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MONEY MARKET IN JANUARY

A heavy seasonal reduction in public holdings of currency following the Christmas holiday caused noticeable ease in the reserve position of the banks during most of January. The position of the banks was further eased during the first part of the month by the Treasury's large net disbursements. In the second half of the month, Treasury transactions tended to absorb moderate amounts of reserves as personal income tax collections rose. The banks also lost some reserves during the month through a decline of Federal Reserve "float" and an accumulation of funds by foreign central banks in their deposit accounts with the Reserve Banks. However, these losses and an increase in required reserves were not large enough to tighten the market except sporadically.

The net effect of the month's transactions was to place at the disposal of banks substantial reserves which they used mainly in the purchase of Treasury securities. A large part of these additions to the portfolios of the banks came from the Federal Reserve System. Total System holdings of Government securities declined about one billion dollars in the four weeks ended January 25. Member banks' borrowings from the Reserve Banks and their excess reserves showed little net change during this period. The experience of the New York City banks was somewhat different from that of all member banks. While they also received considerable amounts of reserve funds during January, as money market banks they were subject to offsetting withdrawals of funds in connection with the Government security operations of out-of-town banks and of nonbank investors. Thus, the New York City banks were able to add only moderately to their Government security holdings, and not until the week ended January 25 were they in a position to make these moderate purchases.

Government Security Market

Despite the easy reserve condition, there was a net decline in Government bond prices during the month and yields on short-term Treasury securities rose slightly. Early in the month bond prices were firm and in fact, on January 5, the longest-term ineligible bonds reached the highest quotations since July 1946. In view of the general business and credit situation, the rather marked advance in Government bond quotations over the past several months, the thinness of the market, and the reluctance of other holders to supply bonds at rising prices, the Federal Reserve System sold moderate amounts of bonds to the market, especially in the weeks ended January 11 and 18. Net sales of 100 million dollars of bonds were made by the System during the month. Partly as a result of these sales, investors and traders assumed a more cautious attitude toward Government bonds, and prices reacted. Further impetus to the decline was provided by the market's appraisal of the recommendations of the Congressional Subcommittee on Monetary, Credit, and Fiscal Policies concerning the relationship between debt management and credit control policies. An additional factor making for uncertainty in the market was the Treasury's announcement that it would issue 20-month, 1¼ per cent notes in exchange for the 1¼ per cent certificates maturing February 1, which was interpreted by investors as possibly paving the way for higher short-term rates, which in turn might affect long-term bond prices. Toward the close of the month, quotations on the longest-term ineligible bonds were more than ¾ of a point below the peak of early January, while shorter maturities showed smaller declines.

Some increase in yields developed in the market for short-term Treasury issues. The weekly issues of new Treasury bills were taken at average discounts of 1.081, 1.076, 1.101, 1.103, and 1.118 per cent, on bills dated January 5, 12, 19, and 26, and February 2, respectively. Yields on the longer maturities of Treasury certificates also rose somewhat after the terms for refunding the February 1 certificate issue became known.

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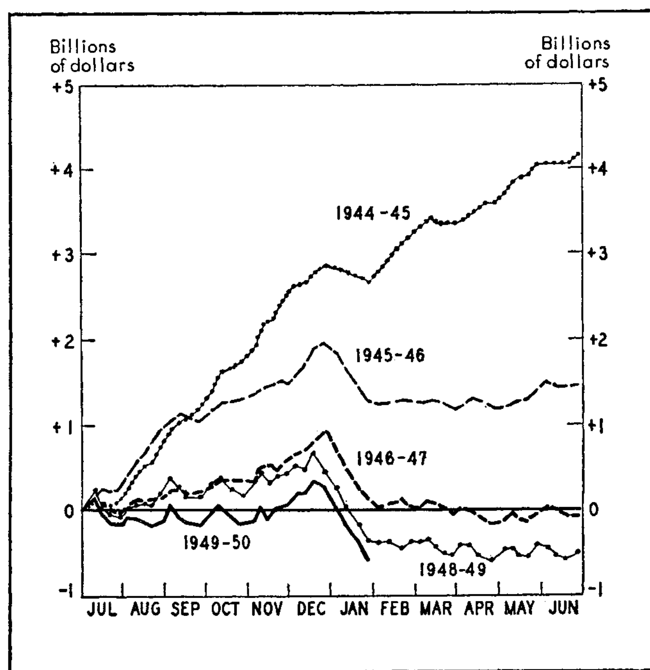
The System supplied Treasury bills and other securities from its holdings to meet investment demands. Banks in need of funds tended to adjust their reserve positions through sales of Treasury certificates and, to a lesser extent, of Treasury notes, and the Reserve System's open market purchases of certificates amounted to about 140 million dollars in the four weeks ended January 25, while its sales and redemptions of Treasury bills amounted to about 1,050 million dollars.

Member Bank Reserve Positions

The major factor in the money market's ease during the past month was the seasonal return flow of currency to the Federal Reserve Banks, amounting to over 850 million dollars in the four weeks ended January 25. However, the return flow, measured from the pre-Christmas peak, was about 80 million dollars less than in the corresponding weeks a year ago. As illustrated in the chart, which shows the weekly changes in currency in circulation during recent years, cumulated from June 30 of each year, there has been a considerable change in the seasonal pattern of currency use since the war years. The recent post-Christmas decline in currency held by the public more than canceled the expansion of the preceding summer and fall, as it had done in other postwar years (including 1947-48, not shown on the chart because its trend so closely paralleled that of 1948-49). In part, this has been due to a progressive reduction in the summer and fall expansion of currency in use. During the war years, however, there had been little or no seasonal contraction of the note circulation after Christmas. Thus, it appears that the marked post-Christmas decreases in recent years indicate a return to the prewar seasonal pattern.

Weekly Changes in the Volume of United States Currency in Circulation, Cumulated by Fiscal Years



Treasury transactions provided the member banks with about 730 million dollars of reserve funds in the two weeks ended January 11. Tax collections rose during the remainder of the month, but the net absorption of reserve funds by the Treasury was moderate even in this period. The net excess of Treasury funds flowing to the money market, therefore, was somewhat larger than expected for a month such as January. Collections of individual income taxes (other than withheld taxes) were slow, owing in part to the postponement, until the end of the month, of the deadline for tax payments by farmers. In addition, Treasury disbursements were augmented early in the month by the redemption for cash of 323 million dollars of 1¼ per cent certificates of indebtedness maturing January 1 which the holders did not exchange for the new 1⅛ per cent issue. Treasury expenditures were also increased by the initial payments of veterans' dividends on their national service life insurance, although the cashing of the dividend checks during January was less in the aggregate than had been anticipated.

Other money market factors—changes in Federal Reserve "float," required reserves, and foreign account transactions—tended on balance to absorb reserve funds or otherwise tighten reserve positions. But as they fluctuated widely from week to week, in some weeks even providing the banks with additional reserves, their impact on the money market was uneven. Purchases of Government securities by nonbank investors, either indirectly from the Federal Reserve System or (in the case of bills) on allotment from the Treasury, also resulted in a loss of reserves to the member banks. In the aggregate, however, the reserve losses originated by these various transactions were but a partial offset to the substantial gains of reserves from the return flow of currency and from Treasury operations.

Member banks, therefore, were in a position during most of January to expand their earning assets rather sharply. During the early days of the month, however, the banks permitted the funds they gained to accumulate in their deposit accounts with the Reserve Banks, and excess reserves rose 600 million dollars during the week to 1,450 million on January 4. In subsequent weeks the banks' purchases of Government securities exceeded their current net gains of funds; excess reserves were consequently drawn down to the more normal level of 840 million dollars on January 25.

