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MONEY MARKET IN APRIL

The money market became progressively tighter during April following a more protracted period of ease in the last half of March than had been expected. Current Treasury receipts and withdrawals of Treasury balances from depositary banks in excess of current Government expenditures were primarily responsible for the persistent drain on bank reserves during most of the month and resulted in a substantial increase in Treasury balances with the Federal Reserve Banks. Other operating factors influencing the level of bank reserves also tended to draw funds out of the banking system, and, although the impact of these drains on reserves was eased to some extent by a sizable reduction in required reserves, extensive use of Federal Reserve discount facilities by member banks was necessary, particularly in the last half of April. The prevailing tightness in bank reserve positions was reflected in the New York money market by the rate on Federal funds, which was only nominally lower than the Reserve Bank discount rate over most of the month.

Short-term Government securities displayed a generally firm tone over most of April and reacted only gradually to the tight bank reserve conditions and to Treasury borrowing of 200 million dollars in new money on three of the four regular weekly bill sales during the month and the announced continuation of the 200 million dollar increase for the issue dated May 1. The certificates maturing July 1 were in particularly strong demand, reflecting expectations of a favorable exchange offering for that issue. Prices in the intermediate and longer-term sectors of the Government security market extended the upward movement that had begun last month. The entire list, with the 2½ per cent "Victory" bond of December 1967-72 as bellwether, recorded sizable month-to-month gains, although in late April the intermediate bonds reacted moderately to discussion of possible further Treasury financing in the medium-term area during coming months. In April, the Open Market Account of the Federal Reserve System met some of the demand for Treasury certificates by sales amounting to about 150 million dollars. It also converted an additional 500 million dollars of 2¾ per cent Investment Series B bonds into five-year notes, series "EA", to mature April 1, 1957.

The Treasury announced on April 30 that the nonmarketable 2¾ per cent Investment Series B bonds of 1975-80, first offered in March 1951 for exchange of the two longest-ineligible bonds, would be reoffered for a limited period beginning May 19 for cash or on a par exchange for any of the four longest-restricted bonds. Subscriptions may be paid for in full in cash, or not less than one quarter of the amount subscribed may be paid in cash and the remainder by exchange. Payment may be made in full on June 4 or, alternatively, in four equal instalments on June 4, August 1, October 1, and December 1. Although the 2¾'s are nonmarketable, they are convertible at the option of the holder into marketable five-year, 1½ per cent notes. On the first day of trading following the announcement there was a marked rise in prices of the bonds exchangeable for the 2¾ per cent Series B bonds and smaller advances in other outstanding issues of Treasury bonds.

Member bank credit during the past month continued at an accelerated rate the seasonal decline that had started in the first quarter of 1952. Business loans of the weekly reporting member banks were reduced by 492 million dollars in the four statement weeks ended April 23, bringing the cumulative reduction in this form of credit since December 26 of last year

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to more than 700 million dollars. As in the first quarter, the business loan reduction in April was concentrated in the non-defense sector, but, for the first time since these statistics became available in May 1951, total defense-related credit also declined slightly during the past month.

Member Bank Reserves

The Treasury, through calls on the "X" balances and other balances in the Tax and Loan accounts, cash tax collections, and new borrowing in the market, increased its balances with the Federal Reserve Banks by 870 million dollars in the four statement weeks ended April 23. In the final week of the month, withdrawals from Treasury deposit accounts in depositary banks were reduced and Treasury balances in the Reserve Banks fell off by 427 million dollars to the more normal amount of 450 million. While the usual midmonth expansion of float and smaller additions to reserves from other sources provided occasional offsets to the drain on bank reserves through Treasury operations prior to April 23, for the month as a whole member bank reserves absorbed the full impact of the net increase in Treasury balances with the System. Net of borrowing from the Federal Reserve Banks, member bank reserve balances were reduced by more than one billion dollars between March 26 and April 23, and they increased only moderately in the final week of April. Open market sales of Treasury certificates of indebtedness from System Account to satisfy market demands for these securities were a smaller factor in the reduction in reserves available to banks, as shown in the accompanying table.

The steady reduction in Treasury balances with depositary banks, along with reduced levels of private deposits, lowered required reserves substantially and provided a partial offset to the drains on reserves. (A part of the large reduction in required reserves in the first week resulted from the temporary exchange of deposits for Government securities incident to the Cook County, Illinois, personal property tax assessment on April 1.) However, other sources of funds tended to be inadequate to meet the banks' needs, and in the three statement weeks ended April 23 member banks increased their borrowing from the Federal Reserve Banks by a cumulative amount of 700 million dollars to adjust to reserve requirements. A development of some importance affecting the availability of reserve funds to the banks was the virtual cessation of the gold inflow and expenditure of the proceeds by foreign countries, which had added large amounts to domestic bank reserves since last June. This development reflected the improved position of

Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, April 1952

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended					Five weeks ended April 30
	April 2	April 9	April 16	April 23	April 30	
Operating transactions						
Treasury operations*	−282	− 78	−153	−355	+431	−437
Federal Reserve float	+ 51	− 35	+289	−249	−178	−122
Currency in circulation	−116	− 81	+ 90	+103	−127	−131
Gold and foreign account	− 20	+ 5	− 14	+ 40	+ 22	+ 33
Other deposits, etc.	− 43	+ 10	− 74	+ 7	+ 80	− 20
Total	−410	−178	+139	−456	+228	−677
Direct Federal Reserve credit transactions						
Government securities	− 14	− 20	− 27	− 95	− 9	−165
Discounts and advances	− 40	+ 38	+454	+208	−154	+506
Total	− 54	+ 18	+427	+113	−163	+341
Total reserves	−464	−160	+566	−343	+ 65	−336
Effect of change in required reserves	+276	+ 88	− 80	+113	− 61	+336
Excess reserves	−188	− 72	+486	−230	+ 4	0

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.

sterling exchange and the defensive measures taken by other countries to protect their gold and dollar reserves.

As is customary in a period of reserve stringency, a good deal of the over-all loss of reserves was reflected in the New York money market. Normally, an outflow of funds through business and banking channels is balanced by a movement of funds into New York City through Treasury operations, but in the past month heavy Treasury calls on "X" balances and substantial net purchases of new bills in the New York market created an outflow of funds through Treasury operations for the month as a whole. This outflow was partly offset over part of the month by an inflow of business funds, reversing the more usual movement. Nevertheless, New York City banks found it necessary to borrow substantial amounts from the Federal Reserve Bank of New York at irregular intervals to avoid reserve deficiencies for the weekly periods, and their borrowings were a sizable factor in the increase in total member bank borrowing after the middle of April.

The month of April witnessed the first anniversary of the Federal Reserve System's termination of active support of the market for United States Government securities. On April 6, 1951, Treasury books closed on the exchange offering (of 2¾ per cent nonmarketable bonds for the two longest bank-restricted marketable issues) that signaled the advent of a freer market. In the year between April 11, 1951 and April 9, 1952, Federal Reserve holdings of Government securities were reduced nearly 600 million dollars. Member bank reserve bal-

ances, however, showed a net increase of about 120 million dollars—despite the reduction of reserves brought about by an increase of more than 1,350 million dollars in currency in circulation—as 1,750 million dollars was supplied the domestic banking system through gold inflows and foreign account disbursements, and other factors added 320 million dollars to bank reserves.

Treasury Financing and the Government Security Market

Making partial preparation for the expected excess of expenditures over receipts in coming months, the Treasury in April borrowed a total of some 600 million dollars through offerings in excess of maturities on each of the three 91-day bill issues dated weekly from April 10 to April 24. Another 200 million dollars will be raised through an addition to the issue dated May 1. The May 1 issue, to mature July 31, 1952, is to be increased to 1.5 billion dollars, thus becoming the largest single Treasury bill issue on record. Average rates on bids accepted for bill offerings during April ranged from 1.598 per cent for the bills dated April 3 to 1.691 per cent for the May 1 issue. The three intervening issues were placed at average rates of 1.629 per cent, 1.650 per cent, and 1.616 per cent, in that order. The relative stability in these rates, despite the new Treasury borrowing and persistent pressures on commercial bank reserves, reflects the active demand for short-term Treasury securities from corporations and other investors that prevailed during most of the month. Corporate investment of funds accumulated for tax purposes and balances temporarily available from capital flotations, along with some purchases by out-of-town banks and by a State investing the proceeds of a new capital issue, contributed to the stability of the market. But the cumulative effect of pressures on the market eventually made itself felt, and Treasury bill rates firmed moderately in the last week. Bill yields closed the month generally higher than at the end of March, while certificate yields were substantially unchanged.

Prices of intermediate and longer-maturity securities eligible for bank purchase moved upward during most of April on a continued bank interest in lengthening portfolio maturities. Price increases were recorded throughout the list, ranging as high as 1½ points in the case of the 2½'s of September 1967-72 and averaging close to ½ of a point for most of the intermediate maturities up to April 21. Prices of securities in the intermediate-maturity range, however, receded somewhat in the latter part of the month in response to rumors in the market that the Treasury might offer an eligible bond in this range either in exchange for the certificate maturing July 1 or in exchange for bonds that are callable for payment later this year. The imminence of the May and June eligibility

CHANGES IN SAVINGS BOND PROGRAM

On April 29 Secretary of the Treasury John W. Snyder announced a number of changes in the Savings bond program.

(1) Effective May 1, the terms of Series E bonds were increased to provide a yield to maturity of 3 per cent compounded semiannually, the maximum permitted by law. This change has been effected by reducing the maturity from ten years to nine years and eight months. The $18.75 issue price for a $25 bond was retained, as was the $4 return for a $3 investment. The redemption schedule for bonds turned in before maturity was also liberalized, with interest accrued after six months (instead of one year as formerly) at a rate of 1.07 per cent, after one year at 1.59 per cent, after three years at 2.25 per cent, and after five years at 2.52 per cent. The interest rate on the E bond during the extension period after maturity has also been raised for all bonds which mature after May 1, 1952, so that the return will be 3 per cent, compounded semiannually, during the additional ten years of an E bond's life. The annual limit on purchases of these bonds was raised from $10,000 to $20,000 maturity value.

