

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 33

DECEMBER 1951

No. 12

THE AGRICULTURAL SITUATION AND OUTLOOK, 1951

American farmers in general have had a good year in 1951, although experience has varied widely among regions and crops. Despite the ravages of floods in some areas and droughts in others, total output of farm products appears to have reached a new all-time peak in 1951. In achieving this mark, farmers sent to market a record volume of livestock and products (which include dairy products, poultry, and eggs) and harvested the third largest crop in this nation's history. The marketing and home consumption of livestock, poultry, and dairy products during 1951 is estimated to have increased 2 per cent over 1950 and to have equaled the previous record set in 1944. Crop production rose about 6 per cent above 1950, according to November 1 estimates, and has been exceeded only by the record harvests of 1948 and 1949. The production of food, however, did not increase appreciably over 1950, and the rise in cotton and tobacco output accounted for most of the increase in total production.

Although the prospect of abundant harvests helped to bring about some softening in prices of farm products during the spring and summer months, the general level of farm prices has remained well above 1950. By September 1951, average prices received by farmers had receded 7 per cent from their February peak, but since then prices have risen somewhat. For the first ten months of 1951, prices received by farmers averaged 20 per cent higher than in the corresponding months of 1950. The higher prices and record production have resulted in a new peak in gross farm income of 37.5 billion dollars in 1951, according to estimates of the U. S. Department of Agriculture. However, more than half of the 5 billion dollar increase in receipts has been offset by the rise in production expenses. As a result, the realized net income of farm operators is expected to total about 15 billion dollars, up 2.3 billion from 1950, but well below the high levels of 1947 and 1948. In addition, there was a marked increase in the value of inventories held on farms, primarily reflecting the larger number of cattle.

The general prospects for 1952 are equally favorable, according to a recent analysis of the outlook prepared by the Bureau of Agricultural Economics of the U. S. Department of Agri-

culture. The volume of farm marketings is expected to rise about 5 per cent further in 1952 (if weather conditions are favorable), reflecting both the increased production goals for major crops and increased marketings from the record livestock population currently on farms. Despite expectations of continued strong consumer demand, the BAE does not anticipate a further rise in the average level of prices received by farmers. Costs of production, however, are expected to continue to advance. Altogether, total receipts may rise about 5 per cent next year, but net income is likely to be about the same as in 1951.

TRENDS IN MAJOR FARM PRODUCTS

The impressive gain in cotton production in 1951 overshadowed the reduced harvests of several other major crops. As shown in the following table, the increase in the cotton crop more than offset the slight declines in food grains and feed crops and the larger cutbacks in potatoes, sugar cane and beets, and oil-bearing crops (soybeans, flaxseed, and peanuts). The 1950 cotton crop had been a particularly small one, and a persistently strong domestic and foreign demand, intensified by the Korean war, resulted in the depletion of the stocks held by the Commodity Credit Corporation and drew private stocks down to one of the lowest levels on record. This year's plantings were much more extensive than last year's, partly in response to appeals of public officials for a bumper crop. Original reports indicated a near-record crop,

CONTENTS

The Agricultural Situation and Outlook, 1951	169
Money Market in November	172
The Economic Outlook for Japan.....	174
Manufacturers' New Orders	176
Department Store Trade	179

Farm Production for Sale and Home Consumption*
(1935-39 average=100 per cent)

Farm commodity	Index numbers		Per cent change 1950-51
	1950	1951	
Livestock and products.....			
Meat animals.....	141	143	+ 1
Dairy products.....	118	118	0
Poultry and eggs.....	182	191	+ 5
All livestock and products.....	140	143	+ 2
Crops.....			
Food grains.....	149	147	- 1
Feed crops.....	177	176	- 1
Cotton.....	77	131#	+70#
Truck crops.....	147	156	+ 6
Potatoes and other vegetables.....	116	91	-22
Tobacco.....	140	155	+11
Fruits and nuts.....	124	131	+ 6
Oil-bearing crops.....	388	344	-11
Sugar crops.....	114	96	-16
All crops.....	135	145#	+ 7#
All commodities.....	138	144	+ 4

* Production estimates are based on crop estimates as of October 1 and estimated marketings and home consumption of livestock and livestock products.

The November 1 crop estimates indicate a 7 per cent reduction in the size of the 1951 cotton crop and a slight reduction in the over-all crop volume, but revised indexes showing these changes are not available.

Source: Bureau of Agricultural Economics, U. S. Department of Agriculture.

but subsequent estimates were considerably lower. According to the November 1 crop estimate, cotton production in 1951 will total 15.8 million bales, compared with 10.0 million bales in 1950 and the goal of 16 million bales requested by the Department of Agriculture for 1951. When it appeared that this year's crop would be exceptionally large, cotton prices dropped nearly to the support level. Hoping for a price rise, farmers put substantial quantities of cotton into Government loan and this, together with some strengthening of demand and the lower crop estimates, resulted in a rise in cotton prices of more than one fourth in the past two months, so that they now are within a few cents of the ceiling set by the Office of Price Stabilization. The crop this year is not large in view of defense needs and the export demand, and the Government has appealed for continued large-scale production of cotton next year.

For the first time since 1943, the wheat crop will total less than a billion bushels. Winter wheat accounted for most of the decline, as bad weather cut the harvest to 651 million bushels, 100 million bushels less than in 1950 and a drop of two fifths from the 1947 peak. However, the 1951 spring wheat crop of 343 million bushels is almost one-fourth greater than the 1950 crop, and, in fact, is the largest crop since 1918. Total wheat production of 994 million bushels is likely to fall short of domestic and export demand during the 1951-52 marketing year. As a result, wheat stocks on July 1, 1952, which is the end of the current crop year, are expected to be approximately 300 million bushels, or about one-fourth less than the exceptionally large carryover a year earlier, according to estimates of the Bureau of Agricultural Economics. Fall seedings for the 1952 harvest are already under way, and, if average yields are realized, a marked increase in wheat production is indicated for next year.

The corn crop in 1951 appears to be only slightly smaller than in 1950, but because of frost damage some of the crop will be of poor quality and low feeding value. As of November 1, the corn crop was estimated at 3,088 million bushels, compared with 3,131 million in 1950. Altogether, about 120 million tons of feed grains—corn, oats, barley, and sorghum grains—will be produced in 1951. But the prospective demand is likely to be the largest on record, and stocks on hand at the end of the crop year are likely to be reduced by one third from the level of the past three years.

The heavy demand for feed grains results from the extremely large number of meat animals on farms. By the end of 1951, cattle and calves are expected to reach a new record total of 91 million head, an increase of 7 million since the first of the year. This increase reflects a reduced rate of slaughter during 1951—the lowest rate in ten years for cattle and the lowest in 18 years for calves. Recently the rate of slaughtering has begun to improve and the BAE anticipates further increases in 1952, resulting in a rise of around 10 per cent in next year's beef and veal production. Demand is so strong, however, that there may be no substantial decrease in cattle prices, which are currently close to their ceilings. The total pig crop in 1951 is estimated to total 106 million, compared with 100 million last year, and is second only to the record 1943 crop. Owing to a sharp increase in early marketings of hogs, total hog slaughter for the fall season may be the largest on record. For 1951 as a whole, pork production is expected to be about 10 per cent greater than in 1950. However, sharply increased pork supplies have not entirely offset the effect of a decline of 7 per cent in beef and veal output. As a result, civilian meat consumption in 1951 is expected to be about 2 per cent less per capita than in 1950. In 1952, however, aggregate civilian supply may improve again to the 1950 level.

