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MONEY MARKET IN APRIL

Money market conditions during April did not show the easing that had been commonly expected following the period of heavy income tax collections during the latter part of March. In the first week of the month, substantial net Government disbursements, together with a temporary increase in the Federal Reserve float, provided member banks with large amounts of additional reserve funds, but the gains from these sources were partly offset by a seasonal rise in the amount of currency in circulation, and a large part of the remaining reserve funds were used by member banks to reduce their indebtedness at the Reserve Banks. The Treasury bill operations of the Chicago banks and their customers in connection with the April 1 Cook County tax date, and related movements of funds into and out of Chicago, also contributed to a firmness of the New York money market during the early part of the month. Subsequently, a rise in Treasury balances in the Reserve Banks, as the result of Government disbursements well below expectations based on budget estimates, tended to offset other factors, such as a reduction in the amount of currency in circulation, which otherwise might have caused easier money market conditions.

A factor tending to maintain rather tight conditions in the money market was a shift of Treasury bill holdings to New York from Chicago early in the month and the absorption by the New York market of a substantial part of the additional Treasury bills issued by the Treasury during the last three weeks of April. Payments for these Treasury bills caused recurrent pressure on the reserves of the New York City banks, which was not relieved by an inflow of funds from other parts of the country in view of the excess of Treasury receipts over disbursements during the latter part of the month. These net Treasury receipts tended to keep the reserve positions of member banks rather generally under some pressure. As a result, the quotation for Federal funds—the most volatile interest rate in the money market—held between 1¼ per cent and 1-7/16 per cent (only slightly below the Reserve Bank discount rate) during most of the month, except for a short period around the middle of the month when the New York City banks had a temporary concentration of gains of funds from various sources.

GOVERNMENT SECURITY MARKET

The pressure on the money market was also evidenced by a further slight increase in yields on short-term Treasury securities. The longer-term issues of certificates of indebtedness were 2 basis-points higher on April 28 than on March 31, the yield on the longest issue (maturing January 1, 1951) rising from 1.17 to 1.19 per cent. The average discount during the month on successive issues of new Treasury bills rose during the month from 1.145 per cent for the issue dated March 30 to 1.166 per cent for the issue of April 27. In part, the rise in the rate on new bills was attributable to the increase in the outstanding supply as the Treasury raised the amount of new bills offered by 100 million dollars each week, beginning with the April 13 issue. Current yields on new Treasury bills are well above those which ruled in the latter part of 1949 (e.g., 1.087 per cent for the December 29 issue and 0.923 per cent at the low point of July 14) and about the same as in the early part of last year.

Yields on Treasury bonds also continued to rise during April. The Federal Reserve System continued to be a major supplier of long-term restricted bonds, to meet investor demands, although some insurance company selling added to the market supply of bonds for a short time. The price of the longest-term restricted Treasury bonds (the Victory bonds) fell ⅜ of a point between March 31 and April 28, to 101¾ on the latter date. Shorter-term restricted issues showed lesser declines. The longest-term issue of bank-eligible bonds, on the other hand, was rather firm, and toward the

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close of the month the price of this issue showed a slight increase over the March 31 quotation. Shorter maturities of eligible bonds, nevertheless, were lower in price over the month, along with the rest of the market.

Compared with the end of 1949, when the Victory bonds sold at prices yielding 2.24 per cent, there has been a substantial firming of long-term Treasury bond yields, with the Victory bonds yielding 2.37 per cent toward the close of April. In contrast, the average yield on high-grade corporation bonds (as represented by Moody's Aaa bond average) has risen only slightly, from 2.58 per cent toward the end of 1949 to 2.60 per cent in the last week of April. It appears, however, that there has been a somewhat larger increase in the yields on new high-grade corporate bonds offered during this period. Nevertheless, the rise in corporate bond yields has been small, and the spread between corporate and long-term Government bond yields has narrowed considerably. The limited amounts of new publicly-offered high-grade corporate flotations and the active demand for such bonds have been the chief factors in the steadiness of the corporate bond market.

Member Bank Reserve Positions

Treasury operations again exercised an important influence upon the money market in April, although less pronounced than in the preceding month. With taxes seasonally lower in April, the Treasury stepped up its withdrawals from Tax and Loan Accounts with commercial banks, and raised 300 million dollars of additional cash through the sale of Treasury bills. Withdrawals from Tax and Loan Accounts came to about 2 billion dollars, and the balance in such accounts fell about one billion dollars, to about 2.5 billion toward the close of the month.

In the week ended April 5, however, Government disbursements exceeded funds withdrawn from the market by about 375 million dollars, since calls on its accounts with commercial banks were still relatively small, and expenditures tended to increase because of redemptions of Savings notes and of the small portion of the maturing notes and certificates that were not exchanged for new issues.

Despite these heavy net outlays by the Treasury and the other funds which became available to the banks through an expansion of Federal Reserve "float" and a decrease in required reserves—offset only in part by a sizable increase in money in circulation—the money market failed to ease. Most of the funds becoming available to the banks were used to pay off their indebtedness to the Federal Reserve System (Reserve Bank loans and discounts declined 197 million dollars) and to build up their excess reserves. The latter had fallen to the subnormal figure of one half billion dollars on March 29 and were raised to 740 million on April 5. In the process, the money market remained tight, and the Federal funds rate remained in the vicinity of 1-7/16 per cent during most of the week. Some banks whose reserve positions were under pressure during the week were compelled to sell short-term Treasury securities, particularly bills, to adjust their reserve positions. Reserve System holdings of Treasury bills rose about 110 million dollars in this period.

Money market conditions changed very little in the subsequent three weeks ended April 26, and on balance the gains of reserves just about equaled the losses. However, there were considerable cross-currents during most of this period, some transactions tending to provide the banks with funds in one part of a week and others tending to absorb reserves in another part. This was particularly true during the week ended April 19, when net gains of funds came largely in the first part of the week, easing the money market and enabling the banks to repay part of their borrowings from the Federal Reserve Banks and to increase their excess reserves. Conditions were reversed in the last two days of the week, as a result chiefly of an excess of Treasury receipts over disbursements. The banks consequently found it necessary to adjust their reserve positions by borrowing from the Federal Reserve Banks, and reduced their excess reserves substantially.

Over the month as a whole, money market transactions resulted in a slight decline in Federal Reserve credit. A net increase in System holdings of Treasury securities was entirely in holdings of Treasury bills, purchases of which exceeded sales of bonds by the System. Member bank borrowings were reduced considerably over the month as a whole.

The reserves of New York City banks were under recurrent pressure throughout the month, except for a period of temporary ease around the middle of April. In part, the pressure on the New York City banks in the two weeks ended April 12 had its source in the previously mentioned transactions of the Chicago banks and their customers. These transactions included the withdrawal of funds from New York by the Chicago banks prior to April 1 in anticipation of customer withdrawals, and the cash redemption of a considerable part of the Treasury bills maturing April 6 which were held by the Chicago banks and their customers. These redemptions resulted in the allotment of new Treasury bills to bidders in New York substantially in excess of their holdings of the maturing issue and thus entailed considerable losses of reserves on the part of the New York City banks.

An inflow of funds from other parts of the country tended to ease the New York money market temporarily in the latter part of the week ended April 19. But the City banks promptly invested the funds in Treasury securities, and when net payments for new Treasury bills had to be made by the banks and dealers at the beginning of the following week, and there was a renewed outflow of funds, the New York money market turned tight again. The New York City banks had to sell securities to maintain their required reserves, and their position was not materially eased during the remainder of the month.

