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MONEY MARKET IN DECEMBER

Money market conditions in December reflected the culmination of a series of developments that have kept the market under pressure for the past several months. A continued seasonal increase in bank credit, along with other factors, had the effect of increasing required reserves. Currency in circulation was further expanded to meet holiday requirements, draining reserves from the banking system. Additional reserves were lost through gold and foreign account movements. A large increase in float over the middle of the month provided a temporary source of reserves, and Federal Reserve security operations helped to relieve the pressures on the banking system and on the money market. However, net reserves from these sources were used, whenever available, to retire bank borrowing from the Reserve Banks, and the degree of tightness in the money market was not measurably eased. During the last week of December, declining float and special year-end influences resulted in a level of bank borrowing from the Federal Reserve Banks which at one time went above two billion dollars, the highest level since 1921. By the end of the year, however, bank indebtedness to the Reserve Banks had been considerably reduced. The rate on Federal funds, which had been close to the discount rate throughout the month, fell to ⅞ of 1 per cent on December 31.

Yields on shorter-term Government securities responded to conditions in the money market and to factors related to year-end cash needs and rose steadily until the closing days of December. Despite a greater degree of general tightness in the money market than occurred a year ago, however, the security market at no time displayed the nervous atmosphere that developed in December 1951. By the end of the month, yields on the longer certificates of indebtedness, Treasury notes, and the short to intermediate Treasury bonds had returned to close to the opening levels, after moderate increases during the month. Longer-term bonds weakened in the last half of December, after trading at stable prices during the first half of the month, and price declines were recorded throughout the list, ranging to more than a full point in the case of the longest maturities, although prices turned upward in abbreviated trading on December 31.

Business lending by commercial banks, after expanding at a rate somewhat in excess of seasonal expectations in the first three weeks of November, apparently returned to a more normal rate of expansion over the last week in November and the first four statement weeks in December. As compared with the 1951 experience, in the three weeks ended November 19 business loans of the weekly reporting member banks rose by nearly twice the amount of the increase in the similar period last year; the increase in the four weeks ended December 24 this year was less than two thirds that for the similar four weeks in 1951.

MEMBER BANK RESERVES

At the close of the statement week ended November 26, excess reserves available to member banks totaled slightly more than 600 million dollars while total borrowing from the Federal Reserve Banks amounted to 1,615 million dollars. In the following two statement weeks, as the data in Table I show, the supply of reserve funds available to the banks from sources other than Federal Reserve credit diminished further, accentuating the tightness that had existed at the end of November. During this two-week period, banking reserves were lost through the seasonal expansion of currency in circulation and as the result of an increase in Treasury balances with the Reserve Banks. Federal Reserve security operations

CONTENTS

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

Factor	Statement weeks ended					Five weeks ended Dec. 30
	Dec. 3	Dec. 10	Dec. 17	Dec. 24	Dec. 30†	
Operating transactions						
Treasury operations*	−407	+ 73	+287	−288	+196	− 139
Federal Reserve float	+267	−322	+677	− 27	−583	+ 12
Currency in circulation	−122	− 96	−117	−245	+154	− 426
Gold and foreign account	− 24	+ 14	− 69	− 91	+ 42	− 128
Other deposits, etc	+124	−171	+ 50	+ 4	−142	− 135
Total	−161	−503	+830	−648	−333	− 815
Direct Federal Reserve credit transactions						
Government securities	+207	+271	+230	+144	+232	+1,084
Discounts and advances	− 24	+161	−730	+706	−514	− 401
Total	+183	+432	−500	+850	−282	+ 683
Total reserves	+ 22	− 71	+330	+202	−615	− 132
Effect of change in required reserves	+ 35	+ 53	−253	+ 44	+ 21	− 100
Excess reserves	+ 57	− 18	+ 77	+246	−594	− 232

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† Six days ended December 30; figures for December 31 not available as this *Review* went to press.

provided substantial amounts of reserve funds, but member bank borrowing from the Federal Reserve Banks increased further. Throughout the month, System security operations consisted of varying proportions of outright purchases of short-term Treasury securities for the System Open Market Account and of repurchase contracts with dealers for account of the Federal Reserve Bank of New York.

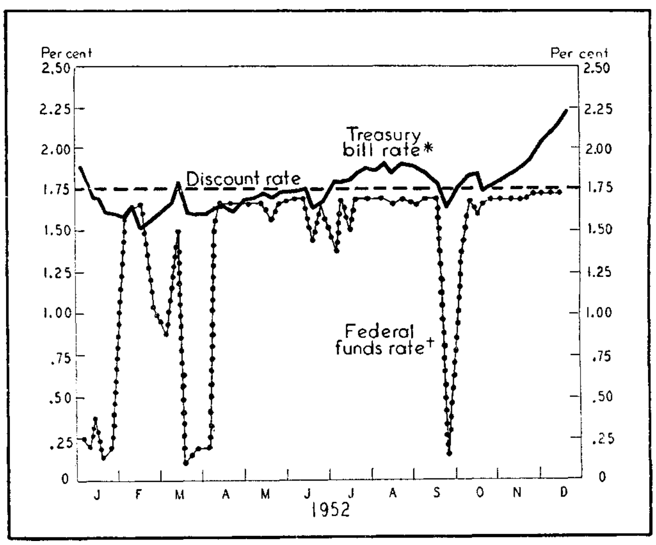
The large increase in float during the week ended December 17 and net outlays from Treasury balances with the Reserve Banks for interest payments and other purposes more than offset the further addition to currency in circulation and funds lost through foreign account operations during that week. Reserve balances thus released, combined with funds provided to the market through additional security purchases by the System, enabled member banks to reduce sharply their indebtedness to the Federal Reserve Banks. However, the temporarily easier position of the banks had little reflection in the money market, as indicated by the fact that at no time through December 30 did the rate on Federal funds in New York City fall below $1^{11}/_{16}$ per cent and the supply of funds was at all times limited. Because of the uncertainties incident to year-end adjustments and the approaching holiday season, banks tended to use available reserve balances to retire indebtedness, thus maintaining a nearly constant degree of tightness in the money market.

In the final week before Christmas, further currency withdrawals from the banks and net Treasury receipts were primarily responsible for a renewed drain of bank reserves and for the resulting expansion of member bank borrowing from the Federal Reserve Banks. Some reserves were drawn from the market also through gold and foreign account operations. Immediately after Christmas the seasonal return flow of currency to the banks started, but its effect was outweighed, so far as money market conditions were concerned, by the beginning of the seasonal contraction in float and by the efforts of the banks to reduce their indebtedness by the year end. Although the Federal Reserve System continued to provide reserves through security purchases and repurchase agreements, member banks found it necessary to borrow large amounts. Their peak borrowing just prior to the close of the year represented a build-up of average reserve balances which permitted a substantial reduction of borrowing on the last two days of the year in order that they might avoid showing heavy indebtedness in their published statements. By December 30, repayments had reduced the total outstanding to 1,214 million dollars; complete data for the 31st, when they become available, will show a much lower volume of borrowing.

The Market for Government Securities

The market for short-term Government issues reacted to the prevailing money market tightness in December, and yields on Treasury bills climbed steadily to the highest levels of the past twenty years. The accompanying chart traces the movement of Treasury bill issue rates during 1952, contrasting this movement with the discount rate and the market rate on Federal funds. Awards to successful bidders on the four offerings of bills dated in December were made at progressively higher discounts, with the last issue, that dated December 26, awarded at an average rate of 2.228 per cent.

Selected Money Market Rates, 1952



* Issue rate.
† Wednesday closing rate; averages were used when there was a bid-asked range.

Issue rates declined somewhat on the bill offered December 29, to be dated January 2, 1953, since payment for this issue was not to be made until after the year end.[1] Many holders of the issues that matured in December had purchased them with the intention of allowing them to run off in order to secure funds to meet tax liabilities, to provide for dividends, and for other year-end purposes. Nonbank investment demand, which had been providing the major buying interest in the short-term market, generally diminished and in some instances was replaced by nonbank selling. Some New York City banks acquired a volume of short-term securities a few days prior to the December 15 tax date and there was spasmodic buying by banks in interior cities, but over the period as a whole banks appeared to be on the selling side of the market.

A portion of the short-term securities offered in the market was acquired by the Federal Reserve System, and dealers added to their positions in these issues both on direct tender and in the market. Dealers, however, were reluctant to increase by any substantial amount their already large holdings, and trading in bills was conducted against a background of relatively thin demand and steadily rising rates until the closing days of the month. Some nonbank buying interest appeared in the market following the bidding for new bills on December 29, and rates declined quickly as market sentiment indicated that the peak of seasonal tightness had been passed.

Yields on certificates of indebtedness, Treasury notes, and the short bonds tended to offer greater resistance to the tightness in the money market. Market rates on these issues edged gradually higher during most of December, but not to the same degree as bill rates, and for a few days bills were traded at yields above the yields on Government securities in the one-year range. With the decline of short rates at the end of the month, yields on these issues receded to approximately the end-of-November levels. Certain certificates were in fair demand by investors, and switching for tax purposes provided the basis for trading in other short to intermediate-term securities.

Prices on Treasury bonds were little affected by developments in the short-term market, although there were marked changes in some prices largely for other reasons. The intermediate issues, possibly reflecting a continued market opinion that these issues would be buoyed by commercial bank demand after the turn of the year, fluctuated in a narrow price range over the month on a modest volume of trading activity. Prices of longer-term bonds, on the other hand, tended to hold firm during the first half of December, but sold off fairly sharply in the last half of the month in largely professional trading. This markdown was attended by moderate liquidation by several savings institutions, but the weakness in the long-term market appeared to be associated more with a general bearish sentiment than with the current supply and demand situation. At least part of the bearish tone for the longer issues has resulted from the growing market opinion that new financing or refunding in the long-term area is to be expected under the new Treasury administration. After having reached record postwar lows, prices of the longer issues recovered somewhat on December 31, reportedly owing to diminished liquidation and to anticipation of some investment demand shortly after the turn of the year.

