

# MONTHLY REVIEW

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### MONEY MARKET IN APRIL

April was the second month of adaptation to the freer market conditions resulting from the recent agreement between the Treasury and the Federal Reserve System concerning policies of debt management and credit control. In general, the money market was easy, and the transitional phase of fundamental readjustment in the Government bond market proceeded in an orderly manner. Toward the end of April, there was some strengthening in the tone and breadth of the Government security market.

In March substantial purchases of Government securities by Treasury investment accounts and the Federal Reserve System had provided a cushioning influence. These purchases, along with some other factors, caused substantial increases in bank reserves which largely offset the tightening effects of increased Treasury deposits at the Reserve Banks (following the tax date) and of other more or less routine transactions. In April there were virtually no market purchases of Government securities for Treasury accounts, and no net purchases by the System Account after the second statement week; in the final week, the System made moderate net sales. Bank reserves, nonetheless, increased during the month, chiefly because of large net Treasury disbursements through the first half of the month, and later because of the midmonth rise in "float" (checks credited to member bank reserve accounts which have not yet actually been collected by the Federal Reserve Banks). About three quarters of the rise in bank reserves that occurred during the first three statement weeks was, however, eliminated during the final week, chiefly by the customary end-of-month reduction in float and by the System's net sales and redemptions of Government securities. Most of the remaining increase went into their excess reserves, which were available to meet both expected further calls upon member bank deposits held for the Treasury and other reserve drains. There was some contraction of credit by the weekly reporting commercial banks during the month; the business loans of the reporting New York City banks fell off steadily.

On April 12, the Secretary of the Treasury announced the results of an optional conversion that had been offered from March 26 to April 6 to holders of the restricted 2½ per cent

bonds of June and December 1967-72. Holders of these bonds were permitted to exchange them for a new type of 2¾ per cent nonmarketable bond, maturing in 1980 and callable after March 1975. The conversion exceeded expectations, as roughly 13.6 billion of the 19.7 billion dollars of these restricted bonds originally outstanding were exchanged into the new bond (about 5.6 billion dollars of the exchange were made by Treasury investment accounts and the Federal Open Market Account).

### GOVERNMENT SECURITY MARKET

Government security prices changed very little early in April, while the books for the conversion issue remained open. During this period, liquidation of restricted bonds was sizable, partly reflecting a widely held view that lower prices would prevail once the influence of the exchange offering was removed. Following expiration of the offering, which resulted in taking about 8 billion dollars of nonbank-held debt out of the long-term market, downward price movements did develop. General knowledge of the potential availability of sizable amounts of bonds from larger institutional investors (anxious to obtain funds to meet other commitments which they have apparently been unable to reduce) and the occurrence of price reductions caused some smaller speculative and other holders to attempt a precautionary liquidation of parts of their holdings. At the same time, other investors in a position to buy bonds withdrew their bids temporarily pending the clarification of current supply and demand forces.

Thus, restricted bond prices moved down from 1 22/32 to more than 2 points between April 9 and 19, corresponding to a

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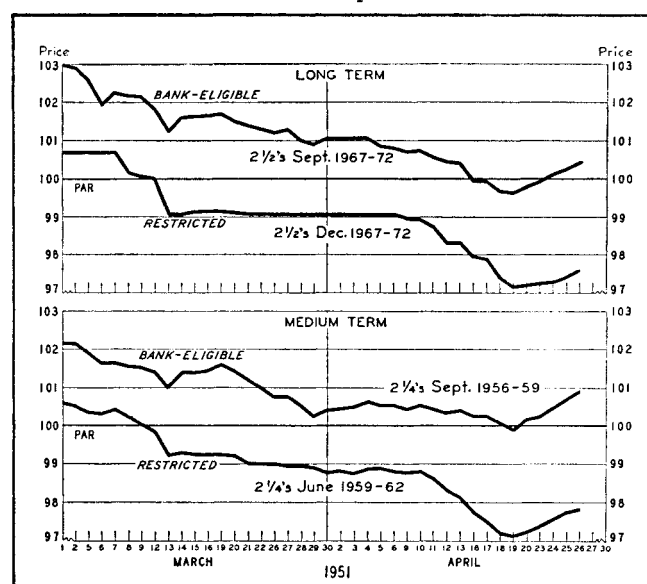
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rise in yields of from  $\frac{1}{8}$  per cent to  $\frac{3}{16}$  per cent, on the basis of a comparatively light volume of offerings, mostly in small lots. The restricted bonds of 1967-72, of which roughly 6 billion still remained outstanding, had been quoted at  $99 \frac{2}{32}$  (bid) while the books remained open for the conversion. Their prices subsequently fell to  $97 \frac{2}{32}$  for the June series, and to  $97 \frac{4}{32}$  for those of December, on April 19; but prices rose after that date. Following some two-way movement toward the close of the month, both issues closed on April 30 at  $97 \frac{12}{32}$ . This adjustment of prices and yields of restricted Treasury bonds (technically modified in some measure by a switchover, for bonds selling below par, to quotations based on calculated yield to maturity, rather than to call date) was about as extensive as that occurring in March. But in contrast the volume of Federal Reserve bond purchases was sharply diminished, and as already noted the System's total holdings of Government securities were unchanged in the third statement week, and declined thereafter.

With prices ranging between 97 and 98, the restricted bonds began to look attractive to pension funds, personal trust accounts, some savings banks, and others, and particularly to those who had liquidated earlier in the year at higher prices. Increased interest in restricted bonds consequently was accompanied by a moderate recovery of prices. Liquidation by the larger life insurance companies and savings banks did occur in some volume late in the month, when both restricted and eligible bonds were sold as buyers appeared in the market, and offerings were placed at rising prices without Federal Reserve intervention. The accompanying chart shows the fluctuations in the prices of two eligible and two ineligible bonds. The decline in prices of longer-term eligible issues during April was much less pronounced than that in the restricted issues, while the subsequent increases were somewhat larger. The price of the  $2\frac{1}{2}$  per cent bank-eligible bonds of 1967-72, for example, fell briefly to  $99 \frac{20}{32}$  (bid), but was quoted at  $100 \frac{6}{32}$  on the 30th. Yields on a maturity date basis for the two restricted issues shown on the chart were 2.65 per cent for the longer and 2.49 for the shorter, at the close of business on April 30; those for the eligible bonds, still calculated on a call date basis, were 2.47 per cent for the longer and 2.09 for the shorter. At the beginning of March, these yields, computed on the same basis, averaged about  $\frac{1}{4}$  of 1 per cent lower.

Uncertainty in the market for intermediate and long-term Treasury securities contributed to an active demand for short-term issues. Yields on Treasury bills and notes consequently declined after the middle of the month. In part, this demand represented a permanent shift of short-term funds formerly employed in the long-term market and in part a temporary shift as long-term investors attempted to safeguard their funds until there had been further clarification of price prospects in the long market. Business corporations also continued

Closing Bid Prices of Selected Treasury Bonds,  
March and April 1951\*



\* Saturdays, Sundays, and Good Friday (when no trading occurred) are omitted.

to accumulate short-term Treasury securities as a means of temporarily investing funds set aside to meet growing Federal income tax liabilities. And commercial banks were also in this market during the month seeking employment of reserves made available for a short time by the ebb and flow of funds through the money market. The combination of these demands was partly met early in the month through substantial sales by the customers of Chicago banks who had accumulated bills toward the end of March in order to minimize their tax liabilities under the April 1 Cook County, Illinois, personal property tax. Subsequent demand was largely satisfied by System sales, and the redemption of bills held by the System Account. Near the end of April, short-term yields became somewhat firmer, accompanying a moderate tightening of the money market and an increase in member bank borrowing at the Reserve Banks.

#### MEMBER BANK RESERVES

Federal Reserve System purchases of Government securities, related mainly to the Treasury's conversion offering, helped to ease member bank reserve positions in the first part of April. But the changes in the banks' reserve positions during the course of the month were determined principally by routine money market transactions. These provided the banks with reserve funds on balance through the first three weeks of the month. As shown in the accompanying table, there were two major sources of reserves, one following the other. Treasury operations, which resulted in net disbursements of funds out of its deposits with the Reserve Banks, accounted for 655 million dollars in the first two weeks. When the

movement of Treasury funds was subsequently reversed, its place was taken by a sharp midmonth expansion of float in the third week (318 million dollars). The reserves supplied from these and other sources over the three weeks as a whole more than offset the cash drains from other transactions, notably an increase in public demands for currency for circulation purposes.