(2) An entirely new "current income" bond, designated Series H, will be available June 1 in denominations from a minimum of $500 up to $10,000. This bond is described as a "companion" to the Series E bond and will be promoted along with it. Unlike that familiar interest-accrual obligation, the new Series H bond will provide for interest payments by check semiannually on a graduated scale which will permit yields close to the E bond scale from issue date to redemption date. Like the revised E bond, the H bond will yield an average of 3 per cent if held to maturity, but an important difference is that the latter issue is redeemable after six months from issue date only on one month's notice and only at the Federal Reserve Banks and branches and the Treasury, whereas the E bond is redeemable on demand two months after issue date at any qualified bank or paying agent in addition to the Federal Reserve Banks and the Treasury.

(3) Series F and G bonds were withdrawn from sale on May 1 and replaced by issues of similar characteristics designated, respectively, Series J and K. The new bonds differ from the old chiefly in their higher interest rate schedules, paying 2¾ per cent if held twelve years to maturity and providing higher intermediate yields than did the older series. The combined annual purchase limit for Series J and K will be $200,000, compared with $100,000 for Series F and G.

dates for two restricted issues also probably imposed a slight dampening influence on prices of bank-eligible bonds in this maturity area.

Bond prices in the bank-restricted sector moved to steadily higher ranges in April on a thin volume of trading, and closed the month at the highest levels since last September. Demand for these securities by public funds, pension funds, and others was met by a moderate volume of insurance company selling in the first half of the month, but as prices continued to firm the supply of bonds dried up and prices were marked higher on a minimum volume of transactions. The background to the downward adjustment in bond yields appears to involve the assumption that the indications of a weakening of inflationary forces in the economy will persist and a doubt that the Treasury will meet any of its new money needs through a long-term marketable bond, at least in the next few months. Developments in the Korean truce negotiations also appear to have some bearing on the market situation. In broad terms, opinion in the market might be characterized as bearish with respect to the economic outlook and bullish with respect to long-term bond prices. At the close of April, prices for the entire list of bank-restricted Government bonds stood 1 to 1¾ points above the previous month's levels. Further significant gains were registered in prices of the four longest-restricted bonds in market trading on May 1, following the Treasury's offering of additional Series B bonds in exchange for those issues and for cash payment. Prices for the four issues on that day advanced by about $^{4}/_{32}$ to $^{9}/_{32}$ of a point.

Member Bank Credit and the Money Supply

Business loans of weekly reporting member banks in the leading cities declined seasonally by nearly 500 million dollars in the four statement weeks ended April 23 to the lowest level since late November last year. Of the total decline, 297 million dollars was accounted for by the 19 reporting banks in New York City, bringing the total contraction for these banks to 302 million dollars for the year through April 23. By contrast, in the similar period in 1951, business loans of New York City reporting banks increased by 408 million dollars.

Statistics on the business loans of weekly reporting member banks, broken down by business of borrower and purpose of loan, indicate that by far the larger part of the business loan contraction in the four weeks ended April 23 occurred in the area of borrowings by commodity dealers and food, liquor, and tobacco processors. Contraction in this area is a normal seasonal phenomenon. At the same time, loans to metals and metal products processors, and to the petroleum, coal, chemical, and rubber industries, either declined or increased at a much slower rate than in recent months. This development was reflected in the total of loans for defense and defense-supporting purposes which declined in April through the 23rd for the first time since these statistical series became available in May 1951. Part of the slackening in defense-related loan expansion at the commercial banks in April was due to refinancing of existing credit in the capital market.

Demand deposits of private, nonbank depositors in the larger banks in 94 leading cities were reduced by nearly 2,670 million dollars during the period between December 19 last year, when such deposits were at an all-time high, and April 23. The domestic money supply was further reduced over the same period by a return of some 930 million dollars of currency from circulation. A reduction of 1,360 million dollars in the holdings of Government securities by reporting banks, reflecting shifts to corporations and other investors, explains the larger part of the decline in private demand deposits. In addition, 885 million dollars of private deposits were shifted to Treasury balances with commercial banks, and total loans of these banks fell by 765 million dollars. A partial offset was provided by the enlarged holdings of non-Government securities by reporting banks, which increased about 360 million dollars. During the similar period in 1951, private demand deposits held by these banks were reduced by 1,556 million dollars.

BRITAIN'S ECONOMIC POLICY

Since the election of the Churchill government six months ago, British economic policy has undergone a notable transformation. Though the new government—like its predecessor—still depends heavily on fiscal policy and direct controls, it has departed from the path of the Labor government by reviving the flexible and reversible instruments of monetary control and has thus better equipped itself to adjust domestic financial conditions rapidly to the requirements of Britain's changing economic position. It has undertaken to strengthen the immensurable but pervasive influences of individual incentives and has attempted to reduce distortions in the domestic price structure by cutting food subsidies. Finally, it has taken steps to cut imports to a level commensurate with the country's earnings abroad, and to reduce inflationary pressure by cutting expenditures both on government civilian activities and on civilian investment.

Coming to office last October, the new government was immediately confronted with the country's third—and in some ways worst—postwar economic crisis. Britain's balance of payments on current account, which had shown a surplus of 244 million pounds in 1950, changed with surprising rapidity to a deficit that in July-December 1951 was running at an annual rate of over 850 million. While exports expanded only moderately, imports rose during the second half of last year to record levels, attributable not only to import price increases averaging roughly 35 per cent over 1950 but also to a heavily increased volume of purchases for strategic stockpiling and commercial inventories. At the same time, net invisible earnings dropped sharply to only 25 million pounds in July-December from 213 million in the corresponding period of 1950, mainly because of the loss of income from the Anglo-Iranian Oil Company, the payment of the interest due on the 1946 United States and Canadian loans, and lower net shipping earnings. These developments resulted in a heavy drain on Britain's gold and dollar reserves, which were further depleted by a shift from surplus to deficit in the dollar position of the overseas sterling area. The overseas sterling area's imports from North America and Western Europe (like those of the United Kingdom) had increased substantially, while the value of their exports, far from rising, had declined sharply during July-December as prices for such commodities as rubber, tin, wool, and cocoa drifted downwards. Perhaps most serious of all, as the crisis deepened, the drain on Britain's reserves was greatly intensified by a speculative flight from sterling. Dollar payments by sterling area importers were accelerated, sterling payments by nonsterling importers were delayed, and the sterling held in convertible American accounts was run down. As a result of all these adverse developments, the sterling area as a whole ran a dollar deficit during July-December of 1,578 million pounds, compared with a surplus in the first half year of 414 million. Britain's gold and dollar reserves, which had risen to a postwar peak of 3,867 million dollars at the end of June, dropped to 2,335 million on December 31. At this rate, the drain could have continued only nine more months before the reserves would have been exhausted.

Foreign Economic Policy

Confronted with the urgent necessity of halting this precipitous decline in the reserves, one of the first acts of the Churchill government was to announce emergency cuts of 350 million pounds in Britain's swollen imports from nonsterling countries. Further cuts were announced at the end of January and again in early March totaling 250 million altogether. As a result, roughly 600 million pounds have been slashed from the original 1952 import program, and the government now anticipates that this year's imports will total 3,150 million, compared with almost 3,500 million in 1951. While no other comparable targets have been announced for calendar 1952, the government has indicated that it expects exports to increase during the year beginning April 1, 1952 by 50 million pounds in terms of 1951-52 prices. The export target is to be achieved mainly by larger sales abroad of machinery and other capital goods, which the government hopes will more than offset the decline now being experienced in exports of British consumer goods. The government has also taken several measures to increase the flexibility of its foreign exchange policy in meeting sudden changes in the international financial climate and to minimize the impact of currency speculation on its gold and dollar reserves.

The measures taken by Britain to balance her own external accounts have been supplemented by similar action on the part of her sterling partners. The latter agreed in January to take steps to enable the whole sterling area to balance its accounts with the rest of the world, and in particular with the dollar area, by the second half of 1952. Indeed, measures to achieve this objective through cuts in imports, an expansion of exports, and a reduction of domestic inflationary pressure have already been announced by Australia, New Zealand, and other sterling countries.

The "Inflationary Gap"

Prior to the presentation of Chancellor Butler's budget, it had been widely expected that the cuts in imports and increases in exports required to eliminate Britain's balance-of-payments deficit would entail heavy reductions in commodity supplies

available to the domestic economy. The avoidance of increased inflationary pressure during the new fiscal year beginning April 1, it was thought, would accordingly necessitate a large budget surplus, by means of which domestic expenditure would be reduced by an amount equivalent to the expected decline in domestic supplies.

Actually, however, Chancellor Butler's budget for 1952-53 provided for an approximate balance between over-all revenues and expenditures. The Chancellor's decision was based on the following calculations. He estimated that the required improvement in the balance of payments of roughly 600 million pounds, compared with 1951-52, would be achieved during the new fiscal year by import cuts of 300 million, by increased exports of 50 million, and by improvements in net invisible earnings and in the terms of trade totaling as much as 250 million, these estimates being in 1951-52 prices. If these expectations were realized, the improvement in the balance of payments, taken alone, would involve a reduction of goods available to the domestic economy of roughly 350 million. However, the cuts in availabilities for current use, the Chancellor said, would be only 200 million since the reduction in imports would fall, to the extent of 150 million, on inventories. In addition, the Chancellor estimated that defense expenditure would expand by 200 million (again in terms of 1951-52 prices), making a gross reduction in civilian availabilities for current use of 400 million. Since it was estimated that national output would increase by some 250 million in 1952-53, the net decline in civilian availabilities for current use would therefore be only 150 million. The avoidance of inflation required, the Chancellor said, that civilian spending be reduced by a corresponding amount; the government had accordingly decided that the necessary cuts should be made to the extent of 50 million in government expenditures for civilian purposes and of 100 million in civilian investment; personal consumption, on the other hand, would be stabilized (in terms of 1951-52 prices) at the same level as in 1951-52. On the basis of these calculations, Mr. Butler decided that, although a tightening of monetary policy and direct controls would be needed to achieve the requisite reduction in investment, a budgetary surplus to mop up additional purchasing power in the private economy would not be necessary.

