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MONEY MARKET IN NOVEMBER

The conditions that had maintained pressure on the money market during October were again in evidence and the money market remained tight throughout November. Member bank loans continued to expand seasonally, and the accompanying growth in deposits increased bank demands for funds to provide the required reserves. At the same time the various factors affecting the volume of reserves tended, on balance, to drain funds out of the market. The increase in float and decrease in currency in circulation, which regularly supply funds to the market around the middle of each month, provided only a degree of temporary relief. By the end of November, a large end-of-month and holiday drain on reserves, along with a substantial increase in required reserves occasioned by the large increase in Treasury Tax and Loan balances derived from a new issue of tax anticipation bills, had placed the money market under renewed pressure.

Some member banks met the need for additional reserves through the security market, by selling securities to nonbank investors, but a substantial part of the funds needed were secured at the "discount window" of the Reserve Banks. During November, discounts and advances at the Federal Reserve Banks reached the highest levels in more than thirty years. The demand for Federal funds in the New York market exceeded the available supply on nearly every day, and quotations on Federal funds held steady at a level only nominally lower than the Federal Reserve discount rate (in a number of instances, transactions took place at the discount rate).

The market for short-term Treasury securities reflected the general tightness of money, and yields on most issues rose gradually but steadily during the month. Price changes on Treasury bonds and notes were mixed. Generally, the market sentiment responsible for the improvement in Treasury bond prices during October had weakened by the end of the first week in November, and prices of fully taxable issues moved erratically lower for the remainder of the month. Prices of the longer bonds and the intermediate issues, after rising at the beginning of the month, had receded to levels near or below their end-of-October quotations by the close of trading for November.

Treasury financing operations during November included the sale of an additional 2 billion dollars in tax anticipation bills and refunding of the 1,063 million dollars of 1⅞ per cent certificates of indebtedness maturing December 1. The new tax anticipation bills were offered for tenders on November 13, dated November 21, to mature June 19, 1953 (they are acceptable at par in payment of income and profit taxes on June 15). Awards were made to successful bidders at an average discount of 1.846 per cent. In refunding the maturing certificates, the Treasury reopened the 2 per cent certificates of indebtedness due August 15, 1953, on a par for par exchange plus accrued interest. Exchange subscriptions were received for 82 per cent of the maturing issue. Also in November, the Treasury announced that the 2 per cent bonds of September 1953 that were callable on November 15 for payment in March 1953 will not be called for payment at that time.

MEMBER BANK RESERVE BALANCES

The usual turn-of-the-month influences tending to draw down bank reserve balances appear to have been reinforced in early November by the Election Day holiday. As a result, Table I shows that member banks lost reserves totaling more than 500 million dollars in the statement week ended November 5 through an increase in currency circulation, a reduction in float, and net Treasury receipts. In addition, there was a reduction of more than 100 million dollars

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

Factor	Statement weeks ended				Four weeks ended Nov. 26
	Nov. 5	Nov. 12	Nov. 19	Nov. 26	
Operating transactions					
Treasury operations*	−186	+280	−205	+411	+300
Federal Reserve float	−178	+ 14	+598	−219	+215
Currency in circulation	−208	−157	+ 63	−310	−612
Gold and foreign account	+ 11	+ 3	− 53	− 14	− 53
Other deposits, etc	+ 58	+ 6	− 12	− 16	+ 36
Total	−503	+145	+393	−148	−113
Direct Federal Reserve credit transactions					
Government securities	−104	+ 47	− 4	+198	+137
Discounts and advances	+492	− 79	− 98	+129	+444
Total	+388	− 32	−102	+327	+581
Total reserves	−115	+113	+291	+179	+468
Effect of change in required reserves	+ 78	+ 9	−147	−328	−388
Excess reserves	− 37	+122	+144	−149	+ 80

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

in Federal Reserve security holdings. A part of this loss of banking reserves was offset by a decline in required reserves, but by far the largest part was met by a sharp increase in borrowing from the Federal Reserve Banks. Discounts and advances on November 5 amounted to 1,663 million dollars, the highest Wednesday total since July 1921 and, despite some net repayments from time to time during the course of the month, borrowing from the Federal Reserve Banks at no time in November fell much below 1,300 million dollars.

Changes in the volume of reserves held by the banking system during the remainder of November followed the typical intramonthly pattern for this season of the year. Currency in circulation increased markedly over the four statement weeks in November, tending to reduce bank reserves particularly in the early part of the month and just before the Thanksgiving holiday. On the other hand, float tended to add to banking reserves, as its contraction after the midmonth peak was somewhat less than the preceding expansion.

The decline in float and increase in currency in circulation in the latter part of the month were only partially offset by the reserve balances released to the market through net expenditures by the Treasury from its deposits with the Federal Reserve Banks. During the same period, the increase in the Treasury's Tax and Loan Accounts with depositary banks resulting from the sale of 2.0 billion dollars in new tax anticipation bills had the effect of increasing required reserves substantially. To meet part of the resulting pressure on bank reserve positions, the Federal Reserve System in the last half of the month added to its holdings of short-term Treasury securities through outright purchases for System Account and through repurchase agreements made with dealers by the Federal Reserve Bank of New York. Member bank discounting provided the other major source of reserves as the tightness became progressively more severe in the closing days of the month, and by the end of November borrowing from the System exceeded even the high level reached early in the month.

New York City banks were placed under particularly severe pressure by the combination of forces making for money market tightness in November. During the statement week ended November 5, City banks increased their borrowing from the Federal Reserve Bank by 383 million dollars in order to provide for a heavy outflow of funds to other parts of the country and a loss of reserves through Treasury operations. Some net repayment of borrowing was made possible over the following two weeks by a moderate flow of funds into New York and other factors, but borrowing by the City banks continued in considerable volume throughout the month despite the sale by the banks of some 340 million dollars of Government securities in the three weeks ended November 19. The New York banks acquired large amounts of the new tax anticipation bills on November 21, but had redistributed a moderate volume to other investors by the end of November.

The Government Security Market

Yields on most short-term Treasury securities increased steadily throughout the past month, extending the movement that had started in the last half of October. Exceptions to the general picture until the last week of the month were the December and, to some extent, the early January bill maturities, which were in demand by corporations seeking short-term investment of tax and dividend funds needed in December and by commercial banks preparing for year-end adjustments. The prevailing tightness in the money market and caution induced by the possibility of somewhat tighter conditions before the year end were reflected in higher yields for the longer Treasury bills and the certificates of indebtedness. Corporate investment, which had provided the major source of demand in the short-term market during the past several months, was considerably lighter in November, while at the same time bank liquidation of these issues was substantial. Average rates to successful bidders on new issues of three-month Treasury bills rose week by week, from 1.796 per cent on the issue dated November 6 to 1.931 per cent on the issue dated November 28. The latter rate is the highest average issuing rate since March 1933, during the bank holiday, and is about equal to the highest rate reached in market trading during the culmination of year-end pressures in December 1951. A varying total of short-term securities was held during November by the Federal Reserve Bank of New York under repurchase agreements with dealers, and in the last half of the month a limited volume of securities was purchased for the System Open Market Account.

Treasury financing in short-term securities during November apparently had only limited direct influence on price and yield movements in the security market. The largest part of the 2.0 billion dollars of new tax anticipation bills was absorbed initially by commercial bank investors, to be redistributed in the secondary market as corporations accumulate tax funds for payment in June. The Treasury certificate refunding announcement was favorably received in the market, and the quoted bid on the maturing issue held at a slight premium during the exchange. In contrast with most other refunding operations in recent years, the Federal Reserve System made no purchases of the "rights" (i.e., the maturing certificates, to be used in exchange when tendering for the offering).

Prices of taxable Treasury bonds moved sharply higher on Thursday, November 6, in continuation of the price recovery in the last half of the preceding month, but this initial increase was subsequently lost as prices drifted unevenly lower over the remainder of November. Treasury bonds closed November at price levels not substantially changed from the end-of-October quotations, with most issues quoted fractionally lower. The most important influence on bond prices during the month was a reappraisal by the market of the basis underlying the bullish atmosphere that had developed during October. In view of the somewhat more rapid seasonal expansion of bank loans in recent weeks and the outlook for continued pressure on bank credit facilities for the remainder of the year, the expectations of a firmer security market early in 1953, which had influenced the recent price advance, were tempered. Furthermore, uncertainties with respect to the Treasury debt management program of the new Administration, which it was believed might include greater emphasis on medium and long-term financing, dictated a certain degree of caution in the bond market. This cautious attitude characterized the bond market during the last three weeks of the month, and day-to-day price changes were usually small on a limited volume of trading. Most trading activity was in the intermediate bonds and notes, largely representing switching for tax purposes, while the long-term market mainly reflected a modest volume of professional activity.

