

MONTHLY REPORTS
OF THE
BANK DEUTSCHER LÄNDER

FEBRUARY 1949

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The Economic Situation of the
Western German Specified Area in January 1949

(1) Money and Credit

Granting of Credits

Contrary to the trend of the months following currency reform, the expansion of bank credits nearly came to a complete halt during the first three weeks in January. During the first three weeks in January as well as the last week in December the 112 weekly reporting financial institutions even recorded a slight decrease in short-term credits to non-bank customers. However, business has always been slackening during this period so that the slowing down of credit expansion may be only temporary. Actually, this restriction of credits necessitated by the price situation, did not continue during the fourth week of January. Short-term credits granted to the customers (excluding banks) by 112 weekly reporting financial institutions (comprising the head offices of most of the larger commercial banks) again increased by 40 million DM. Adding the 20 million DM increase of the first three weeks in January, the total increase in credits granted by these 112 financial institutions amounted to 60 million DM in January. This credit expansion again benefited almost exclusively the economy. Only 8 million DM of this total were granted to public authorities. It is notable that current account credits (+ 78 million DM) mainly accounted for the increase in credits whereas credits on bills of exchange (stock of bills of the financial institutions plus negotiated bills) decreased considerably (- 39 million DM).

Graphic Illustration of the
Economic Development in Western Ger-
many, cf. German Issue, page 2.

During the printing of this report, no figures were available on the total development of bank credits granted to non-bank customers during January. The probable total increase, however, can be quite reliably estimated when using as a basis for this calculation the credit expansion with 112 weekly reporting financial institutions in proportion to the share the credits of this selected group had in the total amount of all bank credits at the end of December along with other information essential for judging this development. Accordingly, bank credits granted to economic enterprises and private persons will have increased by around 230 million DM whereas credits granted to public authorities will have decreased by approximately 30 million DM.

Against this the central bank system showed a downward trend in credits granted to non-bank customers during January. Cash advances to public authorities - the limit of which is stipulated in the individual Laws on the Establishment of the Land Central Banks and the Law on the Establishment of the Bank deutscher Länder and hitherto had only been reached in a few Länder - dropped by 31 million DM to 68 million DM and only the stock of treasury bills of the Länder increased slightly (by 0.6 million DM) to 1.1 million DM. Direct credits to economic enterprises and private persons which pursuant to the legal provisions on the former Reichsbank may still be granted only by the Land Central Banks in the French Zone likewise decreased by 7 million DM to 18 million DM. Thus, by the end of January, central bank credits granted to non-bank customers amounted to 87 million DM as compared with 124 million DM during the preceding month.

Money movements for the settlement of foreign transactions which are handled exclusively by the Bank deutscher Länder as well as all other payments booked on foreign trade accounts likewise did not result in any creation of money during January. On the contrary, due to higher deposits by importers, a contractive effect - although small - was achieved since the credit balance of the accounts maintained for the settlement of foreign transactions after having increased to 226 million DM on 23 January dropped to 155 million DM by the end of the month and thus was 13 million DM lower than the credit balance at the end of December.

The total creation of credit (bank credits, direct credits of the central bank system to non-bank customers, money movements on accounts for the settlement of foreign transactions maintained with the Bank deutscher Länder.) would, therefore, have to be estimated at a net amount of approximately 150 million DM during January as compared with 375 million DM during December and 685 million DM during November. Thus, the creation of credit of the banking system as a whole - including the financing of foreign transactions and an estimated amount of credits granted by financial institutions not included in the banking statistics - practically totalled 5200 million DM on 31 January 1949.

Credits granted by 112 financial institutions
during January 1949
(in million DM)

Figures as of	total	thereof						
		to economic enterprises and private persons			to		to public authori- ties	to finan- cial in- stitu- tions
		total	thereof		other short- term credits			
			current account and ac- ceptance credits	customer liabilit- ies on account of bills				
Dec 48	2592	1788	967	805	16	30	774	
Jan 49	2573	1792	968	807	17	32	749	
Jan 49	2563	1801	994	785	22	31	731	
Jan 49	2561	1806	1017	764	26	33	723	
Jan 49	2608	1839	1044	766	29	39	730	
Changes during Jan 1949	+ 16	+ 51	+ 77	- 39	+ 13	+ 9	- 44	
Percentage share in the monthly banking statistics (overall statistics)								
31 Dec 48	44,8	40,7	40,0	42,6	20,3	10,5	70,4	

Liquidity of Banks

Apart from the lively credit demand, the favourable development of liquidity undoubtedly influenced the business banks' inclination to grant higher credits. Due to the rapid decline of notes

in circulation during the first three weeks of 1949 - by 23 January, approximately 490 million DM banknotes had been returned to the cash offices of the banks from circulation - the banks were temporarily enabled to take their purchased bills into their own portfolio and thus to gradually diminish their commitments with the central bank system. In the fourth week of January, the situation of the banks again became tighter due to a 337 million DM increase in notes in circulation. By the end of the month, it was only 152 million DM or 2 per cent. lower than the previous peak of 6.319 million DM at the year's end.

