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MONEY MARKET IN NOVEMBER

The money market in November was generally on the tight side as a result of seasonal demands for funds and the credit policy measures initiated in previous months. The Federal Reserve System was able to confine its release of additional reserve credit through net purchases of Government securities to a relatively small volume. Fluctuations occurred during the month in the market yields on all classes of Government securities, partly as a reflection of changing expectations concerning a rise in reserve requirements, and also partly in anticipation of, or in reaction to, the Treasury's December-January refunding terms (announced November 22). For the month as a whole, however, there were no substantial changes in yields.

Treasury bills moved out of the commercial banks, going in some volume into the hands of nonbank investors, particularly large industrial corporations. The increased demand for short-term Government securities by various groups of nonbank investors, accentuated by the rise in yields that has taken place since mid-August, also extended to the recently issued Treasury notes, and the Federal Reserve System, which has held the larger portion of these securities, was able to increase its sales of them especially in the latter part of the month. The Treasury's decision to refund its maturing $1\frac{1}{2}$ per cent bonds (December 15) and $1\frac{1}{8}$ per cent certificates (January 1) with a single issue of $1\frac{3}{4}$ per cent five-year Treasury notes was followed, as was expected, by a fairly sizable volume of "refunding" within the market during the last week of the month as some of the "rights" to the new offering were supplied by those holders whose investment requirements called for a shorter maturity. This involved the sale of securities maturing on December 15 and January 1 against purchases of Treasury bills, Treasury notes maturing in 1951, and some of the short-term Treasury bonds. Initial market reaction gave promise that the relatively attractive terms of the new issue would help in keeping Government securities lodged outside the Federal Reserve System in the months ahead, thereby reducing somewhat the likelihood of any further stimulus to inflationary pressures from a growth in Federal Reserve credit related to a net absorption of Government securities from the market.

The rise in the volume of the commercial, industrial, and agricultural loans of the weekly reporting banks, apparently associated largely with inventory expansion by commodity dealers and by trade and light manufacturing concerns, continued at roughly the same average rate in November as in October. The proportion of the national total accounted for by banks in this District, however, was considerably reduced in the three full statement weeks in November for which data have been received from all weekly reporting banks. Although there was a tapering off in the rate of increase in other loans (including consumer loans), possibly reflecting in part the impact of Regulation W, completion of construction started prior to the effective date of the new Regulation X in October was probably an important factor in accounting for a slight rise in the rate of increase of real estate loans during November. As further evidence of the Federal Reserve System's concern over the continued expansion of bank loans, Chairman McCabe of the Board of Governors sent each of the member banks on November 17 a letter which is reprinted in part on page 138 of this *Review*.

MEMBER BANK RESERVE POSITIONS

Member bank reserve positions appeared somewhat stronger for the country as a whole during the first half of the month than might have been expected in view of the prevailing tightness in the New York money market. The mid-month rise in

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"float" was largely responsible for bringing excess reserves above the one billion dollar mark by the middle of November. By the end of the third week excess reserves had fallen back to the neighborhood of 600 million dollars, and they continued at relatively low levels through the remainder of the month. The rate on immediately available Federal funds was generally from 1 per cent to 1 11/16 during November, but dropped briefly to 1/8-1/4 of 1 per cent at the middle of the month. Except for the brief mid-month ease, member bank borrowing was substantially higher than it had been in September and October, and the Federal Reserve System also absorbed bills, presumably in large part from the commercial banks, during the second and fourth weeks of the month.

The two weeks ended November 15 were a period of alternating contraction and expansion of bank reserves caused in large part by an unusual contraction and expansion of Federal

Reserve float, augmented by a substantial expansion and then a more moderate reduction in the volume of currency outstanding. Making for further strain during the first week of this period (ended November 8) were further foreign purchases of gold with funds taken from the market, while the offsetting effects of Treasury disbursements (net) and lower required reserves only partly relieved the positions of the banks. During the second week money became easier; the factors absorbing reserves did not bulk large, the main one being an increase in required reserves related to a rise in deposits.

Federal Reserve credit (excluding the float) expanded and contracted as a partial offset to other factors of change in the member banks' reserve positions, and in adjusting their reserve positions in periods of strain the banks relied mainly on temporary borrowings from the Reserve Banks and on sales of

CHAIRMAN McCABE'S LETTER TO MEMBER BANKS

The following is the text, slightly abridged, of a letter addressed on November 17 to all member banks of the Federal Reserve System by Chairman McCabe of the Board of Governors:

"The success of the battle against inflationary dangers depends in large measure upon maintaining a reasonable balance between available goods and services and the supply of dollars bidding in the market place. Since early summer the persistent and unprecedented rise in bank loans has been the major factor in the country's increasing money supply.

"From mid-year to mid-November total loans at all commercial banks rose well over five billion dollars. This was a much greater expansion than occurred in the corresponding period of any previous year on record. Continued growth of bank credit, not balanced by increases in production of civilian goods, would put additional upward pressure on prices, impairing the buying power of the dollar and adding to the cost of the Nation's defense program.

"The Board of Governors of the Federal Reserve System therefore again wish to call to the attention of every member bank the loan policy announcement of August 4, 1950, which was unanimously approved by the Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks. As you will recall, that joint statement stressed the importance of sensible and restrained action by businessmen, laborers, farmers and consumers, as well as governmental agencies, national and State, to curb excessive credit expansion

.

"The purpose of this letter is to request your utmost cooperation in helping to achieve the objectives of the . . . appeal. Every bank has it within its power to make an important contribution to sound money by limiting loan extensions, and by advising would-be borrowers to hold their borrowing requirements to the lowest limits consistent with their rock-bottom needs.

"We realize that bankers have been exercising selection in the kind of credit they are extending. The point we wish to emphasize is that in a period like this even sound individual credits are inflationary if, in the aggregate, they add unduly to a growing supply of money. With full employment, high level production, and rising wages and prices, almost everyone's credit appears to be good. Further expansion in bank credit means more dollars competing for limited supplies of labor and materials. Unless such expansion of credit is checked it is bound to raise prices. Defense dollars will soon be added to civilian dollars in competition for available goods. The Nation's defense needs must be adequately met without runaway prices.

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"Commercial banks can . . . do their part in bringing about restraint of credit by advising borrowers to avoid overstocking of inventories and to postpone unnecessary business expansion and by discouraging various types of loans that do not make a definite contribution to the defense effort. The sacrifice of some earnings at this time is a small price to pay for the defense of the dollar which is of paramount importance.

."

Treasury bills. Thus, the banks borrowed 180 million dollars in the week ended November 8 and repaid 220 million in the following week. Their sales of Treasury bills were substantial in both weeks, with nonbank investors absorbing most of their offerings in the first period, and the Reserve System in the second. Liquidation of Treasury bills in the week ended November 15 came largely from those banks outside New York City which apparently experienced net losses of funds. However, owing to the temporary character of the chief source of increased reserves during this week (the expansion of float), a large part of the banks' gains remained uninvested, and excess reserves, which had undergone no appreciable change in the preceding week, rose 320 million dollars.

Reserve positions of the central reserve city member banks in New York during these two weeks were affected by the same transactions that influenced the banking system as a whole, except for a large transfer of funds to other parts of the country. However, in the second week of this period, the outflow of funds was substantially smaller than in the first week. The reserve positions of the City banks were eased in the second week by sales of Treasury bills indirectly to the Reserve System in the New York market, rather than by the expansion of float, which did not materially affect the money market banks' positions.

The sharp decline in the float to the unusually low figure of less than 250 million dollars on November 8 and the subsequent expansion to nearly 675 million on November 15 reflected in part the influence of Election Day (November 7). The holiday served to delay the receipts of incoming checks at most of the Reserve Banks, thus initially contracting the float and then inflating its expansion in the following week. Aside from the usual seasonal upward tendencies at this time of the year, however, the major factor in the rise in the float (which continued to grow through most of the week ended November 22) was a sharp increase in the volume of checks written. This increase has reflected the rise in the aggregate value of business transactions which has accompanied the expansion of the volume of production and sales at rising prices, particularly since the start of the Korean war.

This same development has also been responsible for a much larger outflow of currency into circulation in November of this year than in the corresponding month of 1949. In fact, since the seasonal low point toward the close of July, the increase in currency in circulation (628 million dollars to November 29) has been about 3 times the seasonal increase in the same period of 1949. In addition, the Treasury built up its balances with the Reserve Banks in the latter half of November, and gold and foreign account operations drained a modest amount of funds from the market.

The pressure of these transactions was particularly heavy in the week ended November 22, and much less pronounced in the following week. Although commercial banks purchased some securities early in the third week of the month, mostly on the first day when reserve positions were still easy, the member banks of the country as a whole borrowed substantial amounts from the Reserve Banks and drew down their excess reserves by 480 million dollars later in the week when they began to experience sizable losses of funds. The need to replenish reserves was a major factor making for tight money market conditions in the last week of the month, and the commercial banks sold substantial amounts of short-term Treasury securities in adjustment of their reserve positions.