Ownership of the Public Debt

Federal Reserve open market sales of Treasury bonds have been the principal factor in the decline of Reserve System holdings of Treasury securities since the end of 1949, and,

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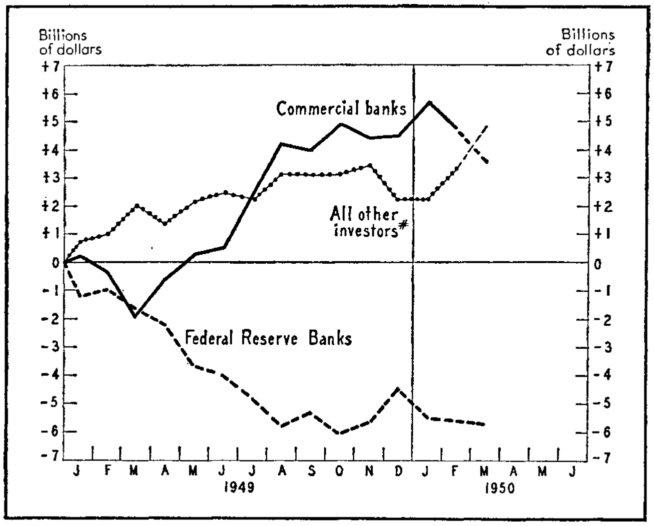
Cumulated Net Changes in Holdings of Government Securities by Type of Investor, December 31, 1948 to March 31, 1950*



* End-of-month data except for commercial banks in 1950, which are for last Wednesday. Holdings of commercial banks and all other investors for March 1950 estimated by Federal Reserve Bank of New York.

Excludes U. S. Government agency and trust accounts.

Source: U. S. Treasury and Board of Governors of the Federal Reserve System.

of course, such sales have been one of the factors affecting member bank reserve positions. As shown in the accompanying chart, there was a substantial reduction in Reserve System holdings of Government obligations—about 1.3 billion dollars in the first quarter of 1950—which offset fully the gains to banks' reserves from sources such as the seasonal reduction in currency circulation. Treasury bonds accounted for about 800 million dollars of this decrease (of which, however, about 100 million dollars represents the exchange of a called issue of bonds for notes on March 15).

Commercial bank holdings likewise were reduced in this three-month period, despite a temporary increase in January as the banks invested the reserves received from the return of currency from circulation after Christmas. The decrease in commercial bank holdings was just short of one billion dollars. Judging from the data for the weekly reporting member banks, a large part of this decline, perhaps 50 per cent, occurred in the bond account. However, the March 15 exchange of bonds for notes more than accounted for the decline in bond holdings, and on balance the commercial banks appear to have purchased a considerable amount of bonds in the open market.

In large part the bonds purchased by the commercial banks were supplied by nonbank investors, who in turn bought the long-term restricted issues which constituted the bulk of Federal Reserve System sales. The holdings of other types of Treasury securities of both the System and the weekly reporting member banks (and presumably all commercial banks) also declined, but nonbank investors increased their ownership of such issues, particularly of bills and certificates. The increase in bill holdings was related in part to the April 1 Cook County personal property tax. Inasmuch as the total Federal debt, other than special issues, rose only 300 million dollars in this period, there apparently was a substantial shift in the ownership of the public debt from the banking system into the hands of nonbank investors. This tendency has been evident since the end of 1948, but the absorption of the debt by nonbank investors has accelerated markedly this year and by the end of March it had exceeded that for the first three months of 1949 by about 30 per cent.

INTEREST PAYMENTS ON THE FEDERAL DEBT

Since the end of the war, the interest charge on the Federal debt has risen by about a half billion dollars despite a substantial reduction in the total outstanding debt. During 1949, interest on United States Government securities amounted to some 5.5 billion dollars, whereas in 1946, when Treasury indebtedness was at its peak, the interest charge amounted to 5.0 billion dollars. Immediately before the war, the Federal interest bill amounted to only a little over one billion dollars, or about 10 per cent of budget expenditures. At present, despite the great increase in the amount involved, interest payments represent only a slightly larger proportion of budget expenditures than before the war.

While interest costs are included in budget expenditures as they accrue, not all of the interest charges result in immediate cash outlays by the Treasury. For example, the interest due on Savings bonds, Series A-F, merely results in a gradual rise in the redemption value of the bonds. Cash disbursements for such interest are made only to the extent that the interest has accrued on bonds which are redeemed. In the postwar period, cash disbursements for accrued interest on redeemed Savings bonds have been only about a third as large as the interest accrued on outstanding Savings bonds. Also, interest payments to the trust funds have not resulted in net cash outlays, since they have been promptly reinvested in Government securities; other receipts by the trust funds have been more than adequate to cover their expenditures. On a cash basis, total interest payments received by the public in 1949 were some 1.3 billion dollars less than the interest charge included in budget expenditures.

The continued increase in the total interest expense on the public debt since the end of the war has arisen from several factors. Savings bond sales have exceeded redemptions each year, and at the same time accruals of interest on Savings bonds have been at progressively higher rates as the bonds outstanding have moved closer to maturity, since interest is accrued at a rate corresponding to the increase in the redemption value of the bonds, rather than at the average rate to maturity. Also, there has been a further increase in the amount of special issues bearing relatively high coupon rates to meet statutory requirements of the Government trust funds to which such securities were issued. An additional factor in the rise in interest payments has been the increases in

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short-term interest rates initiated in July 1947, which were partly offset by the savings effected by refunding maturing bonds and notes into short-term issues bearing lower rates of interest.

In 1947, increases of interest cost on both Savings bonds and special issues were offset by savings effected mainly by the redemption of marketable debt. In the next two years, interest on marketable debt showed only a slight decline, since the rise in rates on new marketable issues largely offset both the interest savings from the continued reduction in the marketable debt (most of which occurred in 1948) and the replacement of higher-rate maturing securities with lower-rate new issues in refunding operations.

By using the large cash balance raised in the Victory loan and later the cash surpluses arising mainly from current operations and to a lesser extent from the net sales of Savings bonds,[1] the Treasury was able to redeem nearly 45 billion dollars of marketable debt from the beginning of the cash retirement program in February 1946 through June 1949. During the subsequent months, marketable debt increased slightly. Some new market financing was undertaken in August and September 1949 to cover an expected cash deficit, but for the most part this was offset by the redemption of the unexchanged portion of marketable issues maturing through the end of the year. Unusually large net sales of Savings notes provided ample funds to cover the cash deficit through December. The bulk of the Savings notes were sold in July and August 1949 following the easing of market rates. The rate schedule on Savings notes, which had been adjusted upward in August 1948 to maintain their attractiveness relative to other securities, was unchanged at that time.

A further rise in interest payments in 1950 may be expected. While interest on special issues will probably show little net change, as the large redemptions of securities to cover both the payment of the special dividend to veterans and sizable unemployment benefits will be offset by purchases by other funds (mainly for old-age pensions), the normal increase on Savings bonds will continue. In the second place, Government securities issued during the first half of last year bear higher average rates than those on the maturing marketable issues which they replaced.[2] Moreover, the savings in interest costs from the net redemption of marketable debt during 1949 as a whole and from the reduction in market rates after mid-1949 will be offset by the recent substantial increase in the nonmarketable Federal debt. Also, further deficit borrowing can be expected this year.

Since the end of the war, considerable changes have taken place in the proportion of Federal interest payments (including interest accruals) received by the various types of investors. These changes reflect shifts in ownership and in maturity distribution. Interest received from the Government by the banking system has declined, whereas nonbanking investors have steadily increased their share in Government interest payments since the end of the war.

Commercial banks received from their holdings of Government securities during 1949 some 1.1 billion dollars, or about 300 million less than in 1946. This represented only 20 per cent of total Government interest payments, as against 28 per cent in 1946. The drop in the commercial banks' receipts from this source reflected mainly a reduction of over 20 billion dollars in their average portfolios of Government securities. Their holdings last year represented only slightly over a quarter of the interest-bearing public debt, whereas in 1946 they held some 31 per cent and in 1940 over a third. The average rate on their investments in U. S. Government securities, however, increased slightly to around 1.7 per cent, as the increase in short-term rates beginning in July 1947 and the relative rise in their bond holdings offset the sharp decline in note holdings. It is probable that the banks had somewhat smaller actual interest earnings, since some securities were purchased above par in the market and most banks amortize the premiums paid by charging them against current interest receipts in a pro rata fashion to maturity.

