MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

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MONEY MARKET IN SEPTEMBER

The unrelieved tightness in the money market that had prevailed over the summer months this year was still in evidence during the early part of September. By the middle of the month, however, the pressure on bank reserves had abated considerably, and in the next ten days the market developed greater ease than has existed at any time since at least last June. The important sources of funds in this period were: (1) substantial net Treasury disbursements as the Treasury not only allowed its deposits with the Federal Reserve Banks to run down in anticipation of cash receipts after the September 15 tax date but also borrowed temporarily on special certificates directly from the Federal Reserve Banks, (2) the customary midmonth growth in Federal Reserve float, and (3) Federal Reserve security purchases after the middle of the month in aid of the Treasury's refunding of securities maturing on October 1. In the remainder of the month the Treasury and float influences were reversed, tending to restore a degree of firmness to the money market.

Yields on short-term issues in the Government security market tended to mirror the developments in the money market. The marked firmness early in the month was reversed, and market yields, particularly on Treasury bills, moved lower after the books were opened on September 15 for the Treasury's exchange offering for its certificates maturing October 1. As money became somewhat less easy toward the end of September, short-term yields moved up nearer to their earlier levels. Prices of intermediate and long-term issues, both bank eligible and restricted, tended to move steadily lower over the month, reflecting further adjustment to the higher level of yields on new corporate and municipal bond offerings and the higher rates offered on new issues of shorter-term Treasury securities.

The Treasury's financing program in September involved an offering of 2⅛ per cent fourteen-month Treasury notes to mature December 1, 1953 for the 10.9 billion dollars of 1⅞ per cent certificates of indebtedness maturing October 1. (At the time of the opening of the books, the Federal Reserve Banks held 6.8 billion dollars of the maturing certificates so that only 4.1 billion dollars were held by the market.) Books were open from September 15 to 18, and exchange subscriptions (including Federal Reserve subscriptions) were received totaling 97 per cent of the maturing issue. On September 24 the Treasury announced that it would offer on October 3 approximately 2.5 billion dollars of tax anticipation bills to be dated October 8 and to mature March 18, 1953. The new bills will be acceptable at face value in payment of income and profits taxes due March 15, 1953. Payment for the bills may be made in cash or, in the case of qualified depositary banks, by credit to the Treasury's Tax and Loan Account.

Business loans of weekly reporting member banks increased seasonally over the first three statement weeks in September, with the largest part of the increase concentrated in loans to commodity dealers, food, liquor, and tobacco firms, and sales finance companies. Reductions in bank holdings of Government securities over this period offset a large part of the increase in the total of business loans, real estate loans, and consumer loans, however, so that the total loans and investments of reporting banks were only moderately higher for September (through the 17th).

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Member Bank Reserves

Excess reserves held by member banks on September 3, the close of the first statement week of the month, totaled only 242 million dollars, one-fourth as much as the 968 million dollars of member bank indebtedness to the Federal Reserve Banks. In that week, currency in circulation had increased by more than a quarter of a billion dollars to meet the month-end and Labor Day week-end demand for currency, as shown in the accompanying table. In the following week the pressures on bank reserves eased considerably, largely as the result of a sizable volume of funds supplied to the market through Treasury outlays in excess of receipts in its accounts with the Federal Reserve Banks.

The easing in bank reserve positions that had begun in the statement week ended September 10 was further extended in the following week. Federal Reserve float, which had begun to increase early in the month, expanded rapidly over the middle of September, reaching a peak on September 18 nearly 600 million dollars higher than the end-of-August total. The Treasury put additional funds into the market in the week of the 17th, making a two-week total of approximately one billion dollars from this source. The net outlay grew out of the fact that the Treasury limited calls on its commercial bank depositaries immediately prior to the tax collection period while meeting its expenditures by drawing on its Reserve Bank deposits, which were created in part by selling short-term special certificates to the Federal Reserve Banks.

Funds supplied through the purchase of Government securities by the Federal Reserve System, including market purchases of short-term securities for System Account and purchases from dealers by the Federal Reserve Bank of New York under repurchase agreement, were another important source of bank reserves at one time or another in the first three statement weeks of September. The largest part of such purchases fell in the third week when substantial purchases of the certificates maturing October 1 were made in order to aid the Treasury in its refunding operation. These purchases were partly offset by resales of short-term securities to dealers. The net release of Federal Reserve credit (other than through float) was reduced, however, since reserves released through System security operations were offset in large part by a reduction of bank borrowing from the Reserve Banks.

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

Factor	Statement weeks ended				Four weeks ended Sept. 24
	Sept. 3	Sept. 10	Sept. 17	Sept. 24	
Operating transactions					
Treasury operations*	− 11	+376	+343	−250	+458
Federal Reserve float	+ 51	+ 98	+432	−453	+128
Currency in circulation	−262	+ 27	+ 72	+ 45	−118
Gold and foreign account	+ 34	+ 26	− 32	+ 92	+120
Other deposits, etc	− 12	+ 94	− 32	+ 19	+ 69
Total	−198	+622	+782	−548	+658
Direct Federal Reserve credit transactions					
Government securities	+ 90	+ 47	+511	− 25	+623
Discounts and advances	+ 71	− 89	−566	+ 87	−497
Total	+161	− 42	− 55	+ 62	+126
Total reserves	− 37	+580	+727	−486	+784
Effect of change in required reserves	+127	− 3	−342	+ 29	−189
Excess reserves	+ 90	+577	+385	−457	+595

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

During the last third of September, the factors that earlier had created ease were reversed and a marked loss of bank reserves occurred. The Treasury withdrew funds from its bank depositaries to rebuild its balances with the Reserve Banks and retire the special certificates, and float receded sharply from its midmonth levels. Despite the substantial drain on bank reserves in the latter part of the month, however, member banks were still in an easier reserve position at the end of September than they were at the end of August, as evidenced by a lower volume of borrowings from the Federal Reserve Banks and by the increase in excess reserves held by member banks.

Federal funds rates in the New York money market, which had held almost continuously at 1$^{11}/_{16}$ per cent for two months prior to mid-September, reflected the easing in bank reserves at that time, and funds were traded at rates as low as ⅛ of 1 per cent. New York City banks, which had entered September in a tight reserve position, were able, by the third statement week, to repay almost all of their indebtedness to the Federal Reserve Bank. City banks tended to lose reserves through an outflow of funds during the period when the market was easing, as receipts from the September 15 Treasury interest payment and from the sale of Government securities in the market were transferred out of New York, but losses of reserve balances from this source were more than compensated by Treasury and Federal Reserve outlays. Excess reserves held by New York City banks continued to increase through the fourth statement week, and the New York money market remained comparatively easy until the closing days of the month.