The trend of liquidity will be illustrated by the fact that the 112 weekly reporting institutions rediscounted only 39 million DM during the first week of January and only 60 million DM during the third week. The four weeks' average of bills rediscounted was with 79 million DM in January the same percentage of all bills in portfolio as with 102 million DM in December because in January the total amount of bills purchased was smaller than in December (only 168 million DM as compared with 217 million DM on the four weeks' average). In proportion to the total of credits granted by the 112 financial institutions (including credits to financial institutions) the amount of rediscounts, however, dropped - on the four weeks' average - from 5 per cent in November to 4 per cent in December and to 3 per cent in January. This trend illustrates the increasing share of current account credits in credit expansion. As a result, credits granted by the central bank system to the financial institutions decreased by 10 per cent. during January and amounted to 1.499 million DM as of the end of the month, including 1.297 million DM on the basis of bills of exchange.

In the case of the 112 weekly reporting banks, the development of short-term credits to financial institutions likewise seems to indicate an increasing liquidity of the banking system. These credits decreased by 44 million DM to 730 million DM in January. This development is, however not reflected in a decrease in the total amount of inter-bank-liabilities of the same group of financial institutions given in the weekly banking statistics. On the contrary, these liabilities even increased by 50 million DM to 287 million DM. However, in this case, the picture does not seem clear due to corrections being made. A reliable evidence for the increased liquidity is the decrease in interbank-liabilities of the 112 financial institutions against Land Central Banks

by 38 million DM to 70 million DM and particularly, the decrease in inter-bank-liabilities against the pledging of equalization claims by 26 million DM to 51 million DM.

With regard to monetary policy, however, the trend of inter-bank-indebtedness, excluding the banks' indebtedness with the central bank system, is hardly of any importance. A decrease such as was recorded during January, therefore, did not neutralize the increase in the money volume connected with the simultaneous credit expansion to non-bank customers. The credit relations between the banks regardless of whether increasing or decreasing, can only become important with respect to monetary policy if the central bank of issue (Zentralnotenbank) is willing to purchase the bills of exchange created through these credit relations. The far-reaching exclusion of bankers' acceptances from rediscount was for months, however, one of the Board of Directors' most important restrictive measures.

The financial institutions had maintained considerable surplus reserves with the central bank system all through December. On the monthly average, they amounted to 342 million DM or 30 per cent. of the reserves required. In January, the rapid decrease of notes in circulation again caused the credit balances of the financial institutions to increase, so that they reached a peak of 1.668 million DM on 23 January. Not until the fourth week of January did a decrease to 1.440 million DM take place as a result of the increase of notes in circulation. Thus, the credit balances of financial institutions lagged behind the figure of 31 December 1948 by 100 million DM but, however, considerably exceeded the reserve required. The January average surplus reserves of the financial institutions of 382 million DM or 33 per cent. of the reserve required (1.161 million DM) were considerably higher than in December. Contrary to the trend prevailing in December which was mostly due to larger credit demands from the central bank system - probably based on the fear of an increase in the discount rate - the temporary large increase in cash reserves during January had not been contemplated. In some cases, this development placed the banks in a somewhat embarrassing position since they could not utilize their improved liquidity for the purpose of granting new and higher credits without violating the credit directives of the Board of Directors. On the other hand, the banks often considered it favourable that, in accordance with the policy of the central bank system, they had rejected many a credit during the previous weeks whose solvency

could have proved to be doubtful in view of the latest business trends.

A certain counter-effect against the factors working for making the banks' status more liquid was temporarily produced in January - particularly around Mid-January- by the considerable increase in credit balances of public authorities with the central bank system which rose by 230 million DM to 1.564 million DM on 15 January and dropped to 1.413 million DM at the end of the month but were then still 78 million DM higher than the previous month's level. This increase was chiefly reflected in the credit balances of Staatskassen.