The bulk of the securities acquired by the banks were Treasury bills, some of which were acquired through an excess of allotments of new issues over redemptions of issues maturing on January 5 and 12, and the rest through the market. Chicago banks in particular made large purchases of the new issue dated January 5. Such purchases were in prepara-

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tion for the customary large demands for Treasury bills by depositors of the Chicago banks just prior to the assessment of the Cook County, Illinois personal property tax (on April 1), from which Treasury securities are exempt. The ultimate source of these bills was the Federal Reserve System. As the total volume of outstanding issues was practically unchanged during this period, the acquisition of bills by banks and nonbank investors through bids for new issues or market purchases resulted in the drop in System holdings of over one billion dollars, previously mentioned.

Payments for the Treasury bills taken by nonbank investors and out-of-town banks frequently were made by drawing on their balances with New York City banks; consequently these security transactions tended to cause drains on the reserves of the New York City banks. Thus, although the New York money market had the benefit not only of net currency receipts and net Treasury disbursements, but also of moderate transfers of funds from other parts of the country, the New York City banks lost, through the Government security operations of nonbank investors and out-of-town banks, and through their own net purchases of new bill issues, more funds than they gained.

In seeking to adjust their reserve positions, the New York City banks made net sales of Treasury securities other than bills (mostly certificates). But as most of these issues were also taken by nonbank investors and out-of-town banks and paid for with New York funds, little relief was afforded to their reserve positions. In the two weeks ended January 18, the City banks consequently drew down their excess reserves by 375 million dollars. (Their excess reserves had increased about 200 million dollars to the unusually high level of 390 million in the week ended January 4.) It was not until the New York market had eased somewhat in the week ended January 25 and heavy tax payments had interfered, temporarily at least, with the Government security operations of the out-of-town banks that the New York City banks were able to add appreciably to their holdings of Government securities. And at the end of the month the New York banks sustained a substantial outflow of funds to other parts of the country and were forced to sell substantial amounts of securities and to borrow from the Reserve Bank in an effort to restore their reserves to the required levels. As a result the month ended with a relatively tight money market.

THE PRESIDENT'S BUDGET MESSAGE

In view of the difficulty of determining the economic outlook for the next eighteen months, the budget which President Truman submitted to Congress on January 9 must be regarded as a very tentative estimate of the Government's fiscal activities in the twelve months beginning July 1, 1950. Congressional demands for greater economy and the repeal or reduction

Table I
U. S. Budget and Cash Receipts and Expenditures
Fiscal Years 1949-51
(In billions of dollars)

	Actual 1949	Estimated 1950	Projected 1951††	Change 1950 to 1951
Budget receipts	38.2	37.8	37.3	−0.5
Trust account receipts	5.7	6.7	8.2##	+1.5
Less: noncash receipts	2.4	2.8	2.5	−0.3
Cash receipts	41.6	41.7	43.1##	+1.4
Budget expenditures*	40.1**	43.3	42.4	−0.9
Trust account expenditures and investments	6.2	7.1	8.4##	+1.4
Less: noncash expenditures#	5.3	3.6	5.1	+1.4
Cash expenditures†	40.6	46.5	45.8##	−0.7
Excess of cash receipts	1.0			
Excess of cash payments		4.9	2.7	−2.1

* Includes net expenditures of wholly-owned Government corporations and credit agencies.
\# 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.
** 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.
†† Does not reflect the possible effects of the President's Special Tax Message proposals.
\## Includes proposed changes of nearly 1.5 billion dollars in the social security insurance programs.
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, 1951*, and Bureau of the Budget, *Receipts from and Payments to the Public* January 1950.

of wartime excise taxes, as well as the President's more recent request for changes in the tax structure, add to the uncertainties.

Receipts of 37.3 billion dollars, which the budget for the fiscal year 1951 anticipates, with proposed expenditures of 42.4 billion, would result in a *budget* deficit of 5.1 billion dollars, compared with 5.5 billion in 1949-50. On the basis of *cash* receipts and expenditures, however, the deficit would be 2.7 billion dollars compared with 4.9 billion this year, largely because the greater part of the insurance dividends to veterans are expected to be paid before the close of the current fiscal year.

The estimate of receipts is based on existing tax legislation and on the assumption that national income and employment will continue at about the same, or even slightly higher, levels in the next fiscal year. If the economic situation should change materially, receipts would be correspondingly affected. Congressional acceptance of the President's special tax program—in part or in whole—would likewise affect the revenue estimates. In his Special Tax Message, the President called for reductions in certain excise taxes, but he also requested measures to reduce existing "loopholes" which would at least compensate for the loss of revenue from such reductions. He proposed, moreover, increases in corporation, estate, and gift taxes[1] which would add about 1 billion dollars to the Govern-

[1] If these proposals are accepted in full by Congress, not all of the estimated annual gains will be obtained in fiscal 1951 because of the lag in collections, whereas the loss from reduced excises would occur with the effective date.

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ment's annual revenue. On the other hand, the bulk of the expenditures anticipated in the budget are subject to Congressional approval in the form of appropriations or delegations of borrowing authority, while some 2.6 billion, net, will require authorizing legislation as well as appropriations. Aside from the authorizations which he requested for a continuation of several expiring programs, mainly the European Recovery Program and other existing foreign aid and mutual defense assistance, the President submitted proposals for new foreign and domestic programs involving some 950 million dollars of expenditures. Among these proposals, some of which were unsuccessfully submitted last year, additional international aid would require 160 million dollars, increased public assistance to the aged, 200 million, and aid to education, 290 million. At the same time, the President requested an increase in postal rates which would provide a 395 million offset to the postal service deficit of 555 million under present schedules.

A budgetary deficit in fiscal 1951 would be the third consecutive deficit; only twice in the past nineteen years has there been a surplus.

The Budget Accounts

The President's estimates indicate budgetary receipts in fiscal 1951 to be some 457 million dollars lower than in the current fiscal year. Tax collections from corporations alone are expected to decline 657 million dollars, reflecting the reduction in corporate profits during the calendar year 1949. Slightly higher receipts are anticipated from taxes on the income of individuals, indicating slightly greater incomes than in the current fiscal year. These taxes alone, at 18.9 billion dollars, provide nearly half of estimated total budget receipts, while corporate income taxes amounting to 10.5 billion provide over a quarter of the total. Excise taxes (under the existing legislation) and customs are expected to provide about the same revenue as in the current year, 7.6 billion and 0.4 billion, respectively. A small decline in miscellaneous receipts, arising mainly from the virtual disappearance of surplus property sales, is anticipated. Receipts arising out of the President's renewed proposals to enlarge the old-age insurance program and to provide medical care insurance would be immediately appropriated to the respective trust funds and thus would not influence the budget receipts.

Budget expenditures in fiscal 1951 as estimated would be 858 million lower than in the current fiscal year. Anticipated reductions in international aid (—1.3 billion), veterans' benefits and charges against the Government for their insurance (—800 million), the farm price-support program (—600 million), the Post Office deficit (—400 million), and interest charges (—100 million) together would reduce expenditures by some 3.1 billion dollars. Partly offsetting increases are, however, estimated for some items—mainly for national defense (+400 million), current and proposed public assistance and health programs (+400 million), slum clearance, low-rent housing and proposed loans to middle-income housing cooperatives (+200 million), proposed aid to States for elementary and secondary education (+300 million), and further development of atomic energy and water power (+350 million).

The national defense program alone is estimated to require 13.5 billion dollars in fiscal 1951 and is expected to be maintained at this level for several years to come. The increase in this program over the current year's level is substantially less than previously anticipated, as a result of progress toward unification and actions recently taken to improve efficiency and reduce costs, and arises mainly from the higher costs of our increasingly complex aircraft. Modernization and additional procurement of military equipment and some increase in stockpiling are also expected, but these increases are offset by decreases in other defense expenditures.

