

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 32

JUNE 1950

No. 6

MONEY MARKET IN MAY

Absence of any large drains on bank reserves, substantial net Treasury disbursements in the market, and the fortuitous circumstance of an exceptionally large increase in float during the firemen's strike on some railroads caused somewhat easier money market conditions in May. To these circumstances was added the effect of the Treasury's announcement of May 4 that it would refund the two issues of 1¼ per cent certificates of indebtedness maturing June 1 and July 1 with issues of 13-month 1¼ per cent notes maturing July 1 and August 1, 1951, respectively. This announcement was interpreted in the market as precluding any further rise in interest rates on short-term Treasury securities for the time being.

GOVERNMENT SECURITY MARKET

These developments were reflected in the Government security market. The easier money market enabled commercial banks to make substantial purchases of Treasury bills, while the announcement of the Treasury refunding terms stimulated bank demand for eligible Government bonds. Disappointed in their hopes of obtaining a higher rate of return on the securities to be issued in the forthcoming refunding operations, a number of investors apparently made their own exchanges in the market in advance of the refundings. Some commercial banks sold the June and July issues of certificates and purchased long maturity notes and medium and longer-term eligible bonds. The two longest-term taxable bond issues in the bank-eligible category, the September 2¼'s of 1956-59 and the September 2½'s of 1967-72, rose 9/32's and 8/32's, respectively, in the first few days following the Treasury's announcement. The rise in medium or longer-term partially tax-exempt bonds was even larger than in the taxable issues. Part of the advance was subsequently lost.

The effects of the Treasury announcement extended in lesser degree to the market for long-term restricted bonds. A temporary rise in the demand for such issues firmed the prices of the Victory bonds near the middle of the month, after they had receded about 6/32's from the end of April. The approach of the Victory bonds toward a price of 101½, which some investors apparently have considered a strong resistance point, also tended to strengthen the demand for restricted bonds. Furthermore, growing doubt among investors as to the prospect

for early issuance by the Treasury of long-term securities in financing the Government deficit tended to add strength to the entire Government bond market.

Buying of restricted bonds widened during the past month. Included among the types of investors making purchases were casualty and fire insurance companies and pension funds, as well as the most active buyers, savings banks, which bought considerable amounts of ineligible issues, mainly with the proceeds of sales of eligible bonds. Selling of restricted bonds was rather light during most of the month. The Federal Reserve System, therefore, continued to be a major source of such bonds. The savings banks and a few insurance companies were the principal suppliers of the unrestricted or eligible bonds purchased by the commercial banks.

Demand for Treasury bills increased markedly with the easing of the money market. Nonbank investors continued to be important buyers of Treasury bills, as in other recent months. In part, their purchases reflected the temporary investment of the proceeds of sales of new corporate security issues. The pick-up in demand, however, was the result chiefly of increased commercial bank investment of funds obtained from net Government disbursements and other sources.

The Treasury's refunding announcement resulted in cross currents in the market for Treasury certificates and notes. Selling pressure shifted from the longest notes to the certificates maturing in June and July as the banks moved into the note issues maturing in 1954 and 1955 in order to increase their income from Government security holdings. Outstanding

CONTENTS

Money Market in May.....	61
Instalment Lending by Second District Member Banks.....	63
The French Recovery.....	65
Recent Changes in Personal Savings.....	68
Department Store Trade.....	71

Treasury notes maturing in July 1951 were also subject to some selling by banks desirous of avoiding an undue concentration of holdings on this date, inasmuch as two note issues with July 1951 maturity dates were outstanding prior to the refunding announcement.

MEMBER BANK RESERVE POSITIONS

Member bank reserve positions turned easy in the first half of May. Government expenditures exceeded receipts by a wide margin, reducing the Treasury's balance with the Reserve Banks from about 835 million dollars on April 26 to about 425 million on May 17, despite withdrawals from Tax and Loan accounts with the commercial banks amounting to 685 million dollars. Thus, on balance, Treasury transactions made more than 400 million dollars of reserves available to the banks in the three weeks ended May 17. An unusually large expansion of Federal Reserve "float" furnished the member banks with another 225 million dollars of reserve funds around the middle of the month. For the most part, this increase in outstanding float was related to the short railroad strike, which delayed check collections by the Reserve Banks while the member banks received credit from the Reserve Banks according to schedule for checks presented for collection just before and on the first days of the strike. Thus, member bank reserves were increased in the three weeks ended May 17 even though transactions absorbing bank funds were sizable. Such transactions, particularly an increase in currency in circulation and net receipts into foreign central bank accounts with the Reserve Banks, were concentrated in the first week of the month, and in that week member banks made substantial repayments of borrowings from the Reserve Banks. Consequently, the money market was somewhat less easy early in the month than in the two weeks ended May 17. Over the entire period, however, the member banks were able to pay back about 140 million dollars of their loans from the Reserve Banks and to expand their excess reserves by 210 million dollars. Reserve System holdings of Treasury bills declined 100 million dollars, and holdings of Treasury bonds by 293 million, while the System purchased (net) 135 million of notes. System holdings of certificates remained practically unchanged.

The money market was only slightly firmer in the latter half of the month, despite the contraction of the abnormally large Federal Reserve "float" after the settlement of the railroad strike. Offsetting transactions tending to provide the banks with reserve funds, including a reduction in the amount of currency in circulation to a new low level since July 1945 and net foreign disbursements in the week ended May 24, moderated the net losses of reserve funds. The banks met these losses in part by drawing upon their excess reserves, so that their demands for Federal Reserve credit were modest until the closing days of the month, when a seasonal rise in the demand for currency occurred.

The New York City banks did not, at first, share the benefit of the increased supply of reserve funds. A large part of the losses of funds due to net receipts in foreign accounts with

the Reserve Banks in the first part of the month were localized in New York City, and, while Treasury disbursements in the country as a whole exceeded receipts in the week ended May 3, in New York City the situation was just the reverse. The Treasury withdrew more funds from the New York money market than it spent there, owing chiefly to the fact that the City banks absorbed a large part of the additional Treasury bills issued in that week.

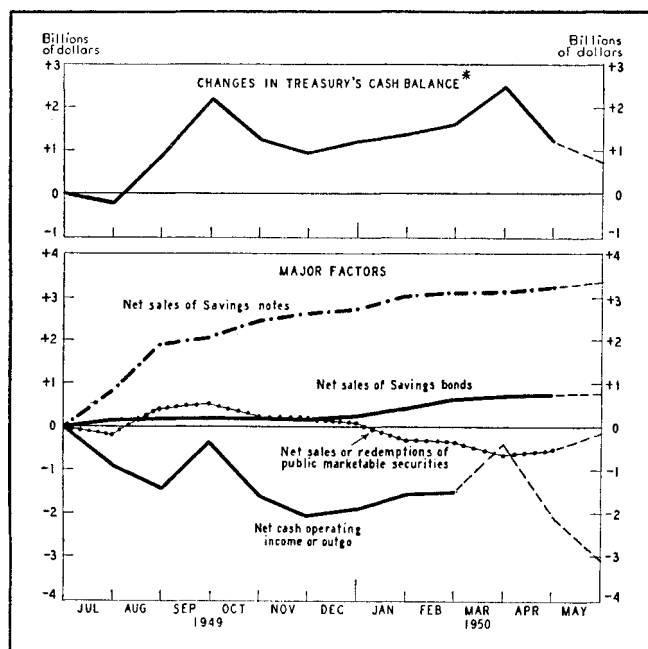
The New York money market eased noticeably, however, in the next two weeks (ended May 17) as the transfer of funds from other parts of the country increased, reflecting in large part the country-wide expansion in "float". Banks in other parts of the country accumulated funds in New York City with the proceeds of checks on City banks which they had forwarded for collection prior to the strike period. Interbank deposits of the weekly reporting New York City banks increased 105 million dollars in the week ended May 17. As a result, the City banks gained substantial amounts of reserves in the two weeks ended May 17, enabling them to repay their borrowings from the Reserve Bank, buy short-term Treasury securities, and add to their excess reserves.

