MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 32 JULY 1950 No. 7

MONEY MARKET IN JUNE

A number of developments coincided to make for easy money conditions throughout the past month. Reserve positions of member banks are usually easy in the first half of June, owing to reduced withdrawals of Treasury deposits in anticipation of income tax collections later in the month, and owing to large Treasury disbursements of interest on the public debt at the middle of the month. In the second half of the month heavy tax collections normally tighten the money market. This June, however, the influence of tax collections was offset, principally by an expansion of "float" (Federal Reserve credit against checks not yet collected), and by open market operations in support of the Treasury's current refunding offerings. Uncertainty as to the prospect for short and intermediate-term interest rates resulted in substantial sales, indirectly to the Federal Reserve System, of Treasury certificates maturing on July 1 and of related Treasury notes, and these open market purchases helped to ease the money position. Easier money conditions were reflected in the rate on immediately available Federal funds, which were offered at ½ per cent and less during a large part of the month. The average discount on successive new issues of Treasury bills also declined slightly beginning with the issue of June 15. Neither the money market nor the Government security market was shaken by the invasion of South Korea on June 25 and the subsequent decision of the United States to take military action in support of United Nations resistance to this unprovoked aggression.

GOVERNMENT BOND MARKET

The decline in prices of long-term restricted Treasury bonds, which had been a feature of the market for some time, continued until the closing days of the month. Prices of the December 2½'s, 1967-72 were moved down 5/32 in May and 15/32 in the three weeks ended June 21, with almost half of the decline occurring in the last of these weeks. The decline in Victory bond prices through 101½ (2.40 per cent basis), a point considered by the market as a resistance level, was a factor in the increase in the supply of such bonds coming into the market and in the reduction of the demand for them. Sales by nonbank investors to raise funds to finance commitments to purchase an increased volume of new corporate bond issues were also a factor. The increase in market supplies of restricted Treasury bonds had its counterpart in reduced sales by the Federal Reserve System, particularly toward the end of the month. Dealers' quotations were marked down temporarily after the invasion of South Korea, but in the closing days of the month a moderate demand developed for these bonds and prices recovered somewhat. Bank-eligible Treasury issues held up comparatively well until the latter part of the month when some sales pressure developed in the market; these issues and, more particularly, the partially tax-exempt section of the list were unfavorably affected by the developments in Korea.

MEMBER BANK RESERVE POSITIONS

Easy money market conditions during the first two weeks of June were related, as usual, to large Treasury disbursements, which provided the banks with additional reserves. Government expenditures are ordinarily larger in the first part of each month than in the second, and in June, the last month of the fiscal year, operating expenditures are frequently greater than in other months because the authority to make expenditures under certain programs lapses with the end of the fiscal year. Treasury disbursements were also increased early in June by cash redemptions of maturing certificates and of Savings notes.

Adding further to bank reserves during the first half of the month were a return flow of currency from circulation and a substantial rise in the volume of credits granted by the Re-

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serve Banks against uncollected checks, due in part to the curtailment of postal services and the resultant slowing up of mail deliveries. Transactions absorbing or otherwise immobilizing reserve funds were only moderate in amount. In the week ended June 7, when reserve positions were comfortable, large sales of short-term Treasury securities by the commercial banks, particularly the notes issued in exchange for Treasury certificates maturing June 1, merely served to add further to money market ease. Thus, in the two weeks ended June 14, the banks were able not only to retire a large part of their indebtedness to the Reserve Banks (mostly in the first week), but also to add 400 million dollars to their excess reserves, which amounted to 930 million dollars on June 14.

The Treasury balance with the Reserve Banks fell about 270 million dollars between May 31 and June 14, to 319 million on the latter date, partly because of reduced Treasury withdrawals from depositary banks. On June 15 it was practically exhausted when approximately 500 million dollars were paid out in interest on the public debt, and excess reserves rose another 400 million dollars on that day. In fact, the Treasury financed its heavy interest and other payments in part through the sale of 105 million dollars of special certificates of indebtedness to the Reserve Banks, which it retired out of receipts the following day.

Despite the drain on bank reserves from heavy tax collections, a reduction in "float", and net receipts in foreign accounts with the Reserve Banks, as well as some net increase in required reserves of the member banks, the money market showed no appreciable tightening in the second half of the month until the closing days. This was due not only to the prior accumulation of a large volume of excess reserves, which were drawn upon heavily, but also to the substantial further net sales, in the last week of the month, of short-term Treasury securities by the commercial banks, indirectly to the Reserve System.

Easy conditions in the money market reflected a comfortable reserve position of the New York City banks during most of the past month. Net Treasury disbursements were particularly large in the City (since a substantial portion of Government interest payments and cash redemptions of securities were made here), but a substantial outflow of funds over the month as a whole more than offset the effect of net Treasury disbursements. However, the gains and losses of reserves did not coincide in timing. In the week ended June 21, in particular, when the outflow of funds was nominal in amount, large net Treasury expenditures kept the money market easy. But the chief source of ease came in the form of substantial sales, during the weeks ended June 7 and 28, of short-term Treasury securities by Government security dealers, other nonbank investors, and the New York City banks. In the intervening two weeks, the City banks made sizable purchases of Treasury issues, most of which were bought from nonbank investors and so had little effect on reserves.

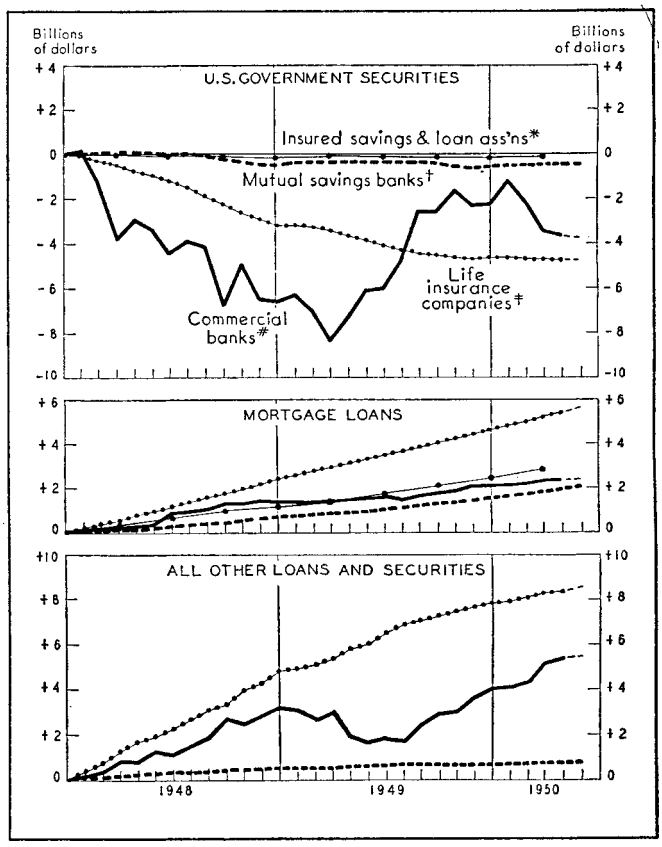
Bank Credit and Institutional Loans and Investments

The expansion of business activity to capacity output in many lines and the advance in commodity prices during the past few months have been achieved thus far with a relatively small aggregate expansion of funds made available directly to business. Business loans of the commercial banks, as indicated by the figures of the weekly reporting member banks, have declined seasonally during the first half of 1950, but much less than a year ago. On the other hand, the net increase in life insurance company and mutual savings bank holdings of corporate securities in the first half of this year was considerably smaller than in the corresponding period of last year.

The sharp expansion of industrial activity, however, has been accompanied and stimulated by an expansion of credit, particularly to home and other property owners and to consumers, and to a lesser extent to investors and speculators in

Changes in Major Types of Assets Held by Leading Financial Institutions

(Cumulated monthly from December 31, 1947)



* Data from Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation, cumulated quarterly; latest figures are for the first quarter of 1950. Since holdings of "all other loans and securities" of insured savings and loan associations are nominal, changes in such holdings are not shown in the chart.

† Data from National Association of Mutual Savings Banks; latest figures are for May 31, 1950.

