

# MONTHLY REVIEW

## *Of Credit and Business Conditions*

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### MONEY MARKET IN MAY

Money market conditions continued tight through the greater part of May, easing only slightly as a result of the usual midmonth expansion of float and net Treasury disbursements for a brief period in the latter half of the month. By the close of the fourth statement week, and for the remainder of the month, the market was once again extremely tight. Reflecting a continuing demand for reserves and the limited volume of funds available, rates in the market for Federal funds remained close to the rediscount rate throughout the month, and member banks made extensive use of Reserve Bank discount facilities in adjusting their reserve positions.

Fluctuations in float and in the level of Treasury balances with the Federal Reserve Banks constituted the most important week-to-week influences on member bank reserves. Gains and losses from these two factors tended to balance out over the month as a whole. Primarily because of a large increase in currency in circulation over the Memorial Day week end, member bank borrowings at the close of the month were nearly double the amount of excess reserves. Changes in the other factors influencing member bank reserve balances were minor. For the first time since last June, changes in the domestic gold stock and in foreign balances held with the Federal Reserve System were responsible for a net loss of funds to the banking system. Moderate sales of certificates of indebtedness from System Account during the month had a marginal influence on the prevailing tightness in the money market.

Two developments—the Treasury's financing announcement on the last day of April and the eligibility for bank ownership of the 2½ per cent bonds of June 1962-67 which became effective on May 5—shaped the course of the intermediate and longer-term Government security market in May. Treasury books were open on the cash and exchange offering of 2¾ per cent bonds from May 19 through May 29, the last trading day in the month. Prices of all the restricted issues were bid up sharply during early trading on May 1, to the highest level attained since March 1951, but dropped quickly to net gains for the day of roughly ¼ of a point. In the last half of May

these issues sold off, and most of them closed the month somewhat below their end-of-April levels. Relatively small price changes were recorded in the bank-eligible intermediate maturities until the general price decline in the last half of the month. The market for the shorter maturities was remarkably firm, prices and yields remaining fairly steady despite the tight money market and despite Treasury borrowing of 800 million dollars through 200 million dollar additions to four of the five regular bill issues during the month. The Treasury has announced that it will accept bids for an additional 200 million dollars in excess of maturities on the bill issue to be dated June 5, bringing to 1.6 billion dollars the total new Treasury borrowing in this form since the beginning of April.

### MEMBER BANK RESERVES

The accompanying table illustrates the continued tightness that characterized member bank reserve positions during May. In the absence of any substantial volume of free reserves to serve as a cushion, each major gain or loss of reserve funds was reflected in an offsetting variation in member banks' indebtedness to the Federal Reserve Banks. On several days during the month, borrowing from the System exceeded total excess reserves held by member banks, and this condition existed in the average daily figures for the full statement weeks ended May 7, when the Treasury was adding to its balances

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with the Federal Reserve, and May 28, when all factors combined to lower reserves. Treasury expenditures in excess of funds derived from cash receipts and from calls on Tax and Loan Accounts with commercial banks, along with a modest expansion of float, enabled member banks to reduce their indebtedness in the second and third statement weeks. But no permanent accretions to reserves from other sources were available, so that when float contracted and the Treasury rebuilt its Federal Reserve deposits in the final statement week, excess reserve balances were again drawn down well below what have come to be considered normal levels.

The prevailing money tightness was reflected in the reserve positions of New York City banks. Week by week, there were no unusually large movements of funds into or out of New York, and the net effects of Treasury operations tended to balance out. Therefore, there were only brief, intermittent periods of relief from the reserve stringency that had carried over from April, and it was necessary for the City banks to borrow heavily on each statement date in order to average out earlier reserve deficiencies.

Other factors influencing member bank reserve balances in New York City and for the country as a whole were largely in balance until the close of the month, when the volume of currency in circulation increased sharply over the Memorial Day week end, but the banks may regain these funds as money returns early in June. Federal Reserve System open market operations were a minor drain on bank funds, and an increase in required reserves further reduced excess reserve balances. An important factor related to the continuing reserve tightness during April and May has been the virtual disappearance of the flow of funds into this country from abroad which had provided an average of 215 million dollars monthly to domestic bank reserves between July 1951 and March 1952. During the month of April this inflow totaled only 33 million dollars, and, despite the fact that foreign balances with the Federal Reserve were returned to the market through security investment, there was a moderate net drain on domestic funds in May. It appears unlikely, barring unforeseen developments, that any net inflow of funds will in the near future reach levels at all near those of the latter part of 1951.

#### TREASURY FINANCING AND THE GOVERNMENT SECURITY MARKET

The strong market for intermediate to longer-term Government securities that had originally developed early in March was extended in trading through the first half of May, although quotations generally remained substantially below the temporary peak reached on May 1. During this two-month period, price increases averaging  $2\frac{3}{4}$  points were recorded for restricted bonds of longer maturity, and price advances ranging from 1 to  $3\frac{1}{4}$  points were made over the entire list of taxable intermediate and long maturities, both bank eligible and restricted, with the largest increase recorded for the  $2\frac{1}{2}$ 's

Weekly Changes in Factors Tending to Increase or Decrease  
Member Bank Reserves, May 1952  
(In millions of dollars; (+) denotes increase,  
(-) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended May 28
	May 7	May 14	May 21	May 28	
<i>Operating transactions</i>					
Treasury operations*	-301	+226	+146	-179	-108
Federal Reserve float	+102	+83	+235	-360	+60
Currency in circulation	-63	+26	+14	-227	-250
Gold and foreign account	+21	-42	-32	-27	-80
Other deposits, etc.	+3	+10	+16	+25	+54
Total	-239	+305	+378	-767	-323
<i>Direct Federal Reserve credit transactions</i>					
Government securities	-34	-14	-32	-10	-90
Discounts and advances	+367	-372	-172	+317	+140
Total	+333	-386	-204	+307	+50
Total reserves	+94	-81	+174	-460	-273
Effect of change in required reserves	+80	-	-98	-42	-84
Excess reserves	+174	-105	+76	-502	-357

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

\* Includes changes in Treasury currency and cash.

of June 1962-67. This advance carried Government bond prices to the highest average level reached since March 1951. In the last half of May, however, prices were marked down by varying amounts on a shift in market outlook, and despite a rise in some prices on the last day of trading, small net declines were recorded on most issues for the month as a whole. Possibly as a result of the large current and expected volume of State and municipal financing, the partially tax-exempt issues steadily declined in price throughout the month.

The most significant developments in the market for restricted bonds during May were associated with the Treasury's announcement on April 30 that for a limited period following May 19 Treasury books would be open for subscription to the  $2\frac{3}{4}$  per cent convertible nonmarketable bonds of 1975-80.<sup>1</sup> On the first day of trading following the announcement, prices of restricted bonds were marked up as much as  $1\frac{3}{32}$ . However, the early advances were soon substantially reduced when buying failed to materialize and some selling developed in the market. From that point prices were relatively steady moving irregularly higher largely under professional influences until they eased in the latter part of the month.

During the same period, the market for longer-term bank-eligible bonds was influenced by trading in the  $2\frac{1}{2}$  per cent issue of June 1962-67, which became eligible for bank purchase on May 5. Commercial banks, seeking to lengthen their portfolio maturities, were active bidders for this issue early in May and again in the closing week of the month after prices declined. Bonds of this issue were supplied to the market mainly by scattered nonbank investors that were switching into long-term ineligible issues, including the issues callable in 1963 and 1964, which were supplied, in turn, by limited insurance company selling. It is uncertain what proportion of the volume of switching was for purposes of exchanging the ineligible bonds for the nonmarketable  $2\frac{3}{4}$  per cent issue and

<sup>1</sup> For further details on this offering, see the *Monthly Review* for May 1952.

what proportion was simply for profit-taking at the favorable prices quoted on the newly eligible bonds.

Several of the factors that had been important in extending the bond price advance weakened after the middle of the month, and the price trend turned downward. As a result of the sharp run-up in prices on the 2½'s of 1962-67 and other longer-term bank-eligible bonds earlier in May, some of the buying interest on the part of commercial banks evaporated and demand became inadequate to maintain existing prices. Another factor influencing this development was the weakening of the deflationary psychology that had been of some importance in the previous price advance. In view of expectations for a future expansion in loan demand, attributable both to seasonal factors and the suspension of Regulation W on May 7, and also apparently because of the prospect of large-scale Treasury financing over the balance of the year, some commercial bank investors became less interested in seeking investment in outstanding Government bonds. Prices of long-term ineligible bonds appear to have been influenced by the large amount of current and prospective financing by corporations and others. Another factor influencing the easier tone in the ineligible sector of the market was some light selling that developed against the background of a thin market during the period when the Treasury books were open, apparently by investors seeking to raise cash to meet the cash requirements for exchange into the nonmarketable bond.

Yields on shorter-maturity Government securities were fairly stable over the greater part of May at levels close to those prevailing at the end of April. Bills maturing near the June 15 tax date bore somewhat lower-yield quotations, and the July 1 certificate of indebtedness moved to a lower yield level on a "rights" basis as market comment continued on the possibility that an intermediate security might be offered in exchange for the certificate. But the market as a whole was fairly stable, in view of the tight money market in this period and the additional 200 million dollars raised by the Treasury in each of four of the regular bill issues, dated May 1, 15, 22, and 29. These issues were awarded at average yields ranging from 1.691 per cent for the issue dated May 1 to 1.728 per cent in the case of the issue dated May 29.