The contraction of the "float" in the second half of the month reversed the flow of banking funds to New York, and out-of-town banks drew down their deposits with their New York correspondents. Substantial transfers of business and financial funds to the City, however, offset the loss of interbank deposits. In the absence of any pronounced movement of funds in the New York money market during the week ended May 24, large purchases of Treasury issues by the banks were paid for mainly by drawing upon their excess reserves. Money market conditions firmed in the last week of the month, as losses of reserves resulting from an outflow of funds to other parts of the country, and from moderate net Treasury receipts, compelled the City banks to seek Federal Reserve credit in adjustment of their reserve positions.

TREASURY OPERATIONS

Although member bank reserves were bolstered during the past month by net payments out of Treasury balances with the Reserve Banks, Government disbursements have been smaller than the latest budgetary estimates would indicate. The net cash operating outgo through May for the fiscal year beginning July 1, 1949, is estimated at 3.1 billion dollars, as shown in the accompanying chart. The Treasury has had to finance not only its operating deficit but also redemptions of marketable securities, representing the portions of maturing or called Treasury obligations which were not exchanged for refunding issues. Although the redemptions were fairly sizable at different periods of the fiscal year, the net reduction in the marketable debt for the first eleven months is estimated to amount to only 110 million dollars. This small reduction reflects the fact that the Treasury raised 1.5 billion dollars in new money through the sale of additional Treasury bills—800 million dollars in August and September 1949 and 700 million in April and May 1950.

**Major Factors Affecting the Treasury's Cash Balance,
July 1, 1949-May 31, 1950**
(Cumulated from June 30, 1949)



* Including minor transactions not shown below.

Source: *Daily Statement of the United States Treasury*; all data for May 1950, and March and April 1950 for net cash operating income or outgo, estimated by the Federal Reserve Bank of New York.

The substantial cash needs of the Treasury stemming from a large current operating outgo, net redemptions of public marketable securities, and other transactions (not shown in the chart) such as net redemptions of depositary bonds, postal savings bonds, and the obligations of Government corporations, were met through heavy net sales of Treasury Savings notes (3.4 billion dollars) and lesser net sales of Savings bonds (800 million dollars).

Sales of Savings notes were particularly large in July and August 1949 because of the higher rate of return on such securities than the yields obtainable at that time on Treasury securities maturing in one to three years traded in the open market. Net sales of Savings notes have since diminished markedly as the interest differential in favor of Savings notes gradually narrowed with the increase in rates on short-term marketable Treasury securities. If, as seems likely, sales of Savings notes in the coming fiscal year return to more normal levels, the Treasury will have to finance the larger deficit budgeted for the fiscal year 1951 through the issuance of other types of securities.

As the Treasury's receipts from net sales of Savings bonds and notes during the first eleven months of fiscal 1950 exceeded its cash operating deficit and other cash requirements, the balance in its cash fund rose about 700 million dollars in this period to an estimated 2.9 billion on May 31, as shown in the chart. In view of the fact that June is a quarterly tax month, cash operating receipts are likely to exceed expenditures by a narrow margin, and the Treasury's cash balance is therefore not likely to change materially from the level at the end of May.

**INSTALMENT LENDING BY
SECOND DISTRICT MEMBER BANKS**

Commercial bank instalment lending during the postwar period has been a growing adjunct to the record volume of credit granted by retail stores and other lenders. Commercial banks have steadily entered the instalment loan field since the early 1930's and are now the largest source of such loans; their holdings (including paper purchased from others) currently account for approximately two fifths of instalment credit in the country as a whole. In the Second Federal Reserve District, member bank instalment loans to individuals have increased approximately 760 per cent, from the war-depressed low of 95 million dollars in June 1944 to 813 million at the end of 1949. The growth of instalment loans in member banks of this District has been paralleled by that in member banks in the country as a whole, whether it is gauged by the proportionate increase in actual dollar volume or by the increase in the ratio of instalment loans to total income payments to individuals.¹

Within the Second District, the increases in instalment loans have been widely distributed among all size-classes of banks. Table I shows the outstanding balances for the four classes of instalment loans at the end of 1949 in the different size-groups of banks, and the dollar and per cent changes since the close of 1946, when these loans were last analyzed in this *Review*.² This three-year period began soon after the Board of Governors of the Federal Reserve System granted initial relief from wartime restraints on December 1, 1946 and continued six months beyond the regulation's final expiration. At the end of 1949, the largest single component of consumer instalment loans was 235 million dollars of retail instalment paper other than for automobiles. This contrasts with the situation in the remainder of the country, where the largest segment of member banks' instalment loans consists of automobile paper. Personal instalment cash loans, at 219 million dollars, were the next largest component in this District, while repair and modernization loans amounted to 186 million, and automobile loans had the smallest total, 162 million. The greatest percentage increase during the 1946-49 period, however, occurred in automobile paper. This increase was bolstered by the especially large gains in the holdings of a few New York City banks, which have charged relatively low rates on personal loans. The rates which these banks are currently reported to be charging are 3.33 per cent per annum discount on loans secured by collateral, and 3.83 per cent discount on unsecured loans. Holdings of other retail instalment paper showed the second largest percentage gain of any type of paper and accounted for the largest absolute dollar rise. Outside New York City, percentage gains of the District banks in retail instalment paper other than automobile

¹ To obtain a regional relationship, figures on income payments to individuals (prepared by the U. S. Department of Commerce by States and regions) were used instead of the more usual disposable income figures, which are available only on a nationwide basis.

² See *Monthly Review of Credit and Business Conditions*, June 1947, pp. 58-9.

Table I
Instalment Loans in Various Size-Groups of Second District Member Banks* on December 31, 1949
and the Dollar and Percentage Increases since 1946
(Dollar amounts in millions)

Size of bank as measured by total deposits on December 31, 1949	Retail auto instalment paper†			Other retail instalment paper†			Repair and modernization instalment loans			Personal instalment cash loans		
	Balance 12-31-49	Increase since 12-31-46		Balance 12-31-49	Increase since 12-31-46		Balance 12-31-49	Increase since 12-31-46		Balance 12-31-49	Increase since 12-31-46	
		Dollar	Per cent		Dollar	Per cent		Dollar	Per cent		Dollar	Per cent
Central reserve New York City banks. (25 banks)	\$ 50.0	\$ 44.7	841	\$127.4	\$ 90.0	241	\$ 89.6	\$ 69.6	347	\$ 96.7	\$ 31.9	49
Other Second District member banks												
Under \$2 million. (150 banks)	3.7	3.0	376	1.1	0.8	265	0.8	0.6	264	2.6	1.5	132
\$2 to \$5 million. (234 banks)	12.7	8.9	239	4.6	3.8	421	6.4	3.7	135	12.8	5.4	74
\$5 to \$20 million. (267 banks)	42.5	33.1	352	19.7	16.1	448	36.2	20.1	125	41.6	16.9	69
\$20 million and over. (83 banks)	53.4	37.9	244	82.2	67.7	465	53.3	31.7	147	64.9	32.7	101
Total Second District. (759 banks)	\$162.3	\$127.6	367	\$235.0	\$178.4	315	\$186.3	\$125.7	207	\$218.6	\$ 88.4	68

* Identical member banks were used in 1946 and 1949. Banks admitted to or withdrawing from membership between these years were omitted, while the participants in mergers or consolidations were grouped according to the size classification on December 31, 1949.

† Includes both direct loans and purchased paper.

varied directly with the size of the bank, and no doubt this reflects the fact that such paper, which is mostly purchased, originates in the larger communities, served by the larger banks. The gains in other types of instalment paper showed no particular relationship to the size of the bank.

The growth of instalment lending by the Second District member banks may also be measured by the changes during the past decade in the proportionate number of banks holding various amounts of such loans. In 1940, only 26 per cent of the member banks operating in this District had instalment loan paper totaling \$100,000 or more, whereas on December 31, 1949, 60 per cent of the member banks held amounts of this magnitude. In fact, within this latter group were 106 banks which held instalment paper totaling \$1,000,000 or more. At the other extreme, the proportion of the Second District member banks having no instalment paper of any kind was reduced from 153 banks, or 21 per cent of the District membership in 1940, to only 22 banks, or 3 per cent of all members, at the end of 1949.