‡ Data from Institute of Life Insurance; latest figures, May 31, 1950, estimated by the Federal Reserve Bank of New York. Data for mortgage loans include ownership of income-producing real estate.

Data for U. S. Government securities from Board of Governors of the Federal Reserve System through April 30, 1950; latest figures, May 31, 1950, as well as all data for mortgage loans and "all other loans and securities", estimated by the Federal Reserve Bank of New York.

common stocks, and to State and local governments. As shown in the accompanying chart, net mortgage holdings of all commercial banks rose an estimated 250 million dollars in the first five months of 1950 as compared with a somewhat smaller increase in the corresponding months of 1949. Other earning assets (exclusive of Government securities) rose 1.4 billion dollars in the five months ended May 31, 1950, in contrast to a decline of 1.6 billion in the same period of 1949. The expansion of these assets reflected a substantial gain in holdings of securities other than those of the Federal Government (largely State and municipal issues) and in loans to consumers and to brokers, dealers, and others on non-Government securities. The increase in the banks' holdings of such securities and loans more than offset a seasonal contraction in business borrowing.

A large part of the expansion in these various forms of bank credit was offset, however, by sales of Government securities to nonbank investors (Federal Reserve System holdings of bonds and other types of Government securities declined in the first five months of 1950). Thus, the commercial banks have directed their funds into the real estate mortgage market, consumer loans, and other forms of credit and investment, while nonbank investors have increased their holdings of Government securities substantially.

The operations of the life insurance companies in the mortgage field have increased only moderately over a year ago. The net increase in the mortgage holdings (together with ownership of income-producing property) of all life insurance companies in the first five months of 1950 amounted to an estimated one billion dollars, about 100 million more than in the same months of last year. Since these companies also reported making a much smaller volume of new funds available to business corporations, and others, through security purchases (40 per cent less than in the first five months of 1949), their (net) sales of Government securities this year through May (145 million dollars) were sharply lower than last year (715 million) during the same five-month period.

The mutual savings banks and the insured savings and loan associations have been particularly active in mortgage lending this year. In the first five months of 1950 the mutual savings banks reported an increase in holdings of mortgages outstanding 70 per cent greater than last year, and in the first quarter of this year mortgage holdings of the insured savings and loan associations rose at a rate double that of the rise in the first quarter of last year. The net increase in the volume of other earning assets, except Government securities, was small for the mutual savings banks and nominal in the case of insured savings and loan associations. Both types of institutions made small net purchases of Government securities in the early months of 1950 and of 1949.

SECURITY MARKETS

During the past six months the security markets responded to the stimulus of active business conditions with advancing industrial stock prices and large new security flotations. The latter included a sharply expanded volume of new common stock offerings. Stock prices, however, broke sharply toward the end of this period following the start of hostilities in South Korea. Corporate and municipal bond prices declined slightly during the past six months in partial response to declining prices of long-term restricted Treasury bonds. While somewhat lower prices might be considered normal in a period of high level business and rising commodity prices, the decline probably reflected the effects of the supply of Treasury bonds made available to the market by the Reserve System at least as much as an increase in business demands for new long-term capital. Corporate financing in the capital markets was considerably larger than in the last six months of 1949, but substantially less than in the first half of that year, while the supply of new funds available for investment showed a small increase. Investors, particularly financial institutions, found uses outside the security markets for sizable amounts of their funds, chiefly in the form of a large volume of new residential mortgages.

Stock Market

The past month rounded out a year of the bull market in common stocks. From mid-June 1949 to mid-June 1950 the Dow-Jones average of the prices of 30 industrial stocks advanced by more than two fifths and thus reached the highest level since September 1930—a level about seven per cent above the previous postwar peak of May 1946. However, because prices of railroad and utility shares rose more slowly than industrial share quotations, the Dow-Jones composite average of 65 stocks barely surpassed the 1946 peak. Measured by Standard and Poor's broader index of 416 stocks, prices at the middle of June were still six per cent below the highest postwar level. This reflected not only the lag in railroad and utility stock prices, but also the fact that the low-priced industrial and other shares had recovered only part of their very large decline between 1946 and the middle of 1949. Thus, while Standard and Poor's index of 23 low-priced shares rose more than 60 per cent in the past year, as compared with a one-third increase for the composite index of 416 stocks, this advance carried the index of low-priced shares to only about 60 per cent of its May 1946 peak.

The rise in stock prices during the first half of 1950 was well sustained, with few setbacks until the invasion of South Korea caused a sharp break late in June. The upswing was accompanied by an expanded volume of trading. Turnover of shares through the middle of June was double that for the corresponding period of 1949. Trading was heaviest in April, when an average of almost 2.3 million shares a day changed hands. The volume of transactions also rose sharply during the break in prices following the start of hostilities in South Korea.

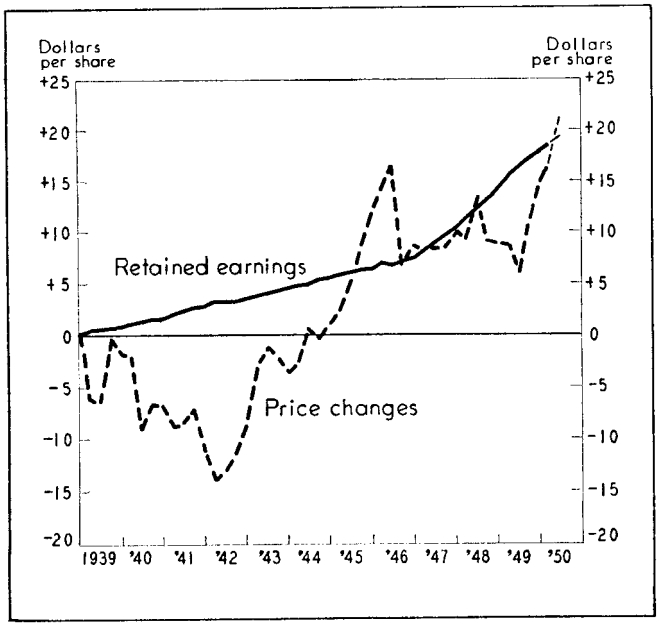
The enlarged trading volume and the rise in prices during the first half of 1950 were accompanied by a considerable expansion in the volume of stock market credit. Customers' debit balances rose markedly from about 680 million dollars

at the end of June 1949 to 1,175 million by May 31 of this year, and in June a further rise probably took place prior to the heavy liquidation of stocks toward the close of the month. Undoubtedly public participation in the market and, to a lesser degree, the volume of margin trading have been on the increase. But although the total volume of transactions this year through June reached the highest level since the corresponding period of 1936, customer borrowings remained considerably below the levels prevailing during a large part of the thirties.

The rate of advance in stock values generally in the first half of 1950 was slower than in the preceding six months, and prices of railroad and utility shares made little headway. The rise in industrials reflected the high level of business activity, spurred on by unprecedented automobile production, record construction activity, particularly in new housing, and the associated heavy consumer demand for household appliances, furniture, and furnishings. The industry groups that led in the advance of the stock market during the first six months of the year were, therefore, chiefly in the consumer durable goods—particularly the television shares, and the steel industries. This was in contrast to the upswing in the previous six months, when the most marked rise occurred among the soft goods and associated industries, including the shares of rayon, drugs and cosmetics, soap, and beverage companies. Stocks of automobile, paper, chemical, and leather corporations, however, showed sharp price increases in both periods.

Despite the advance in stock prices over the past year, dividend yields remained high, especially when compared with long-term bond yields. Increased dividend payments during the year held the decline, through the middle of June, in the average yield on issues included in Standard and Poor's daily index of 50 industrial stocks to no more than 16 per cent. The average yield on these stocks was still approximately 6⅛ per cent in mid-June.

Corporate Retained Earnings and Changes in Stock Prices*
(Cumulated quarterly from 1938)



* Both retained earnings and price changes relate to the 125 industrial companies included in Moody's weighted average of 125 industrial stocks; second quarter of 1950 estimated by the Federal Reserve Bank of New York. Latest figure for stock price changes, June 22.