Treasury Financing and the Government Security Market

The market for short-term Government securities was relatively quiet during the first twelve days of September as the market waited for the Treasury announcement on the refunding of the October 1, 1952 certificates of indebtedness. Market yields on Treasury bills and certificates moved moderately lower early in the month as bank selling tapered off and nonbank buying continued in some volume, but a reversal of these influences had brought yields back to their end-of-August

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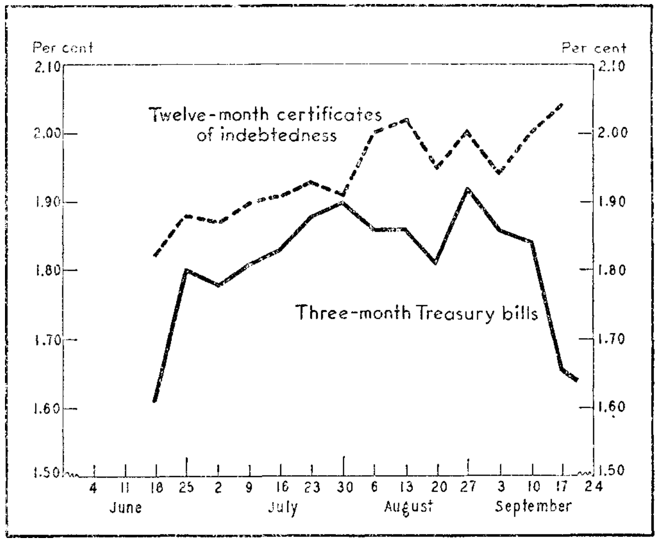
levels by the time of the Treasury refunding announcement on September 12. A modest volume of short-term securities was acquired by the Federal Reserve Bank of New York under repurchase agreements at this time to aid dealers in carrying their positions.

Subscription books were open from September 15 to 18 on exchange of the maturing October 1 certificates of indebtedness for the Treasury offering of 2⅛ per cent Series A notes of December 1, 1953. As indicated by the accompanying chart, the terms on the new offering were in line with market yields, and a small premium on the "rights" was established in the market during the refunding period. The market maintained a small premium on the new issue in "when-issued" trading over the remainder of the month. However, the general rate uncertainty and the desire of some corporate investors (unwilling or unable to accept exchange into a security of more than one-year maturity) to effect their own "refunding" in the market created the possibility of substantial cash redemptions of the maturing certificates. In view of this situation, the Federal Reserve System engaged in market purchases to help the market carry out an orderly redistribution of the "rights".

Funds acquired by the sellers of the maturing issue were reflected in a strong reinvestment demand for other short-term issues, particularly Treasury bills, and active trading took place at steadily declining market rates. The effect on bill yields in the week ended September 17 is strikingly illustrated in the chart. Yields were further influenced by bank demand for bills as bank reserve positions eased at midmonth. Money market ease and the reinvestment of nonbank funds derived from sales of the "rights" continued to be an influence in the market after the books closed, and only in the last few days of September did short-term yields move appreciably higher. Average issue rates on new bills followed the pattern of market yields, declining from 1.884 per cent and 1.850 per cent on the issues dated September 4 and 11, respectively, to 1.774 per cent on the September 18 issue and to 1.635 per cent on the bill dated September 25. The issue to be dated October 2, offered for bids September 29, was awarded at 1.760 per cent average issue rate.

Prices of intermediate and long-term taxable Government securities, after remaining steady in thin trading during the early part of September, turned lower throughout the list in the second statement week. This movement largely reflected further adjustment to the rising pattern of short-term yields this summer, uncertainty as to the outlook for interest rates generally, and the slowness with which recent issues of corporate and municipal bonds had moved out of underwriters' hands. Prices of the intermediate and long-term securities continued their downward adjustment through the remainder of September, registering losses for the month of as much as 1¼ to 1⅜ points in the case of the longest bank-eligible and

Market Bids on Treasury Bills and Estimated Yields* on Twelve-Month Certificates of Indebtedness
(Wednesday figures, June 18-September 24, 1952)



* Owing to the fact that at most times there is no single issue exactly twelve months from maturity, estimated twelve-month yields have been derived from a plotted curve of actual yields on securities around this maturity.

restricted issues. A fair volume of two-way trading developed in the intermediate bank-eligible bonds during the last half of the month, but the ineligible market remained inactive.

Member Bank Credit

Commercial, industrial, and agricultural loans of the weekly reporting member banks in 94 large cities were increased by 597 million dollars in the three weeks ended September 17, following a gradual upturn in the preceding four weeks. This brought the net increase in this form of bank credit since midyear (June 25) to 732 million dollars. In the corresponding period in 1951, between June 27 and September 19, such loans increased by 718 million dollars. In 1950 they increased by 1,915 million dollars between June 28 and September 20. Borrowings by commodity dealers and the food and tobacco manufacturing group have increased somewhat more this year than last, while borrowings by metal products manufacturers have shown net reductions since June this year (presumably due to the steel strike), contrary to the tendency last year.

In the first three statement weeks real estate and consumer loans of the weekly reporting banks also continued to increase, by 61 million dollars and 88 million dollars, respectively. For the year through September 17, 1952, real estate loans held by reporting banks have increased 198 million dollars and "other loans"—largely consumer loans—have risen 561 million dollars. In the corresponding period last year, real estate loans increased 325 million, but "other loans" increased only 28 million, reflecting the restrictions on consumer credit then in force.

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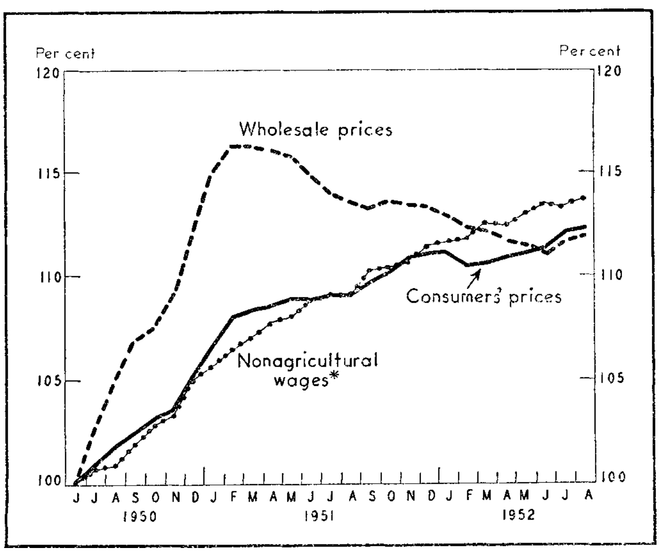
While the net increase since June 25 in loans held by the weekly reporting member banks amounts to some 940 million dollars and investments in "other" securities have increased by another 226 million dollars, the increase in total loans and investments of these institutions over this period amounts to but 606 million dollars, reflecting a sharp reduction in Government security holdings. In the first month of the period—between June 25 and July 30—despite a small decrease in loans, the total of loans and investments in this group of banks increased by 702 million dollars. This was largely the result of bank purchases on original subscription and through the market of large quantities of the new 2⅜ per cent intermediate Treasury bonds issued on July 1. Since July 30 a bank loan expansion of some 1,200 million dollars has been more than offset by bank sales of Government securities totaling approximately 1,340 million dollars. The primary cause was the credit policy of the Federal Reserve System which made it necessary for the banks to dispose of investments and also to borrow to obtain additional reserves during most of the period. The result has been a net decline in loan and investment credit of the weekly reporting banks over the period of seasonal loan expansion thus far this year.

THE PRESSURES ON PRICES

The rapid recovery of production from the effects of the long steel strike has once again emphasized the enormous strength and adaptability of the American economy. Partly as a result of the need to catch up on production after the strike, a high level of industrial activity, backed by strong demand from consumers, business, and government, seems assured for the remainder of 1952 and the early months of 1953. At the same time, prices of some important raw materials, wages in basic industries, and freight costs have all been rising in recent months. Considering the pattern of rising costs and the high level of demand in prospect for the months ahead, there would seem to be grounds for apprehension concerning the possible recurrence of the wage-price spiral which characterized the early postwar years. On the other hand, there are now strong forces working against inflation, the most important of which are the nation's increased capacity to meet both defense and civilian demands, the continued cautious buying by businessmen and consumers, and a monetary policy better equipped to cope with an inflationary situation.