The Federal Reserve Banks, in contrast to the commercial banks, have nearly tripled their income from Government

Interest Payments on and Holdings of the Public Debt, by Class of Investor, Selected Calendar Years, 1940-49

Class of investor	Interest payments				Holdings of United States securities*			
	1940	1946	1948	1949	1940	1946	1948	1949
	In billions of dollars							
Banks	0.3	1.5	1.4	1.4	18.8	108.0	86.8	83.9
Commercial	0.3	1.4	1.1	1.1	16.4	84.6	64.9	64.3
Federal Reserve	#	0.1	0.3	0.3	2.4	23.4	21.8	19.5
Nonbank investors	0.8	3.5	3.8	4.1	29.6	160.8	164.2	168.3
Individuals	0.3	1.4	1.6	1.7†	10.0	63.2	66.2	67.8
Federal trust funds**	0.2	0.7	0.9†	1.0†	6.9	29.3	35.9	38.4
Other investors	0.3	1.5	1.4	1.4	12.6	68.3	62.1	62.1
Total	1.1	5.0	5.2†	5.5†	48.4	268.9	250.9	252.2
	Percentage distribution							
Banks	27.3	30.0	26.9	25.5	38.8	40.2	34.6	33.3
Commercial	27.3	28.0	21.2	20.0	33.9	31.5	25.9	25.5
Federal Reserve	##	2.0	5.8	5.5	5.0	8.7	8.7	7.7
Nonbank investors	72.7	70.0	73.1	74.5	61.2	59.8	65.4	66.7
Individuals	27.3	28.0	30.8	30.9	20.7	23.5	26.4	26.9
Federal trust funds**	18.2	14.0	16.3	18.2	14.3	10.9	14.3	15.2
Other investors	27.3	30.0	26.9	25.5	26.0	25.5	24.8	24.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note; Because of rounding, figures may not add to totals.

* Computed average annual holdings. Interest-bearing securities only. Breakdown of holdings in 1948 and 1949 partly estimated by the Federal Reserve Bank of New York. Non-interest bearing securities and matured debt in 1949 amounted to 2.0 billion dollars, over half of which was held by the International Monetary Fund.

\# Less than 50 million dollars.

† Adjusted by the Federal Reserve Bank of New York to make figures comparable with earlier years.

** Includes United States agencies and the Postal Savings System.

\## Less than 0.05 per cent.

Source; Reply and statement by Secretary Snyder to the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report; *Daily Statement of the U. S. Treasury;* and the *Treasury Bulletin.*

[1] In 1947, the Treasury also had available nearly 900 million of cash from the sale of the Investment Series Treasury bonds. Another 500 million dollars was also available, mainly from net market sales of Treasury marketable securities by Government trust funds and other agencies, which in turn invested in special issues.

[2] The new securities were all one-year certificates of indebtedness on which interest is payable in a lump sum at maturity this year.

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securities since 1946. This great rise occurred despite the fact that the Reserve Banks' share in the ownership of the Federal debt declined. It was mainly the result of (1) an increase in the proportion of long-term, higher-yielding bonds in their portfolios, growing out of market support operations, and (2) the gradual firming in short-term interest rates during most of the postwar period. Nevertheless, Government interest payments to the Reserve Banks in 1949 were less than 6 per cent of the total paid. While the Reserve Banks' average monthly holdings of Government securities in 1948 were around 1.6 billion dollars smaller than in 1946 (their large net purchases of bonds having been more than offset by the redemption of short-term issues), the average rate of earnings rose from 0.63 per cent to 1.39 per cent. In 1949, a sizable, but considerably smaller, amount of redemptions[3] and large net sales of Government securities reduced the Reserve Banks' total holdings still further, but nevertheless there was a slight increase in Government interest receipts by the System as the average rate of earnings on Treasury issues increased to 1.60 per cent. There was a net increase in 1949 in the average amount of Government bonds held by the Reserve Banks even though their holdings declined throughout the year, and short-term rates were higher on the average despite the temporary decline in interest rates after the midyear.

A considerable part of the interest received by the Federal Reserve Banks is in effect returned to the Treasury, as it is the System's policy to pay approximately 90 per cent of net Reserve Bank earnings to the Treasury.[4]

"Individuals"[5] now receive the largest total amount of Federal interest payments. In 1949 they received over 1.7 billion dollars, representing about 31 per cent of the Government's interest bill, whereas their investments in Government securities amounted to only 27 per cent of the public debt. Savings bonds account for about 70 per cent of the 68 billion dollars of Government securities held by individuals. The accrued interest on Savings bonds (Series D to F) amounted to close to 1.0 billion dollars in 1949, compared with 640 million in 1946.[6] Individuals received nearly 300 million dollars of income from Series G bonds in 1949, while marketable and other securities added some 400 million to their interest receipts.

The Federal trust funds and Government agencies received around 1.0 billion dollars in interest payments in 1949. This was over 40 per cent more than they received in 1946. A substantial postwar rise in trust fund investments occurred as receipts from both the public and the Government (including interest) exceeded the trust funds' payments by 2.9 billion or more in each postwar year through 1948. In 1949, larger payments for unemployment insurance reduced the annual excess receipts to about 2.0 billion dollars. Since the interest payments received by the trust funds were immediately reinvested in Government securities, there were no cash outlays by the Treasury for these payments. Interest received by the trust funds in 1949 represented some 18 per cent of the Government's total interest payments.

"Other investors"—a group which includes insurance companies, mutual savings banks, other corporations and associations, and State and local governments—received about 1.4 billion in interest from the Federal Government in 1949. This was almost the same amount as they had received in 1946, the interest loss from a 6.4 billion dollar drop in their holdings of Government securities having been almost offset by the rise in the yield on short-term issues. "Other investors" held in 1949 nearly a quarter of the public debt and received almost the same share of interest.

THE TREND OF BUSINESS

Business conditions in the first four months of 1950 generally equaled or even surpassed the optimistic predictions made at the start of the year. As anticipated, new orders, output, and profits have been increasing in many lines, while prices have remained relatively stable. There has been a substantial rise in businessmen's confidence in the outlook for the latter half of this year. A recent survey by the U. S. Department of Commerce showed that businessmen as a whole, particularly in manufacturing and utilities, expected sales to continue at a high level for the remainder of 1950. Plans for investment in new plant and equipment have already been revised upward, and some further increase in the anticipated capital expenditures seems likely.

Industrial production, as measured by the Federal Reserve index, has averaged about the same in the past three months as in the corresponding period last year, and the total national output of goods and services, as indicated by the "gross national product" estimates with allowance for price changes, was approximately the same in the first quarter of 1950 as it had been a year earlier. Production and business in recent months, however, have been generally on the way up, while a year ago they were in the midst of a steady decline.

Particularly noteworthy is the outstanding recent performance of steel and automobile production. By the last week in April, the steel mills had pushed operations temporarily beyond 100 per cent of average rated capacity. In that week, more than 1.9 million tons of steel were produced, the highest weekly output on record. The automobile industry was assembling new passenger cars and trucks in the third week of April at the rate of 144,200 per week, despite the fact that one of the major producers had been closed by a strike

[3] i.e., redemptions made in accordance with the Treasury's scheduled debt retirements. Substantial cash redemptions of bills on exchange offerings were also made by the System, but since these were offset by an increase in sales to other investors by the Treasury, they are here considered as sales by the Federal Reserve Banks.

[4] The funds are transferred to the Treasury (and deposited in miscellaneous receipts) in payment of an interest charge on Federal Reserve notes levied by the Board of Governors of the Federal Reserve System under Section 16 of the Federal Reserve Act.

[5] Including unincorporated businesses, partnerships, and personal trusts.

[6] A small part of this accrued interest is received by private investors other than individuals.

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Changes in Selected Business Indicators in the First Quarter of 1950
(Adjusted for seasonal variation, except where noted)

Business indicator	Percentage change in first quarter of 1950	
	From fourth quarter 1949	From first quarter 1949
Gross national product	+ 1.1	− 1.5
Personal consumption expenditures	+ 0.7	+ 1.3
Gross private domestic investment	+ 3.9	−12.5
Government purchases of goods and services	+ 0.7	+ 4.0
Personal income*	+ 4.4	+ 3.1
Wages and salaries*	+ 0.3	− 0.2
Agricultural income*	+ 2.9	−14.4
Total civilian employment†	− 3.2	− 0.5
Nonagricultural employment†	− 1.5	+ 0.8
Unemployment†	+26.9	+46.8
Industrial production	+ 6.1	− 2.5
Steel output (tonnage)†	+72.4#	− 7.8
Passenger cars and trucks (factory sales)†	+18.5	+18.9
New construction (value put in place)	+ 4.5	+17.4
New housing starts (dwelling units)†	− 2.9	+59.0
Sales of all retail stores	+ 3.7	+ 2.9
Durable goods stores	+ 9.3	+14.9
Nondurable goods stores	+ 1.1	− 2.2
Wholesale prices†	+ 0.3	− 4.3
Consumers' prices†	− 0.8	− 1.8

* First quarter of 1950 estimated on basis of two months' data.