On balance over these three weeks, regular money market transactions, including a reported reduction of required reserves in the week ended April 11, furnished the banks with about 580 million dollars of free reserve funds, and Federal Reserve purchases (concentrated in the period ended April 6) added another 480 million dollars. Thus, more than 1 billion dollars of funds was supplied to the member banks, who reduced their borrowing from the Reserve Banks by 360 million dollars and built up their excess reserves by 700 million dollars. Excess reserves reached 1.1 billion dollars on April 18, the highest volume since early in the year. Presumably the banks maintained excess reserves at this high level in anticipation of subsequent losses of funds, including heavy withdrawals from the Treasury's accounts with the commercial banks. Actually, almost 1.9 billion dollars of these deposits were called during the month. The spacing-out of the flow of funds from the banks to the Treasury's account at the Reserve Banks, made possible by the new procedure in March of crediting corporation tax payments to Treasury accounts in the banks on which these checks were drawn, had two principal results. An extreme convergence of drains upon bank reserves was avoided in March, but the banks had to be prepared for heavy Treasury calls thereafter.

A cash drain on reserves during the week ended April 25 failed to produce over-all tightness because the banks met their losses by drawing on their excess reserves. As shown in the table, the decrease in excess reserves, largely attributable to reduced float and System sales and redemptions of Government securities, amounted to nearly 450 million dollars.

## THE DOLLAR POSITION OF LATIN AMERICA

The current Latin American dollar position takes on special interest against the background of the recent meeting of Pan-American foreign ministers in Washington, where important economic questions of common interest were discussed.

Latin America's dollar position improved considerably during 1950; as shown in Table I (next page), total gold and dollar holdings of the republics rose by 406 million dollars during the year. The area thus participated to the extent of 11 per cent in the 1950 increase of the gold and dollar reserves of all foreign countries. The growth in Latin America's reserves continued and reinforced a trend that had started in 1949 when the postwar drain on the area's gold and dollar holdings came to an end. However, the 1950 increase took

Weekly Changes in Factors Tending to Increase or Decrease  
Member Bank Reserves, April 1951  
(In millions of dollars; (+) denotes increase  
(—) decrease, in excess reserves)

Factor	Statement weeks ended				Four weeks ended April 25
	April 4	April 11	April 18	April 25	
<i>Routine transactions</i>					
Treasury operations*	+339	+317	-216	- 59	+381
Federal Reserve float	- 1	- 56	+318	-335	- 74
Currency in circulation	-100	- 28	+ 9	+ 35	- 84
Gold and foreign account	0	+ 21	- 38	- 25	- 42
Other deposits, etc.	- 82	+ 2	+ 46	- 4	- 38
Total	+155	+254	+119	-388	+140
<i>Federal Reserve transactions</i>					
Government securities	+308	+172	0	-146	+334
Discounts and advances	-345	- 34	+ 21	+ 36	-322
Total	- 37	+138	+ 21	-110	+ 12
Total reserves	+118	+392	+141	-498	+163
Effect of change in required reserves	- 5	+ 92	- 37	+ 64	+104
Excess reserves	+113	+484	+104	-444	+257

\* Includes changes in Treasury currency and cash.

Note: Because of rounding, figures do not necessarily add to totals shown.

New York City member bank reserve positions were subjected to the same influences that affected the positions of all member banks, except at the beginning of the month when a heavy transfer of funds, chiefly to Chicago, occurred. This outflow reflected mainly the sale and redemption of Treasury bills by Chicago banks and their customers with the passing of the April 1 personal property tax date, referred to above. New York City banks and nonbank investors took up a large part of these sales and of the new bills issued to replace the maturing bills. However, heavy System purchases of Treasury bonds in the New York market at that time and substantial net cash operating disbursements of the Treasury in the New York area financed the bulk of these and other losses of reserves. The New York money market remained easy in this first week and through most of the month, only becoming tight after the 25th. The volume of transactions in Federal funds was small, and rates on these funds remained well below one per cent until near the end of the month.

place entirely during the second half of the year. There was a loss of reserves in the first half, but it was very moderate, while the rise in the second half was much larger than in the corresponding months of 1949.

The individual Latin American republics participated very unequally in the 1950 increase. Argentina gained more than 100 million, Mexico 71 million,<sup>1</sup> Cuba 67 million, Uruguay 86 million, and Brazil 33 million, while Venezuela lost 61 million and Colombia 11 million. In Brazil and Mexico very large accumulations during the second half of 1950 more than made up for sizable reserve losses during the first six months.

<sup>1</sup> Data as to Mexican gold holdings are available only through November.

**Table I**  
**Gross Gold and Dollar Holdings of the Latin American Republics**  
(In millions of dollars)

Country	Holdings as of		Increase or decrease during		
	Dec. 31, 1950 <sup>p</sup>	Dec. 31, 1949	July-Dec. 1950 <sup>p</sup>	Jan.-June 1950	July-Dec. 1949
Argentina.....	518	417	+ 64	+36	+ 23
Bolivia.....	43	37	+ 6	0	- 1
Brazil.....	543	510	+101	-68	+ 77
Chile.....	120	101	+ 18	+ 1	+ 1
Colombia.....	127	138	+ 5	-16	+ 40
Cuba.....	530	463	- 7	+73	+ 6
Mexico.....	338*	267	+115	-43	+ 72
Peru.....	91	81	+ 13	- 3	+ 8
Uruguay.....	322	236	+ 67	+19	+17†
Venezuela.....	455	516	- 35	-27	+ 5
Other‡.....	375	290	+ 66	+22	+ 7
Total.....	3,462	3,056	+412	- 6	+255

<sup>p</sup> Preliminary.

\* Gold holdings as of November 30, 1950; dollar holdings as of December 31, 1950.

† Changes in Uruguayan dollar holdings in July-December of 1949 are included in "Other" and not under Uruguay.

‡ Includes Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, and Paraguay.

Note: Data exclude dollar currency holdings of the public in various countries, notably Cuba and Panama.

Source: Board of Governors of the Federal Reserve System.

More than half of the year's rise in the area's total gold and dollar holdings represented net additions to its gold reserves. Of the 225 million dollar increase in gold, Uruguay and Mexico accounted for the greater part. The gold holdings of the Bank of Mexico, which stood at 52 million dollars in December 1949, had risen to 133 million by the end of November 1950, and according to all indications have increased even faster since that date. Uruguay continued during 1950 its policy of converting a major part of its foreign exchange accumulations into gold, and acquired an amount valued at 66 million dollars, thus raising its gold reserve by over one third. Argentina's gold reserves did not increase during 1950; however, that country had purchased 50 million dollars of gold at the end of 1949, and acquired an additional 72 million early in 1951. Cuba pursued an opposite policy: the new national bank sold 28 million of the country's gold holdings, and invested the proceeds in short-term earning assets in the United States.

#### FAVORABLE TREND IN AREA'S INTERNATIONAL TRANSACTIONS

The continued improvement in Latin America's gold and dollar position in 1950 reflected certain favorable trends in the aggregate international transactions of Latin American republics with the United States. Among these the most striking was the achievement of an export surplus with this country for the first time since the end of the war (see Table II), a development discussed below. Other factors of importance were the continued receipt of dollars by the Latin American republics from ECA "offshore" purchases,<sup>2</sup> disbursements by international agencies, and capital transfers from third areas, particularly Europe. The export surplus with the

<sup>2</sup> That is, purchases made outside the United States by European countries using ECA funds.

United States enabled the Latin American republics to reduce their total deficit on goods and services with this country by three fifths, in spite of the fact that remittances of earnings to United States investors rose sharply.

The great rise in remittances on investment account seems to have been due to the increased profitability in 1950 of petroleum and mining operations, as well as of the sugar industry. This reflected in large measure the world recovery from the 1949 recession, and the increase in food and raw material prices following the outbreak of the Korean war. In addition, the greater availability of dollars induced the exchange control authorities in a number of countries, particularly Brazil, to remit current and past investment earnings more promptly.

Dollar receipts from other foreign areas and from international lending institutions remained very sizable in 1950, although they were less than in 1949. ECA offshore purchases in Latin America aggregated 192.6 million dollars, GARIOA<sup>3</sup> outlays 19.8 million, and International Bank disbursements 45.4 million. In addition, considerable foreign capital, particularly from Europe, is known to have been transferred to such Latin American countries as Uruguay and Mexico.