TRENDS IN MAJOR SECOND DISTRICT FARM PRODUCTS

Although cotton, wheat, corn, and livestock dominate the national agricultural production picture, these products play only a minor part in farming in this region. Dairy products, poultry and eggs, fruit, and vegetables account for approximately three quarters of the value of farm marketings in the Second Federal Reserve District. Of these, the most important are dairy products, which were responsible for over two fifths of New York State farmers' cash receipts in 1950. In the country as a whole, milk production during 1951 is expected to total 120 billion pounds, approximately the same as last year. The number of milk cows at midyear was nearly as great as in 1949 and 1950, though 12 per cent below the 1944 peak, and production of milk per cow continued at record levels. Higher consumer incomes have resulted in increased consumption of fluid milk despite a 12 per cent rise in retail

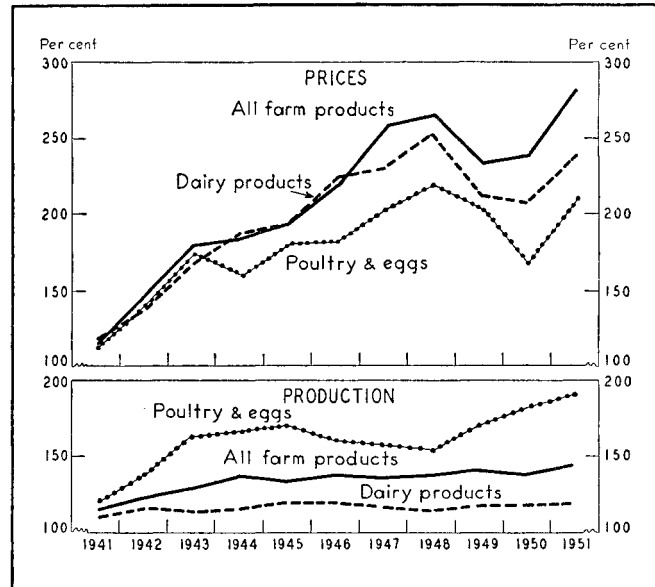
prices, but per capita consumption of butter reached a new low in 1951. In New York State, milk receipts at dairy plants during the first ten months of 1951 were only slightly lower than last year's record. The peak rate of production per cow reflected excellent pasture conditions (except in the western portion of the State) and a continued high rate of supplementary feeding of concentrated feeds. Prices received by farmers in this State for milk in the first nine months of 1951 averaged 16 per cent higher than in the corresponding months of 1950. Costs of dairy farming have, however, risen to the highest levels yet recorded. A rise in such costs of 11 per cent from 1950 to 1951 is indicated by an index of costs of dairy farming in New York State, compiled by Cornell University. The increase in prices of milk cows has been particularly sharp.

Dairy products, as the chart shows, have failed to keep pace in recent years with farm products in general, both in prices and production. As a result, gross income of dairy farmers has lagged behind that of farmers as a whole. This in turn has adversely affected the share of this District, which is predominantly a dairying area, in national farm income. The national total of cash receipts from dairy farming is expected to increase from 3.8 billion dollars in 1950 to 4.4 billion in 1951, but dairying's share of the total farm income will not be much greater than in 1949 and 1950, when marketings of dairy products accounted for the smallest portion of total farm receipts in the four decades for which records are available. In 1952, the BAE expects cash receipts of dairy farmers to rise somewhat further, reflecting little change in production but higher prices arising from greater consumer demand.

Total output of the poultry industry will be at a record level in 1951. Egg production appears to be heading for a new record of around 60.5 billion eggs as a result of greater than average flocks and an increasing number of eggs per hen. Output of broilers and turkeys set new records in 1951, and the civilian supply of poultry meat has exceeded even the World War II peaks. In New York State, where poultry and products accounted for over one sixth of total 1950 farm receipts, egg production during the first ten months of 1951 was about the same as a year earlier, but New Jersey flocks were producing about 5 per cent more than last year. Prices of eggs in New York State were 33 per cent higher than a year earlier during the first ten months of 1951, but poultry prices were up only 12 per cent. As the chart shows, poultry and egg prices have lagged behind the general level of farm prices, but a higher than average rate of production has maintained the level of poultry farmers' income. The Bureau of Agricultural Economics anticipates further increases in output of poultry and products during 1952, with prices probably averaging about the same as in 1951. However, rising costs,

Prices and Production of Dairy and Poultry Products Compared with All Farm Products

(Annually, 1941-51*; 1935-39 average=100 per cent)



* Prices for 1951 are estimated on the basis of data for ten months; 1951 production estimates are based on crop estimates as of October 1 and estimated marketings and home consumption of livestock and livestock products.

Source: U. S. Bureau of Agricultural Economics; prices have been converted to a 1935-39 base by the Federal Reserve Bank of New York. Prices are average prices received by farmers; production is total output for sale or home consumption.

particularly for feed, are likely to cancel out most of the 5 per cent increase in gross income estimated for poultry farmers in 1952.

For the first time in seven years, there will not be a heavy surplus of potatoes at the end of the year. No price support program was in effect for the 1951 crop, and acreage was substantially reduced. At the same time, yields per acre were generally lower this year than last year's record. On Long Island, the potato crop was 16 per cent smaller than in 1950, and in Upstate New York the reduction was 30 per cent. In the country as a whole, the 1951 crop is about 100 million bushels, or 24 per cent, smaller than 1950. The total of this year's crop is about the same as the amount which remained of last year's crop after Government price-support purchases were deducted. As a result of smaller supplies, prices received by farmers for potatoes have been much higher in recent months than in the corresponding months of 1950. Production of truck crops, many of which are important in New York State, was generally lower in 1951 than in 1950. The harvest of peaches, however, has been greater than last year in New York State, but the apple and pear crops are slightly lower than in 1950. The grape crop, though above average, has been little more than half of last year's record harvest.

MONEY MARKET IN NOVEMBER

Despite pressure from a steady flow of currency into circulation and continuing moderate sales and redemptions of securities by the Federal Reserve Open Market Account, bank reserves were in adequate supply over the first three statement weeks of November, as Treasury operations and rising Federal Reserve "float" supplied sufficient funds to the market to offset losses from these other factors. The New York money market was characterized by general tightness early in the month and moderate ease in the third statement week, conditions which were reflected in the swings of the rate for Federal funds from highs of $1\frac{1}{2}$ and $1\frac{3}{8}$ per cent in the first two weeks to a low of $\frac{1}{4}$ per cent on November 20. A combination of relatively large demands on bank reserves in the statement week ended November 28 reduced excess reserves substantially, and at the close of the month there was considerable tightness throughout the money market.

Bank loans to business again touched new highs during the past month. However, the rate of increase in this form of credit during the first three weeks of November 1951 was well below the rate for the similar period in 1950 and lower than the average November rate of increase for the five postwar years, 1946-50.

On November 14, the Treasury announced its second offering of tax anticipation bills, to be dated November 27, 1951 and to mature June 15, 1952, in an amount of 1,250 million dollars. Tenders for the issue were opened on November 20, and bids were accepted at an average rate of discount of 1.497 per cent, compared with 1.550 per cent for the 144-day bills sold in October. The Treasury announced, on November 13, that the $2\frac{1}{2}$ per cent Treasury bonds due March 15, 1954 are to be called for redemption on March 15, 1952, and that the 2 per cent Treasury bonds due September 15, 1953 and callable on March 15, 1952 will not be called for payment on that date. On November 26, it announced that the 1.1 billion of $2\frac{1}{4}$ per cent bonds called for payment on December 15 of this year will be refunded into an 11½-month $1\frac{7}{8}$ per cent certificate of indebtedness. Taxable Treasury bonds continued to display weakness until the final week of the month and the prices of several longer-term issues recorded new postwar lows. After a moderate recovery during the last statement week of the period, they eased again at the close of the month. Demand for Treasury bills and other short-maturity instruments remained strong and rates in this area moved gradually downward over most of the month.

MEMBER BANK RESERVES

As shown in Table I, excess reserves held by member banks tended to remain relatively stable over the first three statement weeks in November at levels that approximate "normal" working balances. On only one day during this period did excess reserves fall below 700 million dollars and they exceeded 1 billion dollars for only two days, near the middle of the month. Behind this apparent stability, however, rather

sharp movements occurred in the factors influencing bank reserve positions. The growing public demand for currency that has been evident for the past several months, and that had resulted in an expansion of currency in circulation by 1,372 million dollars between the end of March and the first of November, was reinforced last month by the usual seasonal flow, and an additional 291 million of currency was drawn into circulation during the first three weeks of November. More than offsetting the losses to bank reserves through currency flows, however, was the extremely large increase in float through the three weeks ended November 21, which added 553 million to bank reserves. Treasury operations during this period added another 135 million, and movements of gold and foreign account balances an additional 77 million dollars.

Federal Reserve security operations absorbed a large part of the new reserves that the banks acquired in the first three weeks of the month. The drain on bank reserves from a reduction of 277 million dollars in Federal Reserve security holdings, through reduced holdings of bills and certificates, exerted steady pressure on the money market. Member banks tended to adjust to the uneven timing of these more or less offsetting factors by increasing or decreasing their borrowing from the Federal Reserve Banks.