† Not adjusted for seasonal variation; comparison between fourth quarter 1949 and first quarter 1950 may partly reflect normal seasonal movements.

\# Comparison affected by coal and steel strikes.

Source: U. S. Department of Commerce, U. S. Bureau of Labor Statistics, Council of Economic Advisers, Board of Governors of the Federal Reserve System, American Iron and Steel Institute, and Automobile Manufacturers Association.

since late January. This weekly rate, achieved with one fifth of the industry strike-bound, is equivalent to an annual output of 7.5 million units, which compares with the all-time record of 6.2 million units produced by the entire industry in 1949.

Most major business indicators showed an improvement in the first quarter of 1950 over the preceding quarter. As the accompanying table indicates, however, many series have not yet regained all the ground lost during 1949. The rise which took place between the latter part of 1949 and the early months of this year in the aggregate value of goods and services produced represents not only the higher rate of spending by consumers and by government but also—and more importantly—a renewed increase in private capital expenditures (including inventory changes). The volume of such expenditures is no longer being depressed by inventory liquidation, as it was throughout most of 1949. Inventory policies generally remain cautious, and they do not appear at present to be an active influence for either expansion or contraction. Business investment in new plant and equipment during 1950 was expected in late 1949 to be as much as 14 per cent below the 1949 level, but an S.E.C. survey early this year revealed that many plans for such expenditures had been revised upward. Further increases in outlays for plant and equipment seem likely as business improves. Machinery production rose 7 per cent in the first three months of this year (although to some extent this reflected greater output of household appliances).

The most striking increase in domestic "capital" expenditures has occurred in residential construction. New housing starts for the first quarter totaled 270,000 dwelling units, and exceeded the previous record for the first quarter by fully 50 per cent. During March, which is ordinarily one of the seasonal low months for housing starts, an estimated 110,000 units were started, more than in any other month on record. At the same time, residential construction contract awards in the first quarter of 1950, as reported by the F. W. Dodge Corporation, were more than double the level of the same quarter in 1949. The large volume of starts and contract awards seems certain to maintain a high level of activity in housing construction for many months to come. Furthermore, increased residential building acts as a stimulus to the construction of stores, schools, churches, roads, and public utilities. Contract awards for all types of nonresidential construction during the first quarter of 1950 were up 30 per cent from a year earlier.

Personal income reached a new record level during the opening months of 1950, but this was largely the result of the dividend payment on National Service Life Insurance. If these accumulated dividends had not been injected into the income stream, the annual rate of personal income payments in both January and February would have been 2 billion dollars lower than in the corresponding months of 1949. Aggregate wage and salary payments have, on the whole, remained fairly stable, but farm income is down sharply from 1949.

Accompanying the rise in personal income has been an increase in both spending and saving. Apparently much of the dividend distribution is not being spent immediately. This has resulted in a sharp rise in the rate of personal saving during the first quarter to the highest level since 1945. On the other hand, the dollar volume of consumers' expenditures reached a new peak in the first quarter, despite somewhat lower retail prices. The veterans' dividends probably contributed to the marked increase in sales at durable goods stores during the first quarter. The demand for automobiles was particularly strong, and sales by dealers in March reached a new record. Sales of furniture and major appliances, which also rose, were undoubtedly stimulated by the large number of new homes being built. Sales of nondurable goods, however, have been lagging and the Easter season was generally below expectations in department and apparel stores.

For a period which otherwise appears so prosperous, with such favorable records for output, sales, and income, the year to date has been characterized by a relatively high level of unemployment. During the first quarter of this year, the number of persons unemployed averaged 4,429,000, or 7 per cent of the total labor force, a higher number and percentage than in any other three-month period since just before the war. This growing volume of unemployment is obviously not the result of declining employment caused by lower business activity. Nonagricultural employment has been well maintained, the decline in such employment from the fourth quarter of 1949 being almost entirely a seasonal change. The

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rise in unemployment results from two principal factors. In the first place, the labor force has been growing steadily at the rate of 700,000 to 1,000,000 persons a year. Second, the enormous postwar investment by business in new capital equipment is beginning to make itself felt in the form of increased productivity. This means that the same volume of goods and services can be produced by a somewhat smaller number of workers, or by the same number working fewer hours. Thus, even if our national production remains at the present high level, unemployment from these two sources will continue to be a problem.

Last fall, it was questioned whether the high levels of business activity predicted for the opening months of 1950 would last beyond midyear. Now, optimistic forecasts have been extended in many cases to cover the third quarter and sometimes the fourth. The interruptions in production caused by the coal and automobile strikes have deferred the depletion of backlogs somewhat longer. According to the recent Survey of Consumer Finances, consumers anticipate a continued high rate of spending during 1950 on houses, automobiles, and other durable goods. These buying plans are backed by the unspent portion of the National Service Life Insurance dividend, by sizable accumulations of other liquid assets, and by a rapidly expanding volume of consumer instalment credit. The demand for housing remains strong, and recently enacted housing legislation will prolong and even add to the existing measures to facilitate financing of new residential construction. The high levels of spending by State and local governments on public works projects and by the Federal Government on programs for foreign economic and military aid, national defense, and farm price support also are likely to continue throughout 1950. In addition, there is the prospect of a sizable budgetary deficit; to the extent that this is financed through the banking system, it will exercise an inflationary influence.

Such developments have contributed to a generally optimistic business outlook, but there are other factors which indicate caution. Some softening of demand has been noticed in nondurable goods lines, particularly textiles. In addition, it seems highly unlikely that the present level of demand for steel and automobiles can continue indefinitely, although the timing and extent of the decline are difficult to estimate. Export markets for many lines of goods have been shrinking, while some other merchandise lines have been facing increased competition from imports. Businessmen have reported that they plan to spend less on new plant and equipment in the second half of this year than they are spending currently, although ordinarily there is a seasonal increase in the second half. Nevertheless, business confidence has been stimulated by the current high rate of activity and the favorable outlook, and in such circumstances a further upward revision in business spending plans is a definite possibility.

WESTERN GERMANY'S PROBLEM OF ECONOMIC ADJUSTMENT

The continuing weakness of Western Germany's international economic situation, which has persisted despite the notable rise in that country's production during the past two years, has focused attention upon the great readjustment problem faced by the Federal Republic. This problem is, of course, attributable in large part to the radical changes that have taken place in Western Germany's economic position as a result of the war. The country has been split in two, and the industrial areas, including the Ruhr, have been largely cut off from their old markets in Eastern Germany and Eastern Europe. For the second time in a quarter century, the national savings have been practically wiped out by war and inflation, while on the other hand there is a crying need for capital with which to finance reconstruction. The population of the western areas, which was 39 million in 1939, has been swollen by some 9 million—mainly displaced persons and refugees from the east—for whom work, food, and shelter must be found.

The difficulties of adjusting the Western German economy to these postwar circumstances have been reflected in rising unemployment. Although employment has remained fairly constant, the number of registered unemployed has more than quadrupled since June 1948, reaching 2 million in February 1950, or about 13 per cent of the labor force. Unemployment is particularly great among administrative, metal, and agricultural workers, whose numbers increased during the war and the period of repressed inflation that ended with the monetary reform of June 1948.[1] About one third of the unemployed are refugees.

Another cause for concern is the movement of Western Germany's international accounts. The country's exports expanded from 225 million dollars in 1947 to nearly 600 million in 1948 and to 1,052 million last year, but its imports grew even more.[2] Thus, the trade deficit rose from 509 million dollars in 1947 to 801 million in 1948 and to 1,071 million last year.

This trade deficit is attributable largely to the low postwar level of exports to non-European areas, and to the necessity for increased imports of food and raw materials from those areas because of the decline of imports from Eastern Germany and Eastern Europe. Whereas the non-European trade deficit of prewar Germany amounted in 1938 to about 100 million dollars, in both 1948 and 1949 the non-European deficit of Western Germany—the part of Germany that today concerns the United States economically—was rather more than one billion dollars, or, allowing for price changes, four to five times the prewar level for the whole of Germany. The lack of balance in Western Germany's trade with the United States has been particularly marked, and signs of improvement are

[1] For a detailed description of the monetary reform legislation see the September 1948 issue of this *Review*.