The Treasury announced in May that it would not exercise

its option to call the 2 per cent bonds of 1951-53 for payment on September 15. It also announced that until further notice 100 per cent of the tax checks eligible for deposit in "X" balances would be so deposited during June tax collections. Another announcement, of some possible importance for future tax periods but of no direct relevance to the impending June 15 date, was an amendment to Treasury operating procedures providing that the Secretary of the Treasury, when inviting tenders for Treasury bills, may provide that bills of any series will be acceptable at maturity value, whether at or before maturity, in payment of income and profits taxes.

#### MEMBER BANK CREDIT

Business loans of weekly reporting member banks continued to decline in May, being reduced by 160 million dollars in the three weeks ended May 21. The cumulative decline in this form of bank credit since December 26 of last year through May 21 amounted to 956 million dollars. As in previous months this year, the business loan contraction in May occurred in the categories of borrowers least directly affected by the defense program, while borrowing by industries more closely connected to defense production tended to increase very moderately. The pattern at New York City banks followed that for the country as a whole, with total business loans for the 19 weekly reporting member banks declining by 104 million dollars in the four weeks through May 28.

In other categories of member bank credit, real estate loans and "all other" loans (primarily consumer) underwent a modest seasonal expansion during May, partially offsetting the decline in business loans. Credit outstanding to brokers and dealers on Government securities averaged substantially higher over the last week in April and the first two weeks in May than it has for any similar period since December 1950, and loans to brokers and dealers on other securities remained through the month at the relatively high levels reached in April. The expansion in security loans, in the case of the Government securities, resulted primarily from the extension of dealer positions in short-term issues. The expanded volume of bank credit on other securities in the last two months is a reflection of the heavy schedule of corporate financing this spring.

### THE FUNCTIONS OF RESERVE REQUIREMENTS

Traditionally, the primary function of bank reserve requirements was considered to be that of assuring adequate liquidity in the banking system. Before the establishment of the Federal Reserve System, reserves in the form of cash in a bank's vaults, or (except in the case of central reserve city banks) in the form of deposit balances maintained with a reserve city or central reserve city correspondent, were viewed as the principal means of enabling the bank to meet its customers' demands for currency and to pay checks drawn by its depositors. That this function is still uppermost in the minds of many bankers was indicated by their answers to one of the questions put to them

by the Patman Subcommittee in its recent inquiry: "What do you consider to be the principal functions of bank reserve requirements?"

Nevertheless, there has been growing awareness of, and emphasis on, the function performed by required reserves in limiting a growth of bank credit and deposits and providing a basis for regulation of the credit and money supply. This is by no means a new function, however. Even before the establishment of the Federal Reserve System and the development of conscious efforts to regulate the availability and cost of credit as one means of promoting economic stability, there

was implicit among the functions of required reserves that of exercising some control over the volume of credit and deposits. Difficulty experienced by a bank in maintaining its reserves at the required level has long been considered indicative of an overextended position, calling for corrective measures. If a bank's reserves fell below the required level more than very temporarily, it was not in a position to make further loans and to assume the additional deposit liabilities resulting from the loans; rather it would have to dispose of some of its secondary reserves in the form of "open market" loans or investments, and might even feel obliged to call upon customers to repay some of their loans.

In fact, it was the harshness of the restrictive effects of reserve requirements and of the inflexible currency supply of the country that was in large measure responsible for the creation in the United States of a central banking system. The Federal Reserve System was designed to "mobilize" the reserves of the banking system and to provide a flexible currency supply and a source of additional reserves in case of need, and thus to create greater responsiveness in the monetary and credit system to the needs of the country. Some discretionary control was originally implied in the provisions of the Federal Reserve Act governing Reserve Bank discount rates, but a conscious policy of using reserve requirements as the fulcrum for measures designed to regulate the volume of money and credit with a view to promoting economic stability was a gradual development.

#### THE LIQUIDITY OF REQUIRED RESERVES

Unquestionably a bank's reserves do provide liquid assets with which withdrawals of deposits can readily be met, but it has long been recognized as questionable whether the liquidity of *required* reserves was not to a considerable degree illusory. The fact that specified amounts of reserves are required to be maintained means that any sustained decline below statutory levels necessitates prompt action to replenish them. For example, when a bank sustains a withdrawal of 100,000 dollars of its demand deposits, it also loses 100,000 dollars of reserves in the process of meeting an adverse clearing balance. Yet, if the bank initially has no reserves in excess of requirements and if the required percentage against its demand deposits is 20 per cent, only 20,000 dollars of reserves can actually be released to meet this adverse balance; the remainder is needed to cover the remaining deposit liabilities. To be sure, the bank might temporarily meet the rest of the adverse balance by drawing on its required reserves, thus incurring a reserve deficiency of 80,000 dollars, but it would then need to replace this loss of required reserves by liquidating some of its earning assets or by borrowing. The real liquidity cushion protecting bank depositors and stockholders, therefore, consists not so much in its required reserves, which must be maintained at

statutory levels, as in its excess reserves, in its vault cash, in its secondary reserves of liquid assets which can be converted immediately or on short notice into cash without significant loss, and in the credit-granting power of the central bank. Prior to the 1930's, secondary reserves of banks in this country consisted largely of "call" loans to security brokers and dealers, open market commercial paper and bankers' acceptances, and, to a limited extent, short-term securities; now they consist largely of short-term Government obligations.

The limited liquidity of the individual bank's basic reserves is characteristic not only of this country and other countries whose banks are required by law to maintain specified percentages of reserves against their deposits, but also of countries where banks are, in effect, required by tradition or custom to maintain a certain proportion of cash assets against their deposit liabilities. In such cases, it is only the excess of cash assets over the customary or traditional proportion that is truly liquid.

#### CHANGES IN RESERVE REQUIREMENTS AS AN INSTRUMENT OF CREDIT CONTROL

Most bankers are aware of the fact that reserve requirements do constitute an instrument of monetary management. However, in recent years attention has tended to be focused on what is coming to be considered in most circumstances as a secondary aspect of the credit control function of reserve requirements—the fact that *changes* in reserve requirements, which reduce or increase the actual or potential volume of earning assets of the banks, correspondingly affect the volume of bank credit and the money supply in the form of deposits. Unless a bank has sufficient excess reserves to meet an increase in its reserve requirements, it must liquidate some of its loans or investments or borrow the required reserves—and borrowing tends to have a restrictive effect on credit extensions, since the borrowed funds have to be repaid sooner or later. Conversely, when a bank's reserve requirements are reduced, it is in a position to expand its loans or investments.

The power to change the level of reserve requirements was first given to the Board of Governors of the Federal Reserve System under the "Thomas Amendment" to the Agricultural Adjustment Act of 1933, and was subsequently strengthened and clarified by the Banking Act of 1935. During the thirties, when the excess reserves of member banks reached extremely high levels, mainly as a result of the heavy inflow of gold from abroad, and the Reserve Bank discount rate and other regulatory instruments threatened to become completely incapable of curbing any potentially inflationary monetary expansion, the power to vary reserve requirements of member banks provided the Federal Reserve System with a supplementary device for carrying out its responsibilities. Subsequently, however, several developments have limited the usefulness of changes in reserve

requirements as a regulatory device. Before the United States entered World War II, the further inflow of gold and the resulting growth in member bank reserves had been so large that member bank reserves were far beyond the reach of the Federal Reserve System with any of the instruments at its command. During the war, the huge volume of excess reserves largely disappeared as a result of the great expansion of currency and bank credit in use. But the rapid growth in the public debt and the development of a pattern of interest rates on Government obligations, which the Federal Reserve System was called upon to maintain not only during the war but for several years afterward (with some limited modifications), enabled the banks to obtain additional reserves readily and at low cost. Not only did the Board of Governors have very limited scope for action within its statutory authority, but the greatly expanded member bank holdings of Government securities made it easy for the banks to meet changes in their required reserves through changes in their holdings of Government securities as long as the Federal Reserve System supported the market for Government securities at relatively fixed prices.

The abandonment of Federal Reserve support of Government security prices early in 1951 has, to some extent, restored the potential effectiveness of changes in reserve requirements as an instrument of credit policy. Banks can no longer count on a ready market at virtually unchanged prices for the Government securities they might wish to sell in the event of an increase in their required reserves. Since current reserve requirements are at or close to the statutory maxima, however, there is little scope for further action in this direction. Furthermore, there has been growing acceptance of the view that the use of changes in reserve requirements is appropriate mainly in response to fundamental changes in the reserve position of the banking system or in Federal Reserve policy, and not as a substitute for open market operations in Government securities and other more flexible forms of action designed to provide gradual or temporary restraint or ease in monetary and credit conditions.

#### BASIS FOR OTHER CREDIT CONTROLS

The preoccupation by the banking community with *changes* in reserve requirements in recent years has tended to obscure the primary function of reserve requirements in the regulation of bank credit and the money supply. This dominant function is to provide a fulcrum on which a flexible monetary policy can get "leverage" and effectiveness. Since a specific volume of reserves must be held by member banks against their deposit liabilities, the Federal Reserve System by selling Government securities can absorb the excess or marginal reserves held by the banks which are available as the basis for credit expansion, or can force member banks to borrow to maintain their required reserves, and thus influence their ability and willingness to ex-

tend additional credit. Similarly, by buying Government securities the System can provide the banks with funds with which to repay their indebtedness or to accumulate free reserves, on the basis of which to make additional loans or investments.

With required reserves as the basis for policy action, open market operations constitute an effective instrument of monetary control, not only because they directly affect the level of member bank reserves, but also because they make Reserve Bank discount rates more effective. That is, System sales of Government securities, by absorbing bank reserves, place the banks in a position to rely on borrowing from the Federal Reserve Banks when temporary reserve needs arise; System purchases of Government securities may provide banks with the reserve funds needed to pay off their borrowings. Even without the reinforcement given by open market operations, there is reason to believe that changes in discount rates have some psychological effects, both on lenders and on actual or potential borrowers, as an indication of the System's appraisal of the current economic situation and prospect, even though member banks are borrowing very little from the Reserve Banks. But increases in discount rates have much greater effects if member banks are dependent to a substantial extent upon borrowings from the Reserve Banks to maintain their reserves at the required levels; and reductions in discount rates are more effective in easing the credit situation if they are accompanied by open market action to enable the banks to repay their indebtedness.