[1] Also, the fact that this issue will mature on April 2, 1953 gives it added value because of its usefulness as a means of avoiding the Cook County, Illinois, personal property tax.

MEMBER BANK CREDIT

Business loans of the weekly reporting member banks in 94 large cities, the series frequently used as an indicator of developments in total bank business lending, continued to increase seasonally during the four statement weeks ended December 24, but at a significantly slower rate than in the preceding two months. The four-week increase amounted to 432 million dollars, in contrast with an increase of 727 million dollars for the similar period in 1951. The heaviest borrowers were firms in the food, liquor, and tobacco industries, metal and metal products firms, and sales finance companies.

Total loans of the weekly reporting banks increased by 3.3 billion dollars between June 25 and December 24, 1952, somewhat more than the 2.6 billion dollar expansion in the same period in 1951. There are noteworthy dissimilarities between the two years in the distribution of this loan expansion both as to type of loan and business of borrower. Loans for commercial, industrial, and agricultural purposes, which accounted for the largest part of the increase in total lending, rose by approximately equal amounts, 2.5 billion and 2.4 billion dollars in 1952 and 1951, respectively. However, there have been many significant changes in the distribution of that

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

Business of borrower	Four weeks ended December 24, 1952	Four weeks ended December 26, 1951	June 25-December 24, 1952	June 27-December 26, 1951
Manufacturing and mining:				
Food, liquor, and tobacco	+143	+249	+ 829	+ 932
Textiles, apparel, and leather	− 19	− 51	− 26	− 361
Metals and metal products	+102	+220	+ 72	+ 873
Petroleum, coal, chemicals, and rubber	+ 31	+ 36	+ 235	+ 125
Other	− 15	+ 37	+ 55	+ 141
Trade—wholesale and retail	− 4	− 55	+ 223	+ 16
Commodity dealers	+ 9	+159	+ 668	+ 722
Sales finance companies	+201	+138	+ 338	+ 30
Public utilities (including transportation)	+ 50	+ 30	− 18	+ 351
Construction	− 8	− 17	+ 15	− 98
All other	+ 30	+ 55	+ 159	+ 38
Classified changes-net	+520	+801	+2,550	+2,769
Unclassified changes-net	− 88	− 74	− 26	− 397
Net change in commercial, industrial, and agricultural loans	+432	+727	+2,524	+2,372

credit among borrowing industries. The data in Table II show that credit to commodity dealers and to borrowers in the food, liquor, and tobacco industries, reflecting largely the seasonality of agricultural production, is of roughly the same magnitude for both years. But loans to firms in the metals industry and to public utilities have expanded much less this year than last, owing to the fact that in 1951 there was an extraseasonal demand for credit related to the rearmament program. The industry categories in which new borrowing has been larger in the last half of this year than in 1951 are primarily wholesale and retail trade, and sales finance companies.

Probably the most striking development in bank credit during 1952 was the growth in consumer credit following removal of Regulation W last May. A part of the growth is reflected, either directly or indirectly, in the business loan statistics in Table II—directly in the case of the heavier volume of borrowing by sales finance companies and indirectly in the case of borrowing by retail firms needing bank credit to carry an expanded volume of customer accounts. In addition, "all other" loans of the reporting banks, which are largely consumer loans, are up significantly. In the last six months of 1951 the total of these loans increased by 83 million dollars, whereas in the same period in 1952 they rose by 773 million dollars. This growth in consumer credit is consistent with recent reports of an increase in the rate of consumer spending for such goods as automobiles and household appliances, both from currently rising incomes and from borrowing, during the last half of 1952.

Other loan categories have not changed materially between the last half of 1951 and the half year just ended. Real estate loans are up by 285 million dollars, which compares with an increase in this type of lending by the reporting member banks of 138 million dollars in the last six months of 1951. Loans to banks are down 112 million dollars since the end of June, and security loans to brokers, dealers, and others are down 129 million dollars. In the similar period last year, security loans declined moderately and interbank loans registered a small increase.

RECENT TRENDS IN AGRICULTURE

Output of the nation's farms rose to a new record during 1952, but many farmers were squeezed between lower prices and rising costs. As a result, net farm income for 1952 was probably slightly less than in 1951. Because the prices of goods bought by farmers increased, farmers' purchasing power, while still high by historical standards, was lower than in any year since the United States entered World War II, except for 1950. In 1953, according to an extensive analysis of the agricultural outlook prepared in October by the Bureau of Agricultural Economics of the United States Department of Agriculture, production and marketings should continue at near-record levels, but increasing production costs are likely to result in a further decline in farmers' net income of about 5 per cent. Whether or not that results in a further decline of farm purchasing power depends on what happens to the prices farmers will have to pay for the goods and services they purchase during the year ahead.

The record production of crops and livestock in 1952 was achieved despite extreme drought conditions which caused severe losses to farmers in some areas. However, the dry weather in both summer and fall months which cut the yields of some crops facilitated the harvesting of others. On the whole, the yield per acre of 28 major crops averaged better than in any other year on record except 1948. Similarly, total crop production was second only to 1948. Output of the livestock and products group (including dairy and poultry products) was estimated at a new record, slightly exceeding the previous peak in 1943. Altogether, the physical volume of all types of farm production for sale and home consumption in 1952 aggregated 144 per cent of the 1935-39 average, an increase of 3 per cent over 1951, which had also been a record year. This new peak in farm production, however, did not represent record-breaking output of most, or even a great many, types of farm produce. The only important agricultural commodities to set new production records in 1952 were rice, oranges, eggs, and poultry. Instead, the record aggregate volume of farm production came about because there was a coincidence of relatively high production for a large number of farm products, instead of the more usual mixture of poor crops in some lines and good crops in others. The output of such important commodities as corn, winter wheat, soybeans, and livestock was well above average, although short of new peaks.

Because of the bumper crops and increased livestock population, as well as the large farm inventories at the start of 1952, farmers sent to market a record volume of produce. However, most of the 5 per cent increase in the physical volume of marketings between 1951 and 1952 was offset by the lower prices which farmers received for some products, notably livestock. Thus, although the gross cash receipts from farm marketings in 1952 are estimated to have reached a new high of over 33 billion dollars, the increase over 1951 was only a minor one. Although prices received by farmers were close to the 1951 level during the third quarter of 1952, there has been a rapid decline in recent months, only partly accounted for by normal seasonal movements. A comparison of recent price movements for some leading farm products is shown in the accompanying chart. For the year as a whole, prices received by farmers averaged 4 per cent lower in 1952 than in 1951, while the latest data (for November 1952) show that farm prices have receded 12 per cent from the February 1951 peak. In general, domestic demand for farm products has continued at very high levels, but the record volume of marketings has tended to pull prices down. The declines have been most marked in prices of livestock and products, but in the last few months cotton and corn prices have also dropped substantially.

Although the prices paid *to* farmers tended to be somewhat lower in 1952, the prices paid *by* farmers, both for production expenses and for family living, rose from 1951 to 1952. In November 1952, the parity ratio (the ratio of prices received by farmers to prices paid) dropped below 100 for the first time since the start of the Korean war. On the whole, farm production costs were 4 per cent higher in 1952 than in 1951. To some extent this reflects increased operations, but primarily the rise in costs was the result of higher prices for feed, fuel, fertilizer, and other items, as well as increased wages, taxes, and interest. For the past several years, farmers have been able to retain a smaller and smaller share of their gross income because of rising production expenses; in 1952 it is estimated that only about 38 per cent of gross income was left after expenses had been met, compared with nearly half in the years 1942-47. In consequence, farmers' realized net income, as estimated by the BAE in October, totaled 14.2 billion dollars in 1952, slightly lower than the 1951 total of 14.3 billion and 15 per cent below the 1947 peak of 16.7 billion.