Source: Moody's Investors Service; retained earnings per share computed by the Federal Reserve Bank of New York from Moody's data.

Although stock values advanced between a third and two fifths during the past year and several of the stock price averages reached the highest points in almost 20 years, stock price gains since the last full peacetime year (1938) have not done much more, on the whole, than keep pace with the growth of stockholders' equity in corporate enterprise resulting from the ploughing back of earnings, as illustrated in the accompanying chart. Although an unusually large part of corporate earnings have been accumulated and reinvested in the businesses in the postwar years, these retained earnings have accrued to the benefit of stockholders in the form of enhanced net worth, and have been accompanied over the period as a whole by increased share values, i.e., in the form of unrealized capital gains.

Bond Market

Prices of high-grade bonds declined slightly, and yields rose correspondingly, during the past six months. A drop from a year ago in corporate demand for capital was offset by the development of alternative outlets for savings in the residential mortgage credit field and in financing the heavy demands of State and local governments. The greatest decline in bond prices was in long-term, restricted Government bonds, reflecting sales of such issues by the Federal Reserve Banks, in response to investor demands, on a declining price scale. The record-breaking volume of new municipal bond flotations had but a limited effect on the prices of corporate and other taxable bonds, since the financial institutions (including those handling pension funds) which are the chief buyers of such bonds, gain little benefit from the tax-exempt feature of the lower-yielding municipal securities.

The continued decline in prices of the longest-term restricted Treasury bonds, the December 2½'s of 1967-72, carried the yield from 2.24 per cent at the end of 1949 to 2.42 per cent late in June 1950. Yields on the longest-term, bank-eligible Treasury bonds, the September 2½'s of 1967-72, moved more in line with those of other high-grade bonds, and rose from 2.09 per cent to 2.17 per cent over the past six months. In the same period, the average yield on a representative group of Aaa corporate bonds, as computed by Moody's Investors Service, rose from 2.58 per cent to 2.63 and that on a group of Aaa municipal bonds (also computed by Moody's), from 1.60 per cent to 1.67. Corporate and municipal bonds of lower quality showed somewhat larger increases in yields.

As a result of the movement of bond yields in 1950, the differential between the yields on corporate and Treasury bonds has narrowed considerably. This differential is narrow even in the case of new corporate bond issues, on which the

yield is somewhat more favorable than on seasoned issues. Despite the demand for funds from State and local governments and from mortgage borrowers, yields on long-term, bank-eligible Government and high-grade corporate and municipal bonds in the middle of 1950 were considerably below those prevailing in the middle of 1949; the rate of return on restricted Treasury bonds, on the other hand, was higher this mid-year than a year ago.

New Security Issues

The volume of new capital issues rose in each successive quarter following the low point in July-September 1949. Flotations of corporate security issues for new capital, according to data compiled by the *Commercial and Financial Chronicle,* amounted to about 2.4 billion dollars (partly estimated) in the first six months of 1950, and were thus approximately a third smaller than the total for the corresponding period of 1949. They were, however, considerably in excess of the 1.6 billion dollars offered during the second six months of last year. Refunding issues were sizable for the first time since the early part of 1947, and amounted to about one fourth of the total of all issues. Reflecting the substantial further advance in stock prices, public offerings of new common stock issues rose markedly. Sales of new preferred stocks were also well above last year's figures.

The sharp reduction in corporate financing this year from the level of the first half of 1949 can be traced in large part to a reduction in business expenditures on plant and equipment, to lower working capital needs, and to a decrease in new issues to repay bank loans. The larger volume of corporate financing so far in 1950 than in the second six months of last year came in the face of a 10 per cent reduction in capital expenditures and somewhat larger profits after taxes and dividends. Apparently working capital needs as compared with the second half of 1949 have increased, accompanying the higher levels of production and higher prices of raw materials in 1950. Business inventories rose during the first half of the year. Moreover, corporations needed additional funds to meet expanded payrolls, in many cases at higher wage rates, and to finance increased credit sales. These transactions absorbed substantial amounts of corporate liquid assets during a period when business normally pays off part of its indebtedness to the commercial banks. Although undistributed earnings in this period showed a small increase, corporations had to seek new capital to a greater extent than in the second half of 1949.

Nevertheless, the volume of security offerings was comparatively low relative to the supply of investment funds seeking employment. Throughout the period there were some "sticky" issues, but otherwise, especially when the pricing was realistic, offerings were readily purchased by ultimate investors.

June was the most active month for corporate bond flotations and an active period for new municipal bond offerings. The more favorable pricing of some of the new corporate bond issues in June brought the larger life insurance companies more actively into the market for corporate securities than they had been in preceding months.

In manufacturing, and particularly among corporations producing durable goods, corporate financing of new capital needs fell sharply in the first half of 1950 from the corresponding months of 1949. A decline of about one fourth in new public utility issues was attributable mainly to a decrease of about 50 per cent in telephone company financing. New issues of the railroads held up well, and were practically unchanged from the level of a year ago. Gas companies, principally natural gas (including gas pipe lines), and finance companies sought and obtained substantially more funds from the capital markets in the first six months of this year than in either of the two previous half-year periods.

Conditions during the past twelve months became increasingly favorable for the issuance of a large volume of refunding securities, almost all of which were bonds. Yields on long-term bonds had fallen considerably in the last six months of 1949 and had reached levels where, for the first time since the early part of 1947, it again became possible on a sizable scale for corporations to refund outstanding bond issues with new obligations bearing lower coupons. More than 800 million dollars of such bond issues, or three times the amount floated in the second half of 1949, were sold in the market during the first half of 1950.

The entire decline in new capital issues came in the flotation of bonds, which was reduced from 2.7 billion dollars in the first half of 1949 to 1.6 billion in the first half of 1950. Bond issues for new capital purposes, however, were more than 500 million dollars larger during the first half of 1950 than in the last six months of 1949.

Corporations obtained in the first half of this year the largest volume of equity capital since the first half of 1930. Despite the fact that the cost of equity capital remained high, corporations sold about 440 million dollars of new common stock issues. Undoubtedly the higher current levels of stock prices, in comparison with the low level of prices many corporations would have obtained from the sale of stock only twelve months previous, was a factor in many management decisions to offer new shares in the market. The upward trend of stock values had generated considerable investor optimism, and most stock issues were well received. Low margin requirements (25 per cent) on the purchase of newly offered shares also facilitated sales of new common stock issues. Although the shares of the public utility industry (particularly electric light and power companies) comprised more than half the total common share flotations, they nevertheless accounted for a smaller dollar amount than in the preceding six months. Sales of new equity shares by finance, chemical, and tobacco companies accounted for most of the gain in new common stock issues. Offerings of preferred stock issues also were larger in the first six months of this year than in either of the two preceding half-year periods.

The volume of securities sold directly to life insurance com-

panies and others showed no appreciable change between the second half of last year and the first six months of 1950, and was about one-third below the amount of directly negotiated issues in January-June 1949. Since the beginning of this year a new financial device, involving the purchase and lease of freight cars to railroads by one of the large life insurance companies, was developed. This type of financing, in effect, enables the railroads to buy rolling stock without any down payment such as is necessary when financing through equipment trust issues. However, banks and insurance companies have for many years been financing carrier purchases of railroad equipment in some instances with no down payment. Only recently, a commercial bank and a life insurance company cooperated in such an agreement with a railroad, with the commercial bank taking the first five annual maturities of the loan.

Another new development in the new issue market has been the private sale of new common stock to several open-end investment companies. Unlike private placements of bonds, it is doubtful whether this type of development will go beyond the sale of shares of companies already listed on a security exchange, since the open-end companies are dependent upon market quotations in their operations.

State and local government demands upon the capital market during the past six months continued to break all previous records. The total raised through the sale of tax-exempt obligations (1.9 billion dollars) was almost two thirds the amount sold in all of 1949 and 450 million more than in the corresponding half of 1949. Several large issues helped swell the total, and one State bonus issue for 375 million dollars brought the volume of veterans' aid bond offerings to over 500 million dollars, or almost twice the volume for the entire year 1949. For the most part, however, the large volume of municipal financing reflects large State and local government construction programs.