Member Bank Credit

Business loans of the weekly reporting member banks continued to expand seasonally during the three statement weeks ended November 19. Commercial, industrial, and agricultural loans of these banks rose by 588 million dollars over the three-week period; in the comparable periods in 1951 and 1950 the increases were 301 million and 499 million dollars, respectively. Since June 25 of this year through November 19, business loans of the weekly reporting banks have risen by 2,078 million dollars, compared with increases of 1,652 million and 3,373 million dollars in 1951 and 1950.

While the over-all total of business loan expansion since midyear this year is not substantially larger than the increase for the similar period last year, the distribution of loans by business of borrower shows a marked change. Between June 25 and November 19 of this year, loans to the food, liquor, and tobacco group of manufacturing industries have accounted for approximately one third of the total increase in classified loans, and loans to commodity dealers account for another one third. Most of the remainder represents loans to wholesale and retail concerns, sales finance companies, and petroleum and other manufacturing industries. Loans to metals and metal product firms actually declined. Data on the dollar volume of loan expansion by industry are contained in Table II. In the similar period in 1951, on the other hand, the increase in loans to the metals and metal product industries amounted to nearly one third of the total gain in classified loans, a reflection of the defense retooling program then in progress and now largely completed. This was partly offset by a reduction in borrowings by the textile and apparel group, reflecting inventory liquidation, which has had no parallel in the latter half of 1952. It would appear that a much larger proportion of the loan expansion this summer and fall has been of a characteristically seasonal nature than was the case last year.

The weekly reporting member banks in New York City between June 25 and November 19 of this year have found it necessary to obtain reserves to provide not only for the seasonal increase in private credit demands but to provide, as well, for an outflow of funds that has resulted in a net decline in adjusted demand deposits over that period of 719 million dollars. To meet this situation, the City banks have sold security investments from their portfolios, with the result that, despite an increase of 491 million dollars in loans held by these institutions since June 25 (including an 804 million dollar increase in business loans), their total loans and investments have actually declined by 698 million dollars. The record for the reporting member banks in the other 93 cities shows that their total loans increased by 1,860 million dollars between June 25 and November 19 (of which 1,274 million was in business loans) while their security investments also increased, by 535 million, giving a total increase in loans and investments at the other 93 centers of 2,395 million dollars for the period.

Table II
Changes in Business Loans of Reporting Member Banks by Type of Business, 1951 and 1952
(In millions of dollars)

Business of borrower	June 25 to November 19, 1952	June 27 to November 21, 1951
Manufacturing and mining:		
Food, liquor, and tobacco	+670	+661
Textiles, apparel, and leather	−1	−285
Metals and metal products	−37	+633
Petroleum and other	+253	+195
Trade—wholesale and retail	+218	+81
Commodity dealers	+649	+531
Sales finance companies	+145	−106
Public utilities and transportation	−75	+318
Construction and other	+151	−87
Classified changes—net	+1,973	+1,941
Unclassified changes—net	+105	−289
Net change in commercial, industrial, and agricultural loans	+2,078	+1,652

BRITAIN'S ECONOMIC PROGRESS

One year has passed since the Churchill government, in the midst of Britain's third postwar balance-of-payments crisis, fell heir to the task of formulating an economic program to halt the unprecedentedly rapid drain on the sterling area's gold and dollar reserves. Today, while there is no cause for complacency, Britain's economic position stands greatly improved; inflationary pressures have been brought under better control, a small balance-of-payments surplus was realized during the first six months of 1952, and, more recently, gold and dollar reserves have shown a small gain.

The Government's Policy Program

The rapid deterioration in Britain's international economic position after mid-1951 was caused by a complex of forces, both internal and external. Internally, the British authorities had permitted commodity stocks to be heavily drawn down during 1950, only to find in early 1951, when restocking could no longer be postponed, that replenishment had become much more expensive as a result of the sharp "post-Korea" rise in prices of raw materials. The resultant strain upon the balance of payments was intensified, as the year progressed, by the rising burden of rearmament expenditure. Furthermore, net invisible earnings fell sharply after midyear, chiefly because of the loss of Abadan oil, a drop in net shipping earnings, and the first payments on the United States and Canadian loans. Exports rose only moderately during the second half of 1951 and therefore provided little relief. Superimposed on Britain's own drafts upon the gold and dollar reserves were those of the overseas sterling area, whose imports continued at remarkably high levels in 1951 after a downturn in their earnings developed in the second quarter. Finally, the magnitude and speed of the resulting reserve drain gave rise to, and was much intensified by, a flight from sterling mainly in the form of accelerated payments for imports and delayed receipts for sterling exports.

In these pressing circumstances, the prime requisite of policy was to provide convincing evidence that the pound sterling would be vigorously defended. This challenge, it may be fairly stated, was successfully met by the new program, the principal features of which took form over the period beginning with the assembly of the new Parliament on November 8, 1951 and culminating with Chancellor of the Exchequer R. A. Butler's first budget in March 1952.[1]

Of crucial importance to the restoration of confidence in sterling were the measures taken to rehabilitate traditional monetary controls—the increases in the Bank of England's discount rate in November 1951 and March 1952 and the further steps taken to reinforce the psychological impact of these changes. These steps included increases in the special rate on Bank of England loans against Treasury bills (the effective rate at which central bank credit is available to the market), the withdrawal of the central bank's support for Treasury bills, the funding of Treasury bills into short-term bonds in order to reduce the liquidity ratios of the commercial banks, the re-assumption by the Bank of England of the initiative for providing relief to the money market under tight market conditions, and finally, qualitative measures to restrain the growth of consumer instalment credit and to limit the availability of both bank credit and capital funds to "essential" uses only.

In formulating the 1952-53 budget, on the other hand, the Chancellor of the Exchequer did not attempt to budget for an over-all surplus, notwithstanding the inflationary implications both of rising defense expenditure and of the hoped-for recovery of Britain's balance of payments. The 1952-53 budget, as submitted, provided for an approximate over-all balance, in which the "below-the-line" (i.e., capital account) deficit was to be matched by an "above-the-line" (i.e., current account) surplus, with rearmament outlays comprising almost one third of the total estimated expenditure. Nevertheless, as originally planned, Chancellor Butler's budget represented an improvement over the 1951-52 budget, which had resulted in an over-all deficit of approximately 150 million pounds. The original 1952-53 budget, moreover, provided for a reduction in civil expenditure, and made several changes designed to enhance individual incentive and budgetary flexibility. In particular, the fiscal burden of food subsidies was reduced by almost 40 per cent, the impact on the consumer being softened partly by an increase in various welfare benefits and partly, as an inducement to increased individual effort, by a reduction in income taxes.

In the field of foreign economic policy, substantial import cuts were announced in November 1951 and on three later occasions, although the effects of these cuts were not realized until well along in 1952. Other measures included a cut in January in travel allowances and, on the export side, a greater availability of export credit guarantees and increased allocations of scarce raw materials to export industries. Furthermore, in December the Bank of England freed the forward exchange rate and simultaneously broadened the spread between the official spot buying and selling rates to nearly one per cent, thereby introducing a small but nevertheless useful element of flexibility in the foreign exchange market.

The broader problems of the sterling area as a whole were taken up in January 1952, when a conference of Commonwealth finance ministers was convened to provide for concerted action, by national policy measures appropriate to the special circumstances of each country, to bring the sterling area into economic balance with the rest of the world, and with the dollar area in particular. As a longer-run matter, the conference laid particular stress on the development of the sterling area's resources and, as a definite ultimate objective, on sterling

[1] For a more detailed account of the government's program, see the May 1952 issue of this *Review*.

convertibility. One prerequisite of convertibility was considered to be a rebuilding of the sterling area's central gold and dollar reserve.