In the last statement week of November, member bank excess reserves contracted as the result of a confluence of many forces. Currency in circulation continued to increase while float dropped from its pre-Thanksgiving level. Treasury calls on its Tax and Loan Accounts, and other Treasury receipts, exceeded Government disbursements and added to Treasury balances with the Federal Reserve at the expense of member bank balances. Finally, required reserves moved upward as the proceeds of the Treasury's new tax anticipation bills—sold

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

Factor	Statement weeks ended				Four weeks ended Nov. 28
	Nov. 7	Nov. 14	Nov. 21	Nov. 28	
<i>Routine transactions</i>					
Treasury operations* . . .	+ 38	+ 216	— 119	— 183	— 48
Federal Reserve float . . .	+ 155	+ 86	+ 312	— 285	+ 268
Currency in circulation . .	— 124	— 67	— 100	— 41	— 332
Gold and foreign account .	+ 38	— 27	+ 66	+ 28	+ 105
Other deposits, etc.	— 11	+ 56	+ 1	+ 21	+ 67
Total	+ 97	+ 263	+ 162	— 461	+ 61
<i>Federal Reserve transactions</i>					
Government securities . .	— 45	— 110	— 122	— 36	— 313
Discounts and advances .	+ 58	+ 30	— 47	+ 257	+ 298
Total	+ 13	— 80	— 169	+ 221	— 15
<i>Total reserves</i>	+ 110	+ 183	— 7	— 240	+ 46
<i>Effect of change in required reserves</i>	+ 83	+ 32	— 224	— 63	— 172
<i>Excess reserves</i>	+ 193	+ 215	— 231	— 303	— 126

* Includes changes in Treasury currency and cash.

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

mainly to banks—were credited to the Tax and Loan Accounts. Member bank excess reserves were lowered 572 million dollars by these factors, with only nominal offsets from other operating factors, so that member banks found it necessary to increase their borrowing from the Federal Reserve Banks by some 257 million dollars. At the end of November, borrowing from the System exceeded member bank excess reserves, which were at very low levels.

While reserves were generally adequate for the banking system as a whole over most of November, the geographical distribution of reserves created rather tight conditions in the New York money market in the first half of the month. During most of this period, Federal funds were available only at rates of $1\frac{1}{2}$ per cent or more. Gains to reserves from foreign account and Treasury operations tended to be offset by a persistent drain of commercial and banking funds to the rest of the country. Following a period of ease after the middle of the month, the New York market reacted to the general tightening during the week ended November 28, and the rate on Federal funds on most days was at a level just short of the Federal Reserve discount rate. At the end of November, reserve funds in the New York money market were in very tight supply, as they were in the rest of the country.

TREASURY DEBT OPERATIONS AND THE GOVERNMENT SECURITY MARKET

For the second time in two months, the Treasury during November had recourse to the market for 1,250 million dollars through the medium of tax anticipation bills. With this issue, which is identical except as to dating and maturity with the earlier tax anticipation bill described last month, new money borrowing for calendar 1951 has probably been completed. Tenders for the issue of 201-day bills (dated November 27 to mature June 15, 1952) were received from November 15 to 20, and awards were made to successful bidders at an average rate of discount of 1.497 per cent. This rate on a 201-day bill was markedly below the 1.609 per cent average rate on the regular 91-day bill dated November 29, and represents the lowest rate of discount on any bill issue since June of this year. The explanation for the Treasury's ability to borrow at this rate in the current market lies in the feature of the offering terms that allowed a depository bank to make payment for its own and customers' purchases by crediting the Treasury Tax and Loan Account on the bank's own books. In effect, this represents investment on less than 25 per cent margin. That many smaller banks have availed themselves of this privilege is indicated by the fact that nearly one third of the bids accepted on the current issue were made on a non-competitive basis. The heavy noncompetitive bidding, in turn, meant that the lowest of the competitive bid rates were unusually influential in determining the average rate of discount.

Price movements in the Government security market over the month as a whole continued the divergent pattern that

had been under way through October, as prices of shorter-term issues pressed slightly upward while those of the longer-term bonds declined. Prices of intermediate and longer-term taxable bonds fell sharply in the third week following a period of relative stability in the first half of the month. By November 21, the longest bank-eligible bond was off $1\frac{3}{8}$ points from its end-of-October price, and prices of the entire list of restricted bonds had fallen nearly a full point. By the end of the third statement week, prices of most long Treasury bonds had fallen slightly below their previous low points of last May and June. The market was characterized by a lack of buyer interest rather than unusually large offerings, and small purchases were made for Federal Reserve account in the interest of maintaining orderly market conditions during a period when small lot sales tended to exert an undue influence on prices. Some bond prices showed moderate recovery in the fourth statement week, but for the month ended November 28 prices of longer-term taxable Treasury bonds were down from $\frac{3}{8}$ of a point to $1\frac{1}{4}$ points. During the same period, partially tax-exempt issues were steady to $\frac{3}{8}$ of a point lower.

Among the factors causing weakness in the taxable longer-term bonds over recent months has been a drying up of demand caused in some measure by an increased preference for tax-exempt investments, growing out of higher corporate taxes and the assessment of taxes on mutual savings banks, combined with a relatively large supply of new tax-exempt municipal and State issues. In addition there has been an unusually heavy volume of corporation security issues at attractive rates.

Also, some observers believe that the timing of the price contraction in November indicates that demand for Treasury bonds was influenced by declining prices for government issues in the United Kingdom and Canada. While the direct effects on the domestic market of these actions abroad have probably been insignificant, the British and Canadian developments have been interpreted by some dealers and investors as further indication of a trend toward generally higher long-term rates and toward greater willingness on the part of central banks and governments to adopt restrictive policies, even though they may adversely affect government security prices and rates.

Treasury notes were unchanged to fractionally lower in price during November, while certificates and bills displayed continued strength. Certificate yields on the later maturities settled gradually over the month and by November 28 were down 3 basis-points from their October closing levels. Issue rates on new Treasury bills in November were somewhat lower than for the comparable issues in the preceding month, ranging from a high of 1.619 per cent for the issue dated November 15 to a low of 1.585 per cent on the November 23 issue. Nearer-maturity bills were somewhat lower in yield, and yields on the March 15 tax anticipation bills closely paralleled the new issue rates on 91-day bills.

MEMBER BANK BUSINESS LOANS

Commercial, industrial, and agricultural loans of weekly reporting member banks in 94 cities recorded new highs in each of the first three statement weeks of November, but, as shown in Table II, the percentage rate of increase in this category of bank lending was substantially below the rate in 1950 and somewhat lower than the average rate of increase for the postwar years 1946-50. The data in Table II for the summer and fall months, July through November, show, first, that in each of the past five months the rate of increase in banks' business lending has fallen below the average for the postwar years, and, second, that this form of credit expansion in 1951 appears to follow the patterns of the similar months in 1948 and 1949, when inflationary forces were relatively moderate, rather than those of the periods of credit and price inflation in 1946, 1947, and 1950.

The relatively restrained rate of growth of bank business loans over the last half of 1951 to date becomes more impressive when viewed against the fact that data from banks reporting commercial and industrial loan totals broken down as to purpose indicate that approximately 48 per cent of the new bank business loans made from the end of June to mid-November 1951 were for defense or defense-supporting purposes. While some of these loans would probably have been made in a normal, peacetime economy, the figures indicate considerable restraint on marginal nondefense business borrowing this year. Pressures from stiffened consumer sales resistance in many areas, reinforced by selective credit controls on some forms of nonbusiness borrowing, along with shortages of certain materials, have been factors in bringing about this result, but tighter general credit control and the Voluntary

Table II
Monthly Percentage Increases in Commercial, Industrial, and Agricultural Loans by Weekly Reporting Member Banks in 94 Leading Cities
(June-November, 1946-51)

Last Wednesday of month	1946	1947	1948	1949	1950	Average 1946-50	1951
July.....	6.49	1.78	1.01	-2.16	2.27	1.88	-1.36
August....	5.92	3.65	2.46	0.61	5.95	3.72	2.87
September..	6.61	4.25	2.64	3.23	6.69	4.68	2.95
October....	7.52	6.79	1.12	2.21	3.46	4.22	2.46
November..	3.78	3.32	0.97	0.69	5.01	2.75	1.95*

* Monthly rate based on data for first three statement weeks of month.