Considering the record-breaking volume of offerings, the market was able to absorb these issues rather well, although some difficulties arose. In a number of cases, underwriters had to cut offering prices to dispose of new issues, and in at least one instance even the dropping of prices did not stimulate sales enough to permit the syndicate to dissolve and close out the account. Although the *Blue List* compilation of offerings of "municipals" on dealers' shelves reached the record-breaking high of 202 million dollars toward the end of May 1950, that inventory was worked down to about 180 million in the middle of June, only to rise again to 197 million toward the end of the month. On balance, dealers' inventories, as reflected in the *Blue List,* have risen 43 million dollars in the last six months.

BANKING AND BUSINESS DEVELOPMENTS IN THE SECOND DISTRICT

Business conditions in the Second Federal Reserve District are good and banks are prospering, but farmers' income is below that of last year. This is the general tenor of reports made to field representatives of the Federal Reserve Bank of New York in their visits to more than 600 banks during the past three months. Bankers say that extra shifts and overtime work are again appearing in a few industries and that improvement has been shown in the clothing and other soft-goods lines which were working on shortened schedules earlier in the year. Bank loans and deposits are also holding up well and bank earnings appear to be at rates equal to, or better than, those of last year.

Despite these signs of prosperity, however, bankers throughout the District are voicing a good deal of concern about the future. There is a feeling that the average wage earner is overextended. The rather spotty situation in retail trade and the decline in soft goods are generally explained on the grounds that many people have committed so large a portion of their incomes to monthly payments on mortgages and instalment loans for the purchase of durable goods that they have little left over for new clothing. Bankers say that, while loan demand is active, it has deteriorated in quality. They point also to the lower incomes of farmers, particularly of dairymen and poultry farmers. This situation, it is said, has led to some tightening of credit and to more careful selection of risks.

Over-all, however, bank loans continue to increase. This increase has been accentuated during the past two months by the seasonal loan increases in the agricultural and summer resort areas and by the boom in the home construction industry, particularly in the New York metropolitan area and the suburbs of other large industrial cities. Mortgage loans and consumer credit loans have paced the advance and the demand for credit remains active.

There has been a slow but perceptible liberalization of instalment credit terms. On auto loans a one-third down paymen is still generally required, but terms up to 36 months are increasingly common. In the durable goods field, some of the more aggressive lenders are financing sales with a down payment of only 10 per cent, or even without any down payment. Delinquencies and repossessions, however, are still reported to be nominal.

Total commercial bank deposits in the Second District declined early in the spring, but this decline occurred almost entirely in New York City. Outside of New York City most banks reported gains in demand deposits, with time deposits showing only small changes one way or the other. Even those country banks whose demand deposits usually turn down seasonally in the spring have reported that the seasonal downswing has been less marked this year. In recent weeks, deposits in all sections are reported to be increasing.

During the first four months of this year, the growth of deposits in savings banks continued at a more rapid rate than was the case with savings deposits in commercial banks. In May, however, commercial banks made a somewhat more favorable showing. Interest rates on savings bank deposits continue to be a matter of concern to the commercial banks. The savings banks generally pay dividends of 2 per cent now

and many have been actively advertising this rate. Competing commercial banks, paying materially lower rates, have experienced some loss of deposits because of transfers to the savings institutions.

Business conditions are reported to be generally favorable throughout the District. Most manufacturing establishments outside New York City are working full time, and reports of large backlogs of future orders are occasionally heard. Weak spots still exist, particularly in the soft goods lines, but even here some improvement has been shown in recent weeks. In the dairy farming sections of the District, farm income is reported to be substantially lower, as farmers are being squeezed between lower milk prices and continued high prices for the things they buy. Competent farmers, however, are said still to have a margin of profit, although this has been considerably reduced. One reflection of this condition is a backing up of inventory in the hands of farm equipment dealers.

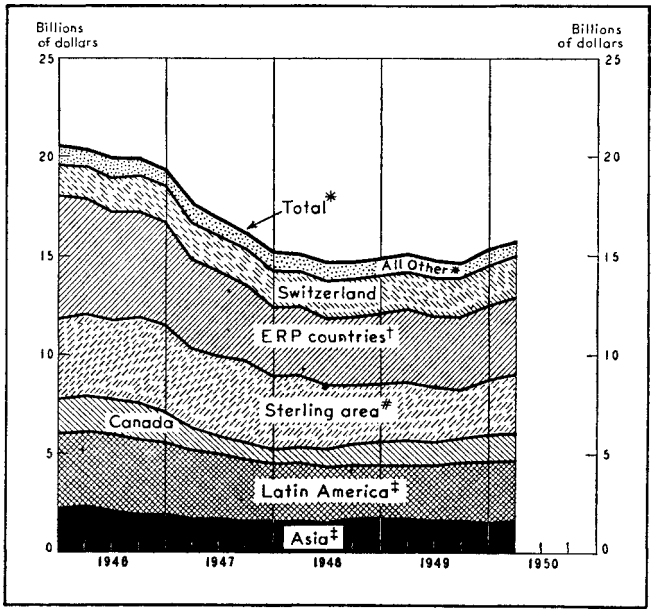
In addition to residential construction, which continues at high levels, a number of large industrial and civic projects are also under way in various parts of the District. Reports indicate that, in the next few years, very substantial sums will be spent on new schools, hospitals, and roads.

THE RISE IN FOREIGN GOLD AND DOLLAR ASSETS[1]

In the first six months after the currency devaluations of last September the gold reserves of foreign central banks and governments and the short-term dollar balances held in the United States on official and private foreign account rose more than 1 billion dollars to a total of about 15.7 billion. This improvement, which was partly but by no means exclusively related to the September currency realignments, was in sharp contrast with the decline of about 330 million dollars in foreign gold and dollar holdings in the six months preceding the devaluations; furthermore, it appears to have continued during the second quarter of 1950.

In the accompanying chart, the recent rise in foreign gold and dollar assets is shown against its postwar background. Such foreign holdings declined from 20.5 billion dollars at the end of 1945 to 15.1 billion at the end of 1947, but the rate of decrease greatly slackened toward the middle of 1948. In June of that year, three months after the beginning of the European Recovery Program, foreign gold and dollar assets stood at 14.6 billion dollars, the postwar low. They recovered somewhat in the latter part of 1948 and the first quarter of 1949, reaching 15.0 billion dollars in March 1949. In the second and third quarters of 1949, however, they declined again to 14.6 billion under the impact of a moderate recession in foreign merchandise exports to the dollar area and of the sterling crisis that led to devaluation of the pound sterling and numerous other currencies in September.

Foreign Gold Reserves and Short-Term Dollar Balances



* Excluding gold holdings, but including dollar balances, of the USSR. International institutions are excluded.
† Except the United Kingdom and Switzerland.
# Including the United Kingdom but excluding Eire and Iceland.
‡ Excluding sterling, French-franc, and Dutch-guilder areas.

Following the currency readjustments, aggregate foreign gold and dollar assets increased 570 million dollars in the last quarter of 1949 and 470 million in the first quarter of 1950. Totaling 15.7 billion dollars as of the end of March, foreign countries' gold and dollar holdings were 8 per cent higher than at the June 1948 low point; but they still were 23 per cent lower than they had been at the end of 1945, before such countries started to draw upon them on a large scale.

The postdevaluation rise in foreign gold and dollar assets, however, has been very unevenly distributed as between countries; the general pattern can be seen from the chart, while Table I gives details for the six-month periods immediately preceding and following the currency adjustments. The gold and dollar assets of the combined sterling area, which had shrunk about 460 million dollars during the six months ended last September, rose some 570 million during the following six months to 3.0 billion dollars at the end of March 1950. The gold and official dollar holdings of the United Kingdom alone[2] stood in March 1950 at 1,984 million dollars, as against 1,425 million at the end of September 1949.