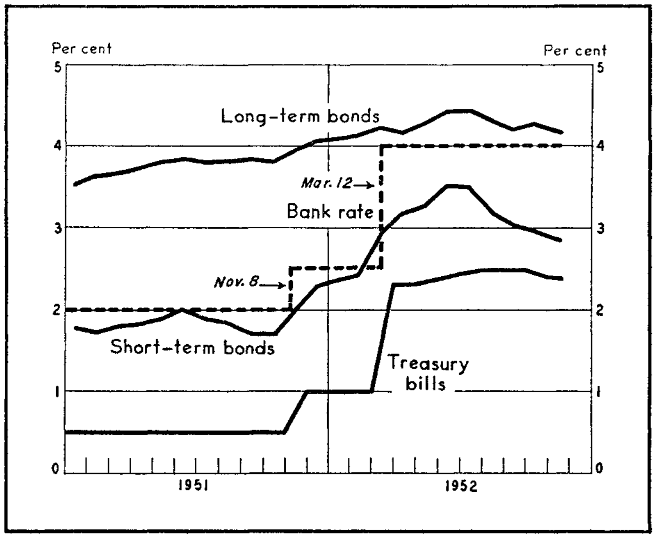
Monetary-Fiscal Developments

The various new monetary restraint measures have apparently succeeded in increasing the cost and reducing the availability of bank credit. The entire pattern of interest rates has moved upward, with government bond yields reaching a peak about midyear, while at the same time the range between short and long-term rates narrowed (see the accompanying chart). In addition, although the Bank of England's "special buyer" has at times been active in relieving market stringency, the discount houses, which serve as the medium through which such central bank credit is channeled to the market, have had to obtain assistance more frequently on relatively unfavorable terms. Partly as a result of these changes and of the strengthening of qualitative controls, bank credit to the private sector has noticeably contracted. Bank advances, which rose by 40 million pounds in the quarter ended mid-February 1952, declined contraseasonally by 52 million in the quarter ended in mid-May, and by a further 156 million in the quarter ended in mid-August, at which time they totaled 1,848 million. The clearing banks' commercial bill portfolios dropped from 187 million pounds to 102 million, and then to 64 million, over roughly the same periods.

Since the first quarter of 1952, however, the government's monetary restraint program has been increasingly threatened by a mounting budgetary deficit and the manner in which it has been financed. Although a seasonal deficit is normally incurred during the first three quarters (April through December) of the fiscal year, this year's seasonal deficit has been unexpectedly large. As of October 25, the "above-the-line" or current account deficit was 382 million pounds, compared with a deficit of 82 million for the corresponding period in 1951, while the "below-the-line" deficit was 301 million as against 309 million in 1951.[2] The poorer budgetary showing for 1952-53 to date, however, is partly due to the following special or temporary factors: (1) much of the budgeted additional revenue will not be received until after January 1; (2) defense expenditures have been running at a higher level than a year ago; and (3) the full benefits from the reduced expenditures on food subsidies did not appear until October.

The deficit has been financed chiefly through credit expansion based on increased clearing bank holdings of Treasury bills, which rose by 500 million pounds in the five months ended August 20. Thus, although private bank credit continued to decline, net deposits on a seasonally adjusted basis rose gradually from February through September—a fact that, with the strengthening of confidence in Britain's prospects following Chancellor Butler's July speech, helps to explain the down-

British Government Security Yields



Latest figures are for November 21.
Long-term bonds: 2½ per cent Consols (monthly average); short-term bonds: 2¼ per cent Exchequer Stock, 1955 (monthly average); Treasury bills: three-month (approximate month end).
Sources: Central Statistical Office, *Monthly Digest of Statistics; The Economist.*

ward trend of government bond yields after June. By October these yields had returned to approximately the March levels.

Deficit financing has also tended to weaken the government's monetary restraints by increasing the liquidity position of the commercial banks. After the short-term debt-funding operation in November 1951, the clearing banks' average liquidity ratio dropped sharply, falling from 39.1 per cent in October to 32.0 per cent in November, or almost to the conventional ratio of 30 per cent. Since the April 1952 low of 31.6 per cent, however, this ratio has increased much more than seasonally, reaching almost 38 per cent in September, and has thereby increased the danger of a renewed inflationary expansion of credit to private borrowers.

Thus far, however, the adverse budgetary development appears to have constituted more a potential than an actual impairment of monetary restraint, since a continuing high level of customer loan rates has discouraged borrowing, while qualitative credit controls, including capital issues control and the Bank of England directives regarding advances, have continued to exert their restraining effect. Moreover, as a by-product of a recent series of debt-funding operations, the condition of excessive bank liquidity has now been partially rectified in that these operations have permitted a sizable reduction in the outstanding volume of bank-held Treasury bills. In consequence, the average liquidity ratio of the clearing banks dropped to 34.4 per cent in October. It may be further reduced by the anticipated large government revenue surplus in the last quarter of the current fiscal year ending March 31, 1953.

The deteriorating budgetary position, which in addition to its potentially harmful effects on the monetary restraint program has also had its own direct inflationary impact, has thus been the weak link in the government's program to date. In

[2] The present budgetary deficit appears still more serious when it is recalled that in 1951-52 an over-all deficit of about 150 million pounds was finally realized for the entire fiscal year, while the over-all 1952-53 objective is a balanced budget.

view of the present large size of the deficit, it is doubtful that the last quarter's revenue surplus will be sufficient to swing the budget to an over-all balance for the whole fiscal year as originally planned. At the same time, it is possible that the economy has to some extent already absorbed the inflationary impact of the large deficit, and now stands to benefit shortly from the prospective transition to a revenue surplus in the last quarter of the fiscal year.

On balance, the past year has seen a gradual diminution of internal inflationary pressure and an increase in the flexibility of the British economy. While these have been due in part to an independent slackening of demand, both internal and external, in certain lines of consumer goods, much of the change must be credited to the new monetary policy. Aggregate consumption expenditure during the first half of 1952 was 4 per cent below the corresponding period in 1951, chiefly because of a reduced demand for textiles, clothing, hardware, furniture, and housefurnishings. Retailers' stocks had dropped by 15 per cent in August 1952 from a year earlier and were down in almost all categories of nonfood merchandise. While this inventory readjustment is in part a natural reaction to lower consumer demand, it undoubtedly also reflects the efficacy of the new monetary restraints.

The checking of inflationary pressures has, as was to be expected, led to a fall in production and a moderate rise in the number of unemployed, but these phenomena have been prerequisites to bringing about needed shifts in the distribution of labor. The average index of production for the first eight months of 1952 was 4.5 per cent lower than in the corresponding period of 1951 for manufacturing industries and 3.3 per cent for industry in general. Unemployment rose gradually to 2.4 per cent of the total labor force in the early months of the year, but, following a gradual recovery of demand for textiles and clothing, dropped to 1.9 per cent in October, compared with 1.3 per cent in October 1951. Although there has been some corresponding improvement in the mobility of labor, additional workers are still required in certain areas, especially in the engineering industries which have been faced with convergent demands for production for defense, export, and domestic investment.

The slackening of internal inflationary pressures may also be seen in price and wage trends. Wholesale prices in October were 2.5 per cent below their January peak—a rise in wholesale food prices being more than offset by a fall in prices of basic materials. Retail prices, after a rise of about 5 per cent in the first half of the year, declined slightly during the third quarter, but rose again to the midyear level in October when food subsidies were further reduced. Over the first three quarters of the year, wage rates increased by 3 per cent or slightly less than the cost of living.

Apart from the large budget deficit, the chief threat of domestic inflation has loomed from the wage side. Although the unions have exhibited a considerable measure of voluntary restraint in response to government pleas, wage increases have recently been granted to the railway, engineering, and shipbuilding workers, and other wage claims are pending. Such increases, if reflected in higher prices of exports, may tend to weaken Britain's competitive position abroad, but this effect has not yet become evident.

The Restoration of External Balance

The measures taken by the government along the abovementioned policy lines, together with some favorable changes in the international economic climate, succeeded in restoring an over-all balance in Britain's external accounts in the first half of 1952, while the overseas sterling area countries have apparently also made considerable progress towards a restoration of external balance. In terms of the central gold and dollar holdings of the sterling area as a whole, the drain on reserves was halted in the second quarter of 1952, while the October statement has revealed an 82 million dollar increase. This has been achieved, however, partly at the expense of a reversal of the United Kingdom's trade-liberalization policy in Europe and of cutbacks by the sterling area of dollar and other imports. The sterling area has consequently a considerable road still to travel before it reaches its stated objectives of sterling convertibility and of the restoration of freedom to its foreign trade.