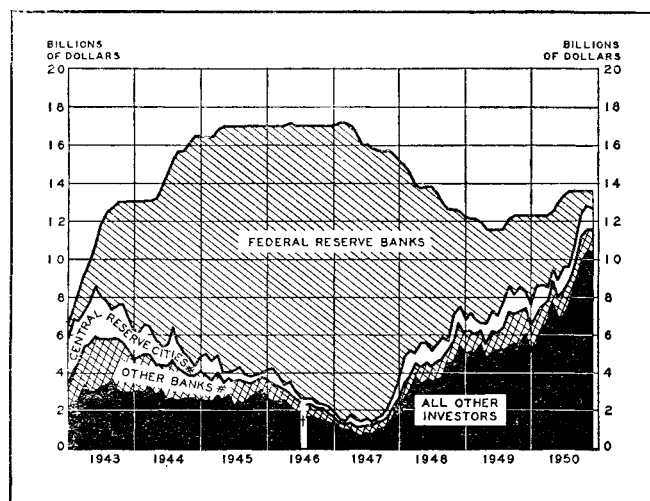
Conditions in New York City also remained tight in the second half of the month. A sharp decline in the amount of funds transferred to other parts of the country in the week ended November 22 was partly attributable to a substantial increase in the City banks' borrowings of Federal Reserve funds from out-of-town banks to meet losses resulting from an increase in currency in circulation and other transactions. Early in the last week of the month a very large shift of funds to other parts of the country further impaired the banks' reserve positions, although the flow of funds was reversed later in the week as storm conditions resulted in an increase in the float. City banks redeemed a portion of their holdings of maturing Treasury bills in both weeks in order to adjust their positions, and they borrowed heavily from the Reserve Bank as well as from other member banks in the week ended November 22. In the last week of the month, they were compelled to liquidate substantial amounts of short-term Treasury securities in order to reduce their borrowings as well as to counterbalance a deficiency of reserves incurred early in the week.

GOVERNMENT SECURITY MARKET

The average discount on new Treasury bill issues rose very gradually from week to week during the past month, starting at 1.341 per cent on November 2 and reaching a new high yield of 1.383 per cent for the issue dated November 30. The rising yield was not only a symptom of tight money market conditions but also a reflection of technical factors connected with the bidding for and issuance of the new bills.

As shown in the accompanying chart, holdings of Treasury bills by nonbank investors (and by nonreporting banks, whose holdings do not bulk large) have more than doubled since the end of 1949. A large part of this increase occurred between the end of July and the end of September and reflected a wholesale shift out of called and maturing Treasury bonds and certificates prior to their exchange for new $1\frac{1}{4}$ Treasury notes

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



* Latest figures are for November 15, 1950.

Weekly reporting banks.

† New series based on revised list of reporting banks.

on September 15 and October 1. The expansion prior to August and after September represents chiefly the investment of cash balances by large industrial corporations and others. Inasmuch as changes in the Treasury bill holdings of the weekly reporting member banks have been moderate and Federal Reserve holdings have declined substantially, it appears that the expansion of nonbank holdings has absorbed the entire 1.3 billion dollar increase in Treasury bills issued earlier in the year.

The Federal Reserve policy of making reserves less readily available and the resulting rise in short-term interest rates has undoubtedly had considerable influence in nonbank investors' decisions to increase their holdings of short-term Treasury securities rather than keep temporarily idle funds in noninterest-bearing demand deposits or in low-interest time certificates of deposit. This tendency to obtain the more attractive yields on short-term issues has apparently resulted also in sizable market purchases by corporations and others of short-term Treasury notes (including substantial amounts issued in the September and October refunding). Since the demand for these notes was greater than market supplies, the Federal Reserve System was able to dispose of progressively larger amounts each week, beginning in the week ended November 1, with the total for the five weeks ended November 29 (a week after the Treasury's latest refunding announcement) aggregating 561 million dollars. These sales, together with occasional sales of Treasury bills, have enabled the Federal Reserve System largely to offset its purchases of other Government securities and to maintain some pressure on bank reserve positions.

In line with the higher current yields on short-term securities, the Treasury announced an exchange of five-year, 1 $\frac{3}{4}$ per cent Treasury notes for eight billion dollars of bonds and certificates coming due December 15 and January 1, respectively. Although the announcement stimulated sales of the maturing securities in favor of bills and short-term notes and bonds, by those investors in need of short-term maturities, it also should have the effect of adding a large volume of intermediate-term securities at attractive yields to the holdings of the commercial banks and other financial institutions, thus reducing the incentive for them to dispose of Government securities in order to make loans. As a matter of technical interest, the refunding will have the effect of eliminating the certificate of indebtedness as a public debt instrument for the time being.

The announcement, however, occasioned a reduction in Treasury bond prices, particularly in the longest-maturing bank-eligible bonds and in the partially tax-exempt issues. Prices of ineligible bonds also moved lower, but in a narrow range. Prior to the announcement, the "long bank" 2 $\frac{1}{2}$'s of September 1967-72 had risen one full point by November 20, owing to the strengthening belief in the market that an increase in legal reserve requirements, feared imminent in preceding months, was likely to be postponed. Even the restricted Victory bond issue, assisted by a temporary let-up in the sale of ineligible issues by the life insurance companies, had risen 2/32 above what had been considered in the market as an apparent "floor" price (100 13/16). When the Treasury's announcement was made on November 22, the reaction in bond prices was sharper than might have been expected. In three days, the longest-term eligible bonds lost more than half the price increase of the preceding three weeks. Both partially tax-exempt and restricted bonds participated in the decline. In the latter group, the earliest maturity showed the largest decline, reflecting a decrease in the premium investors were willing to pay for earliest eligibility. The Victory bonds declined 4/32 to 100 $\frac{3}{4}$. Prices stabilized in the remaining days of November, and for many issues the end-of-month prices showed little change from those at the end of October, despite the relatively marked fluctuations that had occurred over the intervening weeks.

MEMBER BANK LOANS

Loans of the weekly reporting member banks continued to show about the same average increase in the three weeks ended November 22 as during the month of October. These increases brought the loan expansion since the end of 1949 to approximately 5 billion dollars, practically all of which has occurred in the last five months. It was in the light of the inflationary implications of this growth in loans and the smaller though

substantial increase in deposits, out of proportion with the much less rapid increase in the production of goods, that Mr. McCabe addressed his letter to the member banks on November 17 requesting them to exercise their leadership in urging customers to limit their borrowing to "rock-bottom" needs.

All major categories of loans rose over the first three full statement weeks of the month with the exception of loans to banks, which expanded in the first and third weeks but fell sharply in the second. Credits granted on the collateral of corporate and municipal securities rose moderately in the period but were still 306 million dollars below the peak for the year reached on June 28.

An expansion of loans to industry and trade accounted for the bulk of the increase in total loans of the weekly reporting member banks, averaging 167 million dollars a week in the three weeks ended November 22, as compared with 153 million a week in October (through November 1) and 246 million in September, the highest average weekly increase for any one month during this year. But there was a marked difference between the loan expansion of New York City banks and that for the combined other 93 weekly reporting cities. While the banks outside New York City showed, during the past few weeks, almost as high a weekly average increase in business loans as in September, the average increase in the same class of loans at the New York City banks was the lowest since July. Should the sequence of most previous seasonal patterns be repeated, this development may portend an early slowing down in the business loan expansion of banks outside New York City.

The over-all expansion in business and agricultural loans since the seasonal low point of the year had amounted to 3.6 billion dollars by November 22, nearly 3 times the increase in the corresponding period of 1948 and roughly 600 million dollars larger than the 1947 expansion, and brought the total on November 22 to a new all-time high record of 17.0 billion dollars. The rise in business loans has coincided with the marked expansion of business activity and commodity prices since June and largely reflects, at least in this District, substantial borrowings for the purpose of carrying and increasing inventories, particularly on the part of commodity dealers, concerns engaged in retail and wholesale trade, and manufacturers in the food, tobacco, and clothing and textile lines. Paradoxically enough, restrictions on consumer credit may have temporarily played a part in the expansion of the business loans of the banks. Sales finance companies have continued to increase their bank borrowings substantially, partly to finance the accumulation of inventories of automobile dealers resulting from the slow-down in sales following the tightening of Regulation W in October.

The growth of other loans (including consumer loans) slowed down for the fourth successive month, while real estate loans, which had increased at a slower pace in October than in preceding months, increased somewhat more rapidly again in November. The tightening of Regulation W with respect to consumer loans on October 16 probably accounts for the slower increase in other loans during November. Real estate credit may be expected to rise further, not only because the construction of many small homes was started prior to the effective date of the regulation, but also because the financing of construction of multiple dwellings and nonresidential building is not subject to credit controls.