Fiscal Policy

The Chancellor's decisions were implemented under the budget that he presented to Parliament on March 11. Total government expenditures in 1952-53[1] were estimated at 4,762 million pounds, only 77 million (preliminary) over actual expenditures last year. While almost one third of the total was allocated to defense, the government carried out its decision to retard the execution of the rearmament program, which had called for expenditures (excluding stockpiling) in the three years beginning April 1951 of 1,300 million, 1,600 million, and 1,800 million pounds in terms of prices prevailing in the winter of 1950-51. Defense expenditures in 1952-53 were accordingly limited to 1,423 million,[2] a level still almost 300 million higher than actual expenditures last year and equivalent to roughly one tenth of Britain's gross national product.

Much of this expansion in defense outlays is to be offset by civil expenditure cuts, the largest of which is the reduction of the food subsidies by 160 million pounds, from 410 million a year to 250 million. In Mr. Butler's opinion, the subsidies had produced gross distortions in the British price structure and had gone to "everyone, whether in need of help or not".

The Chancellor recognized that the cut in the subsidies would tend to raise the cost of living. To offset the impact on the needy of the expected price rise, however, he made provision for an increase of 80 million in various social security benefits, including family allowances and pensions for war veterans, retired public servants, and other aged persons.

On balance, these and various other measures were expected to result in a decline in government nondefense expenditures to 3,213 million pounds in 1952-53, about 100 million below actual nondefense expenditures last year. Thus, Mr. Butler could justly claim to have achieved his aim of cutting government civilian expenditures in real terms well below last year's figure, particularly since wages and prices in Britain are now roughly 10 per cent higher than a year ago.

On the revenue side of his budget, the Chancellor softened the impact of the food subsidy cut by lightening the burden of the income tax. By increasing both personal and earned-income allowances and the deductions for dependents, an estimated two million taxpayers were relieved from all such direct taxation, and the burden was decreased on many others, particularly in the lower and middle-income groups. Apart from making his subsidy policy more palatable, the Chancellor contended that these tax concessions would improve incentives, especially for overtime work, thus facilitating the expansion of British production upon which the long-term solution of the country's economic problems depended. Observing that the "weight of direct taxation, particularly on the lower and middle income groups" had acted hitherto "as a very positive discouragement to extra effort", the Chancellor argued that there was urgent need to "make people feel that if they work harder they will be allowed to enjoy a proper reward for doing

[1] In contrast to the immediately foregoing figures, those that follow are in terms of current prices.

[2] This estimate includes appropriations for the armed services and civil defense; it excludes the counterpart of United States economic aid as well as appropriations for assistance to industry for defense purposes and for strategic stockpiling.

so". Despite these concessions, however, receipts from the income tax were expected to be 114 million pounds higher than in 1951-52 because of the increased level of wages and salaries. This rise, together with higher receipts from the profits tax, customs duties, and excises, would result in total revenues during 1952-53 of 4,767 million pounds, 240 million (preliminary) more than actual receipts last year. With expenditure estimated at 4,762 million, Mr. Butler thus expected his budget to be in rough over-all balance, compared with the 1951-52 deficit of 150 million.

Monetary Policy

With the budget in over-all balance, much of the work of restraining nongovernmental expenditures—particularly domestic investment—has been left to monetary policy. In this respect the new government has made a sharp turn away from the course pursued by its predecessors. Until last November the Bank of England's discount rate had been held steadily at the 2 per cent level set in the autumn of 1939. While medium and long-term interest rates rose notably between December 1946 and last October, short-term rates remained pegged at a "cheap money" level even lower than during the war period. The consequence was that, for practical purposes, the monetary authorities had lost their traditional control over the volume of central bank credit, and the government therefore had to rely mainly on the traditional cooperation of the commercial banks and on direct controls in order to restrain the tendency of credit to expand.

Shortly after the Churchill government was elected, steps were taken toward restoring control of the authorities over central bank credit. Effective November 8, the Bank of England's discount rate was raised by ½ per cent to 2½ per cent, and the authorities let it be known that they would operate in the market only on their own initiative and on their own terms. At the same time the authorities established a special 2 per cent rate for seven-day loans against Treasury bills, thus giving the market access to funds at ½ per cent below the discount rate but still substantially above the ½ per cent rate that had theretofore prevailed. Supplementing these measures, the Treasury funded 1,000 million of Treasury bills —about one fifth of the total outstanding—into short-term bonds. Roughly one half of the bonds were taken up by the commercial banks, with the consequence that their liquid assets, which had been far above normal requirements since the war, dropped to 32.1 per cent of deposits on November 21, not far above the conventional 30 per cent minimum. In addition, the London clearing banks, apparently at the behest of the authorities, took the almost unprecedented step of jointly issuing a public warning that requests for advances would be "more and more critically examined" and that "bank borrowing will tend to become more expensive". Finally, the Chancellor buttressed his orthodox monetary measures by tightening up the direct controls over investment that had been leaned upon so heavily by his predecessors.

During the four months that followed, the financial community adjusted itself to the government's new monetary policy and familiarized itself with the technique of operating in ever-changing market conditions. Hardly had these adjustments been completed, however, when the Chancellor, noting that the continuance of the sterling area dollar deficit had reduced the gold and dollar reserves to only 1,770 million at the end of February, announced that the Bank of England's discount rate would be raised by 1½ per cent to 4 per cent effective March 12, the special rate for seven-day loans against Treasury bills being simultaneously increased to 3½ per cent.

These monetary policy changes have resulted in a very substantial rise in the whole pattern of British interest rates. Rates on Treasury bills, which had been pegged at ½ per cent since October 1945, rose in several steps during November to the 1 per cent level, around which they continued to fluctuate during the next three months. With the March 12 increase in the Bank of England's discount rate, three-month Treasury bill rates promptly rose to 2¼ per cent, increasing thereafter to 2⅜ per cent on April 23. On the government bond market, yields on short-term securities showed the largest increase, those on the 2¼ per cent Exchequer Stock, 1955, rising to 3.14 per cent on April 23 from 1.78 on October 31, while yields on irredeemable 2½ per cent Consols rose to 4.18 from 3.86. Moreover, interest rates on commercial bank loans and overdrafts, which had ranged in the main between 2 and 4½ per cent early in 1951, now range between 4 and 5 per cent while charges by various governmental lending agencies, such as the Agricultural Mortgage Corporation and the Public Works Loan Board, have also been raised substantially.

A Flexible Economic Policy

Had Chancellor Butler relied mainly upon fiscal policy to close Britain's inflationary gap, his financial program would have depended for its success largely upon the accuracy of his forecasts of production, the terms of trade, and other major economic variables. In the widespread public discussion that followed the budget, numerous questions were in fact raised regarding the validity of the Chancellor's forecasts. Observing that he was counting on a 250 million pound increase in the national output, the London *Economist* questioned the justification of his further expectation that personal consumption would remain stabilized at last year's level. Such stability was doubtful, the journal said, since personal incomes were already substantially higher than in 1951-52 and would increase further if the expected rise in production were to

materialize. In other quarters, the question was raised whether Mr. Butler was not over-optimistic in his assumptions that national output would increase this year as much as in 1951-52, that improvements in net invisible earnings from abroad and in the terms of trade would contribute as much as 250 million pounds toward closing the balance-of-payments deficit, and that tighter monetary conditions, even combined with the stricter administration of direct investment controls, could bring a reduction in civilian investment as great as 100 million pounds.

Actually, Chancellor Butler emphasized, in the course of his budget speech, the highly provisional character of his forecasts. It is indeed in his skepticism about such forecasts, and more particularly about any government policy founded inflexibly upon such forecasts, that Chancellor Butler's financial program differs most strikingly from that of his predecessors. Relying heavily on fiscal policy, which by its very nature can be set only once or at the most twice a year, the previous government found difficulty in adjusting its policy promptly to rapidly changing economic conditions. Fiscal policy, it is true, was supplemented by direct controls, particularly over imports and investment. In theory, these controls could be modified more frequently than could the government's financial policy, but in practice such alterations as were made took so long to become effective that considerable doubt has been raised about their value in meeting sudden changes in the economic climate.

While the new government has not abandoned the instruments of fiscal policy and direct control that were relied upon so heavily by its predecessors, it has made a fresh attempt to use monetary policy to provide some of the flexibility that was lacking in these other instruments. In raising the Bank of England's discount rate, in moving to restore the authorities' traditional control over central bank credit, and thus broadening the government's attack on inflationary pressure, Mr. Butler has won approval from many British financial commentators. Perhaps the major impact of tighter money, the Chancellor's supporters argue, is being felt through limitations imposed on the availability of funds. It is reported that many banks whose liquidity ratios are close to the conventional minimum have already become reluctant to expand credit since new loans would tend further to reduce liquidity, thus forcing sales of gilt-edged securities at a loss on the depressed government bond market. Lenders are consequently giving effect to the announcements mentioned above by applying more rigorous standards in judging the creditworthiness of borrowers and in determining the amount of credit to be extended.

These restrictions on the supply of credit have been reinforced, according to some British observers, by declining tendencies in the demand for credit. The very substantial rise in interest rates is exercising direct restraint on borrowers and on those who seek to finance their outlays by sales of capital assets. Businessmen, whose inventories are financed with bank credit, are attempting cut-backs, while the higher, long-term interest rates are apparently prompting other entrepreneurs to concentrate resources where they will bring the largest immediate returns and to postpone less urgent capital outlays in the expectation that interest rates may eventually fall. In addition, bearish expectations as to both the profitability of investment and the availability of funds with which to finance later stages of the investment process may well be inducing further retrenchment or revision in other types of capital expenditure. A related result, reportedly, has been encouragement to export some goods that might otherwise have been utilized domestically, while private demand for (retained) imports has been weakened. These factors have helped to strengthen international confidence in sterling, and may be tending to encourage a reflux of speculative funds from abroad.