[2] Foreign trade figures in this article include the French zone of Germany only in the last quarter of 1949; figures for earlier periods include only the British and United States zones, which, however, accounted for all but a small part of Western Germany's trade.

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slight. While Western German imports from the United States were 840 million dollars in 1948 and 763 million last year, exports to this country were only 28 million and 46 million, respectively. Even the slight improvement in trade with the United States in 1949, however, was more than offset by the virtual disappearance of the export surplus with the group of countries covered by the European Recovery Program, which in 1948 had amounted to nearly 200 million dollars, or about one fifth of Western Germany's non-European deficit.

In spite of this discouraging international position, some ground for optimism may be found in the fact that, since the June 1948 monetary reform, Western Germany's large import surplus has facilitated a remarkable expansion of economic activity. The monetary authorities in Germany have played a vital role in achieving this economic revival. While permitting a very considerable increase in the money supply in order that available resources might be more fully utilized, they have shown clear understanding of the fact that a program of monetary expansion was necessarily limited by the desirability of maintaining stable prices. Periods of anxiety about the internal economic position in Western Germany have not been absent, but the record of the eighteen months between the currency reform of June 1948 and the beginning of 1950 indicates that the economy has for the most part avoided both inflation and deflation.

In the first six months after the currency reform, it is true, there was considerable upward pressure on the price level, notwithstanding a rapid rise in production. To counteract this pressure, the Bank Deutscher Laender early in November 1948 instructed banks to hold their aggregate bank credit outstanding to the October 31 volume; it also restricted the rediscounting privileges of the banking system, and on December 1 raised to 15 per cent, from 10 per cent, the legal reserve requirements against demand deposits for banks in localities where there were state central banks. Elsewhere, however, reserve requirements remained unchanged.

These measures, together with the achievement of an over-all surplus in the state and federal government budgets, the revival of savings among high-income groups, and an increase in the import surplus, led to a marked reduction of inflationary pressure during the first half of 1949. The expansion of the money supply consequently slackened considerably, and prices actually declined. On the other hand, the rise of industrial production virtually ceased, raising a question as to whether price stability was not being achieved at the cost of economic recovery.

With the decline of inflationary pressure, however, it proved possible to ease monetary restraints once more. During the spring and summer of 1949 the discount rate of the state central banks was reduced to 4 per cent, after having stood at 5 per cent since the end of June 1948; reserve requirements of commercial, savings, and certain other banks were cut to the legal minimum; and other measures were taken to encourage monetary expansion. These measures were reflected, in the second half of 1949, in an increase in the credit extended to business and other private customers, that was almost double the amount extended during the first half of the year. Industrial production, too, accelerated, reaching in March 1950 a new postwar peak of 100 per cent of 1936 (but, owing to the increase in population, still about a fifth below 1936 on a per capita basis). Prices meanwhile remained relatively stable.

It is by no means clear, however, to what extent requisite basic economic readjustments have been accomplished during this period of rising production and price stability. Actually, much of the additional output seems to have gone into the raising of consumption standards. Total consumption at the end of 1949 reached the target figures for the year ending June 30, 1951, and in the year ending June 30, 1950 is expected to equal the 1936 level (which, per capita, would still be a fifth below the prewar figures).

In the year ended June 30, 1949, almost 24 per cent of the national output of goods and services (the gross national product), estimated at 80 billion Deutsche marks, was devoted to capital investment. For the year ending June 30, 1950, it is estimated that capital investment will absorb 22 per cent of a national output valued at 92.6 billion Deutsche marks.

While no data on the distribution of capital expenditures have been published, some observers in Germany appear to feel that too small a proportion of the available funds has gone into the critical sectors of the economy—into agriculture, to make the country less dependent on food imports; into housing, to provide urgently needed accommodations for workers in regions where jobs are available; and above all, into industries that would expand exports, particularly to overseas areas.

While the authorities in Western Germany have indicated their awareness of the need for more investment in these crucial sectors, they find it difficult to channel funds in the required directions. The bulk of investment in the past two years has been carried on by private firms out of profits, reserves, and depreciation funds, which are not under federal government control. The large degree of financial autonomy granted the states by the basic law adopted last year, moreover, has limited the power of the federal government to influence the flow of capital funds. Even including the counterpart funds which result from the financial assistance granted by the United States, the federal authorities are estimated to have control over no more than 15 per cent of Western Germany's gross investment.

The federal government has shown itself disinclined to secure additional funds through taxation on the basis of which public investment might be expanded. Indeed, the government has recently enacted a measure reducing the income tax, particularly in the upper brackets, on the ground that direct taxation is already so high as to discourage private capital formation.

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Finally, the extent to which such an investment expansion could be facilitated by appropriate monetary policies seems distinctly limited. Particular concern has been voiced by the monetary authorities as to the possible effect of further credit expansion on the economy's already depleted foreign exchange reserves, which were reportedly melting away in the last quarter of 1949 at the rate of 45 million dollars per month.

The government's awareness that the country's vulnerable external position is a damper on much-needed investment has led it to make inquiries as to further foreign financial assistance and to take steps to expand exports. Chancellor Adenauer recently stated that further capital imports would facilitate the government's fight against unemployment, and Vice Chancellor Bluecher is reported to have discussed during his recent visit to this country the problem of relaxing the restrictions on new American private investment.

With regard to exports, the government is attempting to induce various Western European countries to relax their limitations on imports from Germany in accordance with the trade liberalization program of the Office for European Economic Cooperation. The terms of recent trade agreements with the Netherlands and France indicate that some progress is being made in this direction. Moreover, in an effort to expand exports to the United States, the government proposes to establish a "dollar drive office" and to permit exporters to retain for their own use a part of their dollar exchange receipts.

Western Germany is also focusing increasing attention upon the revival of trade with Eastern Germany and Eastern Europe as a means of reducing the need for dollar imports. Although some progress has been made in this direction, the volume of such trade remains far below the goal set in the long-term plan submitted by the Germans to the OEEC. The available statistics indicate that in 1949 imports from Eastern Europe amounted to 108 million dollars, or less than one fifth the target for the year ending June 30, 1953. Exports to Eastern Europe are even farther from the planned figure, having amounted last year to only 59 million dollars in contrast to the 1952-53 target of 530 million. The lag in East-West trade seems to be a reflection partly of current international political tensions and partly of the changes that have been taking place since the war in the economic structure of Eastern Europe. To the extent that these factors prevent reestablishment of the country's traditional economic ties with the East, additional efforts to expand trade in other directions will be called for if the viability of Western Germany is to be achieved.

RETAIL CREDIT SURVEY—1949[1]

The record-breaking expansion of consumer instalment sale credit during 1949 was a major factor in maintaining the over-all national level of consumers' expenditures, despite the decline in business activity during the first half of 1949. Another, and closely-related, factor was the continued growth of automobile sales. In the country as a whole, instalment sale credit outstanding at the end of 1949 was 1.7 billion dollars greater than a year earlier, a rise of nearly two fifths. Automobile sale credit, which increased steadily throughout the year, accounted for approximately two thirds of this expansion. Consumer credit other than automobile sale credit generally declined in the early part of 1949 and rose substantially during the second half of the year, owing both to the changes in general business conditions and to the removal, effective July 1, 1949, of restrictions on consumer credit. Charge accounts, or open book credit, at the end of 1949 showed very little net increase over the beginning of the year. A decline in instalment sale credit for goods other than automobiles during the first half of 1949 was more than offset by a sharp increase in the latter part of the year, which to a certain extent reflected the competitive loosening of credit terms as a promotional device by some dealers.