INTERNATIONAL COMMODITY PRICE TRENDS

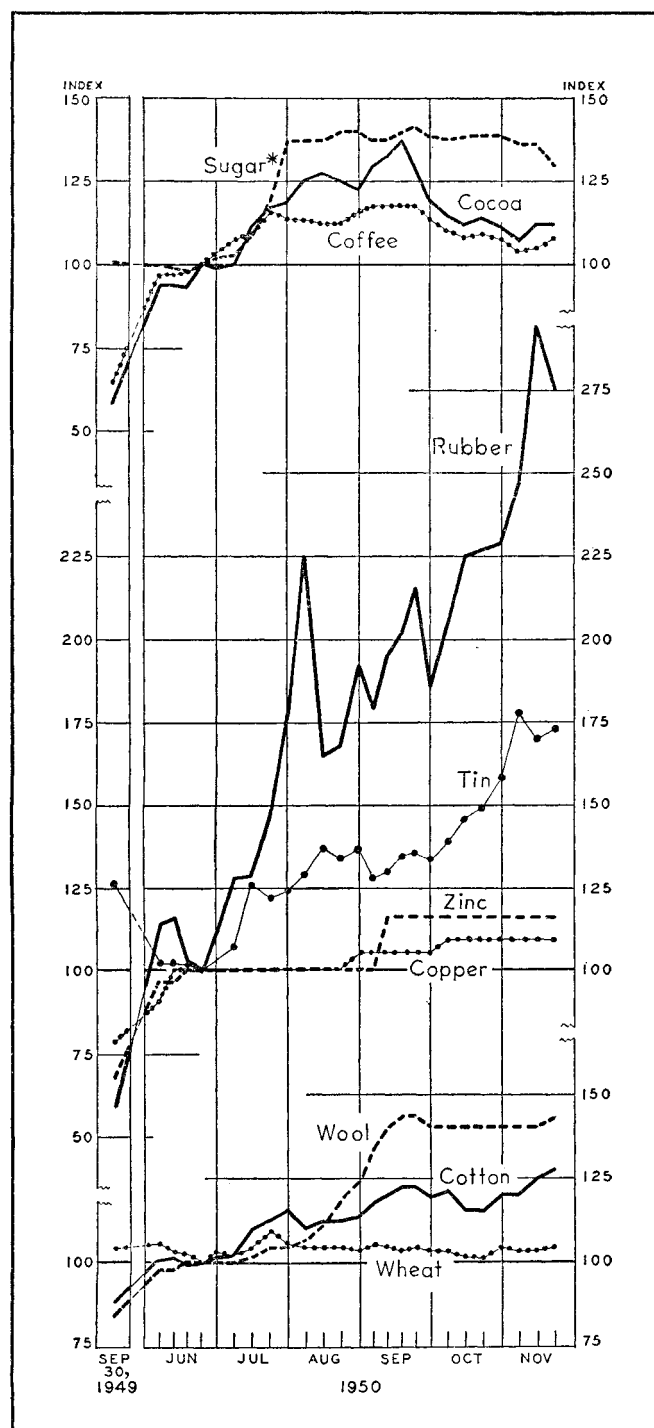
International basic commodity prices have had a pronounced upswing since the outbreak of hostilities in Korea, and this upswing has been superimposed on earlier advances that had followed a period of receding quotations in the first half of 1949. The earlier advances, which by mid-April had become fairly general, reflected primarily the return of boom conditions in the United States, the chief consumer of basic commodities. These earlier advances, however, were not fully sustained; by late spring they were beginning to cause a rise in production of some raw materials and a shrinkage of demand. By mid-June, indeed, the upward pressure in most markets had subsided, and prices of a number of commodities showed signs of softening. But then came the outbreak of the Korean war, which dissipated the specter of surpluses and started commodity prices moving upward once again.

The outstanding developments in world commodity markets since the invasion of South Korea have been: (1) a great upsurge and some fluctuation in the prices of the two leading Far Eastern commodities, rubber and tin; (2) a rise in world sugar prices accompanying a shift of the surplus holdings from producers to consumers; (3) an unusually rapid rise in world wool prices; and (4) stability of copper and zinc quotations during the first two months of the Korean war, followed by some price rise in these two metals. The accompanying chart and table show the price movements of selected international commodities, several of which have reached their all-time highs.

The primary factor behind the rise since the Korean invasion has been a heavy demand, on the part both of private purchasers and of various governments, for the purpose of replenishing and expanding stocks. This demand has been inspired by the fear that supplies might be cut off as a result of a spread of hostilities, by anticipations of increased needs from the defense sector, and by prospects or apprehensions of growing inflation. Many industrial consumers of world commodities

Dollar Price Movements of Certain Internationally Traded Commodities

(Indexes of end-of-week quotations in United States markets,*
June 23, 1950 = 100)



* The index of sugar prices is based on quotations in Cuba.

Source: United States Bureau of Labor Statistics, *Daily Index Numbers and Spot Primary Market Prices for 28 Commodities*; *Journal of Commerce*; *Wall Street Journal*.

who had been expecting a drop in the existing high prices were apparently caught with low stocks by the outbreak of the Korean conflict and therefore were eager to accumulate larger inventories. There also seems to have been much hoarding on both the wholesale and the retail levels; there is no clear evidence that speculative buying for re-sale has taken place on more than a limited scale. In the more recent stages of the Korean war, government stockpiling purchases, primarily in the United States, assumed important dimensions, and as the Western rearmament programs were speeded up, demand rose for materials required in the production of armaments and for other supplies for the armed forces. The upswing in industrial activity added further to the demand; however, the increase in current consumption was probably of less importance than the rise in demand for the purpose of expanding inventories.

Most of the panic buying appears to have worn off by late August, when the upsurge of prices began to slacken. However, the commodity markets have remained responsive to every change in sentiment, reacting immediately and vigorously to the shifting fortunes of the United Nations troops in Korea, to alterations in the outlook in other world danger spots, and to various changes and rumors of changes in government policies with respect to commodity inventories, stockpiling, and marketing. On the whole, a rising tendency has continued to prevail.

This rising price trend, as well as the prospect of severe shortages in some commodities, has caused considerable concern. The OEEC has undertaken surveys of key commodities and the preparation of programs for their international allocation and for a common stockpiling policy. The recent report by Mr. Gordon Gray to President Truman on this country's foreign economic policies, while stressing that interference with the normal flow of international trade should be held to the minimum, calls for international collaboration to direct supplies of scarce materials so as to make the greatest contribution to the common Western defense. Various producing groups, on the other hand, have been urging that preparations be made now to insure an orderly readjustment of the markets, and thus to protect the producing countries when the present exceptional demands will have been satisfied.

In the price advances since June 23 the pacemaker has been rubber. Not only has the rubber market recorded the largest price rise of any of the leading international commodities, but, because of its great sensitivity to political developments, it has also exhibited the widest fluctuations. Since nine tenths of the world's natural rubber comes from Southeast

Prices of Certain Internationally Traded Commodities
(Averages; in cents per pound)

Commodity*	1939	1948	1949		1950		Per cent increase, June 1-23, 1950 to Nov. 1-17, 1950
			Jan.-Aug.	December	June 1-23	Nov. 1-17	
Rubber.....	17.5	22.0	17.8	17.5	30.6	77.6	154
Tin.....	50.2	99.2	103.0	79.0	77.6	137.1	77
Wool.....	52	160	179	138	177	251	42
Sugar.....	1.5	4.2	4.4	4.4	4.2	5.7	36
Cotton.....	9.3	33.8	32.4	30.3	33.8	41.6	23
Cocoa.....	4.9	39.8	20.8	25.9	30.6	36.2	18
Zinc.....	5.5	14.2	14.1	10.5	15.4	18.2	18
Copper.....	11.2	22.3	20.2	18.5	22.1	24.4	10
Coffee.....	7.5	26.8	27.1	49.0	47.1	51.3	9
Wheat†.....	76	237	215	222	216	219	1

* Commodity specifications: *Rubber*, plantation, ribbed smoked sheets, New York. *Tin*, 1939, Straits; 1948-1950, Grade A, New York. *Wool*, 1939-1949, scoured, Australian 64-70's, good top-making, in bond, duty unpaid, Boston; 1950, fine staple territory, Boston. *Sugar*, 1939-1949, raw, 96°, Havana, official price, in warehouse; 1950, f.a.s. Cuba. *Cotton*, middling 15/16, average of ten United States markets. *Cocoa*, Acra type, f.o.b. New York. *Zinc*, prime western, New York. *Copper*, electrolytic, 1939-1949, Connecticut Valley; 1950, New York. *Coffee*, Santos No. 4, New York. *Wheat*, No. 2, hard winter, Kansas City.