Whether Mr. Butler's financial policy will provide a solution to Britain's current economic problems remains to be seen. There are still many imponderables. With Australia, France, and other major British customers cutting their sterling imports, it is a question, for example, whether the government's export target can actually be achieved. While the possibility of finding alternative markets doubtless exists, Britain may well find herself faced with increasingly stiff competition. Her competitive position in turn depends heavily upon internal British reactions to the Chancellor's program. Already there have been signs of discontent, particularly over the cut in the food subsidies. Speaking in Parliament, former Chancellor Gaitskell said that the cut would unavoidably give a further twist to the inflationary spiral, and he questioned whether workers in the lower income brackets could be blamed for demanding new wage increases.

Although these and other problems remain to be solved, various developments in the last few months indicate that Britain's new economic policy is nevertheless beginning to bear fruit. Voluntary efforts on the part of the commercial banks combined with increasing pressure on their liquidity ratios have restrained the expansion of advances during the first quarter to only 15 million pounds, compared with increases of 110 million and 71 million in the corresponding periods of 1951 and 1950. Significantly, this very moderate rise seems wholly attributable to the increasing requirements of defense production and the nationalized industries; credit to other categories of borrowers appears to have actually declined. Britain's international economic position also seems to be taking a turn for the better. During the first quarter of 1952 the trade deficit dropped to a monthly average of only

70 million pounds, compared with 111 in the second half of 1951, a decline attributable both to an increase in exports and to a fall in imports. Moreover, after the rise in the Bank of England's discount rate to 4 per cent, foreign traders apparently began to cover their short positions in sterling. As a result, the New York spot rate for sterling, which had been near the Bank of England's lower support level of $2.78 since the beginning of the year, climbed to $2.81 11/32 on March 31 and has since remained almost continuously above the $2.80 parity. At the same time, the rate for three months' forward sterling rose to $2.795 in April, or 2.9 cents over its February average. The improvement in the trade balance and the covering of short positions were accompanied by a sharp decline in the gold and dollar drain from the monthly average of 282 million dollars during January and February to only 71 million during March. Indeed, according to the Chancellor, the reserves actually showed an increase in the latter part of March. While such special transactions as the purchase with sterling of South African gold to the value of 28 million dollars and the receipt of 35 million dollars from the United States in payment for rubber, tin, and lead contributed materially to this strengthening of the reserves, there can be little doubt that the various measures instituted by the government since last November have already had pronounced effects.

THE WHOLESALE PRICE INDEX

The Bureau of Labor Statistics has recently completed a thoroughgoing revision of its monthly index of wholesale prices. This is one of the two indexes published each month in the table of Selected Economic Indicators, which measure changes in prices in primary markets. A discussion of the other, the index of basic commodity prices, appeared in an earlier *Review*.[1]

The term "wholesale prices", as applied to this index, refers to prices of goods sold in large lots, not to prices paid or received by wholesalers, distributors, or jobbers. Price quotations used in computing the index are those which apply at primary market levels—that is, the first important commercial transaction for each commodity. Although only a sample of all traded commodities is priced for inclusion in the index, the revised index is intended to reflect price changes for *all* primary market transactions in commodities.

Prices are now collected for nearly 2,000 commodities, more than twice as large a sample as was formerly used. All types of goods from raw materials through finished goods are included. The sample now covers many classes of products which were formerly completely omitted or inadequately covered, such as machinery and clothing. However, there are no quotations for real estate, securities, transportation, or services. For example, the cost of construction of finished buildings is not covered, but the raw and finished materials used in construction, such as lumber, bricks, and oil burners, are priced.

The commodities which were chosen for inclusion in the index were selected on the basis of a study of each industry and its important products. In most cases, the items included in the index are the ones most heavily traded, but some, not important in terms of sales volume, were selected because they offer a good representation of price movements as the result of certain industry characteristics.

Precise specifications have been drawn up for each commodity priced. These specifications were determined on the basis of advice from industry and other expert sources. The selections are designed to represent, in combination, the various qualities, grades, levels of distribution, markets, and producers of each commodity.

An important criterion for choosing the specifications was comparability from period to period. Specifications were selected which would be available over a long period of time. However, over time, some products disappear from the market and new ones are introduced. When it happens that one specification is no longer available, a new specification is substituted in such a way that the level of the index will not be affected at the time of substitution. New items are introduced into the index only after they have become well established in the market.

The Bureau attempts to obtain the prices closest to the seller's net realization. Prices are net of customary discounts. Transportation costs are included only to the extent that they are included in the primary market price of a commodity. Usually prices are selected f.o.b. production or central marketing points. Subsidies and excise taxes are also excluded as far as possible.

Most of the prices are obtained from representative manufacturers or producers or are quotations on organized exchanges or markets. List or nominal prices quoted by trade journals and manufacturers are sometimes used if they reflect the trade's customary pricing practices. In selecting the price reporters or other price sources, the Bureau relied on informed judgment and advice from the industry. For quotations from individual producers, reporters were selected on the basis of the distribution of companies by geographic region, by degree of integration, by volume, and by degree of "price leadership" when these factors affect pricing. Whenever possible, at least three reporters were obtained for each specification.

[1] October 1951, pp. 144-146. For a discussion of the index of consumers' prices, see the April 1951 *Review*, pp. 55-57.

Beginning in 1952, prices are collected for a single day of the month, usually the Tuesday of the week containing the 15th. Formerly the averages of the prices on one day of each week of the month were used, but the Bureau of Labor Statistics felt that a comparison of the movement of indexes computed in both of these ways revealed no significant differences.

In computing the index, the Bureau of Labor Statistics takes average prices for 1947 through 1949 as equal to 100. This is the most obvious change in the index, since in the former series 1926 prices were equal to 100. This change in the base period for prices obviously causes a marked difference in the level of the index. The selection of a more up-to-date base period to determine the weight given to each price and the adoption of a new system of weights, while not so striking, are actually more important than the change in the price base because these revisions affect period-to-period comparisons shown by the index.

Because the different commodities priced are of different importance in relation to total trade, each price is multiplied by a weight determined by its sales in the base period. A new system of weighting has been adopted to reflect the expanded coverage of the revised index. By the former method of calculation, the weight given to each commodity was determined by the relationship of its sales to the sales of all the commodities priced, but only those priced, for the index.[2] Now, however, weights are determined by primary market sales of *all* commodities, whether priced or not. The weight of any commodity not separately tabulated is assigned to a related commodity or group of commodities which are priced and whose price movements are known to be similar.

In the revised index, the period on which the weights are based is, in most cases, 1947. Data on total transactions for 1947 were obtained from the 1947 *Census of Manufactures, Agricultural Statistics,* and the *Minerals Yearbook,* and, for imports, from U. S. Department of Commerce statistics for 1947. The relationship of the major groups, subgroups, and product classes within subgroups was determined entirely from 1947 data; within product classes, however, other periods were used when 1947 did not show the typical postwar relationship among components. For a number of industries 1947 was an abnormal year because of prolonged labor disputes or other disrupting events.

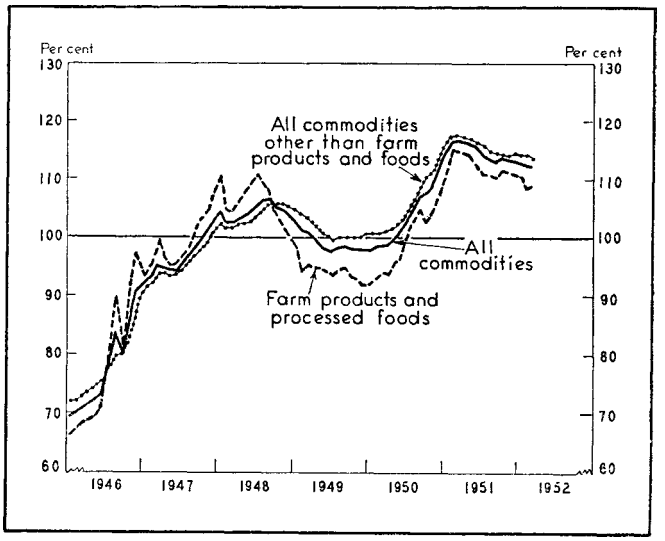
In addition to the all-commodities index which appears in the table of Selected Economic Indicators, a large number of component indexes are available. The larger coverage of the new index has permitted the expansion of the basic classification system from 10 major groups and 50 subgroups to 15 major groups and 88 subgroups. Each subgroup is further divided into product classes. Each group or subgroup consists of a related group of products common as to raw material, end-use, or production process. The principal differences between the revised and old classification systems result from the addition of several new major groups (such as "lumber and wood products" and "pulp, paper and products") and the splitting of others into component groups (e.g., the old index "metals and metal products" has been expanded and split into "metals and metal products" and "machinery and motive products"). A new group, "processed foods", supplants the former "foods" index and is somewhat narrower in coverage; fresh fruits and vegetables, which were formerly included in both "foods" and "farm products", now appear only in the "farm products" group. None of the new major groups is precisely comparable with the old.

In general, the new index is more heavily weighted with industrial products than the old. In the years 1947-49, the farm products and foods groups together accounted for 42 per cent of the old index, whereas they account for only 30 per cent of the new. Furthermore, finished manufactures now have greater importance than they did in the old index. For example, the former metals and metal products group, which included all the machinery and motive products covered, represented 14 per cent of the total in those years; in the revised index, the new group for machinery and motive products alone accounts

[2] All quality grades of each priced commodity were accounted for in the weighting system, even when price quotations were collected for only one or a few of these grades.