International affairs and finance will require some 4.7 billion dollars, nearly 1.3 billion less than in the current fiscal year. The European Recovery Program, at nearly 3.3 billion dollars, appears to be about 800 million less than in the current year; the actual cut, however, is closer to 1.4 billion dollars, since the 1951 estimate includes aid to Western Germany, which in previous years was treated as Army-administered aid to occupied areas. In fiscal 1951, Army-administered aid will be limited almost wholly to Japan and the Ryukyu Islands and is expected to require less than 300 million dollars. Aid to the Philippines will decline some 130 million dollars as that program approaches completion, while the Greek-Turkish military aid program, scheduled for completion in the present fiscal year, calls for no expenditure under the new budget. On the other hand, the Mutual Defense Assistance Program is scheduled to require some 645 million dollars, whereas in the current year—with the program just getting under way—expenditures of only 160 million are anticipated. Technical assistance to underdeveloped areas, within the framework of the proposed Point IV program, is expected to cost only 25 million in fiscal 1951. Other foreign recovery and relief items, mainly proposed additional aid to Korea and refugee assistance programs, would require some 180 million compared with 250 million in the curent year.

Veterans' services and benefits are estimated to require some 6.1 billion dollars, which is about 800 million less than in the current year. Readjustment benefits, mainly for education and training, constitute some 44 per cent of the anticipated outlays for veterans. This program, at 2.7 billion dollars, is considerably larger than had been expected—the increase representing mainly a rise in precollege trade and vocational schooling—and the President raises the question whether the program still conforms to its original sound objectives of enabling veterans to resume "interrupted" education or training or to "restore" skills lost during military service. Compen-

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sation and pension payments and hospital and medical care under the permanent veterans' laws will amount to some 2.8 billion, about the same as in the current year.

Interest on the public debt is estimated at over 5.6 billion dollars in fiscal 1951. It is slightly higher in the current fiscal year because of the inclusion of a 200 million dollar adjustment to take account of the fact that interest payments are now reported when due rather than when actually disbursed. Apart from this nonrecurring item, interest will continue its gradual rise in fiscal 1951.

The four items discussed above—national defense, foreign aid, veterans' aid, and interest—constitute over 70 per cent of the budgeted expenditures for fiscal 1951, a slightly smaller proportion than this year. Other Government activities in fiscal 1951 under the President's program would require 12.5 billion, some 900 million dollars more than now anticipated for the current year. In the fiscal year 1949, these expenditures amounted to less than 10 billion dollars. Were it not for the 600 million dollar decline in farm price-support activities of the Commodity Credit Corporation, which is expected as a result of acreage allotments and marketing quotas on the 1950 crops (a decline which may not materialize if crop yields are high), and the anticipated 395 million reduction in the postal service deficit, the net increase to be expected in "other" expenditures would amount to 1.9 billion dollars. This is accounted for in part by the new programs, mainly for additional social welfare, health services, education, and housing development, which would require some 725 million dollars, and in part by relatively small increases in nearly all of the existing Governmental functions, which together would add over 1.1 billion dollars to Government expenditures.

The Cash Position

In analyzing the economic impact of Federal financial operations on the private economy, a better over-all view can be obtained by considering total Federal cash transactions with the public, including those involving the various Federal trust funds. The cash operations differ from the budget transactions in two important ways. In the first place, the budget figures include a large amount of noncash expenditures and a small amount of noncash receipts from Government agencies. The noncash expenditures consist mainly of transfers and interest payments to trust accounts and of net accrued interest on Savings bonds. On the other hand, the trust accounts, in addition to their noncash receipts from the Treasury, receive cash 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, insurance premiums from veterans, and several minor items. These funds are partly disbursed as cash benefits and refunds and partly invested in Government securities. However, if the cash receipts are inadequate to cover disbursements, as they will be in the current fiscal year, the trust funds obtain the required cash by redeeming some of the securities previously accumulated in their reserves.

Table II
Change in the Public Debt, Fiscal Years 1949-51
(In billions of dollars)

	Actual 1949	Estimated 1950	Projected 1951
Excess of cash* (receipts −, payments +)	− 1.1	+ 4.8	+ 2.7
Change in Treasury cash balance	− 1.5	− 0.1	##
Repayments to the public#	− 2.5	+ 4.8	+ 2.7
Noncash borrowing†	+ 2.9	+ 0.9	+ 2.7
Change in the public debt‡	+0.4	+ 5.7	+5.5
Public debt at end of year**	252.8	258.4	263.8
Treasury's balance at end of year	3.5	3.4	3.5

* Includes receipts from seigniorage on silver amounting to about 35 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 of Savings bonds and notes. 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.
\#\# Increase of 48 million dollars.
Note: Because of rounding, figures may not add to totals shown.
Source: Same as for Table I.

On the cash basis, some 43.1 billion dollars are expected to be collected from the public in fiscal 1951. The increase of about 1.4 billion over cash receipts in fiscal 1950 results almost entirely from the proposed new or higher social security taxes. Under existing legislation, the trust funds are expected to receive some 500 million dollars more than in the current fiscal year but this increase would be more than offset by the expected decline in budget cash receipts centering in corporation taxes. The larger trust receipts to be expected under existing legislation consist mainly of increased receipts by the unemployment trust fund and a full year's collection of old-age insurance taxes at the new rate of 1½ per cent each on employers and employees[2]. The higher receipts from the unemployment tax system arise apparently from a lowering of the merit rating status of employers in several of the States[3] and also from an anticipated enlargement of the payroll base.

Exclusive of the proposed higher old-age benefits and medical insurance expense, cash outlays by the Government would amount to 44.3 billion dollars in fiscal 1951—some 2.2 billion less than in the current year. The reduction in cash disbursements arises for the most part from a drop in dividend payments to veterans by the National Service Life Insurance Fund. By the end of June 1950, some 2.2 billion dollars are expected to have been disbursed, leaving only

[2] The increase from 1 per cent each on the first $3,000 of a worker's compensation occurred on January 1, 1950.

[3] All States now vary the employers' contribution rates (which normally would be 2.7 per cent of wages subject to tax) according to their experience with unemployment or according to other factors bearing a direct relation to unemployment risk.

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600 million to be paid in fiscal 1951. Also, claims for unemployment insurance in fiscal 1951 are expected to decline, indicating an anticipated stabilization of employment.

Including the proposed new social security benefits, Federal cash outlays contemplated for fiscal 1951 total 45.8 billion dollars, an amount which exceeds the anticipated cash receipts by 2.7 billion. This would compare with a 1950 cash deficit now estimated at 4.9 billion.

The Public Debt

Since cash disbursements would exceed receipts from the public by 2.7 billion dollars under the President's programs, and a small amount of funds will be required to restore the cash balance to the desired minimum level of 3.5 billion dollars, it is apparent that the Treasury would find it necessary to borrow somewhat over 2.7 billion from the public in fiscal 1951. A further rise in the public debt, of about the same amount, would occur as a result of the net noncash expenditures. Thus, by the end of June 1951 the public debt would amount to 263.8 billion dollars (see Table II).

The Current Fiscal Year

Cash receipts in the current fiscal year are now estimated to provide less than 42 billion dollars to cover anticipated cash requirements of 46.5 billion. A cash deficit of 4.9 billion dollars by the end of June 1950 is thus expected. In January 1949, cash receipts of over 45 billion and expenditures of 44 billion had been anticipated for the current fiscal year, exclusive of the proposed changes in the Social Security program. The change from an anticipated small cash surplus to a five billion dollar deficit reflects both the change in the business situation since the latter part of 1948, which lowered receipts and increased demands for unemployment compensation, and a rise in various expenditures. Substantial increases in estimates have been made for veterans' education and training benefits (mainly in technical and precollege schooling), price-support activities by the Commodity Credit Corporation, and mortgage purchases by the Federal National Mortgage Association. Partly offsetting declines are anticipated in national defense and international aid expenditures.

During the first half of the fiscal year, July-December 1949, cash receipts (at about 19.4 billion) were some 1.9 billion below expenditures, which would indicate a cash deficit of around 3.0 billion in the period through June. As usual, receipts will be larger in the second half of the year, when final payments and adjustments in income taxes are made, but expenditures this year will rise even more, as some 2.2 billion dollars in premium refunds are paid to veterans. So far this year, the Treasury has borrowed about 3.1 billion dollars from the public. The bulk of this has come from net sales of Savings notes, which continue to be relatively attractive investments in view of the lowering of short-term rates on new marketable issues last summer. Because of the large "windfall" net sales of Savings notes, the Treasury was able to build up its balance by 1.2 billion dollars through December. The new estimates for fiscal 1950 indicate that this increase will be more than used up and that additional borrowings from the public of 1.7 billion dollars will be required through June. The balance in the General Fund would then amount to 3.4 billion and the public debt would stand at 258.4 billion dollars.