Deposits

Deposits of non-bank customers with the banks again considerably increased during January due to the continuing credit expansion and the decrease of notes in circulation. This increase was supported by conversion of Reichsmark-credit balances which is still not terminated. In the case of the 112 weekly reporting financial institutions, the increase amounted to 226 million DM. The credit balances of public authorities, however, account for the major portion of this increase (+ 194 million DM), whereas savings deposits increased only by 31 million DM and the giro deposits ("other creditors") only by 1 million DM. These figures recorded by the 112 weekly reporting institutions do not permit

Graphic Illustrations of

- (1) the structure of the money volume in the specified area (Währungsgebiet) as of 31 December 1948 and
- (2) the origin of the money volume in the specified area as of 31 December 1948

cf. German Issue, page 5.

a reliable estimate of the total increase in bank deposits during January, due to the uneven distribution of this increase in deposits. As is known, a considerable part of the public credit balances are maintained with Girozentralen und Landesbanken which chiefly belong to the group of institutions rendering weekly reports. Due to this development, it seems likely that the share of the 112 institutions in the total amount of all deposits increased in January, especially since deposits with the central bank system other than those of public authorities did not increase during January. According to partial figures available,

Deposits with 112 financial institutions
in January 1949
(in million DM)

figures as of	blocked deposits		free deposits				
	blocked account	invest- ment account	total (excl. deposits of finan- cial inst.)	depos- its of public authorit.	depos- its of other credit- ors	savings deposits	deposits of finan- cial institut- ions
Dec 48	84	76	3 060	1 065	1 756	239	628
Jan 49	73	79	3 110	1 063	1 800	247	649
Jan 49	68	80	3 231	1 238	1 740	553	667
Jan 49	63	82	3 417	1 402	1 756	259	682
Jan 49	54	86	3 286	1 259	1 757	270	656
changes during January	- 30	+ 10	+226	+ 194	+ 1	+ 31	+ 28
Percentage share in the monthly banking statistics (overall statistic)							
Dec 48	19,1	23,8	33,6	52,3	32,2	14,9	48,6

the total increase in deposits (excluding the increase in deposits of financial institutions) can be estimated at roughly 300 million DM .

With regard to savings accounts, it is remarkable that the initial stages of a more favourable trend become apparent. As mentioned before the increase in savings accounts recorded by 112 financial institutions, including 21 savings banks, was 31 million DM. It is to be assumed that only part of this amount originated from the conversion of old Reichsmark-credit balances whereas the remainder results from actual new savings. Cash in-payments on savings accounts maintained with 112 financial institutions amounted to 3.2 million DM (weekly average in January), cash withdrawals to 3.7 million DM, i.e. cash withdrawals exceeded cash in-payments only by 0.5 million DM. Since savings accounts may only be disposed of in cash whereas on the average, approximately 50 per cent. of in-payments are made by way of transfer, the insignificance of

this deficit in cash transactions can be regarded as reliable evidence for in-payments exceeding withdrawals. The phase of a large excess of withdrawals since currency reform which, however, for quite some time has shown a downward trend seems to have been overcome and superseded by the formation of new savings.

Money Rates

Money was easy on the money market, particularly during the first two thirds of the month. Only during the last third did a decline in the supply of money become apparent. The last day of the month brought no particular monetary strain. The predominantly liquid status of the market caused a further decline in rates. In this connection it may be pointed out that the rates were mostly nominal as during the previous month and transactions on this basis could not easily be effected. In Frankfurt, day-to-day money was around $2\frac{1}{2}$ to $2\frac{3}{4}$ per cent. and monthly loans around $4\frac{1}{2}$ per cent. Commercial bills endorsed by banks were in great demand at a rate of $4\frac{7}{8}$ per cent. since bankers' acceptances were rarely offered. For bankers' acceptances eligible for rediscount a nominal rate of 5 per cent. was quoted.

Capital Market

Although the turnover was very small the bond market was marked by sharp price advances during January. The difference between the yields of the old 4 per cent. Reichsmark mortgage bonds and the 5 per cent. issues issued so far decreased accordingly. The following yields have been calculated at the end of January:

4 per cent. mortgage bonds,	price 8 p.c.,	term 10 years	=6,80 p.c.
4 " " " " " "	8 " " " "	20 " "	=5 $\frac{3}{4}$ p.c.
4 " " " " " "	8 " " " "	30 " "	=5 $\frac{3}{8}$ p.c.
5 " " " " " "	98 " " " "	20 " "	=5,16 p.c.