Prices and Wages Since the Start of the Korean War
(June 1950=100 per cent)



* Average hourly earnings of wage earners in nonagricultural industries; August 1952 index partly estimated.
Sources: Price indexes from U. S. Bureau of Labor Statistics; earnings index from Federal Reserve Bank of New York. All series converted to June 1950 base by the Federal Reserve Bank of New York.

Contrasting Price and Wage Movements

In appraising the impact of recent price increases in basic materials, it should be remembered that we have just passed through a period which illustrates clearly that changes in basic commodity prices do not necessarily have a commensurate impact at retail levels. During the first two years of the Korean war, consumers' prices and wholesale prices both rose 11 per cent. But, as the accompanying chart shows, the movements of these two index numbers were anything but parallel during this period. Prices paid by consumers have risen gradually but almost steadily for more than two years. Wholesale prices, on the other hand, rose much more sharply at first, but subsequently experienced a protracted decline. The advance and subsequent drop in prices of a selected group of basic commodities was even more extreme.

These contrasting movements are not so paradoxical as they may seem at first glance. Prices of finished goods at retail tend to lag behind and are traditionally more stable than the prices of raw and semifinished materials (which constitute the bulk of the wholesale price index). Rising wages, freight rates, and other costs have increased the costs of processing and distributing consumers' goods, in some cases more than offsetting the decline from the peak in costs of materials. At the same time, because of the method of collecting data, the consumers' price index has not fully reflected the decline in actual selling prices of certain types of goods through special promotions, markdowns, or discounts. In addition, rents and prices of miscellaneous services, which have contributed strongly to the rise

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in the consumers' price index, are not included in the index of wholesale prices.

The decline in wholesale prices between the record set in February 1951 and the subsequent low in June 1952 was a general but gradual one, amounting to 5 per cent over the sixteen-month period. As shown in the accompanying table, wholesale prices of foods and most other consumer goods categories declined somewhat less than that. In the same period, the index of consumers' (retail) prices increased 3 per cent. This rise reflected further increases in retail food prices and a steady rise in rents and prices of miscellaneous goods and services. In the last few months, both indexes have advanced about 1 per cent. The increase in consumers' prices has been centered in food, fuel, and rents, and there has been continued weakness in prices of apparel and housefurnishings.

The rise in the cost of living has resulted in wage increases for automobile, railroad, and textile workers and others covered by cost-of-living escalator clauses in their wage contracts. At the same time, it has lent added emphasis to demands of unions already seeking to match the wage increases recently gained by steel and aluminum workers and coal miners. These developments seem likely to extend the fairly steady advance in the general level of hourly wages in nonagricultural industries since the outbreak of war in Korea. The over-all increase in this period has been slightly greater than the rise in either wholesale or consumers' prices. Most of this net gain has been achieved since the beginning of 1952. During the first year and a half of the Korean war, the rate of increase in nonagricultural wages barely kept pace with the percentage rise in the cost of living, and lagged well behind the increase in wholesale prices.

The "Push" on Prices

The large-scale work stoppages and wage negotiations in recent months have brought about marked increases in business costs, through both higher wage rates and higher costs of raw materials. In the steel industry, the strike settlement was followed by an increase in the ceiling price of steel products which varied for different types and grades but averaged out to around 5 per cent. (The composite base price of finished steel, as computed by *The Iron Age,* rose from $82.62 per ton to $87.52.) Subsequently, iron ore and pig iron prices were also increased. For many metal-fabricating plants, however, meeting the steel industry wage pattern and paying higher mill prices was only the beginning of the increase in costs. The dislocations and unbalanced inventories caused by the steel strike entailed extra costs in procuring scarce items needed to keep production rolling and in piecing out limited allotments through purchases of foreign or "conversion" steel at premium prices. (However, many firms have been reluctant to enter into premium price arrangements lasting beyond the next few months, indicating their belief in an early easing of steel supplies.)

Changes in Wholesale and Consumers' Prices Since the Start of the Korean War

Index number	Per cent change		
	June 1950 to February 1951	February 1951 to June 1952	June 1952 to August 1952
Consumers' prices			
All items	+8	+3	+1
Food	+11	+2	+2
Apparel	+9	0	*
Housefurnishings	+13	−3	*
Fuel, electricity, and refrigeration	+3	+1	+2
Rent	+2	+6	*
Miscellaneous	+6	+6	*
Wholesale prices			
All items	+16	−5	+1
All foods	+17	−2	+3
Apparel	+13	−4	−1
Footwear	+21	−11	*
Furniture and other household durables	+11	−3	0
Fuel, power, and lighting materials	+5	−1	*
Basic commodity prices			
General (28 commodities)	+46	−25	*
Foodstuffs	+22	−12	+2

Note: Caution is necessary in comparing the movements of components of the consumers' price index with their counterparts in the wholesale price index, since the commodities included in each category and the weights assigned to them are not the same.

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

Source: U. S. Bureau of Labor Statistics.

Prices of the other two major metals have also gone up. The aluminum industry granted wage increases roughly equivalent to those in the steel industry and has also been allowed a price increase of approximately 5 per cent. Although the basic price of domestic copper has not been changed, the Office of Price Stabilization has allowed higher prices for imported copper and for the output of certain high-cost domestic producers. The OPS has also ruled that manufacturers may raise their prices to pass along increased costs resulting from the higher prices of steel, copper, and aluminum. Lead producers have recovered part of their earlier price cuts, while the price of zinc has declined, recovered, and declined again in little more than two months.

Prices of some basic nondurable goods have also been advancing after a prolonged decline. For many of these items, such as rayon yarn or cotton sheeting, the increases have represented only a partial recovery of the price cuts or concessions which had been made earlier to help move heavy inventories. The recent wage settlement in coal mining raises the possibility of some increase in fuel costs, although heavy stocks above ground have kept coal prices below their ceiling.

Altogether, the upward pressure on prices from rising costs is a strong one, embodying higher raw materials, labor, distribution and overhead costs for many lines. At the same time, the push of higher costs is augmented by the pull of increased demand. Defense spending is still rising and is scheduled to continue increasing until the middle of 1953. Moreover, the prospect continues for a considerable shortfall of Government cash revenues below cash expenditures, with the related possibility that this deficit may be financed in some

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degree by a further expansion of bank credit. Businessmen have also recently indicated their intention of making record-breaking expenditures on new plant and equipment during the second half of 1952. Most of the embarrassingly large inventories which depressed prices in 1951 and early 1952 have now been worked off, and as a result processors and distributors have stepped up their purchases to a rate which is more closely in line with current sales volume. Many mills which a year ago were operating on a hand-to-mouth basis now have comfortable backlogs of orders. Consumer demand has also shown signs of picking up after a long period of subnormal buying interest. Incomes and savings, except in areas affected by the steel strike, have been at or near record levels. Retail sales of nondurable goods were close to a record in August (after adjustment for seasonal variation). Some increase in the demand for durable goods also appeared earlier this year, particularly after the lifting of consumer credit controls. In the last few months, however, the reduced supplies of automobiles owing to the steel strike have cut into retail sales of durable goods. A recent survey indicates that an increasing number (though still a minority) of consumers are becoming reconciled to current price levels and think that this is "a good time to buy".