[1] Unless otherwise stated, foreign gold and dollar assets, as here used, comprise the gold reserves and dollar balances held by foreign central banks and governments, and in addition the dollar balances held on private foreign account. The gold reserve of the USSR is excluded, but its dollar balances are included. Gold data are based, as a rule, on central bank statements, but in a few cases other holdings made public in various foreign countries have also been included. Where published data are incomplete or unavailable, figures have been partly estimated. Data on foreign balances in the United States are drawn from the statistics of the United States Treasury, and cover all short-term assets (i. e., deposits, short-term commercial paper, Treasury bills, etc.) held for foreign residents by banks in the United States.

[2] These official British figures, as released by the Chancellor of the Exchequer, differ in coverage from those given in Table I for the sterling area as a whole, inasmuch as official British holdings of Canadian dollars are included in the Chancellor's figures, while private United States-dollar holdings are excluded.

Table I
Foreign Gold Reserves and Short-Term Dollar Balances

Area and country	Millions of dollars									Per cent change in total holdings	
	March 1949			September 1949			March 1950*p*			March 1949 to September 1949	September 1949 to March 1950*p*
	Gold	Dollar balances	Total	Gold	Dollar balances	Total	Gold	Dollar balances	Total		
Canada	415	871	1,286	460	827	1,287	511	857	1,368	0	+ 6
Sterling area#	2,212	693	2,905	1,777	670	2,447	2,130	890	3,020	−16	+23
ERP countries (other than United Kingdom):											
Belgium-Luxembourg (and Belgian Congo)	665	193	858	740	166	906	707	162	869	+ 6	− 4
France (and dependencies)	571	202	773	545	191	736	545	182	727	− 5	− 1
Italy	102	393	495	258	280	538	258	266	524	+ 9	− 3
Netherlands (and Netherlands West Indies)	184	150	334	179	194	373	255	203	458	+12	+23
Sweden	80	51	131	70	62	132	69	106	175	+ 1	+33
Switzerland	1,408	505	1,913	1,485	509	1,994	1,527	576	2,103	+ 4	+ 5
Other ERP countries**	668	469	1,137	676	382	1,058	688	436	1,124	− 7	+ 6
Total	3,678	1,963	5,641	3,953	1,784	5,737	4,049	1,931	5,980	+ 2	+ 4
Other Continental Europe*	532	125	657	499	102	601	487	98	585	− 9	− 3
Latin America:‡											
Argentina	141	225	366	164	222	386	216	217	433	+ 5	+12
Brazil	317	98	415	317	145	462	317	141	458	+11	− 1
Venezuela	323	113	436	373	99	472	373	110	483	+ 8	+ 2
Other Latin America	700	804	1,504	726	819	1,545	789	883	1,672	+ 3	+ 8
Total	1,481	1,240	2,721	1,580	1,285	2,865	1,695	1,351	3,046	+ 5	+ 6
Asia:‡											
Philippine Republic	1	414	415	1	348	349	1	288	289	−16	−17
Other Asia	721	517	1,238	703	521	1,224	695	545	1,240	− 1	+ 1
Total	722	931	1,653	704	869	1,573	696	833	1,529	− 5	− 3
All other	55	65	120	55	85	140	82	80	162	+17	+16
Grand total	9,095	5,888	14,983	9,028	5,622	14,650	9,650	6,040	15,690	− 2	+ 7

p Preliminary.
Including the United Kingdom but excluding Eire and Iceland, which are included under "Other ERP countries."
** The data for this group of countries include gold to be distributed, as restitution by Germany, by the Tripartite Commission to European countries (including some non-ERP countries).
* Including the short-term dollar balances, but not the gold reserves, of the USSR.
‡ Excluding sterling, French-franc, and Dutch-guilder areas.
Note: The table covers reported gold reserves of central banks and governments (excluding the USSR) and official and private short-term dollar balances held by foreigners in the United States (including the USSR). Gold and dollar holdings of the International Monetary Fund, the International Bank for Reconstruction and Development, and the Bank for International Settlements are excluded. Gold figures are partly estimated.

The gold and dollar assets of countries other than the United Kingdom that are participating in the European Recovery Program increased some 240 million dollars in the six months ended March 1950; of this increase, Switzerland accounted for 109 million dollars, the Netherlands (including dependencies) 85 million, and Sweden 43 million. On the other hand, gold and dollar holdings of Belgium-Luxembourg (including the Belgian Congo) declined by 37 million, largely because of gold transfers to Switzerland and the repurchase from the International Monetary Fund of 20.6 million dollars' worth of Belgian francs.

Latin American gold and dollar assets rose 180 million dollars between September 1949 and March 1950, but this rise merely continued the replenishment of Latin American gold and dollar holdings that had begun early last year. Canada likewise continued to accumulate both gold and dollars, but the Philippine Republic drew heavily on its reserves.

Of the one billion dollar rise in foreign gold and dollar assets, in the six months ended March 1950, about 600 million was in the form of gold and some 400 million in the form of dollar balances. As can be seen from Table II, the United States made net sales of gold amounting to 331 million dollars to foreign countries during the six months ended March 1950, while in the immediately preceding six months foreign countries had sold gold to this country in the amount of 290 million dollars. In 1949 as a whole, net United States purchases of gold from foreign countries amounted to 230 million dollars; in 1948 they had reached 1.5 billion dollars and in 1947 no less than 2.8 billion dollars.

Gold from the United Kingdom to the amount of 446 million dollars, and from the Union of South Africa to the amount of 104 million dollars, accounted almost entirely for the United States purchases during the six months ended September 1949. On the other hand, Italy bought 114 million dollars from the United States during that period, while Belgium, Switzerland, and Latin America also acquired sizable amounts. During the six months immediately following devaluation Western European countries and Latin America continued buying gold from the United States; the United Kingdom bought 80 million dollars' worth, while Thailand and Egypt likewise purchased sizable amounts.

Foreign countries as a whole (excluding the USSR) increased their gold stocks in the six months ended March 1950 by some 600 million dollars to about 9.7 billion. Of this, about 270 million was accumulated in 1949—a development contrasting sharply with the countries' net loss of 1.2 billion in 1948 and 2.4 billion in 1947 (exclusive of their contributions to the International Monetary Fund).

Table II
United States Gold Transactions with Foreign Countries
(Net purchases (+) or net sales (—); in millions of dollars)

Area and country	March 1949 to September 1949	September 1949 to March 1950
United Kingdom	+446	− 80
Union of South Africa	+104	+ 24
Canada	0	0
ERP countries (other than United Kingdom):		
Belgium (and Belgian Congo)	− 33	− 32
Italy	−114	0
Netherlands (and Netherlands West Indies)	0	− 38
Switzerland	− 30	− 18
Other ERP countries	+ 1	− 4
Total	−176	− 92
Other Europe	− 2	− 3
Latin America:		
Argentina	0	− 50
Mexico	− 3	− 31
Venezuela	− 50	0
Other Latin America	− 19	− 29
Total	− 72	−110
Asia:		
Thailand	0	− 40
Other Asia	− 10	− 3
Total	− 10	− 43
Egypt	0	− 27
Grand total*	+290	−331

* Excluding net sales of 34 million dollars to the Bank for International Settlements from March 1949 to March 1950.

Gold output outside the United States and the USSR is currently running at an annual rate of about 800 million dollars. Apparently a much larger part of the newly mined gold than in recent years is now being added to official monetary reserves, as a result of the sharp drop in gold prices and the consequent heavy decline in the amount of gold disappearing in the free and black markets. In fact, in countries where sizable amounts of the metal are held in private hoards, some gold has reportedly been dishoarded as a result of the drop in prices that began in the latter part of 1949.

During the first few months after the currency adjustments, the increase in foreign gold and dollar assets seems to have reflected largely the nonrecurrent aftereffects of devaluation, but these factors diminished in importance in the early months of 1950. The reconstitution of the monetary reserves of many foreign countries now appears to reflect to a growing extent a basic improvement in their balances of international payments. This improvement in turn reflects the current decline in the United States' surplus of exports of goods and services. During the first quarter of 1950, this surplus was running at an annual rate of only 2.6 billion dollars, as against a 12.7 billion dollar rate in the second quarter of 1947, the postwar peak. The reduction in the United States' surplus resulted mainly from a decline in the annual rate of exports of goods and services by about 8.3 billion dollars; a second factor was the increase of 1.7 billion dollars in the annual rate of United States imports of goods and services.