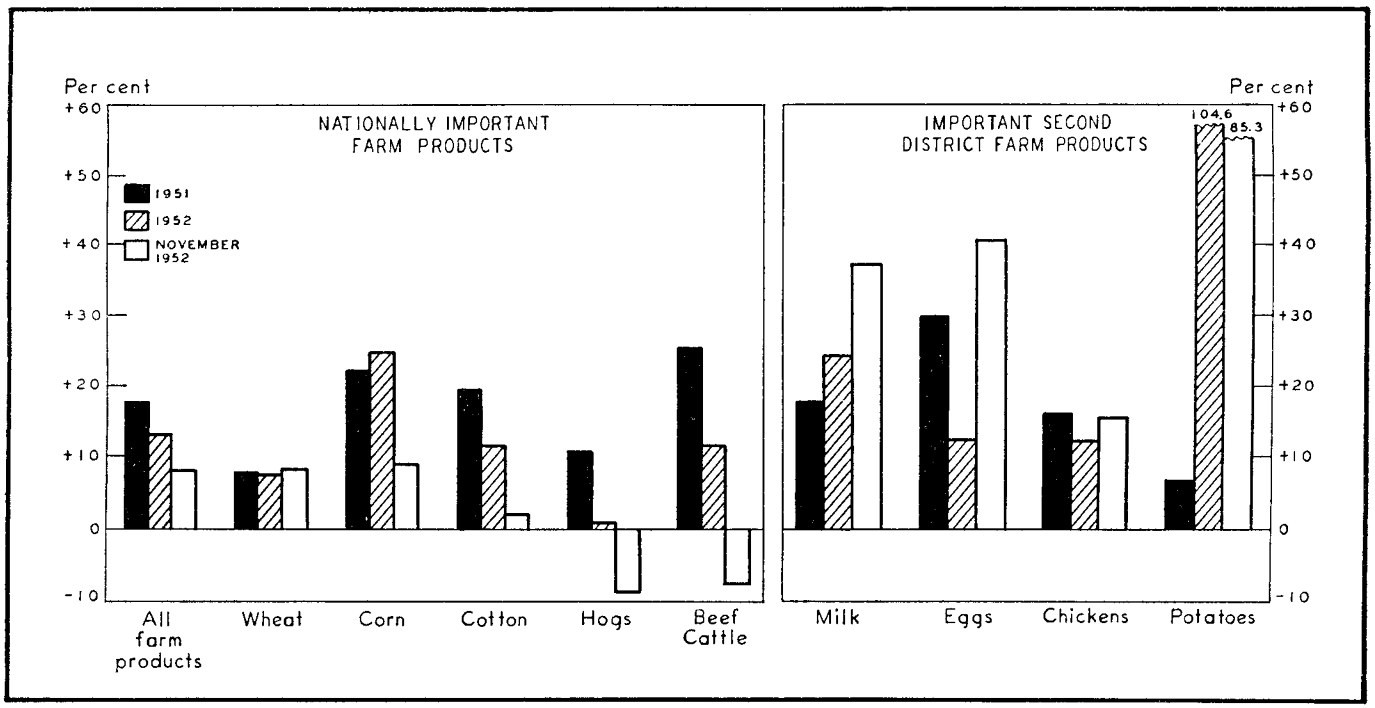
At the same time, prices paid by farmers for family living items reached a new all-time high in 1952. Farmers' purchasing power (at 1935-39 prices, as measured by net income adjusted for changes in farm family living costs) was lower in 1952 than in any of the preceding ten years except 1950. Since 1947, farmers have experienced a decline of approximately one fourth in their purchasing power; however, the 1952 level was higher than that of any year on record prior to 1942, with the possible exception of 1918.

For 1953, the BAE anticipates a continued high level of domestic demand for farm products and a total volume of farm marketings at least equal to this year's record volume (assuming average growing conditions). However, a decline in exports of farm products is expected in 1953, with perhaps a drop of as much as one fifth from the near-record 1951-52 exports. Prices received by farmers may decline slightly, but a further general rise in production expenses is anticipated. Therefore, the BAE estimates that there will be no increase and perhaps a slight decline in gross farm income, which, coupled with increased expenses, may result in a reduction of about 5 per cent in farmers' realized net income.

Trends in Major Farm Products

The near-record winter wheat crop was a major feature of the 1952 crop record. Output of winter wheat totaled over a billion bushels, up nearly two thirds from last year's relatively

Changes in Prices Received by United States Farmers Since 1950
(Per cent change from 1950 average)



Source: U. S. Department of Agriculture, Bureau of Agricultural Economics. Unweighted annual averages of midmonth figures; 1952 covers first eleven months only.

small crop, and second only to the record year of 1947. The spring wheat crop, on the other hand, was well below average. Nevertheless, all wheat production totaled nearly 1.3 billion bushels in 1952, an increase of 32 per cent over 1951. Although domestic consumption in the 1952-53 crop year is expected to rise slightly, export demand has declined sharply from 1951-52 because of improved production and stocks abroad. As a result, the carry-over of this year's crop in mid-1953 may be around 560 million bushels, more than double the carry-over at the start of the current crop year, and two-thirds greater than the average for the preceding ten years. The 1953 crop of winter wheat got off to a poor start in a prolonged spell of dry weather, but since mid-November some rain has improved prospects. Nevertheless, the first official forecast of the 1953 winter wheat crop anticipates a harvest of only 611 million bushels, a drop of over 40 per cent from 1952 and the smallest crop in ten years. With current supplies large and prices in many areas at or below the effective support level, many farmers are pledging their wheat for loans under the Federal price support program. On November 15, 334 million bushels of wheat were under the support program, well ahead of the corresponding period in the 1942-43 crop year, when wheat covered by the loan program reached a record.

The dry weather which hampered the seeding and development of the 1953 winter wheat crop facilitated the ripening and harvesting of the 1952 corn crop. Yields in the Corn Belt were excellent and quality was high, since the dry weather and late frosts resulted in a minimum of soft corn with a high moisture content. Altogether, the 1952 crop totaled 3.3 billion bushels, an increase of one seventh over 1951. This bumper crop caused a decline in corn prices in October and November. Declines in output of other feed grains indicate that total 1952-53 feed supplies are slightly below those for the previous year, but the 1953 livestock population may also be somewhat lower. Feed supplies in the South are substantially lower than a year earlier, because of last summer's drought. The dry weather over large areas of the nation resulted in the poorest season for pastures and ranges in more than a decade. Hay supplies are the smallest in recent years in relation to the livestock population.

The number of cattle on farms has risen from 77 million at the start of 1949 to approximately 93 million on January 1, 1953. Despite the increasing number of cattle and calves slaughtered in 1952, there was a rise of about 5 million in the cattle population during the year. In 1953, an even sharper increase in slaughtering is expected (perhaps accompanied by moderate price declines), but some further expansion in the number of cattle on farms is expected. The 1953 beef supply may possibly surpass the 1947 record, while further increases in cattle slaughtering are expected in 1954 and subsequent years. Both the spring and fall pig crops in 1952 were below their 1951 levels, but the number of hogs slaughtered was close to the 1951 total. Because of the reduced pig crop in the fall of 1952 and the smaller spring pig crop expected in 1953, slaughtering of hogs in 1953 is expected to be lower than in the corresponding period of 1952. Altogether, meat supplies may continue their 1952 rate of gain in 1953, possibly approaching the 1947 peacetime peak.

Trends in Second District Farm Products

Although changes in production and prices of grains, livestock, and cotton dominate the agricultural outlook of most major farm states, the farmers in the Second Federal Reserve District are more concerned with developments in such commodities as dairy products, poultry and eggs, fruit, and vegetables. In the country as a whole, milk production declined slightly to about 114.5 billion pounds in 1952, compared with 115.6 billion pounds in 1951. Not only did the number of milk cows continue the steady decline in evidence since 1944, but the average milk production per cow decreased following seven successive years of increases. Hot, dry weather in many areas was largely the cause of lower average output. Demand for milk was sustained in 1952 by higher personal income, and sales of whole milk by farmers are expected to total about the same as in 1951, with other types of dairy products experiencing a decline in output. Average prices received by farmers for milk and butterfat rose about 8 per cent in 1952 over 1951. As a result, cash receipts of farmers from the sale of dairy products will total about 4.5 billion dollars in 1952, a new record despite the decline in production. In New York State, milk receipts of dairy plants in the first eleven months of 1952 have been slightly higher than in the corresponding months of 1951, and prices averaged about 3 per cent higher. This points to an increase in gross incomes of farmers in this area, but little if any rise in net incomes is likely since dairy farming costs in New York State, according to the Cornell University index, have risen continuously during 1952. For the first nine months of 1952, this index indicated that costs were approximately 8 per cent higher than in the same part of 1951.

Egg production in the United States in the first eleven months of 1952 was about 3 per cent above year-earlier levels, while in New York State and New Jersey the corresponding gain was 7 per cent. The number of hens and pullets on farms in the country as a whole on December 1, 1952 was 4 per cent fewer than a year earlier and had dropped to the lowest level since 1940, but production was maintained because of an increased number of eggs per hen. In this region, however, the number of layers increased during 1952. The BAE expects that United States egg production in 1953 may be somewhat lower, reflecting the declining number of layers. Because, as with milk, demand will be related to the growth in population and incomes, the BAE expects egg prices in the coming year to be somewhat higher than the relatively low prices in 1952.

Market supplies of potatoes during the first three quarters of 1952 were below demand at ceiling prices, but after ceilings were removed both prices and marketings increased rapidly. United States production rose 8 per cent in 1952 over the short crop in 1951. In this area there was an increase of one fifth in the Long Island potato crop, while production in Upstate New York equaled the 1951 volume. Truck crops and fruit orchards in a number of Second District areas felt the effects of the prolonged dry weather in 1952. The harvests of apples, pears, and grapes in New York State were all below 1951, while the peach crop was about the same.

The general movement of farm prices in this area was more favorable than in the rest of the nation. The composite index of prices of New York State farm products, published by the State Department of Agriculture and Markets, rose 7 per cent from 1951 to 1952, while in the country as a whole there was a decline of 4 per cent in prices received by farmers. However, some of the higher prices in this area were offset by lower production. Cash income from farm marketings in New York State during the first ten months of 1952 was only 4 per cent above the corresponding 1951 level, slightly greater than the increase in the entire country for this period.

Characteristics of Second District Agriculture

As noted earlier, the sources from which Second District farmers derive their income differ markedly from those of most major farm areas. The extent of these differences, together with some of the longer-term changes, are shown by the data from the 1950 Census of Agriculture, for which final figures were recently published. Census data on the twelve Northern New Jersey counties and Fairfield County, Connecticut, were combined with New York State totals to obtain Second District totals.