Credit Restraint Program also appear to have played important roles. Limited excess reserves of member banks and the greater expense and difficulty of access to Federal Reserve credit, helped by the Voluntary Credit Control Program, have made extension of commercial bank credit more selective.

Comparison of business loan expansion by weekly reporting member banks in New York City this summer and fall with the 1950 experience follows closely the national results. Between the end of June and November 28 of this year, New York City loans in this category increased by 755 million dollars, or by 11 per cent, while in the comparable period of 1950 the increase amounted to 1,295 million dollars, or 27 per cent. As for the country as a whole, New York City banks' business loans reached new highs during November, but again following the national pattern, the 0.8 per cent rate of growth over the first four weeks of November was substantially lower than the 3.0 per cent growth over this period in 1950. The actual figures show commercial, industrial, and agricultural loans of weekly reporting member banks in New York City up 60 million dollars from the October 31 level to a November 28 total of 7,573 million dollars.

THE ECONOMIC OUTLOOK FOR JAPAN

At this time when Japan is entering upon a new phase of her national career, there are conflicting aspects of the country's economic position which make it impossible to characterize Japan's current situation and prospects simply as "good" or "bad", "strong" or "weak". There has been a truly tremendous increase in Japanese industrial production since the Korean outbreak, but the prices of some of Japan's important export commodities have risen until they are now above world market prices and these exports are therefore no longer competitive. The government has been avoiding deficit budgets since 1949 and has even had surpluses, but there has been exceedingly heavy recourse to bank credit by private industry, which has contributed to the post-Korean inflation. While foreign exchange holdings have been accumulating rapidly, this has resulted from unusual and necessarily transitory conditions; imports have been until this year heavily financed by United States aid, and special procurements by the United States for the Korean fighting have provided unexpected, large dollar earnings. These few double-entry items

exemplify the kind of accounting that is necessary in order to appraise correctly Japan's present position and the outlook for the near future.

Japanese economic and financial developments since the end of World War II can be divided into three distinct phases. The first was a period of spiraling inflation and slow physical recovery. This lasted until the spring of 1949 when rather drastic stabilization measures were introduced upon the urging of Mr. Joseph Dodge, President of The Detroit Bank, who went to Japan as financial adviser to SCAP. The Dodge program caused prices to level off, but it also brought a temporary halt to the expansion of industrial activity. By the turn of the year, however, the impact upon industry of the sudden credit restrictions and of the discontinuance of subsidies had apparently worked itself out, and thereafter production rose steadily. The third phase came with the Korean war when Japan was called upon to provide staging area facilities for the United States troops, repair ships and render other services for the United Nations forces, and supply textiles,

machinery, and various other products for use in Korea. Although this third phase has been a period of relative prosperity for Japan, it has also witnessed the introduction of new stresses into the economy, and a revival of the inflation.

The demands stemming from the Korean war were so great a spur to Japanese industry that production increased by more than half in just one year, the SCAP production index reaching a high point in July 1951 that was 43 per cent above the 1932-36 base. This seemingly high figure should not suggest, however, that Japan's industrial output is now at a very satisfactory level. Production is high relative only to the base years 1932 to 1936, when the industrial structure was much more limited than it is now and was composed primarily of textile and other light industries. From 1937 until the end of World War II, output was considerably greater than the 1951 peak, reaching 172 in 1941, and going as high as 219 in 1944 when the war effort reached its maximum. Furthermore, Japan's economy must now support a population of 83 million people, almost one-fourth more than in 1932-36, and will have to provide employment for a labor force that will be increasing at the rate of, conservatively, half a million persons a year.

The industrial upsurge in 1950-51 was greatest in those goods that either were directly needed for the prosecution of the Korean war, were sought by other countries for stockpiling purposes, or were desired for domestic investment. Thus the production of transportation equipment and industrial machinery increased to between two and three times the pre-Korean levels, while there were also very significant rises of up to 100 per cent in the output of other goods, including other types of machinery, metals, lumber products, certain chemicals, and textiles. To accomplish this rapid expansion, Japanese industry relied heavily upon bank credit for both working funds and the purchase and repair of capital equipment. From June 1950 to July 1951 loans and discounts rose about 60 per cent, the prime reason for an increase of almost 40 per cent in the money supply.

The accumulation by the end of June 1951 of 550 million dollars in foreign exchange occurred despite a total postwar trade deficit of more than 2 billion dollars. This apparent paradox is explained by the fact that all but 15 million dollars of the trade deficit was covered by American aid, while additional dollars were earned for services rendered American troops, as well as from special procurements, i.e., purchases of Japanese goods and services in connection with the Korean fighting and Korean relief. Although exports have increased rapidly from year to year, imports have likewise risen, since Japan is a country with very limited raw materials and as a consequence cannot expand her industrial production or her exports to any significant extent without increasing her imports. In the first six months of 1950, before the outbreak of fighting in Korea, imports were still 50 per cent in excess of exports, and almost half of them were paid for with aid funds. While United States aid has been falling sharply since then, there will

be a continuing flow of dollars from special procurements even after the Korean conflict ends, for there will then be increased purchases for Korean relief and rehabilitation; and dollars will also flow in as payment for services on behalf of United States troops stationed in Japan, since they will remain there in accordance with the bilateral Security Treaty after the occupation is terminated. The Japanese Government anticipates that these dollar receipts will enable Japan to maintain a favorable exchange position during the next two years, and even to accumulate further small holdings.

Underlying this favorable forecast, however, is the assumption that Japan's trade position will continue to improve, i.e., that her industrial output will continue to increase and that a greater percentage of it will be exported. Exports and imports for the year ended March 1951 were only a little more than one third the prewar volume. Even though there was destruction and deterioration of plant during the war, and obsolescence continues to take a growing toll, there reportedly is still a considerable amount of unused capacity, particularly in the metals and machinery industries, that can be put to work with relatively small applications of capital. In other fields, including the cotton spinning and rayon industries, plant has already been much enlarged. However, a part of the increased production may be absorbed domestically because of the great growth in population. While the total supply of consumer goods and services had indeed recovered during 1950 to slightly more than the 1934-36 level, the supply per capita was still far below. How much of the future rise in production will actually be taken up internally will depend upon economic policy, since this will determine the extent of the inflation and the resulting diversion of productive capacity to domestic uses.

Expansion of exports will, of course, depend also upon their competitive position. The prices of many of Japan's export goods were pushed up sharply after Korea, not only because of increased import costs, the removal of subsidies and allocations, increased domestic purchasing power, and speculative buying, but also because of the existence of a sellers' market. The Japanese wholesale price index of all commodities rose 56 per cent between June 1950 and September 1951, compared with a rise of 13 per cent in the United States and 27 per cent in the United Kingdom. The greatest increase was in producer goods, which rose 74 per cent, while consumer goods rose 31 per cent.

Expanded sales at higher prices, plus increasing productivity, enabled profits to be earned by several industries which prior to Korea had shown only deficits, while the iron and steel, aluminum, and chemical industries more than doubled their profit rates. The highest returns, however, were to the rayon, cotton spinning, and paper industries, which are also the industries that have been operating at costs close to international levels and therefore the ones that should have the least difficulty in meeting future competition.

The iron and steel industry, on the other hand, is among

those that have particularly difficult cost problems. The main raw materials for this industry, iron ore and coke, formerly were obtained in Manchuria and North China. Shut off now from these sources, Japan has had to find substitutes in the United States and other distant places, resulting in both higher costs to the industry and an aggravation of the country's distorted balance of payments. The lack of a certain and not overly expensive supply of these materials from a non-dollar source could prove to be a great obstacle to further large-scale industrial expansion, and it is for this reason that Japan is anxious to see new supplies developed wherever possible in other Asiatic countries.

If this problem of ore and coke supplies can be successfully solved, it might be in Japan's long-term interests to steer her exports away from the light industries to heavier manufactures. Textiles still comprise half of all her exports, but, as countries that formerly were large importers of Japan's cotton goods press on with the development of their own spinning and weaving industries, the long-range prospects for increasing textile exports are not too favorable. Furthermore, some of these countries, like India and Egypt, which previously provided Japan with raw cotton, are now using it themselves, so that Japan must import cotton from the United States, thus worsening the severely adverse payments position with this country that developed with the disastrous decline in the American demand for silk. Another important consideration is that the "value added" by Japan to raw material imports that are re-exported in the form of metal products and especially machinery is considerably more than that added in the case of textiles and most other consumer goods, and the net foreign exchange earned in the export of such products is consequently larger. The broadening of Japan's industry during the late thirties and early forties has provided her with a good beginning in developing the plant and the skills necessary to enable her to put increasing emphasis on these other goods—in 1950 her exports of minerals, metals, and machinery accounted for 30 per cent of the total, compared with only 17 per cent in 1934-36.