Table II measures the importance of the volume of instalment loans relative to the total loan portfolios of the different-sized member banks at the end of 1946 and 1949. In all groups of banks the steady increase in consumer instalment loans has sharply outstripped the growth in other types of loans. In the central reserve New York City banks (and in the totals for the entire Second District, in which the City banks weigh heavily), instalment loans, even though sizable, were far overshadowed by the high volume of commercial loans and security loans, and at the end of 1949, consequently, still equaled only 4.7 per cent and 7.7 per cent of total loans in the City and District, respectively. In the Second District outside New York City, however, the proportion at the end of 1949 accounted for a much more important segment of the total loan portfolio, ranging from 11.9 per cent in the smallest banks to 17.9 per cent in the 5 to 20 million dollar deposit group. This compares with a range of 6.5 per cent to 10.6 per cent between similar groups at the close of 1946.

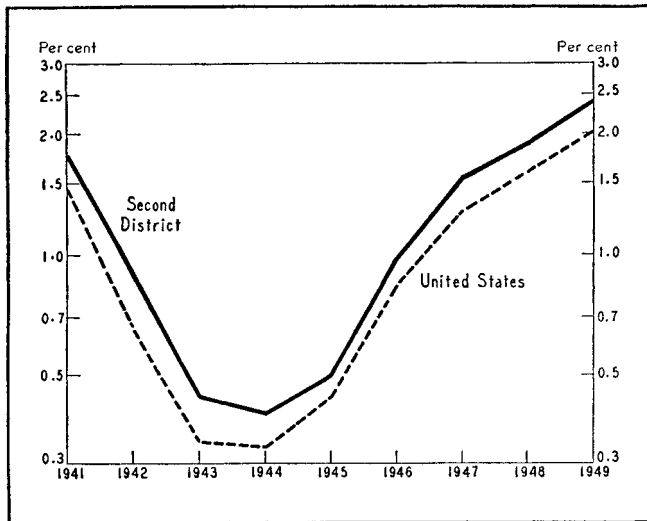
Table II
Instalment Loans as a Percentage of Total Loans in Various Different Size-Groups of
Second District Member Banks* at the close of 1946 and 1949

Size of bank as measured by total deposits on December 31, 1949	Retail auto instalment paper†		Other retail instalment paper†		Repair and modernization instalment loans		Personal instalment cash loans		Total instalment loans	
	1946	1949	1946	1949	1946	1949	1946	1949	1946	1949
Central reserve New York City banks. (25 banks)	0.1	0.6	0.6	1.6	0.3	1.2	1.0	1.3	2.0	4.7
Other Second District member banks										
Under \$2 million. (150 banks)	2.1	5.4	0.8	1.5	0.6	1.2	3.0	3.8	6.5	11.9
\$2 to \$5 million. (234 banks)	2.5	5.0	0.6	1.8	1.8	2.6	4.8	5.0	9.7	14.4
\$5 to \$20 million. (267 banks)	1.9	5.5	0.7	2.5	3.2	4.6	4.8	5.3	10.6	17.9
\$20 million and over. (83 banks)	1.4	3.3	1.3	5.1	1.9	3.3	2.9	4.1	7.5	15.8
Total Second District. (759 banks)	0.4	1.5	0.7	2.3	0.8	1.8	1.6	2.1	3.5	7.7

* Identical member banks were used in 1946 and 1949. Banks admitted to or withdrawing from membership between these years were omitted, while the participants in mergers or consolidations were grouped according to the size classification on December 31, 1949.

† Includes both direct loans and purchased paper.

Relation of Instalment Loans of Member Banks to Total Income Payments to Individuals in the Second District and in the United States*



* Plotted on ratio scale to show proportionate changes.

Source: Instalment loans, Member Bank Call Reports. Total income payments: United States, U. S. Department of Commerce; Second District, estimated by the Federal Reserve Bank of New York.

Among the individual Federal Reserve Districts, the greatest percentage gains since the wartime lows have occurred in the instalment loans of member banks in the South, Southwest, and Far West, namely, in the Districts of St. Louis, Atlanta, Dallas, and San Francisco. The smallest gains, on the other hand, have occurred in the Minneapolis, Boston, Cleveland, and Philadelphia Districts. These variations may, in part, measure district differences in the growth of member bank participation in the consumer credit field and, in part, district changes in population, per capita incomes, and borrowing capacity.

The accompanying chart traces the ratio of instalment loans to total income payments to individuals from 1941 to date, in both the Second District and the entire United States. From the prewar peak (1941), in both the District and the nation, the ratio declined until 1944; during this period most durable goods were being channeled away from the civilian economy. Since 1944, the ratio has risen uninterruptedly to the year-end high shown on the chart, and sample monthly data through April 1950 indicate that the rise is still continuing. Throughout the entire period covered in the chart, additions to individual incomes by the use of instalment borrowing from member banks have been somewhat greater in the New York District than in the country as a whole. This may reflect a variety of factors, such as greater participation by Second District member banks in the instalment loan field, the inclusion of a greater proportion of the smaller commercial banks as members in the Second District, and larger per capita incomes and borrowing capacity in this area. It must be emphasized, however, that the current all-time high for the ratio applies only to the instalment lending activities of commercial banks and reflects primarily the fact that their participation in the consumer

credit field has grown more rapidly than that of other lenders. The total of outstanding instalment credit relative to total income payments for all types of lenders in the United States is still below prewar relationships; at the end of 1949 it was 5.3 per cent, as contrasted with 6.4 per cent in 1941.

THE FRENCH RECOVERY

Since early 1949 France has made steady progress toward internal economic stability and a balanced over-all international position. Two good agricultural seasons, coupled with a sustained high level of industrial output, have greatly improved the domestic supply situation. Prewar consumption standards have been largely although not yet entirely restored, while new investment is currently running at a record level. Despite continued growth of the money supply, and the internal stresses imposed by increasing obligations for the defense of Indo-China, the inflationary spiral of prices has been halted, at least for the time being, and signs of a buyer's market have appeared in parts of the economy. This internal stabilization has been achieved without a perpetuation of direct government controls over personal consumption and industrial materials. In the international field, however, while achieving a surplus in sterling and other nondollar trade, France has thus far failed to improve markedly its dollar deficit. Whether the accomplishments to date, attained under conditions of great political and social strain, can be maintained, and gradually consolidated and expanded, seems at the present juncture the crucial test of France's economic and financial policies.

Since 1946, French industrial production has risen by almost one half, agricultural output by about one fourth. The industrial production index, which excludes building and is based on 1938 as 100, averaged 111 in 1948 and 122 in 1949, thus almost reaching the 1929 all-time record of 125. Last year's agricultural output, however, was still about 10 per cent lower than in 1938, which was not a particularly good year. The post-war rise in production has been achieved by an increase in the labor force, by lengthening the working week, and by a rise in labor productivity. In 1946 productivity, as measured by output per manhour, was 25 per cent below prewar; it is now back at the prewar level.

The total supply of goods, including imports, consequently now exceeds somewhat the prewar level. However, the rise in industrial production primarily reflects record or near-record output in coal, steel, electric power, and petroleum refining, while the rise in output of consumer goods has been relatively moderate. Because of this and the slow recovery in agriculture, and the rise in population, prewar consumption standards do not appear to have been fully restored.

On the other hand, an extensive modernization and re-equipment plan has been carried out since 1947. France is currently devoting about one fifth of its national product to investment (as against 16 per cent in 1938). The volume of new invest-

ment in fixed capital (buildings, public works, equipment), after allowing for price changes, was about two-fifths higher last year than before the war. In implementing its modernization and re-equipment plan, France has endeavored not only to repair its war damage but also to increase the productive capacity of its economy through investment in the key industries—coal, steel, electric power, transport, agricultural machinery, fertilizer, etc. Special attention has also been given to agriculture, and to economic development in France's overseas territories.

The maintenance of a high rate of investment, although highly desirable from a long-run viewpoint, proved inflationary in a war-devastated economy with a weakened financial system in the early postwar years. The attempts of the population to increase its consumption amidst persistent shortages further aggravated the upward pressure on prices. From 1945 to 1948 wholesale prices rose steeply year by year—71 per cent in 1945, 80 per cent in 1946, 45 per cent in 1947, and 62 per cent in 1948. Under the pressure of these increases, general wage advances of 50 per cent were decreed by the wage control authorities in August 1944, 40 per cent in March 1945, 30 per cent in June 1946, 60 per cent in the course of 1947, and 15 per cent in 1948.