THE DOLLAR POSITION OF LATIN AMERICA

Two distinct phases in Latin America's dollar position have been noticeable since the war. Up to early 1948, the area suffered an increasingly severe balance-of-payments deficit with the United States. Since that time, however, a majority of the Latin American countries have brought their financial relations with the United States into closer balance by tightening their trade and exchange controls, and more recently (in some cases) by depreciating their currencies. Consequently, Latin America's balance of payments with the United States, particularly its trade balance with us, as well as its gold and dollar holdings, have shown a gradual improvement. This statistical improvement for the area as a whole, however, conceals the strains imposed on some countries by the use of direct controls, tends to hide the underlying factors making for continuing disequilibrium, and obscures the fact that individual countries have shown widely differing degrees of improvement (while in a few countries there has been actual deterioration).

Reduced Drain on Gold and Dollar Reserves

As Table I indicates, gross Latin American gold and dollar holdings declined by 781 million dollars, or 20 per cent, between the end of 1946 (their postwar peak) and September 1949. It is noteworthy, nevertheless, that at the latter date they were still more than 2½ times the December 1939 total. Among the major individual countries the experience of Argentina was outstanding. By September 1949, that country had lost two thirds of its December 1946 holdings, a decline that more than accounted for the aggregate loss of gold and dollars by the whole of Latin America, and reduced Argentina's holdings to three fourths of their 1939 level. In contrast to the losses suffered in 1947, most Latin American countries during 1948 and 1949 were able to reduce and in some cases to reverse the drain on their gold and dollar holdings.[1] This improvement was made possible by a striking reduction in Latin America's deficit in trade and other current transactions with the United States, which was halved between 1947 and

[1] Total Latin American gold holdings, excluding Mexico, actually increased by more than 100 million dollars during the first nine months of 1949.

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Table I

Gross Gold and Dollar Holdings of Certain Latin American Countries
(In millions of dollars)

Country	Holdings December 31, 1946	Change in holdings during				Holdings September 30, 1949
		1947	1948	January-September 1949	Total period	
Argentina	1,185	−627	−201	+30	−798	387
Bolivia	37	+ 5	− 1	− 1	+ 3	40
Brazil	528	− 69	− 18	+21	− 66	462
Chile	116	− 25	+ 8	+ 2	− 15	101
Colombia	203	− 74	+ 8e	−11e	− 77e	126e
Cuba	379	+135	− 6	−17	+112	491
Mexico	332	− 93	− 51e	n.a.	n.a.	184†
Peru	65	− 3	+ 11	+ 6	+ 14	79
Venezuela	301	+ 4	+152	+27	+183	484
Other*	544	− 28	− 1	+40	+ 11	555
Total Latin America	3,690	−775	− 99	+93‡	−781‡	2,909§

* Includes Uruguay's gold holdings which totaled 200 million dollars at the end of December 1946, 175 million in December 1947, 164 million in December 1948, and 177 million in September 1949.
† Dollar balances only; data on Mexico's gold holdings during 1949 are not available.
‡ Includes change in Mexico's dollar balances, but not in her gold holdings.
§ Includes Mexico's dollar balances, but not her gold holdings.
e Estimated.
n.a. Not available.
Source: International Monetary Fund, *International Financial Statistics*, December 1949; and *Federal Reserve Bulletin*, December 1949, p. 1517.

1948 and further reduced in 1949, and by the opening up of new sources for financing that deficit.

As to these new sources, "offshore" purchases by the Economic Cooperation Administration[2] and the Latin American export surplus with Western Germany[3] became increasingly important during 1948 and 1949. Moreover, in 1949 transactions of Latin American countries with the Bretton Woods institutions provided 105 million dollars.

At various times a number of Latin American countries "financed" in one other way their current-account deficit (the deficit on merchandise and service transactions) with the United States, namely, by delaying the transfer into dollars of the local-currency proceeds of imported merchandise and of the profits of American-owned business enterprises. "Financing" of this type is not fully revealed by the balance-of-payments statistics (Table II). The two most striking instances occurred in Argentina and Brazil. Argentina's commercial and banking debt had risen to an estimated 160-180 million dollars when dollar transfers were suspended in May 1948. Subsequently, however, repayments, including over 20 million dollars allocated from export proceeds, reduced the Argentine debt to 125-140 million. In the case of Brazil, payment delays first became serious during the first half of 1948, but there was considerable improvement during the remainder of the year. In 1949 dollar payment arrears again increased, and the backlog of outstanding collections[4] as reported by 15 United States banks rose to more than 114 million dollars in July. Substantial reductions did not take place until November and December, when over 22 million dollars were repaid. Further sizable cuts in the Brazilian "backlog" are expected in the early months of this year.

[2] ECA offshore purchases in Latin America amounted to 143 million dollars in 1948 and 312 million in the first eleven months of 1949.

[3] The export surplus of Latin America with the German Bizone totaled 102 million dollars in 1948, and 69 million in January-September 1949.

[4] Export drafts (both sight and time) sent out for collection and for which payment had not yet been received in the United States.

Changes in the Trade Balance

The striking reduction in Latin America's current-account deficit with the United States since 1947 reflects a sharp contraction in the area's trade deficit with this country, from 1,708 million dollars in 1947 to an estimated 475 million in 1949 (see Table III). Venezuela and Mexico more than accounted for the total trade deficit remaining in 1949, all the other major countries except Argentina and Peru having regained their prewar status by again achieving a favorable balance in their United States trade.

The improvement in Latin America's trade balance with the United States was due to a cut in imports of nearly 30 per cent between 1947 and 1948, and to the maintenance of a high level of exports. Nearly half of the import cut was accounted for by the drop in Argentine imports from the United States, while reductions in Brazilian, Cuban, and Mexican purchases of United States goods were responsible for most of the rest. The import reductions were achieved in most cases with the help of stringent, selective import con-

Table II

International Transactions of Latin America with the United States
(Net balances in millions of dollars; (+) = excess of receipts from the United States; (—) = excess of payments to the United States)

Item	1947	1948	First half	
			1948	1949
Goods and services:				
Merchandise trade	−1,574	− 585	−336	−218
Transportation	− 103	− 7	− 22	− 22
Travel	+ 81	+ 68	+ 40	+ 42
Miscellaneous services	− 13	− 34	− 14	− 18
Investment income	− 395	− 488	−213	−168
Total goods and services	−2,004	−1,046	−545	−384
Unilateral transfers:*				
United States private	+ 24	+ 27	+ 13	+ 12
United States Government	+ 9	+ 10	+ 6	+ 5
Total	+ 33	+ 37	+ 19	+ 17
Long-term capital movement:				
United States private	+ 346	+ 272	+149	+228
United States Government	+ 60	+ 42	+ 21	+ 21
Other	+ 4	− 11	0	− 9
Total	+ 410	+ 303	+170	+240
Gold and short-term capital:				
Net sales of gold	+ 809	+ 179	+ 96	+ 28
Net movement of United States short-term capital to or from Latin America	+ 344	− 33	− 6	− 83
Net movement of Latin American short-term capital to United States	− 193	− 95	− 22	− 98
Total	+ 960	+ 51	+ 68	−153
Transfer of dollar funds to Latin America by other foreign areas, and errors and omissions	+ 601	+ 655	+288	+280

* Donations, contributions, etc.
Source: *Survey of Current Business*, June and December 1949.