During the first six months of 1952, the United Kingdom achieved a surplus on its international accounts of 24 million pounds, even after excluding United States aid, as compared with a deficit of 394 million in the last half of 1951. Most of the 1952 improvement, which was substantially better than had been generally expected, came from a considerably better trade balance. January-June imports declined nearly 250 million pounds from their July-December 1951 total, primarily as the result of the government's import restrictions, while exports rose by about 110 million (see Table I). There was also a modest improvement in Britain's invisible accounts, stemming from the January reduction in tourist allowances, from increased shipping earnings, and probably from some increase in earnings from oil. The recovery in the over-all trade and payments accounts has been greatly aided by the improvement of Britain's terms of trade; by June, import

Table I
The United Kingdom's Over-all Balance of Payments on Current Account
(In millions of pounds)

Item	1949	1950	1951	Jan.-June 1951	June-Dec. 1951	Jan.-June 1952
Imports (f.o.b.)	1,974	2,372	3,494	1,646	1,848	1,600
Exports and re-exports	1,820	2,226	2,715	1,310	1,405	1,516
Balance of trade	−154	−146	−779	−336	−443	− 84
Net shipping	+ 82	+120	+120	+ 80	+ 40	+ 49
Net interest and dividends	+ 78	+126	+ 98	+ 80	+ 18	+ 45
Net travel	− 30	− 22	− 33	− 8	− 25	+ 4
Government transactions	−148	−139	−151	− 74	− 77	− 96
Other (net)	+178	+319	+280	+187	+ 93	+106
Net invisibles	+160	+404	+314	+265	+ 49	+108
Balance of current transactions*	+ 6	+258	−465	− 71	−394	+ 24

* Excluding defense aid.
Source: *United Kingdom Balance of Payments 1949 to 1952*, Cmd. 8666.

prices had fallen slightly below the 1951 average while export prices had risen 6 per cent. The resulting increase in the purchasing power of British exports has considerably eased the twin problems of covering a higher proportion of imports with exports while maintaining the former at adequate levels.

Britain has clearly achieved a noteworthy recovery in its external position, but two qualifications must be noted concerning the record outlined above. First, although export receipts for the first six months of 1952 showed some improvement over the second half of 1951, a disturbing downward trend has developed since the first quarter. In the second quarter of 1952, according to British trade statistics, exports were 15 per cent below the first quarter, and in the third quarter they fell a further 8 per cent. However, the rise of 36 million pounds in exports in October, although it does not necessarily mean a reversal of the above trend, is encouraging. Secondly, despite the over-all improvement in Britain's balance-of-payments position, the geographical distribution of trade and payments still leaves considerable scope for improvement. In the first six months of the year, Britain earned a surplus of 268 million pounds from the overseas sterling area, or as much as in any previous entire year; in its nonsterling accounts, on the other hand, there was still a deficit of 244 million. While the latter represents a reduction of nearly 60 per cent from the last half of 1951, the deficits with the dollar area and with the European Payments Union still were greater than in the first half of 1951.

The major balance-of-payments problem facing Britain in the second half of 1952 has been not so much the improving of its over-all position (although this is, of course, also desirable), but rather the shifting of the pattern of its payments so as to reduce the nonsterling deficit. So far, the progress toward this objective has been secured primarily by discriminatory cuts in imports from the dollar area and Continental Europe. Britain's nonsterling imports have continued to fall as a result; in the third quarter of 1952 the nonsterling monthly import bill was cut by 49 million pounds, compared with the first half of the year.

The export outlook, on the other hand, is somewhat more mixed. The decline in exports has been accounted for to date by the marked fall in exports to the overseas sterling area and to certain countries that have been experiencing sterling shortages. Exports to the United States, Canada, and EPU countries, on the other hand, have been well maintained, and in October, exports to North America were the highest of any month in the postwar period. Barring retaliatory import restrictions on the part of the Continental countries, it appears probable that export performance in these nonsterling markets will be reasonably satisfactory during the next few months. In general, therefore, the available data suggest that the United Kingdom may well be making further progress in the second half of 1952 in reducing its nonsterling deficit.

The outlook for sterling depends, of course, not only on Britain's own relationship with the nonsterling world but also, to a very large extent, on the payments position of the overseas sterling area with the dollar and other nonsterling markets. Most of the overseas sterling area countries that have run heavy deficits (as a rule these have been the independent members) appear to be making strenuous efforts to bring their payments positions into balance. As a whole, the area made considerable progress in the first half of 1952 towards eliminating its imbalance with the nonsterling world. A deficit of about 250 million dollars' equivalent with EPU countries in the second half of 1951 was reduced to 50 million in the first half of 1952, and there was a smaller improvement in the overseas sterling area's balance with the dollar area. When sales of newly mined gold to the United Kingdom are combined with the above payments balances, the resulting overseas sterling area deficit was reduced from about 320 million dollars in the last half of 1951 to only 20 million in the first half of 1952. In most cases, the success achieved through import restrictions has been reinforced by internal anti-inflationary measures and by a decline in import demand that followed the fall in incomes after the collapse of the raw material price boom. In addition, there appears to have been some revival of demand for overseas sterling area exports, although these are still far below their boom levels and their price prospects are uncertain.

One of the most striking features of the recent improvement in Britain's gold and dollar reserves has been the sweeping change in the sterling area's position in the EPU. By May, Britain had completely exhausted its credit quota with the EPU and was consequently forced to settle all further deficits wholly in gold and dollars. In the first eight months of the year, Britain lost 484 million dollars in gold and dollars to the EPU (see Table II). Early in August, Britain introduced a temporary plan by which British traders could purchase certain dollar area goods for re-export to the Continent against payment in sterling. Since the unexpectedly large demand for licenses for such transactions threatened to lead to a larger outlay on dollar goods than could have been recouped from any resulting improvement of Britain's position with the EPU, the plan had to be withdrawn after less than ten days of operation. Nevertheless, the plan appears to have

Table II
The Sterling Area's Gold and Dollar Position
(In millions of dollars)

Period	Settlements with the EPU*	Balance on other gold and dollar accounts†	Total gold and dollar balance	United States aid	Change in reserves	Reserves at end of period
1950–July-December...	+ 13	+572	+585	+292	+877	3,300
1951–January-March..	+ 76	+284	+360	+ 98	+458	3,758
April-June.......	+ 17	+ 37	+ 54	+ 55	+109	3,867
July-September..	−106	−532	−638	+ 40	−598	3,269
October-December	− 98	−842	−940	+ 6	−934	2,335
1952–January-March..	−219	−417	−636	+ 1	−635	1,700
April-June.......	−143	− 73	−216	+201	− 15	1,685
July-September..	−127	− 6	−133	+133	nil	1,685
October.........	+ 37	+ 10	+ 47	+ 35	+ 82	1,767
November.......	+ 96	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. Not available.
* EPU settlements are made in the month following that in which the surplus or deficit is incurred.
† Including minor amounts of defense aid prior to 1952.
Sources: *United Kingdom Balance of Payments 1949 to 1952*, Cmd. 8666; *The Economist*, November 8, 1952.

reinforced the recent general improvement in the sterling area's EPU position, an improvement that has stemmed mainly from the decline in imports from EPU countries. In August, the deficit was reduced to 4.7 million dollars, compared with 99 million in July, while in September and October the sterling area earned surpluses of 37 and 96 million dollars.

The improvement in the payments position of Britain and the overseas sterling area with both the dollar area and the EPU, together with the increased flow of United States defense aid, has been reflected in recent months in the small but encouraging increase in Britain's gold and dollar reserves. In the second and third quarters of 1952, the total gold and dollar deficit of the sterling area was reduced to 349 million dollars, of which 334 million was offset by United States aid. In October, the return flow of gold from the EPU as the result of the sterling area's September surplus, together with the small surplus earned in other gold and dollar accounts and the receipt of United States aid, added 82 million dollars to Britain's gold and dollar reserves. A further rise in November seems assured by the receipt of 96 million dollars from the EPU for October settlements.