Last year, however, the situation seems on the whole to have become stabilized: a general wage increase was averted, and prices remained largely stable, the year-end wholesale price index being only 1.4 per cent above the December 1948 level. In the last two years the French Government gradually abolished consumer rationing, and removed price controls from a large number of commodities.

The price stability brought with it new confidence in the French franc. The so-called "parallel", or black market, exchange rate, which reached a peak in December 1948 of 545 francs to the dollar, representing a premium of 71 per cent over the free market rate, stood toward the end of May 1950 at 351 francs—less than 0.5 per cent over the free rate. The Paris quotation of the 1-kilogram bar of fine gold toward the end of May 1950 was 50 per cent lower than in December 1948, when it had reached its high mark.

This price stability may be traced partly to the rise in the supply of (and the satisfaction of abnormal demands for) consumer goods, and partly to the anti-inflationary policy which the government has gradually evolved since the end of 1947. An essential contribution to France's financial stability was, of course, the European Recovery Program, which provided vital imports of food, raw materials, and equipment from the United States, while at the same time supplying, through franc counterpart funds, the necessary means for financing France's investment program. Since the end of 1947 the government has undertaken to cover budgetary expenditures by non-inflationary means; it gradually established new controls over bank credit; and, as already indicated, in 1949 it averted a general wage increase.

Although wages remained stable in 1949, no large-scale labor unrest developed. In February 1950, however, simultaneously with France's return to collective wage bargaining, wage rates were increased, on the average, by 5 per cent, and this rise was to be supplemented later, in both public and private enterprises, by bonuses for productivity. It was anticipated that the restoration of collective bargaining would lead to the establishment of wage differentials and thus improve labor productivity and mobility. During the war and postwar periods, wage rates had been fixed uniformly without regard to the position of individual enterprises. The freeing of wages may be regarded as a final step in France's policy of eliminating controls in the internal economy. Whether the new wage policy can be prevented from resulting in a uniform wage rise, with concomitant weakening of the anti-inflationary policy, is one of the principal uncertainties in France's present-day situation.

Government finance has been gradually brought into better balance. Capital expenditures and most other formerly extrabudgetary Treasury accounts have been incorporated into the over-all budget, while ceilings have been established for the principal categories of expenditure. Tax receipts have gone up each year since the end of the war, and are now estimated at 30 per cent of the national product. The proceeds of some new taxes have been specifically earmarked for capital expenditures. The government deficit, on both current and capital account, has been greatly reduced and has been covered to an increasing extent, although by no means entirely, by the counterpart funds released by the Economic Cooperation Administrator and by long-term borrowing from the public, instead of by short-term borrowing from the banking system, as in earlier postwar years.

Despite this steady improvement, the Treasury has continued to borrow to some extent from the banking system. In 1947 Bank of France current advances to the Treasury rose 80 billion francs; in 1948 they went up only 3.5 billion and in 1949, 7 billion. In April 1949, the legal ceiling on Bank of France current advances to the Treasury was reduced from 200 billion francs to 175 billion; on May 17, 1950, actual advances amounted to 166 billion. However, the Treasury in 1949 indirectly borrowed from the Bank of France, principally through the latter's open market purchases of Treasury paper, to the extent of 31 billion francs; in 1948 the Bank of France had actually slightly reduced its holdings of such paper. The government's borrowings from the commercial banks last year amounted to 34 billion francs, as against 64 billion francs in 1948. Whether the current year's budget will be financed without recourse to the banking system appears to depend among other things on the Treasury's ability to borrow from the public, on a continuation of the rise in tax revenue, and on the maintenance of government expenditure within the present limits (particularly on the size of the deficits of the nationalized enterprises, and the scope of military expenditures, including those in Indo-China).

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, May 27, 1950)

INDUSTRIAL and construction activity showed further gains in April and May. Prices of many industrial materials and of livestock and other farm products have advanced since mid-April. Sales of durable consumer goods have continued at exceptionally high levels. Common stock prices have risen further.

INDUSTRIAL PRODUCTION

The Board's index of industrial production rose 2 points further in April to 189 per cent of the 1935-39 average and in May apparently showed a similar increase. The rise since March has reflected mainly large gains in the iron and steel, automobile, and machinery industries. Output of other durable goods and of most nondurable goods has continued at advanced levels. Minerals production, reduced somewhat in April, has apparently recovered in May.

Steel output has been at record levels in April and May, and during the week ended May 28 was scheduled at 102 per cent of present rated capacity. Automobile assemblies rose 10 per cent in April, and in mid-May, following settlement of the labor dispute affecting a major producer, advanced about 20 per cent further to a new peak rate. Reflecting the recent general strengthening of demand for producers' equipment as well as the sustained high demand for household appliances, the Board's machinery index advanced substantially further in April to 251 per cent of the 1935-39 average, the highest since early 1949.

Output of nondurable goods showed little change in April as small declines in leather products, foods, paper, and petroleum products were offset by gains in newsprint consumption and in output of paperboard, chemicals, and rubber products. Cotton consumption and rayon deliveries were maintained in April, following small declines in March.

Coal output has declined considerably from the high levels reached shortly after settlement of the strike in early March. Production of crude petroleum, on the other hand, has increased about 5 per cent from March to mid-May. Iron ore production, which showed much less than the usual seasonal rise in April, has increased sharply in May.

EMPLOYMENT

Employment in nonagricultural industries increased by 400,000 in April, after allowances for usual seasonal changes. One-third of the increase reflected a substantial gain in durable manufacturing industries. There were also increases in trade, transportation and construction, and a large temporary expansion of Federal Census employment. Unemployment declined to 3.5 million, 1 million below February but 500,000 above year-ago levels.

CONSTRUCTION

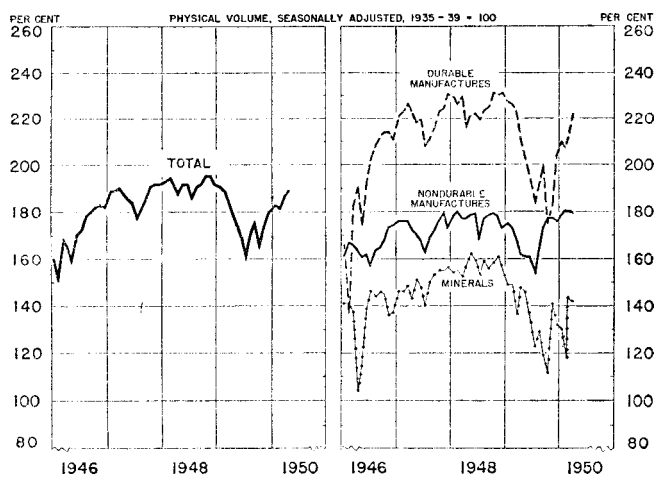
Value of construction contracts awarded in April, according to the F. W. Dodge Corporation, continued at the record March level, as a substantial increase in private awards offset a decline in awards for public construction. Residential awards continued to increase sharply and were more than double the dollar volume in April 1949.

DISTRIBUTION

The Board's seasonally adjusted index of department store sales in April was 292 per cent of the 1935-39 average as compared with 293 in April 1949. Sales in the first three weeks of May continued close to year-ago levels, despite lower apparel sales.

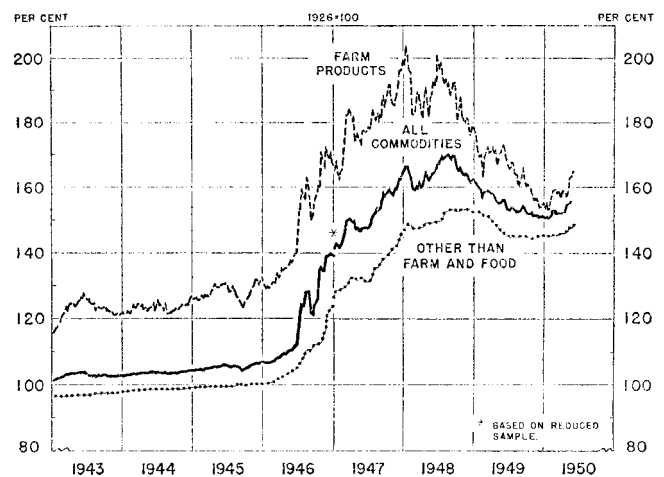
Retail sales of radios, television sets, and other durable housefurnishings continued considerably above a year ago. Sales of automobile dealers were at new record levels in May. The volume of instalment credit has continued to expand.