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Table III

Trade of Certain Latin American Countries with the United States
(In millions of dollars; (+) = export balance; (—) = import balance)

Country	1936-38 average	1947	1948	1949*
Argentina:				
Exports	81.8	154.5	180.1	90
Imports	79.3	680.0	380.0	133
Balance	+ 2.5	− 125.5	− 199.9	− 43
Bolivia:				
Exports	0.9	49.3	24.1	51
Imports	4.9	29.4	35.7	38
Balance	− 4.0	+ 19.9	− 11.6	+ 13
Brazil:				
Exports	117.4	445.7	513.8	492
Imports	67.5	643.2	497.6	413
Balance	+ 49.9	− 197.5	+ 16.2	+ 79
Chile:				
Exports	29.5	122.3	179.1	163
Imports	24.1	125.4	105.5	145
Balance	+ 5.4	− 3.1	+ 73.6	+ 18
Colombia:				
Exports	48.3	205.6	236.4	237
Imports	35.9	218.9	196.9	176
Balance	+ 12.4	− 13.3	+ 39.5	+ 61
Cuba:				
Exports	127.1	509.6	374.2	417
Imports	78.7	491.8	440.9	371
Balance	+ 48.4	+ 17.8	− 66.7	+ 46
Mexico:				
Exports	52.7	246.7	246.4	242
Imports	82.5	629.9	520.4	466
Balance	− 29.8	− 383.2	− 274.0	− 224
Peru:				
Exports	12.8	41.7	35.3	42
Imports	16.4	91.6	66.3	88
Balance	− 3.6	− 49.9	− 31.0	− 46
Uruguay:				
Exports	10.3	37.7	57.7	57
Imports	8.9	75.5	60.1	35
Balance	+ 1.4	− 37.8	− 2.4	+ 22
Venezuela:				
Exports	23.0	173.5	273.1	274
Imports	40.9	426.8	516.4	538
Balance	− 17.9	− 253.3	− 243.3	− 264
Total Latin American republics:†				
Exports	633.9	2149.9	2332.5	2275
Imports	484.6	3857.8	3161.7	2750
Balance	+ 149.3	−1707.9	− 829.2	− 475

* Estimated from first ten months.

† Including also Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, and Paraguay.

Source: United States Department of Commerce, *Foreign Commerce Weekly*, various issues.

trols, directed particularly against less essential consumer goods. In Argentina, imports of automobiles and cotton goods were cut by as much as 95 per cent between 1947 and 1949, while petroleum imports were reduced by 44 per cent and essential machinery by 60 per cent. In Brazil, automobile and electrical-appliance imports declined 35 and 36 per cent, respectively, while essential machinery imports from the United States were well maintained. In Mexico, the import of textiles and electrical appliances was virtually halved, while essential machinery imports fell only 12 per cent.

Latin America maintained the aggregate value of its exports to the United States during 1948 and 1949 at 3½ times the 1936-38 level. This reflected the postwar rise in world commodity prices and the continued high national income in the United States. The latter has been regarded as a precondition for solving Latin America's dollar problem. Latin American exports, on the whole, were curtailed relatively little by last year's inventory readjustment in the United States, although the effects of the latter (and of consequent price changes) were felt rather keenly by some of the mineral-producing countries, notably Chile, Peru, and Mexico.[5] Exports of tropical food products were well maintained throughout the economic readjustment in this country. Beginning in late September 1949, coffee prices rose to unparalleled heights as a result of poor crop prospects in Brazil and Central America and the depletion of coffee stocks in Brazil in the face of continuing high world demand. This price rise enabled Brazil and Colombia to achieve sizable export surpluses with the United States during the last two months of 1949 (not fully reflected in the estimates of Table III), and is believed to have raised the value of Latin America's coffee exports to as much as one third of the area's total exports to the United States.

Causes of the Continued Dollar Problem

Most of the causes of the continuing disequilibrium in Latin America's dollar position are legacies of the war. First, the United States became as a result of the war the predominant source of Latin America's imports, a role it continued to play well into 1949 by virtue of Europe's inability to resume large-scale exports to the area. This development was reinforced by the changes in Latin American import demand associated with industrialization and the consequent need for imports of industrial equipment. In the absence of Germany from world markets, the United States has been the principal source of such equipment in recent years.

Secondly, since the war, Latin America has found that, in contrast to the situation in the thirties, its sizable export surpluses with Europe could not be converted into dollars. Argentina, Uruguay, Brazil, and Peru were particularly hard hit by the inconvertibility of sterling.

The third wartime legacy is the price and income inflation throughout Latin America, which started during the war as a result of the area's large export surpluses. In the absence of adequate anti-inflationary fiscal and credit policies, the price and cost structure of most Latin American countries has risen much more than that of the United States. A huge monetary overhang remains even after the record postwar imports, which have satisfied some of the deferred wartime demand. The continued high export level has tended to inflate the income and price structure further, as have in some instances the government deficits associated with the financing of development programs, and the expansion of commercial bank credit. It is noteworthy, neverthelesss, that during 1948 and 1949 many Latin American countries—particularly Brazil, Colombia, Cuba, Ecuador, and Uruguay—achieved greater price stability than during the immediate postwar years.

In contrast to their action after the First World War, the majority of Latin American countries maintained their ex-

[5] Between March and June, copper prices declined from 23½ cents to 16 cents per pound, zinc from 17.5 cents to 9.55 cents per pound, and lead from 18.90 cents to 12.00 cents per pound, but the price of tin remained unaffected.

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change rates, until the latter half of 1949, at the level that had prevailed at the end of the recent war. There can be little doubt that, during this period, some of these exchange rates were overvalued in terms of the traditional purchasing-power-parity concept, but maintenance of the prewar rates probably did not seriously affect the level of most Latin American exports to the United States during the period. On the other hand, the relative cheapness and availability of United States products was an important continuing cause of the excess demand for dollars, which was brought into balance with the current supply of dollars by ever-tighter direct exchange and import controls.

Methods of Reducing the Dollar Deficit

The techniques used by Latin American countries to reduce their dollar deficits have reflected throughout the period the predominance of one or the other of the foregoing basic causes of the dollar problem. After the war, when the very great backlog of demand for consumer goods in Latin America had to be met largely by imports from the United States, Latin American countries found that they also had to buy in the United States the equipment for their industrialization. When it proved impossible to maintain the 1947 import volume from the United States without depleting their dollar reserves, some of the countries resorted to direct discriminatory import controls. In the main these took the form of more stringent quotas on the less essential consumer goods, while imports of productive equipment and raw materials were favored. In the case of Brazil, problems of coordinating import and exchange controls at first interfered with the effectiveness of the program, but in the second half of 1949 foreign-exchange budgeting began to be rigidly enforced. Chile employed the exchange-budget device somewhat earlier and combined it with the multiple exchange rate technique in limiting less essential imports from the United States. In Mexico, where exchange control was eschewed, restrictive quotas on less essential United States imports, and import prohibitions in some cases, were combined with devaluation of the currency. Peru during 1949 carried through a gradual but very substantial depreciation of its currency, combining it with the elimination of the multiple exchange rate system and the easing of exchange control; under this program, the reestablishment of the free exchange market serves as an important mechanism for reducing the demand for dollar imports.

After it became clear following the British convertibility crisis of August 1947 that sterling inconvertibility would be a continuing problem, some Latin American countries made increasing use of direct controls and bilateral trade and payment agreements in their efforts to shift the import demand from North American to European suppliers.

The continuing price and income inflation, combined with the maintenance of relatively overvalued exchange rates, increasingly impaired the effectiveness of direct controls in some instances, and resulted in some flight of capital. While some Latin American currencies were depreciated as early as 1948—openly in the case of Mexico and Colombia, but more often through the modification of the various multiple-exchange-rate systems as in Chile, Peru, Ecuador, and Costa Rica—most major adjustments in Latin American exchange rates did not occur until after the sterling devaluation in the fall of 1949.[6] Whether these latest devaluations will help the Latin American economies concerned in achieving a closer balance in their payments relations with the United States will depend very largely on the nature and scope of the internal measures, fiscal and monetary, which those countries adopt.

[6] The following Latin American countries have carried out open or indirect devaluations since September 1949: Argentina, Uruguay, Chile, Peru, Paraguay, Bolivia, and Ecuador.