Between 1945 and 1950, the number of farms and the land area in farms declined much more rapidly in the Second District than in the country as a whole. To some extent this reflects the rapid suburban development of areas near the District's large cities. The value per acre of farm real estate has risen less rapidly in this region than in most other parts of the country. As a result both of decreased acreage and a smaller gain in farm land prices, the aggregate value of this District's farms rose little more than half as rapidly as the value of those in the rest of the nation. Perhaps one explanation of this might be the decreasing attractiveness of dairy farming, both because dairying has tended to produce less favorable returns in recent years than have farms in grain or livestock-producing areas and because of the longer hours and the seven-day work week necessary on dairy farms.

Table I

Selected Data on Agriculture in the Second District and the United States

(From the 1945 and 1950 Censuses of Agriculture)

Category	Unit	Second District	United States	Second District as per cent of United States total	Percentage change: Second District	Percentage change: United States
		April 1, 1950			January 1, 1945 to April 1, 1950	
Farms	Thousands	139	5,384	2.6	−16	− 8
Land area in farms	Millions of acres	17	1,133	1.5	− 9	− 1
Cropland harvested	Millions of acres	6	336	1.9	−17	− 5
Value of farms	Millions of $	1,853	75,261	2.5	+36	+62
Farm labor force	Thousands	238	8,822	2.7	− 9	+ 5
Farm owners, part-owners, and managers	Thousands	130	3,945	3.3	−14	− 1
Tenants	Thousands	9	1,439	0.6	−36	−23
		Crop year 1949			1944 to 1949 crop year	
Crops sold						
Grain, hay, and other field crops*	Millions of $	69	8,012	0.9	+20	+43
Fruits and nuts	Millions of $	30	792	3.8	−22	−27
Vegetables	Millions of $	44	607	7.2	−10	+ 5
Horticultural specialties	Millions of $	51	392	13.0	+65	+70
All crops	Millions of $	*194*	*9,803*	*2.0*	*+10*	*+31*
Livestock and products sold						
Dairy products	Millions of $	357	3,079	11.6	+30	+22
Poultry products	Millions of $	115	1,823	6.3	+25	+15
Other livestock and livestock products	Millions of $	80	7,212	1.1	+71	+59
All livestock and products	Millions of $	*552*	*12,115*	*4.6*	*+33*	*+40*
Forest products	Millions of $	4	135	3.0	#	+72
All farm products sold	Millions of $	750	22,052	3.4	+26	+36

Note: Because of rounding, items may not add to the totals shown.

* Including potatoes.

Less than 0.5 per cent.

Source: Computed by the Federal Reserve Bank of New York from data of the U. S. Bureau of the Census.

The predominance of dairy farming in the Second District is clearly shown in Tables I and II. Dairy products accounted for nearly half of the value of farm products sold in this District in the census year of 1949, compared with only one eighth in the rest of the country. In addition, the emphasis on dairy farming increased from 45 per cent of the District total in 1939 to 48 per cent in 1949, but in the rest of the country the trend was in the opposite direction. Poultry and eggs are this District's second greatest source of farm income. Sales of poultry and eggs accounted for nearly one sixth of the District total, approximately twice the share they accounted for in the rest of the country. Other categories more important in this area than nationally are vegetables and horticultural specialities (seeds, bulbs, and nursery stock).

The importance of these types of farming—dairying, poultry farming, truck gardening, and nursery operating—is not just a reflection of soil and climatic conditions in the Second District, but more importantly it is an outgrowth of this area's proximity to large metropolitan markets. Bulky, perishable products, and those requiring special handling (like whole milk), are best produced close to the centers of population where they are consumed. By way of contrast, the output of grain, cotton, livestock, and allied products, which accounted for over 70 per cent of the value of farm products sold in the rest of the country, comprised less than one fifth of the Second District farm marketings. In the future, it seems likely that continued urbanization of the areas around this District's large metropolitan centers may further cut down the acreage devoted to farms, but at the same time it should increase the market for the type of farm products in which this region specializes.

Table II
Distribution of Value of Farm Products Sold
(Crop years 1939 and 1949)

Product	Per cent of total			
	Second District		Rest of the United States	
	1949	1939	1949	1939
Dairy products	47.6	45.1	12.8	15.5
Poultry and poultry products	15.4	14.1	8.0	8.1
Other livestock products	10.6	9.1	33.5	28.9
Grain, hay, and other field crops*	9.2	11.5	37.3	38.1
Horticultural specialties	6.8	7.0	1.6	1.7
Vegetables	5.8	7.2	2.6	2.8
Fruits and nuts	4.0	5.1	3.6	4.4
Forest products	0.5	0.9	0.6	0.6
Total	100.0	100.0	100.0	100.0

Note: Because of rounding, figures may not add to the totals shown.
* Including potatoes.
Source: Computed by the Federal Reserve Bank of New York from data of the U. S. Bureau of the Census.

ECONOMIC AND FINANCIAL DEVELOPMENTS IN WESTERN GERMANY

A striking recovery has marked Western Germany's internal economy since the monetary reform of June 1948, and the country's international economic position has shown steady improvement since the early months of 1951.[1] The index of industrial production has climbed from 63 in 1948 (1936=100) to 114 in 1950, 136 in 1951, and an average of 143 in the first ten months of 1952. "Real" wages of industrial workers have risen substantially: although the cost-of-living index rose 6 per cent from 1949 to 1952 (a nominal rise, compared with that of many other European countries), weekly wages of industrial workers have risen approximately 30 per cent. The balance of payments, in contrast to a deficit of 1,035 million dollars in 1949 and 643 million in 1950, showed a 51 million surplus in 1951; moreover, Western Germany's 1951 deficit in dollar trade and service payments was more than covered by United States aid. The question now is how the recent progress is to be continued.

Early last year there was some speculation that the process of growth had come to an end, and that at best only a period of consolidation could henceforth be expected. Indeed, during the first half of 1952, Western Germany's total output of goods and services leveled off and, largely owing to buyer resistance and the accompanying inventory readjustments, the output of consumer goods suffered a setback. However, consumer incomes continued to grow as capital goods production increased and as the number of unemployed declined sharply; by October, unemployment, although still constituting 6 per cent of the labor force, had reached the lowest level in nearly four years. These favorable circumstances, together with some price adjustments, led to or were accompanied by a new advance in consumer goods production. Industrial activity in September and October increased more than seasonally, the industrial production index rising more than 10 per cent above the corresponding months of 1951. It is too early to tell whether this rise is more than temporary, but the advance seems at least to assure that 1952 will show a substantial economic gain over 1951.

While Western Germany has shown outstanding progress in making good the economic losses from World War II, its industrial output and per capita real income do not compare as favorably with prewar as do those of most other Western European countries. The problems of relocation, reconstruction, and modernization have been greatly aggravated by the heavy influx of refugees from Eastern Germany, which has added to the strains on the economy by increasing the need

[1] For details concerning Western Germany's former economic weakness, see the articles published in this *Review* in September 1948, May 1950, and April 1951.

for housing and other facilities as well as for investment in industry. Actually, investment has been relatively high; total investment (including depreciation) absorbed 21 per cent of Germany's gross national product in 1949, and from 1950 through the first half of 1952 the ratio has been near 25 per cent. Such a high investment ratio, however, is not easy to bear, and how to maintain it constitutes one of the major problems confronting the government.

The Financing of Investment and the Capital Market

More than half of these capital expenditures have been financed by the retained earnings of business enterprises (see Table I)—a form of financing that has been encouraged by liberal tax concessions. Most of the remaining outlays were financed by bank credit, ECA and MSA counterpart funds, and the government, which has been and still is particularly active in housing. However, several of these capital sources are now declining. The tax advantages that have stimulated the reinvestment of profits have been largely rescinded; in some cases profits themselves have fallen as a result of higher wages and taxes, and the growing difficulty of passing on cost increases as the demand backlogs inherited from the war are filled. The inflow of counterpart funds is subsiding rapidly as a direct consequence of the curtailment of United States aid. The development of new sources of capital funds is, therefore, an urgent problem.

Funds for modernization and expansion are especially needed by a number of critical industries—notably steel, coal, power, and transport—where bottlenecks have developed in the past, and on which will converge the strains from the projected defense program and from the unification of the Western European coal and steel markets under the Schuman plan. The 1952 and 1953 capital requirements of these industries have been estimated at well over 2 billion dollars, or more than 1.5 billion in excess of the retained earnings anticipated during these two years. Recent increases in coal, iron, and steel prices should result in somewhat larger retained earnings, and about 240 million dollars have been secured from the proceeds of a nonrecurring gross receipts tax imposed on German business for this purpose by the federal government, but a substantial part of the total capital requirements remain uncovered.

The private capital market has been paralyzed since the war by the pegging of dividend and interest rates on securities below the prevailing short-term rates. Long-term bank credit has been virtually the only means for channeling individual savings into investment, but the increase in long-term commitments by the banks during the first ten months of 1952 lagged behind the 407 million dollar rise in savings deposits. In November, however, legislation was passed in an effort to revive the capital market. The restrictions on dividend and interest rates were lifted, and the progressive tax rates that previously applied to interest income were replaced by a flat rate that in most cases should be more favorable to the investor. Public bodies were granted a substantial advantage over private corporations in that the yield on their securities, hitherto mainly mortgage bonds, is to be entirely tax free. As a result, the public authorities are expected to continue to issue bonds at roughly 5 per cent, whereas private firms will have to pay 7½ or 8 per cent. The government has the power, however, to favor specific private bond issues by making their yields similarly tax exempt, and to discourage others by subjecting them to a penalty tax rate. In general, it is hoped that by making the average yield on securities more attractive the new measure will lead not only to a more efficient utilization of available capital resources, but also to an increase in the total investment funds available to the economy.