Chart I

Wholesale Price Indexes, January 1946-March 1952 *
(1947-49=100)



* Revised series linked to old in January 1947.

Source: U. S. Bureau of Labor Statistics. Index for farm products and processed foods combined from separate group indexes by the Federal Reserve Bank of New York from 1947 to date; data for 1946 from a special tabulation by the Bureau of Labor Statistics.

for 14 per cent of the total, and the metal and metal products group, an additional 12 per cent.

The revision of the index has been extended back through 1947, although the new index is the official one only from January 1952 on. (The "official" designation is necessary because many contracts contain a type of escalator clause based on price changes as measured by the wholesale price index.) The old and new indexes were linked in January 1947, and publication of the old index was discontinued after December 1951. The old series for "all commodities" and for "all commodities other than farm products and foods" have been recomputed on the new base period for earlier years in order to yield continuous series going back to the beginning of 1926. The official index for all commodities computed from prices collected by the Bureau of Labor Statistics extends back to 1890 on the 1926 base, but by use of other sources, the Bureau has extended it back on an annual basis to 1749. No group indexes for the revised series prior to 1947 have as yet been published, but the Bureau intends to carry the revision back to 1926 for some of the series. The total, group, and subgroup indexes are published each month in the *Monthly Labor Review* and the *Federal Reserve Bulletin.*

The wholesale price index moves with general business conditions, major turning points coinciding roughly with the peaks and troughs of the business cycle. As shown in Chart I, the index moved upward in the period after World War II until August 1948. Prices declined during the recession in 1949, reaching a low in December at 8 per cent below the 1948 peak. A revival had already started by the time war broke out in Korea in June 1950, but the rise in the index became sharper after Korea. Early in 1951, the index was 19 per cent above its 1949 low. Since then, it has declined moderately.

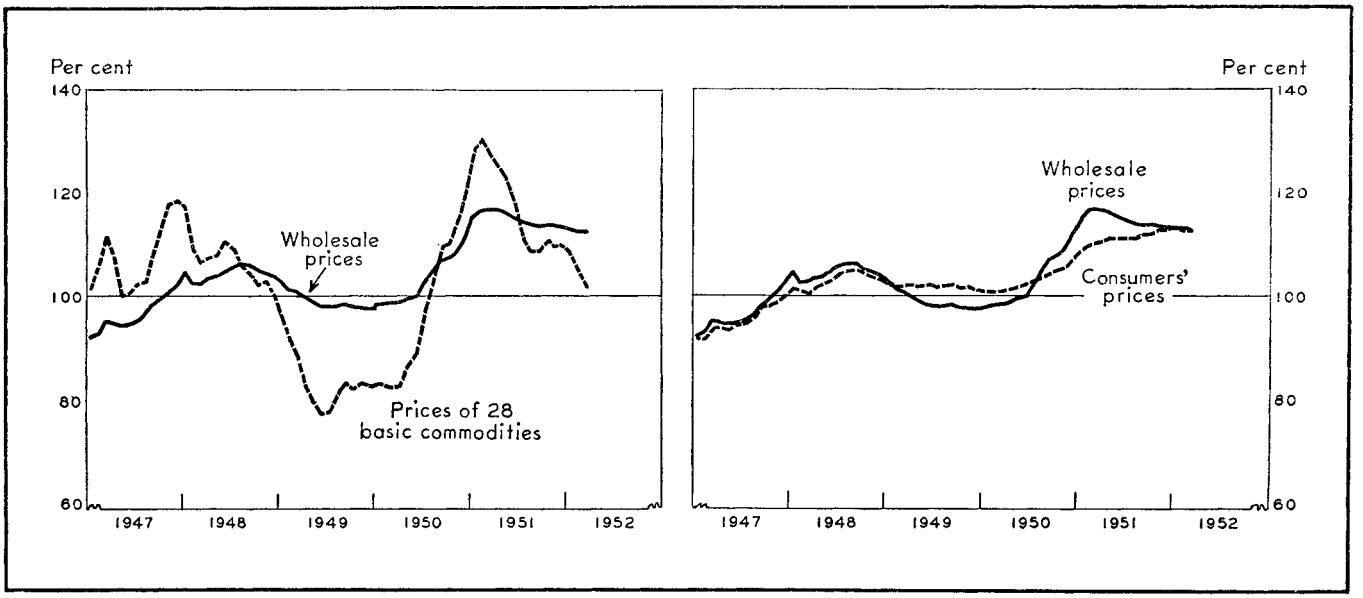
As can be seen from Chart I, when farm products and foods are eliminated from the index, the movements of the remaining series are somewhat smoother and more moderate than the total index. The fact that prices of farm products and foods fluctuate more than other types of goods is also reflected in a comparison of the old and new all-commodities indexes. The new series, which is less heavily weighted with farm and food products, fluctuates less widely than the old. For example, in the 1948-49 recession, the old series dropped 11 per cent from peak to trough, whereas the new index dropped only 8 per cent.

Chart II compares the movements of the wholesale price index with the two other price series published in the table of Selected Economic Indicators. The index of 28 basic commodities (components of which have been chosen for their price sensitivity) shows much more extreme fluctuations and

Chart II

Wholesale Price Index Compared with Indexes of Basic Commodity Prices and Consumers' Prices, January 1947-March 1952

(1947-49=100)



Source: Basic data from the U. S. Bureau of Labor Statistics; for purposes of comparison with the wholesale price index, the index of 28 basic commodity prices and the consumers' price index were converted to a 1947-49 base by the Federal Reserve Bank of New York.

usually reaches major cyclical turning points in advance of the wholesale price series for all commodities. On the other hand, the consumers' price index is somewhat smoother than the wholesale price index and usually lags behind it at turning points. For example, the consumers' price index reached a peak in December 1951 and January 1952, when it was at about the same level (when converted to a 1947-49 base) as the wholesale price index. But the wholesale price index had reached a higher peak early in 1951 and had been declining since then.

NEW BASE FOR INDEX NUMBERS

Several of the index numbers shown regularly in the monthly table "Selected Economic Indicators" (formerly titled "Business Indicators") have been revised recently, and are now based on the average for the years 1947-49 as 100. This change has been made in accordance with the recommendations of the Division of Statistical Standards of the U. S. Bureau of the Budget, and is designed to facilitate comparison among various economic indicators and to permit a clearer portrayal of recent developments. Series affected by this change include electric power production, ton-miles of railway freight, residential and nonresidential construction contracts awarded, and velocity of demand deposits. (Tabulations of data on the new base will be available after May 15, on request, from the Domestic Research Division of this bank, except for residential and nonresidential construction contracts awarded in 37 States east of the Rocky Mountains, which may be obtained from the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, Washington 25, D.C.) Similar changes in base period were made in connection with the revision in the index of wholesale prices (described beginning on page 69 of this *Review*) and the index of department store sales (January 1952 *Review,* pp. 10-11). By early 1953, it is expected that the other index numbers shown in the table will also have been revised to the 1947-49 base.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952			1951	Percentage change	
		March	February	January	March	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	220*p*	222	221*r*	222*r*	− 1	− 1
Electric power output*‡	1947-49 = 100	143	141	141	132	+ 1	+ 8
Ton-miles of railway freight*‡	1947-49 = 100	—	108*p*	107	109	+ 1	+ 8
Manufacturers' sales*	billions of $	22.1*p*	23.3	22.5	22.6	− 5	− 2
Manufacturers' inventories*	billions of $	42.2*p*	42.2	42.2	35.6	#	+19
Manufacturers' new orders, total	billions of $	22.9*p*	22.2	22.3	28.5	+ 3	−20
Manufacturers' new orders, durable goods	billions of $	11.2*p*	11.0	11.0	15.5	+ 2	−28
Retail sales*	billions of $	12.5*p*	12.9	12.7*r*	12.6	− 4	− 1
Residential construction contracts*‡	1947-49 = 100	—	163*p*	142	176	+15	−13
Nonresidential construction contracts*‡	1947-49 = 100	—	152*p*	173	154	−12	− 7
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	303.9	313.9	323.8	380.9	− 3	−20
Wholesale prices†**	1947-49 = 100	112.3*p*	112.5	113.0	116.5	#	− 4
Consumers' prices†	1935-39 = 100	188.0	187.9	189.1	184.5	#	+ 2
Personal income* (annual rate)	billions of $	—	257.1*p*	257.7	245.5*r*	#	+ 6
Composite index of wages and salaries*	1939 = 100	—	231*p*	231	221	#	+ 5
Nonagricultural employment*	thousands	46,422*p*	46,572	46,468*r*	46,266*r*	#	#
Manufacturing employment*	thousands	15,809*p*	15,854	15,831*r*	16,058*r*	#	− 2
Average hours worked per week, manufacturing†	hours	40.7*p*	40.8	40.9	41.1	#	− 1
Unemployment	thousands	1,804	2,086	2,054	2,147	−14	−16
Banking and finance							
Total investments of all commercial banks	millions of $	74,690*p*	74,650*p*	75,260*p*	71,320	#	+ 5
Total loans of all commercial banks	millions of $	57,840*p*	57,590*p*	57,510*p*	54,420	#	+ 6
Total demand deposits adjusted	millions of $	94,780*p*	95,710*p*	97,850*p*	88,980	− 1	+ 7
Currency outside the Treasury and Federal Reserve Banks*	millions of $	28,523	28,406	28,551	27,253	#	+ 5
Bank debits* (U. S. outside New York City)	billions of $	85.9	93.1	88.0	86.9*r*	− 8	− 1
Velocity of demand deposits* (U. S. outside New York City)‡	1947-49 = 100	116.1	115.1	110.8	118.8	+ 1	− 2
Consumer instalment credit outstanding†	millions of $	13,149*p*	13,184	13,314	12,976*r*	#	+ 1
United States Government finance (other than borrowing)							
Cash income	millions of $	10,437*p*	6,275	5,183	8,489	+66	+23
Cash outgo	millions of $	6,120*p*	5,328	5,473	4,219	+15	+45
National defense expenditures	millions of $	3,905	3,556	3,843	2,262*r*	+10	+73
SECOND FEDERAL RESERVE DISTRICT							
Electric power output* (New York and New Jersey)‡	1947-49 = 100	130	126	126	120	+ 3	+ 8
Residential construction contracts*‡	1947-49 = 100	—	159*p*	113	189	+41	−17
Nonresidential construction contracts*‡	1947-49 = 100	—	162*p*	153	153	+ 6	− 1
Consumers' prices† (New York City)	1935-39 = 100	182.4	183.0	184.2	180.4	#	+ 1
Nonagricultural employment*	thousands	—	7,434.3*p*	7,408.4	7,401.2*r*	#	+ 1
Manufacturing employment*	thousands	2,678.9*p*	2,674.2	2,662.1	2,670.7*r*	#	#
Bank debits* (New York City)	billions of $	46.9	50.4	46.3	49.7	− 7	− 6
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of $	3.8	4.2	3.9	3.8	− 8	+ 1
Velocity of demand deposits* (New York City)‡	1947-49 = 100	125.7	123.8	111.3	131.3	+ 2	− 4

p Preliminary. *r* Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
\# Change of less than 0.5 per cent.
‡ Index changed to 1947-49 average = 100.
** Revised series. Back data available from the U. S. Bureau of Labor Statistics.