A 40 million DM loan of a large Bavarian power supply plant of a ten years term was provided with $6\frac{1}{2}$ per cent. interest and was oversubscribed. Apart from the issues subject to approval, bond loans have been raised by several well known enterprises which are not subject to approval under Article 795 BGB (Civil Code) since these bonds are registered. These bond loans are

provided with variable interest rates of one per cent. over the central bank discount and have been placed outside the market. Seen from the individual issuing enterprise these loans don't seem to be quite unobjectionable on account of their uncertain and possibly fluctuating burden of interest.

After a slight initial recovery, the stock market was under renewed pressure to sell, which with few exceptions, caused prices to drop - in some cases to a considerable extent. However, during the last days in January, a turn in the trend could be noticed followed by a remarkable increase in some prices.

(2) Public Finances

In January, Länder finances again seem to have developed favourably, after new deficits had occurred in December. Due to the discontinuance of certain statistics there are even less data available than normally. However, general considerations on the seasonal rhythm of public revenues and expenditures as well as the trend of deposits of public authorities on the one hand and the indebtedness of public authorities on the other hand, indicate an improved situation of public budgets.

In spite of monthly advance payments on assessed income tax and corporation tax introduced in connection with currency reform, the revenues received at the end of the quarter are still higher than in the other two months, just the same as was shown by the development in October. For this reason, January tax revenues have probably been considerably higher than December revenues which amounted to about 1 billion DM in the Combined Economic Area (about 1.1 billion DM in the specified area). Due to a further increase in turnovers and incomes, still higher revenues are to be expected. Assuming that the upward trend of tax revenues observed during the last months, continues, January tax revenues in the specified area will probably have been around 250 million DM higher than October revenues (1.112 billion DM) and will have amounted to about 1.4 billion DM. Accordingly, tax revenues received in the specified area during the period November 1948 to January 1949 will probably have been about 3.7 billion DM. Calculated for one year, an amount of roughly 14.8 billion DM would result, so it may be assumed that the tax revenue will be higher than that of the fiscal

year 1947/48 (about 14.3 billion DM) in spite of the reduction of tax rates introduced in June and November 1948. This trend undoubtedly reflects to a considerable extent the increase in production and prices in the preceding year.

The comparatively sharp rise of public deposits with financial institutions shows that the revenues of the Länder will probably again have developed more favourably in January. Although these deposits contain considerable cash reserves of other public bodies (social insurances, Military Governments, Gemeinden, Railway, Post, &c.) and their actual amount informs only to a limited extent on the cash reserves of the Länder, they have always been developing nearly in the same direction as the cash reserves of the Länder. The increase in deposits of public authorities with 112 weekly reporting financial institutions during January was about as high as that during October and November when the Länder budgets produced surpluses, and the increase in deposits of public authorities with Land Central Banks was even higher.

Since data on the expenditures of the Länder are not available, the exact amount of the surplus produced in January cannot be ascertained. It can be assumed, that January expenditures were likewise very high. They seem to have considerably increased especially during the last week of January, since deposits of public authorities with 112 weekly reporting financial institutions and Land Central Banks decreased more than in the comparable period of the preceding months. According to individual reports received, occupation costs, in particular, have shown^a marked increase lately. It can be concluded from the increase in cash holdings (about 300 million DM) that the surplus was likely to have been higher than during one of the previous months (in the Combined Economic Area 75 million DM in October and 81 million DM in November).

In this conjunction, it is very important from the viewpoint of monetary policy that the formation of surpluses during the reporting month resulted to a large extent in an increase in public deposits with the central bank system. Deposits of Staatskassen with Land Central Banks which apart from the Länder deposits also contain deposits of social insurances in some

cases, increased from 344 million DM at the end of November to 417 million DM at the end of December and to 593 million DM at the end of January. The decline in the indebtedness of the Länder registered during January, likewise had restrictive effects on the supply of money. Of cash credits granted by Land Central Banks to the Länder amounting to 34.6 million DM at the end of December, only 6.9 million DM were outstanding at the end of January. Schleswig-Holstein accounted for the total of 6.9 million DM. For the first time since currency reform cash advances to the Länder in the French Zone have completely been repaid which justifies the assumption that the financial situation in these Länder had improved in January as compared with the preceding months.