The receipt of dollars from third areas was particularly important during 1950 in enabling the Latin American countries to build up their dollar and gold reserves, because the inflow of private long-term capital from the United States was sharply curtailed during the year, falling from 456 million dollars in 1949 to 179 million. This sharp decline, which seems to have been particularly marked during the first half of the year, reflected mainly the virtual completion in 1949 of the huge oil investment program carried out by United States corporations in Venezuela. In this connection it should be noted that oil investments have accounted for almost 50 per cent of United States direct investments in Latin America since the Second World War.

The most noteworthy development in the movement of short-term capital was the large outflow from the United States to Latin America during the second half of 1950. This seems to have been due to a speculative movement of funds to Mexico in anticipation of a revaluation of the peso, and to the uneasiness engendered by the outbreak of the Korean war which led to the transfer of some funds from the United States (like the above-noted European funds) to Latin American countries, notably Mexico and Uruguay. It is also significant that Latin Americans, who had reduced their short-term dollar assets in the United States during the first half of 1950, subsequently increased them very sharply as a result of the high dollar receipts from exports to this country.

Another important indication of the improvement in the dollar position of Latin American countries has been the work-

<sup>3</sup> Purchases by the United States Defense Department for "Government and Relief in Occupied Areas".

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

Item	Second half		1950	1949
	1950	1949		
Goods and services:				
Merchandise trade.....	+251	- 17	+368	-202
Transportation.....	- 34	- 33	- 36	- 65
Travel.....	+ 24	+ 32	+ 61	+ 62
Miscellaneous services.....	- 48	- 32	- 75	- 62
Investment income.....	-343	-209	-589	-390
Total.....	-150	-259	-271	-657
Unilateral transfers:*				
United States private.....	+ 7	+ 8	+ 10	+ 16
United States Government.....	+ 11	+ 16	+ 26	+ 31
Total.....	+ 18	+ 24	+ 36	+ 47
Long-term capital movements:				
United States private.....	+109	+185	+179	+456
United States Government.....	+ 12	+ 20	+ 34	+ 39
Latin American.....	- 14	+ 5	- 32	- 4
Total.....	+107	+210	+181	+491
Gold and short-term capital:				
Net purchases of gold.....	-127	-158	-162	-131
Net movement of United States short-term capital to (+) or from (—) Latin American republics:				
Private.....	+ 73	- 16	+ 6	- 91
Government.....	- 14	†	- 36	†
Net movement of Latin American short-term capital to the United States.....	-215	-112	-136	-212
Total.....	-283	-286	-328	-434
Transfer of dollar funds to Latin American republics from other foreign areas and from international lending institutions, and errors and omissions.....	+308	+311	+382	+553

\* Donations, gifts, etc.

† Less than \$500,000.

Source: Department of Commerce, *Survey of Current Business*, June 1950 and March 1951. All data used are United States statistics.

ing off of sizable backlogs of commercial indebtedness during the year. Payments on outstanding draft collections are being made promptly by most Latin American countries at the present time. In the case of Brazil, the percentage of drafts paid promptly has increased strikingly from 1.0 to 58.6 per cent during 1950.<sup>4</sup> It is also noteworthy that Latin American outstanding letters of credit almost doubled during the second half of 1950, owing to the great increase in import orders placed in the United States and to a marked shift from draft to letter of credit financing, which reflected the re-emergence of a sellers' market in the United States for a number of export items.

The striking reversal of the merchandise trade balance with the United States has already been noted. In four years a Latin American import surplus of over 1.5 billion dollars (1947) has been transformed into an export surplus of 368 million (1950). This achievement of an export surplus by Latin America as a whole had been foreshadowed in 1949 when most of the countries of the area had re-established their pre-war positive balances with the United States (see Table III). During 1950 even Argentina, which has not normally had a

<sup>4</sup> These percentages take into account the revision in promptness periods (as used for statistical reporting purposes) that was made in October 1950.

favorable balance with the United States, achieved such a surplus, and Uruguay, Chile, and Brazil increased their favorable balances strikingly, while the negative balances of Mexico and Venezuela were substantially curtailed. Cuba seems to have had a trade deficit with the United States in 1950, on the basis of preliminary data that, however, are usually subject to considerable later adjustments.

### CHANGES IN EXPORTS AND IMPORTS

In the case of nearly every country the improvement in the trade balance with the United States was achieved through an increase in exports rather than a reduction in imports. This was particularly notable in the case of the coffee, cocoa, and wool exporting countries (see Table IV, next page). The marked rise in coffee prices in the fall of 1949 was not fully reflected in export values until 1950. The average price of coffee in 1950 was 60 per cent higher than in 1949, which accounts for the rise in the value of coffee exports from 780

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

Country	Second half		1950	1949	1948
	1950	1949			
Argentina:					
Exports.....	102.8	48.5	206.1	97.5	179.9
Imports.....	69.7	68.8	144.6	130.8	380.9
Balance.....	+ 33.1	- 20.3	+ 61.5	- 33.3	- 201.0
Bolivia:					
Exports.....	25.2	24.1	34.4	48.5	48.8
Imports.....	11.0	14.8	20.5	36.2	35.7
Balance.....	+ 14.2	+ 9.3	+ 13.9	+ 12.3	+ 13.1
Brazil:					
Exports.....	447.5	318.6	714.5	551.8	513.9
Imports.....	220.4	144.1	353.6	382.9	497.3
Balance.....	+ 227.1	+ 174.5	+ 360.9	+ 168.9	+ 16.6
Chile:					
Exports.....	86.0	52.7	159.6	152.5	179.1
Imports.....	34.3	66.9	71.7	142.6	105.5
Balance.....	+ 51.7	- 14.2	+ 87.9	+ 9.9	+ 73.6
Colombia:					
Exports.....	191.1	132.9	313.1	241.5	236.5
Imports.....	112.7	75.3	233.3	175.9	197.3
Balance.....	+ 78.4	+ 57.6	+ 79.8	+ 65.6	+ 39.2
Cuba:					
Exports.....	212.6	168.5	405.6	387.5	375.0
Imports.....	265.7	189.0	460.4	380.3	441.0
Balance.....	- 53.1	- 20.5	- 54.8	+ 7.2	- 66.0
Mexico:					
Exports.....	171.2	103.7	317.7	243.5	246.2
Imports.....	287.8	209.8	515.7	468.2	521.5
Balance.....	- 116.6	- 106.1	- 198.0	- 224.7	- 275.3
Peru:					
Exports.....	28.7	18.4	48.5	40.2	34.9
Imports.....	40.6	36.4	72.8	86.1	66.5
Balance.....	- 11.9	- 18.0	- 24.3	- 45.9	- 31.6
Uruguay:					
Exports.....	66.8	28.9	106.1	54.0	57.7
Imports.....	24.7	14.1	40.2	34.7	60.2
Balance.....	+ 42.1	+ 14.8	+ 65.9	+ 19.3	- 2.5
Venezuela:					
Exports.....	163.1	145.2	322.0	278.1	270.8
Imports.....	201.8	227.5	398.4	518.4	516.6
Balance.....	- 38.7	- 82.3	- 76.4	- 240.3	- 245.8
All Latin American republics:*					
Exports.....	1,732.0	1,217.0	3,084.0	2,503.0	2,644.0
Imports.....	1,481.0	1,234.0	2,716.0	2,705.0	3,162.0
Balance.....	+ 251.0	- 17.0	+ 368.0	- 202.0	- 518.0

\* Includes also Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, and Paraguay. These totals for the Latin American republics as a whole are those used in the merchandise trade balances in Table II; they differ from the sums of the country totals because of various adjustments.

Note: "Exports" are exports to United States, "imports" are imports from United States.

Source: Department of Commerce, *Foreign Commerce Weekly*, various issues. All data used are United States statistics.

million dollars to 1,045 million while the volume of shipments was declining. Equally striking was the 35 per cent increase in the price of wool, which was a major factor in the doubling of the value of Argentine and Uruguayan export shipments to the United States. As for cocoa, the 49 per cent price rise particularly benefited Ecuador and the Dominican Republic.

On the other hand, copper and tin exports to the United States declined substantially. The prices of these metals reached a postwar low in the early part of the year, and the substantial price rise after the outbreak of hostilities in Korea was not fully reflected in the value of export shipments during the remainder of 1950. A considerable improvement in the exports of the mineral-producing countries may be expected, however, in early 1951, because the prices of the most important minerals at the end of 1950 were substantially higher than their averages during that year and the physical volume of shipments was apparently increasing.

Aggregate imports of the Latin American republics from the United States remained virtually unchanged in 1950, as compared with 1949. Individual countries, however, show notable divergencies. In those countries that do not employ exchange

controls or quantitative import restrictions on a significant scale there was considerable inventory accumulation by importers following the outbreak of the Korean war; this was particularly true in Cuba and Mexico. In Brazil and Colombia, the exchange and import control authorities embarked on a policy of encouraging the building up of stockpiles of those commodities that might become scarce.