INDUSTRIAL GROWTH IN SECOND DISTRICT STATES, 1939-47

Manufacturing Activity in New York

Manufacturing growth in the State of New York since 1939 has been nearly, but not quite, commensurate with the tremendous over-all expansion of manufactures in the United States, despite the mushroom-like growth of many less heavily industrialized areas during the war and postwar years. This conclusion is indicated by the first postwar Census of Manufactures, which covered the year 1947. New York continued to rank first among the States in 1947 in terms of all the measures of industrial activity: number of establishments, number of production workers, total wages and salaries paid, and value added by manufacture.[1] Its output accounted for over one eighth of all manufacturing production in the country (in terms of value added by manufacture), and surpassed that of Pennsylvania, the second largest industrial State, by nearly 40 per cent.

Nevertheless, New York led the other States by a somewhat lesser margin in 1947 than in 1939, because its rate of growth during the inter-Census period did not quite keep pace with that of the country as a whole. Value added by manufacture in New York increased 192 per cent (from 3.3 to 9.7 billion dollars) between 1939 and 1947, while in the United States it jumped 204 per cent during the same period. Production

[1] Value added by manufacture is the amount by which the value of shipments exceeds the cost of materials and supplies. It is particularly significant as an indicator of the net contribution of a given industry or area to the total national product. It is not a measure of the change in physical output because it is affected by the price level. Caution should be exercised even when it is used as a comparative measure, because of variations in the price structure of different industries and regions.

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worker employment in New York rose 50 per cent, compared with 53 per cent in the United States. Similarly, the aggregate wages of production workers rose 231 per cent in the State, and 236 per cent in the nation.

That New York's percentage gains were almost as large as in the rest of the country is, in fact, surprising. It was, of course, easier for the States whose output in the base year (1939) was relatively low to score impressive percentage gains. Moreover, the composition of New York's output gives its economy more stability, in periods of both expansion and contraction, than is the case in many other industrial States. The production of nondurable goods comprised 61 per cent of all manufacturing in New York State during 1947, compared with only 48 per cent in the rest of the United States. Thus, although the increase in durable goods output (233 per cent) during the inter-Census period was the same in New York as in the nation, the larger share of New York's total production devoted to nondurable goods was reflected in a somewhat lower over-all percentage increase for the State.

The Census Bureau collects data for 453 separate manufacturing industries, which are grouped into twenty major industry groups, half of which produce nondurable goods. These ten industry groups, which in 1939 had accounted for 66 per cent[2] of New York's manufacturing activity, grew more slowly than durable goods during the inter-Census period and dropped in importance to 61 per cent of the total.

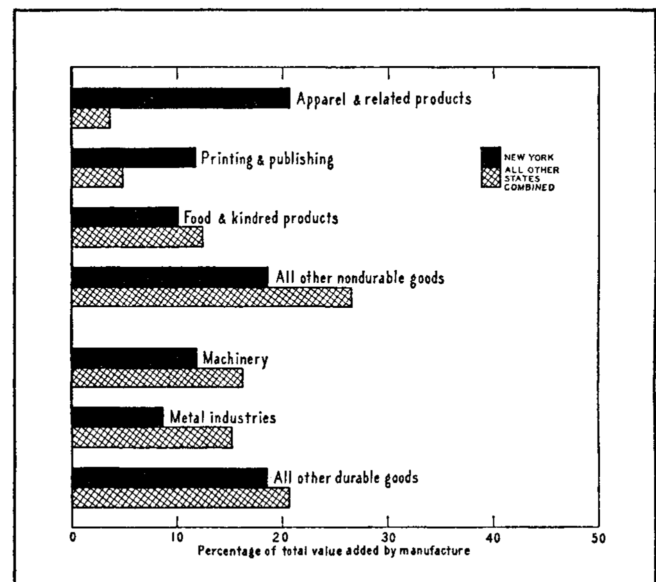
The concentration of manufacturing in a few major fields remains the characteristic trait of New York's economy. The three largest industry groups (apparel and related products, printing and publishing, and food and kindred products), together accounted in 1947 for nearly 43 per cent of total value added by manufacture, and for 37 per cent of all production workers in the State. In all other States combined, the share of these three industries in total manufacturing was less than half as large as in New York.

Apparel and related products was the only leading nondurable goods industry group whose relative importance in the State increased materially during the inter-Census period. All other nondurable goods groups were responsible for a lesser share of the industrial activity of the State in 1947 than in 1939 (except leather and leather products, whose share improved only slightly). The greatest relative losses, none of which was very extensive, were sustained by the food and kindred products, printing and publishing, chemical, and textile industry groups.

Expansion of durable goods industries between 1939 and 1947 accounted for less than 42 per cent of total industrial growth in New York, compared with 54 per cent in the other States combined. During this period, however, durable goods

The Relative Importance of Industries, New York and All Other States Combined, 1947

(As a percentage of total value added by manufacture*)



*Value of shipments less cost of materials and supplies.
Source: Computed from data of the U. S. Census Bureau by the Federal Reserve Bank of New York.

manufacturing became a substantially more important factor in New York's economy. All durable goods industries except primary metals maintained or improved their 1939 share in the total manufacturing activity of the State.

The largest and fastest growing of all the durable goods industry groups in New York was nonelectrical machinery. Value added by manufacture in this industry in 1947 totaled 678.7 million dollars, or 7 per cent of all manufacturing done in the State. No other durable goods industry group accounted for more than 5 per cent of the State total. Fabricated metals, electrical machinery, instruments and related products, and transportation equipment followed in order of importance. Each of these had value added by manufacture in excess of 400 million dollars.

There were few substantial shifts in the geographic concentration of manufacturing activity within the State, even though rates of growth were far from uniform. The most rapidly expanding areas were Elmira and Syracuse. The five boroughs of New York City expanded industrially somewhat more rapidly than the State as a whole. In 1947 they accounted for 57.0 per cent of all the manufacturing in the State, in terms of value added by manufacture, compared with 55.8 per cent in 1939. However, in terms of production worker employment, the City's contribution of approximately 50 per cent to the total was unchanged. This would suggest that New York City's greater than average increase in value added by manufacture was the result of its lead in the apparel industry. The change in value added by manufacture in that

[2] Except where designated otherwise, manufacturing values and growth are given in terms of value added by manufacture.

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industry was doubtless greater relative to the expansion in physical output than it was in other industries in New York State.

As a result of spectacular industrial expansion in Nassau and Suffolk Counties, industrial growth was more rapid in the New York metropolitan area[3] than in the city itself.

Industrial Growth in New Jersey

New Jersey was permanently affected even less than the Empire State by the wartime industrial boom. In 1947, 5.6 per cent of all manufacturing in the United States was carried out in New Jersey, compared with 6.2 per cent in 1939. Yet, although New Jersey lost in relation to the country as a whole, it maintained its position as the sixth largest manufacturing State. Value added by manufacture in New Jersey increased from 1.5 billion dollars in 1939 to 4.2 billion dollars in 1947. This absolute growth was larger than that of all except six of the other States.

The same over-all tendency as in New York—for durable goods manufacturing to gain on the heavily entrenched nondurable goods industries—was apparent in New Jersey. The State's leading industry, chemical manufacturing, lost comparatively the most ground. The only nondurable goods industries which improved their relative positions were paper and paper products and rubber products, whose proportionate gains, however, were small.

Durable goods manufacturing accounted in 1947 for nearly 45 per cent of New Jersey's manufacturing activity, a five-point gain over 1939. The chief contributors to this growth were the machinery industries, both electrical and nonelectrical.

Manufacturing in Connecticut

Connecticut was displaced as the tenth largest industrial State by Wisconsin, which had a very substantial growth in the metals and machinery industries. Manufacturing activity expanded somewhat more rapidly in Fairfield County (the only Connecticut county located in the Second Federal Reserve District) than in the State as a whole, so that in 1947 Fairfield County's output represented 30 per cent of the value added by manufacture in Connecticut compared with 27 per cent in 1939. Fairfield County's economy is heavily dominated by durable goods manufacturing, as is that of the State as a whole. The leading industries of Fairfield County in 1947 were nonelectrical and electrical machinery, primary and fabricated metals, and textile mill products. Together these five groups accounted for three fifths of the county's industry.