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

RETAIL CREDIT SURVEY—1951[1]

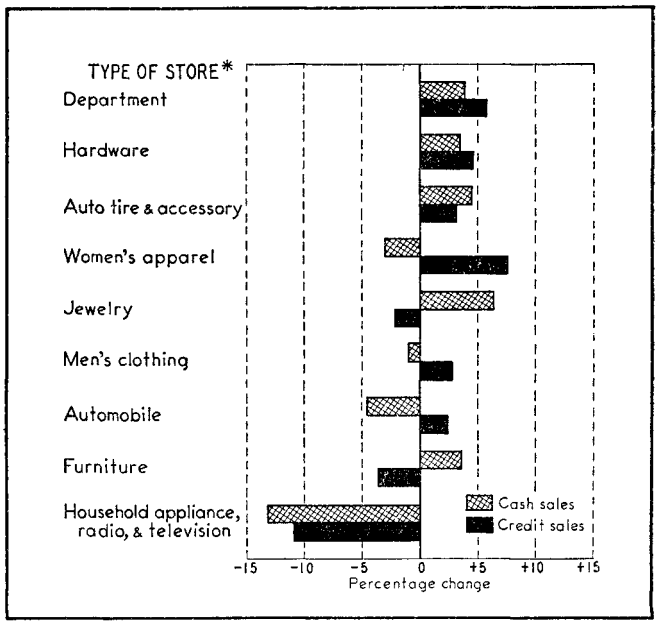
Retailers will probably remember 1951 more for the lagging consumer demand which characterized the last three quarters than for the spurt of scare-buying which dominated the opening weeks of the year. Despite rising consumer incomes and intensive promotions by retailers, sales of durable goods stores throughout the country in 1951 were about 2 per cent lower than in 1950 (when extensive scare-buying had also occurred), and the year-to-year increase in sales of nondurable goods stores—9 per cent—was approximately the same as the percentage rise in the average level of prices. During 1950, the sharp expansion of instalment credit—a rise of almost one fourth—had been a major factor in the durable goods boom. In 1951, however, this source of inflationary pressure was neutralized and there was virtually no net increase in the amount of instalment credit outstanding. In the first seven months of 1951, instalment sale credit outstanding (originated by retailers) dropped 731 million dollars, or 9 per cent, but half of that decline was wiped out by the rise which followed Congressional action liberalizing consumer credit regulations at the end of July and the other half was offset by the steady rise in instalment loans (originated by financial institutions), which reached a new all-time high at the end of 1951. Charge account credit, on the other hand, continued to rise and the net increase in the volume outstanding was about the same during 1951 as it was during 1950.

A recently completed survey shows that these national trends in retail sales and credit were also characteristic to a considerable extent of the Second Federal Reserve District. Information on sales, receivables, and inventories of nine principal types of credit-granting retail stores was recently gathered by the Federal Reserve Bank of New York as part of the nationwide Retail Credit Survey. This survey has been conducted by the Federal Reserve System every year since 1942, with the exception of 1950 when somewhat similar data were available from Regulation W registration forms. Second District retailers were even more cooperative than usual this year; reports were received from more than 2,300 firms—nearly triple the number reporting in previous years. Annual sales of the Second District stores cooperating in this survey totaled over 2 billion dollars. The nine principal types of credit-granting stores covered in the survey accounted for approximately 90 per cent of all instalment sales in the Second Federal Reserve District at the time of the latest *Census of Business*. Information was not collected, however, from several types of retail stores whose credit sales are mainly in the form of open-book credit, such as grocery stores, fuel and ice dealers, lumber yards, and feed stores. Stores selling solely for cash were also excluded from the survey.

Aggregate retail sales of credit-granting stores in the Second District increased only very slightly in 1951 over 1950. Moderate increases in sales were reported by the majority of the lines surveyed, but sales of the important automobile and furniture groups declined slightly, and the household appliance, radio, and television group reported a drop in sales of nearly one eighth. In view of the increase in retail prices of apparel and homefurnishings—even after allowing for promotional sales and special discounts not covered by the official indexes—it seems unlikely that any of the major types of credit-granting stores in this District had an increase in physical volume of sales during 1951.

As might be expected, the declines in sales occurred in the lines which had been most stimulated by the scare-buying in 1950. The persons who rushed out after the outbreak of war in Korea to buy automobiles, television sets, major appliances, and other housefurnishings undoubtedly included many who otherwise would not have bought until some later date. In a very real sense, these sales were borrowed from the future, for such purchasers are not likely to re-enter the market while these goods are still relatively new. If the 1951 totals had not

Cash and Credit Sales at Credit-Granting Retail Stores in the Second Federal Reserve District
(Percentage change, 1950-51)



* Arranged in order of percentage change in total sales, 1950-51, as in Table I.

[1] A reprint of this article, containing additional material on sales by locality and by size of store, will be available shortly from the Domestic Research Division, Federal Reserve Bank of New York, on request.

Table I
Retail Sales by Type of Credit-Granting Store, Second Federal Reserve District, 1950 and 1951

Type of credit-granting store	Number of reporting stores	Percentage change, 1950 to 1951				Per cent of total sales					
		Total sales	Cash sales	Charge account sales	Instalment sales	Cash sales*		Charge account sales		Instalment sales	
						1950	1951	1950	1951	1950	1951
Department	92	+ 5	+ 4	+7	+ 2	60	59	27	28	13	13
Hardware	75	+ 4	+ 4	+7	− 9	44	43	49	51	7	6
Auto tire and accessory	52	+ 4	+ 5	+9	− 7	46	46	34	36	20	18
Women's apparel	82	+ 4	− 3	+7	+14	38	36	61	63	1	1
Jewelry	36	+ 1	+ 6	−2	− 2	38	41	42	40	20	19
Men's clothing	47	+ 1	− 1	+3	+12	46	45	53	54	1	1
Automobile	718	− 2	− 5	+9	†	60	58	12	13	28	29
Furniture	371	− 2	+ 4	+4	− 5	24	25	13	14	63	61
Household appliance, radio, and television	398	−12	−13	−4	−13	40	39	17	18	43	43
All types‡	1,871	+ 1	− 1	+6	− 2	46	46	36	37	18	17

* This survey covered credit-granting stores only, and the proportion of cash sales in the aggregate of all retail sales thus tends to be understated.

† Change of less than one half of one per cent.

‡ Percentages for "all types" have been computed from weighted averages, not from arithmetic averages of the reporting sample. Weights were based on the estimated relative share of each type of store in total sales of credit-granting stores in the Second District, as shown in special tabulations from the 1948 *Census of Business*.

Source: For this and Tables II and III, compiled by the Federal Reserve Bank of New York from reports of stores cooperating in the Retail Credit Survey.

included the brief period of scare-buying at the beginning of the year, 1951 would have compared even less favorably with 1950 for most hard-goods merchants. But, as noted earlier, even nondurable goods stores had a difficult time maintaining sales volume in the face of continued consumer cautiousness.

Despite rising consumer incomes, most types of stores surveyed reported a lower proportion of sales made for cash in 1951. The share of cash sales in total sales declined in all groups except furniture and jewelry (as shown in Table I). The decreased proportion of cash sales and the correspondingly increased importance of credit was particularly marked in women's apparel and men's clothing stores and at automobile dealers. For department, apparel, and clothing stores the shift to credit sales was a continuation of the movement evident since the end of World War II, as the distribution of sales between cash and credit gradually returned toward prewar proportions. The 1951 experience also reinforced the trend manifested in the previous three years toward a steadily increasing share of automobile and household appliance sales for credit; there had been a sharp rise in cash sales during the early postwar period.

The increase in credit sales relative to total sales was centered in charge accounts, which consistently accounted for a greater share of total sales in 1951 than in 1950 except in the case of jewelry stores. Instalment sales were generally lower in 1951; year-to-year declines were reported by all types of stores except men's clothing and women's apparel stores, where instalment sales are of very minor importance, and department stores, where the gain in such sales was less than the rise in either cash or charge account sales. The falling off in instalment sales, particularly in durable goods lines, reflects to some extent the fact that consumer credit regulations were in effect throughout 1951, but only during the last quarter of 1950. Yet these regulations cannot be considered solely, nor perhaps even primarily, responsible for the lagging demand which characterized most of 1951. The higher down payments and shorter maturities required by the regulation undoubtedly deterred some marginal buyers, but the buying rush which swept retail sales to a new record in January 1951 indicates that consumer credit controls do not prevent high sales levels when consumers are eager to buy. In addition to the effects of consumer wariness and of credit regulations, restrictions on the availability of materials also played some part in dampening sales. The sales of automobile dealers, for example, were affected by the restricted production of cars during the latter part of 1951; but in view of the high level of inventories of appliances and television sets during the greater part of the year it is obvious that not all of the durable goods lines were similarly affected by materials limitations.