Table I
The Financing of Gross Investment in Western Germany January 1949-June 1952
(Excluding changes in inventories)

Source	Billions of marks*	Per cent of total investment
Government budgetary resources†	14	20
Counterpart funds	3	4
Central bank credit	1	1
Long-term bank credit, investments by insurance companies, and security sales‡	9	13
Self-financing§	42	61
Total gross investment	69	100

Note: Because of rounding, figures do not necessarily add to totals.
* 1 mark = $0.238 at the present official exchange rate.
† Including federal, state, and municipal.
‡ Sales other than to public bodies and insurance companies.
§ Residual item; includes depreciation funds, short-term credit, and reinvested profits.
Source: *Monatsberichte der Bank deutscher Laender*, September 1952, pp. 38-39.

The West German Balance of Payments

In spite of increased import needs resulting from the partition of Germany, from the dislocation of German foreign trade through the suspension of East-West trade, and from the difficulty of regaining prewar markets, Western Germany's balance of payments has shown great improvement, particularly during the past two years. The value of exports has more than doubled since the invasion of Korea, reflecting a rise in

Table II
West German Export Indexes
(1950=100)

Period	Value	Physical volume	Average price
1950—First half	79	79	100
Second half	121	121	100
1951—First half	156	136	114
Second half	192	150	128
1952—First half	193	146	132
July-October	205	158	130

Source: *Der Aussenhandel der Bundesrepublik Deutschland, Teil 1*, Summary for 1951, pp. 26-27, and October 1952, p. 27.

both physical volume and prices (see Table II). The value and volume of imports have also risen, but to a lesser degree. The terms of trade, which began to deteriorate with the rise in raw material prices after the outbreak of Korean hostilities, improved in the third quarter of 1951, and by the third quarter of 1952 had risen 25 per cent and stood approximately 11 per cent above the "pre-Korea" level.

Since the early part of 1951 there has also been a conspicuous improvement in Germany's position in the European Payments Union, whose members in 1951 bought three quarters of Germany's exports and supplied three fifths of its imports. Between February 1951 and September 1952 an accumulated 457 million dollar deficit with these countries was converted into a 443 million dollar surplus. During 1952, Germany has gradually abandoned the quantitative restrictions on a large part of its imports from EPU member countries, although the sterling and French franc areas have intensified their own import restrictions. The EPU has suggested that Germany relax its restrictions still further, but this has been opposed not only by some German domestic producers who have complained that even the present import liberalization is excessive, but also by the German Government on the ground that increased imports would soon end Germany's surpluses. The country did in fact have deficits with the EPU in October and November, the first since February 1951. Although these were probably due mainly to exceptional purchases from the United Kingdom of dollar commodities offered under the recent British commodity-arbitrage plan, there are indications that other factors, particularly in the field of exports, are working against a continuation of large German EPU surpluses.

Germany is in surplus under most of her bilateral trade agreements, many of which are with underdeveloped areas that are eager customers for German capital goods. If German exports are to increase further, these areas will have to provide much of the additional demand, but the prospects are clouded by the fact that most of them are finding it difficult to meet even their present Deutsche mark obligations and have resorted to restricting imports from Germany. In the case of Brazil, Germany's accumulated surplus, in the form of a credit to Brazil by the Bank deutscher Laender, has become so large that the bank at present will convert at the official rate only 20 per cent of the cruzeiro proceeds from German exports, the remainder having to be sold by the exporters to importers from Brazil at a considerably lower free market price. Since most of the countries in debt to Germany are still unable to supply German import needs, the Germans are faced in many cases with a choice of either extending further credits or accepting a reduction in exports and the loss of a market in which they only recently regained a foothold. On the other hand, a lowering of the prices of these countries' exportable raw materials and foodstuffs could, in some instances, stimulate Germany's imports and thus help to improve its trade balance with them.

Germany's dollar position showed marked improvement in 1952. Although dollar export earnings were still perhaps half a billion dollars short of covering imports from the dollar area, United States direct aid under the Mutual Security Program and increasing expenditures by United States military personnel in Germany have been sufficient to virtually balance the country's dollar accounts. Expenditures by the United States Army and its personnel now exceed United States direct aid, and may be expected to increase even further when, six months after German ratification of the Contractual Agreement ending the occupation and of the European Defense Community Treaty, the United States becomes obligated to cover a part of the cost of maintaining its troops in Germany, now paid almost entirely by the Germans. Additional dollars may be earned in 1953 through MSA offshore orders. It should be remembered, however, that the present precarious dollar balance has been achieved only through very stringent control of dollar imports. At 612 million dollars, German gold and dollar reserves by mid-December were 68 per cent above those held at the beginning of 1952, but this increase was largely due to the partial settlement in dollars of Germany's EPU surpluses.

Western Germany will have to maintain a fairly large balance-of-payments surplus if it is to meet the terms of settlement of its external debt obligations under the agreements reached at London in August, and at The Hague (covering reparations to Israel) in September. For the next five years, the annual burden of these payments is estimated at the equivalent of 200 million dollars, of which about 55 million must be paid in dollars; and after 1957 the burden will be even greater.

Credit Policy

The country's external payments position has been one of the dominant considerations governing the Bank deutscher Laender's credit policy. When in 1950 Germany used up its entire credit quota in the EPU in a matter of about six months as the result of domestic inflationary pressures, of the "post-Korea" spurt in commodity prices, and of the liberalization of import restrictions under the newly formed EPU, the bank raised its discount rate from 4 per cent to 6 and increased the reserve requirements of the commercial banks from 10 per cent to 15. With the subsequent improvement in Germany's position in the EPU, the discount rate was lowered to 5 per cent last May and then to 4½ per cent in August. At about the same time reserve requirements were also reduced, but with the novel feature that the larger the volume of deposits held by a bank, the higher the percentage of reserves that it was required to maintain; the present maximum reserve requirement is 12 per cent. The reductions in the discount rate, and the simultaneous fall in rates for prime short-term commercial paper from about 8 to about 6½ per cent, should be of some help to the capital market by enhancing the attractiveness of long-term security yields.

Fiscal Policy

The West German Government has succeeded in maintaining a roughly balanced budget. This achievement was partly the result of institutional factors: there is a legal ceiling of 357 million dollars' equivalent on the credit that the Bank deutscher Laender may grant the government, and the disorganized state of the capital market would have prevented the floating of a long-term loan except at a much higher interest rate than the government was willing to pay. The government's entire debt resulting from fiscal operations since the 1948 monetary reform was only about 250 million dollars' equivalent in November 1952, virtually all of it in maturities of one year or less. However, subscriptions were opened in December for a five-year 119 million dollar loan intended to consolidate the short-term debt and help finance the expected small budget deficit. The near balancing of the budget has, however, been possible only at a rather high rate of taxation. In the year ended June 30, 1952 the taxes collected by the federal, state, and municipal governments amounted to well over one quarter of the national income, and to more than one third if social insurance payments are included. About two thirds of the total tax revenue is raised through indirect taxation.

The burden of taxation is mitigated to some extent by the wide scope of social expenditures; a recent survey revealed that one out of every four Germans is currently receiving a pension or social insurance payments. Of the federal budget of 5.5 billion dollars' equivalent for the current fiscal year ending March 31, 1953, about 40 per cent is earmarked for "welfare" purposes, including expenditures for resettlement of refugees, housing, relief for war victims, food subsidies, and aid to Berlin. Occupation costs and related expenditures take up 2.1 billion dollars' equivalent, or approximately 38 per cent of the budget.

The 1953-54 budget will be subjected to increased pressures on the expenditure side. Unless the North Atlantic Treaty Organization agrees in June to scale down Germany's European defense contribution, occupation and defense outlays should rise to 2.4 billion dollars. About one half of this amount will be spent to raise the German units of the proposed European army; the remainder is to be applied toward the expenses of the Allied occupation troops. In addition to increased military needs, the budget will also have to provide for the debt and reparations payments to which Germany is now committed. Inasmuch as the German Government has promised not to impose additional taxes, the additional expenditure will have to be covered by an increase in revenue from existing taxes, or by a redistribution of taxes between the federal government and the states, which are currently in surplus. Although the recently submitted 1953-54 budget proposes to take over from the states the bulk of their anticipated surplus, it nevertheless shows a deficit of 450 million dollars.

Certain fiscal operations are carried on outside the budget. Of these, the most noteworthy is the one currently being effected under the law providing for the equalization of burdens arising out of the war and the 1948 monetary reform. A 50 per cent capital levy, payable over thirty years, has been assessed against virtually all individuals and organizations who at the time of the monetary reform held real property, a type of asset that was not affected by the reform. The revenue from this levy and from several subsidiary taxes is to be used mainly for relief, pensions, and loans for the German victims of war damage, and for refugees from the Soviet Zone. It is estimated that over the thirty years of the program nearly 15 billion dollars will be redistributed and perhaps 20 million Germans directly affected.

Conclusion

Although in recent years the German economy has made great progress, difficult economic problems remain to be solved if the improvement in the standard of living is to continue and external balance is to be maintained. The expansion of the basic industries, the further reduction of unemployment, the construction of new housing, and the easing of the tax burden depend on finding means to mobilize sufficient domestic or foreign capital. Since this will have to be done at a time when the country is obligating a growing share of its resources to its commitments to rearm and to repay its debts, German economic policy will soon be put to yet another stiff test.

