compared with gains ranging from 6 to 14 per cent in the outlying boroughs.

In the New Jersey division of the New York-New Jersey Metropolitan District a similar trend was apparent. The population of the four large cities⁴ increased 13 per cent from 1940 to 1947 while in the remaining part of this area the population gain was 16 per cent.

In New York State nonfarm rural areas experienced their greatest growth in population during the decade of the twenties, while farm population declined during the same period. In the thirties the growth of nonfarm areas continued. However, the farm population also increased during the thirties, the decline in farm population in purely agricultural regions being more than offset by a gain in farm population around the large cities; in the counties around New York City, for example, farm population grew almost 60 per cent. Undoubtedly, a large number of these "farmers" were not primarily engaged in farming, but were commuting to the nearest city. However, they produced enough on their land to be classified with the farm population. (A "farmer" was defined in 1940 as one whose produce was valued at more than \$250 a year.) It is likely that the communities which are satellites of the large industrial centers in the Second District will continue to grow more rapidly than either farm areas or the large cities themselves.

While it seems likely that the proportion of the country's population residing in the Second District will not again reach the levels it did during the 1930's, it is noteworthy that the Second District States have all gained by net in-migration over the period 1940-47, whereas in some of the more rural States the net out-migration more than offset the natural increase, often a substantial number in itself. As a result, housing construction has been maintained here at a high level since the war and the Second District's status as a mass market for consumers' goods has been enhanced.

⁴ Newark, Jersey City, Paterson, and Elizabeth.

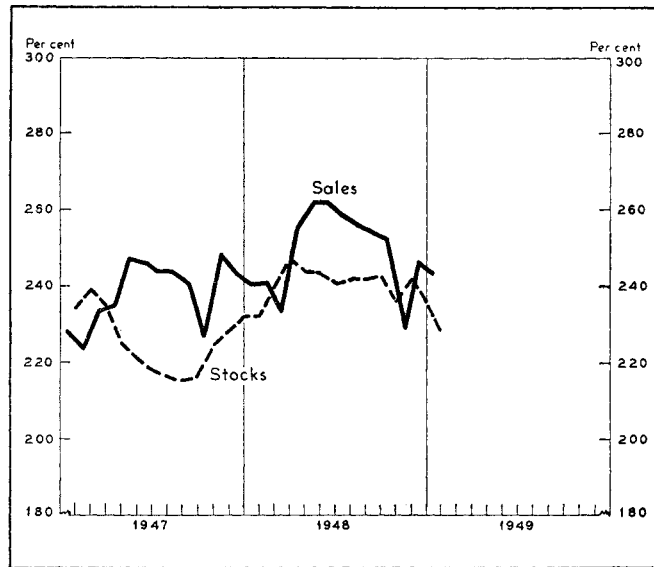
DEPARTMENT STORE TRADE

In February, sales at Second District department stores declined contraseasonally, reflecting a further narrowing of consumer buying. According to a preliminary estimate, seasonally adjusted dollar sales volume was about 6 per cent lower than a year ago, and may have reached the lowest level in two years. Beginning with the last week in January, sales ran steadily below those of the corresponding weeks of 1948.

² The Second District accounts for somewhat less than half of the population of the Northeastern States, which include New England, New York, New Jersey, and Pennsylvania.

³ Urban areas are defined by the Bureau of the Census as cities and other incorporated places having 2,500 or more inhabitants. The remainder of the population is classified as rural, and is subdivided into the rural-farm population, which comprises all rural residents living on farms, regardless of occupation, and the rural-nonfarm population, which comprises the remaining rural population.

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



* Seasonal factors used to adjust sales have been revised, as noted on accompanying table.

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

Locality	Net sales		Stocks on hand Jan. 31, 1949
	Jan. 1949	Jan. through Dec. 1948	
Department stores, Second District.....	- 3	+ 4r	- 2
New York City.....	- 5	+ 3	- 2
Northern New Jersey.....	- 1	+ 5	- 3
Newark.....	- 1	+ 3	- 3
Westchester County.....	+23	+ 3	+ 5
Fairfield County.....	+ 2	+ 1	- 7
Bridgeport.....	- 1	+ 1	- 9
Lower Hudson River Valley.....	+ 2	+ 6	- 2
Poughkeepsie.....	+ 4	+ 9	+ 1
Upper Hudson River Valley.....	+ 9	+ 8	- 5
Albany.....	+15	+ 7	- 9
Schenectady.....	+ 3	+10	0
Central New York State.....	- 4	+ 5	0
Mohawk River Valley.....	- 1	+ 6	- 2
Utica.....	+ 5	+ 6	+ 1
Syracuse.....	- 5	+ 4	+ 2
Northern New York State.....	-11	+10	-
Southern New York State.....	0	+ 8	- 2
Binghamton.....	+ 4	+11	0
Elmira.....	- 6	+ 6	+ 1
Western New York State.....	+ 1	+ 9	- 3
Buffalo.....	+ 4	+ 9	- 9
Niagara Falls.....	+ 4	+ 6	-13
Rochester.....	- 3	+ 9	+13
Apparel stores (chiefly New York City).....	- 5	- 1	- 3

r Revised.