INDUSTRIAL PRODUCTION



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

WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended May 16.

Shipments of railroad revenue freight showed somewhat less than the usual seasonal rise in April and the first half of May, mainly because of reduced loadings of ore and coal. The volume of manufactured goods shipped continued to increase and was substantially above that of a year ago.

COMMODITY PRICES

The general level of wholesale prices rose about 2.5 per cent from mid-April to the third week in May. Prices of livestock and products, particularly hogs, rose sharply and grain prices generally advanced. Reflecting a continuing strong business demand, prices of steel scrap, nonferrous metals, rubber, lumber, and some other industrial materials increased further. Wool prices continued to advance and in mid-May, cotton gray goods prices, which had been declining, strengthened.

Consumers' prices rose 0.2 per cent further in April reflecting mainly continued small advances in retail food prices.

BANK CREDIT

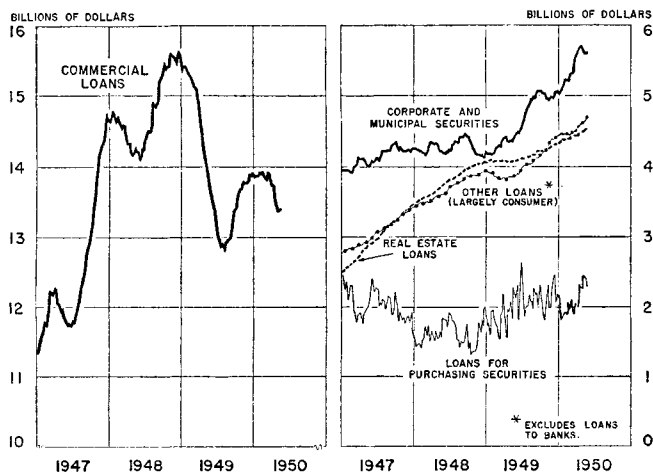
Reductions in Treasury balances at the Reserve Banks during most of April and again during the first three weeks of May supplied reserve funds to member banks. The Federal Reserve continued to sell Treasury bonds during the period, and in May also sold Treasury bills while purchasing notes and the shorter maturities of certificates.

Consumer and real estate loans continued to increase at banks in leading cities during April and the first half of May. Business loans declined further but the reduction appeared less than might be seasonally expected.

SECURITY MARKETS

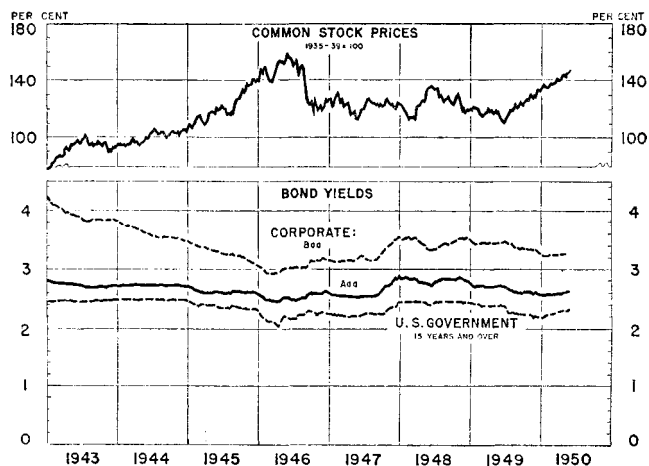
Common stock prices rose 3.5 per cent further in the first three weeks of May and were at the highest level since June 1946. Yields on Treasury and high-grade corporate bonds showed relatively little change. Early in the month the Treasury announced the offering of 13-month 1¼ per cent notes in exchange for certificates maturing on June 1 and July 1.

LOANS AND INVESTMENTS AT MEMBER BANKS IN LEADING CITIES
OTHER THAN U. S. GOVERNMENT SECURITIES



Commercial loans include commercial, industrial, and agricultural loans. Wednesday figures; latest shown are for May 17.

SECURITY MARKETS



Stock prices, Standard & Poor's Corporation; corporate bond yields, Moody's Investors Service; U. S. Government bond yields, U. S. Treasury Department. Weekly figures; latest shown are for week ended May 20.

The restrictive credit policy initiated in January 1947 in the form of certain qualitative controls was greatly strengthened in September 1948, when, among other things, the authorities directed the commercial banks to keep their minimum holdings of Treasury bills at 95 per cent of the amount held on September 30, 1948 and to invest 20 per cent of any new deposits (above the level of September 30, 1948) in short-term government securities. Furthermore, while prior to September 1948 the commercial banks had had unlimited and unrestricted access to the Bank of France, a ceiling was placed on rediscounts for each commercial bank individually, with an over-all maximum of 188 billion francs for commercial banks in the aggregate.

Credit expansion has nevertheless continued because of Bank of France rediscounting of certain agricultural bills and of medium-term obligations of the Crédit National issued to finance industrial re-equipment. These exceptions, which were provided for in the September 1948 regulations, have been extended since July 1949 to include export bills. Meanwhile, no limitation has been placed on open-market purchases of Treasury bills and bank acceptances by the Bank of France. It was through these channels that Bank of France credit to business increased last year by 147 billion francs, as against 113 billion in 1948. Commercial banks in turn last year expanded

their credit to business by 195 billion francs, as against 280 billion francs in 1948.

These "safety valves" seem to have been allowed to function in order to supply working capital to priority sectors of the economy. To prevent an indiscriminate secondary expansion, however, there has been continued application of qualitative controls. To reinforce the selective credit policy, cheap money was abandoned in 1947, the official discount rate being progressively raised from 1½ per cent in January 1947 to 3½ per cent at the beginning of September 1948; it was reduced to 3 per cent on September 30, 1948.

For the past year, however, the expansion of bank credit to business and the Treasury's recourse to the banking system have not been the only factors in the increase in the money supply. Since the middle of 1949, an accumulation of foreign exchange, which in turn reflects France's improved balance-of-payments position, has also contributed to monetary expansion. Last year the money supply (notes and demand deposits) increased by 545 billion francs, or 25 per cent, as against 507 billion, or 31 per cent, in 1948. Of the 1949 rise, 105 billion francs was accounted for by the acquisition of foreign exchange, while increased credit to the government, by both the Bank of France and the commercial banks, was responsible for 70 billion francs of the rise, and expansion to business for 345

Balance of Payments of the French Franc Area
(In millions of dollars)

	Over-all balance				Dollar-area balance*		Sterling-area balance	
	1946	1947	1948	Jan.-Sept. 1949 ^p	1948	Jan.-Sept. 1949 ^p	1948	Jan.-Sept. 1949 ^p
CURRENT ACCOUNT								
Metropolitan France:								
Imports.....	1,980	2,492	2,510	1,543	1,018	572	640	300
Exports.....	453	1,040	1,082	1,137	131	82	265	309
Trade balance.....	-1,527	-1,452	-1,428	-406	-887	-490	-375	-81
Invisible items (net).....	-225	-61	-102	-30	-111	-97	82	88
Overseas territories (net).....	-297	-163	-208	-142	-136	-128	-29	10
Balance on current account.....	-2,049	-1,676	-1,738	-578	-1,134	-715	-322	17
CAPITAL ACCOUNT								
Charges:								
Balance on current account.....	-2,049	-1,676	-1,738	-578	-1,134	-715	-322	17
Capital repayments, etc. (net).....	-236	-114	20	-57	-21	-14	11	-49
Total charges.....	-2,285	-1,790	-1,718	-635	-1,155	-729	-311	-32
Sources of financing:								
French resources:								
Requisition and voluntary repatriation of private capital.....	200	184	110	15	98	12	8	1
Use of official gold and foreign exchange reserves.....	938	346	197	-105	-11	13	213	-109
Total from French resources.....	1,138	530	307	-90	87	25	221	-108
Foreign grants and loans:								
United States†.....	849	1,101	1,079	704	1,079	704	-	-
Other countries:								
Long-term loans.....	131	137	99	39	-	-	45	33
Credits under payments agreements and as counterpart of foreigners' franc accounts.....	167	22	233	-18	-11	-	45	107
Total foreign loans and grants.....	1,147	1,260	1,411	725	1,068	704	90	140
Total financing.....	2,285	1,790	1,718	635	1,155	729	311	32

^p Preliminary.