† Per bushel.

Source: International Monetary Fund, *International Financial Statistics*; United States Bureau of Labor Statistics, *Daily Index Numbers and Spot Primary Market Prices for 28 Commodities*; *Journal of Commerce*; *Wall Street Journal*.

Asia, the invasion of South Korea and its threat to the peace of the Far East strongly affected the rubber market. New York rubber prices rose more than 200 per cent above their "pre-Korean" level and, although now somewhat lower, they are still the highest since the mid-twenties; this upswing was the more notable since quotations had already risen by 64 per cent in the nine preceding months. In recent weeks, rubber prices have been particularly sensitive to any increases in demand, as a result of an acute shortage of spot and nearby supplies. Meanwhile the price of the principal grade of synthetic rubber has been held unchanged at 18.5 cents a pound compared with an October average of 62.6 cents for natural rubber and, with an expansion of synthetic production getting under way, the longer-term position of natural rubber vis-a-vis synthetic rubber has been weakened. Since production of natural rubber also is increasing and, in fact, actually exceeds total current rubber consumption, some producing interests are understood to hold that from a long-term viewpoint lower prices would be advantageous.

Tin is the other commodity most immediately affected by the Korean war. About three fifths of the world's tin comes from Southeast Asia. Since the outbreak of the Korean war, New York tin prices have advanced in successive waves to as high as double their pre-Korean quotations, thus exceeding even the previous high recorded in 1918. However, the impact of the Korean war on the tin market has been eased by: (1) the decrease since World War II of the metal's importance as a strategic war material; (2) the existing large tin stocks, which exceed the pre-World War II level; and (3) the large excess of current production over actual consumption. In view of this excess, the Tin Study Group—an international committee established by the leading tin-producing and consuming countries—proposed last spring a world tin agreement to

regulate the market. An intergovernmental conference called by the United Nations to consider the draft of a tin agreement convened in Geneva late in October, at a time when all tin price records were being broken, but adjourned after four weeks without reaching agreement. The failure of the conference apparently reflected differences between the views of the United States, a major consumer, and those of the principal producing countries.

Copper and zinc prices, in contrast to tin, remained unchanged during the first two months of the Korean war, in spite of their exceptionally strong statistical positions and the fact that they are among the most important strategic war materials. Prices later rose somewhat but the demand-supply position remained tight, and leading producers are reportedly allocating supplies to their regular customers.

A very tight statistical position prevails in wool. Since World War II, the trend of the wool market has confounded all expectations. Consumption has increased some 15-20 per cent above prewar levels; since production has been little changed, the gap has been bridged by drawing on the wartime stocks accumulated by the British Commonwealth Joint Organization. By mid-1950 those stocks were nearly exhausted. With consumption rising and supplies short, prices advanced during the first half of the year, and the rise accelerated after the outbreak of the Korean war. At the opening of the 1950-51 Australian selling season in late August, prices were about 50 per cent above the previous season's close. Prices receded at subsequent sales, but only slightly. Meanwhile the International Wool Study Group, on which 30-odd producing and consuming countries are represented, has agreed on a price-support program which, however, is unlikely to start functioning for some time since the support level is about half the present market price. As to the more immediate problem, the Study Group estimated that high prices would cut consumption sufficiently to bridge the 10 per cent gap between the recent rate of consumption and the prospective supplies; the governments of the United States, the United Kingdom, and the three wool-producing Dominions expressed agreement with this con-

EUROPEAN PAYMENTS UNION

Publication in the September 1950 issue of the *Monthly Review* of an article explaining the purposes and functioning of the European Payments Union has led to numerous requests for copies of that issue. This bank has now had a reprint prepared of the article in question and will be glad to supply copies free of charge to interested readers. Requests for the reprint should be addressed to the Press and Circulars Division, Federal Reserve Bank of New York, New York 45, N. Y.

clusion, and stated that there was no justification for a general allocation system for wool. The five governments, after considering the current major supply problem presented by the heavy United States military demands for certain qualities of wool, further discussed the desirability of a system under which enough wool (about 10 per cent of the annual clip of the three Dominions) would be set aside to meet the emergency needs of the United States without impairing the present system of wool auctions. However, consultations which took place in Australia in the latter half of November for the purpose of examining this idea are reported to have found it impracticable.

In contrast to the wool market, the world sugar market before the beginning of fighting in Korea was facing a surplus. This surplus was estimated at nearly half a million tons by the International Sugar Council, and the Council therefore submitted a draft of an international sugar agreement to its member governments. However, sugar has always been sensitive to international disturbances, and war scare buying by housewives following the outbreak of the Korean conflict quickly converted the prospective surplus into an apparent shortage, leading the United States Government to augment United States supplies by the purchase of 600,000 tons from the balance of the last Cuban crop. Other countries joined in the scramble, and stocks in the exporting countries were therefore greatly drawn down, while world raw sugar prices rose 40 per cent by the end of July. Since then, with the subsidence of panic buying during August, prices have been comparatively steady. The increased purchases this summer were not, it should be noted, for actual consumption and seem merely to have led to a shifting of surplus stocks from producing to consuming hands.

The coffee market has been relatively quiet. In spite of the close current balance between production and consumption of coffee the Korean developments failed to give rise to an immediate wave of buying from consuming countries. By mid-July, however, the demand for green coffee on the part of United States roasters, whose stocks were relatively low, began to reflect the public's hoarding, and European demand also increased. As a result, by the end of the first four weeks of the Korean war, prices for the basic grade, Santos No. 4, had risen 15.5 per cent. Subsequently, prices at first softened somewhat; then, owing to unfavorable crop reports and stepped-up United States Army buying, they increased further to a new record high of 56.5 cents on September 1, but have since receded somewhat.

Cocoa, which is supplied primarily by British West Africa and Brazil, was not greatly affected by the outbreak of hostilities in Korea. Cocoa prices, after rising by the middle of

September to 37 per cent above their June 23 level, receded by November to only about 10 per cent above the June 23 prices. The main factor behind the rise in the cocoa market appears to have been the strong statistical position, reinforced by seasonal influences and some hoarding.

The commodity boom since the Korean invasion has had several important financial repercussions. In the first place, since a major share of world raw materials is consumed in the United States, the commodity price rise has greatly narrowed the world's dollar gap. The advantages of this new flow of dollars, however, have been felt primarily in the sterling area, Latin America, and Canada; the countries of Continental Europe, on the other hand, have been severely embarrassed by the resultant higher import costs, which have tended to affect adversely their terms of trade and to retard further improvement in their balance of payments. The United Kingdom also is feeling this unfavorable impact, while at the same time benefiting, as the banker of the sterling area, from the higher dollar proceeds of sterling area commodities. While increasing amounts of dollars are being earned by a number of sterling area countries, corresponding sterling balances are accumulating in London in their name, thus aggravating the existing sterling-balance problem.

Moreover, the internal monetary position of the primary-commodity-producing countries in the sterling area, as well as elsewhere, has been endangered by the rise in the prices of their exports. Because of the great expansion of incomes of exporters and producers in such countries, inflationary pressures have gained in strength. Similar dangers to internal monetary stability, originating on the cost side, can be observed in the consuming countries, as the increased prices of raw materials find expression in the prices of finished goods.

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THE GROWTH OF THE ELECTRIC POWER INDUSTRY