For the first time during the last months, the budget of the Combined Economic Area likewise did not require any credits. The shipment of banknotes to Berlin (40 million DM in January) charged to the Department for Finance was fully raised from ordinary budget revenues of the Department for Finance (coffee tax, emergency aid for Berlin). In addition, the cash advance raised in November from the Bank deutscher Länder amounting to 50 million DM - 42 million DM of which were still outstanding at the end of December - has been repaid except for 28 million DM. The situation in the other public budgets (social insurances, Gemeinden) probably was not different from that in the preceding months. There will presumably still have been surpluses of social insurances on the one hand and certain deficits in the budgets of the Gemeinden on the other hand.

The problem of tax reform has still been thoroughly discussed and was brought to a preliminary conclusion by the Economic Council passing the revised Law on Income Tax. Pursuant to this Law, the contemplated tax reduction is to be granted in the form of increased special expenses, facilitated depreciations and additional favourings on non-withdrawn profits. In addition, the law on the so-called luxury tax which is to be collected in the form of an increased turnover tax (from 3 to 20 per cent.) from manufacturers of luxury goods and from all performances in expensive restaurants has been discussed in the first reading by the Economic Council. Within the supplementary

budget of the Combined Economic Area amounting ^{to} 284 million DM which has been passed in the meantime, an export levy on coal had been decided upon for the purpose of subsidizing the marginal enterprises of the mining industry. In addition, the Department for Finance proposes for the coming fiscal year, a tax on gasoline in connection with the 951 million DM budget of the Combined Economic Area which is to be used for financing the Berlin-aid budgeted at 480 million DM. Since the preliminary Law on the Equalization of Burdens has not yet been approved by Military Governments, the first payments on the equalization of burdens provided for 20 February could not be effected.

(3) Foreign Trade and Money Movements on the Foreign Accounts of the Bank deutscher Länder

Foreign trade turnovers of the Combined Economic Area in January did not quite reach the level of the previous month. In particular the import of food, industrial raw materials and semi-finished

Foreign Trade
(Combined Economic Area)
(in million DM)

	I m p o r t				E x p o r t			
	monthly average		Dec 1948	Jan 1949	monthly average		Dec 1948	Jan 1949
	first half of 1948	second half of 1948			first half of 1948	second half of 1948		
Food Industry	124,5	179,6	226,6	147,0	4,6	3,5	13,5	12,4
Industrial Commodities	70,6	152,6	258,9	168,3	76,2	218,5	276,7	241,5
raw materials	39,2	82,7	145,1	75,6	21,9	54,4	47,9	55,5
semi-finished goods	24,3	51,2	88,5	65,3	23,6	66,8	78,3	81,2
finished goods	7,1	18,7	25,3	27,4	30,7	97,3	150,5	104,8
pre-manufactured products	4,4	10,9	13,5	11,9	16,7	51,1	81,7	57,2
end products	2,7	7,8	11,8	15,5	14,0	46,2	68,8	47,6
Total	195,1	332,2	485,5	315,3	80,8	222,0	290,2	253,0

goods decreased. The export of finished goods also dropped considerably whereas the export of industrial raw materials and semi-finished goods was higher. On the whole imports decreased

more than exports so that the deficit in foreign trade goods transactions declined from 195.3 million DM in December to 61.4 million DM in January. Not too great an importance is to be attached, however, to these fluctuations from month to month. The basic trend of foreign trade continues to be on the upgrade. This particularly applies to the development of B-imports for which the increase in the credit-business (Akkreditivgeschäft) with the Bank deutscher Länder indicates a sharp upward trend. The number of letters of credit opened with foreign banks in favour of foreign suppliers of goods since fall 1948 amounted to 3074 in October, 3422 in November, 4654 in December, and 6714 in January. Liabilities from letters of credit on current import transactions increased from 195.7 million DM on 31 December 1948 to 294.4 million DM on 31 January 1949. A further increase in ERP-imports is also to be expected. By the end of January 1949, commodities valued at roughly 100 million Dollars from ERP-funds had been delivered to the Combined Economic Area, and at the same time, contracts on deliveries up to about 145 million Dollars had been made.

In January, payment transactions in connection with foreign trade again developed independent of goods transactions. The payments of the DM-equivalents of imports in January reached a level considerably above the average of the previous months.