Problems and Prospects

Chancellor Butler, in a speech on October 7, summarized Britain's current economic position by stating: ". . . in our external finances we have gained an invaluable breathing space, and internally we have succeeded in introducing an element of flexibility". The breathing space thus secured affords an opportunity for consolidating some of the gains already achieved and for minimizing probable or possible future threats to Britain's internal and external stability. Among these dangers perhaps the most prominent are the threat to internal balance that would result from a failure to improve the government's budgetary position, the danger that any significant increase in wages would pose for the maintenance of both internal price stability and the competitive position of British exports, the possibility of a further decline in exports (perhaps aggravated by shortages of sterling and by retaliatory action against British import restrictions), and the risk of excessive inventory depletions arising from any prolonged continuation of import cuts.

Nevertheless, the recent general improvement in Britain's economic position has been achieved on a relatively sturdier basis—for example, without any over-all reduction in the volume of raw material stocks—than previous recoveries in the earlier postwar period. Moreover, the capacity of the economy to cope with new problems as they may arise has been enhanced by the greater reliance upon controls over the cost and availability of credit to the private sector of the economy.

The question of longer-run viability for the sterling area as a whole is presently being subjected to extensive review at a new Commonwealth conference now in session in London. The conference is expected to undertake a broad reappraisal of Commonwealth commercial, financial, and development policies in the light of the accomplishments and problems that have been, in a limited way, mentioned here. It is to be hoped that the proposals forthcoming from this meeting will provide a further basis for sustained improvement in the sterling area's economic position, and for the eventual restoration of sterling convertibility.

"WHAT IS WRONG WITH DEPARTMENT STORE SALES?"

For more than a year now department store sales in this District have been almost continually below year-ago levels. The aggregate sales record of Second District department stores for the first ten months in 1952 has been markedly less favorable (in terms of year-to-year comparisons) than have sales of department stores in the country as a whole. In addition, department store sales generally have not fared as well as total retail sales.

What accounts for this relatively unfavorable showing? No simple answer to this question is possible. Too many influences have played a part to permit any fully satisfactory explanation. In part, the cause may be found in incomplete statistical reporting; in part, the difference may be attributable to changes taking place in New York City, in the distribution of its population, or in the income status of its residents; in part, the changes may reflect underlying shifts in the patterns of consumer spending and saving; and in part, the changes may also reflect a tendency toward decline in the relative importance of department stores in the retail trade of this District or of the country generally. It is the purpose here to discuss briefly some of the factors which appear to have had an important bearing on the course of department store sales in this District in 1952, without attempting to assess their individual importance.

Revised Data

It should be noted at the outset that the comparative sales of Second District department stores, thus far this year, have unavoidably been somewhat understated in the data published by this bank. The opening of important new branch stores in recent years has posed continuing problems in the collection and tabulation of sales and other data. Frequently data are not available, or are not reported, for some time after the opening of branches. Oftentimes the branches handle limited lines, and thus do not "qualify" for inclusion in a department store tabulation, or only become "qualified" after operations have been diversified. It is illustrative of the problems involved that extensive branch store data have just recently become available, in suitable form, for revision of previously published District totals through October of this year and for inclusion in the regularly published department store trade reports in the near future. The addition of these data for branch department stores reduces somewhat the magnitude of the year-to-year decline that had earlier been indicated for the first ten months of 1952. As shown in Table I, the over-all year-to-year decrease in sales for the District as a whole is consequently changed from minus 6 to minus 4 per cent for the period from January through October of this year.

Exclusion of New York City

It is also important to recognize that, after taking into account the recent revisions, there has been a small increase in the aggregate sales of District department stores outside New York City over this ten-month period as a whole, although declines were shown in four of the months (see Table I). New York City sales, however, have accounted for about 55 per cent of the District total and have declined an average of 9 per cent. Moreover, when New York City sales are excluded from the national totals, the sales record for the rest of the country for the first ten months of 1952 also shows an increase (1 per cent) from the corresponding period in 1951. Clearly some further analysis of the factors affecting New York City department store sales is called for, and that is attempted here largely in terms of the current situation.[1] Some of these factors would be expected to exert a general influence on retail trade in the City, while others might have had a particularly strong influence on City department store sales.

Employment and Wages in New York City

There have been no pronounced recent changes in wages or employment to account for the relative decline of department store sales in New York City. Employment in New York City from January through September (latest data available) has averaged almost 24,000 more than in the comparable period a year ago. The principal increases have occurred in service industries, apparel and other finished fabric products industries, and certain durable goods manufacturing industries, notably in the manufacturing of electrical machinery, equipment, and supplies.

Moreover, wages in New York City's major industries compare reasonably well with wages in similar industries in the country as a whole, in terms of both absolute level and rate of change since last year. For example, weekly earnings of production workers in manufacturing industries in 1951 averaged $63.23 in New York City, while in the United States as a whole the comparable figure was $64.88, reflecting the larger proportion of heavy industries in other areas. In 1952, weekly earnings in manufacturing industries have averaged about 3 per cent higher than in 1951 both here and in the entire country. Average weekly earnings of employees in wholesale and retail trade, service, finance, and transportation and public utilities industries—which account for more than half of the City's total nonagricultural employment—have generally increased somewhat more since 1951 than have wages in comparable industries in the nation as a whole.

[1] A discussion of long-term trends in department store sales in New York City appeared in the June 1952 issue of this *Review*.

Table I
Department Store Sales in Second Federal Reserve District and New York City January-October 1952*
(Per cent change from preceding year)

1952	Previously published District data	Revised District data to include additional stores	New York City	Revised District data excluding New York City
January	−16	−16	−18	−13
February	− 5	− 4	− 6	− 2
March	−12	−11	−13	− 6
April	+ 3	+ 5	− 2	+15
May	− 4	− 2	− 6	+ 3
June	−13	−11	−19	− 1
July	− 4	− 2	− 9	+ 6
August	− 8	− 6	−12	+ 1
September	− 1	0	− 3	+ 5
October	+ 2	+ 4	− 1	+10
January-October	− 6	− 4	− 9	+ 2

* The per cent changes shown here are based upon data which include the sales of a Brooklyn department store that closed early this year.

"Cost of Living" and Consumer Budgets

Retail prices in New York City, as measured by the Bureau of Labor Statistics consumers' price indexes for moderate-income families, have changed little on the average since the beginning of the year, a situation similar to that of the country as a whole. In both cases, however, the slight changes that have occurred have been in an upward direction. Higher rents have offset somewhat lower prices of food, apparel, and home-furnishings.

Also pertinent to this phase of the discussion of consumer behavior is a study of the relative importance of several major consumer expenditures in various cities in 1950 published by the United States Department of Labor in the August 1952 issue of its *Monthly Labor Review.* This study was based on data derived from samples of all families and of families of wage-earners and clerical workers in selected cities. While the surveys show that New York City families spend proportionately more for housing and food than do families in most other large cities, New Yorkers allot about the same percentage of their budgets to expenditures for apparel and house-furnishings as do families in the other major cities surveyed. This is possible primarily because of the substantially smaller proportion of family expenditures for transportation in New York City. There may, of course, have been some change since 1950 in these proportions of income used for various purposes; but no data are yet available to show that New Yorkers devote a significantly different proportion of their incomes to purchases of department store type merchandise, as compared with residents of other large cities in the United States.

Savings

It is possible that the nation-wide rise of liquid savings over the past year or more may have been relatively greater in New York City than elsewhere, with perhaps some related shrinkage of total consumer spending. The evidence is by no means conclusive. It may be of some significance, however, that there has recently been a marked increase in savings bank deposits in this City. Deposits (including accrued interest) at mutual savings banks in New York City have risen 6 per cent since the first of this year. The net addition to mutual savings deposits in New York City from January through October amounted to 615 million dollars, or triple the increase during the same period last year.

How much of this recent increase in mutual savings deposits represents a net increase in liquid savings in New York City and how much was the result of shifts from other types of savings, e.g., time deposits at commercial banks, cannot be precisely determined. The rise in savings bank dividend rates over the past year would certainly tend to encourage such shifts. However, it is not likely that an increase in savings, if it did occur, would have exerted any special effect on department store sales as distinct from other retail outlets (at least from others selling department store type merchandise). On analogous grounds, the broad effects of the 3 per cent sales tax on retail purchases of most items in New York City may have hurt retail trade in this City, but these effects have not been confined to any one type of store. These factors could, however, have had an influence on the comparison between department store trade in New York City and in the rest of the country.