Even where the levels of "required" reserves are determined by custom or tradition, as they are in some other countries, rather than by statute and regulation, as they are in the United States, they still serve this function of providing a basis for effective action in the field of monetary management. But in this country with its thousands of banks, and without the traditions that have developed in some countries of amenability to suggestions from the central banks concerning credit policies, the system of legal reserve requirements enables the central banking system to exercise its regulatory functions with a much greater degree of effectiveness and precision.

It may be concluded that, while required reserves do provide the banking system with a measure of liquidity and also provide depositors with some protection in the event of a bank's liquidation, the degree of liquidity of *required* reserves in active banks is to a considerable degree illusory, and that the function of reserve requirements which is of predominant importance is that of providing a firm basis for central bank action to influence the volume of credit and the money supply. The implications of this principal function of bank reserves also lead to questions concerning the sources from which bank reserves have been derived, over the years, and the resulting effects upon the earnings both of commercial banks and of the Federal Reserve Banks. These aspects of reserve requirements will be discussed in a later issue of this *Review*.

## LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS

The table of Selected Economic Indicators published each month by this bank includes figures for total loans and for total investments of all commercial banks. Taken together, commercial bank loans and investments measure the volume of bank credit outstanding and constitute the principal elements upon which the money supply is based. Taken separately, loans and investments provide a clue to economically significant shifts in the base of the money supply.

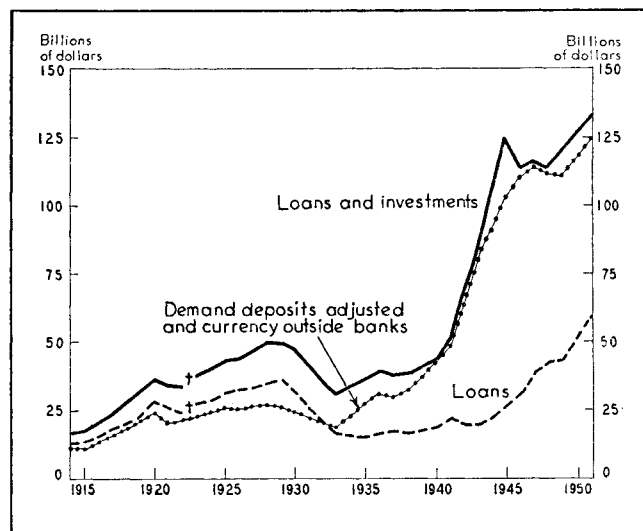
Prolonged swings toward either loans or investments occur generally when there is a relative change in the needs of either the public or the private sectors of the economy for funds. Over shorter periods of time, on the other hand, shifts between loans and investments tend to prevent erratic fluctuations in the money supply. Loans, inasmuch as they reflect the needs of individuals and business for credit, are sensitive to temporary or seasonal changes in private economic activity. The debt instruments of the Government, on the other hand, are somewhat less variable in amount, and the banking system has been able in recent decades to substitute public debt for private debt whenever the demand for loans subsided.

The seasonal working-capital needs of business and agricultural enterprises are an important cause of short-term changes in the level of loans. Seasonal loan fluctuations tend to follow the same pattern from year to year. In general, the demand for loans drops seasonally during the first half of the calendar year and levels out during the summer. Toward the end of the summer the demand for loans again builds up and continues at an accelerated pace until around Christmas time.

The shifts of longer duration, or trend movements, generally occur as changes in economic conditions alter the demands for funds. The extension of credit by the banking system, whether through an increase in loans or in investments, ordinarily facilitates production and trade and is vital to the functions of a vigorous and expanding economy. Ideally, any increase in deposit money should be closely correlated with an increase in production (if velocity, or the rate of turnover of deposits, remains unchanged) in order to keep the purchasing power of money relatively stable.

Under some conditions, however, increases in loans or investments may not reflect an increase in production and may, therefore, result in a higher price level. For example, consumer loans tend to accentuate the pace at which goods are withdrawn from consumers' markets; an expansion in such loans may push the price level up if there is a shortage of goods available to consumers. Loans to finance business inventories may also under certain circumstances exert an inflationary pressure. Business enterprises generally build up inventories of raw materials to be processed or of goods to be marketed. These inventories, within a relatively short period of time, normally flow into consumers' markets and increase the supply of goods. In times of shortages and sharply rising prices, however, bank loans may be used to build up excessive inventories in anticipation of

Loans and Investments of All Commercial Banks and Demand Deposits Adjusted and Currency Outside Banks, 1914-51  
(December 31 figures)



† December 31 figures for loans and investments are not available prior to 1923; the figures plotted for 1914-22 are June 30 figures.

even higher prices. When loans are used for this purpose, the relation between goods and money may be seriously disturbed. Whenever a significant part of an increase in loans is used to absorb or to withhold goods from the market, the result is likely to be inflationary.

Because a breakdown of loans by type of activity financed helps to identify the activity where credit is being used, a classification of loans by type is reported currently by the weekly reporting member banks in 94 cities and from time to time by all member banks and other insured banks in their call reports. The breakdown permits a segregation of real estate loans, commercial, industrial, and agricultural loans, security loans, and other (mostly consumer) loans. A weekly subdivision of the changes in commercial loans by type of borrower has been available since April 1951 in a Board of Governors release, "Changes in Commercial and Industrial Loans, by Industry". The series is useful in interpreting changes in the level of loans.

Actual figures for loans and investments of all commercial banks are currently available only for June 30 and December 31, the dates on which all Federal regulatory agencies customarily require statements of condition from the institutions under their jurisdictions. Although "calls" for such statements are often issued on other dates, the selection of such dates has not followed a uniform or consistent pattern. To derive the figures for the last Wednesday of each month which are used in the table of Selected Economic Indicators, the Board of Governors of the Federal Reserve System bases its estimates upon data received from all member banks. These member bank figures are reported to the Board each month by the twelve Reserve Banks, in the form of a consolidated balance sheet for

each of the three classifications of member institutions: central reserve city, reserve city, and country banks. The preliminary estimates for nonmember State banks, which the Board prepares in order to obtain the estimate of total loans and investments for all commercial banks, are based on the country member bank figures. Adjustments in these estimates are made when the actual data as reported on June 30 and December 31 become available. Since the processing of this series is rather complex, the estimated figures for the last Wednesday in each month become available after about a one-month lag. The compilation of actual figures for June 30 and December 31 is completed about four months after the semiannual call dates, and at this time final monthly estimates are also published on the basis of any revisions necessitated for the intervening months because of the semiannual call-date data.

Figures for loans and investments for all commercial banks have been compiled on a yearly basis with June 30 figures since 1914, and on a semiannual basis with both June and December figures since 1923. Monthly data have been estimated and published by the Board of Governors since June 1947. The

annual and semiannual figures from 1914 through 1941 may be found in *Banking and Monetary Statistics* published by the Board of Governors of the Federal Reserve System, while subsequent data are printed in the *Federal Reserve Bulletin*.

Over the past forty years, as the chart indicates, bank loans and investments and the money supply have grown enormously. During that same span of time, earning assets of the banks have come to be lodged more largely in investments. By far the strongest move in this direction occurred during the thirties and the Second World War when Federal Government deficit financing assumed gigantic proportions. Since World War II, on the other hand, loans have gained on investments, but investments still exceed loans.

The ability of the banking system to supply credit at the pace required by public and private users is dependent upon an expansion of member bank reserve balances either through the extension of credit by the Federal Reserve System or gold inflows. As indicated in the discussion of the function of bank reserve requirements above, bank reserve balances at any one time set the limits to the expansion of credit.