The drop in United States exports of goods and services from the abnormally high level of three years ago reflects not only the recovery of agricultural and industrial production abroad but also the shifting of foreigners' purchases to nondollar sources of supply, to some extent because the currency devaluations have made dollar goods and services relatively more expensive, but primarily because many countries have tightened their import and exchange restrictions. Prior to sterling devaluation, the sterling area, for example, cut its purchases from the dollar area by 25 per cent.

The rise in imports reflects the resumption of large-scale purchases of raw materials by the United States, particularly from the sterling area and Latin America. By the end of 1949, most Latin American countries had export surpluses with the United States; and in the first quarter of 1950 the sterling area also attained a small current-account surplus with the dollar area, even without counting ECA aid. In both cases, the surpluses were largely the result of sales of raw materials to the United States at rising prices. While the increase in United States primary commodity imports appears to have represented in part additions to inventories, most of it reflected the increased consumption of such commodities resulting from the rise in business activity in this country. United States imports of manufactured goods from Western Europe, however, have not yet expanded in volume sufficiently to yield more dollars than before devaluation.

The rise in the gold reserves of the United Kingdom is also attributable in part to the cessation, largely under the impact of the sterling devaluation, of gold losses to Belgium, Switzerland, and Iran. A further, special factor in the improvement of Britain's reserve position has been the agreement reached last year with the South African Union under which essential imports into the Union were to be paid for in gold.

It is by no means clear, however, how long the over-all reversal of trend in foreign gold and dollar assets will continue. Large areas in Western Europe and in the Far East are still running sizable dollar deficits, and even the countries that are gradually improving their dollar position have not by any means achieved a dependable equilibrium in their international financial relations.

The current trend towards the replenishment of foreign monetary reserves depends to an important degree on the maintenance of the present level of United States imports from the primary producing countries at comparatively high prices Moreover, despite their recent rise, foreign gold and dollar holdings are still too small to provide a reasonable margin of safety for nondollar countries.

The replenishment of monetary reserves to more adequate levels greatly reinforces public confidence in the national currencies concerned. Without such confidence, which furthermore is intimately related to the pursuance of sound monetary, fiscal, and economic policies in the respective countries, there can be no relaxation of exchange controls. The strengthening in foreign monetary reserves that has thus far taken place will contribute to the creation of conditions propitious for the reestablishment of multilateral trading. It has

already provided a cushion against possible fluctuations in the dollar receipts of foreign countries and, if it continues, will be an important factor in the restoration of general currency convertibility.

Now that a high level of production has been attained in the ERP countries, the building up of foreign monetary reserves appears a desirable objective. While there is no room for complacency, the current progress toward this objective may fairly be regarded as encouraging.

THE INVENTORY SITUATION

Changes in the stocks of goods on hand play a highly important role in business fluctuations, and this has been particularly true during the past two years. To a considerable extent, the recent rise in production has been intensified by a switch from inventory liquidation to inventory accumulation.

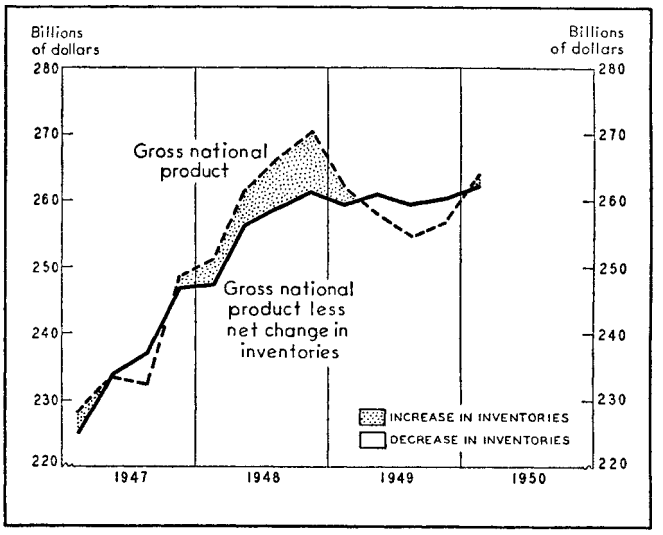
As shown in Chart I, the fluctuations in the over-all output of goods and services since the latter half of 1948 would have been relatively minor had it not been for the sharp changes in business inventories. Over-all production, as measured by the gross national product, declined from a seasonally adjusted annual rate of 270 billion dollars in the fourth quarter of 1948 to 255 billion dollars in the third quarter of 1949. Yet, if we eliminate changes in inventories to obtain the value of goods and services purchased by individuals and government bodies and of business investment in plant and equipment, the change between the two periods amounted to less than one per cent. On the other hand, while inventories were being added to in the fourth quarter of 1948 at the rate of 9 billion dollars a year, by the third quarter of 1949 they were being drawn down at an annual rate of 5 billion dollars. In the first quarter of 1950, this movement was reversed again and inventories once more began to be accumulated, at the rate of nearly 2 billion dollars per year. Thus, approximately three fourths of the rise in national output between the third quarter of 1949 and the first quarter of this year appears to have been attributable to the change in inventory policy. During most of 1949 we were consuming goods at a more rapid rate than we were producing them, whereas now, as in 1948, we are producing more than is being consumed currently.

The chart makes evident the importance of inventory developments in intensifying the expansion and contraction of business in recent years. In a period of expanding activity, like the present, many lines of business find it desirable or even necessary to increase their stocks of goods on hand. The retailer or wholesaler, who normally attempts to maintain a certain relationship between his sales and his stocks, tends to expand his inventory when sales start rising. When the manufacturer, in turn, responds to an increase in orders by increasing production, he increases his inventories of goods in process and his stock of raw materials needed to meet the higher production schedules. Frequently, moreover, when supplies of a commodity become tight in an active market and prices rise, businessmen attempt to protect themselves against longer delivery schedules and further price advances by increasing stocks.

Chart I

Gross National Product, 1947-First Quarter of 1950*

Before and After Change in Inventories



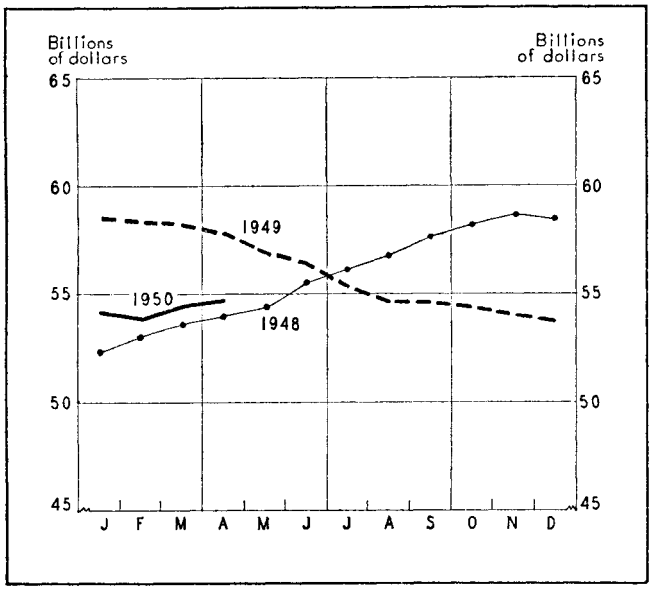
* Quarterly data at seasonally adjusted annual rates.
Source: U. S Department of Commerce.

Conversely, when business declines, inventories which not so long before were barely adequate can quickly become excessive in relation to the reduced volume of production or sales. At such times, as was the case in 1949, the cut in inventories is often sharper than the decline in sales, not only relatively, but also in absolute dollar amounts. While inventories on hand are being used up or sold, new orders may be cut almost to the vanishing point, with a cumulative effect upon suppliers' and manufacturers' sales and stocks. Declining prices likewise encourage the reduction of inventories with a view to minimizing losses.

Needless to say, the actual movements in inventories are not always closely geared to the volume of sales. A period of very high demand may temporarily deplete inventories, while a lag in sales may result in an involuntary accumulation of stocks.