[3] The five boroughs of New York City plus Nassau, Rockland, Suffolk, and Westchester Counties.

DEPARTMENT STORE TRADE

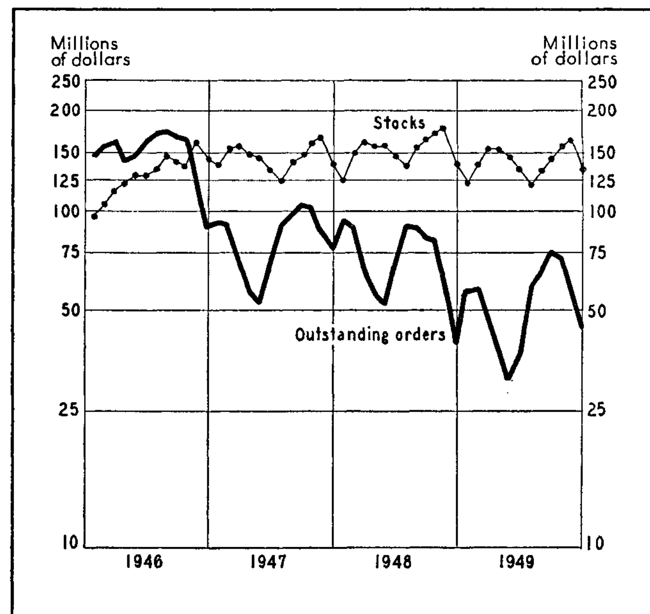
Post-Christmas department store sales in the Second District were somewhat slower than usual. According to a preliminary estimate, seasonally adjusted sales during January declined about 4 per cent from the substantial December dollar volume. Daily average sales were about 6 per cent less than in January of the preceding two years and possibly slightly less than in January 1947. Rough adjustment for price changes suggests that unit sales in January 1950 fell slightly behind those of a year ago.

Recent Inventory Policy

Reflecting the more optimistic attitude which has accompanied the recovery in business activity since late summer, the District's department stores replenished their thinned out inventories during the last four months of 1949. Between Easter and the opening of the fall season, the stores had allowed their inventories to run down to an exceptionally low level in relation to current sales. During the period from April 1 to August 31, new orders had been kept 16 per cent below those of the corresponding 1948 period. During the latter part of August, however, in an effort to bring stocks up to a more adequate working level, stores began to place orders at an accelerated rate. By September, coincident with a halt in the decline of apparel and housefurnishings prices, the stores were ordering a larger dollar amount than in the same month a year before. Taking the last four months of

Outstanding Orders and Stocks of Second District Department Stores*

(Actual end-of-month data, 1946-49)



* For a representative group of stores whose 1949 sales were more than half of the estimated Second District total. Plotted on ratio scale to show proportionate changes.

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Outstanding Orders as a Percentage of Stocks
Second District Department Stores*

Year	Average during year	On December 31
1940	32	22
1946	117	63
1947	56	57
1948	48	29
1949	38	33

* For the same group of stores as in the chart.

the year as a whole, new orders were expanded 13 per cent above the amounts ordered in the same months of 1948. The increase in the physical volume of goods ordered must have been even greater, considering the price declines which had occurred earlier in 1949.

The more liberal commitment policy of the stores led to a continuous rise in the dollar amount of inventory during the September-December period, after allowing for purely seasonal factors, and to a sharp narrowing of the year-to-year difference. On August 31, 1949 the dollar volume of stocks was 16 per cent less than on the corresponding date one year previous; by the end of the year, although December sales were fully up to merchants' expectations, the gap was 4 per cent.

As the accompanying chart shows, another consequence of the more active buying policy, despite a fair-sized year-end seasonal drop in outstanding orders, was a moderate year-to-year gain on December 31 in the stores' forward buying positions. There was also an increase in outstanding orders relative to stocks actually on hand. As noted in the table, outstanding orders at the end of 1949 were 33 per cent as large as stocks, in contrast to 29 per cent at the end of the previous year. During 1949 as a whole, however, end-of-month outstanding orders were smaller relative to stocks than in 1948 (38 as against 48 per cent).

The combination at the year's end—smaller stocks but greater outstanding orders than at the end of 1948—suggests the possibility of a further planned rise in stocks, in the anticipation that 1950 spring sales will come close to or exceed those of 1949, and perhaps partly because of the firm course of prices in recent months. In any event, the recent commitment positions clearly indicate that the stores maintained through the end of 1949 the more liberal inventory policy which they had initiated just before the fall selling season got underway.

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

Item	1948	1949		
	Dec.	Oct.	Nov.	Dec.
Sales (average daily), unadjusted	416r	243	293	401
Sales (average daily), seasonally adjusted	247	219	226	239
Stocks, unadjusted	216r	244	255	207
Stocks, seasonally adjusted	237r	216	221	227

r Revised.

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

Locality	Net sales		Stocks on hand Dec. 31, 1949
	Dec. 1949	Jan. through Dec. 1949	
Department stores, Second District	− 3	− 7	− 4
New York City	− 4	− 8	− 3
Northern New Jersey	− 3	− 6	− 1
Newark	− 1	− 6	0
Westchester County	0	+ 3	+ 9
Fairfield County	− 2	− 8	−11
Bridgeport	− 2	− 8	−13
Lower Hudson River Valley	+ 3	− 4	−12
Poughkeepsie	+ 1	− 4	−14
Upper Hudson River Valley	− 3	− 5	−16
Albany	− 5	− 7	−25
Schenectady	− 5	− 5	− 3
Central New York State	− 1	− 6	− 5
Mohawk River Valley	− 1	− 8	−12
Utica	+ 3	− 7	−11
Syracuse	− 2	− 5	− 1
Northern New York State	−11	− 7	−14
Southern New York State	− 4	− 8	−14
Binghamton	− 4	− 9	−16
Elmira	− 4	− 7	−13
Western New York State	− 3	− 5	− 4
Buffalo	− 4	− 4	− 7
Niagara Falls	+ 1	− 4	+ 1
Rochester	− 3	− 8	+ 1
Apparel stores (chiefly New York City)	− 5	− 9	−11

Indexes of Business

Index	1948	1949		
	Dec.	Oct.	Nov.	Dec.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	192	166	173	178p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	258r	256	256	267p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	186	134	154p	
Sales of all retail stores*†, 1935-39 = 100 (*Department of Commerce*)	341	330	329	325p
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	154	139	137	140p
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	124	117p	115p	115p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	361	321	314	330e
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	298	278p	269p	275p
Personal income*, 1935-39 = 100 (*Department of Commerce*)	316	305	306p	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	198	202p	202p	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	171	169	169	168
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	95	106	99	96
Outside New York City	87	89	86	83

* Adjusted for seasonal variation. p Preliminary. r Revised.
† Revised beginning January 1943.
e Estimated by the Board of Governors of the Federal Reserve System.
‡ 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. This series has been recently revised back to September 1946.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, January 28, 1950)

INDUSTRIAL output increased further in December and the first half of January. Construction activity showed a less than seasonal decline and contract awards were in very large volume for this time of the year. Commodity price changes were generally small.

INDUSTRIAL PRODUCTION

Industrial production, as measured by the Board's seasonally adjusted index, increased 5 points in December to 178 per cent of the 1935-39 average, the highest level since April 1949. Activity in durable goods industries showed a substantial rise, while nondurable goods production was little changed from the high November rate, and output of minerals declined 7 per cent.