In the Second Federal Reserve District, much the same trends were apparent as on the national scale. The retail sales picture was dominated by the booming market for automobiles, which very nearly offset the general decline in sales of all the other types of credit-granting retailers. These developments were reported in a recent survey made by the Federal Reserve Bank of New York — a part of the eighth nation-wide survey conducted by the Federal Reserve System covering the nine principal types of credit-granting retail stores. In the Second Federal Reserve District alone, more than 800 stores with 1949 sales totaling approximately 1.6 billion dollars cooperated by submitting reports.[2]

By mid-1949, the automobile industry, with its still unfilled backlog of demand, had come to occupy a unique position in the nation's economy. In July, when output in many lines had fallen far below postwar peaks, the automobile industry was breaking production records of over twenty years' standing. Automobile dealers in the Second District reported that their sales in 1949 were 14 per cent higher than in the previous year, while all the other types of retailers surveyed experienced an average decline in sales of about 6 per cent, or somewhat more than the decline which occurred in retail prices. These eight types of credit-granting stores, other than automobile dealers, tended to follow the sales pattern of recent years in which credit sales have, on the whole, made a more favorable showing than cash sales. Taken as a group, they reported a sizable decline in cash sales, a smaller decline in charge account sales, and a slight gain in instalment sales. Automobile dealers, on the other hand, reported a sizable gain in both cash and instalment sales, but a decline in open credit sales.

As shown in the accompanying chart, the dollar volume of cash sales in the Second District during 1949 was from 6 to 15 per cent below the 1948 dollar volume in every

[1] A reprint of this article, together with additional material, is available on request from the Research Department, Domestic Research Division.

[2] Some preliminary results of this survey were presented in the April 1950 *Monthly Review.*

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Table I
Retail Sales by Type of Credit-Granting Store, Second Federal Reserve District, 1948 and 1949

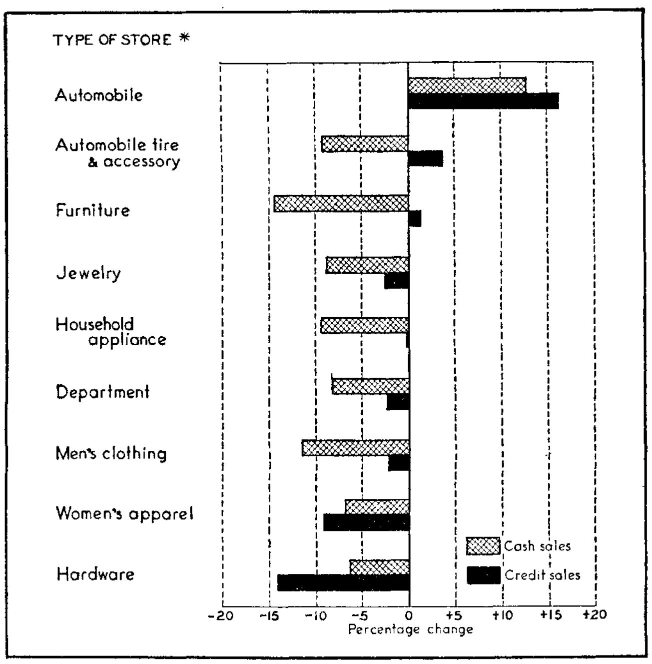
Type of credit-granting store	Number of reporting stores	Percentage change, 1948 to 1949				Per cent of total sales					
		Total sales	Cash sales	Charge account sales	Instalment sales	Cash sales		Charge account sales		Instalment sales	
						1948	1949	1948	1949	1948	1949
Automobile	95	+14	+13	−6	+35	68	67	15	12	17	21
Automobile tire and accessory	28	*	−9	+3	+37	33	30	65	67	2	3
Furniture	115	−2	−15	−5	+3	20	18	15	14	65	68
Jewelry	98	−4	−9	+6	−7	28	27	25	28	47	45
Household appliance	108	−4	−9	−5	+5	45	43	27	27	28	30
Department	96	−6	−8	−4	+3	64	62	27	28	9	10
Men's clothing	52	−7	−12	−4	+21	55	53	41	42	4	5
Women's apparel	105	−8	−7	−9	−13	41	42	57	56	2	2
Hardware	43	−11	−6	−14	−14	39	41	54	52	7	7
All types†	740	−1	−2	−5	+10	54	53	29	28	17	19

* Decline of less than 0.5 per cent.
† Percentages for "all types" of credit-granting stores have been computed from weighted averages, not from arithmetic averages of the reporting sample. Weights were based on the estimated relative share of each type of store in total sales of credit-granting stores.
Source: Compiled by the Federal Reserve Bank of New York from reports of stores cooperating in the Retail Credit Survey.

category except automobile dealers. In this connection, even the increase in "cash" sales by automobile dealers is not too significant, since it probably means that more customers obtained their instalment credit from some other source, such as a commercial bank or finance company, rather than financing the sale through the dealer.

As a result of this general lag in cash sales, total sales of each type of credit-granting store depended to a large extent on the success in promoting credit sales. Nevertheless, except for automobiles, which normally involve one sort of credit or another, only two categories, furniture and automobile tires and accessories, showed an over-all increase in credit sales. In fact, these two types of stores have been characterized by a steady shift from cash to credit sales since 1946. By 1949, furniture stores were selling about 30 per cent less for cash than in 1946, but their credit sales had risen by nearly 40 per cent. In general, the volume of cash sales in the immediate postwar period was abnormally high, particularly for hard-to-get consumers' durable goods, and the subsequent shift to credit sales has reflected a gradual return to the prewar sales pattern.

Cash and Credit Sales at Credit-Granting Retail Stores in the Second Federal Reserve District
(Percentage change, 1948-49)



* Arranged in order of percentage change in total sales, 1948-49, as in Table I.

Household appliance stores, which were among the most active promoters of liberal credit terms following the end of consumer credit regulations, managed to hold their credit sales practically unchanged from the 1948 level in the face of a 9 per cent decline in cash sales and some reduction in prices. Jewelry, department, and men's clothing stores each reported a decline of only about 2 per cent in credit sales, compared with reductions in cash sales of 8 to 12 per cent. The two types of stores—women's apparel and hardware stores—which showed the largest declines in total sales had the best-maintained cash sales volume (except for automobile dealers), but their credit sales declined markedly.

Between the different types of credit, there was a definite shift from charge account to instalment credit, with all types of retailers except auto tire and accessory shops and jewelry stores reporting declines in charge account sales. As noted earlier, the gains in instalment sales at automobile dealers far outstripped the increases at other types of retail outlets. Instalment sales decreased at hardware, women's apparel, and jewelry stores, but only in the last of these are instalment sales an important part of the total, as can be seen in Table I.

With the continued emphasis on credit sales, the volume of accounts receivable held tended to increase in some lines, even though credit sales dropped. This reflected the slowing of repayments and the liberalization of credit terms, and also to some extent the fact that a large share of the credit sales were made in the latter part of the year. The ratio of charge account receivables to charge account sales increased or remained stable, except in the case of jewelry stores. In the case of household appliance, furniture, and jewelry stores,

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Table II
Sales and Inventories by Type of Retail Store, Second Federal Reserve District, 1948 and 1949

Type of credit-granting store	Number of reporting stores	Percentage change 1948 to 1949		Stock-sales ratio†	
		Total sales*	End-of-year inventories#	1948	1949
Automobile	96	+13	− 7	1.1	0.9
Automobile tire and accessory	34	− 2	− 9	2.5	2.3
Furniture	132	− 2	−11	3.9	3.6
Jewelry	98	− 5	+ 2	7.5	8.0
Household appliance	101	− 6	−21	3.2	2.7
Department	111	− 6	− 3	2.3	2.4
Men's clothing	57	− 8	−13	4.3	4.1
Women's apparel	100	− 7	− 8	2.7	2.7
Hardware	41	−10	− 5	4.6	4.8

* These figures may differ slightly from those in Table I, because of differences in the number of stores covered. In each case, the maximum number of usable reports was included.
\# At retail prices.
† Stock-sales ratios are the ratios of end-of-year inventories at retail to the average monthly sales during the year. They represent the number of months' stocks on hand at the current rate of sales.

there was a sharp increase in the volume of instalment receivables held relative to the amount of instalment sales made. Reporting stores in these lines had actively promoted liberal credit sales, and by the end of 1949 they had accumulated instalment paper equal to one half to two thirds of a year's instalment sales. Department stores would undoubtedly have shown a similar increase in instalment receivables had it not been for particularly large sales of instalment paper during 1949 reported by a number of leading stores. Without these transfers of receivables, department stores would have shown an increase in instalment receivables of more than one fourth, instead of a decline of 13 per cent. Household appliance and furniture stores also increased the amount of instalment receivables sold in 1949, and automobile dealers as usual sold virtually all the instalment paper arising from their sales.