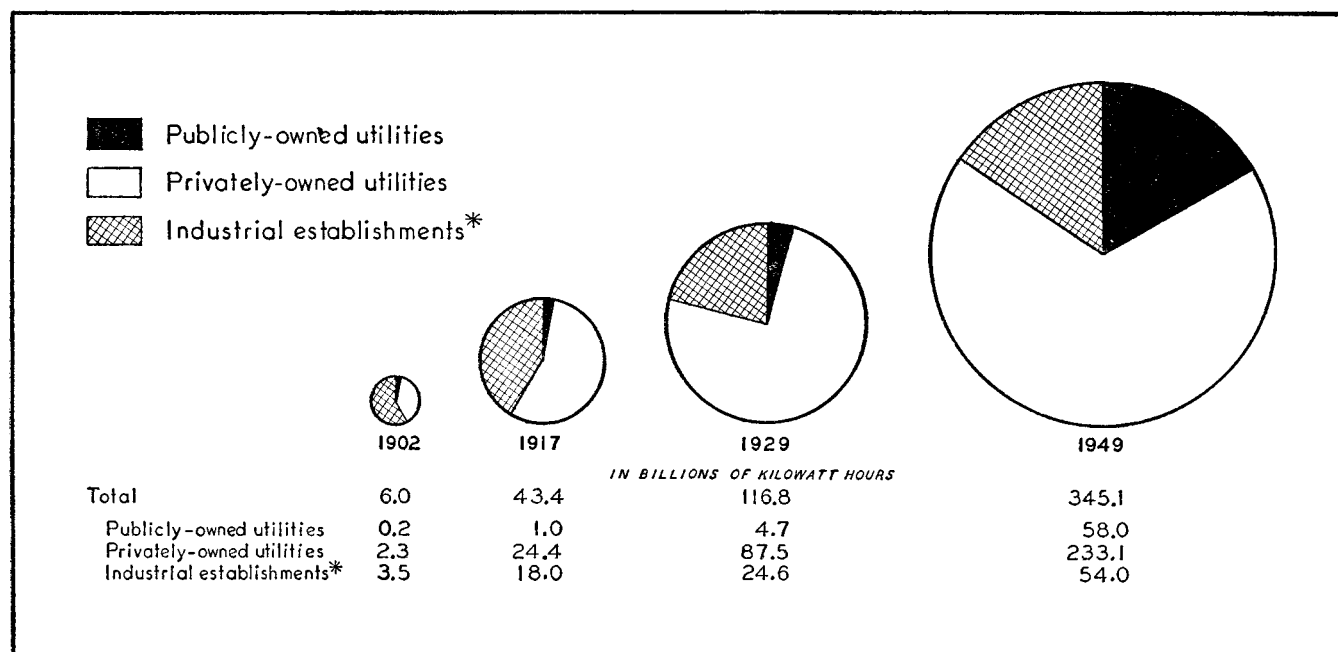
Electricity, which as a source of light and power was little more than a laboratory curiosity seventy-five years ago, is today an integral part of our economy, essential not only to industry, commerce, and the defense effort, but to our everyday way of life. Without electric power, the great advances in industrial production and in this country's standard of living during the past fifty years would scarcely have been possible. The average American has become quite used to having a ready supply of power in his home for all purposes—light, refrigeration, cooking, cleaning, entertainment, and a host of other uses. In fact, electricity is generally taken for granted until an emergency, such as the recent storm, arises. Industry, local transportation, and most other activities would be paralyzed without electric power. New York City's skyline would look far different had it not been for the high-speed electric elevators which made skyscrapers practical.

In a period of generally rapid industrial growth, the swift development of the electric power industry has been outstanding. Generating capacity has steadily increased and the distribution systems have spread throughout the United States, not only to the towns and villages, but to a large proportion of the scattered farms as well.

The world's first commercial power station was opened in 1882 in New York City. The generating plant, which was located on Pearl Street (only a few blocks from where this bank now stands), was able to serve an area of only 12 city blocks. Small electric power plants sprang up rapidly in many parts of the country, and there was often fierce rivalry between different power companies serving the same city or district. The output of these central stations was used mostly for lighting, and they served only limited areas. Before the end of the century, however, the development of motors suitable for industry and street railways broadened the uses of electric power, while the adoption of alternating current greatly extended the area which could be served.

In 1902, the year of the first census of electric light and power companies, most electric power was produced by industrial establishments for their own use, as shown in Chart I. At that time, factories and street railways generally preferred to generate their own power rather than buy it from power companies. Privately-owned utilities accounted for only three eighths of the output, while the publicly-owned plants (almost entirely municipal lighting plants) were a negligible proportion of the total. Between 1902 and the start of World War I, however, the use of purchased power grew rapidly, and the proportion of electric power output which was generated by

Chart I
Electric Energy Production by Class of Ownership



* Industrial establishments (including electric railroads and railways) generating electric power for their own use only.

Source: 1902, 1917, and 1929, *Historical Statistics of the United States, 1789-1945*, page 156; 1949, Federal Power Commission.

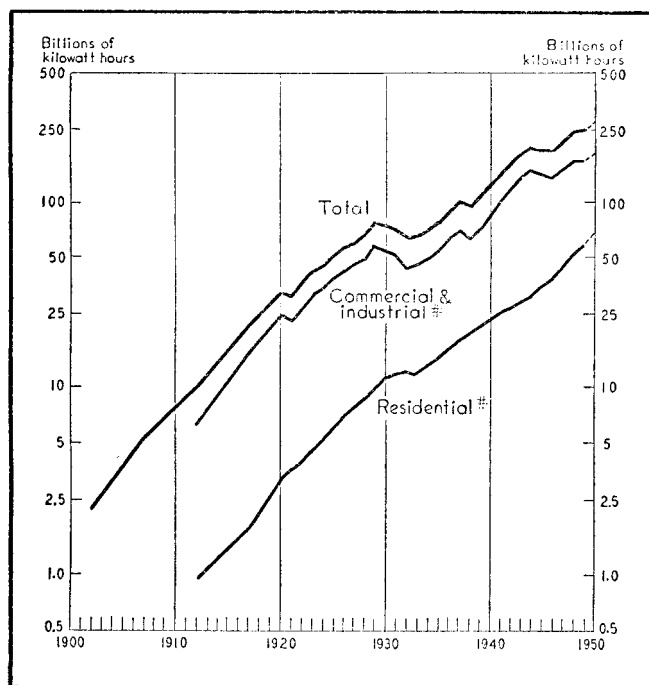
industries for their own use dropped from three fifths of the total to two fifths.

During the decade of the twenties, private utilities expanded sharply to keep up with the swiftly widening demand and improved technology. As transmission over long distances became feasible, an outstanding feature of this period was the growth of interconnecting power systems. Small, local utilities were replaced by far-flung power networks with marked advantages in reliability and economy. By 1929, privately-owned utilities accounted for nearly three quarters of all electric energy generated. Publicly-owned utilities, still mainly municipal, produced only 4 per cent of the total in 1929. But in the late thirties, public power rose swiftly as a result of Federal programs, such as the Tennessee Valley Authority, the Columbia Valley projects, and the rural electrification program. Since 1933, publicly-owned utilities have multiplied their output more than eleven times, mainly because Federally-owned projects have increased from an annual output of 0.5 million kilowatt hours in 1933 to 38.1 million in 1949. During the same period, privately-owned utilities tripled their production. By 1949, public power accounted for a somewhat larger share of total output than the production

of industrial establishments for their own use. Privately-owned utilities, however, generated four times as much power as either of the other sources.

As a result of this rapid growth in output, the United States not only produces more electric power than any other country, but accounts for between two fifths and one half of the world's total output of electricity. Despite this commanding position, however, the United States lags behind several other nations in the production of power relative to population. In 1947, the United States' production of 2,134 kilowatt hours per capita was exceeded by that of Norway (3,581 kwh per capita), Canada (3,576 kwh), and Switzerland (2,149 kwh), while Sweden was close behind with 1,979 kwh per capita. It should be noted that these other nations are countries with relatively large hydroelectric resources and relatively short transmission distances. The per capita output in the United States far outstrips that of such heavily industrialized countries as Great Britain (888 kwh per capita), Belgium (856 kwh), France (614 kwh), and Japan (416 kwh). Only rough figures are available for the U. S. S. R., but per capita output there was probably around 300 kwh in 1947.

Chart II
Sales of Electric Energy*



* Plotted on ratio scale to show proportionate changes.

Breakdown between commercial and industrial sales and residential sales not available prior to 1912.

Source: 1902-45, *Historical Statistics of the United States, 1789-1945*; 1946-50, Edison Electric Institute (1950 estimated by the Federal Reserve Bank of New York on the basis of the first eight months).

The greatest increases in the use of electric power prior to 1902 were in the field of electric lighting. In 1902, five sixths of utility revenues came from domestic and street lighting and only one eighth from sales of electricity for power. Many utilities operated only in the evenings; indeed, it was not until after World War I that 24-hour operations became general. Between 1902 and 1917 the applications of electric power in industry made great forward strides, and since World War I the development of a wide variety of household uses has been particularly important. The rapid growth of both commercial and residential sales is traced in Chart II.¹ Residential sales present a record of virtually uninterrupted expansion, but, as might be expected, sales for commercial and industrial use reflect the fluctuations in business conditions. In fact, this responsiveness to changes in economic activity has made electric power statistics a valuable business indicator in the last couple of decades.

The steadily growing electrification of American industry is shown in Table I. Fifty years ago, factories in this country had at their disposal less than 10 million horsepower in power equipment, and less than 5 per cent of this was electrical.

¹ The total kilowatt hours shown in Chart II differ from those shown in Chart I because Chart II covers only the sales by companies producing for public use. Power generated by industrial firms for their own use is excluded from Chart II, as is also the power generated by utilities but lost in transmission or used by the utility companies themselves.

Table I
Electrification of American Factories, 1899-1939
(Horsepower in millions)

Census year	Total primary horsepower*	Horsepower of electric motors			Per cent electrified#
		Total	Operated by purchased energy	Operated by energy generated in the plant	
1899.....	9.8	0.5	0.2	0.3	5
1914.....	21.6	8.4	3.7	4.7	39
1919.....	28.4	15.6	9.0	6.6	55
1925.....	34.4	25.1	15.1	10.0	73
1929.....	41.1	33.9	21.8	12.1	82
1939.....	50.5	45.3	29.2	16.1	90

* Prime movers (including generating equipment) plus electric motors operated by purchased energy.