Restraints on Price Rises

Nevertheless, current demand by business and consumers cannot compare in intensity with the surges of scare buying which followed the outbreak of war in Korea. Today, both businessmen and consumers tend to retain much of the cautious attitude in buying which they learned from their experiences in those scare-buying sprees. It is worth noting that recent shortages of some makes of passenger cars, together with the possibility of an increase in prices, have failed to touch off a buying rush. Consumers are in a much better position to defer their purchases than they were during most of the postwar period, and most of them are still extremely price conscious. Distributors have tended to be cautious in their ordering, despite their anticipation of a good fall season. Some retailers are reported to be losing sales because they are understocked.

In fact, there appears to be genuine reluctance on the part of some manufacturers to raise prices, even where the OPS has suspended controls or allowed a pass-through of higher costs. Competition is still keen, and the memory of last year's price resistance is still fresh. In some cases, however, the squeeze of higher costs on profits will make price increases virtually unavoidable.

The major force which should keep these price increases within reasonable limits is the nation's ever-growing capacity for production. In the last few years, industry has demonstrated its ability to meet defense and civilian needs simultaneously—not only to provide both "guns and butter", but at the same time to expand capacity and build up inventories. In fact, we have come through a prolonged defense build-up with virtually no accumulated backlog of demand for consumer durable goods. Basic industrial capacity is still being expanded and strengthened; whether or not next year's plant and equipment expenditures match the 1952 record, they will still constitute a significant addition to facilities. At the same time it should be remembered that, although defense expenditures will continue to rise well into 1953, the physical demands which the present defense program will make on materials, manpower, and facilities are already nearing their peaks. Thus, the potentially inflationary pressure of the defense program, in terms of existing defense plans, will not continue to increase much longer, although it is expected that defense spending will remain at this high level for at least two years more.

Agriculture, as well as industry, has increased output. Despite a declining farm labor force and drought conditions in some areas, this year's harvest promises to be the second or third largest on record. The number of livestock on farms is the highest since 1946. Cattle marketings have been unusually heavy, and, with the easing of fears of even more extensive drought damage, farm prices drifted slightly lower in August and September, offsetting part of the impact on the general wholesale price level of increased prices of metals. In fact, farm prices in the fourth week of September were at the lowest level since November 1950.

On the whole, then, the price level will be subject to strong pressures from both directions. Some further spread of the price increases which have already occurred may be expected if only because of the pinch put on the profits of many corporations by the rising costs of labor and materials. Additional wage increases are already in prospect, which will only add to the pressure on a price situation in which there are currently few noticeable weak spots. Nevertheless, the nation's huge and still growing industrial capacity appears more than capable of meeting the very high level of demand in prospect for the months ahead. Many lines of business are still highly competitive, and consumers are still price conscious. Barring, of course, a drastic change in the international situation which could cause a sharp expansion of the defense program or a shift in consumer attitudes, a sustained resumption of strong inflationary pressures does not seem likely.

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SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952 August	1952 July	1952 June	1951 August	Percentage change: Latest month from previous month	Percentage change: Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	215p	193	204r	217	+11	− 1
Electric power output*	1947-49 = 100	148	140	141	136	+ 6	+ 9
Ton-miles of railway freight*	1947-49 = 100	—	83p	91	105	− 9	−19
Manufacturers' sales*	billions of $	—	21.7p	21.8	21.7r	− 1	+ 2
Manufacturers' inventories*	billions of $	—	42.1p	42.2r	40.6	#	+ 6
Manufacturers' new orders, total	billions of $	—	22.6p	24.8	23.0r	− 9	#
Manufacturers' new orders, durable goods	billions of $	—	11.2p	13.0	11.0r	−14	− 8
Retail sales*††	billions of $	13.3p	13.5	14.0	13.1	− 1	+ 2
Residential construction contracts*	1947-49 = 100	198p	196	193	176	+ 1	+13
Nonresidential construction contracts*	1947-49 = 100	161p	165	158	143	− 2	+13
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	293.6	293.3	293.3	325.0	#	−10
Wholesale prices†	1947-49 = 100	112.1p	111.8	111.2	113.7	#	− 1
Consumers' prices†	1935-39 = 100	191.1	190.8	189.6	185.5	#	+ 3
Personal income (annual rate)*‡	billions of $	—	264.2p	266.7	256.7	− 1	+ 4
Composite index of wages and salaries*	1939 = 100	—	235p	235	226	#	+ 4
Nonagricultural employment*	thousands	46,756p	46,200	46,405r	46,555r	+ 1	#
Manufacturing employment*	thousands	15,782p	15,397	15,600r	15,893r	+ 3	− 1
Average hours worked per week, manufacturing†	hours	40.2p	39.9	40.4	40.4	+ 1	#
Unemployment	thousands	1,604	1,942	1,818	1,578	−17	+ 2
Banking and finance							
Total investments of all commercial banks	millions of $	76,240p	77,040	75,204	71,870	− 1	+ 6
Total loans of all commercial banks	millions of $	60,210p	59,729	59,233	55,160	+ 1	+ 9
Total demand deposits adjusted	millions of $	95,760p	95,740	94,766	91,410	#	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,145	29,086	28,988	28,007	#	+ 4
Bank debits (U. S. outside New York City)*	millions of $	83,822	91,674	88,986	86,346	− 9	− 3
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	116.7	113.4	118.3	115.6	+ 3	+ 1
Consumer instalment credit outstanding†	millions of $	—	14,732p	14,405	13,045	+ 2	+14
United States Government finance (other than borrowing)							
Cash income	millions of $	4,876p	3,593	9,989	4,600	+36	+ 6
Cash outgo	millions of $	5,648p	6,233	6,978	5,565	− 9	+ 1
National defense expenditures	millions of $	3,533	4,367	4,024	3,373	−19	+ 5
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	131	124	124	126	+ 6	+ 4
Residential construction contracts*	1947-49 = 100	—	164p	174	154	− 6	+12
Nonresidential construction contracts*	1947-49 = 100	—	147p	134	141	+ 9	+ 8
Consumers' prices (New York City)†	1935-39 = 100	185.7	185.9	183.6	180.9	#	+ 3
Nonagricultural employment*	thousands	—	7,477.7p	7,434.7	7,396.3r	+ 1	+ 1
Manufacturing employment*	thousands	2,692.6p	2,680.4	2,667.8r	2,657.4r	#	+ 1
Bank debits (New York City)*	millions of $	48,501	58,216	50,854	46,475	−17	+ 4
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of $	3,759	4,062	3,963	3,832	− 7	− 2
Velocity of demand deposits (New York City)*	1947-49 = 100	134.7	134.0	140.0	115.8	+ 1	+16

Note: Latest data available as of noon, September 30.
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.
‡ Revised back to January 1949.
†† Revised back to January 1951.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS IN FRANCE

The slackening of inflationary pressure that began in 1951 in much of the Western world appeared in France only in the spring of 1952. The persistence of marked inflation in France throughout 1951 reflected for the most part the continuation of excessive demands upon the resources of the French economy and a lag in the application of internal control measures. The reversal that became evident last March, when a new government was formed under M. Pinay, was associated with fresh efforts to reduce the budget, roll back prices, and interrupt the wage-price spiral, as well as, beginning in the preceding October, with a tightening of monetary policy. While the halting of inflation in France has been of too short duration to justify complacency for the future, and while the persistence of government deficits and of an unfavorable trade balance points toward further problems ahead, the French experience provides another interesting chapter in the record of recent efforts to control inflation. In the French case, as in many others, a wide range of anti-inflationary measures have had to be utilized, with the form and application of each necessarily adapted to the conditions peculiar to the individual country; however, in all cases a significant part has been played by general restraint upon the availability of money and credit.