In the other Latin American countries, however, imports from the United States during 1950 were barely maintained, and in the case of Venezuela and Chile were sharply reduced in spite of the Korean war. The decline in Chilean imports from the United States reflects the recent *de facto* devaluations of the Chilean peso and the tightening of import and exchange controls. In Venezuela the already-noted reduction of new foreign oil investments was accompanied by a sharp decrease in the importation of capital goods from the United States, which was accentuated by the liquidation of large stocks of surplus materials that the oil companies had accumulated in prior years and by increasingly sharp competition from Canadian and German exporters.

European sales of machinery and iron and steel products are reported to have risen substantially in other parts of Latin America, too, owing both to the difficulty of securing prompt shipments from the United States and to lower European price quotations. This development is reflected in the decline in 1950 in machinery and iron and steel shipments from the United States to Latin America, a decline occurring despite the desire of Latin America to build up stocks of these goods.

#### RECENT TREND IN "TERMS OF TRADE"

The price rise in the United States since June 1950 and its effects on the relation between prices received by the Latin American republics for exports to the United States and those paid by them for imports from the United States were the subject of much debate at the recent conference of Pan-American foreign ministers. It is significant that the most vigorous statements were made by the representatives of the mineral-producing countries, whose exports in 1950 did not fully reflect the improvement in their terms of trade that has taken place during recent months. However, the trend of prices of most mineral products exported from Latin America has been so sharply upward since June 1950 that a substantial increase in the value of these exports may have been under way for the past several months, although the trade data that may verify this supposition have not yet been assembled. Moreover, the sharp increases in the prices of these mineral products and of cocoa and wool since the outbreak of the Korean war, following the no less striking rise in coffee prices in 1949, have more than offset so far the rise in the prices of United States exports of semimanufactured and finished goods. Even the relatively moderate increases in the prices of sugar and petro-

Table IV  
Major Latin American Exports to and Imports from the United States and  
Changes in Their Prices  
(20 Latin American republics only)

Commodity	Value of shipments in millions of dollars		Percentage change in average United States wholesale prices	
	1950	1949	Year 1949 to year 1950	May 1950 to Dec. 1950
<b>Exports to United States:</b>				
Coffee: Total.....	1,045	780	+60	+17
Brazil.....	567	429		
Colombia.....	267	204		
Sugar: Total.....	330	321	+ 6	+11
Cuba.....	325	316		
Cocoa: Total.....	83	54	+49	+21
Brazil.....	42	33		
Ecuador.....	12	5		
Dominican Republic.....	14	6		
Wool: Total.....	190	94	+35	+82
Argentina.....	95	44		
Uruguay.....	85	43		
Copper: Total.....	149	155	+10	+23
Chile.....	114	114		
Tin: Total.....	27	39	- 3	+88
Bolivia.....	26	39		
Lead: Total.....	73	66	-14	+45
Peru.....	13	14		
Mexico.....	55	40		
Petroleum: Total.....	303	280	+18	+ 9
Venezuela.....	248	244		
<b>Imports from United States:</b>				
Machinery.....	645	701	-	-
Iron and steel products.....	139	230	-	-
Vehicles and parts.....	330	264	-	-
Chemicals and related products.....	209	226	-	-
Semimanufactured goods*.....	-	-	- 2	+15
Finished manufactured goods*.....	-	-	- 2	+10

\* Percentage change in indexes of average unit value of United States exports.  
Source: United States Department of Commerce; International Monetary Fund,  
*International Financial Statistics*; trade sources (petroleum prices). All data  
used are United States statistics.

leum do not compare unfavorably with the rise in United States export prices (see Table IV).

The current Latin American preoccupation with the terms of trade with the United States reflects fears that developments during the Second World War and the postwar years may be repeated. It will be recalled that during the war Latin American countries accumulated sizable gold and dollar holdings, largely because of their inability to secure imports. However, when machinery and other equipment essential to their economic development became freely available after 1947, these commodities had to be imported at substantially higher prices because of the postwar inflation in the United States. The Latin American republics are understandably anxious to avoid

a repetition of this experience and to secure as far as possible an even flow of the materials and equipment needed for their continued economic growth.

If present trends continue, many of the republics may soon have accumulated a cushion of international reserves that they consider appropriate for their needs. Consequently, they may decide to relax further their import and exchange controls rather than continue to build up gold and dollar reserves. If not too greatly hampered by United States restrictions upon exports resulting from the expanding defense program here, some further increases in this country's exports to Latin America may take the place of a continuation in the recent rapid rise in Latin American gold and dollar balances.

## RECENT PRICE DEVELOPMENTS

The rise in prices, which began in the spring of 1950 and was sharply intensified after the outbreak of hostilities in Korea, began to show some signs of leveling off during the past two or three months. Movements of the various price indexes during the first seven months of the Korean campaign had been nearly uniformly upward, but recently crosscurrents have begun to develop. In fact, there have been declines in numerous wholesale and primary market prices, but so far these price reductions have offset only a very minor portion of the previous increases. The general level of wholesale prices is still 20 per cent higher than it was a year ago, while primary market prices of a selected group of basic commodities have risen 50 per cent in the past year. Consumers' prices, which traditionally lag both in their response to basic price movements and in the availability of statistical data, were reported to have been 10 per cent higher in March than a year earlier. Despite the recent slackening of some price movements, the underlying inflationary pressures are still strong, and the long-term problem still one of combating inflation.

The daily experience of many consumers and businessmen, moreover, may be in conflict with changes shown by the price indexes. More often than not, housewives in their daily shopping notice that some prices are still rising, and businessmen who need to replenish their inventories find that they must pay higher prices to do so. At the retail level, most prices are still close to their all-time peaks. The latest published index of consumers' prices, for March 15, set an all-time record. Retail food prices have leveled off since mid-February, but are still 15 per cent above a year earlier and 11 per cent higher than just before the outbreak of Korean hostilities. Some consumer resistance to higher-priced cuts of meat has been noted by retailers, but at the same time some kinds of meat are not generally available to consumers at ceiling prices.

The wave of anticipatory buying by consumers early this year was short-lived, and somewhat less spectacular than the similar buying spurt last summer. Anticipated shortages of

hard and soft goods did not materialize, and production and deliveries outstripped declining sales volume. Nevertheless, markdowns and special promotions have not generally been necessary to move most types of goods. In the case of television receivers and a few other items, however, there have been fairly widespread price cuts at retail, caused in most cases by the accumulation of uncomfortably large inventories by distributors and manufacturers.

In general, living costs other than food prices continued to rise through the middle of March, though more gradually than earlier. For some items, such as new passenger cars and carpets, price rises have been officially sanctioned to offset increased production costs.

The over-all level of wholesale prices showed very little change in recent weeks. The National Association of Purchas-

Indexes of Wholesale and Primary Prices

Index	Peak since June 20, 1950		Latest index (April 24)	Percentage change	
	Date	Index		June 20, 1950 to peak	Peak to latest date
	(1926 average = 100 per cent)				
All wholesale .....	Mar. 20	183.9	183.6	+16.8	-0.2
Farm products.....	Mar. 20	204.6	202.4	+22.8	-1.1
Grains.....	Feb. 13	195.5	189.9	+16.4	-2.9
Livestock.....	Apr. 24	273.8	273.8	+22.2	0
Foods.....	Feb. 13	190.1	188.0	+17.3	-1.1
Meats.....	Feb. 13	277.5	276.8	+15.1	-0.3
All commodities other than farm products and foods.....	Mar. 27	172.3	171.8	+15.8	-0.3
Textile products.....	Mar. 13	185.1	184.1	+35.2	-0.5
Fuel and lighting ma- terials.....	Mar. 13	139.0	138.3	+ 4.6	-0.5
Metals and metal pro- ducts.....	Mar. 6	190.7	189.6	+10.9	-0.6
Building materials....	Feb. 27	227.9	227.5	+12.4	-0.2
Chemicals and allied products.....	Mar. 6	148.7	144.0	+30.2	-3.2
	(August 1939 = 100 per cent)				
Primary market prices of 28 basic commodities...	Feb. 16	391.0	373.3	+48.3	-4.5

Source: U. S. Bureau of Labor Statistics.

ing Agents reported that its members encountered fewer price increases in March than in any previous month since April 1950. The upward pressure on prices of many items was relieved somewhat as new orders were reduced sharply, the NAPA stated, and firms tried to cancel or defer delivery of goods ordered earlier but now in plentiful supply. The BLS weekly index of wholesale prices in mid-April was approximately the same as it had been in mid-February. The preceding table shows that during February and March of this year prices of all major commodity groups, except livestock, rose to the highest point since the invasion of South Korea. The sharpest advance between the outbreak of war and the recent peak was registered in the textile and chemical groups, which rose about one third. Larger than average price increases were also reported for farm products and foods. The smallest rise was that in the fuel and lighting materials group, which has increased less than 5 per cent since last June. All major commodity groups, except livestock, participated in the decline from their February-March peaks. However, in most cases the change has been very slight, and only two groups, grains and chemicals, have declined as much as 3 per cent. In general, prices of farm products and foods have declined more than industrial commodities, but the preceding rise was likewise sharper for agricultural prices.