Total horsepower of electric motors as a percentage of total primary horsepower.
Source: *Sixteenth Census of the United States: 1940, Manufactures: 1939*, Volume I.

Most of the prime movers at that time were steam engines or water wheels, and industrial establishments were generally a maze of shafts and belts. By the end of World War I, more than half of the equipment in American factories was electrified, and nearly one third was operated by purchased energy. By 1939, the total horsepower of electric motors in American factories was equal to 90 per cent of the total primary horsepower available.² Although total horsepower in manufacturing increased more than fivefold between 1899 and 1939, the horsepower of nonelectrical prime movers in factories in 1939 was little more than half what it had been in the earlier period.

Electrical machinery brought a number of advantages to manufacturers over the old shaft and belt methods. Many operating economies were realized: Plant layout could be more efficient, space and capital devoted to a power plant were saved, and breakdowns were localized. Working conditions in electrically powered plants were cleaner and safer. One of the most important effects of electrification was to afford industry much greater flexibility in the choice of a location. Power could now be brought to factories almost anywhere they located, and reductions in the cost of electric power made power costs a much less important factor in choosing a site. Thus, industry was free to base its choice of a location on proximity to raw materials, markets, labor supply, or other pertinent factors. On the other hand, large supplies of cheap electric power made possible the rise of large industries, such as aluminum refining and electrochemical production, and determined their location in particular areas.

The average factory worker in 1899 was aided by 2.18 horsepower in power machinery, of which less than 1/10 of a horsepower was electrical. The 1939 factory worker, how-

ever, was assisted by an average of 6.42 horsepower in power machinery, of which 5.76 horsepower was electrical. The increasing use of power equipment was unquestionably a major factor in the marked rise in industrial productivity during this 40-year period. For commerce and industry generally, no measure of horsepower per employee is readily available, but the number of kilowatt hours used per employee³ rose from less than 1,200 in 1920 to more than 5,000 in 1949.

Not only has the electric power industry itself grown rapidly to a commanding position in the American economy, but it has both fostered and been fostered by an ever-growing group of electrical equipment industries. The growth of firms producing heavy equipment, including turbines, generators, and motors, has already been indicated by the description of the increasing electrification of industry. Other large and expanding categories are the household appliance group and the radio and television industry, neither of which could have reached its present size without the spread of electric power to the overwhelming majority of American homes. On the other hand, the sharp and steady rise in residential sales of electric power is in large part a result of the increasing use of all sorts of electrical appliances in the home. By 1927, a majority of the nearly 18 million homes with electricity had electric irons and vacuum cleaners, and many other appliances were coming on the market. At the beginning of 1950, there were more than twice as many wired homes (approximately 37.2 million) as in 1927, and less than 11 per cent of American homes were still without electricity. According to the estimates of *Electrical Merchandising*, 88 per cent of the wired homes had electric irons in January 1950, 79 per cent had mechanical refrigerators, 76 per cent had electric clocks, 69 per cent had electric washing machines, 67 per cent had toasters, and 53 per cent had vacuum cleaners. Out of the grand total of 41.7 million homes in the nation, 94 per cent were estimated to have one or more radios, while 9 per cent had television sets in January 1950. The postwar buying of consumers' durable goods has included large numbers of a wide variety of electric appliances including ranges, home freezers, mixers, and blankets. By means of these electric devices, much drudgery has been removed from housekeeping, many comforts and conveniences have been added, and the general standard of living has been raised.

A particularly sharp expansion has taken place in the consumption of electricity on farms during the past fifteen years. In 1935, only 11 per cent of all farms in the United States were receiving power from central stations, whereas now 85 per

² The Census of Manufactures for 1947 dropped the questions on power machinery; thus, 1939 figures are the latest comprehensive data available. The trend toward electrification of industry undoubtedly continued during the war and postwar period.

³ Based on the number of employees in nonagricultural establishments other than government, public utilities, railroads, and other transportation.

Table II
Installed Generating Capacity of Electric Utilities and Rate of Use
Selected Years, 1902-50
 (Capacity in millions of kilowatts)

End of year	Grand total (utilities and industrial establishments)*	Electric utilities			Kilowatt hours produced per kilowatt of capacity#
		Total†	Hydro	Steam	
1902.....	3.0	1.2	0.3	0.9	2,068
1917.....	15.5	9.0	2.8	6.1	2,828
1927.....	34.6	25.1	6.8	18.1	3,007
1932.....	42.8	34.4	9.3	24.6	2,309
1939.....	49.4	38.9	11.0	27.0	3,284
1945.....	62.9	50.1	14.9	34.1	4,440
1949.....	76.1	63.1	16.7	44.6	4,613
1950†.....	81.4	67.5	n.a.	n.a.	4,741

n.a. Not available.

* Includes capacity both of utilities generating for public use and of industrial establishments (including electric railroads and railways) generating for their own use only.

† Includes also a small amount of internal combustion generating capacity.

Total production by utilities during each year divided by capacity at the end of the year. For 1950, production for the 12 months ended October 31, 1950 was divided by capacity at the end of that period.

† October 31, 1950.

Source: 1902-45, *Historical Statistics of the United States, 1789-1945*; 1949-50, Federal Power Commission.

cent are connected with power lines. Nineteen States reported that by June 30, 1949 more than 90 per cent of their farms had been electrified. More than half of the increase in farm electrification has resulted from the activities of the Rural Electrification Administration since it was created in 1935. Approximately one half of the farms now getting power are served by systems financed by the REA. The availability of electricity not only has markedly raised the farm standard of living, but also has increased operating efficiency and aided in farm mechanization. In the West, one of the most important uses of electric power on farms has been the operation of irrigation pumps, aiding in the cultivation of areas which otherwise would have yielded little.

Behind these sharp gains in production and consumption is the steady increase in generating capacity, as shown in Table II. During the first three decades of this century, the installed capacity of utility companies roughly doubled once every six years. The capacity in industrial establishments generating their own power quintupled during this period, but could not begin to keep pace with the 30-fold increase in utility capacity. This exceptional rate of growth lagged somewhat during the thirties, but the need for large amounts of electric power in World War II resulted in a sharp further expansion. Since the war, the expansion of generating capacity has continued. The latest data show total generating capacity of over 80 million kilowatts compared with less than 50 million at the start of World War II.

Not only has this country's basic capacity to produce electric power risen sharply in the past half century, but the utilization of that capacity has also shown a marked increase. At the end

of 1949 the generating capacity of utilities was 52 times as great as in 1902, but the amount of power produced by those utilities was 116 times as great. This has resulted both from the greater efficiency and from the fuller use of facilities than formerly. In 1902, each kilowatt of capacity produced an average of 2,068 kilowatt hours of power, representing utilization less than 24 hours out of every 100. As interconnected systems developed and the use of power widened, utilities were able to reduce to some extent the divergence between the peaks and valleys of daily demand. Special rates were offered for off-hour consumption, and the sharp rise in residential consumption, centered in the evening hours, helped to compensate for the peak in industrial use during daytime hours. By 1939, production per unit of capacity was 3,284 kwh, or 37 hours out of every 100. Under wartime pressures, the rate of use rose to a peak of 4,639 kwh in 1944. Despite the large increase in capacity since the war, the sharply increased demand forced utilization up still further to an all-time peak during 1948. Each unit of capacity operated an average of nearly 5,000 hours or 57 per cent of the theoretical maximum. Peak operations for a utility may be reached only during a few hours each year when the daily and seasonal peaks coincide; even then allowance of extra capacity must be made for emergencies, breakdowns, and repairs. Thus, the present over-all operating rate represents a great achievement.

The current defense program is certain to impose additional demands on the power industry. In particular, the need for increased aluminum production will call for large quantities of electric power. This nation has increased its generating capacity far above the levels prevailing at the start of World War II, but during the same period the demands of industry and consumers have also increased tremendously. The importance of continued expansion of electric facilities has been recognized by the National Production Authority, which for three months is exempting the power industry's requirements for aluminum conductors from the 35 per cent cut which it has ordered in civilian aluminum use starting January 1, 1951.

REGULATION V LOANS

The Board of Governors of the Federal Reserve System published in November a pamphlet entitled "A Statistical Study of Regulation V Loans". This technical study of V loans during World War II was prepared by Susan S. Burr and Elizabeth B. Sette of the Division of Research and Statistics of the Board of Governors. The price of the pamphlet is 25 cents per copy up to ten copies and 15 cents per copy for larger shipments. Requests for copies should be addressed to the Board of Governors of the Federal Reserve System, Washington 25, D. C.