* United States and possessions, Canada, and Latin American Republics except Argentina, Brazil, and Uruguay. Transactions in U. S. dollars with Brazil are included.

† Including International Monetary Fund and International Bank for Reconstruction and Development, not shown separately in French statistics.

Source: Adapted from Ministère des Finances, *Balance des Paiements entre La Zone Franc et Les Pays Etrangers*, and Présidence du Conseil, *Notes et Etudes Documentaires*, No. 1,316, April 21, 1950.

billion. In 1948 the monetary expansion by 507 billion had been brought about to the extent of 103 billion by new government credit, and 380 billion by new private credit.

Unlike earlier postwar years, when recourse to bank credit for the financing of the government deficit and of public and private fixed investment was the main factor in the currency inflation, the current monetary expansion seems to have been brought about chiefly by acquisitions of foreign exchange and by credits to supply working capital to priority sectors of the economy. In an environment of growing production, with prices generally stable amidst indications of a returning buyer's market, the expansion appears to be fundamentally the result of reviving confidence in the franc and of the French economy's reconstitution of liquid funds that had been reduced to a bare minimum while the currency was losing value. These factors have been important offsets to the upward pressure upon prices that had been exerted by the comparable expansion of the money supply in earlier years. French authorities seem aware, however, that under present circumstances the continued expansion of credit to business at the recent pace may weaken the monetary stability attained thus far.

The increasing economic strength of France has been reflected in a gradual reduction of the deficit in the country's international accounts. As the accompanying table shows, the French franc area's¹ over-all deficit in current international transactions (goods and services) in 1948 was about 1.7 billion dollars, while in 1949, on the basis of preliminary data for the first three quarters, it appears to have been cut to some 800 million dollars. The over-all deficit in 1949 seems to have consisted of a shortfall of 1 billion dollars in transactions with the dollar area and a net surplus of some 200 million dollars in transactions with sterling and other nondollar countries. This latter surplus, transactions on capital account, and the cushioning provided by ECA aid, combined to make possible the growth of 105 billion francs in foreign exchange holdings noted above.

France's progress toward a self-sustaining international position and its failure to achieve any substantial improvement in its dollar position are evident also from recent trade statistics. Measured by volume, total exports from Metropolitan France² last year were 34 per cent larger than in 1938; however, while the volume of exports to French overseas territories was 78 per cent above prewar, that to foreign countries was only 15 per cent higher. Of 1.6 billion dollars of exports from Metro-

politan France to foreign countries last year, only 101 million went to the dollar area, as against 104 million in 1948, when total exports amounted to only 1.1 billion. Exports to the United States last year were actually about 14 per cent below the 1948 level. To some extent, France's dollar imbalance was alleviated by a rise in receipts from American tourists, from 28 million dollars in 1948 to about 45 million last year, and by a decline in dollar payments for ocean freight. However, the seemingly intractable dollar deficit remains the major challenge that France is facing today.

France's dependence upon American aid is clearly indicated in the lower part of the table. While in 1946 about one half of the over-all deficit was covered by drawing on official reserves of gold and foreign exchange and on the proceeds from the liquidation of privately-held foreign assets, somewhat less than one third of the 1947 deficit and less than one fifth of the 1948 deficit was thus covered. Conversely, while in 1946 almost two fifths of France's over-all deficit was covered by United States aid, some three fifths was thus met in 1947 and 1948. In the early postwar years the bulk of this financing consisted of Export-Import Bank and International Bank loans, together with drawings on the International Monetary Fund; in recent years it has consisted of Interim and ECA aid.

France's continued dependence on American aid, however, is being gradually reduced. Direct aid contemplated for the ERP year ending June 1951 amounts to 503 million dollars, as against 673 million in 1949-50, and 978 million in the previous twelve months. Indirect aid, in the currencies of other European countries, is likely to be reduced to less than 50 million dollars this year, compared with some 280 million in 1948-49. Thus there may result a reduction of about 500 million dollars (roughly equivalent to 175 billion francs) in the total ERP aid to France between 1948-49 and 1949-50.

RECENT CHANGES IN PERSONAL SAVINGS

During the first quarter of this year, personal savings, estimated by the U. S. Department of Commerce at an annual rate of 18.6 billion dollars, apparently were close to their postwar high. This was mainly the result of the payment of the National Service Life Insurance dividend, part of which has been deposited with savings institutions or used to pay off debts (including mortgage debts). Some of the amounts which have not been spent immediately may, however, have been earmarked for expenditure in the near future. The ratio of personal savings to disposable personal income (personal income after individual taxes) during the first quarter was 9.2 per cent, the highest rate of saving since the end of 1945. But this ratio has little meaning for such a short period as a quarter

¹ The French franc area includes Metropolitan France, the Saar since April 1948, French overseas territories (including Indo-China, but excluding Djibouti since March 1949), Lebanon, and, prior to March 1948, Syria.

² Continental France, Corsica, Algeria, the Principality of Monaco, and (since April 1948) the Saar.

year, and even for longer periods it must be treated with caution and carefully analyzed to judge its significance, for several reasons.

First, current estimates are necessarily very rough and subject to substantial revisions, partly because the total amount of personal savings is not estimated directly, but is obtained as a residual of two much larger figures—disposable personal income and consumption expenditures. Thus, a downward revision of less than 1 per cent in personal income and an even smaller upward revision of consumption expenditures, together with a small rise in personal tax payments, resulted in a scaling down of the original Department of Commerce estimate of personal savings in 1948 by nearly one fifth, from 14.9 to 12.0 billion dollars.¹ The revised ratio of personal savings to disposable income for 1948 is 6.3 per cent as compared with the original estimate of 7.7 per cent. While this revised ratio is still high in comparison with prewar years, it is about the same as in 1946. The ratio declined to 6.2 per cent in 1949.

Second, official estimates of personal savings are not confined to individuals, but include also trust funds, including corporate retirement and pension funds, as well as nonprofit institutions, such as colleges, churches, and hospitals. Any excess of income over expenditure of these institutions appears in statistics as "personal savings".

Most importantly, personal savings as estimated by the Department of Commerce include also savings of unincorporated business (including farms) which may take the form of investments in plant and equipment and increases in inventories. Thus, for instance, an increase in inventories of unsold farm products automatically increases personal savings.

The definition of savings is by necessity rather arbitrary. While the purchase of homes is considered as savings, the acquisition of automobiles and of any other type of consumer durable goods is not, although in recent years the individual's equity in a car might (in the case of a veteran, for example) be considerably higher than his equity in his home, because of the liberal terms of Government-guaranteed veterans' mortgages. Also, part of the funds accumulated by individuals is

¹ Similarly, earlier estimates of personal saving in 1946 and 1947 were reduced in later revisions by 30 and 54 per cent, respectively.

Table I
Personal Savings
(In billions of dollars)

Type of saving	1946	1947	1948	1949
Net increase in liquid savings	12.6	8.3	4.9	5.7
Net investment in homes	- 0.9	0.2	1.8	2.0*
Net investment in unincorporated businesses	1.6	-2.4	5.6	3.0*
Net construction by nonprofit organizations	0.2	0.3	0.7	1.0*
Less: Discrepancy and minor items	3.2	1.3	1.0	- 0.1*
Total personal savings (Department of Commerce)	10.3	5.1	12.0	11.8

* Estimated by the Federal Reserve Bank of New York.
Source: Securities and Exchange Commission and Department of Commerce.

Table II
Net Changes in Liquid Assets
(In billions of dollars)

Type of saving	1946	1947	1948	1949
Currency and bank deposits*	11.8	4.1	-0.1	0.4
Life insurance reserves	3.4	3.7	3.5	3.8
Securities	0.7	3.8	4.0	3.8
Increase in liquid assets	15.9	11.6	7.4	8.0
Less: Net increase in consumer debt	3.3	3.3	2.5	2.3
Net increase in liquid savings	12.6	8.3	4.9	5.7

* Including shares of savings and loan associations.
Source: Securities and Exchange Commission.

excluded from savings, being regarded as an accumulation of reserves against the current depreciation of owner-occupied homes.