Steel ingot production increased sharply in December to 95 per cent of capacity. In the first four weeks of January operations were scheduled at 94 per cent of the new rated capacity, which, as announced in mid-January, is 3½ per cent larger than last year's. Reflecting in part more adequate steel supplies, activity in the machinery and transportation equipment industries advanced moderately in December. With completion of model changeovers, assembly of automobiles in mid-January was at about last autumn's record rate but subsequently it was curtailed by a labor dispute. There were further increases in output of nonferrous metals and building materials in December. Lumber production was at the highest rate for this month in many years.

Cotton consumption and paper production in December showed smaller declines than had occurred in the same month in most of the preceding postwar years and in January average weekly production of paperboard was back to the high pre-holiday levels. Output of manufactured foods declined somewhat in December as activity in the canning industry showed a further decline which was offset only in part by a slight gain in meatpacking. Output of chemicals and petroleum products advanced moderately, and coke production rose sharply.

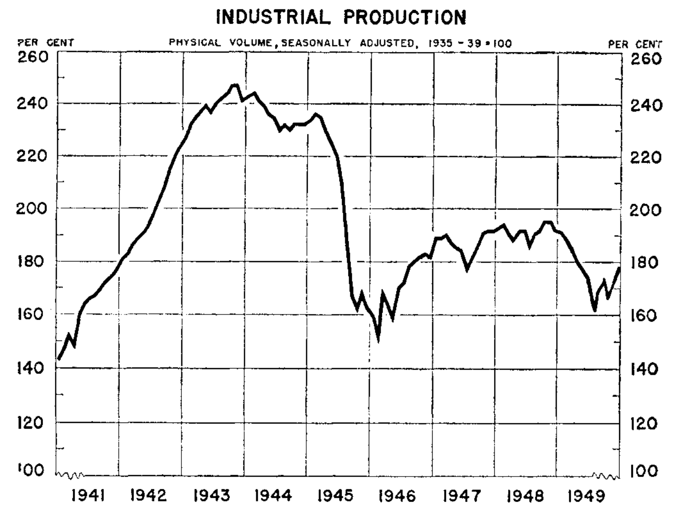
Output of coal declined one fourth in December as a shorter work week was reintroduced, and crude petroleum production was cut 3 per cent. Metal mining, on the other hand, increased somewhat. In early January, production of coal declined further by about one tenth.

EMPLOYMENT

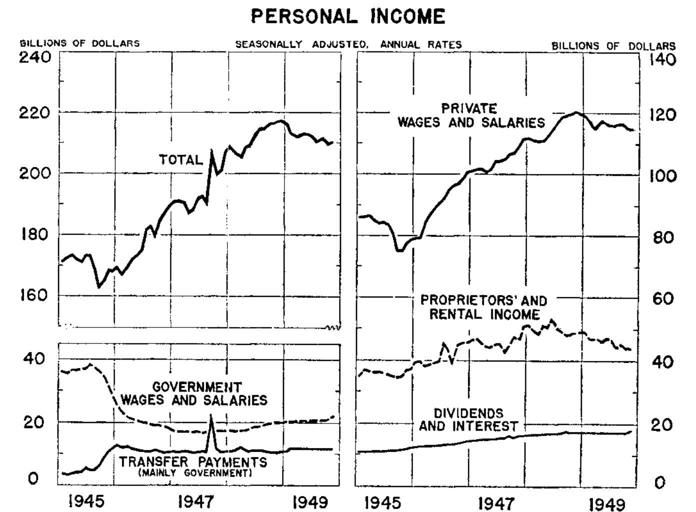
Employment in nonagricultural establishments increased somewhat further in December after allowance for seasonal changes, reflecting largely advances in durable manufacturing industries as a result of settlement of the steel labor dispute. Employment in most other industries showed little change.

CONSTRUCTION

Value of construction contracts awarded in December, according to the F. W. Dodge Corporation, was more than one-third greater than a year ago. Awards for manufacturing building rose sharply to year-ago levels. The number of new housing units started in December, as estimated by the Bureau of Labor Statistics, declined seasonally to 79,000 units, compared with 93,000 units in November and 53,000 in December 1948; the total for the year was 1,019,000 units, about 10 per cent more than the total in 1948.



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



Department of Commerce estimates. Monthly figures; latest shown are for November. Total includes "other labor income", such as employer contributions to private pension funds, not shown separately. Employee contributions for social insurance are included in wage and salary disbursements but not in total.

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Distribution

Department store sales, according to the Board's seasonally adjusted index, were 293 per cent of the 1935-39 average in December, as compared with 276 in November and an average of 285 for the year 1949. Sales in the first half of January, especially of apparel, showed more than the usual seasonal decline.

Total shipments of railroad revenue freight were maintained in December and early January after allowance for seasonal influences. Substantial gains in loadings of ore and steel products were offset by a considerable reduction in coal shipments from the temporary high level of November.

Commodity Prices

Wholesale commodity prices generally continued to show little change from mid-December to the third week of January. While prices of some foods and feedstuffs declined somewhat, prices of hogs and pork products rose. On January 17 it was announced that Federal support purchases of pork would be made during the first quarter if hog prices did not rise seasonally. Reflecting earlier and continuing sharp increases in prices in foreign markets, spot prices of foreign apparel wool in this country advanced. Fuel prices were also somewhat higher while prices of some manufactured products, such as batteries and wool blankets, were reduced. A moderate reduction in retail food prices in December contributed to an 0.7 per cent decline in the consumers' price index.

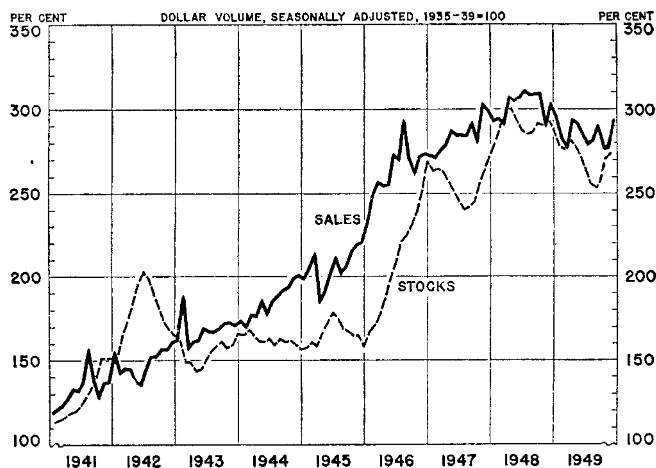
Bank Credit

Holdings of U. S. Government securities increased by 880 million dollars during December and the first three weeks of January at banks in leading cities. Loans to businesses and consumers and loans on real estate continued to expand somewhat.

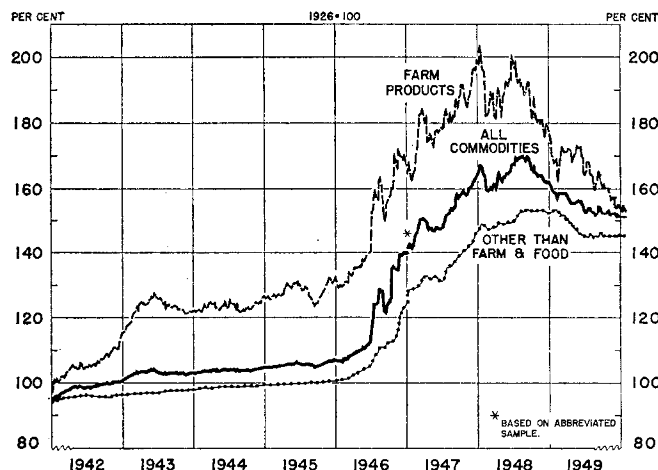
Net Treasury expenditures and a seasonal inflow of currency from circulation supplied reserves to banks in the first three weeks of January. Excess reserves were at a high level in the early days of January but subsequently declined somewhat as the Federal Reserve reduced its holdings of U. S. Government securities.

Security Markets

The extended rise in common stock prices was interrupted in January. Bond prices showed little change. The Treasury's announcement on January 13 that a new 1¼ per cent 20-month note would be offered in exchange for certificates maturing February 1, 1950, was followed by some increase in yields on short-term Treasury securities.



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 17.

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