Accounts receivable outstanding at the end of 1951 were generally lower in relation to credit sales than they were a year earlier (as shown in Table II). Charge account credit outstanding declined at hardware and auto tire and accessory stores, despite gains in charge account sales, while charge account credit at women's apparel, jewelry, and furniture stores increased relatively less (or declined relatively more) than sales. Instalment receivables increased in relation to instalment sales only at jewelry and household appliance stores. The stable or decreased proportion of instalment paper held by other dealers at the end of 1951 reflects not only the lower sales volume in the latter part of 1951, but also generally higher down payments and sales of about the same proportion of instalment paper as in 1950. The percentage of instalment sales received as a down payment (either in cash or trade-in

Table II
Accounts Receivable by Type of Retail Store, Second Federal Reserve District, 1950 and 1951
(Accounts receivable figures are based on end-of-year data, sales figures on annual totals)

Type of credit-granting store	Accounts receivable percentage change 1950 to 1951			Charge account receivables as a per cent of charge account sales		Instalment receivables as a per cent of instalment sales	
	Total	Charge account	Instalment	1950	1951	1950	1951
Department..	+ 5	+ 7	+ 3	29	29	35	35
Hardware....	− 5	− 4	−27	21	19	12	10
Auto tire and accessory..	−17	−11	−22	15	12	40	33
Women's apparel.....	+ 6	+ 6	+11	28	27	44	41
Jewelry.....	− 8	−11	− 3	33	30	54	55
Men'sclothing	+ 3	+ 3	− 1	20	20	30	26
Automobile..	+10	+10	+ 7	10	10	†	†
Furniture....	− 2	†	− 3	20	19	44	43
Household appliance, radio, and television..	− 5	− 6	− 5	13	13	15	16

† Less than one half of one per cent.

Table III
Sales and Inventories by Type of Credit-Granting Store Second Federal Reserve District, 1950 and 1951
(Inventory figures are based on end-of-year data, sales figures on annual totals)

Type of credit-granting store	Number of reporting stores	Percentage change 1950 to 1951		1951
		Total sales*	Inventories at retail prices	Inventory turnover ratio†
Department.....	112	+ 5	+ 1	4.6
Hardware.....	63	+ 5	+ 6	2.5
Auto tire and accessory.....	61	+ 1	− 7	3.8
Women's apparel.....	103	+ 2	‡	4.4
Jewelry.....	37	+ 4	+12	1.0
Men's clothing.....	57	+ 1	+11	2.7
Automobile.....	853	− 2	+18	9.0
Furniture.....	393	− 2	− 7	2.7
Household appliance, radio, and television.....	372	−13	− 2	3.9

* Some figures in this column differ slightly from the corresponding ones in Table I, because of differences in the number of stores covered. In each case, the maximum number of usable reports was included.
† Inventory turnover based on ratio of total annual sales to the average of beginning-of-year and end-of-year inventories at retail.
‡ Change of less than one half of one per cent.

allowance) increased in most types of stores surveyed, in part because of the influence of consumer credit regulations. The only exceptions were men's clothing stores (whose credit terms are not regulated) and automobile dealers (who reported average down payments of over 50 per cent in both 1950 and 1951, well above the one-third down required by Regulation W). Dealers who had sold a large proportion of their instalment paper in 1950 generally continued to do so in 1951, and changes in the proportion of paper sold were generally minor. Department stores, household appliance, radio, and television stores, and automobile dealers all reported selling receivables equal to approximately half of their instalment sales volume in both 1950 and 1951.

Inventories were a major problem for a great many retailers during 1951. Lagging sales during the later part of the year coincided with deliveries of the large orders placed during the earlier buying rush. At the end of 1951, stocks were still so large as to be a problem for many dealers (as shown in Table III). Automobile dealers and men's clothing, jewelry, and hardware stores showed substantial increases in inventories between the end of 1950 and the end of 1951. In the case of automobile dealers the increase was probably centered in used cars, since new car stocks were still relatively low at the start of 1952. On the whole, automobile dealers appeared to be regaining a more normal stock-sales ratio, compared with the small inventories on hand at the end of 1950. The average stocks at jewelry stores in the Second District rose somewhat further during 1951 until they equaled one full year's sales, but the reports show that practically all of this accumulation was centered in a few large stores. Although household appliance, radio, and television stores were able to reduce their inventories slightly from year end to year end, sales volume fell off much more rapidly. Auto tire and accessory shops and furniture stores also managed to decrease stocks from the December 1950 level. Department store stocks rose in the first half of 1951, but by paying close attention to their commitments, the stores were able to reduce stocks by the end of 1951 to about the same level as a year earlier.

DEPARTMENT STORE TRADE

Retail activity in Second District department stores during April showed little evidence of any substantial resurgence of consumer demand for department store merchandise. Retailers had been generally hopeful that department store sales would show more than the usual seasonal upturn during the Easter season and that the momentum thus created would be carried over, to some extent, to the weeks and months that follow. Actually, however, sales of Second District department stores during April, after adjustment for calendar irregularities (one more shopping day this year and the shifting date of Easter) and the usual seasonal variations, are estimated to have declined 4 per cent from the level of the previous month and 7 per cent from April 1951.[1]

The Easter season itself fell below retailers' expectations. As the accompanying chart indicates, the indexes of Second

[1] Some part (but only a part) of the reduction from a year ago may be attributable to the closing, earlier this year, of a Brooklyn department store. How much of the business formerly done by that store has been absorbed by other department stores and how much has shifted to specialty stores is, of course, indeterminable.

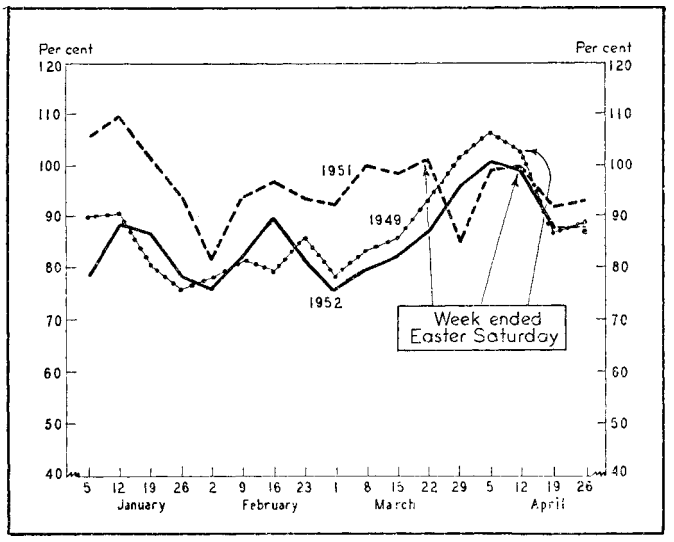
District department store sales during the three weeks preceding Easter Sunday (April 13) averaged only slightly higher than during the corresponding three weeks a year earlier (i.e., ended April 14, 1951), despite the fact that the year-ago data represented an immediate *post-Easter* period when sales are normally much lower than the Easter-season peak.

Perhaps a more striking indication of the failure of consumer purchases during the early part of April to reach previously anticipated proportions is obtained by comparison with the corresponding period in 1949 when Easter occurred at about the same time of the year. Sales during the Easter season (the three weeks ended April 12, 1952) were 8 per cent below the dollar volume of the three weeks ended April 16, 1949. This relative decline is particularly significant, not only because retail prices of apparel and homefurnishings this year were approximately 8 per cent above the levels of April 1949, but also because the increase in aggregate personal income, after taxes, since early 1949 has more than matched the rise in retail prices of department store merchandise.

Consumers have shown a continued tendency to "trade down", that is, to shop for "values" in terms of prices rather than quality. It is illustrative that sales of basement store departments of Second District department stores during the first quarter of this year were generally more favorable (on the basis of year-to-year comparisons) than sales of their upstairs counterparts. Judging from preliminary weekly data on basement store sales in New York City, this relationship continued during April.

In large measure, the relatively poor showing of department store sales since the beginning of this year has been due to slackened consumer interest in major durable lines. While the year-to-year comparisons in January, February, and to some extent March were distorted by the extraordinarily strong demand for those items during the early months of 1951, this was no longer the case during April. Nevertheless, sales of furniture and bedding, rugs and carpets, major appliances, radios, and television sets continued to lag well behind year-ago levels. At least part of these declines in dollar volume, however, was due to promotional price cutting by retailers in an effort to stimulate sales of currently hard-to-move durables, particularly television sets.

Weekly Indexes of Second District Department Store Sales* January-April, 1949, 1951, and 1952
(Without adjustment for seasonal variations 1947-49=100 per cent)



* The calendar dates listed in the horizontal scale pertain only to Saturdays in 1952. Weekly indexes for 1949 and 1951 are plotted with Saturday dates for those years located at the nearest Saturday date in 1952.

e Estimated.