SUBSCRIPTIONS TO MONTHLY REVIEW

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DEPARTMENT STORE SALES IN ROCHESTER, 1925-52

Rochester is the third largest city in New York State, and an important center of retail trade for the western part of the State. The city attained its earliest importance as a processing and shipping point for the agricultural products of the surrounding fertile farm area, particularly following the opening of the Erie Canal. The importance of Rochester as an industrial center (it is the third-ranking industrial area in New York State with approximately 55 per cent of its working population engaged in manufacturing) is largely due to the precision industries for which Rochester is now world famous. These were all started after 1850 and owe their beginnings, for the most part, to the inventive ability of various residents of the city. Although there are several branches of other national concerns in Rochester today, the bulk of manufacturing employment is provided by concerns that originated in Rochester, a factor which has had a great influence on the nature of the city's growth over the years.

Industrial Composition of the Area

The swings of cyclical instability have often been less extreme in Rochester than in many other industrial cities. In this respect it contrasts somewhat with Buffalo, located just seventy miles to the west, in which production centers more largely upon heavy durable goods, with the almost inevitable sharp ups and downs which such an industrial emphasis entails.[1] Although Rochester has a larger proportion of its total manufacturing employment in what are classified as durable goods industries (71 per cent as against 67 per cent in Buffalo in 1951), the proportion of so-called "heavy" manufacturing is small and the growth in demand for Rochester's specialized products has been quite steady over the years. The balance provided by the production of consumers' as well as producers' goods and the diversity of products manufactured by Rochester factories have provided a cushioning effect for the city's economy. Further balance is contributed by the adjacent rich agricultural counties which include one of the nation's top-ranking fruit-producing areas.

In 1951, firms producing photographic and optical equipment and various precision instruments and scientific equipment employed 45 per cent of manufacturing workers in the metropolitan area (Monroe County), or approximately one out of every four persons in nonagricultural occupations. By far the largest share of these were employed by the Eastman Kodak Company, the largest single industrial concern in Rochester. This company has been a dominant influence in Rochester life for many years, but its continued growth has provided strength to the Rochester economy, instead of the vulnerability often associated with community dependence upon a single concern. The remainder of Rochester's durable goods production is fairly evenly divided between the electrical machinery, other machinery, and metal-fabricating groups.

Apparel manufacturing accounts for the largest segment of nondurable goods production and is the largest industry group next to the photographic and optical firms. Rochester is the second-ranking apparel center in the State. Long famous for quality men's wear, Rochester clothing firms employed 10 per cent of the city's total manufacturing employment in 1951. Another 7 per cent of the total were employed in food-processing plants, while the printing and publishing industry employed about 5 per cent. The manufacture of footwear, once important in Rochester, now represents only 1 per cent of total manufacturing employment. Because of the seasonality of the apparel and food-processing industries, manufacturing employment in Rochester fluctuates somewhat more during the year than it does in either Buffalo or Syracuse. This is also reflected to a limited extent in department store sales.

It is apparent from the pattern of Rochester industry that there is a large proportion of skilled and semiskilled labor employed in the city. Combined with the high proportion of professional and technical workers, this explains, partially at least, the fact that in 1950 the median family income in the Rochester metropolitan area was above that for the State as a whole and for the metropolitan areas of Buffalo and Syracuse.

Department Store Sales and Employment

The fluctuations of department store sales in Rochester over the past quarter century have been slightly greater than those in the Second District measured as a whole, but they have generally been less sharp than those in neighboring Buffalo or Syracuse. From 1925 to 1929, dollar volume sales of Rochester department stores increased by 7 per cent. The drop in manufacturing employment in Rochester and Buffalo, measured between the 1929 high and the 1932 low, was severe in

Department Store Sales in Rochester, Buffalo, and the Second Federal Reserve District
(Percentage changes for selected periods)

Period	Rochester	Buffalo	Second District
1925 to 1929	+ 7	− 6	+ 11
1929 to 1933	− 36	− 41	− 33
1933 to 1939	+ 39	+ 38	+ 17
1939 to 1943	+ 44	+ 67	+ 34
1943 to 1948	+ 89	+ 73	+ 89
1948 to 1951	+ 3	+ 2	0
1951 to 1952*	− 2	+ 2	− 5
1925 to 1952*	+161	+130	+111

* December 1952 estimated.

[1] A study of Buffalo department store sales appeared in the *Monthly Review*, September 1952, pp. 135-37.

both places, but was more gradual and somewhat less extreme in Rochester (49 per cent) than in Buffalo (54 per cent). Department store sales reached their low point in 1933, with sales of Rochester stores 36 per cent below the 1929 sales figures compared with a decline for Buffalo of 41 per cent.

There was a gradual recovery of industry and trade in both cities from 1933 until 1938, when the "recession" resulted in an employment loss of 17 per cent in Rochester and 24 per cent in Buffalo, again hitting Rochester less severely than its neighbor to the west. Despite an increase in 1939, employment in both cities at the outbreak of World War II was well below the 1929 annual average (18 per cent in Rochester and 20 per cent in Buffalo). Department store sales, which had shown annual increases each year after 1933, dropped only 5 per cent in Rochester (less than half as much as in Buffalo) from 1937 to 1938. In 1939, dollar sales in both cities were almost 40 per cent above those in 1933, but still below the 1929 sales level. (The general level of prices was also considerably lower than it had been a decade earlier.)

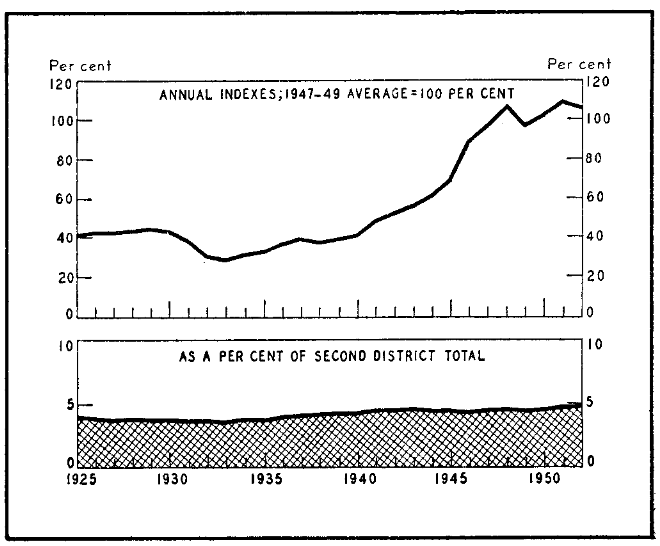
Rochester naturally received many war contracts for photographic, optical, and communications equipment during World War II. The city was not a critical employment area, however, and little conversion of existing facilities was necessary to meet defense orders. Manufacturing employment increased by 66 per cent from 1939 to 1943, only half as much as the increase which Buffalo experienced. The dollar volume of department store sales in Rochester was 44 per cent higher in 1943 than it had been in 1939, while in Buffalo it was 67 per cent higher. But the increase was substantially greater than for the District as a whole where sales were only 34 per cent higher, largely because of the influence of the New York City stores whose sales increased 28 per cent. For that reason, the importance of Rochester department store sales in relation to the total for the Second District increased moderately during the war, as the accompanying chart indicates, continuing a trend which had started in 1933.

Since much of Rochester's war production was of the same type as its normal civilian output, the reconversion problems which the city faced after the end of the war were less disturbing than those of many other cities. In addition, much of the increased wartime requirements for labor had been met within the city's existing labor market. (There was a certain amount of labor made available by contraction in the civilian clothing industry which was not offset by military orders; better utilization of workers and recruiting of more women workers also helped prevent a critical labor shortage.) The return of service men to civilian life caused the demand for men's clothing to jump sharply at almost the same time that labor requirements eased in defense-producing industries. In addition, there was a large civilian backlog of demand for the products of the photographic and optical concerns which had diverted much of their production into military channels.

These fortuitous circumstances combined to make Rochester's transition from a war to peace economy much less abrupt than it was in neighboring Buffalo. In 1945, manufacturing employment in Rochester had dropped only 10 per cent from the 1943 level while in Buffalo there was a 26 per cent decline. Two years later, Rochester manufacturing employment had risen by 6 per cent, while that in Buffalo had fallen by another 3 per cent. Department store sales rose from 1943 to 1945 in both cities—the increase for Rochester was 23 per cent, however, against 13 per cent in Buffalo. In the following year, despite serious strikes in Buffalo which cut into already falling employment, department stores in both cities sold 29 per cent more, in dollar terms, than they had in 1945. (This rise reflected increased prices as well as the heavy buying of durable household goods which had been unobtainable during the war.)

The business recession of 1948-49 hit Rochester slightly harder, as measured by the drop in department store sales, than it did the District as a whole, although the decline of 8 per cent from 1948 to 1949 was the same as that in New York City. While the metal-working and machinery industries lost many more workers in Buffalo than in Rochester at this time, the transportation equipment industry (largely because of sustained demand for automobiles) not only showed practically no net loss of employment from 1948 to 1949, but also registered a 10 per cent increase in payrolls. This, combined with a similarly small employment loss and a payroll increase in the food-processing industry (Buffalo flour and feed mills were operating at high levels owing to a bumper wheat crop) caused a drop of only 8 per cent in total Buffalo manufacturing payrolls against an 11 per cent drop in Rochester and probably

Rochester Department Store Sales, 1925-1952*



* 1952 estimated.

explains the better showing of Buffalo's department store sales in 1949.

After the outbreak of fighting in Korea, manufacturing employment rose in Rochester, registering in July 1950 the first year-to-year gain (3 per cent) in two and a half years. The impact of the Korean situation on consumer buying in Rochester was similar to that all over the nation. Sales in Rochester department stores jumped 13 per cent from June to July (after seasonal adjustment). The buying wave in January 1951 also brought the same relative spurt in department store sales in Rochester as in the District, but since early 1951 the city's sales have been maintained at a somewhat higher level than in the District as a whole and approximately the same in relation to the January 1951 peak as in Buffalo.