Comparison With Competing Retail Outlets

Undoubtedly, one of the most important factors affecting department stores sales in New York City (or anywhere else, for that matter) is the competition of other types of stores selling merchandise commonly found in department stores. For many years, department stores have tended to lose ground to other types of retail outlets. For example, according to the *Census of Business,* sales of New York City department stores increased 147 per cent between 1939 and 1948. During the same period, furniture and apparel stores' sales expanded 231 and 159 per cent, respectively. The relative decline in the department stores' share of the total market is even more significant because in 1939 sales of department stores 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 total sales of department store type merchandise in New York City, while in Chicago, Philadelphia, Los Angeles, and Detroit, department stores commanded 48, 45, 37, and 39 per cent of their respective markets.

Since 1948, this City's department stores apparently have continued to lose ground relative to competing retail outlets, particularly since the beginning of this year. New York City department store sales from January through October have declined 9 per cent from year-earlier levels. Sales of furniture stores, on the other hand, increased by 3 per cent while apparel store sales remained unchanged. A further indication of the competitive pressure from furniture stores is suggested by the average year-to-year decrease of 18 per cent in sales of the homefurnishings departments in City department stores. One reason for the much more favorable showing of the furniture stores since May has probably been their more widespread use of easy credit arrangements to stimulate sales, following the lifting of specific controls over this type of credit.

Sales of men's and women's apparel and accessories in department stores, which accounted for almost half of total store sales during the first ten months of this year, were 5 per cent below corresponding 1951 levels, while, as just noted, total apparel store sales were unchanged.

Perhaps the stiffest competition has come from the radio-appliance stores that have generally placed far more emphasis on payment terms, liberal "trade-ins", and trial deliveries in their promotional efforts than have the department stores. Some indication of the relative sales performance of this type of store may be gained from data published by the U. S. Bureau of the Census, which showed that sales of household appliance-radio stores in New York City and part of Westchester County were down by only 12 per cent from year-ago levels from January through September of this year. Sales of major appliances, television sets, and radios in New York City department stores, on the other hand, averaged 37 per cent below year-ago levels for the first nine months of 1952.

It is evident from the foregoing data that the relative importance of department stores in total New York City retail trade has been declining in recent months, perhaps at a faster rate than had been the case for the last several years.

Population

Another and probably more basic factor influencing the general level of retail activity is population change. Inasmuch as a comprehensive census of population is conducted only decennially, however, it is difficult to determine year-to-year changes in population and even more difficult to assess the possible effects of these changes on consumer buying habits and retail trade from year to year. Despite these limitations, some analysis of shifts and growth in population is necessary for any meaningful analysis of trends in retail trade.

While in the aggregate New York City's population increased by 6 per cent between 1940 and 1950, the net addition of about 450,000 persons was the smallest ten-year gain in over 60 years. Moreover, the increase was due entirely to the sharp rise in the excess of births over deaths in the early postwar years as, for the first time in the City's history, more people moved out of the City during the ten-year period than moved in. The net out-migration from 1940 to 1950 was 135,000 persons. According to estimates of the City Planning Commission, over three quarters of a million people left the City in the 1940-50 decade. This amounted to one out of every ten persons living here in 1940. As a partial offset to this movement out of the City, about 145,000 Puerto Ricans had taken up residence in New York City and an estimated 125,000 quota immigrants and displaced persons were living within City boundaries in 1950. There are two other large sources of New York City in-migration: Negroes, predominantly from the South, and native whites from various parts of the country who continuously move here for diverse economic and personal reasons. Although no current data are available, these shifts have presumably continued and are exerting a cumulative effect on retail trade in New York City.

While it is impossible to assess accurately the effects of these population shifts on retail trade, the out-migration of a large segment of the City's middle-income groups has probably outweighed, incomewise, the in-migration of a large number of persons of a generally much lower income status. Thus, the net effect of this type of qualitative population shift was likely to decrease the total amount of money available to those City residents who are, in the main, the most frequent patrons of department stores in New York City. Therefore, in evaluating the changes in employment and wages discussed earlier in this article, allowance should be made both for the fact that those data include persons living outside of the City as well as New York City residents and for the fact that these shifts in the composition of the population have occurred.

In addition to the migrations into and out of the City, there has been a notable shift in growth patterns within the City itself. For example, substantial population increases have accompanied the rapid residential development of the outlying sections of The Bronx and Queens. These areas are almost exclusively serviced by small specialty shops which have greatly reduced the need for the local resident to make the trip to the long-established downtown department stores.

Another very important population change that New York City retailers have had to contend with is the tremendous shift to the suburbs which has reached its peak during the last few years. The New York State counties in the New York Metropolitan area (outside New York City) increased, populationwise, by about 30 per cent from 1940 to 1950. The population of the New Jersey counties in the New York Metropolitan area grew by about 15 per cent. The rapid expansion of the suburban population has, of course, been accompanied by a tremendous growth in the number of retail stores in these areas. These suburban trade centers have captured a part of the market formerly held by New York City retailers.

While the nature of the net out-migration from New York City is in most respects not unlike that which has occurred

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952			1951	Percentage change	
		October	September	August	October	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	227*p*	226	214	218	#	+ 4
Electric power output*	1947-49 = 100	147	145	148	137	+ 1	+ 7
Ton-miles of railway freight*	1947-49 = 100	—	107	103	107	+ 3	− 3
Manufacturers' sales*‡	billions of $	24.5*p*	23.7	21.9	22.7	+ 3	+ 8
Manufacturers' inventories*‡	billions of $	43.3*p*	43.2	43.1	42.4	#	+ 2
Manufacturers' new orders, total*‡‡	billions of $	25.1*p*	24.4	21.8	24.3	+ 3	+ 3
Manufacturers' new orders, durable goods*‡‡	billions of $	12.6*p*	12.2	9.9	12.6	+ 3	#
Retail sales*††	billions of $	14.4*p*	13.8	13.3	13.2	+ 4	+ 9
Residential construction contracts*	1947-49 = 100	—	191	193	160	− 1	+ 7
Nonresidential construction contracts*	1947-49 = 100	—	218	217	127	#	+64
Prices, wages, and employment							
Basic commodity prices†	Aug. 1939 = 100	284.7	290.8	293.6	331.1	− 2	−14
Wholesale prices†	1947-49 = 100	111.2*p*	111.8	112.2	113.7	− 1	− 2
Consumers' prices†	1935-39 = 100	190.9	190.8	191.1	187.4	#	+ 2
Personal income (annual rate)*	billions of $	—	273.3*p*	269.6	261.7	+ 1	+ 6
Composite index of wages and salaries*	1939 = 100	—	239*p*	237	228*r*	+ 1	+ 5
Nonagricultural employment*	thousands	47,220*p*	47,206	46,951*r*	46,415*r*	#	+ 2
Manufacturing employment*	thousands	16,190*p*	16,128	15,911*r*	15,748*r*	#	+ 3
Average hours worked per week, manufacturing†	hours	41.5*p*	41.3	40.6	40.5	#	+ 2
Unemployment	thousands	1,284	1,438	1,604	1,616	−11	−21
Banking and finance							
Total investments of all commercial banks	millions of $	77,030*p*	75,890*p*	76,340*p*	73,730	+ 2	+ 4
Total loans of all commercial banks	millions of $	66,410*p*	61,200*p*	60,210*p*	56,750	+ 9	+17
Total demand deposits adjusted	millions of $	98,620*p*	96,360*p*	95,750*p*	94,960	+ 2	+ 4
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,437	29,284	29,146*r*	28,274	+ 1	+ 4
Bank debits (U. S. outside New York City)*	millions of $	95,248	91,075	93,822	88,163	+ 5	+ 8
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	115.6	114.5	116.7	113.4	+ 1	+ 2
Consumer instalment credit outstanding†	millions of $	—	15,188*p*	14,940	13,196	+ 2	+15
United States Government finance (other than borrowing)							
Cash income	millions of $	3,418*p*	6,897	4,877	2,857*r*	−50	+20
Cash outgo	millions of $	6,534*p*	6,066	5,622	5,803*r*	+ 8	+13
National defense expenditures	millions of $	4,245*p*	4,393*r*	3,534	3,518	− 3	+21
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	134	131	131	124	+ 2	+ 8
Residential construction contracts*	1947-49 = 100	—	—	168*p*	119	+ 2	+ 9
Nonresidential construction contracts*	1947-49 = 100	—	—	142*p*	118	− 3	+ 1
Consumers' prices (New York City)†	1935-39 = 100	186.0	186.0	185.7	183.0	#	+ 2
Nonagricultural employment*	thousands	—	7,584.4*p*	7,553.4	7,404.3*r*	#	+ 2
Manufacturing employment*	thousands	2,765.7*p*	2,753.7	2,736.8*r*	2,641.5*r*	#	+ 5
Bank debits (New York City)*	millions of $	55,560	52,423	48,501	47,971	+ 6	+16
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of $	4,263	4,040	3,759	3,916	+ 6	+ 9
Velocity of demand deposits (New York City)*	1947-49 = 100	135.1	131.7	134.7	119.6	+ 3	+13