It has been reported that private electric light and power companies plan to spend close to 1.5 billion dollars on new construction (not including machinery) in 1951, an increase of 10 per cent over their 1950 outlays, and many utilities have extensive expansion plans for the years beyond. Thus, the electric power industry seems certain to continue the growth which has contributed so much to the American economy in the past half century.

DEPARTMENT STORE TRADE

During November, the dollar volume of department store sales in the Second District is estimated to have been about 2 per cent below that of November 1949. This was the first year-to-year decrease in this District since April of this year.

Adverse weather conditions during the month were particularly harmful to sales. Unseasonably warm weather early in November blunted the usual seasonal upswing in outerwear apparel sales. The severe wind and rain storm of Saturday, November 25, almost completely crippled retail activity in the New York metropolitan area and seriously affected department store sales in Upstate New York cities.

In New York City, sales of major household appliances during the week ended November 18 were unchanged from a year ago, following two consecutive weeks of year-to-year increases. The year-to-year increases in radio-television sales during the early part of November gave way during the week ended November 18 to a decline (of 11 per cent) from the corresponding week a year earlier. This marked the first

year-to-year decline in radio-television sales since the first week of July, when the comparison was affected by the fact that some stores were closed on July 3, 1950.

DEPARTMENT STORE INVENTORIES IN OCTOBER

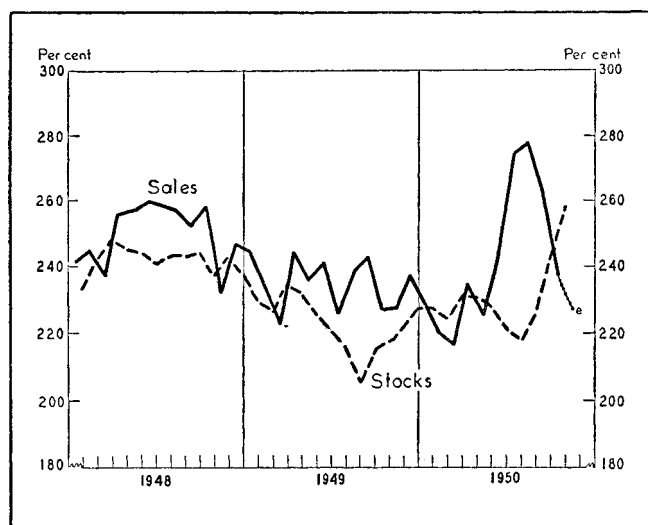
The retail value of stocks on October 31 at Second District department stores surpassed any previous end-of-month inventory recorded in this District. After four months of intensive inventory accumulation, the estimated dollar volume of stocks held by Second District stores at the end of October was 355 million dollars, some 15 million dollars more than the former record amount attained on November 30, 1948. Moreover, as November is usually the peak month in the normal pattern of the Christmas season inventory buildup, the dollar volume of department store stocks on November 30 this year may have been even greater than at the end of October, although no data on this point are yet available.

Aside from seasonal growth, the month-to-month rise in the dollar volume of stocks since August of this year has reflected to some extent the current upward trend in the retail prices of apparel and housefurnishings. However, when comparing the value of stocks at the end of October with the value on November 30, 1948, the converse is true with regard to apparel, the major component of total department store stocks. For example, the retail prices of apparel in New York City were substantially higher during November 1948 than they were during October of this year. On the other hand, housefurnishings prices during October edged ahead of the November 1948 level.

While some retailers have predicated the building up of stocks on the premise that buying this Christmas season will exceed any previous Christmas volume, other trade circles attribute much of the present inventory accumulation to an anticipation of further increases in prices at all levels of distribution. With the prospects of higher replacement costs in the near future, department stores have invested heavily in stocks of most merchandise lines that are not particularly sensitive to seasonal buying or style changes, as well as in those lines for which consumer demand is exceptionally strong during the Christmas shopping season. The year-to-year increase in stocks in October was virtually store-wide. The amount of stock of many of the hard-goods lines in which shortages were expected, particularly after the unusually heavy sales of the past several months, was notably higher than a year ago.

Included in the accompanying table are the stock-sales ratios¹

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



e November 1950 estimated.

¹ The ratio of stocks to sales is obtained by dividing stocks at the end of the month by sales during the month and hence indicates the number of months' supply on hand at the end of the month in terms of sales for that month.

October Ratio of Stocks to Sales for Selected Department Store Merchandise, 1939, 1946-50*
Second Federal Reserve District

Department	1939	1946	1947	1948	1949	1950
Total store.....	2.6	2.9	2.6	2.6	2.7	3.2
Domestics.....	3.7	1.5	1.9	2.9	2.9	3.7
Hosiery.....	2.2	1.2	1.5	2.1	2.1	3.9
Women's and children's shoes.....	4.6	2.6	3.6	3.7	4.3	4.9
Men's furnishings.....	4.1	3.4	4.1	3.8	4.3	4.6
Domestic floor coverings.....	3.2	2.9	1.8	2.5	2.4	3.2
Major household appliances.....	2.7	0.9	1.7	3.1	2.0	2.6

* End-of-month stocks divided by total sales during month.

of several of the larger main-store departments for which comparable historical data are available. By using stock-sales ratios as a means of comparison, a more significant picture of the variations in the amount of inventories is possible than would be the case if just the relative changes in the dollar amount of stocks alone were considered. It is only in terms of consumer demand, translated into actual sales, that one can judge whether the stocks are inadequate or excessive. Moreover, comparison of the stock-sales ratio of each department for any one month with the ratios for the same month over a period of years (rather than with the ratios for consecutive months) eliminates the influence of seasonal movements in both sales and stocks and the effects of price changes.

As the table shows, the stores had slightly more than a three months' supply of merchandise on hand at the October rate of sales. A large portion of the total store stocks is normally women's apparel. Since sales of this merchandise are adversely affected by style changes and also by periods of unseasonable weather, stocks are necessarily geared closely to the anticipated demand, resulting in a comparatively low stock-sales ratio.

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

Locality	Net sales		Stocks on hand Oct. 31, 1950
	Oct. 1950	Jan. through Oct. 1950	
Department stores, Second District.....	+ 5	+ 3	+19
New York City.....	+ 5	+ 1	+21
Northern New Jersey.....	+ 6	+ 5	+16
Newark.....	+ 7	+ 4	+16
Westchester County.....	+ 8	+ 6	+ 3
Fairfield County.....	+ 7	+ 7	+14
Bridgeport.....	+ 7	+ 8	+17
Lower Hudson River Valley.....	- 3	+ 1	+11
Poughkeepsie.....	- 1	+ 1	+11
Upper Hudson River Valley.....	+ 7	+ 2	+14
Albany.....	+ 6	+ 1	+16
Schenectady.....	+10	0	+15
Central New York State.....	+ 8	+ 6	+20
Mohawk River Valley.....	+10	+ 7	+25
Utica.....	+13	+ 6	+36
Syracuse.....	+ 7	+ 6	+17
Northern New York State.....	- 3	+ 2	+ 9
Southern New York State.....	+ 5	+ 5	+ 7
Binghamton.....	+ 3	+ 2	+ 3
Elmira.....	+11	+10	+13
Western New York State.....	+ 4	+ 3	+19
Buffalo.....	+ 5	+ 1	+24
Niagara Falls.....	+13	+ 7	+ 9
Rochester.....	0	+ 4	+13
Apparel stores (chiefly New York City).....	+ 6	+ 1	+17

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

Item	1949	1950		
	October	August	Sept.	October
Sales (average daily), unadjusted.....	247r	202	267	259
Sales (average daily), seasonally adjusted..	227r	277	262	238
Stocks, unadjusted.....	246r	226	256	291
Stocks, seasonally adjusted.....	218r	226	243	258

r Revised.

Thus the relatively high stock-sales ratio of the total store indicates that a number of smaller-volume departments had large amounts of stock at the end of the month in relation to the month's sales. One of the most notable was the hosiery department, with a ratio of 3.9, well above that of the total store, although the reverse was true in former years.

Stocks of women's and children's shoes, men's furnishings, domestics (sheets, pillow cases, etc.), and floor coverings were more than ample at the end of October. Inventories of major household appliances also appear to have been fairly large, although retailers are doubtful as to how long the supply of these goods will continue to be adequate.

Indexes of Business

Index	1949	1950		
	October	August	Sept.	October
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	166	209	212	215p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	256	297	298	306
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	134	193	197p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	331r	393r	376	365p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	139	156	159	160p
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	117	121	125	127p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	321	394	404p	414e
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	278	306	308	324p
Personal income*, 1935-39 = 100..... (Department of Commerce)	295	329	333p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	201	210	211p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	169	173	174	175
Velocity of demand deposits*, 1935-39 = 100..... (Federal Reserve Bank of New York)				
New York City.....	104	145	130	117
Outside New York City.....	89	102	102	100

* 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, November 30, 1950)

Industrial output and employment increased somewhat further in October. Over-all construction activity was maintained at record levels. Value of department store sales declined somewhat in October, but increased seasonally in mid-November. Commercial bank loans continued to expand substantially in October and first half of November. Average prices in wholesale and retail markets reached new peaks.