Payments of Importers
in million DM

monthly average and/or month	GARIOA- ERP and STEG imports	B-imports	total of imports
July-Sept 1948	171,5	52,3	223,8
Oct-Dec 1948	182,3	109,2	291,5
January 1949	184,3	132,4	316,7

The average monthly disbursements to exporters since the establishment of the foreign department with the Bank deutscher Länder developed as follows: about 135 million DM during August/September, about 245 million DM during October/December, and about 280 million DM in January. It has to be considered, however, that in January, as in the previous months, a number

of special disbursements have been made apart from the disbursements to exporters so that on the foreign accounts with the Bank deutscher Länder as a whole, no money was sterilized (although there was no longer a creation of money). The inflow of foreign exchange to the commercial sector of foreign transactions (exports; B-imports) continued. The foreign exchange credit balance of the Bank deutscher Länder now amounts to about 1/3 million Dollars.

The foreign exchange receipts registered by the Bank deutscher Länder on behalf of the individual JEIA-agencies give certain clues to the regional distribution of foreign exchange receipts within the organization of JEIA. In November/December individual foreign exchange receipts under the old export procedure amounted to about 165 million Dollar. The following table accounts for their regional distribution

	<u>in 1000 Dollars</u>
Essen, Coal	68 605
Northrhine/Westphalia	37 521
Bavaria	11 229
Hesse	10 874
Hamburg	10 787
Württemberg-Baden	10.061
Bremen	6 551
Lower Saxony	6 474
Schleswig-Holstein	2 707
Berlin	728

Within the new export procedure, about 89000 export declarations have been submitted so far. The registered export value as converted from the individual national currencies into Dollars amounted to:

	<u>in 1000 Dollars</u>
until 31 December 1948	821
from 1 - 10 January 1949	4 082
" 11 - 20 " 1949	8 951
" 21 - 31 " 1949	13 500
Total	<hr/> 27 354 <hr/> =====

With regard to exports, the new procedure puts an end to the previous sub-division into two completely separated sections,

i.e. the DM-side and the foreign exchange-side. Due to the provision that from 15 February, payment for "general imports" will be linked with the furnishing of shipping documents, the reestablishment of normal trade practices with regard to imports has been prepared in the meantime.

The results of the three compensations so far achieved within the Inter-European clearing reveal the difficulties existing for a central clearing of debit and credit balances as a result of the differences in the trade situation as well as in the internal value of the currencies of the partner-countries. A first-category compensation which does not require approval of the partners since a reduction of the balances concerned takes place, could - as far as the Combined Economic Area is participating - only be made in one case in an insignificant amount. Second-category compensations which require the approval of all partners concerned have, as far as is known, not been achieved at all within the new multilateral clearing.

Under these circumstances, the means of payment available in the form of drawing-rights within the European clearing system are of particular importance. That is revealed by the fact that the "conditional aid" allotted to the Combined Economic Area by the ECA, Washington, as a compensation for drawing-rights spent, had already amounted to 17 million Dollars by the end of December 1948.

With regard to drawing-rights, too, certain difficulties are arising. The reason is that accounts are developing much differently from the plans for the first ERP-year. It is true that in foreign trade with all countries to whose disposal the Combined Economic Area has - if need be - to place drawing rights until 30 June 1949 exports exceeded imports so that a corresponding amount of drawing-rights could be made available. But at the same time the Combined Economic Area could make use of the drawing-rights she is entitled to only in the case of one country. With regard to the other countries, there was either no increase in the indebtedness yet or an increase in the credit balance instead of a decrease as compared with the previous month.

Of the total amount of drawing-rights which the Combined Economic Area has to make available in case of adequate additional exports, 15.3 per cent have been utilized by the partner-countries during the first three months of the agreement.

(4) Production, Employment and Sales

In the fields of production and sale, symptoms of a certain financial tightness became apparent to^a somewhat larger extent than in December which, in some cases led to difficulties. But, on the whole, the decisive foundation of revival have thereby not been hampered but, on the contrary, strengthened as the renewed increase in industrial production, the rising willingness to work and the improved supply of goods show.

After months of continuous liquidity, high profits obtained without toil and easy sales the economy now complains of "tightness of money" again. At first sight, this seems to be surprising since in January the volume of money further increased but, in reality, this is not at all illogical. On the one hand, the rate of increase in the money volume - after having been considerably lower in December than in the previous month - further declined in January, since the creation of credit was comparatively small as compared with the preceding month and considerably less money was created through the conversion of old Reichsmark-credit balances. In an economy which was used to a continuous and considerable increase in its leeway of money, this alone necessitated manifold readjustments.