Japan cannot rely indefinitely upon extraordinary dollar receipts to finance a continuing heavy trade deficit with the United States. Over the long run, Japan's industrial plant, technical skill, and commercial acumen, will be her most valuable assets for the attainment of economic viability despite the loss of empire and the increase of population. The path to this goal would be less difficult if there were an expansion of raw material supplies and purchasing power in the underdeveloped areas of the Middle East and Southeast Asia, for that would enable Japan to divert part of her imports from the dollar area to nondollar sources, possibly at lower costs, and would provide her with broader export opportunities. Such conditions may begin to develop as a consequence of the technical and financial assistance that the United States and some other nations are giving to these underdeveloped areas in order to help them increase their output and raise their standards of living.

Japan's continued progress over the next few years will, however, depend essentially upon measures she must take herself. Mr. Dodge has recently pointed out again that stringent fiscal, monetary, and direct controls will have to be reintroduced, or existing controls reinforced, in order to curb the present inflation; otherwise there might be a diversion of Japan's industrial energies to the home market that would make serious inroads upon her export production, and her goods might be priced completely out of the world markets. At the same time, Japan will have to see that funds are forthcoming from domestic sources for the modernization and expansion of her industry in order to increase her productive capacity and competitive position. Further energetic attack upon these problems would also greatly assist in clearing the way for foreign investment in Japanese industry. Japan has already taken important steps to encourage investment from abroad. She has announced a firm intention to redeem her outstanding prewar debt at the earliest opportunity, and has made provision for the guaranteed transfer of earnings. Such efforts to create a favorable environment for foreign capital will attain greater significance, however, if Japan can achieve internal financial stability.

MANUFACTURERS' NEW ORDERS

The table of Business Indicators published in the *Monthly Review* includes four related series on manufacturing activity. Two of them, the series on manufacturers' sales and inventories, were discussed in an earlier *Review* study.¹ This article describes the data on the remaining two, total new orders and new orders for durable goods. All these figures are estimated by the Office of Business Economics of the U. S. Department of Commerce from reports submitted by a large sample of manufacturing firms. In addition to the two series which appear in the table of Business Indicators, the Department of

Commerce publishes new orders data for nondurable goods and for six subgroups of durable goods in its *Industry Survey* and *Survey of Current Business*. The orders series in the Business Indicators table are available from 1946 on; some of the subgroups are continuous only from 1948 to date.

The Department of Commerce computes its figures on net new orders by adding net sales or shipments to the change in the volume of unfilled orders during the month. Thus, if a concern's net sales were 3 million dollars in a particular month, and its unfilled orders had declined 1 million dollars by the end of the month, the indicated amount of new orders

¹ June 1951, pages 85-86.

received during the month would be 2 million dollars. This method is used, rather than estimating directly from reported figures on new orders, because data reported for unfilled orders are usually more complete and accurate than those for new orders. The new orders series derived from unfilled orders are comparable to sales data: over a period of time, sales should total the same as new orders, with a lag in sales about equal to the average time required for production. This is not always true of the new orders figures reported to the Department of Commerce. For example, some firms which fill part of their orders from stock and the remainder with goods made especially to order keep records only for the latter type of orders. Thus, their reported new orders figures would be consistently below sales. The series computed by the Department of Commerce are for *net* new orders, that is, the total of new orders received during any given month less cancellations of old orders received during that month.

Some firms, particularly manufacturers of standard items which can be produced in a short time, normally maintain inventories of finished goods from which they can fill current orders, and their volume of sales is virtually identical to their

new orders each month. For companies which state in their reports that they fill orders promptly upon receipt, or whose backlogs of unfilled orders are insignificant in relation to sales, net sales figures are used to measure new orders. Such concerns include all motor vehicle producers and certain firms in the nondurable goods group. New orders for motor vehicles have been estimated from sales, not because unfilled orders are unimportant, but because the industry has not made it a practice to maintain unfilled orders files even when a substantial backlog of demand exists. However, the Department of Commerce expects to be able to procure data on unfilled orders for the automotive industry in the near future.

For most durable goods manufacturers, however, there is normally a lag between the receipt of an order and shipment of the goods. These companies, as well as some producers of nondurables, generally keep records of their new and unfilled orders which enable them to supply the data to the Department of Commerce. The sample of firms which report orders accounts for more than 25 per cent of unfilled orders for all manufacturing—a somewhat smaller proportion than the sales sample which covers 30 per cent of manufacturing sales.

Business Indicators

Item	Unit	1951			1950	Percentage change	
		October	September	August	October	Latest month from previous month	Latest month from year earlier
UNITED STATES							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	219 _p	219	217	216	#	+ 1
Electric power output*	1935-39 = 100	335	330	333	306	+ 2	+ 10
Ton-miles of railway freight*	1935-39 = 100	—	207 _p	198	207	+ 5	+ 4
Manufacturers' sales*††	billions of \$	—	20.8 _p	21.8	20.7	- 4	+ 4
Manufacturers' inventories*††	billions of \$	—	41.0 _p	40.6	30.9	+ 1	+ 36
Manufacturers' new orders, total††	billions of \$	—	21.3 _p	22.8	23.7	- 7	- 9
Manufacturers' new orders, durable goods††	billions of \$	—	9.8 _p	10.9	12.2	- 9	- 18
Retail sales*††	billions of \$	12.5 _p	12.3	12.5	12.0	+ 2	+ 4
Residential construction contracts*	1923-25 = 100	—	287 _p	292	294	- 2	- 14
Nonresidential construction contracts*	1923-25 = 100	—	270 _p	291	303	- 7	- 13
<i>Prices, wages, and employment</i>							
Basic commodity prices†	Aug. 1939 = 100	331.1	325.7	325.0	329.0	+ 2	+ 1
Wholesale prices†	1926 = 100	178.2 _p	177.6	178.0	169.1	#	+ 5
Consumers' prices†	1935-39 = 100	187.4	186.6	185.5	175.6	#	+ 7
Personal income* (annual rate)	billions of \$	—	253.3 _p	253.7	234.1 _r	#	+ 9
Composite index of wages and salaries*	1939 = 100	—	228 _p	226	213	+ 1	+ 8
Nonagricultural employment*	thousands	46,333 _p	46,404	46,512 _r	45,408 _r	#	+ 2
Manufacturing employment*	thousands	15,709 _p	15,773	15,867 _r	15,606 _r	#	+ 1
Average hours worked per week, manufacturing†	hours	40.4 _p	40.6	40.4	41.3	- 4	- 2
Unemployment	thousands	1,616	1,606	1,578	1,940	+ 1	- 17
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	73,730 _p	72,590 _p	71,870 _p	74,600	+ 2	- 1
Total loans of all commercial banks	millions of \$	56,750 _p	55,960 _p	55,160 _p	49,850	+ 1	+ 14
Total demand deposits adjusted	millions of \$	94,960 _p	92,000 _p	91,400 _p	89,200	+ 3	+ 6
Currency outside the Treasury and Federal Reserve Banks*	millions of \$	28,387	28,270	28,091	27,233	#	+ 4
Bank debits* (U. S. outside New York City)	billions of \$	88.1	81.2	86.3	79.1 _r	+ 8	+ 11
Velocity of demand deposits* (U. S. outside New York City)	1935-39 = 100	98.6	102.8	101.4	98.6 _r	- 4	#
Consumer instalment credit outstanding†	millions of \$	13,167 _p	13,163 _p	13,045 _p	13,389	#	- 2
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	2,855 _p	6,555	4,600	2,426	- 56	+ 18
Cash outgo	millions of \$	5,807 _p	4,862	5,565	3,335	+ 19	+ 74
National defense expenditures**	millions of \$	3,459	2,970	3,373	1,499	+ 16	+ 131
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)	1935-39 = 100	232	238	236	220	- 2	+ 6
Residential construction contracts*	1923-25 = 100	—	143 _p	153	149	- 6	- 12
Nonresidential construction contracts*	1923-25 = 100	—	166 _p	196	181	- 15	- 19
Consumers' prices† (New York City)	1935-39 = 100	183.0	182.5	180.9	172.4	#	+ 6
Nonagricultural employment*	thousands	—	7,278.4 _p	7,299.7	7,204.8 _r	#	+ 2
Manufacturing employment*	thousands	2,573.1 _p	2,611.4	2,644.0	2,594.5 _r	- 1	- 1
Bank debits* (New York City)	billions of \$	48.0	43.8	46.5	43.8	+ 10	+ 9
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of \$	3.9	3.5	3.8	3.5	+ 12	+ 12
Velocity of demand deposits* (New York City)	1935-39 = 100	114.4	116.6	110.8	115.5 _r	- 2	- 1