The Situation Prior to March 1952

France was faced with particularly difficult problems during 1951. Wholesale and retail prices rose roughly 25 per cent at a time when similar prices in many other countries were beginning to decline. The protracted drain on resources and manpower for military action in Indo-China, the stepping-up of French plans for participating in European defense, and the large continuing program of domestic government investment produced a substantial budget deficit in 1951. In addition, the

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extension of bank credit to business and individuals rose during the year by roughly 40 per cent. It was hardly surprising in these circumstances that prices should have continued to rise. The further price inflation in the fall of 1951 appeared to have its immediate roots partly in a large increase in the government-controlled price of wheat, which led to a 30 per cent rise in the price of bread, and partly in a 15 per cent increase in the legal minimum wage, which induced a general round of wage and price increases. It also apparently originated in part in attitudes and habits acquired during the four decades of currency instability, which prompted the French businessmen to "protect" themselves against future currency depreciation by raising their selling prices in anticipation of cost and tax increases. Furthermore, the prolonged experience of the French public with past inflation made it particularly sensitive to fears of new inflation.

Government finances gave rise to particularly troublesome problems, although it was the method of financing the deficit rather than its mere size that appeared to be a major inflationary factor at the year end. Ordinary government revenue in 1951 covered 82 per cent of total government expenditures, or a larger portion than in any postwar year; an additional 5 per cent of government expenditures was financed by counterpart funds originating in American aid; and only 13 per cent was financed by domestic borrowing. However, long-term and medium-term loans brought in very little, as the rate of savings slowed down last year. The main source of funds therefore was short-term borrowing from the banking system, which was particularly heavy in the third quarter of 1951 and in the first quarter of 1952, as may be seen from Table I. The funds the Treasury borrowed from the banking system were largely derived in the last instance from the Bank of France. On the other hand, the latter took no action to raise its limit for direct advances to the Treasury, except temporarily in March 1952.

The main factor in monetary expansion was the growth of credit to business and individuals. As is apparent from Table I, the granting of bank credit to business and individuals increased, beginning with April 1951, much faster than would seem to have been warranted by the relatively moderate increases in production and employment that occurred during the remainder of the year; credit inflation was particularly sharp during the last quarter of 1951. France retained the machinery for quantitative credit restriction that had been instituted in September 1948, but by mid-1951 the use made of these controls appeared no longer adequate to cope with a renewal of credit inflation.

Table I
Money Supply and Bank Credits
(June 1950=100)

End of	Money supply		Outstanding bank credits to	
	Total	Note circulation only	Government	Business and individuals
1950—June	100	100	100	100
December	110	114	102	106
1951—March	113	115	105	108
June	117	121	104	119
September	123	130	113	126
December	130	135	116	149
1952—March	133	137	126	157
June	137	139	128	162
July	n.a.	142	n.a.	n.a.
August	n.a.	141	n.a.	n.a.

n.a. Not available.
Source: Computed by the Federal Reserve Bank of New York from data published in the annual reports of the Conseil National du Crédit and in the *Bulletin Mensuel de Statistique* of the Institut National de la Statistique et des Etudes Economiques. Data for recent months are provisional.

The International Payments Crisis

The continuance of inflationary pressures in France at a time when the post-Korea inflationary swing was subsiding in the United States and most Western European countries tended to accentuate France's balance-of-payments difficulties. The average monthly trade deficit of Metropolitan France with foreign countries rose from 26 million dollars in 1950 to 172 million in the first quarter of 1952, as shown in Table II. While the merchandise exports of Metropolitan France covered 86 per cent of its imports in 1950, only 53 per cent were thus covered in the first quarter of 1952. This relapse was mainly the outcome of a great increase in imports, which apparently could not be held down in face of rising inflationary pressures;[1] at the same time, exports declined, partly because the sharp rise in French prices adversely affected France's competitive trade position, partly because the inflationary conditions tended to induce an increase in home consumption that absorbed exportable products, and partly also because France's exports were going increasingly into the sheltered markets of the overseas franc area.

During the fourth quarter of 1951 and the first two months of 1952, when the payments crisis reached its culmination, the deterioration in France's payments position, especially vis-a-vis the European Payments Union, appears to have been larger than could be accounted for by commercial transactions, and presumably reflected a considerable flight of capital. The average monthly deficit with the EPU rose from the equivalent of 36 million dollars in the third quarter of 1951 to 95 million in the fourth quarter, and increased to 129 million dollars in February 1952. France's cumulative surplus with the EPU, which amounted to 272 million dollars at the end of March 1951, had been entirely wiped out by October 1951, or within seven months; and by the end of March 1952 France had incurred an EPU cumulative deficit equivalent to 458 million dollars. As far as can be seen from the Bank of France's own foreign exchange holdings, which up to October 1951 included France's balance with the EPU, the drain was so large that by

[1] Imports rose also because France had drawn heavily on its commodity stocks in the second half of 1950, resulting in a greater need for imports in 1951, and because of a liberalization of French commercial policy.

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March 1952 the bank's holdings were near exhaustion; in addition, other foreign assets available to the monetary authorities were also being drawn on. The settlement of France's February deficit with the EPU required an emergency credit from the EPU of 100 million dollars.

Table II

Foreign Trade

(Monthly averages; in millions of dollars; excluding trade of Metropolitan France with French overseas territories)

Period	Exports	Imports	Balance	Exports as percentage of imports
1938	53	80	− 27	66
1948	91	204	−113	45
1949	132	204	− 72	65
1950	163	189	− 26	86
1951	222	303	− 81	73
1951—January–March	228	255	− 27	89
April–June	237	318	− 81	75
July–September	204	309	−105	66
October–December	219	329	−110	67
1952—January–March	194	366	−172	53
April–June	194	306	−112	63
July–August	184	249	− 65	74

Source: Converted by the Federal Reserve Bank of New York from data published in the *Bulletin Mensuel de Statistique* of the Institut National de la Statistique et des Etudes Economiques.

Policies for Halting Inflation

Since the larger imports and reduced exports that aggravated the balance-of-payments deficit were clearly linked with the expansion of bank credit to business and individuals, general monetary restriction seemed particularly appropriate. Recourse to central bank credit was therefore made more costly in October and November 1951 through two successive increases in the discount rate, which went up from 2½ to 4 per cent; and the Bank of France announced that, in contrast to previous practice, it would enforce strictly its rediscount ceilings and security reserve requirements. As may be seen from Table I, the expansion in bank credit to business and individuals slowed down during the second quarter of 1952.

In March 1952 when the Pinay Government came into power, a new anti-inflationary policy was initiated. The first line of approach aimed at reducing the budget deficit. An increase in taxation was rejected in the light of earlier experience lest—especially if in the form of indirect taxes—it merely touch off another price rise. France's tax burden last year equaled two fifths of its estimated national income, compared with one fifth at the beginning of the reconstruction period in 1946; and as already noted, a larger portion of total government outlays was covered by current revenue in 1951 than in any other previous postwar year. The government, while leaving tax rates unchanged (although endeavoring to increase collections), concentrated on cutting or postponing expenditures. Since most of the ordinary expenditures could not be substantially cut and defense expenditures had to be increased,[2] it was inevitable that almost all the cuts should come out of capital expenditures, much of it at the expense of investment in basic industries. A large portion of the reduced deficit was to be financed by raising funds from what were, at least in the first instance, nonbank sources. Deficit financing involving a direct expansion of bank credit was to be avoided.