Employment in the men's clothing industry dropped sharply (38 per cent) during 1951 because of poor consumer demand and early in 1952 was at a twelve-year low, but total manufacturing employment was very largely sustained by continued hiring in the durable goods industries which had received defense contracts. The bulk of defense orders placed in the Rochester area have been for photographic, optical, and other scientific equipment, although there have been sizable orders for processed foods and various other durable and nondurable manufactures; defense orders have been less important, however, than in certain other parts of the District. From July 1950 to July 1951 (the first year after the Korean outbreak) durable goods employment had risen 16 per cent, although the nondurable goods industries showed a drop of 1 per cent, resulting in an over-all increase of 10 per cent in total manufacturing employment.

From July 1951 to July 1952, the expansion of employment in the Rochester area was much less pronounced because of the slump in clothing production and slackened defense hiring, resulting in an increase of only 1 per cent. During the first half of 1952 the Rochester area was classified by the Bureau of Labor Statistics as an area of moderate labor surplus, but seasonal increases in soft goods industries and continued gradual defense expansion caused the classification to be changed to one of a balanced labor supply in September.

Increases and Shifts in Population

There has been a significant population increase in the suburban areas of Rochester (37 per cent from 1940 to 1950, compared with 2 per cent within the city). This growth has been accompanied by the formation of small shopping centers, but there has not yet been a move toward establishing suburban branches of the city department stores. Unlike the situation in Buffalo, suburban growth has not been concentrated in any individual area, and consequently there are not yet any clearly suitable sites for branch outlets. The nucleus of the typical shopping center at present is the supermarket, with a few specialty stores and perhaps a branch bank, movie theater, and restaurant, and it is generally felt that these centers are located too close to the main downtown shopping area to attract an appreciable volume of new customers to any branch department stores which might be started there. In many cities, traffic congestion, parking difficulties, and inadequate or poorly routed public transportation have turned customers away from the main shopping center and hastened the establishment of branch stores. These problems have apparently not yet been serious enough in Rochester, however, to cause any appreciable loss of sales by the downtown stores.

The competition of other types of retail outlets which sell department store type merchandise has been similar in Rochester in most respects to the situations in many other cities. The dispersion of population and the increase in the number of stores in the metropolitan area outside the city limits has meant that stores within the city have accounted for a decreasing proportion of the area's total retail sales in recent years: their proportion of the area total dropped from 89 per cent in 1939 to 84 per cent in 1948 (the latest available census figures). The city department stores, however, all within the city limits, increased their share of total area sales of department store type merchandise between the two census years. As elsewhere, Rochester furniture-appliance stores recorded by far the largest growth (239 per cent) during this period, while the sales increase in the city apparel stores (131 per cent) was less spectacular and considerably below the census increase in department store sales (161 per cent). In the last two decades, Rochester department store sales have become a proportionately larger part of the city's retail sales. They represented 15 per cent of total retail sales in 1948, compared with 12 per cent in 1929.

Populationwise, Monroe County and the surrounding eight counties known as the Rochester region have grown less than New York State or the country as a whole over the past two decades. The increase of nearly 13 per cent in the Rochester region compares with 18 per cent in New York State and 23 per cent for the entire United States. The retail stores of Rochester draw customers, of course, from the broader Rochester region, and sales of the city's department stores reflect, to some extent, conditions in the surrounding agricultural area in addition to those in the highly industrialized metropolitan center. (Rochester department stores also compete with Buffalo and Syracuse stores on the fringes of this wider market area, but the extent of this competition is difficult to measure.) As the growth in the relative importance of Rochester department store sales from 1929 to 1948 indicates, the city stores strengthened their place in the community during a period when department stores in the nation as a whole were unable to keep up with their major competitors.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1952 November	1952 October	1952 September	1951 November	Percentage change: Latest month from previous month	Percentage change: Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	233p	229	227r	219	+ 2	+ 6
Electric power output*	1947-49 = 100	148	147	145	138	+ 1	+ 8
Ton-miles of railway freight*	1947-49 = 100	—	100p	107	105	− 7	− 7
Manufacturers' sales*‡	billions of $	23.9p	24.4	23.7	22.4	− 2	+ 7
Manufacturers' inventories*‡	billions of $	43.4p	43.4	43.2	42.7	#	+ 2
Manufacturers' new orders, total*‡‡	billions of $	23.9p	24.4	24.4	23.4	− 2	+ 2
Manufacturers' new orders, durable goods*‡‡	billions of $	11.7p	11.8	12.2	11.8	− 1	− 1
Retail sales*	billions of $	13.9	14.1	13.6	13.2	− 2	+ 5
Residential construction contracts*	1947-49 = 100	181	185	191	146	− 2	+24
Nonresidential construction contracts*	1947-49 = 100	186	227	218	162	−18	+15
Prices, wages, and employment							
Basic commodity prices†**	1947-49 = 100	91.4	92.5	95.2	109.4	− 1	−16
Wholesale prices†	1947-49 = 100	110.7p	111.1	111.8	113.6	#	− 3
Consumers' prices†	1935-39 = 100	191.1	190.9	190.8	188.6	#	+ 1
Personal income (annual rate)*	billions of $	—	275.8p	273.8	260.9	+ 1	+ 5
Composite index of wages and salaries*	1939 = 100	—	240p	239	229r	+ 1	+ 5
Nonagricultural employment*	thousands	47,492p	47,338	47,239r	46,482r	#	+ 2
Manufacturing employment*	thousands	16,400p	16,274	16,155r	15,761r	+ 1	+ 4
Average hours worked per week, manufacturing†	hours	41.2p	41.4	41.3	40.5	#	+ 2
Unemployment	thousands	1,418	1,284	1,438	1,828	+10	−22
Banking and finance							
Total investments of all commercial banks	millions of $	78,190p	77,030p	75,890p	74,590	+ 2	+ 5
Total loans of all commercial banks	millions of $	63,470p	62,410p	61,200p	57,270	+ 2	+11
Total demand deposits adjusted	millions of $	99,410p	98,620p	96,360p	96,290	+ 1	+ 3
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,667	29,437	29,284	28,385	+ 1	+ 5
Bank debits (U. S. outside New York City)*	millions of $	86,392	95,248	91,075	88,328	− 9	− 2
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	118.8	115.6	114.5	115.1	+ 3	+ 3
Consumer instalment credit outstanding†	millions of $	15,883p	15,572	15,193r	13,271	+ 2	+20
United States Government finance (other than borrowing)							
Cash income	millions of $	4,996p	3,418	6,898r	4,293	+46	+16
Cash outgo	millions of $	5,583p	6,514	6,066	5,642	−14	− 1
National defense expenditures	millions of $	3,760p	4,248	4,393	3,455	−11	+ 9
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	135	134	131	125	+ 1	+ 8
Residential construction contracts*	1947-49 = 100	—	158p	171	95	− 8	+33
Nonresidential construction contracts*	1947-49 = 100	—	156p	154	119	+ 1	+32
Consumers' prices (New York City)†	1935-39 = 100	186.9	186.0	186.0	184.1	#	+ 2
Nonagricultural employment*††	thousands	—	7,595.9p	7,581.3	7,423.9	#	+ 3
Manufacturing employment*††	thousands	2,766.3p	2,767.3	2,758.2	2,662.3	#	+ 4
Bank debits (New York City)*	millions of $	48,114	55,560	52,423	48,174	−13	#
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of $	3,886	4,263	4,040	3,895	− 9	#
Velocity of demand deposits (New York City)*	1947-49 = 100	138.5	135.1	131.7	119.6	+ 3	+16

Note: Latest data available as of noon, January 2.
p Preliminary. *r* Revised. # Change of less than 0.5 per cent. ** Revised series. Back data available from the U. S. Bureau of Labor Statistics.
* Adjusted for seasonal variation. ‡ Series revised 1949 to date. †† Series revised 1947 to date to include revision of New Jersey data.
† Seasonal variations believed to be minor; no adjustment made. ‡‡ 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.

DEPARTMENT STORE TRADE

Owing in large measure to strenuous promotional efforts, the results of the 1952 Christmas season were reasonably satisfactory for Second District retailers. In comparison with 1951, however, District department store sales as a whole lagged behind most other parts of the nation. The 1952 dollar sales of those existing District department stores which report weekly were 6 per cent over last year for the four weeks ended December 27. (If one Brooklyn store that is no longer operating were included in the total sales for last year, the increase would be reduced to 3 per cent.) Stores in New York City compared less favorably with 1951, saleswise, than did those in Buffalo, Rochester, Syracuse, or Newark. Buffalo stores showed the largest increase of the five major cities in the District, with a four-week increase of 13 per cent. The additional trading day in December of this year pushed the dollar volume of sales ahead of December 1951; this bank's index for the month as a whole, after seasonal adjustment, would be 102 on the basis of information that is still incomplete.

Holiday shoppers in New York City stores showed a good deal of interest in various types of ready-to-wear apparel, some not usually considered "gift" merchandise, and the City apparel stores made a notably better showing (plus 7 per cent) than did the City department stores for the four-week period ended December 27. A representative group of New York

City stores reported that total sales of their four largest home-furnishings departments were somewhat below last year's relatively poor results, with the major appliance and radio-television departments falling farther behind a year ago than did the furniture and floor covering departments.