As usual, the widest fluctuations in prices have occurred at the primary market level. By mid-February a selected group of 28 basic commodities, for which spot prices in primary markets are compiled daily by the Bureau of Labor Statistics, had risen an average of 48 per cent above its pre-Korean level. Since that time, declines have averaged about 5 per cent. The sharpest gains occurred in raw industrial materials, particularly imported products. Advances in the prices of farm products and foodstuffs included in this compilation were generally not as sharp as those of other categories, in contrast to the behavior of the more comprehensive wholesale price indexes.

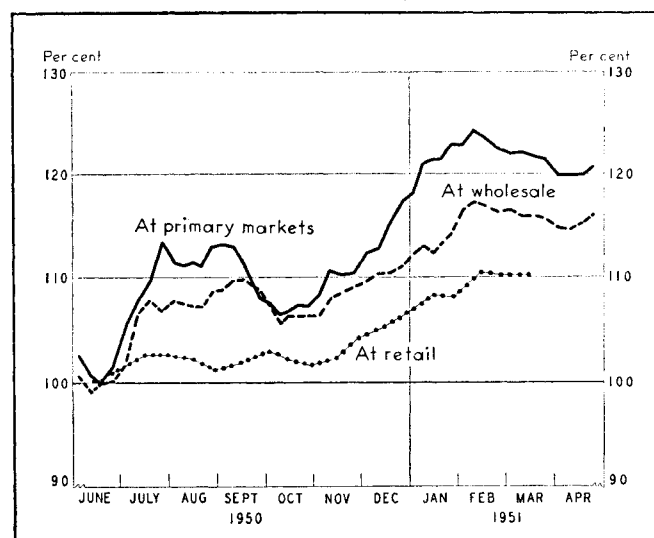
At their peaks, prices of burlap, tin, and wool tops had more than doubled, while rubber and tallow prices had more than tripled since the start of Korean hostilities. By the end of January, however, 23 of the 28 commodities had already reached or passed their peaks. During April, only one of the 28 commodities, steers, moved upward to a new record. Five others remained at their highest levels—copper, lead, and zinc, whose administered prices have been stable since last fall, and, like cotton and rosin, are currently at their ceiling prices. The other basic commodities have all declined from their peaks, some substantially. Prices of 10 of the 28 commodities had dropped more than 10 per cent by April 20, including rubber and tin, which are both nearly one-fourth below the peak quotations.

In recent weeks, however, there have been relatively few fluctuations in the quoted prices of raw industrial materials.

Since mid-March, 10 of the 16 industrial commodities priced daily by the BLS have remained stable. This stability does not reflect lack of demand; rather, it is the combined effect of ceiling price regulations and lack of trading. The demand for metals continues unabated; scrap prices, gray markets, and conversion deals indicate that many fabricators would willingly pay higher prices to obtain supplies. Prices of most metals, however, have been maintained at the same level since early last fall, several months before ceilings were imposed. Other commodities for which quotations have remained unchanged in recent weeks—cotton, hides, wool tops, rosin, and burlap—are likewise at their ceiling prices, but in a number of cases trading at these prices has been nominal or nonexistent. Some ceilings, notably that of burlap, are out of line with world prices.

The only declines among the selected industrial prices since mid-March occurred in print cloth, silk, flaxseed, shellac, rubber, and tin. The sharp drop in rubber and tin prices from their peaks was largely the result of modifications in Government stockpiling activity. Responsibility for importing both of these strategic commodities has been taken over by the Government in order to curb further speculative price increases. The decline in print cloth prices was shared by various other rayon and cotton fabrics. Weakness occurred during March and April in the secondary market for certain textiles, as converters and other firms which had become overstocked with fabrics tried to reduce their inventories. Although prices of raw cotton and wool tops remained at their ceilings, futures prices declined during the past month.

**Food Prices**  
(Mid-June 1950 = 100 per cent\*)



\* For foodstuffs at primary markets (Tuesday dates), June 20, 1950 = 100; for wholesale food prices (weekly indexes), week ended June 20, 1950 = 100; and for retail food prices (semimonthly indexes, with month-end indexes based on sample surveys), June 15, 1950 = 100.

Source: U. S. Bureau of Labor Statistics; converted to a mid-June 1950 base by the Federal Reserve Bank of New York.



Wool futures responded to the temporary cessation of Government stockpiling and the scaling down of military orders, but later recovered much of their losses. Cotton futures reacted mainly to improved crop prospects.

In the foodstuffs group, declines were general in the past two months, with only 2 of the 11 commodities included in the BLS basic commodity index—cocoa and cottonseed oil—remaining stable at ceiling prices. Declines in this group were generally moderate, and in the latter part of April, there was a tendency for prices of basic foodstuffs to advance slightly. Prices of steers rose to a new record on April 23, and hog prices also were slightly higher than in the first half of April. Wheat and corn prices, which were depressed in February and early March by reports of large crops and by transportation difficulties, showed greater strength in the latter part of April following reports of damage to wheat crops by bad weather and insects. On the other hand, barley prices dropped in April to a point even lower than when the Korean war began. The movements of the foodstuffs group as a whole are shown on the accompanying chart.

Both the increases and the subsequent declines in prices of basic foodstuffs were greater than in the more comprehensive wholesale price index, while the changes at retail were much more moderate than those in either of the other indexes. The smaller net advance in retail prices indicates in part that processing and distribution costs have apparently not risen as rapidly as the basic prices of the commodities themselves, and at the same time reflects the traditional tendency for retail prices to lag behind basic markets.

Price movements in recent months have been increasingly subject to the regulations of the Office of Price Stabilization. The general freeze of nonagricultural prices ordered on January 26 was a temporary measure to help hold the line against inflation until more effective controls could be worked out. It has been supplemented on the one hand by specific price ceilings for individual commodities, such as cotton, hides, and steel scrap, and on the other hand by margin pricing regulations for retailers and distributors, intended to correct some of the inequities of a general freeze and to restore some of the flexibility of the pricing system. The latest major development has been the issuance of a general manufacturers' ceiling

price regulation designed to adjust most factory prices to their pre-Korean levels plus the increases in prices of raw materials through the end of 1950 and the increases in labor and other direct costs through March 15, 1951. As most of the major pricing regulations are not yet fully in force, it is still too early to judge their effects.

Perhaps the most important factor in the price declines this spring was the easing of buying pressure by consumers, business, and Government stockpiling. Consumers failed to maintain their spending at the high January and February levels, as immediate needs were satisfied, as war news improved, as ample dealer stocks belied the prospect of immediate shortages, and as the imposition of price controls gave assurance to many that the rapid rise in prices would be checked. Dealers and fabricators who had placed sizable orders in anticipation of production cutbacks and shortages found deliveries much prompter than they had expected, and stocks piled up in many lines. Controls on inventories and production also reduced industrial demand for raw materials, as did temporary suspension or reduction of Government stockpiling programs. Some price declines, however, were largely seasonal in nature.

It would be premature to draw broad conclusions from the recent easing of inflationary price developments. Consumers' incomes are likely to rise and the output of some types of consumers' goods must eventually decline because of expanding defense production, so that pressure on prices is likely to be renewed. The Federal Government, which seasonally collected far more money than it spent during the first quarter of 1951, will soon reverse the process as it begins spending at an accelerated rate for defense. Large-scale plans by business for plant and equipment expansion will compete for materials with consumer goods and defense production. To such pressures, price controls are not the sole answer. An effective program of taxation and credit control along with price and wage stabilization can, however, materially check the inflationary wage-price spiral and help to prevent the inflation from feeding upon itself, although some cumulative upward pressure upon prices may still be exerted by the combined effects of increased purchasing power and the probable reduction in output of consumer goods.