These characteristics of savings data are not always realized and undue importance is frequently attached to short-term changes in the estimates of savings. Nor is it generally understood that personal savings represent not the accumulation of liquid or uninvested funds, but rather a complex total of various components. Some of these components consist of direct investments of individuals in homes, in farms, or in businesses conducted as sole ownerships or partnerships. Others represent amounts deposited in savings institutions and invested by them in securities and mortgages. Another part is made available by savers to corporations and various governmental units, including the Federal Government, through the purchase of securities. Only a relatively small portion is kept in the most liquid form as currency or demand deposits.

Table I summarizes the main components of personal savings in the four postwar years. It shows that, while during the first two postwar years amounts invested in relatively liquid media were larger than total personal savings, in the two recent years about half of the total amount saved was invested directly in homes and in unincorporated business.

In three of the four postwar years, liquid savings were the most important single component of total personal savings. As can be seen from Table II, amounts invested annually in private life insurance reserves have fluctuated very little, and those invested in securities (including Government securities) have also been practically unchanged since 1947. A big change has occurred, however, in the amounts of currency and bank deposits (including shares of savings and loan associations) accumulated. Savings in this form were substantial in 1946 (11.8 billion dollars), but were only a third as large in 1947. In 1948, there was actually a slight decrease in the amount of currency and deposits held, and the increase in holdings in 1949 was very small. Time deposits alone (including shares in savings and loan associations) showed a sizable increase in each of the past three years, while the holdings of the most liquid types of assets—currency and demand deposits—showed only a small increase in 1947 and declined more than 2 billion dollars in both 1948 and 1949.

Since consumer debt represents short-term obligations, a *net* figure for the increase in liquid assets is arrived at by deducting changes in consumer debt outstanding from the gross increase of all types of liquid assets. The *net* increase in liquid assets dropped from 12.6 billion dollars in 1946 to only 4.9 billion in 1948, but rose to 5.7 billion dollars in 1949. The difference between the 1948 and 1949 increases reflected partly the accumulation of funds resulting from liquidation of inventories of unincorporated business, including farmers, during the recession of last year; cash holdings and bank deposits of these businesses are not segregated from those held by their owners as personal savings.

The most direct investment that numerous families make every year is through the purchase of homes. To the extent that old homes are bought or sold by individuals, liquid assets and real estate investments made in earlier years merely change hands. (The fact that individuals make a profit or loss on such transactions does not affect the total volume of assets held.) Only the purchase of new homes (and the net acquisition of houses by individuals from corporations, financial institutions, or government agencies) represents new direct investment; it absorbs not only funds currently saved by the new owners and some of their backlog of liquid savings (frequently accumulated specifically for this purpose), but also borrowing from savings institutions and banks. Thus the increase in mortgage debt, shown in Table III as an offset against the purchase of homes, actually represents investment of "liquid savings" that other savers have entrusted to various types of thrift institutions and to savings departments of commercial banks.

When the postwar building boom got under way in 1946, more than three fourths of the expenditures on one-to-four family homes were offset by the net increases in mortgage credit. The increase in the buyers' equity was smaller than the estimated depreciation on existing homes, so that a disinvestment in housing is indicated in that year. Net investment by savers in homes did not become substantial until 1948. As the building boom was not greatly retarded by the general business recession in the first half of last year, individuals spent on new homes and on major additions and alterations in 1949 almost the same amount (7.8 billion dollars) as in 1948 (8.0 billion dollars). Since the somewhat higher depreciation allowance was more than offset by a slower increase in mortgage indebted-

Table III
Individuals' Investment in Nonfarm Dwellings
(In billions of dollars)

Type of saving	1946	1947	1948	1949
Net purchases of homes*	4.1	6.2	8.0	7.8†
Less: Increase in mortgage debt	3.2	4.1	4.1	3.5
Net outlay on homes*	0.9	2.1	3.9	4.3†
Less: Depreciation	1.8	1.9	2.1	2.3†
Net investment in homes	-0.9	0.2	1.8	2.0†

* One-to-four family houses; including major additions and alterations.

† Estimated by the Federal Reserve Bank of New York.
Source: Same as Table I.

Table IV
Individuals' Net Investment in Unincorporated
Businesses (Including Farms)
(In billions of dollars)

Type of saving	1946	1947	1948	1949*
New construction and producers' durable equipment	6.8	8.5	9.3	8.5
Less: Depreciation	3.3	3.9	4.6	5.0
Net investment in plant and equipment	3.5	4.6	4.7	3.5
Increase in inventories	0.7	-2.8	2.3	-1.0
Less: Increase in debt to financial institutions	2.6	4.2	1.4	-0.5
Net investment in unincorporated businesses	1.6	-2.4	5.6	3.0

* Estimated by the Federal Reserve Bank of New York.
Source: Same as Table I.

ness, the estimated increase in individuals' equity in homes increased from 1.8 to 2.0 billion dollars.

Actually, individuals are estimated to have spent 4.3 billion dollars for homes in 1949 (against 3.9 billion dollars in 1948), but about half of this amount is offset—from the point of view of national accounts—by depreciation reserves, so that only about half is credited to new savings. It is questionable, however, how many home owners do make adequate allowance for depreciation of their homes in accordance with conservative business accounting practices, and, to the extent that they consider as savings amounts which should have been set aside as depreciation reserves, the net figure in Table III understates the net investment in homes from the viewpoint of the home owners.

Estimated direct investment in unincorporated businesses and in farms was relatively small during the first postwar year and even negative in 1947. In 1948, however, it was the main single outlet for personal savings, absorbing nearly half of the total. Substantial investment in new construction and equipment (divided about equally between farmers and other entrepreneurs) was accompanied by building up of inventories, both farm and nonfarm. Only one fourth of this total net investment (after allowance for depreciation) was financed from outside sources.

In 1949, unincorporated businesses decreased inventories by an estimated 1.0 billion dollars, and also reduced their indebtedness to financial institutions. Since investment in construction and equipment declined by an estimated 0.8 billion dollars (partly reflecting lower costs), while depreciation allowances rose (partly because increasingly they reflect higher acquisition costs of capital investment made since the war), the need for funds for fixed capital purposes declined by one fourth. Total direct investment by individuals in farms, retail stores, and other types of unincorporated business thus declined from 5.6 billion dollars in 1948 to 3.0 billion dollars.

In short, estimates of personal savings are subject to a rather wide margin of error and can never be construed as a diversion of current income into idle hoards unless careful analysis proves that to be the case. Much of the reported personal savings during the past few years has reflected direct investment in

homes, farms, and unincorporated businesses, and there is reason to believe that a major part of the "liquid savings" has been invested, indirectly through savings institutions, in homes and in unincorporated businesses. An increase in the reported aggregate of personal savings, therefore, does not necessarily mean lowered aggregate spending and a depressing influence on business and employment, nor does a reduction in personal savings necessarily signify a stimulating influence. The effects on the economy of a change in personal savings depend more upon the character of the change than on the amount.

DEPARTMENT STORE TRADE

Consumer purchasing at Second District department stores during May fell below seasonal expectations. The dollar volume of sales, according to a preliminary estimate, was slightly lower than in April and was from 2 to 4 per cent less than in May 1949, although there was an extra shopping day this year. The lack of any sustained period of warm weather undoubtedly was a deterrent to shopping, particularly in the summer apparel lines, in which business is usually very brisk by mid-May.