A new government long-term loan, the first one since early 1949, was issued in May. It carried important fiscal privileges, but its most distinctive feature was the linking of its redemption value (but not its coupon interest) to the price of the French 20-franc gold coin on the official free gold market in Paris. The loan, bearing 3½ per cent interest and redeemable over the next sixty years although callable after June 1960, was issued at par; in mid-September it stood at 99.50. The loan brought in 195 billion francs in fresh money; of this amount, 15 billion (or 42 million dollars) were subscribed with funds received from the sale of privately held gold. Prior to the issuance of the loan, a fiscal amnesty was announced for past tax evasion and foreign-exchange-control violations, coupled with more severe regulations and penalties for the future.

The second line of approach aimed at rolling back key prices. The government set the example last spring by reducing prices, or canceling previously scheduled price increases, of products and services under its control, such as coal, steel, electricity, gas, and railway rates. It decided last July to maintain unchanged for the 1952 harvest the price of wheat, and therefore the price of bread; simultaneously with the fixing of the wheat price, it announced a series of reductions in the prices of goods and materials used in agriculture. This direct governmental action was accompanied last spring by a campaign for voluntary price reductions by manufacturers and traders; it met with a generally encouraging response, although food price reductions by retailers did not fulfill the expectations of the authorities. In the face of a new rise in retail prices, which will be noted later, a ceiling was established last month on all prices at their August 31 level. New legislation passed last July prohibited minimum price agreements by producers. With a view to wage stability, a law adopted last July provided for a new sliding-scale formula, under which the minimum legal wage was to be increased only if the cost of living rose by 5 per cent above its level in December 1951 and then only after two months' delay; further wage raises are to be granted only after additional 5 per cent cost-of-living increases, and then only after four months' intervals.

In the field of foreign trade and payments the government had recourse to various direct-control measures, some of which were of a stopgap character. Measures were taken to prevent prepayments for imports and delayed payments for exports, and

[2] Budgeted defense expenditures were increased from 857 billion francs (2,450 million dollars) in 1951 to 1,269 billion francs (3,625 million dollars) this year; they now represent 36 per cent of total budgetary expenditures.

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the tourist allowance was also cut. Capital movements with EPU countries, which had been previously freed to a large extent, were made subject to new control. Certain steps were taken to reimburse exporters for taxes and social insurance payments falling on exports, in order to make possible a reduction of export prices to more competitive levels. The liberalization of trade with Western European countries, which had been inaugurated in 1949 under OEEC auspices, was suspended.

The Abatement of Inflationary Pressure

Within a month of the Pinay Government's formation, France's financial atmosphere had changed markedly. This change was reflected in the decline in the price of gold on the Paris gold market; the 20-franc gold piece, for instance, fell from over 5,000 francs in February to 3,860 francs at the end of June when the subscriptions to the gold-guaranteed loan were closed; it stood at about 3,850 francs at the end of September. The altered atmosphere was also reflected in the behavior of prices: wholesale prices, which had been rising at the rate of 2 per cent monthly, fell from February through June by 6 per cent; in July and August, however, they rose again by about 1 per cent, largely because of higher food prices. The reduction in wholesale prices was aided by the decline in the prices of imported raw materials, but prices of French agricultural and industrial products also fell noticeably. However, the price reductions by producers were apparently not fully passed on to consumers, since retail prices declined only by 4 per cent from February through July 1952, and actually increased again by over 1 per cent in August.

The expansion in the money supply tapered off by mid-1952, as may be seen from Table I. Bank credit expansion to government and business and individuals, though not entirely halted, slowed down by June 1952. The proceeds of the gold-guaranteed loan, along with other nonbank borrowing, were reportedly sufficient to enable the Treasury to balance its operations for the time being. Notwithstanding the decline in prices, in recent months the proceeds from taxes on business transactions and gross commercial earnings, which represent half of total government ordinary revenue, have shown an increase.

Industrial production attained a new high in the first half of 1952, at about 7 per cent above the corresponding period of 1951, and some 50 per cent above prewar. However, although the fall in prices apparently did not bring about any marked slowing down in economic activity, industrial production seems to have declined somewhat more than seasonally during the summer vacation period. The wheat harvest was better than last year, although drought conditions and the further spread of foot-and-mouth disease reportedly had some adverse effects on the food supply.

Improved Foreign Trade Balance

The foreign trade deficit declined from a monthly average of 172 million dollars during the first quarter of 1952 to 65 million during July-August, as appears from Table II, and the proportion of imports covered by exports went up during the same period from 53 per cent to 74. This somewhat better balance was the outcome of a sharp decline in imports; exports continued to decline somewhat. However, the reduction in the foreign trade deficit, along with the seasonal peak of tourist expenditures, sufficed to enable France to improve its position vis-a-vis the European Payments Union. Its EPU accounts were almost balanced by April; in June it had a surplus of 22 million dollars and repaid the emergency credit granted in February. In July, however, it had a minor deficit of 3 million, and in August one of 23 million. With the dollar area, France's trade deficit declined from a monthly average of 59 million dollars during the first quarter of 1952 to 29 million in July-August, but this too was the result of a sharp reduction in imports, since exports also showed a downward trend. The deficit was largely covered by receipts of United States aid.

On the other hand, Metropolitan France's surplus in trade with the French overseas territories during the first half of 1952 ran even higher than last year. France's imports from the overseas franc area showed a steady upward trend, but exports, which averaged the equivalent of 119 million dollars monthly in the first half of 1951, went up to 152 million during the first half of this year. This surplus was financed mainly by French capital exports, on both official and private account. France's surplus with the French overseas territories offset to a considerable extent its deficit with foreign countries. However, Metropolitan France had also to finance the deficit of its overseas territories in their own trade with foreign countries; a large part of this deficit was incurred by Indo-China where production and export are being greatly hindered by the war.

Conclusion

By and large, the inflationary pressure which carried French prices to new high peaks by the beginning of 1952 has subsided in the last six months. True, the internal balance thus far achieved must still be considered tentative, the balance-of-payments deficit still remains large, and monetary reserves are low; nevertheless, rampant inflation and the crisis in external payments have been halted. The problem that France is facing today is essentially one of maintaining—in a situation greatly dependent on psychological factors—effective restraints on government and private expenditures. A government budget that avoids net inflationary effects is very difficult for a country that is bearing the burdens of armed vigilance in Europe and of

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the war in Indo-China. Equally difficult is the deferring of investment in industrial plant, agriculture, and housing in a country where, despite the high rate of investment in recent years, the output of goods exceeds the peak interwar year of 1929 by only about one fifth, or much less than in most other industrial countries. Yet, important gains have been shown in reconciling the many demands on the French economy with the need for controlling inflation—gains sufficiently impressive to suggest reasonable hope for a durable stability in French economic affairs.