SELECTED ECONOMIC INDICATORS  
United States and Second Federal Reserve District

Item	Unit	1952			1951	Percentage change	
		April	March	February	April	Latest month from previous month	Latest month from year earlier
<b>UNITED STATES</b>							
<i>Production and trade</i>							
Industrial production*	1935-39 = 100	216 <sub>p</sub>	220	222	223	- 2	- 3
Electric power output**†	1947-49 = 100	141	143	141	133	- 2	+ 6
Ton-miles of railway freight*†	1947-49 = 100	—	107 <sub>p</sub>	108	117	- 1	- 2
Manufacturers' sales*	billions of \$	23.0 <sub>p</sub>	21.9	23.3	22.5	+ 5	+ 2
Manufacturers' inventories*	billions of \$	42.5 <sub>p</sub>	42.3	42.2	36.9	#	+15
Manufacturers' new orders, total	billions of \$	22.8 <sub>p</sub>	23.1	22.2	23.8	- 1	- 4
Manufacturers' new orders, durable goods	billions of \$	11.7 <sub>p</sub>	11.7	11.0	13.0	#	-10
Retail sales*	billions of \$	12.6 <sub>p</sub>	12.4	12.9	12.3	+ 2	+ 3
Residential construction contracts**†	1947-49 = 100	—	174 <sub>p</sub>	163	170	+ 7	- 1
Nonresidential construction contracts**†	1947-49 = 100	—	157 <sub>p</sub>	152	219	+ 3	+ 2
<i>Prices, wages, and employment</i>							
Basic commodity prices†	Aug. 1939 = 100	295.8	303.9	313.9	373.9	- 3	-21
Wholesale prices†	1947-49 = 100	111.9 <sub>p</sub>	112.3	112.5	116.3	#	- 4
Consumers' prices†	1935-39 = 100	188.7	188.0	187.9	184.6	#	+ 2
Personal income* (annual rate)	billions of \$	—	257.8 <sub>p</sub>	258.3	249.0	#	+ 5
Composite index of wages and salaries*	1939 = 100	—	233 <sub>p</sub>	232	222	#	+ 5
Nonagricultural employment*	thousands	46,499 <sub>p</sub>	46,516	46,586 <sub>r</sub>	46,411 <sub>r</sub>	#	#
Manufacturing employment*	thousands	15,886 <sub>p</sub>	15,861	15,867 <sub>r</sub>	16,102 <sub>r</sub>	#	- 1
Average hours worked per week, manufacturing†	hours	40.0 <sub>p</sub>	40.6	40.7 <sub>r</sub>	41.0	- 1	- 2
Unemployment†	thousands	1,612	1,804	2,086	1,744	-11	- 8
<i>Banking and finance</i>							
Total investments of all commercial banks	millions of \$	74,120 <sub>p</sub>	74,690	74,650	71,040	- 1	+ 4
Total loans of all commercial banks	millions of \$	58,220 <sub>p</sub>	57,840	57,590	54,350	+ 1	+ 7
Total demand deposits adjusted	millions of \$	95,120 <sub>p</sub>	94,780	95,710	89,500	#	+ 6
Currency outside the Treasury and Federal Reserve Banks**##	billions of \$	28,689	28,637	28,549	27,398	#	+ 5
Bank debits* (U. S. outside New York City)	billions of \$	89.6	85.9	93.1	85.4	+ 4	+ 5
Velocity of demand deposits*† (U. S. outside New York City)	1947-49 = 100	114.5	116.1	115.1	121.0	- 1	- 5
Consumer installment credit outstanding†	millions of \$	13,302 <sub>p</sub>	13,155	13,183 <sub>r</sub>	12,904 <sub>r</sub>	+ 1	+ 3
<i>United States Government finance (other than borrowing)</i>							
Cash income	millions of \$	4,689 <sub>p</sub>	10,436	6,275	2,960	-55	+58
Cash outgo	millions of \$	5,974 <sub>p</sub>	6,120	5,328	4,144	- 2	+44
National defense expenditures	millions of \$	4,227	3,905	3,556	2,396 <sub>r</sub>	+ 8	+76
<b>SECOND FEDERAL RESERVE DISTRICT</b>							
Electric power output**† (New York and New Jersey)	1947-49 = 100	127	130	126	121	- 3	+ 4
Residential construction contracts*†	1947-49 = 100	—	185 <sub>p</sub>	159	184	+16	- 2
Nonresidential construction contracts*†	1947-49 = 100	—	209 <sub>p</sub>	157	154	+27	+30
Consumers' prices† (New York City)	1935-39 = 100	183.5	182.4	183.0	180.6	+ 1	+ 2
Nonagricultural employment*	thousands	—	7,432.6 <sub>p</sub>	7,434.8	7,391.2 <sub>r</sub>	#	#
Manufacturing employment*	thousands	2,683.5 <sub>p</sub>	2,684.5	2,674.7 <sub>r</sub>	2,684.5 <sub>r</sub>	#	#
Bank debits* (New York City)	billions of \$	53.1	46.9	50.4	46.4	+13	+14
Bank debits* (Second District excluding N. Y. C. and Albany)	billions of \$	4.0	3.8	4.2	3.7	+ 4	+ 7
Velocity of demand deposits*† (New York City)	1947-49 = 100	132.5	125.7	123.8	125.3	+ 5	+ 6

Note: Latest data available as of noon, June 2.

<sub>p</sub> Preliminary.

<sub>r</sub> Revised.

# Change of less than 0.5 per cent.

\* Adjusted for seasonal variation.

† Index changed to 1947-49 average = 100.

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

## The seasonal adjustment factors for this series have been revised.

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

## THE BEHAVIOR OF PRICES

The opening months of 1952 have been characterized by generally declining prices at all levels from primary markets to retail stores. Yet a substantial proportion of commodities are still selling at peak prices, and some important forces continue to work in the direction of sustaining or increasing the general price level. Declines have been most marked among the basic commodities; prices of a selected group of basic commodities, as reported by the U. S. Bureau of Labor Statistics, dropped about 10 per cent during the first four months of 1952 and in April were approximately one-fourth below their February 1951 peak. The comprehensive index of wholesale prices, which had remained virtually unchanged during the last five months of 1951, eased gradually but steadily between December 1951 and April 1952 to a point 4 per cent below the record set in February and March of 1951. The first quarter of 1952 also marked the first material interruption in the upward movement of the consumers' price index in nearly two years. During May, however, there has been a marked firming of basic commodity prices, and wholesale prices once again appear to have leveled off. In the months ahead, the basic strength or weakness of commodity prices will depend not only on the more usual forces influencing supply and demand, but also on such factors as the outcome of industrial wage negotiations, the possibility of a shift in consumer attitudes, the fate of price, wage, and materials controls now before Congress, and, of course, developments on the international scene.

### THE GRADUAL DECLINE OF WHOLESALE PRICES

Wholesale prices, like many other economic indicators during the past year, have followed a relatively stable course with a gradual downward tendency as the result not so much of general stability as of the balancing out of opposing tendencies. In general, since the start of this year, continued strength in durable goods prices has been more than offset by the pronounced weakness in prices of nondurable goods. Even within those major groups, however, there have been marked divergencies in price trends.

As the table shows, most of the predominantly nondurable goods categories (including foods, farm products, textiles, fuels, chemicals, leather, paper, and rubber) showed larger-than-average price declines during the first four months of this year. On the other hand, most durable goods groups (including metals, machinery, furniture, and building materials) showed little over-all change in prices during the same period. Similarly, a comparison of the latest indexes with the peak prices reached since the start of the Korean war indicates that declines in the nondurable goods groups have generally been much more pronounced (ranging downward by as much as 26 per cent) than those in the durable goods groups (only one of which, lumber and wood products, is as much as 5 per cent below its peak). However, the nondurable goods

groups also registered the sharpest increases during the period following the outbreak of hostilities in Korea. Thus, the sharp declines in some of these categories during the past year probably represent in part the readjustment of prices from speculatively high levels. In the durable goods groups, the rise from the pre-Korea level to the subsequent peak was in all cases less than the general average for all wholesale prices, and the declines which followed likewise tended to be milder.

### DIVERGENT MOVEMENTS OF DURABLE GOODS PRICES

The continued strength of durable goods prices stems from the extensive use of metals in the manufacture of goods for the defense program and for the record volume of business capital investment. Until very recently, the heavy demand for most types of metals kept prices at ceiling levels. In fact, for the three major metals—steel, copper, and aluminum—an increase in prices seems likely in the near future. The steel mills have been authorized to apply for an increase of approximately three dollars per ton under the Capehart amendment to the Defense Production Act covering increases in basic costs through July 26, 1951. With the exception of a few very small firms, the mills have not yet put this increase into effect, pending the outcome of wage negotiations with the United Steelworkers. The steel industry has been opposing settlement based on the full Wage Stabilization Board recommendations unless it receives an additional price increase to cover higher costs. The United Steelworkers are also negotiating with the aluminum industry for wage increases which, according to industry spokesmen, are likely to push aluminum prices up one or two cents from the current price of 19 cents per pound. The price of imported copper is likely to rise under new regulations permitting

Wholesale Prices in Primary Markets

Group	April 1952 index (1947-49 = 100)	Per cent change		
		April 1952 from December 1951	April 1952 from 1950-52 peak	1950-52 peak from June 1950
<i>All commodities</i> .....	111.9	- 1	- 4	+16
Farm products.....	108.7	- 2	- 8	+24
Processed foods.....	108.0	- 2	- 4	+17
All commodities other than farm products and foods.....	113.4	- 1	- 3	+15
Hides, skins, and leather products.....	94.3	-10	-26	+29
Textile products and apparel.....	99.9	- 4	-14	+24
Rubber and products.....	140.7	- 4	- 9	+41
Chemicals and allied products.....	104.8	- 3	- 7	+22
Fuel, power, and lighting materials.....	106.3	- 1	- 1	+ 5
Pulp, paper, and allied products.....	117.4	- 1	- 2	+25
Furniture and other household durables.....	112.0	- 1	- 3	+12
Miscellaneous.....	109.5	#	- 2	+15
Metals and metal products.....	122.5	0	- 1	+14
Nonmetallic minerals—structural.....	112.8	0	- 1	+ 8
Lumber and wood products.....	120.7	#	- 5	+13
Machinery and motive products.....	121.8	+ 1	#	+15
Tobacco manufactures and bottled beverages.....	110.8	+ 2	0	+ 9

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

Source: U. S. Bureau of Labor Statistics.

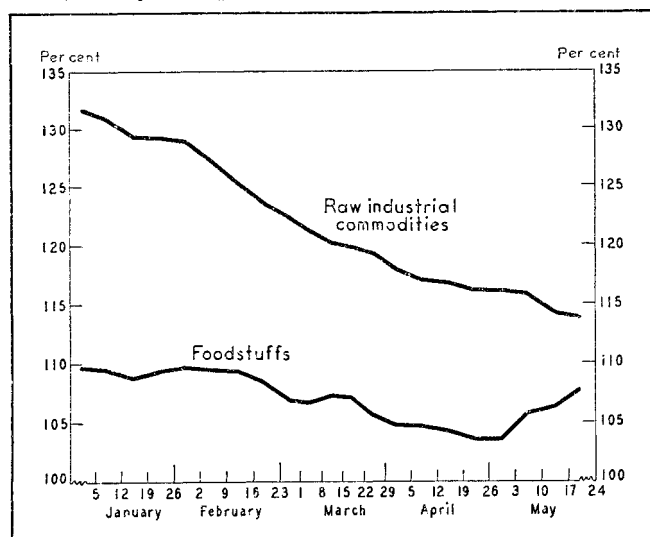


private companies to buy abroad at the world market price and to pass along to their customers most of the increase in the cost of copper over the former import price. (This action was precipitated by Chile's revocation of the treaty under which she sold 80 per cent of her copper output to the United States at 27½ cents per pound.)