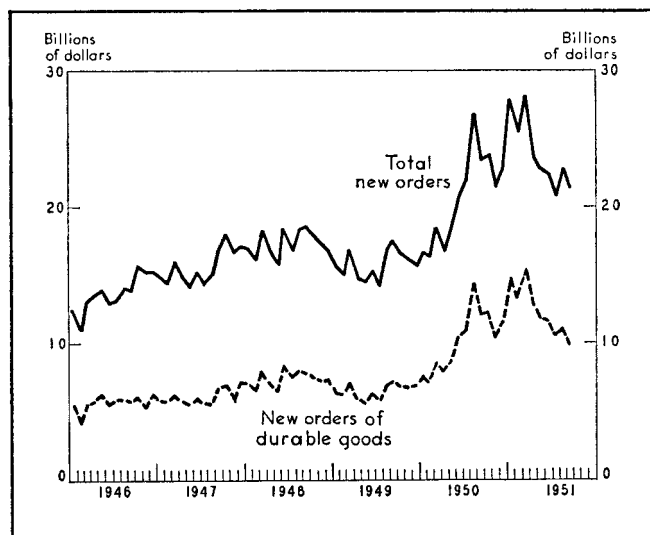
p Preliminary. *r* Revised. † Seasonal variations believed to be minor; no adjustment made.

* Adjusted for seasonal variation. †† Series revised 1948 to date.

Change of less than 0.5 per cent. ** Series revised to include Defense Production Act outlays which have become significant in recent months.

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

Chart I
Manufacturers' New Orders—Total and Durable Goods
 (Monthly totals, January 1946-September 1951)



Source: U. S. Department of Commerce.

As can be seen from Chart I, the volume of new orders is subject to erratic month-to-month variations superimposed on broader cyclical movements. Although part of the monthly fluctuation is undoubtedly seasonal, the Department of Commerce has not yet been able to work out a satisfactory seasonal adjustment for the series. Thus, the new orders series shown in the Business Indicators table are unadjusted, whereas the sales and inventories data are seasonally adjusted.

The estimates of sales, inventories, and orders are revised annually to bring them to levels indicated by statistics compiled by the Bureau of Internal Revenue from tax returns of manufacturing firms. These income data supply no direct benchmarks for new and unfilled orders but they do provide sales figures, and because of the method of computation, any revision of the sales figures also changes the new orders series. The revision just completed, covering the period from 1948 to date, was based on the Bureau of Internal Revenue statistics for 1948.² Revised figures for 1950 and 1951 are shown in the accompanying table.

Figures on new and unfilled orders give an indication as to the level of sales and production in future months. When new orders are large and unfilled orders are piling up, production and shipments may be expected to increase, whereas a decline in new orders and backlogs will ordinarily be followed by smaller sales volume. The movements of new orders of one industry affect other industries as well when firms change their orders for supplies to conform to their own changed production schedules. For an industry which is operating close to capacity, a prolonged growth of backlogs may lead to a

² A detailed description of the revision, including revised data from 1948 to date, appears in the October 1951 *Survey of Current Business*, pages 15-24.

Manufacturers' Sales, Inventories, and New Orders
 January 1950-September 1951
 (In billions of dollars)

Month	Sales*	Inventories*	New orders	
			Total	Durable goods
1950				
January.....	15.9	28.7	16.6	7.6
February.....	16.6	28.5	16.3	7.2
March.....	17.2	28.4	18.4	8.6
April.....	17.3	28.6	16.8	7.9
May.....	19.0	28.8	18.6	8.7
June.....	19.3	29.1	20.7	10.4
July.....	19.8	29.1	22.1	11.0
August.....	21.4	29.3	26.8	14.3
September.....	20.1	30.1	23.5	12.1
October.....	20.7	30.9	23.7	12.2
November.....	20.5	32.2	21.4	10.3
December.....	21.0	33.3	22.8	11.6
1951				
January.....	22.6	34.1	27.9	14.8
February.....	22.3	34.7	25.6	13.3
March.....	22.6	35.6	28.2	15.3
April.....	22.5	36.9	23.5	12.7
May.....	23.4	38.1	22.8	11.7
June.....	22.1	39.0	22.4	11.6
July.....	21.3	39.9	20.8	10.5
August.....	21.8	40.6	22.8	10.9
September.....	20.8	41.0	21.3	9.8

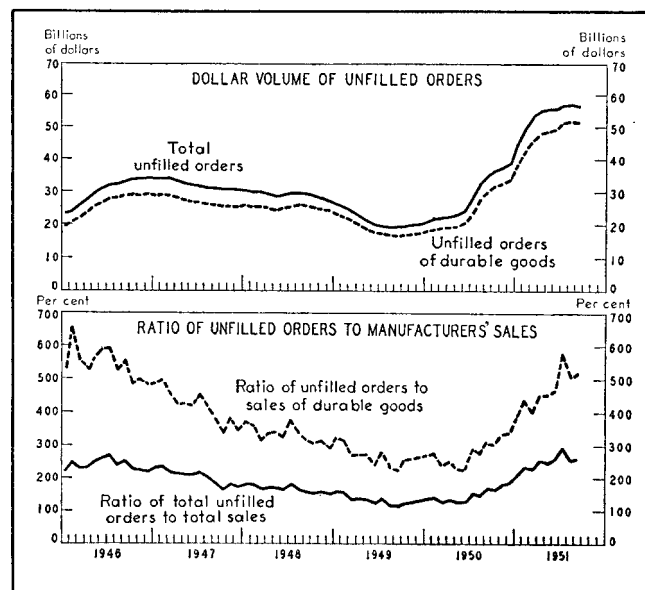
* Adjusted for seasonal variation.

Source: U. S. Department of Commerce.

decision to expand productive facilities, which will, in turn, result in increased orders for producers of capital equipment.

When the Korean war broke out, new orders had been increasing for several months and were already at high levels. The rise then became sharper, with total new orders reaching a peak of 28.2 billion dollars in March 1951 (36 per cent above the previous June), while orders for durable goods

Chart II
Manufacturers' Unfilled Orders—Dollar Volume and Ratio to Sales
 (Monthly, January 1946-September 1951)



Source: U. S. Department of Commerce; ratios of unfilled orders to manufacturers' sales computed by the Federal Reserve Bank of New York.

attained a high of 15.3 billion (or 47 per cent above June 1950). When retail sales fell off and inventories began to pile up, new orders were cut back sharply. By September, total new orders had dropped to 21.3 billion dollars, and new orders for durable goods to 9.8 billion. Nevertheless, unfilled orders continued to increase through August, partly because new orders were still large, and partly because orders for the defense and defense-related programs (requiring longer production periods in some cases) comprised a substantial portion of the new orders. Largely as the result of defense orders, durable goods order backlogs did not begin to fall until September, whereas in the nondurable group, which is less heavily

weighted with defense goods, unfilled orders have been declining since their peak in March.

Data on orders for durable goods are of more economic interest than those for nondurables, because the greater lag in filling orders for durable goods frequently means that changes in such orders will affect shipments and production months ahead. Since 1946, order backlogs for nondurable goods have always equaled less than the month's sales. As shown in Chart II, however, durable goods backlogs have ranged from 2 to 6½ times sales for the month. Although manufacturers of durable goods have accounted for only 43 per cent of manufacturing sales since 1946, their unfilled orders have averaged 86 per cent of total order backlogs.

DEPARTMENT STORE TRADE

Second District department store sales showed more than the usual seasonal increase during November. This bank's index of department store sales, after adjustment for seasonal variation, was estimated at 252 for November, a gain of 5 per cent from the previous month and 8 per cent from the November 1950 level, but approximately the same as in September. Store executives generally interpreted the favorable sales showing during November as a strong indication of a very successful holiday season, as the usual Christmas gift buying had not yet reached significant proportions.