DEPARTMENT STORE TRADE

On a daily average basis, estimated figures for September showed that dollar sales of Second District department stores had fallen 5 per cent below sales in September 1951, making the tenth consecutive month that the bank's adjusted index failed to equal year-earlier levels. Spurred by continued lagging sales performance, department and apparel stores both in New York City and various other Second District localities are joining the nation-wide trend toward increased night openings in an attempt to persuade consumers to part with more of their dollars.

Commitments outstanding for new merchandise increase from the end of July to the end of August by 3 per cent in addition to the usual seasonal rise experienced during the month.

Trends in Homefurnishings

During recent months year-to-year increases in dollar sales made by Second District furniture stores have given an indication of renewed consumer interest in household durables, despite the fact that sales of that type of merchandise by District department stores have fallen noticeably below year-ago levels. In May, instalment buying in furniture stores, stimulated by the lifting of Regulation W, rose 24 per cent above May 1951, causing a sizable increase in total sales. In the following month, a year-to-year gain of 13 per cent in instalment sales more than offset a decline of 21 per cent in cash sales. A contraseasonal decline in dollar volume of total sales from May to June suggested that part of the large dollar volume in May might have been "borrowed" from the following month. In July, however, a year-to-year increase of 11 per cent reassured furniture dealers that consumers were still interested in durable homefurnishings. Major homefurnishing departments in District department stores, the most important competitors of the furniture stores, were still unable to find such encouragement—sales of the furniture, floor covering, major appliance, and radio and television departments of Second District department stores showed substantial year-to-year declines in sales for the fourteenth consecutive month.[1] (In July these declines by departments were 14, 31, 1, and 27 per cent, respectively.)

[1] With the exception of a slight year-to-year increase in sales of the furniture departments in July 1951 and the radio and television departments in November 1951.

The extent of consumer demand for household durables is far from clear; despite considerable sales promotion, furniture retailers were disappointed by the smaller-than-expected sales in August which resulted in a 4 per cent decrease from last August's figures. (In evaluating the change in unit sales it should be noted, however, that "housefurnishing" prices in August, as measured by the Bureau of Labor Statistics, were 4 per cent lower in New York City and 3 per cent lower in the country as a whole than they were 12 months before.) Once again department stores fared less well than furniture stores with figures for August showing declines of 11, 16, 28, and 47 per cent, respectively, in the four hard-goods departments previously mentioned. The large decline in the major household appliance departments was particularly unexpected since those departments had shown by far the most favorable year-to-year comparison in the previous month.

The relatively poor showing of department store homefurnishing departments is partially the result of unfavorable year-to-year comparisons with months of unusually strong department store activity in 1950-51 during the two scare-buying

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

Locality	Net sales		Stocks on hand
	Aug. 1952	Jan. through Aug. 1952	Aug. 31, 1952
Department stores, Second District	−8	−8	−15
New York City*	−12(−9)	−11(−9)	−18(−15)
Nassau County	n.a.	n.a.	n.a.
Northern New Jersey	−7	−6	−17
Newark	−10	−7	−18
Westchester County	+2	−1	−6
Fairfield County	−1	+1	−2
Bridgeport	−2	+1	—
Lower Hudson River Valley	+1	+2	−13
Poughkeepsie	+7	+2	−13
Upper Hudson River Valley	−4	−2	−9
Albany	−1	−4	−15
Schenectady	−10	+2	0
Central New York State	−2	−3	−7
Mohawk River Valley	0	−2	−15
Utica	−2	0	−16
Syracuse	−4	−4	−3
Northern New York State	+16	+2	−15
Southern New York State	+4	+1	−11
Binghamton	+4	+1	−15
Elmira	+4	+1	−5
Western New York State	−3	−2	−9
Buffalo	−2	0	−10
Niagara Falls	+2	+2	—
Rochester	−6	−5	−8
Apparel stores (chiefly New York City)	−5	−1	−11

n.a. Not available.
* The year-to-year comparisons given in parentheses exclude the 1951 data of a Brooklyn department store that closed early in 1952.

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waves and the price war. This "abnormal" comparison had definitely ended by July, however, and continued sizable declines from year-ago figures have pointed up the relatively better sales performance of Second District furniture stores.

In the past, there has not always been too close a correlation between the sales trends of these two competing types of stores. Between the census years of 1939 and 1948 the increase in sales of homefurnishings in New York State department stores was slightly lower than that in total sales by furniture stores in the State. (As was pointed out in a study in the November 1951 *Monthly Review,* both of these retail store groupings failed to match the spectacular increase recorded by their relatively new competitors, the home appliance stores.) From 1948 to 1949, sales of homefurnishing departments of District department stores fell approximately 10 per cent but District furniture store sales were only slightly below the peak level of 1948. In 1950, however, department stores bettered their sales performance markedly while furniture stores, sharing less heavily in the scare buying following the outbreak of the Korean conflict, were able to increase sales for 1950 as a whole by only 2 per cent over the previous year. This modest gain, however, was enough to set a new sales record. Department store homefurnishing departments continued to achieve year-to-year gains greater than those of furniture stores in early 1951, but, after midyear, comparison with the scare-buying-inflated sales following June 1950 formed a pattern of continuous year-to-year declines for the department stores which have persisted (with only the minor exceptions previously noted) up to the present. Furniture stores, which had shown smaller increases the year before, showed smaller declines during late 1951 and early 1952, after which increases began to appear.

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

Item	1952 August	1952 July	1952 June	1951 August
Sales (average daily), unadjusted	76	69	95	80
Sales (average daily), seasonally adjusted	102	95	98	106
Stocks, unadjusted	107	102	105	125
Stocks, seasonally adjusted	111	116	113	129

It is apparent that different credit and trade-in policies of these competing retail outlets can affect their relative sales trends, regardless of the similarity of their merchandise. The discontinuation of consumer instalment credit control in May of this year brought an immediate increase in use of "time" payment plans, which traditionally account for over three fourths of all furniture sales. For the three-month period of May, June, and July, instalment sales showed a year-to-year gain averaging 19 per cent compared with a decline of 14 per cent in cash sales. Although comparable figures are not available for homefurnishing departments of District department stores, the lapse of Regulation W does not seem to have acted as a notable stimulus to sales of those departments.

As a result of the increase in instalment sales in furniture stores, accounts receivable on August 31 were 10 per cent above those a year earlier. Owing partly to lengthened repayment periods of instalment contracts which are no longer under regulation, collections lagged 8 per cent behind those during August 1951.

The dollar value of stocks on hand in Second District furniture stores has remained well below comparable 1951 levels during all of this year. As the stocks-sales ratios in the accompanying table indicate, furniture stores succeeded quite well in the difficult task of reducing top-heavy inventories which had been swollen as a result of widespread misjudgment of consumer demand for durable merchandise and of the availability of supplies last year. In August, however, the decline in sales from the previous year was almost equal to the year-to-year drop in stocks, bringing the stocks-sales ratio for the month up to last year's figure of 5.3.

Sales and Stocks of Second District Furniture Stores*

Month	Percentage change 1951 to 1952: Total sales	Instalment sales	End-of-month stocks	Stocks-sales ratio: 1952	1951
January	−9	−5	−12	6.0	6.3
February	−1	+2	−15	5.6	6.6
March	−6	−2	−16	5.1	5.9
April	+2	+11	−15	5.3	6.4
May	+12	+24	−14	4.4	5.8
June	+2	+13	−13	4.5	5.3
July	+11	+20	−9	5.7	7.1
August	−4	+3	−5	5.3	5.3

* Total sales comparisons are based on a larger number of stores than are those for instalment sales, stocks, and stocks-sales ratios.