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

Item	1948			1949
	Jan.	Nov.	Dec.	
Sales (average daily), unadjusted.....	193r	298	414	194
Sales (average daily), seasonally adjusted*.	241	229	247	243
Stocks, unadjusted.....	205	278	215	201
Stocks, seasonally adjusted.....	233	242	236	228

r Revised.

* Seasonal adjustment factors for 1942-48 revised; available upon request from Research Department, Domestic Research Division.

February was the second of the past four months in which daily average sales showed a year-to-year decline.

It is doubtful that the buying restraint of this past February, as compared with the same month a year ago, has been due to the circumstance that Easter is farther away this year. Sales in the pre-Easter season of 1948 were particularly disappointing, but rose substantially after Easter Sunday, partly because of exceptional promotional efforts and clearance sales. The trend of department store sales in this District has been downward ever since the post-Easter expansion of sales in May and June of 1948. In those two months, the seasonally adjusted daily rate of sales had risen to 262 per cent of the 1935-39 average. By January of this year, however, this bank's index had fallen to 243 per cent and it is expected to be at least 15 points lower for February.

The stores cut their stocks at the end of the fiscal year (January 31) more than usual. Trade sources reported, however, that markdowns on merchandise left over from the Christmas season were not greater than in the year before. It is therefore likely that the reduction in stocks came primarily from the tightening up in store buying policy discussed in last month's *Review*. In January the value of net merchandise receipts was about 15 per cent less than a year previous. Orders outstanding at the end of that month showed a substantial seasonal increase over the end of December, but were more than one-third below the level for the same date in 1948.

Indexes of Business

Index	1948			1949
	Jan.	Nov.	Dec.	
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	193	195	192	191p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	244r	255	257	262p
Ton-miles of railway freight*, 1935-39 = 100 (Federal Reserve Bank of New York)	192	192	186p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	325r	334	344	329p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	161	162	159	155p
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	131	125	124	120p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	359	379	378p	
New York State, 1935-39 = 100..... (N. Y. S. Div. of Place. and Unemp. Ins.)	302	301	298	288p
Personal income*, 1935-39 = 100..... (Department of Commerce)	304r	321	322p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	184r	195	196p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	169	172	171	171
Velocity of demand deposits*‡, 1935-39 = 100 (Federal Reserve Bank of New York)				
New York City.....	88	101	95	99
Outside New York City.....	86	93	87	89

* 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.

‡ Seasonal adjustment factors for 1942-48 revised; available upon request from Research Department, Financial Statistics Division.

National Summary of Business Conditions

(Summarized by the Board of Governors of the Federal Reserve System, February 26, 1949)

INDUSTRIAL production showed little change in January, continuing somewhat below the peak of last October and November. Employment in manufacturing showed a marked decline. Value of department store sales showed a larger decline than usual in January and the first three weeks of February. Prices of agricultural commodities decreased further but recovered part of their declines in mid-February. Prices of some industrial products were reduced further.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 191 per cent of the 1935-39 average in January, as compared with 192 in December, 195 in November, and 193 in January 1948. Activity in durable manufacturing industries decreased slightly in January, while non-durable goods production was somewhat above the December rate. Output of minerals declined 3 per cent.

Steel production rose 2 per cent in January to capacity levels and was at the highest rate on record. Activity in the automobile industry also expanded, reflecting mainly increased production of trucks and of parts for new model passenger cars. Output in the steel and automobile industries has been maintained at the advanced January rate in February. Activity in machinery industries decreased about 4 per cent in January, reflecting reductions in industrial equipment as well as household appliance lines. Lumber production showed a substantial decline, in part because of unfavorable weather conditions in the Northwest, and activity in the furniture industry declined 6 per cent. Output of most other durable goods was maintained at about the December level.

According to preliminary indications, output of nondurable goods showed a slight increase in January. Activity at cotton textile, paper, and paperboard mills was above the reduced December rate. Newsprint consumption showed less than the usual seasonal decline. Activity in the petroleum refining, chemicals, and rubber products industries, on the other hand, was reduced somewhat. Output of manufactured food products showed the usual large seasonal decline.

Crude petroleum production declined $3\frac{1}{2}$ per cent in January and was curtailed further in the early part of February, as stocks of crude and refined products continued to rise. Anthracite production was curtailed sharply in the latter part of January and early February, mainly because of unusually mild winter weather in the East. Output of bituminous coal and of metals was maintained in January at the reduced level of the preceding month.