Available money volume increase
in million DM

month	total	by creation of credits(1)	by currency conversion
1948 October	1 220	800	420
November	1 130	685	445
December	690	375	315
1949 January	260	150	110

(1) Inconsideration of the funds directly channeled to public authorities by the central bank system (treasury bills, cash advances and money movements on the foreign accounts of the Bank deutscher Länder); no money was created in this field, during January, but, on the contrary, money was absorbed, thereby partly compensating the credit expansion of the business banks.

Further, a substantial change in the spending of incomes has taken place. This change was partly voluntary in that consumers, in particular, were holding back to a growing extent as soon as it became clear that price increases had gone too far in some cases. But the change was also involuntary in that due to stricter methods of tax collection, considerable amounts and of money had lately been concentrated with the public authorities and had preliminarily not been spent. The January increase in public cash reserves was at least as large as that in money volume. The velocity of money circulation has undoubtedly decreased to such an extent that the statistical increase in the money volume was compensated or possibly even overcompensated.

There is no doubt, that these circumstances brought about difficulties for several branches of economy. Apart from certain branches manufacturing luxuries, this applies particularly to several investment goods industries, especially the building trade. Due to credit restriction, particularly the energetic fight of the central bank system against the misuse of bankers' acceptances, and due to the decrease in prices, the two hitherto most important sources of financing investments, i.e. the bank credit and the high profits of entrepreneurs resulting from the continuous price increases, have been

substantially reduced and, as far as bank credit is concerned nearly stopped. Although the economy - to a far greater extent than generally assumed - will somehow manage to finance priority projects there is still many a project which cannot be carried out for want of financing so that in many instances orders had to be cut substantially. It was certainly a result of these conditions that unemployment, alone in the Combined Economic Area, increased by about 200 000 in January in spite of the mild weather, so that by the end of the month, it reached its peak of 944 000 since currency reform (= about 7 per cent of workers, employees, and officials) thus exceeding by 176 000 the level at the end of August.

Development of unemployment
in the Combined Economic Area
in 1000

unemployed	1948			1949
	May	Aug.	Dec.	January
total	439	768	743	944
male	330	533	535	707
fully capable of work	114	400	500	662
Bavaria	148	270	227	307
Württ.-Baden	28	31	25	34
Hesse	40	65	61	79
Bremen	9	11	12	14
Northrhine/ Westphalia	124	157	106	125
Lower Saxony	58	123	171	213
Schlesw.-Holst.	19	82	115	141
Hamburg	13	29	26	32

(1) Preliminary figures

Nevertheless, on the whole, the effect of the "tightness of money" has so far been favourable. The continuing increase in prices which - the longer it lasted, the more - not only threatened to lead to unbearable social conditions but also developed into a serious danger for production since it paralyzed the willingness to work, interrupted the circulation

of goods and eliminated to a growing extent the price as regulator of the economic life, has been brought to a halt or has even given way to a salutary price depression. After a period in which profits could be made quite easily the economy now has to cut its coat according to its cloth, has to administer its resources more economically, has to accomplish higher performances in order to obtain the same profits, has to care more about the consumers supply and to actually offer the commodities produced. The appreciation of money by the consumer is likewise increasing. He again has the feeling that there is sense in working and does no longer spend his money carelessly but he starts saving again since he has regained confidence in the currency. It certainly is not accidental that at about the same time when the curve of prices turned the excess of disbursements in savings transactions disappeared and was followed by excesses of in-payments for the first time since currency reform. Above all, it is remarkable that industrial production, as taken from the index of the Department for Economics, in January again increased by 1 - 2 points (i.e. from 78.8 to 80,4 - 1936 = 100 -) although January had less working days than December. This factor alone would have justified a decrease in the index by about 3 points. The normal supply of goods has, therefore, in no way been adversely affected by the increase in unemployment. To a certain extent, the increase in unemployment may only be a symptom for the fact that man-power is now utilized more economically. But also insofar as it reflects a partial decline in production, e.g. in building trade, - a decline which may not be registered by the production index - it is merely to be considered as an accompanying factor of a better adaptation of the structure of production to the utilization of incomes (as is shown by the continuously high increase in the production of consumer goods). Hereby the volume of investments is brought into better harmony with the last means of financing, accumulating in different ways. This adaptation could only be avoided if the financing of investments by inflationary methods would be continued and thus again a dangerous increase in prices accepted. In its results such a course may also be undesirable from the viewpoint of production. For the time being, there

is the less reason for assuming that neither overall production nor the volume of income payments have so far been adversely affected by the shrinkage of investment activity. Therefore, there are no symptoms to be found pointing to a deflation. The favourable increase in the formation of savings - apart from the gradually rising accumulation of import funds - justifies the hope that in the near future larger amounts of actual savings and capital will be available for financing investments. This process of consolidation would only be imperiled if the stability of prices is again endangered by inconsiderately renouncing a comparatively tight supply of money.