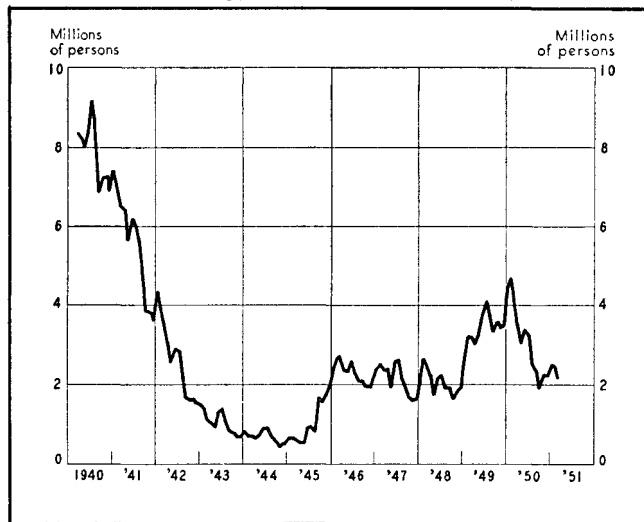
## UNEMPLOYMENT STATISTICS<sup>1</sup>

The series on the level of unemployment moves inversely with the general business cycle, declining in periods of prosperity and high output and rising in periods of recession. Apart from relatively large swings of a seasonal nature, changes in unemployment roughly coincide with the fluctuations of the over-all cycle. At critical turning points, the unemployment series does not appear either to precede or lag behind significantly.

In recent months, the usefulness of this series has not been primarily for its general cyclical implications, but rather as a measure of one source of manpower that can be called upon to meet defense requirements. During the 1949 business recession unemployment rose sharply and reached a peak estimated at 4.7 million in February 1950. It has been declining

<sup>1</sup> This is the third in a series of articles describing various items in the table of Business Indicators.

**Unemployment**  
(Monthly, March 1940-March 1951)



Source: U. S. Bureau of the Census.

since that time; in March of this year only 2.1 million workers were unemployed. A certain amount of "frictional" unemploy-

ment is inevitable in a society where workers are free to move from one job to another. Therefore, it seems doubtful that more than 1.5 million additional workers, at best, could be recruited for an intensified defense program from those presently reported as unemployed. (The lowest level of unemployment reported during World War II was 440,000 in October 1944, when the civilian labor force was 12 per cent smaller than at the present time.)

The unemployment estimates used in the table are compiled by the Bureau of the Census on the basis of personal interviews with a selected sample of about 25,000 households throughout the country during the calendar week containing the 8th day of the month. From this survey, estimates are made for the entire population over 14 years of age residing within the continental United States, except those in institutions (i.e., inmates of penal and mental institutions, homes for the aged or infirm, etc.). The Bureau of the Census releases current estimates in a *Monthly Report on the Labor Force*, and these are not ordinarily revised. This series is also available in a number of other publications, including the *Federal Reserve Bulletin* and the *Survey of Current Business* which provide data for

**Business Indicators**

Item	Unit	1951			1950	Percentage change	
		March	February	January	March	Latest month from previous month	Latest month from year earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	222p	221	221	187	#	+ 19
Electric power output*	1935-39 = 100	323	322	318	280	#	+ 15
Ton-miles of railway freight*	1935-39 = 100	202p	187p	208	175r	+ 8	+ 15
Manufacturers' sales*	billions of \$	23.4p	22.7	23.2	17.8	+ 3	+ 31
Manufacturers' inventories*	billions of \$	36.4p	35.5	34.9	29.1	+ 3	+ 25
Manufacturers' new orders, total	billions of \$	29.3p	25.5	27.7	18.8	+15	+ 56
Manufacturers' new orders, durable goods	billions of \$	16.3p	13.2	13.9	8.5	+23	+ 92
Retail sales*	billions of \$	12.4p	13.0	13.3	11.1	- 5	+ 11
Residential construction contracts*	1923-25 = 100	298p	311	312	278	- 4	+ 7
Nonresidential construction contracts*	1923-25 = 100	305p	334	350	274	- 9	+ 11
<i>Prices, wages, and employment</i>							
Basic commodity prices†	Aug. 1939 = 100	380.9	389.2r	383.9	246.8	- 2	+ 54
Wholesale prices†	1926 = 100	184.0p	183.6	180.1	152.7	#	+ 20
Consumers' prices†**	1935-39 = 100	184.5	183.8	181.5	168.4	#	+ 10
Personal income* (annual rate)	billions of \$	—	241.0p	240.9	219.3	#	+ 12
Composite index of wages and salaries*	1939 = 100	—	220p	219	205	#	+ 8
Nonagricultural employment*	thousands	46,206p	46,082	45,802r	42,752	#	+ 8
Manufacturing employment*	thousands	16,025p	15,987	15,834r	14,135	#	+ 13
Average hours worked per week, manufacturing†	hours	41.1p	40.9	41.0	39.7	#	+ 4
Unemployment	thousands	2,147	2,407	2,503	4,123	-11	- 48
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	71,320p	71,470	72,340	76,650	#	- 7
Total loans of all commercial banks	millions of \$	54,420p	53,540	52,710	43,650	+ 2	+ 25
Total demand deposits adjusted	millions of \$	88,990p	90,620	91,590	83,200	- 2	+ 7
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	27,253	27,145	27,222	27,124	#	#
Bank debits* (U. S. outside New York City)	billions of \$	87.0	84.4	87.8	69.5	+ 3	+ 25
Velocity of demand deposits* (U. S. outside New York City)	1935-39 = 100	103.3	100.5	102.8	88.3	+ 3	+ 17
Consumer instalment credit outstanding†	millions of \$	12,980p	13,075	13,257	11,077	- 1	+ 17
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	8,489p	4,877	4,696	5,162	+74	+ 64
Cash outgo	millions of \$	4,218p	3,522	3,438	4,046	+20	+ 4
National defense expenditures	millions of \$	2,240p	1,917	1,869	1,120	+17	+100
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)	1935-39 = 100	127	128	126	116	- 1	+ 9
Residential construction contracts*	1923-25 = 100	—	189	213	168	-11	+ 14
Nonresidential construction contracts*	1923-25 = 100	—	229	232	243	- 1	+ 22
Consumers' prices†** (New York City)	1935-39 = 100	180.4	180.8	177.8	165.5	#	+ 9
Nonagricultural employment*	thousands	—	7,307.1p	7,254.2	6,019.0	+ 1	+ 6
Manufacturing employment*	thousands	2,655.3p	2,649.6	2,625.6r	2,420.7	#	+ 10
Bank debits* (New York City)	billions of \$	49.7	43.4	46.4	40.3	+14	+ 23
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of \$	3.8	3.8	3.9	3.0	+ 1	+ 25
Velocity of demand deposits* (New York City)	1935-39 = 100	126.7	110.8	115.2	105.1r	+14	+ 21

p Preliminary.

r Revised.

\* Adjusted for seasonal variation.

† Seasonal variations believed to be minor; no adjustment made.

\*\* Revised series.

# Change of less than 0.5 per cent.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

the most recent 13 months. Monthly figures have been prepared from March 1940 to date. Annual estimates for 1929 to 1939, which are roughly comparable with this series, can be found in the *Statistical Abstract of the United States*, published by the Bureau of the Census.

Unemployment has been defined for statistical purposes in a number of different ways. The concept of unemployment used by the Bureau of the Census includes all persons who did no work during the survey week and who were actively looking for work, or who would have been looking for work had they not been temporarily ill, or laid off for an indefinite period, or convinced that no work was available in their line. Persons who are retired or are too old to work, those permanently unable to work because of disability, and seasonal workers for whom the survey week fell in an "off" season are not included, but are classified instead as "not in the labor force", along with housewives and students. Also excluded from the number of unemployed are persons with jobs but not at work because of vacations, illness, industrial disputes, bad weather, or layoffs with definite instructions to return to work within 30 days, and persons who have new jobs to which they are scheduled to report within 30 days, all of whom are classified as "employed". Persons who work as little as one hour for pay or 15 hours as unpaid family workers during the survey week are classified as "employed", even if they are seeking other work.

The unemployment statistics of the Bureau of the Census are not directly comparable with the figures for unemployment compensation claims. Not all types of "unemployed" workers are eligible for unemployment compensation, but on the other hand some persons whom the Bureau of the Census would define as "employed" or "not in the labor force" are eligible for benefits.