Early this year, partly as a result of stretching out the defense program, the scarcity of most metals began to be less acute. By May, the more plentiful supplies of certain non-ferrous metals, together with a decline in foreign prices and a cut in purchases for the Government stockpile, reduced the upward pressure on prices. Lead prices declined from 19 cents to 15 cents a pound between April 29 and May 12. If lead prices stay below 18 cents for one month, the law requires that the tariff of  $1\frac{1}{16}$  cents per pound be reimposed. Other nonferrous metals whose prices have recently been lowered include antimony, silver, and cadmium. Prices of zinc and of steel scrap, while still at their ceilings, are reported to be showing signs of weakness.

With prices of most major metals other than lead remaining stable, and other costs also steady or rising, the general level of prices for products manufactured of metal has also been maintained at or close to the peak. Contrary to the general trend of prices, the index for the "machinery and motive products" group rose steadily during 1951 and the opening months of 1952, reflecting the demand for defense goods and producers' equipment. In recent months, however, some manufacturers of household durable goods have reduced their list prices in order to move unwieldy inventories. While lumber prices have come down somewhat from the peak reached during the scramble for building materials early in 1951, the continued high level of construction activity, both residential and nonresidential, has helped keep building materials prices firm at a high level in recent months.

Spot Commodity Prices, January-May 24, 1952  
(Weekly average of daily indexes; June 1950=100)



Source: U. S. Bureau of Labor Statistics.

#### GENERAL REDUCTIONS IN PRICES OF NONDURABLE GOODS

The two leading components of the nondurable goods group—farm products and processed foods—had declined by the end of April somewhat more than the general average in relation to both their 1951 peaks and the level at the start of this year. In April, the parity ratio for farm products (the ratio between the prices farmers receive and the prices they pay) fell to 100 per cent of the 1910-14 average, the lowest ratio since the start of the Korean war. In May, however, farm prices rose markedly; by the third week in May the weekly index for farm products had reached the highest point since the start of 1952. A major factor in this advance was the sharp rise in hog prices, which shot up nearly one third during the first half of May—from \$17.375 per hundred pounds on April 28 to \$22.55 on May 16. During the early months of 1952, marketings of hogs had been unusually heavy for this time of year, and the customary seasonal decline in slaughtering with its accompanying rise in prices did not occur until the end of April. In April, there was some Government purchasing of pork products to support prices, but this was stopped after prices started to rise. Prices of steers remained fairly steady during this period.

Grain prices were also relatively stable during the first four months of this year, but wheat prices tended to taper off somewhat in recent weeks following predictions that this year's crop would be the third largest on record. Corn prices declined in the latter part of April to the lowest level since early November 1951 but recovered in the first half of May.

Cotton prices dropped to a new 1952 low at the end of April when it became apparent that demand would be lower than anticipated and supplies would be ample. Wool prices, however, have been showing increasing strength in recent weeks both abroad and in domestic markets, following a prolonged period of weakness in which prices of wool tops dropped from a peak of \$4.35 a pound in January 1951 to a low of \$1.61 in March 1952. By mid-May, wool tops were selling for \$1.91 a pound. The market for textiles has been generally at a low ebb for many months although recently there have been signs that a revival, though not immediately at hand, may not be too far off. The renewed interest in wool, reduction of inventories at rayon mills, and a recent flurry of buying of cotton textiles have offered encouragement in the past few weeks. But prices of denims and sheets were reduced in the latter part of May, carpet prices have been cut further, and several clothing manufacturers have announced lower prices for their fall lines.

Among the other nondurable goods, the sharpest drop was that in the hides and leather products group; the index for this group fell 10 per cent in the first four months of 1952 and over one fourth from the 1951 peak. Starting in the last week in April, however, there has been renewed interest in the market, and prices of hides, which in mid-April had fallen to less than one third of their January 1951 peak, have moved up by approximately one fourth in three weeks. Na-

tural rubber prices have been lowered by the General Services Administration, which is acting as sole buyer and seller; after the latest price cut to 38 cents a pound took effect on June 1, rubber prices were 57 per cent below their peak. Government control over trading in rubber will be ended on June 30, and prices for future delivery indicate a further drop when private trading is resumed. The fuel, power, and lighting materials group has shown the smallest fluctuations of any major group since the start of the Korean war. However, the recent wage settlement in petroleum refining and the prospective negotiations in the coal mining industry may exert upward pressure on prices.

#### THE "TOPPING OFF" OF CONSUMERS' PRICES

Consumers' prices, as measured by the official Bureau of Labor Statistics index, did not decline during 1951 (in contrast with the performance of wholesale prices); instead they rose steadily to a new record in December. Following a decline in February 1952 and small gains in March and April, consumers' prices are again close to their peak. The continued rise of consumers' prices in a period of declining wholesale prices reflects the greater stability of finished goods prices, a continued increase in costs of processing and distribution, and rising rents and prices of services (which are not included in the wholesale price index). However, because the index covers only regularly quoted prices and does not reflect special promotional sales prices (unless they are in effect for an extended period), the full extent of retail price declines has not appeared in the consumers' price index. In April 1952, the indexes of apparel and housefurnishings prices were each 3 per cent below their respective 1951 peaks, but in view of the widely advertised special markdowns (as well as the unadvertised discounts often obtainable on consumers' durable goods), it seems likely that the decline in actual selling prices for these lines has been greater than that shown by the index. These two groups account for less than one fifth of the consumer budget used in weighting the index; prices of the other,

more important categories are still strong. Food prices on April 15 were within one per cent of their January peak, and spot surveys indicated that they were rising in the latter part of April. Rents, fuel, utilities, and miscellaneous goods and services, which together account for nearly half the consumer budget, rose during the first four months of 1952 and were at new all-time peaks on April 15.

#### THE PROSPECTS FOR PRICES IN THE IMMEDIATE FUTURE

On balance, the outlook for prices in the months ahead is not for either a sharp rise or decline in the general level. Supplies of virtually all consumer items now appear to be adequate to meet demand, provided there is no major work stoppage in a basic industry or a resumption of scare buying. In addition, many lines have capacity available to offset a resurgence of demand. On the other hand, overabundant supplies in the form of heavy inventories have tended to hold down the prices of some items; once these stocks are worked off, currently depressed prices may recover somewhat. On the demand side, government purchases are scheduled to rise throughout 1952, while business expenditures for capital goods are scheduled to continue close to their peak, although by the end of this year some slackening may be apparent. Even consumer demand is relatively high, though not what might have been expected from current income levels. If, as expected, personal income rises as a result of wage negotiations and the stepped-up pace of defense output, some further increase in buying may occur. Nevertheless, consumers are still well stocked with durable goods, and buying for current and replacement needs is unlikely to equal the peaks of recent years that were caused by accumulated backlogs of demand or the impact of scare buying. Over all, the picture is one of reasonable balance between supply and demand at a high level for the rest of this year. But, as in the past year, the balance between inflationary and deflationary forces is a delicate one, always dependent, among other factors, upon the uncertainties of the brittle international situation.

### DEPARTMENT STORE SALES IN NEW YORK CITY, 1925-51<sup>1</sup>

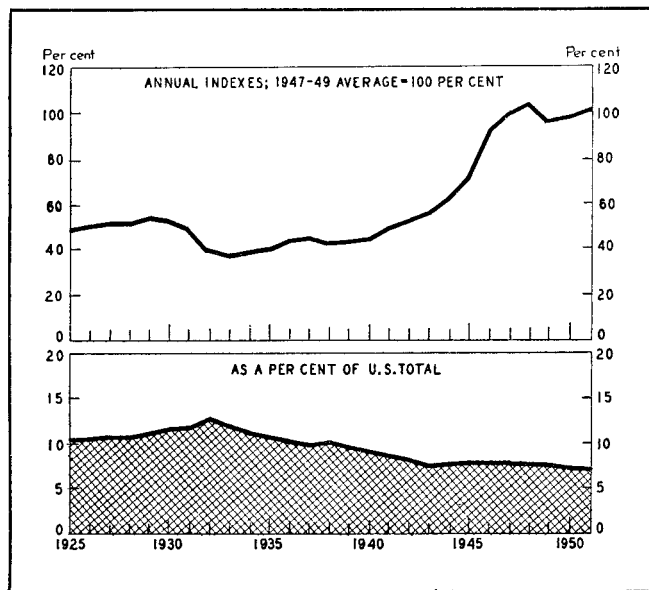
As part of the general revision of the Federal Reserve System's indexes of department store sales and stocks, the indexes of department store sales in six major cities of the Second Federal Reserve District have been revised, and the base period from which they are measured has been shifted from 1935-39 to the average of the three years 1947-49. These indexes are available back to 1925 and thus provide

an opportunity for tracing the movements of department store sales within these cities over an extended number of years.