During the early part of November, apparel items were reported to be moving well, while the household durables lines continued to lag. The latter, however, showed marked improvement later in the month as sales of television sets recorded some of the highest year-to-year increases in several months. Demand for major appliances, on the other hand, remained well below comparable year-earlier levels.

RECENT INVENTORY POLICY

Since early last spring, a matter of major concern throughout most of the retail trade industry has been the plentiful supply of merchandise, both in stock and on order, and the lack of a sustained increase in consumer demand. The need for bringing inventories closer to current sales levels became particularly urgent during the summer and early fall when consumer interest in many of the durable and nondurable lines declined sharply. While this article confines itself to some of the recent efforts of Second District department stores to reduce inventories, the conditions described are probably broadly applicable to other types of retail stores, both in this District and in the rest of the United States, where similar problems had to be faced.

Special promotions (particularly in New York City department stores) designed to stimulate demand for various slow-moving durable goods occurred frequently in recent months. While consumer response to these "sales" was often impressive, other steps had to be taken to bring about a substantial re-

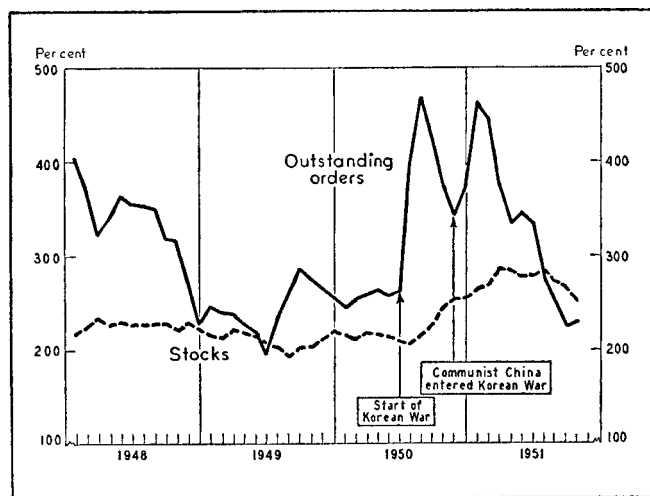
duction of the general inventory level as the stores were reluctant to follow exclusively a course of action that would have a damaging effect on profits. As a result, the dollar volume of orders for additional merchandise was reduced during July to below usual seasonal needs.¹ The opening of truce talks and the virtual military stalemate in Korea may have influenced department store executives in their decisions on forward buying policy at that time. At any rate, the dollar volume of outstanding orders, after adjustment for seasonal variation, was sharply reduced. By the end of September the value of outstanding orders at Second District department stores had fallen to the lowest level since June 1949. Moreover, the dollar volume of orders outstanding at the end of October (although slightly higher than a month earlier) amounted to less than the value of sales transacted that month. This marked the first time since 1940 that the value of outstanding orders on October 31 failed to surpass sales during the month. This is particularly significant since October is normally exceeded only by September in volume of outstanding orders and it is during October that the stores usually place the bulk of their orders for merchandise needed to meet the Christmas buying rush.

An examination of the data presented in the accompanying table reveals the extent to which the department stores in this District have brought their inventories closer to current levels of consumer demand for their merchandise. Outstanding orders expressed as a per cent of sales have been well below corresponding 1950 levels since July and, by way of additional comparison, were markedly less than the comparable figures for 1948 when business activity was at a postwar peak and inflationary pressures were strong, although the disrupting influences of critical international developments were not nearly as significant.

¹ Although the seasonally adjusted value of outstanding orders had been declining steadily earlier in the year, the most pronounced reductions in the volume of future commitments occurred during the third quarter.

Outstanding Orders and Stocks of Second District Department Stores January 1948-October 1951*

(Monthly indexes adjusted for seasonal variation;
1940 average=100 per cent)



* For a representative group of stores whose 1950 sales were more than half of the estimated Second District total.

Receipts of merchandise by the stores, as a per cent of sales, have also fallen below year-ago levels as the reduction in commitments outstanding which occurred in previous months is reflected in the value of goods currently received by the stores. The time lag between orders and receipts is, of course, also evident in the movements of total store inventories. This is readily apparent when the stock-sales ratios, shown in the table, are compared on a year-to-year basis. Despite substantially lower levels of outstanding orders and receipts since July, it was not until the end of October that the stock-sales ratio fell below the corresponding year-earlier figure. This would also indicate that the stock-sales ratios of subsequent months are likely to fall to much lower levels than they were at the same time a year before. It should be remembered, however, that retail stocks were undergoing rapid expansion at this time last year, as is shown in the accompanying chart.

The relationship between stocks and sales of several of the major nondurable departments showed important year-to-year decreases in October, according to preliminary data. The ratio of stocks to sales of women's and misses' accessories was 3.2 on

**Relationship of Receipts, Outstanding Orders, and Stocks to Sales
Second District Department Stores, July-October, 1951 and 1950**

Month	Per cent of sales				Ratio to sales			
	Receipts		Outstanding orders		Stocks		Stocks plus outstanding orders	
	1951	1950	1951	1950	1951	1950	1951	1950
July.....	85	75	182	247	4.4	3.0	6.2	5.5
August.....	123	143	139	240	3.9	2.9	5.3	5.3
September...	108	132	106	183	3.4	2.7	4.4	4.5
October.....	103	137	90	157	2.9	3.0	3.8	4.6

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

Item	1951			1950
	Oct.	Sept.	August	Oct.
Sales (average daily), unadjusted.....	262	257	194	259
Sales (average daily), seasonally adjusted..	240	252	265	237 ^r
Stocks, unadjusted.....	294	289	279	291
Stocks, seasonally adjusted.....	261	274	279	258

^r Revised.

October 31, compared with 3.6 one year earlier. Between October 1950 and 1951 stocks of women's and misses' coats and suits declined from 1.8 to 1.5 and women's and misses' dresses from 1.7 to 1.6 times the monthly sales volume. The stock-sales ratio of men's clothing, however, increased from 3.5 to 4.8.

Among the major durable goods departments the ratios of stocks to sales at the end of October remained above year-earlier levels, although the gap had narrowed somewhat. The stock-sales ratio of the radio-television group showed the largest difference—3.6 compared with 3.0 on October 31, 1950.

By the end of October the net effect of the recent inventory policy of Second District department stores, combined with the purchases by consumers of department store merchandise, was that the stores had only 2 per cent more stocks in terms of dollar value. (The quantity of physical units was undoubtedly smaller than they had held a year before.) The Christmas buying season, of course, still affords further opportunity for substantial reduction of stocks, if the stores should continue to pursue their recent policy of scaling-down the volume of goods on order.

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, 1951
	Oct. 1951	Jan. through Oct. 1951	
Department stores, Second District.....	+ 6	+ 6	+ 2
New York City.....	+ 3	+ 5	+ 1
Nassau County.....	+16	+14	+26
Northern New Jersey.....	+ 7	+ 7	- 1
Newark.....	+ 6	+ 6	0
Westchester County.....	+15	+14	+10
Fairfield County.....	+ 7	+ 6	0
Bridgeport.....	+ 7	+ 7	+ 1
Lower Hudson River Valley.....	+ 4	- 1	+ 3
Poughkeepsie.....	+ 4	0	+ 6
Upper Hudson River Valley.....	+ 6	+ 8	0
Albany.....	+ 3	+ 8	+ 1
Schenectady.....	+10	+ 7	- 5
Central New York State.....	+10	+ 6	+ 6
Mohawk River Valley.....	+ 6	+ 3	- 1
Utica.....	+ 5	+ 2	- 3
Syracuse.....	+12	+ 7	+10
Northern New York State.....	+ 9	+ 5	+ 7
Southern New York State.....	+14	+ 6	+ 3
Binghamton.....	+15	+ 4	+ 2
Elmira.....	+ 9	+ 8	+ 6
Western New York State.....	+ 9	+ 7	+ 5
Buffalo.....	+ 7	+ 6	+ 4
Niagara Falls.....	+ 6	+ 7	+ 2
Rochester.....	+12	+ 7	+ 7
Apparel stores (chiefly New York City).....	- 2	+ 1	- 2

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, November 30, 1951)

Over-all stability in industrial production continued in October and November. Wholesale prices changed little through the third week of November. Common stock prices declined. Bank loans to finance the seasonal movement of crops and growing defense activities continued to expand.