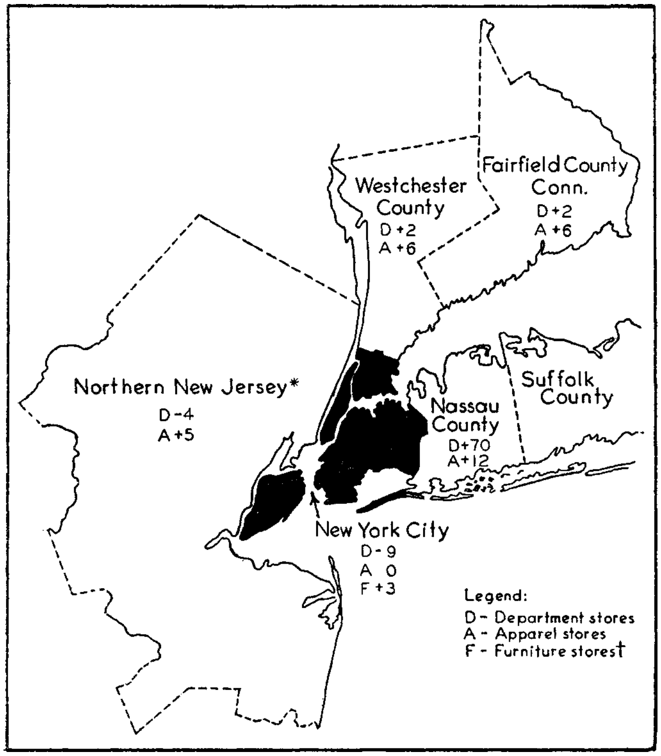
Note: Latest data available as of noon, December 2.

p Preliminary.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
r Revised.
Change of less than 0.5 per cent.
‡ Series revised 1949 to date.
†† Revised back to January 1951.
‡‡ Series revised 1948 to date.

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

Per Cent Change in Retail Sales by Type of Store in Localities Within the New York Metropolitan Area

(Change from January-October 1951 to January-October 1952)



*Northern New Jersey includes Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Passaic, Somerset, and Union Counties.
†Furniture store data available only for New York City.

in many other areas throughout the country, the shift in population to the suburbs is perhaps unique in its effects on department store sales both in New York City and in the New York Metropolitan area. First, the large middle-class exodus, as mentioned earlier, represented not only a net loss of population but also a change in the income composition of the population that remained, since the in-migrants were predominantly of a much lower income status. This undoubtedly resulted in a net loss of spendable income available to City department stores, possibly of somewhat greater proportions than would be felt by retail trade in general. Second, the rapid suburban population growth occurred, in many cases, in areas where apparel store branches had already been established, a phenomenon which may not have been generally the case in the suburban areas of other large cities.

Suburban Retailing

Some indication of the effects of the large out-migration to suburban areas on retail sales in New York City is shown in Table II and in the accompanying chart. In every case for which adequate data were available, department and apparel store sales in the peripheral sections of the New York Metropolitan area, through October of this year, were much more

Table II
Retail Sales by Type of Store in New York Metropolitan Area,† January-October 1952
(Per cent change from preceding year)

Locality	Department	Apparel	Furniture
New York City	− 9	0	+ 3
Northern New Jersey	− 4	+ 5	n.a.
Westchester County	+ 2	+ 6	n.a.
Fairfield County	+ 2	+ 6	n.a.
Nassau County	+70	+12	n.a.
Metropolitan Area*	− 6	+ 1	n.a.

n.a. Not available.
* Includes data for Suffolk County.
† Comprises New York City, Westchester, Nassau, and Suffolk Counties in New York State, Fairfield County in Connecticut, and Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Passaic, Somerset, and Union Counties in New Jersey. This differs somewhat from the standard metropolitan area defined by the Bureau of the Census which includes Rockland County, New York, and excludes Monmouth County, New Jersey, and Fairfield County, Connecticut.

favorable (in terms of year-to-year comparisons) than were sales of the same types of stores in New York City.[2]

Of course, the more impressive showing of department and apparel store sales in areas adjacent to New York City is partly the result of newness. Larger increases are normally expected in areas that are undergoing extensive economic development, where a rapid expansion of population, housing, and business activity is taking place, than in areas which have attained a greater degree of economic maturity. An excellent case in point is Nassau County which has undergone tremendous expansion in both population and business activity in recent years.

It is particularly significant to note that, except for Nassau County, apparel store sales in the New York Metropolitan area have increased relatively more, in terms of year-to-year comparisons, than have department store sales. This may be due (at least to some extent) to what may be described as the dominating competitive position of the small specialty stores in many of the more recently developed suburban areas. In addition, the large New York City apparel stores generally began their branch store operations well in advance of the department stores. Consequently, branch apparel stores were integrated into community shopping centers much sooner and in some localities have undoubtedly achieved a favored position in the buying habits of not only local consumers but also shoppers living in sections of New York City adjacent to suburban areas.

A more precise indication of the over-all competitive position of apparel stores is obtained from the data presented in Table II. Apparel store sales in the New York City Metropolitan area were up 1 per cent from year-ago levels during the first ten months of 1952, while department store sales were down 6 per cent.

Conclusion

This brief survey of some of the factors influencing Second District department store sales should indicate, at the least,

[2] Data for furniture store sales in areas outside New York City were not available on a sufficiently comprehensive basis. Hence, no precise measure of their recent sales performance is possible.

that there is no single explanation for their recent puzzling behavior. The inherent technical difficulties of maintaining a continuous statistical series for a changing business population suggest that, however useful it may be to have some data rather than none at all, there is always need for caution in using these data as precise and complete indicators of changes either at department stores or at other particular types of retail outlets, or for retail trade in general.

This article has deliberately avoided analysis of marketing techniques, or competitive sales and operating methods, in an effort both to focus attention on some of the more important external causes of the recent changes apparent in department store sales, particularly in New York City and, at the same time, to point up the changing importance of department store sales as an economic indicator. It is indeed significant, however, that, while all retail trade in New York City has been in some measure adversely affected by what has been termed "a qualitative shift in population", department stores in the City have also continued to lose ground to local apparel and furniture stores.

DEPARTMENT STORE TRADE

The hopes of Second District department store retailers for a continuation in November of the favorable sales performance made in October failed to materialize. On the basis of preliminary information, it appears that sales of District department stores fell sharply below those in November 1951, only partially because of one less shopping day this year; even on a daily average basis, sales were estimated to have been approximately 7 per cent below those a year earlier.

The movements of department store sales this fall have left many local retailers perplexed, with most relying on the controversial explanation of adverse weather conditions. After an encouraging spurt in sales in late summer, unseasonably warm weather in September apparently delayed interest in fall apparel lines. Subsequently cooler weather in October did seem to whet customers' interest; at any rate, sales pushed ahead to the highest level (on a seasonally adjusted basis) for the year. November sales increased less than usually, however, from the previous month. Warmer weather, on the whole, than was the case a year before was held largely responsible for lagging sales. The relatively small amount of buying on Election Day was also felt keenly by the stores, and Armistice Day sales in the next week not only failed to make up for the poor showing of the previous week but were unable to bring the week in which it fell up to year-earlier figures. District sales for the three months as a whole (September, October, and November) were estimated to be about 4 per cent below the same period in 1951.