New York City, the focal point of one of the world's largest concentrations of population, has long been pre-eminent as a center of trade, finance, manufacturing, and service industries. Moreover, the thousands of "out-of-towners" who visit New York City's theaters, museums, restaurants, stores, sports arenas, and historic sites each year combine with a tremendous resident population to form perhaps the greatest single market for consumer goods and services anywhere in the world. As New York City's department stores have traditionally been an important and fairly representative segment of the city's retail trade, this article

<sup>1</sup> This is the first in a series of six articles discussing department store sales in various cities in this District. Articles on department store trade in Buffalo, Rochester, and Syracuse, New York, as well as Newark, New Jersey, and Bridgeport, Connecticut, will appear from time to time in subsequent issues of this *Review*. Tabulations of monthly indexes of department store sales in these six cities, from 1925 to date, may be obtained on request from the Domestic Research Division, Research Department of this bank. Current data appear in a monthly release, also available on request.

New York City Department Store Sales, 1925-51



points out briefly some of the more important factors which have influenced the course of department store trade in New York City during the last quarter century and, at the same time, offers some explanation as to why its movements have not always paralleled those in other areas or in the country as a whole.

In general, the basic developments that have helped to shape the growth of department store sales in New York City during the last 25 years are much the same as those that have influenced the expansion of retail trade throughout the country as a whole. Owing to its distinctive industrial structure, however, New York City's population, income, and employment patterns have varied somewhat from those of the rest of the United States, with the result that the fluctuations in volume of retail trade in New York City have generally been of smaller magnitude than those in most other areas.

The dollar volume of department store sales in New York City advanced steadily during the late twenties at a substantially greater rate than in the rest of the country, despite the fact that in many less densely populated areas of the United States industrial expansion was going forward more rapidly. From 1925 to 1929, department store sales in New York City

rose 13 per cent, whereas the country's increase was only 6 per cent. The population of New York City had also been increasing at a faster rate than that of the nation as a whole—the increase from 1920 to 1930 for the city amounted to 23 per cent, compared with a national increase of 16 per cent.

The effects of the general business depression during the thirties were less severe in New York City, in some respects, than in most other areas of the United States. New York City manufacturing pay rolls, for example, dropped 49 per cent from 1929 to 1933 against 55 per cent for the United States. The decline in department store sales was also less pronounced. By 1933, sales in New York City had fallen 31 per cent from the 1929 level, compared with decreases of 33 per cent in the entire Second District and 37 per cent in the country as a whole. This brought about a rise in New York City's proportion of total department store sales in both the Second District and the United States. As business subsequently revived throughout the country, however, this proportion became smaller and has continued to decline.

The inverse relationship between the movement of total department store sales in the United States and New York City's percentage of this total stems from the nature of the city's industry. Although New York City is an important manufacturing center, its industrial structure is based on a great variety of relatively small establishments, mostly manufacturing consumer nondurable goods, which have tended to give the city a somewhat greater degree of economic stability than the rest of the country. The lesser importance of durable goods industries (which are generally more subject to extreme business fluctuations) has proved advantageous in times of economic depression. During periods of rapid industrial expansion, however, it has minimized, to some extent, increases in the city's general business activity relative to those in other parts of the country.

The production of men's and women's apparel has been New York City's largest manufacturing industry for many years. (Approximately a third of the city's manufacturing workers, or almost 10 per cent of the city's total working force in 1951, were employed in the apparel industry.) The next largest manufacturing industries are printing and publishing employing 3 per cent, and food processing with 2 per cent of the city's total working force.

However, manufacturing is not New York City's most important source of employment. Only 28 per cent of its workers were employed in manufacturing establishments in 1950. This proportion is much lower than in Chicago, Philadelphia, Detroit, and Cleveland—other large manufacturing cities—where 36, 35, 47, and 43 per cent, respectively, of the total working force were employed in manufacturing. The service industries, including finance, insurance, and real estate, accounted for 29 per cent against 21, 22, 18, and 20 per cent in the aforementioned cities.

Department Store Sales in New York City and the United States  
(Percentage changes for selected periods)

Period	New York City	United States
1925 to 1929.....	+ 13	+ 6
1929 to 1933.....	- 31	- 37
1933 to 1939.....	+ 16	+ 46
1939 to 1948.....	+142	+199
1948 to 1949.....	- 8	- 6
1949 to 1950.....	+ 2	+ 7
1950 to 1951.....	+ 3	+ 4
1925 to 1951.....	+110	+203

The advent of World War II brought increased prosperity to the city as well as to the entire nation. However, the lack of durable goods industries, especially of the large-scale type, prevented New York City from participating to any great extent in the production of heavy durable equipment, although many small establishments did receive subcontracts, particularly for the manufacture of components and instruments. During the war years, New York City is estimated to have accounted for only about 30 per cent of the total war output of the State, although in 1939 it had had over 53 per cent of the State's production workers.

Mainly as a result of the lesser importance of durable goods industries, income in New York City during World War II rose less rapidly than in the rest of the country. Department store sales also expanded at a slower rate, although this was partly due to the severe wartime shortages of consumer durable goods, which constitute a greater proportion of total department store sales in New York City than they do in most other areas of the United States. During the early postwar years, when consumer goods once more became available in large quantities, department store sales rose sharply. However, the rate of increase was again smaller than that of the country as a whole.

Other factors, however, apparently manifestations of long-term trends, were also acting to retard the growth of sales in the city's department stores. The decline in the importance of sales by New York City department stores in relation to total department store sales in the Second District and in the United States appears to have been partly the result of trends in the growth and dispersion of population. From 1940 to 1950, for the first decade in its history, New York City's population showed a smaller increase (6 per cent) than that of the entire country (14 per cent). Moreover, movement of population out of the city actually exceeded in-migration, leaving the city dependent on natural increase (excess of births over deaths) to maintain an expanding population.

The suburban population of New York City, like that of most other large cities, showed a much more substantial increase from 1940 to 1950 than did the city itself. The population of the metropolitan area surrounding New York City increased approximately one fifth, but the traffic, parking, and other transportation problems encountered in reaching "downtown" shopping centers from the suburbs have undoubtedly cut off a sizable portion of this expanding market from New York City department stores.

Aside from the dispersion of population to the suburbs, another factor—increasing competition from stores selling merchandise commonly found in department stores—has tended to decrease the importance of New York City department store sales in the total market. Other types of retail stores, especially apparel and furniture stores, always extremely important in New York City, have further increased their share of the consumer market for "department store type

merchandise". While the *Census of Business* indicated that department store sales in the city expanded 147 per cent between 1939 and 1948, furniture and apparel stores' sales recorded increases of 231 and 159 per cent, respectively. The relative decline in the department stores' share of the total market is even more significant because sales in New York City department stores in 1939 already represented a much less important segment of the city's total sales of "department store type merchandise" than in any of the next four largest cities in the nation. By 1948, department stores accounted for only 23 per cent of the total sales of "department store type merchandise" in New York City, while in Chicago, Philadelphia, Los Angeles, and Detroit, department store sales constituted 48, 45, 37, and 39 per cent, respectively, of the total market for "department store type merchandise".

The lesser relative importance of department stores in New York City is brought into strikingly clear focus by the data for average sales per capita. Per capita department store sales in New York City in 1950 were \$87, compared with per capita sales ranging from \$141 to \$162 in the four other cities previously mentioned.

Not only has the migration of population to suburbs during the last decade affected department store sales, but also, for a much longer time, population shifts within New York City itself have made it difficult for department stores to retain their share of the total market. While in recent years some stores have added branches in various suburban communities, this practice has rarely been followed in many of the rapidly growing outlying sections of Brooklyn, Queens, and The Bronx. As a result, trade centers consisting of small specialty shops have developed in these sections, satisfying a large part of the shopping needs of the local population.

The outbreak of the Korean conflict in June 1950 brought a marked increase in retail activity. On the strength of the unprecedented consumer buying of the last half of the year, department store sales in New York City for the year 1950 recorded a gain of 2 per cent over 1949 and rose even further in 1951. From the start of the Korean war to the end of 1951, department store sales in New York City averaged 5 per cent higher than corresponding year-ago levels, while the increase for the nation was 7 per cent. It would appear that the larger increases in sales in many other parts of the country are explained, in part, by greater relative gains in income, which are due to the more rapid acceleration of defense production in those areas. This illustrates, once again, the comparatively greater stability of the city's economy which is, in some degree, less affected by major changes in the country's production of major durable goods.

Looking ahead, department store sales in New York City (which in 1951 amounted to approximately 710 million dollars) can generally be expected to show changes in direction that will be similar to those of the country as a whole, although the nature of the city's economy is likely to continue to limit the magnitude of gains and losses in retail activity.

### DEPARTMENT STORE TRADE

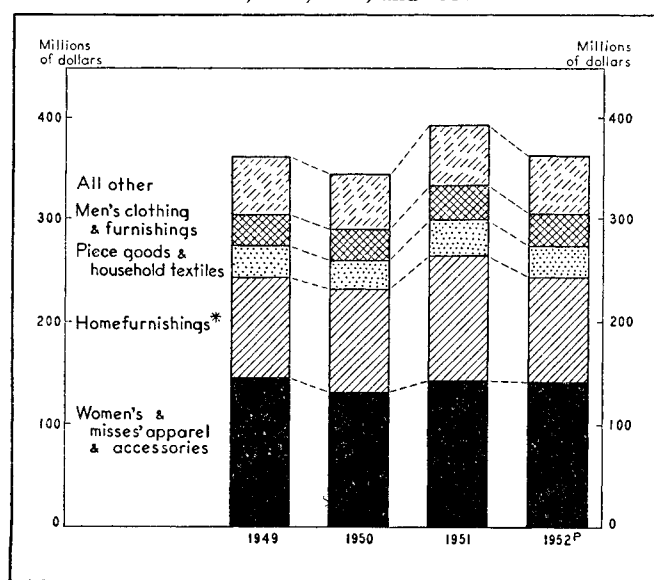
May marked the third consecutive month that Second District department store sales failed to come up to seasonal expectations. According to estimates based on incomplete data, this bank's index of department store sales, after adjustment for seasonal variations, was 94 per cent of the 1947-49 average in May. This represented a decline of 3 percentage points from April and 6 points from May 1951 and was the lowest the index has been since May 1950, just prior to the start of the Korean war.