New York City department store retailers apparently found less price consciousness on the part of customers this season, as evidenced by a drop of 1 per cent in sales of basement departments of stores whose total store sales for the four-week period were 4 per cent ahead of last year. The generally lower level of prices of department store merchandise, or perhaps consumer interest in the so-called "better grades", might explain the lesser tendency of customers to "trade-down" this year. (According to the Bureau of Labor Statistics, retail prices of apparel and housefurnishings in New York City were lower by 2 per cent on November 15, the latest available data, than they were on December 15, 1951.) To the extent that prices in December 1952 continued below year-ago levels, the physical volume of sales would consequently have risen somewhat more than the dollar sales figures suggest.

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

Item	1952			1951
	Nov.	Oct.	Sept.	Nov.
Sales (average daily), unadjusted	123	110	100	130r
Sales (average daily), seasonally adjusted	98	105	95	103r
Stocks, unadjusted	128	124	116	131r
Stocks, seasonally adjusted	111	110	110	114r

r Revised.

Second District department stores entered this Christmas season with slightly lower stocks than they did last year. Stocks on hand in Second District department stores at the end of November were 3 per cent below those on hand November 30, 1951. It seems likely that, after the generally favorable holiday sales, merchants were left with appreciably less stock for post-holiday clearance sales than in 1951.

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

Locality	Net sales		Stocks on hand Nov. 30, 1952
	Nov. 1952	Jan. through Nov. 1952	
Department stores, Second District	− 9	− 6	− 3
New York City*	−11 (−8)	−10 (−7)	− 6 (−2)
Nassau County	n.a.	n.a.	n.a.
Northern New Jersey	− 7	− 5	0
Newark	−10	− 6	− 2
Westchester County	− 4	+ 1	+ 7
Fairfield County	− 6	+ 1	+11
Bridgeport	− 6	0	—
Lower Hudson River Valley	− 6	+ 2	+ 2
Poughkeepsie	− 7	+ 2	+ 3
Upper Hudson River Valley	− 8	− 2	+ 2
Albany	− 5	− 3	0
Schenectady	−12	0	+ 5
Central New York State	− 5	− 2	+ 3
Mohawk River Valley	− 6	− 1	+ 5
Utica	− 4	0	+ 6
Syracuse	− 4	− 3	+ 2
Northern New York State	− 6	+ 3	+ 2
Southern New York State	− 7	+ 1	+ 1
Binghamton	− 7	+ 1	− 2
Elmira	− 7	0	+ 5
Western New York State	− 6	− 1	0
Buffalo	− 6	+ 1	− 2
Niagara Falls	+ 2	+ 3	—
Rochester	− 7	− 4	+ 4
Apparel stores (chiefly New York City)	− 9	− 1	0

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.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, for immediate release)

Industrial production, employment, and incomes increased somewhat further in November and December, and Christmas retail sales were in record volume. Wholesale prices of agricultural commodities declined further, while industrial commodities continued to show little change. Consumer prices in November increased slightly and were back at their August high. Bank credit expansion continued after mid-November, and common stock prices rose further.

Industrial Production

The Board's industrial production index rose 4 points in November to a postwar record of 233 per cent of the 1935-39 average. Output of both durable and nondurable goods expanded moderately further, and minerals production recovered sharply to the high September level. Industrial production in December was maintained at about the November rate and was about 7 per cent above a year ago.

Activity in machinery industries generally expanded further in November. Output of household appliances and radio and television showed substantial gains, with television output continuing at unusually high levels in December. Despite some interruptions owing to model change-overs, passenger auto assembly during November and December was maintained at advanced rates. Steel production continued at peak rates. Output of nonferrous metals except aluminum expanded further in November, and lumber production showed much less than the usual seasonal decline.

Nondurable goods production rose somewhat further in November to a level 5 per cent above a year ago and close to earlier highs. Activity in the textile, shoe, paper, and rubber products industries increased and was substantially greater than in the same period last year. Output of industrial chemicals and petroleum products rose to new record levels. Production of meat and other manufactured food products was maintained in large volume.

Coal output recovered in November following the work stoppages in late October, and crude petroleum production rose somewhat further. In early December, however, output of mineral fuels declined moderately. Iron ore production since August has been in record volume for this season.

Construction

Value of contract awards declined slightly in November, reflecting decreases in most types of awards for private construction. Total new construction work put in place declined less than seasonally from the advanced October level. Housing starts were at a seasonally adjusted annual rate of 1,160,000, about the same as in October and substantially higher than a year ago.

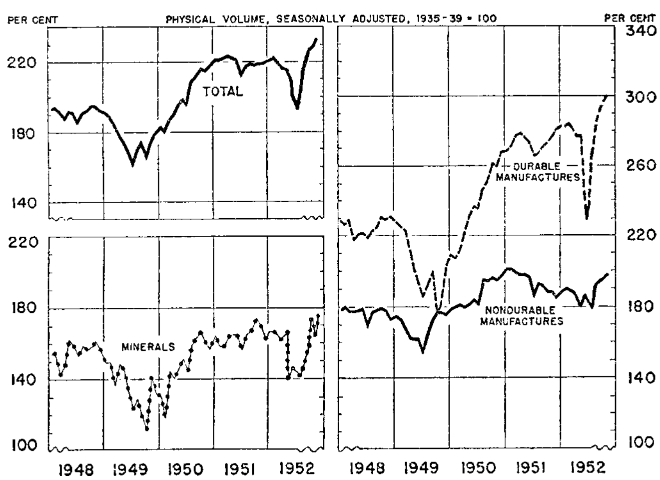
Employment

Seasonally adjusted employment in nonfarm establishments rose again in November and was at a new high of 47.5 million. Average hours of work at factories were close to the high October level, and average hourly and weekly earnings continued to rise. Unemployment was little changed in November, and at 1.4 million was close to the postwar low reached in October.

Distribution

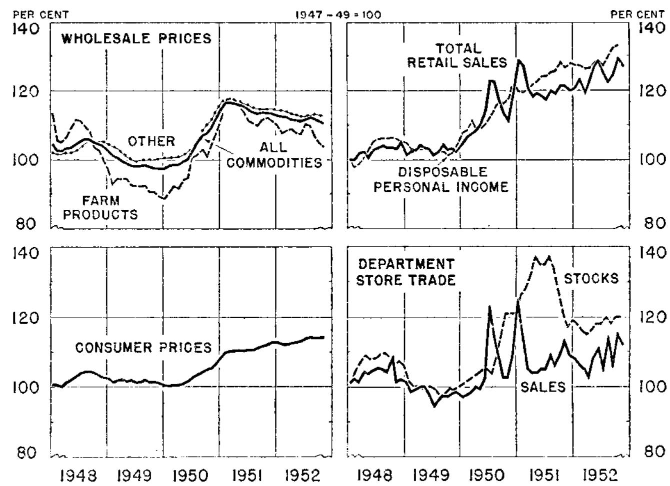
Seasonally adjusted sales at department stores in November were a little below their high October level but rose again

INDUSTRIAL PRODUCTION



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

PRICES AND TRADE



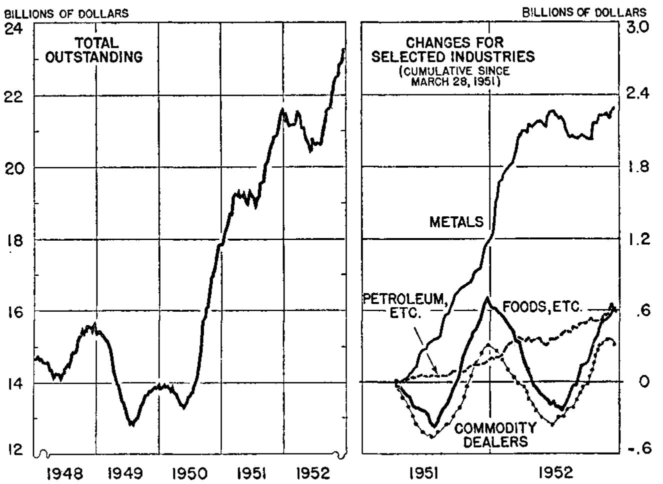
Seasonally adjusted series except for prices. Wholesale prices, Bureau of Labor Statistics indexes. Consumer prices, total retail sales, and disposable personal income, Federal Reserve indexes based on Bureau of Labor Statistics and Department of Commerce data. Department store trade, Federal Reserve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

in December. For the Christmas season, department store sales were at a record and considerably above a year ago. Sales of automobiles continued unusually large for this time of the year, and dealers' stocks increased only moderately in November.

Commodity Prices

The average level of wholesale prices continued to decline in December, reflecting mainly decreases in prices of foodstuffs. Lead prices were raised, while prices of other industrial materials and finished goods generally continued little changed.

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 December 17.

The consumer price index in November rose very slightly to return to its August peak. Further increases in rents and prices of services in November were largely offset by decreases in apparel.

Bank Credit

Business, consumer, and real estate loans at commercial banks continued to increase in the latter part of November and the first half of December. Banks also added to their holdings of U. S. Government securities, largely through purchases of tax anticipation bills in the latter part of November.

Member bank reserve positions tightened further in late November and early December, due principally to a seasonal flow of currency into circulation and an increase in required reserves. Member bank borrowings averaged above 1.5 billion dollars during the period. The Federal Reserve also supplied some reserves through purchases of Government securities, including some securities acquired under repurchase agreements with dealers. In mid-December, reserve positions temporarily became somewhat easier as a result of the usual large pre-Christmas expansion in Reserve Bank float.

Security Markets

Common stock prices advanced during the first three weeks of December to their highest level since October 1929. Yields on high-grade corporate bonds and long-term Government securities rose somewhat. Treasury bill rates increased sharply and reached 2.23 per cent on the new issue awarded on December 22.