After four successive greater-than-seasonal monthly increases in outstanding orders, commitments by Second District department stores for additional merchandise fell more than seasonally from the end of September to the end of October. The seasonally adjusted value of stocks on hand on October 31 showed no change from September.

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

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

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.

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

Item	1952			1951
	Oct.	Sept.	Aug.	Oct.
Sales (average daily), unadjusted	110	100	76	108
Sales (average daily), seasonally adjusted	105	95	102	103
Stocks, unadjusted	124	116	107	130
Stocks, seasonally adjusted	110	110	111	115

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, December 1, 1952)

Industrial production in October and November was slightly above the sharply advanced September level. Average wholesale prices of industrial commodities remained steady, while prices of farm products and foods eased further. Consumers' prices showed little change in October at a level slightly below their summer high. Bank loans to business increased sharply after mid-October.

Industrial Production

Reflecting mainly continued gains in durable goods industries, the Board's index of industrial production rose 1 point further in October to 227 per cent of the 1935-39 average. In November a similar gain is likely. Since September, output at factories and mines has averaged about 3 per cent above the levels prevailing during 1951 and early 1952.

Steel ingot production in October and November was at a new record rate of 106 per cent of rated capacity as of the beginning of this year. Activity in most metal-fabricating industries also advanced further. Television production rose to the near record annual rate of about 10 million sets in late October and continued at this level in early November. Passenger automobile assemblies were maintained at the high September-October rates until mid-November but subsequently declined owing mainly to model change-overs. Aluminum production was reduced further in October as a result of electric power shortages and was about 9 per cent below the very high August level.

Nondurable goods production showed a slight decline in October, as textile mill activity was reduced somewhat following marked recovery in the summer and early fall. Output of paper and paperboard, however, advanced further. Meat production was maintained in October and the first three weeks of November at levels well above those in the corresponding period a year ago. Output of most other nondurables continued at about the levels of the preceding month.

Minerals output declined in October and rose again in November, owing mainly to fluctuations in coal output. Crude petroleum production rose throughout the period, and output of metals was maintained in large volume.

Construction

Value of new construction work put in place, seasonally adjusted, during October was larger than in other recent months. Value of contract awards was below the near record September total, which included a large volume of atomic energy awards, but was about one-fourth larger than in October 1951. Housing starts in October rose to 101,000, as compared with 98,000 in September, and were at a seasonally adjusted annual rate of 1,156,000.

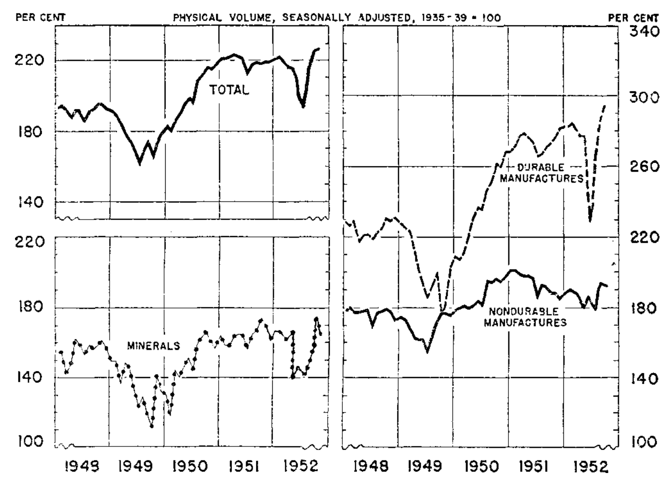
Employment

Seasonally adjusted employment in nonagricultural industries in October was maintained at the record September level of 47.2 million. Employment in manufacturing rose slightly to a new postwar peak of 16.2 million, and average hours of work and hourly and weekly earnings increased further. Unemployment declined again in October, to a new postwar low of 1.3 million.

Distribution

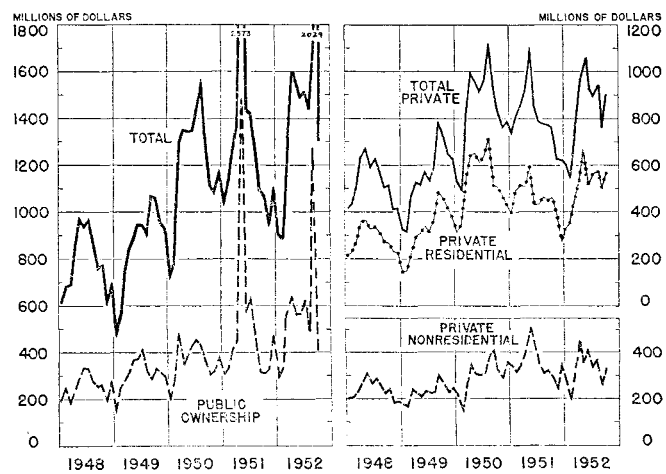
Retail sales rose sharply further in October to a level 9 per cent above a year earlier. Both durable and nondurable goods shared in the October advance, with the rise in automobile sales especially marked. Department store sales in the first half of November were running below their high October level, on a seasonally adjusted basis. Stocks at department stores are estimated to have continued little changed through October after seasonal adjustment.

INDUSTRIAL PRODUCTION



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

CONSTRUCTION CONTRACTS AWARDED



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 November 19.

Commodity Prices

Wholesale prices continued to decline in November, largely reflecting further decreases in prices of cotton, livestock, and meats. Cotton has declined to about 34 cents per pound since release in early November of a substantially larger crop estimate, and is now 8 cents below a year ago and 2 cents above the Federal support level. Prices of some industrial materials strengthened and prices of finished goods other than foods generally changed little.

The consumers' price index was about unchanged in October. Small decreases in foods and textile products were offset by advances in rents, fuels, and services.

Bank Credit

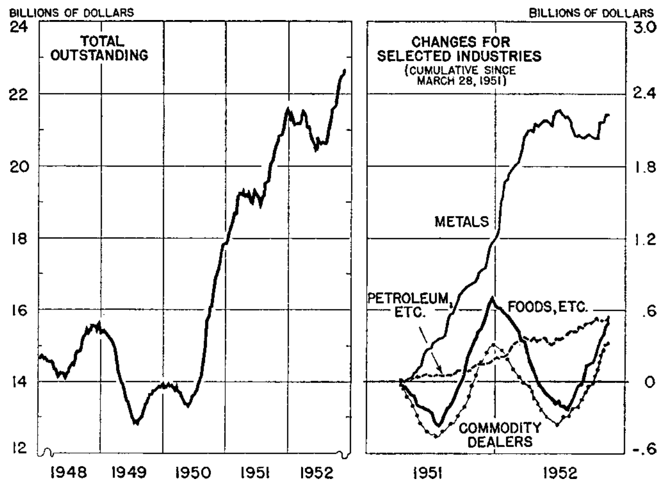
Business borrowing from banks expanded sharply in late October and the first three weeks of November. This expansion was more widely distributed than the earlier rise which had been concentrated in such industries as food processing, commodity dealing, and trade where loans normally increase at this season of the year. Consumer and real estate loans also continued to rise. The Treasury's issue of 2.5 billion of tax anticipation bills in October was bought at first largely by banks, but subsequently was purchased in substantial volume by corporations. Most of a second issue of such bills amounting to 2 billion dollars in mid-November was also taken up initially by the banking system.

Member bank reserve positions tended to be fairly tight during the mid-October to mid-November period. Reserve drains resulted principally from a currency outflow and an increase in Treasury balances at the Reserve Banks. In addition, Federal Reserve System holdings of Government securities were reduced somewhat. The average level of member bank borrowings exceeded 1¼ billion dollars over the period.

Security Markets

Common stock prices rose steadily in the first three weeks of November. Yields on high-grade corporate bonds receded to the levels of early September. Yields on Treasury bills and other short-term Government securities increased substantially. In addition to tax anticipation bills, the Treasury announced the offering of an additional amount of 2 per cent certificates of indebtedness maturing August 15, 1953 in exchange for the 1.1 billion dollars of 1⅞ per cent certificates maturing December 1, 1952.

BUSINESS LOANS AT MEMBER BANKS IN LEADING CITIES



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