Judging from preliminary information from New York City department stores, demand for major household durables during May continued well below year-ago levels, with the cessation of Regulation W on May 7 having as yet no observable effect on sales of these goods, although substantial increases in sales of some household durable lines have been reported in other areas of the country. The value of inventories held by Second District department stores on April 30, although considerably lower than on the same date last year, showed more than the usual seasonal rise during April. The seasonally adjusted index of department store stocks at the end of April was 111, an increase of 3 percentage points from the March 31 level.

#### COMPOSITION OF SECOND DISTRICT DEPARTMENT STORE SALES

For a fuller understanding of the reasons for the current lag in department store sales in this District, it is necessary to look behind the aggregates and to examine the recent sales experience of the commodities which constitute the major

Estimated Dollar Volume of Department Store Sales by Departmental Groups, Second District, January-April 1949, 1950, 1951, and 1952



<sup>p</sup> Preliminary.

\* Includes furniture and bedding, rugs and carpets, major appliances, radios, television sets, housewares, draperies, curtains, and other homefurnishing items.

part of the very comprehensive array of department store merchandise. Special emphasis will be given here to those which have had particularly strong influence on the movements of Second District department store sales since the beginning of this year. Changes in cumulative sales of various merchandise lines and the resultant shifts in the distribution of District department store sales for the four-month periods, January-April, 1949 through 1952 have been used because such cumulative sales data largely neutralize the effects on year-to-year comparisons of variations of the date of Easter and other calendar irregularities.

One of the most significant changes in the composition of department store sales in this District in recent months has been the decline in the importance of the homefurnishings lines. As indicated in the accompanying chart, sales of the homefurnishings group (including basement sales) in the first four months of 1952 fell off sharply from year-ago levels and were estimated to have been only a half million dollars higher than in the corresponding period of 1950, before the start of the Korean war and before the period of heavy consumer buying that resulted later that year and in early 1951. Home-

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

Locality	Net sales		Stocks on hand Apr. 30, 1952
	Apr. 1952	Jan. through Apr. 1952	
Department stores, Second District....	+ 3	- 8	- 15
New York City*.....	- 2(+2)	- 10(-9)	- 17(-13)
Nassau County.....	+ 3	- 13	- 8
Northern New Jersey.....	+ 7	- 8	- 18
Newark.....	+ 9	- 7	- 19
Westchester County.....	+ 25	+ 4	0
Fairfield County.....	+ 20	0	- 10
Bridgeport.....	+ 21	0	-
Lower Hudson River Valley.....	+ 19	- 3	- 13
Poughkeepsie.....	+ 18	- 4	- 15
Upper Hudson River Valley.....	+ 6	- 3	- 11
Albany.....	+ 5	- 10	- 14
Schenectady.....	+ 23	+ 6	- 9
Central New York State.....	+ 5	- 6	- 7
Mohawk River Valley.....	+ 7	- 6	- 17
Utica.....	+ 9	+ 2	- 18
Syracuse.....	+ 4	- 7	- 1
Northern New York State.....	+ 21	- 5	- 7
Southern New York State.....	+ 11	- 3	- 9
Binghamton.....	+ 8	- 4	- 10
Elmira.....	+ 23	0	- 4
Western New York State.....	+ 11	- 3	- 14
Buffalo.....	+ 9	- 1	- 16
Niagara Falls.....	+ 20	+ 1	-
Rochester.....	+ 12	- 6	- 11
Apparel stores (chiefly New York City).....	+ 10	- 3	- 11

\* The year-to-year comparisons given in parentheses exclude the 1951 data of a Brooklyn department store that closed early in 1952.

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

Item	1952			1951
	Apr.	Mar.	Feb.	Apr.
Sales (average daily), unadjusted.....	95	86	82	95 <sub>r</sub>
Sales (average daily), seasonally adjusted..	97	98	100	102 <sub>r</sub>
Stocks, unadjusted.....	116	113	104	137
Stocks, seasonally adjusted.....	111	108	107	131

<sub>r</sub> Revised.

furnishings sales accounted for 27.8 per cent of consumer expenditures in Second District department stores from January through April of this year, compared with 30.8 per cent in the same period last year and 29.0 per cent in 1950. The dollar volume of homefurnishings sales amounted to barely 100 million dollars, a drop of 20 million dollars from the 1951 volume.

The decline in the dollar volume of homefurnishings sales, which accounted for almost two thirds of the decrease in total department store sales, was well distributed among the major items. Sales of furniture and bedding during the first four months of this year were almost 5 million dollars less than the 40 million dollars spent by consumers for this merchandise at department stores in this District in the comparable period a year ago. Sales of domestic floor coverings and the radio-television lines amounted to approximately 11 million and 6 million dollars, respectively, representing declines of about 4 million dollars from their corresponding 1951 dollar volumes. The radio-television group accounted for only 1.7 per cent of total department store sales from January through April of this year, the lowest ratio since 1949, and registered the sharpest decline of any of the major homefurnishing durables. The ratio of furniture and bedding sales to total sales was only moderately lower (9.8 per cent, compared with 10.2 per cent last year), partly because of the continued high rate of residential building in the Second District. Major appliance sales amounted to only about 4 million dollars or 1.1 per cent of total sales, the lowest both in terms of dollar volume and proportion of total sales since at least 1949.

Significant declines were also recorded in many of the more important nondurables lines. Demand for piece goods and household textiles, for example, declined 6 million dollars, almost a fifth of the over-all decrease in total store sales. Sales of household textiles (sheets, pillow cases, blankets, towels, etc.) alone were off more than 5 million dollars. It should be noted, however, that sales of those items were particularly strong during January and February 1951.

The dollar volume of men's and boys' wear sales was also appreciably lower than during the first four months of last year. Sales of this merchandise declined almost 3 million dollars, or about 10 per cent, from the corresponding 1951 dollar volume, with sales of men's clothing and men's furnishings and hats responsible for the largest portion of the decrease.

Areas of relatively strong demand in recent months were the women's and misses' apparel and accessories departments. Purchases of these goods accounted for almost 40 cents of every dollar spent by consumers in Second District department stores during the first four months of 1952. Sales of women's and misses' apparel and accessories (including basement sales), however, amounted to only about 143 million dollars, roughly the same as in 1951, and as a result were not able to offset any part of the year-to-year decline in the durables lines. It is interesting to note that in the first third of 1949, when apparel prices were about 6 per cent lower than

current levels, sales of this merchandise totaled 145 million dollars and constituted an even higher percentage of total department store sales than in the corresponding period of this year.

In general, there have been no important changes (relative to year-ago levels) in total sales of merchandise included in the remaining major departments. Sales of small wares (laces, notions, toilet articles, jewelry, etc.) totaled nearly 31 million dollars during the first third of this year or about the same as in 1951. Combined sales of toys, games, sporting goods, and other miscellaneous departments amounted to just over 16 million dollars, or almost 2 million dollars less than in the first four months of last year.

Although separate mention has not been made of the sales performances of the various departments within the basement store, it should be pointed out that, in most cases, sales of basement store merchandise have been more favorable, in relation to year-earlier levels, than have sales of their upstairs counterparts. While in very few instances sales of basement store merchandise exceeded 1951 figures, the year-to-year declines have generally been of smaller magnitude than the changes in sales volume of comparable main store departments. The increased proportion of basement store sales to total store sales, as shown in the accompanying table, is further indication of the present tendency of consumers to place heavy emphasis on the price of purchased goods.

It is clearly evident from the foregoing data that a major factor in the relatively poor showing of department store sales in this District since the beginning of the year has been the sharp decline in consumer demand for household durables. Of equal importance is the apparent failure of the nondurables lines to take up some of the slack. It had been assumed that the lag in demand for durable goods would be compensated for by increased sales of nondurables. What could not be foreseen, however, was the continuation of the high rate of personal savings which now has persisted for nearly a year, for reasons perhaps best known to the consumers themselves.

Percentage of Department Store Sales Made in Selected Departments\*  
Second Federal Reserve District, January-April, 1949-52

Department	Percentage of total store sales January-April			
	1949	1950	1951	1952 <sup>p</sup>
Total store.....	100.0	100.0	100.0	100.0
<i>Main store.....</i>	<i>86.1</i>	<i>86.4</i>	<i>87.0</i>	<i>86.3</i>
Piece goods and household textiles.....	7.7	7.2	8.0	7.2
Small wares.....	8.3	8.3	7.8	8.5
Women's accessories.....	16.5	16.2	15.5	16.6
Women's apparel.....	16.9	15.1	14.6	16.0
Men's and boys' wear.....	6.8	7.0	7.0	7.0
Homefurnishings.....	25.5	27.8	29.5	26.6
Other main store departments.....	4.4	4.8	4.6	4.4
<i>Basement store.....</i>	<i>11.4</i>	<i>11.0</i>	<i>10.7</i>	<i>11.3</i>
Domestics and blankets.....	0.9	1.0	1.0	1.0
Women's apparel and accessories.....	6.0	6.0	5.6	6.2
Men's and boys' wear.....	1.7	1.7	1.7	1.9
Homefurnishings.....	1.3	1.2	1.3	1.2
Other basement departments.....	1.5	1.1	1.1	1.0
<i>Nonmerchandise departments.....</i>	<i>2.5</i>	<i>2.6</i>	<i>2.3</i>	<i>2.4</i>

<sup>p</sup> Preliminary.