The unemployment series reflects not only variations in the number of persons employed, but also changes in the number of persons in the civilian labor force. The civilian labor force is influenced by the growth in the population of working age, by seasonal and long-term changes in the number of students in school and college, by changes in the size of the armed forces, and by the proportion of women, youngsters, and older persons who are employed or seeking work. Thus, in months when large numbers of persons enter the labor force, it is possible for the levels of both employment and unemployment to increase simultaneously.

Seasonal factors have a strong influence on unemployment. Because these factors are somewhat erratic and vary significantly from year to year, no satisfactory seasonal adjustment factors have as yet been published. Therefore, when appraising unemployment statistics, it is well to bear in mind that certain seasonal changes in unemployment normally occur each year. Post-holiday layoffs usually cause a sharp rise in unemployment each January. A further increase normally occurs in February. Unemployment tends to decline during the spring months, followed by steep increases in June and July, when students and certain categories of farm laborers are seeking summer work and graduates are looking for permanent jobs. Unemployment generally drops again in the fall, after students have returned to school and seasonal agricultural workers have withdrawn from the labor market.

Since data on unemployment are based on a sample survey, rather than a complete enumeration, monthly estimates are subject to sampling errors. The *change* in unemployment from any one month to the next month, however, is likely to be relatively more reliable than the estimated *levels* of unemployment from which it is computed.

## DEPARTMENT STORE TRADE

Department store sales in this District, which usually decline after Easter, are estimated for April of this year at about 5 per cent above April 1950. This comparison is somewhat affected by the later date of Easter last year (April 9) although the sales performance of the first week in April a year ago was relatively poor.

Preliminary reports indicate that sales of household durables, particularly furniture and bedding and television, came back strongly during April. Sales of ready-to-wear apparel, however, fell below expectations although the warmer weather late in the month undoubtedly stimulated demand for the spring apparel lines.

### THE FIRST QUARTER OF 1951

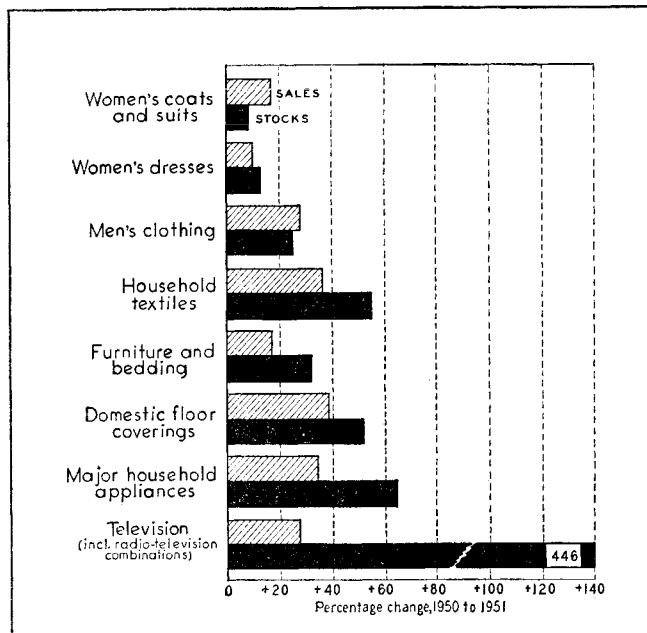
Department store trade during the first quarter of 1951 followed a pattern similar to that of last summer. For a time consumers spent freely on a wide variety of goods, but, when they realized that supplies were plentiful, buying subsided. The year-to-year increase in the dollar volume of department store sales in this District during the first quarter amounted to almost 20 per cent, of which roughly half can

be attributed to the rise in retail prices from the first quarter of 1950 to the first quarter of 1951.

The spectacular buying spree during January was not generally anticipated. The stores were not adequately stocked for demand of the magnitude which materialized, despite relatively large year-end inventories. Nevertheless, the dollar volume of sales during January surpassed the corresponding 1950 level by 30 per cent. Orders for additional merchandise were quickly increased in order to satisfy this extraordinarily strong demand for goods. However, during the first part of February, the year-to-year increase in the dollar volume of consumer purchases in the District's department stores fell sharply. Although the rate of increase turned moderately upward during the latter half of February, department store sales returned to more normal year-to-year relationships during March, despite the stimulus of an early Easter. Sales during March were but 10 per cent above those of March 1950.

The inventory position of department stores followed a course completely opposite to that of sales. After the first surprising days at the beginning of the year, additional

**Department Store Sales and Stocks by Selected Types of Merchandise, Second Federal Reserve District\***  
(Percentage change, first quarter 1950 to first quarter 1951)



\* Changes in sales are for quarterly totals; changes in stocks as of March 31.

merchandise began arriving in quantities unprecedented for the first-quarter season. By the end of March, the dollar value of inventories on hand had returned to the peak of November 1950, when department store stocks in this District had reached an all-time high. Thus, as was the case last summer, consumer demand, extremely sensitive to changes in international tensions, surged strongly upward for a short time and then weakened, leaving the stores heavily stocked.

The accompanying chart shows the first-quarter sales comparisons and the relative changes in end-of-quarter inventories for some of the major merchandise departments. In only two of the eight departments represented were the year-to-year increases in stocks (as of March 31) of smaller magnitude than the preceding three-month gain in sales volume.

The moderate increases in stocks of women's coats and suits and dresses are indicative of the extreme caution employed by merchandisers in keeping inventories of these commodities geared closely to current demand. Women's coats and suits sold very well during January and February but slumped badly during March. Sales of women's dresses, however, recorded year-to-year gains in January, February, and March of 14, 6, and 10 per cent, respectively. Consumer demand for household textiles (towels, sheets and pillow cases, blankets, etc.) during January was far in excess of the corresponding 1950 figure as the traditional "white sales" coincided with the general buying wave. During March, however, the year-to-year increase had shrunk to only 5 per cent, with stocks of these goods at the end of the quarter more than half again as large as those of March 31, 1950. The relative increase in the sales of men's clothing also fell off sharply during

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

Item	1951			1950
	March	Feb.	Jan.	March
Sales (average daily), unadjusted.....	230	218	233	210 <sub>r</sub>
Sales (average daily), seasonally adjusted..	230	263	291	219 <sub>r</sub>
Stocks, unadjusted.....	306	273	240	237
Stocks, seasonally adjusted.....	299	281	273	232 <sub>r</sub>

*r* Revised.

March, although the future demand for this merchandise may be somewhat strengthened by the recent reduction in military draft quotas.

Of the major homefurnishings departments, only domestic floor coverings (principally rugs and carpets) retained, during March, a large portion of the sales gains of the previous two months. The prospect of shortages of raw wool may have been an added inducement to consumers, although judging from the amount of stocks on hand at the end of the quarter current supplies appear to be ample. The March sales volumes of furniture and bedding and major appliances were barely ahead of March 1950 levels, while television sales actually declined. This drop of almost 20 per cent in the sales of television receivers represented the first year-to-year decrease for any month on record. (The slackened consumer demand for television sets during March appears to have been nationwide, according to preliminary data.) The drastic change in the situation has been brought into sharp focus by the recently announced price-cuts, at the manufacturer's level, of several of the name-brand lines. This action presumably indicates a heavy oversupply of sets at other than retail levels and the disruption of production schedules resulting from cutbacks in orders from retail distributors.

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

Locality	Net sales		Stocks on hand Mar. 31, 1951
	March 1951	Jan. through March 1951	
Department stores, Second District.....	+10	+19	+30
New York City.....	+6	+17	+33
Northern New Jersey.....	+13	+23	+29
Newark.....	+11	+22	+29
Westchester County.....	+18	+23	+12
Fairfield County.....	+13	+22	+23
Bridgeport.....	+13	+23	+24
Lower Hudson River Valley.....	+13	+17	+18
Poughkeepsie.....	+13	+17	+20
Upper Hudson River Valley.....	+14	+24	+18
Albany.....	+17	+30	+21
Schenectady.....	+11	+18	+16
Central New York State.....	+14	+21	+29
Mohawk River Valley.....	+14	+21	+22
Utica.....	+10	+14	+24
Syracuse.....	+14	+21	+34
Northern New York State.....	+22	+23	+11
Southern New York State.....	+21	+27	+13
Binghamton.....	+19	+24	+8
Elmira.....	+22	+37	+27
Western New York State.....	+15	+19	+28
Buffalo.....	+16	+19	+31
Niagara Falls.....	+11	+21	+33
Rochester.....	+15	+20	+24
Apparel stores (chiefly New York City).....	+7	+14	+18

# NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, May 1, 1951)

Economic activity and incomes were maintained at record levels in March and early April. Retail sales showed a less than seasonal rise. Wholesale commodity prices continued to show little change, while consumer prices rose further. Bank loans to business continued to rise somewhat, although a decrease is usual at this season. Bond yields continued to rise.