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NATIONAL SUMMARY OF BUSINESS CONDITIONS

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

Industrial production recovered sharply in August and rose further in September to its previous postwar high. In September, seasonally adjusted sales at department stores are estimated to have declined following a marked rise in August, while expanded output has permitted some recovery in automobile sales. Wholesale prices declined somewhat after mid-August, reflecting largely heavy marketings of livestock. Consumers' prices continued at record levels.

Industrial Production

The Board's index of industrial production increased to 215 in August from 193 per cent of the 1935-39 average in July, reflecting mainly the rapid return to full-scale operations at steel mills and a marked gain in nondurable goods output. According to preliminary estimates, industrial production has risen further in September to 223.

Steel production rose in August to 92 per cent of rated capacity and by late September was scheduled at a new record rate of 104 per cent. Activity in machinery and transportation equipment industries showed only a limited recovery in August but has apparently increased substantially in September. Passenger auto assemblies this month are estimated to have totaled about 445,000 units, the largest monthly output since June 1951. A substantial pick-up in production of television sets and major household appliances in August and September reflected earlier large inventory declines and increased consumer buying.

Expansion in nondurable goods output in August reflected principally greater-than-seasonal increases at textile and paperboard mills. There was also a sharp recovery in coke output, and petroleum refining, which was already close to earlier peak rates in August, rose further in September. Total meat production since mid-August has averaged 8 per cent above a year ago, with production of beef and veal up by about a fourth and pork down considerably.

Minerals output has increased sharply in August and September with resumption of iron ore mining and marked gains in output of crude petroleum and coal.

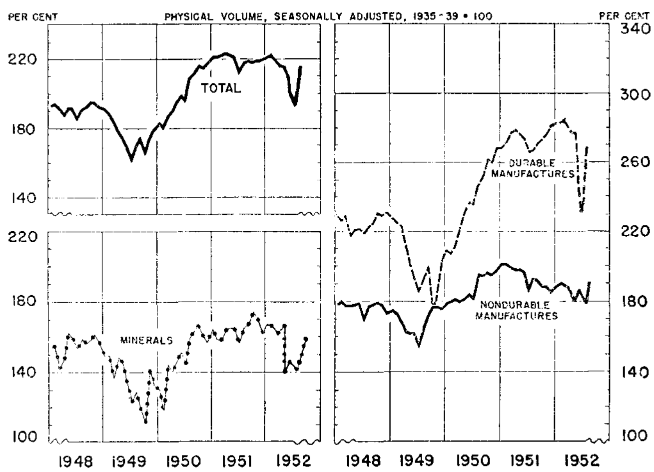
Construction

Value of construction contract awards declined slightly in August as awards for public nonresidential work dropped sharply following three months of steady increases. Value of new construction put in place was the same as in July, after allowance for seasonal influences. The number of housing units started in August declined more than seasonally to 99,000 from 104,000 in July, but was 11 per cent larger than in August 1951.

Employment

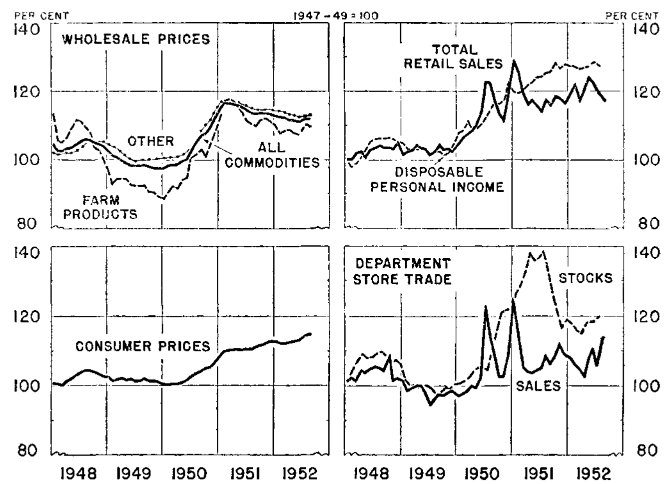
Employment in nonagricultural establishments, after allowance for seasonal changes, rose in August to 46.8 million, an all-time high. In steel-consuming industries the number employed and employee working time increased but remained below pre-strike levels. Average hourly earnings of factory workers were up about one per cent from July to $1.66—the level of other recent months. Unemployment declined in August to 1.6 million, reflecting in part the end of the steel strike and in part seasonal factors.

INDUSTRIAL PRODUCTION



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

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.

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DISTRIBUTION

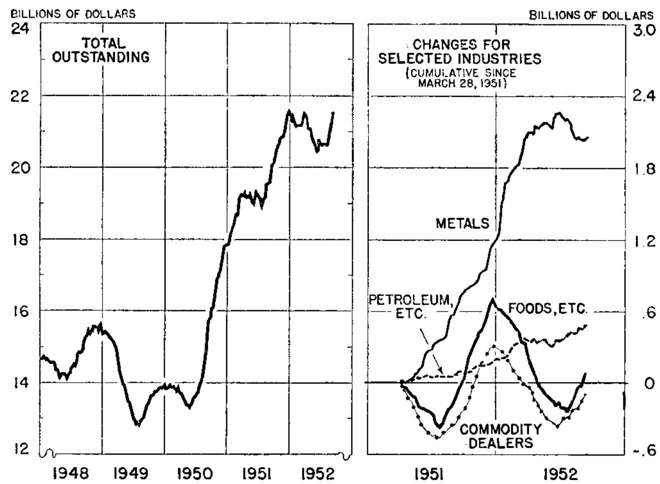
Sales at department stores, which had shown a greater-than-seasonal rise in August, increased less than seasonally in the first three weeks of September but remained close to year-ago levels. Reflecting in part the rise in sales, seasonally adjusted stocks at department stores are estimated to have declined somewhat in August. Sales of new passenger cars have risen from the sharply reduced August rate and, with output considerably expanded, dealers' stocks are being replenished.

COMMODITY PRICES

The general level of wholesale commodity prices declined somewhat from mid-August to the third week of September. The major decreases were in livestock and products owing partly to a considerable expansion in marketings of cattle. Prices of industrial commodities generally showed little change.

The consumers' price index rose further by 0.2 per cent in August. Average prices of foods again advanced and rents and fuel prices increased, while prices of apparel declined slightly further.

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 September 17.

BANK CREDIT

Total bank credit outstanding at weekly reporting banks showed little change between mid-August and mid-September. All major types of loans increased, but holdings of U. S. Government securities declined. Business loans increased about three quarters of a billion dollars, reflecting largely credit for marketing crops as well as some borrowing in connection with tax payments in mid-September.

Bank reserve positions continued tight until mid-September, and borrowings from the Federal Reserve generally exceeded excess reserves. Thereafter, borrowings were reduced as banks obtained reserve funds as a result of a decline in Treasury balances at the Reserve Banks and System purchases of U. S. Government securities in connection with the October 1 certificate refinancing.

SECURITY MARKETS

Yields on Treasury bills declined during the first three weeks of September, while yields on long-term Treasury bonds rose somewhat. The Treasury offered 2⅛ per cent 14-month notes in exchange for the 10.9 billion dollars of certificates maturing October 1, 1952, and has also announced an offering of 2.5 billion of 161-day tax anticipation bills to be dated October 8 and to mature March 18, 1953.

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