A more detailed analysis of the development of production during January shows that, also in the field of investments, no general shrinkage has so far taken place. New postwar records have been achieved in the production of the two most important basic materials, e.g. coal and iron. January coal production amounted to somewhat over 8.2 million tons as compared with not quite 8.1 million tons in December. The output per working day increased to an even greater extent (from 311 400 to 328 000 tons). This result is chiefly due to a decrease in the rate of absenteeism as well as a slight increase in shift production and in the number of persons employed in mining. The production of brown coal likewise increased slightly. Since the demand for coal is increasing faster than production, pithead stocks sharply declined in January. The progress of iron and steel production is remarkable (pig iron : 514 000 tons at the end of December, 547 000 tons in January 1949, steel ingot blocks: 612 000 tons in December 1948, 651 000 tons in January 1949). Also surprising is the rise in the electrotechnical industry which will be considerably extended in the Bizonal Area. Its production is well above the 1936 level - during the reporting month by about 71 per cent., an increase which no other branch of industry has so far achieved. It is remarkable that January production of consumer goods increased to a larger extent than that of the two large industry groups, i.e. investment goods and general production goods. In the future, this trend will probably be reinforced. The only industry which achieved no increase in production during the reporting month was the manufacturing

of stones and earths. Its index of Production dropped by 10 points which obviously reflects the difficulties already appearing in the building trade.

Graphical illustration

on the development of the production of goods
in the Combined Economic Area, cf. German issue, page 13

(5) Prices and Wages

The price decreases taking place since December continued during January. But they can not be considered as a general collapse of prices except some black market articles and some goods and performances with high price reactivity. There are still certain fields - particularly the basic materials - where prices did not drop. In nearly all cases, however, price increases ceased.

The downward trend of prices in consumers' goods markets affected other markets. In addition, the local and regional dispersion of prices (also the difference between highest and lowest figures) has according to available information become considerably smaller and thus the general picture of prices more uniform. For judging the recent development it is further important that the price decrease in goods which had been affected rather early by the downward trend, slowed down during the second half of January. This trend is revealed by the following table :

Trend of retail prices of industrial finished goods

(Source: Statistisches Amt des Vereinigten Wirtschaftsgebietes)

	Percentage change of price series observed		
	increased	dropped	unchanged
2nd half of December	15	21	64
1st half of January	21	51	28
2nd half of January	15	28	57

Within the sphere of consumer goods the drop of prices for shoes and re-soling as a result of the price decrease in hides is most remarkable. With regard to textiles, the reduction primarily concerns larger items such as suits, suit and dress materials and not small articles. On the other hand, it cannot be denied that certain textile goods which have not been available for a long time and are urgently demanded by the consumers (e.g. cotton tissues) could be sold even without price reduction and perhaps even at increased prices as long as production does not cover all fields of commodities uniformly and certain minimum requirements are not met these differentiations within the various branches will continue to exist.

Due to the increasing shortage of money, the process of price adjustments has gone beyond the sphere of consumer goods. Nearly all processing industries report contemplated or already existing price reductions even if prices of the respective basic materials (coal, iron etc.) are fixed by law and their reduction cannot be expected in the near future (due to present costs of production). In these cases, prices can only be reduced at the cost of processing as well as wholesale and retail margins. This will lead to rationalization measures which in many cases do not require comprehensive investments but can utilize the still largely existing possibilities of organization which is far more favourable under the present circumstances.

Difficulties in financing investments, cancellation of orders and holding back of new orders put increasing pressure on prices of investment-goods and -performances. According to information received, prices in the building trade have been reduced by 30 to 40 per cent during the last weeks. When considering the key position of the building trade, this reduction will influence the prices of numerous branches of industry and trade. These price reductions have made it easier for the workers to refrain further from demanding wage increases and to wait for the future development of the costs of living, thus not disturbing the process of consolidation. All wage increases so far granted remain within the limits set by Military Governments prior to currency reform.

Increases up to 15 per - 22 -

cent, have been approved on principle by Military Governments. In some cases, temporary cost of living bonuses have been agreed upon which are not to be included in the calculation of the firms in order to avoid influencing prices.