Most Second District retailers reduced their inventories during 1949, primarily because of declining sales. Only jewelry stores reported an over-all increase in stocks, and this was more characteristic of some large stores than of the smaller ones. At department stores, where cautious inventory policies had already prevailed during 1948, stocks declined during 1949 but not as much proportionately as sales. In most other lines, however, stocks were cut more sharply than sales; cuts were particularly sharp at household appliance, furniture, and men's clothing stores. The lower dollar volume of inventories held by automobile dealers may reflect the continued pressure of demand and increased output of lower-priced models, rather than a deliberate paring of inventories. Stock-sales ratios were not reduced as generally as might have been expected in a year of widespread inventory curtailment. As usual, there were some extreme contrasts, with automobile dealers holding less than one month's sales at the average 1949 rate, and jewelry stores holding an eight-month stock.

DEPARTMENT STORE TRADE

Preliminary information indicates that the dollar volume of sales at Second District department stores during April was the lowest for that month since 1946, when inventory shortages precluded any extensive consumer buying. Sales were affected by unseasonable spring weather and by the early date of Easter, which shifted much of the pre-Easter buying into the latter half of March, and the month's total of sales was further reduced by the fact that there was one less shopping day this year. April dollar volume is estimated to have been from 8 to 10 per cent below that of April 1949.

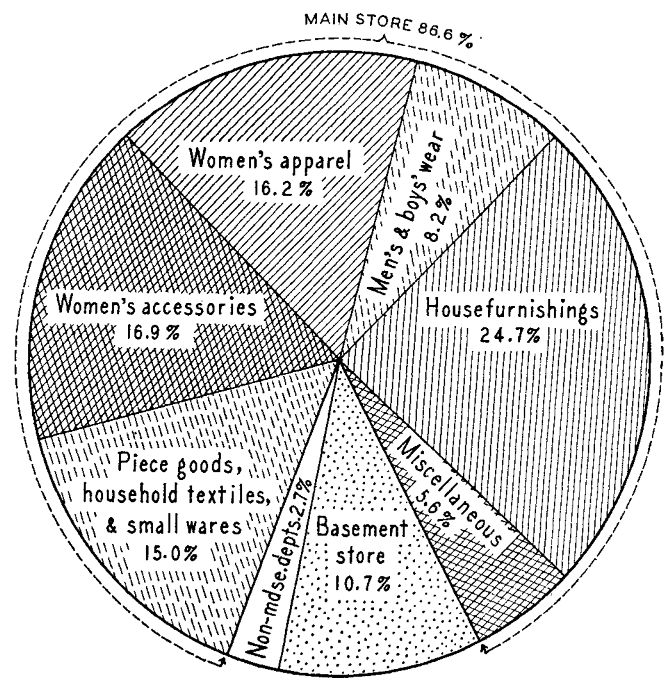
On an average daily basis, the dollar volume of sales for the first four months of this year is estimated to have been about 5 per cent lower than that of the corresponding period a year ago.

Departmental Distribution of 1949 Sales

In 1949 basement store sales in Second District department stores showed a smaller year-to-year decline than did main store sales and hence, for the third consecutive year, they accounted for an increased proportion of total sales. Although dollar sales volume increased in only one basement department (domestics and blankets), the declines from 1948 sales levels in the remaining basement departments were, in general, of smaller magnitude than those in the corresponding departments of the upstairs store.

In the main store the most substantial year-to-year advance was made in the radio, phonograph, and television department. Stimulated by continuous technical improvements, by competitive price reductions, and by easier credit terms, sales of

Percentage Distribution of Department Store Sales by Major Departmental Classifications in 1949, Second Federal Reserve District*



* For a representative group of stores whose 1949 sales were three quarters of the estimated Second District total. Period covered is the fiscal year 1949 (February 1949 through January 1950).

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Changes in the Distribution of Department Store Sales by Major Departmental Classifications in 1948 and 1949, Second Federal Reserve District*

Group	Percentage of total store sales		Percentage change in sales
	1948	1949	1948 to 1949
Total store	100.0	100.0	− 7
Main store	*87.0*	*86.6*	*− 8*
Women's accessories	16.7	16.9	− 6
Women's apparel	16.6	16.2	−10
Men's and boys' wear	8.1	8.2	− 6
Housefurnishings	24.9	24.7	− 8
All other	20.7	20.6	− 8
Basement store	*10.4*	*10.7*	*− 4*
Women's wear	5.7	5.8	− 6
Men's and boys' wear	1.7	1.8	− 2
All other	3.0	3.1	− 2
Nonmerchandise	*2.6*	*2.7*	*− 4*

* For a representative sample of stores; see chart. Periods covered are fiscal years ended January 31, 1949 and January 31, 1950, respectively. A detailed distribution by individual departments is available upon request from the Research Department, Domestic Research Division.

television sets raised the total for this group of durables 16 per cent above the 1948 level.

Housefurnishings sales improved somewhat during the second half of the year, owing in part to lower prices and easier credit terms. Full-year comparisons place furniture and bedding sales down 7 per cent, rugs and carpets off 13 per cent, and major household appliances 30 per cent below the previous year.

As the chart shows, roughly one of every three dollars that customers spend in the District's department stores buys some item of women's wear. However, the selling strength of this merchandise as a customer lure determines, to an even greater extent, the success of over-all department store operations. The comparative weakness of women's wear sales during 1949 thus goes far to explain the relatively disappointing year experienced by Second District stores. Affected by the absence of any important style changes and to some extent by lower prices, the dollar volume of women's apparel sales fell 10 per cent below that of the previous year. The only year-to-year improvement in the apparel group was a 4 per cent gain, dollarwise, in sales of women's suits.

Women's accessories, off 6 per cent, fared better than the

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

Item	1949	1950		
	March	Jan.	Feb.	March
Sales (average daily), unadjusted	210*r*	183	183*r*	209
Sales (average daily), seasonally adjusted*	223*r*	229	220*r*	217
Stocks, unadjusted	240*r*	200	217	237
Stocks, seasonally adjusted	234*r*	227	224	231

r Revised.
* Seasonal adjustment factors for 1946-49 revised; available upon request from the Research Department, Domestic Research Division.

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

Locality	Net sales		Stocks on hand Mar. 31, 1950
	March 1950	Jan. through March 1950	
Department stores, Second District	0	− 4	− 1
New York City	− 1	− 4	− 2
Northern New Jersey	+ 4	− 1	+ 2
Newark	+ 3	− 3	+ 3
Westchester County	0	− 4	+ 7
Fairfield County	+ 4	− 3	− 2
Bridgeport	+ 4	− 2	− 3
Lower Hudson River Valley	+ 5	− 4	− 1
Poughkeepsie	+ 6	− 6	0
Upper Hudson River Valley	− 3	− 8	− 2
Albany	− 9	−13	− 9
Schenectady	− 1	− 8	+ 3
Central New York State	+ 3	− 1	+ 2
Mohawk River Valley	+ 3	− 1	+ 6
Utica	+ 1	− 1	+10
Syracuse	+ 2	− 1	0
Northern New York State	+ 1	− 4	0
Southern New York State	− 5	− 8	− 5
Binghamton	− 8	−10	− 7
Elmira	+ 1	− 4	− 9
Western New York State	0	− 3	+ 2
Buffalo	0	− 3	+ 1
Niagara Falls	+ 5	0	− 3
Rochester	0	− 3	+ 5
Apparel stores (chiefly New York City)	− 3	− 7	− 4

apparel lines. Dollar sales of millinery were 2 per cent above and handbags only 2 per cent below 1948, suggesting that women shoppers in this District had, to some extent, supplemented old apparel with new hats and handbags.

Indexes of Business

Index	1949	1950		
	March	Jan.	Feb.	March
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	184	183	181	186*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	256	276	277	280*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	163	152	141*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	333*r*	337*r*	344	342*p*
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	145	140	140	141*p*
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	118*p*	113*p*	115*p*	115*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	333	329	330*p*	334*e*
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	279*p*	270*p*	275*p*	275*p*
Personal income*, 1935-39 = 100 (*Department of Commerce*)	306	318	319*p*	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	199	204	204*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	170	167	167	167
Velocity of demand deposits*#, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	95	96	106	103
Outside New York City	88	87	88	88

* Adjusted for seasonal variation. *p* Preliminary. *r* Revised.
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.
\# Seasonal adjustment factors for 1946-49 revised; available upon request from the Research Department, Financial Statistics Division.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

INDUSTRIAL output in March increased considerably and in April was at or slightly above the March rate. Residential construction expanded further and consumer demand for automobiles and housefurnishings continued strong.