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

Locality	Net sales		Stocks on hand
	Mar. 1952	Jan. through Mar. 1952	Mar. 31, 1952
Department stores, Second District	− 12	− 12	− 16
New York City	− 13	− 13	− 18
Nassau County	− 26	− 18	− 1
Northern New Jersey	− 12	− 13	− 20
Newark	− 11	− 12	− 21
Westchester County	− 6	− 3	+ 2
Fairfield County	− 13	− 7	− 9
Bridgeport	− 13	− 7	−
Lower Hudson River Valley	− 13	− 11	− 12
Poughkeepsie	− 12	− 12	− 14
Upper Hudson River Valley	− 7	− 7	− 13
Albany	− 7	− 12	− 16
Schenectady	− 7	0	− 12
Central New York State	− 8	− 10	− 9
Mohawk River Valley	− 8	− 8	− 18
Utica	− 2	− 2	− 22
Syracuse	− 8	− 11	− 4
Northern New York State	− 7	− 17	− 5
Southern New York State	− 13	− 8	− 7
Binghamton	− 13	− 8	− 9
Elmira	− 12	− 8	− 5
Western New York State	− 11	− 7	− 12
Buffalo	− 9	− 4	− 14
Niagara Falls	− 6	− 5	−
Rochester	− 16	− 12	− 10
Apparel stores (chiefly New York City)	− 10	− 7	− 13

Indexes of Department Store Sales and Stocks Second Federal Reserve District
(1947-49 average=100 per cent)

Item	1952			1951
	Mar.	Feb.	Jan.	Mar.
Sales (average daily), unadjusted	86	82	80	95
Sales (average daily), seasonally adjusted	98	100	100	103
Stocks, unadjusted	113	104	101	135r
Stocks, seasonally adjusted	108	107	114	129

r Revised.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, April 29, 1952)

Output at factories and mines declined moderately in March and early April, while construction activity showed a substantial further gain. Prices of basic commodities continued to decline. Consumer prices changed little in March and, together with retail sales, were somewhat below levels at the beginning of the year. Reflecting in part seasonal influences, bank loans to business decreased after mid-March.

Industrial Production

The Board's preliminary seasonally adjusted index of industrial production declined two points in March to 220 per cent of the 1935-39 average. In April, the index will probably decrease three points further, reflecting partly the temporary sharp drop in steel output early in the month when furnaces were banked in anticipation of a work stoppage. Following Federal seizure of steel mills, output recovered to capacity levels. An output decline of about 10 per cent from the record March annual rate of 111 million tons is indicated for the month as a whole.

Activity in most machinery, transportation equipment, and other metal-fabricating industries changed little in March. Passenger auto assembly, however, continued to rise to the end of the month. In April, auto output has been maintained at an annual rate of about 4.8 million cars, while output of major appliances and television sets has apparently been reduced. Furniture output in March was maintained at the level of the three preceding months, which was 10 per cent below a year ago. Lumber production increased less than seasonally from the unusually high February level.

Reflecting largely fluctuations at textile mills, nondurable goods production declined slightly in March after showing a small rise in February. With producers' stocks continuing at exceptionally high levels, rayon output was cut sharply further in March and early April. Petroleum refining was also reduced somewhat from the record February rate, and activity at paper and paperboard mills continued to decline. Reflecting larger supplies of natural rubber and greatly increased output of synthetic rubber, the NPA revoked most of the remaining controls on natural rubber consumption effective April 21.

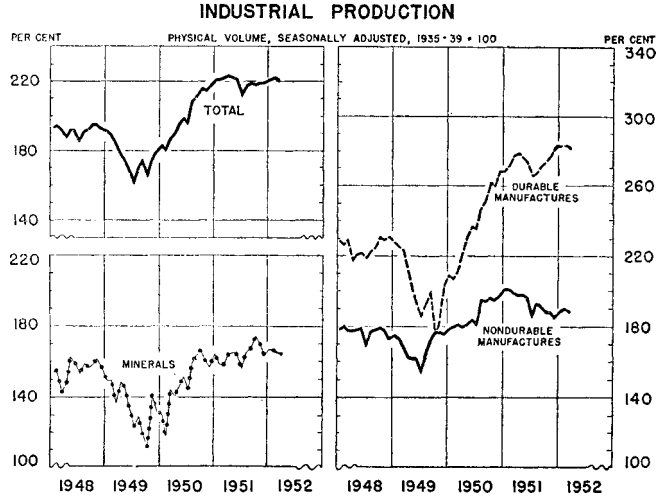
A small drop in minerals production in March reflected a 10 per cent decline in coal mining, offset in part by new record output of crude petroleum. Production of iron ore was at a level considerably greater than a year ago.

Construction

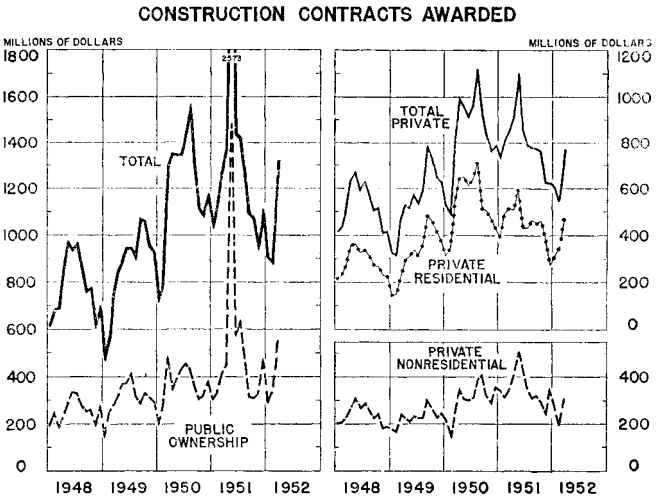
Value of construction contract awards rose sharply in March. Increases were substantial in all major categories. Nonfarm housing units started totaled 98,000, compared with 77,000 in February and 94,000 a year earlier. The March total included 12,000 public units, three times as many as in March 1951, and the third largest number for any month since the end of the war.

Distribution

Sales at department stores in March and the first three weeks of April showed their usual seasonal change from the February level. Seasonally adjusted sales at automotive and other durable goods outlets, which had increased in February, returned to the January level in March; sales at other stores also generally declined. Value of stocks held by department stores continued to show a less-than-seasonal rise and at the end of March was estimated to be 15 per cent below a year ago.



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



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

Commodity Prices

Prices of basic commodities declined further from mid-March to the fourth week of April. Hides, wool, and some other commodities reached the lowest levels in several years. Prices of cattle, cotton, and most scrap metals remained close to earlier peaks, and action was taken to permit increases of 2.6 per cent in Federal price ceilings for steel mill products. Wholesale prices of finished industrial goods—mainly for sale to consumer markets—were reduced in this period.

The consumers' price index, which had declined 0.6 per cent in February, changed little in March. Decreases in retail prices of textile products, appliances, and television sets were offset by advances in rents and miscellaneous services.

Bank Credit and the Money Supply

Bank loans and investments declined substantially in late March and early April, reflecting largely reductions in holdings of Government securities and in outstanding business loans. Seasonal repayments by commodity dealers and food, liquor, and tobacco processors continued. Outstanding loans of metal, petroleum, and chemical manufacturers were relatively stable following an earlier sharp rise.

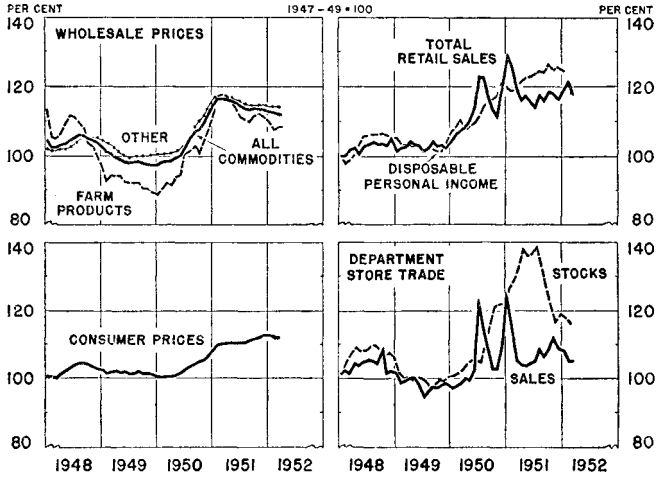
Interest rates charged by commercial banks on short-term business loans averaged 3.45 per cent in the first half of March, compared with 3.27 per cent in the first half of December. This rise reflected mainly an increase in lending rates to prime business borrowers announced in the latter part of December.

The total money supply declined in late March and early April, largely as a result of the reduction in bank credit. During this period, there were further transfers of funds from private to government accounts through Federal income tax payments. Turnover of demand deposits at banks in leading cities outside New York showed little further change in March.

Security Markets

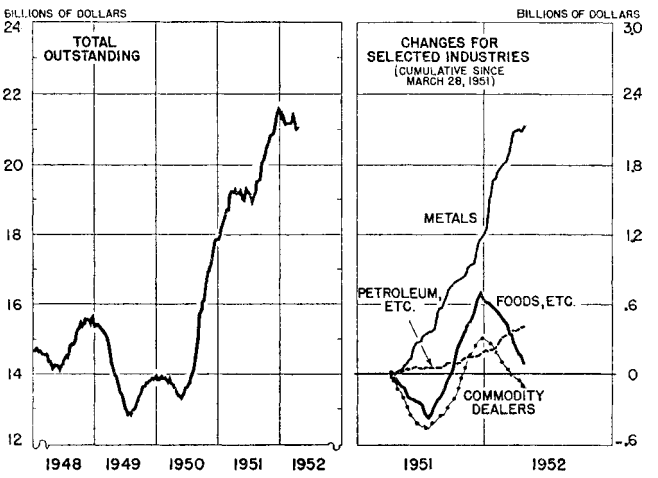
Yields on intermediate and long-term Treasury issues declined sharply during the first three weeks of April. Yields on high-grade corporate bonds decreased moderately and common stock prices receded to the level of early March. Treasury bill yields rose somewhat from the very low levels reached at the end of March. During April the Treasury raised 600 million dollars of new money through increases in Treasury bill offerings.

PRICES AND TRADE



Seasonally adjusted series except for prices. Wholesale prices, Bureau of Labor Statistics indexes. Consumer prices, total retail sales, and disposable personal income, Federal Reserve indexes based on Bureau of Labor Statistics and Department of Commerce data. Department store trade, Federal Reserve indexes.

BUSINESS LOANS AT MEMBER BANKS IN LEADING CITIES



Data for selected industries reported by over 200 of the largest weekly reporting member banks. "Metals" includes metal products, machinery, and transportation equipment. "Petroleum, etc." includes coal, chemicals, and rubber products. "Foods, etc." includes liquor and tobacco. Wednesday figures; latest shown are for April 16.