EMPLOYMENT

Employment in nonagricultural establishments showed more than the usual large seasonal decline in January and was 250,000 less than in January 1948, reflecting mainly reduced employment in most manufacturing industries. The number of persons unemployed increased by 700,000 in January and was substantially above the level of a year ago.

CONSTRUCTION

Value of construction contract awards, according to reports of the F. W. Dodge Corporation, dropped sharply in January, with marked declines in most classes of construction. The number of new dwelling units started in January, as estimated by the Bureau of Labor Statistics, was 50,000 units as compared with 56,000 in December and 53,000 in January 1948.

DISTRIBUTION

Value of merchandise sold at department stores, despite a large number of special sales, showed more than the usual seasonal decline in January. The Board's adjusted index was 290 per cent of the 1935-39 average, as compared with 309 in December and 286 in January 1948. Sales during the first three weeks of February were 4 per cent smaller than in the corresponding period last year.

Carloadings of railroad freight generally declined further in January and the early part of February and were about 10 per cent below a year ago. Declines in rail freight from the levels of a year ago have resulted in part from diversion of shipments to other forms of transportation.

COMMODITY PRICES

Following marked declines in January, prices of farm products and foods dropped further in the early part of February but in mid-February returned to the levels prevailing at the beginning of the month. Prices of some industrial commodities including scrap metals, alcohol, and rayon and petroleum products, were reduced further in February, while prices of most other industrial items continued to show little change.

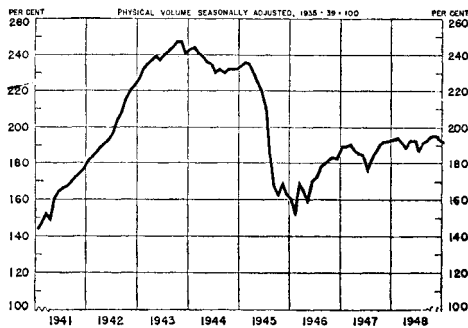
Retail food prices continued to decline from mid-January to mid-February, reflecting mainly further sharp decreases in meat prices. In the latter part of February wholesale prices of meats showed some advance from the earlier low points which were one-fourth below the record levels prevailing last summer.

BANK CREDIT

Seasonally large Treasury tax receipts increased Treasury deposits at the Reserve Banks in the latter part of January and the first half of February. This reduced deposits and reserves of commercial banks, and banks sold short-term Government securities and drew down their excess reserves. Reserve Bank holdings of Government securities increased as purchases of short-term securities exceeded further sales of bonds.

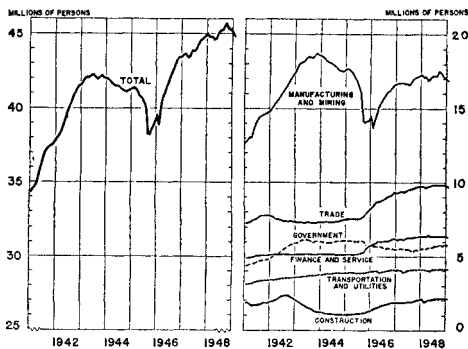
Business loans at banks in leading cities declined somewhat during the last half of January and the first half of February. Holdings of Government securities were reduced, reflecting sales of short-term securities. Banks outside New York City increased considerably their portfolios of Treasury bonds.

INDUSTRIAL PRODUCTION



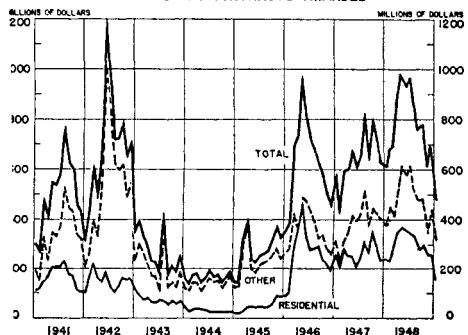
Federal Reserve index. Monthly figures; latest figure shown is for January.

EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



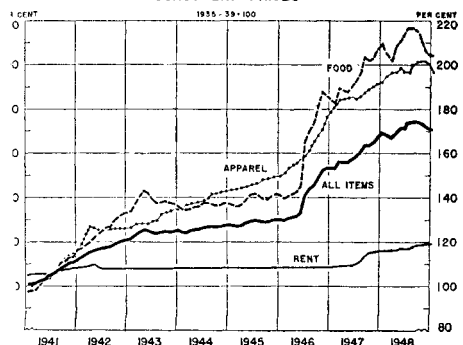
Bureau of Labor Statistics' estimates adjusted for seasonal variation by Federal Reserve. Proprietors and domestic servants are excluded. Midmonth figures; latest shown are for January.

CONSTRUCTION CONTRACTS AWARDED



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

CONSUMERS' PRICES



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