The great importance of business inventory movements in recent years is illustrated by Chart II. These figures (estimated monthly by the U. S. Department of Commerce) represent the combined book value of manufacturers', wholesalers', and retailers' stocks, and are somewhat less inclusive than the quarterly data used in Chart I. The quarterly figures (compiled as part of the estimates of gross national product) also include changes in stocks on hand at farms, mines, and various other establishments and are adjusted for profits or losses arising from changes in the value of inventories on hand at the start of the period. Nevertheless, the bulk of inventories is held by manufacturers, wholesalers, and retailers and it is

Chart II
Total Business Inventories, 1948-April 1950
(Adjusted for seasonal variation)



Source: U. S Department of Commerce.

in their inventory policies that the most significant changes occur.

Two thirds of the decline in manufacturers' inventories during 1949 was in durable goods. In the course of the year, factory stocks of durable goods dropped 14 per cent, compared with a reduction of only 5 per cent in nondurable goods inventories. Over the same period, sales by durable goods manufacturers dropped 17 per cent, but sales of nondurables were off only 8 per cent. Despite the rise in sales of durable goods this spring, there was relatively little recovery in the durable goods stocks during the first four months of 1950. At the end of April, practically every industry in the durable goods group reported higher sales and lower stocks than a year earlier. This has sharply lowered the ratio of stocks to sales in many cases. For the durable goods group as a whole, the year-to-year increase in sales was 7 per cent and the decline in stocks was 15 per cent. These divergent movements reflect in part the natural lag in adjusting inventories to sales situations; a year ago, when sales had fallen markedly, stocks were still close to their postwar peak. The decline in durable goods stocks since a year ago also reflects the relative shortage of steel, nonferrous metals, lumber, and other durable materials at the current high level of operations. This is borne out by the decline of 300 million dollars in the value of purchased materials on hand at durable goods plants during the first four months of 1950, at the same time that goods in process (which reflect the rate of production) rose 500 million dollars. Because of the steady demand, finished merchandise stocks in the durable goods lines remained unchanged during the first four months of 1950.

Nondurable goods factories during the same months built up inventories close to year-earlier levels. Many of them have been increasing their stocks since the first of the year, notable exceptions being the producers of chemicals, cotton textiles, and petroleum products. At the end of April sales for the group as a whole showed a slight year-to-year increase, while stocks showed a slight decrease.

At wholesale dealers and retail stores, sales of durables have increased in the past year while inventories have become smaller. This tendency was particularly evident in the first four months of this year; automobile sales, in particular, reached unprecedentedly high levels and by the beginning of May had drawn dealers' stocks down to the lowest level in more than two years. For nondurable goods distributors, the situation has been quite the reverse; sales have been running behind a year ago, while stocks have continued to accumulate.

The United States Department of Commerce recently made a study of the long-term relationship between sales and inventories.[1] The study shows that, despite the recent rise in inventories, manufacturers' stocks are still lower than might be expected on the basis of sales volume, primarily in the nondurable goods industries. Wholesalers' sales and stocks are pretty much in line, but retailers' stocks are well below the level indicated by the long-term relationship. To a considerable extent, the divergence of stocks and sales at retail stores indicates the stores' increased efficiency in the use of stocks, particularly at high sales volume. It also reflects the tendency of retailers in recent years to order cautiously because of price uncertainties.

[1] *Survey of Current Business*, June 1950, pp. 3-4.

DEPARTMENT STORE TRADE

Sales in Second District department stores during June showed the first year-to-year gain in dollar volume since December 1948. On an average daily basis, June sales were estimated to be about 2 per cent above those of June 1949. Because sales increased contraseasonally, this bank's seasonally adjusted index of department store sales rose to about 242, the highest level attained since April 1949, at which time excellent spring apparel sales had raised the adjusted index to 244 per cent of the 1935-39 average.

Recent Changes In Forward Buying

The shortened forward buying position which the larger Second District department stores maintained during 1949 has not been continued into 1950 with the same degree of severity which marked the inventory curtailment policy of 1949. Although the net dollar volume of sales from January through May ran about 6 per cent under that of a year earlier, the District's department stores that report outstanding orders to this bank showed a tendency toward expanding inventories. Each month the dollar amount of orders from this group of stores on the books of manufacturers and suppliers showed a year-to-year increase of ever-widening proportions. By the end

Orders and Sales of Second District Department Stores*

Month	Percentage change from 1949 to 1950		Outstanding orders as a percentage of sales	
	Outstanding orders	Net sales	1949	1950
January	0	− 8	121	132
February	+ 5	− 7	136	154
March	+ 8	− 2	89	98
April	+16	−11	66	86
May	+18	− 1	59	70

* For a group of stores whose 1949 sales equaled more than half of the estimated Second District total. Outstanding orders are end-of-month data, sales are monthly totals.

of May, the amount of outstanding orders was fully 18 per cent above that of a year ago, although still almost 30 per cent behind the level of May 1948, when seasonally adjusted department store sales were close to an all-time high.

For the first five months of 1950 the retail value of end-of-month stocks remained virtually unchanged and receipts of merchandise were slightly lower compared with the corresponding periods in 1949. These facts, considered in the light of the year-to-year increases in outstanding orders, suggest that the bulk of the unfilled orders are for the durable or "big ticket" lines, for which demand is strong and deliveries are slower than in other merchandise lines. However, the belief held by many retailers that sales of the ready-to-wear lines will be as good next fall as they were poor last spring is likely to affect the composition of future orders. This optimism is reflected in the heavy influx of out-of-town buyers into New York City in recent weeks. The dollar amount of confirmed orders in the apparel lines for early fall delivery is expected to surpass the 1949 rate by a substantial margin.

As a result of the lower sales volume and the increase in outstanding orders from last year's levels, outstanding orders expressed as a percentage of sales, in each month thus far in 1950, have exceeded markedly the level of the comparable periods of last year. Store executives in this District apparently feel that in the light of the presently active condition of the general economy, a moderate inventory expansion is a worthwhile risk. A complete assortment of all lines coupled with attractive merchandising and well-planned promotional efforts are calculated to bolster fall sales to a point well beyond the sales volume of the disappointing 1949 fall season.

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

Item	1949	1950		
	May	March	April	May
Sales (average daily), unadjusted	231*r*	208	225	221
Sales (average daily), seasonally adjusted	236*r*	217	235	226
Stocks, unadjusted	229*r*	237	237	231
Stocks, seasonally adjusted	226*r*	231	230	228

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

Indexes of Business

Index	1949	1950		
	May	March	April	May
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	174	187	190	193*p*
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	253	280	284	284*p*
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	179	177	188*p*	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	334	345	344	349*p*
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	138	141	142	144*p*
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	110*p*	115*p*	113*p*	113*p*
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	313	333	337*p*	345*e*
New York State, 1935-39 = 100 (*NYS Div. of Placement and Unemp. Ins.*)	251*p*	275*p*	266*p*	269*p*
Personal income*, 1935-39 = 100 (*Department of Commerce*)	306*r*	325	316*p*	
Composite index of wages and salaries*‡, 1939 = 100 (*Federal Reserve Bank of New York*)	200	205	205*p*	
Consumers' prices, 1935-39 = 100 (*Bureau of Labor Statistics*)	169	167	167	169
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	107	103	111	112
Outside New York City	89	88	92	93

* 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.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial output rose further in May and June. Production of passenger cars and residential construction activity far exceeded earlier record levels. Retail sales were maintained at advanced levels with increases in the dollar volume in some cases reflecting higher prices. Consumer incomes were somewhat below peak levels reached earlier when heavy veterans' insurance payments were being made. On June 26, following news of war in Korea, prices of common stocks dropped sharply and commodities rose.

Industrial Production

The Board's production index rose 3 points in May to 193 per cent of the 1935-1939 average reflecting chiefly further increases in output of durable goods. Preliminary indications are that the index for June will equal or slightly exceed the former postwar record level of 195.