INDUSTRIAL PRODUCTION

The Board's index of industrial production in October was maintained at the September rate of 219 per cent of the 1935-39 average. Small increases in output of durable manufactures and of minerals were offset by further declines in nondurable manufactures.

Increased production of durable goods in October reflected mainly a further gain in machinery industries. Steel output advanced to 102.9 per cent of capacity and was maintained at about this rate in November. Refining of nonferrous metals increased substantially in October, reflecting mainly termination of work stoppages, and there was some pickup in lumber production. On a daily average basis, passenger car assembly declined somewhat in October as metal supplies were reduced, and output of major household appliances fell back to about the August rate following a moderate rise in September. Further curtailment of passenger car assembly in November reflected partly model changeovers.

There were further sharp decreases in production at textile mills in October to a level about one-fifth below a year ago. At chemical plants output declined slightly as rayon production was curtailed. Industrial chemicals, however, rose somewhat further. Output of rubber products was reduced to the lowest level this year.

Minerals production in October was at a new record, largely as a result of a 12 per cent increase in coal mining, from the low rates of recent months. Crude petroleum advanced slightly further in October but declined somewhat in early November.

CONSTRUCTION

Value of construction contract awards declined slightly further in October reflecting decreases in awards for public works and utilities. The 86,000 housing units started in October brought the 10-month total to 943,000, compared with 1,215,000 for the same period a year earlier. Value of work done on industrial construction in October declined for the first time since early 1950.

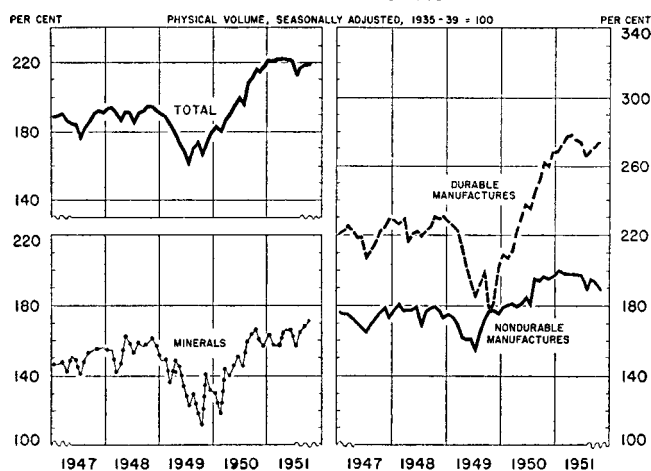
EMPLOYMENT

Employment in nonagricultural establishments, after adjustment for seasonal factors, continued to decline slightly in October, owing largely to reduced activity in nondurable manufacturing industries. At 40.4 hours, the average work week in all manufacturing plants showed little change from other recent months; average hourly earnings remained at the peak level of \$1.61 reached in September. Unemployment in October continued at the low level of the two preceding months.

DISTRIBUTION

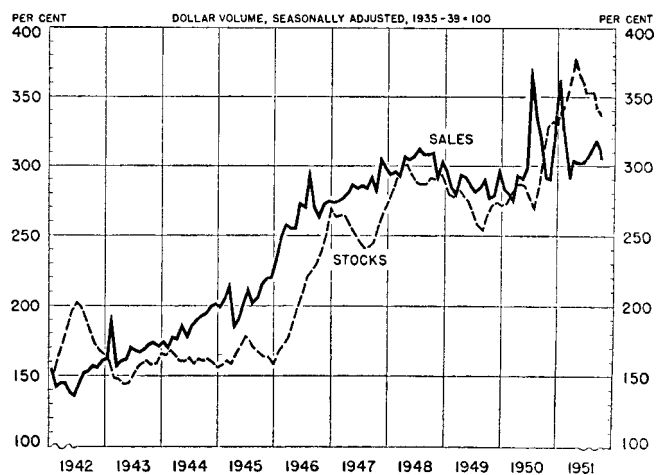
Dollar value of department store sales in October and the first half of November rose less than seasonally but was somewhat greater than during the corresponding period a year ago. Retail sales of some goods were stimulated by consumer anticipation of higher excise taxes effective November 1. New

INDUSTRIAL PRODUCTION



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

DEPARTMENT STORE SALES AND STOCKS



Federal Reserve indexes. Monthly figures; latest figure for sales is October; latest for stocks is September.

auto sales, however, remained below the reduced midsummer level. Although still large, value of department store stocks, seasonally adjusted, declined further in October and was below the corresponding year-ago level for the first time since January 1950.

COMMODITY PRICES

The average level of wholesale commodity prices changed little from mid-October to the third week of November. While prices of grains and some other foodstuffs advanced, prices of hogs and pork products declined as livestock marketings expanded. Raw cotton prices advanced following release on November 8 of the Government cotton crop estimate of 15.8 million bales, substantially less than had been anticipated earlier. Industrial commodities generally have continued to change little. Prices of some cotton textiles, however, have increased slightly and hides have decreased sharply further since mid-October, to about the postwar low of mid-1949.

The consumers' price index rose 0.4 per cent in October. Food prices advanced 0.8 per cent to a new high, 9 per cent above a year ago, and rents increased further. Recently increased excise taxes on automobiles, gasoline, cigarettes, and beer will be reflected in the November index.

BANK CREDIT AND MONEY SUPPLY

Bank loans to business continued to expand seasonally during October and the first part of November, reflecting in large

part further borrowings by commodity dealers and food manufacturers to move and process the harvest and by metal manufacturers and public utilities to finance direct defense and defense-supporting activities.

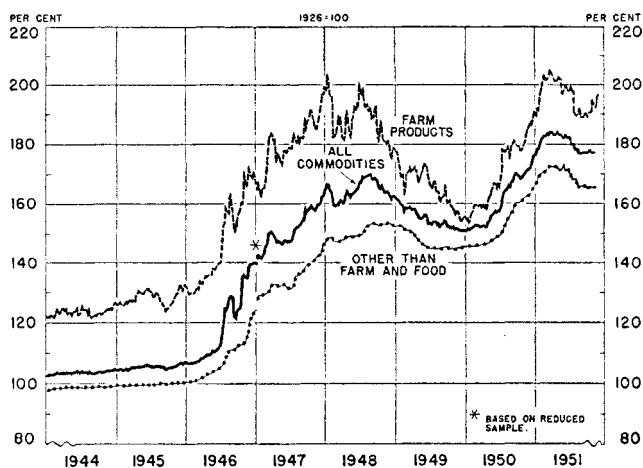
The privately held money supply increased sharply in October and early November, owing largely to Treasury spending in excess of receipts. Deposits also expanded as a result of increased bank holdings of Government securities—particularly the new tax anticipation bills—and as a result of seasonal and other bank lending, and some inflow of gold.

Federal Reserve holdings of Government securities declined sharply following the large-scale purchases of late September and early October in connection with Treasury refinancing operations. Bank reserve positions showed little net change throughout most of this period.

SECURITY MARKETS

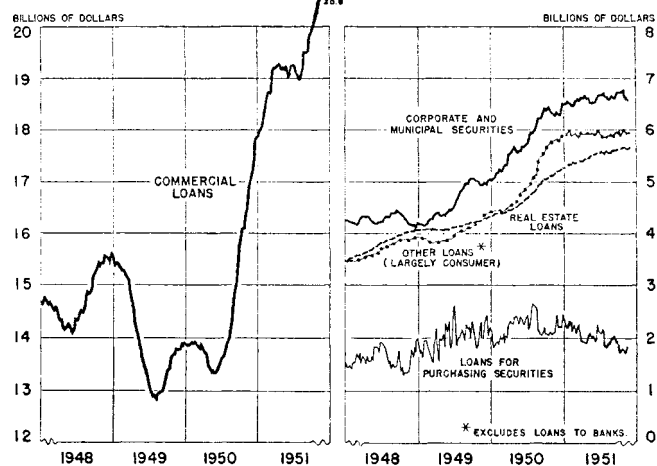
Common stock prices declined further during November, and by the end of the third week the over-all average was down to its level of late July. A moderate decline in high-grade corporate bond yields was followed, during the third week, by some increase. Yields on short-term Government securities declined during the first three weeks of November, while those on long-term Governments rose somewhat. The Treasury sold for cash, for delivery November 27, 1¼ billion dollars of 201-day tax anticipation bills, on which the average discount rate was 1.50 per cent.

WHOLESALE COMMODITY PRICES



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

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 November 14.