## INDUSTRIAL PRODUCTION

The Board's seasonally adjusted industrial production index was 222 per cent of the 1935-39 average in March, as compared with 221 in January and February. Preliminary data indicate little change for April. Output has increased 3 per cent in the past six months and is about 20 per cent higher than a year ago.

Steel output has been at new record levels since early March. Output of producers' equipment and munitions has shown continued marked expansion, and on April 1 more stringent curbs were initiated on use of metals for consumer goods. Over-all output of consumer durable goods was maintained at advanced levels in March partly because of very high assembly rates for passenger cars. In April, car production has decreased to a rate about 5 per cent below average first-quarter levels; and output of household durable goods has apparently also been reduced owing in part to demand influences.

Activity in the textile industries has decreased since February partly reflecting labor disputes. Production of other non-durable goods generally has continued at about the high February rate. Crude petroleum output rose further during March and early April, while production of coal, stocks of which are large, remained well below the January volume.

## EMPLOYMENT

Employment in nonagricultural establishments, seasonally adjusted, continued to increase moderately in March, reflecting mainly further gains in durable manufacturing industries and in Government employment. Hours of work in manufacturing remained unchanged at 41 hours per week, slightly below the 1950 year-end level, while hourly earnings continued the moderate increases of recent months. Unemployment at 2.1 million in March was 2 million below a year ago and at the lowest level for this month since 1945.

## CONSTRUCTION

Value of contract awards for most types of private construction rose less than seasonally in March. The number of housing units started totaled 93,000 as compared with 80,000 in February and 117,000 in March 1950. The value of construction work put in place, reflecting earlier record awards and starts, rose to a new peak in March, after allowing for seasonal influences.

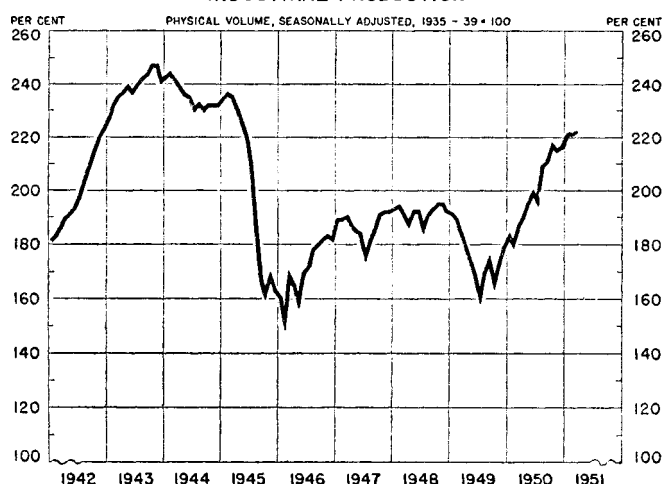
## DISTRIBUTION

Retail sales of housefurnishings have declined from the exceptionally high rates at the beginning of the year, and sales of apparel and automobiles have shown a less than seasonal expansion since that time. Demand for foods and various other goods has remained at advanced levels. Distributors' stocks have increased further. Preliminary seasonally adjusted figures on the value of department store stocks at the beginning of April were about 12 per cent higher than at the beginning of January and 30 per cent above year-ago levels.

## COMMODITY PRICES

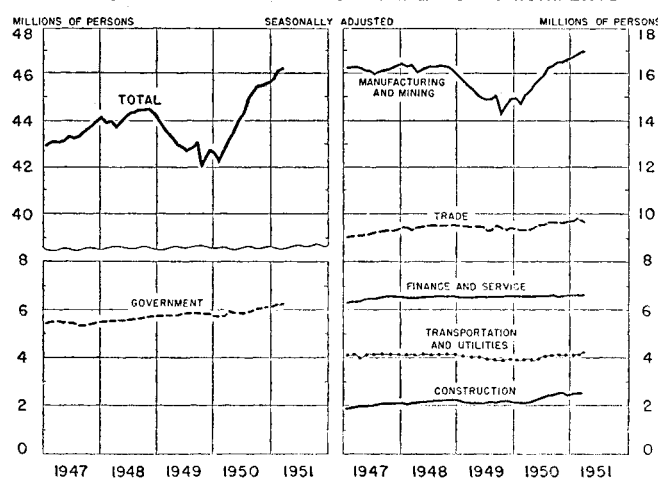
Wholesale commodity prices have generally continued to show little change during the past month at a level 20 per

### INDUSTRIAL PRODUCTION



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

### EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS



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

cent above a year ago. Prices of some materials which had declined in March have strengthened during the past ten days.

Consumer prices advanced 0.4 per cent further in March, reflecting chiefly increases in retail prices of apparel, house-furnishings, and miscellaneous goods and services. Foods showed little change for the first time since last November. The all-items index was 10 per cent above a year ago, with food prices 15 per cent higher.

#### BANK CREDIT AND THE MONEY SUPPLY

Expansion in business loans slackened in late March and the first half of April. These loans usually decline at this time of year. Business loans declined slightly at New York City banks, but increased somewhat further at banks in other leading cities. Preliminary data collected in connection with the voluntary credit restraint program indicate that borrowing to finance defense contracts is much more important now than it was last fall and that commodity loans are currently being repaid. Retailers and wholesalers have been important borrowers in recent weeks, as have textile manufacturers. Real estate loans and bank holdings of corporate and municipal securities continued to increase moderately.

Average interest rates charged by commercial banks on

short-term business loans rose from 2.84 per cent in the first half of December to 3.02 per cent in the first half of March.

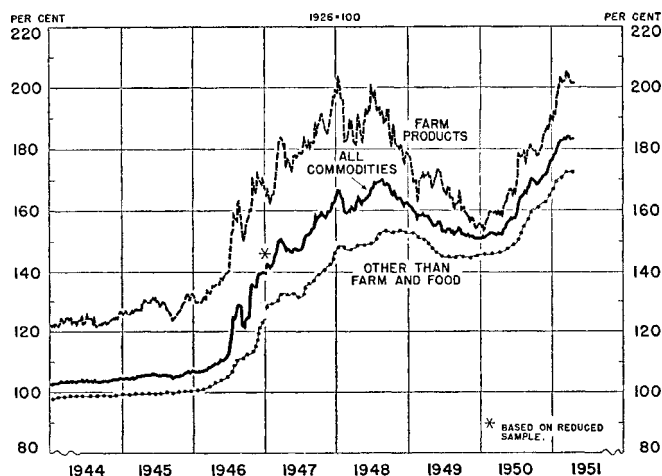
Deposits and currency held by businesses and individuals declined in the latter part of March, reflecting a seasonal shift of funds to Government balances as a result of tax payments. In early April, however, the private money supply increased as Government balances were reduced.

Member bank reserve balances increased somewhat further in late March and early April. Federal Reserve purchases of Treasury bonds during this period supplied reserve funds to banks. The effect of these additional reserves was offset only in part by an outflow of gold and an increase in Treasury and other deposits at the Reserve Banks.

#### SECURITY MARKETS

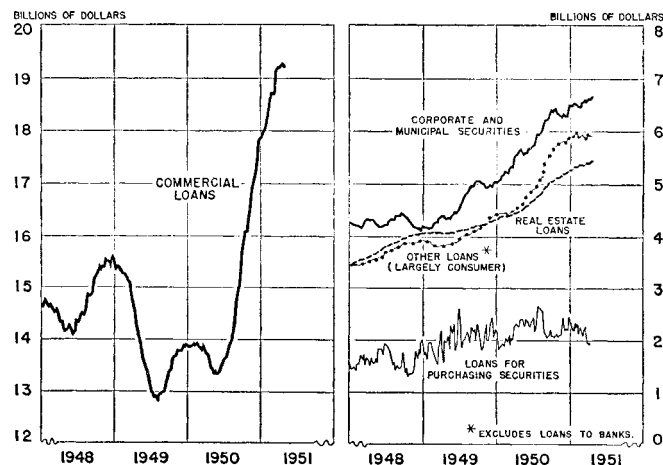
Yields on long-term Treasury bonds increased during the first three weeks of April. While yields on outstanding high-grade corporate bonds rose only slightly, there was a marked increase in yields on new corporate issues. Prices of common stocks advanced rapidly during the first two weeks of April to the peak level of early February, and then declined slightly during the third week.

#### WHOLESALE COMMODITY PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ended April 17.

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



Commercial loans include commercial, industrial, and agricultural loans. Wednesday figures; latest shown are for April 18.