Steel production was at a new high in May and has been scheduled at about the same rate in June—101 per cent of this year's larger capacity. Activity in most steel consuming industries continued to advance in May. Automobile assemblies increased considerably, following settlement of a 100-day industrial dispute at the plants of a major producer. In mid-June assemblies were close to 200,000 units per week and nearly 45 per cent greater than in April. Machinery production rose in May for the sixth successive month with increases indicated for both consumer and producer equipment. For certain types of machinery, however, there were indications of some seasonal slackening in activity. In response to strong demands from the construction industry, output of cement, clay, glass, and lumber products was close to current capacity levels. Demand for nonferrous metals from the construction and machinery industries was augmented by large Government purchases for stockpiling purposes.

Following a small decline in textile production in the early part of the year, output increased slightly in May owing in part to continued expansion in demands for industrial uses. Output of rubber and petroleum products reached the highest levels of the year. Production of most paper and chemical products was maintained at capacity levels.

Bituminous coal output declined further in May but stabilized in June, while crude oil production increased steadily in May and June. Iron ore output rose considerably following the latest opening of the Great Lakes shipping season in many years.

Employment

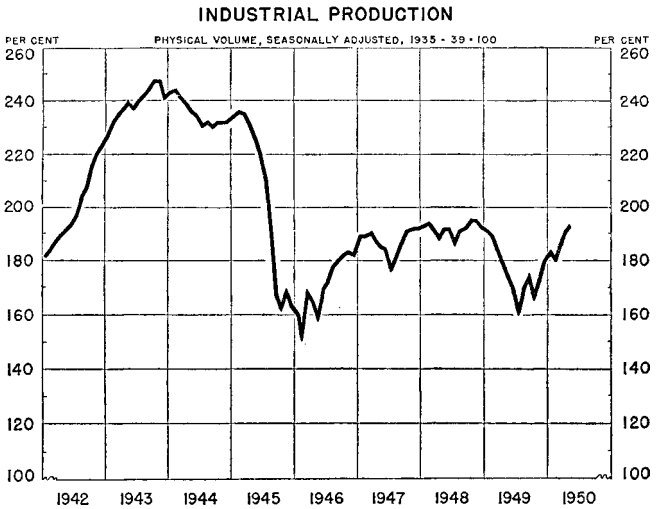
Nonagricultural employment, seasonally adjusted, expanded further by 300,000 in May, reflecting substantial increases in durable goods manufacturing and in construction; the total—43.5 million—was the highest figure in 15 months. Unemployment declined further to 3.1 million persons in early May which was about one-quarter million less than in the same period a year ago.

Construction

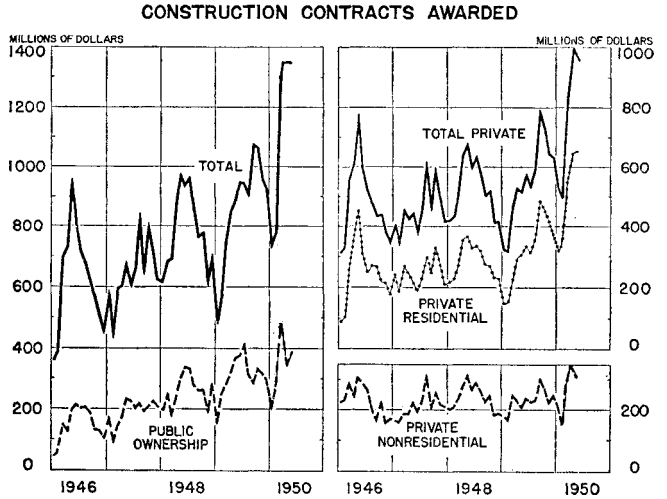
Value of construction contracts awarded in May continued at the very high April total. The number of new houses and apartment units started rose considerably further to 140,000 in May, as compared with 126,000 in April and 95,000 in May 1949. Most other types of construction activity also expanded.

Distribution

Department store sales in May and the first half of June have been at advanced levels reflecting some recovery in apparel



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



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

sales. Sales of housefurnishings have increased less than seasonally from the exceptionally high level reached in the first quarter. Stocks of these goods have apparently risen further, although April figures indicated that they were still not as large relative to sales as during the first half of last year.

Sales of most other retail outlets showed little change in May except for a sharp further increase in sales by building material dealers, reflecting in part a marked rise in prices. Automotive sales showed a somewhat more than seasonal expansion from the record levels prevailing earlier this year.

Commodity Prices

The general level of wholesale prices was higher in the latter part of June than in mid-May despite some decline in the second week. Increases in prices of farm products and foods largely reflected advances in livestock, meats, and imported foods. Prices of some other foodstuffs declined moderately, influenced by seasonal increases in supplies.

Prices of industrial materials generally advanced further by the fourth week of June and prices of some finished industrial products were raised, while television sets were reduced substantially.

The consumers' price index rose 0.8 per cent in May and some further increase is indicated in June owing chiefly to the higher level of retail meat prices.

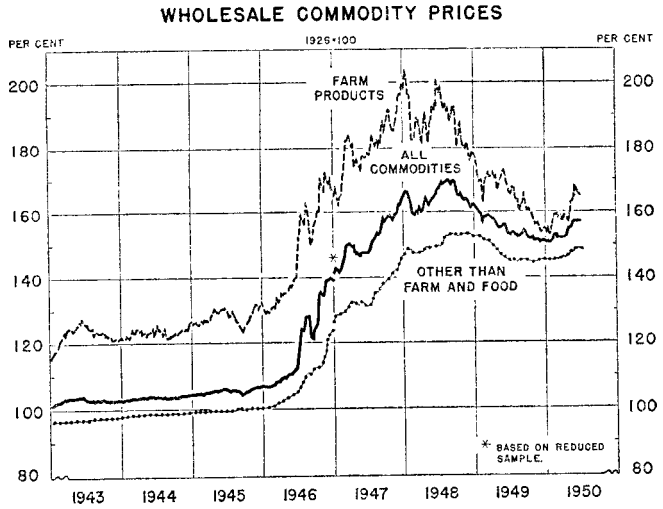
Bank Credit

Real estate and consumer loans showed their most substantial increases of the year at banks in leading cities during May and the first half of June. Strong demands for business credit were reflected in increased borrowings during early June. Bank holdings of U. S. Government securities expanded during May and the first half of June. Holdings of corporate and municipal securities also increased in June.

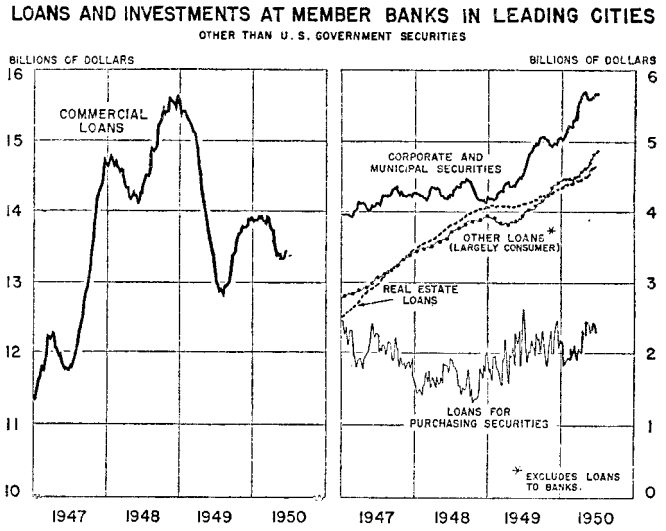
A reduction in Treasury balances at the Reserve Banks and an inflow of currency from circulation supplied reserve funds during the first half of June. Member banks reduced borrowings at the Reserve Banks and increased reserve balances. Subsequently, banks lost reserve funds as Treasury deposits at the Reserve Banks were built up through quarterly income tax collections. The Federal Reserve continued to sell Treasury bonds in response to market demand, but purchased a larger amount of short-term issues.

Security Markets

Common stock prices declined sharply in the latter part of June, after a marked further rise in the first two weeks, and on June 26 closed at the level of early April. Prices of long-term Treasury bonds declined moderately in June and a lesser decline occurred in prices of corporate bonds.



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended June 20.



Commercial loans include commercial, industrial, and agricultural loans. Wednesday figures; latest shown are for June 14.