\* A more detailed tabulation of the distribution of monthly sales by departments at Second District department stores for 1951 is available on request from the Domestic Research Division, Research Department of this bank.

## NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, May 30, 1952)

Industrial production declined in April and May, owing in part to labor disputes. Construction activity was maintained at record levels. Following some further decline in April, average prices of basic commodities have changed little. Consumer prices increased in April as food prices advanced. Seasonal influences led to further declines in bank loans to business in April and early May.

### INDUSTRIAL PRODUCTION

The Board's seasonally adjusted production index was 216 per cent of the 1935-39 average in April, as compared with 220 in March and 223 in April 1951. Some further decline is indicated in May. Output of both durable and nondurable goods has decreased since March, owing in part to temporary work stoppages in the steel and petroleum refining industries and in part to continued slackened demands by business and consumers. Government defense expenditures have continued to expand.

Durable goods production declined 2.5 per cent in April, as steel output decreased 10 per cent and activity in the machinery industries was reduced about 2 per cent. Steel production was again curtailed in early May but subsequently increased to 102 per cent of rated capacity, and output for the month will probably be up somewhat from April. Primary aluminum production rose further in April, and output of other nonferrous metals was generally maintained. Reduced activity in the machinery industries reflected in part curtailments in output of television and appliances and also small declines in various industrial machinery lines. Passenger auto assembly in April and May has been at an annual rate of 4.8 million units, moderately above the level prevailing in the second half of last year.

A further decrease in output of nondurable goods in April

reflected largely additional curtailments in cotton and wool textile industries. Production and deliveries of rayon showed little change, however, following earlier sharp declines. Paper production declined somewhat as producers cut back output of kraft papers, while paperboard output held fairly steady at a level about one-fifth below the early 1951 peak. Petroleum refining was reduced somewhat in April, and in May was curtailed sharply further by work stoppages affecting a large part of the industry.

### CONSTRUCTION

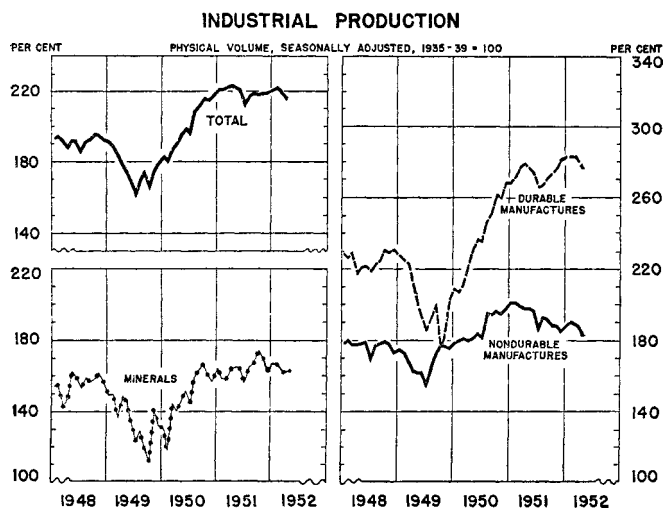
Value of construction contracts awarded in April increased substantially further to 1.6 billion dollars, one-fifth more than in March and one-sixth greater than in April 1951. Value of new work put in place was larger than during any other April, partly reflecting increased construction costs. Nonfarm housing units started in April totaled 108,000, compared with 98,000 in March and 96,000 in April 1951.

### EMPLOYMENT

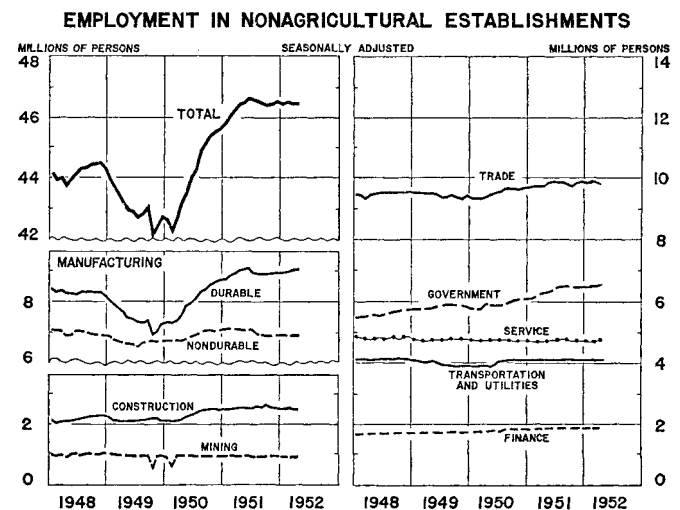
Employment in nonagricultural establishments in April, seasonally adjusted, continued at 46.5 million. The average work week at factories was reduced to 40 hours, down about half an hour from March and below any month since May 1950. Average hourly earnings were little changed at \$1.66. Unemployment declined about 200,000 to 1.6 million in early April, a level close to the postwar low and about 100,000 below a year ago.

### DISTRIBUTION

Seasonally adjusted total retail sales rose slightly in April as sales at automotive stores recovered to about the advanced February rate. Department store sales decreased somewhat, owing in part to fairly marked further declines for household



Federal Reserve indexes. Monthly figures, latest shown are for April.



Bureau of Labor Statistics data adjusted for seasonal variation by Federal Reserve. Proprietors, self-employed persons, and domestic servants are not included. Midmonth figures, latest shown are for April.

durable goods. In the first half of May, sales of these goods at department stores increased, reflecting in part easing of credit terms after suspension of Regulation W on May 7. Value of department store stocks is estimated to have increased in April, but at the end of the month stocks were 16 per cent below a year ago.

COMMODITY PRICES

Average prices of basic commodities changed little in May, following some further decline in April. Hog and pork prices rose sharply early in the month as marketings fell below a year ago, and prices of wool and hides recovered moderately from their sharply reduced levels. An increase in Canadian newsprint was announced, effective June 15. Meanwhile, prices of burlap, cotton, and alcohol declined, and lead and antimony were reduced 20 per cent. Rubber prices abroad dropped further, and the RFC announced a 20 per cent reduction in its resale price.

The consumers' price index advanced 0.4 per cent in April to within 0.2 per cent of the January 1952 peak. Foods—chiefly fresh fruits and vegetables—rose, and rents and other services continued to increase, while apparel, housefurnishings, television sets, and soap were reduced further.

MONEY AND CREDIT

The volume of bank credit outstanding showed little change in April and the first half of May. Business loans declined fairly substantially, reflecting further repayment of seasonal

borrowing and some leveling off of defense borrowing. The decline in business loans was about offset by a sharp rise in security loans, particularly to dealers in Government securities. Bank holdings of United States Government securities, which had declined in the first quarter of the year, subsequently changed only slightly.

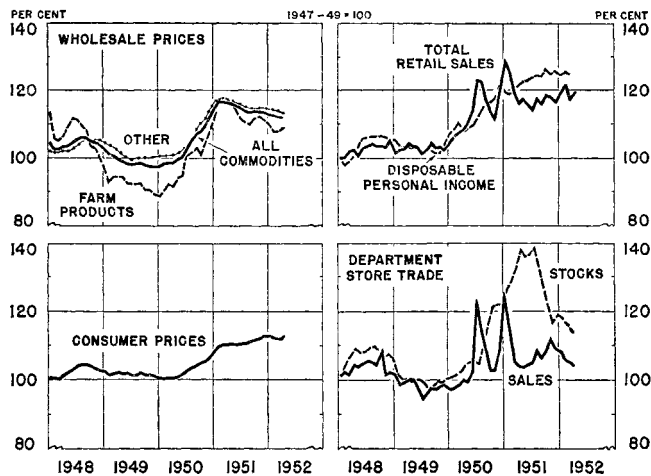
The total money supply showed little further change in April and early May. Deposits of businesses and individuals increased somewhat, while United States Government deposits declined. The turnover of demand deposits outside New York City declined in April after having risen somewhat in both February and March.

Bank reserve positions were moderately tight in April and the first part of May. Federal Reserve holdings of Government securities were reduced slightly, and since mid-April member bank borrowing has fluctuated around a fairly high level.

SECURITY MARKETS

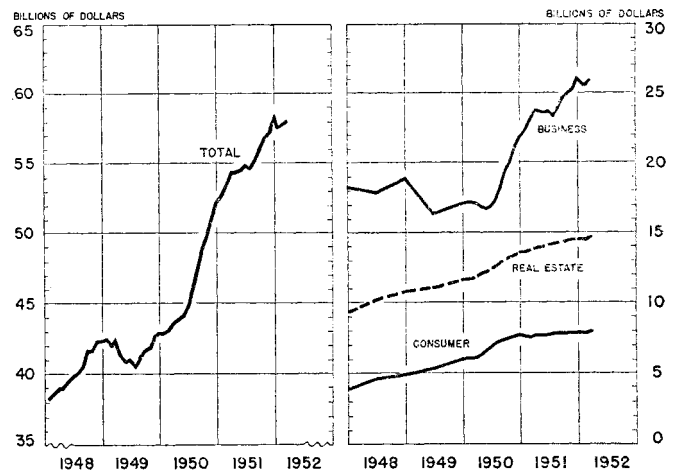
Common stock prices rose moderately during the first three weeks of May. Yields on high-grade corporate bonds increased slightly. Yields on short-term Government securities increased somewhat, while yields on longer-term Government bonds declined earlier in the period and subsequently increased. Near the beginning of the period the Treasury announced the offering of additional amounts of nonmarketable 2¾ per cent Treasury bonds of 1975-80 and revised the terms on Savings bonds to make them more attractive to investors.

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.

LOANS AT COMMERCIAL BANKS



Federal Reserve data. Monthly figures, latest shown are for March.