THE RECENT PATTERN OF DEPARTMENT STORE SALES

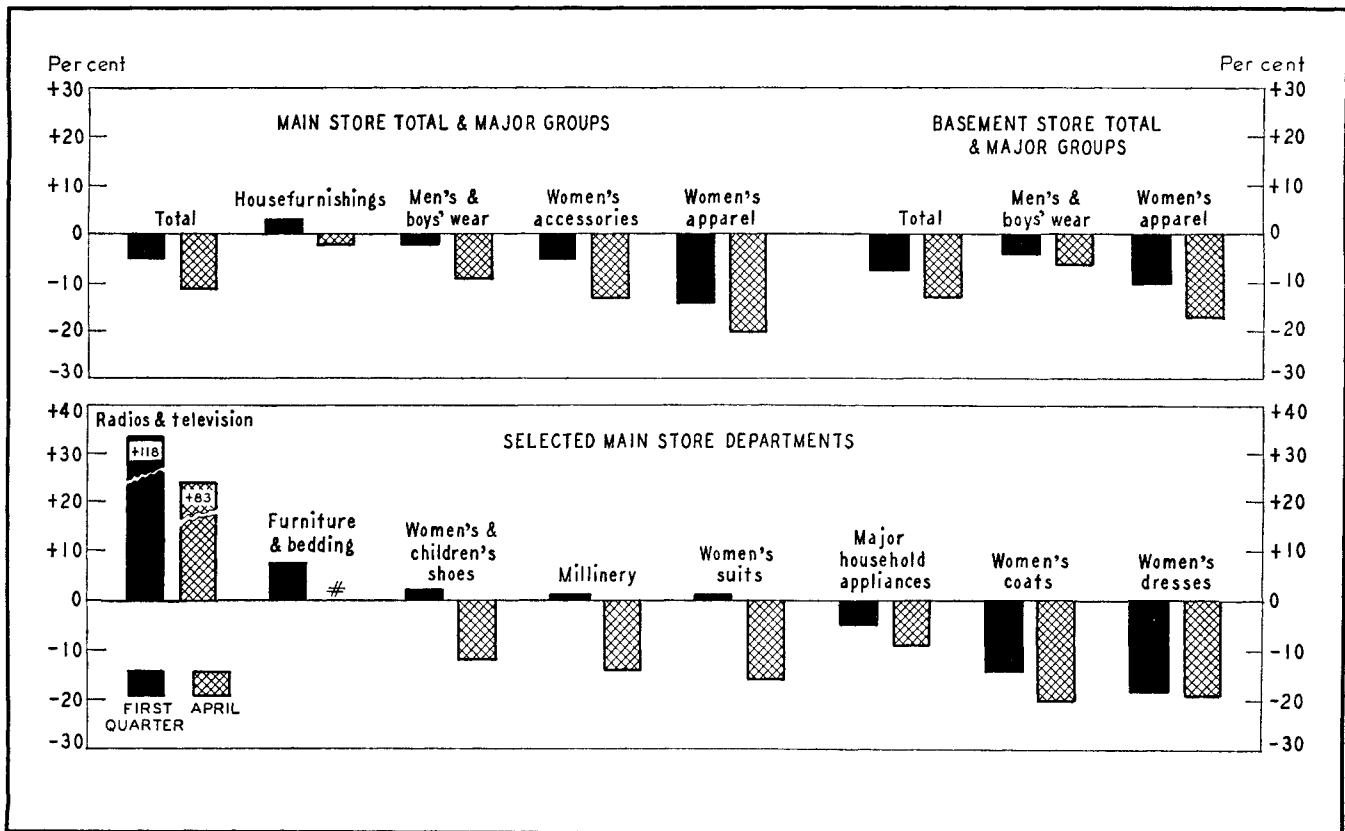
The decline of Second District department store sales in April 1950 as compared with April 1949 was shared by all

major departments and departmental groups. Except for the radio and television department, which accounts for a relatively small portion of total store sales (1.3 per cent in 1949), the dollar volume of sales of the selected departments and departmental groups shown in the chart was, in general, considerably lower than in April 1949.

Contributing in no small measure to the comparative weakness of the District's department store sales in April was the early date of Easter (April 9 in 1950 as against April 17 in 1949), and the consequent forward adjustment of the Easter buying pattern to the latter half of March. This calendar variation reduced the number of pre-Easter shopping days in April 1950 to 7, half of the number in the previous year. Moreover, the total number of shopping days in April was one less this year than in 1949. The magnitude of the year-to-year decrease in sales was also predetermined, to some extent, by the exceptionally strong showing—particularly in women's wear lines—made by the District's department stores during April 1949. The seasonally adjusted dollar sales volume for that month was the highest reached during 1949.

However, the most notable year-to-year sales decline in April—that of the women's apparel group—was not peculiar to that month; rather it was the twelfth consecutive monthly

Department Store Sales by Type of Merchandise, Second Federal Reserve District
(Percentage change, 1949 to 1950, for first quarter* and April)



* January, February, and March.

Decrease of less than 1 per cent from April 1949 to April 1950.

year-to-year percentage decrease. The April decreases of 20 and 13 per cent, respectively, in sales of women's apparel and women's accessories are illustrative of the extent of the recent shift of department store consumption expenditures away from the "soft goods" to the durable or "hard goods" lines. Most seriously affected by the hesitancy and lack of interest on the part of shoppers were the sales of women's coats and dresses. Sales of women's coats fell 20 per cent and dresses 19 per cent below the year-ago level in April, compared with year-to-year declines of 14 and 18 per cent, respectively, in the first quarter.

Sales of women's suits, millinery, and women's and children's shoes, relatively small volume departments, had registered slight year-to-year gains in the first quarter. Sales of this merchandise in April, however, fell from 12 to 16 per cent below the high levels of a year ago. Men's and boys' wear sales, off only 2 per cent during the first three months of 1950, were down 9 per cent in April, indicating that the let-down in apparel buying was not restricted to women's wear.

In contrast with the marked lag in soft goods sales, sales of housefurnishings, stimulated by the continued high rate of residential building, have made a very favorable showing thus far this year. The dollar volume of furniture and bedding sales for the first quarter was larger than that of last year by 7 per cent, and in April, while the dollar sales volume was barely equal to a relatively low year-ago level, the number of units sold was undoubtedly greater than in April 1949. The comparative increase of sales in the radio and television department continued to reach exceedingly high proportions as lower priced television receivers attracted an ever-widening market. Although the dollar sales volume of these "big ticket" items in April was 83 per cent ahead of last year's total, the rate of gain relative to 1949 had contracted sharply from the spectacular 118 per cent increase of the first quarter. Not all types of housefurnishings, however, showed a favorable year-to-year sales comparison, as sales of floor coverings and major household appliances for the first four months of 1950 were well below the 1949 level.

In the basement store the year-to-year percentage decrease of sales during each of the first four months of 1950 exceeded that of the main store. From late 1946 to January of this year, the basement store had tended to command a continuously increasing proportion of total store sales. The reversal of this

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

Item	1949	1950		
	April	February	March	April
Sales (average daily), unadjusted.....	239 ^r	183	208 ^r	225
Sales (average daily), seasonally adjusted..	244 ^r	220	217	235
Stocks, unadjusted.....	239 ^r	217	237	237
Stocks, seasonally adjusted.....	232 ^r	224	231	230

^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 April 30, 1950
	April 1950	Jan. through April 1950	
Department stores, Second District.....	- 9	- 5	0
New York City.....	-10	- 6	- 1
Northern New Jersey.....	- 7	- 3	+ 1
Newark.....	- 8	- 4	+ 2
Westchester County.....	- 6	- 4	+10
Fairfield County.....	- 5	- 3	+ 1
Bridgeport.....	- 3	- 3	+ 1
Lower Hudson River Valley.....	- 9	- 6	- 4
Poughkeepsie.....	- 8	- 6	- 3
Upper Hudson River Valley.....	- 7	- 8	0
Albany.....	- 7	-11	-10
Schenectady.....	-11	- 9	+ 5
Central New York State.....	- 6	- 2	0
Mohawk River Valley.....	- 4	- 2	- 2
Utica.....	- 6	- 3	- 1
Syracuse.....	- 7	- 3	+ 2
Northern New York State.....	- 4	- 4	- 2
Southern New York State.....	- 6	- 8	- 3
Binghamton.....	- 9	-10	- 3
Elmira.....	- 5	- 4	- 5
Western New York State.....	- 9	- 5	+ 2
Buffalo.....	-14	- 7	- 1
Niagara Falls.....	+ 5	+ 1	- 6
Rochester.....	- 4	- 3	+10
Apparel stores (chiefly New York City).....	-10	- 8	- 2

tendency was chiefly attributable to the decline in women's apparel sales, which in this District account for more than half of the total basement store sales volume. Sales of this merchandise group in April were fully 17 per cent behind April 1949.

Indexes of Business

Index	1949	1950		
	April	February	March	April
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	179	180 ^r	187	189 ^p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	256	277	280	284 ^p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	182	143	174 ^p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	336	344	345	344 ^p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	142	140	141	141 ^p
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	113 ^p	115 ^p	115 ^p	113 ^p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	319	330	334 ^p	336 ^e
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	258 ^p	275 ^p	275 ^p	
Personal income*, 1935-39 = 100..... (Department of Commerce)	307 ^r	319	325 ^p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	199	204	205 ^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.....	103	106	103	111
Outside New York City.....	88	88	88	92

* 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.