Prices of some leading industrial materials advanced from March to April, while wholesale prices of livestock and products declined seasonally and prices of most finished products continued to show little change. Common stock prices advanced further to the level of mid-August 1946. First quarter reports of a number of major companies showed a marked rise in net earnings.

Industrial Production

The Board's production index advanced 5 points in March to 186 per cent of the 1935-39 average as coal mining was resumed and output of most durable goods increased. In April, activity in durable goods industries has expanded further, but declines are indicated in output of some nondurable goods and minerals.

Output of steel reached capacity levels in mid-April and for the month was about 11 per cent higher than in February and March and about the same rate as at the peak in March 1949. Activity in most steel consuming lines has also expanded further in recent months but, with the major exceptions of construction and household appliances, is still below earlier peak levels. Exports of steel this year have been at a considerably lower rate than last year.

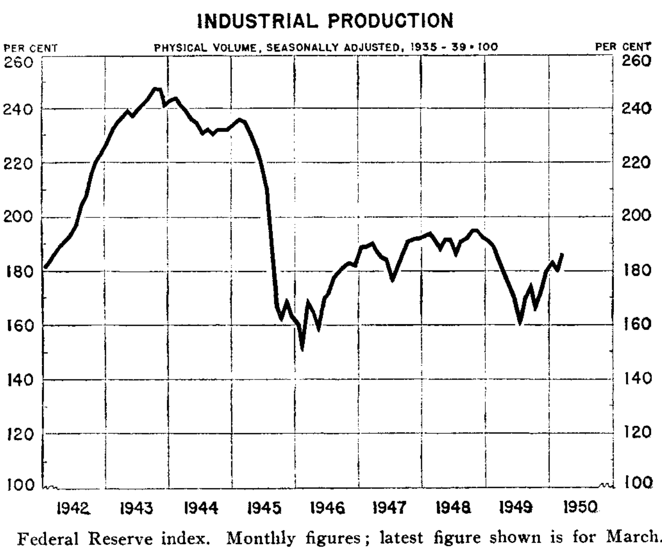
Refinery output of nonferrous metals, which showed no expansion during the second half of last year, owing in part to industrial disputes, has risen substantially since December. Demands from the building industry and most consumer durable goods industries have continued to increase and large purchases have been made for Government stockpiling. Refinery stocks of nonferrous metals have been reduced further while stocks in consuming industries have increased.

Output of nondurable goods in March continued at advanced levels, despite small decreases in textile industries. In April, activity at textile mills has apparently declined further reflecting mainly the reduced levels this year of apparel sales and exports of textile products. Output of most other nondurable goods has been maintained. Activity in the rubber products industry has advanced to the highest level since late 1948 owing in part to the high rate of automobile producion.

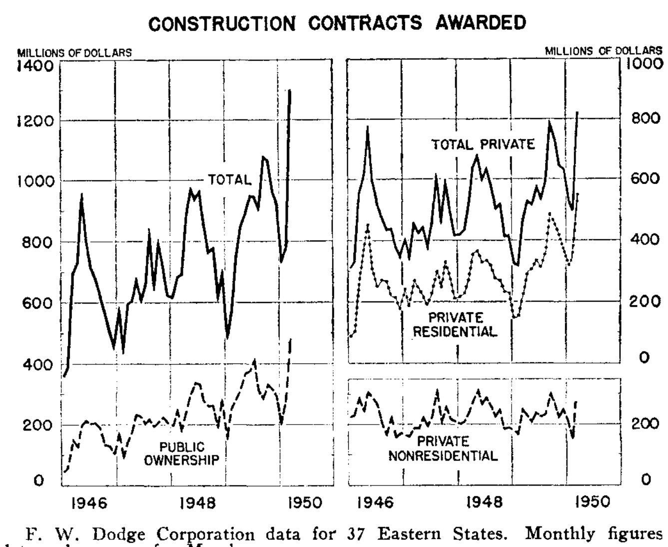
Distribution

Value of department store sales remained somewhat below year-ago levels in March and the first half of April, owing to the reduced volume af apparel sales. Seasonally adjusted sales of housefurnishings, while down somewhat from the exceptionally high level reached in January and February, were still substantially above year-ago levels.

Automobile dealers' sales have been at record levels in spite of the work stoppage at plants of a major producer. Reflecting easier credit terms as well as the relatively high level of durable goods sales, the volume of instalment credit outstanding has expanded more rapidly than during the same period a year ago.



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



F. W. Dodge Corporation data for 37 Eastern States. Monthly figures; latest shown are for March.

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Commodity Prices

The general wholesale price level continued to show little change from the middle of March to the third week of April. Prices of livestock and products declined somewhat reflecting mainly seasonal increases in supplies, while prices of grains rose owing partly to reduced crop prospects. Curtailed demand for certain nondurable goods led to some price reductions. On the other hand, marked increases in demand for materials, largely in the durable goods and construction industries, contributed to advances in nonferrous metals, steel scrap, and building materials. Natural rubber prices rose considerably further to a point more than 50 per cent above last autumn's level.

Consumers' prices rose 0.3 per cent in March reflecting mainly a small advance in retail food prices to the January level.

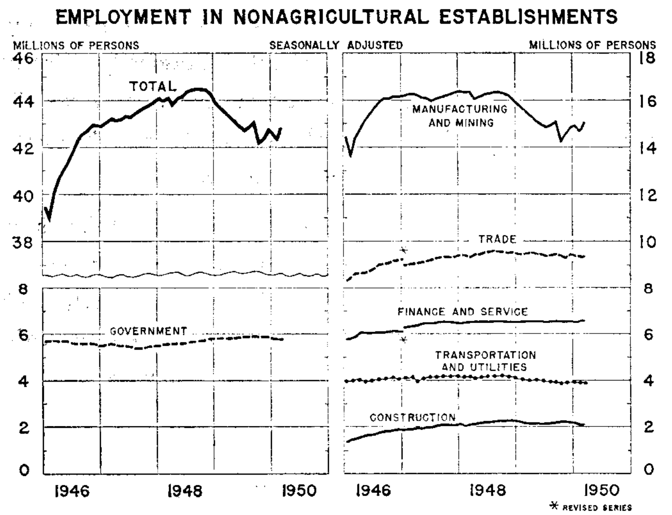
Bank Credit

Treasury deposits at the Reserve Banks, which had increased in the last half of March, were drawn down during the first three weeks of April. A part of the reserve funds thus supplied to banks was absorbed by Federal Reserve sales of Government securities.

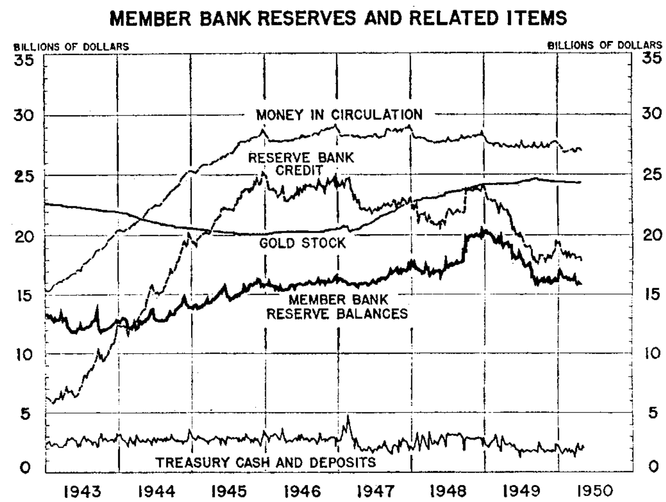
At banks in leading cities, business loans declined somewhat in March and the first half of April but the reduction continued to be less than seasonal and much less than last year. Loans to real estate owners, consumers, and security dealers increased moderately, and holdings of municipal and corporate securities rose further. Holdings of Government securities were reduced, reflecting largely sales of bills and certificates.

Security Markets

Common stock prices rose in the first three weeks of April in increasingly active markets to the highest levels since 1946. Further moderate increases in yields of long-term Treasury bonds narrowed further the spread between these yields and those of high-grade corporates.



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



Wednesday figures; latest shown are for April 19.

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