INDUSTRIAL PRODUCTION

The Board's index of output at factories and mines increased 3 points further in October to 215 per cent of the 1935-39 average. In November industrial production has apparently been maintained at the October level.

The rise in October reflected mainly further substantial increases in activity at steel mills and metal fabricating and machinery plants. Steel production rose to 102 per cent of rated capacity in October and to 103 per cent in the first half of November. There was a further large expansion in output of metal-working and general industrial machinery, freight cars, and of most other types of producers' equipment.

Passenger automobile production was maintained at a very high rate in October, and output of most other consumer durable goods was above earlier record levels. In November, the number of passenger cars assembled has declined considerably, mainly as a result of model changeovers.

Output of nondurable goods in October continued at the record level of the preceding two months. Activity in the textile, paper, and rubber products industries rose somewhat further to new highs. Chemicals and petroleum products also showed small gains. Manufactured food products, on the other hand, declined more than seasonally.

CONSTRUCTION

The total value of construction work put in place in October, seasonally adjusted, showed little change from the September record rate. Contracts awarded for new construction decreased further, reflecting chiefly declines in awards for non-residential types of construction. New housing units started in October declined seasonally to 103,000. This was considerably below the exceptionally high spring and summer levels, but about the same as the 1949 peak month of October.

EMPLOYMENT

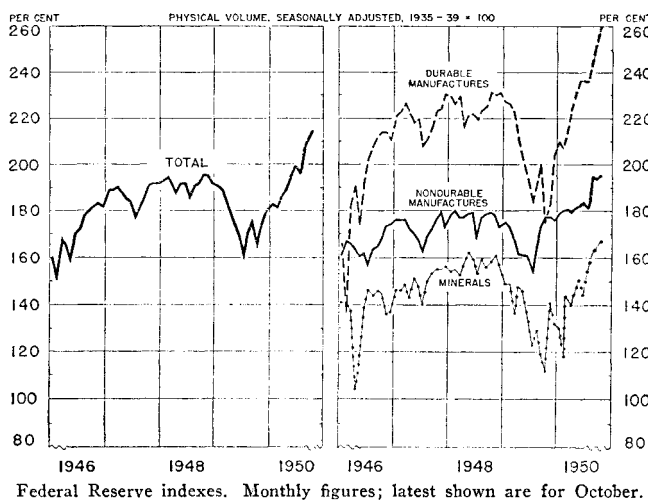
Employment in nonagricultural establishments, seasonally adjusted, rose slightly further in mid-October to a new high of 45.3 million persons. This rise reflected mainly continued expansion of employment in durable goods industries and in Federal Government establishments. The number of persons unemployed was reduced further to about 1.9 million, the lowest in two years.

DISTRIBUTION

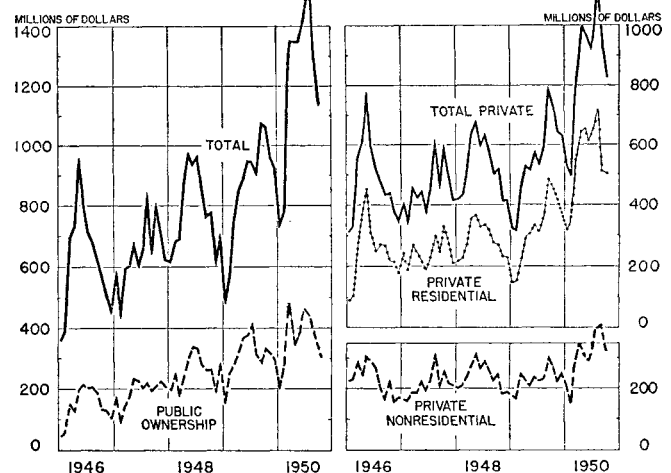
Department store sales in October and the early part of November were below the advanced level of the third quarter, after allowance is made for seasonal changes. There was some further slackening in demand for appliances and other housefurnishings, although sales of these items generally continued above year-ago levels. At the end of October, value of department store stocks of both apparel and housefurnishings was substantially larger than in the corresponding period in 1949.

Sales of new passenger cars were considerably below the extraordinary peaks reached during the summer, but in most areas sales have apparently remained above the relatively high levels prevailing a year ago.

INDUSTRIAL PRODUCTION



CONSTRUCTION CONTRACTS AWARDED



COMMODITY PRICES

Wholesale prices, which had shown little change from mid-September to the latter part of October, advanced to new peaks in the first three weeks of November. Prices of imported materials especially showed marked rises on reports of unfavorable developments in Korea. Prices of building materials, however, remained 2 per cent below the autumn peak, reflecting the lower level of lumber prices.

The consumers' price index advanced 0.6 per cent in October to a point slightly above the previous high in 1948.

BANK CREDIT

Loans at commercial banks continued to increase substantially during October and the first half of November. The expansion in business loans was considerably greater than could be expected seasonally. Real estate and consumer loans also continued to rise but the expansion was somewhat less than that of other recent months. Since midyear credit extended by banks in leading cities alone to private borrowers and State and local governments has expanded by more than 4½ billion dollars. Business loans have increased by 3¼ billion dollars. A recent special survey, which the Federal Reserve Banks made at member banks in leading cities, which make the bulk of business loans, indicates that about three fifths of the expan-

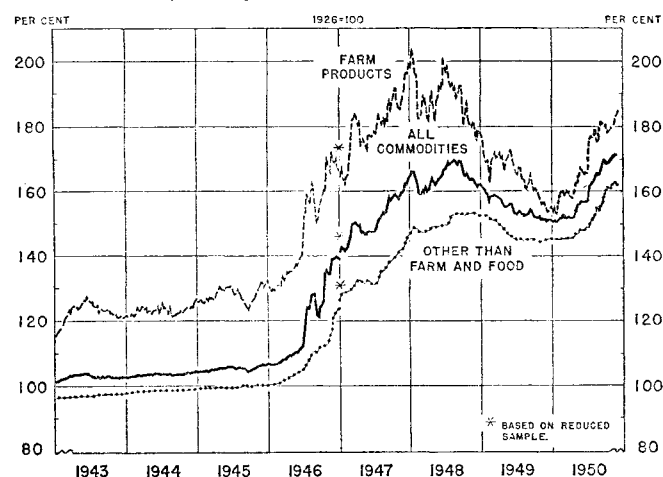
sion at these banks reflected loans to dealers and processors of agricultural commodities.

Since September, required bank reserves have risen as a result of the continuing credit expansion, while total reserves of banks have fluctuated but shown little net change. Currency and gold outflows and the cash redemption of part of the maturing Treasury bills held by the Federal Reserve System have tended to decrease available reserves, but this decrease has been about offset by the reduction of Treasury deposits. Banks have met this reserve situation partly by reducing their excess reserves and partly by increasing their borrowing with the Federal Reserve System. System holdings of U. S. Government securities have shown little over-all change.

SECURITY MARKETS

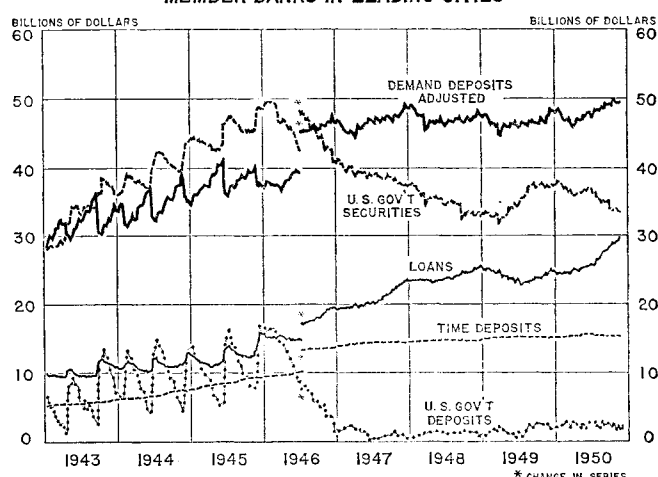
Common stock prices rose somewhat further during the first three weeks of November, but subsequently declined. Yields on high-grade corporate bonds declined slightly during the first three weeks of November. Intermediate and long-term Government securities showed little net change and Treasury bills continued to rise somewhat. On November 22, the Treasury announced the offering of new 1¾ per cent five-year notes in exchange for Treasury bonds maturing December 15, 1950, and certificates of indebtedness maturing January 1, 1951.

WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended November 21.

MEMBER BANKS IN LEADING CITIES



Wednesday figures; latest shown are for November 15.